

SYSCO CORP
Form 10-Q
February 02, 2016

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

Form 10-Q

(Mark One)

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

For the quarterly period ended December 26, 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)
1390 Enclave Parkway
Houston, Texas
(Address of principal executive offices)

74-1648137
(IRS employer
identification number)
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

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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes No

564,603,274 shares of common stock were outstanding as of January 23, 2016.

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

Sysco Corporation and its Consolidated Subsidiaries

CONSOLIDATED BALANCE SHEETS

(In thousands, except for share data)

	Dec. 26, 2015 (unaudited)	Jun. 27, 2015	Dec. 27, 2014 (unaudited)
ASSETS			
Current assets			
Cash and cash equivalents	\$595,602	\$5,130,044	\$4,907,677
Accounts and notes receivable, less allowances of \$57,631, \$41,720, and \$68,427	3,353,453	3,353,381	3,529,997
Inventories	2,736,382	2,691,823	2,791,813
Deferred income taxes	—	135,254	140,456
Prepaid expenses and other current assets	83,263	93,039	76,682
Prepaid income taxes	10,326	90,763	10,279
Total current assets	6,779,026	11,494,304	11,456,904
Plant and equipment at cost, less depreciation	3,936,612	3,982,143	4,002,932
Long-term assets			
Goodwill	1,977,921	1,959,817	1,966,547
Intangibles, less amortization	163,089	154,809	168,446
Restricted cash	—	168,274	165,465
Other assets	232,820	229,934	169,515
Total other assets	2,373,830	2,512,834	2,469,973
Total assets	\$13,089,468	\$17,989,281	\$17,929,809
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Notes payable	\$83,037	\$70,751	\$76,876
Accounts payable	2,710,469	2,881,953	2,797,947
Accrued expenses	1,071,632	1,467,610	1,100,239
Current maturities of long-term debt	7,076	4,979,301	310,891
Total current liabilities	3,872,214	9,399,615	4,285,953
Long-term liabilities			
Long-term debt	4,265,857	2,271,825	7,208,252
Deferred income taxes	111,822	81,591	117,353
Other long-term liabilities	852,655	934,722	940,349
Total other liabilities	5,230,334	3,288,138	8,265,954
Commitments and contingencies			
Noncontrolling interest	45,493	41,304	34,942
Shareholders' equity			
Preferred stock, par value \$1 per share	—	—	—
Authorized 1,500,000 shares, issued none			
Common stock, par value \$1 per share	765,175	765,175	765,175
Authorized 2,000,000,000 shares, issued 765,174,900 shares			
Paid-in capital	1,022,816	1,213,999	1,181,918
Retained earnings	8,922,498	8,751,985	8,858,831
Accumulated other comprehensive loss	(1,045,177)	(923,197)	(828,656)
	(5,723,885)	(4,547,738)	(4,634,308)

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Treasury stock at cost, 198,552,842,
170,857,231 and 174,109,675 shares

Total shareholders' equity	3,941,427	5,260,224	5,342,960
Total liabilities and shareholders' equity	\$13,089,468	\$17,989,281	\$17,929,809

Note: The June 27, 2015 balance sheet has been derived from the audited financial statements at that date.

See Notes to Consolidated Financial Statements

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Sysco Corporation and its Consolidated Subsidiaries
 CONSOLIDATED RESULTS OF OPERATIONS (Unaudited)
 (In thousands, except for share and per share data)

	13-Week Period Ended		26-Week Period Ended	
	Dec. 26, 2015	Dec. 27, 2014	Dec. 26, 2015	Dec. 27, 2014
Sales	\$12,153,626	\$12,087,074	\$24,716,237	\$24,532,155
Cost of sales	9,996,812	10,001,937	20,321,428	20,258,301
Gross profit	2,156,814	2,085,137	4,394,809	4,273,854
Operating expenses	1,724,231	1,769,691	3,468,752	3,492,795
Operating income	432,583	315,446	926,057	781,059
Interest expense	47,235	77,042	174,142	107,976
Other expense (income), net	(7,764	) 2,207	(23,004	) 19
Earnings before income taxes	393,112	236,197	774,919	673,064
Income taxes	120,713	78,218	258,100	236,272
Net earnings	\$272,399	\$157,979	\$516,819	\$436,792
Net earnings:				
Basic earnings per share	\$0.48	\$0.27	\$0.89	\$0.74
Diluted earnings per share	0.48	0.27	0.88	0.73
Average shares outstanding	566,881,538	590,723,351	581,790,230	589,499,802
Diluted shares outstanding	571,452,124	595,911,680	586,121,013	594,610,315
Dividends declared per common share	\$0.31	\$0.30	\$0.61	\$0.59

See Notes to Consolidated Financial Statements

Sysco Corporation and its Consolidated Subsidiaries

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

(In thousands)

	13-Week Period Ended		26-Week Period Ended	
	Dec. 26, 2015	Dec. 27, 2014	Dec. 26, 2015	Dec. 27, 2014
Net earnings	\$272,399	\$157,979	\$516,819	\$436,792
Other comprehensive (loss):				
Foreign currency translation adjustment	(44,453)	(91,853)	(131,682)	(163,107)
Items presented net of tax:				
Amortization of cash flow hedges	1,825	1,639	3,501	1,765
Change in fair value of cash flow hedges	—	—	(3,779)	(34,111)
Amortization of prior service cost	1,715	1,737	3,430	3,474
Amortization of actuarial loss, net	3,275	2,993	6,550	5,986
Total other comprehensive (loss)	(37,638)	(85,484)	(121,980)	(185,993)
Comprehensive income	\$234,761	\$72,495	\$394,839	\$250,799

See Notes to Consolidated Financial Statements

Sysco Corporation and its Consolidated Subsidiaries
CONSOLIDATED CASH FLOWS (Unaudited)
(In thousands)

	26-Week Period Ended	
	Dec. 26, 2015	Dec. 27, 2014
Cash flows from operating activities:		
Net earnings	\$516,819	\$436,792
Adjustments to reconcile net earnings to cash provided by operating activities:		
Share-based compensation expense	44,045	44,460
Depreciation and amortization	281,400	274,655
Amortization of debt issuance and other debt-related costs	13,637	20,144
Loss on extinguishment of debt	86,460	—
Deferred income taxes	153,423	6,804
Provision for losses on receivables	10,093	9,414
Other non-cash items	(15,468)	(2,359)
Additional changes in certain assets and liabilities, net of effect of businesses acquired:		
(Increase) in receivables	(50,853)	(181,877)
(Increase) in inventories	(69,370)	(214,111)
Decrease in prepaid expenses and other current assets	9,812	6,537
(Decrease) in accounts payable	(140,499)	(7,450)
(Decrease) increase in accrued expenses	(388,667)	78,438
Increase in accrued income taxes	92,638	40,220
(Increase) decrease in other assets	(9,556)	16,072
(Decrease) in other long-term liabilities	(52,942)	(67,438)
Excess tax benefits from share-based compensation arrangements	(12,091)	(7,863)
Net cash provided by operating activities	468,881	452,438
Cash flows from investing activities:		
Additions to plant and equipment	(248,233)	(298,068)
Proceeds from sales of plant and equipment	10,827	2,130
Acquisition of businesses, net of cash acquired	(98,154)	(29,177)
Decrease (increase) in restricted cash	168,274	(20,053)
Net cash used for investing activities	(167,286)	(345,168)
Cash flows from financing activities:		
Bank and commercial paper borrowings (repayments), net	—	(129,999)
Other debt borrowings	2,012,353	5,008,502
Other debt repayments	(19,155)	(21,618)
Redemption of senior notes	(5,050,000)	—
Debt issuance costs	(20,881)	(30,980)
Cash paid for settlement of cash flow hedge	(6,134)	(188,840)
Cash received from termination of interest rate swap agreements	14,496	—
Proceeds from stock option exercises	131,969	122,492
Accelerated share and treasury stock purchases	(1,521,638)	—
Dividends paid	(348,436)	(340,654)
Excess tax benefits from share-based compensation arrangements	12,091	7,863
Net cash (used for) provided by financing activities	(4,795,335)	4,426,766
Effect of exchange rates on cash and cash equivalents	(40,702)	(39,405)
Net (decrease) increase in cash and cash equivalents	(4,534,442)	4,494,631
Cash and cash equivalents at beginning of period	5,130,044	413,046

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Cash and cash equivalents at end of period	\$595,602	\$4,907,677
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	\$106,600	\$73,756
Income taxes	33,156	189,538

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 27, 2015 consolidated balance sheet, which was derived from the audited consolidated financial statements included in the company's fiscal 2015 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.

The company adopted Financial Accounting Standards Board (FASB) Accounting Standard Update (ASU) 2015-03, Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs in fiscal 2015. This guidance requires debt issuance costs related to a recognized debt liability to be presented in the balance sheet as a direct deduction from the carrying amount of the related debt liability, rather than an asset. This guidance requires retrospective application; therefore, prior year amounts within the consolidated balance sheets have been reclassified to conform to the current year presentation.

Deferred taxes within the consolidated balance sheet for December 26, 2015, have been classified as long-term due to the adoption of an accounting pronouncement related to simplification in the presentation of deferred taxes. See Note 2, "Changes in Accounting" for additional information on these changes.

These financial statements should be read in conjunction with the audited financial statements and notes thereto included in the company's fiscal 2015 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.

The interim financial information herein has been reviewed 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

Simplification of Balance Sheet Classification of Deferred Taxes

In November 2015, the FASB issued ASU 2015-17, Balance Sheet Classification of Deferred Taxes, as part of its simplification initiative, which is the FASB's effort to reduce the cost and complexity of certain aspects of U.S. GAAP. This guidance requires that all deferred tax assets and liabilities, along with any related valuation allowance, be classified as non-current on the balance sheet. The guidance does not change the existing requirement that only permits offsetting of deferred tax assets and deferred tax liabilities within a jurisdiction. The company early adopted this standard in the second quarter of fiscal 2016 on a prospective basis, as permitted by the ASU.

3. NEW ACCOUNTING STANDARDS

Revenue from Contracts with Customers

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). This new standard will replace all current GAAP guidance on this topic and eliminate all industry-specific guidance. The new revenue recognition standard provides a unified model to determine when and how revenue is recognized. The core principle is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration for which the entity expects to be entitled in exchange for those goods or services. The guidance is effective for interim and annual periods beginning after December 15, 2017, which is fiscal 2019 for Sysco, and could be early adopted in fiscal 2018. The standard may be applied either retrospectively to each period presented or as a cumulative-effect adjustment as of the date of adoption. The

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company has not selected a transition method and is currently evaluating the impact of the pending adoption of this ASU on its ongoing financial reporting.

4. ACQUISITIONS

During the first 26 weeks of fiscal 2016, the company paid cash of \$98.2 million for acquisitions. The acquisitions did not have a material effect on the company's operating results, cash flows or financial position. Certain current year and prior year acquisitions involve contingent consideration that may include earnout agreements that are typically payable over periods of up to three years in the event that certain operating results are attained. As of December 26, 2015, aggregate contingent consideration outstanding was \$28.4 million, of which \$20.7 million was recorded as earnout liabilities as of December 26, 2015.

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 other assets and other long-term liabilities as Level 2 measurements in the tables below.

The following tables present the company's assets and liabilities measured at fair value on a recurring basis as of December 26, 2015, June 27, 2015 and December 27, 2014:

	Assets and Liabilities Measured at Fair Value as of Dec. 26, 2015			
	Level 1	Level 2	Level 3	Total
	(In thousands)			
Assets:				
Cash and cash equivalents				
Cash equivalents	\$234,161	\$61,473	\$—	\$295,634
Other assets				
Interest rate swap agreement	—	3,936	—	3,936
Total assets at fair value	\$234,161	\$65,409	\$—	\$299,570
Liabilities:				
Long-term debt	\$—	\$1,241,786	\$—	\$1,241,786
Other long-term liabilities:				
Interest rate swap agreement	—	6,575	—	6,575
Total liabilities at fair value	\$—	\$1,248,361	\$—	\$1,248,361
	Assets and Liabilities Measured at Fair Value as of Jun. 27, 2015			
	Level 1	Level 2	Level 3	Total
	(In thousands)			
Assets:				
Cash and cash equivalents				
Cash equivalents	\$4,677,735	\$63,689	\$—	\$4,741,424
Restricted cash	168,274	—	—	168,274
Other assets				
Interest rate swap agreement	—	12,597	—	12,597
Total assets at fair value	\$4,846,009	\$76,286	\$—	\$4,922,295
Liabilities:				
Accrued expenses				
Current portion of long-term debt	\$—	\$1,257,127	\$—	\$1,257,127
Long-term debt	—	503,379	—	503,379
Total liabilities at fair value	\$—	\$1,760,506	\$—	\$1,760,506

	Assets and Liabilities Measured at Fair Value as of Dec. 27, 2014			
	Level 1 (In thousands)	Level 2	Level 3	Total
Assets:				
Cash and cash equivalents				
Cash equivalents	\$4,655,434	\$21,841	\$—	\$4,677,275
Restricted cash	165,465	—	—	165,465
Other assets				
Interest rate swap agreement	—	4,802	—	4,802
Total assets at fair value	\$4,820,899	\$26,643	\$—	\$4,847,542
Liabilities:				
Long-term debt	\$—	\$1,752,118	\$—	\$1,752,118
Other long-term liabilities				
Interest rate swap agreement	—	152	—	152
Total liabilities at fair value	\$—	\$1,752,270	\$—	\$1,752,270

The carrying values of accounts receivable and accounts payable approximated their respective fair values due to their short-term maturities. 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 table above reflects the fair value for any long-term debt that has been hedged and is recorded at fair value. Non-hedged debt is recorded at book value. The fair value of total non-hedged debt approximated \$3.3 billion, \$5.6 billion and \$7.6 billion as of December 26, 2015, June 27, 2015 and December 27, 2014, respectively. The carrying value of total non-hedged debt was \$3.1 billion, \$5.4 billion and \$7.1 billion as of December 26, 2015, June 27, 2015 and December 27, 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 October 2015, Sysco issued senior notes totaling \$2.0 billion to fund \$1.5 billion in repurchases of outstanding shares of its common stock pursuant to its \$1.5 billion accelerated share repurchase program, to repay approximately \$500 million of its outstanding commercial paper and for general corporate purposes. Concurrent with the offering of these senior notes, the company entered into interest rate swap agreements that effectively converted \$750 million of senior notes maturing in fiscal 2020 to floating rate debt. 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 August 2015, the company entered into forward starting swap agreements with a notional amount totaling \$500 million. The company designated these derivatives as cash flow hedges to reduce interest rate exposure on forecasted 10-year debt due to changes in the benchmark interest rates for debt the company expected to issue in fiscal 2016. Concurrent with the debt offering in October 2015, Sysco terminated these hedges and paid \$6.1 million. The loss was recorded in Accumulated other comprehensive income (loss) and will be amortized to interest expense over the term of the issued debt.

In October 2014, Sysco obtained long-term financing for its proposed merger with US Foods, Inc. (US Foods) by completing a six-part senior notes offering totaling \$5 billion. At the same time of these note issuances, the company

entered into interest rate swap agreements that effectively converted \$500 million of senior notes maturing in fiscal 2018 and \$750 million of senior notes maturing in fiscal 2020 to floating rate debt. These are collectively referred to as the 2015 swaps. 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 the first quarter of 2016, we terminated the 2015 swaps for proceeds of \$14.5 million in connection with the redemption of these senior notes.

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 proposed US Foods merger or for other long-term financing purposes in the event the merger did not occur. The company designated these derivatives as cash flow hedges to reduce interest rate exposure on forecasted 10-year and 30-year debt due to changes in the benchmark interest rates for debt the company issued in fiscal 2015. 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 continue to be amortized through interest expense over the term of the originally issued debt as the amount hedged is anticipated to remain within our capital structure.

In August 2013, the company entered into an interest rate swap agreement that effectively converted \$500 million of fixed rate debt maturing in fiscal 2018 to floating rate debt.

The location and the fair value of derivative instruments designated as hedges in the consolidated balance sheet as of December 26, 2015, June 27, 2015 and December 27, 2014 are as follows:

	Asset Derivatives		Liability Derivatives	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
(In thousands)				
Interest rate swap agreements:				
Dec. 26, 2015	Other assets	\$3,936	Other liabilities	\$6,575
Jun. 27, 2015	Other assets	12,597		
Dec. 27, 2014	Other assets	4,802	Other long-term liabilities	152

The location and effect of derivative instruments and related hedged items on the consolidated results of operations for the 13-week periods ended December 26, 2015 and December 27, 2014 presented on a pretax basis are as follows:

	Location of (Gain) or Loss Recognized	Amount of (Gain) or Loss Recognized	
		13-Week Period Ended Dec. 26, 2015	13-Week Period Ended Dec. 27, 2014
(In thousands)			
Fair Value Hedge Relationships:			
Interest rate swap agreements	Interest expense	\$—	\$(6,401)
Cash Flow Hedge Relationships:			
Interest rate swap agreements	Other comprehensive income	—	—
Interest rate contracts	Interest expense	2,962	(2,660)

The location and effect of derivative instruments and related hedged items on the consolidated results of operations for the 26-week periods ended December 26, 2015 and December 27, 2014 presented on a pretax basis are as follows:

	Location of (Gain) or Loss Recognized	Amount of (Gain) or Loss Recognized 26-Week Period Ended	
		Dec. 26, 2015	Dec. 27, 2014
		(In thousands)	
Fair Value Hedge Relationships:			
Interest rate swap agreements	Interest expense	\$—	\$(9,670)
Cash Flow Hedge Relationships:			
Interest rate swap agreements	Other comprehensive income	5,682	55,374
Interest rate contracts	Interest expense	6,134	(2,865)

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 not applicable for the second quarter of fiscal 2016 and was immaterial for the second quarter of fiscal 2015 and the 26-week periods ended December 26, 2015 and December 27, 2014. The interest rate swaps do not contain credit-risk-related contingent features.

7. DEBT

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. As of December 26, 2015, there were no commercial paper issuances outstanding. Any outstanding amounts are classified within long-term debt, as the program is supported by a long-term revolving credit facility. During the first 26 weeks of 2016, aggregate outstanding commercial paper issuances and short-term bank borrowings ranged from zero to approximately \$1.0 billion.

In June 2015, Sysco terminated the US Foods merger agreement triggering the redemption of the senior notes that had been issued in contemplation of the proposed merger at a redemption price equal to 101% of the principal of the senior notes. Sysco redeemed the senior notes in July 2015 using cash on hand and proceeds from our commercial paper program in the amount of \$5.05 billion. The repayment of these senior notes triggered a redemption loss of \$86.5 million included in interest expense for the first quarter of fiscal 2016. Additionally, as discussed in Note 6, "Derivative Financial Instruments," the company terminated fair value hedges associated with these senior notes. Interest expense for the first 26 weeks of fiscal 2016 includes the following amounts from these transactions:

	26-Week Period Ended Dec. 26, 2015 (In thousands)
Redemption Premium Payment	\$50,000
Debt issuance cost write-off	28,642
Bond discount write-off	17,869
Gain on swap termination	(10,051)
Loss on extinguishment of debt	86,460
Interest expense on senior notes	8,375
Total	\$94,835

Senior Notes Offering

On September 28, 2015, Sysco issued senior notes totaling \$2.0 billion. Details of the senior notes are as follows:

Maturity Date	Par Value (in millions)	Coupon Rate	Pricing (percentage of par)	
October 1, 2020	\$750	2.60	%	99.809 %
October 1, 2025	750	3.75	%	100.00 %
October 1, 2045	500	4.85	%	99.921 %

Sysco used the net proceeds from the offering to fund repurchases of outstanding shares of its common stock pursuant to Sysco's \$1.5 billion accelerated share repurchase program, to repay approximately \$500 million of its outstanding commercial paper and for general corporate purposes. The notes are fully and unconditionally guaranteed by Sysco's direct and indirect wholly owned subsidiaries that guarantee Sysco's other senior notes. Interest on the senior notes will be paid semi-annually in arrears on April 1 and October 1, beginning April 1, 2016. At Sysco's option, any or all of the senior notes may be redeemed, in whole or in part, at any time prior to maturity. If Sysco elects to redeem (i) the senior notes maturing in 2020 before the date that is one month prior to the maturity date, (ii) the senior notes maturing in 2025 before the date that is three months prior to the maturity date or (iii) the senior notes maturing in 2045 before the date that is six months prior to the maturity date, Sysco will pay an amount equal to the greater of 100% of the principal amount of the senior notes to be redeemed or the sum of the present values of the remaining scheduled payments of principal and interest on the senior notes to be redeemed that would be due if such senior notes matured on the applicable date described above. If Sysco elects to redeem a series of senior notes on or after the applicable date described in the preceding sentence, Sysco will pay an amount equal to 100% of the principal amount of the senior notes to be redeemed. Sysco will pay accrued and unpaid interest on the notes redeemed to the redemption date.

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 second quarter and first 26 weeks of fiscal 2016 and fiscal 2015 are as follows:

	Pension Benefits		Other Postretirement Plans	
	Dec. 26, 2015	Dec. 27, 2014	Dec. 26, 2015	Dec. 27, 2014
	(In thousands)			
Service cost	\$2,902	\$2,815	\$134	\$134
Interest cost	42,833	42,779	153	148
Expected return on plan assets	(53,202	) (57,156) —	—
Amortization of prior service cost	2,743	2,777	41	42
Amortization of actuarial loss (gain)	5,435	4,968	(118	) (109
Net periodic costs (benefits)	\$711	\$(3,817	) \$210	\$215

	Pension Benefits		Other Postretirement Plans	
	Dec. 26, 2015	Dec. 27, 2014	Dec. 26, 2015	Dec. 27, 2014
	(In thousands)			
Service cost	\$5,803	\$5,630	\$268	\$268
Interest cost	85,665	85,558	305	296
Expected return on plan assets	(106,404) (114,312) —	—
Amortization of actuarial loss (gain)	5,486	5,554	83	84

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Amortization of actuarial loss (gain)	10,870	9,936	(236) (218)
Net periodic costs (benefits)	\$1,420	\$(7,634) \$420	\$430)

Sysco's contributions to its company-sponsored defined benefit plans were \$43.7 million and \$62.3 million during the first 26 weeks of fiscal 2016 and 2015, respectively.

9. SHAREHOLDERS' EQUITY

Accelerated Share Repurchase Program

On September 23, 2015, the company entered into a Master Confirmation and Supplemental Confirmation (collectively, the ASR Agreement) with Goldman, Sachs & Co. (Goldman) relating to an accelerated share repurchase program (the ASR Program). Pursuant to the terms of the ASR Agreement, Sysco agreed to repurchase \$1.5 billion of its common stock from Goldman.

In connection with the ASR Program, the company paid \$1.5 billion to Goldman on September 28, 2015, in exchange for 32,319,392 shares of the company's outstanding common stock, which represents a substantial majority of the shares owed to Sysco by Goldman; however, the number of shares ultimately delivered to the company by Goldman is subject to adjustment based on the volume-weighted average share price of the company's common stock during the term of the ASR Agreement, less an agreed discount. All purchases under the ASR Program will be completed by May 2016, although the exact date of completion will depend on whether or when Goldman exercises an acceleration option that it has under the ASR Agreement. At settlement, the company may be entitled to receive additional shares of common stock from Goldman or, under certain circumstances, may be required to issue additional shares or make a payment to Goldman at the company's option.

The initial receipt of 32,319,392 shares is included in Treasury Stock and reduced the company's weighted average common shares outstanding for the second quarter and first 26 weeks of fiscal 2016. The adjustment feature, which is based on the volume-weighted average share price, is considered a forward contract indexed to Sysco's own common stock and meets all of the applicable criteria for equity classification and, therefore, is not accounted for as a derivative instrument.

10. EARNINGS PER SHARE

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

	13-Week Period Ended		26-Week Period Ended	
	Dec. 26, 2015	Dec. 27, 2014	Dec. 26, 2015	Dec. 27, 2014
	(In thousands, except for share and per share data)		(In thousands, except for share and per share data)	
Numerator:				
Net earnings	\$272,399	\$157,979	\$516,819	\$436,792
Denominator:				
Weighted-average basic shares outstanding	566,881,538	590,723,351	581,790,230	589,499,802
Dilutive effect of share-based awards	4,570,586	5,188,329	4,330,783	5,110,513
Weighted-average diluted shares outstanding	571,452,124	595,911,680	586,121,013	594,610,315
Basic earnings per share	\$0.48	\$0.27	\$0.89	\$0.74
Diluted earnings per share	\$0.48	\$0.27	\$0.88	\$0.73

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 4,000,000 and 2,000,000 for the second quarter of fiscal 2016 and fiscal 2015, 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 965,000 and 1,300,000 for the first 26 weeks of 2016 and

2015, 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 \$234.8 million and \$72.5 million for the second quarter of fiscal 2016 and fiscal 2015, respectively. Comprehensive income was \$394.8 million and \$250.8 million for the first 26 weeks of fiscal 2016 and 2015, respectively.

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

		13-Week Period Ended Dec. 26, 2015		
	Location of Expense (Income) Recognized in Net Earnings	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	\$2,784	\$1,069	\$1,715
Amortization of actuarial loss (gain), net	Operating expenses	5,317	2,042	3,275
Total reclassification adjustments		8,101	3,111	4,990
Foreign currency translation:				
Other comprehensive income before reclassification adjustments:				
Foreign currency translation adjustment	N/A	(44,453	) —	(44,453)
Interest rate swaps:				
Reclassification adjustments:				
Amortization of cash flow hedges	Interest expense	2,962	1,137	1,825
Total other comprehensive (loss) income		\$(33,390	) \$4,248	\$(37,638)

		13-Week Period Ended Dec. 27, 2014		
	Location of Expense (Income) Recognized in Net Earnings	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	(91,853	) —	(91,853)
Interest rate swaps:				
Reclassification adjustments:				
Amortization of cash flow hedges	Interest expense	2,660	1,021	1,639
Total other comprehensive (loss) income		\$(81,515	) \$3,969	\$(85,484)

		26-Week Period Ended Dec. 26, 2015		
	Location of Expense (Income) Recognized in Net Earnings	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	\$5,568	\$2,138	\$3,430
Amortization of actuarial loss (gain), net	Operating expenses	10,634	4,084	6,550
Total reclassification adjustments		16,202	6,222	9,980
Foreign currency translation:				
Other comprehensive income before reclassification adjustments:				
Foreign currency translation adjustment	N/A	(131,682)	—	(131,682)
Interest rate swaps:				
Reclassification adjustments:				
Amortization of cash flow hedges	Interest expense	5,682	2,181	3,501
Change in fair value of cash flow hedge	N/A	(6,134)	(2,355)	(3,779)
Total other comprehensive (loss) income		\$(115,932)	\$6,048	\$(121,980)
		26-Week Period Ended Dec. 27, 2014		
	Location of Expense (Income) Recognized in Net Earnings	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	\$5,638	\$2,164	\$3,474
Amortization of actuarial loss (gain), net	Operating expenses	9,718	3,732	\$5,986
Total reclassification adjustments		15,356	5,896	9,460
Foreign currency translation:				
Other comprehensive income before reclassification adjustments:				
Foreign currency translation adjustment	N/A	(163,107)	—	(163,107)
Interest rate swaps:				
Reclassification adjustments:				
Amortization of cash flow hedges	Interest expense	2,865	1,100	1,765
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		\$(200,260)	\$(14,267)	\$(185,993)

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

	26-Week Period Ended Dec. 26, 2015			
	Pension and Other Postretirement Benefit Plans, net of tax (In thousands)	Foreign Currency Translation	Interest Rate Swaps, net of tax	Total
Balance as of Jun. 27, 2015	\$(705,311)	\$(97,733)	\$(120,153)	\$(923,197)
Other comprehensive income before reclassification adjustments	—	(131,682)	—	(131,682)
Amortization of cash flow hedges	—	—	3,501	3,501
Change in fair value of cash flow hedges	—	—	(3,779)	(3,779)
Amortization of unrecognized prior service cost	3,430	—	—	3,430
Amortization of unrecognized net actuarial losses	6,550	—	—	6,550
Balance as of Dec. 26, 2015	\$(695,331)	\$(229,415)	\$(120,431)	\$(1,045,177)

	26-Week Period Ended Dec. 27, 2014			
	Pension and Other Postretirement Benefit Plans, net of tax (In thousands)	Foreign Currency Translation	Interest Rate Swaps, net of tax	Total
Balance as of Jun. 28, 2014	\$(685,957)	\$134,452	\$(91,158)	\$(642,663)
Other comprehensive income before reclassification adjustments	—	(163,107)	—	(163,107)
Amortization of cash flow hedges	—	—	1,765	1,765
Change in fair value of cash flow hedges	—	—	(34,111)	(34,111)
Amortization of unrecognized prior service cost	3,474	—	—	3,474
Amortization of unrecognized net actuarial losses	5,986	—	—	5,986
Balance as of Dec. 27, 2014	\$(676,497)	\$(28,655)	\$(123,504)	\$(828,656)

12. SHARE-BASED COMPENSATION

Sysco provides compensation benefits to employees and non-employee directors under several share-based payment arrangements including various employee stock incentive plans, the Employee Stock Purchase Plan, and various non-employee director plans.

Stock Incentive Plans

In the first 26 weeks of fiscal 2016, options to purchase 4,326,915 shares were granted to employees. The fair value of each option award is estimated as of the date of grant using a Black-Scholes option pricing model. The weighted average grant-date fair value per option granted during the first 26 weeks of fiscal 2016 was \$40.59.

In the first 26 weeks of fiscal 2016, 435,970 restricted stock units were granted to employees. Based on the jurisdiction in which the employee resides, some of these restricted stock units were granted with forfeitable dividend equivalents. The fair value of each restricted stock unit award granted with a dividend equivalent is based on the

company's stock price as of the date of grant. For restricted stock unit awards granted without dividend equivalents, the fair value was reduced by the present value of expected dividends during the vesting period. The weighted average grant-date fair value per restricted stock unit granted during the first 26 weeks of fiscal 2016 was \$40.41.

Employee Stock Purchase Plan

Plan participants purchased 704,129 shares of Sysco common stock under the Sysco Employee Stock Purchase Plan during the first 26 weeks of fiscal 2016.

The weighted average fair value per share of employee stock purchase rights issued pursuant to the Employee Stock Purchase Plan was \$5.63 during the first 26 weeks of fiscal 2016. The fair value of the stock purchase rights is estimated as the difference between the stock price and the employee purchase price.

All Share-Based Payment Arrangements

The total share-based compensation cost that has been recognized in results of operations was \$44.0 million and \$44.5 million for the first 26 weeks of fiscal 2016 and fiscal 2015, respectively.

As of December 26, 2015, there was \$70.4 million of total unrecognized compensation cost related to share-based compensation arrangements. This cost is expected to be recognized over a weighted-average period of 2.6 years.

13. INCOME TAXES

Uncertain Tax Positions

As of December 26, 2015, the gross amount of unrecognized tax benefits was \$32.1 million, and the gross amount of liability for accrued interest related to unrecognized tax benefits was \$19.4 million. It is reasonably possible that the amount of the unrecognized tax benefits with respect to certain of the company's unrecognized tax positions will increase or decrease in the next twelve months, either because Sysco prevails on positions that were being challenged upon audit or because the company agrees to their disallowance. Items that may cause changes to unrecognized tax benefits primarily include the consideration of various filing requirements in numerous states and the allocation of income and expense between tax jurisdictions. At this time, an estimate of the range of the reasonably possible change cannot be made.

Effective Tax Rate

Sysco's effective tax rate is reflective of the jurisdictions where the company has operations. In the second quarter of fiscal 2016, the company favorably resolved a tax contingency resulting in a tax benefit of \$20.8 million. In the second quarter of fiscal 2015, the tax rate was impacted by reduced state taxes from legal restructuring and a benefit related to disqualifying dispositions of Sysco's stock pursuant to share-based compensation arrangements. Indefinitely reinvested earnings taxed at foreign statutory rates less than our domestic tax rate have the impact of reducing the effective tax rate in both periods. The effective tax rates for the second quarter of fiscal 2016 and fiscal 2015 were 30.71% and 33.12%, respectively.

The effective tax rate for the first 26 weeks of fiscal 2016 of 33.31% was favorably impacted by the resolution of a tax contingency in the second quarter of fiscal 2016. The effective tax rate for the first 26 weeks of fiscal 2015 of 35.10% was favorably impacted by lower state taxes. Indefinitely reinvested earnings taxed at foreign statutory rates less than our domestic tax rate have the impact of reducing the effective tax rate in both periods.

Other

The determination of the company's provision for income taxes requires significant judgment, the use of estimates and the interpretation and application of complex tax laws. The company's provision for income taxes reflects a

combination of income earned and taxed in the various U.S. federal and state, as well as foreign, jurisdictions. Jurisdictional tax law changes, increases or decreases in permanent differences between book and tax items, accruals or adjustments of accruals for unrecognized tax benefits or valuation allowances, and the company's change in the mix of earnings from these taxing jurisdictions all affect the overall effective tax rate.

14. COMMITMENTS AND CONTINGENCIES

Legal Proceedings

Sysco is engaged in various legal proceedings that have arisen, but have not been fully adjudicated. The likelihood of loss for these legal proceedings, based on definitions within contingency accounting literature, ranges from remote to reasonably possible to probable. When probable and reasonably estimable, the losses have been accrued. Based on estimates of the range

of potential losses associated with these matters, management does not believe the ultimate resolution of these proceedings, either individually or in the aggregate, will have a material adverse effect upon the consolidated financial position or results of operations of the company. However, the final results of legal proceedings cannot be predicted with certainty and, if the company failed to prevail in one or more of these legal matters, and the associated realized losses were to exceed the company's current estimates of the range of potential losses, the company's consolidated financial position or results of operations could be materially adversely affected in future periods.

15. BUSINESS SEGMENT INFORMATION

The company has aggregated certain of its operating companies into two reporting segments, Broadline and SYGMA in accordance with the accounting literature related to disclosures about segments of an enterprise. The Broadline reportable segment is an aggregation of the company's broadline segments located in the Bahamas, Canada, Costa Rica, Ireland and the United States. Broadline operating companies distribute a full line of food products and a wide variety of non-food products to both traditional and chain restaurant customers, hospitals, schools, hotels, industrial caterers and other venues where foodservice products are served. SYGMA operating companies distribute a full line of food products and a wide variety of non-food products to certain chain restaurant customer locations. "Other" financial information is attributable to the company's other operating segments, including the company's specialty produce, custom-cut meat operations, lodging industry segments, a company that distributes specialty imported products, a company that distributes to international customers and the company's Sysco Ventures platform, which includes a suite of technology solutions that help support the business needs of Sysco's customers. In fiscal 2015, our leadership structure was realigned and now our custom-cut meat operations no longer report through our Broadline leadership. As a result, these operations are no longer included in our Broadline segment and are now reported in "Other." Prior year amounts have been reclassified to conform to the current year presentation.

The accounting policies for the segments are the same as those disclosed by Sysco for its consolidated financial statements. Intersegment sales primarily represent products the Broadline and SYGMA operating companies procured from the specialty produce, custom-cut meat operations, imported specialty products and a company that distributes to international customers. Management evaluates the performance of each of the 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.

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

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	13-Week Period Ended		26-Week Period Ended	
	Dec. 26, 2015	Dec. 27, 2014	Dec. 26, 2015	Dec. 27, 2014
Sales:	(In thousands)		(In thousands)	
Broadline	\$9,605,710	\$9,548,847	\$19,633,806	\$19,520,222
SYGMA	1,506,836	1,559,863	2,952,741	3,101,475
Other	1,447,740	1,305,179	2,814,566	2,557,265
Intersegment sales	(406,661	) (326,815	) (684,875	) (646,807
Total	\$12,153,626	\$12,087,074	\$24,716,237	\$24,532,155

	13-Week Period Ended		26-Week Period Ended	
	Dec. 26, 2015	Dec. 27, 2014	Dec. 26, 2015	Dec. 27, 2014
Operating income:	(In thousands)		(In thousands)	
Broadline	\$633,167	\$582,598	\$1,360,162	\$1,268,973
SYGMA	5,952	7,803	11,177	12,953
Other	36,865	33,695	63,372	71,422
Total segments	675,984	624,096	1,434,711	1,353,348
Corporate expenses	(243,401	) (308,650	) (508,654	) (572,289
Total operating income	432,583	315,446	926,057	781,059
Interest expense	47,235	77,042	174,142	107,976
Other expense (income), net	(7,764	) 2,207	(23,004	) 19
Earnings before income taxes	\$393,112	\$236,197	\$774,919	\$673,064

	Dec. 26, 2015	Jun. 27, 2015	Dec. 27, 2014
Assets:	(In thousands)		
Broadline	\$7,739,428	\$7,730,239	\$7,906,762
SYGMA	556,480	512,044	520,862
Other	1,523,493	1,415,038	1,401,847
Total segments	9,819,401	9,657,321	9,829,471
Corporate	3,270,067	8,331,960	8,100,338
Total	\$13,089,468	\$17,989,281	\$17,929,809

16. SUPPLEMENTAL GUARANTOR INFORMATION - SUBSIDIARY GUARANTEES

On January 19, 2011, the wholly owned U.S. Broadline subsidiaries of Sysco Corporation entered into full and unconditional guarantees of all outstanding senior notes and debentures of Sysco Corporation. Borrowings under the company's revolving credit facility supporting the company's U.S. and Canadian commercial paper programs are also covered under these guarantees. As of December 26, 2015, Sysco had a total of \$4.4 billion in senior notes, debentures and commercial paper outstanding that was covered by these guarantees.

All subsidiary guarantors are 100% owned by the parent company, all guarantees are full and unconditional and all guarantees are joint and several, except that the guarantee of any subsidiary guarantor with respect to a series of senior notes or debentures may be released under certain customary circumstances. If we exercise our defeasance option with respect to the senior notes or debentures of any series, then any subsidiary guarantor effectively will be released with respect to that series. Further, each subsidiary guarantee will remain in full force and effect until the earliest to occur of the date, if any, on which (1) the applicable subsidiary guarantor shall consolidate with or merge into Sysco Corporation or any successor of Sysco Corporation or (2) Sysco Corporation or any successor of Sysco Corporation consolidates with or merges into the applicable subsidiary guarantor.

The following condensed consolidating financial statements present separately the financial position, comprehensive income and cash flows of the parent issuer (Sysco Corporation), the guarantors (the majority of the company's U.S. Broadline subsidiaries), and all other non-guarantor subsidiaries of Sysco (Other Non-Guarantor Subsidiaries) on a combined basis with eliminating entries.

Condensed Consolidating Balance Sheet
Dec. 26, 2015

	Sysco	Certain U.S. Broadline Subsidiaries	Other Non-Guarantor Subsidiaries	Eliminations	Consolidated Totals
	(In thousands)				
Current assets	\$279,596	\$3,944,472	\$2,554,958	\$—	\$6,779,026
Investment in subsidiaries	9,787,777	241,561	(355,335)	(9,674,003)	—
Plant and equipment, net	501,514	1,632,601	1,802,497	—	3,936,612
Other assets	258,216	273,324	1,842,290	—	2,373,830
Total assets	\$10,827,103	\$6,091,958	\$5,844,410	\$(9,674,003)	\$13,089,468
Current liabilities	\$602,058	\$731,474	\$2,538,682	\$—	\$3,872,214
Intercompany payables (receivables)	1,576,888	(2,274,556)	697,668	—	—
Long-term debt	4,079,396	9,350	177,111	—	4,265,857
Other liabilities	672,888	278,590	12,999	—	964,477
Noncontrolling interest	—	—	45,493	—	45,493
Shareholders' equity	3,895,873	7,347,100	2,372,457	(9,674,003)	3,941,427
Total liabilities and shareholders' equity	\$10,827,103	\$6,091,958	\$5,844,410	\$(9,674,003)	\$13,089,468

Condensed Consolidating Balance Sheet
Jun. 27, 2015

	Sysco	Certain U.S. Broadline Subsidiaries	Other Non-Guarantor Subsidiaries	Eliminations	Consolidated Totals
	(In thousands)				

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Current assets	\$4,894,387	\$4,012,924	\$2,586,993	\$—	\$11,494,304
Investment in subsidiaries	9,088,455	—	—	(9,088,455)	—
Plant and equipment, net	510,285	1,694,659	1,777,199	—	3,982,143
Other assets	371,802	522,566	1,618,466	—	2,512,834
Total assets	\$14,864,929	\$6,230,149	\$5,982,658	\$(9,088,455)	\$17,989,281
Current liabilities	\$5,851,364	\$1,658,558	\$1,889,693	\$—	\$9,399,615
Intercompany payables (receivables)	973,497	(1,996,915)	1,023,418	—	—
Long-term debt	2,154,923	10,121	106,781	—	2,271,825
Other liabilities	624,795	278,458	113,060	—	1,016,313
Noncontrolling interest	—	—	41,304	—	41,304
Shareholders' equity	5,260,350	6,279,927	2,808,402	(9,088,455)	5,260,224
Total liabilities and shareholders' equity	\$14,864,929	\$6,230,149	\$5,982,658	\$(9,088,455)	\$17,989,281

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Condensed Consolidating Balance Sheet

Dec. 27, 2014

Sysco	Certain U.S. Broadline Subsidiaries	Other Non-Guarantor Subsidiaries	Eliminations	Consolidated Totals	
(In thousands)					
Current assets	\$4,779,586	\$4,057,608	\$2,619,710	\$—	\$11,456,904
Investment in subsidiaries	8,613,500	—	—	(8,613,500)	—
Plant and equipment, net	491,972	1,736,843	1,774,117	—	4,002,932
Other assets	324,771	520,178	1,625,024	—	2,469,973
Total assets	\$14,209,829	\$6,314,629	\$6,018,851	\$(8,613,500)	\$17,929,809
Current liabilities	\$848,885	\$910,487	\$2,526,581	\$—	\$4,285,953
Intercompany payables (receivables)	258,923	(759,128)	500,205	—	—
Long-term debt	7,127,186	17,550	63,516	—	7,208,252
Other liabilities	631,875	321,406	104,421	—	1,057,702
Noncontrolling interest	—	—	34,942	—	34,942
Shareholders' equity	5,342,960	5,824,314	2,789,186	(8,613,500)	5,342,960
Total liabilities and shareholders' equity	\$14,209,829	\$6,314,629	\$6,018,851	\$(8,613,500)	\$17,929,809

Condensed Consolidating Statement of Comprehensive Income

For the 13-Week Period Ended Dec. 26, 2015

Sysco	Certain U.S. Broadline Subsidiaries	Other Non-Guarantor Subsidiaries	Eliminations	Consolidated Totals	
(In thousands)					
Sales	\$—	\$8,199,071	\$4,392,744	\$(438,189)	\$12,153,626
Cost of sales	—	6,670,025	3,764,976	(438,189)	9,996,812
Gross profit	—	1,529,046	627,768	—	2,156,814
Operating expenses	206,476	939,213	578,542	—	1,724,231
Operating income (loss)	(206,476)	589,833	49,226	—	432,583
Interest expense (income)	70,318	(40,019)	16,936	—	47,235
Other expense (income), net	(4,836)	(352)	(2,576)	—	(7,764)
Earnings (losses) before income taxes	(271,958)	630,204	34,866	—	393,112
Income tax (benefit) provision	(81,472)	191,274	10,911	—	120,713
Equity in earnings of subsidiaries	462,885	—	—	(462,885)	—
Net earnings	272,399	438,930	23,955	(462,885)	272,399
Other comprehensive income (loss)	(37,638)	—	(44,664)	44,664	(37,638)
Comprehensive income	\$234,761	\$438,930	\$(20,709)	\$(418,221)	\$234,761

Condensed Consolidating Statement of Comprehensive Income

For the 13-Week Period Ended Dec. 27, 2014

Sysco	Certain U.S. Broadline Subsidiaries	Other Non-Guarantor Subsidiaries	Eliminations	Consolidated Totals
(In thousands)				

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Sales	\$—	\$8,027,990	\$4,407,159	\$(348,075) \$12,087,074	
Cost of sales	—	6,574,759	3,775,253	(348,075) 10,001,937	
Gross profit	—	1,453,231	631,906	—	2,085,137	
Operating expenses	256,612	913,137	599,942	—	1,769,691	
Operating income (loss)	(256,612	) 540,094	31,964	—	315,446
Interest expense (income)	94,229	(24,501	) 7,314	—	77,042
Other expense (income), net	1,922	(365	) 650	—	2,207
Earnings (losses) before income taxes	(352,763	) 564,960	24,000	—	236,197
Income tax (benefit) provision	(121,267	) 191,470	8,015	—	78,218
Equity in earnings of subsidiaries	389,475	—	—	(389,475) —	
Net earnings	157,979	373,490	15,985	(389,475	) 157,979
Other comprehensive income (loss)	(85,484) —	(91,853) 91,853	(85,484)
Comprehensive income	\$72,495	\$373,490	\$(75,868	) \$(297,622	) \$72,495

Condensed Consolidating Statement of Comprehensive Income
For the 26-Week Period Ended Dec. 26, 2015

Sysco	Certain U.S. Broadline Subsidiaries	Other Non-Guarantor Subsidiaries	Eliminations	Consolidated Totals
(In thousands)				
Sales	\$—	\$16,723,622	\$8,819,741	\$(827,126) \$24,716,237
Cost of sales	—	13,582,194	7,566,360	(827,126) 20,321,428
Gross profit	—	3,141,428	1,253,381	— 4,394,809
Operating expenses	405,851	1,896,128	1,166,773	— 3,468,752
Operating income (loss)	(405,851)	1,245,300	86,608	— 926,057
Interest expense (income)	216,415	(80,002)	37,729	— 174,142
Other expense (income), net	(9,913)	(829)	(12,262)	— (23,004)
Earnings (losses) before income taxes	(612,353)	1,326,131	61,141	— 774,919
Income tax (benefit) provision	(203,956)	441,691	20,365	— 258,100
Equity in earnings of subsidiaries	925,216	—	—	(925,216) —
Net earnings	516,819	884,440	40,776	(925,216) 516,819
Other comprehensive income (loss)	(121,980)	—	(227,849)	227,849 (121,980)
Comprehensive income	\$394,839	\$884,440	\$(187,073)	\$(697,367) \$394,839

Condensed Consolidating Statement of Comprehensive Income
For the 26-Week Period Ended Dec. 27, 2014

Sysco	Certain U.S. Broadline Subsidiaries	Other Non-Guarantor Subsidiaries	Eliminations	Consolidated Totals
(In thousands)				
Sales	\$—	\$16,350,298	\$8,871,628	\$(689,771) \$24,532,155
Cost of sales	—	13,349,267	7,598,805	(689,771) 20,258,301
Gross profit	—	3,001,031	1,272,823	— 4,273,854
Operating expenses	447,509	1,845,332	1,199,954	— 3,492,795
Operating income (loss)	(447,509)	1,155,699	72,869	— 781,059
Interest expense (income)	144,395	(45,975)	9,556	— 107,976
Other expense (income), net	(480)	(764)	1,263	— 19
Earnings (losses) before income taxes	(591,424)	1,202,438	62,050	— 673,064
Income tax (benefit) provision	(207,611)	422,101	21,782	— 236,272
Equity in earnings of subsidiaries	820,605	—	—	(820,605) —
Net earnings	436,792	780,337	40,268	(820,605) 436,792
Other comprehensive income (loss)	(185,993)	—	(163,107)	163,107 (185,993)
Comprehensive income	\$250,799	\$780,337	\$(122,839)	\$(657,498) \$250,799

Condensed Consolidating Cash Flows
For the 26-Week Period Ended Dec. 26, 2015

Sysco	Certain U.S. Broadline Subsidiaries	Other Non-Guarantor Subsidiaries	Consolidated Totals
(In thousands)			

Cash flows provided by (used for):

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Operating activities	\$(576,817) \$427,995	\$617,703	\$468,881
Investing activities	123,371	(43,744) (246,913) (167,286
Financing activities	(4,871,105	) (1,003	) 76,773	(4,795,335
Effect of exchange rates on cash	—	—	(40,702	) (40,702
Intercompany activity	679,954	(343,252	) (336,702) —
Net increase (decrease) in cash and cash equivalents	(4,644,597	) 39,996	70,159	(4,534,442
Cash and cash equivalents at the beginning of period	4,851,067	26,380	252,597	5,130,044
Cash and cash equivalents at the end of period	\$206,470	\$66,376	\$322,756	\$595,602

Condensed Consolidating Cash Flows
For the 26-Week Period Ended Dec. 27, 2014

Sysco	Certain U.S. Broadline Subsidiaries	Other Non-Guarantor Subsidiaries	Consolidated Totals
(In thousands)			
Cash flows provided by (used for):			
Operating activities	\$(111,482)	\$654,460	\$(90,540) \$452,438
Investing activities	(59,843)	(62,747)	(222,578) (345,168)
Financing activities	4,391,966	2,161	32,639 4,426,766
Effect of exchange rates on cash	—	—	(39,405) (39,405)
Intercompany activity	324,639	(600,204)	275,565 —
Net increase (decrease) in cash and cash equivalents	4,545,280	(6,330)	(44,319) 4,494,631
Cash and cash equivalents at the beginning of period	158,957	27,772	226,317 413,046
Cash and cash equivalents at the end of period	\$4,704,237	\$21,442	\$181,998 \$4,907,677

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

This discussion should be read in conjunction with our consolidated financial statements as of June 27, 2015, and the fiscal year then ended, and Management's Discussion and Analysis of Financial Condition and Results of Operations, both contained in our Annual Report on Form 10-K for the fiscal year ended June 27, 2015, as well as the consolidated financial statements (unaudited) and notes to the consolidated financial statements (unaudited) contained in this report.

The discussion below of our results includes certain non-GAAP financial measures that we believe provide important perspective with respect to underlying business trends. Other than free cash flow, any non-GAAP financial measures will be denoted as adjusted measures and exclude the impact from restructuring charges, which include severance charges, facility closing costs and professional fees incurred related to our three-year strategic plan. It will also exclude charges incurred from merger and integration planning, litigation costs and termination costs in connection with the merger that had been proposed with US Foods, Inc. (US Foods) and US Foods related financing costs, which were applicable to us in our first quarter of fiscal 2016 and prior periods. These fiscal 2016 and fiscal 2015 items are collectively referred to as "Certain Items". Our US Foods financing costs related to senior notes that were issued in fiscal 2015 to fund the proposed merger. These senior notes were redeemed in the first quarter of fiscal 2016 and triggered a redemption loss of \$86.5 million, and we incurred interest on the notes through the redemption date. With respect to adjusted return on invested capital targets, our invested capital is adjusted for the accumulation of any excess cash against our average debt amounts. 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 primary operations are located throughout the United States (U.S.), Bahamas, Canada, Costa Rica, Ireland and Mexico and include broadline companies, SYGMA (our chain restaurant distribution subsidiary), specialty produce companies, custom-cut meat companies, hotel supply operations, a company that distributes specialty imported products, a company that distributes to international customers and our Sysco Ventures platform, which includes our suite of technology solutions that help support the business needs of our customers.

Highlights

Economic and industry trends have been mixed in the second quarter and first 26 weeks of fiscal 2016. Favorable unemployment trends and lower gasoline prices largely outweighed worries about near-term business conditions and global economic uncertainty. Restaurant industry data remained relatively positive amid cautious consumer spending. Restaurant sales have generally been positive; however, recent traffic trends have reflected modest decreases. Product cost deflation increased in the second quarter of fiscal 2016, as compared to the first quarter of fiscal 2016, and we experienced unfavorable impacts from foreign exchange translation due to a stronger U.S. dollar. Our sales growth moderated in the second quarter and first 26 weeks of fiscal 2016, as compared to the second quarter and first 26 weeks of fiscal 2015, due to these conditions. However, our case volume growth remained strong in the second quarter and first 26 weeks of fiscal 2016, including for our locally managed customers, and our gross margin performance improved. Our operating expenses for the second quarter and first 26 weeks of fiscal 2016 increased due in part to higher case volumes and planned business technology investments; however, for our U.S. Broadline operations, our expense management performance trends improved on a cost per case basis. For the first 26 weeks of fiscal 2016, interest expense was negatively impacted by the redemption loss and interest through the redemption date related to debt that had

been issued in fiscal 2015 for the purpose of funding the merger that had been proposed with US Foods. Our net earnings and earnings per share increased for the second quarter and first 26 weeks of fiscal 2016, as compared to the corresponding periods in fiscal 2015, primarily due to these factors, and the favorable resolution of a tax contingency contributed \$0.03 per share in the second quarter and first 26 weeks of fiscal 2016. A decrease in outstanding shares resulting from our accelerated share repurchase program also favorably impacted our per-share amounts. Excluding Certain Items, our net earnings increased in the second quarter and first 26 weeks of fiscal 2016 as compared to the corresponding prior year periods.

Comparisons of results from the second quarter of fiscal 2016 to the second quarter of fiscal 2015:

- Sales increased 0.6%, or \$0.1 billion, to \$12.2 billion;
- Operating income increased 37.1%, or \$117.1 million, to \$432.6 million;
- Adjusted operating income increased 10.2%, or \$40.6 million, to \$436.9 million;
- Net earnings increased 72.4%, or \$114.4 million, to \$272.4 million;
- Adjusted net earnings increased 12.6%, or \$30.7 million, to \$275 million;
- Basic earnings per share and diluted earnings per share in the second quarter of fiscal 2016 were both \$0.48, a 77.8% increase from the comparable prior year amount of \$0.27 per share; and
- Adjusted diluted earnings per share were \$0.48 in the second quarter of fiscal 2016, a 17.1% increase from the comparable prior year amount of \$0.41 per share.

Comparisons of results from the first 26 weeks of fiscal 2016 to the first 26 weeks of fiscal 2015:

- Sales increased 0.8%, or \$0.2 billion, to \$24.7 billion;
- Operating income increased 18.6%, or \$145.0 million, to \$926.1 million;
- Adjusted operating income increased 4.2%, or \$38.0 million, to \$943.3 million;
- Net earnings increased 18.3%, or \$80.0 million, to \$516.8 million;
- Adjusted net earnings increased 6.1%, or \$33.5 million, to \$587.1 million;
- Basic earnings per share in the first 26 weeks of fiscal 2016 were \$0.89, a 20.3% increase from the comparable prior year amount of \$0.74 per share;
- Diluted earnings per share in the first 26 weeks of fiscal 2016 were \$0.88, a 20.5% increase from the comparable prior year amount of \$0.73; and
- Adjusted diluted earnings per share were \$1.00 in the first 26 weeks of fiscal 2016, a 7.5% increase from the comparable prior year amount of \$0.93 per share.

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

Trends and Strategy

Trends

General economic conditions can affect the frequency of purchases and amounts spent by consumers for food-away-from-home and, in turn, can impact our customers and our sales. While consumer confidence and employment metrics, such as unemployment rates, have shown some signs of improvement, consumers have been cautious with their spending. Restaurant same-store sales have improved; however, traffic trends have not shown significant improvement and have recently begun to experience a slight decline. Recent declines in multiple stock markets could have a negative impact for consumers and our customers.

Our sales and gross profit performance can be influenced by multiple factors including price, volume, product mix and our ability to grow both sales and gross profit. The modest level of growth in the foodservice market has created additional competitive pricing pressures, which is, in turn, negatively impacting sales and gross profits. Case growth with our locally managed Broadline business is needed to drive gross profit dollar growth. Our locally managed

customers, including independent restaurant customers, comprise a significant portion of our overall volumes and an even greater percentage of profitability due to the high level of value added services we typically provide to this customer group. Through focused efforts, our locally managed case volume growth has accelerated. Our sales to corporate-managed customers, including chain restaurants and multi-locational restaurants, also comprise a significant portion of our overall volumes. Gross margin on sales to our corporate-managed customers is generally lower than on sales to other types of customers due to the higher volumes we sell to these customers. Case growth for our corporate-managed customers remained strong, but competitive pricing pressure has constrained our gross margins. Inflation is a factor that contributes to the level of sales and gross profit growth and can be a factor that contributes to gross margin pressure. We experienced deflation at a rate of 1.2% and 0.7% for the second quarter and first 26 weeks of fiscal 2016, respectively. This is a significant decline from inflation of 6.0% and 5.4% experienced in the second quarter and first 26 weeks of fiscal 2015,

respectively. A deflationary environment has occurred only two times over the past 10 years, each lasting three to nine months. We expect deflation to persist at least through the end of fiscal 2016. Rapid decreases in prices can make it challenging to leverage our fixed costs. Our category management efforts and focus on our Sysco branded items have helped us to manage our gross margin performance in response to several of these factors. Lastly, changes in foreign exchange rates are having a larger impact on our sales results compared to our previous fiscal quarters. The strengthening U.S. dollar is depressing our foreign sales as we convert them to U.S. dollars, primarily from our Canadian operations. Foreign currency translation has also negatively impacted our operating income, net earnings and earnings per share.

We have experienced higher operating expenses in fiscal 2016 as compared to fiscal 2015 that are attributable to higher case volumes, with payroll and compensation costs contributing to a lesser extent. Higher management incentive accruals for long-term incentives also impacted our operating expenses. Some of these incentives are based on Sysco's total shareholder return as compared to the S&P 500. Sysco's stock performance improved relative to the S&P 500 in the first 26 weeks of fiscal 2016. We have also experienced higher expenses from business technology investments which include projects necessary to achieve our financial targets from our three-year strategic plan. Restructuring costs, currently consisting of severance charges and professional fees incurred related to our three-year strategic plan, are contributing to our operating expenses in fiscal 2016 and are likely to continue to contribute to our expenses in the near-term as we review all aspects of our business for additional cost savings opportunities. Certain of our expenses are declining, including indirect spend, fuel costs and administrative expense. Indirect spend includes costs such as fleet maintenance and supplies. Finally, an additional favorable impact resulted from the strengthening U.S. dollar, which is reducing our operating expenses as we convert foreign operating expenses to U.S. dollars.

Interest expense for the second quarter and first 26 weeks of fiscal 2016 decreased \$29.8 million, and increased \$66.2 million as compared to the second quarter and first 26 weeks of fiscal 2015, respectively. The second quarter decrease is due to lower debt levels in the second quarter of fiscal 2016 as compared to the second quarter of fiscal 2015. The increase in the first 26 weeks was primarily due to the redemption of the senior notes issued in fiscal 2015 to fund the merger that had been proposed with US Foods. The redemption resulted in the payment of a redemption fee, write-offs for unamortized debt issuance costs and discounts associated with these senior notes and a gain on interest rate swap agreements that had been used to hedge these senior notes. In the second quarter of fiscal 2016, Sysco issued \$2.0 billion in senior notes and proceeds of \$1.5 billion were used to fund our accelerated share repurchase that will lower our share count over the remainder of fiscal 2016. We believe our accelerated share repurchase will provide an expected earnings per share benefit of approximately \$0.03 to \$0.04 per share in fiscal 2016, driven by a 4% to 5% reduction in average shares outstanding, partially offset by higher interest expense from the new debt issuance.

Strategy

We are focused on optimizing our core broadline business in the U.S., Bahamas, Canada, Costa Rica, Ireland and Mexico, with a customer centric approach, 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 our customers' most valued and trusted business partner.

We have identified five components of our strategy to help us achieve our mission and vision:

Partnership - Profoundly enrich the experience of doing business with Sysco;

Productivity - Continuously improve productivity in all areas of our business;

Products - Enhance offerings through a customer-centric innovation program;

People - Implement enterprise-wide talent management process; and

Expansion - Explore, assess and pursue new businesses and markets.

In the first quarter of fiscal 2016, we set new three-year financial targets that placed emphasis on accelerating locally managed customer case growth, managing our operating and administrative costs and growing operating income and return on invested capital. Our key goals are to grow our operating income by at least \$400 million by the end of fiscal 2018 and improve our adjusted return on invested capital. We do not expect our improvements to occur evenly on a quarterly basis; however, we are targeting to achieve 20% to 30% of our operating income improvement goal in fiscal 2016. In accomplishing these goals, we believe we can grow our earnings per share faster than operating income. Return on invested capital improvements include goals to improve our working capital by four days through improved management of working capital, specifically from the combined

impact of accounts receivables, inventory and accounts payable. Our underlying assumptions in achieving these goals include moderate growth in our dividend, pursuing investments through acquisitions and reducing diluted shares outstanding through a \$3.0 billion share buyback program over the next two years, approximately half of which has been completed, and repurchasing shares to offset any new share issuances from employee equity compensation.

During the first half of fiscal 2016, we delivered the following results against these objectives as compared to the first 26 weeks of fiscal 2015:

Local cases grew 2.8% in our Broadline business;

We grew gross profit by \$121.0 million, expanded gross margin by 36 basis points, and gross profit grew modestly faster than total operating expenses; and

Operating income grew by 18.6% and adjusted operating income grew by 4.2%.

We believe we are on track to achieve our goals for the first year of our three-year strategic plan.

Results of Operations

The following table sets forth the components of our consolidated results of operations expressed as a percentage of sales for the periods indicated:

	13-Week Period Ended		26-Week Period Ended	
	Dec. 26, 2015	Dec. 27, 2014	Dec. 26, 2015	Dec. 27, 2014
Sales	100.0	% 100.0	% 100.0	% 100.0
Cost of sales	82.3	82.7	82.2	82.5
Gross profit	17.7	17.3	17.8	17.5
Operating expenses	14.2	14.6	14.0	14.4
Operating income	3.6	2.7	3.7	3.1
Interest expense	0.4	0.6	0.7	0.4
Other expense (income), net	(0.1	) —	(0.1) —
Earnings before income taxes	3.2	2.1	3.1	2.7
Income taxes	1.0	0.7	1.0	1.0
Net earnings	2.2	% 1.4	% 2.1	% 1.7

The following table sets forth the change in the components of our consolidated results of operations expressed as a percentage increase or decrease over the comparable period in the prior year:

	13-Week Period Ended		26-Week Period Ended	
Sales	0.6	%	0.8	%
Cost of sales	(0.1	)	0.3	
Gross profit	3.4		2.8	
Operating expenses	(2.6	)	(0.7)
Operating income	37.1		18.6	
Interest expense	(38.7	)	61.3	
Other expense (income), net	(451.8) ⁽¹⁾	(121,173.7) ⁽²⁾
Earnings before income taxes	66.4		15.1	
Income taxes	54.3		9.2	
Net earnings	72.4	%	18.3	%
Basic earnings per share	77.8	%	20.3	%
Diluted earnings per share	77.8		20.5	
Average shares outstanding	(4.0	)	(1.3)
Diluted shares outstanding	(4.1	)	(1.4)

⁽¹⁾ Other expense (income), net was income of \$7.8 million in the second quarter of fiscal 2016 and expense of \$2.2 million in the second quarter of fiscal 2015.

⁽²⁾ Other expense (income), net was income of \$23.0 million in the first 26 weeks of fiscal 2016 and expense of \$19.0 thousand in the first 26 weeks of fiscal 2015.

Sales

Sales for the second quarter and first 26 weeks of fiscal 2016 were 0.6% and 0.8% higher than the second quarter and first 26 weeks of fiscal 2015, respectively. Sales for both periods of fiscal 2016 increased as a result of case volume growth and sales from acquisitions that occurred within the last 12 months. Partially offsetting this growth were unfavorable changes in exchange rates used to translate our foreign sales into U.S. dollars and product cost deflation and the resulting decrease in selling prices. Case volumes for the company's U.S. Broadline operations including acquisitions within the last 12 months improved 3.9% in the second quarter of fiscal 2016 compared to the second quarter of fiscal 2015 and included a 3.0% improvement in locally managed customer case growth. Case volumes for the company's U.S. Broadline operations including acquisitions within the last 12 months improved 3.6% in the first 26 weeks of fiscal 2016 compared to the first 26 weeks of fiscal 2015 and included a 2.5% improvement in locally managed customer case growth. Sales from acquisitions within the last 12 months favorably impacted sales by 0.4% for the second quarter of fiscal 2016 and for the first 26 weeks of fiscal 2016. The changes in the exchange rates used to translate our foreign sales into U.S. dollars negatively impacted sales by 1.7% in the second quarter of fiscal 2016 and 1.8% for the first 26 weeks of fiscal 2016. Change in product costs, an internal measure of inflation or deflation, was estimated as deflation of 1.2% during the second quarter of fiscal 2016 and deflation of 0.7% for the first 26 weeks of fiscal 2016. Of those amounts, our U.S. Broadline operations, reflected deflation of 1.9% and 1.5%, respectively. Deflation in these fiscal 2016 periods has occurred primarily in the meat, poultry, dairy and seafood categories, partially offset by modest inflation in other product categories.

Operating Income

Cost of sales primarily includes our product costs, net of vendor consideration, and includes in-bound freight. Operating expenses include the costs of facilities, product handling, delivery, selling and general and

administrative activities. Fuel surcharges are reflected within sales and gross profit; fuel costs are reflected within operating expenses.

The following table sets forth the change in the components of operating income and adjusted operating income expressed as a percentage increase or decrease over the comparable period in the prior year:

	13-Week Period Ended Dec. 26, 2015	13-Week Period Ended Dec. 27, 2014	13-Week Period Ended Change in Dollars	13-Week Period % Change	
	(In thousands)				
Gross profit	\$2,156,814	\$2,085,137	\$71,677	3.4	%
Operating expenses	1,724,231	1,769,691	(45,460	) (2.6	