



In order to have a fuller appreciation of SYSCO and how the legal staff supports strategy, it is also important to understand the industry in which we operate – and it is a very special industry.

I want to draw a sharp line between foodservice and retail. Let's start with retail.

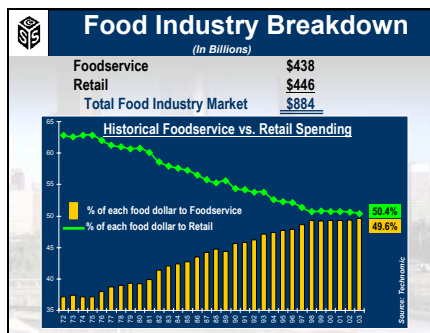


Retail Grocery

This is a picture with incredible irony. "Experience the Future." Is that the future we want to experience?



Or is this the experience you would prefer? Non- elitist, Baja Fresh, etc.



Consumer Spending

Over the past 30 years, consumer spending for food has shifted significantly. In fact, as a percentage of consumer food expenditure, food away-from-home has risen from the low 30% range to over 50%. Consumers are looking for convenience, entertainment and the excitement of dining out. Representatives from entertainment industry – we too are in entertainment.



Menu Variety

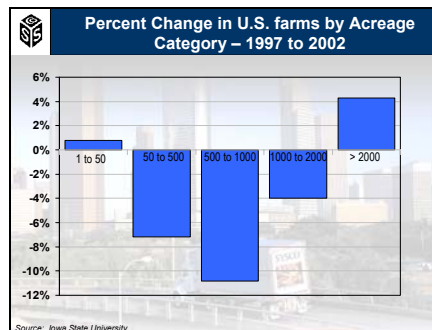
The foodservice industry is predicated on differentiation, the retail grocery business on price. If you walk into a Kroger and then an Albertson’s grocery store, you will find the some 35,000 – 50,000 SKUs. Retailers have to see who can sell Miracle Whip at the cheapest price on BFD – Wednesday.

If we go one step further in our deconstruction of the industry, it becomes even clearer that there must be a close link between the General Counsel, his or her responsibilities vis-à-vis governance, risk management, compliance and managing outside counsel and his or her ability to effectively assist the corporation in meeting its goals.

I want to ask you to perform a simple experiment – spend 15 minutes walking the aisles of a traditional grocery store – a Kroger, Albertson’s, or Giant. Here is some of what you will find: produce and meat will be at the perimeter. In the middle of the store you will find ketchup, cereals, chips, salad dressings, sugar drinks, fruit drinks, jellies, and baby food, frozen entrees and desserts.

Now in each category, pick up a jar, bag or box and read the ingredients. Let me tell you what you will find – corn, and corn derivations such as high fructose corn syrup, soybeans, sugar and salt.

With that back drop, look at what’s been happening in America’s agriculture over the past 5 years and which is a continuation of the last 30.



The farmers on the far left are hobbyists. The farmers on the right are large farmers often characterized as industrial farmers. The farmers in the middle – ag in the middle – are those that we have read about for too long. They are experiencing significant decline in numbers of acres and numbers of farms.

We could spend the next year talking about the politics associated with this phenomena – subsidies, lobbyists, fair trade, globalization, but we won't. My reason for raising these issues is that this graph directly impacts the foodservice industry and not in a positive way.

Please remember our short list of retail grocery product ingredients – corn, soybeans and sugar. How and where are they grown? They are grown as row crops on large acreage farms that can be managed extremely efficiently. They can be grown in Iowa or Illinois – or Brazil or India. They are commodities

Now, let me tell you about the raw materials for the foodservice industry. Sure, there are some corn and soybeans. But the profile of most foodservice products are far more diverse.

A given retail grocery store will have 1 or maybe 2 grades of beef. A foodservice operator will specify not only one of a myriad of grades, but he will specify a specific size and confirmation – the range of choices is astronomical.

Visit a nice restaurant in Washington or New York or Des Moines one night and then another on a subsequent evening. The first restaurant will have Colorado lamb on the menu, the next Vermont lamb, a third New Zealand.

The different varieties of flour demanded by foodservice operators for breads, pastas, desserts, etc. is in excess of a hundred.

– Tomato ripeness & variety –

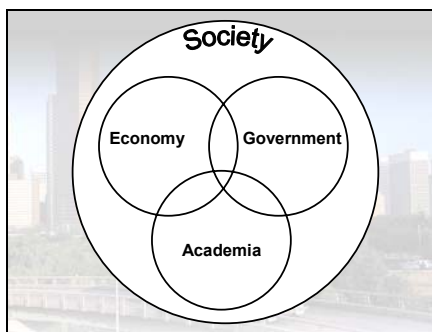
With those couple of examples of demand for variety, let me jump to my connection – the farmers in the middle are farmers for foodservice. They are producing the variety – the niche products. And we are losing them.

One of the key reasons for the growth in eating-away-from home is the excitement of the variety available to all of us. At SYSCO we cannot allow “our” farmers to go out of business.

What does all of the mean to the role of the General Counsel in corporate governance, risk management and compliance?

For the sake of time, I’ll deal with the first two: corporate governance and risk management. Again, please remember that I expect the General Counsel and the legal team to understand our business at the level I’ve outlined and to be able to contribute to the ongoing development of our strategies. The legal work related to acquisitions and employment matters is complicated and important and must be executed effectively, but I would consider it to be more tactical. One of the reasons we have had in the US and Europe so many challenges in regard to corporate governance is that the basic definition is inadequate. Since Enron, corporate governance has been equated with financial reporting and filling out check lists on director independence.

To me, corporate governance is the relationship an organization has with all of its constituencies. Those constituencies are employees, customers, suppliers, investors and the communities in which we live and work – not Milton Friedman’s definition. Relationships imply communication and transparency, but further a responsibility to act ethically.



Fundamentally it is essential to remember that businesses operate within a society, and that the social contract assumes ethical behavior between individuals and between all constituencies. This social contract is the

foundation of capitalism and we have seen the results when that ethical responsibility is ignored. Unless and until governance is built on a foundation of ethics, lapses will continue.

How does that idea of governance relate to SYSCO and the foodservice industry? In a very basic way, one example is the simple honesty we must embody in our dealings with our customers. If we tell a customer that we are selling her prime steaks, then we must ship her prime steaks. Does that sound sophomoric?

I cannot tell you the amount of beef that is sold in the US that is something other than what's been promised. In Baltimore, within the last year, we had reports of a competitor selling fresh choice tenderloins for \$2 per pound less that we could buy them for. We ordered a case and found that it was previously frozen Canadian beef that was four months old.

In the event that we have a contract with a customer, the General Counsel must not only make certain that the contract is protective of SYSCO, Mike Nichols and his staff must be comfortable that we have effective contract compliance processes in place.

At this basic level, then, the General Counsel must assure appropriate governance leadership.

But that's relatively easy. What about our relationships with those farmers-in-the-middle? Should the General Counsel have a responsibility to help these farmers? I think so and let me suggest how.

In SYSCO's framework, we work with a number of industry associations to have our voice heard at the state and federal levels – Capitol Hill yesterday with Mike Nichols and Tom Kurz. Let me tell you that in the past, we have not even had our eyes peeled for issues that might affect the medium sized US farmer. When we look at the graphs again, it is not only obvious, it is compelling that we should join in with others who are supporting this category of farmers. Too often we have followed the retail

grocery industry and I hope I spent enough time suggesting that that might be counter-productive to foodservice in the long-term. It is truly an issue of competitive strategy. Share-of-stomach.

There are other examples I could share of how the General Counsel and legal department at SYSCO should be exercising leadership in regard to corporate governance. Let me emphasize again, however, that I believe the General Counsel, as well as the entire organization must think of governance in broad terms. Governance is our relationship with all of our constituencies. I would collapse two of the CEO's priorities – Corporate Governance and Ethic's into one.

Turning now to identifying and assessing risks, one of the key areas where I look to the General Counsel and his staff to provide leadership, Mike Nichols leads a taskforce at SYSCO on risk management and risk mitigation. The four classes of risk that the group have identified are: operational, financial, hazard and strategic. I firmly believe that risk management is an enterprise-wide concern, but the General Counsel should have oversight. We still have a lot of work to do here, but I am comfortable we are building out an excellent system.

But let me raise again the issue of strategy. If Mike and his team did not have a thorough under girding of where we're headed and how we're going to get there, our risk management processes would ultimately be less than robust.

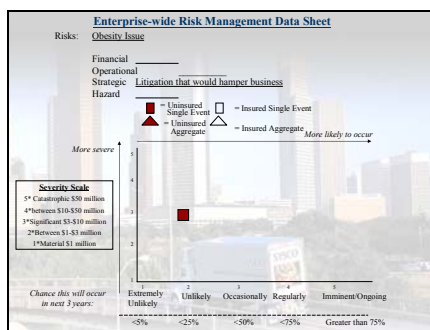
A specific foodservice example again might be helpful. One huge risk that has been identified in the industry itself is obesity. Some of our customers are concerned that one re-investment of the tobacco awards will be into obesity lawsuits. Latest news – CDC says food related problems are 2nd largest cause of death in the U.S. – Yesterday's legislation on obesity lawsuits.

What is SYSCO's obesity strategy and what part does the legal department play? Again, it is crucial that the legal department be aware of the

potential threats, but I further expect them to participate in the strategy formulation.

The General Counsel and his colleagues will keep us informed of all emerging challenges and their implications. From a risk mitigation perspective, they must constantly be suggesting responses to the changing landscape. School systems across the US are outlawing fast foods and soft drinks because of concern for students’ health. That presents an obvious marketing opportunity to sell new nutritionally-acceptable products, but what does it mean to SYSCO in terms of risk and what role will the legal team play?

Risks	
Risk:	Obesity Issue
Return:	Additional business and improved brand image if we take fast, appropriate action.
Immunization:	Develop proactive, positive program to identify healthy, nutritionally friendly alternatives offered today by SYSCO including recipes, low-transfat, low-carb, organic, Moonrose vegan items, etc. – Position under the banner SYSCO S.H.A.P.E. – SYSCO Healthy and Positive Eating program.
Systems:	Track sales growth of SHAPE items
Knowledge:	BSCC Merchandising & Marketing



The marketing opportunity has not gone unnoticed at SYSCO. Our marketing department is indeed, working on approximately 600 recipes that are lower in carbohydrates and fat. Additionally, we have hundreds of products that are lower in carbs and fat. The plan is to market both the recipes and the products as being better for patrons. However, we want to make certain that we are not bitten by the “Law of Unintended

Consequences” and I expect our legal department to identify some of those potential pitfalls.

For example, do we create a new potential liability by marketing in this fashion? In fact our corporate legal staff has worked with the marketing department all along the way, to make certain that our product claims as to reduced carbohydrate and fat content comport with applicable labeling laws.

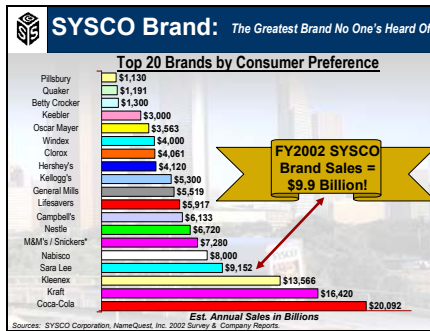
There is one over-arching risk that concerns us a lot and that is “reputational risk.” One way that SYSCO has differentiated itself from our competitors is to build a true foodservice brand. In order to appreciate the level of that risk, let me recap the salient elements of the products marketed under our SYSCO Brands.



Over the last 25 years, 44,000 products across all categories of products have been developed that are now sold under one of our brands. Forty-eight percent of our revenues, approximately \$14 billion are generated in SYSCO Brand sales: it is the biggest brand you’ve never heard of.



We are the largest outsource manufacturer of food products in the world.



If SYSCO Brands were a consumer Brand, it terms of sales, they would be the fourth largest.



It is absolutely crucial to recognize that SYSCO Brands are true brands, protected by a large and sophisticated Quality Assurance effort.



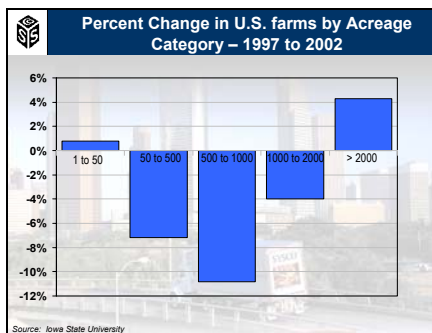
SYSCO Brands are the first products designed for foodservice, not for retail. Thirty years ago a number of food manufacturers decided that they would enter the fast growing food service market by putting their products in larger boxes or jars. Those products were not designed for the professional kitchen, SYSCO brands were.

To make that more real. (The mustard)

I have spent a lot of time on SYSCO Brands because they are so integral to the company's ongoing success. We cannot have a product liability claim that might damage the reputation of those brands, because they are part and parcel to everything we do.

In that light, then, I think that it should be obvious why the corporate legal staff must do everything possible to protect that brand. Trademark protection requires constant vigilance. HHA's and COI's have to be in place for every product. It is Herculean effort. And I want to thank

publicly Tom Kurz and Ann Gullion, who are here today for their commitment in this area.



Over the past short while, we have been moving SYSCO's focus from, frankly, one that was too short, to the long term. More and more of our direction, the life time value of a customer, benefits, bonuses, are taking into account a longer time horizon. And, although I am concerned about BSE, and quarterly certifications, those issues are less of a threat to the sustainability of SYSCO than the strategic risks.

If we can't continue to source the products that uniquely define the foodservice industry, if we can't help our customers succeed, the long term will be bleak. None of us want to see the WalMartization of our eating out options.

I want to go back to those farmers again and say that losing more and more of those farmers is a huge strategic risk to SYSCO and, particularly, the independent restaurant of which there are over 600,000 in the US alone. That risk has moved to the top of my list of priorities, because it has such a long term effect on our business.

If we – those restaurants and SYSCO – continue to lose those producers at the rate we have been, there is no other recourse. As I suggested earlier, we can source corn and soybeans offshore, we cannot source fresh salad mixes, fresh heirloom tomatoes, fresh specialty natural beef from South

America – nor would we want to. There are many products that must be sourced closer to home.

I appreciate your listening to my story about SYSCO and the foodservice business. As I suggested earlier, it is a special industry, one filled with variety, excitement, and entertainment – well, in a word, romance. It is a business that is connected to all of our lives in a unique way, from those marvelous farmers who spend their lives raising the crops, all the way to the tables at our favorite restaurants.

If I have been successful I conveying the uniqueness of the industry in which we work, then you will understand the particular way that SYSCO approaches our legal operations. As with all departments at SYSCO and the foodservice business that, in the end, has produced phenomenal performance for the past 34 years. It is that affection for the company, the industry, and for our colleagues, that gives me such great hope for our future.

