SYSCO CORP
Form 10-K
August 28, 2012

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

(Mark One)

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

For the fiscal year ended June 30, 2012

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

Registrant’s Telephone Number, Including Area Code:

(281) 584-1390

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

Title of Each Class	Name of each exchange on which registered
Common Stock, $1.00 par value	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 R 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 R

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 R No £

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

Yes R 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 R	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 R

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 $17,092,025,000 as of December 31, 2011 (based on the closing sales price on the New York Stock Exchange Composite Tape on December 30, 2011, as reported by The Wall Street Journal (Southwest Edition)). As of August 15, 2012, the registrant had issued and outstanding an aggregate of 586,604,951 shares of its common stock.

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the company's 2012 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.

TABLE OF CONTENTS

		Page No.
	PART I	
Item 1.	Business	1
Item 1A.	Risk Factors	5
Item 1B.	Unresolved Staff Comments	10
Item 2.	Properties	11
Item 3.	Legal Proceedings	12
Item 4.	Mine Safety Disclosures	12
	PART II	
Item 5.	Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Repurchases of Equity Securities	12
Item 6.	Selected Financial Data	15
Item 7.	Management’s Discussion and Analysis of Financial Condition and Results of Operations	16
Item 7A.	Quantitative and Qualitative Disclosures about Market Risk	40
Item 8.	Financial Statements and Supplementary Data	43
Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	93
Item 9A.	Controls and Procedures	93
Item 9B.	Other Information	93
	PART III	
Item 10.	Directors, Executive Officers and Corporate Governance	93
Item 11.	Executive Compensation	93
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	93
Item 13.	Certain Relationships and Related Transactions, and Director Independence	93
Item 14.	Principal Accounting Fees and Services	94
	PART IV	
Item 15.	Exhibits	94
Signatures		95

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 400,000 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 $42.4 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 30, 2012 for fiscal 2012, a 52-week year ending July 2, 2011 for fiscal 2011 and a 53-week year ending July 3, 2010 for fiscal 2010.

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 and lodging industry products segments, a company that distributes specialty imported products and a company that distributes to international customers. Specialty produce companies distribute fresh produce and, on a limited basis, other foodservice products. Our lodging industry products company distributes 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, schools, hotels, 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, fully prepared entrees, fruits, vegetables and desserts;
- a full line of canned and dry foods;
- fresh meats;
- 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:

	2012	2011	2010
Canned and dry products	19 %	19 %	19 %
Fresh and frozen meats	19	18	17
Frozen fruits, vegetables, bakery and other	14	14	14
Dairy products	10	11	10
Poultry	10	10	10
Fresh produce	8	8	9
Paper and disposables	8	8	8
Seafood	5	5	5
Beverage products	4	4	4
Janitorial products	2	2	2
Equipment and smallwares	1	1	2
Medical supplies (1)	-	-	-
	100 %	100 %	100 %

(1) Sales are less than 1% of total

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 13,600 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 30, 2012.

Based upon available information, we estimate that sales by type of customer during the past three fiscal years were as follows:

Type of Customer	2012	2011	2010
Restaurants	63 %	62 %	62 %
Hospitals and nursing homes	10	11	11
Hotels and motels	5	6	6
Schools and colleges	6	5	5
Other	16	16	16
Totals	100 %	100 %	100 %

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” at 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. Members of the corporate staff possess experience and expertise in, among other areas, accounting and finance, treasury, legal, cash management, information technology, employee benefits, engineering, real estate and construction, risk management and insurance, sales and marketing, distribution, payroll, human resources, training and development, strategy, and tax compliance services. 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.

Our shared services center performs support services for employees, suppliers and customers, payroll administration, human resources, customer and vendor contract administration, financial services such as vendor payments, invoicing, cash application, certain credit services, accounting and sales and use tax administration, procurement and maintenance support and sales support for some of our operating companies.

Capital Improvements

To maximize productivity and customer service, we continue to modernize, expand and construct new distribution facilities. During fiscal 2012, 2011 and 2010, approximately $784.5 million, $636.4 million and $594.6 million, respectively, were invested in technology, facilities, delivery fleet and other capital asset enhancements. We estimate our capital expenditures in fiscal 2013 should be in the range of $600 million to $650 million. During the three years ended June 30, 2012, capital expenditures were financed primarily by internally generated funds, our commercial paper program and bank and other borrowings. We expect to finance our fiscal 2013 capital expenditures from the same sources.

Employees

As of June 30, 2012, we had approximately 47,800 full-time employees, approximately 17% of whom were represented by unions, primarily the International Brotherhood of Teamsters. Contract negotiations are handled by each individual operating company. Approximately 17% of our union employees are covered by collective bargaining agreements which have expired or will expire during fiscal 2013 and are subject to renegotiation. Since June 30, 2012, one contract covering 48 of such employees has been renegotiated. We consider our labor relations to be satisfactory.

Competition

Industry sources estimate that there are more than 15,000 companies engaged in foodservice distribution in the United States. Our customers may also choose to purchase products directly from retail outlets or negotiate prices directly with our suppliers. While we compete primarily with local and regional distributors, a few organizations compete with us on a national basis. 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. An additional competitive factor for our larger chain restaurant customers is the ability to provide a national distribution network. We consider our primary market to be the foodservice market in the United States and Canada and estimate that we serve about 17.5% of this approximately $225 billion annual market. We believe, based upon industry trade data, that our sales to the United States and Canada food-away-from-home industry

were the highest of any foodservice distributor during fiscal 2012. 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 8,000 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 wide geographic presence in the United States and Canada, which mitigates some of the impact of regional economic declines that may occur over time and provides a national distribution network for larger chain restaurant customers. We believe our liquidity and access to capital provides us the ability to continuously invest in business improvements. We are the only publicly-traded distributor in the food-away-from-home industry in the United States. While our public company status provides us with some advantages, including access to capital, we believe it also provides us with some disadvantages that our competitors do not have in terms of additional costs related to complying with regulatory requirements.

Government Regulation

As a marketer and distributor of food products, we are subject to the U.S. Federal Food, Drug and Cosmetic Act and regulations promulgated thereunder by the U.S. Food and Drug Administration (FDA), as well as the Canadian Food and Drugs Act and the regulations thereunder.

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.

In Canada, the Canadian Food Inspection Agency administers and enforces the food safety and nutritional quality standards established by Health Canada under the Canadian Food and Drugs Act and under other related federal legislation, including the Canada Agricultural Products Act, the Meat Inspection Act, the Fish Inspection Act and the Consumer Packaging and Labelling Act (as it relates to food). These laws regulate the processing, storing, grading, packaging, marking, transporting and inspection of certain Sysco product lines as well as the packaging, labeling, sale, importation and advertising of pre-packaged and certain other products.

We and our products are also subject to state, provincial and local regulation through such measures as the licensing of our facilities; enforcement by state, provincial and local health agencies of state, provincial 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 inspections and regulations issued pursuant to the U.S. Occupational Safety and Health Act by the U.S. Department of Labor, together with similar occupational health and safety laws in each Canadian province. 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 U.S. and Canadian federal, state, provincial and local regulatory agencies, including, but not limited to, the U.S. Department of Labor and each Canadian provincial ministry of labour, which set employment practice standards for workers, and the U.S. Department of Transportation and the Canadian Transportation Agency, which regulate transportation of perishable and hazardous materials and waste, and similar state, provincial and local agencies.

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. Although we are subject to other U.S. and Canadian federal, state, provincial and local provisions relating to the protection of the environment or the discharge of materials, these provisions do not materially impact the use or operation of our facilities.

Compliance with these laws has not had, and is not anticipated to have, a material effect on our capital expenditures, earnings or competitive position.

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 30, 2012, we operated 185 distribution facilities throughout the United States, Canada and Ireland.

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 on page 39 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, product cost inflation may negatively impact consumer spending decisions, which could adversely impact our sales. 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 markup. 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. Our estimate for the inflation in Sysco's cost of goods was 5.5% in fiscal 2012, compared to estimated inflation of 4.6% in fiscal 2011 and deflation of 1.5% in fiscal 2010.

Our results and financial condition are directly affected by the volatility in the global economic environment and local market conditions and low consumer confidence, which can adversely affect our sales, margins and net income

The foodservice distribution industry is characterized by relatively high inventory turnover with relatively low profit margins and is especially susceptible to trends in economic activity, such as the recent global recession. The global economic environment has been characterized by weak economies, persistently high unemployment rates, inflationary pressures and extreme volatility in financial markets worldwide, which has been exacerbated by the significant uncertainty associated with the ongoing sovereign debt crisis in certain Eurozone countries. In addition, our results of operations are substantially affected by local operating and economic conditions, which can vary substantially by market. The difficult economic conditions can affect us in the following ways:

- Unfavorable conditions can depress sales 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 be negatively impact our business by reduced demand for our products.
- Heightened uncertainty in the financial markets negatively affect consumer confidence and discretionary spending and can cause disruptions with our customers and suppliers from tighter credit markets, temporary interruptions in our ability to conduct day-to-day transactions through our financial intermediaries involving the payment to or collection of funds from our customers, vendors and suppliers and/or liquidity issues resulting from an inability to access credit markets to obtain cash to support operations.

This environment has adversely affected 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 highly competitive, with numerous regional and local competitors, and is a mature industry characterized by slowing revenue growth. Additionally, new competition could arise from non-traditional sources, group purchasing organizations or consolidation among competitors. New competitive sources may result in increased focus on pricing and on limiting price increases, or may require increased discounting. Such competition may result in margin erosion and/or make it difficult for us to attract and retain customers.

Increased competition within the industry and general economic conditions have served to further increase pressure on the industry's profit margins, and continued margin pressure within the industry may have a material adverse impact on our operating results and profitability. Although our sales historically have grown faster than the market, in recent years we have experienced slowing revenue growth. These trends have placed pressure on our profit margins and made it more difficult to achieve growth and pass along cost increases. We expect these trends to continue for the foreseeable future. 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. The cost of fuel affects the price paid by us for products as well as the costs incurred by us 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 can do so again if another period of high fuel costs occurs. If fuel costs increase again 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 market price for diesel. If fuel prices decrease significantly, these forward purchases may prove ineffective and result in us paying higher than market costs for a portion of our diesel fuel.

Business and Operational Risks

Our ability to meet our long-term strategic objectives to grow the profitability of our business depends largely on the success of the Business Transformation Project

In fiscal 2009, we commenced our Business Transformation Project, which currently consists of three main components:

- the design and deployment of an Enterprise Resource Planning (ERP) system to implement an integrated software system to support a majority of our business processes and further streamline our operations;
- a cost transformation initiative to lower our cost structure by $300 million to $350 million annually by fiscal 2015. These include initiatives to increase our productivity in the warehouse and delivery activities including fleet management and maintenance activities. It also involves improving sales productivity and reducing general and administrative expenses, partially through aligning compensation and benefit plans; and
- a product cost reduction initiative which is designed to lower our total product costs by $250 million to $300 million annually by fiscal 2015. This initiative involves the use of market data and customer insights to make changes to product pricing and product assortment. We believe there are opportunities to more effectively provide the products that our customers want, to benefit from our purchasing power and to create mutually beneficial partnerships with our suppliers. We believe that procuring greater quantities with select vendors will result in reduced prices for our product purchases.

Although we expect the investment in the Business Transformation Project to provide meaningful benefits to the company over the long-term, the costs exceeded the benefits during the testing stages of implementation of ERP, including in fiscal 2012. We believe the costs will exceed the benefits in fiscal 2013. Successfully managing deployment is critical to our business success. While we expect all three components of the Business Transformation Project to enhance our value proposition to customers and suppliers and improve our long-term profitability, there can be no assurance that we will realize our expectations within the time frame we have established, if at all.

The actual cost of the ERP system may be greater or less than currently expected and delays in the execution of deployment may adversely affect our business and results of operations

ERP implementations are complex and time-consuming projects that involve substantial investments in system software and implementation activities over a multi-year timeframe. Our cost estimates related to our ERP system are based on assumptions which are subject to wide variability, require a great deal of judgment, and are inherently uncertain. Thus, the actual costs of the project in

fiscal 2013 (and beyond) may be greater or less than currently expected. For example, as we continue implementation of the project, we have encountered, and we may continue to encounter, the need for changes in design or revisions of the project calendar and budget, including incurring expenses at an earlier or later time than currently anticipated. In addition, implementation of the systems require significant management attention and resources over an extended period of time and any significant design errors or delay in the implementation of the systems could materially and adversely affect our operating results and impact our ability to manage our business. Delays in deployment, additional operating problems discovered in the underlying information technology systems' processes, cost overages or limitations on the extent of the business transformation during the ERP implementation process adversely affect our business and results of operations. In addition, because the implementation is expected to continue to involve a significant capital commitment, our business, results of operations and liquidity may also be adversely affected if the ERP system, and the associated process changes, do not prove to be cost effective or do not result in the cost savings and other benefits at the levels that we anticipate. There can be no guarantee that we will be able to realize the intended results of the system software and implementation activities. We expect costs to continue to outweigh benefits for fiscal 2013 as we commence deployment.

We may not realize anticipated benefits from our cost reduction efforts

We have implemented a number of cost reduction initiatives that we believe are necessary to position our business for future success and growth. Our future success and earnings growth depend upon 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 reduced profitability. 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.

We may not realize anticipated benefits from our product cost reduction initiative

Our product cost reduction initiative will be deployed to use market data and customer insights to make changes to product pricing and product assortment issues. This initiative aims to improve our offerings to customers, strengthen strategic relationships with suppliers, and improve our sales and profit margins. The implementation of changes may not result in the cost savings and other benefits at the levels that we anticipate, or at all.

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. For the most part, we do not have long-term contracts with our suppliers committing them to provide products to us. 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 interruption 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 conditions, product recalls, water shortages, transportation interruptions, unavailability of fuel or increases in fuel costs, 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. In the summer months of 2012, certain agricultural areas of the United States have experienced severe drought. The impact of this drought is uncertain and could result in volatile input costs. Input costs could increase 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, particularly to selling Sysco Brand products. Anything that damages that reputation or the public's confidence in our products, whether or not justified, including adverse publicity about the quality, safety or integrity of our products, could quickly 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 or salmonella, and injuries caused by food tampering could also severely injure our reputation or negatively impact the public's 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, such as flu epidemics or other pandemics, 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.

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. 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 may have an impact 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.

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, including regulations of the FDA, USDA, U.S. Occupational Safety and Health Administration, federal motor carrier safety, data privacy, environmental protection, the import and export of goods and customs regulations, the False Claims Act, the Foreign Corrupt Practices Act and 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 either the corporation as a whole or individual businesses to incur substantial increases in costs in order to comply with such laws and regulations.

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. 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 reduce our net earnings and earnings per share.

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 decrease. 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 in order to grow and any default by us under our indebtedness could have a material adverse impact

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 of June 30, 2012, we had approximately $3 billion of total indebtedness. We have a Board-approved commercial paper program allowing us to issue short-term unsecured notes in an aggregate amount not to exceed $1.3 billion; a revolving credit facility supporting our U.S. and Canadian commercial paper programs in the amount of $1.0 billion set to expire on December 29, 2016; and certain uncommitted bank lines of credit providing for unsecured borrowings for working capital of up to $95.0 million. In June 2012, we issued $750 million in senior notes, which contributed to an increase in our total indebtedness. Our indebtedness may further increase from time to time for various reasons, including fluctuations in operating results, working capital needs, capital expenditures and potential acquisitions or joint ventures. Our increased level of indebtedness and the ultimate cost of such indebtedness could have a negative impact on our liquidity, cost of capital and financial results.

Technology dependence 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 and to monitor and manage our business on a day-to-day basis. Any disruption to these computer systems could adversely impact our customer service, decrease the volume of our business and result in increased costs. Furthermore, process changes will be required as we continue to use our existing warehousing, delivery, and payroll systems to support operations as we implement the 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.

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 2012, our total contributions to these plans were approximately $68 million, which included payments for withdrawal liabilities of $34 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 $205 million as of June 30, 2012. 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 and our earnings may decrease should financial markets experience future declines

Our company-sponsored qualified pension plan (Retirement Plan) holds investments in both equity and fixed income securities. The amount of our annual contribution to the plan is dependent upon, among other things, the returns on the plan’s assets and discount rates used to calculate the plan’s liability. Our expense is also impacted by these items. Fluctuations in asset values can cause the amount of our anticipated future contributions to the plan to increase and pension expense to increase and can result in a reduction to shareholders’ equity on our balance sheet at fiscal year-end, which is when this plan’s funded status is measured. Also, the projected liability of the 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 discount rate at fiscal year-end. Specifically, decreases in these interest rates may have an adverse impact on our results of operations. 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 and pension expense may increase for future years as our funded status decreases, which could have an adverse impact on our liquidity and results of operations.

At the end of fiscal 2012, we decided to freeze future benefit accruals under the Retirement Plan as of December 31, 2012 for all U.S.-based salaried and non-union hourly employees. Effective January 1, 2013, these employees will be 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 $2.7 billion as of June 30, 2012 which could continue to impact our funding requirements and our earnings. Additionally, 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 13, "Company-Sponsored Employee Benefit Plans" to the Consolidated Financial Statements in Item 8 for a discussion of the funded status of the Retirement Plan.

Failure to successfully renegotiate union contracts could result in work stoppages

As of June 30, 2012, approximately 8,200 employees at 50 operating companies were members of 53 different local unions associated with the International Brotherhood of Teamsters and other labor organizations. In fiscal 2013, 15 agreements covering approximately 1,400 employees have expired or will expire. Since June 30, 2012, one contract covering 48 of the approximately 1,400 employees has been renegotiated. 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 impact our business and materially reduce earnings

Our operations rely heavily on our employees, particularly drivers, and any shortage of qualified labor could significantly affect our business. Our recruiting and retention efforts and efforts to increase productivity gains may not be successful and there may be a shortage of qualified drivers in future periods. Any such shortage would decrease Sysco's ability to effectively serve our customers. 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, that could otherwise have been financially beneficial to our stockholders, could be deterred.

Item 1B. Unresolved Staff Comments

None.

10

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 30, 2012.

Location	Number of Facilities	Cold Storage (Square Feet in thousands)	Dry Storage (Square Feet in thousands)	Segment Served*
Alabama	2	184	228	BL
Alaska	1	43	26	BL
Arizona	3	138	120	BL, O
Arkansas	2	131	88	BL, O
California	17	1,088	1,144	BL, S, O
Colorado	5	283	227	BL, S, O
Connecticut	3	160	109	BL, O
District of Columbia	1	7	7	BL
Florida	15	1,269	911	BL, S, O
Georgia	7	324	454	BL, S, O
Idaho	2	84	88	BL
Illinois	6	402	535	BL, S, O
Indiana	1	100	109	BL
Iowa	1	93	95	BL
Kansas	1	177	171	BL
Kentucky	1	92	106	BL
Louisiana	1	134	113	BL
Maine	1	59	50	BL
Maryland	2	291	252	BL
Massachusetts	3	397	395	BL, S
Michigan	4	320	363	BL, S
Minnesota	2	150	135	BL
Mississippi	1	95	69	BL
Missouri	2	107	95	BL, S
Montana	1	120	121	BL
Nebraska	2	217	232	BL
Nevada	3	193	109	BL, O
New Jersey	4	140	453	BL, O
New Mexico	1	120	108	BL
New York	3	417	317	BL
North Carolina	6	334	300	BL, S, O
North Dakota	1	46	59	BL
Ohio	6	419	400	BL, S, O
Oklahoma	4	189	157	BL, S, O

Oregon	3	177	160	BL, S
Pennsylvania	4	460	405	BL, S
Rhode Island	1	3	-	BL
South Carolina	1	151	98	BL
Tennessee	5	412	424	BL, O
Texas	17	1,127	1,057	BL, S, O
Utah	1	161	107	BL
Virginia	3	564	410	BL
Washington	1	134	92	BL
Wisconsin	2	287	242	BL
Alberta, Canada	3	218	216	BL
British Columbia, Canada	8	279	254	BL, O
Manitoba, Canada	1	76	105	BL
New Brunswick, Canada	2	48	48	BL
Newfoundland, Canada	1	40	25	BL
Nova Scotia, Canada	1	31	42	BL
Ontario, Canada	11	478	430	BL, O
Quebec, Canada	3	50	101	BL
Saskatchewan, Canada	1	46	63	BL
Ireland	1	44	40	BL
Total	185	13,109	12,465	

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

We own approximately 21,279,000 square feet of our distribution facilities (or 83.2% of the total square feet), and the remainder is occupied under leases expiring at various dates from fiscal 2013 to fiscal 2032, exclusive of renewal options. Certain of the facilities owned by the company are subject to industrial revenue bond financing arrangements totaling $13.6 million as of June 30, 2012. Such industrial revenue bond financing arrangements mature at various dates through fiscal 2026.

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 a fold-out facility in southern California.

As of June 30, 2012, our fleet of approximately 9,100 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 92% of these vehicles and lease the remainder.

Item 3. Legal Proceedings

None.

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.

	Common Stock Prices		Dividends Declared
	High	Low	Per Share
Fiscal 2011:			
First Quarter	$ 31.55	$ 27.13	$ 0.25
Second Quarter	30.18	28.22	0.26
Third Quarter	30.54	27.31	0.26
Fourth Quarter	32.76	27.81	0.26
Fiscal 2012:			
First Quarter	$ 31.73	$ 25.48	$ 0.26
Second Quarter	29.62	25.09	0.27
Third Quarter	31.18	28.70	0.27
Fourth Quarter	30.20	27.05	0.27

The number of record owners of Sysco's common stock as of August 15, 2012 was 13,529.

As indicated in the table below, we did not make any share repurchases during the fourth quarter of fiscal 2012:

ISSUER PURCHASES OF EQUITY SECURITIES

Period	(a) Total Number of Shares Purchased	(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 April 1 – April 28	-	$ -	-	23,386,600
Month #2 April 29 – May 26	-	-	-	23,386,600
Month #3 May 27 – June 30	-	-	-	23,386,600
Total	-	$ -	-	23,386,600

On August 27, 2010, the Board of Directors approved the repurchase of 20,000,000 shares. On November 16, 2011, the Board of Directors approved the repurchase of an additional 20,000,000 shares. 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.

In July 2004, the Board of Directors authorized us to enter into agreements from time to time to extend our ongoing repurchase program to include repurchases during company announced "blackout periods" of such securities in compliance with Rule 10b5-1 promulgated under the Exchange Act.

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 Securities Exchange Act of 1934, 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.

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 Index was $100 on the last trading day of fiscal 2007, 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.

	6/30/07	6/28/08	6/27/09	7/3/10	7/2/11	6/30/12
Sysco Corporation	$100	$88	$75	$95	$109	$107
S&P 500	100	87	64	73	97	101
S&P 500 Food/Staple Retail Index	100	104	86	87	113	130

Item 6. Selected Financial Data

	Fiscal Year				
	2012	2011	2010 (53 Weeks)	2009	2008
	(In thousands except for per share data)				
Sales	$ 42,380,939	$ 39,323,489	$ 37,243,495	$ 36,853,330	$ 37,522,111
Operating income	1,890,632	1,931,502	1,975,868	1,872,211	1,879,949
Earnings before income taxes	1,784,002	1,827,454	1,849,589	1,770,834	1,791,338
Income taxes	662,417	675,424	669,606	714,886	685,187
Net earnings	$ 1,121,585	$ 1,152,030	$ 1,179,983	$ 1,055,948	$ 1,106,151
Net earnings:					
Basic earnings per share	$ 1.91	$ 1.96	$ 1.99	$ 1.77	$ 1.83
Diluted earnings per share	1.90	1.96	1.99	1.77	1.81
Dividends declared per share	$ 1.07	$ 1.03	$ 0.99	$ 0.94	$ 0.85
Total assets	$ 12,094,972	$ 11,385,555	$ 10,313,701	$ 10,148,486	$ 10,010,615
Capital expenditures	784,501	636,442	594,604	464,561	515,963
Current maturities of long-term debt	$ 254,650	$ 207,031	$ 7,970	$ 9,163	$ 4,896
Long-term debt	2,763,688	2,279,517	2,472,662	2,467,486	1,975,435
Total long-term debt	3,018,338	2,486,548	2,480,632	2,476,649	1,980,331
Shareholders' equity	4,685,040	4,705,242	3,827,526	3,449,702	3,408,986
Total capitalization	$ 7,703,378	$ 7,191,790	$ 6,308,158	$ 5,926,351	$ 5,389,317
Ratio of long-term debt to capitalization	39.2 %	34.6 %	39.3 %	41.8 %	36.7 %

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. Any non-GAAP financial measure will be denoted as an adjusted measure and excludes expenses from our Business Transformation Project, from withdrawals from multiemployer pension plans, restructuring charges, corporate-owned life insurance policies (COLI) policies, recognized tax benefits and the impact of the 53rd week in fiscal 2010. More information on the rationale for the use of these measures and reconciliations to GAAP numbers can be found under "Non-GAAP Reconciliations."

Overview

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

We consider our primary market to be the foodservice market in the United States and Canada and estimate that we serve about 17.5% of this approximately $225 billion annual market. According to industry sources, the foodservice, or food-away-from-home, market represents approximately 46% of the total dollars spent on food purchases made at the consumer level in the United States.

Industry sources estimate the total foodservice market in the United States experienced a real sales decline of approximately 0.4% in calendar year 2011 and 2.5% in calendar year 2010. Real sales declines do not include the impact of inflation or deflation.

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

Highlights

High levels of product costs and an uneven economic recovery contributed to a challenging business environment in fiscal 2012. Our case volume growth has shown modest improvement in a low growth market environment. However, our earnings declined due to high levels of inflation and rising operating expenses, driven in part by our expenses related to our Business Transformation Project.

Comparison of results from fiscal 2012 to fiscal 2011:

- Sales increased 7.8% to $42.4 billion primarily due to increased prices due to inflation and secondarily from case volume growth.
- Operating income decreased 2.1%, or $40.9 million, to $1.9 billion, primarily driven by lower gross margins and increased operating expenses partially from increased expenses from payroll and our Business Transformation Project. These expense increases were partially offset by increases in gross profit dollars. Adjusted operating income increased 3.0%, or $60.9 million.
- Net earnings decreased 2.6% to $1.1 billion primarily due to the decline in operating income. Adjusted net earnings increased 4.7%, or $56.4 million.
- Basic and diluted earnings per share in fiscal 2012 were $1.91 and $1.90, respectively. This represents a 2.6% decrease from the comparable prior year period amount for basic earnings per share of $1.96 per share and a 3.1% decrease from the comparable prior year period amount for diluted earnings per share of $1.96. Adjusted diluted earnings per share were $2.13 in fiscal 2012 and $2.04 in fiscal 2011, an increase of 4.4%.

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

Trends and Strategy

Trends

General economic conditions and consumer confidence can affect the frequency of purchases and amounts spent by consumers for food-away-from-home and, in turn, can impact our customers and our sales. We believe the current general economic conditions, including pressure on consumer disposable income, have contributed to a slow rate of recovery in the foodservice market. According to industry sources, real sales for the total foodservice market in the United States are not expected to grow significantly over the next year.

We experienced prolonged levels of high product cost inflation during most of fiscal 2012 as compared to fiscal 2011. Our product cost inflation reached a high of 7.3% in the first quarter of fiscal 2012 and a low of 3.3% in the fourth quarter of fiscal 2012. While we are generally able to pass on modest levels of inflation to our customers, we were unable to fully pass through these higher levels of product cost inflation with the same gross margin percentage without negatively impacting our customers' business and therefore our business. In the summer months of 2012, certain agricultural areas of the United States have experienced severe drought. The impact of this drought is uncertain and could result in volatile input costs. Input costs could increase at any point in time for a large portion of the products that we sell for a prolonged period. While we cannot predict whether inflation will continue at current levels, periods of high inflation, either overall or in certain product categories, can have a negative impact on us and our customers, as high food costs can reduce consumer spending in the food-away-from-home market, and may negatively impact our sales, gross profit, operating income and earnings.

We have experienced higher operating costs this fiscal year. Some of the increase has resulted from increased pay-related expenses. Sales compensation includes commissions which are driven by gross profit dollars and case volumes, and delivery compensation includes activity-based pay which is driven by case volumes. Since these drivers are variable in nature, increased gross profit dollars and case volumes have increased sales and delivery compensation. We believe pay-related expense could continue to increase if gross profit dollars and case volumes increase; however, the impact of our productivity related initiatives could favorably impact the magnitude of this trend. Fuel costs are expected to stabilize provided that fuel prices do not significantly change from their current levels. Our Business Transformation Project is a key part of our strategy to control costs and grow our market share over the long-term. This project includes an integrated software system that went into deployment in August 2012. We believe expenses related to the project will increase in fiscal 2013 as compared to fiscal 2012 due to amortization of the software asset and increased deployment costs.

Net company-sponsored pension costs for our Retirement Plan have experienced volatility over the past five years primarily due to changes in interest rates which are used to determine the discount rates for our pension obligations and our pension asset performance. For most of these periods, we have experienced significantly increased pension expense. At the end of fiscal 2012, Sysco decided to freeze future benefit accruals under the Retirement Plan as of December 31, 2012 for all U.S.-based salaried and non-union hourly employees. Effective January 1, 2013, these employees will be eligible for additional contributions under an enhanced, defined contribution plan. Pension costs will decrease in fiscal 2013 primarily due to this plan freeze. Our expenses related to our defined contribution plan will increase in fiscal 2013 and will more than offset our reduced pension costs; however, over the long-term, we believe the changes to both plans will result in reduced volatility of retirement related expenses and a reduction in total retirement related expenses.

Strategy

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

- Profoundly enrich the experience of doing business with Sysco: 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 8,000 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 wide geographic presence in the United States and Canada. In addition, we have a portfolio of businesses spanning broadline, specialty meat, chain restaurant distribution, specialty produce, hotel amenities, specialty import and export which serves our customers' needs across a wide array of business segments. 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: Our multi-year Business Transformation Project is designed to improve productivity and reduce costs. An integrated software system is included in this project and will support a majority of our business processes to further streamline our operations and reduce costs. These systems are commonly referred to as Enterprise Resource Planning (ERP) systems. We view the technology as an important enabler of this project; however the larger outcome of this project will be from transformed processes that standardize portions of our operations. This includes a shared business service center to centrally manage certain back-office functions that are currently performed at a majority of our operating companies. This project also includes removing costs from our operations through improved productivity without impacting our service to our customers. We continue to optimize warehouse and delivery activities across the corporation to achieve a more efficient delivery of products to our customers and we seek to improve sales productivity and lower general and administrative costs. We also have a product cost reduction initiative to provide the right products to our customers while leveraging our purchasing power.

- 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 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.

Business Transformation Project

In fiscal 2009, we commenced our Business Transformation Project, which currently consists of three main components:

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

In fiscal 2012, we continued to refine our ERP system after implementing it at two pilot operating companies. The system has been deployed to three operating companies and we are targeting to convert 5 to 15 U.S. Broadline operating companies in fiscal 2013. Our next five conversions will be in Texas and Louisiana. We believe future conversions will be 15 to 25 U.S. Broadline operating companies per year from fiscal 2014 to fiscal 2016. Although we expect the investment in the ERP system within our Business Transformation Project to provide meaningful benefits to the company over the long-term, the costs will exceed the benefits during fiscal 2013.

Expenses related to the Business Transformation Project were $193.1 million in fiscal 2012 or $0.21 per share, $102.6 million in fiscal 2011 or $0.11 per share and $81.1 million in fiscal 2010 or $0.09 per share. We anticipate that project expenses for fiscal 2013 will continue to significantly increase primarily due to the initiation of software amortization as the system was placed into service in August 2012. Our costs will also increase from the ramp up of our shared services center, continuing costs for deployment of the software platform and information technology support costs. Some of these increased costs will be partially offset by benefits obtained from the project, primarily in reduced headcount; however the costs will exceed the benefits in fiscal 2013.

Our cost transformation initiative seeks to lower our cost structure by $300 million to $350 million annually by fiscal 2015. These include initiatives to increase our productivity in the warehouse and delivery activities including fleet management and maintenance activities. It also involves improving sales productivity and reducing general and administrative expenses, partially through aligning compensation and benefit plans.

Our product cost reduction initiative is designed to lower our total product costs by $250 million to $300 million annually by fiscal 2015. This initiative involves the use of market data and customer insights to make changes to product pricing and product assortment. We believe there are opportunities to more effectively provide the products that our customers want, to benefit from our purchasing power and to create mutually beneficial partnerships with our suppliers. We believe that procuring greater quantities with select vendors will result in reduced prices for our product purchases.

We expect our expenses related to the Business Transformation Project for fiscal 2013 to be approximately $300 million to $350 million net of benefits obtained from our shared services center. We expect our capital expenditures related to this project to be approximately $5 million to $20 million. In fiscal 2013, we believe we can obtain approximately 25% of the total expected annualized benefits of $550 million to $650 million. If we are successful in obtaining these benefits in fiscal 2013, some of the trends noted above could be favorably impacted.

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:

	2012	2011	2010 (53 Weeks)
Sales	100.0 %	100.0 %	100.0 %
Cost of sales	81.9	81.2	80.7
Gross profit	18.1	18.8	19.3
Operating expenses	13.6	13.9	14.0
Operating income	4.5	4.9	5.3
Interest expense	0.3	0.3	0.3
Other expense (income), net	(0.0)	(0.0)	0.0
Earnings before income taxes	4.2	4.6	5.0
Income taxes	1.6	1.7	1.8
Net earnings	2.6 %	2.9 %	3.2 %

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:

	2012	2011
Sales	7.8 %	5.6 %
Cost of sales	8.7	6.2
Gross profit	3.8	2.9
Operating expenses	5.9	4.8
Operating income	(2.1)	(2.2)
Interest expense	(4.1)	(5.7)
Other expense (income), net	(52.4)[1]	[1]
Earnings before income taxes	(2.4)	(1.2)
Income taxes	(1.9)	0.9
Net earnings	(2.6) %	(2.4) %
Basic earnings per share	(2.6) %	(1.5) %
Diluted earnings per share	(3.1)	(1.5)
Average shares outstanding	0.2	(1.0)
Diluted shares outstanding	0.1	(0.8)

(1) Other expense (income), net was income of $6.8 million in fiscal 2012, income of $14.2 million in fiscal 2011 and expense of $0.8 million in fiscal 2010.

Sales

Sales for fiscal 2012 were 7.8% higher than fiscal 2011. Sales for fiscal 2012 increased as a result of product cost inflation, and the resulting increase in selling prices, along with improving case volumes. Changes in product cost, an internal measure of inflation, were approximately 5.5% during fiscal 2012. Case volumes including acquisitions within the last 12 months improved approximately 3.0% during fiscal 2012. Case volumes excluding acquisitions within the last 12 months improved approximately 2.5% during fiscal 2012. Our case volumes represent our results from our Broadline and SYGMA segments only. Sales from acquisitions in the last 12 months favorably impacted sales by 0.7% for fiscal 2012. 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 2011.

Sales for fiscal 2011 were 5.6% higher than fiscal 2010. After adjusting for the estimated impact of the 53rd week in fiscal 2010, the adjusted increase in sales in fiscal 2011 would have been 7.7%. Sales for fiscal 2011 increased as a result of product cost inflation, and the resulting increase in selling prices, along with improving case volumes. Estimated product cost increases, an internal measure of inflation, were approximately 4.6% during fiscal 2011. Case volumes including acquisitions within the last 12 months improved approximately 4.1% during fiscal 2011. Case volumes excluding acquisitions within the last 12 months improved approximately 3.4%

during fiscal 2011. Sales from acquisitions in the last 12 months favorably impacted sales by 0.7% for fiscal 2011. The changes in the exchange rates used to translate our foreign sales into U.S. dollars positively impacted sales by 0.5% compared to fiscal 2010.

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 2012 vs. Fiscal 2011

Operating income decreased 2.1% in fiscal 2012 over fiscal 2011 to $1.9 billion, and as a percentage of sales, decreased to 4.5% of sales. This decrease was primarily driven by declines in gross margin and increased operating expenses partially from increased expenses from payroll and our Business Transformation Project. These expense increases were partially offset by increases in gross profit dollars. Gross profit dollars increased 3.8% in fiscal 2012 as compared to fiscal 2011, and operating expenses increased 5.9% in fiscal 2012 as compared to fiscal 2011. Adjusted operating income increased 3.0%, or $60.9 million, during fiscal 2012.

Gross profit dollars increased in fiscal 2012 as compared to fiscal 2011 primarily due to increased sales. Gross margin, which is gross profit as a percentage of sales, was 18.11% in fiscal 2012, a decline of 69 basis points from the gross margin of 18.80% in fiscal 2011. This decline in gross margin was primarily the result of product cost inflation. Other factors contributing to our gross margin decline were competitive pressures on pricing, segment mix changes where certain of our lower margin segments grew faster than our Broadline segment and our own strategy to gain market share.

Sysco’s product cost inflation was estimated as inflation of 5.5% during fiscal 2012. Based on our product sales mix for fiscal 2012, we were most impacted by higher levels of inflation in the meat, canned and dry and frozen product categories in the range of 6% to 8%. Our product cost inflation reached a high of 7.3% in the first quarter of fiscal 2012 and a low of 3.3% in the fourth quarter of fiscal 2012. While we are generally able to pass through modest levels of inflation to our customers, we were unable to fully pass through these higher levels of product cost inflation with the same gross margin in these product categories without negatively impacting our customers’ business and therefore our business. In the summer months of 2012, certain agricultural areas of the United States have experienced severe drought. The impact of this drought is uncertain and could result in volatile input costs. Input costs could increase at any point in time for a large portion of the products that we sell for a prolonged period. While we cannot predict whether inflation will continue at these levels, prolonged periods of high inflation, either overall or in certain product categories, can have a negative impact on us and our customers, as high food costs can reduce consumer spending in the food-away-from-home market, and may negatively impact our sales, gross profit and

earnings. Our product cost reduction initiative is designed to lower our total product costs by $250 million to $300 million annually by fiscal 2015; however we believe the impact on our product costs in fiscal 2013 will be modest.

Gross profit dollars for fiscal 2012 also increased as a result of higher fuel surcharges. Fuel surcharges were approximately $47.5 million higher in fiscal 2012 than in fiscal 2011 due to higher fuel prices incurred during fiscal 2012 and the application of fuel surcharges to a broader customer base for the entire fiscal period. Assuming that fuel prices do not greatly vary from recent levels, we expect the level of fuel surcharges in fiscal 2013 to remain consistent with those experienced in fiscal 2012.

Operating expenses for fiscal 2012 increased 5.9% primarily due to increased pay-related expenses, increased expenses related to our Business Transformation Project, increased fuel costs and an unfavorable year-over-year comparison on the amounts recorded to adjust the carrying value of COLI policies to their cash surrender values as compared to the prior year period. These increases were partially offset by decreases in net company-sponsored pension costs and lower provisions related to multiemployer pension plans. Adjusted operating expenses increased 4.1%, or $221.0 million, in fiscal 2012 over fiscal 2011.

Pay-related expenses, excluding labor costs associated with our Business Transformation Project, increased by $153.7 million in fiscal 2012 over fiscal 2011. The increase was primarily due to increased sales and delivery compensation and added costs from companies acquired within the last 12 months. Sales compensation includes commissions which are driven by gross profit dollars and case volumes, and delivery compensation includes activity-based pay which is driven by case volumes. Since these drivers are variable in nature, increased gross profit dollars and cases volumes will increase sales and delivery compensation. However, the impact of our productivity related initiatives could favorably impact the magnitude of this trend. Also contributing to the increase was a restructuring charge related to severance incurred in the fourth quarter of fiscal 2012 of $6.4 million.

Expenses related to our Business Transformation Project, inclusive of pay-related expense, were $193.1 million in fiscal 2012 and $102.6 million in fiscal 2011, representing an increase of $90.5 million. The increase in fiscal 2012 resulted from increased project spending, reduced capitalization of expenditures and expenses due to the ramp up of our shared services center. We anticipate that project expenses for fiscal 2013 will continue to increase primarily due to the initiation of software amortization as the system was placed into service in August 2012. Additionally, the majority of the expenditures forecasted for fiscal 2013 will be expensed as the company is in the deployment phase of the project. We believe the increase in project expenses, including all pay-related expenses,

related to the Business Transformation Project in fiscal 2013 as compared to fiscal 2012 will be approximately $105 million to $155 million.

Fuel costs increased by $39.8 million in fiscal 2012 over fiscal 2011 primarily due to increased contracted and market diesel prices. Our costs per gallon increased 13.0% in fiscal 2012 over fiscal 2011. Our activities to mitigate fuel costs include reducing miles driven by our trucks through improved routing techniques, improving fleet utilization by adjusting idling time and maximum speeds and using fuel surcharges. We routinely enter into forward purchase commitments for a portion of our projected monthly diesel fuel requirements with a goal of mitigating a portion of the volatility in fuel prices.

Our fuel commitments will result in either additional fuel costs or avoided fuel costs based on the comparison of the prices on the fixed price contracts and market prices for the respective periods. In fiscal 2012, the forward purchase commitments resulted in an estimated $20.2 million of avoided fuel costs as the fixed price contracts were generally lower than market prices for the contracted volumes. In fiscal 2011, the forward purchase commitments resulted in an estimated $16.4 million of avoided fuel costs as the fixed price contracts were generally lower than market prices for the contracted volumes.

As of June 30, 2012, we had forward diesel fuel commitments totaling approximately $96 million through April 2013. Subsequent to June 30, 2012, we entered into forward diesel fuel commitments totaling approximately $20 million for May and June 2013. These contracts will lock in the price of approximately 35% to 45% of our fuel purchase needs for the contracted periods at prices higher than the current market price for diesel. Assuming that fuel prices do not rise significantly over recent levels during fiscal 2013, fuel costs exclusive of any amounts recovered through fuel surcharges, are not expected to fluctuate significantly as compared to fiscal 2012. Our estimate is based upon current, published quarterly market price projections for diesel, the cost committed to in our forward fuel purchase agreements currently in place for fiscal 2013 and estimates of fuel consumption. Actual fuel costs could vary from our estimates if any of these assumptions change, in particular if future fuel prices vary significantly from our current estimates. We continue to evaluate all opportunities to offset potential increases in fuel expense, including the use of fuel surcharges and overall expense management.

We adjust the carrying values of our COLI policies to their cash surrender values on an ongoing basis. The cash surrender values of these policies are largely based on the values of underlying investments, which through fiscal 2011 included publicly traded securities. As a result, the cash surrender values of these policies fluctuated with changes in the market value of such securities. The changes in the financial markets resulted in gains for these policies of $28.2 million in fiscal 2011. Near the end of fiscal 2011, we reallocated all of our policies into low-risk, fixed-income securities to reduce earnings volatility and therefore our adjustments for fiscal 2012 were not significant. Beginning with fiscal 2013, there should be no significant year-over-year impact from COLI adjustments as compared to fiscal 2013.

Net company-sponsored pension costs in fiscal 2012 were $27.3 million lower than in fiscal 2011. The decrease in fiscal 2012 was due primarily to higher returns on assets of Sysco's Retirement Plan obtained in fiscal 2011. At the end of fiscal 2012, Sysco decided to freeze future benefit accruals under the Retirement Plan as of December 31, 2012

for all U.S.-based salaried and non-union hourly employees. Effective January 1, 2013, these employees will be eligible for additional contributions under an enhanced, defined contribution plan. Net company-sponsored pension costs in fiscal 2013 have been determined as of the fiscal 2012 year-end measurement date and will decrease by approximately $26.5 million in fiscal 2013. Our expenses related to our defined contribution plan will increase approximately $45 million to $55 million in fiscal 2013. The decline in pension cost will occur evenly over fiscal 2013; however, the increased defined contribution expenses will occur in the last half of fiscal 2013 when these enhancements go into effect. Over the long-term, we believe the changes to both plans will result in reduced volatility of retirement related expenses and a reduction in total retirement related expenses. Absent the Retirement Plan freeze discussed above, net company-sponsored pension costs in fiscal 2013 would have increased $106.9 million instead of decreasing $26.5 million.

From time to time, we may voluntarily withdraw from multiemployer pension plans to minimize or limit our future exposure to these plans. In the last two fiscal years, we voluntary withdrew from several multiemployer plans and recorded provisions of $21.9 million in fiscal 2012 and $41.5 million in fiscal 2011.

We also measure our expense performance on a cost per case basis, which we seek to align with the gross profit that we are able to generate. For our Broadline companies, our cost per case increased $0.04 per case as compared to fiscal 2011. These increases primarily related to increased payroll costs and fuel costs discussed above.

Fiscal 2011 vs. Fiscal 2010

Operating income decreased 2.2% in fiscal 2011 over fiscal 2010 to $1.9 billion, and as a percentage of sales, declined to 4.9% of sales. The decrease was driven by the absence of the 53rd week in fiscal 2011, gross profit dollars growing at a slower rate than sales and operating expenses increasing faster than gross profit partially due to charge of $41.5 million from withdrawals from multiemployer pension plans. Gross profit dollars increased 2.9% in fiscal 2011 as compared to fiscal 2010, and operating expenses increased 4.8% in fiscal 2011. Adjusted operating income increased 2.5%, or $50.8 million, in fiscal 2011 over fiscal 2010.

Gross profit dollars increased in fiscal 2011 as compared to fiscal 2010 primarily due to increased sales, partially offset by the negative comparison of the additional week included in fiscal 2010. Gross margin was 18.80% in fiscal 2011, a decline of 50 basis points from the gross margin of 19.30% in fiscal 2010. This decline in gross margin was primarily the result of the following factors described in the paragraphs below.

First, Sysco's product cost inflation was estimated as inflation of 4.6% during fiscal 2011. Based on our product sales mix for fiscal 2011, we were most impacted by higher levels of inflation in the dairy, meat and seafood product categories in the range of 10% to 12%. Our largest selling product category, canned and dry, experienced inflation of 4%.

Second, ongoing strategic pricing initiatives in fiscal 2011 lowered our prices to our customers in certain product categories in order to increase sales volumes. These initiatives are being phased in over time and resulted in short-term gross profit declines as a percentage of sales, but we believe will result in long-term gross profit dollar growth due to higher sales volumes and increased market share. We have experienced meaningful year over year volume growth with those items included in the early phases of these programs in the geographies where this program has been implemented. We believe the long-term benefits of these strategic initiatives will result in profitable market share growth.

Third, gross profit dollars for fiscal 2011 increased as a result of higher fuel surcharges. Fuel surcharges were approximately $26.0 million higher in fiscal 2011 than in the comparable prior year period due to higher fuel prices incurred during fiscal 2011 and the application of fuel surcharges to a broader customer base for a small portion of the third quarter and the entire fourth quarter.

Operating expenses for fiscal 2011 increased 4.8% primarily due to higher pay-related expense, an increase in net company-sponsored pension costs, provisions for withdrawal from multiemployer pension plans and higher fuel costs as compared to the prior year period. The impact of these operating expense increases was partially offset by a decrease in operating expenses of approximately $101.4 million resulting from the absence of the 53rd week in fiscal 2010. Adjusted operating expense increased 5.9%, or $298.8 million, in fiscal 2011 over fiscal 2010.

Pay-related expenses, excluding labor costs associated with our Business Transformation Project, increased by $61.1 million in fiscal 2011 over fiscal 2010. The increase was primarily due to increased sales and delivery compensation. Pay-related expenses from acquired companies and changes in the exchange rates used to translate our foreign sales into U.S. dollars also contributed to the increase. Partially offsetting these increases were lower provisions for current management incentive bonuses of $13.9 million.

Net company-sponsored pension costs in fiscal 2011 were $60.3 million higher than in fiscal 2010. The increase in fiscal 2011 was due primarily to a decrease in discount rates used to calculate our projected benefit obligation and related pension expense at the end of fiscal 2010, partially offset by reduced amortization of our net actuarial loss resulting from actuarial gains from higher returns on assets of Sysco's Retirement Plan during fiscal 2010.

From time to time, we may voluntarily withdraw from multiemployer pension plans to minimize or limit our future exposure to these plans. In fiscal years 2011 and 2010, we voluntary withdrew from several multiemployer plans and recorded provisions of $41.5 million in fiscal 2011 and $2.9 million in fiscal 2010.

Fuel costs increased by $33.0 million in fiscal 2011 over fiscal 2010 primarily due to increased contracted and market diesel prices. Our costs per gallon increased 14.3% in fiscal 2011 over fiscal 2010. Our forward fuel commitments will result in either additional fuel costs or avoided fuel costs based on the comparison of the prices on the fixed price contracts and market prices for the respective periods. In fiscal 2011, the forward purchase commitments resulted in an estimated $16.4 million of avoided fuel costs as the fixed price contracts were generally lower than market prices for the contracted volumes. In fiscal 2010, the forward purchase commitments resulted in an estimated $1.5 million of additional fuel costs as the fixed price contracts were higher than market prices for the contracted volumes for a portion of the fiscal year.

For our Broadline companies, our cost per case increased $0.11 per case as compared to fiscal 2010. These increases primarily related to increased payroll costs, increased fuel costs and charges created by withdrawing from multiemployer plans, all of which are discussed above.

Net Earnings

Net earnings for fiscal 2012 decreased 2.6% over the comparable prior year period. This decrease was primarily due to changes in operating income discussed above. Adjusted net earnings increased 4.7% during fiscal 2012.

Net earnings for fiscal 2011 decreased 2.4% over the comparable prior year period. This decrease was primarily due to the absence of the 53rd week in fiscal 2011, the factors discussed above and an increase in the effective tax rate. The effective tax rate for fiscal 2011 was 36.96%, compared to an effective tax rate of 36.20% for fiscal 2010. The difference between the tax rates for the two periods resulted largely from the one-time reversal of interest accruals for tax contingencies related to our settlement with the Internal Revenue Service (IRS) in the first quarter of fiscal 2010. Adjusted net earnings increased 3.6% during fiscal 2011.

The effective tax rate for fiscal 2012 was 37.13%. Indefinitely reinvested earnings taxed at foreign statutory tax rates less than our domestic tax rate had the impact of reducing the effective tax rate.

The effective tax rate of 36.96% for fiscal 2011 was favorably impacted primarily by two items. First, we recorded a tax benefit of approximately $17.0 million for the reversal of valuation allowances previously recorded on state net operating loss carryforwards. Second, we adjust the carrying values of our COLI policies to their cash surrender values. The gain of $28.2 million recorded in fiscal 2011 was primarily non-taxable for income tax purposes, and had the impact of decreasing income tax expense for the period by $11.1 million. Partially offsetting these favorable impacts was the recording of $9.3 million in tax and interest related to various federal, foreign and state uncertain tax positions.

The effective tax rate of 36.20% for fiscal 2010 was favorably impacted primarily by two items. First, we recorded an income tax benefit of approximately $29.0 million resulting from the one-time reversal of a previously accrued liability related to the settlement with the IRS (See Note 18, “Income Taxes” for additional discussion). Second, the gain of $21.6 million recorded to adjust the carrying value of COLI policies to their cash surrender values in fiscal 2010 was non-taxable for income tax purposes, and had the impact of decreasing income tax expense for the period by $8.3 million.

Earnings Per Share

Basic and diluted earnings per share in fiscal 2012 were $1.91 and $1.90, respectively. This represents a 2.6% decrease from the comparable prior year period amount for basic earnings per share of $1.96 per share and a 3.1% decrease from the comparable prior year period amount for diluted earnings per share of $1.96. This decrease was primarily the result of the factors discussed above. Adjusted diluted earnings per share was $2.13 in fiscal 2012 and $2.04 in fiscal 2011, or an increase of 4.4%.

Basic and diluted earnings per share decreased 1.5% in fiscal 2011 from the prior year. This decrease was primarily the result of the absence of the 53rd week in fiscal 2011 and the factors discussed above, as well as a net reduction in shares outstanding. The net reduction in both average and diluted shares outstanding was primarily due to share repurchases which occurred during the first 26 weeks of fiscal 2011. Adjusted diluted earnings per share were $2.04 in fiscal 2011 and $1.95 in fiscal 2010, or an increase of 4.6%.

Non-GAAP Reconciliations

Sysco's results of operations are impacted by costs from our multi-year Business Transformation Project (BTP), significant charges from the withdrawal from a multiemployer pension plan (MEPP), restructuring charges and recognized tax benefits. Additionally, near the end of fiscal 2011, we reallocated all of our investments in our COLI policies into low-risk, fixed-income securities and therefore we do not expect significant volatility in operating expenses, operating income, net earnings and diluted earnings per share in future periods related to these policies. We experienced significant gains in these policies during fiscal 2011. Management believes that adjusting its operating expenses, operating income, net earnings and diluted earnings per share to remove the impact of the Business Transformation Project expenses, multiemployer pension plan charges, restructuring charges, COLI gains and tax benefits provides an 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.

In addition, Sysco's fiscal year ends on the Saturday nearest to June 30th. This resulted in a 52-week year ending June 30, 2012 for fiscal 2012, a 52-week year ending July 2, 2011 for fiscal 2011 and a 53-week year ending July 3, 2010 for fiscal 2010. Because the fourth quarter of fiscal 2010 contained an additional week as compared to fiscal 2011, our results of operations for fiscal 2010 are not directly comparable to fiscal 2011. Management believes that adjusting the fiscal 2010 results of operations for the estimated impact of the additional week provides more comparable financial results on a year-over-year basis. As a result, in the non-GAAP reconciliation below for fiscal 2011 compared to fiscal 2010, in addition to the specific line item impacts noted above, operating items have been adjusted by one-fourteenth of the total metric for the fourth quarter of fiscal 2010. Failure to make these adjustments would cause the year-over-year changes in certain metrics such as sales, operating income, net earnings and diluted earnings per share to be overstated, whereas in certain cases, a metric may actually have increased rather than declined or declined rather than increased on a more comparable year-over-year basis.

The company uses these non-GAAP measures when evaluating its financial results as well as for internal planning and forecasting purposes. These financial measures should not be used as a substitute in assessing the company's results of operations for periods presented. An analysis of any non-GAAP financial measure should be used in conjunction with results presented in accordance with GAAP. As a result, in the tables below, each period presented is adjusted to remove expenses related to the Business Transformation Project, significant charges incurred from the withdrawal from a multiemployer pension plan, restructuring charges, gains recorded on the adjustments to the carrying value of COLI policies and to remove the impact of tax benefits in fiscal 2011. In addition, fiscal 2010 results are adjusted to remove the estimate impact of the 53rd week.

Set forth below is a reconciliation of actual operating expenses, operating income, net earnings and diluted earnings per share to adjusted results for these measures for fiscal 2012 and fiscal 2011:

	2012	2011	Change in Dollars	% Change
	(In thousands, except for share and per share data)			
Operating expenses (GAAP)	$ 5,785,945	$ 5,463,210	$ 322,735	5.9 %
Impact of BTP costs	(193,126)	(102,623)	(90,503)	88.2
Impact of MEPP charge	(21,899)	(41,544)	19,645	(47.3)
Impact of restructuring charge	(6,415)	-	(6,415)	
Impact of COLI	3,721	28,197	(24,476)	(86.8)
Adjusted operating expenses (Non-GAAP)	$ 5,568,226	$ 5,347,240	$ 220,986	4.1 %
Operating Income (GAAP)	$ 1,890,632	$ 1,931,502	$ (40,870)	(2.1) %
Impact of BTP costs	193,126	102,623	90,503	88.2
Impact of MEPP charge	21,899	41,544	(19,645)	(47.3)
Impact of restructuring charge	6,415	-	6,415	
Impact of COLI	(3,721)	(28,197)	24,476	(86.8)
Adjusted operating income (Non-GAAP)	$ 2,108,351	$ 2,047,472	$ 60,879	3.0 %
Net earnings (GAAP)	$ 1,121,585	$ 1,152,030	$ (30,445)	(2.6) %
Impact of BTP costs (net of tax) (1)	121,416	64,694	56,722	87.7
Impact of MEPP charge (net of tax) (1)	13,768	26,189	(12,421)	(47.4)
Impact of restructuring charge (net of tax) (1)	4,033	-	4,033	
Impact of COLI	(3,721)	(28,197)	24,476	(86.8)
Impact of tax benefits	-	(14,032)	14,032	0.0
Adjusted net earnings (Non-GAAP)	$ 1,257,081	$ 1,200,684	$ 56,397	4.7 %
Diluted earnings per share (GAAP)	$ 1.90	$ 1.96	$ (0.06)	(3.1) %
Impact of BTP costs (2)	0.21	0.11	0.10	90.9
Impact of MEPP charge (2)	0.02	0.04	(0.02)	(50.0)
Impact of restructuring charge (2)	0.01	-	0.01	
Impact of COLI (2)	(0.00)	(0.05)	0.05	
Impact of tax benefits (2)	-	(0.02)	0.02	
Adjusted diluted earnings per share (Non-GAAP)	$ 2.13	$ 2.04	$ 0.09	4.4 %
Diluted shares outstanding	588,991,441	588,691,546		

(1) Tax impact of adjustments for Business Transformation Project, multiemployer pension plan expenses, restructuring charges was $82.2 million and $53.3 million for fiscal 2012 and 2011, respectively.

(2) Individual components of diluted earnings per share may not sum to the total adjusted diluted earnings due to rounding.

Set forth below is a reconciliation of actual sales, operating expenses, operating income, net earnings and diluted earnings per share to adjusted results for these measures for fiscal 2011 and fiscal 2010:

	2011	2010 (53 Weeks)	Change in Dollars	% Change
	(In thousands, except for share and per share data)			
Sales (GAAP)	$ 39,323,489	$ 37,243,495	$ 2,079,994	5.6 %
Impact of 53rd week	-	739,177	(739,177)	
Adjusted sales (Non-GAAP)	$ 39,323,489	$ 36,504,318	$ 2,819,171	7.7 %
Operating expenses (GAAP)	$ 5,463,210	$ 5,212,439	$ 250,771	4.8 %
Impact of 53rd week	-	(101,442)	101,442	
Impact of BTP costs	(102,623)	(81,140)	(21,483)	26.5
Impact of MEPP charge	(41,544)	(2,944)	(38,600)	
Impact of COLI	28,197	21,554	6,643	30.9
Adjusted operating expenses (Non-GAAP)	$ 5,347,240	$ 5,048,467	$ 298,773	5.9 %
Operating Income (GAAP)	$ 1,931,502	$ 1,975,868	$ (44,366)	(2.2) %
Impact of 53rd week	-	(41,720)	41,720	
Impact of BTP costs	102,623	81,140	21,483	26.5
Impact of MEPP charge	41,544	2,944	38,600	
Impact of COLI	(28,197)	(21,544)	(6,653)	30.9
Adjusted operating income (Non-GAAP)	$ 2,047,472	$ 1,996,688	$ 50,784	2.5 %
Net earnings (GAAP)	$ 1,152,030	$ 1,179,983	$ (27,953)	(2.4) %
Impact of 53rd week	-	(24,127)	24,127	
Impact of BTP costs (net of tax) [1]	64,694	51,767	12,927	25.0
Impact of MEPP charge (net of tax) [1]	26,189	1,878	24,311	
Impact of COLI	(28,197)	(21,544)	(6,653)	30.9
Impact of tax benefits	(14,032)	(28,895)	14,863	(51.4)
Adjusted net earnings (Non-GAAP)	$ 1,200,684	$ 1,159,062	$ 41,622	3.6 %
Diluted earnings per share (GAAP)	$ 1.96	$ 1.99	$ (0.03)	(1.5) %
Impact of 53rd week [2]	-	(0.04)	0.04	
Impact of BTP costs [2]	0.11	0.09	0.02	22.2
Impact of MEPP charge [2]	0.04	0.00	0.04	
Impact of COLI [2]	(0.05)	(0.04)	(0.01)	25.0
Impact of tax benefits [2]	(0.02)	(0.05)	0.03	(60.0)
Adjusted diluted earnings per share (Non-GAAP)	$ 2.04	$ 1.95	$ 0.09	4.6 %
Diluted shares outstanding	588,691,546	593,590,042		

[1] Tax impact of adjustments for Business Transformation Project, multiemployer pension plan expenses, restructuring charges was $53.3 million and $16.3 million for fiscal 2011 and 2010, respectively.

(2) Individual components of diluted earnings per share may not sum to the total adjusted diluted earnings due to rounding.

Segment Results

We have aggregated our operating companies into a number of segments, of which only Broadline and SYGMA are reportable segments as defined in accounting provisions related to disclosures about segments of an enterprise. The accounting policies for the segments are the same as those disclosed by Sysco within the Financial Statements and Supplementary Data within Part II Item 8 of this Form 10-K. Intersegment sales represent specialty produce and imported specialty products distributed by the Broadline and SYGMA operating companies.

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

The following table sets forth the operating income of each of our reportable segments and the other segment expressed as a percentage of each segment's sales for each period reported and should be read in conjunction with Note 21, "Business Segment Information" to the Consolidated Financial Statements in Item 8:

	Operating Income as a Percentage of Sales		
	2012	2011	2010 (53 Weeks)
Broadline	7.0 %	7.3 %	7.7 %
SYGMA	1.1	1.2	1.0
Other	3.8	4.5	4.1

The following table sets forth the change in the selected financial data of each of our reportable segments and the other segment expressed as a percentage increase over the prior year and should be read in conjunction with Note 21, "Business Segment Information" to the Consolidated Financial Statements in Item 8:

2012		2011	
Sales	Operating Income	Sales	Operating Income

Broadline	7.8 %	3.8 %	5.1 %	(1.0) %
SYGMA	7.4	(2.0) [1]	9.2	26.8 [1]
Other	7.0	(9.2)	5.1	14.3

[1] SYGMA had operating income of $61.0 million in fiscal 2012, $62.2 million in fiscal 2011 and $49.1 million in fiscal 2010.

The following table sets forth sales and operating income of each of our reportable segments, the other segment, and intersegment sales, expressed as a percentage of aggregate segment sales, including intersegment sales, and operating income, respectively. For purposes of this statistical table, operating income of our segments excludes corporate expenses of $677.6 million in fiscal 2012, $558.8 million in fiscal 2011 and $513.3 million in fiscal 2010 that are not charged to our segments. This information should be read in conjunction with Note 21, “Business Segment Information” to the Consolidated Financial Statements in Item 8:

	2012		2011		2010 (53 Weeks)	
	Sales	Segment Operating Income	Sales	Segment Operating Income	Sales	Segment Operating Income
Broadline	81.2 %	94.1 %	81.2 %	93.5 %	81.6 %	94.5 %
SYGMA	13.5	2.4	13.6	2.5	13.1	2.0
Other	5.7	3.5	5.7	4.0	5.7	3.5
Intersegment sales	(0.4)	-	(0.5)	-	(0.4)	-
Total	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %

Broadline Segment

The Broadline reportable segment is an aggregation of the company's United States, Canadian and European Broadline segments. Broadline operating companies distribute a full line of food products and a wide variety of non-food products to both traditional and chain restaurant customers and also provide custom-cut meat operations. Broadline operations have significantly higher operating margins than the rest of Sysco's operations. In fiscal 2012, the Broadline operating results represented approximately 81.2% of Sysco's overall sales and 94.1% of the aggregate operating income of Sysco's segments, which excludes corporate expenses.

There are several factors which contribute to these higher operating results as compared to the SYGMA and Other operating segments. We have invested substantial amounts in assets, operating methods, technology and management expertise in this segment. The breadth of its sales force, geographic reach of its distribution area and its purchasing power allow us to benefit from this segment's earnings.

Sales

Sales for fiscal 2012 were 7.8% greater than fiscal 2011. Product cost inflation and the resulting increase in selling prices, combined with case volume improvement, contributed to the increase in sales in fiscal 2012. Changes in product costs, an internal measure of inflation or deflation, were estimated as inflation of 5.7% in fiscal 2012. Non-comparable acquisitions contributed 0.7% to the overall sales comparison for fiscal 2012. The changes in the exchange rates used to translate our foreign sales into U.S. dollars negatively impacted sales by 0.1% compared to fiscal 2011.

Sales for fiscal 2011 were 5.1% greater than fiscal 2010. Negatively affecting the sales comparison of fiscal 2011 to fiscal 2010 was the additional week in fiscal 2010. Product cost inflation and the resulting increase in selling prices, combined with case volume improvement, contributed to the increase in sales in fiscal 2011. Changes in product costs, an internal measure of inflation or deflation, were estimated as inflation of 4.9% in fiscal 2011. Non-comparable acquisitions contributed 0.8% to the overall sales comparison for fiscal 2011. The changes in the exchange rates used to translate our foreign sales into U.S. dollars positively impacted sales by 0.6% compared to fiscal 2010.

Operating Income

Operating income increased by 3.8% in fiscal 2012 over fiscal 2011. This increase was driven by gross profit dollars increasing more than operating expenses.

Gross profit dollars increased in fiscal 2012 primarily due to increased sales; however, gross profit dollars increased at a lower rate than sales. This decline in gross margin was primarily the result of product cost inflation and competitive pressures on pricing. Based on Broadline's product sales mix for fiscal 2012, we were most impacted by higher levels of inflation in the meat, canned and dry and frozen product categories. While we are generally able to pass through modest levels of inflation to our customers, we were unable pass through fully these higher levels of product cost inflation with the same gross margin in these product categories without negatively impacting our customers' business and therefore our business. In the summer months of 2012, certain agricultural areas of the United States have experienced severe drought. The impact of this drought is uncertain and could result in volatile input costs. Input costs could increase at any point in time for a large portion of the products that we sell for a prolonged period. While we cannot predict whether inflation will continue at these levels, prolonged periods of high inflation, either overall or in certain product categories, can have a negative impact on our customers, as high food costs can reduce consumer spending in the food-away-from-home market, and may negatively impact the Broadline segment's sales, gross profit and earnings. Our product cost reduction initiative is designed to lower our total product costs by $250 million to $300 million annually by fiscal 2015; however we believe the impact on our product costs in fiscal 2013 will be modest.

In addition, gross profit dollars for fiscal 2012 increased as a result of higher fuel surcharges. Fuel surcharges were approximately $39.1 million higher in fiscal 2012 than the prior year due to the application of fuel surcharges to a broader customer base during fiscal 2012 due to higher fuel prices incurred during these periods. Assuming that fuel prices do not greatly vary from recent levels, we expect the level of fuel surcharges in fiscal 2013 to remain consistent with those experienced in fiscal 2012.

Operating expenses for the Broadline segment increased in fiscal 2012 as compared to fiscal 2011. The expense increases in fiscal 2012 were driven largely by an increase in pay-related expenses and fuel costs, partially offset by a favorable comparison in the provisions recorded for the withdrawal from multiemployer pension plans in each fiscal year. Sales compensation includes commissions which are driven by gross profit dollars and case volumes, and delivery compensation includes activity-based pay which is driven by case volumes. Since these drivers are variable in nature, increased gross profit dollars and case volumes will increase sales and delivery compensation. However, the impact of our productivity related initiatives could favorably impact the magnitude of this trend. Fuel costs were $26.5 million higher in fiscal 2012 than the prior year. Assuming that fuel prices do not rise significantly over recent levels during fiscal 2013, fuel costs exclusive of any amounts recovered through fuel surcharges, are not expected to fluctuate significantly as compared to fiscal 2012. Our estimate is based upon current, published quarterly market price projections for diesel, the cost committed to in our forward fuel purchase agreements currently in place for fiscal 2013 and estimates of fuel

consumption. Actual fuel costs could vary from our estimates if any of these assumptions change, in particular if future fuel prices vary significantly from our current estimates. We continue to evaluate all opportunities to offset potential increases in fuel expense, including the use of fuel surcharges and overall expense management.

From time to time, we may voluntarily withdraw from multiemployer pension plans to minimize or limit our future exposure to these plans. We recorded provisions related to the withdrawal from multiemployer pension plans of $21.9 million in fiscal 2012 and $41.5 million in fiscal 2011.

We also measure our expense performance on a cost per case basis, which we seek to align with the gross profit that we are able to generate. For our Broadline companies, our cost per case increased $0.04 per case as compared to fiscal 2011 and $0.11 per case as compared to fiscal 2010. The increases in both periods primarily related to increased fuel costs and payroll costs discussed above. Charges created by withdrawing from multiemployer plans also contributed to the increase in fiscal 2011 as compared to fiscal 2010.

Operating income decreased 1.0% in fiscal 2011 over fiscal 2010 to $2.3 billion, and as a percentage of sales, declined to 7.3% of sales. Gross profit dollars increased slightly below the rate that operating expenses increased; however, operating expenses included a significant unfavorable comparison in the provisions recorded for the withdrawal from multiemployer pension plans in each fiscal year.

Gross profit dollars increased in fiscal 2011 primarily due to increased sales; however, gross profit dollars increased at a lower rate than sales. This slower growth in gross profit dollars was primarily the result of two factors. First, based on Broadline's product sales mix for fiscal 2011, it was most impacted by higher levels of inflation in the dairy, meat and seafood product categories in the range of 10% to 12%. Broadline's largest selling product category, canned and dry, experienced inflation of 4%. Second, ongoing strategic pricing initiatives largely lowered our prices to our customers in certain product categories in order to increase sales volumes. These initiatives are being phased in over time and resulted in short-term gross profit declines as a percentage of sales, but we believe will result in long-term gross profit dollar growth due to higher sales volumes and increased market share. We have experienced meaningful year over year volume growth with those items included in the early phases of these programs in the geographies where this program has been implemented. We believe the long-term benefits of these strategic initiatives will result in profitable market share growth.

In addition, gross profit dollars for fiscal 2011 increased as a result of higher fuel surcharges. Fuel surcharges were approximately $19.4 million higher in fiscal 2011 than the prior year due to the application of fuel surcharges to a broader customer base for a small portion of the third quarter and the entire fourth quarter due to higher fuel prices incurred during these periods.

The expense increases in fiscal 2011 were driven largely by provisions for withdrawal from a multiemployer pension plan, an increase in pay-related expenses and increased fuel costs. In fiscal 2011, we recorded provisions of $41.5 million for withdrawal liabilities from multiemployer pension plans from which union members elected to withdraw,

compared to provisions of $2.9 million in fiscal 2010. The increase in pay-related expenses was primarily due to increased sales and delivery compensation. Portions of our pay-related expense are variable in nature and are expected to increase when sales and gross profit increase. Pay-related expenses from acquired companies and changes in the exchange rates used to translate our foreign sales into U.S. dollars also contributed to the increase. Fuel costs were $22.0 million higher in fiscal 2011 than the prior year.

SYGMA Segment

SYGMA operating companies distribute a full line of food products and a wide variety of non-food products to certain chain restaurant customer locations. SYGMA operations have traditionally had lower operating income as a percentage of sales than Sysco's other segments. This segment of the foodservice industry has generally been characterized by lower overall operating margins as the volume that these customers command allows them to negotiate for reduced margins. These operations service chain restaurants through contractual agreements that are typically structured on a fee per case delivered basis.

Sales

Sales were 7.4% greater in fiscal 2012 than in fiscal 2011. The increase in sales was primarily due to product cost inflation and the resulting increase in selling prices. Sales to new customers also contributed to the increase.

Sales were 9.2% greater in fiscal 2011 than in fiscal 2010. Negatively affecting the sales comparison of fiscal 2011 to fiscal 2010 was the additional week in fiscal 2010. The increase in sales was primarily due to case volume improvement largely attributable to new customers and, to a lesser extent, from an increase in volume from certain existing customers.

One chain restaurant customer (The Wendy's Company) accounted for approximately 29% of the SYGMA segment sales for the fiscal year ended June 30, 2012. SYGMA maintains multiple regional contracts with varied expiration dates with this customer. While the loss of this customer would have a material adverse effect on SYGMA, we do not believe that the loss of this customer would have a material adverse effect on Sysco as a whole.

Operating Income

Operating income decreased $1.2 million in 2012 from the prior year due to rising operating expenses. Gross profit dollars increased 4.3% while operating expenses increased 5.3% in fiscal 2012 from fiscal 2011. Contributing to the gross profit increase in fiscal 2012 were increased sales and an increase of approximately $8.3 million in the fuel surcharges charged to customers in fiscal 2012 from prior year due to higher fuel prices in fiscal 2012. The increase in operating expenses for fiscal 2012 was largely driven by increased fuel costs. Fuel costs in fiscal 2012 were $11.3 million greater than the prior year. Assuming that fuel prices do not significantly rise above recent levels during fiscal 2013, we expect fuel costs and fuel surcharges for our SYGMA segment not to fluctuate significantly as compared to fiscal 2012.

Operating income increased $13.1 million in 2011 over the prior year due to increased sales and improved productivity. Gross profit dollars increased 9.5% while operating expenses increased 7.2% in fiscal 2011 from fiscal 2010. Contributing to the gross profit increase in fiscal 2011 were increased sales and an increase of approximately $6.6 million in the fuel surcharges charged to customers in fiscal 2011 from prior year due to higher fuel prices in fiscal 2011. The increase in operating expenses for fiscal 2011 was largely driven by increased delivery and warehouse personnel payroll costs resulting from increased sales as well as increased fuel cost. Productivity improvements occurred within our warehouse and delivery functions in fiscal 2011 and expense reductions occurred within our administrative functions in fiscal 2011 as compared to the prior year. Fuel costs in fiscal 2011 were $12.9 million greater than the prior year.

Other Segment

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

On an aggregate basis, our “Other” segment has had a lower operating income as a percentage of sales than Sysco’s Broadline segment. Sysco has acquired the operating companies within these segments in relatively recent years. These operations generally operate in a niche within the foodservice industry except for our lodging supply company. Each individual operation is also generally smaller in sales and scope than an average Broadline operation and each of these operating segments is considerably smaller in sales and overall scope than the Broadline segment. In fiscal 2012, in the aggregate, the “Other” segment represented approximately 5.7% of Sysco’s overall sales and 3.5% of the aggregate operating income of Sysco’s segments, which excludes corporate expenses.

Operating income decreased 9.2% for fiscal 2012 from fiscal 2011. The decrease in operating income was caused partially due to increased expenses in our specialty produce segment.

Operating income increased 14.3% for fiscal 2011 from fiscal 2010. The operating income comparison was negatively affected by the additional week in fiscal 2010. The increase in operating income was caused primarily by increased sales in the specialty produce segment and favorable expense management in the specialty produce and lodging industry products segments.

Liquidity and Capital Resources

Highlights

Comparisons of the cash flows from fiscal 2012 to fiscal 2011:

- Cash flows from operations were $1.4 billion this year compared to $1.1 billion last year.
- Settlement payments to the IRS were $212.0 million in both periods.
- Capital expenditures totaled $784.5 million this year compared to $636.4 million last year.
- Bank borrowings, net were a net repayment of $182.0 million this year compared to a net borrowing $182.0 million last year.
- Treasury stock purchases were $272.3 million this year compared to $291.6 million last year.
- Dividends paid were $622.9 million this year compared to $597.1 million last year.

Sources and Uses of Cash

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

- working capital requirements;
- investments in facilities, systems, fleet, other equipment and technology;
- cash dividends;

- acquisitions compatible with our overall growth strategy;
- contributions to our various retirement plans; and
- debt repayments.

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

We continue to generate substantial cash flows from operations and remain in a strong financial position, however our liquidity and capital resources can be influenced by economic trends and conditions. Uncertain economic conditions and uneven levels of consumer confidence and the resulting pressure on consumer disposable income have lowered our sales growth and our cash flows from operations. Product cost inflation has lowered our gross profit and cash flows from operations as we were unable to pass through all of the increased product costs with the same gross margin to our customers. We believe our mechanisms to manage working capital, such as credit monitoring, optimizing inventory levels and maximizing payment terms with vendors, and our mechanisms to manage product cost inflation have been sufficient to limit a significant unfavorable impact on our cash flows from operations. We believe these mechanisms will continue prevent a significant unfavorable impact on our cash flows from operations. At June 30, 2012, we had $688.9 million in cash and cash equivalents, approximately 20% of which was held by our international subsidiaries generated from our earnings of international operations. If these earnings were transferred among countries or repatriated to the U.S., such amounts may be subject to additional tax obligations; however, we do not currently anticipate the need to relocate this cash.

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

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

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

Cash Flows

Operating Activities

Fiscal 2012 vs. Fiscal 2011

We generated $1.4 billion in cash flow from operations in fiscal 2012, as compared to $1.1 billion in fiscal 2011. The increase of $312.7 million between fiscal 2012 and fiscal 2011 was largely attributable to changes in working capital, a year-over-year reduction in tax payments and the redemption of some of our COLI policies. These increases were partially offset by the year-over-year impact of multiemployer withdrawal provisions and payments. These items are more fully described below.

Changes in working capital, specifically accounts receivable, inventory and accounts payable, contributed $144.3 million to the increase in cash flow from operations in fiscal 2012 as compared to fiscal 2011. Both periods were affected by increases in accounts receivable and inventory, partially offset by an increase in accounts payable resulting primarily from inflation-driven increases in product cost and sales. However, fiscal 2012 was impacted by these items to a lesser extent due primarily to working capital improvements within accounts receivable and inventory and also less growth in average daily sales in the final month of fiscal 2012 as compared to the same period in fiscal 2011.

Tax payments were $135.2 million less in fiscal 2012 than in fiscal 2011. The decrease in tax payments was partially due to the company being in a prepaid position at the end of fiscal 2011 in certain jurisdictions. In addition, various movements in taxable temporary differences caused estimated taxable income to be lower in fiscal 2012, requiring less tax payments in fiscal 2012 than in fiscal 2011. We made our final payments on a previous IRS tax settlement of $212 million in fiscal 2012. The completion of these settlement payments will have a positive impact on our cash flows in fiscal 2013.

We received approximately $75 million in cash from the one-time redemption during the period of some of our investments in COLI policies that we maintained to meet a portion of our obligations under the Supplemental Executive Retirement Plan (SERP). This resulted in a positive impact to cash flow from operations in fiscal 2012 by decreasing other assets by $57.1 million. Those

redeemed COLI policies were replaced by less volatile existing corporate-owned real estate assets as part of our plan to reduce the market-driven COLI impact on our earnings.

Multiemployer withdrawal provisions and payments had a negative impact of $53.3 million on the comparison of cash flow from operations in fiscal 2012 to fiscal 2011. The net impact of withdrawal provisions and payments was a cash outflow of $11.7 million in fiscal 2012, compared to a $41.5 million accrual in fiscal 2011.

Fiscal 2011 vs. Fiscal 2010

We generated $1.1 billion in cash flow from operations in fiscal 2011, as compared to $0.9 billion in fiscal 2010. The increase of $206.1 million between fiscal 2011 and fiscal 2010 was driven largely by a reduction in the amount of payments made in relation to the IRS settlement of $316.0 million and reduced pension contributions in the amount of $136.3 million in fiscal 2011 as compared to fiscal 2010. These increases were partially offset by changes in working capital discussed in more detail below.

Payments related to the IRS settlement were $212.0 million in fiscal 2011 and $528.0 million in fiscal 2010. See further discussion of the IRS settlement in Note 18, “Income Taxes” to the Consolidated Financial Statements in Item 8.

Our contributions to our company-sponsored defined benefit plans were $161.7 million in fiscal 2011 and $297.9 million in fiscal 2010, respectively. Included in the $161.7 million of contributions in fiscal 2011 was a $140.0 million contribution to our Retirement Plan that would normally have been made in fiscal 2012. Included in the $297.9 million of contributions in fiscal 2010 was a $140.0 million contribution to our Retirement Plan that would normally have been made in fiscal 2011 and quarterly contributions totaling $140.0 million for fiscal 2010.

Changes in working capital, specifically accounts receivable, inventory and accounts payable, reduced cash flow from operations by $202.2 million in fiscal 2011 as compared to fiscal 2010. The increases in accounts receivable and inventory balances in fiscal 2011 and fiscal 2010 were primarily due to sales growth. An increase in daily sales outstanding also contributed to the increase in accounts receivable and inventory balances in fiscal 2011. The increase in accounts payable balances in fiscal 2011 and fiscal 2010 was primarily from the growth in inventory resulting from sales growth.

Investing Activities

Fiscal 2012 capital expenditures included:

· replacement or significant expansion of facilities in San Diego, California; Boston, Massachusetts; Lincoln, Nebraska; Syracuse, New York and central Texas;
· construction of fold-out facilities in southern California and Long Island, New York;
· the continued remodeling of our shared services facility purchased in fiscal 2010;
· fleet replacements; and
· investments in technology including our Business Transformation Project.

Fiscal 2011 capital expenditures included:

· investments in technology including our Business Transformation Project;
· fleet replacements;
· replacement or significant expansion of facilities in Philadelphia, Pennsylvania and central Texas;
· the purchase of land for a fold-out facility in southern California; and
· the remodeling of our shared services facility purchased in fiscal 2010.

Fiscal 2010 capital expenditures included:

· investments in technology including our Business Transformation Project;
· fleet replacements;
· replacement or significant expansion of facilities in Vancouver, British Columbia, Canada; Winnipeg, Manitoba, Canada; Billings, Montana; Plainfield, New Jersey; Philadelphia, Pennsylvania and Houston, Texas;
· the purchase of a facility for our future shared services operations in connection with our Business Transformation Project; and
· the purchase of land for a fold-out facility in Long Island, New York.

Capital expenditures in fiscal 2012 increased by $148.1 million primarily due to a greater number of new facilities and expansion projects underway this year. Capital expenditures in fiscal 2012 and 2011 for our Business Transformation Project were $146.2 million and $195.8 million, respectively.

We expect total capital expenditures in fiscal 2013 to be in the range of $600 million to $650 million. Fiscal 2013 expenditures will include facility, fleet and other equipment replacements and expansions; new facility construction, including fold-out facilities; and investments in technology.

During fiscal 2012, in the aggregate, the company paid cash of $110.6 million for operations acquired during fiscal 2012 and for contingent consideration related to operations acquired in previous fiscal years. During fiscal 2012, we acquired for cash broadline foodservice operations in Sacramento, California; Quebec, Canada; New Haven, Connecticut; Grand Rapids, Michigan; Minneapolis, Minnesota; Columbia, South Carolina and Spokane, Washington. In addition, Sysco acquired for cash a company that distributes specialty imported products headquartered in Chicago, Illinois.

During fiscal 2011, in the aggregate, the company paid cash of $101.1 million for operations acquired during fiscal 2011 and for contingent consideration related to operations acquired in previous fiscal years. During fiscal 2011, we acquired for cash broadline foodservice operations in central California; Los Angeles, California; Ontario, Canada; Lincoln, Nebraska; and Trenton, New Jersey.

During fiscal 2010, in the aggregate, the company paid cash of $29.3 million for operations acquired during fiscal 2010 and for contingent consideration related to operations acquired in previous fiscal years. During fiscal 2010, we acquired for cash a broadline foodservice operation in Syracuse, New York, a produce distributor in Atlanta, Georgia and a seafood distributor in Edmonton, Alberta, Canada.

Financing Activities

Equity Transactions

Proceeds from common stock reissued from treasury for share-based compensation awards were $99.4 million in fiscal 2012, $332.7 million in fiscal 2011 and $94.8 million in fiscal 2010. The increase in proceeds in fiscal 2011 was due to an increase in the number of options exercised in fiscal 2011, as compared to fiscal 2012 and 2010. The level of option exercises, and thus proceeds, will vary from period to period and is largely dependent on movements in our stock price.

We traditionally have engaged in Board-approved share repurchase programs. The number of shares acquired and their cost during the past three fiscal years were 10,000,000 shares for $272.3 million in fiscal 2012, 10,000,000 shares for $291.6 million in fiscal 2011 and 6,000,000 shares for $179.2 million in fiscal 2010. There were 75,200 additional shares repurchased through August 15, 2012, resulting in a remaining authorization by our Board of

Directors to repurchase up to 23,311,400 shares, based on the trades made through that date. Our current share repurchase strategy is to purchase enough shares to keep our diluted average shares outstanding relatively constant. To achieve this goal, we believe we will not have to purchase as many shares in fiscal 2013 as were purchased in fiscal 2012.

We have made dividend payments to our shareholders in each fiscal year since our company inception over 40 years ago. We target a dividend payout of 40% to 50% of net earnings. We paid in excess of that range in fiscal 2012 primarily due to increased expenses from our Business Transformation Project. We believe as we realize benefits from this project, our dividend payout will return to this targeted range. Dividends paid were $622.9 million, or $1.06 per share, in fiscal 2012, $597.1 million, or $1.02 per share, in fiscal 2011 and $579.8 million, or $0.98 per share, in fiscal 2010. In May 2012, we declared our regular quarterly dividend for the first quarter of fiscal 2013 of $0.27 per share, which was paid in July 2012.

In November 2000, we filed with the SEC a shelf registration statement covering 30,000,000 shares of common stock to be offered from time to time in connection with acquisitions. As of August 15, 2012, 29,477,835 shares remained available for issuance under this registration statement.

Debt Activity and Borrowing Availability

Short-term Borrowings

We have uncommitted bank lines of credit, which provided for unsecured borrowings for working capital of up to $95.0 million, of which none was outstanding as of June 30, 2012 or August 15, 2012.

Our Irish subsidiary, Pallas Foods Limited, has a €10.0 million (Euro) committed facility for unsecured borrowings for working capital. There were no borrowings outstanding under this facility as of June 30, 2012 or August 15, 2012.

On June 30, 2011, a Canadian subsidiary of Sysco entered into a short-term demand loan facility for the purpose of facilitating a distribution from the Canadian subsidiary to Sysco, and Sysco concurrently entered into an agreement with the bank to guarantee the loan. The amount borrowed was $182.0 million and was repaid in full on July 4, 2011.

Commercial Paper and Revolving Credit Facility

We have a Board-approved commercial paper program allowing us to issue short-term unsecured notes in an aggregate amount not to exceed $1.3 billion.

In December 2011, we terminated our previously existing revolving credit facility that supported the company's U.S. and Canadian commercial paper programs. At the same time, Sysco and one of its subsidiaries, Sysco International, ULC, entered into a new $1.0 billion credit facility supporting the company's U.S. and Canadian commercial paper programs. This facility provides for borrowings in both U.S. and Canadian dollars. Borrowings by Sysco International, ULC under the credit agreement are guaranteed by Sysco, and borrowings by Sysco and Sysco International, ULC under the credit agreement and guaranteed by all the wholly-owned subsidiaries of Sysco that are guarantors of the company's senior notes and debentures. The facility expires on December 29, 2016, but is subject to extension.

There were no commercial paper issuances outstanding as of June 30, 2012 or August 15, 2012. During fiscal 2012, 2011 and 2010, aggregate outstanding commercial paper issuances and short-term bank borrowings ranged from approximately zero to $563.1 million, zero to $330.3 million, and zero to $1.8 million, respectively. During fiscal 2012, 2011 and 2010, our aggregate commercial paper issuances and short-term bank borrowings had a weighted average interest rate of 0.16%, 0.25% and 0.80%, respectively.

Fixed Rate Debt

Included in current maturities of long-term debt as June 30, 2012 are the 4.2% senior notes totaling $250.0 million, which mature in February 2013. It is our intention to fund the repayment of these notes at maturity through cash on hand, cash flow from operations, issuances of commercial paper, senior notes or a combination thereof.

In September 2009, we entered into an interest rate swap agreement that effectively converted $200.0 million of fixed rate debt maturing in fiscal 2014 to floating rate debt. In October 2009, we entered into an interest rate swap agreement that effectively converted $250.0 million of fixed rate debt maturing in fiscal 2013 to floating rate debt. Both transactions were entered into with the goal of reducing overall borrowing cost and increasing floating interest rate exposure. These transactions were designated as fair value hedges since the swaps hedge against the changes in fair value of fixed rate debt resulting from changes in interest rates.

In February 2012, we filed with the SEC an automatically effective well-known seasoned issuer shelf registration statement for the issuance of an indeterminate amount of common stock, preferred stock, debt securities and guarantees of debt securities that may be issued from time to time.

In June 2012, we repaid the 6.1% senior notes totaling $200.0 million at maturity utilizing a combination of cash flow from operations and commercial paper issuances.

In May 2012, we entered into an agreement with a notional amount of $200.0 million to lock in a component of the interest rate on our then forecasted debt offering. We designated this derivative as a cash flow hedge of the variability in the cash outflows of interest payments on a portion of the then forecasted June 2012 debt issuance due to changes in the benchmark interest rate. In June 2012, in conjunction with the issuance of the $450.0 million senior notes maturing in fiscal 2022, we settled the treasury lock, locking in the effective yields on the related debt. Upon settlement, we received cash of $0.7 million, which represented the fair value of the swap agreement at the time of settlement. This amount is being amortized as an offset to interest expense over the 10-year term of the debt, and the unamortized balance is reflected as a gain, net of tax, Accumulated other comprehensive loss.

In June 2012, we issued 0.55% senior notes totaling $300.0 million due June 12, 2015 (the 2015 notes) and 2.6% senior notes totaling $450.0 million due June 12, 2022 (the 2022 notes) under its February 2012 shelf registration. The 2015 and 2022 notes, which were priced at 99.319% and 98.722% of par, respectively, are unsecured, are not subject to any sinking fund requirement and include a redemption provision which allows Sysco to retire the notes at any time prior to maturity at the greater of par plus accrued interest or an amount designed to ensure that the note holders are not penalized by early redemption. Proceeds from the notes will be utilized over a period of time for general corporate purposes, which may include acquisitions, refinancing of debt, working capital, share repurchases and capital expenditures.

Total Debt

Total debt as of June 30, 2012 was $3.0 billion of which approximately 84% was at fixed rates with a weighted average of 4.7% and an average life of 13 years, and the remainder was at floating rates with a weighted average of 2.3% and an average life of one year. Certain loan agreements contain typical debt covenants to protect note holders, including provisions to maintain the company's long-term debt to total capital ratio below a specified level. We are currently in compliance with all debt covenants.

Other

As part of normal business activities, we issue letters of credit through major banking institutions as required by certain vendor and insurance agreements. In addition, in connection with our audits in certain tax jurisdictions, we have posted of letters of credit in order to proceed to the appeals process. As of June 30, 2012 and July 2, 2011, letters of credit outstanding were $29.8 million and $23.0 million, respectively.

Other Considerations - Multiemployer Pension Plans

As discussed in Note 14, “Multiemployer Employee Benefit Plans”, to the Consolidated Financial Statements in Item 8, we contribute to several multiemployer defined benefit pension plans based on obligations arising under collective bargaining agreements covering union-represented employees.

Under certain circumstances, including our voluntary withdrawal or a mass withdrawal of all contributing employers from certain underfunded plans, we would be required to make payments to the plans for our proportionate share of the multiemployer plan’s unfunded vested liabilities. We believe that one of the above-mentioned events is reasonably possible with certain plans in which we participate and estimate our share of withdrawal liability for these plans could have been as much as $100.0 million as of June 30, 2012 and August 15, 2012. This estimate excludes plans for which we have recorded withdrawal liabilities or where the likelihood of the above-mentioned events is deemed remote. Due to the lack of current information, we believe our current share of the withdrawal liability could materially differ from this estimate.

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

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements.

Contractual Obligations

The following table sets forth, as of June 30, 2012, certain information concerning our obligations and commitments to make contractual future payments:

	Payments Due by Period				
	Total	< 1 Year	1-3 Years	3-5 Years	More Than 5 Years
	(In thousands)				
Recorded Contractual Obligations:					
Long-term debt	$ 2,980,291	$ 250,036	$ 505,900	$ 140	$ 2,224,215
Capital lease obligations	38,047	4,614	7,034	4,007	22,392
Deferred compensation [1]	88,883	9,551	14,060	10,215	55,057
SERP and other postretirement plans [2]	298,994	23,739	51,042	57,532	166,681
Multiemployer pension plans [3]	30,695	30,695	-	-	-
Unrecognized tax benefits and interest [4]	80,106				
Unrecorded Contractual Obligations:					
Interest payments related to debt [5]	1,399,766	126,268	234,625	226,064	812,809
Retirement plan [6]	335,937	-	7,355	147,521	181,061
Long-term non-capitalized leases	225,121	48,680	72,226	43,581	60,634
Purchase obligations [7]	2,263,446	1,919,677	342,108	1,626	35
Total contractual cash obligations	$ 7,741,286	$ 2,413,260	$ 1,234,350	$ 490,686	$ 3,522,884

[1]The estimate of the timing of future payments under the Executive Deferred Compensation Plan involves the use of certain assumptions, including retirement ages and payout periods.

[2]Includes estimated contributions to the unfunded SERP and other postretirement benefit plans made in amounts needed to fund benefit payments for vested participants in these plans through fiscal 2022, based on actuarial assumptions.

[3]Represents voluntary withdrawal liabilities recorded and excludes normal contributions required under our collective bargaining agreements.

[4] Unrecognized tax benefits relate to uncertain tax positions recorded under accounting standards related to uncertain tax positions. As of June 30, 2012, we had a liability of $52.2 million for unrecognized tax benefits for all tax jurisdictions and $27.9 million for related interest that could result in cash payment. We are not able to reasonably estimate the timing of non-current payments or the amount by which the liability will increase or decrease over time. Accordingly, the related non-current balances have not been reflected in the "Payments Due by Period" section of the table.

[5]Includes payments on floating rate debt based on rates as of June 30, 2012, assuming amount remains unchanged until maturity, and payments on fixed rate debt based on maturity dates. The impact of our outstanding fixed-to-floating interest rate swaps on the fixed rate debt interest payments is included as well based on the floating rates in effect as of June 30, 2012.

[6] Provides the estimated minimum contribution to the Retirement Plan through fiscal 2022 to meet ERISA minimum funding requirements under the assumption that we only make minimum funding requirement contributions each year, based on actuarial assumptions.

[7]For purposes of this table, purchase obligations include agreements for purchases of product in the normal course of business, for which all significant terms have been confirmed, including minimum quantities resulting from our sourcing initiative. Such amounts included in the table above are based on estimates. Purchase obligations also includes amounts committed with a third party to provide hardware and hardware hosting services over a ten-year period ending in fiscal 2015 (See discussion under Note 20, “Commitments and Contingencies”, to the Notes to Consolidated Financial Statements in Item 8), fixed electricity agreements and fixed fuel purchase commitments. Purchase obligations exclude full requirements electricity contracts where no stated minimum purchase volume is required.

Certain acquisitions involve contingent consideration, typically payable only in the event that certain operating results are attained or certain outstanding contingencies are resolved. Aggregate contingent consideration amounts outstanding as of June 30, 2012 included $66.1 million. This amount is not included in the table above.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, sales and expenses in the accompanying financial statements. Significant accounting policies employed by Sysco are presented in the notes to

the financial statements.

Critical accounting policies and estimates are those that are most important to the portrayal of our financial condition and results of operations. These policies require our most subjective or complex judgments, often employing the use of estimates about the effect of matters that are inherently uncertain. We have reviewed with the Audit Committee of the Board of Directors the development and selection of the critical accounting policies and estimates and this related disclosure. Our most critical accounting policies and estimates pertain to the allowance for doubtful accounts receivable, self-insurance programs, company-sponsored pension plans, income taxes, vendor consideration, goodwill and intangible assets and share-based compensation.

Allowance for Doubtful Accounts

We evaluate the collectability of accounts receivable and determine the appropriate reserve for doubtful accounts based on a combination of factors. We utilize specific criteria to determine uncollectible receivables to be written off, including whether a customer has filed for or has been placed in bankruptcy, has had accounts referred to outside parties for collection or has had accounts past due over specified periods. Allowances are recorded for all other receivables based on analysis of historical trends of write-offs and recoveries. In addition, in circumstances where we are aware of a specific customer's inability to meet its financial obligation, a specific allowance for doubtful accounts is recorded to reduce the receivable to the net amount reasonably expected to be collected. Our judgment is required as to the impact of certain of these items and other factors as to ultimate realization of our accounts receivable. If the financial condition of our customers were to deteriorate, additional allowances may be required.

Self-Insurance Program

We maintain a self-insurance program covering portions of workers' compensation, general liability and vehicle liability costs. The amounts in excess of the self-insured levels are fully insured by third party insurers. We also maintain a fully self-insured group medical program. 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. Projections of future loss expenses are inherently uncertain because of the random nature of insurance claims occurrences and could be significantly affected if future occurrences and claims differ from these assumptions and historical trends. In an attempt to mitigate the risks of workers' compensation, vehicle and general liability claims, safety procedures and awareness programs have been implemented.

Company-Sponsored Pension Plans

Amounts related to defined benefit plans recognized in the financial statements are determined on an actuarial basis. Three of the more critical assumptions in the actuarial calculations are the discount rate for determining the current value of plan benefits, the assumption for the rate of increase in future compensation levels and the expected rate of return on plan assets.

For guidance in determining the discount rates, we calculate the implied rate of return on a hypothetical portfolio of high-quality fixed-income investments for which the timing and amount of cash outflows approximates the estimated payouts of the pension plan. The discount rate assumption is reviewed annually and revised as deemed appropriate. The discount rate for determining fiscal 2012 net pension costs for the Retirement Plan, which was determined as of the July 2, 2011 measurement date, decreased 21 basis points to 5.94%. The discount rate for determining fiscal 2012 net pension costs for the SERP, which was determined as of the July 2, 2011 measurement date, decreased 42 basis points to 5.93%. The combined effect of these discount rate changes increased our net company-sponsored pension costs for all plans for fiscal 2012 by an estimated $14.3 million. The discount rate for determining fiscal 2013 net pension costs for the Retirement Plan, which was determined as of the June 30, 2012 measurement date, decreased 113 basis points to 4.81%. The discount rate for determining fiscal 2013 net pension costs for the SERP, which was determined as of the June 30, 2012 measurement date, decreased 104 basis points to 4.89%. The combined effect of these discount rate changes will increase our net company-sponsored pension costs for all plans for fiscal 2013 by an estimated $84.1 million. A 100 basis point increase in the discount rates for fiscal 2013 would decrease Sysco's net company-sponsored pension cost by $41.9 million, while a 100 basis point decrease in the discount rates would increase pension cost by $50.6 million. The impact of a 100 basis point increase in the discount rates differs from the impact of a 100 basis point decrease in discount rates because the liabilities are less sensitive to change at higher discount rates. Therefore, a 100 basis point increase in the discount rate will not generate the same magnitude of change as a 100 basis point decrease in the discount rate.

We look to actual plan experience in determining the rates of increase in compensation levels. We used a plan specific age-related set of rates for the Retirement Plan, which are equivalent to a single rate of 5.30% as of June 30, 2012 and July 2, 2011. For determining the benefit obligations as of June 30, 2012 and July 2, 2011, the SERP calculations use an age-graded salary growth assumption.

The expected long-term rate of return on plan assets of the Retirement Plan was 7.75% for fiscal 2012 and 8.00% for fiscal 2011. The expectations of future returns are derived from a mathematical asset model that incorporates assumptions as to the various asset class returns, reflecting a combination of historical performance analysis and the forward-looking views of the financial markets regarding the yield on bonds, historical returns of the major stock markets and returns on alternative investments. Although not determinative of future returns, the effective annual rate of return on plan assets, developed using geometric/compound averaging, was approximately 7.0%, 4.2%, 1.6%, and -0.2%, over the 20-year, 10-year, 5-year and 1-year periods ended December 31, 2011, respectively. In addition, in eight of the last 15 years, the actual return on plan assets has exceeded 10%. The rate of return assumption is reviewed annually and revised as deemed appropriate.

The expected return on plan assets impacts the recorded amount of net pension costs. The expected long-term rate of return on plan assets of the Retirement Plan is 7.75% for fiscal 2013. A 100 basis point increase (decrease) in the assumed rate of return for fiscal 2013 would decrease (increase) Sysco's net company-sponsored pension costs for fiscal 2013 by approximately $22.1 million.

Pension accounting standards require the recognition of the funded status of our defined benefit plans in the statement of financial position, with a corresponding adjustment to accumulated other comprehensive income, net of tax. The amount reflected in accumulated other comprehensive loss related to the recognition of the funded status of our defined benefit plans as of June 30, 2012 was a charge, net of tax, of $823.9 million. The amount reflected in accumulated other comprehensive loss related to the recognition of the funded status of our defined benefit plans as of July 2, 2011 was a charge, net of tax, of $501.1 million.

Changes in the assumptions, including changes to the discount rate discussed above, together with the normal growth of the plans, the impact of actuarial losses from prior periods, the impact of plan amendments and the timing and amount of contributions decreased net company-sponsored pension costs by $27.3 million in fiscal 2012. At the end of fiscal 2012, Sysco decided to freeze future benefit accruals under the Retirement Plan as of December 31, 2012 for all U.S.-based salaried and non-union hourly employees. Effective January 1, 2013, these employees will be eligible for additional contributions under an enhanced, defined contribution plan. Changes in the assumptions, including changes to the discount rate discussed above, together with the plan freeze, the impact of actuarial losses from prior periods, the impact of plan amendments and the timing and amount of contributions are expected to decrease net company-sponsored pension costs in fiscal 2013 by approximately $26.5 million. Absent the Retirement Plan freeze discussed above, net company-sponsored pension costs in fiscal 2013 would have increased $106.9 million instead of decreasing $26.5 million.

We made cash contributions to our company-sponsored pension plans of $162.4 million and $161.7 million in fiscal years 2012 and 2011, respectively. The $140.0 million contribution to the Retirement Plan in fiscal 2012 exceeded the minimum required contribution for the calendar 2011 plan year to meet ERISA minimum funding requirements. The $140.0 million contribution to the Retirement Plan in fiscal 2011 was voluntary, as there was no minimum required contribution for the calendar 2010 plan year. There

are no required contributions to the Retirement Plan to meet ERISA minimum funding requirements in fiscal 2013. The estimated fiscal 2013 contributions to fund benefit payments for the SERP plan are approximately $23 million.

Income Taxes

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

Our liability for unrecognized tax benefits contains uncertainties because management is required to make assumptions and to apply judgment to estimate the exposures associated with our various filing positions. We believe that the judgments and estimates discussed herein are reasonable; however, actual results could differ, and we may be exposed to losses or gains that could be material. To the extent we prevail in matters for which a liability has been established, or pay amounts in excess of recorded liabilities, our effective income tax rate in a given financial statement period could be materially affected. An unfavorable tax settlement generally would require use of our cash and may result in an increase in our effective income tax rate in the period of resolution. A favorable tax settlement may be recognized as a reduction in our effective income tax rate in the period of resolution.

Vendor Consideration

We recognize consideration received from vendors when the services performed in connection with the monies received are completed and when the related product has been sold by Sysco. There are several types of cash consideration received from vendors. In many instances, the vendor consideration is in the form of a specified amount per case or per pound. In these instances, we will recognize the vendor consideration as a reduction of cost of sales when the product is sold. In some instances, vendor consideration is received upon receipt of inventory in our distribution facilities. We estimate the amount needed to reduce our inventory based on inventory turns until the product is sold. Our inventory turnover is usually less than one month; therefore, amounts deferred against inventory do not require long-term estimation. In the situations where the vendor consideration is not related directly to specific product purchases, we will recognize these as a reduction of cost of sales when the earnings process is complete, the related service is performed and the amounts realized. Historically, adjustments to our estimates related to vendor consideration have not been significant.

Goodwill and Intangible Assets

Goodwill and intangible assets represent the excess of consideration paid over the fair value of tangible net assets acquired. Certain assumptions and estimates are employed in determining the fair value of assets acquired, including goodwill and other intangible assets, as well as determining the allocation of goodwill to the appropriate reporting unit.

In addition, annually in our fourth quarter or more frequently as needed, we assess the recoverability of goodwill and indefinite-lived intangibles by determining whether the fair values of the applicable reporting units exceed the carrying values of these assets. The reporting units used in assessing goodwill impairment are our nine operating segments as described in Note 21, "Business Segment Information," to the Consolidated Financial Statements in Item 8. The components within each of our nine operating segments have similar economic characteristics and therefore are aggregated into nine reporting units.

We arrive at our estimates of fair value using a combination of discounted cash flow and earnings multiple models. The results from each of these models are then weighted and combined into a single estimate of fair value for each of our nine operating segments. We use a 60% weighting for our discounted cash flow valuation and 40% for the earnings multiple models giving greater emphasis to our discounted cash flow model because the forecasted operating results that serve as a basis for the analysis incorporate management's outlook and anticipated changes for the businesses. The primary assumptions used in these various models include estimated earnings multiples of comparable acquisitions in the industry including control premiums, earnings multiples on acquisitions completed by Sysco in the past, future cash flow estimates of the reporting units, which are dependent on internal forecasts and projected growth rates, and weighted average cost of capital, along with working capital and capital expenditure requirements. When possible, we use observable market inputs in our models to arrive at the fair values of our reporting units. We update our projections used in our discounted cash flow model based on historical performance and changing business conditions for each of our reporting units.

Our estimates of fair value contain uncertainties requiring management to make assumptions and to apply judgment to estimate industry economic factors and the profitability of future business strategies. Actual results could differ from these assumptions and projections, resulting in the company revising its assumptions and, if required, recognizing an impairment loss. There were no impairments of goodwill or indefinite-lived intangibles recorded as a result of assessment in fiscal 2012, 2011 and 2010. Our past estimates of fair value for fiscal 2011 and 2010 have not been materially different when revised to include subsequent years' actual results. Sysco has not made any material changes in its impairment assessment methodology during the past three fiscal years. We do not believe the estimates used in the analysis are reasonably likely to change materially in the future but we will continue to assess the

estimates in the future based on the expectations of the reporting units. In the fiscal 2012 analysis our estimates of fair value did not require additional analysis; however, we would have performed additional analysis to determine if an impairment existed for the following reporting units if our estimates of fair value were decreased by the following amounts. First, our European Broadline company would have required additional analysis if the estimated fair value had been 45% lower. Second, our specialty produce operations would have required additional analysis if the estimated fair value had been 38% lower. At June 30, 2012, these two reporting units had goodwill aggregating $316.9 million. For the remainder of our reporting units which at June 30, 2012 had goodwill aggregating $1.3 billion, we would have performed additional analysis to determine if an impairment existed for a reporting unit if the estimated fair value for any of these reporting units had declined by greater than 50%.

Certain reporting units (European Broadline, specialty produce, custom-cut meat, lodging industry products, imported specialty products and international distribution operations) have a greater proportion of goodwill recorded to estimated fair value as compared to the United States Broadline, Canadian Broadline or SYGMA reporting units. This is primarily due to these businesses having been recently acquired, and as a result there has been less history of organic growth than in the United States Broadline, Canadian Broadline and SYGMA reporting units. In addition, these businesses also have lower levels of cash flow than the United States Broadline reporting units. As such, these reporting units have a greater risk of future impairment if their operations were to suffer a significant downturn.

Share-Based Compensation

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

As of June 30, 2012, there was $63.7 million of total unrecognized compensation cost related to share-based compensation arrangements. That cost is expected to be recognized over a weighted-average period of 2.36 years.

The fair value of each option award is estimated on the date of grant using a Black-Scholes option pricing model. Expected volatility is based on historical volatility of Sysco's stock, implied volatilities from traded options on Sysco's stock and other factors. We utilize historical data to estimate option exercise and employee termination behavior within the valuation model; separate groups of employees that have similar historical exercise behavior are considered separately for valuation purposes. Expected dividend yield is estimated based on the historical pattern of dividends and the average stock price for the year preceding the option grant. The risk-free rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

The fair value of each restricted stock unit award granted with a dividend equivalent is based on the company's stock price as of the date of grant. For restricted stock units granted without dividend equivalents, the fair value is reduced by the present value of expected dividends during the vesting period.

The fair value of the stock issued under the Employee Stock Purchase Plan is calculated as the difference between the stock price and the employee purchase price.

The fair value of restricted stock granted to employees is based on the stock price on grant date. The application of a discount to the fair value of a restricted stock grant is dependent upon whether or not each individual grant contains a post-vesting restriction.

The compensation cost related to these share-based awards is recognized over the requisite service period. The requisite service period is generally the period during which an employee is required to provide service in exchange for the award. The compensation cost related to stock issuances resulting from employee purchases of stock under the Employees' Stock Purchase Plan is recognized during the quarter in which the employee payroll withholdings are made.

Our share-based awards are generally subject to graded vesting over a service period. We will recognize compensation cost on a straight-line basis over the requisite service period for the entire award.

In addition, certain of our share-based awards provide that the awards continue to vest as if the award holder continued to be an employee or director if the award holder meets certain age and years of service thresholds upon retirement. In these cases, we will recognize compensation cost for such awards over the period from the grant date to the date the employee or director first becomes eligible to retire with the options continuing to vest after retirement.

Our option grants include options that qualify as incentive stock options for income tax purposes. In the period the compensation cost related to incentive stock options is recorded, a corresponding tax benefit is not recorded as it is assumed that we will not receive a tax deduction related to such incentive stock options. We may be eligible for tax deductions in subsequent periods to the extent that there is a disqualifying disposition of the incentive stock option. In such cases, we would record a tax benefit related to the tax deduction in an amount not to exceed the corresponding cumulative compensation cost recorded in the financial statements on the particular options multiplied by the statutory tax rate.

Forward-Looking Statements

Certain statements made herein that look forward in time or express management's expectations or beliefs with respect to the occurrence of future events are forward-looking statements under the Private Securities Litigation Reform Act of 1995. They include statements about Sysco's ability to increase its sales and market share and grow earnings, the continuing impact of economic conditions on consumer confidence and our business, sales and expense trends, including expectations regarding pay-related expense defined contribution plan costs and pension costs, anticipated multiemployer pension related liabilities and contributions to various multiemployer pension plans, expectations regarding potential payments of unrecognized tax benefits and interest, expectations regarding share repurchases, dividend payments, expected trends in fuel pricing, usage costs and surcharges, our expectation regarding the provision for losses on accounts receivable, expected implementation, costs and benefits of the ERP system, estimated expenses and capital expenditures related to our Business Transformation Project in fiscal 2013, beliefs regarding future ERP conversions at our operating companies, expectations regarding our other Business Transformation initiatives including cost transformation and product cost reduction initiatives, beliefs regarding the timeline for the realization of benefits from each of our initiatives within our Business Transformation Project, our plan to continue to explore and identify opportunities to grow in international markets and adjacent areas that complement our core business, the impact of ongoing legal proceedings, the loss of SYGMA's largest customer not having a material adverse effect on Sysco as a whole, compliance with laws and government regulations not having a material effect on our capital expenditures, earnings or competitive position, anticipated acquisitions and capital expenditures and the sources of financing for them, continued competitive advantages and positive results from strategic initiatives, anticipated company-sponsored pension plan liabilities, our expectations regarding cash flow from operations, our intentions regarding the repayment of debt, the impact of initiatives to improve working capital, the availability and adequacy of insurance to cover liabilities, predictions regarding the impact of changes in estimates used in impairment analyses, expectations regarding the cost of hardware and hardware hosting services, the anticipated impact of changes in foreign currency exchange rates and Sysco's ability to meet future cash requirements and remain profitable.

These statements are based on management's current expectations and estimates; actual results may differ materially due in part to the risk factors discussed at Item 1.A. in the Annual Report on Form 10-K and elsewhere. In addition, the success of Sysco's strategic initiatives could be affected by conditions in the economy and the industry and internal factors such as the ability to control expenses, including fuel costs. Expected trends related to fuel costs and usage are impacted by fluctuations in the economy generally and numerous factors affecting the oil industry that are beyond our control. Our efforts to lower our cost of goods sold may be impacted by factors beyond our control, including actions by our competitors and/or customers. We have experienced delays in the implementation of our Business Transformation Project and the expected costs of our Business Transformation Project may be greater or less than currently expected, as we may encounter the need for changes in design or revisions of the project calendar and budget. Our business and results of operations may be adversely affected if we experience operating problems, scheduling delays, cost overages, or limitations on the extent of the business transformation during the ERP implementation process. As implementation of the ERP system and other initiatives within the Business Transformation Project begins, there may be changes in design or timing that impact near-term expense and cause us to revise the project calendar and budget, and additional hiring and training of employees and consultants may be required, which could also impact project expense and timing. Our Business Transformation Project initiatives related to ERP implementation, cost transformation and produce cost reduction may not provide the expected benefits or cost savings in a timely fashion, if at all. 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. Defined contribution plan costs are impacted by the number of employees participating in the plan and the level of contributions made by each employee. Company-sponsored pension plan liabilities are impacted by a number of factors including the discount rate for determining the current value of plan benefits, the assumption for the rate of

increase in future compensation levels and the expected rate of return on plan assets. The amount of shares repurchased in a given period is subject to a number of factors, including available cash and our general working capital needs at the time. Meeting our dividend target objectives depends on our level of earnings. Our plans with respect to growth in international markets and adjacent areas that complement our core business are subject to the company's other strategic initiatives and plans and economic conditions generally. Legal proceedings are impacted by events, circumstances and individuals beyond the control of Sysco. The need for additional borrowing or other capital is impacted by factors that include capital expenditures or acquisitions in excess of those currently anticipated, stock repurchases at historical levels, or other unexpected cash requirements. Plans regarding the repayment of debt are subject to change at any time based on management's assessment of the overall needs of the company. The anticipated impact of compliance with laws and regulations also involves the risk that estimates may turn out to be materially incorrect, and laws and regulations, as well as methods of enforcement, are subject to change.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk

We do not utilize financial instruments for trading purposes. Our use of debt directly exposes us to interest rate risk. Floating rate debt, where the interest rate fluctuates periodically, exposes us to short-term changes in market interest rates. Fixed rate debt, where the interest rate is fixed over the life of the instrument, exposes us to changes in market interest rates reflected in the fair value of the debt and to the risk that we may need to refinance maturing debt with new debt at higher rates.

We manage our debt portfolio to achieve an overall desired position of fixed and floating rates and may employ interest rate swaps as a tool to achieve that position. The major risks from interest rate derivatives include changes in the interest rates affecting the fair value of such instruments, potential increases in interest expense due to market increases in floating interest rates and the creditworthiness of the counterparties in such transactions.

Fiscal 2012

As of June 30, 2012, we had no commercial paper outstanding. Total debt as of June 30, 2012 was $3.0 billion, of which approximately 84% was at fixed rates of interest, including the impact of our interest rate swap agreements.

In May 2012, we entered into an agreement with a notional amount of $200.0 million to lock in a component of the interest rate on our then forecasted debt offering. We designated this derivative as a cash flow hedge of the variability in the cash outflows of interest payments on a portion of the June 2012 forecasted debt issuance due to changes in the benchmark interest rate. In June 2012, in conjunction with the issuance of the $450.0 million senior notes maturing in fiscal 2022, we settled the treasury lock, locking in the effective yields on the related debt.

In fiscal 2010, we entered into two interest rate swap agreements that effectively converted $250 million of fixed rate debt maturing in fiscal 2013 (the fiscal 2013 swap) and $200 million of fixed rate debt maturing in fiscal 2014 (the fiscal 2014 swap) to floating rate debt. Both transactions were entered into with the goal of reducing overall borrowing cost. These transactions were designated as fair value hedges since the swaps hedge against the changes in fair value of fixed rate debt resulting from changes in interest rates.

As of June 30, 2012, the fiscal 2013 swap was recognized as an asset within the consolidated balance sheet at fair value within prepaid expenses and other current assets of $2.5 million. The fixed interest rate on the hedged debt is 4.2% and the floating interest rate on the swap is three-month LIBOR which resets quarterly. As of June 30, 2012, the

fiscal 2014 swap was recognized as an asset within the consolidated balance sheet at fair value within other assets of $6.2 million. The fixed interest rate on the hedged debt is 4.6% and the floating interest rate on the swap is three-month LIBOR which resets quarterly.

The following tables present our interest rate position as of June 30, 2012. All amounts are stated in U.S. dollar equivalents.

	Interest Rate Position as of June 30, 2012 Principal Amount by Expected Maturity Average Interest Rate							
	2013	2014	2015	2016	2017	Thereafter	Total	Fa
	(In thousands)							
U.S. $ Denominated:								
Fixed Rate Debt	$ 3,570	$ 2,979	$ 299,846	$ 1,153	$ 604	$ 2,216,827	$ 2,524,979	$
Average Interest Rate	4.5 %	4.1 %	0.8 %	4.7 %	4.9 %	5.2 %	4.7 %	
Floating Rate Debt [1]	$ 249,964	$ 206,673	$ 1,100	$ -	$ -	$ 12,500	$ 470,237	$
Average Interest Rate	2.6 %	2.1 %	0.2 %	-	-	0.5 %	2.3 %	
Canadian $ Denominated:								
Fixed Rate Debt	$ 1,116	$ 1,147	$ 1,189	$ 1,187	$ 1,203	$ 17,280	$ 23,122	$
Average Interest Rate	8.4 %	8.7 %	8.9 %	9.3 %	9.8 %	9.7 %	9.6 %	

[1] Includes fixed rate debt that has been converted to floating rate debt through interest rate swap agreements.

	Interest Rate Position as of June 30, 2012 Notional Amount by Expected Maturity Average Interest Swap Rate							
	2013 (In thousands)	2014	2015	2016	2017	Thereafter	Total	Fair Value
Interest Rate Swaps Related To Debt:								
Pay Variable/Receive Fixed	$ 250,000	$ 200,000	$ -	$ -	$ -	$ -	$ 450,000	$ 8,694
Average Variable Rate Paid:								
Rate A Plus	2.1 %	2.1 %	-	-	-	-	2.1 %	
Fixed Rate Received	4.2 %	4.6 %	-	-	-	-	4.4 %	

Rate A – three-month LIBOR

Fiscal 2011

As of July 2, 2011, we had no commercial paper outstanding. Total debt as of July 2, 2011 was $2.7 billion, of which approximately 75% was at fixed rates of interest, including the impact of our interest rate swap agreements.

As of July 2, 2011, the fiscal 2013 swap was recognized as an asset within the consolidated balance sheet at fair value within other assets of $6.1 million. The fixed interest rate on the hedged debt is 4.2% and the floating interest rate on the swap is three-month LIBOR which resets quarterly. As of July 2, 2011, the fiscal 2014 swap was recognized as an asset within the consolidated balance sheet at fair value within other assets of $7.4 million. The fixed interest rate on the hedged debt is 4.6% and the floating interest rate on the swap is three-month LIBOR which resets quarterly.

The following tables present our interest rate position as of July 2, 2011. All amounts are stated in U.S. dollar equivalents.

Interest Rate Position as of July 2, 2011 Principal Amount by Expected Maturity Average Interest Rate							
2012	2013	2014	2015	2016	Thereafter	Total	Fair Value

(In thousands)								
.S. $ enominated:								
ixed Rate ebt	$ 205,616	$ 3,682	$ 1,910	$ 1,117	$ 632	$ 1,772,072	$ 1,985,029	$ 2,214,529
verage nterest Rate	6.0 %	4.1 %	4.4 %	4.4 %	4.6 %	5.8 %	5.9 %	
loating Rate ebt [1]	$ 181,975	$ 253,316	$ 208,779	$ 1,100	$ -	$ 12,500	$ 657,670	$ 676,075
verage nterest Rate	2.0 %	2.4 %	1.9 %	0.2 %	-	0.5 %	2.0 %	
anadian $ enominated:								
ixed Rate ebt	$ 1,178	$ 1,173	$ 1,219	$ 1,264	$ 1,264	$ 19,492	$ 25,590	$ 28,549
verage nterest Rate	7.7 %	8.4 %	8.7 %	8.8 %	9.3 %	9.8 %	9.5 %	
uro € enominated:								
ixed Rate ebt	$ 234	$ -	$ -	$ -	$ -	$ -	$ 234	$ 261
verage nterest Rate	8.9 %	-	-	-	-	-	8.9 %	

[1] Includes fixed rate debt that has been converted to floating rate debt through interest rate swap agreements.