

SYSCO CORP
Form 10-K
August 25, 2015

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K
(Mark One)

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

For the fiscal year ended June 27, 2015

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

Commission File Number 1-6544

Sysco Corporation
(Exact name of registrant as specified in its charter)

DELAWARE
(State or other jurisdiction of incorporation or organization)

1390 Enclave Parkway
Houston, Texas
(Address of principal executive offices)
Registrant's Telephone Number, Including Area Code:
(281) 584-1390

74-1648137
(I.R.S. Employer Identification No.)
77077-2099
(Zip Code)

Securities Registered Pursuant to Section 12(b) of the Act:

Title of Each Class

Common Stock, \$1.00
Par Value

Name of each
exchange on which
registered
New York Stock
Exchange

Securities Registered Pursuant to Section 12(g) of the Act:

None

Indicate by checkmark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by checkmark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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).

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Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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

The aggregate market value of the voting stock of the registrant held by stockholders who were not affiliates (as defined by regulations of the Securities and Exchange Commission) of the registrant was approximately \$23,927,875,000 as of December 27, 2014 (based on the closing sales price on the New York Stock Exchange Composite Tape on December 26, 2014, as reported by The Wall Street Journal (Southwest Edition)). As of August 13, 2015, the registrant had issued and outstanding an aggregate of 594,917,977 shares of its common stock.

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the company's 2015 Proxy Statement to be filed with the Securities and Exchange Commission no later than 120 days after the end of the fiscal year covered by this Form 10-K are incorporated by reference into Part III.

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PART I

Item 1. Business

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

Overview

Sysco Corporation, acting through its subsidiaries and divisions, is the largest North American distributor of food and related products primarily to the foodservice or food-away-from-home industry. We provide products and related services to approximately 425,000 customers, including restaurants, healthcare and educational facilities, lodging establishments and other foodservice customers.

Founded in 1969, Sysco commenced operations as a public company in March 1970 when the stockholders of nine companies exchanged their stock for Sysco common stock. Since our formation, we have grown from \$115.0 million to \$48.7 billion in annual sales, both through internal expansion of existing operations and through acquisitions.

Sysco’s fiscal year ends on the Saturday nearest to June 30th. This resulted in a 52-week year ending June 27, 2015 for fiscal 2015, June 28, 2014 for fiscal 2014 and June 29, 2013 for fiscal 2013. We will have a 53-week year ending July 2, 2016 for fiscal 2016.

Sysco Corporation is organized under the laws of Delaware. The address and telephone number of our executive offices are 1390 Enclave Parkway, Houston, Texas 77077-2099, (281) 584-1390. This annual report on Form 10-K, as well as all other reports filed or furnished by Sysco pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, are available free of charge on Sysco’s website at www.sysco.com as soon as reasonably practicable after they are electronically filed with or furnished to the Securities and Exchange Commission.

Operating Segments

Sysco provides food and related products to the foodservice or food-away-from-home industry. Under the accounting provisions related to disclosures about segments of an enterprise, we have aggregated our operating companies into a number of segments, of which only Broadline and SYGMA are reportable segments as defined by accounting standards. Broadline operating companies distribute a full line of food products and a wide variety of non-food products to their customers. SYGMA operating companies distribute a full line of food products and a wide variety of non-food products to chain restaurant customer locations. Our other segments include our specialty produce companies, custom-cut meat companies, lodging industry products companies, 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. Specialty produce companies distribute fresh produce and, on a limited basis, other foodservice products. Our specialty meat companies distribute custom-cut fresh steaks, other meat, seafood and poultry. Our lodging industry products companies distribute personal care guest amenities, equipment, housekeeping supplies, room accessories and textiles to the lodging industry. Selected financial data for each of our reportable segments, as well as financial information concerning geographic areas, can be found in Note 21, “Business Segment Information,” in the Notes to Consolidated Financial Statements in Item 8.

Customers and Products

Sysco's customers in the foodservice industry include restaurants, hospitals and nursing homes, schools and colleges, hotels and motels, industrial caterers and other similar venues where foodservice products are served. Services to our customers are supported by similar physical facilities, vehicles, material handling equipment and techniques, and administrative and operating staffs.

The products we distribute include:

- a full line of frozen foods, such as meats, seafood, fully prepared entrees, fruits, vegetables and desserts;
- a full line of canned and dry foods;
- fresh meats and seafood;
- dairy products;
- beverage products;
- imported specialties; and
- fresh produce.

We also supply a wide variety of non-food items, including:

- paper products such as disposable napkins, plates and cups;
- tableware such as china and silverware;
- cookware such as pots, pans and utensils;
- restaurant and kitchen equipment and supplies; and
- cleaning supplies.

A comparison of the sales mix in the principal product categories during the last three years is presented below:

Principal product categories	2015		2014		2013	
Fresh and frozen meats	21	%	19	%	19	%
Canned and dry products	16		18		19	
Frozen fruits, vegetables, bakery and other	13		13		14	
Dairy products	11		11		10	
Poultry	11		10		10	
Fresh produce	8		8		8	
Paper and disposables	7		7		8	
Seafood	5		5		5	
Beverage products	4		4		4	
Janitorial products	2		2		2	
Equipment and smallwares	1		2		1	
Medical supplies ⁽¹⁾	1		1		—	
Totals	100	%	100	%	100	%

⁽¹⁾ Sales are less than 1% of total for years shown with a “-”

Our distribution centers, which we refer to as operating companies, distribute nationally-branded merchandise, as well as products packaged under our private brands. Products packaged under our private brands have been manufactured for Sysco according to specifications that have been developed by our quality assurance team. In addition, our quality assurance team certifies the manufacturing and processing plants where these products are packaged, enforces our quality control standards and identifies supply sources that satisfy our requirements.

We believe that prompt and accurate delivery of orders, competitive pricing, close contact with customers and the ability to provide a full array of products and services to assist customers in their foodservice operations are of primary importance in the marketing and distribution of foodservice products to our customers. Our operating companies offer daily delivery to certain customer locations and have the capability of delivering special orders on short notice. Through our approximately 12,800 sales and marketing representatives and support staff of Sysco and our operating companies, we stay informed of the needs of our customers and acquaint them with new products and services. Our operating companies also provide ancillary services relating to foodservice distribution, such as providing customers with product usage reports and other data, menu-planning advice, food safety training and assistance in inventory control, as well as access to various third party services designed to add value to our customers' businesses.

No single customer accounted for 10% or more of Sysco's total sales for the fiscal year ended June 27, 2015.

We estimate that our sales by type of customer during the past three fiscal years were as follows:

Type of Customer	2015	2014	2013
Restaurants	64 %	62 %	61 %
Healthcare	9	9	10
Education, government	8	9	8
Travel, leisure, retail	8	8	8
Other ⁽¹⁾	11	12	13
Totals	100 %	100 %	100 %

⁽¹⁾ Other includes cafeterias that are not stand alone restaurants, bakeries, caterers, churches, civic and fraternal organizations, vending distributors, other distributors and international exports. None of these types of customers, as a group, exceeded 5% of total sales in any of the years for which information is presented.

Sources of Supply

We purchase from thousands of suppliers, both domestic and international, none of which individually accounts for more than 10% of our purchases. These suppliers consist generally of large corporations selling brand name and private label merchandise, as well as independent regional brand and private label processors and packers. Purchasing is generally carried out through both centrally developed purchasing programs and direct purchasing programs established by our various operating companies.

We administer a consolidated product procurement program designed to develop, obtain and ensure consistent quality food and non-food products. The program covers the purchasing and marketing of Sysco Brand merchandise, as well as products from a number of national brand suppliers, encompassing substantially all product lines. Sysco's operating companies purchase product from the suppliers participating in these consolidated programs and from other suppliers, although Sysco Brand products are only available to the operating companies through these consolidated programs. We also focus on increasing profitability by lowering operating costs and by lowering aggregate inventory levels, which reduces future facility expansion needs at our broadline operating companies, while providing greater value to our suppliers and customers. This includes the construction and operation of regional distribution centers (RDCs), which aggregate inventory demand to optimize the supply chain activities for certain products for all Sysco broadline operating companies in the region. Currently, we have two RDCs in operation, one in Virginia and one in Florida.

Working Capital Practices

Our growth is funded through a combination of cash flow from operations, commercial paper issuances and long-term borrowings. See the discussion in "Management's Discussion and Analysis of Financial Condition and Results of Operations, Liquidity and Capital Resources" in Item 7 regarding our liquidity, financial position and sources and uses of funds.

Credit terms we extend to our customers can vary from cash on delivery to 30 days or more based on our assessment of each customer's credit worthiness. We monitor each customer's account and will suspend shipments if necessary.

A majority of our sales orders are filled within 24 hours of when customer orders are placed. We generally maintain inventory on hand to be able to meet customer demand. The level of inventory on hand will vary by product depending on shelf-life, supplier order fulfillment lead times and customer demand. We also make purchases of additional volumes of certain products based on supply or pricing opportunities.

We take advantage of suppliers' cash discounts where appropriate and otherwise generally receive payment terms from our suppliers ranging from weekly to 30 days or more.

Corporate Headquarters and Shared Services Center

Our corporate staff makes available a number of services to our operating companies and our shared services center performs support services for employees, suppliers and customers. Members of these groups possess experience and expertise in, among other areas, customer and vendor contract administration, vendor payments, procurement and maintenance support, invoicing, cash application, accounting and finance, treasury, credit services, legal, cash management, information technology, employee benefits, engineering, real estate and construction, risk management and insurance, sales and marketing, payroll, human resources, training and development, strategy, and tax compliance services, including sales and use tax administration. The corporate office also makes available warehousing and distribution services, which provide assistance in operational best practices including space utilization, energy conservation, fleet management and work flow.

Capital Improvements

To maximize productivity and customer service, we continue to modernize, expand and construct new distribution facilities. During fiscal 2015, 2014 and 2013, approximately \$542.8 million, \$523.2 million and \$511.9 million, respectively, were invested in delivery fleet, facilities, technology and other capital asset enhancements. From time to time, we dispose of assets in the normal course of business; we consider proceeds from these asset sales to be an offset to capital expenditures. During fiscal 2015, 2014 and 2013, capital expenditures, net of proceeds from sales of assets, were \$518.4 million, \$497.4 million and \$496.3 million, respectively. We estimate our capital expenditures, net of proceeds from sales of assets, in fiscal 2016 should be in the range of \$550 million to \$600 million. During the three years ended June 27, 2015, capital expenditures were financed primarily by internally generated funds, our commercial paper program and bank and other borrowings. We expect to finance our fiscal 2016 capital expenditures from the same sources.

Employees

As of June 27, 2015, we had approximately 51,700 employees, approximately 18% of whom were represented by unions, primarily the International Brotherhood of Teamsters. Contract negotiations are handled by each individual operating company. Approximately 37% of our union employees are covered by collective bargaining agreements that have expired or will expire during fiscal 2016 and are subject to renegotiation. Since June 27, 2015, there have been no contract renegotiations. We consider our labor relations to be satisfactory.

Competition

Industry sources estimate that there are more than 16,500 companies engaged in the distribution of food and non-food products to the foodservice industry in the U.S. Our customers may also choose to purchase products directly from wholesale or retail outlets, including club, cash and carry and grocery stores, or negotiate prices directly with our suppliers. Online retailers and e-commerce companies are also participants in the foodservice industry. While we compete primarily with local and regional distributors, some organizations compete with us on a multi-region basis. In addition, these local, regional and multi-regional distributors can create purchasing cooperatives and marketing groups to enhance their competitive abilities by expanding their product mix, improving purchasing power and extending their geographic capabilities. We believe that the principal competitive factors in the foodservice industry are effective customer contacts, the ability to deliver a wide range of quality products and related services on a timely and dependable basis and competitive prices. Our customers are accustomed to purchasing from multiple suppliers and channels concurrently. Product needs, service requirements and price are just a few of the factors they evaluate when deciding where to purchase. Customers can choose from many broadline foodservice distributors, specialty distributors that focus on specific categories such as produce, meat or seafood, other wholesale channels, club stores, cash and carry stores, grocery stores and numerous online retailers. Since switching costs are very low, customers can make supplier and channel changes very quickly. There are few barriers to market entry. Existing foodservice competitors can extend their shipping distances and add truck routes and warehouses relatively quickly to serve new markets or customers.

We consider our primary market to be the foodservice market in the U.S. and Canada and estimate that we serve about 17.7% of this approximately \$264 billion annual market based on a measurement as of the end of calendar 2014. We believe, based upon industry trade data, that our sales to the U.S. and Canada food-away-from-home industry were the highest of any foodservice distributor during fiscal 2015. While adequate industry statistics are not available, we believe that, in most instances, our local operations are among the leading distributors of food and related non-food products to foodservice customers in their respective trading areas. We believe our competitive advantages include our more than 7,300 marketing associates, our diversified product base, which includes a differentiated group of high

quality Sysco brand products, the diversity in the types of customers we serve, our economies of scale and our multi-region portfolio in the U.S. and Canada, which mitigates some of the impact of regional economic declines that may occur over time. We believe our liquidity and access to capital provides us the ability to continuously invest in business improvements. We are one of the few distributors in the food-away-from-home industry in the U.S. with publicly traded equity. While our public company status provides us with some advantages over many of our competitors, including access to capital, we believe it also provides us with some disadvantages that most of them do not have in terms of additional costs related to complying with regulatory requirements.

Government Regulation

Our company is required to comply, and it is our policy to comply, with all applicable laws in the numerous countries throughout the world in which we do business. In many jurisdictions, compliance with competition laws is of special importance to us, and our operations may come under special scrutiny by competition law authorities due to our competitive position in those jurisdictions. In general, competition laws are designed to protect businesses and consumers from anti-competitive behavior.

In the U.S., as a marketer and distributor of food products, we are subject to the Federal Food, Drug and Cosmetic Act and regulations promulgated thereunder by the U.S. Food and Drug Administration (FDA). The FDA regulates food safety through various statutory and regulatory mandates, including manufacturing and holding requirements for foods through good manufacturing practice regulations, hazard analysis and critical control point (HACCP) requirements for certain foods, and the food and color additive approval process. The agency also specifies the standards of identity for certain foods, prescribes the format and content of information required to appear on food product labels, regulates food contact packaging and materials, and maintains a Reportable Food Registry for the industry to report when there is a reasonable probability that an article of food will cause serious adverse health consequences. For certain product lines, we are also subject to the Federal Meat Inspection Act, the Poultry Products Inspection Act, the Perishable Agricultural Commodities Act, the Packers and Stockyard Act and regulations promulgated by the U.S. Department of Agriculture (USDA) to interpret and implement these statutory provisions. The USDA imposes standards for product safety, quality and sanitation through the federal meat and poultry inspection program. The USDA reviews and approves the labeling of these products and also establishes standards for the grading and commercial acceptance of produce shipments from our suppliers. We are also subject to the Public Health Security and Bioterrorism Preparedness and Response Act of 2002, which imposes certain registration and record keeping requirements on facilities that manufacture, process, pack or hold food for human or animal consumption.

We and our products are also subject to state and local regulation through such measures as the licensing of our facilities; enforcement by state and local health agencies of state and local standards for our products; and regulation of our trade practices in connection with the sale of our products. Our facilities are subject to regulations issued pursuant to the U.S. Occupational Safety and Health Act by the U.S. Department of Labor. These regulations require us to comply with certain manufacturing, health and safety standards to protect our employees from accidents and to establish hazard communication programs to transmit information on the hazards of certain chemicals present in products we distribute.

We are also subject to regulation by numerous federal, state and local regulatory agencies, including, but not limited to, the U.S. Department of Labor, which sets employment practice standards for workers, and the U.S. Department of Transportation, which regulates transportation of perishable and hazardous materials and waste, and similar state, provincial and local agencies. In addition, we are also subject to the U.S. False Claims Act, and similar state statutes, which prohibit the submission of claims for payment to the government that are false and the knowing retention of overpayments.

The U.S. Foreign Corrupt Practices Act (FCPA) prohibits bribery of public officials to obtain or retain business in foreign jurisdictions. The FCPA also requires us to keep accurate books and records and to maintain internal accounting controls to detect and prevent bribery and to ensure that transactions are properly authorized. We have implemented and continue to develop a robust anti-corruption compliance program applicable to our global operations to detect and prevent bribery and to comply with these and other anti-corruption laws in countries where we operate.

Outside the U.S., our business is subject to numerous similar statutes and regulations, as well as other legal and regulatory requirements.

All of our company's facilities and other operations in the U.S. and elsewhere around the world are subject to various environmental protection statutes and regulations, including those relating to the use of water resources and the discharge of wastewater. Further, most of our distribution facilities have ammonia-based refrigeration systems and tanks for the storage of diesel fuel and other petroleum products which are subject to laws regulating such systems and storage tanks. Our policy is to comply with all such legal requirements. We are subject to other federal, state, provincial and local provisions relating to the protection of the environment or the discharge of materials; however, these provisions do not materially impact the use or operation of our facilities.

General

We have numerous trademarks that are of significant importance, including the SYSCO® trademark and our privately-branded product trademarks that include the SYSCO® trademark. These trademarks and the private brands on which they are used are widely recognized within the foodservice industry. Approximately half of our privately-branded sales are from products labeled with our SYSCO® trademark without any other trademark. We believe the loss of the SYSCO® trademark would have a material adverse effect on our results of operations. Our U.S. trademarks are effective for a ten-year period and the company generally renews its trademarks before their expiration dates unless a particular trademark is no longer in use. The company does not have any material patents or licenses.

We are not engaged in material research and development activities relating to the development of new products or the improvement of existing products.

Our sales do not generally fluctuate significantly on a seasonal basis; therefore, the business of the company is not deemed to be seasonal.

As of June 27, 2015, we operated 197 distribution facilities throughout the U.S., Bahamas, Canada, and Ireland. We have interests in joint venture operations in Costa Rica and Mexico.

Item 1A. Risk Factors

The following discussion of “risk factors” identifies the most significant factors that may adversely affect our business, operations, financial position or future financial performance. This information should be read in conjunction with Management’s Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements and related notes contained in this report. The following discussion of risks is not all inclusive, but is designed to highlight what we believe are the most significant factors to consider when evaluating our business. These factors could cause our future results to differ from our expectations expressed in the forward-looking statements identified within "Management's Discussion and Analysis of Financial Condition and Results of Operations," and from historical trends.

Industry and General Economic Risks

Periods of significant or prolonged inflation or deflation affect our product costs and may negatively impact our profitability.

Volatile food costs have a direct impact on our industry. Periods of product cost inflation may have a negative impact on our profit margins and earnings to the extent that we are unable to pass on all or a portion of such product cost increases to our customers, which may have a negative impact on our business and our profitability. In addition, periods of rapidly increasing inflation may negatively impact our business due to the timing needed to pass on such increases, the impact of such inflation on discretionary spending by consumers and our limited ability to increase prices in the current, highly competitive environment. Conversely, our business may be adversely impacted by periods of product cost deflation, because we make a significant portion of our sales at prices that are based on the cost of products we sell plus a percentage margin. As a result, our profit levels may be negatively impacted during periods of product cost deflation, even though our gross profit percentage may remain relatively constant.

Unfavorable macroeconomic conditions in the U.S., as well as unfavorable conditions in particular local markets, may adversely affect our results of operations and financial condition

The foodservice distribution industry, which is characterized by relatively low profit margins with limited demand growth expected in the near-term, is especially susceptible to negative trends and economic uncertainty. The U.S. has experienced an uneven economic environment over the past several years. In addition, our results of operations are substantially affected by local operating and economic conditions, which can vary substantially by market. Economic conditions can affect us in the following ways:

• Unfavorable conditions can depress sales and/or gross margins in a given market.

Food cost and fuel cost inflation experienced by the consumer can lead to reductions in the frequency of dining out and the amount spent by consumers for food-away-from-home purchases, which could negatively impact our business by reducing demand for our products.

• Heightened uncertainty in the financial markets negatively affects consumer confidence and discretionary spending, which can cause disruptions with our customers and suppliers.

Liquidity issues and the inability of our customers, vendors and suppliers to consistently access credit markets to obtain cash to support operations can cause temporary interruptions in our ability to conduct day-to-day transactions involving the payment to or collection of funds from our customers, vendors and suppliers.

The uncertainty in the economic environment has adversely affected the rate of improvement in both business and consumer confidence and spending, and uncertainty about the long-term investment environment could further depress capital investment and economic activity.

Competition in our industry may adversely impact our margins and our ability to retain customers, and makes it difficult for us to maintain our market share, growth rate and profitability.

The foodservice distribution industry is fragmented and highly competitive, with local, regional, multi-regional distributors and specialty competitors. Furthermore, barriers to entry by new competitors, or geographic or product line expansion

by existing competitors, are low. Additionally, increased competition from non-traditional sources (such as club stores and commercial wholesale outlets with lower cost structures), and group purchasing organizations have served to further increase pressure on the industry's profit margins, and continued margin pressure within the industry may have a material adverse effect on our operating results and profitability. Finally, demand for food-away-from-home products is volatile and price sensitive, imposing limits on our customers' ability to absorb cost increases. New and increasing competitive sources may result in increased focus on pricing and on limiting price increases, or may require increased discounting. Such competition or other industry pressures may result in margin erosion and/or make it difficult for us to attract and retain customers.

If we are unable to effectively differentiate ourselves from our competitors, our market share, sales and profitability, through increased expenditures or decreased prices, could be adversely impacted.

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.

Volatile fuel prices have a direct impact on our industry. We require significant quantities of fuel for our delivery vehicles and are exposed to the risk associated with fluctuations in the market price for fuel. The price and supply of fuel can fluctuate significantly based on international, political and economic circumstances, as well as other factors outside our control, such as actions by the Organization of the Petroleum Exporting Countries, or OPEC, and other oil and gas producers, regional production patterns, weather conditions and environmental concerns. The cost of fuel affects the price paid by us for products, as well as the costs we incur to deliver products to our customers. Although we have been able to pass along a portion of increased fuel costs to our customers in the past, there is no guarantee that we will be able to do so in the future. If fuel costs increase in the future, we may experience difficulties in passing all or a portion of these costs along to our customers, which may have a negative impact on our business and our profitability. We routinely enter into forward purchase commitments for a portion of our projected monthly diesel fuel requirements at prices equal to the then-current forward price for diesel. If fuel prices decrease significantly, these forward purchases will result in our paying higher than market costs for a portion of our diesel fuel.

Business and Operational Risks

Conditions beyond our control can interrupt our supplies and increase our product costs.

We obtain substantially all of our foodservice and related products from third-party suppliers. Although our purchasing volume can provide benefits when dealing with suppliers, suppliers may not provide the foodservice products and supplies needed by us in the quantities and at the prices requested. We are also subject to delays caused by interruptions in production and increases in product costs based on conditions outside of our control. These conditions include work slowdowns, work interruptions, strikes or other job actions by employees of suppliers, short-term weather conditions or more prolonged climate change, crop and other agricultural conditions, water shortages, animal disease outbreaks, transportation interruptions, unavailability of fuel or increases in fuel costs, product recalls, competitive demands and natural disasters or other catastrophic events (including, but not limited to food-borne illnesses). Further, increased frequency or duration of extreme weather conditions could also impair production capabilities, disrupt our supply chain or impact demand for our products. Input costs could increase at any point in time for a large portion of the products that we sell for a prolonged period. Our inability to obtain adequate supplies of foodservice and related products as a result of any of the foregoing factors or otherwise could mean that we could not fulfill our obligations to customers, and customers may turn to other distributors.

Adverse publicity about us or lack of confidence in our products could negatively impact our reputation and reduce earnings.

Maintaining a good reputation and public confidence in the safety of the products we distribute is critical to our business. The Sysco brand name, trademarks and logos and our reputation are powerful sales and marketing tools, and we devote significant resources to promoting and protecting them. Anything that damages our reputation or public confidence in our products, whether or not justified, including adverse publicity about the quality, safety, sustainability or integrity of our products or relating to activities by our operations, employees, suppliers or agents could tarnish our reputation and diminish the value of our brand, which could adversely affect our revenues and profits.

Reports, whether true or not, of food-borne illnesses (such as e-coli, avian flu, bovine spongiform encephalopathy, hepatitis A, trichinosis, salmonella, listeria or swine flu) and injuries caused by food tampering could also severely injure our reputation or negatively impact public confidence in our products. If patrons of our restaurant customers become ill from food-borne illnesses, our customers could be forced to temporarily close restaurant locations and our sales and profitability would be correspondingly decreased. In addition, instances of food-borne illnesses or food tampering or other health concerns (even those unrelated to the use of Sysco products) or public concern regarding the safety of our products, can result in negative publicity about the food service distribution industry and cause our sales and profitability to decrease dramatically.

Damage to our reputation and loss of brand equity could reduce demand for our products and services. This reduction in demand, together with the dedication of time and expense necessary to defend our reputation, would have an adverse effect on our financial condition, liquidity and results of operations, as well as require additional resources to rebuild our reputation and restore the value of our brand. Our business prospects, financial condition and results of operations could be adversely affected if our public image or reputation were to be tarnished by negative publicity including dissemination via print, broadcast or social media, or other forms of Internet-based communications. Adverse publicity about regulatory or legal action against us could damage our reputation and image, undermine our customers' confidence and reduce short-term or long-term demand for our products and services, even if the regulatory or legal action is unfounded or not material to our operations. Any of these events could have a material negative impact on our results of operations and financial condition.

Unfavorable changes to the mix of locally-managed customers versus corporate-managed customers could have a material adverse effect on our results of operations and financial condition.

Gross margin from our corporate-managed customers is generally lower than that of our locally-managed customers because we typically sell higher volumes of products to these customers and provide a relatively lower level of value-added services than we do to locally-managed customers. If sales to our locally-managed customers do not grow at the same or a greater rate as sales to our corporate-managed customers, our operating margins may decline.

Moreover, if sales to our corporate-managed customers increase at a faster pace of growth than sales to our locally-managed customers, we will become more dependent on corporate-managed customers as they begin to represent a greater proportion of our total sales. Additionally, the loss of sales to the larger of these corporate-managed customers could have a material negative impact on our results of operations and financial condition. Additionally, as a result of our greater dependence on these customers, we could be pressured by them to lower our prices and/or offer expanded or additional services at the same prices. In that event, we would need to achieve additional cost savings to offset these price reductions and/or cost increases or our gross margins and profitability could be materially adversely affected. We may be unable to change our cost structure and pricing practices rapidly enough to successfully compete in such an environment.

We may not realize anticipated benefits from our operating cost reduction efforts.

We have implemented, and expect to implement in the future, cost reduction initiatives that we believe are necessary to position our business for future success and growth. Our future success and earnings growth will be significantly impacted by our ability to achieve a lower cost structure and operate efficiently in the highly competitive food and beverage industry, particularly in an environment of increased competitive activity and low growth rates. A variety of factors could cause us not to realize some of the expected cost savings, including, among other things, delays in the anticipated timing of activities related to our cost savings initiatives, lack of sustainability in cost savings over time and unexpected costs associated with operating our business. If we are unable to realize the anticipated benefits from our cost cutting efforts, we could become cost disadvantaged in the marketplace, and our competitiveness and our profitability could decrease. Furthermore, even if we realize the anticipated benefits of our cost reduction efforts, we may experience an adverse effect on our employees, customers and suppliers, which could negatively affect our sales and profits.

Expanding into international markets and complementary lines of business presents unique challenges, and our expansion efforts with respect to international operations and complementary lines of business may not be successful.

In addition to our domestic activities, an element of our strategy includes the possibility of further expansion of operations into international markets and the establishment of international procurement organizations. Our ability to

successfully operate in international markets may be adversely affected by local laws and customs, legal and regulatory constraints, including compliance with the Foreign Corrupt Practices Act, political and economic conditions and currency regulations of the countries or regions in which we currently operate or intend to operate in the future. Risks inherent in our existing and future international operations also include, among others, the costs and difficulties of managing international operations, difficulties in identifying and gaining access to local suppliers, suffering possible adverse tax consequences, maintaining product quality and greater difficulty in enforcing intellectual property rights. Additionally, foreign currency exchange rates and fluctuations thereof may have an adverse effect on our future costs or on future sales and cash flows from our international operations.

Another element of our strategy includes the possibility of expansion into businesses that are closely related or complementary to, but not currently part of, our core foodservice distribution business. Our ability to successfully operate in these complementary business markets may be adversely affected by legal and regulatory constraints, including compliance with regulatory programs to which we become subject. Risks inherent in branching out into such complementary markets also include

the costs and difficulties of managing operations outside of our core business, which may require additional skills and competencies, as well as difficulties in identifying and gaining access to suppliers or customers in new markets.

Product liability claims could materially impact our business.

We, like any other seller of food, face the risk of exposure to product liability claims in the event that the use of products sold by Sysco causes injury or illness. We cannot be sure that consumption of our products will not cause a health-related illness in the future or that we will not be subject to claims or lawsuits relating to such matters. Further, even if a product liability claim is unsuccessful or is not fully pursued, the negative publicity surrounding any assertion that our products caused illness or injury could adversely affect our reputation with existing and potential customers and our corporate and brand image. With respect to product liability claims, we believe we have sufficient primary or excess umbrella liability insurance. However, this insurance may not continue to be available at a reasonable cost or, if available, may not be adequate to cover all of our liabilities. We generally seek contractual indemnification and insurance coverage from parties supplying our products, but this indemnification or insurance coverage is limited, as a practical matter, to the creditworthiness of the indemnifying party and the insured limits of any insurance provided by suppliers. If Sysco does not have adequate insurance or contractual indemnification available, product liability relating to defective products could materially adversely affect our results of operations and financial condition.

If we fail to comply with requirements imposed by applicable law or other governmental regulations, we could become subject to lawsuits, investigations and other liabilities and restrictions on our operations that could significantly and adversely affect our business.

We are subject to governmental regulation at the federal, state, international, national, provincial and local levels in many areas of our business, such as food safety and sanitation, minimum wage, overtime, wage payment, wage and hour and employment discrimination, immigration, human health and safety, and due to the services we provide in connection with governmentally funded entitlement programs. From time to time, both federal and state governmental agencies have conducted audits of our billing practices as part of investigations of providers of services under governmental contracts, or otherwise. We also receive requests for information from governmental agencies in connection with these audits. While we attempt to comply with all applicable laws and regulations, we cannot represent that we are in full compliance with all applicable laws and regulations or interpretations of these laws and regulations at all times or that we will be able to comply with any future laws, regulations or interpretations of these laws and regulations.

If we fail to comply with applicable laws and regulations or encounter disagreements with respect to our contracts subject to governmental regulations, including those referred to above, we may be subject to investigations, criminal sanctions or civil remedies, including fines, injunctions, prohibitions on exporting, seizures or debarments from contracting with the government. The cost of compliance or the consequences of non-compliance, including debarments, could have a material adverse effect on our business and results of operations. In addition, governmental units may make changes in the regulatory frameworks within which we operate that may require us to incur substantial increases in costs in order to comply with such laws and regulations.

We must finance and integrate acquired businesses effectively.

Historically, a portion of our growth has come through acquisitions. If we are unable to integrate acquired businesses successfully or realize anticipated economic, operational and other benefits and synergies in a timely manner, our earnings per share may be materially adversely affected. Integration of an acquired business may be more difficult when we acquire a business in a market in which we have limited expertise, or with a culture different from Sysco's. A significant expansion of our business and operations, in terms of geography or magnitude, could strain our

administrative and operational resources. Significant acquisitions may also require the issuance of material additional amounts of debt or equity, which could materially alter our debt-to-equity ratio, increase our interest expense and decrease earnings per share, and make it difficult for us to obtain favorable financing for other acquisitions or capital investments.

We need access to borrowed funds to grow, and any default by us under our indebtedness could have a material adverse effect on our cash flow and liquidity.

A substantial part of our growth historically has been the result of acquisitions and capital expansion. We anticipate additional acquisitions and capital expansion in the future. As a result, our inability to finance acquisitions and capital expenditures through borrowed funds could restrict our ability to expand. Moreover, any default under the documents governing our indebtedness could have a significant adverse effect on our cash flows, as well as the market value of our common stock.

Our level of indebtedness and the terms of our indebtedness could adversely affect our business and liquidity position.

As described in Note 11, “Debt and Other Financing Arrangements,” as of June 27, 2015, we had approximately \$7.3 billion of total indebtedness which included a commercial paper program allowing us to issue short-term unsecured notes in an aggregate amount not to exceed \$1.5 billion; a revolving credit facility supporting our United States and Canadian commercial paper programs in the amount of \$1.5 billion scheduled to expire on December 29, 2018, and various other smaller bank facilities. In July 2015, we redeemed \$5.0 billion in senior notes using cash on hand and the proceeds from borrowings under our commercial paper program.

Our indebtedness may further increase from time to time for various reasons, including fluctuations in operating results, working capital needs, capital expenditures, potential acquisitions or joint ventures, and we expect to incur additional indebtedness to fund our repurchase of up to \$3 billion in Sysco common stock announced in June 2015. Our increased level of indebtedness and the ultimate cost of such indebtedness could have a negative impact on our liquidity, cost of future debt financing and financial results, and our credit ratings may be adversely affected as a result of the incurrence of additional indebtedness. In the future, our cash flow and capital resources may not be sufficient for payments of interest on and principal of our debt, and any alternative financing measures available may not be successful and may not permit us to meet our scheduled debt service obligations.

Our liquidity can be negatively impacted by payments required to appeal tax assessments with certain tax jurisdictions.

Certain tax jurisdictions require partial to full payment of audit assessments or the posting of letters of credit in order to proceed to the appeals process. Sysco has posted approximately \$90 million in letters of credit to appeal the Canadian Revenue Agency assessments of transfer pricing adjustments relating to our cross border procurement activities through our former purchasing cooperative on our 2004 through 2009 fiscal years. If assessed on later years currently under examination using these same positions, we could have to pay cash or post additional letters of credit of as much as \$16 million, in order to appeal these further assessments. If significant further payments are required, the company’s financial condition or cash flows could be adversely affected.

We rely on technology in our business and any technology disruption or delay in implementing new technology could have a material negative impact on our business.

Our ability to decrease costs and increase profits, as well as our ability to serve customers most effectively, depends on the reliability of our technology network. We use software and other technology systems, among other things, to generate and select orders, to load and route trucks, to make purchases, manage our warehouses and to monitor and manage our business on a day-to-day basis. Any disruption to these computer systems could adversely affect our customer service, decrease the volume of our business and result in increased costs and lower profits.

Furthermore, process changes will be required as we continue to use our existing warehousing, delivery, and payroll systems to support operations as we implement an Enterprise Resource Planning (ERP) system. While Sysco has invested and continues to invest in technology security initiatives and disaster recovery plans, these measures cannot fully insulate us from technology disruption that could result in adverse effects on operations and profits.

A cybersecurity incident and other technology disruptions could negatively affect our business and our relationships with customers.

We use technology in substantially all aspects of our business operations. We also use mobile devices, social networking and other online activities to connect with our employees, suppliers, business partners and our customers. Such uses give rise to cybersecurity risks, including security breach, espionage, system disruption, theft and inadvertent release of information. Our business involves the storage and transmission of numerous classes of sensitive and/or confidential information and intellectual property, including customers’ and suppliers’ personal

information, private information about employees, and financial and strategic information about the company and its business partners. Further, as the company pursues its strategy to grow through acquisitions and to pursue new initiatives that improve our operations and cost structure, the company is also expanding and improving its information technologies, resulting in a larger technological presence and corresponding exposure to cybersecurity risk. If we fail to assess and identify cybersecurity risks associated with acquisitions and new initiatives, we may become increasingly vulnerable to such risks. Additionally, while we have implemented measures to prevent security breaches and cyber incidents, our preventative measures and incident response efforts may not be entirely effective. The theft, destruction, loss, misappropriation, or release of sensitive and/or confidential information or intellectual property, or interference with our information technology systems or the technology systems of third parties on which we rely, could result in business disruption, negative publicity, brand damage, violation of privacy laws, loss of customers, potential liability and competitive disadvantage.

We may be required to pay material amounts under multiemployer defined benefit pension plans.

We contribute to several multiemployer defined benefit pension plans based on obligations arising under collective bargaining agreements covering union-represented employees. Approximately 10% of our current employees are participants in such multiemployer plans. In fiscal 2015, our total contributions to these plans were approximately \$38.1 million, which included payments for withdrawal liabilities of \$1.4 million. The costs of providing benefits through such plans have increased in recent years. The amount of any increase or decrease in our required contributions to these multiemployer plans will depend upon many factors, including the outcome of collective bargaining, actions taken by trustees who manage the plans, government regulations, the actual return on assets held in the plans and the potential payment of a withdrawal liability if we choose to exit. Based upon the information available to us from plan administrators, we believe that several of these multiemployer plans are underfunded. The unfunded liabilities of these plans may result in increased future payments by us and the other participating employers. Underfunded multiemployer pension plans may impose a surcharge requiring additional pension contributions. Our risk of such increased payments may be greater if any of the participating employers in these underfunded plans withdraws from the plan due to insolvency and is not able to contribute an amount sufficient to fund the unfunded liabilities associated with its participants in the plan. Based on the latest information available from plan administrators, we estimate our share of the aggregate withdrawal liability on the multiemployer plans in which we participate could have been as much as \$245 million as of June 27, 2015. A significant increase to funding requirements could adversely affect the company's financial condition, results of operations or cash flows.

Our funding requirements for our company-sponsored qualified pension plan may increase should financial markets experience future declines.

At the end of fiscal 2012, we decided to freeze future benefit accruals under the company-sponsored qualified pension plan (Retirement Plan) as of December 31, 2012 for all U.S. based salaried and non-union hourly employees. Effective January 1, 2013, these employees were eligible for additional contributions under an enhanced, defined contribution plan. While these actions will serve to limit future growth in our pension liabilities, we had a sizable pension obligation of \$3.2 billion as of June 27, 2015; therefore, financial market factors could impact our funding requirements. Although recent pension funding relief legislation has served to defer some required funding, additional contributions may be required if our plan is not fully funded when the provisions that provided the relief are phased out. See Note 14, "Company-Sponsored Employee Benefit Plans" to the Consolidated Financial Statements in Item 8 for a discussion of the funded status of the Retirement Plan.

The amount of our annual contribution to the Retirement Plan is dependent upon, among other things, the returns on the Retirement Plan's assets and discount rates used to calculate the plan's liability. Our Retirement Plan holds investments in both equity and fixed income securities. Fluctuations in asset values can cause the amount of our anticipated future contributions to the plan to increase. The projected liability of the Retirement Plan will be impacted by the fluctuations of interest rates on high quality bonds in the public markets as these are inputs in determining our minimum funding requirements. Specifically, decreases in these interest rates may have an adverse effect on our funding obligations. To the extent financial markets experience future declines similar to those experienced in fiscal 2008 through the beginning of fiscal 2010, and/or interest rates on high quality bonds in the public markets decline, our required contributions may increase for future years as our funded status decreases, which could have an adverse effect on our liquidity.

Failure to successfully renegotiate union contracts could result in work stoppages.

As of June 27, 2015, approximately 9,446 employees at 55 operating companies were members of 58 different local unions associated with the International Brotherhood of Teamsters and other labor organizations. In fiscal 2016, 24 agreements covering approximately 3,500 employees have expired or will expire. Failure of our operating companies to effectively renegotiate these contracts could result in work stoppages. Although our operating subsidiaries have not experienced any significant labor disputes or work stoppages to date, and we believe they have

satisfactory relationships with their unions, a work stoppage due to failure of multiple operating subsidiaries to renegotiate union contracts could have a material adverse effect on us.

A shortage of qualified labor could negatively affect our business and materially reduce earnings.

The future success of our operations, including the achievement of our strategic objectives, depends on our ability to identify, recruit, develop and retain qualified and talented individuals, and any shortage of qualified labor could significantly affect our business. Our employee recruitment, development and retention efforts may not be successful, resulting in a shortage of qualified individuals in future periods. Any such shortage would decrease Sysco's ability to effectively serve our customers and achieve our strategic objectives. Such a shortage would also likely lead to higher wages for employees and a corresponding reduction in our net earnings.

Our authorized preferred stock provides anti-takeover benefits that may not be viewed as beneficial to stockholders.

Under our Restated Certificate of Incorporation, Sysco's Board of Directors is authorized to issue up to 1,500,000 shares of preferred stock without stockholder approval. Issuance of these shares could make it more difficult for anyone to acquire Sysco without approval of the Board of Directors, depending on the rights and preferences of the stock issued. In addition, if anyone attempts to acquire Sysco without approval of the Board of Directors of Sysco, the existence of this undesignated preferred stock could allow the Board of Directors to adopt a shareholder rights plan without obtaining stockholder approval, which could result in substantial dilution to a potential acquirer. As a result, hostile takeover attempts that might result in an acquisition of Sysco, which could otherwise have been financially beneficial to our stockholders, could be deterred.

Item 1B. Unresolved Staff Comments

None.

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Item 2. Properties

The table below shows the number of distribution facilities occupied by Sysco in each state, province or country and the aggregate square footage devoted to cold and dry storage as of June 27, 2015.

Location	Number of Facilities	Cold Storage (Square Feet in thousands)	Dry Storage (Square Feet in thousands)	Segment Served*
Alabama	2	185	131	BL
Alaska	1	41	28	BL
Arizona	1	228	140	BL
Arkansas	2	130	88	BL, O
California	17	1,414	1,273	BL, S, O
Colorado	4	275	213	BL, S, O
Connecticut	3	156	110	BL, O
District of Columbia	2	52	42	O
Florida	15	1,236	974	BL, S, O
Georgia	5	267	416	BL, S, O
Idaho	3	95	92	BL, O
Illinois	6	410	411	BL, S, O
Indiana	1	100	109	BL
Iowa	1	93	95	BL
Kansas	1	177	171	BL
Kentucky	1	91	106	BL
Louisiana	1	134	113	BL
Maine	1	58	50	BL
Maryland	2	318	255	BL
Massachusetts	1	218	188	BL
Michigan	3	320	300	BL, S
Minnesota	3	233	195	BL
Mississippi	1	95	69	BL
Missouri	2	105	95	BL, S
Montana	1	121	121	BL
Nebraska	1	144	129	BL
Nevada	3	199	154	BL, O
New Jersey	5	143	502	BL, O
New Mexico	1	121	108	BL
New York	4	417	361	BL, O
North Carolina	6	325	308	BL, S, O
North Dakota	1	46	59	BL
Ohio	7	407	475	BL, S, O
Oklahoma	3	189	152	BL, S, O
Oregon	3	176	156	BL, S, O
Pennsylvania	5	542	405	BL, S
Rhode Island	1	2	—	O
South Carolina	1	191	98	BL
Tennessee	5	406	426	BL, O
Texas	18	1,130	1,241	BL, S, O
Utah	1	161	107	BL
Virginia	3	628	419	BL, O

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Washington	1	134	92	BL
Wisconsin	3	287	299	BL, O
Bahamas	1	90	23	BL
Alberta, Canada	3	207	199	O
British Columbia, Canada	8	309	279	BL, O

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Location	Number of Facilities	Cold Storage (Square Feet in thousands)	Dry Storage (Square Feet in thousands)	Segment Served*
Manitoba, Canada	1	79	74	BL
New Brunswick, Canada	2	57	46	BL
Newfoundland, Canada	1	33	41	BL
Nova Scotia, Canada	1	39	47	BL
Ontario, Canada	12	602	525	BL, O
Quebec, Canada	7	129	245	BL, O
Saskatchewan, Canada	1	40	54	BL
Ireland	6	230	149	BL
Northern Ireland	1	2	8	BL
Puerto Rico	1	8	—	O
Totals	197	14,025	12,966	

* Segments served include Broadline (BL), SYGMA (S), and Other (O).

We own approximately 22,384,000 square feet of our distribution facilities (or 82.9% of the total square feet), and the remainder is occupied under leases expiring at various dates from fiscal 2016 to fiscal 2032, exclusive of renewal options.

We own our approximately 625,000 square foot headquarters office complex in Houston, Texas. In addition, we own our approximately 669,000 square foot shared services complex in Cypress, Texas.

We are currently constructing expansions, replacement or fold-out facilities for our distribution facilities in Maryland, Virginia, and Texas. These operating companies, in the aggregate, accounted for approximately 1% of fiscal 2015 sales.

As of June 27, 2015, our fleet of approximately 9,600 delivery vehicles consisted of tractor and trailer combinations, vans and panel trucks, most of which are either wholly or partially refrigerated for the transportation of frozen or perishable foods. We own approximately 95% of these vehicles and lease the remainder.

Item 3. Legal Proceedings

In the second quarter of fiscal 2014, the company announced an agreement to merge with US Foods, Inc. (US Foods). In February 2015, following completion of its regulatory review of the proposed merger, the US Federal Trade Commission filed a motion with the U.S. District Court for the District of Columbia (the Court) seeking a preliminary injunction to prevent the parties from closing the merger, which the Court granted on June 23, 2015. On June 26, 2015, the parties terminated the merger agreement.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Repurchases of Equity Securities

The principal market for Sysco's common stock (SYY) is the New York Stock Exchange. The table below sets forth the high and low sales prices per share for our common stock as reported on the New York Stock Exchange Composite Tape and the cash dividends declared for the periods indicated.

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	Common Stock Prices		Dividends
	High	Low	Declared Per Share
Fiscal 2014:			
First Quarter	\$36.05	\$31.37	\$0.28
Second Quarter	43.40	31.13	0.29
Third Quarter	37.08	34.07	0.29
Fourth Quarter	37.92	35.31	0.29
Fiscal 2015:			
First Quarter	\$38.85	\$35.50	\$0.29
Second Quarter	41.16	35.82	0.30
Third Quarter	41.45	37.81	0.30
Fourth Quarter	38.99	35.84	0.30

The number of record owners of Sysco's common stock as of August 13, 2015 was 10,877.

We made the following share repurchases during the fourth quarter of fiscal 2015:

ISSUER PURCHASES OF EQUITY SECURITIES

Period	(a) Total Number of Shares Purchased ⁽¹⁾	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
Month #1				
March 29 – April 25	5,168	\$38.16	—	11,655,197
Month #2				
April 26 – May 23	805	36.61	—	11,655,197
Month #3				
May 24 – June 27	2,012	37.58	—	11,655,197
Total	7,985	\$37.86	—	11,655,197

⁽¹⁾ The shares purchased in all 3 months represented shares tendered by individuals in connection with stock option exercises.

The remaining authorization to purchase 11,655,197 shares from the repurchase program, included in the table above, expired on August 23, 2015. In June 2015, our Board of Directors approved a repurchase program to repurchase from time to time in the open market, through an accelerated share repurchase program or through privately negotiated transactions, shares of the company's common stock in an amount not to exceed \$3.0 billion during the two year period ending July 1, 2017, including \$1.5 billion through a planned accelerated share repurchase in fiscal 2016, in addition to amounts normally repurchased to offset benefit plan and stock option dilution. In addition to this share repurchase program approved in June, in August 2015, our Board of Directors approved the repurchase of up to 20,000,000 shares for an aggregate purchase price not to exceed \$800 million. The authorization expires on August 21, 2017. Pursuant to the repurchase program, 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 Securities Exchange Act of 1934 (Exchange Act).

Stock Performance Graph

The following performance graph and related information shall not be deemed “soliciting material” or to be “filed” with the Securities and Exchange Commission, nor shall such information be incorporated by reference into any future filing under the Securities Act of 1933 or the Exchange Act, each as amended, except to the extent that Sysco specifically incorporates such information by reference into such filing.

The following stock performance graph compares the performance of Sysco’s Common Stock to the S&P 500 Index and to the S&P 500 Food/Staple Retail Index for Sysco’s last five fiscal years.

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The graph assumes that the value of the investment in our Common Stock, the S&P 500 Index, and the S&P 500 Food/Staple Retail Index was \$100 on the last trading day of fiscal 2010, and that all dividends were reinvested.

Performance data for Sysco, the S&P 500 Index and the S&P 500 Food/Staple Retail Index is provided as of the last trading day of each of our last five fiscal years.

	7/3/2010	7/2/2011	6/30/2012	6/29/2013	6/28/2014	6/27/2015
Sysco Corporation	\$100	\$129	\$148	\$145	\$172	\$197
S&P 500	100	114	152	158	190	237
S&P 500 Food/Staple Retail Index	100	101	131	151	183	221

Item 6. Selected Financial Data

	Fiscal Year					
	2015	2014	2013	2012	2011	
	(In thousands except for per share data)					
Sales	\$48,680,752	\$46,516,712	\$44,411,233	\$42,380,939	\$39,323,489	
Operating income ⁽¹⁾	1,229,362	1,587,122	1,658,478	1,890,632	1,931,502	
Earnings before income taxes ⁽¹⁾	1,008,147	1,475,624	1,547,455	1,784,002	1,827,454	
Income taxes ⁽¹⁾	321,374	544,091	555,028	662,417	675,424	
Net earnings ⁽¹⁾	\$686,773	\$931,533	\$992,427	\$1,121,585	\$1,152,030	
Net earnings:						
Basic earnings per share ⁽¹⁾	\$ 1.16	\$ 1.59	\$ 1.68	\$ 1.91	\$ 1.96	
Diluted earnings per share ⁽¹⁾	1.15	1.58	1.67	1.90	1.96	
Dividends declared per share	\$ 1.19	\$ 1.15	\$ 1.11	\$ 1.07	\$ 1.03	
Total assets	\$17,989,281	\$13,141,113	\$12,678,208	\$12,137,207	\$11,427,190	
Capital expenditures	542,830	523,206	511,862	784,501	636,442	
Current maturities of long-term debt ⁽²⁾	\$4,979,301	\$304,777	\$207,301	\$254,650	\$207,031	
Long-term debt	2,271,825	2,357,330	2,627,544	2,749,304	2,268,204	
Total long-term debt	7,251,126	2,662,107	2,834,845	3,003,954	2,475,235	
Shareholders' equity	5,260,224	5,266,695	5,191,810	4,685,040	4,705,242	
Total capitalization	\$12,511,350	\$7,928,802	\$8,026,655	\$7,688,994	\$7,180,477	
Ratio of long-term debt to capitalization ⁽²⁾	58.0	% 33.6	% 35.3	% 39.1	% 34.5	%

⁽¹⁾ Our results of operations are impacted by Certain Items, that have resulted in reduced earnings on a GAAP basis. See "Non-GAAP Reconciliations," within Management's Discussion and Analysis of Financial Condition and Results of Operations, for our results on an adjusted basis that exclude Certain Items.

⁽²⁾ As discussed in Note 11, "Debt and Other Financing Arrangements," our current maturities of long-term debt include senior notes issued for the proposed merger with US Foods that were required to be redeemed due to the termination of the merger agreement. We redeemed these notes in July 2015.

Our financial results are impacted by accounting changes and the adoption of various accounting standards. See Note 2, "Changes in Accounting" to the Consolidated Financial Statements in Item 8 for further discussion.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Our discussion below of our results includes certain non-GAAP financial measures that we believe provide important perspective with respect to 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. Other than free cash flow, any non-GAAP financial measures will be denoted as adjusted measures and exclude the impact from multiemployer pension withdrawal charges, severance

charges, integration planning, litigation costs and termination costs in connection with the merger that had been proposed with U.S. Foods, Inc. (US Foods), facility closure charges and US Foods related financing costs. Additional items in fiscal 2014 include a change in estimate of self-insurance, and charges from a contingency accrual. These fiscal 2015 and 2014 items are collectively referred to as (Certain Items). Our US Foods financing costs include the write off of unamortized debt issuance costs when our bridge acquisition facility was terminated upon the issuance of our senior notes in October 2014 and interest expense on those senior notes. In fiscal 2014, costs from executive

retirement plans restructuring were included within Certain Items; however, because these costs in fiscal 2015 are comparable to fiscal 2014, these were not included in the Certain Items definition for the comparison of adjusted results for fiscal 2015 to fiscal 2014. This continues to be presented as a Certain Item in the comparison of adjusted results for fiscal 2014 to fiscal 2013. More information on the rationale for the use of these measures and reconciliations to GAAP numbers can be found under "Non-GAAP Reconciliations" and "Liquidity and Capital Resources."

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, Costa Rica, Ireland and Mexico and include broadline companies, SYGMA (our chain restaurant distribution subsidiary), specialty produce companies, custom-cut meat companies, hotel supply operations, a company that distributes specialty imported products, a company that distributes to international customers and our Sysco Ventures platform, which includes our suite of technology solutions that help support the business needs of our customers.

We consider our primary market to be the foodservice market in the U.S., Canada and Ireland and estimate that we serve about 17.7% of this approximately \$264 billion annual market based on a measurement as of the end of calendar 2014. We use industry data obtained from various sources including Technomic, Inc., the Canadian Restaurant and Foodservices Association and the Irish Food Board to calculate this measurement. According to industry sources, the foodservice, or food-away-from-home, market represents approximately 48% of the total dollars spent on food purchases made at the consumer level in the U.S. as of the end of calendar 2014.

Industry sources estimate the total foodservice market in the U.S. experienced a real sales increase of approximately 0.7% in calendar year 2014 and 1.1% in calendar year 2013. Real sales changes do not include the impact of inflation or deflation.

Highlights

The foodservice industry performance in fiscal 2015 was generally improved. Consumer confidence and the outlook of foodservice operators are at high levels, but have decreased slightly in the summer months of 2015. Fuel prices declined during fiscal 2015 and are currently at lower levels, as compared to recent years, that may support higher consumer spending in the future. Spending at restaurants is generally improved, but customer traffic levels are generally unchanged. Overall, the market environment appears to be modestly improved as compared to the prior two years; however, uncertainty in industry growth remains for fiscal 2016. Amid these conditions, we provided our customers with excellent service, growing our business with both our locally and corporate managed customers and stabilizing our gross margins by successfully implementing several value-added commercial initiatives. We improved our expense management performance as the year progressed, achieving greater success managing expenses in the second half of the year as compared to the first half. The impact of Certain Items contributed to lower earnings in fiscal 2015 as compared to fiscal 2014, primarily from the costs associated with the merger that had been proposed with US Foods.

Comparison of results from fiscal 2015 to fiscal 2014:

- Sales increased 4.7%, or \$2.2 billion to \$48.7 billion;
- Gross profit increased 4.5%, or \$370.5 million to \$8.6 billion;
- Operating income decreased 22.5%, or \$0.4 billion, to \$1.2 billion;
- Adjusted operating income increased 3.4%, or \$58.2 million, to \$1.8 billion;
- Net earnings decreased 26.3%, or \$244.8 million, to \$0.7 billion;

Adjusted net earnings increased 6.4%, or \$66.3 million, to \$1.1 billion;
Basic earnings per share in fiscal 2015 was \$1.16, a 27% decrease from the comparable prior year period amount of \$1.59 per share. Diluted earnings per share in fiscal 2015 was \$1.15, a 27.2% decrease from the comparable prior year period amount of \$1.58 per share; and
Adjusted diluted earnings per share was \$1.84 in fiscal 2015, a 5.1% increase from the comparable prior year amount of \$1.75 per share.

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

Business Transformation

In fiscal 2015, we completed the three-year financial objectives of our Business Transformation. These financial objectives were largely designed to lower our product cost and lower our operating cost structure. We implemented a category management

program to leverage our scale and develop deeper, more strategic relationships with our suppliers to drive growth and innovation. We also implemented multiple initiatives to lower our operating cost structure including a more streamlined and standard approach to the management of fleet, labor, maintenance, procurement and supplies. Our goal for the project was to generate approximately \$550 million to \$650 million in annual benefits to be achieved by fiscal 2015. We exceeded our final three-year target for annualized benefits.

US Foods Merger Termination

We sought to merge with US Foods, a leading foodservice distributor in the U.S. The merger was reviewed by the Federal Trade Commission (FTC) and in February 2015, the FTC commissioners voted 3 to 2 to authorize the FTC staff to seek a preliminary injunction from the U.S. District Court for the District of Columbia preventing the parties from closing the merger. In June 2015, the preliminary injunction was granted. Shortly thereafter, the parties involved agreed to terminate the merger agreement, as a result of which Sysco was obligated to pay \$300 million to the owners of US Foods. During the review period with the FTC, Sysco created a divestiture package, comprised of the sale of 11 US Foods facilities to Performance Food Group (PFG), which was contingent on the closing of the merger. This divestiture agreement entitled PFG to receive a \$25 million termination fee if the sale of the divestiture package was terminated before July 6, 2015, with each of Sysco and US Foods responsible for one half of the applicable fee. Sysco accrued for termination payments totaling \$312.5 million in fiscal 2015 and paid these amounts in fiscal 2016.

The following tables outline our expenses attributable to our integration planning, litigation and termination costs and financing activities, for the periods presented:

	2015	2014
	(In thousands)	
Operating expense	\$ 554,667	\$ 90,571
Interest expense	138,422	6,790
Total	\$ 693,089	\$ 97,361

Fiscal 2015 Acquisitions

Mayca Distribuidores

In the first quarter of fiscal 2015, we acquired a 50% interest in Mayca Distribuidores (Mayca) of Costa Rica and three other affiliates. Mayca, which has been in business since 1995, is a leading food distributor across Costa Rica. In addition to its distribution business, Mayca has a retail cash-and-carry affiliate with multiple locations, a cold-storage company and a truck-leasing company.

Pacific Star Foodservice

In the fourth quarter of fiscal 2015, we acquired a 50% interest in Pacific Star Foodservice, a leading foodservice distributor in Mexico. Pacific Star has operated since 1989 with distribution centers servicing Mexico City, Guadalajara, Monterrey and Tijuana and primarily services chain restaurants, including fast food and casual dining restaurants, casinos, theme parks, movie theaters and hotels throughout Mexico.

Tannis Foodservice

In the fourth quarter of fiscal 2015, we acquired Tannis Trading, Inc., a broadline foodservice distributor in Ottawa, Ontario. Tannis has a 75-year history of providing quality service to customers in Ottawa, Canada's fourth-largest metropolitan market, and the surrounding areas.

Trends and Strategy

Trends

General economic conditions 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. Consumer confidence and employment metrics, such as

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unemployment rates, have shown some signs of improvement during fiscal 2015; however, consumer spending has been cautious. Fuel prices are currently at lower levels, as compared to recent years, that may support higher consumer spending in the future. Overall, the market environment appears to be modestly improved as compared to the prior two years; however, uncertainty in industry growth remains for fiscal 2016. One industry resource, Technomic, Inc., has projected roughly 2% real growth annually. Real growth excludes the impact of inflation or deflation.

Our sales and gross profit performance can be influenced by multiple factors including price, volume and product mix. The modest level of growth in the foodservice market has created additional competitive pricing pressures, which is, in turn, negatively impacting sales and gross profits. Case growth with our locally-managed Broadline business is an important contributor to gross profit dollar growth. Our locally-managed customers, including independent restaurant customers, comprise a significant portion of our overall volumes and an even greater percentage of profitability due to the high level of value added services we typically provide to this customer group. Through focused efforts, our locally-managed case volume growth has accelerated over the past three years. Our sales to corporate-managed customers, including chain restaurants and multi-locational restaurants, also comprise a significant portion of our overall volumes. Gross margin on sales to our corporate-managed customers is generally lower than sales to other types of customers due to the higher volumes we sell to these customers. Case growth for our corporate-managed customers remained strong, but competitive pricing pressure has constrained our gross margins. Inflation is a factor that contributes to the level of sales and gross profit growth and can be a factor that contributes to gross margin pressure. Food cost inflation in fiscal 2015 was 3.7%, an increase from 2.1% experienced in fiscal 2014. Our inflation rates were higher in the first half of fiscal 2015, reaching levels of 6.0% at the mid-point of the fiscal year and dropping to 0.1% by the end of the fiscal year. While we cannot predict whether inflation will continue at current levels, periods of high inflation, either overall or in certain product categories, can have a negative effect on us and our customers. High food costs can be difficult to pass on to our customers. In addition, rapid declines in prices can make it challenging to leverage our fixed costs. Our category management initiative has helped us to manage our gross margin performance in response to several of these factors. Lastly, changes in foreign exchange rates are having a larger impact on our sales as compared to recent fiscal years. The strengthening U.S. dollar is depressing our foreign sales as we convert them to U.S. dollars. The impact of foreign exchange rates for fiscal 2015 was a 1.0% year-over-year decrease to sales growth. This impact has typically been in the range of 0% to 0.5%.

We have experienced higher operating expenses in fiscal 2015 as compared to fiscal 2014, primarily from increased payroll costs and integration planning, litigation and termination costs in connection with the merger that had been proposed with US Foods. We anticipate a low level of operating expenses attributable to the merger termination in the first quarter of fiscal 2016. Our payroll costs have been influenced by higher pay in our sales organization as a result of higher gross profits, investment in new administrative support capabilities, higher management incentive accruals due to improved performance against our incentive targets and companies acquired within the last 12 months. Sales and gross profit growth partially contributed to an increase in sales pay-related expenses due to increases in sales commissions and bonuses. In addition, we have increased our marketing associate headcount in certain markets in order to invest in future sales growth.

In October 2014, we secured long-term financing for the proposed merger with US Foods; therefore, interest expense increased in fiscal 2015 as compared to fiscal 2014. The October 2014 senior notes contained mandatory redemption features providing that, if the merger agreement were terminated on or prior to October 8, 2015, we were required to redeem all of the senior notes at a redemption price equal to 101% of the principal of the senior notes plus accrued interest. In June 2015, we terminated the merger agreement and redeemed the senior notes in July 2015 using cash on hand and the proceeds from borrowings under our commercial paper facility. In fiscal 2016, we will recognize several charges from the redemption of these senior notes including \$50.0 million in premium fees, \$29 million in unamortized debt issuance costs and \$18.0 million in unamortized bond discounts each of which had resulted from the issuance of the senior notes in October 2014. We had hedged \$1.25 billion of this debt by swapping the fixed rates to

floating rates with the goal of reducing overall borrowing cost. We terminated these swaps in July 2015 and will recognize a gain of \$10.0 million from the fair value adjustment that had been recorded on the underlying debt. Our interest expense on the notes was treated as a Certain Item in fiscal 2015, since the proposed merger had not closed. Similarly, these charges and gain associated with the repayment of these notes will be presented as Certain Items in fiscal 2016. As discussed in Note 9, "Derivative Financial Instruments," two forward starting swap agreements used to hedge interest rate risk exposure on our October 2014 senior notes issuance were previously terminated and were paid in the amount of \$188.8 million. The resulting amounts recorded as a loss are currently amortizing into interest expense at a rate of \$2.5 million per quarter for the next 9 years and \$1.1 million per quarter thereafter for another 19 years. These amounts will continue to amortize into interest expense as the amount hedged is anticipated to remain within our capital structure.

Following the termination of the merger agreement, we announced a \$3 billion, two-year share repurchase program. We intend to execute the first half of this program through an accelerated repurchase program near the end of first quarter of fiscal 2016. We expect to issue \$2.0 billion of debt at approximately the same time and we intend to use a majority of the proceeds to fund these repurchases. These actions will lower our basic and diluted shares outstanding providing an expected earnings per share benefit of approximately \$0.03 to \$0.04 per share. This estimate includes a 4% to 5% reduction in average shares outstanding,

partially offset by higher interest expense from the new debt issuance. Because the share repurchase will take place near the end of the first quarter of fiscal 2016, we will not realize a full-year's benefit from the reduction in shares in fiscal 2016; however, the full-year benefit will be realized in fiscal 2017.

Sysco's fiscal year ends on the Saturday nearest to June 30th. We will have a 53-week year ending July 2, 2016 for fiscal 2016, and this additional week will be presented as a Certain Item in fiscal 2016.

Strategy

We are focused on optimizing our core broadline business in the U.S., Bahamas, Canada, Costa Rica, Ireland and Mexico, 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 components of our strategy to help us achieve our mission and vision as follows:

Profoundly enrich the experience of doing business with Sysco: Our primary focus is to help our customers succeed. We believe that by building on our current competitive advantages, we will be able to further differentiate our offering to customers. Our competitive advantages include our sales force of over 7,300 marketing associates; our diversified product base, which includes quality-assured Sysco brand products; the suite of services we provide to our customers such as business reviews and menu analysis; and our multi-regional presence in the U.S. and Canada. In addition, we have a portfolio of businesses spanning broadline, chain restaurant distribution, specialty produce, specialty meat, hotel amenities, specialty import and export which serves our customers' needs across a wide array of business segments. Through our Sysco Ventures platform, we are developing a suite of technology solutions that help support the administrative needs of our customers. We believe this strategy of enriching the experience of doing business with Sysco will increase customer retention and profitably accelerate sales growth with both existing and new customers.

Continuously improve productivity in all areas of our business: We continually strive to improve productivity and reduce costs. From implementing an integrated software system to leveraging the power of our end-to-end supply chain, we continue to look for ways to improve our service to our customers and lower costs.

Expand our portfolio of products and services by initiating a customer-centric innovation program: We continually explore opportunities to provide new and improved products, technologies and services to our customers.

Explore, assess and pursue new businesses and markets: This strategy is focused on identifying opportunities to expand the core business through growth in new international markets and in adjacent areas that complement our core foodservice distribution business. As a part of our ongoing strategic analysis, we regularly evaluate business opportunities, including potential acquisitions, joint ventures and sales of assets and businesses.

Develop and effectively integrate a comprehensive, enterprise-wide talent management process: Our ability to drive results and grow our business is directly linked to having the best talent in the industry. We are committed to the continued enhancement of our talent management programs in terms of how we recruit, select, train and develop our associates throughout Sysco, as well as succession planning. Our ultimate objective is to provide our associates with outstanding opportunities for professional growth and career development.

In fiscal 2016, to further our strategy, we see opportunities to further accelerate case growth, especially with our locally-managed sales customers through improved product and service differentiation combined with enhanced sales and technology capabilities. We will continue to build on our success in stabilizing gross margin through enhanced product innovation, growing privately-branded product sales and improving pricing analytics and support. There continues to be opportunity to improve our productivity and reduce overhead costs in our supply chain organization and administrative areas of our business. We will continue to invest in our business to fully realize the benefits and improve our return on invested capital.

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:

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	2015		2014		2013	
Sales	100.0		% 100.0		% 100.0	%
Cost of sales	82.4		82.4		82.0	
Gross profit	17.6		17.6		18.0	
Operating expenses	15.0		14.2		14.3	
Operating income	2.6		3.4		3.7	
Interest expense	0.5		0.2		0.3	
Other expense (income), net	(0.1	)	(0.0	)	(0.0)
Earnings before income taxes	2.2		3.2		3.4	
Income taxes	0.7		1.2		1.2	
Net earnings	1.5		% 2.0		% 2.2	%

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 prior year:

	2015		2014	
Sales	4.7		% 4.7	%
Cost of sales	4.7		5.3	
Gross profit	4.5		2.3	
Operating expenses	11.0		4.0	
Operating income	(22.5	)	(4.3)
Interest expense	105.9		(3.7)
Other expense (income), net ⁽¹⁾	174.4		(29.9)
Earnings before income taxes	(31.7	)	(4.6)
Income taxes	(40.9	)	(2.0)
Net earnings	(26.3	)	% (6.1)
Basic earnings per share	(27.0	)	% (5.4)
Diluted earnings per share	(27.2	)	(5.4)
Average shares outstanding	1.0		(0.6)
Diluted shares outstanding	1.1		(0.4)

⁽¹⁾ Other expense (income), net was income of \$33.6 million in fiscal 2015, \$12.2 million in fiscal 2014 and \$17.5 million in fiscal 2013.

Sales

Sales for fiscal 2015 were 4.7% higher than fiscal 2014. Sales for fiscal 2015 increased as a result of product cost inflation and the corresponding increase in selling prices, case volume growth, and sales from acquisitions that occurred within the last 12 months. Changes in product costs, an internal measure of inflation or deflation, were estimated as inflation of 3.7% during fiscal 2015, driven mainly by inflation in the meat, seafood and dairy categories. Case volumes including acquisitions within the last 12 months improved 2.6% in fiscal 2015. Case volumes excluding acquisitions within the last 12 months improved 2.4% in fiscal 2015. 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 0.6% in fiscal 2015. The changes in the exchange rates used to translate our foreign sales into U.S. dollars negatively impacted sales by 1.0% in fiscal 2015.

Sales for fiscal 2014 were 4.7% higher than fiscal 2013. Sales for fiscal 2014 increased as a result of product cost inflation and the resulting increase in selling prices, sales from acquisitions that occurred within the last 12 months

and case volume growth. Our sales growth in fiscal 2014 was greater with our corporate-managed customers as compared to sales growth with our locally-managed customers. We believe our locally-managed customer sales growth was negatively influenced by less favorable consumer sentiment. Case volumes excluding acquisitions within the last 12 months improved 2.2% in 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 1.4%% for fiscal 2014. Case volumes including acquisitions within the last 12 months

improved approximately 3.4% in fiscal 2014. Changes in product costs, an internal measure of inflation or deflation, were estimated as inflation of 2.1% during fiscal 2014. The changes in the exchange rates used to translate our foreign sales into U.S. dollars did not have a significant impact on sales when compared to fiscal 2013.

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.

Fiscal 2015 vs. Fiscal 2014

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 prior year:

	2015	2014	Change in Dollars	% Change	
	(Dollars in thousands)				
Gross profit	\$8,551,516	\$8,181,035	\$370,481	4.5	%
Operating expenses	7,322,154	6,593,913	\$728,241	11.0	%
Operating income	\$1,229,362	\$1,587,122	\$(357,760)	(22.5))%
Gross profit	\$8,551,516	\$8,181,035	\$370,481	4.5	%
Adjusted operating expenses (Non-GAAP)	6,759,687	6,447,405	\$312,282	—	
Adjusted operating income (Non-GAAP)	\$1,791,829	\$1,733,630	\$58,199	3.4	%

The decrease in operating income was impacted by an increase of \$416.0 million in operating expenses attributable to Certain Items. Adjusted operating income increased due to gross profit dollar growth partially offset by increased expenses from greater case volumes, higher incentive accruals, higher pay for our sales organization as a result of higher gross profit, investment in administrative support capabilities and acquired operations.

Gross profit dollars increased in fiscal 2015 as compared to fiscal 2014 primarily due to increased sales volumes, stronger relative mix of sales to our locally-managed customers and benefits from category management. Gross margin, which is gross profit as a percentage of sales, was 17.57% in fiscal 2015, a decline of 2 basis points from the gross margin of 17.59% in fiscal 2014. Increased competition resulting from a slow-growth market and volatile inflation has pressured our gross margins; however, sales and mix, as well as our category management initiative have helped us stabilize our gross margin performance. Inflation in fiscal 2015 was 3.7%, an increase from 2.1% experienced in fiscal 2014. Our inflation rates were higher in the first half of fiscal 2015, reaching 6.0% at the mid-point of the fiscal year and dropping to 0.1% by the end of the fiscal year. Fiscal 2015 inflation was seen primarily in the meat, dairy and poultry categories.

Operating expenses for fiscal 2015 increased 11.0%, or \$728.2 million, over fiscal 2014. Adjusted operating expenses for fiscal 2015 increased 4.8%, or \$312.3 million, over fiscal 2014. These increases in adjusted operating expenses were primarily due to increased expenses from greater case volumes, higher incentive accruals, higher pay for our sales organization as a result of higher gross profit, investment in administrative support capabilities and acquired operations. Partially offsetting this increase, was a reduction in fuel costs and provisions for losses on receivables. Sysco's operating expenses were impacted by Certain Items, which resulted in an increase in operating expenses of \$416 million in fiscal 2015 as compared to fiscal 2014. More information on the rationale of the use of adjusted

operating expense and adjusted operating income and reconciliations to GAAP numbers can be found under “Non-GAAP Reconciliations.”

Operating Expenses Impacting Adjusted Operating Income

Our operating expenses increased in fiscal 2015 as compared to fiscal 2014 partially due to greater case volumes, higher incentive accruals, higher pay for our sales organization as a result of higher gross profit, investment in administrative support capabilities and acquired operations. Pay-related expenses, which represent a significant portion of our operating costs, increased by \$349.3 million in fiscal 2015 over fiscal 2014. Factors contributing to the increase in 2015 include increase in expense related to management incentive accruals of \$103.5 million, higher pay in our sales organization largely as a result of higher gross profits, higher costs due to investment in new administrative support capabilities and companies acquired in the last 12 months. The

amounts for companies acquired within the last 12 months include our new, consolidated joint ventures, such as our 50% interest in a foodservice company in Costa Rica. Sales and gross profit growth partially contributed to an increase in sales pay-related expenses due to increases in sales commissions and bonuses. In addition, we have increased our marketing associate headcount in certain markets in order to invest in future sales growth. Our expense related to management incentive accruals will vary based on how the company's performance compares to incentive targets. Our fiscal 2015 financial performance trended more favorably relative to the applicable management incentive targets as compared to fiscal 2014. Consequently, expense is higher period over period.

Cost per case is an important metric management uses to measure our expense performance. This metric is calculated by dividing the total operating expense of our North American Broadline companies by the number of cases sold. Adjusted cost per case is calculated similarly; however, the operating expense component excludes severance and multiemployer pension withdrawal charges, which are the Certain Items applicable to these companies, divided by the number of cases sold. Our corporate expenses are not included in the cost per cases metrics because the metric is a measure of efficiency in our operations. We seek to grow our sales and either minimize or reduce our costs on a per case basis. Our cost per case and adjusted cost per case increased \$0.04 per case in fiscal 2015 as compared to fiscal 2014. The impact of foreign exchange rates lowered our cost per case results by \$0.05 per case for fiscal 2015 as compared to fiscal 2014, which partially offset the rate of increase occurring primarily from increased pay-related expenses. We are focused on driving improvement across our operations with multiple initiatives that implement best practices, enhance our operating training programs and improve our ability to measure and analyze our performance. More information on the rationale for the use of adjusted operating income and adjusted cost per case and reconciliations can be found under "Non-GAAP Reconciliations."

Certain Items within Operating Expenses

Sysco's operating expenses are impacted by Certain Items, which are expenses that can be difficult to predict, can be unanticipated or do not represent core operating expenses. More information on the rationale for the use of these measures and reconciliations to GAAP numbers can be found under "Non-GAAP Reconciliations." Our significant Certain Items applicable for fiscal 2015 included costs related to integration planning, litigation costs and termination costs in connection with the merger that had been proposed with US Foods. Our significant Certain Items applicable for fiscal 2014 related to costs in connection with the then proposed merger with US Foods, a change in estimate of our self-insurance reserve and a liability for a settlement.

We incurred costs in connection with the proposed merger with US Foods announced in the second quarter of fiscal 2014 primarily from integration planning, litigation costs and termination costs. These costs totaled \$554.7 million in fiscal 2015 and \$90.6 million in fiscal 2014.

Our self-insurance program covers 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 workers' 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 fiscal 2014.

During the first quarter of fiscal 2014, Sysco was made aware of certain alleged violations of California law relating to its use of remote storage units in the delivery of products. These are commonly referred to as drop sites. As of June 28, 2014, we recorded a liability for a settlement of \$20 million. In July 2014, Sysco agreed to a \$19.4 million settlement, which includes a payment of \$15.0 million in penalties, \$3.3 million to fund four California Department of Public Health investigator positions for five years, a \$1.0 million donation to food banks across California, and \$0.1

million in legal fees. In the first quarter of fiscal 2014, we eliminated the use of drop sites across Sysco. During fiscal 2014, we introduced mandatory, annual food safety training for all employees across Sysco. We are implementing additional and improved food safety reporting, monitoring and compliance controls across our operations to ensure adherence to our policies.

Fiscal 2014 vs. Fiscal 2013

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 prior year:

	2014	2013	Change in Dollars	% Change	
	(Dollars in thousands)				
Gross profit	\$8,181,035	\$7,996,607	\$184,428	2.3	%
Operating expenses	6,593,913	6,338,129	255,784	4.0	%
Operating income	\$1,587,122	\$1,658,478	\$(71,356)	(4.3)	%
Gross profit	\$8,181,035	\$7,996,607	\$184,428	2.3	%
Adjusted operating expenses (Non-GAAP)	6,444,076	6,243,414	200,662	3.2	%
Adjusted operating income (Non-GAAP)	\$1,736,959	\$1,753,193	\$(16,234)	(0.9)	%

The decrease in operating income was impacted by an increase in \$55.1 million in operating expenses attributable to Certain Items. Operating income and adjusted operating income for fiscal 2014 were lower than fiscal 2013 primarily from a lower rate of growth in our gross profit, increased expenses from higher case volumes, some of which is attributable to our acquired operations, increased depreciation and amortization, increased delivery costs and higher corporate expenses. These were partially offset by lower Business Transformation Project expenses and benefits from Business Transformation Project initiatives. As a percentage of sales, we experienced favorable expense management due in part to benefits from our Business Transformation Project initiatives.

Gross profit dollars increased in fiscal 2014 as compared to fiscal 2013 primarily due to increased sales volumes. The first half of fiscal 2014 contained weaker gross profit growth of 1.2% as compared to the same period in fiscal 2013. Inflation and locally-managed customers case growth was lower in the first half of fiscal 2014. Inflation increased as did local-managed customers case growth in the second half of fiscal 2014. Gross profits grew at a greater rate of 3.4% in the second half of fiscal 2014 as compared to the same time period in fiscal 2013 as result of these factors and in part from our Business Transformation Project initiatives. Gross margin, which is gross profit as a percentage of sales, was 17.59% in fiscal 2014, a decline of 42 basis points from the gross margin of 18.01% in fiscal 2013. This decline in gross margin was partially the result of weak restaurant traffic and increased competition resulting from a slow-growth market. Increased sales to lower margin corporate-managed customers also contributed to the decline in fiscal 2014. Our inflation rates were relatively stable over the first three quarters of fiscal 2014, however it increased in the fourth quarter, all quarters being compared to the past year. Fourth quarter fiscal 2014 inflation was seen primarily in the meat, seafood and dairy categories which represent more than one-third of our annual sales.

Operating expenses for fiscal 2014 increased 4.0%, or \$255.8 million, over fiscal 2013. Adjusted operating expenses for fiscal 2014 increased 3.2%, or \$200.7 million, over fiscal 2013. These increases were primarily due to increased expenses from higher case volumes, some of which is attributable to our acquired operations, increased depreciation and amortization, increased delivery costs and higher corporate expenses. These were partially offset by lower Business Transformation Project expenses and benefits from Business Transformation Project initiatives. We believe favorable expense management, partially from our Business Transformation Project initiatives, helped to keep our operating expense increases from being greater. Sysco's operating expenses are impacted by certain charges and adjustments, which we refer to as Certain Items, and which resulted in an increase in operating expenses of \$55.1 million in fiscal 2014 as compared to fiscal 2013. More information on the rationale of the use of adjusted operating expenses and adjusted operating income and reconciliations to GAAP numbers can be found under "Non-GAAP Reconciliations".

Operating Expenses Impacting Adjusted Operating Income

Our operating expenses increased in fiscal 2014 as compared to fiscal 2013 partially due to expenses from our acquired operations, expenses attributable to volume growth and increased delivery costs. Pay-related expenses represent a significant portion of our operating costs, contributed to the increase in each of these three categories of expenses and contributed to cost increases in our corporate expenses. Pay-related expenses, excluding labor costs associated with our Business Transformation Project, US Foods integration planning and retirement-related expenses, increased by \$74.4 million in fiscal 2014 over fiscal 2013. The increase was 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. Pay-related costs have also increased at our corporate office as certain employee costs attributed to our Business Transformation Project in fiscal 2013 were no longer attributed to the Business Transformation

Project in fiscal 2014 due to a change in allocation methodology. In fiscal 2013, we allocated internal associates based upon estimates of the percentage of time they spent on the project. In fiscal 2014, only associates that were dedicated full time to the project are included in Business Transformation Project costs. These increases were partially offset by reduced sales compensation, information technology compensation and lower provisions for management incentive plans. Benefits from our Business Transformation Project initiatives helped in lowering the rate of growth in these expenses particularly in our sales area for fiscal 2014. During fiscal 2013, we streamlined our sales management organization and modified marketing associate compensation plans. Fiscal 2014 was also impacted by a reduction in pay in the information technology area, resulting from the restructuring of this department in fiscal 2013, which reduced headcount in this area.

Depreciation and amortization expense, excluding the increase related to our Business Transformation Project described below, increased by \$32.8 million in fiscal 2014 over fiscal 2013. The increase was primarily related to depreciation on assets that were not placed in service in fiscal 2013 that were in service in fiscal 2014.

Our retirement-related expenses consist primarily of costs from our Retirement Plan, SERP and our defined contribution plans. As a part of our Business Transformation Project initiatives, our Retirement Plan was substantially frozen and the SERP was completely frozen in fiscal 2013, and our defined contribution plans were enhanced with greater benefits. The net impact in fiscal 2014 of our retirement-related expenses as compared to fiscal 2013 was a decrease of \$86.8 million, consisting of a \$133.6 million decrease in our net company-sponsored pension costs and approximately \$6.2 million for other costs, partially offset by \$53.0 million increased costs from our defined contribution plans.

In addition to the increases in our corporate office expenses from pay-related expenses noted above, other sources of cost increases in fiscal 2014 as compared to fiscal 2013 were due to increasing the capabilities of various departments within our corporate office. A subset of our business technology costs was attributable to our Business Transformation Project. Expenses related to our Business Transformation Project, inclusive of pay-related and software amortization expense, were \$277 million in fiscal 2014 and \$330.5 million in fiscal 2013, representing a decrease of \$53.5 million. The decrease in fiscal 2014 resulted from a reduction in certain employee costs that were attributed to our Business Transformation Project in fiscal 2013 that were no longer attributed to the Business Transformation Project in fiscal 2014 due to a change in allocation methodology. In fiscal 2013, we allocated internal associates based upon estimates of the percentage of time they spent on the project. In fiscal 2014, only associates that were dedicated full time to the project are included in Business Transformation Project costs. Additional contributors to the decreases include an increased level of capitalization on amounts spent for system improvements to enhance stability and scalability and reduced level of spend with consultants as compared to the comparable period in fiscal 2013. The decrease in fiscal 2014 was partially offset by an increase in depreciation and amortization expense related to the Business Transformation Project of \$10.7 million in fiscal 2014 over fiscal 2013.

Our cost per case decreased \$0.10 per case in fiscal 2014 as compared to fiscal 2013. Our adjusted cost per case calculated on a non-GAAP basis decreased \$0.06 in fiscal 2014 as compared to fiscal 2013, primarily from reduced pay-related expenses from our sales and information technology areas and lower retirement-related expenses, partially offset by increased costs from delivery pay-related expenses. More information on the rationale for the use of adjusted operating expenses and adjusted cost per case and reconciliations can be found under "Non-GAAP Reconciliations."

Certain Items Within Operating Expenses

Our significant Certain Items applicable for fiscal 2014 included costs in connection with the then proposed merger with US Foods, a change in the estimate of our self-insurance reserve and a liability for a settlement, which were described in greater detail above. Our significant Certain Items applicable for fiscal 2013 related to withdrawal liabilities from multiemployer pension plans, severance charges and costs from restructuring executive retirement

plans.

From time to time, we may voluntarily withdraw from multiemployer pension plans to minimize or limit our future exposure to these plans. In fiscal 2013, we recorded a provision \$41.9 million, related to multiemployer pension plan withdrawals.

Net Earnings

Net earnings decreased 26.3% in fiscal 2015 from fiscal 2014 due primarily to the changes in operating income discussed above, including the impact of Certain Items, which included increased interest expense of \$131.6 million in fiscal 2015 that related to the financing of our proposed merger with US Foods. These amounts include the write off of unamortized debt issuance costs when our bridge acquisition facility was terminated upon the issuance of our senior notes in October 2014 and interest expense on those senior notes. Excluding this interest expense, adjusted interest expense decreased by \$0.6 million. Adjusted net earnings increased \$66.3 million, or 6.4%, during fiscal 2015.

Net earnings for fiscal 2014 decreased 6.1% compared to fiscal 2013. This decrease was primarily due to changes in operating income discussed above. Adjusted net earnings decreased 1.8% during fiscal 2014.

The effective tax rate of 31.9% for fiscal 2015 was favorably impacted by lower earnings in the U.S. primarily due to costs associated with the termination of the US Foods proposed merger. The lower U.S. earnings resulted in a more significant favorable impact on the effective tax rate from the indefinitely reinvested foreign earnings due to lower foreign statutory tax rates as compared to the domestic tax rate. The additional cost associated with the proposed US Foods merger resulted in lower state taxes. For future periods, we would expect our normalized tax rate to be in the range of 36% to 37%.

The effective tax rate of 36.9% for fiscal 2014 was negatively impacted primarily by two items. First, a non-deductible penalty, that the company incurred, had an unfavorable tax impact of \$6.2 million. Second, we recorded net tax expense of \$5.2 million for tax and interest related to various federal, foreign and state uncertain tax positions. This negative impact was partially offset by the recording of \$5.7 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 fiscal 2013 was 35.9%. Indefinitely reinvested earnings taxed at foreign statutory tax rates less than our domestic tax rate had the impact of reducing the effective tax rate.

Earnings Per Share

Basic earnings per share in fiscal 2015 were \$1.16, a 27.0% decrease from the fiscal 2014 amount of \$1.59 per share. Diluted earnings per share in fiscal 2015 were \$1.15, a 27.2% decrease from the fiscal 2014 amount of \$1.58 per share. This decrease was primarily the result of the factors discussed above and due to greater shares outstanding during fiscal 2015 as compared to fiscal 2014. As discussed below in "liquidity and capital resources - financing activities," we chose not to repurchase any shares in fiscal 2015 due to the proposed US Foods merger. Our shares outstanding have increased primarily as a result of stock option exercises and restricted stock unit grants to employees. This resulted in lowering our earnings per share amounts by \$0.02 per share. Adjusted diluted earnings per share in fiscal 2015 were \$1.84, an increase of 5.1% from the comparable prior year period amount of \$1.75.

Basic earnings per share in fiscal 2014 were \$1.59, a 5.4% decrease from the fiscal 2013 amount of \$1.68 per share. Diluted earnings per share in fiscal 2014 were \$1.58, a 5.4% decrease from the fiscal 2013 amount of \$1.67 per share. This decrease was primarily the result of the factors discussed above. Adjusted diluted earnings per share in fiscal 2014, based on the Certain Items definition for the fiscal 2014 and fiscal 2013 years, were \$1.76, a decrease of 1.1% from the comparable prior year period amount of \$1.78. All earnings per share metrics for fiscal 2014 were partially impacted by a greater number of shares outstanding. Sysco experienced a greater number of stock option exercises in fiscal 2014 as compared to fiscal 2013, which increased the number of shares outstanding.

Non-GAAP Reconciliations and Adjusted Cost per Case

Sysco's results of operations are impacted by multiemployer pension withdrawal charges, severance charges, integration planning, litigation costs and termination costs in connection with the merger that had been proposed with US Foods, facility closure charges and US Foods related financing costs. Additional items in fiscal 2014 include a change in estimate of self-insurance, and charges from a contingency accrual. These fiscal 2015 and 2014 items are collectively referred to as (Certain Items). Our US Foods financing costs include the write off of unamortized debt issuance costs when our bridge acquisition facility was terminated upon the issuance of our senior notes in October 2014 and interest expense on those senior notes. In fiscal 2014, costs from executive retirement plans restructuring

were included within Certain Items; however, because these costs in fiscal 2015 are comparable to fiscal 2014, these were not included in the Certain Items definition for the comparison of adjusted results for fiscal 2015 to fiscal 2014. This continues to be presented as a Certain Item in the comparison of adjusted results for fiscal 2014 to fiscal 2013. Management believes that adjusting its operating expenses, operating income, interest expense, 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 for GAAP measures 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 table 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.

Set forth below is a reconciliation of actual operating expenses, operating income, interest expense, net earnings and diluted earnings per share to adjusted results for these measures for fiscal 2015 and fiscal 2014:

	2015	2014	Change in Dollars	% Change ⁽³⁾	
	(In thousands, except for share and per share data)				
Operating expenses (GAAP)	\$7,322,154	\$6,593,913	\$728,241	11.0	%
Impact of MEPP charge	—	(1,451)	) 1,451	NM	
Impact of severance charges	(5,598)	) (7,202)	) 1,604	(22.3)
Impact of US Foods merger costs	(554,667)	) (90,571)	) (464,096)	) NM	
Impact of change in estimate of self insurance	—	(23,841)	) 23,841	NM	
Impact of contingency accrual	—	(20,000)	) 20,000	NM	
Impact of facility closure charges	(2,203)	) (3,443)	) 1,240	(36.0)
Impact of Certain Items on operating expenses	(562,468)	) (146,508)	) (415,960)	) NM	
Adjusted operating expenses (Non-GAAP)	\$6,759,686	\$6,447,405	\$312,281	4.8	%
Operating Income (GAAP)	\$1,229,362	\$1,587,122	\$(357,760)	(22.5)%
Impact of Certain Items on operating income	562,468	146,508	415,960	NM	
Adjusted operating income (Non-GAAP)	\$1,791,830	\$			