

SYSCO CORP  
Form 10-Q  
February 05, 2013

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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Form 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF  
R 1934

For the quarterly period ended December 29, 2012

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF  
£ 1934

Commission File Number 1-6544

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Sysco Corporation

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)  
1390 Enclave Parkway  
Houston, Texas

74-1648137  
(IRS employer  
identification number)  
77077-2099  
(Zip Code)

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(Address of principal executive offices)

Registrant's Telephone Number, Including Area Code:

(281) 584-1390

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer ☒

Accelerated Filer ☐

Non-accelerated Filer ☐ (Do not check if a smaller reporting company)

Smaller Reporting Company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

585,990,749 shares of common stock were outstanding as of January 26, 2013.



TABLE OF CONTENTS

|   | Page No. |
|---|----------|
| PART I – FINANCIAL INFORMATION  |          |
| Item 1. Financial Statements  | 1        |
| Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations | 19       |
| Item 3. Quantitative and Qualitative Disclosures About Market Risk                            | 38       |
| Item 4. Controls and Procedures   | 38       |
| PART II – OTHER INFORMATION   |          |
| Item 1. Legal Proceedings   | 39       |
| Item 1A. Risk Factors   | 39       |
| Item 2. Unregistered Sales of Equity Securities and Use of Proceeds                           | 39       |
| Item 3. Defaults Upon Senior Securities   | 39       |
| Item 4. Mine Safety Disclosures   | 39       |
| Item 5. Other Information   | 40       |
| Item 6. Exhibits  | 40       |
| Signatures  | 41       |

## PART I – FINANCIAL INFORMATION

## Item 1. Financial Statements

Sysco Corporation and its Consolidated Subsidiaries

## CONSOLIDATED BALANCE SHEETS

(In thousands, except for share data)

|   | Dec. 29, 2012<br>(unaudited) | Jun. 30, 2012 | Dec. 31, 2011<br>(unaudited) |
|---|------------------------------|---------------|------------------------------|
| <b>ASSETS</b>   |                              |               |                              |
| Current assets  |                              |               |                              |
| Cash and cash equivalents   | \$ 320,805                   | \$ 688,867    | \$ 336,531                   |
| Accounts and notes receivable, less<br>allowances of \$67,926, \$42,919, and \$71,180 | 3,168,120                    | 2,966,624     | 2,882,730                    |
| Inventories   | 2,436,109                    | 2,178,830     | 2,213,153                    |
| Deferred income taxes   | 116,887                      | 134,503       | 142,068                      |
| Prepaid expenses and other current assets   | 68,675                       | 80,713        | 73,568                       |
| Prepaid income taxes  | 49,189                       | 35,271        | -                            |
| Total current assets  | 6,159,785                    | 6,084,808     | 5,648,050                    |
| Plant and equipment at cost, less depreciation  | 3,960,636                    | 3,883,750     | 3,736,137                    |
| Other assets  |                              |               |                              |
| Goodwill  | 1,802,630                    | 1,665,611     | 1,630,879                    |
| Intangibles, less amortization  | 153,358                      | 113,571       | 102,594                      |
| Restricted cash   | 145,247                      | 127,228       | 132,031                      |
| Other assets  | 206,411                      | 220,004       | 204,336                      |
| Total other assets  | 2,307,646                    | 2,126,414     | 2,069,840                    |
| Total assets  | \$ 12,428,067                | \$ 12,094,972 | \$ 11,454,027                |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>   |                              |               |                              |
| Current liabilities   |                              |               |                              |
| Notes payable   | \$ 42,754                    | \$ -          | \$ 2,500                     |
| Accounts payable  | 2,287,559                    | 2,209,469     | 2,074,396                    |
| Accrued expenses  | 903,934                      | 909,144       | 857,538                      |
| Accrued income taxes  | -                            | 50,316        | 123,420                      |
| Current maturities of long-term debt  | 253,170                      | 254,650       | 205,916                      |
| Total current liabilities   | 3,487,417                    | 3,423,579     | 3,263,770                    |
| Other liabilities   |                              |               |                              |
| Long-term debt  | 2,809,290                    | 2,763,688     | 2,649,346                    |
| Deferred income taxes   | 94,987                       | 115,166       | 218,314                      |
| Other long-term liabilities   | 1,134,800                    | 1,107,499     | 634,982                      |
| Total other liabilities   | 4,039,077                    | 3,986,353     | 3,502,642                    |
| Commitments and contingencies   |                              |               |                              |
| Shareholders' equity  | -                            | -             | -                            |

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|  |               |               |               |
|--|---------------|---------------|---------------|
| Preferred stock, par value \$1 per share   |               |               |               |
| Authorized 1,500,000 shares, issued none   |               |               |               |
| Common stock, par value \$1 per share      |               |               |               |
| Authorized 2,000,000,000 shares, issued    |               |               |               |
| 765,174,900 shares                         | 765,175       | 765,175       | 765,175       |
| Paid-in capital                            | 954,988       | 939,179       | 907,991       |
| Retained earnings                          | 8,359,768     | 8,175,230     | 7,923,413     |
| Accumulated other comprehensive loss       | (605,709)     | (662,866)     | (323,565)     |
| Treasury stock at cost, 179,819,753,       |               |               |               |
| 179,228,383 and 181,352,211 shares         | (4,572,649)   | (4,531,678)   | (4,585,399)   |
| Total shareholders' equity                 | 4,901,573     | 4,685,040     | 4,687,615     |
| Total liabilities and shareholders' equity | \$ 12,428,067 | \$ 12,094,972 | \$ 11,454,027 |

Note: The June 30, 2012 balance sheet has been derived from the audited financial statements at that date.

See Notes to Consolidated Financial Statements

## Sysco Corporation and its Consolidated Subsidiaries

## CONSOLIDATED RESULTS OF OPERATIONS (Unaudited)

(In thousands, except for share and per share data)

|                                     | 13-Week Period Ended |               | 26-Week Period Ended |               |
|-------------------------------------|----------------------|---------------|----------------------|---------------|
|                                     | Dec. 29, 2012        | Dec. 31, 2011 | Dec. 29, 2012        | Dec. 31, 2011 |
| Sales                               | \$ 10,796,890        | \$ 10,244,421 | \$ 21,883,806        | \$ 20,830,811 |
| Cost of sales                       | 8,879,324            | 8,398,771     | 17,962,696           | 17,037,561    |
| Gross profit                        | 1,917,566            | 1,845,650     | 3,921,110            | 3,793,250     |
| Operating expenses                  | 1,534,915            | 1,418,652     | 3,059,677            | 2,856,912     |
| Operating income                    | 382,651              | 426,998       | 861,433              | 936,338       |
| Interest expense                    | 32,242               | 28,324        | 63,110               | 57,798        |
| Other expense (income), net         | (1,753)              | (3,472)       | (4,230)              | (3,222)       |
| Earnings before income taxes        | 352,162              | 402,146       | 802,553              | 881,762       |
| Income taxes                        | 130,793              | 152,033       | 294,586              | 328,996       |
| Net earnings                        | \$ 221,369           | \$ 250,113    | \$ 507,967           | \$ 552,766    |
| Net earnings:                       |                      |               |                      |               |
| Basic earnings per share            | \$ 0.38              | \$ 0.43       | \$ 0.86              | \$ 0.94       |
| Diluted earnings per share          | 0.38                 | 0.43          | 0.86                 | 0.94          |
| Average shares outstanding          | 587,091,968          | 586,188,302   | 587,760,060          | 589,095,964   |
| Diluted shares outstanding          | 589,751,933          | 587,034,204   | 590,130,537          | 590,241,651   |
| Dividends declared per common share | \$ 0.28              | \$ 0.27       | \$ 0.55              | \$ 0.53       |

See Notes to Consolidated Financial Statements

Sysco Corporation and its Consolidated Subsidiaries

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

(In thousands)

|  | 13-Week Period Ended |                  | 26-Week Period Ended |                  |
|--|----------------------|------------------|----------------------|------------------|
|  | Dec. 29,<br>2012     | Dec. 31,<br>2011 | Dec. 29,<br>2012     | Dec. 31,<br>2011 |
| Net earnings                                       | \$ 221,369           | \$ 250,113       | \$ 507,967           | \$ 552,766       |
| Other comprehensive income (loss):                 |                      |                  |                      |                  |
| Foreign currency translation adjustment            | (8,771)              | 18,423           | 27,389               | (83,844)         |
| Items presented net of tax:                        |                      |                  |                      |                  |
| Amortization of cash flow hedges                   | 96                   | 107              | 193                  | 214              |
| Amortization of prior service cost                 | 6,535                | 773              | 7,461                | 1,546            |
| Amortization of actuarial loss (gain), net         | 11,258               | 9,216            | 22,944               | 18,431           |
| Amortization of transition obligation              | 22                   | 23               | 44                   | 46               |
| Prior service cost arising in current year         | (24,828)             | -                | (24,828)             | -                |
| Actuarial (loss) gain, net arising in current year | 23,954               | -                | 23,954               | -                |
| Total other comprehensive income (loss)            | 8,266                | 28,542           | 57,157               | (63,607)         |
| Comprehensive income                               | \$ 229,635           | \$ 278,655       | \$ 565,124           | \$ 489,159       |

See Notes to Consolidated Financial Statements



## Sysco Corporation and its Consolidated Subsidiaries

## CONSOLIDATED CASH FLOWS (Unaudited)

(In thousands)

|  | 26-Week Period Ended |                  |
|--|----------------------|------------------|
|  | Dec. 29,<br>2012     | Dec. 31,<br>2011 |
| Cash flows from operating activities:  |                      |                  |
| Net earnings   | \$ 507,967           | \$ 552,766       |
| Adjustments to reconcile net earnings to cash provided by operating activities:                |                      |                  |
| Share-based compensation expense   | 39,423               | 38,757           |
| Depreciation and amortization  | 249,593              | 200,724          |
| Deferred income taxes  | (39,603)             | (295,801)        |
| Provision for losses on receivables  | 16,422               | 21,133           |
| Other non-cash items   | (246)                | (811)            |
| Additional investment in certain assets and liabilities, net of effect of businesses acquired: |                      |                  |
| (Increase) in receivables  | (157,073)            | (23,326)         |
| (Increase) in inventories  | (222,170)            | (152,289)        |
| Decrease (increase) in prepaid expenses and other current assets                               | 11,367               | (2,051)          |
| Increase (decrease) in accounts payable  | 28,313               | (94,236)         |
| (Decrease) in accrued expenses   | (37,338)             | (1,295)          |
| (Decrease) increase in accrued income taxes  | (64,663)             | 180,362          |
| Decrease in other assets   | 2,785                | 72,310           |
| Increase in other long-term liabilities  | 52,364               | 42,282           |
| Excess tax benefits from share-based compensation arrangements                                 | (356)                | (10)             |
| Net cash provided by operating activities  | 386,785              | 538,515          |
| Cash flows from investing activities:  |                      |                  |
| Additions to plant and equipment   | (261,576)            | (433,858)        |
| Proceeds from sales of plant and equipment   | 3,229                | 4,315            |
| Acquisition of businesses, net of cash acquired  | (194,237)            | (36,765)         |
| (Increase) in restricted cash  | (18,019)             | (21,515)         |
| Net cash used for investing activities   | (470,603)            | (487,823)        |
| Cash flows from financing activities:  |                      |                  |
| Bank and commercial paper borrowings (repayments), net   | 48,100               | 195,520          |
| Other debt borrowings  | 43,482               | 2,181            |
| Other debt repayments  | (10,789)             | (4,068)          |
| Debt issuance costs  | -                    | (974)            |
| Proceeds from common stock reissued from treasury for share-based compensation awards          | 90,853               | 45,417           |
| Treasury stock purchases   | (143,526)            | (272,299)        |
| Dividends paid   | (315,904)            | (307,141)        |

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|  |            |            |
|--|------------|------------|
| Excess tax benefits from share-based compensation arrangements | 356        | 10         |
| Net cash used for financing activities                         | (287,428)  | (341,354)  |
| Effect of exchange rates on cash                               | 3,184      | (12,572)   |
| Net (decrease) in cash and cash equivalents                    | (368,062)  | (303,234)  |
| Cash and cash equivalents at beginning of period               | 688,867    | 639,765    |
| Cash and cash equivalents at end of period                     | \$ 320,805 | \$ 336,531 |
| Supplemental disclosures of cash flow information:             |            |            |
| Cash paid during the period for:                               |            |            |
| Interest   | \$ 63,598  | \$ 58,000  |
| Income taxes   | 404,791    | 443,044    |

See Notes to Consolidated Financial Statements

Sysco Corporation and its Consolidated Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Unless this Form 10-Q indicates otherwise or the context otherwise requires, the terms “we,” “our,” “us,” “Sysco,” or “the company” as used in this Form 10-Q refer to Sysco Corporation together with its consolidated subsidiaries and divisions.

## 1. BASIS OF PRESENTATION

The consolidated financial statements have been prepared by the company, without audit, with the exception of the June 30, 2012 consolidated balance sheet which was taken from the audited financial statements included in the company's Fiscal 2012 Annual Report on Form 10-K. The financial statements include consolidated balance sheets, consolidated results of operations, consolidated statements of comprehensive income and consolidated cash flows. In the opinion of management, all adjustments, which consist of normal recurring adjustments, necessary to present fairly the financial position, results of operations, comprehensive income and cash flows for all periods presented have been made.

These financial statements should be read in conjunction with the audited financial statements and notes thereto included in the company's fiscal 2012 Annual Report on Form 10-K. Certain footnote disclosures included in annual financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to applicable rules and regulations for interim financial statements.

A review of the financial information herein has been made by Ernst & Young LLP, independent auditors, in accordance with established professional standards and procedures for such a review. A report from Ernst & Young LLP concerning their review is included as Exhibit 15.1 to this Form 10-Q.

## 2. CHANGES IN ACCOUNTING

Testing Goodwill for Impairment

In September 2011, the FASB issued Accounting Standards Update (ASU) 2011-08, “Testing Goodwill for Impairment.” This update amends Accounting Standards Codification 350, “Intangibles–Goodwill and Other” to allow entities an option to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. Under that option, an entity no longer would be required to calculate the fair value of a reporting unit unless the entity determines, based on that qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. In addition, the update provided a revised list of factors that should be considered when evaluating whether a potential goodwill impairment may have occurred at an interim period. The amendments in this update were effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption was permitted. The adoption of this update in the first quarter of fiscal 2013 did not result in a material change to the company’s interim consideration of potential goodwill impairment. Sysco is evaluating the impact this update may have on its annual goodwill impairment testing in the fourth quarter of fiscal 2013.

### 3. FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e. an exit price). The accounting guidance includes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The three levels of the fair value hierarchy are as follows:

- Level 1 – Unadjusted quoted prices for identical assets or liabilities in active markets;
- Level 2 – Inputs other than quoted prices in active markets for identical assets and liabilities that are observable either directly or indirectly for substantially the full term of the asset or liability; and
- Level 3 – Unobservable inputs for the asset or liability, which include management’s own assumption about the assumptions market participants would use in pricing the asset or liability, including assumptions about risk.

Sysco’s policy is to invest in only high-quality investments. Cash equivalents primarily include time deposits, certificates of deposit, commercial paper, high-quality money market funds and all highly liquid instruments with original maturities of three months or less. Restricted cash consists of investments in high-quality money market funds.

The following is a description of the valuation methodologies used for assets and liabilities measured at fair value.

- Time deposits and commercial paper included in cash equivalents are valued at amortized cost, which approximates fair value. These are included within cash equivalents as a Level 2 measurement in the tables below.
- Money market funds are valued at the closing price reported by the fund sponsor from an actively traded exchange. These are included within cash equivalents and restricted cash as Level 1 measurements in the tables below.
- The interest rate swap agreements, discussed further in Note 4, “Derivative Financial Instruments,” are valued using a swap valuation model that utilizes an income approach using observable market inputs including interest rates, LIBOR swap rates and credit default swap rates. These are included within prepaid expenses and other current assets and other assets as Level 2 measurements in the tables below.

The following tables present the company’s assets and liabilities measured at fair value on a recurring basis as of December 29, 2012, June 30, 2012 and December 31, 2011:

Assets Measured at Fair Value as of Dec.  
29, 2012

| Level 1 | Level 2 | Level 3 | Total |
|---------|---------|---------|-------|
|---------|---------|---------|-------|

(In thousands)

Assets:

Cash and cash equivalents

|                  |      |            |      |            |
|------------------|------|------------|------|------------|
| Cash equivalents | \$ - | \$ 178,033 | \$ - | \$ 178,033 |
|------------------|------|------------|------|------------|

Prepaid expenses and other current assets

|                              |   |     |   |     |
|------------------------------|---|-----|---|-----|
| Interest rate swap agreement | - | 488 | - | 488 |
|------------------------------|---|-----|---|-----|

|                 |         |   |   |         |
|-----------------|---------|---|---|---------|
| Restricted cash | 145,247 | - | - | 145,247 |
|-----------------|---------|---|---|---------|

Other assets

|                              |   |       |   |       |
|------------------------------|---|-------|---|-------|
| Interest rate swap agreement | - | 5,048 | - | 5,048 |
|------------------------------|---|-------|---|-------|

|                            |            |            |      |            |
|----------------------------|------------|------------|------|------------|
| Total assets at fair value | \$ 145,247 | \$ 183,569 | \$ - | \$ 328,816 |
|----------------------------|------------|------------|------|------------|

Assets Measured at Fair Value as of Jun.  
30, 2012

| Level 1 | Level 2 | Level 3 | Total |
|---------|---------|---------|-------|
|---------|---------|---------|-------|

(In thousands)

Assets:

Cash and cash equivalents

|                  |            |            |      |            |
|------------------|------------|------------|------|------------|
| Cash equivalents | \$ 228,310 | \$ 248,714 | \$ - | \$ 477,024 |
|------------------|------------|------------|------|------------|

Prepaid expenses and other current assets

|                              |   |       |   |       |
|------------------------------|---|-------|---|-------|
| Interest rate swap agreement | - | 2,475 | - | 2,475 |
|------------------------------|---|-------|---|-------|

|                 |         |   |   |         |
|-----------------|---------|---|---|---------|
| Restricted cash | 127,228 | - | - | 127,228 |
|-----------------|---------|---|---|---------|

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Other assets

|                              |            |            |      |            |
|------------------------------|------------|------------|------|------------|
| Interest rate swap agreement | -          | 6,219      | -    | 6,219      |
| Total assets at fair value   | \$ 355,538 | \$ 257,408 | \$ - | \$ 612,946 |

Assets Measured at Fair Value as of Dec.  
31, 2011

| Level 1 | Level 2 | Level 3 | Total |
|---------|---------|---------|-------|
|---------|---------|---------|-------|

(In thousands)

Assets:

Cash and cash equivalents

|                  |      |            |      |            |
|------------------|------|------------|------|------------|
| Cash equivalents | \$ - | \$ 136,814 | \$ - | \$ 136,814 |
|------------------|------|------------|------|------------|

|                 |         |   |   |         |
|-----------------|---------|---|---|---------|
| Restricted cash | 132,031 | - | - | 132,031 |
|-----------------|---------|---|---|---------|

Other assets

|                               |   |        |   |        |
|-------------------------------|---|--------|---|--------|
| Interest rate swap agreements | - | 10,671 | - | 10,671 |
|-------------------------------|---|--------|---|--------|

|                            |            |            |      |            |
|----------------------------|------------|------------|------|------------|
| Total assets at fair value | \$ 132,031 | \$ 147,485 | \$ - | \$ 279,516 |
|----------------------------|------------|------------|------|------------|

The carrying values of accounts receivable and accounts payable approximated their respective fair values due to the short term maturities of these instruments. The fair value of Sysco's total debt is estimated based on the quoted market prices for the same or similar issue or on the current rates offered to the company for debt of the same remaining maturities and is considered a Level 2 measurement. The fair value of total debt approximated \$3,604.2 million, \$3,539.3 million and \$3,330.7 million as of December 29,

2012, June 30, 2012 and December 31, 2011, respectively. The carrying value of total debt was \$3,105.2 million, \$3,018.3 million and \$2,857.8 million as of December 29, 2012, June 30, 2012 and December 31, 2011, respectively.

#### 4. DERIVATIVE FINANCIAL INSTRUMENTS

Sysco manages its debt portfolio to achieve an overall desired position of fixed and floating rates and may employ interest rate swaps from time to time to achieve this position. The company does not use derivative financial instruments for trading or speculative purposes.

In fiscal 2010, the company entered into two interest rate swap agreements that effectively converted \$250.0 million of fixed rate debt maturing in fiscal 2013 and \$200.0 million of fixed rate debt maturing in fiscal 2014 to floating rate debt. These transactions were entered into with the goal of reducing overall borrowing cost and increasing floating interest rate exposure. These transactions were designated as fair value hedges since the swaps hedge against the changes in fair value of fixed rate debt resulting from changes in interest rates.

The location and the fair value of derivative instruments in the consolidated balance sheet as of December 29, 2012, June 30, 2012 and December 31, 2011 are as follows:

|                                 | Asset Derivatives                         | Fair Value | Liability Derivatives  | Fair Value |
|---------------------------------|---|------------|------------------------|------------|
|                                 | Balance Sheet Location<br>(In thousands)  |            | Balance Sheet Location |            |
| Fair value hedge relationships: |   |            |                        |            |
| Interest rate swap agreements   |   |            |                        |            |
|                                 | Prepaid expenses and other current assets |            |                        |            |
| Dec. 29, 2012                   |   | \$ 488     | N/A                    | N/A        |
| Dec. 29, 2012                   | Other assets                              | 5,048      | N/A                    | N/A        |
|                                 | Prepaid expenses and other current assets |            |                        |            |
| Jun. 30, 2012                   |   | 2,475      | N/A                    | N/A        |
| Jun. 30, 2012                   | Other assets                              | 6,219      | N/A                    | N/A        |
| Dec. 31, 2011                   | Other assets                              | 10,671     | N/A                    | N/A        |

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The location and effect of derivative instruments and related hedged items on the consolidated results of operations for the 13-week periods ended December 29, 2012 and December 31, 2011 presented on a pre-tax basis are as follows:

|  |                  | Amount of (Gain) or<br>Loss |                  |
|--|------------------|-----------------------------|------------------|
| Location of (Gain) or Loss<br>Recognized in Income |                  | Recognized in<br>Income     |                  |
|  |                  | 13-Week Period<br>Ended     |                  |
|  |                  | Dec. 29,<br>2012            | Dec. 31,<br>2011 |
|  |                  | (In thousands)              |                  |
| Fair Value Hedge Relationships:                    |                  |                             |                  |
| Interest rate swap agreements                      | Interest expense | \$ (2,274)                  | \$ (3,342)       |
| Cash Flow Hedge Relationships:                     |                  |                             |                  |
| Interest rate contracts                            | Interest expense | 156                         | 174              |



The location and effect of derivative instruments and related hedged items on the consolidated results of operations for the 26-week periods ended December 29, 2012 and December 31, 2011 presented on a pre-tax basis are as follows:

| Location of (Gain) or Loss<br>Recognized in Income |                  | Amount of (Gain) or<br>Loss<br>Recognized in<br>Income<br>26-Week Period<br>Ended |                  |
|--|------------------|---|------------------|
|  |                  | Dec. 29,<br>2012  | Dec. 31,<br>2011 |
|  |                  | (In thousands)  |                  |
| Fair Value Hedge Relationships:                    |                  |   |                  |
| Interest rate swap agreements                      | Interest expense | \$ (4,324)  | \$ (3,829)       |
| Cash Flow Hedge Relationships:                     |                  |   |                  |
| Interest rate contracts                            | Interest expense | 313   | 348              |

Hedge ineffectiveness represents the difference between the changes in the fair value of the derivative instruments and the changes in fair value of the fixed rate debt attributable to changes in the benchmark interest rate. Hedge ineffectiveness is recorded directly in earnings within interest expense and was immaterial for the 13-week periods and 26-week periods ended December 29, 2012 and December 31, 2011. The interest rate swaps do not contain credit-risk-related contingent features.

## 5. DEBT

As of December 29, 2012, Sysco had uncommitted bank lines of credit which provided for unsecured borrowings for working capital of up to \$95.0 million, of which \$3.1 million was outstanding, located within Notes payable on the consolidated balance sheet.

Sysco and one of its subsidiaries, Sysco International, ULC, have a revolving credit facility supporting the company's United States and Canadian commercial paper programs. The facility provides for borrowings in both United States and Canadian dollars. Borrowings by Sysco International, ULC under the agreement are guaranteed by Sysco, and borrowings by Sysco and Sysco International, ULC under the credit agreement are guaranteed by the wholly-owned

subsidiaries of Sysco that are guarantors of the company's senior notes and debentures. The original facility in the amount of \$1,000.0 million expires on December 29, 2016. In December 2012, a portion of the facility was extended for an additional year. This extended facility, which expires on December 29, 2017, is for \$925.0 million of the original \$1,000.0 million facility, but is subject to further extension. As of December 29, 2012, commercial paper issuances outstanding were \$45.0 million and were classified as long-term debt, as the company's commercial paper programs are supported by the long-term revolving credit facility described above.

During the 26-week period ended December 29, 2012, aggregate commercial paper issuances and short-term bank borrowings ranged from zero to approximately \$203.0 million.

In September 2012, the company's Irish subsidiary, Pallas Foods, entered into a €75.0 million (Euro) multicurrency revolving credit facility, which will be utilized for capital needs for the company's European subsidiaries. This facility provides for unsecured borrowings and expires September 25, 2013, but is subject to extension. Outstanding borrowings under this facility were €30.0 million (Euro) as of December 29, 2012, located within Notes payable on the consolidated balance sheet.

## 6. COMPANY-SPONSORED EMPLOYEE BENEFIT PLANS

The components of net company-sponsored benefit cost for the 13-week periods presented are as follows. The caption “Pension Benefits” in the table below includes both the company-sponsored qualified pension plan (Retirement Plan) and the Supplemental Executive Retirement Plan (SERP).

|                                       | Pension Benefits |                  | Other<br>Postretirement<br>Plans |                     |
|---------------------------------------|------------------|------------------|----------------------------------|---------------------|
|                                       | Dec. 29,<br>2012 | Dec. 31,<br>2011 | Dec.<br>29,<br>2012              | Dec.<br>31,<br>2011 |
|                                       | (In thousands)   |                  |                                  |                     |
| Service cost                          | \$ 17,589        | \$ 27,056        | \$ 136                           | \$ 114              |
| Interest cost                         | 37,253           | 36,878           | 153                              | 158                 |
| Expected return on plan assets        | (42,800)         | (40,402)         | -                                | -                   |
| Amortization of prior service cost    | 2,273            | 1,201            | 42                               | 54                  |
| Amortization of actuarial loss (gain) | 18,328           | 15,042           | (51)                             | (83)                |
| Amortization of transition obligation | -                | -                | 36                               | 38                  |
| Curtailment loss                      | 8,293            | -                | -                                | -                   |
| Net periodic benefit cost             | \$ 40,936        | \$ 39,775        | \$ 316                           | \$ 281              |

The components of net company-sponsored benefit cost for the 26-week periods are as follows:

|                                       | Pension Benefits |                  | Other<br>Postretirement<br>Plans |                     |
|---------------------------------------|------------------|------------------|----------------------------------|---------------------|
|                                       | Dec. 29,<br>2012 | Dec. 31,<br>2011 | Dec.<br>29,<br>2012              | Dec.<br>31,<br>2011 |
|                                       | (In thousands)   |                  |                                  |                     |
| Service cost                          | \$ 35,369        | \$ 54,111        | \$ 271                           | \$ 228              |
| Interest cost                         | 74,953           | 73,757           | 307                              | 316                 |
| Expected return on plan assets        | (85,601)         | (80,803)         | -                                | -                   |
| Amortization of prior service cost    | 3,734            | 2,402            | 84                               | 108                 |
| Recognized net actuarial loss (gain)  | 37,350           | 30,083           | (102)                            | (166)               |
| Amortization of transition obligation | -                | -                | 71                               | 76                  |
| Curtailment loss                      | 8,293            | -                | -                                | -                   |

|                           |           |           |        |        |
|---------------------------|-----------|-----------|--------|--------|
| Net periodic benefit cost | \$ 74,098 | \$ 79,550 | \$ 631 | \$ 562 |
|---------------------------|-----------|-----------|--------|--------|

At the end of fiscal 2012, Sysco approved a plan to freeze future benefit accruals under the Retirement Plan as of December 31, 2012 for all United States-based salaried and non-union hourly employees. Effective January 1, 2013, these employees are eligible for additional contributions under the company's defined contribution 401(k) plan. The measurements for the Retirement Plan at June 30, 2012 and the resulting expense for fiscal 2013 included the impact of the freeze.

In November 2012, Sysco approved a plan to restructure its executive nonqualified retirement program including the SERP. Future benefit accruals will have frozen under this plan by June 29, 2013 for all participants. As a result of this change, the liabilities of this plan were remeasured using a discount rate of 3.96%. A curtailment gain of \$73.0 million was recognized as a component of actuarial losses (net of tax) within other comprehensive income with an offsetting reduction to benefits obligations to accumulated benefits. Further, an \$8.3 million loss was recognized in the income statement arising from the write-off of prior service costs. In addition to the plan freeze, participants will be fully vested in their frozen benefits on their date of freeze. This resulted in an increase in the benefit obligation of \$48.6 million which was reflected as unrecognized prior service cost in other comprehensive income. This amount will amortize into pension expense over the next seven years. The SERP benefit obligation resulting after these changes on the date of the approved plan was \$486.6 million.

Sysco's contributions to its company-sponsored defined benefit plans were \$11.3 million and \$11.1 million during the 26-week periods ended December 29, 2012 and December 31, 2011, respectively.

## 7. MULTIEMPLOYER EMPLOYEE BENEFIT PLANS

Sysco contributes to several multiemployer defined benefit pension plans in the United States and Canada based on obligations arising under collective bargaining agreements covering union-represented employees. Sysco does not directly manage these multiemployer plans, which are generally managed by boards of trustees, half of whom are appointed by the unions and the other half by Sysco and the other employers contributing to the plan.

Based upon the information available from plan administrators, management believes that several of these multiemployer plans are underfunded. In addition, pension-related legislation in the United States requires underfunded pension plans to improve their funding ratios within prescribed intervals based on the level of their underfunding. As a result, Sysco expects its contributions to these plans to increase in the future. In addition, if a United States multiemployer defined benefit plan fails to satisfy certain minimum funding requirements, the Internal Revenue Service may impose a nondeductible excise tax of 5% on the amount of the accumulated funding deficiency for those employers contributing to the fund.

### Withdrawal Activity

Sysco has voluntarily withdrawn from various multiemployer pension plans. Total withdrawal liability provisions recorded were \$2.5 million in the first 26 weeks of fiscal 2013 and \$4.5 million in the first 26 weeks of fiscal 2012. As of December 29, 2012, June 30, 2012 and December 31, 2011, Sysco had approximately \$14.0 million, \$30.7 million and \$46.9 million, respectively, in liabilities recorded related to certain multiemployer defined benefit plans for which Sysco's voluntary withdrawal had already occurred. Recorded withdrawal liabilities are estimated at the time of withdrawal based on the most recently available valuation and participant data for the respective plans; amounts are subsequently adjusted to the period of payment to reflect any changes to these estimates. If any of these plans were to undergo a mass withdrawal, as defined by the Pension Benefit Guaranty Corporation, within a two year time frame from the point of our withdrawal, Sysco could have additional liability. The company does not currently believe any mass withdrawals are probable to occur in the applicable two year time frame relating to the plans from which Sysco has voluntarily withdrawn.

### Potential Withdrawal Liability

Under current law regarding multiemployer defined benefit plans, a plan's termination, Sysco's voluntary withdrawal, or the mass withdrawal of all contributing employers from any underfunded multiemployer defined benefit plan would require Sysco to make payments to the plan for Sysco's proportionate share of the multiemployer plan's unfunded vested liabilities. Generally, Sysco does not have the greatest share of liability among the participants in any of the plans in which it participates. Sysco believes that one of the above-mentioned events is reasonably possible for certain plans in which it participates and estimates its share of withdrawal liability for these plans could have been as

much as \$115.0 million as of December 29, 2012. This estimate excludes plans for which Sysco has recorded withdrawal liabilities or where the likelihood of the above-mentioned events is deemed remote. This estimate is based on the information available from plan administrators, which has valuation dates ranging from December 31, 2009 to December 31, 2011. The majority of these plans have a valuation date of calendar year-end and therefore the estimate results from plans for which the valuation date was December 31, 2011; therefore, the company's estimate reflects the condition of the financial markets as of that date. Due to the lack of current information, management believes Sysco's current share of the withdrawal liability could materially differ from this estimate.

#### Subsequent Event

In January 2013, the union members of one of the company's subsidiaries approved a collective bargaining agreement that included an agreement to withdraw from the union's multiemployer pension plan and allows the represented employees to become participants in Sysco's company-sponsored pension plan. This action triggered a withdrawal from the multiemployer pension plan. As a result, during the third quarter of fiscal 2013, Sysco will record a withdrawal liability provision of approximately \$40.7 million related to this plan. As a result of this withdrawal, Sysco estimates that its share of withdrawal liability for the remaining plans for which it is reasonably possible for a withdrawal event to occur could have been as much as \$80.0 million as of January 26, 2013, as compared to \$115.0 million as of December 29, 2012.

## 8. EARNINGS PER SHARE

The following table sets forth the computation of basic and diluted earnings per share:

|   | 13-Week Period Ended |               | 26-Week Period Ended |               |
|---|----------------------|---------------|----------------------|---------------|
|   | Dec. 29, 2012        | Dec. 31, 2011 | Dec. 29, 2012        | Dec. 31, 2011 |
| (In thousands, except for share and per share data) |                      |               |                      |               |
| Numerator:  |                      |               |                      |               |
| Net earnings  | \$ 221,369           | \$ 250,113    | \$ 507,967           | \$ 552,766    |
| Denominator:  |                      |               |                      |               |
| Weighted-average basic shares outstanding           | 587,091,968          | 586,188,302   | 587,760,060          | 589,095,964   |
| Dilutive effect of share-based awards               | 2,659,965            | 845,902       | 2,370,477            | 1,145,687     |
| Weighted-average diluted shares outstanding         | 589,751,933          | 587,034,204   | 590,130,537          | 590,241,651   |
| Basic earnings per share:                           | \$ 0.38              | \$ 0.43       | \$ 0.86              | \$ 0.94       |
| Diluted earnings per share:                         | \$ 0.38              | \$ 0.43       | \$ 0.86              | \$ 0.94       |

The number of options that were not included in the diluted earnings per share calculation because the effect would have been anti-dilutive was approximately 25,000,000 and 49,000,000 for the second quarter of fiscal 2013 and fiscal 2012, respectively. The number of options that were not included in the diluted earnings per share calculation because the effect would have been anti-dilutive was approximately 31,000,000 and 49,500,000 for the first 26 weeks of fiscal 2013 and 2012, respectively.

## 9. SHARE-BASED COMPENSATION

Sysco provides compensation benefits to employees and non-employee directors under several share-based payment arrangements including various employee stock incentive plans, the Employees' Stock Purchase Plan, and various non employee director plans.

## Stock Incentive Plans

In the first 26 weeks of fiscal 2013, options to purchase 6,212,716 shares were granted to employees from the 2007 Stock Incentive Plan. The fair value of each option award is estimated as of the date of grant using a Black-Scholes option pricing model. The weighted average grant-date fair value per share of options granted during the first 26 weeks of fiscal 2013 was \$3.20.

In the first 26 weeks of fiscal 2013, 1,175,121 restricted stock units were granted to employees from the 2007 Stock Incentive Plan. Some of these restricted stock units were granted with dividend equivalents. The fair value of each restricted stock unit award granted with a dividend equivalent is based on the company's stock price as of the date of grant. For restricted stock unit awards granted without dividend equivalents, the fair value was reduced by the present value of expected dividends during the vesting period. The weighted average grant-date fair value per share of restricted stock units granted during the first 26 weeks of fiscal 2013 was \$29.76.

In the first 26 weeks of fiscal 2013, restricted awards in the amount of 48,069 were granted to non-employee directors from the 2009 Non-Employee Directors Stock Plan. The non-employee directors may elect to receive these awards in restricted stock shares that will vest at the end of the award's stated vesting period or as deferred units which convert into shares of Sysco common stock upon a date selected by the non-employee director that is subsequent to the award's stated vesting date. The fair value of the restricted awards is based on the company's stock price as of the date of grant. The weighted average grant-date fair value per share of restricted awards granted during the first 26 weeks of fiscal 2013 was \$29.96.

#### Employees' Stock Purchase Plan

Plan participants purchased 775,899 shares of Sysco common stock under the Sysco Employees' Stock Purchase Plan during the first 26 weeks of fiscal 2013.

The weighted average fair value per share of employee stock purchase rights issued pursuant to the Employees' Stock Purchase Plan was \$4.58 during the first 26 weeks of fiscal 2013. The fair value of the stock purchase rights is estimated as the difference between the stock price and the employee purchase price.



#### All Share-Based Payment Arrangements

The total share-based compensation cost that has been recognized in results of operations was \$39.4 million and \$38.8 million for the first 26 weeks of fiscal 2013 and fiscal 2012, respectively.

As of December 29, 2012, there was \$81.9 million of total unrecognized compensation cost related to share-based compensation arrangements. This cost is expected to be recognized over a weighted-average period of 2.61 years.

## 10. INCOME TAXES

#### Uncertain Tax Positions

As of December 29, 2012, the gross amount of unrecognized tax benefits was \$63.1 million and the gross amount of liability for accrued interest related to unrecognized tax benefits was \$35.7 million. It is reasonably possible that the amount of the unrecognized tax benefits with respect to certain of the company's unrecognized tax positions will increase or decrease in the next twelve months either because Sysco prevails on positions that were being challenged upon audit or because the company agrees to their disallowance. Items that may cause changes to unrecognized tax benefits primarily include the consideration of various filing requirements in numerous states and the allocation of income and expense between tax jurisdictions. At this time, an estimate of the range of the reasonably possible change cannot be made.

#### Effective Tax Rates

The effective tax rate of 37.14% for the second quarter of fiscal 2013 was favorably impacted by the recording of \$1.7 million of tax benefit related to disqualifying dispositions of Sysco stock pursuant to share-based compensation arrangements. This favorable impact was nearly offset by the recording of \$1.6 million in net tax expense related to various federal and state uncertain tax positions. Indefinitely reinvested earnings taxed at foreign statutory rates less than our domestic tax rate also had the impact of reducing the effective tax rate.

The effective tax rate for the second quarter of fiscal 2012 was 37.81%. Indefinitely reinvested earnings taxed at foreign statutory rates less than our domestic tax rate had the impact of reducing the effective tax rate.

The effective tax rate of 36.71% for the first 26 weeks of fiscal 2013 was favorably impacted by the recording of \$2.5 million of tax benefit related to disqualifying dispositions of Sysco stock pursuant to share-based compensation arrangements and the recording of \$2.1 million in net tax benefit related to various federal, foreign and state uncertain tax positions. Indefinitely reinvested earnings taxed at foreign statutory rates less than our domestic tax rate also had the impact of reducing the effective tax rate.

The effective tax rate for the first 26 weeks of fiscal 2012 was 37.31%. Indefinitely reinvested earnings taxed at foreign statutory rates less than our domestic tax rate had the impact of reducing the effective tax rate.

#### Other

The determination of the company's provision for income taxes requires significant judgment, the use of estimates and the interpretation and application of complex tax laws. The company's provision for income taxes reflects a combination of income earned and taxed in the various United States federal and state, as well as foreign, jurisdictions. Jurisdictional tax law changes, increases or decreases in permanent differences between book and tax items, accruals or adjustments of accruals for tax contingencies or valuation allowances, and the company's change in the mix of earnings from these taxing jurisdictions all affect the overall effective tax rate.

## 11. ACQUISITIONS

During the first 26 weeks of fiscal 2013, in the aggregate, the company paid cash of \$194.2 million for acquisitions made during fiscal 2013. Acquisitions in the first 26 weeks of fiscal 2013 were immaterial, individually and in the aggregate, to the consolidated financial statements.

Certain acquisitions involve contingent consideration typically payable over periods up to five years only in the event that certain operating results are attained or certain outstanding contingencies are resolved. As of December 29, 2012, aggregate contingent consideration amounts outstanding relating to acquisitions was \$103.1 million, of which \$36.4 million could result in the recording of additional goodwill.



## 12. COMMITMENTS AND CONTINGENCIES

### Legal Proceedings

Sysco is engaged in various legal proceedings which have arisen but have not been fully adjudicated. The likelihood of loss for these legal proceedings, based on definitions within contingency accounting literature, ranges from remote to reasonably possible to probable. When probable, the losses have been accrued. Based on estimates of the range of potential losses associated with these matters, management does not believe the ultimate resolution of these proceedings, either individually or in the aggregate, will have a material adverse effect upon the consolidated financial position or results of operations of the company. However, the final results of legal proceedings cannot be predicted with certainty and if the company failed to prevail in one or more of these legal matters, and the associated realized losses were to exceed the company's current estimates of the range of potential losses, the company's consolidated financial position or results of operations could be materially adversely affected in future periods.

### Fuel Commitments

Sysco routinely enters into forward purchase commitments for a portion of its projected diesel fuel requirements. As of December 29, 2012, outstanding forward diesel fuel purchase commitments totaled approximately \$110.0 million at a fixed price through November 2013.

### Other Commitments

Sysco has committed to aggregate product purchases for resale in order to benefit from a centralized approach to purchasing. A majority of these agreements expire within one year; however, certain agreements have terms through fiscal 2018. These agreements commit the company to a minimum volume at various pricing terms, including fixed pricing, variable pricing or a combination thereof. Minimum amounts committed to as of December 29, 2012 totaled approximately \$1,525.2 million.

Sysco has committed with various third party service providers to provide information technology services. The services have been committed for periods up to fiscal 2016 and may be extended. As of December 29, 2012, the total remaining cost of the services over that period is expected to be approximately \$454.8 million. A portion of this amount may be reduced by Sysco utilizing less than estimated resources and can be increased by Sysco utilizing more than estimated resources. Certain agreements allow adjustments for inflation. Sysco may also cancel a portion or all of the services provided subject to termination fees which decrease over time. If Sysco were to terminate all of the services in fiscal 2013, the estimated termination fees incurred in fiscal 2013 would be approximately \$35.9 million.

### 13. BUSINESS SEGMENT INFORMATION

The company has aggregated its operating companies into a number of segments, of which only Broadline and SYGMA are reportable segments as defined in the accounting literature related to disclosures about segments of an enterprise. The Broadline reportable segment is an aggregation of the company's United States, Canadian and European Broadline segments. Broadline operating companies distribute a full line of food products and a wide variety of non-food products to both traditional and chain restaurant customers and also provide custom-cut meat operations. SYGMA operating companies distribute a full line of food products and a wide variety of non-food products to certain chain restaurant customer locations. "Other" financial information is attributable to the company's other operating segments, including the company's specialty produce and lodging industry segments, a company that distributes specialty imported products and a company that distributes to international customers.

The accounting policies for the segments are the same as those disclosed by Sysco for its consolidated financial statements. Intersegment sales represent specialty produce and imported specialty products distributed by the Broadline and SYGMA operating companies. Management evaluates the performance of each of the operating segments based on its respective operating income results. Corporate expenses generally include all expenses of the corporate office and Sysco's shared service center. These also include all share-based compensation costs and expenses related to the company's Business Transformation Project.

The following tables set forth certain financial information for Sysco's business segments:

|                    | 13-Week Period Ended |               | 26-Week Period Ended |               |
|--------------------|----------------------|---------------|----------------------|---------------|
|                    | Dec. 29, 2012        | Dec. 31, 2011 | Dec. 29, 2012        | Dec. 31, 2011 |
| Sales:             | (In thousands)       |               |                      |               |
| Broadline          | \$ 8,779,069         | \$ 8,320,996  | \$ 17,836,733        | \$ 16,979,517 |
| SYGMA              | 1,411,815            | 1,403,555     | 2,832,570            | 2,788,024     |
| Other              | 659,861              | 559,122       | 1,320,462            | 1,147,683     |
| Intersegment sales | (53,855)             | (39,252)      | (105,959)            | (84,413)      |
| Total              | \$ 10,796,890        | \$ 10,244,421 | \$ 21,883,806        | \$ 20,830,811 |

|                              | 13-Week Period Ended |               | 26-Week Period Ended |               |
|------------------------------|----------------------|---------------|----------------------|---------------|
|                              | Dec. 29, 2012        | Dec. 31, 2011 | Dec. 29, 2012        | Dec. 31, 2011 |
| Operating income:            | (In thousands)       |               |                      |               |
| Broadline                    | \$ 580,257           | \$ 564,881    | \$ 1,223,093         | \$ 1,188,996  |
| SYGMA                        | 13,439               | 13,296        | 25,524               | 28,987        |
| Other                        | 20,469               | 20,253        | 42,828               | 44,738        |
| Total segments               | 614,165              | 598,430       | 1,291,445            | 1,262,721     |
| Corporate expenses           | (231,514)            | (171,432)     | (430,012)            | (326,383)     |
| Total operating income       | 382,651              | 426,998       | 861,433              | 936,338       |
| Interest expense             | 32,242               | 28,324        | 63,110               | 57,798        |
| Other expense (income), net  | (1,753)              | (3,472)       | (4,230)              | (3,222)       |
| Earnings before income taxes | \$ 352,162           | \$ 402,146    | \$ 802,553           | \$ 881,762    |

|                | Dec. 29, 2012  | Jun. 30, 2012 | Dec. 31, 2011 |
|----------------|----------------|---------------|---------------|
| Assets:        | (In thousands) |               |               |
| Broadline      | \$ 8,889,354   | \$ 8,025,677  | \$ 7,536,722  |
| SYGMA          | 475,319        | 475,877       | 479,962       |
| Other          | 937,811        | 877,207       | 822,659       |
| Total segments | 10,302,484     | 9,378,761     | 8,839,343     |
| Corporate      | 2,125,583      | 2,716,211     | 2,614,684     |
| Total          | \$ 12,428,067  | \$ 12,094,972 | \$ 11,454,027 |

## 14. SUPPLEMENTAL GUARANTOR INFORMATION – SUBSIDIARY GUARANTEES

On January 19, 2011, the wholly-owned United States Broadline (U.S. Broadline) subsidiaries of Sysco Corporation entered into full and unconditional guarantees of all outstanding senior notes and debentures of Sysco Corporation. As of December 29, 2012, Sysco had a total of \$2,975.0 million in senior notes and debentures outstanding that are covered by these guarantees.

The following condensed consolidating financial statements present separately the financial position, comprehensive income and cash flows of the parent issuer (Sysco Corporation), the guarantors (the majority of the company's U.S. Broadline subsidiaries), and all other non guarantor subsidiaries of Sysco (Other Non-Guarantor Subsidiaries) on a combined basis with eliminating entries.

Condensed Consolidating Balance Sheet  
Dec. 29, 2012

|  | Sysco<br>(In thousands) | U.S.<br>Broadline<br>Subsidiaries | Other<br>Non-Guarantor<br>Subsidiaries | Eliminations    | Consolidated<br>Totals |
|--|-------------------------|-----------------------------------|--|-----------------|------------------------|
| Current assets                             | \$ 188,879              | \$ 3,866,718                      | \$ 2,104,188                           | \$ -            | \$ 6,159,785           |
| Investment in subsidiaries                 | 11,031,000              | -                                 | -                                      | (11,031,000)    | -                      |
| Plant and equipment, net                   | 624,441                 | 1,976,200                         | 1,359,995                              | -               | 3,960,636              |
| Other assets                               | 341,243                 | 501,111                           | 1,465,292                              | -               | 2,307,646              |
| Total assets                               | \$ 12,185,563           | \$ 6,344,029                      | \$ 4,929,475                           | \$ (11,031,000) | \$ 12,428,067          |
| Current liabilities                        | \$ 680,130              | \$ 819,372                        | \$ 1,987,915                           | \$ -            | \$ 3,487,417           |
| Intercompany payables (receivables)        | 3,220,164               | (3,626,887)                       | 406,723                                | -               | -                      |
| Long-term debt                             | 2,758,493               | 25,898                            | 24,899                                 | -               | 2,809,290              |
| Other liabilities                          | 823,340                 | 293,849                           | 112,598                                | -               | 1,229,787              |
| Shareholders' equity                       | 4,703,436               | 8,831,797                         | 2,397,340                              | (11,031,000)    | 4,901,573              |
| Total liabilities and shareholders' equity | \$ 12,185,563           | \$ 6,344,029                      | \$ 4,929,475                           | \$ (11,031,000) | \$ 12,428,067          |

Condensed Consolidating Balance Sheet  
Jun. 30, 2012

|                            | Sysco<br>(In thousands) | U.S.<br>Broadline<br>Subsidiaries | Other<br>Non-Guarantor<br>Subsidiaries | Eliminations | Consolidated<br>Totals |
|----------------------------|-------------------------|-----------------------------------|--|--------------|------------------------|
| Current assets             | \$ 538,451              | \$ 3,675,676                      | \$ 1,870,681                           | \$ -         | \$ 6,084,808           |
| Investment in subsidiaries | 10,163,398              | -                                 | -                                      | (10,163,398) | -                      |

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|  |               |              |              |                 |               |
|--|---------------|--------------|--------------|-----------------|---------------|
| Plant and equipment, net                   | 703,658       | 1,923,925    | 1,256,167    | -               | 3,883,750     |
| Other assets                               | 324,839       | 503,357      | 1,298,218    | -               | 2,126,414     |
| Total assets                               | \$ 11,730,346 | \$ 6,102,958 | \$ 4,425,066 | \$ (10,163,398) | \$ 12,094,972 |
| Current liabilities                        | \$ 678,527    | \$ 900,416   | \$ 1,844,636 | \$ -            | \$ 3,423,579  |
| Intercompany payables (receivables)        | 3,068,001     | (3,334,860)  | 266,859      | -               | -             |
| Long-term debt                             | 2,714,415     | 25,459       | 23,814       | -               | 2,763,688     |
| Other liabilities                          | 755,112       | 367,094      | 100,459      | -               | 1,222,665     |
| Shareholders' equity                       | 4,514,291     | 8,144,849    | 2,189,298    | (10,163,398)    | 4,685,040     |
| Total liabilities and shareholders' equity | \$ 11,730,346 | \$ 6,102,958 | \$ 4,425,066 | \$ (10,163,398) | \$ 12,094,972 |



Condensed Consolidating Balance Sheet  
Dec. 31, 2011

|  | Sysco<br>(In thousands) | U.S.<br>Broadline<br>Subsidiaries | Other<br>Non-Guarantor<br>Subsidiaries | Eliminations    | Consolidated<br>Totals |
|--|-------------------------|-----------------------------------|--|-----------------|------------------------|
| Current assets                             | \$ 202,267              | \$ 3,660,988                      | \$ 1,784,795                           | \$ -            | \$ 5,648,050           |
| Investment in subsidiaries                 | 14,859,149              | -                                 | -                                      | (14,859,149)    | -                      |
| Plant and equipment, net                   | 647,217                 | 1,895,977                         | 1,192,943                              | -               | 3,736,137              |
| Other assets                               | 321,460                 | 518,934                           | 1,229,446                              | -               | 2,069,840              |
| Total assets                               | \$ 16,030,093           | \$ 6,075,899                      | \$ 4,207,184                           | \$ (14,859,149) | \$ 11,454,027          |
| Current liabilities                        | \$ 423,796              | \$ 872,205                        | \$ 1,967,769                           | \$ -            | \$ 3,263,770           |
| Intercompany payables (receivables)        | 7,984,530               | (8,086,079)                       | 101,549                                | -               | -                      |
| Long-term debt                             | 2,599,524               | 26,871                            | 22,951                                 | -               | 2,649,346              |
| Other liabilities                          | 502,536                 | 275,475                           | 75,285                                 | -               | 853,296                |
| Shareholders' equity                       | 4,519,707               | 12,987,427                        | 2,039,630                              | (14,859,149)    | 4,687,615              |
| Total liabilities and shareholders' equity | \$ 16,030,093           | \$ 6,075,899                      | \$ 4,207,184                           | \$ (14,859,149) | \$ 11,454,027          |

Condensed Consolidating Statement of Comprehensive Income  
For the 13-Week Period Ended Dec. 29, 2012

|                                       | Sysco<br>(In thousands) | U.S.<br>Broadline<br>Subsidiaries | Other<br>Non-Guarantor<br>Subsidiaries | Eliminations | Consolidated<br>Totals |
|---------------------------------------|-------------------------|-----------------------------------|--|--------------|------------------------|
| Sales                                 | \$ -                    | \$ 7,361,249                      | \$ 3,706,570                           | \$ (270,929) | \$ 10,796,890          |
| Cost of sales                         | -                       | 5,948,837                         | 3,173,029                              | (242,542)    | 8,879,324              |
| Gross profit                          | -                       | 1,412,412                         | 533,541                                | (28,387)     | 1,917,566              |
| Operating expenses                    | 194,206                 | 884,463                           | 484,633                                | (28,387)     | 1,534,915              |
| Operating income (loss)               | (194,206)               | 527,949                           | 48,908                                 | -            | 382,651                |
| Interest expense (income)             | 72,564                  | (42,058)                          | 1,736                                  | -            | 32,242                 |
| Other expense (income), net           | (2,294)                 | (537)                             | 1,078                                  | -            | (1,753)                |
| Earnings (losses) before income taxes | (264,476)               | 570,544                           | 46,094                                 | -            | 352,162                |
| Income tax (benefit) provision        | (97,835)                | 211,516                           | 17,112                                 | -            | 130,793                |
| Equity in earnings of subsidiaries    | 388,010                 | -                                 | -                                      | (388,010)    | -                      |
| Net earnings                          | 221,369                 | 359,028                           | 28,982                                 | (388,010)    | 221,369                |
| Other comprehensive income (loss)     | 17,037                  | -                                 | (8,771)                                | -            | 8,266                  |
| Comprehensive income                  | \$ 238,406              | \$ 359,028                        | \$ 20,211                              | \$ (388,010) | \$ 229,635             |

Condensed Consolidating Statement of Comprehensive Income  
For the 13-Week Period Ended Dec. 31, 2011

|                                       | Sysco          | U.S.<br>Broadline<br>Subsidiaries | Other<br>Non-Guarantor<br>Subsidiaries | Eliminations | Consolidated<br>Totals |
|---------------------------------------|----------------|-----------------------------------|--|--------------|------------------------|
|                                       | (In thousands) |                                   |  |              |                        |
| Sales                                 | \$ -           | \$ 7,056,282                      | \$ 3,393,450                           | \$ (205,311) | \$ 10,244,421          |
| Cost of sales                         | -              | 5,674,008                         | 2,907,268                              | (182,505)    | 8,398,771              |
| Gross profit                          | -              | 1,382,274                         | 486,182                                | (22,806)     | 1,845,650              |
| Operating expenses                    | 135,560        | 872,619                           | 433,279                                | (22,806)     | 1,418,652              |
| Operating income (loss)               | (135,560)      | 509,655                           | 52,903                                 | -            | 426,998                |
| Interest expense (income)             | 96,985         | (67,483)                          | (1,178)                                | -            | 28,324                 |
| Other expense (income), net           | (2,197)        | (701)                             | (574)                                  | -            | (3,472)                |
| Earnings (losses) before income taxes | (230,348)      | 577,839                           | 54,655                                 | -            | 402,146                |
| Income tax (benefit) provision        | (86,825)       | 218,177                           | 20,681                                 | -            | 152,033                |
| Equity in earnings of subsidiaries    | 393,636        | -                                 | -                                      | (393,636)    | -                      |
| Net earnings                          | 250,113        | 359,662                           | 33,974                                 | (393,636)    | 250,113                |
| Other comprehensive income (loss)     | 10,119         | -                                 | 18,423                                 | -            | 28,542                 |
| Comprehensive income                  | \$ 260,232     | \$ 359,662                        | \$ 52,397                              | \$ (393,636) | \$ 278,655             |

Condensed Consolidating Statement of Comprehensive Income  
For the 26-Week Period Ended Dec. 29, 2012

|                                       | Sysco      | U.S.<br>Broadline<br>Subsidiaries | Other<br>Non-Guarantor<br>Subsidiaries | Eliminations | Consolidated<br>Totals |
|---------------------------------------|------------|-----------------------------------|--|--------------|------------------------|
| (In thousands)                        |            |                                   |  |              |                        |
| Sales                                 | \$ -       | \$ 14,997,427                     | \$ 7,411,242                           | \$ (524,863) | \$ 21,883,806          |
| Cost of sales                         | -          | 12,093,695                        | 6,339,226                              | (470,225)    | 17,962,696             |
| Gross profit                          | -          | 2,903,732                         | 1,072,016                              | (54,638)     | 3,921,110              |
| Operating expenses                    | 347,344    | 1,798,549                         | 968,422                                | (54,638)     | 3,059,677              |
| Operating income (loss)               | (347,344)  | 1,105,183                         | 103,594                                | -            | 861,433                |
| Interest expense (income)             | 142,176    | (80,441)                          | 1,375                                  | -            | 63,110                 |
| Other expense (income), net           | (2,613)    | (1,241)                           | (376)                                  | -            | (4,230)                |
| Earnings (losses) before income taxes | (486,907)  | 1,186,865                         | 102,595                                | -            | 802,553                |
| Income tax (benefit) provision        | (178,726)  | 435,653                           | 37,659                                 | -            | 294,586                |
| Equity in earnings of subsidiaries    | 816,148    | -                                 | -                                      | (816,148)    | -                      |
| Net earnings                          | 507,967    | 751,212                           | 64,936                                 | (816,148)    | 507,967                |
| Other comprehensive income (loss)     | 29,768     | -                                 | 27,389                                 | -            | 57,157                 |
| Comprehensive income                  | \$ 537,735 | \$ 751,212                        | \$ 92,325                              | \$ (816,148) | \$ 565,124             |

Condensed Consolidating Statement of Comprehensive Income  
For the 26-Week Period Ended Dec. 31, 2011

|                                       | Sysco     | U.S.<br>Broadline<br>Subsidiaries | Other<br>Non-Guarantor<br>Subsidiaries | Eliminations | Consolidated<br>Totals |
|---------------------------------------|-----------|-----------------------------------|--|--------------|------------------------|
| (In thousands)                        |           |                                   |  |              |                        |
| Sales                                 | \$ -      | \$ 14,376,568                     | \$ 6,850,508                           | \$ (396,265) | \$ 20,830,811          |
| Cost of sales                         | -         | 11,538,714                        | 5,850,452                              | (351,605)    | 17,037,561             |
| Gross profit                          | -         | 2,837,854                         | 1,000,056                              | (44,660)     | 3,793,250              |
| Operating expenses                    | 252,523   | 1,770,650                         | 878,399                                | (44,660)     | 2,856,912              |
| Operating income (loss)               | (252,523) | 1,067,204                         | 121,657                                | -            | 936,338                |
| Interest expense (income)             | 193,263   | (131,386)                         | (4,079)                                | -            | 57,798                 |
| Other expense (income), net           | (3,512)   | (1,264)                           | 1,554                                  | -            | (3,222)                |
| Earnings (losses) before income taxes | (442,274) | 1,199,854                         | 124,182                                | -            | 881,762                |
| Income tax (benefit) provision        | (165,018) | 447,680                           | 46,334                                 | -            | 328,996                |
| Equity in earnings of subsidiaries    | 830,022   | -                                 | -                                      | (830,022)    | -                      |
| Net earnings                          | 552,766   | 752,174                           | 77,848                                 | (830,022)    | 552,766                |
| Other comprehensive income (loss)     | 20,237    | -                                 | (83,844)                               | -            | (63,607)               |

|                      |            |            |            |              |            |
|----------------------|------------|------------|------------|--------------|------------|
| Comprehensive income | \$ 573,003 | \$ 752,174 | \$ (5,996) | \$ (830,022) | \$ 489,159 |
|----------------------|------------|------------|------------|--------------|------------|

Condensed Consolidating Cash Flows  
For the 26-Week Period Ended Dec. 29, 2012

|  | Sysco          | U.S.<br>Broadline<br>Subsidiaries | Other<br>Non-Guarantor<br>Subsidiaries | Consolidated<br>Totals |
|--|----------------|-----------------------------------|--|------------------------|
|  | (In thousands) |                                   |  |                        |

## Cash flows provided by (used for):

|  |              |            |            |            |
|--|--------------|------------|------------|------------|
| Operating activities                                 | \$ (147,760) | \$ 518,930 | \$ 15,615  | \$ 386,785 |
| Investing activities                                 | (59,121)     | (99,832)   | (311,650)  | (470,603)  |
| Financing activities                                 | (319,069)    | 415        | 31,226     | (287,428)  |
| Effect of exchange rates on cash                     | -            | -          | 3,184      | 3,184      |
| Intercompany activity                                | 176,983      | (430,860)  | 253,877    | -          |
| Net increase (decrease) in cash and cash equivalents | (348,967)    | (11,347)   | (7,748)    | (368,062)  |
| Cash and cash equivalents at the beginning of period | 471,107      | 34,478     | 183,282    | 688,867    |
| Cash and cash equivalents at the end of period       | \$ 122,140   | \$ 23,131  | \$ 175,534 | \$ 320,805 |

Condensed Consolidating Cash Flows  
For the 26-Week Period Ended Dec. 31, 2011

|  | Sysco | U.S.<br>Broadline<br>Subsidiaries | Other<br>Non-Guarantor<br>Subsidiaries | Consolidated<br>Totals |
|--|-------|-----------------------------------|--|------------------------|
|--|-------|-----------------------------------|--|------------------------|

(In thousands)

|  |             |            |            |            |
|--|-------------|------------|------------|------------|
| Cash flows provided by (used for):                   |             |            |            |            |
| Operating activities                                 | \$ (69,367) | \$ 543,698 | \$ 64,184  | \$ 538,515 |
| Investing activities                                 | (140,083)   | (211,491)  | (136,249)  | (487,823)  |
| Financing activities                                 | (157,055)   | 168        | (184,467)  | (341,354)  |
| Effect of exchange rates on cash                     | -           | -          | (12,572)   | (12,572)   |
| Intercompany activity                                | 200,109     | (338,679)  | 138,570    | -          |
| Net increase (decrease) in cash and cash equivalents | (166,396)   | (6,304)    | (130,534)  | (303,234)  |
| Cash and cash equivalents at the beginning of period | 305,513     | 32,154     | 302,098    | 639,765    |
| Cash and cash equivalents at the end of period       | \$ 139,117  | \$ 25,850  | \$ 171,564 | \$ 336,531 |

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

This discussion should be read in conjunction with our consolidated financial statements as of June 30, 2012, and the fiscal year then ended, and Management's Discussion and Analysis of Financial Condition and Results of Operations, both contained in our Annual Report on Form 10-K for the fiscal year ended June 30, 2012.

Our discussion below of our results includes certain non-GAAP financial measures that we believe provide important perspective with respect to underlying business trends. Any non-GAAP financial measure will be denoted as an adjusted measure and excludes the impact from executive retirement plans restructuring, multiemployer pension plan charges, severance charges, facility closure charges and Business Transformation Project costs. Collectively, these are referred to as Excluded Charges. More information on the rationale of the use of these measures and reconciliations to GAAP numbers can be found under "Non-GAAP Reconciliations."

### Overview

Sysco distributes food and related products to restaurants, healthcare and educational facilities, lodging establishments and other foodservice customers. Our primary operations are located throughout the United States, Canada and Ireland and include broadline companies (which include our custom-cut meat operations), SYGMA (our chain restaurant distribution subsidiary), specialty produce companies, hotel supply operations, a company that distributes specialty imported products and a company that distributes to international customers.

We consider our primary market to be the foodservice market in the United States, Canada and Ireland and estimate that we serve about 18% of this approximately \$235 billion annual market. According to industry sources, the foodservice, or food away from-home, market represents approximately 46% of the total dollars spent on food purchases made at the consumer level in the United States.

General economic conditions and consumer confidence can affect the frequency of purchases and amounts spent by consumers for food-away-from-home and, in turn, can impact our customers and our sales. We believe the current general economic conditions, including pressure on consumer disposable income, have contributed to a decline in the foodservice market. Historically, we have grown at a faster rate than the overall industry and believe we have continued to grow our market share in this fragmented industry.

### Highlights

Our sales growth for the first 26 weeks of fiscal 2013 was driven primarily by case growth, a portion of which is attributable to acquisitions, and product cost inflation and the resulting increase in selling prices. Despite a challenging business and economic environment, we continued to make progress toward our Business Transformation objectives while continuing to focus on growing our market share and expense management. Our earnings declined primarily due to expenses related to our Business Transformation Project; however, our adjusted net earnings increased when the Excluded Charges are adjusted from our net earnings.

Comparisons of results from the second quarter of fiscal 2013 to the second quarter of fiscal 2012:

- Sales increased 5.4%, or \$0.6 billion, to \$10.8 billion.
- Operating income decreased 10.4%, or \$44.3 million, to \$382.7 million.
- Adjusted operating income increased 4.6%, or \$21.2 million, to \$485.7 million.
- Net earnings decreased 11.5%, or \$28.7 million, to \$221.4 million.
- Adjusted net earnings increased 4.7%, or \$12.7 million, to \$286.1 million.
- Basic and diluted earnings per share in the second quarter of fiscal 2013 were \$0.38, an 11.6% decrease from the comparable prior year period amount of \$0.43 per share.
- Adjusted diluted earnings per share were \$0.49 in the second quarter of fiscal 2013 and \$0.47 in the second quarter of fiscal 2012, or an increase of 4.3%.

Comparisons of results from the first 26 weeks of fiscal 2013 to the first 26 weeks of fiscal 2012:

- Sales increased 5.1%, or \$1.1 billion, to \$21.9 billion.
- Operating income decreased 8.0%, or \$74.9 million, to \$861.4 million.
- Adjusted operating income increased 3.1%, or \$31.7 million, to \$1.0 billion.
- Net earnings decreased 8.1%, or \$44.8 million, to \$508.0 million.
- Adjusted net earnings increased 3.8%, or \$23.1 million, to \$626.4 million.
- Basic and diluted earnings per share in the first 26 weeks of fiscal 2013 were \$0.86, an 8.5% decrease from the comparable prior year period amount of \$0.94 per share.

- Adjusted diluted earnings per share were \$1.06 in the first 26 weeks of fiscal 2013 and \$1.02 in the first 26 weeks of fiscal 2012, or an increase of 3.9%.

See “Non-GAAP Reconciliations” for an explanation of these non-GAAP financial measures.

## Trends and Strategy

### Trends

General economic conditions and consumer confidence can affect the frequency of purchases and amounts spent by consumers for food-away-from-home and, in turn, can impact our customers and our sales. We believe that the consumer is currently concerned about the recent increase in taxes and the potential for more increases, the United States debt ceiling debates, and lingering high unemployment rates and other fiscal issues. We believe these items and other current general economic conditions, including pressure on consumer disposable income, have negatively impacted consumer confidence and contributed to a slow rate of recovery in the foodservice market. According to industry sources, real sales for the total foodservice market in the United States are expected to be modest over the long term. We believe these industry impacting trends reinforce the need for us to transform our business so that we can be in a position to provide greater value to our customers and reduce our overall cost structure.

We experienced prolonged levels of high product cost inflation during the first three quarters of fiscal 2012; however, inflation rates declined to a range of 2% to 3% in the fourth quarter of fiscal 2012 and the first 26 weeks of fiscal 2013. As a result, gross margin pressure has eased somewhat with these more modest inflation amounts which are beneficial to us and our customers. In the summer months of 2012, certain agricultural areas of the United States experienced severe drought. The impact of this drought is uncertain and could result in volatile input costs. Input costs could increase for a large portion of the products that we sell for a prolonged period. While we cannot predict whether inflation will continue at current levels, periods of high inflation, either overall or in certain product categories, can have a negative impact on us and our customers, as high food costs can reduce consumer spending in the food-away-from-home market, and may negatively impact our sales, gross profit, operating income and earnings. Additional pressure exists on our gross margin from competitive pressures on pricing. Low industry growth is contributing to increased competition which is in turn pressuring gross profits. We are focused on profitably growing our market share in an environment where gross margins are under pressure.

We have experienced higher operating expenses this fiscal year as compared to fiscal 2012. Our Business Transformation Project has been a primary contributor to this increase. This project is a key part of our strategy to control costs and grow our market share over the long-term. This project includes an integrated software system that went into deployment in August 2012, resulting in increased deployment expenses and software amortization. In



fiscal 2012, we were still building and testing our software and therefore had a greater amount of capitalized costs. We believe expenses related to the project will increase in fiscal 2013 as compared to fiscal 2012 due to amortization of the software asset and increased deployment costs.

Additional sources of operating expense increases have resulted from higher fuel costs, labor shortages in certain markets that we operate in and other pay-related expenses primarily in our delivery area. Significant improvements were noted in the selling and administrative areas due to enhanced business practices resulting from initiatives from our Business Transformation Project. Net company-sponsored pension costs were lower in the first 26 weeks of fiscal 2013 as compared to fiscal 2012. At the end of fiscal 2012, we decided to freeze future benefit accruals under the company-sponsored qualified pension plan (Retirement Plan) as of December 31, 2012 for all United States-based salaried and non-union hourly employees. Effective January 1, 2013, these employees are eligible for additional contributions under an enhanced, defined contribution plan. Pension costs will decrease in fiscal 2013 primarily due to this plan freeze. Absent the Retirement Plan freeze discussed above, net company-sponsored pension costs would have increased \$106.9 million in fiscal 2013, or \$26.7 million per quarter. Our expenses related to our defined contribution plan will increase in fiscal 2013 and will more than offset our reduced pension costs. In November 2012, we approved a plan to restructure our executive nonqualified retirement program, including the Supplemental Executive Retirement Plan (SERP), by freezing benefits. We believe this restructuring more closely aligns our executive plans with our non-executive plans. As a result of this restructuring, we expect to incur approximately \$24 million in charges, of which approximately \$12 million in charges were incurred in the second quarter of fiscal 2013, with the remaining \$12 million in charges expected to be incurred in the second half of fiscal 2013. Over the long-term, we believe the changes to all of these retirement programs will result in reduced volatility of retirement-related expenses and a reduction in total retirement-related expenses.

Late in October 2012, Hurricane Sandy caused damage across large portions of the Mid-Atlantic, Northeastern, and Midwestern United States. We experienced limited damage to our facilities and property; however, many of our customers in this area were negatively impacted. Our second quarter results were impacted by the storm. We believe the negative impact from Hurricane Sandy was \$0.01 per share for the second quarter of fiscal 2013.

## Strategy

We are focused on optimizing our core broadline business in the United States, Canada and Ireland, while continuing to explore appropriate opportunities to profitably grow our market share and create shareholder value by expanding beyond our core business. Day-to-day, our business decisions are driven by our mission to market and deliver great products to our customers with exceptional service, with the aspirational vision of becoming each of our customers' most valued and trusted business partner. We have identified five strategies to help us achieve our mission and vision:

- Profoundly enrich the experience of doing business with Sysco;
- Continuously improve productivity in all areas of our business;
- Expand our portfolio of products and services by initiating a customer-centric innovation program;
- Explore, assess and pursue new businesses and markets; and
- Develop and effectively integrate a comprehensive, enterprise-wide talent management process.

## Business Transformation Project

Our Business Transformation Project consists of three main components:

- the design and deployment of an ERP system to implement an integrated software system to support a majority of our business processes and further streamline our operations;
- a cost transformation initiative to lower our cost structure; and
- a product cost reduction initiative to use market data and customer insights to make changes to product pricing and product assortment.

Our total expected annualized benefits are \$550 million to \$650 million from this project by fiscal 2015. We believe that in fiscal 2013 we can achieve 25% of the total expected annualized benefits. If we are successful in obtaining these benefits in fiscal 2013, some of the trends noted above could be favorably impacted.

We have deployed our ERP system to three additional locations and are experiencing improved functionality in many areas compared to past deployments. Our shared services center, Sysco Business Services, continues to expand and provide a broader array of centralized administrative services. We have also identified areas of improvement that we want to address before we continue deploying to additional locations. Further deployments in this fiscal year will be reassessed as these improvements are made.

Efforts from our cost transformation initiatives in the first 26 weeks of fiscal 2013 were in the multiple areas of operations. We completed the implementation of maintenance management tools in our United States Broadline (U.S. Broadline) companies. Best practice action plans have been created for our warehouse and delivery areas. Our customer relationship management tool has been implemented in our U.S. Broadline companies that will improve sales productivity. We restructured our information technology department and contracted with a third party provider for information technology managed services. We initiated the implementation of our human resource systems and began centralizing field finance work to our shared services center. Lastly, our retirement programs have been restructured, which we believe will result in reduced volatility of retirement related expenses and a reduction in total retirement related expenses in the long-term.

Our product cost reduction initiative has been active in reducing SKUs in our inventory. We also increased participation in our centralized purchasing initiative. We are piloting product offerings in our category management initiative which utilize customer insights to make changes to product pricing and product assortment.

Expenses related to the Business Transformation Project were \$81.4 million in the second quarter of fiscal 2013 or \$0.09 per share and \$36.4 million in the second quarter fiscal 2012 or \$0.04 per share. Expenses related to the Business Transformation Project were \$159.0 million in the first 26 weeks of fiscal 2013 or \$0.17 per share and \$73.4 million in the first 26 weeks fiscal 2012 or \$0.08 per share. This increase for both periods was largely attributable to deployment costs and software amortization, which began in August 2012. Software amortization totaled \$19.1 million and \$31.8 million for the second quarter of fiscal 2013 and the first 26 weeks of fiscal 2013, respectively. In fiscal 2012, we were still building and testing our software and therefore had a greater amount of capitalized costs. We anticipate that project expenses for fiscal 2013 will be greater than in fiscal 2012 as a result of software amortization, the ramp up of our shared services center, continuing costs for deployment of the software platform and information technology support costs. Some of these increased costs will be partially offset by benefits obtained from the project, primarily in reduced headcount; however, the costs will exceed the benefits in fiscal 2013.

## Results of Operations

The following table sets forth the components of our consolidated results of operations expressed as a percentage of sales for the periods indicated:

|                              | 13-Week Period<br>Ended |                  | 26-Week Period<br>Ended |                  |
|------------------------------|-------------------------|------------------|-------------------------|------------------|
|                              | Dec. 29,<br>2012        | Dec. 31,<br>2011 | Dec. 29,<br>2012        | Dec. 31,<br>2011 |
| Sales                        | 100.0 %                 | 100.0 %          | 100.0 %                 | 100.0 %          |
| Cost of sales                | 82.2                    | 82.0             | 82.1                    | 81.8             |
| Gross margin                 | 17.8                    | 18.0             | 17.9                    | 18.2             |
| Operating expenses           | 14.2                    | 13.8             | 14.0                    | 13.7             |
| Operating income             | 3.6                     | 4.2              | 3.9                     | 4.5              |
| Interest expense             | 0.3                     | 0.3              | 0.3                     | 0.3              |
| Other expense (income), net  | (0.0)                   | (0.0)            | (0.0)                   | (0.0)            |
| Earnings before income taxes | 3.3                     | 3.9              | 3.6                     | 4.2              |
| Income taxes                 | 1.2                     | 1.5              | 1.3                     | 1.5              |
| Net earnings                 | 2.1 %                   | 2.4 %            | 2.3 %                   | 2.7 %            |

The following table sets forth the change in the components of our consolidated results of operations expressed as a percentage increase or decrease over the comparable period in the prior year:

|                              | 13-Week<br>Period     | 26-Week<br>Period   |
|------------------------------|-----------------------|---------------------|
| Sales                        | 5.4 %                 | 5.1 %               |
| Cost of sales                | 5.7                   | 5.4                 |
| Gross margin                 | 3.9                   | 3.4                 |
| Operating expenses           | 8.2                   | 7.1                 |
| Operating income             | (10.4)                | (8.0)               |
| Interest expense             | 13.8                  | 9.2                 |
| Other expense (income), net  | (49.5) <sup>(1)</sup> | 31.3 <sup>(2)</sup> |
| Earnings before income taxes | (12.4)                | (9.0)               |
| Income taxes                 | (14.0)                | (10.5)              |
| Net earnings                 | (11.5)%               | (8.1) %             |

|                            |         |         |
|----------------------------|---------|---------|
| Basic earnings per share   | (11.6)% | (8.5) % |
| Diluted earnings per share | (11.6)  | (8.5)   |
| Average shares outstanding | 0.2     | (0.2)   |
| Diluted shares outstanding | 0.5     | (0.0)   |

- (1) Other expense (income), net was income of \$1.8 million in the second quarter of fiscal 2013 and \$3.5 million in the second quarter of fiscal 2012.
- (2) Other expense (income), net was income of \$4.2 million in the first 26 weeks of fiscal 2013 and \$3.2 million in the first 26 weeks of fiscal 2012.

## Sales

Sales were 5.4% higher in the second quarter and 5.1% higher in the first 26 weeks of fiscal 2013 than in the comparable period of the prior year. Sales for the second quarter and first 26 weeks of fiscal 2013 increased as a result of improving case volumes and product cost inflation and the resulting increase in selling prices. Case volumes excluding acquisitions within the last 12 months improved approximately 1.8% in the second quarter and 2.4% in the first 26 weeks of fiscal 2013. We have experienced greater sales growth in our large regional and national customers. Our case volumes represent our results from our Broadline and SYGMA segments only. Sales from acquisitions within the last 12 months favorably impacted sales by 1.1% for the second quarter and 0.8% for the first 26 weeks of fiscal 2013. Our acquisition activity has been greater in fiscal 2013 as compared to fiscal 2012. Changes in product costs, an internal measure of inflation or deflation, were estimated as inflation of 2.5% during the second quarter and 2.3% during the first 26 weeks of fiscal 2013. Case volumes including acquisitions within the last 12 months improved approximately 2.8%

in the second quarter and 3.0% in the first 26 weeks of fiscal 2013. The exchange rates used to translate our foreign sales into United States dollars favorably impacted sales by 0.3% in the second quarter and did not have a material impact in the first 26 weeks of fiscal 2013 compared to the second quarter and first 26 weeks of fiscal 2012, respectively.

## Operating Income

Cost of sales primarily includes our product costs, net of vendor consideration, and includes in-bound freight. Operating expenses include the costs of facilities, product handling, delivery, selling and general and administrative activities. Fuel surcharges are reflected within sales and gross profit; fuel costs are reflected within operating expenses.

The following tables set forth the change in the components of operating income and adjusted operating income expressed as a percentage increase or decrease over the comparable period in the prior year:

|  | 13-Week<br>Period<br>Ended<br>Dec. 29,<br>2012 | 13-Week<br>Period<br>Ended<br>Dec. 31,<br>2011 | 13-Week<br>Period<br>Change in<br>Dollars | 13-Week<br>Period<br>%<br>Change |   |
|--|--|--|---|----------------------------------|---|
|  | (In thousands)                                 |  |   |                                  |   |
| Gross profit                           | \$ 1,917,566                                   | \$ 1,845,650                                   | \$ 71,916                                 | 3.9                              | % |
| Operating expenses                     | 1,534,915                                      | 1,418,652                                      | 116,263                                   | 8.2                              |   |
| Operating income                       | \$ 382,651                                     | \$ 426,998                                     | \$ (44,347)                               | (10.4)                           | % |
| Gross profit                           | \$ 1,917,566                                   | \$ 1,845,650                                   | \$ 71,916                                 | 3.9                              | % |
| Adjusted operating expenses (Non-GAAP) | 1,431,902                                      | 1,381,216                                      | 50,686                                    | 3.7                              |   |
| Adjusted operating income (Non-GAAP)   | \$ 485,664                                     | \$ 464,434                                     | \$ 21,230                                 | 4.6                              | % |

|  | 26-Week<br>Period<br>Ended<br>Dec. 29,<br>2012 | 26-Week<br>Period<br>Ended<br>Dec. 31,<br>2011 | 26-Week<br>Period<br>Change in<br>Dollars | 26-Week<br>Period<br>%<br>Change |
|--|--|--|---|----------------------------------|
|--|--|--|---|----------------------------------|

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|  | (In thousands) |              |             |       |   |
|--|----------------|--------------|-------------|-------|---|
| Gross profit                           | \$ 3,921,110   | \$ 3,793,250 | \$ 127,860  | 3.4   | % |
| Operating expenses                     | 3,059,677      | 2,856,912    | 202,765     | 7.1   |   |
| Operating income                       | \$ 861,433     | \$ 936,338   | \$ (74,905) | (8.0) | % |
| Gross profit                           | \$ 3,921,110   | \$ 3,793,250 | \$ 127,860  | 3.4   | % |
| Adjusted operating expenses (Non-GAAP) | 2,872,517      | 2,776,329    | 96,188      | 3.5   |   |
| Adjusted operating income (Non-GAAP)   | \$ 1,048,593   | \$ 1,016,921 | \$ 31,672   | 3.1   | % |

The decrease in operating income for both periods was primarily driven by increased expenses and charges related to our Business Transformation Project.

Gross profit dollars increased in the second quarter and first 26 weeks of fiscal 2013 as compared to the second quarter and first 26 weeks of fiscal 2012 primarily due to increased sales. Gross margin, which is gross profit as a percentage of sales, was 17.76% in the second quarter of fiscal 2013, a decline of 26 basis points from the gross margin of 18.02% in the second quarter of fiscal 2012. Gross margin was 17.92% in the first 26 weeks of fiscal 2013, a decline of 29 basis points from the gross margin of 18.21% in the first 26 weeks of fiscal 2012. This decline in gross margin was partially the result of increased growth from large regional and national customers. Gross margin from these types of customers is generally lower than other types of customers. Increased competition resulting from a slow-growth market also contributed to the decline in gross margins.

We estimate that Sysco's product cost inflation was 2.5% during the second quarter and 2.3% during the first 26 weeks of fiscal 2013. Based on our product sales mix for the second quarter and the first 26 weeks of fiscal 2013, we were most impacted by higher levels of inflation in the poultry and meat product categories. Our gross margin trends are improving with these more modest inflation amounts which are beneficial to us and our customers. In the summer months of 2012, certain agricultural areas of the United States experienced severe drought. The impact of this drought is uncertain and could result in volatile input costs. Input costs could increase for a large portion of the products that we sell for a prolonged period. While we cannot predict whether inflation will occur, prolonged periods of high inflation, either overall or in certain product categories, can have a negative impact on us and our

customers, as high food costs can reduce consumer spending in the food-away-from-home market, and may negatively impact our sales, gross profit and earnings.

Operating expenses for the second quarter and first 26 weeks of fiscal 2013 increased 8.2%, or \$116.3 million, and 7.1%, or \$202.8 million, over the comparable prior year periods, respectively, primarily due to increased expenses and charges related to our Business Transformation Project, pay-related expenses, depreciation and amortization expense and fuel. Adjusted operating expenses increased 3.7% or \$50.7 million, in the second quarter of fiscal 2013 over the comparable prior year period. Adjusted operating expenses increased 3.5% or \$96.2 million, in the first 26 weeks of fiscal 2013 over the comparable prior year period. The increases in adjusted operating expenses in both periods were primarily due to increased pay-related expenses, depreciation and amortization expense and fuel.

Expenses related to our Business Transformation Project, inclusive of pay-related and software amortization expense, were \$81.4 million in the second quarter of fiscal 2013 and \$36.4 million in the second quarter of fiscal 2012, representing an increase of \$45.0 million. Expenses related to our Business Transformation Project, inclusive of pay-related and software amortization expense, were \$159.0 million in the first 26 weeks of fiscal 2013 and \$73.4 million in the first 26 weeks of fiscal 2012, representing an increase of \$85.7 million. The increase in the second quarter and the first 26 weeks of fiscal 2013 resulted in part from the initiation of software amortization as the system was placed into service in August 2012 in the amount of \$19.1 million for the second quarter and \$31.8 million for the first 26 weeks. The remaining increase resulted primarily from deployment expenses. Our project was not in the deployment stage during the first quarter of fiscal 2012; therefore, a greater portion of the costs were capitalized in the prior year.

Pay-related expenses, excluding labor costs associated with our Business Transformation Project, increased by \$16.8 million in the second quarter and \$46.6 million in the first 26 weeks of fiscal 2013 over the comparable prior year periods. The increase was primarily due to increased delivery and warehouse compensation, partially attributable to case growth, and added costs from companies acquired in the last 12 months. Delivery and warehouse compensation includes activity-based pay which is driven by case volumes. Since these drivers are variable in nature, increased case volumes can increase delivery and warehouse compensation. Labor shortages also impacted costs in some of the markets that we operate in due to labor demand from increased oil exploration. These increases were partially offset by reduced sales and general and administrative pay-related expenses. In addition to the increase in pay-related expenses, we also incurred \$5.7 million and \$11.7 million in severance charges in the second quarter and first 26 weeks of fiscal 2013. The majority of these charges were tied to our business transformation initiatives which included a restructuring of our information technology department.

Depreciation and amortization expense, excluding amortization associated with our Business Transformation Project, increased by \$8.8 million in the second quarter and \$17.0 million in the first 26 weeks of fiscal 2013 over the comparable prior year periods. The increase was primarily related to assets that were not placed in service in the second quarter and first 26 weeks of fiscal 2012 that were in service in the second quarter and first 26 weeks of fiscal 2013, primarily from new facilities, property from new acquisitions and expansions.



Fuel costs increased by \$7.0 million in the second quarter and \$14.6 million in the first 26 weeks of fiscal 2013 over the comparable prior year periods primarily due to increased contracted diesel prices and increased gallon usage. Our costs per gallon increased 8.0% in the second quarter and 7.2% in the first 26 weeks of fiscal 2013 over the second quarter and first 26 weeks of fiscal 2012. Our activities to mitigate fuel costs include reducing miles driven by our trucks through improved routing techniques, improving fleet utilization by adjusting idling time and maximum speeds and using fuel surcharges. We routinely enter into forward purchase commitments for a portion of our projected monthly diesel fuel requirements with a goal of mitigating a portion of the volatility in fuel prices.

Our fuel commitments will result in either additional fuel costs or avoided fuel costs based on the comparison of the prices on the fixed price contracts and market prices for the respective periods. In the second quarter and first 26 weeks of fiscal 2013, the forward purchase commitments resulted in an estimated \$3.7 million and \$9.2 million, respectively, of avoided fuel costs as the fixed price contracts were generally lower than market prices for the contracted volumes. In the second quarter and first 26 weeks of fiscal 2012, the forward purchase commitments resulted in an estimated \$5.9 million and \$13.6 million, respectively, of avoided fuel costs as the fixed price contracts were generally lower than market prices for the contracted volumes.

As of December 29, 2012, we had forward diesel fuel commitments totaling approximately \$110 million through November 2013. These contracts will lock in the price of approximately 35% to 45% of our fuel purchase needs for the remainder of the fiscal year at prices lower than the current market price for diesel. Assuming that fuel prices do not rise significantly over recent levels during fiscal 2013, fuel costs, exclusive of any amounts recovered through fuel surcharges, are expected to increase by approximately \$10 to \$20 million as compared to fiscal 2012. Our estimate is based upon current, published quarterly market price projections for diesel, the cost committed to in our forward fuel purchase agreements currently in place for fiscal 2013 and estimates of fuel consumption. Actual fuel costs could vary from our estimates if any of these assumptions change, in particular if future fuel prices vary significantly from our current estimates. We continue to evaluate all opportunities to offset potential increases in fuel expense, including the use of fuel surcharges and overall expense management.

At the end of fiscal 2012, Sysco decided to freeze future benefit accruals under the Retirement Plan as of December 31, 2012 for all United States-based salaried and non-union hourly employees. Effective January 1, 2013, these employees are eligible for additional contributions under an enhanced, defined contribution plan and additional expense will commence for this plan at that time. Absent the Retirement Plan freeze discussed above, net company-sponsored pension costs would have increased \$106.9 million in fiscal 2013, or \$26.7 million per quarter.

In November 2012, we approved a plan to restructure our executive nonqualified retirement program including the SERP and our executive deferred compensation plan. A non-qualified defined contribution plan was established as of January 1, 2013 as a replacement plan and benefits will be frozen under the SERP by the end of fiscal 2013. We believe this restructuring more closely aligns our executive plans with our non-executive plans. As a result of this restructuring, we incurred \$12 million in charges in the second quarter of fiscal 2013 primarily from the write-off of prior service costs from the SERP that would have been recognized over a longer period of time absent the plan to freeze benefits. Over the long-term, we believe the changes to all of these retirement programs will result in reduced volatility of retirement-related expenses and a reduction in total retirement-related expenses. Together, our net company-sponsored pension costs increased \$1.2 million in the second quarter of fiscal 2013 and decreased \$5.5 million in the first 26 weeks of fiscal 2013 over the comparable prior year periods.

We expect to incur an additional \$12 million in charges in the second half of fiscal 2013 resulting from increased costs that resulted from vesting participant benefits in the SERP concurrent with the plan to freeze benefits and from accelerated vesting of the company match of previously deferred compensation within our frozen executive deferred compensation plan. Net company-sponsored pension costs are expected to decrease by \$15.3 million in the last 26 weeks of fiscal 2013 as compared to the comparable prior year period. Our expenses related to our defined contribution plans and other retirement-program expenses are expected to increase \$55 million to \$65 million. We believe all of the retirement program changes, which includes the \$24.1 million in restructuring costs, will cause retirement-related expenses to increase \$35 million to \$45 million on a net basis in fiscal 2013 as compared to fiscal 2012.

From time to time, we may voluntarily withdraw from multiemployer pension plans to minimize or limit our future exposure to these plans. In the second quarters of fiscal 2013 and fiscal 2012, we recorded provisions of \$2.5 million and zero, respectively, related to multiemployer pension plan withdrawals. In the first 26 weeks of fiscal 2013 and fiscal 2012, we recorded provisions of \$2.5 million and \$4.5 million, respectively, related to multiemployer pension plan withdrawals. In January 2013, the union members of one of the company's subsidiaries approved a collective bargaining agreement that included an agreement to withdraw from the union's multiemployer pension plan and allows the represented employees to become participants in Sysco's company-sponsored pension plan. This action triggered a withdrawal from the multiemployer pension plan. As a result, during the third quarter of fiscal 2013, we will record a withdrawal liability provision of approximately \$40.7 million related to this plan.

## Net Earnings

Net earnings decreased 11.5% in the second quarter and 8.1% in the first 26 weeks of fiscal 2013 from the comparable periods of the prior year due primarily to the changes in operating income discussed above. Adjusted net earnings increased 4.7% and 3.8% during the same periods primarily from increased gross profits partially offset by increases in adjusted operating expenses in both periods that were primarily due to increased pay-related expenses, depreciation and amortization expense and fuel.

The effective tax rate of 37.14% for the second quarter of fiscal 2013 was favorably impacted by the recording of \$1.7 million of tax benefit related to disqualifying dispositions of Sysco stock pursuant to share-based compensation arrangements. This favorable impact was nearly offset by the recording of \$1.6 million in net tax expense related to various federal and state uncertain tax positions. Indefinitely reinvested earnings taxed at foreign statutory rates less than our domestic tax rate also had the impact of reducing the effective tax rate.

The effective tax rate for the second quarter of fiscal 2012 was 37.81%. Indefinitely reinvested earnings taxed at foreign statutory rates less than our domestic tax rate had the impact of reducing the effective tax rate.

The effective tax rate of 36.71% for the first 26 weeks of fiscal 2013 was favorably impacted by the recording of \$2.5 million of tax benefit related to disqualifying dispositions of Sysco stock pursuant to share-based compensation arrangements and the recording of \$2.1 million in net tax benefit related to various federal, foreign and state uncertain tax positions. Indefinitely reinvested earnings taxed at foreign statutory rates less than our domestic tax rate also had the impact of reducing the effective tax rate.

The effective tax rate for the first 26 weeks of fiscal 2012 was 37.31%. Indefinitely reinvested earnings taxed at foreign statutory rates less than our domestic tax rate had the impact of reducing the effective tax rate.

## Earnings Per Share

Basic and diluted earnings per share in the second quarter of fiscal 2013 were \$0.38, an 11.6% decrease from the comparable prior year period amount of \$0.43 per share. This decrease was primarily the result of the factors discussed above. Adjusted diluted

earnings per share were \$0.49 in the second quarter of fiscal 2013 and \$0.47 in the second quarter of fiscal 2012, or an increase of 4.3% due to the increase in adjusted net earnings discussed above. We believe the negative impact from Hurricane Sandy was \$0.01 per share for the second quarter of fiscal 2013.

Basic and diluted earnings per share in the first 26 weeks of fiscal 2013 were \$0.86, an 8.5% decrease from the comparable prior year period amount of \$0.94 per share. This decrease was primarily the result of the factors discussed above. Adjusted diluted earnings per share were \$1.06 in the first 26 weeks of fiscal 2013 and \$1.02 in the first 26 weeks of fiscal 2012, or an increase of 3.9% due to the increase in adjusted net earnings discussed above.

#### Non-GAAP Reconciliations

Sysco's results of operations are impacted by costs from charges from the executive retirement plans restructuring, multiemployer pension plans (MEPP), severance, facility closures and our multi-year Business Transformation Project (BTP). Management believes that adjusting its operating expenses, operating income, net earnings and diluted earnings per share to remove the impact of the executive retirement plans restructuring costs, multiemployer pension plan charges, severance charges, facility closure charges and Business Transformation Project costs provides an important perspective of underlying business trends and results and provides meaningful supplemental information to both management and investors that is indicative of the performance of the company's underlying operations and facilitates comparison on a year-over-year basis.

The company uses these non-GAAP measures when evaluating its financial results as well as for internal planning and forecasting purposes. These financial measures should not be used as a substitute in assessing the company's results of operations for periods presented. An analysis of any non-GAAP financial measure should be used in conjunction with results presented in accordance with GAAP. As a result, in the table below, each period presented is adjusted to remove executive retirement plans restructuring costs, multiemployer pension plan charges, severance charges, facility closure charges and Business Transformation Project costs.

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Set forth below is a reconciliation of actual operating expenses, operating income, net earnings and diluted earnings per share to adjusted results for these measures for the periods presented:

|  | 13-Week<br>Period Ended<br>Dec. 29, 2012<br>(In thousands, except for share and per share data) | 13-Week<br>Period Ended<br>Dec. 31, 2011 | 13-Week<br>Period<br>Change in<br>Dollars | 13-Week<br>Period<br>%<br>Change |
|--|---|--|---|----------------------------------|
| Operating expenses (GAAP)  | \$ 1,534,915  | \$ 1,418,652                             | \$ 116,263                                | 8.2 %                            |
| Impact of Restructuring Executive Retirement Plans                             | (12,163)  | -  | (12,163)                                  |                                  |
| Impact of MEPP charge  | (2,457)   | -  | (2,457)                                   |                                  |
| Impact of Severance charge   | (5,669)   | (1,080)                                  | (4,589)                                   | 424.9                            |
| Impact of Facility Closure charge  | (1,362)   | -  | (1,362)                                   |                                  |
| Impact of BTP costs  | (81,362)  | (36,356)                                 | (45,006)                                  | 123.8                            |
| Adjusted operating expenses (Non-GAAP)   | \$ 1,431,902  | \$ 1,381,216                             | \$ 50,686                                 | 3.7 %                            |
| Operating Income (GAAP)  | \$ 382,651  | \$ 426,998                               | \$ (44,347)                               | (10.4) %                         |
| Impact of Restructuring Executive Retirement Plans                             | 12,163  | -  | 12,163                                    |                                  |
| Impact of MEPP charge  | 2,457   | -  | 2,457                                     |                                  |
| Impact of Severance charge   | 5,669   | 1,080                                    | 4,589                                     | 424.9                            |
| Impact of Facility Closure charge  | 1,362   | -  | 1,362                                     |                                  |
| Impact of BTP costs  | 81,362  | 36,356                                   | 45,006                                    | 123.8                            |
| Adjusted operating income (Non-GAAP)   | \$ 485,664  | \$ 464,434                               | \$ 21,230                                 | 4.6 %                            |
| Net earnings (GAAP)  | \$ 221,369  | \$ 250,113                               | \$ (28,744)                               | (11.5) %                         |
| Impact of Restructuring Executive Retirement Plans (net of tax) <sup>(1)</sup> | 7,646   | -  | 7,646                                     |                                  |
| Impact of MEPP charge (net of tax) <sup>(1)</sup>                              | 1,544   | -  | 1,544                                     |                                  |
| Impact of Severance charge (net of tax) <sup>(1)</sup>                         | 3,564   | 672                                      | 2,892                                     | 430.4                            |
| Impact of Facility Closure charge (net of tax) <sup>(1)</sup>                  | 856   | -  | 856                                       |                                  |
| Impact of BTP costs (net of tax) <sup>(1)</sup>                                | 51,144  | 22,610                                   | 28,534                                    | 126.2                            |
| Adjusted net earnings (Non-GAAP)   | \$ 286,123  | \$ 273,395                               | \$ 12,728                                 | 4.7 %                            |
| Diluted earnings per share (GAAP)  | \$ 0.38   | \$ 0.43                                  | \$ (0.05)                                 | (11.6) %                         |
| Impact of Restructuring Executive Retirement Plans                             | 0.01  | -  | 0.01                                      |                                  |
| Impact of MEPP and Facility charges  | -   | -  | -   |                                  |
| Impact of Severance charges  | 0.01  | -  | 0.01                                      |                                  |
| Impact of BTP costs  | 0.09  | 0.04                                     | 0.05                                      | 125.0                            |
| Adjusted diluted earnings per share (Non-GAAP)                                 | \$ 0.49   | \$ 0.47                                  | \$ 0.02                                   | 4.3 %                            |
| Diluted shares outstanding   | 589,751,933   | 587,034,204                              |   |                                  |

<sup>(1)</sup> The aggregate tax impact of adjustments for the executive retirement plans restructuring, multiemployer pension plan charges, severance charges, facility closure charges and Business Transformation Project costs was \$38.3 million and \$14.2 million for the second quarter of fiscal 2013 and fiscal 2012, respectively. Amounts are

calculated by multiplying the operating income impact of each item by each quarter's effective tax rate.

|  | 26-Week<br>Period Ended<br>Dec. 29, 2012 | 26-Week<br>Period Ended<br>Dec. 31, 2011 | 26-Week<br>Period<br>Change in<br>Dollars | 26-Week<br>Period<br>%<br>Change |
|--|--|--|---|----------------------------------|
| (In thousands, except for share and per share data)                            |  |  |   |                                  |
| Operating expenses (GAAP)  | \$ 3,059,677                             | \$ 2,856,912                             | \$ 202,765                                | 7.1 %                            |
| Impact of Restructuring Executive Retirement Plans                             | (12,163)                                 | -  | (12,163)                                  |                                  |
| Impact of MEPP charge  | (2,457)                                  | (4,500)                                  | 2,043                                     | (45.4)                           |
| Impact of Severance charge   | (11,746)                                 | (2,722)                                  | (9,024)                                   | 331.5                            |
| Impact of Facility Closure charge  | (1,750)                                  | -  | (1,750)                                   |                                  |
| Impact of BTP costs  | (159,044)                                | (73,361)                                 | (85,683)                                  | 116.8                            |
| Adjusted operating expenses (Non-GAAP)   | \$ 2,872,517                             | \$ 2,776,329                             | \$ 96,188                                 | 3.5 %                            |
| Operating Income (GAAP)  | \$ 861,433                               | \$ 936,338                               | \$ (74,905)                               | (8.0) %                          |
| Impact of Restructuring Executive Retirement Plans                             | 12,163                                   | -  | 12,163                                    |                                  |
| Impact of MEPP charge  | 2,457                                    | 4,500                                    | (2,043)                                   | (45.4)                           |
| Impact of Severance charge   | 11,746                                   | 2,722                                    | 9,024                                     | 331.5                            |
| Impact of Facility Closure charge  | 1,750                                    | -  | 1,750                                     |                                  |
| Impact of BTP costs  | 159,044                                  | 73,361                                   | 85,683                                    | 116.8                            |
| Adjusted operating income (Non-GAAP)   | \$ 1,048,593                             | \$ 1,016,921                             | \$ 31,672                                 | 3.1 %                            |
| Net earnings (GAAP)  | \$ 507,967                               | \$ 552,766                               | \$ (44,799)                               | (8.1) %                          |
| Impact of Restructuring Executive Retirement Plans (net of tax) <sup>(1)</sup> | 7,698                                    | -  | 7,698                                     |                                  |
| Impact of MEPP charge (net of tax) <sup>(1)</sup>                              | 1,555                                    | 2,821                                    | (1,266)                                   | (44.9)                           |
| Impact of Severance charge (net of tax) <sup>(1)</sup>                         | 7,434                                    | 1,706                                    | 5,728                                     | 335.8                            |
| Impact of Facility Closure charge (net of tax) <sup>(1)</sup>                  | 1,108                                    | -  | 1,108                                     |                                  |
| Impact of BTP costs (net of tax) <sup>(1)</sup>                                | 100,659                                  | 45,990                                   | 54,669                                    | 118.9                            |
| Adjusted net earnings (Non-GAAP)   | \$ 626,421                               | \$ 603,283                               | \$ 23,138                                 | 3.8 %                            |
| Diluted earnings per share (GAAP)  | \$ 0.86                                  | \$ 0.94                                  | \$ (0.08)                                 | (8.5) %                          |
| Impact of Restructuring Executive Retirement Plans                             | 0.01                                     | -  | 0.01                                      |                                  |
| Impact of MEPP and Facility charges  | 0.01                                     | -  | 0.01                                      |                                  |
| Impact of Severance charges  | 0.01                                     | -  | 0.01                                      |                                  |
| Impact of BTP costs  | 0.17                                     | 0.08                                     | 0.09                                      | 112.5                            |
| Adjusted diluted earnings per share (Non-GAAP)                                 | \$ 1.06                                  | \$ 1.02                                  | \$ 0.04                                   | 3.9 %                            |
| Diluted shares outstanding   | 590,130,537                              | 590,241,651                              |   |                                  |

<sup>(1)</sup> The aggregate tax impact of adjustments for the executive retirement plans restructuring, multiemployer pension plan charges, severance charges, facility closure charges and Business Transformation Project costs was \$68.7 million and \$30.1 million for the first 26 weeks of fiscal 2013 and fiscal 2012, respectively. Amounts are calculated by multiplying the operating income impact of each item by each 26-week period's effective tax rate.





## Segment Results

We have aggregated our operating companies into a number of segments, of which only Broadline and SYGMA are reportable segments as defined in the accounting literature related to disclosures about segments of an enterprise. The accounting policies for the segments are the same as those disclosed by Sysco for its consolidated financial statements. Intersegment sales represent specialty produce and imported specialty products distributed by the Broadline and SYGMA operating companies.

Management evaluates the performance of each of our operating segments based on its respective operating income results. Corporate expenses generally include all expenses of the corporate office and Sysco's shared service center. These also include all share-based compensation costs and expenses related to the company's Business Transformation Project. While a segment's operating income may be impacted in the short-term by increases or decreases in gross profits, expenses, or a combination thereof, over the long-term each business segment is expected to increase its operating income at a greater rate than sales growth. This is consistent with our long-term goal of leveraging earnings growth at a greater rate than sales growth.

The following table sets forth the operating income of each of our reportable segments and the other segment expressed as a percentage of each segment's sales for each period reported and should be read in conjunction with Note 13, "Business Segment Information":

|           | Operating<br>Income as a<br>Percentage of<br>Sales<br>13-Week<br>Period |                     | Operating<br>Income as a<br>Percentage of<br>Sales<br>26-Week<br>Period |                     |
|-----------|---|---------------------|---|---------------------|
|           | Dec.<br>29,<br>2012   | Dec.<br>31,<br>2011 | Dec.<br>29,<br>2012   | Dec.<br>31,<br>2011 |
| Broadline | 6.6 %   | 6.8 %               | 6.9 %   | 7.0 %               |
| SYGMA     | 1.0   | 0.9                 | 0.9   | 1.0                 |
| Other     | 3.1   | 3.6                 | 3.2   | 3.9                 |

The following table sets forth the change in the selected financial data of each of our reportable segments and the other segment expressed as a percentage increase or decrease over the comparable period in the prior year and should be read in conjunction with Note 13, "Business Segment Information":

Increase (Decrease)    Increase (Decrease)

|           | 13-Week Period |   |                  |   | 26-Week Period |   |                  |   |
|-----------|----------------|---|------------------|---|----------------|---|------------------|---|
|           | Sales          |   | Operating Income |   | Sales          |   | Operating Income |   |
| Broadline | 5.5            | % | 2.7              | % | 5.0            | % | 2.9              | % |
| SYGMA     | 0.6            |   | 1.1              |   | 1.6            |   | (11.9)           |   |
| Other     | 18.0           |   | 1.1              |   | 15.1           |   | (4.3)            |   |

The following table sets forth sales and operating income of each of our reportable segments, the other segment, and intersegment sales, expressed as a percentage of aggregate segment sales, including intersegment sales, and operating income, respectively. For purposes of this statistical table, operating income of our segments excludes corporate expenses of \$231.5 million and \$430.0 million in the second quarter and first 26 weeks of fiscal 2013, as compared to \$171.4 million and \$326.4 million in the second quarter and first 26 weeks of fiscal 2012, that is not charged to our segments. This information should be read in conjunction with Note 13, "Business Segment Information":

| Components of Segment Results |  |           |        |               |        |           |        |
|-------------------------------|--|-----------|--------|---------------|--------|-----------|--------|
| 13-Week Period Ended          |  |           |        |               |        |           |        |
| Dec. 29, 2012                 |  |           |        | Dec. 31, 2011 |        |           |        |
|                               |  | Segment   |        |               |        | Segment   |        |
|                               |  | Operating |        |               |        | Operating |        |
|                               |  | Sales     | Income | Sales         | Income | Sales     | Income |
| Broadline                     |  | 81.3      | %      | 94.5          | %      | 81.2      | %      |
| SYGMA                         |  | 13.1      |        | 2.2           |        | 13.7      |        |
| Other                         |  | 6.1       |        | 3.3           |        | 5.5       |        |
| Intersegment sales            |  | (0.5)     | -      | (0.4)         | -      | -         | -      |
| Total                         |  | 100.0     | %      | 100.0         | %      | 100.0     | %      |

## Components of Segment Results

26-Week Period Ended

Dec. 29, 2012

Dec. 31, 2011

|                    | Sales |   | Segment<br>Operating<br>Income |   | Sales |   | Segment<br>Operating<br>Income |   |
|--------------------|-------|---|--------------------------------|---|-------|---|--------------------------------|---|
| Broadline          | 81.5  | % | 94.7                           | % | 81.5  | % | 94.2                           | % |
| SYGMA              | 12.9  |   | 2.0                            |   | 13.4  |   | 2.3                            |   |
| Other              | 6.0   |   | 3.3                            |   | 5.5   |   | 3.5                            |   |
| Intersegment sales | (0.5) |   | -                              |   | (0.4) |   | -                              |   |
| Total              | 100.0 | % | 100.0                          | % | 100.0 | % | 100.0                          | % |

## Broadline Segment

The Broadline reportable segment is an aggregation of the company's United States, Canadian and European Broadline segments. Broadline operating companies distribute a full line of food products and a wide variety of non-food products to both traditional and chain restaurant customers and also provide custom-cut meat operations. Broadline operations have significantly higher operating margins than the rest of Sysco's operations. In the first 26 weeks of fiscal 2013, the Broadline operating results represented approximately 81.5% of Sysco's overall sales and 94.7% of the aggregated operating income of Sysco's segments, which excludes corporate expenses.

## Sales

Sales were 5.5% greater in the second quarter and 5.0% greater in the first 26 weeks of fiscal 2013 than the comparable prior year periods. Sales for the second quarter and first 26 weeks of fiscal 2013 increased as a result of improving case volumes and product cost inflation and the resulting increase in selling prices. We have experienced greater sales growth in our large regional and national customers. Sales from acquisitions within the last 12 months contributed 0.5% and 0.7% to the overall sales comparison for the second quarter and the first 26 weeks of fiscal 2013, respectively. Changes in product costs, an internal measure of inflation or deflation, were estimated as inflation of 2.7% and 2.5% in the second quarter and first 26 weeks of fiscal 2013, respectively. The exchange rates used to translate our foreign sales into United States dollars positively impacted sales by 0.4% in the second quarter and did not have a material impact in the first 26 weeks of fiscal 2013 compared to the second quarter and first 26 weeks of fiscal 2012, respectively.

## Operating Income

Operating income increased by 2.7% in the second quarter and 2.9% in the first 26 weeks of fiscal 2013 over the comparable prior year periods. This increase was driven by gross profit dollars increasing more than operating expenses.

Gross profit dollars increased in the second quarter and first 26 weeks of fiscal 2013 primarily due to increased sales; however, gross profit dollars increased at a lower rate than sales. This decline in gross margin was partially the result of increased growth from large regional and national customers. Gross margin from these types of customers is generally lower than other types of customers. Increased competition resulting from a slow-growth market also contributed to the decline in gross margins. Our Broadline segment experienced product cost inflation in the second quarter and first 26 weeks of fiscal 2013. Based on our product sales mix during this period, we were most impacted by higher levels of inflation in the poultry and meat product categories. Our gross margin trends are improving with these more modest inflation amounts which are beneficial to us and our customers. In the summer months of 2012, certain agricultural areas of the United States have experienced severe drought. The impact of this drought is uncertain and could result in volatile input costs. Input costs could increase for a large portion of the products that we sell for a prolonged period. While we cannot predict whether inflation will occur, prolonged periods of high inflation, either overall or in certain product categories, can have a negative impact on us and our customers, as high food costs can reduce consumer spending in the food-away-from-home market, and may negatively impact our sales, gross profit and earnings.

Operating expenses for the Broadline segment increased in fiscal 2013 as compared to fiscal 2012. The expense increases in fiscal 2013 were driven largely by an increase in pay-related expenses, fuel costs and severance costs, partially offset by a favorable comparison in the provisions for losses on receivables in each period. The increase was primarily due to increased delivery and warehouse compensation, partially attributable to case growth, and added costs from companies acquired in the last 12 months. Delivery and warehouse compensation includes activity-based pay which is driven by case volumes. Since these drivers are variable in nature, increased case volumes can increase delivery and warehouse compensation. Labor shortages also impacted costs in some of the markets that we operate in due to labor demand from increased oil exploration. These increases were partially offset by reduced sales and general and administrative pay-related expenses. Fuel costs were \$5.7 million and \$11.7 million higher in the second quarter and in the first 26 weeks of fiscal 2013 than in the comparable prior year period. Assuming that fuel prices do not rise significantly

over recent levels during fiscal 2013, fuel costs exclusive of any amounts recovered through fuel surcharges, are expected to increase by approximately \$5 million to \$15 million as compared to fiscal 2012. Our estimate is based upon current, published quarterly market price projections for diesel, the cost committed to in our forward fuel purchase agreements currently in place for fiscal 2013 and estimates of fuel consumption. Actual fuel costs could vary from our estimates if any of these assumptions change, in particular if future fuel prices vary significantly from our current estimates. We continue to evaluate all opportunities to offset potential increases in fuel expense, including the use of fuel surcharges and overall expense management.

From time to time, we may voluntarily withdraw from multiemployer pension plans to minimize or limit our future exposure to these plans. In the second quarters of fiscal 2013 and fiscal 2012, we recorded provisions of \$2.5 million and zero, respectively, related to multiemployer pension plan withdrawals. In the first 26 weeks of fiscal 2013 and fiscal 2012, we recorded provisions of \$2.5 million and \$4.5 million, respectively, related to multiemployer pension plan withdrawals. In January 2013, the union members of one of the company's subsidiaries approved a collective bargaining agreement that included an agreement to withdraw from the union's multiemployer pension plan and allows the represented employees to become participants in Sysco's company-sponsored pension plan. This action triggered a withdrawal from the multiemployer pension plan. As a result, during the third quarter of fiscal 2013, we will record a withdrawal liability provision of approximately \$40.7 million related to this plan.

#### SYGMA Segment

SYGMA operating companies distribute a full line of food products and a wide variety of non-food products to certain chain restaurant customer locations.

#### Sales

Sales were 0.6% greater in the second quarter and 1.6% greater in the first 26 weeks of fiscal 2013 than the comparable prior year periods. The increase in sales was primarily due to product cost inflation and the resulting increase in selling prices partially offset by case volume declines from low levels of growth from existing customers and lost customers.

#### Operating Income

Operating income increased by 1.1% in the second quarter and decreased 11.9% in the first 26 weeks of fiscal 2013 over the comparable prior year periods. Gross profit dollars increased 0.2% while operating expenses were flat in the second quarter of fiscal 2013 over the comparable prior year period. Gross profit dollars decreased 0.4% while

operating expenses increased 1.3% in the first 26 weeks of fiscal 2013 over the comparable prior year period. Operating expenses increased in the first 26 weeks of fiscal 2013 largely due to increased delivery costs including pay-related expenses. Fuel costs in the second quarter and first 26 weeks of fiscal 2013 were \$0.6 million and \$1.6 million greater than the comparable prior year periods.

#### Other Segment

“Other” financial information is attributable to our other operating segments, including our specialty produce and lodging industry products segments, a company that distributes specialty imported products and a company that distributes to international customers. These operating segments are discussed on an aggregate basis as they do not represent reportable segments under segment accounting literature.

Operating income increased 1.1% for the second quarter and decreased 4.3% for the first 26 weeks of fiscal 2013 from the comparable prior year periods. The increase in operating income for the second quarter of fiscal 2013 was caused by earnings from our specialty import business that was acquired in the third quarter of fiscal 2012. All businesses in this segment experienced increased operating income with the exception of our specialty produce companies which incurred facility closing costs. The decrease in operating income for the first 26 weeks of fiscal 2013 was caused partially due to increased operating expenses within our specialty produce and lodging industry products segments. A portion of the increase in the specialty produce segment’s operating expenses resulted from facility closing costs of \$1.4 million and \$1.8 million for the second quarter of fiscal 2013 and the first 26 weeks of fiscal 2013, respectively.

## Liquidity and Capital Resources

### Highlights

Comparisons of the cash flows from the first 26 weeks of fiscal 2013 to the first 26 weeks of fiscal 2012:

- Cash flows from operations were \$386.8 million this year compared to \$538.5 million last year.
- Capital expenditures totaled \$261.6 million this year compared to \$433.9 million last year.
- Free cash flow was \$125.2 million this year compared to \$104.7 million last year (See Non-GAAP reconciliation below under the heading “Free Cash Flow.”)
- Cash flows for acquisition of businesses were \$194.2 million this year compared to \$36.8 million last year.
- Net bank borrowings were \$48.1 million this year compared to \$195.5 million last year.
- Treasury stock purchases were \$143.5 million this year compared to \$272.3 million last year.
- Dividends paid were \$315.9 million this year compared to \$307.1 million last year.

### Sources and Uses of Cash

Sysco’s strategic objectives include continuous investment in our business; these investments are funded by a combination of cash from operations and access to capital from financial markets. Our operations historically have produced significant cash flow. Cash generated from operations is generally allocated to:

- working capital requirements;
- investments in facilities, systems, fleet, other equipment and technology;
- Return of capital to shareholders, including cash dividends and share repurchases;
- acquisitions compatible with our overall growth strategy;
- contributions to our various retirement plans; and
- debt repayments.

Any remaining cash generated from operations may be invested in high-quality, short-term instruments or applied toward the cost of the share repurchase program. As a part of our ongoing strategic analysis, we regularly evaluate business opportunities, including potential acquisitions and sales of assets and businesses, and our overall capital structure. Any transactions resulting from these evaluations may materially impact our liquidity, borrowing capacity, leverage ratios and capital availability.

We continue to generate substantial cash flows from operations and remain in a strong financial position; however, our liquidity and capital resources can be influenced by economic trends and conditions. Uncertain economic conditions and uneven levels of consumer confidence and the resulting pressure on consumer disposable income have lowered our sales growth and our cash flows from operations. Product cost inflation and competitive pressures have lowered our gross profit and cash flows from operations as we were unable to pass through all of the increased product costs with the same gross margin to our customers. We believe our mechanisms to manage working capital, such as credit monitoring, optimizing inventory levels and maximizing payment terms with vendors, and our mechanisms to manage the items impacting our gross profits have been sufficient to limit a significant unfavorable impact on our cash flows from operations. We believe these mechanisms will continue to prevent a significant unfavorable impact on our cash flows from operations. As of December 29, 2012, we had \$320.8 million in cash and cash equivalents, approximately 35% of which was held by our international subsidiaries generated from earnings of our international operations. If these earnings were transferred among countries or repatriated to the United States, such amounts may be subject to additional tax obligations; however, we do not currently anticipate the need to relocate this cash.

We believe the following sources will be sufficient to meet our anticipated cash requirements for the next twelve months and beyond, while maintaining sufficient liquidity for normal operating purposes:

- our cash flows from operations;
- the availability of additional capital under our existing commercial paper programs, supported by our revolving credit facility, and bank lines of credit;
- our ability to access capital from financial markets, including issuances of debt securities, either privately or under our shelf registration statement filed with the Securities and Exchange Commission (SEC).

Due to our strong financial position, we believe that we will continue to be able to effectively access the commercial paper market and long-term capital markets, if necessary. We believe our cash flows from operations will improve in fiscal 2013 and beyond as compared to fiscal 2012 due to benefits from our Business Transformation Project and initiatives to improve our working capital management.



## Cash Flows

### Operating Activities

We generated \$386.8 million in cash flow from operations in the first 26 weeks of fiscal 2013, as compared to \$538.5 million in the first 26 weeks of fiscal 2012. This decrease of \$151.7 million was largely attributable to changes in working capital, the redemption of some of our corporate-owned life insurance (COLI) policies in the first 26 weeks of fiscal 2012 and a reduction in net earnings. These decreases were partially offset by an increase in non-cash depreciation and amortization expense. These items are more fully described below. In the first 26 weeks of fiscal 2012, we paid \$106 million in settlement payments to the Internal Revenue Service (IRS). We completed these settlement payments in fiscal 2012 and therefore this year's cash flow from operations is expected to show improvements as compared to fiscal 2012. These improvements have not been realized yet in our cash flow from operations as other increased tax payments and various other items have largely offset this decline in settlement payments. We expect an improvement in cash flow from operations in fiscal 2013 compared to fiscal 2012 as a result the completion of IRS settlement payments in fiscal 2012 that are not recurring in fiscal 2013.

Changes in working capital, including accounts receivable, inventory and accounts payable, had a negative impact of \$81.1 million on the comparison of cash flow from operations from the first 26 weeks of fiscal 2013 to the first 26 weeks of fiscal 2012. Both periods were affected by increases in accounts receivable and inventory. Due to normal seasonal patterns, sales were slower during the last month of the second quarter as compared to the last month of the fiscal year, and sales to multi-unit customers and school districts represented a larger percentage of our sales at the end of each first 26 week period as compared to the end of each prior fiscal year. Payment terms for these types of customers are traditionally longer than average. Historically, we have experienced elevated inventory levels during the holiday period that occurs at the end of the second quarter. Sales in the last weeks of the quarter are at lower volumes due to the holiday period, causing an increase in inventory levels. In addition, purchasing levels are typically increased at the end of the quarter in anticipation of increased sales volumes from the re-opening of schools after the holiday period. The impact of the slower sales in the last month of the quarter and the deterioration in both accounts receivable and inventory turnover from the end of the prior fiscal year was more pronounced in the first 26 weeks of fiscal 2013 than the first 26 weeks of fiscal 2012. The change in accounts payable in both periods was affected by the factors discussed above, including the slower sales in the last month of the quarter and the increase in inventory levels. However, the year-over-year impact of the change in accounts payable is favorable to cash flow from operations due to working capital improvements in accounts payable.

The comparison of cash flow from operations from the first 26 weeks of fiscal 2013 to the first 26 weeks of fiscal 2012 was negatively impacted by an unfavorable change of \$69.5 million in other assets. This unfavorable change resulted from an increase in cash in the prior year from the redemption of approximately \$75 million of our COLI policies. These COLI policies were maintained to meet a portion of our obligations under the SERP and were replaced by less volatile corporate-owned real estate assets as part of our plan to reduce the market-driven COLI impact on our earnings. There was no similar redemption in the first 26 weeks of fiscal 2013.

The increase in non-cash depreciation and amortization expense of \$48.9 million was primarily related to assets that were not in service in the first 26 weeks of fiscal 2012 that were in service in the first 26 weeks of fiscal 2013. These assets include our software related to our Business Transformation Project, which was placed into service in August 2012, as well as various new facilities and expansions.

#### Investing Activities

Our capital expenditures in the first 26 weeks of fiscal 2013 primarily include facility replacements and expansions, fleet replacements and warehouse equipment.

Capital expenditures in the first 26 weeks of fiscal 2013 decreased by \$172.3 million primarily due to less investment in technology in fiscal 2013 related to our Business Transformation Project due to the initiation of the project's deployment phase in August 2012. Capital expenditures in the first 26 weeks of fiscal 2013 and 2012 for our Business Transformation Project were \$10.4 million and \$78.6 million, respectively.

During the first 26 weeks of fiscal 2013, in the aggregate, we paid cash of \$194.2 million for acquisitions made during fiscal 2013.

#### Free Cash Flow

Free cash flow represents net cash provided from operating activities less purchases of plant and equipment. Sysco considers free cash flow to be a non-GAAP liquidity measure that provides useful information to management and investors about the amount of cash generated by the business after the purchases of buildings, fleet, equipment and technology, which may potentially be used to pay for, among other things, strategic uses of cash including dividend payments, share repurchases and acquisitions. We do not mean to

imply that free cash flow is necessarily available for discretionary expenditures, however, as it may be necessary that we use it to make mandatory debt service or other payments. As a result of reduced capital spending, free cash flow for the first 26 weeks of fiscal 2013 increased 19.6%, or \$20.6 million, to \$125.2 million as compared to the first 26 weeks of fiscal 2012. We expect an improvement in free cash flow in fiscal 2013 compared to fiscal 2012 as a result of lower capital spending and the completion of IRS settlement payments in fiscal 2012 that are not recurring in fiscal 2013.

Free cash flow should not be used as a substitute in assessing the company's liquidity for the periods presented. An analysis of any non-GAAP financial measure should be used in conjunction with results presented in accordance with GAAP. In the table that follows, free cash flow for each period presented is reconciled to net cash provided by operating activities.

|  | 26-Week<br>Period<br>Ended<br>Dec. 29,<br>2012<br>(In thousands) | 26-Week<br>Period<br>Ended<br>Dec. 31,<br>2011 | 26-Week<br>Period<br>Change in<br>Dollars | 26-Week<br>Period<br>%<br>Change |
|--|--|--|---|----------------------------------|
| Net cash provided by operating activities (GAAP) | \$ 386,785   | \$ 538,515                                     | \$ (151,730)                              | (28.2)%                          |
| Additions to plant and equipment                 | (261,576)  | (433,858)                                      | 172,282                                   | (39.7)                           |
| Free Cash Flow (Non-GAAP)                        | \$ 125,209   | \$ 104,657                                     | \$ 20,552                                 | 19.6 %                           |

#### Financing Activities

#### Equity Transactions

Shares repurchased during the first 26 weeks of fiscal 2013 were 4,675,200 shares at a cost of \$143.5 million, as compared to 10,000,000 shares at a cost of \$272.3 million in the first 26 weeks of fiscal 2012. No additional shares were repurchased through January 26, 2013, resulting in a remaining authorization by our Board of Directors to repurchase up to 18,711,400 shares, based on the trades made through that date. Our current share repurchase strategy is to purchase enough shares to keep our diluted average shares outstanding relatively constant. To achieve this goal, we believe share purchase activity will continue during the remainder of fiscal 2013.

Dividends paid in the first 26 weeks of fiscal 2013 were \$315.9 million, or \$0.54 per share, as compared to \$307.1 million, or \$0.52 per share, in the first 26 weeks of fiscal 2012. In November 2012, we declared our regular quarterly dividend for the third quarter of fiscal 2013 of \$0.28 per share, which was paid in January 2013.

## Debt Activity and Borrowing Availability

We have uncommitted bank lines of credit, which provide for unsecured borrowings for working capital of up to \$95.0 million, of which \$3.1 million was outstanding as of December 29, 2012. There were no borrowings outstanding as of January 26, 2013.

Sysco and one of its subsidiaries, Sysco International, ULC, have a revolving credit facility supporting the company's United States and Canadian commercial paper programs. The facility provides for borrowings in both United States and Canadian dollars. Borrowings by Sysco International, ULC under the agreement are guaranteed by Sysco, and borrowings by Sysco and Sysco International, ULC under the credit agreement are guaranteed by the wholly-owned subsidiaries of Sysco that are guarantors of the company's senior notes and debentures. The original facility in the amount of \$1.0 billion expires on December 29, 2016. In December 2012, a portion of the facility was extended for an additional year. This extended facility, which expires on December 29, 2017, is for \$925.0 million of the original \$1.0 billion facility, but is subject to further extension. As of December 29, 2012, commercial paper issuances outstanding were \$45.0 million. As of January 26, 2013, there were no commercial paper issuances outstanding.

During the 26 week period ended December 29, 2012, aggregate commercial paper issuances and short-term bank borrowings ranged from zero to approximately \$203.0 million. During the first 26 weeks of fiscal 2013 and 2012, our aggregate commercial paper issuances and short-term bank borrowings had a weighted average interest rate of 0.23% and 0.25%, respectively.

In September 2012, the company's Irish subsidiary, Pallas Foods, entered into a €75.0 million (Euro) multicurrency revolving credit facility, which will be utilized for capital needs for the company's European subsidiaries. This facility provides for unsecured borrowings and expires September 25, 2013, but is subject to extension. Outstanding borrowings under this facility were €30.0 million (Euro) as of December 29, 2012. There were €30.0 million (Euro) of borrowings outstanding as of January 26, 2013.

Included in current maturities of long-term debt as December 29, 2012 are the 4.2% senior notes totaling \$250.0 million, which mature in February 2013. It is our intention to fund the repayment of these notes at maturity through cash on hand, cash flow from operations, issuances of commercial paper, senior notes or a combination thereof.

#### Other Considerations - Multiemployer Pension Plans

As discussed in Note 7, "Multiemployer Employee Benefit Plans," we contribute to several multiemployer defined benefit pension plans based on obligations arising under collective bargaining agreements covering union-represented employees.

Under certain circumstances, including our voluntary withdrawal or a mass withdrawal of all contributing employers from certain underfunded plans, we would be required to make payments to the plans for our proportionate share of the multiemployer plan's unfunded vested liabilities. We believe that one of the above-mentioned events is reasonably possible with certain plans in which we participate and estimate our share of withdrawal liability for these plans could be as much as \$115.0 million as of December 29, 2012. In January 2013, the union members of one of our subsidiaries approved a collective bargaining agreement that included an agreement to withdraw from the union's multiemployer pension plan and allows the represented employees to become participants in Sysco's company-sponsored pension plan. This action triggered a withdrawal from the multiemployer pension plan. As a result of this withdrawal, we estimate that our share of withdrawal liability for the remaining plans for which it is reasonably possible for a withdrawal event to occur could have been as much as \$80.0 million as of January 26, 2013. These estimates exclude plans for which we have recorded withdrawal liabilities or where the likelihood of the above-mentioned events is deemed remote. Due to the lack of current information, we believe our current share of the withdrawal liability could materially differ from this estimate.

As of December 29, 2012 and January 26, 2013, Sysco had approximately \$14.0 million and \$54.7 million, respectively, in liabilities recorded related to certain multiemployer defined benefit plans for which Sysco's voluntary withdrawal had already occurred. We believe some or a portion of these liabilities could be paid in the fourth quarter of fiscal 2013.

Required contributions to multiemployer plans could increase in the future as these plans strive to improve their funding levels. In addition, pension-related legislation in the United States requires underfunded pension plans to improve their funding ratios within prescribed intervals based on the level of their underfunding. We believe that any unforeseen requirements to pay such increased contributions, withdrawal liability and excise taxes would be funded through cash flow from operations, borrowing capacity or a combination of these items.

## Contractual Obligations

Our Annual Report on Form 10-K for the fiscal year ended June 30, 2012, contains a table that summarizes our obligations and commitments to make contractual future cash payments as of June 30, 2012. Since June 30, 2012, there have been no material changes to our contractual obligations other than as described below.

The following table sets forth, as of December 29, 2012, certain information concerning our obligations and commitments to make contractual future payments:

|                                     | Payments Due by Period |              |            |            | More<br>Than<br>5<br>Years |
|-------------------------------------|------------------------|--------------|------------|------------|----------------------------|
|                                     | Total                  | < 1 Year     | 1-3 Years  | 3-5 Years  |                            |
|                                     | (In thousands)         |              |            |            |                            |
| Unrecorded Contractual Obligations: |                        |              |            |            |                            |
| Purchase obligations <sup>(1)</sup> | \$ 2,958,202           | \$ 2,174,133 | \$ 630,076 | \$ 153,958 | \$ 35                      |

<sup>(1)</sup> For purposes of this table, purchase obligations include agreements for purchases of product in the normal course of business, for which all significant terms have been confirmed, including minimum quantities resulting from our sourcing initiative. Such amounts included in the table above are based on estimates. Purchase obligations also includes amounts committed with various third party service providers to provide information technology services for periods up to fiscal 2016 (See discussion under Note 12, "Commitments and Contingencies"), fixed electricity agreements and fixed fuel purchase commitments. Purchase obligations exclude full requirements electricity contracts where no stated minimum purchase volume is required.

## Critical Accounting Policies and Estimates

Critical accounting policies and estimates are those that are most important to the portrayal of our financial position and results of operations. These policies require our most subjective or complex judgments, often employing the use of estimates about the effect of matters that are inherently uncertain. Sysco's most critical accounting policies and estimates include those that pertain to the allowance for doubtful accounts receivable, self-insurance programs, pension plans, income taxes, vendor consideration, accounting

for business combinations and share-based compensation, which are described in Item 7 of our Annual Report on Form 10-K for the fiscal year ended June 30, 2012.

## Forward-Looking Statements

Certain statements made herein that look forward in time or express management's expectations or beliefs with respect to the occurrence of future events are forward-looking statements under the Private Securities Litigation Reform Act of 1995. They include statements about:

- Sysco's ability to increase its sales and market share and grow earnings;
- the impact of general economic conditions and fiscal issues, such as higher taxes, the national debt, and high unemployment rates, on consumer confidence and our business;
- sales and expense trends including expectations regarding pay-related expenses, pension costs and defined contribution plan expenses;
- charges to be incurred in the second half of fiscal 2013 due to the restructuring of the executive nonqualified retirement program;
- Sysco's belief that its changes to its retirement programs, over the long-term, will result in reduced volatility of retirement-related expenses and a reduction in total retirement-related expenses;
- expectations regarding fuel costs;
- expectations regarding operating income and sales for our business segments;
- anticipated multiemployer pension-related liabilities, charges to be incurred in the third quarter of fiscal 2013, the timing of expected withdrawal payments and contributions to various multiemployer pension plans, and the source of funds for any such contributions;
- Sysco's belief regarding multiemployer pension-related liabilities that could be paid in the fourth quarter of fiscal 2013;
- expected implementation, timing, costs and benefits of our Business Transformation Project, including the total expected annualized benefits from our Business Transformation Project by fiscal 2015;
- Sysco's belief that expenses related to Business Transformation Project will increase in fiscal 2013 as compared to fiscal 2012;
- Sysco's belief that in fiscal 2013 it can obtain 25% of the total expected annualized benefits from the Business Transformation Project;
- estimated expenses and capital expenditures related to our Business Transformation Project;
- the sufficiency of our mechanisms for managing working capital, product cost inflation and competitive pressures;
- Sysco's anticipation that it will not need to relocate certain cash held by international subsidiaries;
- expected share repurchase activity during the remainder of fiscal 2013;
- the impact on cash flows and free cash flow of the completion of IRS settlement payments;
- our intentions regarding the funding of the repayment of notes at maturity;
- Sysco's ability to meet future cash requirements, including the ability to access debt markets effectively, and remain profitable;
- Sysco's ability to effectively access the commercial paper market and long-term capital markets;
- Sysco's belief that its cash flows from operations and free cash flow will improve in fiscal 2013 and beyond;
- expected costs for a third party service provider to provide information technology managed services;
- the impact of ongoing legal proceedings; and

- our plan to continue to explore appropriate opportunities to profitably grow market share and create shareholder value by expanding beyond our core business.

These statements are based on management's current expectations and estimates; actual results may differ materially due in part due to the risk factors set forth below and those discussed in Item 1A of our Annual Report on Form 10-K for the fiscal year ended June 30, 2012:

- periods of significant or prolonged inflation or deflation and their impact on our product costs and profitability;
- risks related to volatility in the global economic environment and local market conditions and low consumer confidence, which can adversely affect our sales, margins and net income;
- the risk that competition in our industry may adversely impact our margins and our ability to retain customers;
- the risk that we may not be able to fully compensate for increases in fuel costs, and forward purchase commitments intended to contain fuel costs could result in above market fuel costs;
- our ability to meet our long-term strategic objectives to grow the profitability of our business depends largely on the success of the Business Transformation Project, which has experienced delays and cost overages, and includes the risk that the project may not be successfully implemented, may not prove cost effective, may require further adjustments to our timeline and our expense and capital expenditure guidance, and may have a material adverse effect on our liquidity and results of operations without providing the anticipated benefits;



- the risk that the actual cost of the ERP system may be greater or less than currently expected and delays in the execution of deployment may adversely affect our business and results of operations;
- the risk that we may not realize anticipated benefits from our cost reduction efforts and our product cost reduction initiative;
- the risk of interruption of supplies due to lack of long-term contracts, severe weather or more prolonged climate change, work stoppages or otherwise;
- the potential impact of adverse publicity or lack of confidence in our products;
- difficulties in successfully entering and operating in international markets and complimentary lines of business;
- the risk that we fail to comply with requirements imposed by applicable law or government regulations;
- the potential impact of product liability claims;
- the successful completion of acquisitions and integration of acquired companies, as well as the risk that acquisitions could require additional debt or equity financing and negatively impact our stock price or operating results;
- we need access to borrowed funds in order to grow and any default by us under our indebtedness could have a material adverse impact;
- our level of indebtedness and the terms of our indebtedness could adversely affect our business and liquidity position;
- our dependence on technology and the reliability of our technology network;
- we may be required to pay material amounts under our multiemployer defined benefit pension plans;
- our funding requirements for our company-sponsored qualified pension plan may increase and our earnings may decrease should financial markets experience future declines;
- labor issues, including the renegotiation of union contracts and shortage of qualified labor; and
- the risk that the anti-takeover benefits provided by our preferred stock may not be viewed as beneficial to stockholders.

For a more detailed discussion of factors that could cause actual results to differ from those contained in the forward-looking statements, see the risk factors discussion contained in Item 1A of our Annual Report on Form 10-K for the fiscal year ended June 30, 2012.

### Item 3. Quantitative and Qualitative Disclosures about Market Risk

Our market risks consist of interest rate risk, foreign currency exchange rate risk, fuel price risk and investment risk. For a discussion on our exposure to market risk, see Part II, Item 7A, “Quantitative and Qualitative Disclosures about Market Risks” in our Annual Report on Form 10-K for the fiscal year ended June 30, 2012. There have been no significant changes to our market risks since June 30, 2012 except as noted below.

#### Interest Rate Risk

At December 29, 2012, we had \$45.0 million of commercial paper issuances outstanding. Total debt as of December 29, 2012 was \$3.1 billion, of which approximately 83% was at fixed rates of interest, including the impact of our interest rate swap agreements.

In fiscal 2010, we entered into two interest rate swap agreements that effectively converted \$250 million of fixed rate debt maturing in fiscal 2013 (the fiscal 2013 swap) and \$200 million of fixed rate debt maturing in fiscal 2014 (the fiscal 2014 swap) to floating rate debt. These transactions were entered into with the goal of reducing overall borrowing cost. The major risks from interest rate derivatives include changes in interest rates affecting the fair value of such instruments, potential increases in interest expense due to market increases in floating interest rates and the creditworthiness of the counterparties in such transactions. These transactions were designated as fair value hedges since the swaps hedge against the changes in fair value of fixed rate debt resulting from changes in interest rates.

As of December 29, 2012, the fiscal 2013 swap was recognized as an asset within the consolidated balance sheet at fair value within prepaid expenses and other current assets of \$0.5 million. The fixed interest rate on the hedged debt is 4.2% and the floating interest rate on the swap is three-month LIBOR which resets quarterly. As of December 29, 2012, the fiscal 2014 swap was recognized as an asset within the consolidated balance sheet at fair value within other assets of \$5.0 million. The fixed interest rate on the hedged debt is 4.6% and the floating interest rate on the swap is three-month LIBOR which resets quarterly.

#### Fuel Price Risk

Due to the nature of our distribution business, we are exposed to potential volatility in fuel prices. The price and availability of diesel fuel fluctuates due to changes in production, seasonality and other market factors generally outside of our control. During both the first 26 weeks of fiscal 2013 and fiscal 2012, fuel costs related to outbound deliveries represented approximately 0.7% and 0.6% of sales, respectively.

We routinely enter into forward purchase commitments for a portion of our projected monthly diesel fuel requirements. As of December 29, 2012, we had forward diesel fuel commitments totaling approximately \$110.0 million through November 2013. These contracts will lock in the price of approximately 35% to 45% of our fuel purchase needs for the contracted periods at prices lower than the current market price for diesel for the remainder of the fiscal year.

#### Item 4. Controls and Procedures

Sysco's management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures as of December 29, 2012. The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding the required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Sysco's disclosure controls and procedures have been designed to provide reasonable assurance of achieving their objectives. Based on the evaluation of our disclosure controls and procedures as of December 29, 2012, our chief executive officer and chief financial officer concluded that, as of such date, Sysco's disclosure controls and procedures were effective at the reasonable assurance level.

No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the fiscal quarter ended December 29, 2012 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## PART II – OTHER INFORMATION

### Item 1. Legal Proceedings

Sysco is reporting the following matter in compliance with SEC requirements to disclose environmental proceedings that are known to be contemplated by governmental authorities and that involve potential monetary sanctions of \$100,000 or greater.

In April 2012, Sysco received notice from the United States Environmental Protection Agency (“EPA”) that it plans to file an administrative complaint for civil penalties against the company’s Detroit subsidiary. The EPA alleges that Sysco Detroit violated Section 112(r) of the Clean Air Act, and its implementing regulations, by failing to meet all of the requirements of the risk management program at its Canton, Michigan facility. Subject to final EPA approval, Sysco agreed in the first quarter of fiscal 2013 to settle this matter for a penalty of approximately \$125,000 and to remedy the alleged violations. Sysco does not believe that the resolution of this matter will have a material adverse impact on its results of operations or liquidity.

### Item 1A. Risk Factors

The information set forth in this report should be read in conjunction with the risk factors discussed in Item 1A of our Annual Report on Form 10-K for the year ended June 30, 2012, which could materially impact our business, financial condition or future results.

### Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

We made the following share repurchases during the second quarter of fiscal 2013:

#### ISSUER PURCHASES OF EQUITY SECURITIES

| Period<br>Month #1 | (b)<br>Average<br>Price                 |           |  | (c) Total Number of Shares<br>Purchased as Part of Publicly<br>Announced Plans or Programs | (d) Maximum Number of Shares<br>that May Yet Be Purchased Under<br>the Plans or Programs |
|--------------------|---|-----------|--|--|--|
|                    | (a) Total Number of<br>Shares Purchased | (1) Share |  |  |  |

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|                |           |          |                      |
|----------------|-----------|----------|----------------------|
| September 30 – |           |          |                      |
| October 27     | 883       | \$ 31.58 | - 23,311,400         |
| Month #2       |           |          |                      |
| October 28 -   |           |          |                      |
| November 24    | 2,024,468 | 30.04    | 2,024,468 21,286,932 |
| Month #3       |           |          |                      |
| November 25 -  |           |          |                      |
| December 29    | 2,634,604 | 31.30    | 2,575,532 18,711,400 |
| Total          | 4,659,955 | \$ 30.75 | 4,600,000 18,711,400 |

<sup>(1)</sup> The total number of shares purchased includes 883, zero and 59,072 shares tendered by individuals in connection with stock option exercises in Month #1, Month #2 and Month #3, respectively.

On August 27, 2010, the Board of Directors approved the repurchase of 20,000,000 shares. On November 16, 2011, the Board approved the repurchase of an additional 20,000,000 shares. Pursuant to the repurchase programs, shares may be acquired in the open market or in privately negotiated transactions at the company's discretion, subject to market conditions and other factors.

The Board of Directors has authorized us to enter into agreements from time to time to extend our ongoing repurchase program to include repurchases during company announced "blackout periods" of such securities in compliance with Rule 10b5-1 promulgated under the Exchange Act.

### Item 3. Defaults Upon Senior Securities

None

### Item 4. Mine Safety Disclosures

Not applicable

Item 5. Other Information

None

Item 6. Exhibits

The exhibits listed on the Exhibit Index immediately preceding such exhibits, which is incorporated herein by reference, are filed or furnished as a part of this Quarterly Report on Form 10-Q.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Sysco Corporation  
(Registrant)

By /s/ WILLIAM J. DELANEY  
William J. DeLaney  
President and Chief Executive Officer

Date: February 4, 2013

By /s/ ROBERT C. KREIDLER  
Robert C. Kreidler  
Executive Vice President and  
Chief Financial Officer

Date: February 4, 2013

By /s/ G. MITCHELL ELMER  
G. Mitchell Elmer  
Senior Vice President, Controller and  
Chief Accounting Officer

Date: February 4, 2013



## EXHIBIT INDEX

### Exhibits.

- 3.1     ~~—~~Restated Certificate of Incorporation, incorporated by reference to Exhibit 3(a) to Form 10-K for the year ended June 28, 1997 (File No. 1-6544).
- 3.2     ~~—~~Certificate of Amendment of Certificate of Incorporation increasing authorized shares, incorporated by reference to Exhibit 3(d) to Form 10-Q for the quarter ended January 1, 2000 (File No. 1-6544).
- 3.3     ~~—~~Certificate of Amendment to Restated Certificate of Incorporation increasing authorized shares, incorporated by reference to Exhibit 3(e) to Form 10-Q for the quarter ended December 27, 2003 (File No. 1-6544).
- 3.4     ~~—~~Form of Amended Certificate of Designation, Preferences and Rights of Series A Junior Participating Preferred Stock, incorporated by reference to Exhibit 3(c) to Form 10-K for the year ended June 29, 1996 (File No. 1-6544).
- 3.5     ~~—~~Amended and Restated Bylaws of Sysco Corporation dated November 16, 2011, incorporated by reference to Exhibit 3.5 to Form 10-Q for the quarter ended December 31, 2011 (File No. 1-6544).
- 10.1#   ~~—~~Maturity Date Extension Agreement dated November 29, 2012 to Credit Agreement dated December 29, 2011 between Sysco Corporation, Sysco International, ULC, JP Morgan Chase Bank, N.A., JPMorgan Chase Bank, N.A., Toronto Branch, and certain Lenders and Guarantors party thereto.
- 10.2#   ~~—~~Eleventh Amended and Restated Sysco Corporation Supplemental Executive Retirement Plan.
- 10.3#   ~~—~~Seventh Amended and Restated Sysco Corporation Executive Deferred Compensation Plan.
- 10.4#   ~~—~~Sysco Corporation Management Savings Plan.
- 12.1#   ~~—~~Statement regarding Computation of Ratio of Earnings to Fixed Charges.
- 15.1#   ~~—~~Report from Ernst & Young LLP dated February 4, 2013, re: unaudited financial statements.
- 15.2#   ~~—~~Acknowledgement letter from Ernst & Young LLP.
- 31.1#   ~~—~~CEO Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2#   ~~—~~CFO Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1#   ~~—~~CEO Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2#   ~~—~~CFO Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

101.1# —The following financial information from Sysco Corporation's Quarterly Report on Form 10-Q for the quarter ended December 29, 2012 filed with the SEC on February 4, 2013, formatted in XBRL includes: (i) Consolidated Balance Sheets as of December 29, 2012, June 30, 2012 and December 31, 2011, (ii) Consolidated Results of Operations for the thirteen and twenty-six week periods ended December 29, 2012 and December 31, 2011, (iii) Consolidated Statements of Comprehensive Income for the thirteen and twenty-six week periods ended December 29, 2012 and December 31, 2011, (iv) Consolidated Cash Flows for the twenty-six week periods ended December 29, 2012 and December 31, 2011, and (v) the Notes to Consolidated Financial Statements.

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# Filed herewith

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