SYSCO CORP
Form 10-Q
November 04, 2014

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended September 27, 2014

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

Commission File Number 1-6544

Sysco Corporation

(Exact name of registrant as specified in its charter)

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

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

587,883,822 shares of common stock were outstanding as of October 25, 2014.

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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)

	Sep. 27, 2014 (unaudited)	Jun. 28, 2014	Sep. 28, 2013 (unaudited)
ASSETS			
Current assets			
Cash and cash equivalents	$ 384,898	$ 413,046	$ 359,532
Accounts and notes receivable, less allowances of $60,879, $49,902, and $61,324	3,646,817	3,398,713	3,423,152
Inventories	2,845,641	2,602,018	2,540,643
Deferred income taxes	140,554	141,225	150,516
Prepaid expenses and other current assets	90,493	83,745	74,680
Prepaid income taxes	-	43,225	-
Total current assets	7,108,403	6,681,972	6,548,523
Plant and equipment at cost, less depreciation	3,968,713	3,985,618	3,979,351
Other assets			
Goodwill	1,980,524	1,950,672	1,908,542
Intangibles, less amortization	180,325	177,227	200,074
Restricted cash	165,437	145,412	157,837
Other assets	214,511	227,049	245,329
Total other assets	2,540,797	2,500,360	2,511,782
Total assets	$ 13,617,913	$ 13,167,950	$ 13,039,656
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Notes payable	$ 78,635	$ 70,975	$ 45,584
Accounts payable	2,924,417	2,831,028	2,475,589
Accrued expenses	1,132,069	1,160,850	930,800
Accrued income taxes	94,437	-	139,286
Current maturities of long-term debt	306,931	304,777	206,158
Total current liabilities	4,536,489	4,367,630	3,797,417
Other liabilities			
Long-term debt	2,650,490	2,384,167	2,878,391
Deferred income taxes	115,500	121,580	270,923
Other long-term liabilities	959,920	1,027,878	893,783
Total other liabilities	3,725,910	3,533,625	4,043,097
Commitments and contingencies			
Noncontrolling interest	34,098	-	-
Shareholders' equity			
Preferred stock, par value $1 per share			
Authorized 1,500,000 shares, issued none	-	-	-

Common stock, par value $1 per share			
Authorized 2,000,000,000 shares, issued			
765,174,900 shares	765,175	765,175	765,175
Paid-in capital	1,155,838	1,139,218	1,086,716
Retained earnings	8,878,693	8,770,751	8,635,190
Accumulated other comprehensive loss	(743,172)	(642,663)	(411,801)
Treasury stock at cost, 177,897,055,			
179,050,186 and 183,960,944 shares	(4,735,118)	(4,765,786)	(4,876,138)
Total shareholders' equity	5,321,416	5,266,695	5,199,142
Total liabilities and shareholders' equity	$ 13,617,913	$ 13,167,950	$ 13,039,656

Note: The June 28, 2014 balance sheet has been derived from the audited financial statements at that date.

See Notes to Consolidated Financial Statements

Sysco Corporation and its Consolidated Subsidiaries

CONSOLIDATED RESULTS OF OPERATIONS (Unaudited)

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

	13-Week Period Ended	
	Sep. 27, 2014	Sep. 28, 2013
Sales	$ 12,445,081	$ 11,714,267
Cost of sales	10,256,364	9,648,780
Gross profit	2,188,717	2,065,487
Operating expenses	1,723,104	1,587,289
Operating income	465,613	478,198
Interest expense	30,934	30,528
Other expense (income), net	(2,188)	(4,534)
Earnings before income taxes	436,867	452,204
Income taxes	158,054	166,614
Net earnings	$ 278,813	$ 285,590
Net earnings:		
Basic earnings per share	$ 0.47	$ 0.49
Diluted earnings per share	0.47	0.48
Average shares outstanding	588,277,056	587,621,529
Diluted shares outstanding	593,309,750	591,458,948
Dividends declared per common share	$ 0.29	$ 0.28

See Notes to Consolidated Financial Statements

Sysco Corporation and its Consolidated Subsidiaries

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

(In thousands)

	13-Week Period Ended	
	Sep. 27, 2014	Sep. 28, 2013
Net earnings	$ 278,813	$ 285,590
Other comprehensive (loss) income:		
Foreign currency translation adjustment	(71,254)	30,807
Items presented net of tax:		
Amortization of cash flow hedges	126	96
Change in fair value of cash flow hedges	(34,111)	-
Amortization of prior service cost	1,737	1,742
Amortization of actuarial loss (gain), net	2,993	2,491
Total other comprehensive (loss) income	(100,509)	35,136
Comprehensive income	$ 178,304	$ 320,726

See Notes to Consolidated Financial Statements

Sysco Corporation and its Consolidated Subsidiaries

CONSOLIDATED CASH FLOWS (Unaudited)

(In thousands)

	13-Week Period Ended	
	Sep. 27, 2014	Sep. 28, 2013
Cash flows from operating activities:		
Net earnings	$ 278,813	$ 285,590
Adjustments to reconcile net earnings to cash provided by operating activities:		
Share-based compensation expense	12,161	13,465
Depreciation and amortization	137,799	133,744
Deferred income taxes	9,940	(14,926)
Provision for losses on receivables	6,058	8,437
Other non-cash items	(1,280)	1,646
Additional investment in certain assets and liabilities, net of effect of businesses acquired:		
(Increase) in receivables	(267,602)	(234,441)
(Increase) in inventories	(251,998)	(134,849)
(Increase) in prepaid expenses and other current assets	(7,019)	(14,266)
Increase in accounts payable	99,744	34,770
(Decrease) in accrued expenses	(28,725)	(60,845)
Increase in accrued income taxes	137,506	156,251
Decrease (increase) in other assets	2,327	(617)
(Decrease) in other long-term liabilities	(64,417)	(4,243)
Excess tax benefits from share-based compensation arrangements	(689)	(487)
Net cash provided by operating activities	62,618	169,229
Cash flows from investing activities:		
Additions to plant and equipment	(118,821)	(135,749)
Proceeds from sales of plant and equipment	1,126	10,573
Acquisition of businesses, net of cash acquired	(32,074)	(1,341)
(Increase) in restricted cash	(20,025)	(12,509)
Net cash used for investing activities	(169,794)	(139,026)
Cash flows from financing activities:		
Bank and commercial paper borrowings (repayments), net	268,598	235,807
Other debt borrowings	13,901	1,780
Other debt repayments	(4,207)	(5,409)
Debt issuance costs	(642)	-
Cash paid for settlement of cash flow hedge	(58,935)	-
Proceeds from common stock reissued from treasury for share-based compensation awards	35,179	96,591
Treasury stock purchases	-	(250,601)
Dividends paid	(170,049)	(164,138)
Excess tax benefits from share-based compensation arrangements	689	487

Net cash provided by (used for) financing activities	84,534	(85,483)
Effect of exchange rates on cash	(5,506)	2,527
Net (decrease) in cash and cash equivalents	(28,148)	(52,753)
Cash and cash equivalents at beginning of period	413,046	412,285
Cash and cash equivalents at end of period	$ 384,898	$ 359,532
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	$ 49,921	$ 52,135
Income taxes	15,827	22,219

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 28, 2014 consolidated balance sheet which was taken from the audited financial statements included in the company's fiscal 2014 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.

In fiscal 2015, Sysco acquired a 50% interest in a foodservice company in Costa Rica. It was determined that consolidation of the entity was appropriate and therefore the financial position, results of operations and cash flows for this company have been included in Sysco’s financial statements. The value of the 50% noncontrolling interest is considered redeemable due to certain features of the investment agreement and has been presented as mezzanine equity, which is outside of permanent equity, in the consolidated balance sheets. The elimination of the noncontrolling interest portion of the results of operations is located within other expense (income), net in the consolidated results of operations, as this amount is not material. The non-cash add back for the change in the value of the noncontrolling interest is located within Other non-cash items on the consolidated cash flows.

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 accrued expenses, deferred taxes and other long-term liabilities balances within these statements. The impact of these reclassifications was immaterial to the prior year period.

These financial statements should be read in conjunction with the audited financial statements and notes thereto included in the company's fiscal 2014 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 Review Report of Independent Registered Public Accounting Firm has been issued by Ernst & Young LLP and is included as Exhibit 15.1 to this Form 10-Q.

2. CHANGES IN ACCOUNTING

Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists

In July 2013, the FASB issued Accounting Standards update (ASU) 2013-11, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. This update amends Accounting Standards Codification (ASC) 740, Income Taxes, to require that, in certain cases, an unrecognized tax benefit, or portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, when such items exist in the same taxing jurisdiction. The amendments in this update are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013, which was fiscal 2015 for Sysco. Early adoption was permitted. The amendments should be applied prospectively to all unrecognized tax benefits that exist at the effective date, and retrospective application is permitted. This update did not have an impact on the company’s financial statements.

3. NEW ACCOUNTING STANDARDS

Revenue from Contracts with Customers

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers. This update creates ASC 606, Revenue from Contracts with Customers, and supercedes the revenue recognition requirements in ASC 605, Revenue Recognition. Additionally, other sections of the ASC were amended to be consistent with the guidance in this update. The core principle of ASC 606 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. A five-step revenue recognition model is to be applied to achieve this core principle. ASC 606 also specifies comprehensive disclosures to help users of financial statements understand the nature, amount, timing and uncertainty of revenue that is recognized. The amendments in this

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update are effective for annual periods beginning after December 15, 2016, including interim periods within that reporting period, which is fiscal 2018 for Sysco. Early adoption is not permitted. Sysco is currently evaluating the impact this update will have on its financial statements.

Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern

In August 2014, the FASB issued ASU 2014-15, Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern. This update creates a new subtopic ASC 205-40, “Presentation of Financial Statements – Going Concern,” and provides guidance about management’s responsibility to evaluate whether there is substantial doubt about an entity’s ability to continue as a going concern and to provide related footnote disclosures. The requirements in this update are effective for the annual period ending after December 15, 2016, which is fiscal 2017 for Sysco, and for annual and interim periods thereafter. Early application is permitted. Sysco acknowledges this new guidance and will comply with the disclosure requirements if applicable beginning in fiscal 2017.

4. ACQUISITIONS

During the first quarter of fiscal 2015, in the aggregate, the company paid cash of $32.1 million for acquisitions made during the quarter. Acquisitions in the first quarter of fiscal 2015 were immaterial, individually and in the aggregate, to the consolidated financial statements.

Certain acquisitions involve contingent consideration typically payable over periods of up to three years only in the event that certain operating results are attained. As of September 27, 2014, aggregate contingent consideration amounts outstanding relating to completed acquisitions were $69.0 million, of which $53.9 million was recorded as earnout liabilities as of September 27, 2014.

In the second quarter of fiscal 2014, the company announced an agreement to merge with US Foods, Inc. (US Foods). US Foods is a leading foodservice distributor in the United States (U.S.) that markets and distributes fresh, frozen and dry food and non-food products to more than 200,000 foodservice customers, including independently owned single location restaurants, regional and national chain restaurants, healthcare and educational institutions, hotels and motels, government and military organizations and retail locations. Following completion of the proposed merger, the combined company will continue to be named Sysco and headquartered in Houston, Texas.

As of the time the merger agreement was announced in December 2013, Sysco agreed to pay approximately $3.5 billion for the equity of US Foods, comprised of $3 billion of Sysco common stock and $500 million of cash. As part of the transaction, Sysco will also assume or refinance US Foods’ net debt, which was approximately $4.7 billion as of

September 28, 2013, bringing the total enterprise value to $8.2 billion at the time of the merger announcement. At the time of the merger announcement, Sysco secured a fully committed bridge financing that could be used for funding a portion of the purchase price. As of October 25, 2014, the merger consideration is estimated as follows: approximately $3.7 billion for the equity of US Foods, comprised of $3.2 billion of Sysco common stock valued using the seven day average through October 25, 2014, and $500 million of cash. US Foods' net debt to be assumed or refinanced was approximately $4.8 billion as of June 28, 2014, bringing the total enterprise value to $8.5 billion as of October 25, 2014. The value of Sysco's common stock and the amount of US Foods' net debt will fluctuate. As such, the components of the transaction and total enterprise value noted above will not be finalized until the merger is consummated.

After completion of the transaction, the equity holders of US Foods will own approximately 87 million shares, or roughly 13% of Sysco. A representative from each of US Foods' two majority shareholders will join Sysco's Board of Directors upon closing. This merger is currently pending a regulatory review process by the Federal Trade Commission (FTC). The company continues to be in productive discussions with FTC staff on a solution to permit the FTC to conclude its review. Given the amount of work remaining, and considering the upcoming holidays, the company does not currently expect to complete the transaction before the first quarter of 2015. Under certain conditions, including lack of regulatory approval, Sysco would be obligated to pay $300 million to the owners of US Foods if the merger were cancelled.

In contemplation of issuing long-term financing for this merger, in January 2014, the company entered into two forward starting swap agreements with notional amounts totaling $2 billion to reduce the variability in the expected cash outflows of interest payments on 10-year and 30-year debt due to changes in benchmark interest rates. In September 2014, Sysco began the process of issuing long-term financing for this merger by pricing a six-part senior notes offering totaling $5 billion. At the same time, the forward starting interest rate swaps were terminated in conjunction with the pricing of the senior notes. Cash settlement of these swaps occurred in September 2014 and October 2014. Concurrent with the new senior notes, Sysco entered into new interest rate swap agreements that effectively converted two series of the senior notes totaling $1.25 billion to floating rate debt. These swaps were designated as fair value hedges. In October 2014, subsequent to quarter-end, the senior notes were funded, and the previously outstanding unsecured bridge facility was terminated. Detailed discussion of these transactions is located in Note 6, Derivative Financial Instruments, and Note 7, Debt.

5. 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 6, "Derivative Financial Instruments," are valued using a swap valuation model that utilizes an income approach using observable market inputs including interest rates, LIBOR swap rates and credit default swap rates. These are included within prepaid expenses and other current assets, other assets, accrued expenses and other long-term liabilities 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 September 27, 2014, June 28, 2014 and September 28, 2013:

	Assets and Liabilities Measured at Fair Value as of Sep. 27, 2014			
	Level 1	Level 2	Level 3	Total
	(In thousands)			
Assets:				
Cash and cash equivalents				
Cash equivalents	$ -	$ 143,416	$ -	$ 143,416
Restricted cash	165,437	-	-	165,437
Other assets				

Interest rate swap agreement	-	264	-	264
Total assets at fair value	$ 165,437	$ 143,680	$ -	$ 309,117
Liabilities:				
Other long-term liabilities				
Interest rate swap agreements	$ -	$ 3,496	$ -	$ 3,496
Total liabilities at fair value	$ -	$ 3,496	$ -	$ 3,496

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	Assets and Liabilities Measured at Fair Value as of Jun. 28, 2014			
	Level 1	Level 2	Level 3	Total
	(In thousands)			
Assets:				
Cash and cash equivalents				
Cash equivalents	$ 2,770	$ 131,966	$ -	$ 134,736
Restricted cash	145,412	-	-	145,412
Other assets				
Interest rate swap agreement	-	4,828	-	4,828
Total assets at fair value	$ 148,182	$ 136,794	$ -	$ 284,976
Liabilities:				
Accrued expenses				
Interest rate swap agreement	$ -	$ 133,466	$ -	$ 133,466
Total liabilities at fair value	$ -	$ 133,466	$ -	$ 133,466

	Assets Measured at Fair Value as of Sep. 28, 2013			
	Level 1	Level 2	Level 3	Total
	(In thousands)			
Assets:				
Cash and cash equivalents				
Cash equivalents	$ -	$ 129,510	$ -	$ 129,510
Prepaid expenses and other current assets				
Interest rate swap agreement	-	2,015	-	2,015
Restricted cash	157,837	-	-	157,837
Other assets				
Interest rate swap agreement	-	4,125	-	4,125
Total assets at fair value	$ 157,837	$ 135,650	$ -	$ 293,487

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 $3.3 billion, $3.0 billion and $3.3 billion as of September 27, 2014, June 28, 2014 and September 28, 2013, respectively. The carrying value of total debt was $3.0 billion, $2.8 billion and $3.1 billion as of September 27, 2014, June 28, 2014 and September 28, 2013, respectively.

6. 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 2014, the company entered into an interest rate swap agreement that effectively converted $500 million of fixed rate debt maturing in fiscal 2018 to floating rate debt. The company entered into interest rate swap agreements that effectively converted $500 million of the new senior notes maturing in fiscal 2018 and $750 million of the new senior notes maturing in fiscal 2020 to floating rate debt. See Note 7, Debt, for further discussion of the senior notes issuance. These transactions were entered into with the goal of reducing overall borrowing cost and increasing floating interest rate exposure and were designated as fair value hedges against the changes in fair value of fixed rate debt resulting from changes in interest rates.

In January 2014, the company entered into two forward starting swap agreements with notional amounts totaling $2 billion. The company designated these derivatives as cash flow hedges of the variability in the expected cash outflows of interest payments on then forecasted 10-year and 30-year debt due to changes in the benchmark interest rates. In September 2014, in conjunction with the pricing of the $1.25 billion senior notes maturing in fiscal 2025 and $1 billion senior notes maturing in fiscal 2045, the company terminated these swaps, locking in the effective yields on the related debt. Cash of $58.9 million was paid to settle the 10-year swap in September 2014, and cash of $129.9 million was paid to settle the 30-year swap in October 2014 subsequent to quarter-end. The September 2014 cash payment is located within the line Cash paid for settlement of cash flow hedge within financing activities in the statement of consolidated cash flows. The cumulative losses recorded in Accumulated other comprehensive (loss) income related to these swaps will be amortized through interest expense over the term of the issued debt.

The location and the fair value of derivative instruments designated as hedges in the consolidated balance sheet as of September 27, 2014, June 28, 2014 and September 28, 2013 are as follows:

	Asset Derivatives		Liability Derivatives	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
	(In thousands)			
Interest rate swap agreements:				
Sep. 27, 2014	Other assets	$ 264	Other long-term liabilities	$ 3,496
Jun. 28, 2014	Other assets	4,828	Accrued expenses	133,466
Sep. 28, 2013	Prepaid expenses and other current assets	2,015	N/A	N/A

The location and effect of derivative instruments and related hedged items on the consolidated results of operations for the first quarter of fiscal 2015 and 2014 presented on a pre-tax basis are as follows:

	Location of (Gain) or Loss Recognized in Comprehensive Income	Amount of (Gain) or Loss Recognized in Comprehensive Income 13-Week Period Ended	
		Sep. 27, 2014	Sep. 28, 2013
		(In thousands)	
Fair Value Hedge Relationships:			
Interest rate swap agreements	Interest expense	$ (3,269)	$ (3,175)
Cash Flow Hedge Relationships:			
Interest rate swap agreements	Other comprehensive income	55,374	-
Interest rate contracts	Interest expense	205	156

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 rates. Hedge ineffectiveness is recorded directly in earnings within interest expense and was immaterial for the first quarter of fiscal

2015 and 2014. The interest rate swaps do not contain credit-risk-related contingent features.

Subsequent Event

In October 2014, subsequent to quarter-end, cash of $129.9 million was paid to settle the 30-year forward starting swap discussed above. This swap was terminated in September 2014, but the cash payment did not occur until October 2014.

7. DEBT

As of September 27, 2014, Sysco had an uncommitted bank line of credit, which provided for unsecured borrowings for working capital of up to $20 million. There were no borrowings outstanding under this line of credit as of September 27, 2014.

Sysco has a Board-approved commercial paper program allowing the company to issue short-term unsecured notes in an aggregate amount not to exceed $1.3 billion.

Sysco and one of its subsidiaries, Sysco International, ULC, have a revolving credit facility supporting the company's U.S. and Canadian commercial paper programs. The facility provides for borrowings in both U.S. 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 facility in the amount of $1.5 billion expires December 29, 2018, but is subject to extension. As of September 27, 2014, commercial paper issuances outstanding were $398.6 million and were classified as long-term debt, as the company's commercial paper programs are supported by the long-term revolving credit facility described above.

During the first quarter of 2015, aggregate commercial paper issuances and short-term bank borrowings ranged from $123.8 million to approximately $659.4 million.

The company's Irish subsidiary, Pallas Foods, has a multicurrency revolving credit facility in the amount of €100 million (Euro), which provides for capital needs for the company's European subsidiaries. This facility provides for unsecured borrowings and expires September 23, 2015, but is subject to extension. Outstanding borrowings under this facility were €62.0 million (Euro) as of September 27, 2014, reflected in Notes payable on the consolidated balance sheet.

As of September 27, 2014, Sysco had an unsecured $3.3865 billion bridge term loan agreement with multiple lenders in connection with its proposed merger with US Foods (discussed further in Note 4, Acquisitions). The facility provided that Sysco could borrow up to $3.3865 billion in term loans on the closing date of the US Foods merger to fund the acquisition, refinance certain indebtedness of US Foods and pay related fees and expenses. The facility had an expiration date of March 8, 2015, but was subject to extension if regulatory approvals had not yet been obtained. Any borrowings under the bridge term loan agreement would be guaranteed by the same subsidiaries of Sysco that guarantee the company's revolving credit facility, and in certain circumstances, would also be guaranteed by US Foods after closing of the merger.

In September 2014, Sysco priced a six-part senior notes offering totaling $5 billion as long-term financing for the proposed US Foods merger transaction.

Subsequent Event

In October 2014, subsequent to quarter-end, the senior notes described above were funded, and the previously outstanding unsecured bridge facility described above was terminated. The senior notes, issued under the company's February 2012 registration statement, are unsecured, are not subject to any sinking fund requirement and include a redemption provision that allows Sysco to retire the notes at any time prior to maturity at the greater of par plus accrued interest or an amount designed to ensure that the note holders are not penalized by early redemption. In addition, if the merger has not closed by October 8, 2015 or if the merger agreement is terminated on or prior to October 8, 2015, Sysco must redeem all of the senior notes at a redemption price equal to 101% of the principal of the senior notes plus accrued interest. The notes will be fully and unconditionally guaranteed initially by the wholly-owned U.S. Broadline subsidiaries that guarantee Sysco's other senior notes. Proceeds from the notes will be used to pay the cash portion of the consideration for the proposed merger, to refinance certain indebtedness of US Foods, to unwind certain cash flow hedges that Sysco entered into in contemplation of this merger-related debt assumption and refinancing, to repay a portion of Sysco's outstanding commercial paper and to pay expected future direct transaction costs related to the merger. Details of the senior notes are below:

Maturity Date	Par Value (in millions)	Coupon Rate	Pricing (percentage of par)
October 2, 2017	$ 500	1.45 %	99.962 %
October 2, 2019	750	2.35	99.864
October 2, 2021	750	3.00	99.781
October 2, 2024	1,250	3.50	99.616
October 2, 2034	750	4.35	99.841
October 2, 2044	1,000	4.50	98.992

8. COMPANY-SPONSORED EMPLOYEE BENEFIT PLANS

In the tables below, the caption "Pension Benefits" includes both the company-sponsored qualified pension plan and the Supplemental Executive Retirement Plan. The components of net company-sponsored benefit cost for the first quarter of fiscal 2015 and fiscal 2014 are as follows:

	Pension Benefits		Other Postretirement Plans	
	Sep. 27, 2014	Sep. 28, 2013	Sep. 27, 2014	Sep. 28, 2013
	(In thousands)			
Service cost	$ 2,815	$ 2,414	$ 134	$ 136
Interest cost	42,779	40,109	148	187
Expected return on plan assets	(57,156)	(48,199)	-	-
Amortization of prior service cost	2,777	2,786	42	42
Recognized net actuarial loss (gain)	4,968	4,082	(109)	(36)
Net periodic benefit cost	$ (3,817)	$ 1,192	$ 215	$ 329

Sysco's contributions to its company-sponsored defined benefit plans were $56.1 million and $5.8 million during the first quarter of fiscal 2015 and 2014, respectively.

9. MULTIEMPLOYER EMPLOYEE BENEFIT PLANS

Sysco contributes to several multiemployer defined benefit pension plans in the U.S. 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 appointed 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 U.S. 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 U.S. 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. There were no withdrawal liability provisions recorded in the first quarter of fiscal 2015 or the first quarter of fiscal 2014. As of September 27, 2014, June 28, 2014, and September 28, 2013, Sysco had approximately zero, $1.4 million and $40.3 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 the two plan years following the plan year in which we completely withdraw from that plan, Sysco could have additional liability. The company does not currently believe any mass withdrawals are probable to occur in the applicable two-plan 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 $90.0 million as of September 27, 2014. 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, the majority of which had a valuation date of December 31, 2013. As the valuation date for most of these plans was December 31, 2013, 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.

10. EARNINGS PER SHARE

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

	13-Week Period Ended	
	Sep. 27, 2014	Sep. 28, 2013
	(In thousands, except for share and per share data)	
Numerator:		
Net earnings	$ 278,813	$ 285,590
Denominator:		
Weighted-average basic shares outstanding	588,277,056	587,621,529
Dilutive effect of share-based awards	5,032,694	3,837,419
Weighted-average diluted shares outstanding	593,309,750	591,458,948
Basic earnings per share:	$ 0.47	$ 0.49
Diluted earnings per share:	$ 0.47	$ 0.48

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 600,000 for the first quarter of fiscal 2015 and was insignificant for the first quarter of fiscal 2014.

11. COMPREHENSIVE INCOME

Comprehensive income is net earnings plus certain other items that are recorded directly to shareholders’ equity, such as foreign currency translation adjustment, amounts related to cash flow hedging arrangements and certain amounts related to pension and other postretirement plans. Comprehensive income was $178.3 million and $320.7 million for the first quarter of fiscal 2015 and fiscal 2014, respectively.

A summary of the components of other comprehensive income (loss) and the related tax effects for each of the periods presented is as follows:

	Location of Expense (Income) Recognized in Net Earnings	13-Week Period Ended Sep. 27, 2014 Before Tax Amount	Tax	Net of Tax Amount
		(In thousands)		
Pension and other postretirement benefit				
Reclassification adjustments:				
Amortization of prior service cost	Operating expenses	$ 2,819	$ 1,082	$ 1,737
Amortization of actuarial loss (gain), net	Operating expenses	4,859	1,866	2,993
Total reclassification adjustments		7,678	2,948	4,730
Foreign currency translation:				
Other comprehensive income before reclassification adjustments:				
Foreign currency translation adjustment	N/A	(71,254)	-	(71,254)
Interest rate swaps:				
Reclassification adjustments:				
Amortization of cash flow hedges	Interest expense	205	79	126
Other comprehensive income before reclassification adjustments:				
Change in fair value of cash flow hedges	N/A	(55,374)	(21,263)	(34,111)
Total other comprehensive (loss) income		$ (118,745)	$ (18,236)	$ (100,509)

	Location of Expense (Income) Recognized in Net Earnings	13-Week Period Ended Sep. 28, 2013 Before Tax Amount	Tax	Net of Tax Amount
		(In thousands)		
Pension and other postretirement benefit plans:				
Reclassification adjustments:				
Amortization of prior service cost	Operating expenses	$ 2,828	$ 1,086	$ 1,742
Amortization of actuarial loss (gain), net	Operating expenses	4,046	1,555	2,491

Total reclassification adjustments		6,874	2,641	4,233
Foreign currency translation:				
Other comprehensive income before reclassification adjustments:				
Foreign currency translation adjustment	N/A	30,807	-	30,807
Interest rate swaps:				
Reclassification adjustments:				
Amortization of cash flow hedges	Interest expense	156	60	96
Total other comprehensive income (loss)		$ 37,837	$ 2,701	$ 35,136

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The following tables provide a summary of the changes in accumulated other comprehensive (loss) income for the periods presented:

	13-Week Period Ended Sep. 27, 2014			
	Pension and Other Postretirement Benefit Plans, net of tax	Foreign Currency Translation	Interest Rate Swaps, net of tax	Total
	(In thousands)			
Balance as of Jun. 28, 2014	$ (685,957)	$ 134,452	$ (91,158)	$ (642,663)
Other comprehensive income before reclassification adjustments	-	(71,254)	(34,111)	(105,365)
Amounts reclassified from accumulated other comprehensive loss	4,730	-	126	4,856
Balance as of Sep. 27, 2014	$ (681,227)	$ 63,198	$ (125,143)	$ (743,172)

	13-Week Period Ended Sep. 28, 2013			
	Pension and Other Postretirement Benefit Plans, net of tax	Foreign Currency Translation	Interest Rate Swaps, net of tax	Total
	(In thousands)			
Balance as of Jun. 29, 2013	$ (575,167)	$ 137,558	$ (9,328)	$ (446,937)
Other comprehensive income before reclassification adjustments	-	30,807	-	30,807
Amounts reclassified from accumulated other comprehensive loss	4,233	-	96	4,329
Balance as of Sep. 28, 2013	$ (570,934)	$ 168,365	$ (9,232)	$ (411,801)

12. 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 quarter of fiscal 2015, 9,330 restricted stock units were granted to employees. Based on the jurisdiction in which the employee resides, some of these restricted stock units were granted with forfeitable 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 quarter of fiscal 2015 was $37.41.

Employees' Stock Purchase Plan

Plan participants purchased 315,856 shares of Sysco common stock under the Sysco Employees' Stock Purchase Plan during the first quarter of fiscal 2015.

The weighted average fair value per share of employee stock purchase rights issued pursuant to the Employees' Stock Purchase Plan was $5.62 during the first quarter of fiscal 2015. 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 $12.2 million and $13.5 million for the first quarter of fiscal 2015 and fiscal 2014, respectively.

As of September 27, 2014, there was $58.7 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 2.3 years.

13. INCOME TAXES

Uncertain Tax Positions

As of September 27, 2014, the gross amount of unrecognized tax benefits was $46.7 million and the gross amount of liability for accrued interest related to unrecognized tax benefits was $36.7 million. It is reasonably possible that the amount of the unrecognized tax benefits with respect to certain of the company's unrecognized tax positions will increase or decrease in the next twelve months, either because Sysco prevails on positions that were being challenged upon audit or because the company agrees to their disallowance. Items that may cause changes to unrecognized tax benefits primarily include the consideration of various filing requirements in numerous states and the allocation of income and expense between tax jurisdictions. At this time, an estimate of the range of the reasonably possible change cannot be made.

Effective Tax Rates

The effective tax rates for the first quarter of fiscal 2015 and fiscal 2014 were 36.18% and 36.84%, respectively. Indefinitely reinvested earnings taxed at foreign statutory rates less than our domestic tax rate had the impact of reducing the effective tax rates for each period.

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 U.S. 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 unrecognized tax benefits or valuation allowances, and the company's change in the mix of earnings from these taxing jurisdictions all affect the overall effective tax rate.

14. COMMITMENTS AND CONTINGENCIES

Legal Proceedings

Sysco is engaged in various legal proceedings that 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 that 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.

15. 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 U.S. and International Broadline segments located in the Bahamas, Canada, Costa Rica, Republic of Ireland and Northern Ireland. 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, a company that distributes to international customers and the company's Sysco Ventures platform, a suite of technology solutions that help support the business needs of Sysco's customers.

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

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

	13-Week Period Ended	
	Sep. 27, 2014	Sep. 28, 2013
Sales:		
Broadline	$ 10,223,102	$ 9,546,388
SYGMA	1,541,612	1,523,190
Other	764,482	711,882
Intersegment sales	(84,115)	(67,193)
Total	$ 12,445,081	$ 11,714,267

	13-Week Period Ended	
	Sep. 27, 2014	Sep. 28, 2013
Operating income:		
Broadline	$ 699,436	$ 654,707
SYGMA	5,150	8,343
Other	24,665	22,542
Total segments	729,251	685,592
Corporate expenses and adjustments	(263,638)	(207,394)
Total operating income	465,613	478,198
Interest expense	30,934	30,528
Other expense (income), net	(2,188)	(4,534)
Earnings before income taxes	$ 436,867	$ 452,204

	Sep. 27, 2014	Jun. 28, 2014	Sep. 28, 2013
Assets:	(In thousands)		
Broadline	$ 9,472,211	$ 8,956,911	$ 8,940,734
SYGMA	519,554	513,587	490,001
Other	1,033,526	1,034,775	953,024
Total segments	11,025,291	10,505,273	10,383,759
Corporate	2,592,622	2,662,677	2,655,897