

SYSCO CORP  
Form 10-Q  
May 07, 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 March 30, 2013

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	74-1648137
(State or other jurisdiction of incorporation or organization)	(IRS employer identification number)
1390 Enclave Parkway	77077-2099
Houston, Texas	(Zip Code)
(Address of principal executive offices)	

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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

593,485,905 shares of common stock were outstanding as of April 27, 2013.



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## PART I – FINANCIAL INFORMATION

## Item 1. Financial Statements

Sysco Corporation and its Consolidated Subsidiaries

## CONSOLIDATED BALANCE SHEETS

(In thousands, except for share data)

	Mar. 30, 2013 (unaudited)	Jun. 30, 2012	Mar. 31, 2012 (unaudited)
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents	\$ 331,520	\$ 688,867	\$ 350,464
Accounts and notes receivable, less allowances of \$82,895, \$42,919, and \$82,762	3,396,850	2,966,624	3,094,175
Inventories	2,413,190	2,178,830	2,250,460
Deferred income taxes	132,480	134,503	144,131
Prepaid expenses and other current assets	68,575	80,713	85,712
Prepaid income taxes	32,967	35,271	-
Total current assets	6,375,582	6,084,808	5,924,942
Plant and equipment at cost, less depreciation	3,938,277	3,883,750	3,846,870
Other assets			
Goodwill	1,802,433	1,665,611	1,659,818
Intangibles, less amortization	150,779	113,571	116,011
Restricted cash	145,270	127,228	140,287
Other assets	244,869	262,239	245,420
Total other assets	2,343,351	2,168,649	2,161,536
Total assets	\$ 12,657,210	\$ 12,137,207	\$ 11,933,348
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Current liabilities			
Notes payable	\$ 32,045	\$ -	\$ 3,250
Accounts payable	2,464,215	2,209,469	2,285,744
Accrued expenses	951,852	909,144	870,674
Accrued income taxes	-	50,316	88,112
Current maturities of long-term debt	208,792	254,650	455,972
Total current liabilities	3,656,904	3,423,579	3,703,752
Other liabilities			
Long-term debt	2,557,314	2,763,688	2,412,477
Deferred income taxes	116,960	115,166	245,496
Other long-term liabilities	1,173,671	1,149,734	693,608
Total other liabilities	3,847,945	4,028,588	3,351,581
Commitments and contingencies			
Shareholders' equity			
Preferred stock, par value \$1 per share			
Authorized 1,500,000 shares, issued none	-	-	-
	765,175	765,175	765,175

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Common stock, par value \$1 per share			
Authorized 2,000,000,000 shares, issued			
765,174,900 shares			
Paid-in capital	1,029,443	939,179	923,189
Retained earnings	8,394,426	8,175,230	8,024,536
Accumulated other comprehensive loss	(620,720)	(662,866)	(286,623)
Treasury stock at cost, 171,925,048,			
179,228,383 and 179,884,245 shares	(4,415,963)	(4,531,678)	(4,548,262)
Total shareholders' equity	5,152,361	4,685,040	4,878,015
Total liabilities and shareholders' equity	\$ 12,657,210	\$ 12,137,207	\$ 11,933,348

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

See Notes to Consolidated Financial Statements

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Sysco Corporation and its Consolidated Subsidiaries

CONSOLIDATED RESULTS OF OPERATIONS (Unaudited)

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

	13-Week Period Ended		39-Week Period Ended	
	Mar. 30, 2013	Mar. 31, 2012	Mar. 30, 2013	Mar. 31, 2012
Sales	\$ 10,926,371	\$ 10,504,746	\$ 32,810,177	\$ 31,335,557
Cost of sales	9,016,052	8,633,130	26,978,748	25,670,691
Gross profit	1,910,319	1,871,616	5,831,429	5,664,866
Operating expenses	1,573,117	1,432,786	4,632,794	4,289,698
Operating income	337,202	438,830	1,198,635	1,375,168
Interest expense	34,215	28,290	97,325	86,088
Other expense (income), net	(3,410)	(2,248)	(7,640)	(5,470)
Earnings before income taxes	306,397	412,788	1,108,950	1,294,550
Income taxes	104,980	153,238	399,566	482,234
Net earnings	\$ 201,417	\$ 259,550	\$ 709,384	\$ 812,316
Net earnings:				
Basic earnings per share	\$ 0.34	\$ 0.44	\$ 1.21	\$ 1.38
Diluted earnings per share	0.34	0.44	1.20	1.38
Average shares outstanding	589,149,731	585,823,393	588,222,833	588,004,593
Diluted shares outstanding	592,903,799	587,214,691	591,054,506	589,232,150
Dividends declared per common share	\$ 0.28	\$ 0.27	\$ 0.83	\$ 0.80

See Notes to Consolidated Financial Statements

Sysco Corporation and its Consolidated Subsidiaries

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

(In thousands)

	13-Week Period Ended		39-Week Period Ended	
	Mar. 30, 2013	Mar. 31, 2012	Mar. 30, 2013	Mar. 31, 2012
Net earnings	\$ 201,417	\$ 259,550	\$ 709,384	\$ 812,316
Other comprehensive (loss) income:				
Foreign currency translation adjustment	(27,886)	26,823	(497)	(57,021)
Items presented net of tax:				
Amortization of cash flow hedges	96	107	289	321
Amortization of prior service cost	1,925	773	9,386	2,319
Amortization of actuarial loss (gain), net	10,832	9,215	33,776	27,646
Amortization of transition obligation	22	24	66	70
Prior service cost arising in current year	-	-	(24,828)	-
Actuarial (loss) gain, net arising in current year	-	-	23,954	-
Total other comprehensive (loss) income	(15,011)	36,942	42,146	(26,665)
Comprehensive income	\$ 186,406	\$ 296,492	\$ 751,530	\$ 785,651

See Notes to Consolidated Financial Statements



## Sysco Corporation and its Consolidated Subsidiaries

## CONSOLIDATED CASH FLOWS (Unaudited)

(In thousands)

	39-Week Period Ended	
	Mar. 30, 2013	Mar. 31, 2012
Cash flows from operating activities:		
Net earnings	\$ 709,384	\$ 812,316
Adjustments to reconcile net earnings to cash provided by operating activities:		
Share-based compensation expense	56,749	54,328
Depreciation and amortization	379,998	304,966
Deferred income taxes	(42,069)	(276,947)
Provision for losses on receivables	29,068	29,663
Other non-cash items	1,577	(1,267)
Additional investment in certain assets and liabilities, net of effect of businesses acquired:		
(Increase) in receivables	(408,186)	(225,668)
(Increase) in inventories	(206,244)	(167,964)
Decrease (increase) in prepaid expenses and other current assets	14,826	(10,380)
Increase in accounts payable	210,317	104,239
Increase in accrued expenses	484	4,117
(Decrease) increase in accrued income taxes	(54,139)	141,784
(Increase) decrease in other assets	(528)	67,843
Increase in other long-term liabilities	70,005	71,274
Excess tax benefits from share-based compensation arrangements	(1,834)	(15)
Net cash provided by operating activities	759,408	908,289
Cash flows from investing activities:		
Additions to plant and equipment	(373,048)	(633,196)
Proceeds from sales of plant and equipment	12,115	5,852
Acquisition of businesses, net of cash acquired	(210,036)	(83,354)
(Increase) in restricted cash	(18,042)	(29,771)
Net cash used for investing activities	(589,011)	(740,469)
Cash flows from financing activities:		
Bank and commercial paper borrowings (repayments), net	-	211,267
Other debt borrowings	50,629	3,090
Other debt repayments	(277,339)	(6,424)
Debt issuance costs	-	(977)
Proceeds from common stock reissued from treasury for share-based compensation awards	497,688	82,545
Treasury stock purchases	(321,042)	(272,299)
Dividends paid	(482,030)	(464,809)
Excess tax benefits from share-based compensation arrangements	1,834	15
Net cash used for financing activities	(530,260)	(447,592)

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Effect of exchange rates on cash	2,516	(9,529)
Net (decrease) in cash and cash equivalents	(357,347)	(289,301)
Cash and cash equivalents at beginning of period	688,867	639,765
Cash and cash equivalents at end of period	\$ 331,520	\$ 350,464
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	\$ 121,740	\$ 109,618
Income taxes	501,499	617,640

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.

Prior year amounts within the consolidated balance sheets and consolidated cash flows have been reclassified to conform to the current year presentation as it relates to the presentation of certain tax-related balances within these statements. The impact of these reclassifications was immaterial to the prior year periods.

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 (GAAP) 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 registered public accounting firm, 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 Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2011-08, "Testing Goodwill for Impairment." This update amends Accounting Standards Codification (ASC) 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 does not believe this update will have an impact on its annual goodwill impairment testing in the fourth quarter of fiscal 2013.

## 3. NEW ACCOUNTING STANDARDS

### Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities

In January 2013, the FASB issued ASU 2013-01, "Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities." This update amends ASC 210, "Balance Sheet," specifically the disclosure requirements created by ASU 2011-11, "Disclosures About Offsetting Assets and Liabilities," issued by the FASB in December 2011. This update clarifies the scope of these disclosure requirements to be applicable only to derivatives and securities borrowing and lending transactions that are offset in accordance with GAAP or are subject to an enforceable master netting arrangement or similar agreement. The disclosure requirements continue to be effective for annual reporting periods, and interim periods within those years, beginning on or after January 1, 2013, which will be fiscal 2014 for Sysco. Based on the scope clarification of this update, Sysco does not believe it has any financial instruments requiring these disclosures but will continue to evaluate this assessment.

## Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income

In February 2013, the FASB issued ASU 2013-02, "Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income." This update amends ASC 220, "Comprehensive Income" to require an entity to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net earnings if the amount is being reclassified in its entirety to net earnings. For other amounts that are not being reclassified in their entirety to net earnings, an entity is required to cross-reference other disclosures that provide additional detail about those amounts. The amendments in this update are effective prospectively for fiscal years, and interim periods within those years, beginning after December 15, 2012, which is fiscal 2014 for Sysco. Sysco is currently evaluating the impact this update will have on its disclosures.

## 4. 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 5, "Derivative Financial Instruments," are valued using a swap valuation model that utilizes an income approach using observable market inputs including interest rates,

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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 measured at fair value on a recurring basis as of March 30, 2013, June 30, 2012 and March 31, 2012:

	Assets Measured at Fair Value as of Mar. 30, 2013			
	Level 1	Level 2	Level 3	Total
	(In thousands)			
Assets:				
Cash and cash equivalents				
Cash equivalents	\$ 122,140	\$ 138,639	\$ -	\$ 260,779
Prepaid expenses and other current assets				
Interest rate swap agreement	-	3,990	-	3,990
Restricted cash	145,270	-	-	145,270
Total assets at fair value	\$ 267,410	\$ 142,629	\$ -	\$ 410,039

	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
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 Mar.  
31, 2012

Level 1	Level 2	Level 3	Total
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(In thousands)

## Assets:

Cash and cash equivalents

Cash equivalents	\$ -	\$ 140,283	\$ -	\$ 140,283
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Prepaid expenses and other current assets

Interest rate swap agreement	-	3,440	-	3,440
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Restricted cash	140,287	-	-	140,287
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Other assets

Interest rate swap agreement	-	7,005	-	7,005
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Total assets at fair value	\$ 140,287	\$ 150,728	\$ -	\$ 291,015
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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 \$3,281.9 million, \$3,539.3 million and \$3,264.0 million as of March 30, 2013, June 30, 2012 and March 31, 2012, respectively. The carrying value of total debt was \$2,798.2 million, \$3,018.3 million and \$2,871.7 million as of March 30, 2013, June 30, 2012 and March 31, 2012, respectively.

## 5. 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 swap agreement related to the fiscal 2013 debt was settled upon maturity of the senior notes in February 2013, leaving one remaining outstanding swap agreement outstanding as of March 30, 2013.

The location and the fair value of derivative instruments in the consolidated balance sheet as of March 30, 2013, June 30, 2012 and March 31, 2012 are as follows:

	Asset Derivatives		Liability Derivatives	
	Balance Sheet Location (In thousands)	Fair Value	Balance Sheet Location	Fair Value
Fair value hedge relationships:				
Interest rate swap agreements				
Mar. 30, 2013	Prepaid expenses and other current assets	\$ 3,990	N/A	N/A
Jun. 30, 2012	Prepaid expenses and other current assets	2,475	N/A	N/A
Jun. 30, 2012	Other assets	6,219	N/A	N/A
Mar. 31, 2012	Prepaid expenses and other current assets	3,440	N/A	N/A
Mar. 31, 2012	Other assets	7,005	N/A	N/A

The location and effect of derivative instruments and related hedged items on the consolidated results of operations for the 13-week periods ended March 30, 2013 and March 31, 2012 presented on a pre-tax basis are as follows:



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Location of (Gain) or Loss Recognized in Income		Amount of (Gain) or Loss	
		Recognized in Income	
		13-Week Period Ended	
		Mar. 30, 2013	Mar. 31, 2012
(In thousands)			
Fair Value Hedge Relationships:			
Interest rate swap agreements	Interest expense	\$ 832	\$ (2,163)
Cash Flow Hedge Relationships:			
Interest rate contracts	Interest expense	156	174

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The location and effect of derivative instruments and related hedged items on the consolidated results of operations for the 39-week periods ended March 30, 2013 and March 31, 2012 presented on a pre-tax basis are as follows:

	Location of (Gain) or Loss Recognized in Income	Amount of (Gain) or Loss Recognized in Income 39-Week Period Ended Mar. 30, 2013    Mar. 31, 2012 (In thousands)	
Fair Value Hedge Relationships:			
Interest rate swap agreements	Interest expense	\$ (3,492)	\$ (5,993)
Cash Flow Hedge Relationships:			
Interest rate contracts	Interest expense	469	522

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 39-week periods ended March 30, 2013 and March 31, 2012. The interest rate swaps do not contain credit-risk-related contingent features.

## 6. DEBT

As of March 30, 2013, Sysco had uncommitted bank lines of credit which provided for unsecured borrowings for working capital of up to \$95.0 million, of which none was outstanding.

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. There were no commercial paper issuances outstanding as of March 30, 2013.

During the 39-week period ended March 30, 2013, aggregate commercial paper issuances and short-term bank borrowings ranged from zero to approximately \$330.0 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 €25.0 million (Euro) as of March 30, 2013, located within Notes payable on the consolidated balance sheet.

In February 2013, Sysco repaid the 4.2% senior notes totaling \$250.0 million at maturity utilizing a combination of cash flow from operations and cash on hand.

## 7. 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 Postretirement Plans	
	Mar. 30, 2013	Mar. 31, 2012	Mar. 30, 2013	Mar. 31, 2012
	(In thousands)			
Service cost	\$ 17,399	\$ 27,055	\$ 135	\$ 114
Interest cost	36,805	36,878	154	158
Expected return on plan assets	(42,801)	(40,401)	-	-
Amortization of prior service cost	3,083	1,202	42	53
Amortization of actuarial loss (gain)	17,637	15,042	(51)	(82)
Amortization of transition obligation	-	-	35	39
Net periodic benefit cost	\$ 32,123	\$ 39,776	\$ 315	\$ 282

The components of net company-sponsored benefit cost for the 39-week periods are as follows:

	Pension Benefits		Other Postretirement Plans	
	Mar. 30, 2013	Mar. 31, 2012	Mar. 30, 2013	Mar. 31, 2012
	(In thousands)			
Service cost	\$ 52,768	\$ 81,166	\$ 406	\$ 342
Interest cost	111,758	110,635	461	474
Expected return on plan assets	(128,402)	(121,204)	-	-
Amortization of prior service cost	6,817	3,604	126	161
Recognized net actuarial loss (gain)	54,987	45,125	(152)	(248)
Amortization of transition obligation	-	-	106	115
Curtailement loss	8,293	-	-	-
Net periodic benefit cost	\$ 106,221	\$ 119,326	\$ 947	\$ 844

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 \$17.5 million and \$16.7 million during the 39-week periods ended March 30, 2013 and March 31, 2012, respectively.

## 8. 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 \$43.2 million in the first 39 weeks of fiscal 2013 and \$5.2 million in the first 39 weeks of fiscal 2012. As of March 30, 2013, June 30, 2012 and March 31, 2012, Sysco had approximately \$54.8 million, \$30.7 million and \$47.7 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 \$80.0 million as of March 30, 2013. 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 had a valuation date of December 31, 2011. As the valuation date for all of these plans was December 31, 2011, 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.

## 9. EARNINGS PER SHARE

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

	13-Week Period Ended		39-Week Period Ended	
	Mar. 30, 2013	Mar. 31, 2012	Mar. 30, 2013	Mar. 31, 2012
(In thousands, except for share and per share data)				
Numerator:				
Net earnings	\$ 201,417	\$ 259,550	\$ 709,384	\$ 812,316
Denominator:				
Weighted-average basic shares outstanding	589,149,731	585,823,393	588,222,833	588,004,593
Dilutive effect of share-based awards	3,754,068	1,391,298	2,831,673	1,227,557
Weighted-average diluted shares outstanding	592,903,799	587,214,691	591,054,506	589,232,150
Basic earnings per share:	\$ 0.34	\$ 0.44	\$ 1.21	\$ 1.38
Diluted earnings per share:	\$ 0.34	\$ 0.44	\$ 1.20	\$ 1.38

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 10,800,000 and 50,000,000 for the third 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 24,200,000 and 49,700,000 for the first 39 weeks of fiscal 2013 and 2012, respectively.

## 10. 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 39 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 39 weeks of fiscal 2013 was \$3.20.

In the first 39 weeks of fiscal 2013, 1,688,848 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 39 weeks of fiscal 2013 was \$29.65.

In the first 39 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 39 weeks of fiscal 2013 was \$29.96.

Under the 2009 Non-Employee Directors Stock Plan, non-employee directors may elect to receive up to 100% of their annual directors' fees in Sysco common stock on either an annual or deferred basis. Sysco provides a matching grant of 50% of the number of shares received for the stock election subject to certain limitations. In the first 39 weeks of fiscal 2013, 26,702 shares with a weighted average grant date fair value of \$30.38 were issued for these elections in the form of fully vested common stock or deferred units.

## Employees' Stock Purchase Plan

Plan participants purchased 1,144,675 shares of Sysco common stock under the Sysco Employees' Stock Purchase Plan during the first 39 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 \$4.63 during the first 39 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 \$56.7 million and \$54.3 million for the first 39 weeks of fiscal 2013 and fiscal 2012, respectively.

As of March 30, 2013, there was \$81.0 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 2.52 years.

## 11. INCOME TAXES

### Uncertain Tax Positions

As of March 30, 2013, the gross amount of unrecognized tax benefits was \$98.4 million and the gross amount of liability for accrued interest related to unrecognized tax benefits was \$44.3 million. In the third quarter of fiscal 2013, we reclassified a receivable that would arise upon the resolution of an unrecognized tax benefit from a net position in other long-term liabilities to a gross position in other assets on our consolidated balance sheet. Prior year amounts within the consolidated balance sheets have been reclassified to conform to the current year presentation. 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 34.26% for the third quarter of fiscal 2013 was favorably impacted by the recording of \$4.6 million of domestic tax benefit related to a foreign tax payment and \$4.5 million of tax benefit related to disqualifying dispositions of Sysco stock pursuant to share-based compensation arrangements. 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 third quarter of fiscal 2012 was 37.12%. 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 36.03% for the first 39 weeks of fiscal 2013 was favorably impacted by the recording of \$7.1 million of tax benefit related to disqualifying dispositions of Sysco stock pursuant to share-based compensation arrangements and \$4.6 million of domestic tax benefit related to a foreign tax payment. 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 39 weeks of fiscal 2012 was 37.25%. 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.

## 12. ACQUISITIONS

During the first 39 weeks of fiscal 2013, in the aggregate, the company paid cash of \$210.0 million for acquisitions made during fiscal 2013. Acquisitions in the first 39 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 March 30, 2013, aggregate contingent consideration amounts outstanding relating to acquisitions were \$102.2 million, of which \$36.4 million could result in the recording of additional goodwill when paid and \$51.1 million was recorded as earnout liabilities as of March 30, 2013.

## 13. 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 March 30, 2013, outstanding forward diesel fuel purchase commitments totaled approximately \$227.8 million at a fixed price through June 2014.

### 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 March 30, 2013 totaled approximately \$1,346.9 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 March 30, 2013, the total remaining cost of the services over that period is expected to be approximately \$401.6 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.

#### 14. 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, hospitals, schools, hotels, industrial caterers and other venues where foodservice products are served. These companies 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.

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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		39-Week Period Ended	
	Mar. 30, 2013	Mar. 31, 2012	Mar. 30, 2013	Mar. 31, 2012
Sales:	(In thousands)			
Broadline	\$ 8,861,568	\$ 8,513,483	\$ 26,698,301	\$ 25,493,000
SYGMA	1,425,975	1,445,214	4,258,545	4,233,238
Other	699,505	586,440	2,019,967	1,734,123
Intersegment sales	(60,677)	(40,391)	(166,636)	(124,804)
Total	\$ 10,926,371	\$ 10,504,746	\$ 32,810,177	\$ 31,335,557

	13-Week Period Ended		39-Week Period Ended	
	Mar. 30, 2013	Mar. 31, 2012	Mar. 30, 2013	Mar. 31, 2012
Operating income:	(In thousands)			
Broadline	\$ 517,842	\$ 564,603	\$ 1,740,935	\$ 1,753,599
SYGMA	13,823	17,063	39,347	46,050
Other	28,691	19,999	71,519	64,737
Total segments	560,356	601,665	1,851,801	1,864,386
Corporate expenses	(223,154)	(162,835)	(653,166)	(489,218)
Total operating income	337,202	438,830	1,198,635	1,375,168
Interest expense	34,215	28,290	97,325	86,088
Other expense (income), net	(3,410)	(2,248)	(7,640)	(5,470)
Earnings before income taxes	\$ 306,397	\$ 412,788	\$ 1,108,950	\$ 1,294,550

	Mar. 30, 2013	Jun. 30, 2012	Mar. 31, 2012
Assets:	(In thousands)		
Broadline	\$ 8,377,694	\$ 8,067,912	\$ 8,161,033
SYGMA	485,703	475,877	483,348
Other	940,159	877,207	871,122
Total segments	9,803,556	9,420,996	9,515,503
Corporate	2,853,654	2,716,211	2,417,845
Total	\$ 12,657,210	\$ 12,137,207	\$ 11,933,348



## 15. 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 March 30, 2013, Sysco had a total of \$2,725.0 million in senior notes and debentures outstanding that are covered by these guarantees. All subsidiary guarantors are 100%-owned by the parent company, all guarantees are full and unconditional and all guarantees are joint and several, except that the guarantee of any subsidiary guarantor with respect to a series of senior notes or debentures may be released under certain customary circumstances. If we exercise our defeasance option with respect to the senior notes or debentures of any series, then any subsidiary guarantor effectively will be released with respect to that series. Further, each subsidiary guarantee will remain in full force and effect until the earliest to occur of the date, if any, on which (1) the applicable subsidiary guarantor shall consolidate with or merge into Sysco Corporation or any successor of Sysco Corporation and (2) Sysco Corporation or any successor of Sysco Corporation consolidates with or merges into the applicable subsidiary guarantor.

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  
Mar. 30, 2013

	Sysco (In thousands)	Certain U.S. Broadline Subsidiaries	Other Non-Guarantor Subsidiaries	Eliminations	Consolidated Totals
Current assets	\$ 268,550	\$ 4,031,712	\$ 2,075,320	\$ -	\$ 6,375,582
Investment in subsidiaries	11,050,107	-	-	(11,050,107)	-
Plant and equipment, net	627,156	1,917,407	1,393,714	-	3,938,277
Other assets	333,346	534,960	1,475,045	-	2,343,351
Total assets	\$ 12,279,159	\$ 6,484,079	\$ 4,944,079	\$ (11,050,107)	\$ 12,657,210
Current liabilities	\$ 600,803	\$ 973,510	\$ 2,082,591	\$ -	\$ 3,656,904
Intercompany payables (receivables)	3,370,039	(3,497,093)	127,054	-	-
Long-term debt	2,510,621	22,849	23,844	-	2,557,314
Other liabilities	815,587	347,823	127,221	-	1,290,631
Shareholders' equity	4,982,109	8,636,990	2,583,369	(11,050,107)	5,152,361
Total liabilities and shareholders' equity	\$ 12,279,159	\$ 6,484,079	\$ 4,944,079	\$ (11,050,107)	\$ 12,657,210



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Condensed Consolidating Balance Sheet  
Jun. 30, 2012

	Sysco (In thousands)	Certain U.S. Broadline Subsidiaries	Other Non-Guarantor Subsidiaries	Eliminations	Consolidated Totals
Current assets	\$ 538,451	\$ 3,675,676	\$ 1,870,681	\$ -	\$ 6,084,808
Investment in subsidiaries	10,163,398	-	-	(10,163,398)	-
Plant and equipment, net	703,658	1,923,925	1,256,167	-	3,883,750
Other assets	324,839	532,922	1,310,888	-	2,168,649
Total assets	\$ 11,730,346	\$ 6,132,523	\$ 4,437,736	\$ (10,163,398)	\$ 12,137,207
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	396,659	113,129	-	1,264,900
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	\$ 6,132,523	\$ 4,437,736	\$ (10,163,398)	\$ 12,137,207

Condensed Consolidating Balance Sheet  
Mar. 31, 2012

	Sysco	Certain U.S. Broadline Subsidiaries	Other Non-Guarantor Subsidiaries	Eliminations	Consolidated Totals
	(In thousands)				
Current assets	\$ 214,681	\$ 3,844,705	\$ 1,865,556	\$ -	\$ 5,924,942
Investment in subsidiaries	15,282,816	-	-	(15,282,816)	-
Plant and equipment, net	701,743	1,915,373	1,229,754	-	3,846,870
Other assets	326,707	533,717	1,301,112	-	2,161,536
Total assets	\$ 16,525,947	\$ 6,293,795	\$ 4,396,422	\$ (15,282,816)	\$ 11,933,348
Current liabilities	\$ 651,346	\$ 962,558	\$ 2,089,848	\$ -	\$ 3,703,752
Intercompany payables (receivables)	8,327,458	(8,379,218)	51,760	-	-
Long-term debt	2,362,970	24,627	24,880	-	2,412,477
Other liabilities	500,889	336,685	101,530	-	939,104
Shareholders' equity	4,683,284	13,349,143	2,128,404	(15,282,816)	4,878,015
Total liabilities and shareholders' equity	\$ 16,525,947	\$ 6,293,795	\$ 4,396,422	\$ (15,282,816)	\$ 11,933,348

Condensed Consolidating Statement of Comprehensive Income  
For the 13-Week Period Ended Mar. 30, 2013

	Sysco	Certain U.S. Broadline Subsidiaries	Other Non-Guarantor Subsidiaries	Eliminations	Consolidated Totals
	(In thousands)				
Sales	\$ -	\$ 7,402,853	\$ 3,791,430	\$ (267,912)	\$ 10,926,371
Cost of sales	-	6,004,055	3,250,834	(238,837)	9,016,052
Gross profit	-	1,398,798	540,596	(29,075)	1,910,319
Operating expenses	170,552	923,539	508,101	(29,075)	1,573,117
Operating income (loss)	(170,552)	475,259	32,495	-	337,202
Interest expense (income)	78,811	(46,812)	2,216	-	34,215
Other expense (income), net	(1,167)	(1,562)	(681)	-	(3,410)
Earnings (losses) before income taxes	(248,196)	523,633	30,960	-	306,397
Income tax (benefit) provision	(86,139)	180,656	10,463	-	104,980
Equity in earnings of subsidiaries	363,474	-	-	(363,474)	-
Net earnings	201,417	342,977	20,497	(363,474)	201,417
Other comprehensive income (loss)	12,875	-	(27,886)	-	(15,011)
Comprehensive income	\$ 214,292	\$ 342,977	\$ (7,389)	\$ (363,474)	\$ 186,406

Condensed Consolidating Statement of Comprehensive Income  
For the 13-Week Period Ended Mar. 31, 2012

	Sysco	Certain U.S. Broadline Subsidiaries	Other Non-Guarantor Subsidiaries	Eliminations	Consolidated Totals
	(In thousands)				
Sales	\$ -	\$ 7,161,585	\$ 3,556,677	\$ (213,516)	\$ 10,504,746
Cost of sales	-	5,771,040	3,053,131	(191,041)	8,633,130
Gross profit	-	1,390,545	503,546	(22,475)	1,871,616
Operating expenses	124,546	866,651	464,064	(22,475)	1,432,786
Operating income (loss)	(124,546)	523,894	39,482	-	438,830
Interest expense (income)	103,060	(73,511)	(1,259)	-	28,290
Other expense (income), net	(1,502)	(162)	(584)	-	(2,248)
Earnings (losses) before income taxes	(226,104)	597,567	41,325	-	412,788
Income tax (benefit) provision	(83,960)	221,879	15,319	-	153,238
Equity in earnings of subsidiaries	401,694	-	-	(401,694)	-
Net earnings	259,550	375,688	26,006	(401,694)	259,550
Other comprehensive income (loss)	10,119	-	26,823	-	36,942
Comprehensive income	\$ 269,669	\$ 375,688	\$ 52,829	\$ (401,694)	\$ 296,492

Condensed Consolidating Statement of Comprehensive Income  
For the 39-Week Period Ended Mar. 30, 2013

	Sysco	Certain U.S. Broadline Subsidiaries	Other Non-Guarantor Subsidiaries	Eliminations	Consolidated Totals
(In thousands)					
Sales	\$ -	\$ 22,400,280	\$ 11,202,672	\$ (792,775)	\$ 32,810,177
Cost of sales	-	18,097,750	9,590,060	(709,062)	26,978,748
Gross profit	-	4,302,530	1,612,612	(83,713)	5,831,429
Operating expenses	517,896	2,722,088	1,476,523	(83,713)	4,632,794
Operating income (loss)	(517,896)	1,580,442	136,089	-	1,198,635
Interest expense (income)	220,987	(127,253)	3,591	-	97,325
Other expense (income), net	(3,780)	(2,803)	(1,057)	-	(7,640)
Earnings (losses) before income taxes	(735,103)	1,710,498	133,555	-	1,108,950
Income tax (benefit) provision	(264,865)	616,309	48,122	-	399,566
Equity in earnings of subsidiaries	1,179,622	-	-	(1,179,622)	-
Net earnings	709,384	1,094,189	85,433	(1,179,622)	709,384
Other comprehensive income (loss)	42,643	-	(497)	-	42,146
Comprehensive income	\$ 752,027	\$ 1,094,189	\$ 84,936	\$ (1,179,622)	\$ 751,530

Condensed Consolidating Statement of Comprehensive Income  
For the 39-Week Period Ended Mar. 31, 2012

	Sysco	Certain U.S. Broadline Subsidiaries	Other Non-Guarantor Subsidiaries	Eliminations	Consolidated Totals
(In thousands)					
Sales	\$ -	\$ 21,538,153	\$ 10,407,185	\$ (609,781)	\$ 31,335,557
Cost of sales	-	17,309,754	8,903,583	(542,646)	25,670,691
Gross profit	-	4,228,399	1,503,602	(67,135)	5,664,866
Operating expenses	377,069	2,637,301	1,342,463	(67,135)	4,289,698
Operating income (loss)	(377,069)	1,591,098	161,139	-	1,375,168
Interest expense (income)	296,323	(204,897)	(5,338)	-	86,088
Other expense (income), net	(5,014)	(1,426)	970	-	(5,470)
Earnings (losses) before income taxes	(668,378)	1,797,421	165,507	-	1,294,550
Income tax (benefit) provision	(248,978)	669,559	61,653	-	482,234
Equity in earnings of subsidiaries	1,231,716	-	-	(1,231,716)	-
Net earnings	812,316	1,127,862	103,854	(1,231,716)	812,316
Other comprehensive income (loss)	30,356	-	(57,021)	-	(26,665)
Comprehensive income	\$ 842,672	\$ 1,127,862	\$ 46,833	\$ (1,231,716)	\$ 785,651

	Condensed Consolidating Cash Flows			
	For the 39-Week Period Ended Mar. 30, 2013			
		Certain U.S.	Other	
		Broadline	Non-Guarantor	Consolidated
	Sysco	Subsidiaries	Subsidiaries	Totals
	(In thousands)			
Cash flows provided by (used for):				
Operating activities	\$ (358,717)	\$ 946,302	\$ 171,823	\$ 759,408
Investing activities	(86,088)	(114,569)	(388,354)	(589,011)
Financing activities	(550,593)	(2,830)	23,163	(530,260)
Effect of exchange rates on cash	-	-	2,516	2,516
Intercompany activity	669,939	(819,825)	149,886	-
Net increase (decrease) in cash and cash equivalents	(325,459)	9,078	(40,966)	(357,347)
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	\$ 145,648	\$ 43,556	\$ 142,316	\$ 331,520

Condensed Consolidating Cash Flows  
For the 39-Week Period Ended Mar. 31, 2012

	Sysco	Certain U.S. Broadline Subsidiaries	Other Non-Guarantor Subsidiaries	Consolidated Totals
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(In thousands)

Cash flows provided by (used for):				
Operating activities	\$ (209,046)	\$ 920,443	\$ 196,892	\$ 908,289
Investing activities	(209,944)	(303,194)	(227,331)	(740,469)
Financing activities	(261,622)	(2,965)	(183,005)	(447,592)
Effect of exchange rates on cash	-	-	(9,529)	(9,529)
Intercompany activity	521,530	(615,140)	93,610	-
Net increase (decrease) in cash and cash equivalents	(159,082)	(856)	(129,363)	(289,301)
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	\$ 146,431	\$ 31,298	\$ 172,735	\$ 350,464

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

We have faced a challenging business and economic environment thus far in fiscal 2013 and these challenges became more pronounced in our fiscal third quarter. We believe our results were negatively impacted by the consumers' hesitation to spend on food-away-from-home due to multiple factors including increased tax rates, tax refund delays, periods of higher gasoline prices, high unemployment and unfavorable weather in certain geographies that we service. Our sales growth was impacted as a result. Our earnings declined primarily due to expenses related to our Business Transformation Project and a charge from the withdrawal from a multiemployer pension plan. Additionally, for the third quarter of fiscal 2013, we do not believe we consistently executed our business plan across the organization. We will remain focused on the execution of our business plan and initiatives from our Business Transformation project, with the goal for these items to contribute to the long-term success of our customers and in turn, growth in our earnings.

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

- Sales increased 4.0%, or \$0.4 billion, to \$10.9 billion.
- Operating income decreased 23.2%, or \$101.6 million, to \$337.2 million.
- Adjusted operating income decreased 4.4%, or \$21.8 million, to \$470.5 million.
- Net earnings decreased 22.4%, or \$58.1 million, to \$201.4 million.
- Adjusted net earnings decreased 1.4%, or \$4.1 million, to \$289.1 million.
- Basic and diluted earnings per share in the third quarter of fiscal 2013 were \$0.34, a 22.7% decrease from the comparable prior year period amount of \$0.44 per share.
- Adjusted diluted earnings per share were \$0.49 in the third quarter of fiscal 2013 and \$0.50 in the third quarter of fiscal 2012, or a decrease of 2.0%.

Comparisons of results from the first 39 weeks of fiscal 2013 to the first 39 weeks of fiscal 2012:

- Sales increased 4.7%, or \$1.5 billion, to \$32.8 billion.
- Operating income decreased 12.8%, or \$176.5 million, to \$1.2 billion.
- Adjusted operating income increased 0.5%, or \$8.1 million, to \$1.5 billion.
- Net earnings decreased 12.7%, or \$102.9 million, to \$709.4 million.
- Adjusted net earnings increased 1.9%, or \$16.9 million, to \$914.3 million.



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- Basic earnings per share in the first 39 weeks of fiscal 2013 was \$1.21, a 12.3% decrease from the comparable prior year period amount of \$1.38 per share. Diluted earnings per share in the first 39 weeks of fiscal 2013 was \$1.20, a 13.0% decrease from the comparable prior year period amount of \$1.38 per share.
- Adjusted diluted earnings per share were \$1.55 in the first 39 weeks of fiscal 2013 and \$1.52 in the first 39 weeks of fiscal 2012, or an increase of 2.0%.

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, tax refund delays, periods of higher gasoline prices, lingering high unemployment rates and other fiscal issues. We believe these items and other current general economic conditions, have negatively impacted consumer confidence and contributed to a slow rate of recovery in the foodservice market. According to industry sources, real sales growth for the total foodservice market in the United States is expected to be modest over the long-term. We believe these industry 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 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 39 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. 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 pricing pressures. Low industry growth is contributing to increased competition which is in turn pressuring gross profits. Our sales growth in fiscal 2013 has been greater with our large regional and national customers. Gross margin from these types of customers is generally lower than other types of customers. If sales from our independent restaurant customers does not grow at the same rate as these large regional and national customers, our gross margins may decline.

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.

Operating expenses have also increased due to higher fuel costs and provisions related to multiemployer pension plan withdrawals. These generally occur when a collective bargaining agreement is being renewed. Pay-related expenses have increased primarily from acquired companies and within delivery areas of our business, however these have been partially offset by improvements in the selling and information technology areas due to initiatives from our Business Transformation Project. Net company-sponsored pension costs were lower in the first 39 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 were 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, which are included within pay-related expenses, 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 incurred \$5.4 million in charges in the third quarter of fiscal 2013 and \$17.6 million in the first 39 weeks of fiscal 2013, primarily from the accelerated vesting of benefits within the executive deferred compensation plan. We expect to incur an additional \$3.4 million in charges in the fourth quarter of fiscal 2013 from increased costs that resulted from vesting participant benefits in the SERP concurrent with the plan to freeze benefits and from other executive retirement program changes. 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.

## 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.

We have deployed our ERP system to three additional locations in fiscal 2013 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. The majority of the system functionality is performing as designed; however, we have identified areas of improvement to certain components of the system that we want to address before we continue deploying to additional locations. These improvements include addressing pricing complexity and inventory management functionality. While these improvements are made, we will continue implementing individual modules such as our human resource module and continue with other Business Transformation initiatives. As we reach solutions to address these system improvements, as is customary, we will review components of our ERP system assets for potential impairment. These assets totaled approximately \$400 million at March 30, 2013, and no impairment indicators are currently present. We no longer intend to deploy the complete system to any additional locations in this fiscal year; however, we remain committed to completing the system. We anticipate that deployment will resume around the end of calendar 2013 and our deployment schedule in fiscal 2014 will be reassessed as these improvements are made. During the time frame that we are making system improvements, we are updating master data across the enterprise in advance of our ERP system deployment with the goal of achieving faster deployment in the future. We are also assessing different deployment options that balance the pace of deployment with cost.

Efforts from our cost transformation initiatives in the first 39 weeks of fiscal 2013 spanned many 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. A 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. For our U.S. Broadline companies, we accelerated the implementation of our human resource module from our ERP system and began centralizing field finance work to our shared services center. We believe both of these activities will be complete by December 2013. 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 utilizes customer insights to make changes to product pricing and product assortment. Shipments under our pilot program will begin in the fourth quarter of fiscal 2013.

Expenses related to the Business Transformation Project were \$83.2 million in the third quarter of fiscal 2013 or \$0.09 per share and \$49.5 million in the third quarter fiscal 2012 or \$0.05 per share. Expenses related to the Business Transformation Project were \$242.3 million in the first 39 weeks of fiscal 2013 or \$0.26 per share and \$122.8 million in the first 39 weeks fiscal 2012 or \$0.13 per share. This increase for both periods was largely attributable to deployment costs and software amortization, which began in August 2012. Software amortization totaled \$19.3 million and \$51.2 million for the third quarter of fiscal 2013 and the first 39 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.

Our total expected annualized benefits of our Business Transformation project are \$550 million to \$650 million by fiscal 2015. We believe that in fiscal 2013 we can achieve 25% of the total expected annualized benefits. We do not believe that the timing of our technology transformation will significantly change this expectation.

## 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		39-Week Period	
	Ended		Ended	
	Mar. 30,	Mar. 31,	Mar. 30,	Mar. 31,
	2013	2012	2013	2012
Sales	100.0 %	100.0 %	100.0 %	100.0 %
Cost of sales	82.5	82.2	82.2	81.9
Gross margin	17.5	17.8	17.8	18.1
Operating expenses	14.4	13.6	14.1	13.7
Operating income	3.1	4.2	3.7	4.4
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	2.8	3.9	3.4	4.1
Income taxes	1.0	1.4	1.2	1.5
Net earnings	1.8 %	2.5 %	2.2 %	2.6 %

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	39-Week
	Period	Period

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Sales	4.0	%	4.7	%
Cost of sales	4.4		5.1	
Gross margin	2.1		2.9	
Operating expenses	9.8		8.0	
Operating income	(23.2)		(12.8)	
Interest expense	20.9		13.1	
Other expense (income), net	51.7	(1)	39.7	(2)
Earnings before income taxes	(25.8)		(14.3)	
Income taxes	(31.5)		(17.1)	
Net earnings	(22.4)%		(12.7)%	
Basic earnings per share	(22.7)%		(12.3)%	
Diluted earnings per share	(22.7)		(13.0)	
Average shares outstanding	0.6		0.0	
Diluted shares outstanding	1.0		0.3	

(1) Other expense (income), net was income of \$3.4 million in the third quarter of fiscal 2013 and \$2.2 million in the third quarter of fiscal 2012.

(2) Other expense (income), net was income of \$7.6 million in the first 39 weeks of fiscal 2013 and \$5.5 million in the first 39 weeks of fiscal 2012.

## Sales

Sales were 4.0% higher in the third quarter and 4.7% higher in the first 39 weeks of fiscal 2013 than in the comparable period of the prior year. Sales for the third quarter and first 39 weeks of fiscal 2013 increased as a result of product cost inflation and the resulting increase in selling prices and sales from acquisitions that occurred within the last 12 months. Sales for the first 39 weeks of fiscal 2013 also increased due to improving case volumes. Our sales growth in fiscal 2013 has been greater with our large regional and national customers. Case volumes excluding acquisitions within the last 12 months declined approximately 0.2% in the third quarter and improved 1.5% in the first 39 weeks of fiscal 2013. Our case volumes represent our results from our Broadline and SYGMA segments only.

We believe our sales growth was negatively impacted by the consumers' hesitation to spend on food-away-from-home due to factors such as increased tax rates, tax refund delays, periods of higher gasoline prices, high unemployment and unfavorable weather conditions in certain geographies that we service. We believe most of these factors are cyclical in nature and expect overall conditions to gradually improve. Sales from acquisitions within the last 12 months favorably impacted sales by 1.8% for the third quarter and 1.2% for the first 39 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 2.4% during the third quarter and 2.3% during the first 39 weeks of fiscal 2013. Case volumes including acquisitions within the last 12 months improved approximately 1.7% in the third quarter and 2.5% in the first 39 weeks of fiscal 2013. The exchange rates used to translate our foreign sales into United States dollars favorably impacted sales by 0.1% in the third quarter and did not have a material impact in the first 39 weeks of fiscal 2013 compared to the third quarter and first 39 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 Period Ended Mar. 30, 2013	13-Week Period Ended Mar. 31, 2012	13-Week Period Change in Dollars	13-Week Period % Change
	(In thousands)			
Gross profit	\$ 1,910,319	\$ 1,871,616	\$ 38,703	2.1 %
Operating expenses	1,573,117	1,432,786	140,331	9.8

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Operating income	\$ 337,202	\$ 438,830	\$ (101,628)	(23.2)%
Gross profit	\$ 1,910,319	\$ 1,871,616	\$ 38,703	2.1 %
Adjusted operating expenses (Non-GAAP)	1,439,810	1,379,273	60,537	4.4
Adjusted operating income (Non-GAAP)	\$ 470,509	\$ 492,343	\$ (21,834)	(4.4) %

	39-Week Period Ended Mar. 30, 2013	39-Week Period Ended Mar. 31, 2012	39-Week Period Change in Dollars	39-Week Period % Change
	(In thousands)			
Gross profit	\$ 5,831,429	\$ 5,664,866	\$ 166,563	2.9 %
Operating expenses	4,632,794	4,289,698	343,096	8.0
Operating income	\$ 1,198,635	\$ 1,375,168	\$ (176,533)	(12.8)%
Gross profit	\$ 5,831,429	\$ 5,664,866	\$ 166,563	2.9 %
Adjusted operating expenses (Non-GAAP)	4,312,388	4,153,964	158,424	3.8
Adjusted operating income (Non-GAAP)	\$ 1,519,041	\$ 1,510,902	\$ 8,139	0.5 %

The decrease in operating income for both periods was primarily driven by increased expenses, including a charge from the withdrawal from a multiemployer pension plan and charges related to our Business Transformation Project.



Gross profit dollars increased in the third quarter and first 39 weeks of fiscal 2013 as compared to the third quarter and first 39 weeks of fiscal 2012 primarily due to increased sales. Gross margin, which is gross profit as a percentage of sales, was 17.48% in the third quarter of fiscal 2013, a decline of 34 basis points from the gross margin of 17.82% in the third quarter of fiscal 2012. Gross margin was 17.77% in the first 39 weeks of fiscal 2013, a decline of 31 basis points from the gross margin of 18.08% in the first 39 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. As seen in our results during fiscal 2013, if sales from our independent restaurant customers do not grow at the same rate as these large regional and national customers, our gross margins may decline. 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 2.4% during the third quarter and 2.3% during the first 39 weeks of fiscal 2013. Based on our product sales mix for the third quarter and the first 39 weeks of fiscal 2013, we were most impacted by higher levels of inflation in the poultry and produce product categories for the third quarter and poultry and meat product categories for the first 39 weeks of fiscal 2013. 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 third quarter and first 39 weeks of fiscal 2013 increased 9.8%, or \$140.3 million, and 8.0%, or \$343.1 million, over the comparable prior year periods, respectively, primarily due to increased expenses and charges related to multiemployer pension plan withdrawals, our Business Transformation Project, pay-related expenses, depreciation and amortization expense and fuel. Adjusted operating expenses increased 4.4% or \$60.5 million, in the third quarter of fiscal 2013 over the comparable prior year period. Adjusted operating expenses increased 3.8% or \$158.4 million, in the first 39 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 \$83.2 million in the third quarter of fiscal 2013 and \$49.5 million in the third quarter of fiscal 2012, representing an increase of \$33.8 million. Expenses related to our Business Transformation Project, inclusive of pay-related and software amortization expense, were \$242.3 million in the first 39 weeks of fiscal 2013 and \$122.8 million in the first 39 weeks of fiscal 2012, representing an increase of \$119.4 million. The increase in the third quarter and the first 39 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 \$19.3 million for the third quarter and \$51.2 million for the first 39 weeks. Our project was not in the deployment stage during any period 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 \$22.5 million in the third quarter and \$76.7 million in the first 39 weeks of fiscal 2013 over the comparable prior year periods. The increase in the third quarter of fiscal 2013 was primarily due to:

- increased expenses from our defined contribution plan;
- added costs from companies acquired in the last 12 months;
- increased delivery compensation;
- partially offset by reduced pay-related costs in sales and information technology areas.

The increase in the first 39 weeks of fiscal 2013 was primarily due to:

- added costs from companies acquired in the last 12 months;
- increased delivery and warehouse compensation, partially attributable to case growth;
- increases expenses from our defined contribution plan; and
- severance costs.

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 were eligible for additional contributions under an enhanced, defined contribution plan. The expenses under our defined contribution plan are included in pay-related expenses and increased \$20.6 million and \$18.8 million in the third quarter of fiscal 2013 and the first 39 weeks of fiscal 2013, respectively, as compared to the comparable periods of fiscal 2012. We expect our fourth quarter costs related to our defined contribution plan to increase \$25 million to \$30 million as compared to the fourth quarter of fiscal 2012. 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. Additionally, we incurred \$15.3 million in severance charges in the first 39 weeks of fiscal 2013, as compared to charges of \$7.7 million in the first 39 weeks of fiscal 2012. The majority of the charges in fiscal 2013 were tied to our business transformation initiatives which included a restructuring of our information technology

department. All of the increases noted above were partially offset by reduced sales and information technology pay-related expenses. These reductions were primarily the result of various Business Transformation initiatives.

Depreciation and amortization expense increased by \$26.2 million in the third quarter and \$75.0 million in the first 39 weeks of fiscal 2013 over the comparable prior year periods. The increase related to the software amortization for our Business Transformation Project was discussed above. The remaining increase of \$6.8 million in the third quarter and \$23.9 million in the first 39 weeks of fiscal 2013 was primarily related to assets that were not placed in service in the third quarter and first 39 weeks of fiscal 2012 that were in service in the third quarter and first 39 weeks of fiscal 2013, primarily from new facilities, property from new acquisitions and expansions.

Fuel costs increased by \$3.6 million in the third quarter and \$18.2 million in the first 39 weeks of fiscal 2013 over the comparable prior year periods. The increase for the third quarter was primarily due to increased gallon usage. The increase for the first 39 weeks was primarily due to increased contracted diesel prices and increased gallon usage. Our costs per gallon increased 0.6% in the third quarter and 4.9% in the first 39 weeks of fiscal 2013 over the third quarter and first 39 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 third quarter and first 39 weeks of fiscal 2013, the forward purchase commitments resulted in an estimated \$6.1 million and \$15.3 million, respectively, of avoided fuel costs as the fixed price contracts were generally lower than market prices for the contracted volumes. In the third quarter and first 39 weeks of fiscal 2012, the forward purchase commitments resulted in an estimated \$2.7 million and \$16.3 million, respectively, of avoided fuel costs as the fixed price contracts were generally lower than market prices for the contracted volumes.

As of March 30, 2013, we had forward diesel fuel commitments totaling approximately \$227.8 million through June 2014. These contracts will lock in the price of approximately 60% to 65% 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.

Our net company-sponsored pension costs decreased \$7.7 million in the third quarter of fiscal 2013 and \$13.1 million in the first 39 weeks of fiscal 2013 from the comparable prior year periods. These primarily resulted from the Retirement plan freeze noted above. Absent the Retirement Plan freeze, 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 became effective on 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 aligned our executive plans with our non-executive plans. As a result of this restructuring, we incurred \$5.4 million in charges in the third quarter of fiscal 2013 and \$17.6 million in the first 39 weeks of fiscal 2013, primarily from the accelerated vesting of benefits within the executive deferred compensation plan. We expect to incur an additional \$3.4 million in charges in the fourth quarter of fiscal 2013 from increased costs that resulted from vesting participant benefits in the SERP concurrent with the plan to freeze benefits and from other executive retirement program changes. Net company-sponsored pension costs are expected to decrease by \$7.7 million in the fourth quarter of fiscal 2013 as compared to the comparable prior year period. We believe all of the retirement program changes, including the enhanced defined contribution plan noted above and \$21.0 million in restructuring costs expected for the fiscal 2013, will cause all retirement-related expenses to increase \$30 million to \$40 million on a net basis in fiscal 2013 as compared to fiscal 2012. 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.

From time to time, we may voluntarily withdraw from multiemployer pension plans to minimize or limit our future exposure to these plans. In the third quarters of fiscal 2013 and fiscal 2012, we recorded provisions of \$40.7 million and \$0.7 million, respectively, related to multiemployer pension plan withdrawals. In the first 39 weeks of fiscal 2013 and fiscal 2012, we recorded provisions of \$43.2 million and \$5.2 million, respectively, related to multiemployer pension plan withdrawals.

## Net Earnings

Net earnings decreased 22.4% in the third quarter and 12.7% in the first 39 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 decreased 1.4% in the third quarter and increased 1.9% in the first 39 weeks of fiscal 2013. The decrease in the third quarter of fiscal 2013 was primarily from increases in adjusted operating expenses that were primarily due to increased pay-related expenses and depreciation and amortization expense. The increase in the first 39 weeks of fiscal 2013 was primarily from increased gross profits, partially offset by increases in adjusted operating expenses that were primarily due to increased pay-related expenses, depreciation and amortization expense and fuel.

The effective tax rate of 34.26% for the third quarter of fiscal 2013 was favorably impacted by the recording of \$4.6 million of domestic tax benefit related to a foreign tax payment and \$4.5 million of tax benefit related to disqualifying dispositions of Sysco stock pursuant to share-based compensation arrangements. 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 third quarter of fiscal 2012 was 37.12%. 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 36.03% for the first 39 weeks of fiscal 2013 was favorably impacted by the recording of \$7.1 million of tax benefit related to disqualifying dispositions of Sysco stock pursuant to share-based compensation arrangements and \$4.6 million of domestic tax benefit related to a foreign tax payment. 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 39 weeks of fiscal 2012 was 37.25%. 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 third quarter of fiscal 2013 were \$0.34, a 22.7% decrease from the comparable prior year period amount of \$0.44 per share. This decrease was primarily the result of the factors discussed above. Adjusted diluted earnings per share were \$0.49 in the third quarter of fiscal 2013 and \$0.50 in the third quarter of fiscal 2012, or a decrease of 2.0% due to the decrease in adjusted net earnings discussed above.

Basic earnings per share in the first 39 weeks of fiscal 2013 was \$1.21, a 12.3% decrease from the comparable prior year period amount of \$1.38 per share. Diluted earnings per share in the first 39 weeks of fiscal 2013 was \$1.20, a 13.0% decrease from the comparable prior year period amount of \$1.38 per share. This decrease was primarily the result of the factors discussed above. Adjusted diluted earnings per share were \$1.55 in the first 39 weeks of fiscal 2013 and \$1.52 in the first 39 weeks of fiscal 2012, or an increase of 2.0% due to the increase in adjusted net earnings discussed above.

All earnings per share metrics for the current year were partially impacted from greater shares outstanding. Sysco experienced a greater number of stock option exercises in the third quarter of fiscal 2013 as compared to the third quarter of fiscal 2012, which has increased the number of shares outstanding.

#### 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 closure charges 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. In the tables below, individual components of diluted earnings per share may not add to the total presented due to rounding. Adjusted diluted earnings per share is calculated using adjusted net earnings divided by diluted shares outstanding.

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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 Period Ended Mar. 30, 2013	13-Week Period Ended Mar. 31, 2012	13-Week Period Change in Dollars	13-Week Period % Change
(In thousands, except for share and per share data)				
Operating expenses (GAAP)	\$ 1,573,117	\$ 1,432,786	\$ 140,331	9.8 %
Impact of restructuring executive retirement plans	(5,445)	-	(5,445)	
Impact of MEPP charge	(40,744)	(717)	(40,027)	
Impact of severance charge	(3,595)	(3,318)	(277)	8.3
Impact of facility closure charges	(285)	-	(285)	
Impact of BTP costs	(83,238)	(49,478)	(33,760)	68.2
Adjusted operating expenses (Non-GAAP)	\$ 1,439,810	\$ 1,379,273	\$ 60,537	4.4 %
Operating Income (GAAP)	\$ 337,202	\$ 438,830	\$ (101,628)	(23.2)%
Impact of restructuring executive retirement plans	5,445	-	5,445	
Impact of MEPP charge	40,744	717	40,027	
Impact of severance charge	3,595	3,318	277	8.3
Impact of facility closure charges	285	-	285	
Impact of BTP costs	83,238	49,478	33,760	68.2
Adjusted operating income (Non-GAAP)	\$ 470,509	\$ 492,343	\$ (21,834)	(4.4) %
Net earnings (GAAP)	\$ 201,417	\$ 259,550	\$ (58,133)	(22.4)%
Impact of restructuring executive retirement plans (net of tax) <sup>(1)</sup>	3,580	-	3,580	
Impact of MEPP charge (net of tax) <sup>(1)</sup>	26,785	451	26,334	
Impact of severance charge (net of tax) <sup>(1)</sup>	2,363	2,086	277	13.3
Impact of facility closure charges (net of tax) <sup>(1)</sup>	187	-	187	
Impact of BTP costs (net of tax) <sup>(1)</sup>	54,721	31,112	23,609	75.9
Adjusted net earnings (Non-GAAP)	\$ 289,053	\$ 293,199	\$ (4,146)	(1.4) %
Diluted earnings per share (GAAP)	\$ 0.34	\$ 0.44	\$ (0.10)	(22.7)%
Impact of restructuring executive retirement plans	0.01	-	0.01	
Impact of MEPP charge	0.05	-	0.05	
Impact of severance charge	-	-	-	
Impact of facility closure charges	-	-	-	
Impact of BTP costs	0.09	0.05	0.04	80.0
Adjusted diluted earnings per share (Non-GAAP)	\$ 0.49	\$ 0.50	\$ (0.01)	(2.0) %
Diluted shares outstanding	592,903,799	587,214,691		

<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 \$45.7

million and \$19.9 million for the third 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.



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	39-Week Period Ended Mar. 30, 2013	39-Week Period Ended Mar. 31, 2012	39-Week Period Change in Dollars	39-Week Period % Change
(In thousands, except for share and per share data)				
Operating expenses (GAAP)	\$ 4,632,794	\$ 4,289,698	\$ 343,096	8.0 %
Impact of restructuring executive retirement plans	(17,608)	-	(17,608)	
Impact of MEPP charge	(43,201)	(5,217)	(37,984)	
Impact of severance charge	(15,341)	(7,678)	(7,663)	99.8
Impact of facility closure charges	(1,974)	-	(1,974)	
Impact of BTP costs	(242,282)	(122,839)	(119,443)	97.2
Adjusted operating expenses (Non-GAAP)	\$ 4,312,388	\$ 4,153,964	\$ 158,424	3.8 %
Operating Income (GAAP)	\$ 1,198,635	\$ 1,375,168	\$ (176,533)	(12.8) %
Impact of restructuring executive retirement plans	17,608	-	17,608	
Impact of MEPP charge	43,201	5,217	37,984	
Impact of severance charge	15,341	7,678	7,663	99.8
Impact of facility closure charges	1,974	-	1,974	
Impact of BTP costs	242,282	122,839	119,443	97.2
Adjusted operating income (Non-GAAP)	\$ 1,519,041	\$ 1,510,902	\$ 8,139	0.5 %
Net earnings (GAAP)	\$ 709,384	\$ 812,316	\$ (102,932)	(12.7) %
Impact of restructuring executive retirement plans (net of tax) <sup>(1)</sup>	11,264	-	11,264	
Impact of MEPP charge (net of tax) <sup>(1)</sup>	27,636	3,274	24,362	
Impact of severance charge (net of tax) <sup>(1)</sup>	9,814	4,818	4,996	103.7
Impact of facility closure charges (net of tax) <sup>(1)</sup>	1,263	-	1,263	
Impact of BTP costs (net of tax) <sup>(1)</sup>	154,988	77,081	77,907	101.1
Adjusted net earnings (Non-GAAP)	\$ 914,349	\$ 897,489	\$ 16,860	1.9 %
Diluted earnings per share (GAAP)	\$ 1.20	\$ 1.38	\$ (0.18)	(13.0) %
Impact of restructuring executive retirement plans	0.02	-	0.02	
Impact of MEPP charge	0.05	0.01	0.04	
Impact of severance charge	0.02	0.01	0.01	100.0
Impact of facility closure charges	-	-	-	
Impact of BTP costs	0.26	0.13	0.13	100.0
Adjusted diluted earnings per share (Non-GAAP)	\$ 1.55	\$ 1.52	\$ 0.03	2.0 %
Diluted shares outstanding	591,054,506	589,232,150		

<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 \$115.4 million and \$50.6 million for the first 39 weeks of fiscal 2013 and fiscal 2012, respectively. Amounts are

calculated by multiplying the operating income impact of each item by each 39-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 14, "Business Segment Information":

	Operating Income as a Percentage of Sales 13-Week Period		Operating Income as a Percentage of Sales 39-Week Period	
	Mar. 30, 2013	Mar. 31, 2012	Mar. 30, 2013	Mar. 31, 2012
Broadline	5.8 %	6.6 %	6.5 %	6.9 %
SYGMA	1.0	1.2	0.9	1.1
Other	4.1	3.4	3.5	3.7

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 14, "Business Segment Information":

	Increase (Decrease) 13-Week Period Sales	Increase (Decrease) 39-Week Period Sales
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		Operating Income		Operating Income	
Broadline	4.1 %	(8.3) %	4.7 %	(0.7) %	
SYGMA	(1.3)	(19.0)	0.6	(14.6)	
Other	19.3	43.5	16.5	10.5	

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 \$223.2 million and \$653.2 million in the third quarter and first 39 weeks of fiscal 2013, as compared to \$162.8 million and \$489.2 million in the third quarter and first 39 weeks of fiscal 2012, that is not charged to our segments. This information should be read in conjunction with Note 14, "Business Segment Information":

Components of Segment Results						
13-Week Period Ended						
	Mar. 30, 2013			Mar. 31, 2012		
	Sales		Segment Operating Income		Segment Operating Income	
Broadline	81.1 %	92.4 %	81.0 %	93.9 %		
SYGMA	13.1	2.5	13.8	2.8		
Other	6.4	5.1	5.6	3.3		
Intersegment sales	(0.6)	-	(0.4)	-		
Total	100.0 %	100.0 %	100.0 %	100.0 %		

## Components of Segment Results

39-Week Period Ended

Mar. 30, 2013

Mar. 31, 2012

	Segment		Segment	
	Operating		Operating	
	Sales	Income	Sales	Income
Broadline	81.4 %	94.0 %	81.4 %	94.0 %
SYGMA	13.0	2.1	13.5	2.5
Other	6.1	3.9	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, hospitals, schools, hotels, industrial caterers and other venues where foodservice products are served. These companies also provide custom-cut meat operations. Broadline operations have significantly higher operating margins than the rest of Sysco's operations. In the first 39 weeks of fiscal 2013, the Broadline operating results represented approximately 81.4% of Sysco's overall sales and 94.0% of the aggregated operating income of Sysco's segments, which excludes corporate expenses.

## Sales

Sales were 4.1% greater in the third quarter and 4.7% greater in the first 39 weeks of fiscal 2013 than the comparable prior year periods. Sales for the third quarter and first 39 weeks of fiscal 2013 increased as a result of product cost inflation and the resulting increase in selling prices and sales from acquisitions that occurred within the last 12 months. Sales for the first 39 weeks of fiscal 2013 also increased due to improving case volumes. Our sales growth in fiscal 2013 has been greater with our large regional and national customers. We believe our sales growth was negatively impacted by the consumers' hesitation to spend on food-away-from-home due to factors such as increased tax rates, tax refund delays, periods of higher gasoline prices, high unemployment and unfavorable weather in certain geographies that we service. We believe most of these factors are cyclical in nature and expect overall conditions to gradually improve. Sales from acquisitions within the last 12 months contributed 2.0% and 1.2% to the overall sales comparison for the third quarter and the first 39 weeks of fiscal 2013, respectively. Changes in product costs, an internal measure of inflation or deflation, were estimated as inflation of 2.3% and 2.4% in the third quarter and first 39 weeks of fiscal 2013, respectively. The exchange rates used to translate our foreign sales into United States dollars positively impacted sales by 0.1% in the third quarter and did not have a material impact in the first 39 weeks of fiscal 2013 compared to the third quarter and first 39 weeks of fiscal 2012, respectively.

## Operating Income

Operating income decreased by 8.3% in the third quarter and 0.7% in the first 39 weeks of fiscal 2013 over the comparable prior year periods. These decreases were driven by operating expenses increasing more than gross profit dollars.

Gross profit dollars increased in the third quarter and first 39 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. As seen in our results during fiscal 2013, if sales from our independent restaurant customers do not grow at the same rate as these large regional and national customers, our gross margins may decline. 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 third quarter and first 39 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 produce product categories for the third quarter and poultry and meat product categories for the first 39 weeks of fiscal 2013. 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 charges related to multiemployer pension plan withdrawals, pay-related expenses, depreciation and amortization expense and fuel. Severance costs also contributed to the increase in the first 39 weeks of fiscal 2013. The increase in pay-related expenses 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. Our enhanced defined contribution plan became effective January 1, 2013 and contributed to the increase in pay-related expense. These increases were partially offset by reduced sales and information technology pay-related expenses. Depreciation and amortization increased primarily from assets that were not placed in service in the third quarter and first 39 weeks of fiscal 2012 that were in service in the third quarter and first 39 weeks of fiscal 2013, primarily from new facilities, property from new acquisitions and expansions. Fuel costs were \$3.8 million and \$15.5 million higher in the third quarter and in the first 39 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 third quarters of fiscal 2013 and fiscal 2012, we recorded provisions of \$40.7 million and \$0.7 million, respectively, related to multiemployer pension plan withdrawals. In the first 39 weeks of fiscal 2013 and fiscal 2012, we recorded provisions of \$43.2 million and \$5.2 million, respectively, related to multiemployer pension plan withdrawals.

#### 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 1.3% lower in the third quarter and 0.6% greater in the first 39 weeks of fiscal 2013 than the comparable prior year periods. The decrease in the third quarter of fiscal 2013 was primarily due to case volume declines from low levels of growth from existing customers and lost customers, partially offset by product cost inflation and the resulting increase in selling prices. The increase in the first 39 weeks of fiscal 2013 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. Chain restaurants have experienced lower rates of restaurant traffic in fiscal 2013 which has pressured SYGMA's sales. While SYGMA has experienced some success in replacing lost business with new customers, it has not been enough to overcome the factors noted above. We believe SYGMA's sales growth will remain under pressure in the fourth quarter of fiscal 2013 and may decline similar to the decrease experienced in the third quarter of fiscal 2013.

#### Operating Income

Operating income decreased by 19.0% in the third quarter and decreased 14.6% in the first 39 weeks of fiscal 2013 over the comparable prior year periods. Gross profit dollars decreased 2.9% while operating expenses were flat in the third quarter of fiscal 2013 over the comparable prior year period. Gross profit dollars decreased 1.2% while operating expenses increased 0.8% in the first 39 weeks of fiscal 2013 over the comparable prior year period. These gross profit results largely reflect the sluggish sales environment. Operating expenses increased in the first 39 weeks of fiscal 2013 largely due to increased delivery costs including pay-related expenses. Our enhanced defined contribution plan became effective January 1, 2013 and contributed to the increase in pay-related expense. Fuel costs in the third quarter and first 39 weeks of fiscal 2013 were \$0.6 million lower and \$1.0 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 43.5% for the third quarter and 10.5% for the first 39 weeks of fiscal 2013 from the comparable prior year periods. The increase in operating income for the third quarter of fiscal 2013 was primarily driven by earnings from our lodging industry products segment and our specialty produce segment. All businesses in this segment experienced increased operating income. The increase in operating income for the first 39 weeks of fiscal 2013 was primarily driven by earnings from our lodging industry products segment and 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 of \$0.3 million and \$2.0 million for the third quarter of fiscal 2013 and the first 39 weeks of fiscal 2013, respectively. Our enhanced defined contribution plan became effective January 1, 2013 and contributed to an increase in pay-related expense which partially offset operating income.



## Liquidity and Capital Resources

### Highlights

Comparisons of the cash flows from the first 39 weeks of fiscal 2013 to the first 39 weeks of fiscal 2012:

- Cash flows from operations were \$759.4 million this year compared to \$908.3 million last year.
- Capital expenditures totaled \$373.0 million this year compared to \$633.2 million last year.
- Free cash flow was \$386.4 million this year compared to \$275.1 million last year (See Non-GAAP reconciliation below under the heading “Free Cash Flow.”)
- Cash flows for acquisition of businesses were \$210.0 million this year compared to \$83.4 million last year.
- Net bank borrowings were zero this year compared to \$211.3 million last year.
- Treasury stock purchases were \$321.0 million this year compared to \$272.3 million last year.
- Common stock reissued from treasury was \$497.7 million this year compared to \$82.5 million last year.
- Dividends paid were \$482.0 million this year compared to \$464.8 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 in addition to the items noted above such as working capital requirements, investments in property, acquisitions and return of capital to shareholders. 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. Competitive pressures in a low growth environment have also lowered our gross profit and cash flows from operations. 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 March 30, 2013, we had \$331.5 million in cash and cash equivalents, approximately 26% 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 over the long-term due to benefits from our Business Transformation Project and initiatives to improve our working capital management.

## Cash Flows

## Operating Activities

We generated \$759.4 million in cash flow from operations in the first 39 weeks of fiscal 2013, as compared to \$908.3 million in the first 39 weeks of fiscal 2012. This decrease of \$148.9 million or 16.4%, was largely attributable to changes in working capital, a reduction in net earnings and the redemption of some of our corporate-owned life insurance (COLI) policies in the first 39 weeks of fiscal 2012. These decreases were partially offset by a favorable comparison year-over-year on the settlement payments made to the Internal Revenue Service (IRS) and an increase in non-cash depreciation and amortization expense. These items are more fully described below. In the first 39 weeks of fiscal 2012, we paid \$159 million in settlement payments to the IRS. We completed these settlement payments in fiscal 2012 and therefore cash paid for taxes is expected to show improvements as compared to fiscal 2012.

Changes in working capital, including accounts receivable, inventory and accounts payable, had a negative impact of \$114.7 million on the comparison of cash flow from operations from the first 39 weeks of fiscal 2013 to the first 39 weeks of fiscal 2012. Both periods were affected by increases in accounts receivable and inventory resulting from increases in sales as well as a seasonal change in volume and customer mix. Our sales growth in fiscal 2013 has been greater with our large regional and national customers and payment terms for these types of customers are traditionally longer than average. Inventory levels can also increase for these types of customers due to the number of proprietary items these customers often require. Due to normal seasonal patterns, sales to our large regional and national customers and school districts represented a larger percentage of our sales at the end of each first 39 week period as compared to the end of each prior fiscal year. The impact the deterioration in both accounts receivable and inventory turnover from the end of the prior fiscal year was more pronounced in the first 39 weeks of fiscal 2013 than the first 39 weeks of fiscal 2012. The increases in accounts payable in both periods was affected by the normal trend due to the seasonal change in volume and customer mix and partially offset the deterioration in accounts receivable and inventory turnover. 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 39 weeks of fiscal 2013 to the first 39 weeks of fiscal 2012 was negatively impacted by an unfavorable change of \$68.4 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 39 weeks of fiscal 2013.

The increase in non-cash depreciation and amortization expense of \$75.0 million was primarily related to assets that were not in service in the first 39 weeks of fiscal 2012 that were in service in the first 39 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 39 weeks of fiscal 2013 primarily include fleet replacements, facility replacements and expansions and warehouse equipment.

Capital expenditures in the first 39 weeks of fiscal 2013 decreased by \$260.1 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 39 weeks of fiscal 2013 and 2012 for our Business Transformation Project were \$14.4 million and \$122.7 million, respectively. We expect capital expenditures in fiscal 2013 to be in the range of \$550 million to \$575 million.

During the first 39 weeks of fiscal 2013, in the aggregate, we paid cash of \$210.0 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 partially offset by lower cash provided by operating activities, free cash flow for the first 39 weeks of fiscal 2013 increased 40.4%, or \$111.3 million, to \$386.4 million as compared to the first 39 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.

	39-Week Period Ended Mar. 30, 2013	39-Week Period Ended Mar. 31, 2012	39-Week Period Change in Dollars	39-Week Period % Change
	(In thousands)			
Net cash provided by operating activities (GAAP)	\$ 759,408	\$ 908,289	\$ (148,881)	(16.4)%
Additions to plant and equipment	(373,048)	(633,196)	260,148	41.1
Free Cash Flow (Non-GAAP)	\$ 386,360	\$ 275,093	\$ 111,267	40.4 %

## Financing Activities

## Equity Transactions

Proceeds from common stock reissued from treasury for share-based compensation awards were \$497.7 million in the first 39 weeks of fiscal 2013, as compared to \$82.5 million in the first 39 weeks of fiscal 2012. The increase in proceeds in the first 39 weeks of fiscal 2013 was due to an increase in the number of options exercised in this period, as compared to the first 39 weeks of fiscal 2012. The level of option exercises, and thus proceeds, will vary from period to period and is largely dependent on movements in our stock price.

Shares repurchased during the first 39 weeks of fiscal 2013 were 10,000,000 shares at a cost of \$321.0 million, as compared to 10,000,000 shares at a cost of \$272.3 million in the first 39 weeks of fiscal 2012. Additional shares repurchased through April 27, 2013 were 1,797,700 shares, resulting in a remaining authorization by our Board of Directors to repurchase up to 11,588,900 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 over time; however, given the large number of exercises in the third quarter of fiscal 2013, we may not accomplish this goal for the fiscal year. We continue to evaluate the number of shares we will repurchase; however, we intend to continue repurchasing shares in the fourth quarter of fiscal 2013.

Dividends paid in the first 39 weeks of fiscal 2013 were \$482.0 million, or \$0.82 per share, as compared to \$464.8 million, or \$0.79 per share, in the first 39 weeks of fiscal 2012. In February 2013, we declared our regular quarterly dividend for the fourth quarter of fiscal 2013 of \$0.28 per share, which was paid in April 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 none was outstanding as of March 30, 2013 or April 27, 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 March 30, 2013, there were no

commercial paper issuances outstanding. As of April 27, 2013, commercial paper issuances outstanding were \$95.0 million. We utilize our commercial paper issuances for normal day-to-day operations which may cause outstanding issuances to vary.

During the 39 week period ended March 30, 2013, aggregate commercial paper issuances and short-term bank borrowings ranged from zero to approximately \$330.0 million. During the first 39 weeks of fiscal 2013 and 2012, our aggregate commercial paper issuances and short-term bank borrowings had a weighted average interest rate of 0.19% and 0.22%, 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 €25.0 million (Euro) as of March 30, 2013. There were €25.0 million (Euro) of borrowings outstanding as of April 27, 2013.

In February 2013, we repaid the 4.2% senior notes totaling \$250.0 million at maturity utilizing a combination of cash flow from operations and cash on hand.

Included in current maturities of long-term debt as March 30, 2013 are the 4.6% senior notes totaling \$200.0 million, which mature in March 2014. 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 8, "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 \$80.0 million as of March 30, 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 March 30, 2013, June 30, 2012 and March 31, 2012, Sysco had approximately \$54.8 million, \$30.7 million and \$47.7 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 March 30, 2013, certain information concerning our obligations and commitments to make contractual future payments:

	Payments Due by Period				More Than 5 Years
	Total (In thousands)	< 1 Year	1-3 Years	3-5 Years	
Recorded Contractual Obligations:					
Multiemployer pension plans <sup>(1)</sup>	\$ 54,757	\$ 54,757	\$ -	\$ -	\$ -
Unrecognized tax benefits and interest <sup>(2)</sup>	117,991				
Unrecorded Contractual Obligations:					
Purchase obligations <sup>(3)</sup>	2,854,378	2,158,591	561,704	134,048	35

<sup>(1)</sup> Represents voluntary withdrawal liabilities recorded and excludes normal contributions required under our collective bargaining agreements.

<sup>(2)</sup> Unrecognized tax benefits relate to uncertain tax positions recorded under accounting standards related to uncertain tax positions. As of March 30, 2013, we had a liability of \$82.4 million for unrecognized tax benefits for all tax jurisdictions and \$35.5 million for related interest that could result in cash payment. We are not able to reasonably estimate the timing of non-current payments or the amount by which the liability will increase or decrease over time. Accordingly, the related non-current balances have not been reflected in the "Payments Due by Period" section of the table.

<sup>(3)</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 13, "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;
- Sysco's belief regarding the impact of an accounting standards update;
- the impact of general economic conditions and fiscal issues, such as higher taxes, tax refund delays, period of higher gasoline prices and high unemployment rates, on consumer confidence and our business;
- sales and expense trends including expectations regarding pay-related expenses which include defined contribution plan expenses, and pension costs;
- expected fourth quarter costs related to our defined contribution plan;
- charges to be incurred in the fourth quarter of fiscal 2013 due to the restructuring of the executive nonqualified retirement program;
- Sysco's belief that its changes to its retirement programs will cause retirement-related expenses to increase in fiscal 2013 as compared to fiscal 2012;
- 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, including SYGMA's sales trends;
- 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 and anticipated redeployment timing;
- Sysco's belief that expenses related to Business Transformation Project will increase in fiscal 2013 as compared to fiscal 2012;
- Sysco's beliefs that in fiscal 2013 it can obtain 25% of the total expected annualized benefits from the Business Transformation Project, and the timing of our technology transformation will not significantly change this expectation;
- estimated expenses and capital expenditures related to our Business Transformation Project;
- Sysco's belief regarding the cyclical nature of factors negatively impacting its sales growth;
- expectations regarding the improvement of overall market conditions;
- the sufficiency of our mechanisms for managing working capital and competitive pressures;
- Sysco's anticipation that it will not need to relocate certain cash held by international subsidiaries;
- our intentions regarding share repurchase activity during the fourth quarter of fiscal 2013, and our ability to accomplish the goal of our share repurchase activity for the year;
- 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 will improve over the long-term and its free cash flow will improve in fiscal 2013;
- expected capital expenditures in fiscal 2013;
- 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 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;
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- 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;
  - our access to borrowed funds in order to grow and any default by us under our indebtedness that 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;

- the potential requirement 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 March 30, 2013, there were no commercial paper issuances outstanding. Total debt as of March 30, 2013 was \$2.8 billion, of which approximately 92% was at fixed rates of interest, including the impact of our interest rate swap agreement.

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.

The fiscal 2013 swap was settled upon maturity of the senior notes in February 2013. As of March 30, 2013, the fiscal 2014 swap was recognized as an asset within the consolidated balance sheet at fair value within prepaid expenses and other current assets of \$4.0 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 39 weeks of fiscal 2013 and fiscal 2012, fuel costs related to outbound deliveries represented approximately 0.7% of sales.

We routinely enter into forward purchase commitments for a portion of our projected monthly diesel fuel requirements. As of March 30, 2013, we had forward diesel fuel commitments totaling approximately \$227.8 million through June 2014. These contracts will lock in the price of approximately 60% to 65% of our fuel purchase needs for the contracted periods at prices lower than the current market price for diesel for the remainder of fiscal 2013 and for all of fiscal 2014.

## 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 March 30, 2013. 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 March 30, 2013, 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 March 30, 2013 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 planned to file an administrative complaint for civil penalties against the company's Detroit subsidiary. The EPA alleged 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. In February 2013, Sysco made the payment to settle this matter for a penalty of \$119,000 and has remedied the alleged violations.

## 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 third quarter of fiscal 2013:

## ISSUER PURCHASES OF EQUITY SECURITIES

Period	(a) Total Number of Shares Purchased <sup>(1)</sup>	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
Month #1 December 30 –				
January 26	-	\$ -	-	18,711,400
Month #2	403,760	32.10	394,521	18,316,879



January 27 - February 23 Month #3				
February 24 - March 30	5,504,519	33.45	4,930,279	13,386,600
Total	5,908,279	\$ 33.36	5,324,800	13,386,600

(1) The total number of shares purchased includes zero, 9,239 and 574,240 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.

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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: May 6, 2013

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

Date: May 6, 2013

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

Date: May 6, 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).
- 12.1# –Statement regarding Computation of Ratio of Earnings to Fixed Charges.
- 15.1# –Report from Ernst & Young LLP dated May 6, 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 March 30, 2013 filed with the SEC on May 6, 2013, formatted in XBRL includes: (i) Consolidated Balance Sheets as of March 30, 2013, June 30, 2012 and March 31, 2012, (ii) Consolidated Results of Operations for the thirteen and thirty-nine week periods ended March 30, 2013 and March 31, 2012, (iii) Consolidated Statements of Comprehensive Income for the thirteen and thirty-nine week periods ended March 30, 2013 and March 31, 2012, (iv) Consolidated Cash Flows for the thirty-nine week periods ended March 30, 2013 and March 31, 2012, and (v) the Notes to Consolidated Financial Statements.

# Filed herewith

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