

SYSCO CORP
Form 10-Q
February 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 December 28, 2013

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 | 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) | |

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

584,967,675 shares of common stock were outstanding as of January 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)

| | Dec. 28, 2013 (unaudited) | Jun. 29, 2013 | Dec. 29, 2012 (unaudited) |
|---|------------------------------|---------------|------------------------------|
| ASSETS | | | |
| Current assets | | | |
| Cash and cash equivalents | \$ 449,863 | \$ 412,285 | \$ 320,805 |
| Accounts and notes receivable, less allowances of \$69,078, \$47,345, and \$67,926 | 3,289,930 | 3,183,114 | 3,168,120 |
| Inventories | 2,506,581 | 2,396,188 | 2,436,109 |
| Deferred income taxes | 121,095 | 136,211 | 116,887 |
| Prepaid expenses and other current assets | 73,272 | 61,925 | 68,675 |
| Prepaid income taxes | 80,115 | 17,704 | 49,189 |
| Total current assets | 6,520,856 | 6,207,427 | 6,159,785 |
| Plant and equipment at cost, less depreciation | 3,967,176 | 3,978,071 | 3,960,636 |
| Other assets | | | |
| Goodwill | 1,915,922 | 1,884,235 | 1,802,630 |
| Intangibles, less amortization | 191,568 | 205,719 | 153,358 |
| Restricted cash | 157,841 | 145,328 | 145,247 |
| Other assets | 259,662 | 243,167 | 249,646 |
| Total other assets | 2,524,993 | 2,478,449 | 2,350,881 |
| Total assets | \$ 13,013,025 | \$ 12,663,947 | \$ 12,471,302 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | |
| Current liabilities | | | |
| Notes payable | \$ 57,733 | \$ 41,632 | \$ 42,754 |
| Accounts payable | 2,443,704 | 2,428,215 | 2,249,968 |
| Accrued expenses | 1,043,656 | 1,072,134 | 941,525 |
| Current maturities of long-term debt | 204,157 | 207,301 | 253,170 |
| Total current liabilities | 3,749,250 | 3,749,282 | 3,487,417 |
| Other liabilities | | | |
| Long-term debt | 2,944,083 | 2,639,986 | 2,809,290 |
| Deferred income taxes | 230,914 | 266,222 | 94,987 |
| Other long-term liabilities | 784,988 | 816,647 | 1,178,035 |
| Total other liabilities | 3,959,985 | 3,722,855 | 4,082,312 |
| Commitments and contingencies | | | |
| Shareholders' equity | | | |
| Preferred stock, par value \$1 per share | | | |
| Authorized 1,500,000 shares, issued none | - | - | - |
| Common stock, par value \$1 per share | 765,175 | 765,175 | 765,175 |
| Authorized 2,000,000,000 shares, issued | | | |

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| | | | |
|--|---------------|---------------|---------------|
| 765,174,900 shares | | | |
| Paid-in capital | 1,105,382 | 1,059,624 | 954,988 |
| Retained earnings | 8,676,012 | 8,512,786 | 8,359,768 |
| Accumulated other comprehensive loss | (446,417) | (446,937) | (605,709) |
| Treasury stock at cost, 180,889,626, 179,068,430 and 179,819,753 shares | (4,796,362) | (4,698,838) | (4,572,649) |
| Total shareholders' equity | 5,303,790 | 5,191,810 | 4,901,573 |
| Total liabilities and shareholders' equity | \$ 13,013,025 | \$ 12,663,947 | \$ 12,471,302 |

Note: The June 29, 2013 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 | | 26-Week Period Ended | |
|-------------------------------------|----------------------|---------------|----------------------|---------------|
| | Dec. 28, 2013 | Dec. 29, 2012 | Dec. 28, 2013 | Dec. 29, 2012 |
| Sales | \$ 11,237,969 | \$ 10,796,890 | \$ 22,952,236 | \$ 21,883,806 |
| Cost of sales | 9,273,018 | 8,844,780 | 18,921,798 | 17,901,901 |
| Gross profit | 1,964,951 | 1,952,110 | 4,030,438 | 3,981,905 |
| Operating expenses | 1,613,174 | 1,569,459 | 3,200,463 | 3,120,472 |
| Operating income | 351,777 | 382,651 | 829,975 | 861,433 |
| Interest expense | 29,784 | 32,242 | 60,312 | 63,110 |
| Other expense (income), net | (4,211) | (1,753) | (8,745) | (4,230) |
| Earnings before income taxes | 326,204 | 352,162 | 778,408 | 802,553 |
| Income taxes | 115,369 | 130,793 | 281,983 | 294,586 |
| Net earnings | \$ 210,835 | \$ 221,369 | \$ 496,425 | \$ 507,967 |
| Net earnings: | | | | |
| Basic earnings per share | \$ 0.36 | \$ 0.38 | \$ 0.85 | \$ 0.86 |
| Diluted earnings per share | 0.36 | 0.38 | 0.84 | 0.86 |
| Average shares outstanding | 584,253,842 | 587,091,968 | 585,761,409 | 587,760,060 |
| Diluted shares outstanding | 587,926,287 | 589,751,933 | 589,516,342 | 590,130,537 |
| Dividends declared per common share | \$ 0.29 | \$ 0.28 | \$ 0.57 | \$ 0.55 |

See Notes to Consolidated Financial Statements

Sysco Corporation and its Consolidated Subsidiaries

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

(In thousands)

| | 13-Week Period Ended | | 26-Week Period Ended | |
|--|----------------------|------------------|----------------------|------------------|
| | Dec. 28, 2013 | Dec. 29, 2012 | Dec. 28, 2013 | Dec. 29, 2012 |
| Net earnings | \$ 210,835 | \$ 221,369 | \$ 496,425 | \$ 507,967 |
| Other comprehensive (loss) income: | | | | |
| Foreign currency translation adjustment | (38,947) | (8,771) | (8,140) | 27,389 |
| Items presented net of tax: | | | | |
| Amortization of cash flow hedges | 96 | 96 | 192 | 193 |
| Amortization of prior service cost | 1,743 | 6,535 | 3,485 | 7,461 |
| Amortization of actuarial loss (gain), net | 2,492 | 11,258 | 4,983 | 22,944 |
| Amortization of transition obligation | - | 22 | - | 44 |
| Prior service cost arising in current year | - | (24,828) | - | (24,828) |
| Actuarial gain (loss), net arising in current year | - | 23,954 | - | 23,954 |
| Total other comprehensive (loss) income | (34,616) | 8,266 | 520 | 57,157 |
| Comprehensive income | \$ 176,219 | \$ 229,635 | \$ 496,945 | \$ 565,124 |

See Notes to Consolidated Financial Statements

Sysco Corporation and its Consolidated Subsidiaries

CONSOLIDATED CASH FLOWS (Unaudited)

(In thousands)

| | 26-Week Period Ended | |
|--|----------------------|------------------|
| | Dec. 28, 2013 | Dec. 29, 2012 |
| Cash flows from operating activities: | | |
| Net earnings | \$ 496,425 | \$ 507,967 |
| Adjustments to reconcile net earnings to cash provided by operating activities: | | |
| Share-based compensation expense | 43,906 | 39,423 |
| Depreciation and amortization | 271,147 | 249,593 |
| Deferred income taxes | (27,126) | (39,603) |
| Provision for losses on receivables | 12,704 | 16,422 |
| Other non-cash items | 1,729 | (246) |
| Additional investment in certain assets and liabilities, net of effect of businesses acquired: | | |
| (Increase) in receivables | (113,716) | (157,073) |
| (Increase) in inventories | (110,043) | (222,170) |
| (Increase) decrease in prepaid expenses and other current assets | (14,088) | 11,367 |
| Increase in accounts payable | 8,529 | 23,619 |
| (Decrease) in accrued expenses | (21,130) | (32,644) |
| (Decrease) in accrued income taxes | (59,172) | (64,663) |
| (Increase) decrease in other assets | (7,161) | 1,785 |
| (Decrease) increase in other long-term liabilities | (19,620) | 53,364 |
| Excess tax benefits from share-based compensation arrangements | (4,220) | (356) |
| Net cash provided by operating activities | 458,164 | 386,785 |
| Cash flows from investing activities: | | |
| Additions to plant and equipment | (270,432) | (261,576) |
| Proceeds from sales of plant and equipment | 23,480 | 3,229 |
| Acquisition of businesses, net of cash acquired | (22,461) | (194,237) |
| (Increase) in restricted cash | (12,513) | (18,019) |
| Net cash used for investing activities | (281,926) | (470,603) |
| Cash flows from financing activities: | | |
| Bank and commercial paper borrowings (repayments), net | 304,471 | 48,100 |
| Other debt borrowings | 14,731 | 43,482 |
| Other debt repayments | (13,056) | (10,789) |
| Debt issuance costs | (15,262) | - |
| Proceeds from common stock reissued from treasury for share-based compensation awards | 160,422 | 90,853 |
| Treasury stock purchases | (266,638) | (143,526) |
| Dividends paid | (328,279) | (315,904) |
| Excess tax benefits from share-based compensation arrangements | 4,220 | 356 |
| Net cash used for financing activities | (139,391) | (287,428) |

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| | | |
|--|------------|------------|
| Effect of exchange rates on cash | 731 | 3,184 |
| Net increase (decrease) in cash and cash equivalents | 37,578 | (368,062) |
| Cash and cash equivalents at beginning of period | 412,285 | 688,867 |
| Cash and cash equivalents at end of period | \$ 449,863 | \$ 320,805 |
| Supplemental disclosures of cash flow information: | | |
| Cash paid during the period for: | | |
| Interest | \$ 63,185 | \$ 63,598 |
| Income taxes | 368,596 | 404,791 |

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 29, 2013 consolidated balance sheet which was taken from the audited financial statements included in the company's Fiscal 2013 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 have been reclassified to conform to the current year presentation as it relates to the presentation of certain accounts payable, accrued expenses and tax-related balances. Prior year amounts within the consolidated results of operations have been reclassified to conform to the current year presentation as it relates to the classification of certain amounts within cost of sales and operating expenses. 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 2013 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

Testing Indefinite-Lived Intangible Assets for Impairment

In July 2012, the FASB issued ASU 2012-02, “Testing Indefinite-Lived Intangible Assets for Impairment.” This update amends 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 quantitative impairment test. Under that option, an entity no longer would be required to calculate the fair value of the intangible asset 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. The amendments in this update were effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. Early adoption was permitted. The adoption of this update in the first quarter of fiscal 2014 did not result in a change to the company’s interim consideration of impairment of indefinite-lived intangible assets. Sysco does not believe this update will have an impact on its annual testing for impairment of indefinite-lived intangibles in the fourth quarter of fiscal 2014.

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 were effective prospectively for fiscal years, and interim periods within those years, beginning after December 15, 2012. The additional disclosures required by this update are included in Note 9, “Comprehensive Income.”

3. FAIR VALUE MEASUREMENTS

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

- Level 1 – Unadjusted quoted prices for identical assets or liabilities in active markets;

Level 2 – Inputs other than quoted prices in active markets for identical assets and liabilities that are observable either directly or indirectly for substantially the full term of the asset or liability; and

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- Level 3 – Unobservable inputs for the asset or liability, which include management’s own assumption about the assumptions market participants would use in pricing the asset or liability, including assumptions about risk.

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

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

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

The following tables present the company’s assets measured at fair value on a recurring basis as of December 28, 2013, June 29, 2013 and December 29, 2012:

| | Assets Measured at Fair Value as of Dec. 28, 2013 | | | |
|---|--|------------|---------|------------|
| | Level 1 | Level 2 | Level 3 | Total |
| | (In thousands) | | | |
| Assets: | | | | |
| Cash and cash equivalents | | | | |
| Cash equivalents | \$ 144,400 | \$ 125,665 | \$ - | \$ 270,065 |
| Prepaid expenses and other current assets | | | | |
| Interest rate swap agreement | - | 945 | - | 945 |
| Restricted cash | 157,841 | - | - | 157,841 |
| Other assets | | | | |
| Interest rate swap agreement | - | 1,248 | - | 1,248 |
| Total assets at fair value | \$ 302,241 | \$ 127,858 | \$ - | \$ 430,099 |

Assets Measured at Fair Value as of Jun.
29, 2013

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| | Level 1 | Level 2 | Level 3 | Total |
|---|------------|------------|---------|------------|
| (In thousands) | | | | |
| Assets: | | | | |
| Cash and cash equivalents | | | | |
| Cash equivalents | \$ 1,160 | \$ 132,731 | \$ - | \$ 133,891 |
| Prepaid expenses and other current assets | | | | |
| Interest rate swap agreement | - | 2,988 | - | 2,988 |
| Restricted cash | 145,328 | - | - | 145,328 |
| Total assets at fair value | \$ 146,488 | \$ 135,719 | \$ - | \$ 282,207 |

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

| | Level 1 | Level 2 | Level 3 | Total |
|---|------------|------------|---------|------------|
| (In thousands) | | | | |
| Assets: | | | | |
| Cash and cash equivalents | | | | |
| Cash equivalents | \$ - | \$ 178,033 | \$ - | \$ 178,033 |
| Prepaid expenses and other current assets | | | | |
| Interest rate swap agreement | - | 488 | - | 488 |
| Restricted cash | 145,247 | - | - | 145,247 |
| Other assets | | | | |
| Interest rate swap agreement | - | 5,048 | - | 5,048 |
| Total assets at fair value | \$ 145,247 | \$ 183,569 | \$ - | \$ 328,816 |

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 \$3,360.0 million, \$3,207.6 million and \$3,604.2 million as of December 28, 2013, June 29, 2013 and December 29, 2012, respectively. The carrying value of total debt was \$3,206.0 million, \$2,888.9 million and \$3,105.2 million as of December 28, 2013, June 29, 2013 and December 29, 2012, respectively.

4. DERIVATIVE FINANCIAL INSTRUMENTS

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

In August 2013, the company entered into an interest rate swap agreement that effectively converted \$500.0 million of fixed rate debt maturing in fiscal 2018 to floating rate debt. In addition, in fiscal 2010, we entered into an interest rate swap agreement that effectively converted \$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 against the changes in fair value of fixed rate debt resulting from changes in interest rates.

The location and the fair value of derivative instruments in the consolidated balance sheet as of December 28, 2013, June 29, 2013 and December 29, 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 | | | | |
| | Prepaid expenses and other current assets | | | |
| Dec. 28, 2013 | | \$ 945 | N/A | N/A |
| Dec. 28, 2013 | Other assets | 1,248 | N/A | N/A |
| | Prepaid expenses and other current assets | | | |
| Jun. 29, 2013 | | 2,988 | N/A | N/A |
| Dec. 29, 2012 | | 488 | N/A | N/A |

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| | | | | |
|---------------|--|-------|-----|-----|
| | Prepaid expenses and other current assets | | | |
| Dec. 29, 2012 | Other assets | 5,048 | N/A | N/A |

The location and effect of derivative instruments and related hedged items on the consolidated results of operations for the second quarter of fiscal 2014 and fiscal 2013 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 13-Week Period Ended Dec. 28, 2013 Dec. 29, 2012 | |
|---------------------------------|--|--|------------|
| | | (In thousands) | |
| Fair Value Hedge Relationships: | | | |
| Interest rate swap agreements | Interest expense | \$ (4,075) | \$ (2,274) |
| Cash Flow Hedge Relationships: | | | |
| Interest rate contracts | Interest expense | 156 | 156 |

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The location and effect of derivative instruments and related hedged items on the consolidated results of operations for the 26-week periods ended December 28, 2013 and December 29, 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 26-Week Period Ended | |
|---------------------------------|--|---|------------------|
| | | Dec. 28, 2013 | Dec. 29, 2012 |
| (In thousands) | | | |
| Fair Value Hedge Relationships: | | | |
| Interest rate swap agreements | Interest expense | \$ (7,250) | \$ (4,324) |
| Cash Flow Hedge Relationships: | | | |
| Interest rate contracts | Interest expense | 312 | 313 |

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 second quarter of fiscal 2014 and 2013 and the 26-week periods ended December 28, 2013 and December 29, 2012. The interest rate swaps do not contain credit-risk-related contingent features.

5. DEBT

As of December 28, 2013, Sysco had uncommitted bank lines of credit which provides for unsecured borrowings for working capital of up to \$95.0 million, of which none was outstanding. Such amounts when outstanding are reflected in Notes payable on the consolidated balance sheet.

Sysco and one of its subsidiaries, Sysco International, ULC, have a revolving credit facility supporting the company's United States (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 original facility in the amount of \$1,000.0 million expires on December 29, 2016, and the extended facility in the amount of \$925.0 million expires on December 29, 2017, but is subject to further extension. As of December 28, 2013, commercial paper issuances outstanding were \$400.0 million and were classified as long-term debt, as the company's commercial paper programs are supported by the long-term revolving credit facility described above.

During the 26-week period ended December 28, 2013, aggregate commercial paper issuances and short-term bank borrowings ranged from zero to approximately \$769.5 million.

The company's Irish subsidiary, Pallas Foods, has a multicurrency revolving credit facility, which provides for capital needs for the company's European subsidiaries. In September 2013, the facility was extended and increased to €100.0 million (Euro). This facility provides for unsecured borrowings and expires September 24, 2014, but is subject to extension. Outstanding borrowings under this facility were €42.0 million (Euro) as of December 28, 2013, reflected in Notes payable on the consolidated balance sheet.

In December 2013, Sysco secured a commitment for an unsecured bridge facility in the amount of \$3.3865 billion in connection with its proposed merger with US Foods, Inc. (US Foods) (discussed further in Note 12, Acquisitions).

Subsequent Events

Subsequent to quarter-end, the following transactions were entered in contemplation of securing financing and hedging interest rate risk relating to our assumption or refinancing of US Foods' net debt that will occur upon closing of the proposed merger.

In January 2014, the bridge facility commitment noted above was replaced with a \$3.3865 billion bridge term loan agreement with multiple lenders. Sysco may borrow up to \$3.3865 billion in term loans on the closing date of the US Foods acquisition to fund the acquisition, refinance certain indebtedness of US Foods and pay related fees and expenses. The facility expires on March 8, 2015, but is subject to extension if regulatory approvals have not yet been obtained. Borrowings under the bridge term loan agreement are guaranteed by the same subsidiaries of Sysco that are guarantee the company's revolving credit facility, and in certain circumstances may also be guaranteed by US Foods.

In January 2014, the company entered into two forward starting swap agreements with notional amounts totaling of \$2.0 billion. The company designated these derivatives as cash flow hedges of the variability in the cash outflows of interest payments on 10-year and 30-year debt due to changes in the benchmark interest rates for debt the company expects to issue in fiscal 2015.

In January 2014, Sysco and Sysco International, ULC, extended and increased the size of the revolving credit facility described above that supports the company's U.S. and Canadian commercial paper programs. The facility was increased to \$1.5 billion with an expiration date of December 29, 2018, but is subject to further extension. The other terms and conditions of the extended facility are substantially the same.

6. 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 second quarter of fiscal 2014 and fiscal 2013 are as follows:

| | Pension Benefits | | Other Postretirement Plans | |
|---------------------------------------|------------------|------------------|----------------------------|---------------------|
| | Dec. 28, 2013 | Dec. 29, 2012 | Dec. 28, 2013 | Dec. 29, 2012 |
| | (In thousands) | | | |
| Service cost | \$ 2,414 | \$ 17,589 | \$ 136 | \$ 136 |
| Interest cost | 40,109 | 37,253 | 187 | 153 |
| Expected return on plan assets | (48,199) | (42,800) | - | - |
| Amortization of prior service cost | 2,786 | 2,273 | 42 | 42 |
| Amortization of actuarial loss (gain) | 4,082 | 18,328 | (36) | (51) |
| Amortization of transition obligation | - | - | - | 36 |
| Curtailment loss | - | 8,293 | - | - |
| Net periodic benefit cost | \$ 1,192 | \$ 40,936 | \$ 329 | \$ 316 |

The components of net company-sponsored benefit cost for the 26-week periods ended December 28, 2013 and December 29, 2012 are as follows:

| | Pension Benefits | | Other Postretirement Plans | |
|---------------------------------------|------------------|---------------|----------------------------|---------------|
| | Dec. 28, 2013 | Dec. 29, 2012 | Dec. 28, 2013 | Dec. 29, 2012 |
| | (In thousands) | | | |
| Service cost | \$ 4,828 | \$ 35,369 | \$ 272 | \$ 271 |
| Interest cost | 80,218 | 74,953 | 374 | 307 |
| Expected return on plan assets | (96,398) | (85,601) | - | - |
| Amortization of prior service cost | 5,572 | 3,734 | 84 | 84 |
| Recognized net actuarial loss (gain) | 8,164 | 37,350 | (72) | (102) |
| Amortization of transition obligation | - | - | - | 71 |
| Curtailment loss | - | 8,293 | - | - |
| Net periodic benefit cost | \$ 2,384 | \$ 74,098 | \$ 658 | \$ 631 |

Sysco's contributions to its company-sponsored defined benefit plans were \$11.7 million and \$11.3 million during the 26-week periods ended December 28, 2013 and December 29, 2012, respectively.

7. 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 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. Total withdrawal liability provisions recorded were \$1.5 million in the first 26 weeks of fiscal 2014 and \$2.5 million in the first 26 weeks of fiscal 2013. As of December 28, 2013, June 29, 2013, and December 29, 2012, Sysco had approximately \$1.5 million, \$40.7 million and \$14.0 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 December 28, 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, the majority of which had a valuation date of December 31, 2012. As the valuation date for most of these plans was December 31, 2012, 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.

8. EARNINGS PER SHARE

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

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| | 13-Week Period Ended | | 26-Week Period Ended | |
|---|---|---------------|----------------------|---------------|
| | Dec. 28, 2013 | Dec. 29, 2012 | Dec. 28, 2013 | Dec. 29, 2012 |
| | (In thousands, except for share and per share data) | | | |
| Numerator: | | | | |
| Net earnings | \$ 210,835 | \$ 221,369 | \$ 496,425 | \$ 507,967 |
| Denominator: | | | | |
| Weighted-average basic shares outstanding | 584,253,842 | 587,091,968 | 585,761,409 | 587,760,060 |
| Dilutive effect of share-based awards | 3,672,445 | 2,659,965 | 3,754,933 | 2,370,477 |
| Weighted-average diluted shares outstanding | 587,926,287 | 589,751,933 | 589,516,342 | 590,130,537 |
| Basic earnings per share: | \$ 0.36 | \$ 0.38 | \$ 0.85 | \$ 0.86 |
| Diluted earnings per share: | \$ 0.36 | \$ 0.38 | \$ 0.84 | \$ 0.86 |

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 3,100,000 and 25,000,000 for the second quarter of fiscal 2014 and fiscal 2013, 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 1,600,000 and 31,000,000 for the first 26 weeks of fiscal 2014 and 2013, respectively.

9. COMPREHENSIVE INCOME

Comprehensive income is net earnings plus certain other items that are recorded directly to shareholders' equity, such as foreign currency translation adjustments, amounts related to cash flow hedging arrangements and certain amounts related to pension and other postretirement plans. Comprehensive income was \$176.2 million and \$229.6 million for the second quarter of fiscal 2014 and fiscal

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2013, respectively. Comprehensive income was \$496.9 million and \$565.1 million for the first 26 weeks of fiscal 2014 and fiscal 2013 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 Dec. 28, 2013 | | |
|--|---|---|----------|----------------------|
| | | Before Tax Amount (In thousands) | Tax | Net of Tax Amount |
| Pension and other postretirement benefit plans: | | | | |
| Reclassification adjustments: | | | | |
| Amortization of prior service cost | Operating expenses | \$ 2,828 | \$ 1,085 | \$ 1,743 |
| Amortization of actuarial loss (gain), net | Operating expenses | 4,046 | 1,554 | 2,492 |
| Total reclassification adjustments | | 6,874 | 2,639 | 4,235 |
| Foreign currency translation: | | | | |
| Other comprehensive income before reclassification adjustments: | | | | |
| Foreign currency translation adjustment | N/A | (38,947) | - | (38,947) |
| Interest rate swaps: | | | | |
| Reclassification adjustments: | | | | |
| Amortization of cash flow hedges | Interest expense | 156 | 60 | 96 |
| Total other comprehensive (loss) income | | \$ (31,917) | \$ 2,699 | \$ (34,616) |
| | | | | |
| 13-Week Period Ended Dec. 29, 2012 | | | | |
| | Location of Expense (Income) Recognized in Net Earnings | Before Tax Amount (In thousands) | Tax | Net of Tax Amount |
| Pension and other postretirement benefit plans: | | | | |
| Reclassification adjustments: | | | | |
| Amortization of prior service cost | Operating expenses | \$ 10,608 | \$ 4,073 | \$ 6,535 |
| Amortization of actuarial loss (gain), net | Operating expenses | 18,277 | 7,019 | 11,258 |
| Amortization of transition obligation | Operating expenses | 36 | 14 | 22 |
| Total reclassification adjustments | | 28,921 | 11,106 | 17,815 |

| | | | | |
|--|------------------|-----------|-----------|----------|
| Other comprehensive income before reclassification adjustments: | | | | |
| Prior service cost arising in current year | | (40,306) | (15,478) | (24,828) |
| Net actuarial gain arising in current year | | 38,887 | 14,933 | 23,954 |
| Total other comprehensive income before reclassification adjustments | | (1,419) | (545) | (874) |
| Foreign currency translation: | | | | |
| Other comprehensive income before reclassification adjustments: | | | | |
| Foreign currency translation adjustment | N/A | (8,771) | - | (8,771) |
| Interest rate swaps: | | | | |
| Reclassification adjustments: | | | | |
| Amortization of cash flow hedges | Interest expense | 156 | 60 | 96 |
| Total other comprehensive income (loss) | | \$ 18,887 | \$ 10,621 | \$ 8,266 |

| | Location of Expense (Income) Recognized in Net Earnings | 26-Week Period Ended Dec. 28, 2013 | | |
|--|---|---|----------|-------------------------|
| | | Before Tax Amount (In thousands) | Tax | Net of Tax Amount |
| Pension and other postretirement benefit plans: | | | | |
| Reclassification adjustments: | | | | |
| Amortization of prior service cost | Operating expenses | \$ 5,656 | \$ 2,171 | \$ 3,485 |
| Amortization of actuarial loss (gain), net | Operating expenses | 8,092 | 3,109 | 4,983 |
| Total reclassification adjustments | | 13,748 | 5,280 | 8,468 |
| Foreign currency translation: | | | | |
| Other comprehensive income before reclassification adjustments: | | | | |
| Foreign currency translation adjustment | N/A | (8,140) | - | (8,140) |
| Interest rate swaps: | | | | |
| Reclassification adjustments: | | | | |
| Amortization of cash flow hedges | Interest expense | 312 | 120 | 192 |
| Total other comprehensive income (loss) | | \$ 5,920 | \$ 5,400 | \$ 520 |

| | Location of Expense (Income) Recognized in Net Earnings | 26-Week Period Ended Dec. 29, 2012 | | |
|---|---|---|----------|----------------------|
| | | Before Tax Amount (In thousands) | Tax | Net of Tax Amount |
| Pension and other postretirement benefit plans: | | | | |
| Reclassification adjustments: | | | | |
| Amortization of prior service cost | Operating expenses | \$ 12,111 | \$ 4,650 | \$ 7,461 |
| Amortization of actuarial loss (gain), net | Operating expenses | 37,248 | 14,304 | 22,944 |
| Amortization of transition obligation | Operating expenses | 71 | 27 | 44 |
| Total reclassification adjustments | | 49,430 | 18,981 | 30,449 |
| Other comprehensive income before reclassification adjustments: | | | | |
| Prior service cost arising in current year | | (40,306) | (15,478) | (24,828) |
| Net actuarial gain arising in current year | | 38,887 | 14,933 | 23,954 |
| Total other comprehensive income before reclassification adjustments | | (1,419) | (545) | (874) |
| Foreign currency translation: | | | | |

| | | | | |
|---|------------------|-----------|-----------|-----------|
| Other comprehensive income before reclassification adjustments: | | | | |
| Foreign currency translation adjustment | N/A | 27,389 | - | 27,389 |
| Interest rate swaps: | | | | |
| Reclassification adjustments: | | | | |
| Amortization of cash flow hedges | Interest expense | 313 | 120 | 193 |
| Total other comprehensive income (loss) | | \$ 75,713 | \$ 18,556 | \$ 57,157 |

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

| | 26-Week Period Ended Dec. 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 | - | - | - | - |
| Amounts reclassified from accumulated other comprehensive loss | 8,468 | (8,140) | 192 | 520 |
| Balance as of Dec. 28, 2013 | \$ (566,699) | \$ 129,418 | \$ (9,136) | \$ (446,417) |

| | 26-Week Period Ended Dec. 29, 2012 | | | |
|---|---|------------------------------------|--|--------------|
| | 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. 30, 2012 | \$ (823,901) | \$ 170,749 | \$ (9,714) | \$ (662,866) |
| Other comprehensive income before reclassification adjustments | (874) | 27,389 | - | 26,515 |
| Amounts reclassified from accumulated other comprehensive loss | 30,449 | - | 193 | 30,642 |
| Balance as of Dec. 29, 2012 | \$ (794,326) | \$ 198,138 | \$ (9,521) | \$ (605,709) |

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

Sysco's 2013 Long-term Incentive Plan (2013 Plan) was adopted in November 2013 and reserved up to 55,600,000 shares of Sysco common stock for share-based awards to employees, non-employee directors and key advisors. Of the 55,600,000 authorized shares, 45,000,000 were new shares approved with the 2013 Plan and 10,600,000 were from remaining shares authorized and available for grant under the amended 2007 Stock Incentive Plan (2007 Plan) as of the date of the approval of the 2013 Plan. No further grants will be made from the 2007 Plan. Of the 55,600,000 authorized shares, the full 55,600,000 shares may be issued as options or stock appreciation rights and up to 17,500,000 shares may be issued as restricted stock, restricted stock units or other types of stock-based awards. The contractual life of options granted under the 2013 Plan will be no greater than ten years, as compared to a maximum contractual life of seven years for options granted under the 2007 Plan.

In the first 26 weeks of fiscal 2014, options to purchase 5,575,645 shares were granted to employees. The fair value of each option award is estimated as of the date of grant using a Black-Scholes option pricing model. The weighted average grant-date fair value per share of options granted during the first 26 weeks of fiscal 2014 was \$4.64.

In the first 26 weeks of fiscal 2014, 765,168 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 26 weeks of fiscal 2014 was \$33.35.

In the first 26 weeks of fiscal 2014, restricted awards in the amount of 43,119 were granted to non-employee directors from the 2009 Non-Employee Directors Stock Plan. The non-employee directors may elect to receive these awards in restricted stock shares

that will vest at the end of the award's stated vesting period or as deferred units which convert into shares of Sysco common stock upon a date selected by the non-employee director that is subsequent to the award's stated vesting date. The fair value of the restricted awards is based on the company's stock price as of the date of grant. The weighted average grant-date fair value per share of restricted awards granted during the first 26 weeks of fiscal 2014 was \$33.40.

Employees' Stock Purchase Plan

Plan participants purchased 686,308 shares of Sysco common stock under the Sysco Employees' Stock Purchase Plan during the first 26 weeks of fiscal 2014.

The weighted average fair value per share of employee stock purchase rights issued pursuant to the Employees' Stock Purchase Plan was \$4.94 during the first 26 weeks of fiscal 2014. 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 \$43.9 million and \$39.4 million for the first 26 weeks of fiscal 2014 and fiscal 2013, respectively.

As of December 28, 2013, there was \$75.9 million of total unrecognized compensation cost related to share-based compensation arrangements. This cost is expected to be recognized over a weighted-average period of 2.54 years.

11. INCOME TAXES

Uncertain Tax Positions

As of December 28, 2013, the gross amount of unrecognized tax benefits was \$94.9 million and the gross amount of liability for accrued interest related to unrecognized tax benefits was \$32.5 million. It is reasonably possible that the amount of the unrecognized tax benefits with respect to certain of the company's unrecognized tax positions will increase or decrease in the next twelve months either because Sysco prevails on positions that were being challenged

upon audit or because the company agrees to their disallowance. Items that may cause changes to unrecognized tax benefits primarily include the consideration of various filing requirements in numerous states and the allocation of income and expense between tax jurisdictions. At this time, an estimate of the range of the reasonably possible change cannot be made.

Effective Tax Rates

The effective tax rate for the second quarter of fiscal 2014 of 35.37% was favorably impacted by the recording of \$4.3 million of net tax benefit related to various federal and state uncertain tax positions and \$2.1 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 second quarter of fiscal 2013 of 37.14% was favorably impacted by the recording of \$1.7 million of tax benefit related to disqualifying dispositions of Sysco stock pursuant to share-based compensation arrangements. This favorable impact was nearly offset by the recording of \$1.6 million in net tax expense related to various federal and state uncertain tax positions. Indefinitely reinvested earnings taxed at foreign statutory rates less than our domestic tax rate also had the impact of reducing the effective tax rate.

The effective tax rate for the first 26 weeks of fiscal 2014 of 36.23% was favorably impacted by the recording of \$3.7 million of tax benefit related to disqualifying dispositions of Sysco stock pursuant to share-based compensation arrangements and \$3.5 million of net tax benefit related to various federal and state uncertain tax positions. Indefinitely reinvested earnings taxed at foreign statutory rates less than our domestic tax rate also had the impact of reducing the effective tax rate.

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

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.

12. ACQUISITIONS

During the first 26 weeks of fiscal 2014, in the aggregate, the company paid cash of \$22.5 million for acquisitions made during fiscal 2014. Acquisitions in the first 26 weeks of fiscal 2014 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. As of December 28, 2013, aggregate contingent consideration amounts outstanding relating to completed acquisitions were \$103.5 million, of which \$25.3 million could result in the recording of additional goodwill when paid and \$67.0 million was recorded as earnout liabilities as of December 28, 2013.

In the second quarter of fiscal 2014, the company announced an agreement to merge with US Foods. US Foods is a leading foodservice distributor in the United States 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. Sysco has agreed to pay approximately \$3.5 billion for the equity of US Foods, comprising \$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, bringing the total enterprise value to \$8.2 billion. The values noted above are as of the time of the merger agreement was announced in December 2013; 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. Sysco has secured a fully committed bridge financing that could be used for funding a portion of the purchase price. 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, which will likely take between six to nine months. 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.

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.

During the first quarter of fiscal 2014, Sysco was made aware of certain alleged violations of California law relating to its use of drop sites in the delivery of products. Sysco is cooperating fully with the investigation being conducted by authorities in California, but could be subject to fines and injunctive relief. Discussions with authorities in California are ongoing and Sysco's financial exposure cannot be estimated at this time.

Fuel Commitments

Sysco routinely enters into forward purchase commitments for a portion of its projected diesel fuel requirements. As of December 28, 2013, outstanding forward diesel fuel purchase commitments totaled approximately \$163.2 million at a fixed price through January 2015.

Other Commitments

Sysco has committed to aggregate product purchases for resale in order to benefit from a centralized approach to purchasing. A majority of these agreements expire within one year; however, certain agreements have terms through fiscal 2018. These agreements commit the company to a minimum volume at various pricing terms, including fixed pricing, variable pricing or a combination thereof. Minimum amounts committed to as of December 28, 2013 totaled approximately \$2,829.5 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 U.S., Canadian, Caribbean 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, 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 and expenses related to the company's Business Transformation Project.

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

| | 13-Week Period Ended | | 26-Week Period Ended | |
|--------------------|----------------------|---------------|----------------------|---------------|
| | Dec. 28, 2013 | Dec. 29, 2012 | Dec. 28, 2013 | Dec. 29, 2012 |
| Sales: | (In thousands) | | | |
| Broadline | \$ 9,081,675 | \$ 8,779,069 | \$ 18,628,063 | \$ 17,836,733 |
| SYGMA | 1,536,271 | 1,411,815 | 3,059,461 | 2,832,570 |
| Other | 695,617 | 659,861 | 1,407,499 | 1,320,462 |
| Intersegment sales | (75,594) | (53,855) | (142,787) | (105,959) |
| Total | \$ 11,237,969 | \$ 10,796,890 | \$ 22,952,236 | \$ 21,883,806 |

| | 13-Week Period Ended | | 26-Week Period Ended | |
|-------------------|----------------------|---------------|----------------------|---------------|
| | Dec. 28, 2013 | Dec. 29, 2012 | Dec. 28, 2013 | Dec. 29, 2012 |
| Operating income: | (In thousands) | | | |
| Broadline | \$ 561,726 | \$ 580,257 | \$ 1,216,433 | \$ 1,223,093 |
| SYGMA | 10,212 | 13,439 | 18,555 | 25,524 |
| Other | 19,877 | 20,469 | 42,419 | 42,828 |
| Total segments | 591,815 | 614,165 | 1,277,407 | 1,291,445 |

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| | | | | |
|------------------------------------|------------|------------|------------|------------|
| Corporate expenses and adjustments | (240,038) | (231,514) | (447,432) | (430,012) |
| Total operating income | 351,777 | 382,651 | 829,975 | 861,433 |
| Interest expense | 29,784 | 32,242 | 60,312 | 63,110 |
| Other expense (income), net | (4,211) | (1,753) | (8,745) | (4,230) |
| Earnings before income taxes | \$ 326,204 | \$ 352,162 | \$ 778,408 | \$ 802,553 |

| | Dec. 28, 2013 | Jun. 29, 2013 | Dec. 29, 2012 |
|----------------|----------------|---------------|---------------|
| Assets: | (In thousands) | | |
| Broadline | \$ 8,546,007 | \$ 10,228,722 | \$ 8,932,589 |
| SYGMA | 512,516 | 485,520 | 475,319 |
| Other | 948,239 | 944,140 | 937,811 |
| Total segments | 10,006,762 | 11,658,382 | 10,345,719 |
| Corporate | 3,006,263 | 1,005,565 | 2,125,583 |
| Total | \$ 13,013,025 | \$ 12,663,947 | \$ 12,471,302 |

15. SUPPLEMENTAL GUARANTOR INFORMATION – SUBSIDIARY GUARANTEES

On January 19, 2011, the wholly-owned U.S. Broadline subsidiaries of Sysco Corporation entered into full and unconditional guarantees of all outstanding senior notes and debentures of Sysco Corporation. Borrowings under the company's revolving credit facility supporting the company's U.S. and Canadian commercial paper programs and the company's US Foods acquisition bridge facility are also covered under these guarantees. As of December 28, 2013, Sysco had a total of \$3,125.0 million in senior notes, debentures and commercial paper outstanding that was 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
Dec. 28, 2013

| | Sysco (In thousands) | Certain U.S. Broadline Subsidiaries | Other Non-Guarantor Subsidiaries | Eliminations | Consolidated Totals |
|--|-------------------------|---|--|----------------|------------------------|
| Current assets | \$ 349,026 | \$ 3,880,682 | \$ 2,291,148 | \$ - | \$ 6,520,856 |
| Investment in subsidiaries | 9,237,693 | - | - | (9,237,693) | - |
| Plant and equipment, net | 517,988 | 1,817,141 | 1,632,047 | - | 3,967,176 |
| Other assets | 348,352 | 546,600 | 1,630,041 | - | 2,524,993 |
| Total assets | \$ 10,453,059 | \$ 6,244,423 | \$ 5,553,236 | \$ (9,237,693) | \$ 13,013,025 |
| Current liabilities | \$ 525,143 | \$ 998,999 | \$ 2,225,108 | \$ - | \$ 3,749,250 |
| Intercompany payables (receivables) | 1,119,448 | (1,612,521) | 493,073 | - | - |
| Long-term debt | 2,913,317 | 8,974 | 21,792 | - | 2,944,083 |
| Other liabilities | 591,361 | 299,958 | 124,583 | - | 1,015,902 |
| Shareholders' equity | 5,303,790 | 6,549,013 | 2,688,680 | (9,237,693) | 5,303,790 |
| Total liabilities and shareholders' equity | \$ 10,453,059 | \$ 6,244,423 | \$ 5,553,236 | \$ (9,237,693) | \$ 13,013,025 |

Condensed Consolidating Balance Sheet
Jun. 29, 2013

| | Sysco | Certain U.S. Broadline Subsidiaries | Other Non-Guarantor Subsidiaries | Eliminations | Consolidated Totals |
|--|--------------|---|--|----------------|------------------------|
| (In thousands) | | | | | |
| Current assets | \$ 276,713 | \$ 3,746,192 | \$ 2,184,522 | \$ - | \$ 6,207,427 |
| Investment in subsidiaries | 8,429,887 | - | - | (8,429,887) | - |
| Plant and equipment, net | 540,860 | 1,885,908 | 1,551,303 | - | 3,978,071 |
| Other assets | 325,045 | 534,713 | 1,618,691 | - | 2,478,449 |
| Total assets | \$ 9,572,505 | \$ 6,166,813 | \$ 5,354,516 | \$ (8,429,887) | \$ 12,663,947 |
| Current liabilities | \$ 664,366 | \$ 928,824 | \$ 2,156,092 | \$ - | \$ 3,749,282 |
| Intercompany payables (receivables) | 594,928 | (1,003,219) | 408,291 | - | - |
| Long-term debt | 2,606,612 | 10,422 | 22,952 | - | 2,639,986 |
| Other liabilities | 514,789 | 414,623 | 153,457 | - | 1,082,869 |
| Shareholders' equity | 5,191,810 | 5,816,163 | 2,613,724 | (8,429,887) | 5,191,810 |
| Total liabilities and shareholders' equity | \$ 9,572,505 | \$ 6,166,813 | \$ 5,354,516 | \$ (8,429,887) | \$ 12,663,947 |

Condensed Consolidating Balance Sheet

Dec. 29, 2012

| | Sysco | Certain U.S. Broadline Subsidiaries | Other Non-Guarantor Subsidiaries | Eliminations | Consolidated Totals |
|--|----------------|---|--|-----------------|------------------------|
| | (In thousands) | | | | |
| Current assets | \$ 188,879 | \$ 3,866,718 | \$ 2,104,188 | \$ - | \$ 6,159,785 |
| Investment in subsidiaries | 11,229,138 | - | - | (11,229,138) | - |
| Plant and equipment, net | 624,441 | 1,976,200 | 1,359,995 | - | 3,960,636 |
| Other assets | 341,243 | 531,376 | 1,478,262 | - | 2,350,881 |
| Total assets | \$ 12,383,701 | \$ 6,374,294 | \$ 4,942,445 | \$ (11,229,138) | \$ 12,471,302 |
| Current liabilities | \$ 680,130 | \$ 819,372 | \$ 1,987,915 | \$ - | \$ 3,487,417 |
| Intercompany payables (receivables) | 3,220,165 | (3,626,887) | 406,722 | - | - |
| Long-term debt | 2,758,493 | 25,898 | 24,899 | - | 2,809,290 |
| Other liabilities | 823,340 | 324,114 | 125,568 | - | 1,273,022 |
| Shareholders' equity | 4,901,573 | 8,831,797 | 2,397,341 | (11,229,138) | 4,901,573 |
| Total liabilities and shareholders' equity | \$ 12,383,701 | \$ 6,374,294 | \$ 4,942,445 | \$ (11,229,138) | \$ 12,471,302 |

Condensed Consolidating Statement of Comprehensive Income

For the 13-Week Period Ended Dec. 28, 2013

| | Sysco | Certain U.S. Broadline Subsidiaries | Other Non-Guarantor Subsidiaries | Eliminations | Consolidated Totals |
|---------------------------------------|----------------|---|--|--------------|------------------------|
| | (In thousands) | | | | |
| Sales | \$ - | \$ 7,364,410 | \$ 4,181,421 | \$ (307,862) | \$ 11,237,969 |
| Cost of sales | - | 6,001,215 | 3,579,665 | (307,862) | 9,273,018 |
| Gross profit | - | 1,363,195 | 601,756 | - | 1,964,951 |
| Operating expenses | 194,358 | 859,132 | 559,684 | - | 1,613,174 |
| Operating income (loss) | (194,358) | 504,063 | 42,072 | - | 351,777 |
| Interest expense (income) | 57,636 | (25,981) | (1,871) | - | 29,784 |
| Other expense (income), net | (277) | (599) | (3,335) | - | (4,211) |
| Earnings (losses) before income taxes | (251,717) | 530,643 | 47,278 | - | 326,204 |
| Income tax (benefit) provision | (89,954) | 188,400 | 16,923 | - | 115,369 |
| Equity in earnings of subsidiaries | 372,598 | - | - | (372,598) | - |
| Net earnings | 210,835 | 342,243 | 30,355 | (372,598) | 210,835 |
| Other comprehensive income (loss) | (34,616) | - | (38,947) | 38,947 | (34,616) |
| Comprehensive income | \$ 176,219 | \$ 342,243 | \$ (8,592) | \$ (333,651) | \$ 176,219 |

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

| | Sysco | Certain U.S. Broadline Subsidiaries | Other Non-Guarantor Subsidiaries | Eliminations | Consolidated Totals |
|---------------------------------------|----------------|---|--|--------------|------------------------|
| | (In thousands) | | | | |
| Sales | \$ - | \$ 7,361,249 | \$ 3,706,570 | \$ (270,929) | \$ 10,796,890 |
| Cost of sales | - | 5,948,837 | 3,166,872 | (270,929) | 8,844,780 |
| Gross profit | - | 1,412,412 | 539,698 | - | 1,952,110 |
| Operating expenses | 194,206 | 884,463 | 490,790 | - | 1,569,459 |
| Operating income (loss) | (194,206) | 527,949 | 48,908 | - | 382,651 |
| Interest expense (income) | 72,564 | (42,058) | 1,736 | - | 32,242 |
| Other expense (income), net | (2,294) | (537) | 1,078 | - | (1,753) |
| Earnings (losses) before income taxes | (264,476) | 570,544 | 46,094 | - | 352,162 |
| Income tax (benefit) provision | (97,835) | 211,516 | 17,112 | - | 130,793 |
| Equity in earnings of subsidiaries | 388,010 | - | - | (388,010) | - |
| Net earnings | 221,369 | 359,028 | 28,982 | (388,010) | 221,369 |
| Other comprehensive income (loss) | 8,266 | - | (8,771) | 8,771 | 8,266 |
| Comprehensive income | \$ 229,635 | \$ 359,028 | \$ 20,211 | \$ (379,239) | \$ 229,635 |

Condensed Consolidating Statement of Comprehensive Income
For the 26-Week Period Ended Dec. 28, 2013

| | Sysco | Certain U.S. Broadline Subsidiaries | Other Non-Guarantor Subsidiaries | Eliminations | Consolidated Totals |
|---------------------------------------|----------------|---|--|--------------|------------------------|
| | (In thousands) | | | | |
| Sales | \$ - | \$ 15,110,423 | \$ 8,419,120 | \$ (577,307) | \$ 22,952,236 |
| Cost of sales | - | 12,270,081 | 7,229,024 | (577,307) | 18,921,798 |
| Gross profit | - | 2,840,342 | 1,190,096 | - | 4,030,438 |
| Operating expenses | 339,406 | 1,742,082 | 1,118,975 | - | 3,200,463 |
| Operating income (loss) | (339,406) | 1,098,260 | 71,121 | - | 829,975 |
| Interest expense (income) | 114,943 | (49,418) | (5,213) | - | 60,312 |
| Other expense (income), net | (3,622) | (1,456) | (3,667) | - | (8,745) |
| Earnings (losses) before income taxes | (450,727) | 1,149,134 | 80,001 | - | 778,408 |
| Income tax (benefit) provision | (163,279) | 416,282 | 28,980 | - | 281,983 |
| Equity in earnings of subsidiaries | 783,873 | - | - | (783,873) | - |
| Net earnings | 496,425 | 732,852 | 51,021 | (783,873) | 496,425 |
| Other comprehensive income (loss) | 520 | - | (8,140) | 8,140 | 520 |
| Comprehensive income | \$ 496,945 | \$ 732,852 | \$ 42,881 | \$ (775,733) | \$ 496,945 |

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

| | Sysco | Certain U.S. Broadline Subsidiaries | Other Non-Guarantor Subsidiaries | Eliminations | Consolidated Totals |
|---------------------------------------|----------------|---|--|--------------|------------------------|
| | (In thousands) | | | | |
| Sales | \$ - | \$ 14,997,427 | \$ 7,411,242 | \$ (524,863) | \$ 21,883,806 |
| Cost of sales | - | 12,093,695 | 6,333,069 | (524,863) | 17,901,901 |
| Gross profit | - | 2,903,732 | 1,078,173 | - | 3,981,905 |
| Operating expenses | 347,344 | 1,798,549 | 974,579 | - | 3,120,472 |
| Operating income (loss) | (347,344) | 1,105,183 | 103,594 | - | 861,433 |
| Interest expense (income) | 142,176 | (80,441) | 1,375 | - | 63,110 |
| Other expense (income), net | (2,613) | (1,241) | (376) | - | (4,230) |
| Earnings (losses) before income taxes | (486,907) | 1,186,865 | 102,595 | - | 802,553 |
| Income tax (benefit) provision | (178,726) | 435,653 | 37,659 | - | 294,586 |
| Equity in earnings of subsidiaries | 816,148 | - | - | (816,148) | - |
| Net earnings | 507,967 | 751,212 | 64,936 | (816,148) | 507,967 |
| Other comprehensive income (loss) | 57,157 | - | 27,389 | (27,389) | 57,157 |
| Comprehensive income | \$ 565,124 | \$ 751,212 | \$ 92,325 | \$ (843,537) | \$ 565,124 |

| | Condensed Consolidating Cash Flows | | | |
|--|--|---|--|------------------------|
| | For the 26-Week Period Ended Dec. 28, 2013 | | | |
| | | Certain U.S. Broadline Subsidiaries | Other Non-Guarantor Subsidiaries | Consolidated Totals |
| | Sysco | | | |
| | (In thousands) | | | |
| Cash flows provided by (used for): | | | | |
| Operating activities | \$ (264,033) | \$ 655,981 | \$ 66,216 | \$ 458,164 |
| Investing activities | (34,143) | (55,510) | (192,273) | (281,926) |
| Financing activities | (140,072) | (1,828) | 2,509 | (139,391) |
| Effect of exchange rates on cash | - | - | 731 | 731 |
| Intercompany activity | 495,469 | (603,994) | 108,525 | - |
| Net increase (decrease) in cash and cash equivalents | 57,221 | (5,351) | (14,292) | 37,578 |
| Cash and cash equivalents at the beginning of period | 207,591 | 24,295 | 180,399 | 412,285 |
| Cash and cash equivalents at the end of period | \$ 264,812 | \$ 18,944 | \$ 166,107 | \$ 449,863 |

| | Condensed Consolidating Cash Flows | | | |
|--|--|--------------|---------------|--------------|
| | For the 26-Week Period Ended Dec. 29, 2012 | | | |
| | | Certain U.S. | Other | |
| | Sysco | Broadline | Non-Guarantor | Consolidated |
| | | Subsidiaries | Subsidiaries | Totals |
| | (In thousands) | | | |
| Cash flows provided by (used for): | | | | |
| Operating activities | \$ (147,760) | \$ 518,930 | \$ 15,615 | \$ 386,785 |
| Investing activities | (59,121) | (99,832) | (311,650) | (470,603) |
| Financing activities | (319,069) | 415 | 31,226 | (287,428) |
| Effect of exchange rates on cash | - | - | 3,184 | 3,184 |
| Intercompany activity | 176,983 | (430,860) | 253,877 | - |
| Net increase (decrease) in cash and cash equivalents | (348,967) | (11,347) | (7,748) | (368,062) |
| Cash and cash equivalents at the beginning of period | 471,107 | 34,478 | 183,282 | 688,867 |
| Cash and cash equivalents at the end of period | \$ 122,140 | \$ 23,131 | \$ 175,534 | \$ 320,805 |

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 29, 2013, 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 29, 2013.

Our discussion below of our results includes certain non-GAAP financial measures that we believe provide important perspective with respect to underlying business trends. Other than free cash flow, any non-GAAP financial measure will be denoted as adjusted measures and exclude the impact from executive retirement plans restructuring, severance charges, merger costs associated with our pending US Foods, Inc. (US Foods) merger, change in estimate for self-insurance costs, facility closure charges and Business Transformation Project costs. 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 (U.S.), Bahamas, Canada, Republic of Ireland and Northern 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, a company that distributes to international customers and our Sysco Ventures platform, our suite of technology solutions that help support the business needs of our customers.

Highlights

The market environment in the first 26 weeks of fiscal 2014 was challenging for many of our customers, especially those in the casual dining restaurant segment. The second quarter was also impacted by a shortened holiday shopping season and severe weather in several parts of the country. Our sales growth was driven primarily by case volume growth, a portion of which was attributable to acquisitions closed in fiscal 2013. Competitive pricing pressures and changes in customer mix resulted in lower levels of gross profit growth. Our expense management performance was favorable and largely resulted from our Business Transformation initiatives, which helped drive our Broadline cost per case lower than in the first 26 weeks of fiscal 2013.

Comparisons of results from the second quarter of fiscal 2014 to the second quarter of fiscal 2013:

- Sales increased 4.1%, or \$0.4 billion, to \$11.2 billion.
- Operating income decreased 8.1%, or \$30.9 million, to \$351.8 million.
- Adjusted operating income decreased 7.6%, or \$37.0 million, to \$448.6 million.
- Net earnings decreased 4.8%, or \$10.5 million, to \$210.8 million.
- Adjusted net earnings decreased 4.4%, or \$12.7 million, to \$273.4 million.
- Basic and diluted earnings per share in the second quarter of fiscal 2014 were \$0.36, a 5.3% decrease from the comparable prior year amounts of \$0.38 per share.
- Adjusted diluted earnings per share were \$0.47 in the second quarter of fiscal 2014 and \$0.49 in the second quarter of fiscal 2013, or a decrease of 4.1%.

Comparisons of results from the first 26 weeks of fiscal 2014 to the first 26 weeks of fiscal 2013:

- Sales increased 4.9%, or \$1.1 billion, to \$23.0 billion.
- Operating income decreased 3.7%, or \$31.5 million, to \$830.0 million.
- Adjusted operating income decreased 5.0%, or \$52.3 million, to \$996.3 million.
- Net earnings decreased 2.3%, or \$11.5 million, to \$496.4 million.
- Adjusted net earnings decreased 3.8%, or \$23.9 million, to \$602.5 million.
 - Basic earnings per share in the first 26 weeks of fiscal 2014 were \$0.85, a decrease of 1.2% from the comparable prior year amount of \$0.86 per share. Diluted earnings per share in the first 26 weeks of fiscal 2014 were \$0.84, a 2.3% decrease from the comparable prior year period amount of \$0.86 per share.
 - Adjusted diluted earnings per share were \$1.02 in the first 26 weeks of fiscal 2014 and \$1.06 in the first 26 weeks of fiscal 2013, or a decrease of 3.8%.

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

In the second quarter of fiscal 2014, we announced an agreement to merge with US Foods. This merger is currently pending a regulatory review process.

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. Consumers continue to spend their disposable income in an increasingly disciplined manner. We believe these conditions have contributed to a slow rate of recovery in the foodservice market. While these trends can be cyclical in nature, greater consumer confidence will be required to reverse the trend. According to industry sources, real sales growth for the total foodservice market in the U.S. is expected to be modest over the long-term. We believe these industry trends reinforce the need for us to transform our business to reduce our overall cost structure and provide greater value to our customers.

Our gross margin performance has been influenced by multiple factors. The modest level of growth in the foodservice market has created additional competitive pricing pressures which is in turn negatively impacting gross profits. Sales to our locally-managed customers, including independent restaurant customers, have not grown at the same rate as sales to our regional and national customers. Gross margin from our regional and national customers is generally lower than other types of customers. Our locally-managed customers comprise a significant portion of our overall volumes and an even greater percentage of profitability because of the high level of valued added services we typically provide to this customer group. As a result, our gross margins have declined. We have implemented several short term action steps and longer term strategic initiatives to accelerate both our locally-managed sales and mitigate ongoing gross margin pressures.

We have experienced higher operating expenses this fiscal year as compared to fiscal 2013, stemming from higher case volumes, some of which is attributable to our acquired operations, partially offset by lower business transformation expenses and benefits from business transformation initiatives. We have experienced a decrease in pay-related expenses in the selling and information technology areas due to initiatives from our Business Transformation Project. Other areas of pay-related expense have increased primarily from acquired companies and within delivery areas of our business. Our retirement-related expenses consist primarily of costs from our company-sponsored qualified pension plan (Retirement Plan), our Supplemental Executive Retirement Plan (SERP) and our defined contribution plan. Our Retirement Plan was substantially frozen and the SERP was completely frozen in fiscal 2013, and our defined contribution plan was enhanced with greater benefits. The net impact of these actions is a reduction in retirement-related costs for fiscal 2014 as compared to fiscal 2013. We have incurred additional costs in connection with the proposed merger with US Foods in the second quarter of fiscal 2014 primarily from due diligence costs. We anticipate incurring additional costs as we begin planning for integration of the two companies as well as other financing costs incurred in connection with the proposed merger. The proposed merger is undergoing regulatory review by the Federal Trade Commission, which we expect to take between six to nine months.

Strategy

We are focused on optimizing our core broadline business in the U.S., Bahamas, Canada, Republic of Ireland and Northern 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.

The five strategies above are designed to drive sustainable profitable growth, increase asset optimization and free cash flow and increase operating margins. Consistent with these three objectives, in the second quarter of fiscal 2014, we announced an agreement to merge with US Foods. US Foods is a leading foodservice distributor in the United States 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 the completion of the proposed merger, the combined company will continue to be named Sysco and headquartered in Houston, Texas. At closing, Sysco is expected to have annual sales of approximately \$65 billion and with successful integration, we believe at least \$600 million in estimated annual synergies can be obtained in the combined company over a three to four year time period. Expenses to achieve synergies are estimated to be \$700 million to \$800 million to occur over a three year time frame once the acquisition has closed. We anticipate some level of capital expenditures however amounts have not been estimated at this time. Sysco has agreed to pay approximately \$3.5 billion for the equity of US Foods, comprising \$3 billion of Sysco common stock and \$500 million of cash. As part of the transaction, we will also assume or refinance US Foods' net

debt, which was approximately \$4.7 billion, bringing the total enterprise value to \$8.2 billion. The values noted above are as of the time of the merger agreement was announced in December 2013; 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. We have secured a fully committed bridge financing and expect to issue permanent financing prior to closing. 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, which will likely take between six to nine months. We expect the transaction to close in the first quarter of fiscal 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 that would be recognized as an expense.

Business Transformation Project

Our multi-year Business Transformation Project consists of several initiatives including:

- the design and deployment of an enterprise resource planning (ERP) system to implement an integrated software system to support a majority of our business processes and further streamline our operations;
- initiatives to lower our operating cost structure; and
- a category management initiative to use market data and customer insights to lower product pricing and enhance our product assortment to drive sales growth.

With respect to our ERP system, we successfully installed a major scheduled update to the system and deployed the system to one additional location in the first 26 weeks of fiscal 2014. We have deployed the system to two additional locations in January 2014 and an update to further improve system stability and scalability will be implemented in February 2014. Depending on the success of these actions, we would expect to deploy the system to two additional locations by the end of the fiscal year. A larger scale deployment schedule will be defined at a later date. We have experienced greater capitalization of costs incurred to develop system improvements and believe our capital spending for fiscal 2014 will now be in the range of \$30 million to \$40 million.

We are seeking to lower our operating cost structure through various initiatives. These include efforts to increase our productivity in the warehouse and delivery activities including fleet management and maintenance activities. It also involves improving sales productivity and reducing general and administrative expenses, partially through aligning compensation and benefit plans. Efforts from our cost transformation initiatives in fiscal 2013 continue to benefit fiscal 2014. Our fiscal 2014 initiatives include items in our delivery and warehouse operations such as route optimization, warehouse and delivery scorecards to track performance and enhance accountability, consolidated procurement of parts and forklift equipment and optimizing our fleet.

Our category management initiative is designed to lower our total product costs and to align our product assortment with customer demand. We are using market data and customer insights to make changes to our product assortment while building strategic partnerships with our suppliers to grow our sales and our suppliers' sales. We believe there are opportunities to more effectively provide the products that our customers want, commit to greater volumes with our

suppliers and create mutual benefits for all parties. We believe that procuring greater quantities with select vendors will result in reduced prices for our product purchases. We launched sales to our customers for the majority of the categories in wave one and expect wave two categories to launch during the last 26 weeks of fiscal 2014. We continue to believe this initiative will provide benefits to our customers and savings for us over the next few years.

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 | | 26-Week Period | |
|------------------------------|----------------|----------|----------------|----------|
| | Ended | | Ended | |
| | Dec. 28, | Dec. 29, | Dec. 28, | Dec. 29, |
| | 2013 | 2012 | 2013 | 2012 |
| Sales | 100.0 % | 100.0 % | 100.0 % | 100.0 % |
| Cost of sales | 82.5 | 81.9 | 82.4 | 81.8 |
| Gross margin | 17.5 | 18.1 | 17.6 | 18.2 |
| Operating expenses | 14.4 | 14.5 | 14.0 | 14.3 |
| Operating income | 3.1 | 3.6 | 3.6 | 3.9 |
| Interest expense | 0.2 | 0.3 | 0.2 | 0.3 |
| Other expense (income), net | (0.0) | (0.0) | (0.0) | (0.0) |
| Earnings before income taxes | 2.9 | 3.3 | 3.4 | 3.6 |
| Income taxes | 1.0 | 1.2 | 1.2 | 1.3 |
| Net earnings | 1.9 % | 2.1 % | 2.2 % | 2.3 % |

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 | | 26-Week | |
|------------------------------|-----------|-----------|---------|--|
| | Period | | Period | |
| Sales | 4.1 % | 4.9 % | | |
| Cost of sales | 4.8 | 5.7 | | |
| Gross margin | 0.7 | 1.2 | | |
| Operating expenses | 2.8 | 2.6 | | |
| Operating income | (8.1) | (3.7) | | |
| Interest expense | (7.6) | (4.4) | | |
| Other expense (income), net | 140.2 (1) | 106.7 (2) | | |
| Earnings before income taxes | (7.4) | (3.0) | | |
| Income taxes | (11.8) | (4.3) | | |
| Net earnings | (4.8) % | (2.3) % | | |
| Basic earnings per share | (5.3) % | (1.2) % | | |
| Diluted earnings per share | (5.3) | (2.3) | | |

| | | |
|----------------------------|-------|-------|
| Average shares outstanding | (0.5) | (0.3) |
| Diluted shares outstanding | (0.3) | (0.1) |

- (1) Other expense (income), net was income of \$4.2 million in the second quarter of fiscal 2014 and \$1.8 million in the second quarter of fiscal 2013.
- (2) Other expense (income), net was income of \$8.7 million in the first 26 weeks of fiscal 2014 and \$4.2 million in the first 26 weeks of fiscal 2013.

Sales

Sales were 4.1% higher in the second quarter and 4.9% higher in the first 26 weeks of fiscal 2014 than in the comparable period of the prior year. Sales for both periods of fiscal 2014 increased as a result of sales from acquisitions that occurred within the last 12 months, case volume growth and product cost inflation and the resulting increase in selling prices. Our sales growth slowed in the final month of the second quarter of fiscal 2014. A shortened holiday shopping season and severe weather in several areas of the United States reduced restaurant traffic, especially in the casual dining segment. This trend in turn negatively influenced our sales growth. Sales growth in the early part of our third quarter of fiscal 2014 has continued at a lower rate as severe weather has continued to impact several areas that we serve. Our sales growth in both periods of fiscal 2014 was greater with our regional and national customers as compared to sales growth with our locally-managed customers. We believe our locally-managed customer growth has been negatively influenced by market conditions including the impact of lower consumer spend. We are seeing stronger growth in our

locally-managed customers in our Southwest market, while underlying market conditions are difficult in our Northeast and Mideast markets. Case volumes including acquisitions within the last 12 months grew approximately 4.3% in the second quarter and 4.2% in the first 26 weeks of fiscal 2014. Case volumes excluding acquisitions within the last 12 months grew approximately 2.7% in the second quarter and 2.2% in the first 26 weeks of fiscal 2014. Our case volumes represent our results from our Broadline and SYGMA segments combined. Sales from acquisitions within the last 12 months favorably impacted sales by 1.9% for both the second quarter and first 26 weeks of fiscal 2014. Changes in product costs, an internal measure of inflation or deflation, were estimated as inflation of 0.8% during the second quarter and 1.4% for the first 26 weeks of fiscal 2014. The exchange rates used to translate our foreign sales into U.S. dollars negatively impacted sales by 0.6% in the second quarter of fiscal 2014 and 0.5% in first 26 weeks of fiscal 2014.

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 table sets 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 Dec. 28, 2013 | 13-Week Period Ended Dec. 29, 2012 | 13-Week Period Change in Dollars | 13-Week Period % Change |
|--|--|--|---|----------------------------------|
| | (In thousands) | | | |
| Gross profit | \$ 1,964,951 | \$ 1,952,110 | \$ 12,841 | 0.7 % |
| Operating expenses | 1,613,174 | 1,569,459 | 43,715 | 2.8 |
| Operating income | \$ 351,777 | \$ 382,651 | \$ (30,874) | (8.1) % |
| Gross profit | \$ 1,964,951 | \$ 1,952,110 | \$ 12,841 | 0.7 % |
| Adjusted operating expenses (Non-GAAP) | 1,516,329 | 1,466,446 | 49,883 | 3.4 |
| Adjusted operating income (Non-GAAP) | \$ 448,622 | \$ 485,664 | \$ (37,042) | (7.6) % |

| | 26-Week Period Ended Dec. 28, 2013 (In thousands) | 26-Week Period Ended Dec. 29, 2012 | 26-Week Period Change in Dollars | 26-Week Period % Change |
|--|--|--|---|----------------------------------|
| Gross profit | \$ 4,030,438 | \$ 3,981,905 | \$ 48,533 | 1.2 % |
| Operating expenses | 3,200,463 | 3,120,472 | 79,991 | 2.6 |
| Operating income | \$ 829,975 | \$ 861,433 | \$ (31,458) | (3.7) % |
| Gross profit | \$ 4,030,438 | \$ 3,981,905 | \$ 48,533 | 1.2 % |
| Adjusted operating expenses (Non-GAAP) | 3,034,154 | 2,933,312 | 100,842 | 3.4 |
| Adjusted operating income (Non-GAAP) | \$ 996,284 | \$ 1,048,593 | \$ (52,309) | (5.0) % |

Operating income for the second quarter and first 26 weeks of fiscal 2014 was lower than the comparable periods of fiscal 2013 primarily from a lower rate of growth in our gross profit, increased expenses from our acquired operations, expenses attributable to volume growth and a change in estimate of our self-insurance accruals, partially offset by lower Business Transformation expenses and lower retirement related expenses. Adjusted operating income for the second quarter and first 26 weeks of fiscal 2014 was lower than the comparable periods of fiscal 2013 primarily from a lower rate of growth in our gross profits, increased expenses from acquired operations and expenses attributable to volume growth. As a percentage of sales, we experienced favorable expense management partially from benefits from our business transformation initiatives.

Gross profit dollars increased in the second quarter and first 26 weeks of fiscal 2014 as compared to the second quarter and first 26 weeks of fiscal 2013 primarily due to increased sales volumes. Gross margin, which is gross profit as a percentage of sales, was 17.48% in the second quarter of fiscal 2014, a decline of 60 basis points from the gross margin of 18.08% in the second quarter of

fiscal 2013. Gross margin was 17.56% in the first 26 weeks of fiscal 2014, a decline of 64 basis points from the gross margin of 18.20% in the first 26 weeks of fiscal 2013. This decline in gross margin was partially the result of increased competition resulting from a slow-growth market and increased sales to lower margin regional and national customers. Our locally-managed customers comprise a significant portion of our overall volumes and an even greater percentage of profitability because of the high level of valued added services we typically provide to this customer group. If sales from our locally-managed customers do not grow at the same rate as sales from these regional and national customers, our gross margins may continue to decline.

Operating expenses for the second quarter and first 26 weeks of fiscal 2014 increased 2.8%, or \$43.7 million, and 2.6%, or \$80.0 million, over the comparable prior year periods, respectively, primarily due to increased expenses from our acquired operations, expenses attributable to volume growth and a change in estimate of our self-insurance accruals, partially offset by lower Business Transformation expenses, lower retirement related expenses and benefits from Business Transformation initiatives. We also experienced increased depreciation and amortization expense and costs associated with the US Foods merger which totaled \$4.3 million in the second quarter of fiscal 2014. Adjusted operating expenses increased 3.4%, or \$49.9 million, in the second quarter of fiscal 2014 over the comparable prior year period. Adjusted operating expenses increased 3.4% or \$100.8 million, in the first 26 weeks of fiscal 2014 over the comparable prior year period primarily due to increased expenses from our acquired operations. We believe favorable expense management, partially from our Business Transformation initiatives, helped to keep our operating expense increases from being greater.

Sysco maintains a self-insurance program covering portions of workers' compensation, general and vehicle liability and property insurance costs. The amounts in excess of the self-insured levels are fully insured by third party insurers. Liabilities associated with these risks are estimated in part by considering historical claims experience, medical cost trends, demographic factors, severity factors and other actuarial assumptions. In the second quarter of fiscal 2014, based on the historical trends of increased costs primarily attributable to our worker's compensation claims, we increased our estimates of our self-insurance reserve to a higher point in an estimated range of liability as opposed to our past position at the lower end of the range. This resulted in a charge of \$23.8 million in the second quarter of fiscal 2014.

Pay-related expenses, excluding labor costs associated with our Business Transformation Project and retirement-related expenses, increased by \$10.5 million in the second quarter and \$3.1 million in the first 26 weeks of fiscal 2014 over the comparable prior year periods. Benefits from our Business Transformation initiatives have helped in lowering the rate of growth in these expenses. The increases experienced were primarily due to costs from companies acquired in the last 12 months as well as increased delivery and warehouse compensation, partially attributable to case growth. These increases were partially offset by reduced pay-related expenses as a result of our Business Transformation initiatives in our sales and information technology areas. During fiscal 2013, we streamlined our sales management organization and modified marketing associate compensation plans. Also in fiscal 2013, we restructured our information technology department which reduced headcount in this area. Lower provisions for management incentive plans also contributed to the decline in pay-related expenses.

Depreciation and amortization expense increased by \$8.5 million in the second quarter and \$21.6 million in the first 26 weeks of fiscal 2014 over the comparable prior year periods. The increase in amortization expenses related to our Business Transformation Project is described below. The remaining increase of \$7.6 million in the second quarter and

\$15.6 million in the first 26 weeks of fiscal 2014 was primarily related to amortization of acquisition-related intangibles and assets that were not placed in service in the second quarter and first 26 weeks of fiscal 2013 that were in service in the second quarter and first 26 weeks of fiscal 2014, primarily fleet.

Our retirement-related expenses consist primarily of costs from our Retirement Plan, SERP and our defined contribution plan. As a part of our Business Transformation initiatives, our Retirement Plan was substantially frozen and the SERP was completely frozen in fiscal 2013, and our defined contribution plan was enhanced with greater benefits. The net impact in the second quarter of fiscal 2014 of our retirement-related expenses as compared to the second quarter of fiscal 2013 was a decrease of \$20.0 million, consisting of a \$40.1 million decrease in our net company-sponsored pension costs and approximately \$3.6 million for other costs, partially offset by \$23.7 million of increased costs from the defined contribution plan. The net impact in the first 26 weeks of fiscal 2014 of our retirement-related expenses as compared to the first 26 weeks of fiscal 2013 was a decrease of \$28.7 million, consisting of a \$72.0 million decrease in our net company-sponsored pension costs and approximately \$3.9 million for other costs, partially offset by \$47.2 million increased costs from the defined contribution plan. We expect our retirement-related expenses in fiscal 2014 as compared to fiscal 2013 will decrease in the range of \$75 million to \$85 million primarily from reduced pension expenses, partially offset by increased defined contribution plan expenses. A greater portion of the decrease will occur in the second half of fiscal 2014 due to operation of our enhanced, defined contribution plan for a one-year period. Excluding \$21 million of restructuring charges taken in fiscal 2013, the decrease in fiscal 2014 is expected to be \$50 million to \$60 million.

Expenses related to our Business Transformation Project, inclusive of pay-related and software amortization expense, were \$63.4 million in the second quarter of fiscal 2014 and \$81.4 million in the second quarter of fiscal 2013, representing a decrease of \$17.9 million. Expenses related to our Business Transformation Project, inclusive of pay-related and software amortization expense, were \$130.0 million in the first 26 weeks of fiscal 2014 and \$159.0 million in the first 26 weeks of fiscal 2013, representing a decrease of \$29.0 million. The decrease in the second quarter and first 26 weeks of fiscal 2014 resulted from an increased level of capitalization

on amounts spent for system improvements to enhance stability and scalability. We also experienced a reduced level of spend with consultants as compared to the comparable period in fiscal 2013. The decrease in the first 26 weeks was partially offset by an increase in depreciation and amortization expense related to the Business Transformation Project of \$5.9 million in the first 26 weeks of fiscal 2014 over the first 26 weeks of fiscal 2013. Amortization commenced in August of fiscal 2013; therefore, the first 26 weeks of fiscal 2013 only included five months of amortization expense. As deployments resume in the second quarter of fiscal 2014 and the remainder of the fiscal year, we anticipate that total project expenses for fiscal 2014 will be similar to fiscal 2013. As a result, we expect these expenses to be in the range of \$300 million to \$350 million for fiscal 2014 with a greater likelihood of being at the lower end of that range.

Operating expense on a cost per case basis for our Broadline companies decreased \$0.11 and \$0.10 per case as compared to the second quarter and first 26 weeks of fiscal 2013, respectively, primarily from reduced pay-related expenses from our sales and information technology areas, lower retirement-related expenses, partially offset by increased costs from delivery pay-related expenses. We do not anticipate maintaining this rate of improvement for the second half of the year due to timing of implementing certain initiatives begun in fiscal 2013. We expect to meet or exceed our goal to reduce our Broadline companies cost per case in fiscal 2014 as compared to fiscal 2013 by approximately \$0.05 per case.

Net Earnings

Net earnings decreased 4.8% in the second quarter and 2.3% in the first 26 weeks of fiscal 2014 from the comparable periods of the prior year due primarily to the changes in operating income discussed above. Adjusted net earnings decreased 4.4% and 3.8% during the same periods.

The effective tax rate for the second quarter of fiscal 2014 of 35.37% was favorably impacted by the recording of \$4.3 million of net tax benefit related to various federal and state uncertain tax positions and \$2.1 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 second quarter of fiscal 2013 of 37.14% was favorably impacted by the recording of \$1.7 million of tax benefit related to disqualifying dispositions of Sysco stock pursuant to share-based compensation arrangements. This favorable impact was nearly offset by the recording of \$1.6 million in net tax expense related to various federal and state uncertain tax positions. Indefinitely reinvested earnings taxed at foreign statutory rates less than our domestic tax rate also had the impact of reducing the effective tax rate.

The effective tax rate for the first 26 weeks of fiscal 2014 of 36.23% was favorably impacted by the recording of \$3.7 million of tax benefit related to disqualifying dispositions of Sysco stock pursuant to share-based compensation arrangements and \$3.5 million of net tax benefit related to various federal and state uncertain tax

positions. Indefinitely reinvested earnings taxed at foreign statutory rates less than our domestic tax rate also had the impact of reducing the effective tax rate.

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

Earnings Per Share

Basic and diluted earnings per share in the second quarter of fiscal 2014 were \$0.36, a 5.3% decrease from the comparable prior period amount of \$0.38 per share. Adjusted diluted earnings per share in the second quarter of fiscal 2014 were \$0.47 a 4.1% decrease from the comparable prior period amount of \$0.49 per share. These results were primarily from the factors discussed above related to net earnings.

Basic earnings per share in the first 26 weeks of fiscal 2014 were \$0.85, a 1.2% decrease from the comparable prior year period amount of \$0.86 per share. Diluted earnings per share in the first 26 weeks of fiscal 2014 were \$0.84, a 2.3% decrease from the comparable prior year period amount of \$0.86 per share. Adjusted diluted earnings per share were \$1.02 in the first 26 weeks of fiscal 2014 and \$1.06 in the first 26 weeks of fiscal 2013, or a decrease of 3.8%. These decreases were primarily the result of the factors discussed above related to net earnings.

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, merger costs, changes in estimates of self insurance, 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 these charges 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 the costs described above. 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 Dec. 28, 2013 | 13-Week Period Ended Dec. 29, 2012 | 13-Week Period Change in Dollars | 13-Week Period % Change |
|---|--|--|---|-------------------------------|
| (In thousands, except for share and per share data) | | | | |
| Operating expenses (GAAP) | \$ 1,613,174 | \$ 1,569,459 | \$ 43,715 | 2.8 % |
| Impact of restructuring executive retirement plans | (1,035) | (12,163) | 11,128 | (91.5) |
| Impact of MEPP charge | (1,451) | (2,457) | 1,006 | (40.9) |
| Impact of severance charge | (2,014) | (5,669) | 3,655 | (64.5) |
| Impact of US foods merger costs | (4,352) | - | (4,352) | |
| Impact of change in estimate of self insurance | (23,841) | - | (23,841) | |
| Impact of facility closure charges | (736) | (1,362) | 626 | (46.0) |
| Impact of BTP costs | (63,416) | (81,362) | 17,946 | (22.1) |
| Adjusted operating expenses (Non-GAAP) | \$ 1,516,329 | \$ 1,466,446 | \$ 49,883 | 3.4 % |
| Operating Income (GAAP) | \$ 351,777 | \$ 382,651 | \$ (30,874) | (8.1) % |
| Impact of restructuring executive retirement plans | 1,035 | 12,163 | (11,128) | (91.5) |
| Impact of MEPP charge | 1,451 | 2,457 | (1,006) | (40.9) |
| Impact of severance charge | 2,014 | 5,669 | (3,655) | (64.5) |
| Impact of US foods merger costs | 4,352 | - | 4,352 | |
| Impact of change in estimate of self insurance | 23,841 | - | 23,841 | |
| Impact of facility closure charges | 736 | 1,362 | (626) | (46.0) |
| Impact of BTP costs | 63,416 | 81,362 | (17,946) | (22.1) |
| Adjusted operating income (Non-GAAP) | \$ 448,622 | \$ 485,664 | \$ (37,042) | (7.6) % |
| Net earnings (GAAP) | \$ 210,835 | \$ 221,369 | \$ (10,534) | (4.8) % |
| Impact of restructuring executive retirement plans (net of tax) (1) | 669 | 7,646 | (6,977) | (91.3) |
| Impact of MEPP charge (net of tax) (1) | 938 | 1,544 | (606) | (39.2) |
| Impact of severance charge (net of tax) (1) | 1,302 | 3,564 | (2,262) | (63.5) |
| Impact of US foods merger costs (net of tax) (1) | 2,813 | - | 2,813 | |
| Impact of change in estimate of self Insurance (net of tax) (1) | 15,408 | - | 15,408 | |
| Impact of facility closure charges (net of tax) (1) | 476 | 856 | (380) | (44.4) |
| Impact of BTP costs (net of tax) (1) | 40,986 | 51,144 | (10,158) | (19.9) |
| Adjusted net earnings (Non-GAAP) | \$ 273,427 | \$ 286,123 | \$ (12,696) | (4.4) % |
| Diluted earnings per share (GAAP) | \$ 0.36 | \$ 0.38 | \$ (0.02) | (5.3) % |
| Impact of restructuring executive retirement plans | - | 0.01 | (0.01) | (100.0) |
| Impact of MEPP charge | - | - | - | |
| Impact of severance charge | - | 0.01 | (0.01) | (100.0) |
| Impact of US foods merger costs | - | - | - | |
| Impact of change in estimate of self insurance | 0.03 | - | 0.03 | |
| Impact of facility closure charges | - | - | - | |

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| | | | | |
|--|-------------|-------------|-----------|---------|
| Impact of BTP costs | 0.07 | 0.09 | (0.02) | (22.2) |
| Adjusted diluted earnings per share (Non-GAAP) | \$ 0.47 | \$ 0.49 | \$ (0.02) | (4.1) % |
| Diluted shares outstanding | 587,926,287 | 589,751,933 | | |

- (1) The aggregate tax impact of adjustments for the executive retirement plans restructuring, severance charges, facility closure charges and Business Transformation Project costs was \$34.3 million and \$38.3 million for the second quarter of fiscal 2014 and fiscal 2013, respectively. Amounts are calculated by multiplying the operating income impact of each item by each quarter's effective tax rate.

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| | 26-Week Period Ended Dec. 28, 2013 | 26-Week Period Ended Dec. 29, 2012 | 26-Week Period Change in Dollars | 26-Week Period % Change |
|---|--|--|---|-------------------------------|
| (In thousands, except for share and per share data) | | | | |
| Operating expenses (GAAP) | \$ 3,200,463 | \$ 3,120,472 | \$ 79,991 | 2.6 % |
| Impact of restructuring executive retirement plans | (1,550) | (12,163) | 10,613 | (87.3) |
| Impact of MEPP charge | (1,451) | (2,457) | 1,006 | (40.9) |
| Impact of severance charge | (3,596) | (11,746) | 8,150 | (69.4) |
| Impact of US foods merger costs | (4,352) | - | (4,352) | |
| Impact of change in estimate of self insurance | (23,841) | - | (23,841) | |
| Impact of facility closure charges | (1,475) | (1,750) | 275 | (15.7) |
| Impact of BTP costs | (130,044) | (159,044) | 29,000 | (18.2) |
| Adjusted operating expenses (Non-GAAP) | \$ 3,034,154 | \$ 2,933,312 | \$ 100,842 | 3.4 % |
| Operating Income (GAAP) | \$ 829,975 | \$ 861,433 | \$ (31,458) | (3.7) % |
| Impact of restructuring executive retirement plans | 1,550 | 12,163 | (10,613) | (87.3) |
| Impact of MEPP charge | 1,451 | 2,457 | (1,006) | (40.9) |
| Impact of severance charge | 3,596 | 11,746 | (8,150) | (69.4) |
| Impact of US foods merger costs | 4,352 | - | 4,352 | |
| Impact of change in estimate of self insurance | 23,841 | - | 23,841 | |
| Impact of facility closure charges | 1,475 | 1,750 | (275) | (15.7) |
| Impact of BTP costs | 130,044 | 159,044 | (29,000) | (18.2) |
| Adjusted operating income (Non-GAAP) | \$ 996,284 | \$ 1,048,593 | \$ (52,309) | (5.0) % |
| Net earnings (GAAP) | \$ 496,425 | \$ 507,967 | \$ (11,542) | (2.3) % |
| Impact of restructuring executive retirement plans (net of tax) (1) | 988 | 7,698 | (6,710) | (87.2) |
| Impact of MEPP charge (net of tax) (1) | 925 | 1,555 | (630) | (40.5) |
| Impact of severance charge (net of tax) (1) | 2,293 | 7,434 | (5,141) | (69.2) |
| Impact of US foods merger costs (net of tax) (1) | 2,775 | - | 2,775 | |
| Impact of change in estimate of self Insurance (net of tax) (1) | 15,203 | - | 15,203 | |
| Impact of facility closure charges (net of tax) (1) | 941 | 1,108 | (167) | (15.1) |
| Impact of BTP costs (net of tax) (1) | 82,929 | 100,659 | (17,730) | (17.6) |
| Adjusted net earnings (Non-GAAP) | \$ 602,479 | \$ 626,421 | \$ (23,942) | (3.8) % |
| Diluted earnings per share (GAAP) | \$ 0.84 | \$ 0.86 | \$ (0.02) | (2.3) % |
| Impact of restructuring executive retirement plans | - | 0.01 | (0.01) | (100.0) |
| Impact of MEPP charge | - | - | - | |
| Impact of severance charge | - | 0.01 | (0.01) | (100.0) |
| Impact of US foods merger costs | - | - | - | |
| Impact of change in estimate of self insurance | 0.03 | - | 0.03 | |
| Impact of facility closure charges | - | - | - | |
| Impact of BTP costs | 0.14 | 0.17 | (0.03) | (17.6) |
| Adjusted diluted earnings per share (Non-GAAP) | \$ 1.02 | \$ 1.06 | \$ (0.04) | (3.8) % |
| Diluted shares outstanding | 589,516,342 | 590,130,537 | | |

- (1) The aggregate tax impact of adjustments for the executive retirement plans restructuring, severance charges, facility closure charges and Business Transformation Project costs was \$60.3 million and \$68.7 million for the first 26 weeks of fiscal 2014 and fiscal 2013, respectively. Amounts are calculated by multiplying the operating income impact of each item by each quarter'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 and adjustments 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 26-Week Period | |
|-----------|---|---------------------|---|---------------------|
| | Dec. 28, 2013 | Dec. 29, 2012 | Dec. 28, 2013 | Dec. 29, 2012 |
| Broadline | 6.2 % | 6.6 % | 6.5 % | 6.9 % |
| SYGMA | 0.7 | 1.0 | 0.6 | 0.9 |
| Other | 2.9 | 3.1 | 3.0 | 3.2 |

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) | | Increase (Decrease) | |
|-----------|------------------------|---------------------|------------------------|---------------------|
| | 13-Week Period | | 26-Week Period | |
| | Sales | Operating Income | Sales | Operating Income |
| Broadline | 3.4 % | (3.2) % | 4.4 % | (0.5) % |
| SYGMA | 8.8 | (24.0) | 8.0 | (27.3) |
| Other | 5.4 | (2.9) | 6.6 | (1.0) |

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 and adjustments of \$240.0 million and \$447.4 million in the second quarter and first 26 weeks of fiscal 2014, as compared to \$231.5 million and \$430.0 million in the second quarter and first 26 weeks of fiscal 2013, 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 | | | |
| | Dec. 28, 2013 | | Dec. 29, 2012 | |
| | Sales | Segment Operating Income | Sales | Segment Operating Income |
| Broadline | 80.8 % | 94.9 % | 81.3 % | 94.5 % |
| SYGMA | 13.7 | 1.7 | 13.1 | 2.2 |
| Other | 6.2 | 3.4 | 6.1 | 3.3 |
| Intersegment sales | (0.7) | - | (0.5) | - |
| Total | 100.0 % | 100.0 % | 100.0 % | 100.0 % |

Components of Segment Results

26-Week Period Ended

Dec. 28, 2013

Dec. 29, 2012

| | Sales | | Segment Operating Income | | Sales | | Segment Operating Income | |
|--------------------|-------|---|--------------------------------|---|-------|---|--------------------------------|---|
| Broadline | 81.2 | % | 95.2 | % | 81.5 | % | 94.7 | % |
| SYGMA | 13.3 | | 1.5 | | 12.9 | | 2.0 | |
| Other | 6.1 | | 3.3 | | 6.0 | | 3.3 | |
| Intersegment sales | (0.6) | | - | | (0.5) | | - | |
| Total | 100.0 | % | 100.0 | % | 100.0 | % | 100.0 | % |

Broadline Segment

The Broadline reportable segment is an aggregation of the company's U.S., Canadian, Caribbean 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 26 weeks of fiscal 2014, the Broadline operating results represented approximately 81.2% of Sysco's overall sales and 95.2% of the aggregated operating income of Sysco's segments, which excludes corporate expenses.

Sales

Sales were 3.4% higher in the second quarter and 4.4% greater in the first 26 weeks of fiscal 2014 than in the comparable period of the prior year. Sales for the second quarter and first 26 weeks of fiscal 2014 increased as a result of sales from acquisitions that occurred within the last 12 months, case volume growth and product cost inflation and the resulting increase in selling prices. Our sales growth began to slow in the final month of the second quarter of fiscal 2014. A shortened holiday shopping season and severe weather in several areas of the United States reduced restaurant traffic, especially in the casual dining segment. These in turn negatively influence our sales growth. Sales growth in the early part of our third quarter of fiscal 2014 has continued at a lower rate as severe weather has continued to impact several areas that we serve. Our sales growth in both periods of fiscal 2014 was greater with our regional and national customers as compared to sales growth with our locally-managed customers. We believe our locally-managed customer sales growth has been negatively influenced by lower consumer sentiment. We are seeing stronger growth in our locally-managed customers in our Southwest market, while underlying market conditions are difficult in our Northeast and Mideast markets. Sales from acquisitions within the last 12 months favorably impacted sales by 2.3% for both the second quarter and first 26 weeks of fiscal 2014. Changes in product costs, an internal measure of inflation or deflation, were estimated as inflation of 0.5% for

the second quarter and 1.3% for the first 26 weeks of fiscal 2014. The exchange rates used to translate our foreign sales into U.S. dollars negatively impacted sales by 0.7% in both the second quarter and first 26 weeks of fiscal 2014.

Operating Income

Operating income decreased by 3.2% in the second quarter and 0.5% in the first 26 weeks of fiscal 2014 over the comparable prior year periods driven by lower rates of growth in our gross profits, increased expenses from our acquired operations and expenses attributable to volume growth. As a percentage of sales, we experienced favorable expense management partially from benefits from our business transformation initiatives.

Gross profit dollars increased in the first quarter and first 26 weeks of fiscal 2014 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 competition resulting from a slow-growth market and increased sales to lower margin regional and national customers. Our locally-managed customers comprise a significant portion of our overall volumes and an even greater percentage of profitability because of the high level of valued added services we typically provide to this customer group. If sales from our locally-managed customers do not grow at the same rate as sales from these regional and national customers, our gross margins may continue to decline.

Operating expenses for the Broadline segment increased in the second quarter and first 26 weeks of fiscal 2014 as compared to the second quarter and first 26 weeks of fiscal 2013. The expense increases in fiscal 2014 were driven largely by expenses from acquired operations, expenses attributable to volume growth and increased depreciation and amortization expense. Pay-related expenses increased primarily from added costs from companies acquired in the last 12 months as well as increased delivery compensation, partially attributable to case growth. Depreciation and amortization increased primarily from assets that were not placed in service in the second quarter and first 26 weeks of fiscal 2014 that were in service in the second quarter and first 26 weeks of fiscal 2014, primarily from fleet. These increases were partially offset by reduced sales and information technology pay-related

expenses. Retirement-related costs decreased primarily from the plan freezes that occurred in fiscal 2013. Our expense on a cost per case basis decreased as compared to the second quarter and first 26 weeks of fiscal 2013 primarily from reduced pay-related expenses from our sales and information technology areas, lower retirement-related expenses, partially offset by increased costs from delivery and warehouse pay-related expenses.

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 8.8% greater in the second quarter and 8.0% greater in the first 26 weeks of fiscal 2014 than in the second quarter and first 26 weeks of fiscal 2013. The increase was primarily due to new customers. Other contributors to the increase were product cost inflation and the resulting increase in selling prices and case volume increases from existing customers.

Operating Income

Operating income decreased by 24.0% in the second quarter and 27.3% in the first 26 weeks of fiscal 2014 from the second quarter and first 26 weeks of fiscal 2013. Gross profit dollars increased 3.3% while operating expenses increased 6.9% in the second quarter of fiscal 2014 over the second quarter of fiscal 2013. Gross profit dollars increased 2.2% while operating expenses increased 5.8% in the first 26 weeks of fiscal 2014 over the first 26 weeks of fiscal 2013. Gross profit dollar growth was lower than sales growth primarily due to reduced fuel surcharges. Operating expenses increased in fiscal 2014 largely due to increased delivery costs including pay-related expenses. Also contributing to the increase in expense were startup costs related to new customers and expenses incurred in preparation of a facility consolidation.

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, a company that distributes to international customers and our Sysco Ventures platform, our suite of technology solutions that help support the business needs of our customers. These operating segments are discussed on an aggregate basis as they do not represent reportable segments under segment accounting literature.

Operating income decreased 2.9% in the second quarter and 1.0% in the first 26 weeks of fiscal 2014 over the second quarter and first 26 weeks of fiscal 2013. The decrease in operating income was primarily driven by startup costs from our Sysco Ventures operations, partially offset by increased earnings from our specialty produce and lodging industry products segments. Additionally, retirement-related expenses were greater for these companies as our enhanced defined contribution plan became effective January 1, 2013, and some of these operations were not a part of prior benefit plans.

Liquidity and Capital Resources

Highlights

Comparisons of the cash flows from the first 26 weeks of fiscal 2014 to the first 26 weeks of fiscal 2013:

- Cash flows from operations were \$458.2 million this year compared to \$386.8 million last year.
- Capital expenditures totaled \$270.4 million this year compared to \$261.6 million last year.
- Free cash flow was \$211.2 million this year compared to \$128.4 million last year (See Non-GAAP reconciliation below under the heading “Free Cash Flow.”)
- Cash used for acquisition of businesses was \$22.5 million this year compared to \$194.2 million last year.
- Net bank borrowings were \$304.5 million this year compared to \$48.1 million last year.
- Proceeds from exercises of share-based compensation awards were \$160.4 million this year compared to \$90.9 million last year.
- Treasury stock purchases were \$266.6 million this year compared to \$143.5 million last year.
- Dividends paid were \$328.3 million this year compared to \$315.9 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 currently 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. 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. In the second quarter of fiscal 2014, we announced an agreement to merge with US Foods. Sysco has agreed to pay approximately \$3.5 billion for the equity of US Foods, comprising \$3 billion of Sysco common stock and \$500 million of cash. As part of the transaction, we will also assume or refinance US Foods' net debt, which is currently approximately \$4.7 billion, bringing the total enterprise value to \$8.2 billion. The values noted above are as of the time of the merger agreement was announced in December 2013; 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. We have secured a fully committed bridge financing and expect to issue permanent financing prior to closing. After completion of the transaction, the equity holders of US Foods will own approximately 87 million shares, or roughly 13%, of Sysco. This merger is currently pending a regulatory review process by the Federal Trade Commission, which will likely take between six to nine months. We expect the transaction to close in the first quarter of fiscal 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.

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 that impact our results of operations. Uncertain economic conditions and uneven levels of consumer confidence and the resulting pressure on consumer disposable income have lowered our sales growth and impacted our cash flows from operations. Competitive pressures in a low growth environment have also lowered our gross margins, which in turn have caused our cash flows from operations to decrease. We believe our mechanisms to manage working capital, such as credit monitoring, optimizing inventory levels and maximizing payment terms with vendors, and our mechanisms to manage the items impacting our gross profits have been sufficient to limit a significant unfavorable impact on our cash flows from operations. We believe these mechanisms will continue to prevent a significant unfavorable impact on our cash flows from operations. As of December 28, 2013, we had \$449.9 million in cash and cash equivalents, approximately 24% of which was held by our international subsidiaries generated from our earnings from international operations. If these earnings were transferred among countries or repatriated to the U.S., 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, 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, initiatives to improve our working capital management and cash flows from the operations of US Foods once acquired.

Cash Flows

Operating Activities

We generated \$458.2 million in cash flow from operations in the first 26 weeks of fiscal 2014, as compared to \$386.8 million in the first 26 weeks of fiscal 2013. This increase of \$71.4 million or 18.5%, was largely attributable to a favorable comparison on working capital. Also contributing to the increase in cash flow from operations were reduced tax payments, partially attributable to

nonrecurring payments that were applicable in fiscal 2013, and an increase in non-cash depreciation and amortization. Partially offsetting these favorable comparisons were greater payments for multiemployer pension withdrawal payments and a negative comparison on pension expense and contributions due to lower pension expense in the first 26 weeks of fiscal 2014 as compared to the first 26 weeks of fiscal 2013.

Changes in working capital, specifically accounts receivable, inventory and accounts payable, had a favorable comparison of \$140.4 million on the comparison of cash flow from operations for the first 26 weeks of fiscal 2014 to the first 26 weeks of fiscal 2013. The greatest impact resulted from the favorable comparison on inventories. Both periods were affected by increases in accounts receivable and inventory. Due to normal seasonal patterns, sales were slower during the last month of the second quarter as compared to the last month of the fiscal year, and sales to multi-unit customers and school districts represented a larger percentage of our sales at the end of each first 26 week period as compared to the end of each prior fiscal year. Payment terms for these types of customers are traditionally longer than average. Historically, we have experienced elevated inventory levels during the holiday period that occurs at the end of the second quarter. Sales in the last weeks of the quarter are at lower volumes due to the holiday period, causing an increase in inventory levels. In addition, purchasing levels are typically increased at the end of the quarter in anticipation of increased sales volumes from the re-opening of schools after the holiday period. The change in accounts payable in both periods was affected by the factors discussed above, including the slower sales in the last month of the quarter and the increase in inventory levels. However, the year-over-year impact of the change in accounts receivable, inventories and accounts payable is favorable to cash flow from operations due to working capital improvements.

Investing Activities

Our capital expenditures in the first 26 weeks of fiscal 2014 primarily included facility replacements and expansions, fleet and warehouse equipment.

During the first 26 weeks of fiscal 2014, in the aggregate, we paid cash of \$22.5 million for acquisitions made during fiscal 2014.

Free Cash Flow

Free cash flow represents net cash provided from operating activities less purchases of plant and equipment plus proceeds from sales 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 and sales 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 increased cash provided by operating activities and increased proceeds from sales of plant and equipment, partially offset by increased capital spending, free

cash flow for the first 26 weeks of fiscal 2014 increased 64.4%, or \$82.8 million, to \$211.2 million as compared to the first 26 weeks of fiscal 2013.

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

| | 26-Week Period Ended Dec. 28, 2013 | 26-Week Period Ended Dec. 29, 2012 | 26-Week Period Change in Dollars | 26-Week Period Change % |
|--|--|--|---|----------------------------------|
| | (In thousands) | | | |
| Net cash provided by operating activities (GAAP) | \$ 458,164 | \$ 386,785 | \$ 71,379 | 18.5 % |
| Additions to plant and equipment | (270,432) | (261,576) | (8,856) | (3.4) |
| Proceeds from sales of plant and equipment | 23,480 | 3,229 | 20,251 | 627.2 |
| Free Cash Flow (Non-GAAP) | \$ 211,212 | \$ 128,438 | \$ 82,774 | 64.4 % |

Financing Activities

Equity Transactions

Proceeds from exercises of share-based compensation awards were \$160.4 million in the first 26 weeks of fiscal 2014, as compared to \$90.9 million in the first 26 weeks of fiscal 2013. The increase in proceeds in the first 26 weeks of fiscal 2014 was due to an increase in the number of options exercised in this period, as compared to the first 26 weeks of fiscal 2013. The level of option

exercises, and thus proceeds, will vary from period to period and is largely dependent on movements in our stock price and the time remaining before option grants expire.

Shares repurchased during the first 26 weeks of fiscal 2014 were 8,225,000 shares at a cost of \$266.6 million, as compared to 4,675,200 shares at a cost of \$143.5 million in the first 26 weeks of fiscal 2013. In August 2013, our Board of Directors approved the repurchase of up to 20,000,000 shares for an aggregate purchase price not to exceed \$720 million. The authorization expires on August 23, 2015. There were no additional shares repurchased through January 25, 2014, resulting in a remaining authorization by our Board of Directors to repurchase up to 13,489,197 shares, based on the trades made through that date. Our share repurchase strategy is to purchase enough shares to keep our average shares outstanding relatively constant over time. We chose to repurchase more shares in the first 26 weeks of fiscal 2014, primarily in the first quarter, in anticipation of future stock option exercises. The number of shares we repurchase, if any, in the remainder of fiscal 2014 will be dependent on many factors, including the level of future stock option exercises as well as competing uses for available cash.

Dividends paid in the first 26 weeks of fiscal 2014 were \$328.3 million, or \$0.56 per share, as compared to \$315.9 million, or \$0.54 per share, in the first 26 weeks of fiscal 2013. In November 2013, we declared our regular quarterly dividend for the third quarter of fiscal 2014 of \$0.29 per share, which was paid in January 2014.

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 December 28, 2013. There were no borrowings outstanding as of January 25, 2014.

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 original facility in the amount of \$1,000.0 million expires on December 29, 2016, and the extended facility in the amount of \$925.0 million expires on December 29, 2017, but is subject to further extension. There were \$400.0 million of commercial paper issuances outstanding as of December 28, 2013. As of January 25, 2014, commercial paper issuances outstanding were \$369.7 million. We utilize our commercial paper issuances for normal day-to-day operations which may cause outstanding issuances to vary.

During the 26 week period ended December 28, 2013, aggregate commercial paper issuances and short-term bank borrowings ranged from zero to approximately \$769.5 million. During the first 26 weeks of fiscal 2014 and 2013, our aggregate commercial paper issuances and short-term bank borrowings had a weighted average interest rate of 0.16% and 0.23%, respectively.

The company's Irish subsidiary, Pallas Foods, has a multicurrency revolving credit facility, which provides for capital needs for the company's European subsidiaries. In September 2013, the facility was extended and increased to €100.0 million (Euro). This facility provides for unsecured borrowings and expires September 24, 2014, but is subject to extension. Outstanding borrowings under this facility were €42.0 million (Euro) as of December 28, 2013 and €42.0 million (Euro) as of January 25, 2014.

Included in current maturities of long-term debt as December 28, 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.

In August 2013, we entered into an interest rate swap agreement that effectively converted \$500.0 million of fixed rate debt maturing in fiscal 2018 to floating rate debt. This transaction was entered into with the goal of reducing overall borrowing cost and increasing floating interest rate exposure. This swap was designated as a fair value hedge against the changes in fair value of fixed rate debt resulting from changes in interest rates.

In December 2013, we secured a commitment for an unsecured bridge facility in the amount of \$3.3865 billion in connection with our proposed merger with US Foods (discussed further under Trends and Strategy).

Subsequent to quarter-end, the following transactions were entered in contemplation of securing financing and hedging interest rate risk relating to our assumption or refinancing of US Foods' net debt that will occur upon closing of the proposed merger.

In January 2014, we entered into a \$3.3865 billion bridge term loan agreement with multiple lenders. We may borrow up to \$3.3865 billion in term loans on the closing date of the US Foods acquisition to fund the acquisition, refinance certain indebtedness of US Foods and pay related fees and expenses. The facility expires on March 8, 2015, but is subject to extension if regulatory approvals have not yet been obtained. Borrowings under the bridge term loan agreement are guaranteed by the same subsidiaries of Sysco that are guarantee the company's revolving credit facility, and in certain circumstances may also be guaranteed by US Foods. We intend to issue permanent financing prior to closing of the transaction.

In January 2014, we entered into two forward starting swap agreements with notional amounts totaling of \$2.0 billion. We designated these derivatives as cash flow hedges of the variability in the cash outflows of interest payments on 10-year and 30-year debt forecasted to be issued in fiscal 2015 due to changes in the benchmark interest rates.

In January 2014, we extended and increased the size of the revolving credit facility described above that supports our U.S. and Canadian commercial paper programs. The facility was increased to \$1.5 billion with an expiration date of December 29, 2018, but is subject to further extension. The other terms and conditions of the extended facility are substantially the same.

Other Considerations

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

Under certain circumstances, including our voluntary withdrawal or a mass withdrawal of all contributing employers from certain underfunded plans, we would be required to make payments to the plans for our proportionate share of the multiemployer plan's unfunded vested liabilities. We believe that one of the above-mentioned events is reasonably possible with certain plans in which we participate and estimate our share of withdrawal liability for these plans could be as much as \$90.0 million as of December 28, 2013 and January 25, 2014, based on the latest available information as of each date. These estimates exclude plans for which we have recorded withdrawal liabilities or where the likelihood of the above-mentioned events is deemed remote. Due to the lack of current information, we believe our current share of the withdrawal liability could materially differ from this estimate.

As of December 28, 2013, June 29, 2013 and December 29, 2012, Sysco had approximately \$1.5 million, \$40.7 million and \$14.0 million, respectively, in liabilities recorded related to certain multiemployer defined benefit plans for which Sysco's voluntary withdrawal had already occurred.

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 U.S. 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.

In the first quarter of fiscal 2014, we were made aware of certain alleged violations of California law relating to our use of drop sites in the delivery of products. We are cooperating fully with the investigation being conducted by authorities in California, but could be subject to fines and injunctive relief. Discussions with authorities in California are ongoing and our financial exposure cannot be estimated at this time.

Contractual Obligations

Our Annual Report on Form 10-K for the fiscal year ended June 29, 2013, contains a table that summarizes our obligations and commitments to make contractual future cash payments as of June 29, 2013. Since June 29, 2013, there have been no material changes to our contractual obligations other than as described below.

The following table sets forth, as of December 28, 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 | |
| Unrecorded Contractual Obligations: | | | | | |
| Purchase obligations (1) | \$ 4,358,160 | \$ 2,941,569 | \$ 1,359,811 | \$ 56,763 | \$ 17 |
| US Foods merger consideration (2) | 5,200,000 | 5,200,000 | - | - | - |

- (1) 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 category management initiative. As we progress with this initiative, our purchase obligations are increasing. 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, fixed electricity agreements and fixed fuel purchase commitments. Purchase obligations exclude full requirements electricity contracts where no stated minimum purchase volume is required.
- (2) In the second quarter of fiscal 2014, the company announced an agreement to merge with US Foods. Sysco has agreed to pay approximately \$3.5 billion for the equity of US Foods, comprising \$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 is currently approximately \$4.7 billion, bringing the total enterprise value to \$8.2 billion. The table above includes the cash payment and the assumption or refinancing of US Foods' net debt. The values noted above are as of the time of the merger agreement was announced in December 2013; 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. 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.

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 29, 2013.

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, and our plan to continue to explore appropriate opportunities to profitably grow market share and create shareholder value by expanding beyond our core business;
- Sysco's belief regarding the impact of an accounting standards update;
- expectations regarding debt to be issued in fiscal 2015;
- expectations regarding our future contributions to certain multiemployer pension plans and the probability that certain plans will undergo mass withdrawals;
- our estimated share of withdrawal liability for certain multiemployer pension plans, and our belief that our current share of the withdrawal liability could materially differ from our estimate;
- our plans and expectations related to the proposed merger with US Foods, including our expectations regarding the timing of the closing, expected capital expenditures related to the merger, and our expectation that the regulatory review by the Federal Trade Commission will likely take between six to nine months;
- the impact of ongoing legal proceedings;

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- the impact of greater consumer confidence on certain industry trends, and the impact of general economic conditions on consumer confidence and our business;
- our plans related to accelerating our locally-managed sales and mitigating ongoing gross margin pressures;
- expectations regarding retirement-related costs for fiscal 2014;
- expectations regarding costs we will incur in connection with the proposed merger, including costs related to pre-merger integration planning efforts;
- expectations related to the five strategies that we have identified to help us achieve our mission and vision;
- our expectation that at closing of the merger with US Foods, Sysco will have annual sales of approximately \$65 billion;
- our beliefs and expectations regarding the estimated annual synergies to be obtained by Sysco, as the combined company, and the expenses to achieve such synergies;
- our plans and expectations regarding the implementation, timing, costs and benefits of our Business Transformation Project, including our intention to implement an update to the ERP system in February 2014, and to define a larger scale deployment schedule of the ERP system at a later date;
- expectations related to the deployment of the ERP system to two additional locations by the end of the fiscal year;
- Sysco's belief regarding fiscal 2014 capital spending and expenses related to the Business Transformation Project;
- our plans related to and the expected benefits of our cost transformation initiatives, including reducing our operating cost structure, improving our warehouse productivity, sales productivity and delivery activities, and reducing general and administrative expenses;
- our expectations regarding and the anticipated benefits of our category management initiative, including the lowering of our total product costs and the alignment of our product assortment with customer demand;
- our belief that opportunities exist to more effectively provide the products that our customers want, commit to greater volumes with our suppliers and create mutual benefits for all parties;
- Sysco's belief that procuring greater quantities with select vendors will result in reduced prices for our product purchases;
 - expectations regarding the launch of wave two categories related to our category management initiative;
- expectations related to the reduction of our Broadline companies cost per case in fiscal 2014;
- expectations regarding operating income and sales for our business segments over the long-term;
- expectations regarding the allocation of cash generated from operations;
- the impact of acquisitions and sales of assets and businesses on our liquidity, borrowing capacity, leverage ratios and capital availability;
- Sysco's anticipation that it will not need to relocate certain cash held by international subsidiaries;
- the sufficiency of our mechanisms for managing working capital and competitive pressures, and our belief that these mechanisms will continue to prevent a significant unfavorable impact on our cash flow from operations;
- 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 the factors impacting such improvement;
- our intentions regarding the funding of the repayment of notes at maturity;
- our intention to issue permanent financing prior to closing of merger with US Foods
- Sysco's belief regarding the source of funds to pay increased contributions to multiemployer pension plans, withdrawal liability and excise taxes; and
- expectations related to our forward diesel fuel commitments.

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 Part II, Item 1A of this Form 10-Q and in Item 1A of our Annual Report on Form 10-K for the fiscal year ended June 29, 2013:

- 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, 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 previously experienced delays and cost overages, and includes the risks that the project and its various components may not be successfully implemented, may not provide the anticipated benefits, 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;
- the risk that the actual cost of the ERP system may be greater or less than currently expected and continued 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 transformation initiatives efforts and the full anticipated benefits from our category management 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;
- the potential impact on our operating income if sales to our independent restaurant customers continue to grow at a lower rate than sales to our large regional and national customers;
- the risks related to dependence on large regional or national customers for our sales, including the impact of losing one of these large customers, and potential pressure to lower our prices;
- 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 on cash flow and liquidity;
- our level of indebtedness and the terms of our indebtedness could adversely affect our business and liquidity position;
- due to our reliance on technology, any technology disruption or delay in implementing new technology could have a material negative impact on our business;
- the potential requirement to pay material amounts under our multiemployer defined benefit pension plans;
- our funding requirements for our Retirement Plan may increase should financial markets experience future declines;
- labor issues, including the renegotiation of union contracts and shortage of qualified labor;
- the risk that a cybersecurity incident and other technology disruptions could negative impact our business and our relationships with customers; 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 Part II, Item 1A of this Form 10-Q and in Item 1A of our Annual Report on Form 10-K for the fiscal year ended June 29, 2013.

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 29, 2013. There have been no significant changes to our market risks since June 29, 2013 except as noted below.

Interest Rate Risk

At December 28, 2013, there was \$400.0 million of commercial paper issuances outstanding. Total debt as of December 28, 2013 was \$3.2 billion, of which approximately 64% was at fixed rates of interest, including the impact of our interest rate swap agreements.

In August 2013, we entered into an interest rate swap agreement that effectively converted \$500.0 million of fixed rate debt maturing in fiscal 2018 (the fiscal 2018 swap) to floating rate debt. In addition, prior to fiscal 2014, we entered into an interest rate swap agreement that effectively converted \$200 million of fixed rate debt maturing in fiscal 2014 (the fiscal 2014 swap) to floating rate debt. These transactions were entered into with the goal of reducing overall borrowing cost. The major risks from interest rate derivatives include changes in interest rates affecting the fair value of such instruments, potential increases in interest expense due to market increases in floating interest rates and the creditworthiness of the counterparties in such transactions. These transactions were designated as fair value hedges since the swaps hedge against the changes in fair value of fixed rate debt resulting from changes in interest rates.

As of December 28, 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 \$0.9 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. As of December 28, 2013, the fiscal 2018 swap was recognized as an asset within the consolidated balance sheet at fair value within other assets of \$1.2 million. The fixed interest rate on the hedged debt is 5.25% and the floating interest rate on the swap is six-month LIBOR which resets every six months in arrears.

In January 2014, in contemplation of securing financing and hedging interest rate risk relating to our assumption or refinancing of US Foods Inc.' net debt that will occur upon closing of the proposed merger (discussed in Note 12, "Acquisitions"), we entered into

two forward starting swap agreements with notional amounts totaling of \$2.0 billion. We designated these derivatives as cash flow hedges of the variability in the cash outflows of interest payments on 10-year and 30-year debt expected to be issued in fiscal 2015.

Fuel Price Risk

Due to the nature of our distribution business, we are exposed to potential volatility in fuel prices. The price and availability of diesel fuel fluctuates due to changes in production, seasonality and other market factors generally outside of our control. During both the first 26 weeks of fiscal 2014 and fiscal 2013, 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 December 28, 2013, we had forward diesel fuel commitments totaling approximately \$163.2 million through January 2015. 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 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 December 28, 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 December 28, 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 December 28, 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

None.

Item 1A. Risk Factors

The information set forth in this report should be read in conjunction with the risk factors set forth below and the risk factors discussed in Item 1A of our Annual Report on Form 10-K for the year ended June 29, 2013.

The closing and consummation of the merger with US Foods, Inc. (US Foods) is subject to regulatory approval and the satisfaction of certain conditions, and we cannot predict whether the necessary conditions will be satisfied or waived and the requisite regulatory approvals received.

The completion of the merger with US Foods is subject to regulatory approvals, including anti-trust approval, and customary conditions, including, without limitation:

- the approval of the stockholders of US Foods;
- the effectiveness of a registration statement on Form S-4 covering the shares of Sysco common stock to be issued to stockholders of US Foods;
- the expiration or termination of the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended;
- the accuracy of the representations and warranties in the merger agreement and compliance with the respective covenants of the parties, subject to certain qualifiers;
- the absence of any law or injunction that prohibits the consummation of the merger;
- the absence of certain governmental actions;
- the absence of a material adverse effect on US Foods; and
- the receipt by US Foods of a customary tax opinion with respect to the merger.

Sysco and US Foods may fail to secure the requisite approvals in a timely manner or on terms desired or anticipated, and the merger with US Foods may not close in the anticipated time frame, if at all. Sysco has no control over certain conditions in the merger agreement, and cannot predict whether such conditions will be satisfied or waived.

Regulatory authorities may impose conditions on the completion of the merger or require changes to the terms of the transaction. Such conditions or changes may prevent the closing of the merger or cause the merger to be delayed, and delays may cause Sysco to incur additional, potentially burdensome transaction costs.

Sysco and US Foods may be required to accept certain remedies in order to obtain regulatory approval for the merger, and any such remedies could reduce the projected benefits of the merger and negatively impact the combined company.

The imposition of remedies as a condition to obtaining regulatory approval for the transaction could limit the revenues of the combined company and negatively impact the combined company. The potential remedies may negatively impact the projected benefits of the proposed merger, along with the business, financial condition and competitiveness of Sysco, as the combined company. Even if regulatory approval for the merger is obtained, any remedies could result in the total revenues of the combined post-merger entity being less than the combined historical revenues of Sysco and US Foods.

Termination of the merger agreement or failure to consummate the merger with US Foods could require Sysco to make a termination payment of \$300 million, which could adversely impact Sysco's stock price and would adversely impact Sysco's liquidity and financial condition.

The merger agreement contains certain termination rights, including the right of either party to terminate the merger agreement if the merger has not occurred by March 8, 2015, subject to extension under certain circumstances. Furthermore, if the merger agreement is terminated due to a failure to obtain required antitrust approvals, in certain circumstances Sysco will be required to pay US Foods a termination fee of \$300 million. The payment of such fee could have an adverse impact on our liquidity and financial condition. In addition, if the merger agreement is terminated, we may suffer other negative consequences. Our business may be negatively impacted by our management having focused its attention on acquiring US Foods instead of pursuing other advantageous business opportunities or plans. Furthermore, we will incur substantial expenses and costs related to the merger, whether or not it is consummated, including legal, accounting and advisory fees. Also, failure to consummate the merger may result in negative market reactions, and may have an adverse impact on Sysco's stock price and future financial results.

Business uncertainties during the pendency of the proposed merger may adversely impact our current business operations and relationships with employees, vendors and customers.

Prospective suppliers, customers or other third parties may delay or decline to enter into agreements with us as a result of the uncertainties surrounding the proposed merger, and we may also lose current suppliers and customers as a result of these uncertainties. Furthermore, uncertainties as to the effect of the merger transaction may adversely impact employee morale, and impede our ability to retain key employees. The loss of key employees could impact our ability to successfully integrate the businesses of Sysco and US Foods and fully realize the anticipated benefits of the merger.

The pending merger and our current pre-merger integration planning efforts may divert resources from Sysco's day-to-day operations and ongoing efforts related to other strategies and initiatives.

The pending merger and our current pre-merger integration planning efforts may divert our management's attention from day-to-day business operations and the execution and pursuit of strategic plans and initiatives, including the initiatives related to our Business Transformation Project, which has and will continue to require a substantial amount of resources. The diversion of management attention from ongoing business operations and strategic efforts could result in performance shortfalls, which could adversely impact Sysco's business and operations.

The integration of the businesses of Sysco and US Foods may be more difficult, costly or time consuming than expected, and the merger may not result in any or all of the anticipated benefits, including cost synergies.

The success of the merger between Sysco and US Foods, including the realization of the anticipated benefits, will depend, in part, on the ability of Sysco, as the combined company, to successfully integrate the businesses of Sysco and US Foods. Failure to effectively integrate the businesses could adversely impact the expected benefits of the merger, including cost synergies stemming from supply chain efficiencies, merchandising activities and overlapping general and administrative functions.

The integration of two large independent companies will be complex, and we will be required to devote significant management attention and incur substantial costs to integrate Sysco's and US Foods' business practices, policies, cultures and operations. The integration process could also result in the loss of key employees, and the disruption of each company's ongoing businesses, which could materially impact the combined company's future financial results.

Furthermore, during the integration planning process and after the closing of the merger, we may encounter additional challenges and difficulties, including those related to, without limitation, managing a larger combined company; streamlining supply chains, consolidating corporate and administrative infrastructures and eliminating overlapping operations; retaining our existing vendors and customers; unanticipated issues in integrating information technology, communications and other systems; and unforeseen and unexpected liabilities related to the merger or US Foods'

business. Delays encountered in the integration could adversely impact the business, financial condition and operations of the combined company.

We may not be able to retain some of US Foods' vendors and customers after the proposed merger, which could negatively impact the anticipated benefits of the merger.

US Foods' vendors or customers may have termination rights that are triggered upon completion of the merger, and such vendors or customers may decide to not renew their existing relationship with us, and may instead select one of our competitors. If we are unable to retain and maintain these vendor and customer relationships, then the business, financial condition and operations of Sysco, as the combined company, could be adversely impacted.

Consummation of the merger will require Sysco to incur significant additional indebtedness, which could adversely impact our financial condition and may hinder our ability to obtain additional financing and pursue other business and investment opportunities.

In connection with the merger, Sysco will assume or refinance all of US Foods' outstanding debt, which was approximately \$4.7 billion at the time the merger agreement was signed. The purchase price, as well as any refinancing of US Foods' indebtedness, is expected to be financed with a combination of new debt and cash on Sysco's balance sheet. Sysco has secured fully committed bridge financing.

Incurrence of additional indebtedness could have negative consequences, including increasing our vulnerability to adverse economic and industry conditions, and limiting our ability to obtain additional financing and implement and pursue strategic initiatives and opportunities. Additionally, if we do not achieve the expected benefits and cost savings from the merger with US Foods, or if the financial performance of Sysco, as the combined company, does not meet current expectations, then our ability to service the debt may be adversely impacted. Our credit ratings may also be impacted as a result of the incurrence of additional acquisition-related indebtedness. Currently, certain credit rating agencies have put us on watch for a potential downgrade.

The merger will dilute the ownership interests of Sysco's existing stockholders.

At the time of the consummation of the proposed merger, Sysco will issue approximately 87 million shares, or roughly 13% of Sysco's outstanding common stock after the transaction is completed. As a result, the ownership amounts of Sysco's pre-merger shareholders will be diluted. Generally, dilution will impact a shareholder's ownership percentage and ability to influence voting results, and will influence earnings per share, which may impact stock price.

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

We made the following share repurchases during the second quarter of fiscal 2014:

ISSUER PURCHASES OF EQUITY SECURITIES

| Period | (a) Total Number of Shares Purchased (1) | (b) | (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 |
|--|---|------------------------------|--|--|
| | | Average Price Paid per Share | | |
| Month #1 September 29 – October 26 | 500,000 | \$ 32.07 | 500,000 | 13,489,197 |
| Month #2 October 27 – November 23 | 3,557 | 33.56 | - | 13,489,197 |
| Month #3 November 24 – December 28 | 6,488 | 35.48 | - | 13,489,197 |
| Total | 510,045 | \$ 32.13 | 500,000 | 13,489,197 |

(1) The total number of shares purchased includes zero, 3,557 and 6,488 shares tendered by individuals in connection with stock option exercises in Month #1, Month #2 and Month #3, respectively.

On November 16, 2011, the Board approved the repurchase of 20,000,000 shares. In August 2013, our Board of Directors approved the repurchase of up to 20,000,000 shares for an aggregate purchase price not to exceed \$720 million. The authorization expires on August 23, 2015. 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

On January 31, 2014, Sysco Corporation (Sysco) entered into Amendment No. 2 to its Credit Agreement with JPMorgan Chase Bank, N.A., as U.S. administrative agent and the lenders party thereto (the “Second Amendment”), which amends Sysco’s senior revolving credit facility that closed on December 29, 2011 (the Credit Facility). The Second Amendment increases the aggregate commitments of the lenders under the Credit Facility by \$500 million to a total of \$1.5 billion and extends the maturity date of the Credit Facility to December 29, 2018. The other terms and conditions of the Credit Facility are substantially the same. The foregoing description of the Second Amendment does not purport to be complete and is qualified in its entirety by reference to the full text of the Second Amendment, which is filed as Exhibit 10.6 hereto and incorporated by reference herein.

As previously disclosed, on December 8, 2013, Sysco Corporation entered into an Agreement and Plan of Merger (the Acquisition Agreement), among USF Holding Corp. (USF), Sysco, Scorpion Corporation I, Inc. and Scorpion Company II, LLC, which provides for, among other things and subject to the terms and conditions set forth therein, the acquisition (the Acquisition) by Sysco of all of the outstanding equity interests of USF.

On January 31, 2014, Sysco entered into a \$3.3865 billion bridge term loan agreement (the Bridge Term Loan Agreement) with a syndicate of lenders (the Lenders) and Goldman Sachs Bank USA, as Administrative Agent. The Bridge Term Loan Agreement provides for a 364-day senior unsecured bridge credit facility (the Bridge Facility) pursuant to which, subject to the terms and conditions set forth therein, Sysco may borrow up to \$3.3865 billion in term loans on the closing date of the Acquisition to fund the Acquisition, refinance certain indebtedness of USF and pay related fees and expenses.

Borrowings under the Bridge Facility will incur interest at (i) for ABR loans, a base rate equal to the highest of (x) the prime rate, (y) the federal funds rate plus 50 basis points and (z) the one-month LIBOR rate plus 100 basis points, plus an applicable rate of zero to 112.5 basis points based on Sysco's debt rating and the duration of the loans outstanding under the Bridge Facility or (ii) for Eurodollar loans, the applicable LIBOR rate, plus an applicable rate of 75 to 212.5 basis points based on Sysco's debt rating and the duration of the loans outstanding under the Bridge Facility. Sysco is also required to pay certain customary fees in connection with the Bridge Facility, including upfront, duration and ticking fees.

The availability of loans under the Bridge Term Loan Agreement is conditioned on, among other things and subject to certain exceptions, the consummation of the Acquisition pursuant to the Acquisition Agreement and the repayment of certain indebtedness of USF. The Lenders' commitments to make loans under the Bridge Facility terminate on the earliest of (i) the consummation of the Acquisition (after giving effect to any borrowing of loans under the Bridge Term Loan Agreement), (ii) the termination of the Acquisition Agreement and (iii) March 8, 2015 (subject to extension to September 8, 2015 in certain circumstances).

The Bridge Term Loan Agreement contains representations and warranties, affirmative covenants, negative covenants and events of default that are customary for financings of this type and substantially based upon those applicable to Sysco's existing revolving credit facility (as amended, the Existing Credit Facility), dated December 29, 2011, with such changes as are required to reflect the Acquisition or the nature of the Bridge Facility or that were otherwise agreed among the parties thereto. In particular, the Bridge Term Loan Agreement contains limitations on consolidations, mergers, sales of assets and the incurrence of certain liens.

Borrowings by Sysco under the Bridge Term Loan Agreement are guaranteed by the same subsidiaries of Sysco that are guarantors of the Existing Credit Facility, and in certain circumstances may also be guaranteed by USF. Borrowings will mature on the date that is 364 days from the Closing Date (as defined in the Bridge Term Loan Agreement) or, if such date is not a business day, then the immediately preceding business day. Sysco must prepay borrowings under the Bridge Facility (or, if prior to the funding thereof, reduce the Lenders' commitments under the Bridge Facility) with the proceeds of certain equity and debt offerings and asset sales.

Neither Sysco nor any of its affiliates has any material relationship with any of the financial institutions party to the Bridge Term Loan Agreement, except certain of the lenders have a role in Sysco's other credit facilities and certain of the lenders and their respective affiliates, have performed, and may in the future perform, for Sysco and its subsidiaries various commercial banking, investment banking, underwriting, trust and other financial advisory services, for which they have received, and will receive, customary fees and expenses.

The foregoing summary of certain material provisions of the Bridge Term Loan Agreement is subject to, and qualified in its entirety by reference to, all the provisions of the Bridge Term Loan Agreement, which is filed herewith as Exhibit 10.7.

Item 6. Exhibits

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

SIGNATURES

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

Sysco Corporation
(Registrant)

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

Date: February 3, 2014

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

Date: February 3, 2014

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

Date: February 3, 2014

EXHIBIT INDEX

Exhibits.

- 2.1 —Agreement and Plan of Merger, dated as of December 8, 2013, by and among Sysco Corporation, USF Holding Corp., Scorpion Corporation I, Inc. and Scorpion Company II, LLC, incorporated by reference to Exhibit 2.1 to Form 8-K filed on December 10, 2013 (File No. 1-6544).
- 3.1 —Restated Certificate of Incorporation, incorporated by reference to Exhibit 3(a) to Form 10-K for the year ended June 28, 1997 (File No. 1-6544).
- 3.2 —Certificate of Amendment of Certificate of Incorporation increasing authorized shares, incorporated by reference to Exhibit 3(d) to Form 10-Q for the quarter ended January 1, 2000 (File No. 1-6544).
- 3.3 —Certificate of Amendment to Restated Certificate of Incorporation increasing authorized shares, incorporated by reference to Exhibit 3(e) to Form 10-Q for the quarter ended December 27, 2003 (File No. 1-6544).
- 3.4 —Form of Amended Certificate of Designation, Preferences and Rights of Series A Junior Participating Preferred Stock, incorporated by reference to Exhibit 3(c) to Form 10-K for the year ended June 29, 1996 (File No. 1-6544).
- 3.5 —Amended and Restated Bylaws of Sysco Corporation dated November 16, 2011, incorporated by reference to Exhibit 3.5 to Form 10-Q for the quarter ended December 31, 2011 (File No. 1-6544).
- 10.1#+ —Stockholders Agreement, dated as of December 8, 2013, by and among Sysco Corporation, Clayton Dubilier & Rice LLC, Kohlberg, Kravis Roberts & Co. L.P. and the stockholders named therein.
- 10.2† —Sysco Corporation 2013 Long-Term Incentive Plan, incorporated by reference to Exhibit 99.1 to Form S-8 filed on November 15, 2013 (File No. 1-6544).
- 10.3†# —Form of Stock Option Grant Agreement issued to executive officers under the Sysco Corporation 2013 Long-Term Incentive Plan.
- 10.4†# —Form of Restricted Stock Unit Award Agreement issued to executive officers under the 2013 Long-Term Incentive Plan.
- 10.5†# —Form of Sysco Protective Covenants Agreement (RSU Grant) issued to executive officers Restricted Stock Unit Award Agreement issued under the 2013 Long-Term Incentive Plan.
- 10.6# —Amendment No. 2, dated as of January 31, 2014, to the Credit Agreement by and among Sysco Corporation, JPMorgan Chase Bank, N.A. and the lenders party thereto.
- 10.7# —364-Day Bridge Term Loan Agreement, dated January 31, 2014, among Sysco Corporation, the Guarantors party thereto, the Lenders party thereto and Goldman Sachs Bank USA, as Administrative Agent.

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- 12.1# —Statement regarding Computation of Ratio of Earnings to Fixed Charges.
 - 15.1# —Report from Ernst & Young LLP dated February 3, 2014, re: unaudited financial statements.
 - 15.2# —Acknowledgement letter from Ernst & Young LLP.
 - 31.1# —CEO Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
 - 31.2# —CFO Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
 - 32.1# —CEO Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
 - 32.2# —CFO Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
-

101.1# —The following financial information from Sysco Corporation’s Quarterly Report on Form 10-Q for the quarter ended December 28, 2013 filed with the SEC on February 3, 2014, formatted in XBRL includes: (i) Consolidated Balance Sheets as of December 28, 2013, June 29, 2013 and December 29, 2012, (ii) Consolidated Results of Operations for the thirteen and twenty-six week periods ended December 28, 2013 and December 29, 2012, (iii) Consolidated Statements of Comprehensive Income for the thirteen and twenty-six week periods ended December 28, 2013 and December 29, 2012, (iv) Consolidated Cash Flows for the twenty-six week periods ended December 28, 2013 and December 29, 2012, and (v) the Notes to Consolidated Financial Statements.

† Executive Compensation Arrangement pursuant to 601(b)(10)(iii)(A) of Regulation S-K.

Filed herewith

+ Confidential treatment has been requested for certain portions of this exhibit pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended.
