SYSCO CORP
Form 10-Q
May 05, 2015

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended March 28, 2015

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

Commission File Number 1-6544

Sysco Corporation

(Exact name of registrant as specified in its charter)

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

Registrant’s Telephone Number, Including Area Code:

(281) 584-1390

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

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

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer		Accelerated Filer
Non-accelerated Filer	(Do not check if a smaller reporting company)	Smaller Reporting Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

593,762,499 shares of common stock were outstanding as of April 25, 2015.

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

Sysco Corporation and its Consolidated Subsidiaries

CONSOLIDATED BALANCE SHEETS

(In thousands, except for share data)

	Mar. 28, 2015 (unaudited)	Jun. 28, 2014	Mar. 29, 2014 (unaudited)
ASSETS			
Current assets			
Cash and cash equivalents	$ 5,084,704	$ 413,046	$ 341,090
Accounts and notes receivable, less allowances of $75,969, $49,902, and $80,254	3,496,254	3,398,713	3,510,518
Inventories	2,649,752	2,602,018	2,527,900
Deferred income taxes	140,284	141,225	139,420
Prepaid expenses and other current assets	80,965	83,745	74,827
Prepaid income taxes	69,348	43,225	64,107
Total current assets	11,521,307	6,681,972	6,657,862
Plant and equipment at cost, less depreciation	3,970,261	3,985,618	3,956,209
Other assets			
Goodwill	1,933,385	1,950,672	1,937,075
Intangibles, less amortization	154,277	177,227	181,036
Restricted cash	166,208	145,412	157,870
Other assets	238,153	227,049	266,599
Total other assets	2,492,023	2,500,360	2,542,580
Total assets	$ 17,983,591	$ 13,167,950	$ 13,156,651
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Notes payable	$ 79,620	$ 70,975	$ 71,510
Accounts payable	2,836,430	2,831,028	2,726,427
Accrued expenses	1,109,887	1,160,850	1,026,631
Accrued income taxes	-	-	-
Current maturities of long-term debt	314,111	304,777	4,454
Total current liabilities	4,340,048	4,367,630	3,829,022
Other liabilities			
Long-term debt	7,275,195	2,384,167	2,986,163
Deferred income taxes	117,674	121,580	214,263
Other long-term liabilities	898,062	1,027,878	895,828
Total other liabilities	8,290,931	3,533,625	4,096,254
Commitments and contingencies			
Noncontrolling interest	39,729	-	-
Shareholders' equity			
Preferred stock, par value $1 per share			
Authorized 1,500,000 shares, issued none	-	-	-

Common stock, par value $1 per share			
Authorized 2,000,000,000 shares, issued			
765,174,900 shares	765,175	765,175	765,175
Paid-in capital	1,185,012	1,139,218	1,119,784
Retained earnings	8,857,277	8,770,751	8,687,098
Accumulated other comprehensive loss	(920,140)	(642,663)	(516,922)
Treasury stock at cost, 171,860,470,			
179,050,186 and 181,231,920 shares	(4,574,441)	(4,765,786)	(4,823,760)
Total shareholders' equity	5,312,883	5,266,695	5,231,375
Total liabilities and shareholders' equity	$ 17,983,591	$ 13,167,950	$ 13,156,651

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

See Notes to Consolidated Financial Statements

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Sysco Corporation and its Consolidated Subsidiaries

CONSOLIDATED RESULTS OF OPERATIONS (Unaudited)

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

	13-Week Period Ended		39-Week Period Ended	
	Mar. 28, 2015	Mar. 29, 2014	Mar. 28, 2015	Mar. 29, 2014
Sales	$ 11,746,659	$ 11,277,484	$ 36,278,814	$ 34,229,720
Cost of sales	9,689,161	9,282,743	29,947,462	28,204,541
Gross profit	2,057,498	1,994,741	6,331,352	6,025,179
Operating expenses	1,730,190	1,662,116	5,222,985	4,862,579
Operating income	327,308	332,625	1,108,367	1,162,600
Interest expense	69,550	32,224	177,526	92,536
Other expense (income), net	(8,577)	3,718	(8,558)	(5,027)
Earnings before income taxes	266,335	296,683	939,399	1,075,091
Income taxes	89,380	115,746	325,652	397,729
Net earnings	$ 176,955	$ 180,937	$ 613,747	$ 677,362
Net earnings:				
Basic earnings per share	$ 0.30	$ 0.31	$ 1.04	$ 1.16
Diluted earnings per share	0.30	0.31	1.03	1.15
Average shares outstanding	594,030,427	585,885,137	591,009,787	585,802,651
Diluted shares outstanding	598,921,070	590,470,283	596,047,008	589,834,321
Dividends declared per common share	$ 0.30	$ 0.29	$ 0.89	$ 0.86

See Notes to Consolidated Financial Statements

Sysco Corporation and its Consolidated Subsidiaries

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

(In thousands)

	13-Week Period Ended		39-Week Period Ended	
	Mar. 28, 2015	Mar. 29, 2014	Mar. 28, 2015	Mar. 29, 2014
Net earnings	$ 176,955	$ 180,937	$ 613,747	$ 677,362
Other comprehensive (loss) income:				
Foreign currency translation adjustment	(97,890)	(35,397)	(260,997)	(43,537)
Items presented net of tax:				
Amortization of cash flow hedges	1,676	97	3,441	289
Change in fair value of cash flow hedges	-	(39,439)	(34,111)	(39,439)
Amortization of prior service cost	1,737	1,742	5,211	5,227
Amortization of actuarial loss (gain), net	2,993	2,492	8,979	7,475
Total other comprehensive (loss) income	(91,484)	(70,505)	(277,477)	(69,985)
Comprehensive income	$ 85,471	$ 110,432	$ 336,270	$ 607,377

See Notes to Consolidated Financial Statements

Sysco Corporation and its Consolidated Subsidiaries

CONSOLIDATED CASH FLOWS (Unaudited)

(In thousands)

	39-Week Period Ended	
	Mar. 28, 2015	Mar. 29, 2014
Cash flows from operating activities:		
Net earnings	$ 613,747	$ 677,362
Adjustments to reconcile net earnings to cash provided by operating activities:		
Share-based compensation expense	61,698	60,869
Depreciation and amortization	435,899	409,072
Deferred income taxes	5,237	(39,452)
Provision for losses on receivables	17,256	20,887
Other non-cash items	(10,177)	4,810
Additional investment in certain assets and liabilities, net of effect of businesses acquired:		
(Increase) in receivables	(177,018)	(350,755)
(Increase) in inventories	(97,389)	(134,793)
Decrease (increase) in prepaid expenses and other current assets	1,540	(16,250)
(Decrease) increase in accounts payable	37,239	292,280
Increase (decrease) in accrued expenses	100,921	(2,216)
Increase (decrease) in accrued income taxes	(13,323)	(41,691)
Decrease (increase) in other assets	(4,396)	(12,671)
(Decrease) increase in other long-term liabilities	(96,838)	(13,197)
Excess tax benefits from share-based compensation arrangements	(13,897)	(6,191)
Net cash provided by operating activities	860,499	848,064
Cash flows from investing activities:		
Additions to plant and equipment	(437,286)	(387,451)
Proceeds from sales of plant and equipment	15,404	23,695
Acquisition of businesses, net of cash acquired	(29,177)	(40,462)
(Increase) in restricted cash	(20,796)	(12,542)
Net cash used for investing activities	(471,855)	(416,760)
Cash flows from financing activities:		
Bank and commercial paper borrowings (repayments), net	(129,999)	345,596
Other debt borrowings	5,045,345	30,287
Other debt repayments	(34,184)	(226,249)
Debt issuance costs	(30,980)	(21,794)
Cash paid for settlement of cash flow hedge	(188,840)	-
Proceeds from stock option exercises	201,764	193,992
Treasury stock purchases	-	(332,381)
Dividends paid	(516,540)	(497,772)
Excess tax benefits from share-based compensation arrangements	13,897	6,191
Net cash provided by (used for) financing activities	4,360,463	(502,130)

Effect of exchange rates on cash and cash equivalents	(77,449)	(369)
Net increase in cash and cash equivalents	4,671,658	(71,195)
Cash and cash equivalents at beginning of period	413,046	412,285
Cash and cash equivalents at end of period	$ 5,084,704	$ 341,090
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	$ 115,969	$ 116,179
Income taxes	345,624	480,729

See Notes to Consolidated Financial Statements

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Sysco Corporation and its Consolidated Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

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

1. BASIS OF PRESENTATION

The consolidated financial statements have been prepared by the company, without audit, with the exception of the June 28, 2014 consolidated balance sheet, which was derived from the audited consolidated financial statements included in the company's fiscal 2014 Annual Report on Form 10-K. The financial statements include consolidated balance sheets, consolidated results of operations, consolidated statements of comprehensive income and consolidated cash flows. In the opinion of management, all adjustments, which consist of normal recurring adjustments, except as otherwise disclosed, necessary to present fairly the financial position, results of operations, comprehensive income and cash flows for all periods presented have been made.

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

Prior year amounts within the consolidated balance sheets and consolidated cash flows have been reclassified to conform to the current year presentation as it relates to the presentation of certain accrued expenses, deferred taxes and other long-term liabilities balances within these statements. The impact of these reclassifications was immaterial to the prior year period.

These financial statements should be read in conjunction with the audited financial statements and notes thereto included in the company's fiscal 2014 Annual Report on Form 10-K. Certain footnote disclosures included in annual financial statements prepared in accordance with generally accepted accounting principles (GAAP) have been condensed or omitted pursuant to applicable rules and regulations for interim financial statements.

A review of the financial information herein has been made by Ernst & Young LLP, independent registered public accounting firm, in accordance with established professional standards and procedures for such a review. A Review Report of Independent Registered Public Accounting Firm has been issued by Ernst & Young LLP and is included as Exhibit 15.1 to this Form 10-Q.

2. CHANGES IN ACCOUNTING

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

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

3. NEW ACCOUNTING STANDARDS

Revenue from Contracts with Customers

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers. This update creates ASC 606, Revenue from Contracts with Customers, and supercedes the revenue recognition requirements in ASC 605, Revenue Recognition. Additionally, other sections of the ASC were amended to be consistent with the guidance in this update. The core principle of ASC 606 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. A five-step revenue recognition model is to be applied to achieve this core principle. ASC 606 also specifies comprehensive disclosures to help users of financial statements understand the nature, amount, timing and uncertainty of revenue that is recognized. The amendments in this update are effective for annual periods beginning after December 15, 2016, including interim periods within that reporting period, which is fiscal 2018 for

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Sysco. Early adoption is not permitted. In April 2015, the FASB proposed a one-year deferral of the effective date, with early application permitted as of the original effective date. Sysco is currently evaluating the impact this update will have on its financial statements.

Simplifying the Presentation of Debt Issuance Costs

In April 2015, the FASB issued ASU 2015-03, Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. The update requires debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of the related debt liability, instead of being presented as an asset. Debt disclosures will include the face amount of the debt liability and the effective interest rate. The update requires retrospective application and represents a change in accounting principle. The update is effective for fiscal years beginning after December 15, 2015, which is fiscal 2017 for Sysco. Early adoption is permitted for financial statements that have not been previously issued. The company is evaluating the impact of ASU 2015-03 on its consolidated financial statements and whether it will early adopt.

4. ACQUISITIONS

During the first 39 weeks of fiscal 2015, in the aggregate, the company paid cash of $29.2 million for acquisitions made during fiscal 2015. Acquisitions in the first 39 weeks of fiscal 2015 were immaterial, individually and in the aggregate, to the consolidated financial statements.

Certain acquisitions involve contingent consideration that may include earnout agreements that are typically payable over periods of up to three years only in the event that certain operating results are attained. As of March 28, 2015, aggregate contingent consideration amounts outstanding relating to completed acquisitions were $38.8 million, of which $33.3 million was recorded as earnout liabilities as of March 28, 2015.

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

As of the time the merger agreement was announced in December 2013, Sysco agreed to pay approximately $3.5 billion for the equity of US Foods, comprised of $3 billion of Sysco common stock and $500 million of cash. As part of the transaction, Sysco will also assume or refinance US Foods' net debt, which was approximately $4.7 billion as of September 28, 2013, bringing the total enterprise value to $8.2 billion at the time of the merger announcement. As of

March 28, 2015, the merger consideration is estimated as follows: approximately $3.8 billion for the equity of US Foods, comprised of $3.3 billion of Sysco common stock, valued using the seven day average through March 28, 2015 and $500 million of cash. US Foods' net debt to be assumed or refinanced was approximately $4.7 billion as of December 27, 2014, bringing the total enterprise value to $8.5 billion. The value of Sysco's common stock and the amount of US Foods' net debt will fluctuate. As such, the components of the transaction and total enterprise value noted above will not be finalized until the merger is consummated.

After completion of the transaction, the equity holders of US Foods will own approximately 87 million shares, or roughly 13% of Sysco. A representative from each of US Foods' two majority shareholders will join Sysco's Board of Directors upon closing. The Federal Trade Commission (FTC) has completed its review of the merger, and in February 2015, the FTC commissioners voted 3 to 2 to authorize the FTC staff to seek a preliminary injunction in the U.S. District Court for the District of Columbia. The preliminary injunction, if granted, would prevent the parties from closing the transaction while a parallel administrative proceeding determines the legality of the merger. The hearing on the FTC's preliminary injunction motion is scheduled to begin May 5, 2015. The merger agreement may be terminated by either Sysco or the owners of US Foods if the merger has not closed prior to May 7, 2015. However, if all of the conditions for closing the merger, other than receiving clearance under the Hart-Scott-Rodino Antitrust Improvement Act of 1976, as amended, are satisfied by that date, the termination date may be extended for 60 day intervals, up to September 8, 2015. On March 6, 2015, Sysco extended the termination date to May 7, 2015. If the merger agreement is terminated because the antitrust approvals cannot be obtained, under certain conditions, Sysco would be obligated to pay $300 million to the owners of US Foods. This termination fee would be accrued in the period in which it becomes probable that it would be paid.

During the review period with the FTC, Sysco created a divestiture package to address the concerns raised by the FTC. The company has signed a definitive agreement to divest 11 US Foods' distribution centers to Performance Food Group (PFG), contingent upon closing of the proposed merger with US Foods, for an aggregate consideration of $850 million in cash. In US Foods' most recent fiscal year, these distribution centers generated $4.6 billion in annual revenue. Performance Food Group would be entitled to receive a $25 million termination fee if the sale of the divestiture package is terminated before July 6, 2015, increasing to $50 million if the sale of the divestiture package is terminated after July 6, 2015, with each of Sysco and US Foods responsible for one half of the applicable fee.

At the time of the merger announcement, Sysco secured a fully committed bridge financing that could be used for funding a portion of the purchase price. In contemplation of issuing long-term financing for this merger, in January 2014, the company entered into two forward starting swap agreements with notional amounts totaling $2 billion to reduce interest rate exposure on 10-year and 30-year debt that was anticipated to be issued. In October 2014, Sysco obtained long-term financing for this merger by completing a six-part senior notes offering totaling $5 billion. At the same time, (i) the bridge financing was terminated and (ii) the forward starting interest rate swaps were terminated and cash settlement of these swaps was made. Concurrent with the issuance of the new senior notes, Sysco entered into new interest rate swap agreements that effectively converted two series of the senior notes totaling $1.25 billion to floating rate debt. These swaps were designated as fair value hedges. Detailed discussion of these transactions is located in Note 6, Derivative Financial Instruments, and Note 7, Debt.

5. FAIR VALUE MEASUREMENTS

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

- Level 1 – Unadjusted quoted prices for identical assets or liabilities in active markets;
- Level 2 – Inputs other than quoted prices in active markets for identical assets and liabilities that are observable either directly or indirectly for substantially the full term of the asset or liability; and
- Level 3 – Unobservable inputs for the asset or liability, which include management’s own assumption about the assumptions market participants would use in pricing the asset or liability, including assumptions about risk.

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

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

- Time deposits and commercial paper included in cash equivalents are valued at amortized cost, which approximates fair value. These are included within cash equivalents as a Level 2 measurement in the tables below.
- Money market funds are valued at the closing price reported by the fund sponsor from an actively traded exchange. These are included within cash equivalents and restricted cash as Level 1 measurements in the tables below.
- The interest rate swap agreements, discussed further in Note 6, “Derivative Financial Instruments,” are valued using a swap valuation model that utilizes an income approach using observable market inputs including interest rates, LIBOR swap rates and credit default swap rates. These are included within prepaid expenses and other current assets, other assets, accrued expenses and other long-term liabilities as Level 2 measurements in the tables below.

The following tables present the company's assets measured at fair value on a recurring basis as of March 28, 2015, June 28, 2014 and March 29, 2014:

	Assets and Liabilities Measured at Fair Value as of Mar. 28, 2015			
	Level 1	Level 2	Level 3	Total
	(In thousands)			
Assets:				
Cash and cash equivalents				
Cash equivalents	$ 4,760,760	$ 63,213	$ -	$ 4,823,973
Restricted cash	166,208	-	-	166,208
Other assets				
Interest rate swap agreement	-	23,295	-	23,295
Total assets at fair value	$ 4,926,968	$ 86,508	$ -	$ 5,013,476
Liabilities:				
Long-term debt	$ -	$ 1,770,798	$ -	$ 1,770,798
Other long-term liabilities				
Interest rate swap agreements	-	-	-	-
Total liabilities at fair value	$ -	$ 1,770,798	$ -	$ 1,770,798

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

	Assets Measured at Fair Value as of Mar. 29, 2014			
	Level 1	Level 2	Level 3	Total
	(In thousands)			
Assets:				
Cash and cash equivalents				
Cash equivalents	$ 2,650	$ 105,500	$ -	$ 108,150
Restricted cash	157,870	-	-	157,870
Other assets				
Interest rate swap agreement	-	1,673	-	1,673
Total assets at fair value	$ 160,520	$ 107,173	$ -	$ 267,693

The carrying values of accounts receivable and accounts payable approximated their respective fair values due to the short term maturities of these instruments. The fair value of Sysco's total debt is estimated based on the quoted market prices for the same or similar issue or on the current rates offered to the company for debt of the same remaining maturities and is considered a Level 2 measurement. The fair value of total debt approximated $8.2 billion, $3.0 billion and $3.3 billion as of March 28, 2015, June 28, 2014 and March 29, 2014, respectively. The carrying value of total debt was $7.7 billion, $2.8 billion and $3.1 billion as of March 28, 2015, June 28, 2014 and March 29, 2014, respectively.

6. DERIVATIVE FINANCIAL INSTRUMENTS

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

In fiscal 2014, the company entered into an interest rate swap agreement that effectively converted $500 million of fixed rate debt maturing in fiscal 2018 to floating rate debt. In fiscal 2015, the company entered into new interest rate swap agreements that effectively converted $500 million of the new senior notes maturing in fiscal 2018 and $750 million of the new senior notes maturing in fiscal 2020 to floating rate debt. See Note 7, Debt, for further discussion of the senior notes issuance. These transactions were designated as fair value hedges against the changes in fair value of fixed rate debt resulting from changes in interest rates.

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

The location and the fair value of derivative instruments designated as hedges in the consolidated balance sheet as of March 28, 2015, June 28, 2014 and March 29, 2014 are as follows:

	Asset Derivatives		Liability Derivatives	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
	(In thousands)			
Interest rate swap agreements:				
Mar. 28, 2015	Other assets	$ 23,296	Other liabilities	$ -
Mar. 29, 2014	Other assets	1,673	Accrued expenses	64,025

The location and effect of derivative instruments and related hedged items on the consolidated results of operations for the 13-week periods ended March 28, 2015 and March 29, 2015 presented on a pre-tax basis are as follows:

	Location of (Gain) or Loss Recognized in Comprehensive Income	Amount of (Gain) or Loss Recognized in Comprehensive Income 13-Week Period Ended	
		Mar. 28, 2015	Mar. 29, 2014
		(In thousands)	
Fair Value Hedge Relationships:			
Interest rate swap agreements	Interest expense	$ (6,451)	$ (1,815)
Cash Flow Hedge Relationships:			
Interest rate swap agreements	Other comprehensive income	-	64,025
Interest rate contracts	Interest expense	2,720	157

The location and effect of derivative instruments and related hedged items on the consolidated results of operations for the 39-week periods ended March 28, 2015 and March 29, 2014 presented on a pre-tax basis are as follows:

	Location of (Gain) or Loss Recognized in Comprehensive Income	Amount of (Gain) or Loss Recognized in Comprehensive Income 39-Week Period Ended	
		Mar. 28, 2015	Mar. 29, 2014
		(In thousands)	
Fair Value Hedge Relationships:			
Interest rate swap agreements	Interest expense	$ (15,550)	$ (9,065)
Cash Flow Hedge Relationships:			
Interest rate swap agreements	Other comprehensive income	-	64,025
Interest rate contracts	Interest expense	5,585	469

Hedge ineffectiveness represents the difference between the changes in the fair value of the derivative instruments and the changes in fair value of the fixed rate debt attributable to changes in the benchmark interest rates. Hedge ineffectiveness is recorded directly in earnings within interest expense and was immaterial for the third quarter of fiscal 2015 and 2014 and the 39-week periods ended March 28, 2015 and March 29, 2014. The interest rate swaps do not contain credit-risk-related contingent features.

7. DEBT

As of March 28, 2015, Sysco had an uncommitted bank line of credit, which provided for unsecured borrowings for working capital of up to $20 million. There were no borrowings outstanding under this line of credit as of March 28, 2015.

Sysco has a commercial paper program allowing the company to issue short-term unsecured notes in an aggregate amount not to exceed $1.5 billion.

Sysco and one of its subsidiaries, Sysco International, ULC, have a revolving credit facility supporting the company's U.S. and Canadian commercial paper programs. The facility provides for borrowings in both U.S. and Canadian dollars. Borrowings by Sysco International, ULC under the agreement are guaranteed by Sysco, and borrowings by Sysco and Sysco International, ULC under the credit agreement are guaranteed by the wholly-owned subsidiaries of Sysco that are guarantors of the company's senior notes and debentures. The facility in the amount of $1.5 billion expires December 29, 2018, but is subject to extension. As of March 28, 2015, there were no commercial paper issuances outstanding. In periods where Sysco has commercial paper borrowings, the amounts are classified within long-term debt, as the program is supported by a long-term revolving credit facility described above. During the first 39 weeks of 2015, aggregate commercial paper issuances and short-term bank borrowings ranged from zero to approximately $659.4 million.

The company's Irish subsidiary, Pallas Foods, has a multicurrency revolving credit facility in the amount of €100 million (Euro), which provides for capital needs for the company's European subsidiaries. This facility provides for unsecured borrowings and expires September 23, 2015, but is subject to extension. Outstanding borrowings under this facility were €72.0 million (Euro) as of March 28, 2015, reflected in Notes payable on the consolidated balance sheet.

In October 2014, Sysco issued senior notes and terminated a previously outstanding unsecured bridge facility that was established as a potential financing mechanism for funding the US Foods merger until longer-term funding could be obtained. The senior notes, issued under the company's February 2012 registration statement, are unsecured, are not subject to any sinking fund requirement and include a redemption provision that allows Sysco to retire the notes at any time prior to maturity at the greater of par plus accrued interest or an amount designed to ensure that the note holders are not penalized by early redemption. In addition, if the merger has not closed by October 8, 2015, or if the merger agreement is terminated on or prior to October 8, 2015, Sysco is required to redeem all of the senior notes at a redemption price equal to 101% of the principal of the senior notes plus accrued interest. This condition cannot be waived or modified without the written consent of each holder of the notes. The notes are fully and unconditionally guaranteed initially by the wholly-owned U.S. Broadline subsidiaries that guarantee Sysco's other senior notes. Proceeds from the notes were used to pay the settlement of cash flow hedges that Sysco also entered into in contemplation of this debt issuance and to repay commercial paper outstanding. Proceeds from the notes will be used, among other things, to pay the cash portion of the consideration for the proposed merger, to refinance certain indebtedness of US Foods and to pay expected future direct transaction costs related to the merger. Details of the senior notes are below:

Maturity Date	Par Value (in millions)	Coupon Rate	Pricing (percentage of par)
October 2, 2017	$ 500	1.45 %	99.962 %
October 2, 2019	750	2.35	99.864
October 2, 2021	750	3.00	99.781

October 2, 2024	1,250	3.50	99.616
October 2, 2034	750	4.35	99.841
October 2, 2044	1,000	4.50	98.992

8. COMPANY-SPONSORED EMPLOYEE BENEFIT PLANS

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

	Pension Benefits		Other Postretirement Plans	
	Mar. 28, 2015	Mar. 29, 2014	Mar. 28, 2015	Mar. 29, 2014
	(In thousands)			
Service cost	$ 2,815	$ 2,414	$ 134	$ 136
Interest cost	42,779	40,109	148	187
Expected return on plan assets	(57,156)	(48,199)	-	-
Amortization of prior service cost	2,778	2,786	42	42
Amortization of actuarial loss (gain)	4,968	4,082	(109)	(36)
Amortization of transition obligation	-	-	-	-
Net periodic benefit cost	$ (3,816)	$ 1,192	$ 215	$ 329

	Pension Benefits		Other Postretirement Plans	
	Mar. 28, 2015	Mar. 29, 2014	Mar. 28, 2015	Mar. 29, 2014
	(In thousands)			
Service cost	$ 8,445	$ 7,242	$ 402	$ 409
Interest cost	128,338	120,327	444	561
Expected return on plan assets	(171,468)	(144,597)	-	-
Amortization of prior service cost	8,332	8,358	126	126
Recognized net actuarial loss (gain)	14,904	12,246	(327)	(108)
Net periodic benefit cost	$ (11,449)	$ 3,576	$ 645	$ 988

Sysco's contributions to its company-sponsored defined benefit plans were $68.8 million and $18.5 million during the first 39 weeks of fiscal 2015 and 2014, respectively.

9. MULTIEMPLOYER EMPLOYEE BENEFIT PLANS

Sysco contributes to several multiemployer defined benefit pension plans in the U.S. and Canada based on obligations arising under collective bargaining agreements covering union-represented employees. Sysco does not directly manage these multiemployer plans, which are generally managed by boards of trustees, half of whom are appointed by the unions and the other half appointed by Sysco and the other employers contributing to the plan.

Based upon the information available from plan administrators, management believes that several of these multiemployer plans are underfunded. In addition, pension-related legislation in the U.S. requires underfunded pension plans to improve their funding ratios within prescribed intervals based on the level of their underfunding. As a result, Sysco expects its contributions to these plans to increase in the future. In addition, if a U.S. multiemployer defined benefit plan fails to satisfy certain minimum funding requirements, the Internal Revenue Service may impose a nondeductible excise tax of 5% on the amount of the accumulated funding deficiency for those employers contributing to the fund.

Withdrawal Activity

Sysco has voluntarily withdrawn from various multiemployer pension plans. There were no withdrawal liability provisions recorded in the first 39 weeks of fiscal 2015 and $1.5 million in the first 39 weeks of fiscal 2014. As of March 28, 2015, June 28, 2014, and March 29, 2014, Sysco had approximately zero, $1.4 million and $1.5 million, respectively, in liabilities recorded related to certain multiemployer defined benefit plans for which Sysco's voluntary withdrawal had already occurred. Recorded withdrawal liabilities are estimated at the time of withdrawal based on the most recently available valuation and participant data for the respective plans; amounts are subsequently adjusted to the period of payment to reflect any changes to these estimates. If any of these plans were to undergo a mass withdrawal, as defined by the Pension Benefit Guaranty Corporation, within the two plan years following the plan year in which we completely withdraw from that plan, Sysco could have additional liability. The company does not currently believe any mass withdrawals are probable to occur in the applicable two-plan year time frame relating to the plans from which Sysco has voluntarily withdrawn.

Potential Withdrawal Liability

Under current law regarding multiemployer defined benefit plans, a plan's termination, Sysco's voluntary withdrawal, or the mass withdrawal of all contributing employers from any underfunded multiemployer defined benefit plan would require Sysco to make payments to the plan for Sysco's proportionate share of the multiemployer plan's unfunded vested liabilities. Generally, Sysco does not have the greatest share of liability among the participants in any of the plans in which it participates. Sysco believes that one of the above-mentioned events is reasonably possible for certain plans in which it participates and estimates its share of withdrawal liability for these plans could have been as much as $89.0 million as of March 28, 2015. This estimate excludes plans for which Sysco has recorded withdrawal liabilities or where the likelihood of the above-mentioned events is deemed remote. This estimate is based on the information available from plan administrators, the majority of which had a valuation date of December 31, 2013. As the valuation date for most of these plans was December 31, 2013, the company's estimate reflects the condition of the financial markets as of that date. Due to the lack of current information, management believes Sysco's current share of the withdrawal liability could materially differ from this estimate.

10. EARNINGS PER SHARE

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

	13-Week Period Ended		39-Week Period Ended	
	Mar. 28, 2015	Mar. 29, 2014	Mar. 28, 2015	Mar. 29, 2014
	(In thousands, except for share and per share data)		(In thousands, except for share and per share data)	
Numerator:				
Net earnings	$ 176,955	$ 180,937	$ 613,747	$ 677,362
Denominator:				
Weighted-average basic shares outstanding	594,030,427	585,885,137	591,009,787	585,802,651
Dilutive effect of share-based awards	4,890,643	4,585,146	5,037,221	4,031,670
Weighted-average diluted shares outstanding	598,921,070	590,470,283	596,047,008	589,834,321
Basic earnings per share:	$ 0.30	$ 0.31	$ 1.04	$ 1.16
Diluted earnings per share:	$ 0.30	$ 0.31	$ 1.03	$ 1.15

The number of options that were not included in the diluted earnings per share calculation because the effect would have been anti-dilutive was approximately 2,600,000 and 2,800,000 for the third quarter of fiscal 2015 and fiscal 2014, respectively. The number of options that were not included in the diluted earnings per share calculation because the effect would have been anti-dilutive was approximately 1,700,000 and 2,000,000 for the first 39 weeks of 2015 and 2014, respectively.

11. OTHER COMPREHENSIVE INCOME

Comprehensive income is net earnings plus certain other items that are recorded directly to shareholders' equity, such as foreign currency translation adjustment, amounts related to cash flow hedging arrangements and certain amounts related to pension and other postretirement plans. Comprehensive income was $85.5 million and $110.4 million for the third quarter of fiscal 2015 and fiscal 2014, respectively. Comprehensive income was $336.3 million and $607.4 million for the first 39 weeks of fiscal 2015 and fiscal 2014, respectively.

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

	Location of Expense (Income) Recognized in Net Earnings	13-Week Period Ended Mar. 28, 2015 Before Tax Amount	Tax	Net of Tax Amount
		(In thousands)		
Pension and other postretirement benefit plans:				
Reclassification adjustments:				
Amortization of prior service cost	Operating expenses	$ 2,819	$ 1,082	$ 1,737
Amortization of actuarial loss (gain), net	Operating expenses	4,859	1,866	2,993
Total reclassification adjustments		7,678	2,948	4,730
Foreign currency translation:				
Other comprehensive income before reclassification adjustments:				
Foreign currency translation adjustment	N/A	(97,890)	-	(97,890)
Interest rate swaps:				
Reclassification adjustments:				
Amortization of cash flow hedges	Interest expense	2,720	1,044	1,676
Total other comprehensive (loss) income		$ (87,492)	$ 3,992	$ (91,484)

	Location of Expense (Income) Recognized in Net Earnings	13-Week Period Ended Mar. 29, 2014 Before Tax Amount	Tax	Net of Tax Amount
		(In thousands)		
Pension and other postretirement benefit plans:				
Reclassification adjustments:				
Amortization of prior service cost	Operating expenses	$ 2,828	$ 1,086	$ 1,742
Amortization of actuarial loss (gain), net	Operating expenses	4,046	1,554	2,492
Total reclassification adjustments		6,874	2,640	4,234

Foreign currency translation:				
Other comprehensive income before reclassification adjustments:				
Foreign currency translation adjustment	N/A	(35,397)	-	(35,397)
Interest rate swaps:				
Reclassification adjustments:				
Amortization of cash flow hedges	Interest expense	157	60	97
Other comprehensive income before reclassification adjustments:				
Change in fair value of cash flow hedges	N/A	(64,025)	(24,586)	(39,439)
Total other comprehensive (loss) income		$ (92,391)	$ (21,886)	$ (70,505)

	Location of Expense (Income) Recognized in Net Earnings	39-Week Period Ended Mar. 28, 2015 Before Tax Amount	Tax	Net of Tax Amount
		(In thousands)		
Pension and other postretirement benefit plans:				
Reclassification adjustments:				
Amortization of prior service cost	Operating expenses	$ 8,458	$ 3,247	$ 5,211
Amortization of actuarial loss (gain), net	Operating expenses	14,577	5,598	8,979
Total reclassification adjustments		23,035	8,845	14,190
Foreign currency translation:				
Other comprehensive income before reclassification adjustments:				
Foreign currency translation adjustment	N/A	(260,997)	-	(260,997)
Interest rate swaps:				
Reclassification adjustments:				
Amortization of cash flow hedges	Interest expense	5,585	2,144	3,441
Other comprehensive income before reclassification adjustments:				
Change in fair value of cash flow hedges	N/A	(55,374)	(21,263)	(34,111)
Total other comprehensive (loss) income		$ (287,751)	$ (10,274)	$ (277,477)

	Location of Expense (Income) Recognized in Net Earnings	39-Week Period Ended Mar. 29, 2014 Before Tax Amount	Tax	Net of Tax Amount
		(In thousands)		

Pension and other postretirement benefit plans:				
Reclassification adjustments:				
Amortization of prior service cost	Operating expenses	$ 8,484	$ 3,257	$ 5,227
Amortization of actuarial loss (gain), net	Operating expenses	12,138	4,663	7,475
Total reclassification adjustments		20,622	7,920	12,702
Foreign currency translation:				
Other comprehensive income before reclassification adjustments:				
Foreign currency translation adjustment	N/A	(43,537)	-	(43,537)
Interest rate swaps:				
Reclassification adjustments:				
Amortization of cash flow hedges	Interest expense	469	180	289
Other comprehensive income before reclassification adjustments:				
Change in fair value of cash flow hedges	N/A	(64,025)	(24,586)	(39,439)
Total other comprehensive income (loss)		$ (86,471)	$ (16,486)	$ (69,985)

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

