

SYSCO CORP
Form 10-Q
February 08, 2011

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**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 January 1, 2011

**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 Smaller Reporting Company

(Do not check if a 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

582,708,338 shares of common stock were outstanding as of January 29, 2011.

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Table of Contents**PART I FINANCIAL INFORMATION**Item 1. *Financial Statements***Sysco Corporation and its Consolidated Subsidiaries****CONSOLIDATED BALANCE SHEETS****(In Thousands, Except for Share Data)**

	Jan. 1, 2011 (unaudited)	July 3, 2010	Dec. 26, 2009 (unaudited)
ASSETS			
Current assets			
Cash and cash equivalents	\$ 209,755	\$ 585,443	\$ 574,885
Short-term investments		23,511	61,860
Accounts and notes receivable, less allowances of \$67,237, \$36,573 and \$67,035	2,623,300	2,617,352	2,526,044
Inventories	1,963,397	1,771,539	1,790,327
Prepaid expenses and other current assets	70,430	70,992	63,674
Prepaid income taxes		7,421	
Total current assets	4,866,882	5,076,258	5,016,790
Plant and equipment at cost, less depreciation	3,370,553	3,203,823	3,072,721
Other assets			
Goodwill	1,577,108	1,549,815	1,551,550
Intangibles, less amortization	104,511	106,398	118,032
Restricted cash	134,579	124,488	128,683
Prepaid pension cost			70,753
Other assets	274,650	252,919	245,716
Total other assets	2,090,848	2,033,620	2,114,734
Total assets	\$ 10,328,283	\$ 10,313,701	\$ 10,204,245
LIABILITIES AND SHAREHOLDERS EQUITY			
Current liabilities			
Accounts payable	\$ 1,804,690	\$ 1,953,092	\$ 1,834,024
Accrued expenses	761,954	870,114	793,303
Accrued income taxes	47,738		56,775
Deferred income taxes	99,285	178,022	18,482
Current maturities of long-term debt	7,867	7,970	8,438
Total current liabilities	2,721,534	3,009,198	2,711,022
Other liabilities			
Long-term debt	2,653,529	2,472,662	2,468,690
Deferred income taxes	185,239	271,512	545,863
Other long-term liabilities	773,490	732,803	548,383
Total other liabilities	3,612,258	3,476,977	3,562,936
Commitments and contingencies			
Shareholders' equity			

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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	848,612	816,833	788,138
Retained earnings	7,392,996	7,134,139	6,844,095
Accumulated other comprehensive loss	(387,421)	(480,251)	(180,095)
Treasury stock at cost, 183,761,810, 176,768,795 and 173,100,605 shares	(4,624,871)	(4,408,370)	(4,287,026)
Total shareholders equity	3,994,491	3,827,526	3,930,287
Total liabilities and shareholders equity	\$ 10,328,283	\$ 10,313,701	\$ 10,204,245

Note: The July 3, 2010 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)

	26-Week Period Ended		13-Week Period Ended	
	Jan. 1, 2011	Dec. 26, 2009	Jan. 1, 2011	Dec. 26, 2009
Sales	\$ 19,136,126	\$ 17,949,925	\$ 9,384,852	\$ 8,868,499
Cost of sales	15,562,765	14,507,679	7,642,908	7,173,612
Gross margin	3,573,361	3,442,246	1,741,944	1,694,887
Operating expenses	2,630,096	2,482,567	1,304,919	1,232,536
Operating income	943,265	959,679	437,025	462,351
Interest expense	59,161	65,322	28,060	31,522
Other expense (income), net	(2,984)	(3,150)	(1,300)	(1,138)
Earnings before income taxes	887,088	897,507	410,265	431,967
Income taxes	329,846	302,953	152,092	163,618
Net earnings	\$ 557,242	\$ 594,554	\$ 258,173	\$ 268,349
Net earnings:				
Basic earnings per share	\$ 0.95	\$ 1.00	\$ 0.44	\$ 0.45
Diluted earnings per share	0.95	\$ 1.00	0.44	\$ 0.45
Average shares outstanding	586,827,575	592,110,975	584,943,749	592,651,712
Diluted shares outstanding	589,106,837	592,678,989	587,110,338	593,372,477
Dividends declared per common share	\$ 0.51	\$ 0.49	\$ 0.26	\$ 0.25
See Notes to Consolidated Financial Statements				

Table of Contents**Sysco Corporation and its Consolidated Subsidiaries****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)****(In Thousands)**

	26-Week Period Ended		13-Week Period Ended	
	Jan. 1, 2011	Dec. 26, 2009	Jan. 1, 2011	Dec. 26, 2009
Net earnings	\$ 557,242	\$ 594,554	\$ 258,173	\$ 268,349
Other comprehensive income:				
Foreign currency translation adjustment	66,787	83,946	15,322	46,864
Items presented net of tax:				
Amortization of cash flow hedge	214	214	107	107
Amortization of unrecognized prior service cost	1,276	1,353	638	677
Amortization of unrecognized actuarial loss, net	24,507	12,332	12,254	6,166
Amortization of unrecognized transition obligation	46	46	23	23
Total other comprehensive income	92,830	97,891	28,344	53,837
Comprehensive income	\$ 650,072	\$ 692,445	\$ 286,517	\$ 322,186

See Notes to Consolidated Financial Statements

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

	26-Week Period Ended	
	Jan. 1, 2011	Dec. 26, 2009
Cash flows from operating activities:		
Net earnings	\$ 557,242	\$ 594,554
Adjustments to reconcile net earnings to cash provided by operating activities:		
Share-based compensation expense	37,679	39,913
Depreciation and amortization	198,230	189,428
Deferred income taxes	(181,295)	(172,756)
Provision for losses on receivables	19,522	19,815
Other non-cash items	(1,550)	536
Additional investment in certain assets and liabilities, net of effect of businesses acquired:		
Decrease (increase) in receivables	4,887	(53,597)
(Increase) in inventories	(167,912)	(121,626)
Decrease in prepaid expenses and other current assets	1,183	1,307
(Decrease) increase in accounts payable	(172,217)	30,110
(Decrease) in accrued expenses	(125,849)	(16,974)
Increase (decrease) in accrued income taxes	50,130	(236,099)
(Increase) in other assets	(19,556)	(30,372)
Increase (decrease) in other long-term liabilities and prepaid pension cost, net	82,430	(97,343)
Excess tax benefits from share-based compensation arrangements	(277)	(475)
Net cash provided by operating activities	282,647	146,421
Cash flows from investing activities:		
Additions to plant and equipment	(317,421)	(247,575)
Proceeds from sales of plant and equipment	2,916	2,422
Acquisition of businesses, net of cash acquired	(26,546)	(9,161)
Purchases of short-term investments		(60,162)
Maturities of short-term investments	24,383	
(Increase) in restricted cash	(10,091)	(34,825)
Net cash used for investing activities	(326,759)	(349,301)
Cash flows from financing activities:		
Bank and commercial paper borrowings (repayments), net	173,199	
Other debt borrowings	2,441	4,580
Other debt repayments	(4,521)	(5,601)
Common stock reissued from treasury for share-based compensation awards	65,555	36,914
Treasury stock purchases	(285,442)	
Dividends paid	(294,089)	(283,766)

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Excess tax benefits from share-based compensation arrangements	277	475
Net cash used for financing activities	(342,580)	(247,398)
Effect of exchange rates on cash	11,004	6,512
Net (decrease) in cash and cash equivalents	(375,688)	(443,766)
Cash and cash equivalents at beginning of period	585,443	1,018,651
Cash and cash equivalents at end of period	\$ 209,755	\$ 574,885
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	\$ 59,140	\$ 67,670
Income taxes	467,788	759,704
See Notes to Consolidated Financial Statements		

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Table of Contents**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 July 3, 2010 consolidated balance sheet which was taken from the audited financial statements included in the company's Fiscal 2010 Annual Report on Form 10-K. The financial statements include consolidated balance sheets, consolidated results of operations, consolidated statements of comprehensive income and consolidated cash flows. In the opinion of management, all adjustments, which consist of normal recurring adjustments, necessary to present fairly the financial position, results of operations, comprehensive income and cash flows for all periods presented have been made.

Prior year amounts within the consolidated balance sheets and consolidated cash flows have been reclassified to conform to the current year presentation as it relates to the presentation of cash and accounts payable 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 2010 Annual Report on Form 10-K.

A review of the financial information herein has been made by Ernst & Young LLP, independent auditors, in accordance with established professional standards and procedures for such a review. A report from Ernst & Young LLP concerning their review is included as Exhibit 15.1 to this Form 10-Q.

2. 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. Short-term investments consist of commercial paper with original maturities of greater than three months but less than one year. These investments are considered available-for-sale and are recorded at fair value. As of each period presented below where short-term investments were held, the difference between the fair value of the short-term investments and the original cost was not material. 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, certificates of deposit 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.

Commercial paper included in short-term investments is valued using broker quotes that utilize observable market inputs. These are included 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.

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The interest rate swap agreements, discussed further in Note 3, 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 as a Level 2 measurement in the tables below.

The following tables present the company's assets and liabilities measured at fair value on a recurring basis as of January 1, 2011, July 3, 2010 and December 26, 2009:

Assets Measured at Fair Value as of Jan. 1, 2011

	Level 1	Level 2	Level 3	Total
	(In thousands)			
Assets:				
Cash and cash equivalents				
Cash equivalents	\$	\$ 107,251	\$	\$ 107,251
Restricted cash	134,579			134,579
Other assets				
Interest rate swap agreements		13,266		13,266
Total assets at fair value	\$ 134,579	\$ 120,517	\$	\$ 255,096

Assets Measured at Fair Value as of July 3, 2010

	Level 1	Level 2	Level 3	Total
	(In thousands)			
Assets:				
Cash and cash equivalents				
Cash equivalents	\$ 225,400	\$ 199,047	\$	\$ 424,447
Short-term investments		23,511		23,511
Restricted cash	124,488			124,488
Other assets				
Interest rate swap agreements		11,045		11,045
Total assets at fair value	\$ 349,888	\$ 233,603	\$	\$ 583,491

Assets and Liabilities Measured at Fair Value as of Dec. 26, 2009

	Level 1	Level 2	Level 3	Total
	(In thousands)			
Assets:				
Cash and cash equivalents				
Cash equivalents	\$ 357,800	\$ 102,846	\$	\$ 460,646
Short-term investments		61,860		61,860
Restricted cash	128,683			128,683
Other assets				
Interest rate swap agreements		534		534

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Total assets at fair value	\$ 486,483	\$ 165,240	\$	\$ 651,723
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Liabilities:

Other long-term liabilities

Interest rate swap agreement	\$	\$ 1,109	\$	\$ 1,109
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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. The fair value of total debt approximated \$2,857.7 million, \$2,774.9 million and \$2,604.0 million as of January 1, 2011, July 3, 2010 and

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December 26, 2009, respectively. The carrying value of total debt was \$2,661.4 million, \$2,480.6 million and \$2,477.1 million as of January 1, 2011, July 3, 2010 and December 26, 2009, respectively.

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

The location and the fair value of derivative instruments in the consolidated balance sheet as of January 1, 2011, July 3, 2010 and December 26, 2009 are as follows:

	Asset Derivatives		Liability Derivatives	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
(In thousands)				
Interest rate swap agreements				
Jan. 1, 2011	Other assets	\$ 13,266	N/A	N/A
July 3, 2010	Other assets	11,045	N/A	N/A
Dec. 26, 2009	Other assets	\$ 534	Other long-term liabilities	\$ 1,109

The location and effect of derivative instruments and related hedged items on the consolidated results of operations for the 26-week periods ended January 1, 2011 and December 26, 2009 presented on a pre-tax basis are as follows:

	Location of (Gain) or Loss Recognized in Income	Amount of (Gain) or Loss Recognized in Income	
		Jan. 1, 2011	Dec. 26, 2009
(In thousands)			
Fair Value Hedge Relationships:			
Interest rate swap agreements	Interest expense	\$ (4,486)	\$ (1,558)

The location and effect of derivative instruments and related hedged items on the consolidated results of operations for the 13-week periods ended January 1, 2011 and December 26, 2009 presented on a pre-tax basis are as follows:

	Location of (Gain)	Amount of (Gain) or Loss
		Recognized in Income
(In thousands)		

**or Loss
Recognized**

**Jan. 1,
2011**