

SJW CORP
Form 10-Q
November 06, 2014

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

FORM 10-Q
QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2014
Commission file number 1-8966
SJW Corp.
(Exact name of registrant as specified in its charter)

California 77-0066628
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

110 West Taylor Street, San Jose, CA 95110
(Address of principal executive offices) (Zip Code)
408-279-7800
(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

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 (§232.405 of this chapter) 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 definitions of "large accelerated filer," "accelerated filer," "non-accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (check one)

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

As of October 24, 2014, there were 20,238,134 shares of the registrant's Common Stock outstanding.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

SJW Corp. and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(UNAUDITED)

(in thousands, except share and per share data)

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
OPERATING REVENUE	\$125,430	85,238	\$250,382	209,607
OPERATING EXPENSE:				
Production Expenses:				
Purchased water	15,616	21,092	37,288	49,525
Power	3,453	3,074	7,565	5,736
Groundwater extraction charges	17,286	13,142	42,250	27,257
Other production expenses	3,073	3,080	8,936	8,675
Total production expenses	39,428	40,388	96,039	91,193
Administrative and general	10,574	10,706	29,534	32,285
Maintenance	3,975	3,325	10,822	9,958
Property taxes and other non-income taxes	2,872	2,686	8,251	7,769
Depreciation and amortization	9,467	8,787	28,447	26,346
Total operating expense	66,316	65,892	173,093	167,551
OPERATING INCOME	59,114	19,346	77,289	42,056
OTHER (EXPENSE) INCOME:				
Interest on long-term debt	(5,050)	) (4,722)	) (14,145)	) (14,045)
Mortgage and other interest expense	(347)	) (287)	) (1,076)	) (942)
Gain on sale of California Water Service Group stock	—	—	2,017	—
Gain on sale of real estate investment	281	—	554	1,063
Dividend income	42	62	147	185
Other, net	57	354	716	1,314
Income before income taxes	54,097	14,753	65,502	29,631
Provision for income taxes	15,731	5,803	19,384	11,924
NET INCOME	38,366	8,950	46,118	17,707
Other comprehensive income (loss), net of tax:				
Unrealized income (loss) on investment	(271)	) 185	(32)	) 450
Reclassification adjustment for gain realized on sale of investments	—	—	(1,171)) —
COMPREHENSIVE INCOME	\$38,095	9,135	\$44,915	18,157
EARNINGS PER SHARE				
Basic	\$1.90	0.44	\$2.28	0.90
Diluted	\$1.88	0.44	\$2.26	0.89
DIVIDENDS PER SHARE	\$0.19	0.18	\$0.56	0.55
WEIGHTED AVERAGE SHARES OUTSTANDING				
Basic	20,231,426	20,151,729	20,213,676	19,643,290
Diluted	20,424,140	20,346,817	20,402,605	19,839,426

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

SJW Corp. and Subsidiaries
 CONDENSED CONSOLIDATED BALANCE SHEETS
 (UNAUDITED)
 (in thousands, except share and per share data)

	September 30, 2014	December 31, 2013
ASSETS		
Utility plant:		
Land	\$ 10,867	10,418
Depreciable plant and equipment	1,327,949	1,254,586
Construction in progress	34,319	30,846
Intangible assets	19,149	18,341
	1,392,284	1,314,191
Less accumulated depreciation and amortization	442,429	415,453
	949,855	898,738
Real estate investments	73,790	78,477
Less accumulated depreciation and amortization	11,201	10,658
	62,589	67,819
CURRENT ASSETS:		
Cash and cash equivalents	5,599	2,299
Accounts receivable:		
Customers, net of allowances for uncollectible accounts	18,077	14,496
Income tax	1,981	1,661
Other	719	476
Accrued unbilled utility revenue	22,593	17,556
Materials and supplies	1,138	1,045
Prepaid expenses	3,113	2,119
Current regulatory assets, net	17,308	—
	70,528	39,652
OTHER ASSETS:		
Investment in California Water Service Group	5,815	8,885
Unamortized debt issuance, broker and reacquisition costs	5,343	5,176
Net regulatory assets, less current portion	109,537	83,543
Other	6,437	6,173
	127,132	103,777
	\$ 1,210,104	1,109,986

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

SJW Corp. and Subsidiaries
 CONDENSED CONSOLIDATED BALANCE SHEETS
 (UNAUDITED)
 (in thousands, except share and per share data)

	September 30, 2014	December 31, 2013
CAPITALIZATION AND LIABILITIES		
CAPITALIZATION:		
Shareholders' equity:		
Common stock, \$0.521 par value; authorized 36,000,000 shares; issued and outstanding 20,237,660 shares on September 30, 2014 and 20,169,211 on December 31, 2013	\$10,541	10,505
Additional paid-in capital	64,919	63,017
Retained earnings	278,918	244,266
Accumulated other comprehensive income	2,184	3,387
Total shareholders' equity	356,562	321,175
Long-term debt, less current portion	384,514	334,997
	741,076	656,172
CURRENT LIABILITIES:		
Line of credit	8,200	22,400
Current portion of long-term debt	624	554
Accrued groundwater extraction charges and purchased water	10,394	7,116
Purchased power	1,247	665
Accounts payable	12,311	12,587
Accrued interest	5,914	5,369
Accrued property taxes and other non-income taxes	3,123	1,618
Accrued payroll	3,822	3,198
Other current liabilities	6,118	5,688
	51,753	59,195
DEFERRED INCOME TAXES	157,820	140,736
UNAMORTIZED INVESTMENT TAX CREDITS	1,330	1,375
ADVANCES FOR CONSTRUCTION	71,830	70,043
CONTRIBUTIONS IN AID OF CONSTRUCTION	135,080	132,260
DEFERRED REVENUE	1,346	1,213
POSTRETIREMENT BENEFIT PLANS	44,329	43,496
OTHER NONCURRENT LIABILITIES	5,540	5,496
COMMITMENTS AND CONTINGENCIES	—	—
	\$1,210,104	1,109,986

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

SJW Corp. and Subsidiaries
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 (UNAUDITED)
 (in thousands)

	Nine months ended September 30,	
	2014	2013
OPERATING ACTIVITIES:		
Net income	\$46,118	17,707
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	29,635	27,510
Deferred income taxes	18,488	10,211
Share-based compensation	774	786
Gain on sale of real estate investment	(554	) (1,063
Gain on sale of California Water Service Group stock	(2,017) —
Changes in operating assets and liabilities:		
Accounts receivable and accrued unbilled utility revenue	(8,638	) (13,067
Accounts payable, purchased power and other current liabilities	1,047	(1,948
Accrued groundwater extraction charges and purchased water	3,278	6,109
Tax receivable and accrued taxes	1,428	2,517
Postretirement benefits	833	4,312
Regulatory asset related to balancing and memorandum accounts	(43,331	) (3,536
Other changes, net	(1,160	) (2,326
NET CASH PROVIDED BY OPERATING ACTIVITIES	45,901	47,212
INVESTING ACTIVITIES:		
Additions to utility plant:		
Company-funded	(70,255	) (59,503
Contributions in aid of construction	(7,311	) (8,280
Additions to real estate investments	(9	) (4,177
Payments for business/asset acquisition and water rights	(1,584	) (1,587
Cost to retire utility plant, net of salvage	(874	) (1,814
Proceeds from sale of real estate investment	4,572	8,831
Proceeds from sale of California Water Service Group stock	3,056	—
NET CASH USED IN INVESTING ACTIVITIES	(72,405	) (66,530
FINANCING ACTIVITIES:		
Borrowings from line of credit	51,200	25,200
Repayments of line of credit	(65,400	) (33,500
Long-term borrowings	50,000	—
Repayments of long-term borrowings	(413	) (5,258
Dividends paid	(11,373	) (10,764
Issuance of common stock, net of issuance costs	—	35,894
Exercise of stock options and similar instruments	917	878
Tax benefits realized from share options exercised	306	27
Receipts of advances and contributions in aid of construction	6,601	9,233
Refunds of advances for construction	(2,034	) (1,695
NET CASH PROVIDED BY FINANCING ACTIVITIES	29,804	20,015
NET CHANGE IN CASH AND CASH EQUIVALENTS	3,300	697
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	2,299	2,522
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$5,599	3,219

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Cash paid during the period for:		
Interest	\$ 15,651	15,478
Income taxes	1,930	2,185
Supplemental disclosure of non-cash activities:		
(Decrease) increase in accrued payables for construction costs capitalized	(296	) 4,141
Utility property installed by developers	3,242	190
Increase in real estate investments due to accrued tenant improvements	—	379
Accrued intangible assets and other charges related to water supply project in Texas	—	2,209

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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SJW CORP. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2014

(in thousands, except share and per share data)

Note 1. General

In the opinion of management, the accompanying unaudited condensed consolidated financial statements reflect all adjustments (consisting only of normal, recurring adjustments) necessary for a fair presentation of the results for the interim periods.

The unaudited interim financial information has been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") and in accordance with the instructions for Form 10-Q and Rule 10-01 of Regulation S-X promulgated by the Securities and Exchange Commission (the "SEC"). The Notes to Consolidated Financial Statements in SJW Corp.'s 2013 Annual Report on Form 10-K should be read with the accompanying unaudited condensed consolidated financial statements.

Water sales are seasonal in nature and influenced by weather conditions. The timing of precipitation and climatic conditions can cause seasonal water consumption by customers to vary significantly. Due to the seasonal nature of the water business, the operating results for interim periods are not indicative of the operating results for a 12-month period. Revenue is generally higher in the warm, dry summer months when water usage and sales are greater, and lower in the winter months when cooler temperatures and increased rainfall curtail water usage and sales. Our service area in California is in the midst of a record drought. In response to this, on January 17, 2014, Governor Edmund G. Brown Jr. proclaimed a State of Emergency and directed state officials to take necessary actions to prepare for drought conditions.

The Santa Clara Valley Water District ("SCVWD"), San Jose Water Company's water wholesaler, has set a target of a 20% reduction for water use in 2014 in accordance with its adopted water shortage contingency plan and recommended that its retail water and municipal customers implement mandatory measures to meet the target. Effective March 31, 2014, San Jose Water Company received approval from the California Public Utilities Commission ("CPUC") for a Mandatory Conservation Revenue Adjustment Memorandum Account ("MCRAMA") to track any revenue shortfall and a Mandatory Conservation Memorandum Account ("MCMA") to track operational and administrative costs associated with implementation of the 20% conservation goal. San Jose Water Company will record the impact of the MCRAMA and MCMA regulatory accounts once probability of recovery can be determined and collection can be assured within 24 months after the end of the fiscal year in which the revenue is recorded. For further discussion, please see Note 9.

On August 14, 2014, the CPUC issued a decision on San Jose Water Company's General Rate Case filing for the years 2013-2015. The decision authorized an increase of revenue for 2013 and 2014 and provided authorization to file to increase rates for 2015 in November 2014. San Jose Water Company was also authorized to file for a surcharge to true-up the difference between interim rates and authorized rates. On September 29, 2014, the CPUC approved a surcharge of \$46,700 to true-up the difference between interim rates and authorized rates as well as one-time refunds of \$200. For further discussion, please see Notes 9 and 10.

Basic earnings per share is calculated using income available to common shareholders, divided by the weighted average number of shares outstanding during the period. Diluted earnings per share is calculated using income available to common shareholders divided by the weighted average number of shares of common stock including both shares outstanding and shares potentially issuable in connection with stock options, deferred restricted common stock awards under SJW Corp.'s Long-Term Incentive Plan (as amended, the "Incentive Plan") and shares potentially issuable under the 2014 Employee Stock Purchase Plan ("2014 ESPP"). For the three months ended September 30, 2014 and 2013, 180 and 452 anti-dilutive restricted common stock units were excluded from the dilutive earnings per share calculation, respectively. For the nine months ended September 30, 2014 and 2013, 1,309 and 1,597 anti-dilutive restricted common stock units were excluded from the dilutive earnings per share calculation, respectively.

A portion of depreciation expense is allocated to administrative and general expense. For the three months ended September 30, 2014 and 2013, the amounts allocated to administrative and general expense were \$396 and \$385,

respectively. For the nine months ended September 30, 2014 and 2013, the amounts allocated to administrative and general expense were \$1,188 and \$1,164, respectively.

Note 2. Equity Plans

SJW Corp. accounts for share-based compensation based on the grant date fair value of the awards issued to employees in accordance with Financial Accounting Standards Board (FASB) Accounting Standard Codification (ASC) Topic 718 - "Compensation - Stock Compensation," which requires the measurement and recognition of compensation expense based on the estimated fair value for all share-based payment awards.

SJW CORP. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

SEPTEMBER 30, 2014

(in thousands, except share and per share data)

The Incentive Plan allows SJW Corp. to provide employees, non-employee board members or the board of directors of any parent or subsidiary, consultants, and other independent advisors who provide services to the company or any parent or subsidiary the opportunity to acquire an equity interest in SJW Corp. The types of awards included in the Incentive Plan are restricted stock awards, restricted stock units, performance shares, or other share-based awards. As of September 30, 2014, the remaining shares available for issuance under the Incentive Plan were 1,073,817, and 346,296 shares were issuable upon the exercise of outstanding options, restricted stock units, and deferred restricted stock units. In addition, shares are issued to employees under the ESPP. SJW Corp. also had a Dividend Reinvestment and Stock Purchase Plan (“DRSPP”) which allowed eligible participants to buy shares and reinvest cash dividends in SJW Corp. common stock. The DRSPP was terminated effective as of April 14, 2014.

The compensation costs charged to income are recognized on a straight-line basis over the requisite service period. A summary of compensation costs charged to income, proceeds from the exercise of stock options and similar instruments, and the tax benefit realized from stock options and similar instruments exercised, that were recorded to additional paid-in capital and common stock, by award type, are presented below for the three and nine months ended September 30, 2014 and 2013.

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Adjustments to additional paid-in capital and common stock for:				
Compensation costs charged to income:				
ESPP	\$76	70	\$148	128
Restricted stock and deferred restricted stock	247	127	626	658
Total compensation costs charged to income	\$323	197	\$774	786
Excess tax benefits realized from share options exercised and stock issuance:				
Stock options	\$—	27	\$59	27
Restricted stock and deferred restricted stock	(3	) (95	) 247	—
Total excess tax benefits realized from share options exercised and stock issuance	\$(3	) (68	) \$306	27
Proceeds from the exercise of stock options and similar instruments:				
Stock options	\$—	96	\$44	96
DRSPP	—	21	34	59
ESPP	433	395	839	723
Total proceeds from the exercise of stock options and similar instruments	\$433	512	\$917	878

Stock, Restricted Stock and Deferred Restricted Stock

On January 2, 2014, restricted stock units covering an aggregate of 21,790 shares of common stock of SJW Corp. were granted to certain executives of SJW Corp. and its subsidiaries. The units vest in three equal successive installments upon completion of each year of service with no dividend equivalent rights. Share-based compensation expense based on a grant date fair value of \$26.80 per unit is being recognized over the service period beginning in 2014.

On January 31, 2014, restricted stock units covering an aggregate of 3,845 shares of common stock of SJW Corp. were granted to an executive of SJW Corp. and its subsidiaries. The units vest in three equal successive installments upon completion of each year of service with no dividend equivalent rights. Share-based compensation expense based on a grant date fair value of \$26.39 per unit is being recognized over the service period beginning in 2014.

On April 30, 2014, restricted stock units covering an aggregate of 9,002 shares of common stock of SJW Corp. were granted to the non-employee board members of SJW Corp. The units vest upon continuous board service through the day immediately preceding the date of the next annual shareholder meeting with no dividend equivalent rights. Share-based compensation expense based on grant date fair value of \$26.48 per unit is being recognized over the service period beginning in 2014.

On August 4, 2014, a total of 36,988 restricted stock units were granted to a key employee of SJW Corp. which includes performance-based restricted stock units covering a target number of shares of SJW Corp.'s common stock equal to 19,917 that will convert, if earned, between August 4, 2014 and December 31, 2017, based on the terms of the award. The number of shares issuable under the award, ranging between 0% and 200% of the target number of shares, is based on the level of actual attainment of specified performance goals. These units do not include dividend equivalent rights. The fair value of the

SJW CORP. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

SEPTEMBER 30, 2014

(in thousands, except share and per share data)

performance-based restricted awards was estimated using the fair value of SJW Corp.'s common stock with the effect of market condition and no dividend yield on the date of grant, and assumes the performance goals will be attained. Share-based compensation expense is recognized at \$26.81 per unit. If such goals are not met and requisite service is not rendered, no compensation cost will be recognized and any recognized compensation cost will be reversed. The remainder of restricted stock units granted, 17,071 units, will vest in three equal successive installments upon completion of each year of service, beginning from January 1, 2015, with no dividend equivalent rights. Share-based compensation expense based on a grant date fair value of \$24.14 per unit is being recognized over the service period beginning in 2015.

As of September 30, 2014, the total unrecognized compensation costs related to restricted and deferred restricted stock plans amounted to \$1,863. This cost is expected to be recognized over a remaining weighted-average period of 1.58 years.

Employee Stock Purchase Plan

The 2014 ESPP allows eligible employees to purchase shares of SJW Corp.'s common stock at 85% of the fair value of shares on the purchase date. Under the 2014 ESPP, employees can designate up to a maximum of 10% of their base compensation for the purchase of shares of common stock, subject to certain restrictions. A total of 400,000 shares of common stock have been reserved for issuance under the 2014 ESPP.

After considering estimated employee terminations or withdrawals from the plan before the purchase date, SJW Corp.'s recorded expenses were \$37 and \$112 for the three and nine months ended September 30, 2014, respectively, and \$34 and \$102 for the three and nine months ended September 30, 2013, respectively, related to the 2014 ESPP. The total unrecognized compensation costs related to the semi-annual offering period that ends January 30, 2015 for the 2014 ESPP is approximately \$48. This cost is expected to be recognized during the fourth quarter of 2014 and first quarter of 2015.

Dividend Reinvestment and Stock Purchase Plan

SJW Corp. adopted the DRSP effective April 19, 2011. The DRSP offered shareholders the ability to reinvest cash dividends in SJW Corp. common stock and also purchase additional shares of SJW Corp. common stock. A total of 3,000,000 shares of common stock were reserved for issuance under the DRSP. For the three and nine months ended September 30, 2014, 0 and 1,151 shares, respectively, were issued under the DRSP. For the three and nine months ended September 30, 2013, 829 and 2,273 shares, respectively, have been issued under the DRSP.

SJW Corp. terminated the DRSP effective as of April 14, 2014. On April 16, 2014, SJW Corp. filed a Post-Effective Amendment No. 1 to the registration statement on Form S-3 (file no. 333-172048) with the SEC to deregister the 2,993,744 remaining shares of SJW Corp.'s common stock that were available for issuance under the DRSP at the time of its termination.

Note 3. Real Estate Investments

The major components of real estate investments as of September 30, 2014 and December 31, 2013 are as follows:

	September 30, 2014	December 31, 2013
Land	\$17,297	18,892
Buildings and improvements	56,164	59,256
Intangibles	329	329
Subtotal	73,790	78,477
Less: accumulated depreciation and amortization	11,201	10,658
Total	\$62,589	67,819

Depreciation and amortization is computed using the straight-line method over the estimated life of the respective assets, ranging from 5 to 39 years.

On August 1, 2014, San Jose Water Company sold a nonutility property located in San Jose, California for \$300. SJW Corp. recognized a pre-tax gain on the sale of real estate investment of \$281, after selling expense of \$10.

On June 30, 2014, SJW Land Company sold its retail building located in El Paso, Texas for \$4,450. SJW Corp. recognized a pre-tax gain on the sale of real estate investment of \$273, after selling expenses of \$169.

SJW CORP. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

SEPTEMBER 30, 2014

(in thousands, except share and per share data)

On February 1, 2013, SJW Land Company sold its warehouse building located in Windsor, Connecticut for \$9,200. SJW Corp. recognized a pre-tax gain on the sale of real estate investment of \$1,063, after selling expenses of \$369.

Note 4. Income Taxes

SJW Corp. accounts for income taxes using the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Measurement of the deferred tax assets and liabilities is at enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period that includes the enactment date.

In the second quarter of 2014, SJW Corp. recorded \$880 in State of California enterprise zone sales and use taxes credits related to tax years 2008 through 2012.

On September 13, 2013, the Department of Treasury and the Internal Revenue Service issued final tangible property regulations under provisions that generally are intended to simplify, clarify and make more administrable the 2011 temporary and proposed tangible property regulations. These regulations broadly apply to amounts to acquire, produce or improve tangible property, as well as dispositions of such property and provide criteria for determining whether such amounts can be deducted or should be capitalized as part of the asset. The final regulations generally are effective for tax years beginning on or after January 1, 2014. During the third quarter of 2014, management completed its evaluation of the capitalization elections under the new regulations in order to establish its method of complying with the new regulations and record the impact in the consolidated financial statements. To comply with the new regulations, SJW Corp. will apply the accounting method change in its 2014 tax returns for the expensing of certain utility asset improvement costs for tax purposes as of December 31, 2013 that were previously being capitalized for book and tax purposes. As of September 30, 2014, the estimated 2014 federal and state repairs and maintenance deduction under the new methodology was \$19,395, resulting in an estimated \$5,091 Federal deferred tax liability and a state income tax benefit of \$853. During the third quarter of 2014, SJW Corp. also completed a detailed analysis of the repairs and maintenance deduction related to 2013 and prior years, and recorded the estimated federal and state impact in the consolidated financial statements as of September 30, 2014. SJW Corp.'s Internal Revenue Code ("IRC") §481(a) adjustment for Federal purposes was estimated to be \$41,171 and resulted in a \$14,410 deferred tax liability as of September 30, 2014. SJW Corp.'s IRC §481(a) adjustment for state purposes was estimated to be \$83,524 and resulted in a \$4,799 reduction to state income tax expense for the three and nine months ended September 30, 2014.

Note 5. Defined Benefit Plan

San Jose Water Company sponsors a noncontributory defined benefit pension plan for its eligible employees. Employees hired before March 31, 2008 are entitled to receive retirement benefits using a formula based on the employee's three highest years of compensation (whether or not consecutive). For employees hired on or after March 31, 2008, benefits are determined using a cash balance formula based on compensation credits and interest credits for each employee. Officers hired before March 31, 2008 are eligible to receive additional retirement benefits under the Executive Supplemental Retirement Plan, and officers hired on or after March 31, 2008 are eligible to receive additional retirement benefits under the Cash Balance Executive Supplemental Retirement Plan. Both plans are non-qualified plans in which only officers and other designated members of management may participate. San Jose Water Company also provides health care and life insurance benefits for retired employees under the San Jose Water Company Social Welfare Plan. The components of net periodic benefit costs for San Jose Water Company's pension plan, its Executive Supplemental Retirement Plan, Cash Balance Executive Supplemental Retirement Plan and Social Welfare Plan for the three and nine months ended September 30, 2014 and 2013 are as follows:

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	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Service cost	\$1,056	1,239	\$3,167	3,717
Interest cost	1,651	1,475	4,954	4,425
Other cost	627	1,208	1,883	3,624
Expected return on assets	(1,670) (1,380) (5,011) (4,140
	\$1,664	2,542	\$4,993	7,626

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SJW CORP. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

SEPTEMBER 30, 2014

(in thousands, except share and per share data)

The following tables summarize the fair values of plan assets by major categories as of September 30, 2014 and December 31, 2013:

		Fair Value Measurements at September 30, 2014			
Asset Category	Benchmark	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents		\$7,261	\$7,261	\$—	\$—
Actively Managed (a):					
All Cap Equity	Russell 3000 Value	2,402	2,378	24	—
U.S. Large Cap Equity	Russell 1000, Russell 1000 Growth, Russell 1000 Value	35,541	35,541	—	—
U.S. Mid Cap Equity	Russell Mid Cap, Russell Mid Cap Growth, Russell Mid Cap Value	5,731	5,731	—	—
U.S. Small Cap Equity	Russell 2000, Russell 2000 Growth, Russell 2000 Value	3,010	3,010	—	—
Non-U.S. Large Cap Equity	MSCI EAFE	4,832	4,832	—	—
REIT	NAREIT - Equity REIT'S	4,480	—	4,480	—
Fixed Income (b)	(b)	35,747	—	35,747	—
Total		\$99,004	\$58,753	\$40,251	\$—

The Plan has a current target allocation of 55% invested in a diversified array of equity securities to provide long-term capital appreciation and 45% invested in a diversified array of fixed income securities to provide preservation of capital plus generation of income.

(a) Actively managed portfolio of securities with the goal to exceed the stated benchmark performance.

(b) Actively managed portfolio of fixed income securities with the goal to exceed the Barclays 1-5 Year Government/Credit, Barclays Intermediate Government/Credit, and Merrill Lynch Preferred Stock Fixed Rate.

		Fair Value Measurements at December 31, 2013			
Asset Category	Benchmark	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents		\$9,127	\$9,127	\$—	\$—
Actively Managed (a):					
All Cap Equity	Russell 3000 Vaue	283	266	17	—

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U.S. Large Cap Equity	Russell 1000, Russell 1000 Growth, Russell 1000 Value	32,286	32,286	—	—
U.S. Mid Cap Equity	Russell Mid Cap, Russell Mid Cap Growth, Russell Mid Cap Value	5,551	5,551	—	—
U.S. Small Cap Equity	Russell 2000, Russell 2000 Growth, Russell 2000 Value	3,236	3,236	—	—
Non-U.S. Large Cap Equity	MSCI EAFE	5,066	5,066	—	—
REIT	NAREIT - Equity REIT'S	3,913	—	3,913	—
Fixed Income (b)	(b)	35,891	—	35,891	—
Total		\$95,353	\$55,532	\$39,821	\$—

The Plan has a current target allocation of 55% invested in a diversified array of equity securities to provide long-term capital appreciation and 45% invested in a diversified array of fixed income securities to provide preservation of capital plus generation of income.

(a) Actively managed portfolio of securities with the goal to exceed the stated benchmark performance.

(b) Actively managed portfolio of fixed income securities with the goal to exceed the Barclays 1-5 Year Government/Credit, Barclays Intermediate Government/Credit, and Merrill Lynch Preferred Stock Fixed Rate.

SJW CORP. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

SEPTEMBER 30, 2014

(in thousands, except share and per share data)

In 2014, San Jose Water Company expects to make required and discretionary cash contributions of up to \$5,946 to the pension plans and Social Welfare Plan. For the three and nine months ended September 30, 2014, \$1,819 and \$3,638, respectively, has been contributed to the pension plans and Social Welfare Plan.

Note 6. Segment and Nonregulated Business Reporting

SJW Corp. is a holding company with four subsidiaries: (i) San Jose Water Company, a water utility which operates both regulated and nonregulated businesses, (ii) SJW Land Company and its consolidated variable interest entity, 444 West Santa Clara Street, L.P., which operate commercial building rentals, (iii) SJWTX, Inc. which is doing business as Canyon Lake Water Service Company (“CLWSC”), a regulated water utility located in Canyon Lake, Texas, and its consolidated nonregulated variable interest entity, Acequia Water Supply Corporation, and (iv) Texas Water Alliance Limited, a nonregulated water utility operation which is undertaking activities that are necessary to develop a water supply project in Texas. In accordance with FASB ASC Topic 280 – “Segment Reporting,” SJW Corp. has determined that it has two reportable business segments. The first segment is that of providing water utility and utility-related services to its customers through SJW Corp.’s subsidiaries, San Jose Water Company, Canyon Lake Water Service Company, and Texas Water Alliance Limited, together referred to as “Water Utility Services.” The second segment is property management and investment activity conducted by SJW Land Company, referred to as “Real Estate Services.” SJW Corp.’s reportable segments have been determined based on information used by the chief operating decision maker. SJW Corp.’s chief operating decision maker is its Chairman, President and Chief Executive Officer (“CEO”). The CEO reviews financial information presented on a consolidated basis that is accompanied by disaggregated information about operating revenue, net income and total assets, by subsidiaries.

The tables below set forth information relating to SJW Corp.’s reportable segments and distribution of regulated and nonregulated business activities within the reportable segments. Certain allocated assets, revenue and expenses have been included in the reportable segment amounts. Other business activity of SJW Corp. not included in the reportable segments is included in the “All Other” category.

For Three Months Ended September 30, 2014

	Water Utility Services		Real Estate Services	All Other*	SJW Corp.		Total
	Regulated	Non regulated	Non regulated	Non regulated	Regulated	Non regulated	
Operating revenue	\$121,921	1,739	1,770	—	121,921	3,509	125,430
Operating expense	63,518	1,508	1,041	249	63,518	2,798	66,316
Operating income (loss)	58,403	231	729	(249)	58,403	711	59,114
Net income (loss)	37,907	68	795	(404)	37,907	459	38,366
Depreciation and amortization	8,984	89	394	—	8,984	483	9,467
Senior note, mortgage and other interest expense	4,573	—	262	562	4,573	824	5,397
Income tax expense (benefit) in net income	16,394	73	(441)	(295)	16,394	(663)	15,731
Assets	\$1,121,925	17,606	66,457	4,116	1,121,925	88,179	1,210,104

SJW CORP. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

SEPTEMBER 30, 2014

(in thousands, except share and per share data)

	For Three Months Ended September 30, 2013						
	Water Utility Services		Real Estate Services	All Other*	SJW Corp.		Total
	Regulated	Non regulated	Non regulated	Non regulated	Regulated	Non regulated	
Operating revenue	\$81,894	1,859	1,485	—	81,894	3,344	85,238
Operating expense	63,260	1,538	820	274	63,260	2,632	65,892
Operating income (loss)	18,634	321	665	(274)	18,634	712	19,346
Net income (loss)	9,114	109	132	(405)	9,114	(164)	8,950
Depreciation and amortization	8,293	90	404	—	8,293	494	8,787
Senior note, mortgage and other interest expense	4,197	—	268	544	4,197	812	5,009
Income tax expense (benefit) in net income	5,840	135	132	(304)	5,840	(37)	5,803
Assets	\$1,053,710	16,443	71,176	8,511	1,053,710	96,130	1,149,840
	For Nine Months Ended September 30, 2014						
	Water Utility Services		Real Estate Services	All Other*	SJW Corp.		Total
	Regulated	Non regulated	Non regulated	Non regulated	Regulated	Non regulated	
Operating revenue	\$240,514	4,520	5,348	—	240,514	9,868	250,382
Operating expense	165,623	3,596	3,118	756	165,623	7,470	173,093
Operating income (loss)	74,891	924	2,230	(756)	74,891	2,398	77,289
Net income (loss)	44,401	351	1,379	(13)	44,401	1,717	46,118
Depreciation and amortization	26,950	269	1,228	—	26,950	1,497	28,447
Senior note, mortgage and other interest expense	12,793	—	761	1,667	12,793	2,428	15,221
Income tax expense (benefit) in net income	19,154	314	(15)	(69)	19,154	230	19,384
Assets	\$1,121,925	17,606	66,457	4,116	1,121,925	88,179	1,210,104
	For Nine Months Ended September 30, 2013						
	Water Utility Services		Real Estate Services	All Other*	SJW Corp.		Total
	Regulated	Non regulated	Non regulated	Non regulated	Regulated	Non regulated	
Operating revenue	\$201,149	4,524	3,934	—	201,149	8,458	209,607
Operating expense	159,845	4,573	2,378	755	159,845	7,706	167,551
Operating income (loss)	41,304	(49)	1,556	(755)	41,304	752	42,056
Net income (loss)	18,400	(291)	801	(1,203)	18,400	(693)	17,707
Depreciation and amortization	24,879	270	1,197	—	24,879	1,467	26,346
	12,495	—	853	1,639	12,495	2,492	14,987

Senior note, mortgage and
other interest expense

Income tax expense (benefit) in net income	12,141	48	639	(904	)	12,141	(217	)	11,924
Assets	\$1,053,710	16,443	71,176	8,511		1,053,710	96,130		1,149,840

* The "All Other" category includes the accounts of SJW Corp. on a stand-alone basis.

Note 7. Long-Term Liabilities and Bank Borrowings

SJW Corp.'s contractual obligations and commitments include senior notes, mortgages and other obligations. San Jose Water Company, a subsidiary of SJW Corp., has received advance deposit payments from its customers on certain construction projects. Refunds of the advance deposit payments constitute an obligation of San Jose Water Company solely.

SJW CORP. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

SEPTEMBER 30, 2014

(in thousands, except share and per share data)

On January 24, 2014, San Jose Water Company entered into a note agreement with John Hancock Life Insurance Company (U.S.A.) and its affiliate (the “Purchaser”), pursuant to which San Jose Water Company agreed to sell an aggregate principal amount of \$50,000 of its 5.14% senior note, Series L to the Purchaser. The senior note is an unsecured obligation of San Jose Water Company, due on the date that is the 30th anniversary of the issuance of the senior note. Interest is payable semi-annually in arrears on March 1 and September 1 of each year, commencing March 1, 2015. The transaction closed on August 7, 2014.

On June 23, 2014, San Jose Water Company, SJW Corp., SJW Land Company and Wells Fargo Bank, National Association (“Wells Fargo”) amended their respective credit agreements dated as of March 1, 2012, to extend the maturity date to September 1, 2016. In addition, San Jose Water Company and Wells Fargo increased the maximum principal amount available for borrowing from \$75,000 to \$85,000.

On August 1, 2014, San Jose Water Company, SJW Corp., SJW Land Company and Wells Fargo amended their respective credit agreements dated as of March 1, 2012, to modify the period during which the borrower is required to maintain a zero balance under the credit agreement for 30 consecutive days.

Note 8. Fair Value Measurement

The following instruments are not measured at fair value on the SJW Corp.'s condensed consolidated balance sheets as of September 30, 2014, but require disclosure of their fair values: cash and cash equivalents, accounts receivable and accounts payable. The estimated fair value of such instruments as of September 30, 2014 approximates their carrying value as reported on the condensed consolidated balance sheets. The fair value of such financial instruments are determined using the income approach based on the present value of estimated future cash flows. There have been no changes in our valuation technique during the three months ended September 30, 2014. The fair value of these instruments would be categorized as Level 2 in the fair value hierarchy, with the exception of cash and cash equivalents, which would be categorized as Level 1. The fair value of pension plan assets is discussed in Note 5. The fair value of SJW Corp.'s long-term debt was approximately \$469,092 and \$395,684 as of September 30, 2014 and December 31, 2013, respectively, and was determined using a discounted cash flow analysis, based on the current rates for similar financial instruments of the same duration and creditworthiness of the company. The book value of the long-term debt was \$385,138 and \$335,551 as of September 30, 2014 and December 31, 2013, respectively. The fair value of long-term debt would be categorized as Level 2 in the fair value hierarchy.

SJW CORP. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

SEPTEMBER 30, 2014

(in thousands, except share and per share data)

The following table summarizes the fair value of the SJW Corps.'s investment in California Water Service Group as of September 30, 2014 and December 31, 2013:

	Fair Value Measurements at September 30, 2014			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Assets:				
Investment in California Water Service Group	\$5,815	5,815	—	—
	Fair Value Measurements at December 31, 2013			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Assets:				
Investment in California Water Service Group	\$8,885	8,885	—	—

Note 9. Regulatory Rate Filings

On February 28, 2014, San Jose Water Company submitted Advice Letter No. 456. In this advice letter, San Jose Water Company notified the CPUC that San Jose Water Company was implementing conservation Tariff Rule 14.1. The CPUC's Rule 14.1 provides voluntary conservation measures for customers, focusing primarily on outdoor water use which accounts for 50% of a typical customer's water usage. In addition, San Jose Water Company requested the implementation of a MCMA to track all operational and administrative costs associated with the implementation of Rule 14.1 and implementation of a MCRAMA to track any revenue shortfall associated with the implementation of the 20% conservation goal. The advice letter was approved on March 21, 2014 and the Rule 14.1 voluntary conservation measures, the MCMA, and MCRAMA all went into effect on March 31, 2014. San Jose Water Company will record the impact of the MCRAMA and MCMA regulatory accounts once probability of recovery can be determined and collection can be assured within 24 months of the year-end the revenue is recorded.

On August 14, 2014, the CPUC issued Decision No. 14-08-006 in San Jose Water Company's General Rate Case filing for the years 2013-2015. This Decision resolved all issues in San Jose Water Company's General Rate Case and closed the proceeding. The Decision authorized an increase of revenue of \$22,102, or 9.81%, for 2013 and \$13,274, or 5.21% for 2014, and provides San Jose Water Company authorization to file to increase rates for 2015 in November 2014. Additionally, due to the nearly 20 month delay in receiving the Decision, San Jose Water Company was authorized to file for a surcharge to true-up the difference between interim rates (i.e. rates that were actually in effect since January 1, 2013) and authorized rates (i.e. rates that should have been effect since January 1, 2013). The

Company filed for this surcharge on August 29, 2014 with Advice Letter No. 465, requesting the CPUC to implement a surcharge to recover balances in San Jose Water Company's 2013 General Rate Case Interim Rates Memorandum Account. In this filing, San Jose Water Company sought to recover \$46,700 of revenue which was not collected over the period of January 1, 2013 through August 14, 2014 due to the delayed decision in San Jose Water Company's General Rate Case Application. The retroactive adjustment reflects the impact of actual usage compared to what was authorized in the Decision for 2013 and the combined impact of 2013 and 2014 rate increases for 2014. This recovery was authorized in Decision No. 14-08-006. San Jose Water Company intends to recover the uncollected revenue over a three-year period via a \$0.2888 per CCF surcharge applied to all customer usage as authorized in the 2012 General Rate Case. This surcharge was approved by the CPUC effective September 29, 2014.

On October 3, 2013, CLWSC filed a rate case with the Texas Commission on Environmental Quality ("TCEQ"). The filing contained a request for an average system-wide rate increase of 23.1%, or \$2,400. With the exception of customers served

SJW CORP. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

SEPTEMBER 30, 2014

(in thousands, except share and per share data)

within the City of Bulverde, the new rates became effective on December 2, 2013. Subsequently, effective March 1, 2014, a rate settlement agreement was reached with the City of Bulverde with rate increases being phased-in over a 28-month period. Prior to approval by the TCEQ, the new rates are subject to adjustment and refund for customers outside the City of Bulverde. A preliminary hearing in the matter for customers outside the City of Bulverde was completed on July 22, 2014. A settlement proposal was submitted for the commission's consideration on November 3, 2014, and a decision is expected in the fourth quarter of 2014. CLWSC has recognized the average 23.1% increase in accordance with ASC Topic 980 which provides guidance when a regulated entity is permitted to bill requested rate increases before the regulator has ruled on the request. If information becomes available that indicates it is probable that any of the average 23.1% rate increase will need to be refunded and the amount of refund can be reasonably estimated, a loss contingency shall be accrued. CLWSC has determined at this time that it is not probable that any of the rate increase will need to be refunded. Management does not anticipate that the final TCEQ decision will materially affect SJW Corp.'s financial position, results of operations or cash flows.

Note 10. Balancing and Memorandum Account Recovery Procedures

For California, the CPUC has established a balancing account mechanism for the purpose of tracking the under-collection or over-collection associated with expense changes and the revenue authorized by the CPUC to offset those expense changes. San Jose Water Company also maintains memorandum accounts to track revenue impacts due to catastrophic events, unforeseen water quality expenses related to new federal and state water quality standards, energy efficiency, cost of capital, any revenue requirement impact of the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010, and other approved activities or as directed by the CPUC.

Balancing and memorandum accounts are recognized in revenue by San Jose Water Company when it is probable that future recovery of previously incurred costs or future refunds that are to be credited to customers will occur through the ratemaking process. In addition, in the case of special revenue programs such as the MCRAMA, collection of the account balance must occur within 24 months of the end of the year the revenue is recorded. In assessing the probability criteria for balancing and memorandum accounts between general rate cases, San Jose Water Company considers evidence that may exist prior to CPUC authorization that would satisfy FASB ASC Topic 980 - "Regulated Operations," subtopic 340-25 recognition criteria. Such evidence may include regulatory rules and decisions, past practices, and other facts and circumstances that would indicate that recovery or refund is probable. When such evidence provides sufficient support for balance recognition, the balances are recorded in SJW Corp.'s financial statements.

San Jose Water Company met the recognition requirements for certain of its balancing and memorandum accounts and certain amounts subject to balancing and memorandum accounts and increased revenue and regulatory assets as follows:

	Three months ended September 30, 2014				Three months ended September 30, 2013			
	Beginning Balance	Revenue Increase	(Reduction) (Collections)	Ending Balance	Beginning Balance	Revenue Increase	(Reduction) (Collections)	Ending Balance
Memorandum accounts	\$(1,511)	(154)	23	(1,642)	\$(1,558)	(279)	—	(1,837)
Balancing accounts:								
Water supply costs	(1,221)	2,477	(17)	1,239	(1,833)	679	—	(1,154)

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Pension	9,672	(6,625)	(123)	2,924	8,307	825	—	9,132
2012 General	—	46,456		—		46,456	—	—	—	—
Rate Case true-up										
All others	1,858	(81	)	(9	)	1,768	1,314	536	—	1,850
Total balancing	\$10,309	42,227		(149)	52,387	\$7,788	2,040	—	9,828
accounts										
Total	\$8,798	42,073		(126)	50,745	\$6,230	1,761	—	7,991

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SJW CORP. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

SEPTEMBER 30, 2014

(in thousands, except share and per share data)

	Nine months ended September 30, 2014			Nine months ended September 30, 2013				
	Beginning Balance	Revenue Increase(Decrease)	Refunds (Collections) Balance	Beginning Balance	Revenue Increase(Decrease)	Refunds (Collections) Balance		
Memorandum accounts	\$(1,895)	230	23	(1,642)	928	(878)	(1,837)	
Balancing accounts:								
Water supply costs	(2,378)	3,634	(17)	1,239	(1,590)	436	—	(1,154)
Pension	9,734	(6,687)	(123)	2,924	6,657	2,475	—	9,132
2012 General Rate Case true-up	—	46,456	—	46,456	—	—	—	—
All others	2,229	(452)	(9)	1,768	369	1,481	—	1,850
Total balancing accounts	\$9,585	42,951	(149)	52,387	\$5,436	4,392	—	9,828
Total	\$7,690	43,181	(126)	50,745	\$3,549	5,320	(878)	7,991

On September 29, 2014, the CPUC approved a surcharge to true-up the difference between interim rates and authorized rates of \$46,700 to be recovered over a three-year period as well as one-time refunds of \$200 as authorized in the 2012 General Rate Case. The net amount of \$46,500 has been recorded in the 2012 General Rate Case true-up row in the table above. This amount includes \$2,800 related to water supply and pension balancing accounts that have previously been recorded and have been deducted from the appropriate row in the table above.

As of September 30, 2014, the total balance in San Jose Water Company's balancing and memorandum accounts combined, including interest, that has not been recorded into the financial statements was a net under-collection of \$3,721, of which 87% relates to the MCMA and MCRAMA. All balancing accounts and memorandum-type accounts not included for recovery or refund in the current general rate case will be reviewed by the CPUC in San Jose Water Company's next general rate case or at the time an individual account reaches a threshold of 2% of authorized revenue, whichever occurs first.

SJW CORP. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

SEPTEMBER 30, 2014

(in thousands, except share and per share data)

Note 11. Regulatory Assets and Liabilities

Regulatory assets and liabilities are comprised of the following as of September 30, 2014 and December 31, 2013:

Description	September 30, 2014	December 31, 2013
Regulatory assets:		
Income tax temporary differences, net	\$8,220	8,220
Postretirement pensions and other medical benefits	62,949	62,949
2012 General Rate Case true-up	46,456	—
Pension balancing account	2,924	9,734
Water rate assistance program balancing account	2,189	2,590
Water supply balancing accounts	1,239	—
Other	5,134	4,725
Total regulatory assets	\$129,111	88,218
Regulatory liabilities:		
Cost of capital memorandum account	\$2,266	2,297
Water supply balancing accounts	—	2,378
Total regulatory liabilities	\$2,266	4,675
Total regulatory assets, net in Consolidated Balance Sheets	\$126,845	83,543
Less: current regulatory asset, net	17,308	—
Total regulatory assets, net, less current portion	\$109,537	83,543

Note 12. Legal Proceedings

SJW Corp. is subject to ordinary routine litigation incidental to its business. There are no pending legal proceedings to which SJW Corp. or any of its subsidiaries is a party, or to which any of its properties is the subject, that are expected to have a material effect on SJW Corp.'s business, financial position, results of operations or cash flows.

Note 13. Sale of California Water Service Group
Stock

On June 30, 2014, SJW Corp. sold 125,969 shares of California Water Service Group for \$3,056, before fees of \$10. SJW Corp. recognized a gain on the sale of the stock of approximately \$2,017, tax expense of approximately \$822, for a net gain of \$1,195. The unrealized holding gain associated with the shares sold, that was reclassified out of accumulated other comprehensive income was \$1,171 and was based on the fair value of the stock as of March 31, 2014. As of September 30, 2014, SJW Corp. held 259,151 shares of California Water Service Group. The company classifies its investment in California Water Service Group as available for sale. The stock is carried at the quoted market price with the changes in unrealized gain or loss reported, net of tax, as a component of other comprehensive income.

ITEM MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF
2. OPERATIONS

(Dollar amounts in thousands, except per share amounts and otherwise noted)

The information in this Item 2 should be read in conjunction with the financial information and the notes thereto included in Item 1 of this Form 10-Q and the consolidated financial statements and notes thereto and the related "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained in SJW Corp.'s Annual Report on Form 10-K for the year ended December 31, 2013.

This report contains forward-looking statements within the meaning of the federal securities laws relating to future events and future results of SJW Corp. and its subsidiaries that are based on current expectations, estimates, forecasts, and projections about SJW Corp. and its subsidiaries and the industries in which SJW Corp. and its subsidiaries operate and the beliefs and assumptions of the management of SJW Corp. Such forward-looking statements are identified by words including "expect," "estimate," "anticipate," "intends," "seeks," "plans," "projects," "may," "should," "will," and variations of such words, and similar expressions. These forward-looking statements are only predictions and are subject to risks, uncertainties and assumptions that are difficult to predict. Therefore, actual results may differ materially and adversely from those expressed in any forward-looking statements. Important factors that could cause or contribute to such differences include, but are not limited to, those discussed in this report and our most recent Form 10-K filed with the SEC under the item entitled "Risk Factors," and in other reports SJW Corp. files with the SEC, specifically the most recent reports on Form 10-Q and Form 8-K, each as it may be amended from time to time. SJW Corp. undertakes no obligation to update or revise the information contained in this report, including the forward-looking statements, to reflect any event or circumstance that may arise after the date of this report.

General:

SJW Corp. is a holding company with four subsidiaries: San Jose Water Company, SJW Land Company, SJWTX, Inc., and Texas Water Alliance Limited.

San Jose Water Company, a wholly owned subsidiary of SJW Corp., is a public utility in the business of providing water service to approximately 229,000 connections that serve a population of approximately one million people in an area comprising approximately 138 square miles in the metropolitan San Jose, California area.

The principal business of San Jose Water Company consists of the production, purchase, storage, purification, distribution, wholesale and retail sale of water. San Jose Water Company provides water service to customers in portions of the cities of San Jose and Cupertino and in the cities of Campbell, Monte Sereno, Saratoga and the Town of Los Gatos, and adjacent unincorporated territories, all in the County of Santa Clara in the State of California. San Jose Water Company distributes water to customers in accordance with accepted water utility methods which include pumping from storage and gravity feed from high elevation reservoirs. San Jose Water Company also provides non-tariffed services under agreements with municipalities and other utilities. These non-tariffed services include water system operations, maintenance agreements and antenna leases.

San Jose Water Company has utility property including land held in fee, impounding reservoirs, diversion facilities, wells, distribution storage, and all water facilities, equipment, office buildings and other property necessary to supply its customers. Under Section 851 of the California Public Utilities Code, properties currently used and useful in providing utilities services cannot be disposed of unless CPUC approval is obtained.

San Jose Water Company also has approximately 700 acres of nonutility property which has been identified as no longer used and useful in providing utility services. The majority of the properties are located in the hillside areas adjacent to San Jose Water Company's various watershed properties.

SJW Land Company, a wholly owned subsidiary of SJW Corp., owned the following real properties during the year-to-date period ended September 30, 2014:

Description	Location	Acreage	Square Footage	% for Nine Months Ended September 30, 2014 of SJW Land Company		
				Revenue	Expense	
2 Commercial buildings	San Jose, California	2	28,000	10	% 10	%
Retail building *	El Paso, Texas	2	14,000	3	% 1	%
Warehouse building	Phoenix, Arizona	11	176,000	12	% 9	%
Warehouse building	Knoxville, Tennessee	30	361,500	33	% 29	%
Commercial building	Knoxville, Tennessee	15	135,000	42	% 51	%
Undeveloped land	Knoxville, Tennessee	10	N/A	N/A	N/A	
Undeveloped land	San Jose, California	5	N/A	N/A	N/A	

* On June 30, 2014, SJW Land Company closed the sale of its Texas retail building. Revenue and expense amounts are through the sale closing date. Expense amount excludes the gain on sale of property.

SJW Land Company owns a 70% limited partnership interest in 444 West Santa Clara Street, L.P. One of the California properties is owned by such partnership. The limited partnership has been determined to be a variable interest entity within the scope of FASB ASC Topic 810 – “Consolidation” with SJW Land Company as the primary beneficiary, and as a result, it has been consolidated with SJW Land Company.

SJWTX, Inc., a wholly owned subsidiary of SJW Corp., doing business as Canyon Lake Water Service Company (“CLWSC”), is a public utility in the business of providing water service to approximately 12,000 connections that serve approximately 36,000 people. CLWSC's service area comprises more than 240 square miles in western Comal County and southern Blanco County in the growing region between San Antonio and Austin, Texas. SJWTX, Inc. has a 25% interest in Acequia Water Supply Corporation (“Acequia”). The water supply corporation has been determined to be a variable interest entity within the scope of ASC Topic 810 with SJWTX, Inc. as the primary beneficiary. As a result, Acequia has been consolidated with SJWTX, Inc.

Texas Water Alliance Limited (“TWA”), a wholly owned subsidiary of SJW Corp., is undertaking activities that are necessary to develop a water supply project in Texas. In connection with the project, TWA applied for groundwater production and transportation permits to meet the future water needs in the Canyon Lake Water Service Company's service area and to the central Texas hill country communities and utilities adjacent to this area. In January 2013, TWA's permits were approved by the groundwater district in Gonzales County. The permits were subsequently received in March 2013.

Business Strategy for Water Utility Services:

SJW Corp. focuses its business initiatives in three strategic areas:

- (1) Regional regulated water utility operations;
- (2) Regional nonregulated water utility related services provided in accordance with the guidelines established by the CPUC in California and the TCEQ in Texas;
- (3) Out-of-region water and utility related services.

As part of its pursuit of the above three strategic areas, SJW Corp. considers from time to time opportunities to acquire businesses and assets. However, SJW Corp. cannot be certain it will be successful in identifying and consummating any strategic business acquisitions relating to such opportunities. In addition, any transaction will involve numerous risks, including the possibility of incurring more costs than benefits derived from the acquisition, the assumption of certain known and unknown liabilities related to the acquired assets, the diversion of management's attention from day-to-day operations of the business, the potential for a negative impact on SJW Corp.'s financial position and operating results, entering markets in which SJW Corp. has no or limited direct prior experience and the

potential loss of key employees of any acquired company. SJW Corp. cannot be certain that any transaction will be successful or that it will not materially harm its operating results or financial condition.

Real Estate Services:

SJW Corp.'s real estate investment activity is conducted through SJW Land Company. SJW Land Company owns undeveloped land and owns and operates a portfolio of commercial buildings in the states of California, Arizona and Tennessee. SJW Land Company also owns a limited partnership interest in 444 West Santa Clara Street, L.P. The partnership owns a commercial building in San Jose, California. SJW Land Company manages its acquired income producing and other properties until such time a determination is made to reinvest proceeds from sale of such properties. SJW Land Company's real estate investments diversify SJW Corp.'s asset base.

Critical Accounting Policies:

SJW Corp. has identified the accounting policies delineated below as the policies critical to its business operations and the understanding of the results of operations. The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and revenues and expenses during the reporting period. SJW Corp. bases its estimates on historical experience and other assumptions that are believed to be reasonable under the circumstances. SJW Corp.'s critical accounting policies are as follows:

Revenue Recognition

SJW Corp. recognizes its regulated and nonregulated revenue when services have been rendered, in accordance with FASB ASC Topic 605 – “Revenue Recognition.”

Metered revenue of Water Utility Services includes billing to customers based on meter readings plus an estimate of water used between the customers' last meter reading and the end of the accounting period. Water Utility Services read the majority of its customers' meters on a bi-monthly basis and records its revenue based on its meter reading results. Unbilled revenue from the last meter reading date to the end of the accounting period is estimated based on the most recent usage patterns, production records and the effective tariff rates. Actual results could differ from those estimates, which may result in an adjustment to operating revenue in the period which the revision to Water Utility Services' estimates is determined. San Jose Water Company also recognizes balancing and memorandum accounts in its revenue when it is probable that future recovery of previously incurred costs or future refunds that are to be credited to customers will occur through the ratemaking process.

Revenues also include a surcharge collected from regulated customers that is paid to the CPUC. This surcharge is recorded both in operating revenues and administrative and general expenses. For the three months ended September 30, 2014 and 2013, the surcharge was \$1,136 and \$1,132, respectively. For the nine months ended September 30, 2014 and 2013, the surcharge was \$2,752 and \$2,764, respectively.

SJW Corp. recognizes its nonregulated revenue based on the nature of the nonregulated business activities. Revenue from San Jose Water Company's nonregulated utility operations, maintenance agreements or antenna leases are recognized when services have been rendered. Revenue from SJW Land Company properties is generally recognized ratably over the term of the leases.

Balancing and Memorandum Accounts

The purpose of a balancing account is to track the under-collection or over-collection associated with expense changes and the revenue authorized by the CPUC to offset those expense changes. Pursuant to Section 792.5 of the California Public Utilities Code, a balancing account must be maintained for expense items for which revenue offsets have been authorized.

Balancing accounts are currently being maintained for the following items: purchased water, purchased power, groundwater extraction charges, and pensions. The amount in the water production balancing accounts varies with the seasonality of the water utility business such that, during the summer months when the demand for water is at its peak, the accounts tend to reflect an under-collection, while during the winter months when demand for water is relatively lower, the accounts tend to reflect an over-collection. The pension balancing account is intended to capture the difference between actual pension expense and the amount approved in rates by the CPUC.

San Jose Water Company also maintains memorandum accounts to track revenue impacts due to catastrophic events, certain unforeseen water quality expenses related to new federal and state water quality standards, energy efficiency,

cost of capital, any revenue requirement impact of the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010, and other approved activities or as directed by the CPUC.

Balancing and memorandum accounts are recognized in revenue by San Jose Water Company when it is probable that future recovery of previously incurred costs or future refunds that are to be credited to customers will occur through the ratemaking process. In addition, in the case of special revenue programs such as the MCRAMA, collection of the account balance must occur within 24 months of the end of the year the revenue is recorded. In assessing the probability criteria for balancing and memorandum accounts between rate cases, SJW Corp. considers evidence that may exist prior to CPUC authorization that

would satisfy ASC Topic 980, subtopic 340-25 recognition criteria. Such evidence may include regulatory rules and decisions, past practices, and other facts and circumstances that would indicate that recovery or refund is probable. When such evidence provides sufficient support for balance recognition, the balances are recorded in the SJW Corp.'s financial statements.

It is typical for the CPUC to incorporate any over-collected and/or under-collected balances in balancing or memorandum accounts into customer rates at the time rate decisions are made as part of San Jose Water Company's general rate case proceedings by assessing temporary surcredits and/or surcharges. In the case where San Jose Water Company's balancing or memorandum-type accounts that have been authorized by the CPUC reach certain thresholds or have termination dates, San Jose Water Company can request the CPUC to recognize the amounts in customer rates prior to the next regular general rate case proceeding by filing an advice letter.

Recognition of Regulatory Assets and Liabilities

Generally accepted accounting principles for water utilities include the recognition of regulatory assets and liabilities as permitted by ASC Topic 980. In accordance with ASC Topic 980, Water Utility Services, to the extent applicable, records deferred costs and credits on the balance sheet as regulatory assets and liabilities when it is probable that these costs and credits will be recognized in the ratemaking process in a period different from when the costs and credits are incurred. Accounting for such costs and credits is based on management's judgment and prior historical ratemaking practices, and it occurs when management determines that it is probable that these costs and credits will be recognized in the future revenue of Water Utility Services through the ratemaking process. The regulatory assets and liabilities recorded by Water Utility Services, in particular, San Jose Water Company, primarily relate to the recognition of deferred income taxes for ratemaking versus tax accounting purposes, balancing and memorandum accounts, postretirement pension benefits, medical costs, accrued benefits for vacation and asset retirement obligations that have not been passed through in rates. San Jose Water Company adjusts the related asset and liabilities for these items through its regulatory asset and liability accounts at year-end, except for certain postretirement benefit costs and balancing and memorandum accounts which are adjusted monthly. The disallowance of any asset in future ratemaking, including deferred regulatory assets, would require San Jose Water Company to immediately recognize the impact of the costs for financial reporting purposes. No disallowances were recognized during the year-to-date period ended September 30, 2014 or during the year ended December 31, 2013.

Pension Plan Accounting

San Jose Water Company offers a Pension Plan, Executive Supplemental Retirement Plan, Cash Balance Executive Supplemental Retirement Plan and certain postretirement benefits other than pensions to employees retiring with a minimum level of service. Accounting for pensions and other postretirement benefits requires assumptions about the discount rate applied to expected benefit obligations, expected return on plan assets, the rate of future compensation increases expected to be received by the employees, mortality, turnover, and medical costs. Plan assets are marked to market at each reporting date.

Income Taxes

SJW Corp. estimates its federal and state income taxes as part of the process of preparing consolidated financial statements. The process involves estimating the actual current tax exposure together with assessing temporary differences resulting from different treatment of items for tax and accounting purposes, including the evaluation of the treatment acceptable in the water utility industry and regulatory environment. These differences result in deferred tax assets and liabilities, which are included on the balance sheet. If actual results, due to changes in the regulatory treatment, or significant changes in tax-related estimates or assumptions or changes in law, differ materially from these estimates, the provision for income taxes will be materially impacted.

Recent Accounting Pronouncements:

In May 2014, the FASB issued Accounting Standards Update 2014-09 which supersedes most of the current revenue recognition requirements, including most industry-specific guidance. The updated standard will become effective for us in the first quarter of fiscal 2017 and permits the use of either the retrospective or cumulative effect transition method. Early adoption is not permitted. Management is currently evaluating the effect that the new standard will have on our consolidated financial statements and related disclosures.

Results of Operations:

Water sales are seasonal in nature and influenced by weather conditions. The timing of precipitation and climatic conditions can cause seasonal water consumption by customers to vary significantly. Due to the seasonal nature of the water business, the operating results for interim periods are not indicative of the operating results for a 12-month period. Revenue is generally higher in the warm, dry summer months when water usage and sales are greater and lower in the winter months when cooler temperatures and increased rainfall curtail water usage and sales. Our service area in California is in the midst of a record

drought. In response to this, Governor Edmund G. Brown Jr. proclaimed a State of Emergency and directed state officials to take necessary actions to prepare for drought conditions. The SCVWD, our water wholesaler, has set a target of a 20% reduction for water use in 2014 in accordance with its adopted water shortage contingency plan and recommended that its retail water and municipal customers implement mandatory measures to meet the target. Effective March 31, 2014, San Jose Water Company received approval from the CPUC for a Mandatory Conservation Revenue Adjustment Memorandum Account to track any revenue shortfall and a Mandatory Conservation Memorandum Account to track operational and administrative costs associated with the implementation of the 20% conservation goal.

Overview

SJW Corp.'s consolidated net income for the three months ended September 30, 2014 was \$38,366, an increase of \$29,416 or approximately 329%, from \$8,950 for the same period in 2013. SJW Corp.'s consolidated net income for the nine months ended September 30, 2014 was \$46,118, an increase of \$28,411 or approximately 160%, from \$17,707 for the same period in 2013. The increase in net income was primarily due to the recognition of \$46,456 true-up revenue resulting from the general rate case decision. On September 29, 2014, the CPUC approved a surcharge to true-up the difference between interim rates and authorized rates of \$46,700 as well as one-time refunds of \$200. Collection of the surcharge is authorized to occur over a three-year period which commenced on October 2, 2014.

Operating Revenue

	Operating Revenue by Segment			
	Three months ended		Nine months ended	
	September 30, 2014	2013	September 30, 2014	2013
Water Utility Services	\$123,660	83,753	\$245,034	205,673
Real Estate Services	1,770	1,485	5,348	3,934
	\$125,430	85,238	\$250,382	209,607

The change in consolidated operating revenues was due to the following factors:

	Three months ended		Nine months ended		
	September 30, 2014 vs. 2013	Increase/(decrease)	September 30, 2014 vs. 2013	Increase/(decrease)	
Water Utility Services:					
Consumption changes	\$(5,918)	) (7	)% \$(10,669)	) (5)%
New customers increase	520	—	% 1,290	—	%
Rate increases	5,117	6	% 10,062	5	%
Balancing and memorandum accounts	(6,269)	) (7	)% (8,721)	) (4)%
2012 General Rate Case true-up	46,456	55	% 46,456	22	%
Texas general rate case refund	—	—	% 943	—	%
Real Estate Services	286	—	% 1,414	1	%
	\$40,192	47	% \$40,775	19	%

Operating Expense

	Operating Expense by Segment			
	Three months ended		Nine months ended	
	September 30, 2014	2013	September 30, 2014	2013
Water Utility Services	\$65,026	64,798	\$169,219	164,418
Real Estate Services	1,041	820	3,118	2,378
All Other	249	274	756	755
	\$66,316	65,892	\$173,093	167,551

The change in consolidated operating expenses was due to the following factors:

	Three months ended September 30, 2014 vs. 2013			Nine months ended September 30, 2013 vs. 2012		
	Increase/(decrease)			Increase/(decrease)		
Water production expenses:						
Change in surface water use	\$1,084	2	%	\$4,526	3	%
Change in usage and new customers	(4,376)	) (7	)%	(6,298)	) (4)%
Purchased water and groundwater extraction charge and energy price increase	2,332	4	%	6,618	4	%
Total water production expenses	(960)	) (1	)%	4,846	3	%
Administrative and general	(132)	) —	%	(2,751)	) (2)%
Maintenance	650	1	%	864	1	%
Property taxes and other non-income taxes	186	—	%	482	—	%
Depreciation and amortization	680	1	%	2,101	1	%
	\$424	1	%	\$5,542	3	%

Sources of Water Supply

San Jose Water Company's water supply consists of groundwater from wells, surface water from watershed run-off and diversion, reclaimed water, and imported water purchased from the SCVWD under the terms of a master contract with SCVWD expiring in 2051. Surface water is the least expensive source of water. Changes and variations in quantities from each of these sources affect the overall mix of the water supply, thereby affecting the cost of the water supply. In addition, the water rate for purchased water and the groundwater extraction charge may be increased by the SCVWD at any time. If an increase occurs, then San Jose Water Company would file an advice letter with the CPUC seeking authorization to increase revenues to offset the cost increase.

CLWSC's water supply consists of groundwater from wells and purchased raw water from the Guadalupe-Blanco River Authority ("GBRA"). CLWSC has long-term agreements with the GBRA, which expire in 2037, 2040, 2044 and 2050. The agreements, which are take-or-pay contracts, provide CLWSC with an aggregate of 6,900 acre-feet of water per year from Canyon Lake and other sources at prices that may be adjusted periodically by GBRA.

The following table presents the change in sources of water supply, in million gallons, for Water Utility Services:

	Three months ended September 30, 2014			September 30, 2013			Increase/ (decrease)			% Change			Nine months ended September 30, 2014			September 30, 2013			Increase/ (decrease)			% Change		
Purchased water	5,870	8,579	(2,709)	(17)	)%	14,707	21,476	(6,769)	(17))%													
Groundwater	7,709	6,457	1,252	8	%	19,948	14,080	5,868	15	%														
Surface water	138	564	(426)	(3)	)%	230	2,201	(1,971)	(5))%													
Reclaimed water	296	270	26	—	%	578	535	43	—	%														
	14,013	15,870	(1,857)	(12)	)%	35,463	38,292	(2,829)	(7))%													

The changes in the source of supply mix were consistent with the changes in the water production expenses.

Unaccounted-for water on a 12-month-to-date basis for September 30, 2014 and 2013 approximated 6.9% and 6.1%, respectively, as a percentage of total production. The unaccounted-for water estimate is based on the results of past experience, the trend and efforts in reducing Water Utility Services' unaccounted-for water through main replacements and lost water reduction programs.

Water production expenses

For the three months ended September 30, 2014 compared to the same period in 2013, the decrease in water production expenses was primarily attributable to a decrease in customer water usage. This decrease was offset by higher per unit costs for purchased water, groundwater extraction and energy charges and a decrease in the use of available surface water supply. For the nine months ended September 30, 2014 compared to the same period in 2013, the increase in water production expenses was primarily attributable to higher per unit costs for purchased water, groundwater extraction and energy charges and a decrease in the use of available surface water supply. Effective July

1, 2014, SCVWD increased the unit price of purchased water by approximately 9% and the groundwater extraction charge by approximately 10%. These increases were partially offset by a decrease in customer water usage.

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Other Operating Expenses

Operating expenses, excluding water production expenses, increased \$1,384 for the three months ended September 30, 2014 compared to the same period in 2013. The increase was primarily attributable to an increase of \$680 in depreciation expense due to increases in utility plant, \$650 increase in maintenance expenses due to an increase in leak repairs, and an increase of \$186 in property taxes and other non-income taxes as a result of increased utility plant. This increase was offset by a \$132 decrease in administrative and general expenses.

Operating expenses, excluding water production expenses, increased \$696 for the for the nine months ended September 30, 2014 compared to the same period in 2013. The increase was primarily attributable to an increase of \$2,101 in depreciation expense due to increases in utility plant, \$864 in maintenance expenses due to an increase in leak repairs and \$482 in property taxes and other non-income taxes as a result of increased utility plant. These increases were offset by a \$2,751 decrease in administrative and general expenses due to payments incurred in the prior year relating to our Texas water supply project, a decrease in pension expense due to an increasing discount rate coupled with an increase in return on pension plan assets and lower recycled water retrofit program expenses.

Other (Expense) Income

For the three months ended September 30, 2014 compared to the same period in 2013, the change in other (expense) income was primarily due to a \$281 pre-tax gain from the sale of a nonutility property, partially offset by a decrease in non-tariffed business activities. No similar sale occurred in the third quarter of 2013. For the nine months ended September 30, 2014 compared to the same period in 2013, the change in other (expense) income was primarily due to a \$2,017 pre-tax gain from the sale of California Water Service Group stock, partially offset by a decrease in the pre-tax gain from the sale of our Texas property and California nonutility property compared to the pre-tax gain recorded in the prior year on the sale of our Connecticut property.

Provision for Income Taxes

For the three months ended September 30, 2014 compared to the same period in 2013, income tax expense increased \$9,928 primarily due to higher pre-tax income offset by the impact of a state income tax benefit of \$5,652 related to the adoption of new Internal Revenue Service Tangible Property Regulations. The effective consolidated income tax rates were 29% and 39% for the three months ended September 30, 2014 and 2013, respectively.

For the nine months ended September 30, 2014 compared to the same period in 2013, income tax expense increased \$7,460 as a result of higher pre-tax income offset by the impact of a state income tax benefit of \$5,652 related to the adoption of new Internal Revenue Service Tangible Property Regulations, and the recognition of \$880 in California State enterprise zone sales and use tax credits related to tax years 2008 through 2012. The effective consolidated income tax rates were 30% and 40% for the nine months ended September 30, 2014 and 2013, respectively.

On September 13, 2013, the Department of Treasury and the Internal Revenue Service issued final tangible property regulations under provisions that generally are intended to simplify, clarify and make more administrable the 2011 temporary and proposed tangible property regulations. These regulations broadly apply to amounts to acquire, produce or improve tangible property, as well as dispositions of such property and provide criteria for determining whether such amounts can be deducted or should be capitalized as part of the asset. The final regulations generally are effective for tax years beginning on or after January 1, 2014. During the third quarter of 2014, management completed its evaluation of the capitalization elections under the new regulations in order to establish their method of complying with the new regulations and record the impact in the financial statements. To comply with thrated vesting of all unvested restricted stock and stock options. (7) Includes payments we will make in connection with additional life insurance coverage, long-term disability coverage, including disability income coverage, and long-term care insurance. For all named executive officers except Mr. Schnieders, in the event of death, a lump sum Basic Life Insurance benefit is payable in an amount equal to one-times the executive's prior year W-2 earnings, capped at \$150,000. An additional benefit is paid in an amount equal to one-times the executive's prior year W-2 earnings, capped at \$1,050,000. The value of the benefits payable is doubled in the event of an accidental death. For all named executive officers except Mr. Schnieders, in the event of disability, a monthly Long-Term Disability benefit of \$25,000 is payable to age 65, following a 180-day elimination period. (8) Includes retiree medical benefits and the payment of accrued but unused vacation. (9) Mr. Schnieders retired on June 27, 2009, the last day of fiscal 2009. All amounts shown are actual amounts the Company will pay to Mr. Schnieders as a result of his retirement.

DIRECTOR COMPENSATION

Fees

We currently pay non-employee directors who serve as committee chairpersons \$85,000 per year and all other non-employee directors \$70,000 per year, as an annual retainer, plus reimbursement of expenses for all services as a director, including committee participation or special assignments. We pay the annual retainers quarterly. Directors are invited to have their spouses accompany them to dinners and other functions held in connection with one or two board meetings each year, and the company pays, either directly or through reimbursement, all expenses associated with their travel to and attendance at these business-related functions. Reimbursement for non-employee director travel may include reimbursement of amounts paid in connection with travel on private aircraft excluding maintenance and ownership interests.

In addition to the annual retainer, non-employee directors receive the following fees for attendance at meetings:

For committee meetings held in conjunction with regular Board meetings, committee chairmen who attend in person, or who participate by telephone because of illness or the inability to travel, will receive \$1,750 and committee members who attend in person, or who participate by telephone because of illness or the inability to travel, will receive \$1,500;

For special committee meetings not held in conjunction with regular Board meetings, committee chairmen who attend in person or who participate by telephone will receive \$1,750 and committee members who attend in person or who participate by telephone will receive \$1,500; and

For special Board meetings, all non-employee directors who attend in person or who participate by telephone will receive \$1,500.

The Board is currently contemplating changing the compensation for non-employee directors to eliminate the meeting fees and increase the retainer amounts. Any such changes would be effective beginning January 1, 2010.

Non-employee directors also receive discounts on products carried by the company and its subsidiaries comparable to the discounts offered to all company employees.

Non-Executive Chairman of the Board Compensation

In addition to the compensation received by all non-employee directors, Mr. Fernandez, Sysco's Non-Executive Chairman of the Board, receives an additional annual retainer of \$250,000 per year, paid quarterly.

Directors Deferred Compensation Plan

Non-employee directors may defer all or a portion of their annual retainer, including the Non-Executive Chairman of the Board's annual retainer, and meeting attendance fees under the Directors Deferred Compensation Plan.

Non-employee directors may choose from a variety of investment options, including Moody's Average Corporate Bond Yield plus 1%, with respect to amounts deferred prior to fiscal 2009. This investment option was reduced to Moody's Average Corporate Bond Yield, without the addition of 1%, for amounts deferred after fiscal 2008. We credit such deferred amounts with investment gains or losses until the non-employee director's retirement from the Board or until the occurrence of certain other events.

2005 Non-Employee Directors Stock Plan

As of August 28, 2009, the non-employee directors held options and shares of restricted stock that were issued under the Amended and Restated 2005 Non-Employee Directors Stock Plan, the Non-Employee Directors Stock Plan, as amended and restated, and the Amended and Restated Non-Employee Directors Stock Option Plan. We may only make additional grants under the 2005 Non-Employee Directors Stock Plan, so the description below relates only to such plan.

Options

The 2005 Non-Employee Directors Stock Plan gives discretion to the Board to determine the size and timing of all option grants under the plan, as well as the specific terms and conditions of all options, but specifies that directors may not exercise an option more than seven years after the grant date and that no more than 1/3 of the options contained in any grant may vest per year for the first three years following the grant date. All options currently outstanding under the plan have seven year terms and vest ratably over three years on the anniversary of the grant date.

Generally, if a director ceases to serve as a director of Sysco, he or she will forfeit all the options he or she holds, whether or not those options are exercisable. However, if the director leaves the Board after serving out his or her term, or at any time after reaching age 71, his or her options will remain in effect and continue to vest and become exercisable and expire as if the director

had remained a director of Sysco. All unvested options will automatically vest upon the director's death, and the director's estate may exercise the options at any time within three years after the director's death, but no later than the option's original termination date.

Election to Receive a Portion of the Annual Retainer in Common Stock

Instead of receiving his or her full annual retainer fee in cash, a non-employee director may elect to receive up to 50% of his or her annual retainer fee, in 10% increments, in common stock. This election is not available for the Non-Executive Chairman of the Board's additional annual retainer. If a director makes this election, on the date we make each quarterly payment of the director's annual retainer fee we will credit the director's stock account with:

The number of shares of Sysco common stock that the director could have purchased on that date with the portion of his or her cash retainer that he or she has chosen to receive in stock, assuming a purchase price equal to the last closing price of the common stock on the first business day prior to that date; we call these shares elected shares; and

50% of the number of elected shares we credited to the director's account; we call these extra shares additional shares.

The elected shares and additional shares vest as soon as we credit the director's account with them, but we do not issue them until the end of the calendar year. The director may not transfer the additional shares, however, until two years after we issue them, provided that certain events will cause this transfer restriction to lapse.

The two year transfer restriction on additional shares will lapse if:

- the director dies;
- the director leaves the Board:
 - due to disability;
 - after having served out his or her full term; or
 - after reaching age 71; or
- a change in control, as defined in the plan, occurs.

Restricted Stock and Restricted Stock Units

The plan provides that the Board may grant shares of restricted stock and restricted stock units in the amounts and on such terms as it determines but specifies that no more than 1/3 of the shares contained in any grant may vest per year for the first three years following the grant date. A restricted stock unit is an award denominated in units whose value is derived from common stock, and which is subject to similar restrictions and possibility of forfeiture as is the restricted stock. All outstanding grants of restricted stock to the non-employee directors vest ratably over three years on the anniversary of the grant date. We have not issued any restricted stock units under the plan.

Generally, if a director ceases to serve as a director of Sysco, he or she will forfeit all the unvested restricted stock and restricted stock units that he or she holds. However, if the director leaves the board after serving out his or her term, or for any reason after reaching age 71, his or her restricted stock and restricted stock units will remain in effect and continue to vest as if the director had remained a director of Sysco. All unvested restricted stock and restricted stock units will automatically vest upon the director's death. In addition to the plan provisions regarding vesting upon a change in control of Sysco, the restricted stock grant agreement which governs restricted stock grants made under the plan provides that any unvested portion of a restricted stock award will vest if a person or persons acting together acquire beneficial ownership of at least 20% of outstanding Sysco common stock.

Change in Control

The plan provides that the unvested portion of the retainer stock award will vest if a specified change in control occurs.

Fiscal 2009 Non-Employee Director Compensation

The following table provides compensation information for fiscal 2009 for each of our non-employee directors who served for any part of the fiscal year:

Name	Fees Earned or Paid in Cash\$(1)	Stock Awards \$(2)(3)	Option Awards \$(3)(4)	Non-Qualified Deferred		Total(\$)
				Compensation Earnings\$(5)	All Other Compensation(\$)	
Cassaday	\$ 120,250	\$ 192,975	\$ 13,013	\$	(6)	\$ 326,238
Craven	122,000	181,222	11,562	1,768	(6)	316,552
Fernandez	101,500	177,477		1,584	(6)	280,561
Golden	91,000	177,476	11,562	21,122	(6)	301,160
Hafner	126,750	188,808	11,562		(6)	327,120
Koerber	103,000	177,511		13	\$ 13,518(6)	294,042
Merrill(7)	56,000	53,118	11,562	7,153	(6)	127,833
Newcomb	101,500	177,477			(6)	278,977
Sewell	104,500	177,476	11,562	13,746	(6)	307,284
Tilghman	127,000	183,554	11,562		(6)	322,116
Ward	120,250	181,222	11,562	4,957	(6)	317,991

- (1) Includes retainer fees and meeting fees, including any retainer fees for which the non-employee director has elected to receive shares of Sysco common stock in lieu of cash and fees for the fourth quarter of fiscal 2009 that were paid at the beginning of fiscal 2010. Although we credit shares to a director's account each quarter, the elected shares are not actually issued until the end of the calendar year unless the director's service as a member of the Board of Directors terminates. Therefore, the amounts shown with respect to elected shares reflect shares issued at the end of calendar 2008 for calendar 2008 service. The number of shares of stock actually credited to each non-employee director's account in lieu of cash during fiscal 2009 is as follows: Mr. Cassaday 1,746 shares, Dr. Craven 1,746 shares, Mr. Fernandez 1,437 shares, Mr. Golden 1,437 shares, Mr. Hafner 1,746 shares, Dr. Koerber 1,437 shares, Mr. Merrill 280 shares, Ms. Newcomb 1,437 shares, Mrs. Sewell 1,437 shares, Mr. Tilghman 1,746 shares and Ms. Ward 1,746 shares.
- (2) For fiscal 2009, the Board, upon the recommendation of the Corporate Governance and Nominating Committee, determined that it would grant approximately \$160,000 in long-term incentives to each of the non-employee directors. Therefore, on November 11, 2008, the Board granted each of the non-employee directors other than Mr. Merrill 6,403 shares of restricted stock valued at \$24.99 per share, the closing price of Sysco common stock on the New York Stock Exchange on November 10, 2008. Mr. Merrill had served a portion of his term during fiscal 2009, but was not standing for re-election at the November 2008 Annual Meeting of Stockholders; therefore, on November 11, 2008, the Board granted Mr. Merrill 1,601 shares of restricted stock valued at \$24.99 per share, the closing price of Sysco common stock on the New York Stock Exchange on November 10, 2008. The amounts in this column reflect the dollar amount recognized for financial statement reporting purposes for the fiscal year ended June 27, 2009 in accordance with Statement of Financial Accounting Standards No. 123R, Share-based Payments, and include amounts from awards issued prior to fiscal 2009 as well as those issued during and with respect to fiscal 2009. See Note 16 of the consolidated financial statements in Sysco's Annual Report for the year ended June 27, 2009 regarding assumptions underlying valuation of equity awards.

The amounts in this column also reflect the dollar amount recognized for financial statement reporting purposes for the fiscal year ended June 27, 2009 in accordance with Statement of Financial Accounting Standards No. 123R with respect to a 50% stock match for directors who elect to receive a portion of their annual retainer fee in common stock. The value of any elected shares is included in the column entitled Fees Earned or Paid in Cash as described in footnote (1) above. See 2005 Non-Employee Directors Stock Plan above for a more detailed description. Although we credit shares to a director's account each quarter, the shares are not actually issued until the end of the calendar year unless the director's service as a member of the Board of Directors terminates. Therefore, the amounts shown with respect to matched shares reflect shares issued at the end of calendar 2008 for calendar 2008 service. The number of additional shares actually credited to each non-employee director's account during fiscal 2009 is as follows: Mr. Cassaday 873 shares, Dr. Craven 873 shares, Mr. Fernandez 717 shares, Mr. Golden 717 shares, Mr. Hafner 873 shares, Dr. Koerber 717 shares, Mr. Merrill 140 shares, Ms. Newcomb 717 shares, Mrs. Sewell 717 shares, Mr. Tilghman 873 shares and Ms. Ward 873 shares.

- (3) The aggregate number of options and unvested stock awards held by each non-employee director as of June 27, 2009 was as follows:

	Aggregate Unvested Stock Awards Outstanding as of June 27, 2009	Aggregate Options Outstanding as of June 27, 2009
Cassaday	11,932	15,000
Craven	10,598	47,000
Fernandez	12,598	3,500
Golden	10,598	55,000
Hafner	11,932	23,000
Koerber	9,410	
Merrill	5,796	55,000
Newcomb	12,598	3,500
Sewell	10,598	55,000
Tilghman	10,598	31,000
Ward	10,598	39,000

- (4) None of the non-employee directors received option grants during fiscal 2009. The amounts in this column reflect the dollar amount recognized for financial statement reporting purposes for the fiscal year ended June 28, 2008 in accordance with Statement of Financial Accounting Standards No. 123R, Share-based Payments and include amounts from awards issued during or prior to fiscal 2006. See Note 16 of the consolidated financial statements in Sysco's Annual Report for the year ended June 27, 2009 regarding assumptions underlying valuation of equity awards.
- (5) We do not provide a pension plan for the non-employee directors. The amounts shown in this column represent above-market earnings on amounts deferred under the Non-Employee Director Deferred Compensation Plan. Directors who do not have any amounts in this column were not eligible to participate in such plan, did not participate in such plan or did not have any above-market earnings.
- (6) The amount shown with respect to Dr. Koerber reflects the amount paid for spousal travel in connection with business events. The total value of all perquisites and personal benefits received by each of the other non-employee directors, including reimbursements for spousal airfare and meals associated with certain Board meetings, was less than \$10,000.
- (7) Mr. Merrill retired from the Board of Directors in November 2008.

None of Messrs. Schnieders, DeLaney or Spitler received any compensation in or for fiscal 2009 for Board service other than the compensation for his services as an executive officer that is disclosed elsewhere in this proxy statement.

Non-Employee Director Compensation Consultant

For the past several years and through the first quarter of fiscal 2010, the Corporate Governance and Nominating Committee has retained Mercer HR Consulting to provide advice regarding non-employee director compensation. At

the Corporate Governance and Nominating Committee's request, Mercer has provided data regarding the amounts and type of compensation paid to non-employee directors at the companies in Sysco's peer group, and has also identified trends in director compensation. All decisions regarding non-employee director compensation are recommended by the Corporate Governance and Nominating Committee and approved by the Board of Directors.

Stock Ownership Guidelines

The Corporate Governance Guidelines provide that after five years of service as a non-employee director, such individuals are expected to continuously own a minimum of 10,000 shares of Sysco common stock. All of the current directors beneficially held the requisite number of shares as of August 28, 2009. Stock ownership guidelines applicable to executive officers are described under "Stock Ownership" Stock Ownership Guidelines.

Proposed 2009 Non-Employee Directors Stock Plan and Equity Deferral Plan

See "Proposal to Approve the 2009 Non-Employee Directors Stock Plan" for a description of the proposed 2009 Non-Employee Directors Stock Plan. If such plan is approved by the stockholders, we will also implement a Directors Equity Deferral Plan that will include provisions for equity deferrals pursuant to the 2009 Non-Employee Directors Stock Plan.

REPORT OF THE AUDIT COMMITTEE

The Audit Committee has met and held discussions with management and the independent public accountants regarding Sysco's audited consolidated financial statements for the year ending June 27, 2009. Management represented to the Audit Committee that Sysco's consolidated financial statements were prepared in accordance with generally accepted accounting principles, and the Audit Committee has reviewed and discussed the audited consolidated financial statements with management and the independent public

accountants. The Audit Committee also discussed with the independent public accountants the matters required to be discussed by Statement on Auditing Standards No. 61, as amended and adopted by the Public Company Accounting Oversight Board. Sysco's independent public accountants provided to the Audit Committee the written disclosures and the letter required by the Independence Standards Board's Standard No. 1, Independence Discussions with Audit Committees, as modified or supplemented, and the Audit Committee discussed with the independent public accountants that firm's independence.

Based on the Audit Committee's discussion with management and the independent public accountants and the Audit Committee's review of the representations of management and the report of the independent public accountants, the Audit Committee recommended to the Board of Directors that the audited consolidated financial statements be included in Sysco's Annual Report on Form 10-K for the year ended June 27, 2009 for filing with the Securities and Exchange Commission.

AUDIT COMMITTEE

Joseph A. Hafner, Jr.
Hans-Joachim Koerber
Nancy S. Newcomb
Richard G. Tilghman, Chairman

Fees Paid to Independent Registered Public Accounting Firm

The following table presents fees billed for professional audit services rendered by Ernst & Young LLP for the audit of Sysco's annual financial statements for fiscal 2009 and 2008, and fees billed during those periods for other services rendered by Ernst & Young LLP:

	Fiscal 2009	Fiscal 2008
Audit Fees(1)	\$ 4,147,150	\$ 5,303,283
Audit-Related Fees(2)	513,550	569,021
Tax Fees(3)	3,034,772	3,458,316
All Other Fees		

- (1) Audit fees billed for fiscal 2009 included \$3,625,000 related to the audit and quarterly reviews of the consolidated financial statements (including an audit of the effectiveness of the company's internal control over financial reporting), \$298,750 related to the preparation of audited financial statements for one of the company's subsidiaries, \$215,500 related to comfort letters, consents and assistance with and review of documents filed with the SEC and \$7,900 related to a statutory audit. Audit fees billed for fiscal 2008 included \$3,836,000 related to the audit and quarterly reviews of the consolidated financial statements (including an audit of the effectiveness of the company's internal control over financial reporting), \$1,089,538 related to the preparation of audited financial statements for one of the company's subsidiaries, \$218,500 related to comfort letters, consents, and assistance with and review of documents filed with the SEC and \$159,245 for consultations regarding various accounting standards.
- (2) Audit-related fees billed in fiscal 2009 included \$211,550 related to acquisition due diligence, \$72,000 related to the audits of the Company's benefit plans, \$225,000 for consultations regarding various accounting standards and \$5,000 for other audit-related services. Audit-related fees billed in fiscal 2008 included \$489,526 related to

acquisition due diligence, \$39,000 for agreed upon procedures related to one of the subsidiaries, \$34,000 related to the audit of one of the company's benefit plans and \$6,495 for other audit-related services.

- (3) Tax fees billed in fiscal 2009 included \$2,415,815 related to local, state, provincial and federal income tax return preparation, \$320,909 related to various tax examinations, \$177,206 related to a transfer pricing study, \$115,842 related to various state tax matters and \$5,000 related to the Company's benefit plans filing. Tax fees billed in fiscal 2008 included \$2,691,656 related to local, state, provincial and federal income tax return preparation, \$515,752 related to various tax examinations, \$221,736 related to a transfer pricing study, \$25,459 related to a review of certain subsidiary legal structures and \$3,713 related to various state tax matters.

Pre-Approval Policy

In February 2003, the Audit Committee adopted a formal policy concerning approval of audit and non-audit services to be provided by the independent auditor to the company. The policy requires that all services, including audit services and permissible audit related, tax and non-audit services, to be provided by Ernst & Young LLP to the company, be pre-approved by the Audit Committee. All of the services performed by Ernst & Young in or with respect to fiscal 2009 and fiscal 2008 were approved in advance by the Audit Committee pursuant to the foregoing pre-approval policy and procedures. During fiscal 2009, Ernst & Young did not provide any services prohibited under the Sarbanes-Oxley Act.

**PROPOSAL TO APPROVE THE 2009 NON-EMPLOYEE
DIRECTORS STOCK PLAN ITEM NO. 2 ON THE PROXY CARD**

The 2009 Non-Employee Directors Stock Plan (the *Plan*) was recommended by the Corporate Governance and Nominating Committee (the *Committee*) on September 3, 2009, and adopted by the Board of Directors on September 3, 2009, subject to stockholder approval. If approved by the stockholders at the Annual Meeting, the Plan will become effective on November 18, 2009.

The Plan will replace the 2005 Non-Employee Directors Stock Plan (the *Prior Directors Plan*). We expect to issue elected shares and the related additional shares credited for calendar 2009 service on December 31, 2009 or as soon as practicable thereafter and, as described in the following paragraph, we will also make our annual grants of restricted stock and/or restricted stock units to non-employee directors in November 2009. With respect to any such issuances, shares may be issued under either the *Prior Directors Plan* or, after its effective date, the *Plan*.

As of August 28, 2009, 153,500 shares were available for the issuance of options, 73,294 shares were available for the issuance of restricted stock, restricted stock units, stock elections and stock matches, and 10,000 shares were available for issuance pursuant to dividend equivalent rights under the *Prior Directors Plan*. Of the 73,294 shares available as of August 28, 2009 under the *Prior Directors Plan* for the issuance of restricted stock, restricted stock units, stock elections and stock matches, 12,473 shares had been allocated to directors' accounts for elected and matched shares for the first half of calendar 2009 and allocations of approximately the same amount will be made in the second half of calendar 2009. This amount will fluctuate based on the closing price of Sysco's common stock on September 30, 2009 and December 31, 2009. Our stock option grant administrative guidelines set the second Tuesday in November as the annual grant date, subject to certain exceptions. For 2009, that would be Tuesday, November 10, approximately one week before the Annual Meeting at which stockholders will be asked to approve the *Plan*. For fiscal 2009, the Board determined that it would grant approximately \$160,000 in long-term incentives to each of the non-employee directors, resulting in the issuance of 65,631 shares in November 2008. We do not know the exact number of shares that will be granted to non-employee directors in November 2009, although the Board currently expects to make an award similar to the one granted in November 2008. Based on Sysco's closing stock price on September 9, 2009, such an award would use approximately 62,000 of the remaining shares available for the issuance of restricted stock pursuant to the *Prior Directors Plan*. As a result, if the *Plan* is approved, a substantial portion of the shares allocated to directors' accounts for elected and matched shares in calendar 2009 will be issued under the *Plan*, instead of the *Prior Directors Plan*. If the *Plan* is not approved, each director will receive cash in lieu of the elected and matched shares he or she otherwise would have received for calendar 2009. See *Director Compensation* for information regarding non-employee director compensation, including awards granted under the *Prior Directors Plan* in fiscal 2009.

Stockholder Approval

Under applicable New York Stock Exchange rules, stockholder approval is required with respect to all equity compensation plans.

Sysco Stock Price

On September 9, 2009, the closing price of Sysco's common stock as reported by the NYSE was \$25.78.

The 2009 Non-Employee Directors Stock Plan

The following is a summary of the principal provisions of the Plan. The full text of the Plan is attached hereto as Annex A.

Key Terms of the Plan

<i>Plan Term</i>	The Plan is effective through November 18, 2016
<i>Eligible Participants</i>	All members of Sysco's Board of Directors who are not current employees of Sysco or any of its subsidiaries
<i>Total Shares Authorized</i>	750,000 shares of Sysco's common stock are reserved for issuance under the Plan
<i>Shares Authorized Under the Plan as a Percent of Outstanding Shares (based on Shares Outstanding as of August 28, 2009)</i>	Approximately 0.13%
<i>Award Types</i>	Restricted Stock, Restricted Stock Units, Elected Shares and Additional Shares (all types, collectively, awards)
<i>Vesting Period for Restricted Stock and Restricted Stock Units</i>	Determined by the Committee, but no earlier than one year following the date of grant

Purpose

The purpose of the Plan is to make available shares of common stock for award to or purchase by non-employee directors of Sysco in order to attract, retain and provide compensation for the services of experienced and knowledgeable non-employee directors for the benefit of Sysco and its stockholders, and enable them to increase their ownership of Sysco common stock and their personal financial stake in the Company, in addition to underscoring their common interest with stockholders in increasing the value of Sysco over the long term.

Eligibility

All members of Sysco's Board of Directors who are not current employees of Sysco or any of its subsidiaries are eligible to participate in the Plan. There currently are ten non-employee directors on the Board.

Adjustments to Shares Subject to the Plan

The number of shares covered by the Plan is subject to adjustment in the event of stock dividends, stock splits, combinations of shares, mergers, consolidations, rights offerings, reorganizations or recapitalizations, or in the event of other changes in Sysco's corporate structure or shares. Any such adjustment will be made only if adjustments are made to awards under the Company's incentive plans for management then in effect. Shares issued under the Plan may consist, in whole or in part, of authorized but unissued shares, treasury shares or shares purchased on the open market.

If any shares of common stock subject to an award are forfeited or cancelled, or if an award terminates or expires without a distribution of shares to the grantee, the shares with respect to such award will, to the extent of any forfeiture or cancellation, again be available for awards under the Plan. Shares will not again be available if such shares are surrendered or withheld as payment of withholding taxes in respect of an award. Awards that are settled solely in cash will not reduce the number of shares of Common Stock available for awards.

Administration of the Plan

The Plan is administered by the Board. The Board has the authority to terminate or amend the Plan, to determine the terms and provisions of the respective award agreements, to construe award agreements and the Plan, and to make all other determinations in the judgment of the Board necessary or desirable for the administration of the Plan. However, the Plan may not be amended by the Board to revoke or alter any provision in a manner which is unfavorable to the grantee of Restricted Stock, Restricted Stock Units, Elected Shares or Additional Shares then outstanding. In addition, certain material amendments of the Plan are subject to stockholder approval, including increasing the number of shares authorized for issuance, expanding the types of awards that may be granted, materially expanding the class of participants or materially extending the term of the Plan.

The Board may delegate any or all of its authority under the Plan to the non-employee directors, or to any two or more thereof. The Corporate Governance and Nominating Committee, pursuant to its charter, is charged with providing guidance and making recommendations to the Board on director compensation and on current and prospective director benefit plans, including incentive compensation and equity-based plans.

Restricted Stock and Restricted Stock Units

The Board of Directors may grant shares of Restricted Stock and/or Restricted Stock Units to participants in such amounts and upon such terms and conditions as the Board shall determine; provided, however, that no grant of Restricted Stock or of any Restricted Stock Unit shall in any event vest earlier than one year following the date of grant. Grants of Restricted Stock are grants of common stock and Restricted Stock Units are awards denominated in units whose value is derived from common stock. Awards of Restricted Stock and Restricted Stock Units may be subject to forfeiture based on the passage of time, the achievement of performance goals, and/or upon the occurrence of other events as determined by the Board in its discretion.

The Board may impose, at the time of grant or any time thereafter, such other conditions and/or restrictions on any shares of Restricted Stock or Restricted Stock Units granted pursuant to the Plan as it may deem advisable including, without limitation, a requirement that participants pay a stipulated purchase price for each share of Restricted Stock or each Restricted Stock Unit, that specific performance goals be obtained, the imposition of time-based restrictions on vesting following the attainment of the performance goals, time-based restrictions, restrictions under applicable laws or under the requirements of any stock exchange or market upon which such shares are listed or traded, or holding requirements or sale restrictions placed on the shares following vesting.

Common stock subject to a Restricted Stock Award may not be sold, assigned, transferred, pledged or otherwise encumbered prior to the date it is vested. Restricted Stock Units may not be transferred, except as otherwise specified by the Board.

To the extent required by law, non-employee directors in whose names shares of Restricted Stock are issued shall be granted the right to exercise full voting rights with respect to those shares during the period of restriction. A participant shall have no voting rights with respect to any Restricted Stock Units. During the period of restriction, non-employee directors holding shares of Restricted Stock or Restricted Stock Units may, if the Board so determines, be credited with dividends paid with respect to the underlying shares or dividend equivalents. The Board, in its sole discretion, may determine the form of payment of dividends or dividend equivalents, including cash, unrestricted common stock, Restricted Stock, or Restricted Stock Units. When and if Restricted Stock Units become payable, a non-employee director having received the grant of such units shall be entitled to receive payment from the Company in cash, in shares of common stock of equivalent value (based on the fair market value thereof on the first business day prior to the date on which the Restricted Stock Units became payable), in some combination thereof, or in any other form determined by the Board in its sole discretion.

Elected and Additional Shares

A non-employee director who is otherwise eligible to receive an annual cash retainer fee for services provided as a director, including any additional retainer fee paid to the Non-Executive Chairman of the Board for his or her service in such capacity and any fees paid to a committee chairman for his or her service in such capacity, may elect to forego up to 100% of his or her annual retainer fee, in 10% increments (exclusive of any fees or other amounts payable for attendance at meetings of the Board or for service on any committee thereof), and receive in its stead Sysco common stock, in an amount determined as set forth below. Upon making such an election, the elected amount is deducted ratably from the quarterly payment of the director's annual retainer fee, and the electing director's account is credited on the date of each quarterly payment of the annual retainer fee (Quarterly Payment Date) with that number of shares of Sysco common stock determined by dividing his or her elected amount by the fair market value, as defined in the Plan, of one share of Sysco common stock as of the first business day prior to such Quarterly Payment Date (Elected Shares).

A non-employee director who chooses Elected Shares, as described in the previous paragraph, also receives that number of shares of common stock determined by dividing 50% of the elected amount attributable to the portion of the Elected Shares representing up to half of his or her annual retainer fee (excluding any additional retainer fee paid for chairing the Board or one of its committees and any fees paid for meeting attendance or service on a committee), by the fair market value of one share of Sysco common stock as of the first business day prior to such Quarterly Payment Date (Additional Shares).

The issuance date of common stock credited pursuant to a non-employee director's election to forego up to 100% of his or her annual retainer fee is December 31 of the calendar year as to which the director has elected to receive stock in lieu of cash retainer payments or the last business day prior to December 31, if December 31 is not a business day of the Company's transfer agent. If a director who has elected to receive common stock in lieu of cash retainer payments ceases to be a director for any reason, certificates for such shares shall be issued within 60 days following the date such director ceases to serve on the Board.

All Elected Shares and Additional Shares are 100% vested as of the date they are credited to the electing director. Additional Shares, however, may not be sold or transferred for a period of one year after the date on which they are issued, or, if deferred, the date as of which they would have been issued, but for the deferral (the Restriction). The Restriction remains in

effect after the date an electing director ceases to be a director; provided, however, that the Restriction lapses (i) if an electing director ceases to be a director by reason of disability or under circumstances which would not cause forfeiture of unvested Restricted Stock or Restricted Stock Units (as discussed at Termination of Service below); or (ii) on the date of certain defined changes of control of Sysco. For a description of change in control provisions contained within the Plan, see Change in Control under the Proposal to Approve Amendments to the 2007 Stock Incentive Plan.

Deferral of Shares

A non-employee director may elect to defer receipt of all or any portion of any shares of common stock issued under the Plan, whether such shares are to be issued as a grant of Restricted Stock, Elected Shares or Additional Shares, or upon the vesting of a Restricted Stock Unit grant. Generally, the receipt of stock may be deferred until the earliest to occur of the death of the non-employee director, the date on which the non-employee director ceases to be a director of the Corporation, or a change of control of Sysco. All such deferral elections shall be made in accordance with the terms and conditions set forth in Sysco's 2009 Board of Directors Stock Deferral Plan.

Termination of Service

Under the Plan, unless otherwise determined by the Board, upon cessation of service as a non-employee director, all unvested Restricted Stock Awards and Restricted Stock Units are forfeited, unless:

- The non-employee director serves out his or her term but does not stand for reelection at the end of the term;
- The non-employee director retires from service prior to the expiration of his or her term and after attaining age 71; or
- Termination is due to the death of the non-employee director.

Upon a non-employee director's death, all unvested Restricted Stock Awards and Restricted Stock Units will vest, and all restrictions with respect to Additional Shares will lapse.

Other Rights

No non-employee director has any claim or right to be granted or issued a Restricted Stock Award, Restricted Stock Unit, Elected Shares or Additional Shares, except as provided in the Plan. Nothing contained in the Plan shall be construed as giving any non-employee director any right to be retained as a director of the Company.

Effect of Plan Termination

No awards may be credited or awarded under the Plan after its termination date, but Restricted Stock or Restricted Stock Units granted prior to Plan termination shall continue to vest and be paid in accordance with their terms and Elected Shares and Additional Shares credited prior to Plan termination shall continue to be subject to the terms of the Plan and may be issued in accordance with the terms of the Plan.

U.S. Federal Income Tax Consequences

The following is a general description of the U.S. federal income tax consequences of awards granted under the Plan. This summary does not address any state, local, foreign or other non-federal income tax consequences associated with the Plan. This discussion is intended for the information of stockholders considering how to vote at the annual meeting and not as tax guidance to individuals who participate in the Plan. Participants in the Plan should consult their own tax advisors to determine the tax consequences to them based on their own particular circumstances.

Restricted Stock. Upon the grant of Restricted Stock, no income is recognized by a non-employee director (unless the director timely makes an election under Section 83(b) of the Internal Revenue Code (Section 83(b)), and the Company is not allowed a deduction at that time. When the award vests and is no longer subject to a substantial risk of forfeiture for federal income tax purposes, the non-employee director recognizes taxable ordinary income in an amount equal to the fair market value at the time of vesting of the Restricted Stock (less the purchase price paid for the shares, if any), and the Company is entitled to a corresponding deduction at that time. If a non-employee director makes a timely election under Section 83(b), then the non-employee director recognizes taxable ordinary income in an amount equal to the fair market value at the time of grant of the Restricted Stock (less the purchase price paid for the shares, if any), and the Company is entitled to a corresponding deduction at that time.

Restricted Stock Units. Upon the grant of a Restricted Stock Unit, no income is recognized by the non-employee director, and the Company is not allowed a deduction at that time. When the award vests and is no longer subject to a substantial risk of

forfeiture for federal income tax purposes, the non-employee director recognizes taxable ordinary income in an amount equal to the cash or the fair market value at the time of vesting of the shares received by the non-employee director (less the purchase price paid for the shares, if any), and the Company is entitled to a corresponding deduction at that time.

Elected Shares and Additional Shares. A non-employee director who elects to receive Elected Shares and Additional Shares will recognize ordinary compensation income in an amount equal to the fair market value of such shares as of the date they are credited to his or her account. The Company will generally be entitled to a deduction for the amount included in the income of the non-employee director for the Company's taxable year within which the non-employee director's taxable year ends.

Section 409A of the Internal Revenue Code. Awards made under the Plan, including awards granted under the Plan that are considered to be deferred compensation for purposes of Section 409A of the Internal Revenue Code (Section 409A), must satisfy the requirements of Section 409A to avoid adverse tax consequences to recipients, which could include the inclusion of amounts not payable currently in income, and an excise tax of 20% tax on any amount included in income and interest. The company intends to structure any awards under the Plan such that the requirements under Section 409A are either satisfied or are not applicable to such awards.

Deferred Compensation. Stock that is deferred by a non-employee director under the Plan pursuant to the terms of the 2009 Board of Directors Stock Deferral Plan, and deemed dividends, if any, payable with respect to the deferred stock will be taxed as ordinary compensation upon receipt by the non-employee director and the Company is entitled to a corresponding deduction at that time.

Certain Interests of Directors

In considering the recommendation of the Board with respect to the Plan, stockholders should be aware that members of the Board have interests that present them with conflicts of interest in connection with this proposal to approve the Plan, as non-employee directors would be eligible for the grant of awards under the Plan. However, the Board believes that approval of the Plan will advance the interests of the Company and its stockholders by encouraging non-employee directors to make significant contributions to the long-term success of the company and attracting future non-employee directors.

Required Vote

The affirmative vote of a majority of votes cast, either for, against or abstain, is required to approve this proposal. In addition, the total votes cast on the proposal must represent over 50% of shares outstanding. Broker non-votes are not considered to be votes cast for either of these purposes.

The Board of Directors recommends a vote FOR approval of the 2009 Non-Employee Directors Stock Plan.

**PROPOSAL TO APPROVE AMENDMENTS TO THE 2007 STOCK INCENTIVE PLAN
ITEM NO. 3 ON THE PROXY CARD**

On September 3, 2009, upon recommendation of the Compensation Committee, the Board of Directors amended the 2007 Stock Incentive Plan, subject to stockholder approval. If approved by the stockholders at the Annual Meeting, the amendments to the 2007 Stock Incentive Plan will become effective on November 18, 2009.

Proposed Amendments to the 2007 Stock Incentive Plan

If approved, the Plan would be amended as follows.

1) Increase the Total Number of Shares Authorized for Issuance under the Plan

The proposed amendments would increase the total number of number of shares available for issuance under the Plan from 30 million to 55 million. As of August 28, 2009, 14,049,519 shares or options to purchase shares had been issued under the Plan, leaving 15,950,481 shares available for issuance. As such, the proposed amendments would increase the total shares remaining available for issuance by 25 million to 40,950,481.

2) Increase the Total Number of Shares Authorized for Issuance as Options and Stock Appreciation Rights under the Plan

The proposed amendments would increase the total number of number of shares available for issuance as Options and Stock Appreciation Rights, or SARs, under the Plan from 25 million to 55 million. As of August 28, 2009, Options to purchase 13,973,697 shares and no SARs had been issued under the Plan, leaving 11,026,303 shares available for issuance as Options and SARs. As such, the proposed amendments would increase the shares remaining available for issuance as Options and SARs by 30 million to 40,950,481 (although only 25 million of such shares are for a new authorization; approximately 4.9 million of such shares were previously authorized for the issuance of Restricted Stock, Restricted Stock Units and Other Stock-Based Awards and the amendments simply allow them to be used for options and SARs to the extent that they are not used for such full-value awards). Our stock option grant administrative guidelines set the second Tuesday in November as the annual grant date. For 2009, that would be Tuesday, November 10, approximately one week before the Annual Meeting at which stockholders will be asked to approve these amendments to the Plan. In November 2008, we issued a total of approximately 7.8 million options to employees. We do not know the exact number of options that will be granted to employees in November 2009; however, if the number of option awards were similar to those awarded in November 2008, approximately 3.2 million shares would remain available for the issuance of Options and SARs prior to approval of the proposed amendments.

All other provisions relating to Options and SARs in the Plan, including the definition of each term, remain unchanged by the proposed amendments.

3) Increase the Total Number of Shares Authorized for Issuance as Restricted Stock, Restricted Stock Units and Other Stock-Based Awards under the Plan and Remove the Provision Allowing Issuances in Excess of the Total Number of Shares Authorized for such Awards

The proposed amendments would increase the total number of shares available for issuance as Restricted Stock, Restricted Stock Units and Other Stock-Based Awards under the Plan from 5 million to 10 million. As of August 28, 2009, 75,822 shares had been issued as Restricted Stock, Restricted Stock Units and Other Stock-Based Awards under the Plan, leaving 4,924,178 shares available for issuance as Restricted Stock, Restricted Stock Units and Other

Stock-Based Awards, prior to the adjustment described below. As such, the proposed amendments would increase the shares remaining available for issuance as Restricted Stock, Restricted Stock Units and Other Stock-Based Awards by 5 million to 9,924,178. If any of such shares are issued, they will reduce the number of shares available for the issuance of Options and SARs described above. The Compensation Committee removed the 28% stock match from our Management Incentive Plan, beginning with the fiscal 2009 bonus that would have been payable in fiscal 2010. This change was made in order to shift the compensation mix emphasis from short-term to longer-term incentives, with the expectation that such portion of the bonus will be replaced beginning in November 2009 with grants of restricted stock or restricted stock units vesting over a three-year period. It is currently expected that less than 1 million shares will be issued as Restricted Stock or Restricted Stock Units in November 2009.

The proposed amendments would also remove a provision in the Plan that provides that Restricted Stock, Restricted Stock Units and Other Stock-Based Awards may be issued in excess of the limitation contained in the previous paragraph, provided that the aggregate number of shares available for issuance under the Plan is reduced by four shares for each share in excess of the limitation. As of August 28, 2009 and prior to the amendment to remove this provision, if no further grants of Options or SARs

were made pursuant to the Plan, up to 2,756,575 shares of Restricted Stock, Restricted Stock Units and Other Stock-Based Awards could be issued in reliance on this provision.

All other provisions relating to Restricted Stock, Restricted Stock Units and Other Stock-Based Awards in the Plan, including the definition of each term, remain unchanged by the proposed amendments.

4) Clarify an Ambiguity regarding the Duration of the Plan

The proposed amendments would clarify an ambiguity contained in Section 5.1 of the Plan regarding the Plan's duration. Section 5.1 states that the Plan shall have a duration of seven years from its Effective Date, which was November 9, 2007. In the 2007 proxy statement, the proposal to approve the Plan also states that the Plan has a term of seven years. However, the last line of Section 5.1 provides that no Award may be granted under the Plan on a date more than three years after the Effective Date. The proposed amendments would remove this prohibition and clarify that awards may be made under the Plan through November 9, 2014.

5) Remove Certain Provisions of only Historical Significance

With respect to the Plan's three-year rolling average annual usage rate limitation, Section 3.1 of the Plan sets the method of calculation for fiscal years 2008 and 2009. As the calculation of this rate for fiscal years 2008 and 2009 is no longer relevant for purposes of Plan administration, the proposed amendments would remove this language from Section 3.1.

Stockholder Approval Required

Under applicable New York Stock Exchange rules and by terms contained within the Plan, stockholder approval is required to approve any increase in the number of shares available for issuance under the Plan and for certain other material revisions to the Plan. In addition, stockholder approval is required for a company to (i) grant incentive stock options (ISOs) to employees under Section 422 of the Internal Revenue Code and (ii) ensure that certain compensation can be eligible for an exemption from the limits on tax deductibility imposed by Section 162(m) of the Internal Revenue Code (Section 162(m)). Section 162(m) limits the deductibility of certain compensation paid to individuals, referred to herein as 162(m) Officers, who are, at the end of the tax year in which the company would otherwise claim its tax deduction, the company's chief executive officer and its other three highest-paid executive officers other than the chief financial officer.

Sysco Stock Price

On September 9, 2009, the closing price of Sysco's common stock as reported by the NYSE was \$25.78.

The 2007 Stock Incentive Plan

The following is a summary of the principal provisions of the Plan, as proposed to be amended. The full text of the Plan, including the proposed amendments described above, is attached hereto as Annex B.

Key Terms of the Plan

Plan Term

The Plan is effective and awards may be granted through November 9, 2014

Eligible Participants

All employees selected by the Committee

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Total Shares Authorized (including prior issuances)

55 million, with up to 55 million authorized to be issued as Options or SARs and up to 10 million authorized to be issued as Restricted Stock, Restricted Stock Units and Other Stock-Based Awards

Awards Outstanding (as of August 28, 2009)

Options with respect to 13,973,697 shares, as well as 75,822 shares of unvested Restricted Stock; as of August 28, 2009, there are no outstanding SARs, Restricted Stock Units or Other Stock-Based Awards

<i>Shares Remaining Available for Issuance (as of August 28, 2009)</i>	<p>15,950,481 total shares would remain available for issuance under the Plan, with 11,026,303 shares available for issuance as Options and SARs and up to 4,924,178 shares available for issuance as Restricted Stock, Restricted Stock Units and Other Stock-Based Awards</p> <p>Our stock option grant administrative guidelines set the second Tuesday in November as the annual grant date. For 2009, that would be Tuesday, November 10, approximately one week before the Annual Meeting at which stockholders will be asked to approve these amendments to the Plan. In November 2008, we issued a total of approximately 7.8 million options to employees. We do not know the exact number of options that will be granted to employees in November 2009; however, if the number of option awards were similar to those awarded in November 2008, approximately 3.2 million shares would remain available for the issuance of Options and SARs prior to approval of the proposed amendments. The Compensation Committee removed the 28% stock match from our Management Incentive Plan, beginning with the fiscal 2009 bonus that would have been payable in fiscal 2010. This change was made in order to shift the compensation mix emphasis from short-term to longer-term incentives, with the expectation that such portion of the bonus will be replaced beginning in November 2009 with grants of restricted stock or restricted stock units vesting over a three-year period. It is currently expected that less than 1 million shares will be issued as Restricted Stock or Restricted Stock Units in November 2009.</p>
<i>Three-Year Rolling Average Annual Utilization Rate</i>	1.5% of common shares outstanding
<i>Limitation</i>	
<i>Award Types</i>	Stock Options (Incentive and Non-Qualified) (Options), Restricted Stock, Restricted Stock Units, Other Stock-Based Awards, and Stock Appreciation Rights (SARs) (all types, collectively, awards)
<i>Individual Share Limits</i>	Options and/or SARs relating to no more than 750,000 shares may be granted to any individual in any given fiscal year, and all awards other than Options and SARs granted to any individual in any given fiscal year are limited to no more than 250,000 shares
<i>Vesting Period</i>	Determined by the Committee, but no more than one-third of the shares subject to each grant may vest per year for the first three years, except for awards conditioned on the attainment of Performance Goals
<i>Stock Option Exercise Period</i>	Determined by the Committee, but not more than seven years from the date of grant

Stock Option Exercise Price

Not less than fair market value on date of grant, defined as the closing price on the NYSE on the day prior to grant

Prohibited

Repricings without stockholder approval

Reload options and discounted stock options

Acceleration of payment or vesting of any award other than for death, disability, retirement or upon a change in control

Purpose of the Plan

The purpose of the Plan is to promote the interests of the company and its stockholders by providing executive officers and other employees of the company and its defined subsidiaries with appropriate incentives and rewards to encourage them to enter into and remain in their positions with the company and to acquire a proprietary interest in the long-term success of the

company, as well as to reward the performance of these individuals in fulfilling their personal responsibilities for long-range and annual achievements.

We believe strongly that our equity compensation programs and emphasis on employee stock ownership have been integral to our past success and will be important to our ability to achieve consistently superior performance in the years ahead.

Administration of the Plan

Unless otherwise determined by the Board, the Compensation Committee (the Committee) administers the Plan. The Committee is composed solely of non-employee directors within the meaning of Rule 16b-3 under the Securities Exchange Act of 1934, as amended (the Exchange Act), outside directors within the meaning of Section 162(m) of the Internal Revenue Code, and independent directors within the meaning of NYSE listing standards.

The Committee has the power, in its discretion, to grant awards under the Plan, to select the individuals to whom awards are granted, to determine the terms of the grants, to interpret the provisions of the Plan and to otherwise administer the Plan. Except as prohibited by applicable law or stock exchange rules, the Committee may delegate all or any of its responsibilities and powers under the Plan to one or more of its members, including, without limitation, the power to designate participants and determine the amount, timing and term of awards under the Plan. In no event, however, shall the Committee have the power to accelerate the payment or vesting of any award, other than in the event of death, disability, retirement or a change in control of the company.

The Plan provides that members of the Committee shall be indemnified and held harmless by the company from any loss or expense resulting from claims and litigation arising from actions related to the Plan.

Adjustments to Shares Subject to the Plan

If any shares of common stock subject to an award are forfeited or cancelled, or if an award terminates or expires without a distribution of shares to the grantee, the shares of common stock with respect to such award shall, to the extent of any such forfeiture or cancellation, again be available for awards under the Plan; provided, however, that with respect to SARs that are settled in common stock, the aggregate number of shares of common stock subject to the SAR grant shall be counted against the shares available for issuance under the Plan as one share for every share subject thereto, regardless of the number of shares used to settle the SAR upon exercise. Also, shares of stock will not again be available if such shares are surrendered or withheld as payment of either the exercise price of an award and/or withholding taxes with respect to an award. Awards that are settled solely in cash will not reduce the number of shares of stock available for awards.

If the company undergoes a recapitalization, reclassification, stock split, stock dividend, combination, subdivision or another similar transaction affecting the common stock, or if the company makes an extraordinary dividend or distribution (including, without limitation, to implement a spinoff), then, subject to any required action by stockholders, the number and kind of shares available under the Plan, and the various award grant limitations contained in the Plan, will be automatically adjusted accordingly. In addition, subject to any required stockholder action, the number and kind of shares covered by outstanding awards and the price per share of outstanding awards, shall be automatically proportionately adjusted to reflect such an event.

If the company merges or consolidates with another corporation, or is liquidated or disposes of all or substantially all of its assets, then the Committee may deal with outstanding Options under the Plan in any of the following ways: First, it may provide for each holder of an Option or other award to receive, upon exercise of such Option or award, the same securities or other property that the company's stockholders receive in the transaction. Second, it may provide

for each holder of an Option or other award to receive, upon exercise of such Option or award, stock of the surviving corporation in the transaction, having a value equal, on a per share basis, to the per share consideration received by the company's stockholders in the transaction. Third, it may cause Options or other awards to vest (if they have not otherwise vested under the change-in-control provisions of the Plan). Fourth, it may cancel Options or SARs, provided that in the case of in-the-money Options or SARs, the cancellation shall be contingent upon a payment to the participants of an amount equal to the difference between the value of the underlying shares (based on the transaction consideration) and the exercise or base price.

Eligibility and Participation

Eligibility to participate in the Plan is limited to employees of the company and its defined subsidiaries. All employees (currently approximately 47,000 employees) are within the class eligible for selection to participate in the Plan, although in fiscal 2009 approximately 1,700 employees received awards under the Plan.

Options and Other Awards

The Committee may grant Options and other awards to eligible employees. The Committee will have complete discretion, subject to the terms of the Plan, to determine the persons to whom Options and other awards will be awarded, the time or times of grant, and the other terms and conditions of the grant. The awards may be granted with value and payment contingent upon Performance Goals.

Performance Goals

Under the Plan, Performance Goals may be based on one or more of the following criteria applied to one or more of the company, its defined subsidiaries, and/or certain specified affiliates (if applicable, such criteria shall be determined in accordance with generally accepted accounting principles (GAAP) or based upon the company s GAAP financial statements): (1) return on total stockholder equity; (2) earnings per share of Stock; (3) earnings before any or all of interest, taxes, minority interest, depreciation and amortization; (4) economic profit; (5) sales or revenues; (6) return on assets, capital or investment; (7) market share; (8) control of operating or non-operating expenses; (9) implementation or completion of critical projects or processes; (10) operating cash flow, (11) free cash flow, (12) return on capital or increase in pretax earnings; (13) net earnings; (14) margins; (15) market price of the company s securities, and (16) any combination of, or a specified increase in, any of the foregoing. The performance goals may be based upon the attainment of specified levels of performance under one or more of the criteria described above relative to the performance of other comparable entities. To the extent permitted under Section 162(m) of the Internal Revenue Code (including, without limitation, compliance with any requirements for stockholder approval), the Committee may designate additional business criteria on which the Performance Goals may be based or adjust, modify or amend the aforementioned business criteria. Performance Goals may include a threshold level of performance below which no award will be earned, a level of performance at which the target amount of an award will be earned and a level of performance at which the maximum amount of the award will be earned. The Committee in its sole discretion has the authority to make equitable adjustments to the Performance Goals in recognition of unusual or non-recurring events.

Option Exercise Price and Vesting of Awards

The Committee determines the exercise price with respect to each Option at the time of grant. The Option exercise price per share of common stock may not be less than 100% of the fair market value per share of the common stock underlying the Option on the date of grant, and no Option may be repriced in violation of the repricing limitations discussed in Amendment and Termination below. For purposes of determining the Option exercise price, fair market value is defined as the closing price on the NYSE the first business day prior to the date of grant. The Committee may determine at the time of grant the terms under which Options and SARs shall vest and become exercisable. However, no Option or SAR may have a term in excess of 7 years, and all awards are subject to a minimum three-year vesting schedule, with no more than one-third of the shares subject to the award vesting each year; provided, however, that at the time of the grant of an Option or SAR, the Committee may place restrictions on the exercisability or vesting of the Option or SAR that shall lapse, in whole or in part, only upon the attainment of Performance Goals; provided that such Performance Goals shall relate to periods of performance of at least one fiscal year, and if the Option or SAR is granted to a 162(m) Officer, the grant of the Option or SAR and the establishment of the Performance Goals shall be made during the period required under Internal Revenue Code Section 162(m).

Special Limitations on ISOs

If the total fair market value of shares of common stock subject to ISOs that are exercisable for the first time by an employee in a given calendar year exceeds \$100,000, valued as of the grant date of the ISO, the Options for shares of common stock in excess of \$100,000 for that year will be treated as non-qualified stock options (NQOs).

Stock Appreciation Rights (SARs)

An SAR is the right to receive stock, cash, or other property equal in value to the difference between the grant price of the SAR and the market price of the company's stock on the exercise date. SARs may be granted independently or in tandem with an Option at the time of grant of the related Option. An SAR granted in tandem with an Option shall be exercisable only to the extent the underlying Option is exercisable. An SAR confers on the grantee a right to receive an amount with respect to each share of common stock subject thereto, upon exercise thereof, equal to the excess of (A) the fair market value of one share of common stock on the date of exercise over (B) the grant price of the SAR (which in the case of an SAR granted in tandem with an Option shall be equal to the exercise price of the underlying Option, and which in the case of any other SAR shall be such price as the Committee may determine but in no event shall be less than the fair market value of a share of common stock on the date of grant of such SAR).

Exercise of Options and SARs

Options and SARs are exercisable in accordance with such terms and conditions and during such periods as may be established by the Committee. For Options, notice of exercise must be accompanied by a payment equal to the applicable Option exercise price plus all withholding taxes due, such amount to be paid in cash or by tendering, either by actual delivery of shares or by attestation, shares of common stock that are acceptable to the Committee, such shares to be valued at fair market value as of the day the shares are tendered, or paid in any combination of cash and shares, as determined by the Committee. To the extent permitted by applicable law, a participant may elect to pay the exercise price through the contemporaneous sale by a third party broker of shares of common stock acquired upon exercise yielding net sales proceeds equal to the exercise price and any withholding tax due and the remission of those sale proceeds to the company.

Transferability of Awards

Except as otherwise provided by the Committee, Options, SARs and any unvested other awards may not be transferred except by will or applicable laws of descent and distribution. Notwithstanding the foregoing, in no event may any such award be transferred to a third party for consideration at any time.

Termination of Options and Other Awards

Options and SARs shall be exercisable during such periods as may be established by the Committee. Except as discussed below and at Change in Control, Options and SARs will expire on the earlier to occur of the expiration date of the Option or 90 days after the severance of an Option holder's employment with the company or any of its subsidiaries. If, before the expiration of an Option or SAR, a holder's employment terminates as a result of retirement in good standing or disability under the established rules of the company then in effect, the Option or SAR will remain in effect, vest and be exercisable in accordance with its terms. Upon the death of an employee while employed by the company or its subsidiaries, Options, to the extent then exercisable, shall remain exercisable by the executors or administrators of his or her estate for up to three years following the date of death, but in no event later than the original termination date of the Option or SAR. However, no Option or SAR may be exercised more than 7 years from the date of grant. To the extent not exercised by the applicable deadline, the Option or SAR will terminate.

With respect to all other awards, any unvested awards shall immediately vest, and all restrictions pertaining to such other awards shall lapse and have no further effect, upon the holder's death or retirement in good standing or disability under the established rules of the company then in effect, except as otherwise provided by the Committee at grant of the award.

Restricted Stock and Restricted Stock Units

Restricted Stock is common stock that the company grants subject to transfer restrictions and vesting criteria. A Restricted Stock Unit is a right to receive stock or cash equal to the value of a share of stock at the end of a specified period that the company grants subject to transfer restrictions and vesting criteria. The grant of these awards under the Plan are subject to such terms, conditions and restrictions as the Committee determines consistent with the terms of the Plan.

At the time of grant, the Committee may place restrictions on Restricted Stock and Restricted Stock Units that shall lapse, in whole or in part, only upon the attainment of Performance Goals; provided that such Performance Goals shall relate to periods of performance of at least one fiscal year, and if the award is granted to a 162(m) Officer, the grant of the award and the establishment of the Performance Goals shall be made during the period required under Internal Revenue Code Section 162(m). Except to the extent restricted under the award agreement relating to the Restricted

Stock, a grantee granted Restricted Stock shall have all of the rights of a stockholder including the right to vote Restricted Stock and the right to receive dividends.

Unless otherwise provided in an award agreement, upon the vesting of a Restricted Stock Unit, there shall be delivered to the grantee, within 30 days of the date on which such award (or any portion thereof) vests, the number of shares of common stock equal to the number of Restricted Stock Units becoming so vested.

Other Stock-Based Awards

The Plan also allows the Committee to grant Other Stock-Based Awards, which means a right or other interest that may be denominated or payable in, valued in whole or in part by reference to, or otherwise based on, or related to, common stock. This includes, without limitation, (i) unrestricted stock awarded as a bonus or upon the attainment of Performance Goals or otherwise as permitted under the Plan and (ii) a right to acquire stock from the company containing terms and conditions prescribed by the Committee. At the time of the grant of Other Stock-Based Awards, the Committee may place restrictions on the payout or vesting of Other Stock-Based Awards that shall lapse, in whole or in part, only upon the attainment of Performance

Goals; provided that such Performance Goals shall relate to periods of performance of at least one fiscal year, and if the award is granted to a 162(m) Officer, the grant of the Award and the establishment of the Performance Goals shall be made during the period required under Internal Revenue Code Section 162(m). Other Stock-Based Awards may not be granted with the right to receive dividend equivalent payments.

Dividend Equivalent Rights

Subject to the requirements of Internal Revenue Code Section 409A, an award of Restricted Stock Units may provide the grantee with the right to receive dividend equivalent payments with respect to stock subject to the award (both before and after the stock subject to the award is earned, vested, or acquired), which payments may be either made currently or credited to an account for the grantee, and may be settled in cash or stock, at such times as determined by the Committee on the date of the grant of the Restricted Stock Unit. Any such settlements and any such crediting of dividend equivalents may, at the time of grant of the Restricted Stock Unit, be made subject to the transfer restrictions, forfeiture risks, vesting and conditions of the underlying Restricted Stock Units or such other conditions, restrictions and contingencies as the Committee shall establish at the time of grant of the Restricted Stock Unit, including a requirement that such credited amounts are reinvested in stock equivalents, provided that all such conditions, restrictions and contingencies shall comply with the requirements of Internal Revenue Code Section 409A. Other Stock-Based Awards may not be granted with the right to receive dividend equivalent payments.

Awards to Employees Subject to Taxation Outside of the United States

Without amending the Plan, awards may be granted to grantees who are foreign nationals or who are employed outside the United States or both, on such terms and conditions different from those specified in the Plan as may, in the judgment of the Committee, be necessary or desirable to further the purpose of the Plan. Such different terms and conditions may be reflected in addenda to the Plan or in the applicable award agreement. However, no such different terms or conditions shall be employed if such terms or conditions constitute, or in effect result in, an increase in the aggregate number of shares that may be issued under the Plan or a change in the group of eligible grantees.

Forfeiture

Notwithstanding any other provision of the Plan and except as discussed under **Change in Control** below, if the Committee finds by a majority vote that: (i) the participant, before or after termination of his or her employment relationship with the company or any of its defined subsidiaries for any reason, (a) committed fraud, embezzlement, theft, a felony, or proven dishonesty in the course of his employment and that such act damaged the company or any of its defined subsidiaries, or (b) disclosed trade secrets of the company or any of its defined subsidiaries, or (ii) the participant, before or after termination of his or her employment relationship for any reason, participated, engaged or had a financial or other interest (whether as an employee, officer, director, consultant, contractor, stockholder, owner, or otherwise) in any commercial endeavor in the United States which is competitive with the business of the company or any of its defined subsidiaries in violation of the Sysco Code of Business Conduct as in effect on the date of such participation or other engagement or in such a manner that would have violated the Code of Business Conduct had the participant been employed by the company or any of its defined subsidiaries at the time of the activity in question, then any outstanding Options and SARs which have not been exercised and any awards other than Options and SARs that have not vested will be forfeited. The decision of the Committee as to the nature of a participant's conduct, the damage done to the company or any of its defined subsidiaries and the extent of the participant's competitive activity will be final. No decision of the Committee, however, will affect the finality of the discharge of the participant in any manner. The Committee may, in its discretion, include a form of non-compete, non-solicitation and/or non-disparagement agreement in any award agreement, and such non-compete, non-solicitation or non-disparagement agreement may be personalized, in the Committee's discretion, to fit the circumstances of any specific grantee.

Change in Control

In the event of a specified change in control of the company (a **Change in Control**), including but not limited to, certain acquisitions of 20% or more of the Company's outstanding common stock, certain changes in the identity of a majority of the members of the Board of Directors and certain mergers in which the company's then existing shareholders do not own at least 60% of the outstanding voting securities of the surviving entity, all outstanding Options and SARs shall vest and become exercisable and all other outstanding awards shall vest and all restrictions pertaining to such other awards shall lapse and have no further effect. In the event that the employment of a participant who is an employee of the company or any of its defined subsidiaries is terminated by the company other than for cause, as defined below, during the 24-month period following a Change in Control, all of such participant's outstanding Options and SARs may thereafter be exercised by the participant, to the

extent that such Options and SARs were exercisable as of the date of such termination of employment, for (x) a period of 24 months from such date of termination or (y) until expiration of the stated term of such Option or SAR, whichever period is shorter. The forfeiture provisions relating to competition as described in the immediately preceding paragraph shall not apply to any participant who incurs a termination of employment pursuant to the Change in Control provisions in the Plan. For purposes of these provisions, the term *cause* shall mean *cause* as defined in the participant's award agreement or written employment, consulting or other agreement with the company or a subsidiary, or if not defined in any such agreement, *cause* shall mean conviction of the participant for a felony, dishonesty while performing his employment duties, or a participant's willful or deliberate failure to perform his or her duties in any material respect.

Tax Withholding

Issuance of shares under the Plan is subject to withholding of all applicable taxes, and the Committee may condition the delivery of any shares or other benefits under the Plan on satisfaction of the applicable withholding obligations. The Committee, in its discretion, and subject to such requirements as the Committee may impose prior to the occurrence of such withholding, may permit such withholding obligations to be satisfied through cash payment by the participant, through the surrender of shares of common stock which the participant already owns, or through the surrender of shares of common stock to which the participant is otherwise entitled under the Plan, but only to the extent of the minimum amount required to be withheld under applicable law.

Term of the Plan

Unless earlier terminated by the Board of Directors, the Plan will terminate on November 9, 2014. No awards may be granted under the Plan subsequent to that date. As discussed above under Proposed Amendments to the 2007 Stock Incentive Plan, the proposed amendments would clarify an ambiguity contained within the Plan regarding the Plan's duration.

Amendment and Termination

The Board may, at any time, amend or terminate the Plan, except that the following actions may not be taken without stockholder approval: (i) any increase in the number of shares that may be issued under the Plan (except by certain adjustments provided under the Plan); (ii) any change in the class of persons eligible to receive ISOs under the Plan; (iii) any change in the requirements of the Plan regarding the exercise price of Options or grant price of SARs; (iv) any repricing or cancellation and regrant of any Option or, if applicable, other award at a lower exercise, base or purchase price, whether in the form of an amendment, cancellation or replacement grant, or a cash-out of underwater options or any action that provides for awards that contain a so-called *reload* feature under which additional Options or other awards are granted automatically to the grantee upon exercise of the original Option or award; or (v) any other amendment to the Plan that would require approval of the company's stockholders under applicable law, regulation, rule or stock exchange listing requirement.

Federal Income Tax Consequences

The following discussion addresses certain anticipated United States federal income tax and certain employment tax consequences to the company and to recipients of awards made under the Plan who are citizens or residents of the United States for federal income tax purposes. It is based on the Internal Revenue Code and interpretations thereof as in effect on the date of this proxy statement. This summary is not intended to be exhaustive and, among other things, does not describe the state, local, or foreign tax consequences of a grant of awards under the Plan. Moreover, it is not intended as tax advice to any individual.

IRS Circular 230 Notice

To ensure compliance with requirements imposed by the Internal Revenue Service, you are hereby notified that any discussion of tax matters set forth in this prospectus was written in connection with the promotion or marketing (within the meaning of IRS Circular 230) of awards made under the Plan, and was not intended or written to be used, and cannot be used, by any taxpayer for the purpose of avoiding any tax-related penalties under federal law. Each recipient of an award under the Plan should seek advice based on his or her particular circumstances from an independent tax advisor.

Summary of Current Federal Income Tax Rates for Individuals

Ordinary income of individuals, such as compensation income, is currently taxed at a top marginal rate of 35%. In addition, for capital assets sold the maximum long-term capital gains rate for individuals is currently 15%. The maximum federal income tax rate for qualifying dividends received by individuals is currently 15%.

Options

Grant of Options. There are no federal income tax consequences to the grantee of an Option or the company upon the grant of either an ISO or an NQO under the Plan.

Exercise of NQOs. Upon the exercise of an NQO, the grantee generally will recognize ordinary compensation income, subject to withholding and employment taxes, in an amount equal to: (a) the fair market value, on the date of exercise, of the acquired shares of common stock, less (b) the exercise price paid for those shares. In general, as long as the company satisfies the applicable reporting requirements, the company will be entitled to a tax deduction equal to the compensation income recognized by the grantee. Gains or losses recognized by the grantee upon a subsequent disposition of the shares will be treated as long-term capital gain or loss if the shares are held for more than a year from the date of exercise. Such gains or losses will be short-term capital gains or losses if the shares are held for one year or less. For purposes of computing gain or loss, the grantee's basis in the shares received will be the exercise price paid for the shares plus the amount of compensation income, if any, recognized upon exercise of the Option.

Exercise of ISOs. Upon the exercise of an ISO, the grantee will recognize no immediate taxable income for regular income tax purposes, provided the grantee was continuously employed by the company or a subsidiary from the date of grant through the date which is three months prior to the date of exercise (or through the date which is one year prior to the exercise date in the case of termination of employment as a result of total disability). If an Option originally designated as an ISO is exercised after those employment periods, the exercise of the Option will be treated as the exercise of an NQO for income tax purposes, and compensation income will be recognized by the optionee and the company will be entitled to a deduction in accordance with the rules discussed above concerning NQOs.

The exercise of an ISO will, however, result in an adjustment for alternative minimum tax purposes in an amount equal to the excess of the fair market value of the shares at exercise over the exercise price. That adjustment may result in alternative minimum tax liability to the grantee upon the exercise of the ISO. Subject to certain limitations, alternative minimum tax paid in one year may be carried forward and credited against regular federal income tax liability for subsequent years. If the grantee retains the shares acquired upon the exercise of the ISO for more than two years from the date of grant and one year from the date of exercise, any gain or loss on a later sale of the shares will be treated as a long-term capital gain or loss, and the company will not be entitled to any tax deduction with respect to the ISO.

If the grantee disposes of the shares of common stock received upon the exercise of an ISO before the expiration of the two-year and one-year holding periods discussed above, a *Disqualifying Disposition* occurs. In that event, the grantee will have ordinary compensation income, subject to income tax withholding and employment taxes, and the company will be entitled to a corresponding deduction at the time of the *Disqualifying Disposition*. The amount of ordinary income and deduction generally will be equal to the lesser of: (a) the fair market value of the shares of common stock on the date of exercise minus the exercise price; or (b) the amount realized upon disposition of the common stock minus the exercise price. If the amount realized in the *Disqualifying Disposition* exceeds the value of the shares on the date of exercise, that additional amount will be taxable as either a long-term or short-term capital gain depending on how long the shares were held by the grantee following exercise of the Option. To be entitled to a deduction as a result of a *Disqualifying Disposition*, the company must satisfy applicable reporting requirements.

Stock Appreciation Rights

Grant of SARs. There will be no federal income tax consequences to either the grantee or the company upon the grant of an SAR.

Exercise of SARs. The grantee generally will recognize ordinary compensation income upon the exercise of an SAR in an amount equal to the aggregate amount of cash and the fair market value of any shares of common stock received upon exercise. Subject to the company satisfying applicable reporting requirements with respect to shares issued upon exercise, the company will be entitled to a deduction equal to the amount includible in the grantee's income as compensation income as a result of the exercise of the SAR. Any shares of common stock received by the grantee upon the exercise of an SAR will have a tax basis equal to the fair market value of the common stock on the date of exercise. Upon a subsequent sale of those shares, any gain or loss realized by the grantee will be long-term or short-term capital gain or loss, depending upon whether the shares were held for more than one year from the date of exercise.

Restricted Stock and Restricted Stock Units

Restricted Stock. A recipient of Restricted Stock generally does not recognize income and the company generally is not entitled to a deduction at the time of grant. Instead, the recipient recognizes compensation income and the company is generally

entitled to a deduction on the date on which the stock vests or the substantial risk of forfeiture lapses with respect to the Restricted Stock (Vesting Date). The amount of income recognized and the amount of the company's deduction will equal the fair market value of the vested stock on the Vesting Date. However, the recipient may make an election under Section 83(b) of the Code (a Section 83(b) Election) to include in income the fair market value of Restricted Stock at the time of grant. If a Section 83(b) Election is made, the company's deduction will equal the fair market value of the Restricted Stock at the time of grant. If a grantee of Restricted Stock is retirement eligible at the time of grant or becomes retirement eligible at any time prior to the date on which the stock vests, the Restricted Stock is no longer subject to a substantial risk of forfeiture as of such date and these grantees are required to include in income the fair market value of any unvested Restricted Stock held by the grantee at the time the grantee becomes retirement eligible. The company will be entitled to a deduction equal to the fair market value of the Restricted Stock as of such time.

The Restricted Stock received by the grantee will have a tax basis equal to the fair market value of the Restricted Stock as of the Vesting Date or, if the grantee makes a Section 83(b) Election the fair market value of the Restricted Stock on the date of grant. Upon a subsequent sale of those shares, any gain or loss realized by the grantee will be long-term or short-term capital gain or loss, depending upon whether the shares were held for more than one year from the Vesting Date or, if the grantee makes a Section 83(b) Election, the date of grant.

Restricted Stock Units. A recipient of a Restricted Stock Unit generally does not recognize income and the company is not entitled to a deduction at the time of grant. Instead, the recipient recognizes compensation income at the time payment for the Restricted Stock Units is received by the recipient. The amount of compensation income recognized by the recipient will equal the fair market value of any shares of company common stock received at the time payment for the Restricted Stock Units is received by the recipient. Subject to the company satisfying applicable reporting requirements, the company generally will be entitled to a deduction equal to the amount included in the recipient's income at the time payment for the Restricted Stock Units is received by the recipient. Any shares of common stock received by the grantee upon payment for the Restricted Stock Units will have a tax basis equal to the fair market value of the common stock on the date of payment. Upon a subsequent sale of those shares, any gain or loss realized by the grantee will be long-term or short-term capital gain or loss, depending upon whether the shares were held for more than one year from the date of payment.

Dividends or Dividend Equivalent Payments. Any dividends on Restricted Stock, or dividend equivalent payments with respect to Restricted Stock Units, paid to the recipient prior to the Vesting Date for Restricted Stock or the time of payment for Restricted Stock Units will be includible in the recipient's income as compensation income and deductible as such by the company. If the recipient makes a Section 83(b) Election with respect to Restricted Stock, any dividends received by the recipient will be taxed as a dividend to the recipient and the company will not be entitled to a deduction.

Section 162(m) Limitation

In general, Section 162(m) of the Internal Revenue Code limits to \$1 million the federal income tax deduction that may be claimed in any tax year of the company with respect to certain compensation payable to any employee who is the chief executive officer or one of the other three highest paid executive officers of the company, other than the chief financial officer, on the last day of that tax year. This limit does not apply to performance-based compensation paid under a plan that meets the requirements of Section 162(m) of the Internal Revenue Code and the regulations promulgated thereunder. The company believes that Options granted under the Plan qualify for the performance-based compensation exception to the Section 162(m) limitations under current law because stockholder approval has been obtained for the Plan, and any taxable compensation with respect to Options granted is based solely on an increase in value of the stock after the date of grant of the Option since the Option exercise price will be no less than the fair market value of the company common stock on the date of grant. Compensation from Restricted Stock, Restricted

Stock Units and Other Stock-Based Awards generally will be performance-based compensation only if the vesting conditions as established by the Committee are based upon the Performance Goals and the grant of the awards otherwise complies with Section 162(m).

Golden Parachute Tax and Section 280G of the Internal Revenue Code

The Plan provides for immediate vesting of all then outstanding unvested awards upon a Change in Control. If the vesting of the award is accelerated as the result of a Change in Control, all or a portion of the value of the award at that time might be a parachute payment under Section 280G of the Code for certain employees of the company. Section 280G generally provides that if compensation received by the grantee that is contingent on a Change in Control equals or exceeds three times the grantee's average annual compensation for the five taxable years preceding the Change in Control (a parachute payment), the company will not be entitled to a deduction, and the recipient will be subject to a 20% excise tax with respect to that portion of the parachute payment in excess of the grantee's average annual compensation. See Severance Arrangements Tax Gross-Up

Payments for a description of the company's payment obligations under its outstanding severance agreement with respect to this excise tax. Section 280G of the Code generally applies to employees or other individuals who perform services for the company if, within the 12-month period preceding the Change in Control, the individual is an officer of the company, a shareholder owning more than 1% of the stock of the company, or a member of the group consisting of the lesser of the highest paid 1% of the employees of the company or the highest paid 250 employees of the company.

Deferred Compensation

Awards made under the Plan, including awards granted under the Plan that are considered to be deferred compensation for purposes of Section 409A of the Internal Revenue Code, must satisfy the requirements of Internal Revenue Code Section 409A to avoid adverse tax consequences to recipients, which could include the inclusion of amounts not payable currently in income, an excise tax of 20% tax on any amount included in income and interest. The company intends to structure any awards under the Plan such that the requirements under Internal Revenue Code Section 409A are either satisfied or are not applicable to such awards.

The discussion set forth above is intended only as a summary and does not purport to be a complete enumeration or analysis of all potential tax effects relevant to recipients of awards under the Plan. We have not undertaken to discuss the tax treatment of awards under the Plan in connection with a merger, consolidation or similar transaction. Such treatment will depend on the terms of the transaction and the method of dealing with the awards in connection therewith.

Certain Interests of Directors

In considering the recommendation of the Board of Directors with respect to the proposed amendments to the Plan, stockholders should be aware that members of the Board of Directors may from time to time have interests that present them with conflicts of interest in connection with this proposal to approve amendments to the Plan. For example, Directors who are also employees of the company will be eligible for the grant of awards under the Plan; however, only Messrs. DeLaney and Spittle are currently both a director and employee of the company, and neither individual serves on the Compensation Committee. The Board of Directors believes that approval of the proposed amendments to the Plan will advance the interests of the company and its stockholders by encouraging employees to make significant contributions to the long-term success of the company.

New Plan Benefits

Because of the discretionary nature of any future awards under the Plan, the amount of such awards is not determinable at this time with respect to the company's executive officers, including the named executive officers, and the company's other employees. Information regarding options and restricted stock granted in fiscal 2009 to certain executive officers of the company under the Plan is set forth in the table captioned "Grants of Plan-Based Awards," and information regarding outstanding options and restricted stock under the Plan and the Company's prior stock and stock option plans is set forth in the table captioned "Outstanding Equity Awards at Fiscal Year-End."

Required Vote

The affirmative vote of a majority of votes cast, either for, against or abstain, is required to approve this proposal. In addition, the total votes cast on the proposal must represent over 50% of shares outstanding. Broker non-votes are not considered to be votes cast for either of these purposes.

The Board of Directors recommends a vote FOR approval of the amendments to 2007 Stock Incentive Plan.

**PROPOSAL TO APPROVE THE 2009 MANAGEMENT INCENTIVE PLAN
ITEM NO. 4 ON THE PROXY CARD**

The 2009 Management Incentive Plan (the "2009 MIP" or the "Plan") was recommended by the Compensation Committee (the "Committee") on September 3, 2009, and adopted by the Board of Directors on September 3, 2009, subject to stockholder approval. If approved by the stockholders, the 2009 MIP will become effective on November 30, 2009 for awards granted on or after May 1, 2010. The 2009 MIP will terminate on November 30, 2014 unless earlier terminated by action of the Board of Directors. Awards made prior to termination of the Plan with respect to the 2015 fiscal year will remain in effect following termination of the Plan. The Committee will not make any awards or pay any compensation under the 2009 MIP without stockholder approval.

The 2009 MIP will replace the 2005 Management Incentive Plan (the 2005 MIP). However, awards made with respect to fiscal year 2010 will be governed by the terms of the 2005 MIP.

Stockholder Approval

Stockholder approval of the 2009 MIP is necessary to ensure that certain compensation paid under the Plan can be eligible for an exemption from the limits on tax deductibility imposed by Section 162(m) of the Internal Revenue Code (Section 162(m)). Section 162(m) limits the deductibility of certain compensation paid to individuals, referred to herein as Section 162(m) Officers, who are, at the end of the tax year in which the company would otherwise claim its tax deduction, the company s chief executive officer and its other three highest-paid executive officers other than the chief financial officer. Compensation that qualifies as performance-based for purposes of Section 162(m) is not subject to the annual Section 162(m) limit on the deductibility of compensation in excess of \$1 million with respect to Section 162(m) Officers. One of the requirements for compensation to constitute performance-based compensation is that the material terms under which compensation is to be paid to Section 162(m) Officers, including any performance goals, be disclosed to and voted on by the Company s stockholders in a separate stockholder vote before the payment of the compensation. It is intended that such approval apply to all awards payable with respect to fiscal years 2011, 2012, 2013, 2014 and 2015.

The following summary of the material terms of the 2009 MIP is qualified in its entirety by the terms of the 2009 MIP, a copy of which is attached as Annex C hereto.

Purpose of the 2009 MIP

The purpose of the 2009 MIP is to promote the interests of the Company and its stockholders by providing incentives to (i) certain key management personnel for outstanding performance in the management of one or more of the Company s Operating Companies, as defined below, and (ii) certain corporate personnel for managing the operations of the Company as a whole and/or managing the operations of one or more of the Company s Operating Companies. To achieve that purpose, the 2009 MIP permits the grant of performance-based bonus awards, payable in cash, as further explained below.

Administration of the 2009 MIP

The Committee will administer the 2009 MIP, except that it may delegate administrative powers with respect to awards to non-executive officers. The Committee is composed entirely of non-employee directors within the meaning of SEC Rule 16b-3 promulgated under the Securities Exchange Act of 1934, as amended, and outside directors within the meaning of Section 162(m). The members of the Committee are also independent as that term is defined by New York Stock Exchange listing requirements and the Company s Corporate Governance Guidelines.

The Committee will have the power in its discretion to grant awards under the 2009 MIP, to select the individuals to whom awards are granted, to determine the terms of all awards under the 2009 MIP, to interpret the provisions of the 2009 MIP, including the manner of determining financial and accounting concepts discussed in the Plan, and to otherwise administer the Plan.

Eligibility and Participation

The Committee designates those employees of the Company and its Operating Companies who are eligible to receive a bonus under the 2009 MIP. Operating Companies, for purposes of the 2009 MIP, are 1) entities in which the Company, directly or indirectly, owns more than 50% of the vote or value of the equity interests issued by such entity or 2) any other entity, operating division, employment location or business unit designated by the Committee as such.

To the extent possible, the Committee will designate participants for a particular fiscal year before the start of that year, or as soon as practicable during the fiscal year in which a person first becomes eligible. Except as described below in connection with a Change of Control, the Committee may remove an employee from participation in the Plan, with or without cause, at any time, even if he or she has already been designated to participate, and such an employee will not be entitled to any bonus under the Plan for the year in which he or she is removed, regardless of when during such year he or she is removed.

If the Committee determines that a participant is a Section 162(m) Officer for a particular fiscal year, the officer will be deemed a Senior Executive Participant for purposes of the Plan. Such officer's bonus will be calculated without regard to such designation; however, any bonus for Senior Executive Participants shall be subject to certain limitations and restrictions further described herein.

Currently, approximately 170 employees of the Company and its subsidiaries are within the class eligible to participate in the 2009 MIP.

Payment of Bonuses

The Committee will designate the particular fiscal year over which performance is to be measured (the Performance Period), the date that payment of bonuses will be made with respect to any Performance Period, the Performance Goals, as described below, for the Performance Period, and the method for evaluating performance for the Performance Period. Bonuses are paid solely in cash within 90 days following the end of the Performance Period in which the bonus is earned.

Performance Goals

Performance Goals for a Performance Period may include any one or more of the following criteria:

- Return on capital;
- Return on assets;
- Sales growth;
- Market share;
- Margin growth;
- Return on equity;
- Total shareholder return;
- Increase in net after-tax earnings per share;
- Increase in operating pre-tax earnings;
- Operating profit or improvements in operating profit;
- Improvements in certain asset or financial measures (including working capital and the ratio of sales to net working capital);
- Reductions in certain costs (including reductions in inventories or accounts receivable or reductions in operating or non-operating expenses);
- Net earnings;
- Pre-tax earnings or variations of income criteria in varying time periods;
- Economic value added, defined as a formula equal to:
 - net operating profit after tax, less
 - average total assets, net of intercompany balances and non-interest liabilities, times weighted average cost of capital;
- General comparisons with other peer companies or industry groups or classifications with regard to one or more of these criteria; or
- Market price of the Company's securities.

With respect to participants other than Senior Executive Participants, the Committee may establish Performance Goals pursuant to other factors directly tied to the performance of the Company or its Operating Companies.

The relative weights of criteria that comprise the Performance Goals are determined by the Committee in its sole discretion. In establishing the Performance Goals for a Performance Period, the Committee may establish different Performance Goals for different individuals and groups. Also, the Committee may alter the performance criteria with respect to any participant, provided that any such alteration with respect to a Senior Executive Participant must comply with the requirements of the performance-based compensation exception under Section 162(m).

Additional Bonuses

Participants who are employed by an Operating Company are also eligible for an additional bonus, as determined by the Committee and without respect to the Performance Goals described above; provided, however, that Senior Executive Participants are only eligible for such additional bonus to the extent that the additional bonus is established in accordance with the requirements of the performance-based compensation exception under Section 162(m).

Accounting Principles for Performance Periods

In calculating whether or not a bonus is earned for a particular Performance Period, generally accepted accounting principles shall be applied on a basis consistent with prior periods unless otherwise modified by the Committee; provided, however, that no such modification shall apply to a Senior Executive Participant unless the requirements for the performance-based compensation exception under Section 162(m) have been satisfied with respect to such modification.

Limitations on Bonuses

Bonus opportunities awarded to Senior Executive Participants depend upon the criteria described above. However, no Senior Executive Participant may receive a bonus for any given Performance Period in excess of \$10,000,000. Otherwise, there is no limit to the bonus that participants can earn under the 2009 MIP.

Adjustments for Long Fiscal Years

In calculating whether or not a bonus has been earned, or the amount of any bonus earned, Performance Goals for fiscal years containing 53 weeks are subject to adjustment in order to provide comparability with 52-week years, at the discretion of the Committee; provided that the Committee may not exercise such discretion after the first 90 days of the Performance Period with respect to Senior Executive Participants unless such exercise of discretion results in a reduction of the bonus payable.

Clawback of Bonus

If a restatement of the Company's financial results, other than a restatement due to a change in accounting policy, occurs within 36 months of the payment of a bonus under the 2009 MIP, the Committee has the right, subject to applicable law, to recoup from any recipient the portion of the bonus payment that would not have been earned had the bonus been calculated based on the restated results, in such form and at such time as determined in the sole discretion of the Committee.

Change of Control

In the event of a specified change of control of the Company (a "Change of Control"), including but not limited to, certain acquisitions of 20% or more of the Company's outstanding common stock, certain changes in the identity of a majority of the members of the Board of Directors and certain mergers in which the Company's then existing stockholders do not own at least 60% of the outstanding voting securities of the surviving entity, in lieu of any award he or she might otherwise be entitled to under the 2009 MIP, each participant will generally be entitled, within 90 days following the Change of Control, to a bonus amount that is prorated based on:

- the portion of the year that has elapsed; and
- an amount equal to the award to which the participant would have been entitled based on annualized performance results for the interim period ending with the most recently completed fiscal quarter.

For example, if a Change of Control occurred exactly 90 days through the fiscal year, and the Company's most recently completed interim results on an annualized basis would have entitled a participant to a \$50,000 bonus for that year, then he or she would instead be entitled to \$12,328.77 (or $\$50,000 \times 90/365$).

Participants Remaining at End of Year

If a participant remains employed by the Company or any Operating Company through the last day of the fiscal year in which the Change of Control occurs, and if the bonus that would have been paid to him or her for such fiscal year under the Plan based on the Company's actual performance for the entire year would have been greater than the amount he or she received under the foregoing paragraph, then a cash sum equal to the difference in value will be paid.

Participants with Severance Arrangements

Notwithstanding the foregoing, with respect to any participant who has a severance agreement with the Company, any bonus paid pursuant to the foregoing paragraphs shall be reduced by any portion of the participant's severance which is determined by reference to payments received or to be received under the 2009 MIP or any of its predecessor or successor plans. Currently, only Mr. Spitler is a party to a severance agreement. See Executive Compensation-Severance Arrangements.

Amendment and Early Termination

The 2009 MIP allows amendment at any time by the Board of Directors. Any such amendment shall be effective as of commencement of the Performance Period during which the 2009 MIP is amended, regardless of the date of the amendment, unless otherwise stated by the Board of Directors. The 2009 MIP may be terminated at any time by the Board of Directors and termination will be effective as of the commencement of the Performance Period in which such action to terminate the 2009 MIP is taken.

Federal Income Tax Consequences

The following discussion addresses certain anticipated United States federal income tax and certain employment tax consequences to the Company and to recipients of awards made under the Plan who are citizens or residents of the United States for federal income tax purposes. It is based on the Internal Revenue Code and interpretations thereof as in effect on the date of this proxy statement. This summary is not intended to be exhaustive and, among other things, does not describe the state, local, or foreign tax consequences of a grant of awards under the Plan. Moreover, it is not intended as tax advice to any individual.

Cash Bonuses

A participant will recognize ordinary compensation income at the time a participant's bonus is paid and will be subject to withholding for federal, and generally for state and local, income taxes at the time the participant recognizes ordinary income with respect cash received. Ordinary income of individuals, such as compensation income, is currently taxed at a top marginal rate of 35%.

Deductibility In General

Subject to the discussion below, the Company will be entitled to a deduction for federal income tax purposes that corresponds to the timing and amount of compensation income recognized by a participant.

Tax Code Limitations on Deductibility

In order for the amounts described above to be deductible by the Company, such amounts must constitute reasonable compensation for services rendered or to be rendered and must be ordinary and necessary business expenses.

Golden Parachute Tax and Section 280G of the Internal Revenue Code

The ability of the Company to obtain a deduction for future payments under the 2009 MIP could be limited by the golden parachute rules of Section 280G of the Internal Revenue Code (Section 280G). Section 280G generally provides that if compensation received by the grantee that is contingent on a change of control equals or exceeds three times the grantee's average annual compensation for the five taxable years preceding the change of control (a parachute payment), the company will not be entitled to a deduction, and the recipient will be subject to a 20% excise tax with respect to that portion of the parachute payment in excess of the grantee's average annual compensation. See Severance Arrangements Tax Gross-Up Payments for a description of the company's payment obligations under its outstanding severance agreement with respect to this excise tax. Section 280G generally applies to employees or other individuals who perform services for the company if, within the 12-month period preceding the change of control, the individual is an officer of the company, a shareholder owning more than 1% of the stock of the company, or a member of the group consisting of the lesser of the highest paid 1% of the employees of the company or the highest paid 250 employees of the company.

Section 162(m) Limitation

As noted above, Section 162(m) limits to \$1 million the federal income tax deduction that may be claimed in any tax year of the company with respect to certain compensation payable to Section 162(m) Officers. This limit does not apply to performance-based compensation paid under a plan that meets the requirements of Section 162(m) of the Internal Revenue Code and the regulations promulgated thereunder. The 2009 MIP has been drafted and is intended to be administered in a manner that would enable the compensation paid to Section 162(m) Officers to qualify as performance-based for purposes of Section 162(m). Stockholder approval of the 2009 MIP is necessary in order for

compensation paid under the 2009 MIP to qualify as performance-based for purposes of Section 162(m).

Deferred Compensation

Awards made under the 2009 MIP, including awards granted under the 2009 MIP that are considered to be deferred compensation for purposes of Section 409A of the Internal Revenue Code, must satisfy the requirements of Internal Revenue Code Section 409A to avoid adverse tax consequences to recipients, which could include the inclusion of amounts not payable currently in income, an excise tax of 20% tax on any amount included in income and interest. The Company intends to structure any awards under the Plan such that the requirements under Internal Revenue Code Section 409A are either satisfied or are not applicable to such awards.

The discussion set forth above is intended only as a summary and does not purport to be a complete enumeration or analysis of all potential tax effects relevant to recipients of awards under the 2009 MIP. We have not undertaken to discuss the tax

treatment of awards under the 2009 MIP in connection with a merger, consolidation or similar transaction. Such treatment will depend on the terms of the transaction and the method of dealing with the awards in connection therewith.

New Plan Benefits

Because of the discretionary nature of any future awards under the Plan, the amount of such awards is not determinable at this time with respect to the Company's executive officers, including the named executive officers, and the Company's other employees.

Executive Deferred Compensation Plan

Participants in the 2009 MIP will be entitled to defer portions of any bonus payable under the 2009 MIP and receive matching contributions to their accounts under the Company's Executive Deferred Compensation Plan. See Compensation Discussion and Analysis Retirement/Career Incentives Nonqualified Executive Deferred Compensation Plan .

Supplemental Executive Retirement Plan

Bonuses payable under the 2009 MIP capped at 150% of the participant's base salary in effect at the end of the relevant fiscal year will be included in calculating a participant's final average compensation for purposes of determining benefits payable under the current Supplemental Executive Retirement Plan. See Compensation Discussion and Analysis Retirement/Career Incentives Supplemental Executive Retirement Plan .

Certain Interests of Directors

In considering the recommendation of the Board of Directors with respect to this proposal to approve the 2009 MIP, stockholders should be aware that members of the Board of Directors may from time to time have interests that present them with conflicts of interest in connection with this proposal. For example, Directors who are also employees of the company will be eligible for the grant of awards under the 2009 MIP; however, only Messrs. DeLaney and Spitler are currently both a director and employee of the company, and neither individual serves on the Compensation Committee. The Board of Directors believes that approval of the 2009 MIP will advance the interests of the Company and its stockholders by encouraging employees to make significant contributions to the long-term success of the Company.

Required Vote

The affirmative vote of a majority of votes cast, either for or against, is required to approve this proposal. Broker non-votes and abstentions are not considered to be votes cast for this purpose.

The Board of Directors recommends a vote FOR approval of the 2009 Management Incentive Plan.

PROPOSAL TO RATIFY APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ITEM NO. 5 ON THE PROXY CARD

The Audit Committee of the Board has appointed Ernst & Young LLP as Sysco's independent registered public accounting firm for fiscal 2010. Ernst & Young LLP has served as the company's independent public registered public accounting firm providing auditing, financial and tax services since their engagement in fiscal 2002. In determining to

appoint Ernst & Young, the Audit Committee carefully considered Ernst & Young's past performance for the company, its independence with respect to the services to be performed and its general reputation for adherence to professional auditing standards.

Although the company is not required to seek ratification, the Audit Committee and the Board believe it is sound corporate governance to do so. If stockholders do not ratify the appointment of Ernst & Young, the current appointment will stand, but the Audit Committee will consider the stockholders' action in determining whether to appoint Ernst & Young as the company's independent registered public accounting firm for fiscal 2010.

Representatives of Ernst & Young LLP will be present at the Annual Meeting and will have the opportunity to make a statement if they desire to do so. They will also be available to respond to appropriate questions.

The Board of Directors recommends a vote FOR the ratification of the appointment of the independent registered public accounting firm for fiscal 2010.

**ADVISORY VOTE ON EXECUTIVE COMPENSATION
PHILOSOPHY, POLICIES AND PROCEDURES
ITEM NO. 6 ON THE PROXY CARD**

We believe that our compensation policies and procedures are centered on a pay-for-performance philosophy and are strongly aligned with the long-term interests of our stockholders.

We also believe that both Sysco and its stockholders benefit from corporate governance policies that are responsive to stockholder concerns. A number of our stockholders have expressed an interest in a non-binding advisory vote on the overall executive compensation philosophy, policies and procedures employed by the Company. Thus, with the approval of the Board of Directors and its Compensation Committee, the Company is voluntarily providing stockholders with the right to cast an advisory vote on our executive compensation philosophy, policies and procedures at the 2009 annual meeting of stockholders.

This proposal, commonly known as a "Say-on-Pay" proposal, gives you as a stockholder the opportunity to endorse or not endorse our executive pay philosophy, policies and procedures. This vote is intended to provide an overall assessment of our executive compensation program rather than focus on any specific item of compensation. The Compensation Committee and the Board intend to take into account the outcome of the vote when considering future executive compensation arrangements. However, because your vote is an advisory, non-binding vote, it will not directly affect or otherwise limit any existing compensation or award arrangements of any of our named executive officers. As described in the "Compensation Discussion and Analysis", the following key principles remain the cornerstone of Sysco's executive compensation philosophy:

- Pay for performance
- Enhance stockholder value
- Strike appropriate balance between short-term and long-term compensation and short-term and long-term interests of the business
- Provide competitive executive compensation and benefits

By adhering to these key principles, we believe that the application of our compensation philosophy, policies and procedures have resulted in executive compensation decisions that are appropriate and that have benefitted the Company over time. Sysco's executive compensation program has resulted in a corporate culture that recognizes and incents individual and team performance and that aligns the interests of stockholders and executives by linking a substantial portion of compensation to the Company's performance. For example:

The named executive officers did not receive an annual bonus for fiscal 2009 because the minimum performance criteria of a 4% increase in diluted earnings per share was not satisfied; Approximately 83% of the total fiscal 2008 compensation disclosed in the 2008 Summary Compensation Table for our named executive officers (excluding the increase in the value of retirement benefits and earnings on deferred compensation), were annual and longer-term incentives, including MIP bonus, supplemental bonus, cash performance unit grants and stock option grants, that were at risk if certain performance criteria were not satisfied or were subject to our future performance; and Despite the fact that our corporate officers earned no MIP bonus for fiscal 2009, approximately 59% of the total fiscal 2009 compensation disclosed in the Summary Compensation Table for our named executive officers (excluding the increase in the value of retirement benefits and earnings on deferred compensation), were annual and longer-term incentives, including cash performance unit grants and stock option grants, that were at risk if certain performance criteria were not satisfied or were subject to our future performance.

The Compensation Committee of our Board of Directors, which is responsible for determining the compensation of our executive officers, is composed solely of outside directors who satisfy the independence requirements of the New York Stock Exchange. To assist it, the Compensation Committee engages Mercer, an independent compensation consultant. As a result, the Compensation Committee provides independent oversight and engages in an ongoing independent review of all aspects of our executive compensation programs.

In addition, during fiscal 2009, the Compensation Committee and Board adopted a policy that requires the Company to recapture incentive payments paid to an executive if, within 36 months after the payment and following certain specified restatements of financial results, it is determined that such incentive payments would have been lower had they been calculated based on such restated results. Specific provisions enforcing this clawback policy were included in the fiscal 2010 MIP awards granted in May 2009 and are expected to be included in the CPU awards to be issued in November 2009.

We invite you to consider the details provided in the Compensation Discussion and Analysis , as well as the Summary Compensation Table and the tables and other information that follow it. These will provide you with the breadth of the

considerations that are taken into account when setting compensation, as well as details of the valuation of the individual elements of the compensation program. The Summary Compensation Table and its footnotes allow you to view the trends in compensation and application of our philosophies and practices for the years presented.

Given the information provided above and elsewhere in this proxy statement, the Board of Directors asks you to approve the following resolution:

Resolved, that Sysco's stockholders approve the compensation philosophy, policies and procedures employed by Sysco's Compensation Committee, as described in the Compensation Discussion and Analysis and the tabular disclosure regarding named executive officer compensation (together with the accompanying narrative disclosure) in this proxy statement

The Board of Directors recommends that you vote FOR this proposal approving the compensation philosophy, policies and procedures of the Compensation Committee.

**STOCKHOLDER PROPOSAL TO REQUEST THAT THE
BOARD OF DIRECTORS ADOPT CERTAIN PRINCIPLES FOR HEALTH CARE REFORM
ITEM NO. 7 ON THE PROXY CARD**

The AFL-CIO Reserve Fund of 815 Sixteenth Street, N.W., Washington, D.C. 20006, owner of 455 shares of Sysco common stock, has notified us that it intends to present the following proposal at the Annual Meeting. In accordance with applicable proxy regulations, the proposal and supporting statement, for which Sysco accepts no responsibility, are set forth below exactly as they were submitted by the proponent.

RESOLVED: Shareholders of Sysco Corporation (the Company) urge the Board of Directors to adopt principles for health care reform based upon principles reported by the Institute of Medicine:

1. Health care coverage should be universal.
2. Health care coverage should be continuous.
3. Health care coverage should be affordable to individuals and families.
4. The health insurance strategy should be affordable and sustainable for society.
5. Health insurance should enhance health and well being by promoting access to high-quality that is effective, efficient, safe, timely, patient-centered, and equitable.

SUPPORTING STATEMENT

The Institute of Medicine, established by Congress as part of the National Academy of Sciences, issued five principles for reforming health insurance coverage in a report, Insuring America's Health: Principles and Recommendations (2004). We believe principles for health care reform, such as those set forth by the Institute of Medicine, are essential if public confidence in our Company's commitment to health care coverage is to be maintained.

Access to affordable, comprehensive health care insurance is the most significant social policy issue in America according to polls by NBC News/*The Wall Street Journal*, the Kaiser Foundation and *The New York Times*/CBS News. In our opinion, health care reform also is a central issue in the presidential campaign of 2008.

Many national organizations have made health care reform a priority. In 2007, representing a stark departure from practice, the American Cancer Society redirected its entire \$15 million advertising budget to the consequences of inadequate health coverage in the United States (*The New York Times*, 8/31/07).

John Castellani, president of the Business Roundtable (representing 160 of the country's largest companies), has stated that 52 percent of the Business Roundtable's members say health costs represent their biggest economic challenge. The cost of health care has put a tremendous weight on the U.S. economy, according to Castellani. The current situation is not sustainable in a global, competitive workplace. (*BusinessWeek*, July 3, 2007).

The National Coalition on Health Care (whose members include some of the largest publicly-held companies, institutional investors and labor unions) also has created principles for health insurance reform. According to the National Coalition on Health Care, implementing its principles would save employers presently providing health insurance coverage an estimated \$595-\$848 billion in the first 10 years of implementation.

We believe that the 47 million Americans without health insurance results in higher costs, causing an adverse effect on shareholder value for our Company, as well as all other U.S. companies which provide health insurance to their employees. Annual surcharges as high as \$1,160 for the uninsured are added to the total cost of each employee's health insurance, according to Kenneth Thorpe, a leading health economist at Emory University. Moreover, we feel that increasing health care costs further reduces shareholder value when it leads companies to shift costs to employees, thereby reducing employee productivity, health and morale.

BOARD OF DIRECTORS STATEMENT IN OPPOSITION OF THE PROPOSAL

The Board of Directors unanimously recommends a vote AGAINST this stockholder proposal.

While we recognize the ongoing national dialogue related to health care and the importance of providing comprehensive employee benefits (including health care) to attract and retain employees, the Board has considered the stockholder proposal and believes its adoption is unnecessary. Furthermore, the Board does not believe that Sysco's Annual Meeting is the proper forum for this national policy debate.

The Board believes that supplying efficient and effective health care coverage at the company level is an important employee benefit issue best addressed by Sysco's management. Sysco is committed to providing its employees, retirees and their families with quality, cost-effective health and life management benefits designed to meet their diverse and changing needs. We provide medical, dental and vision coverage with the majority of the cost borne by Sysco. We also offer wellness programs to many of our employees, including on-site health screenings, on-site fitness centers at selected locations, a smoking cessation program, lifestyle coaching, disease management and decision-making tools to help employees better manage their overall health. These benefits, which are highly valued by our employees, also help our business by enhancing employee well-being and productivity.

Comprehensive health care reform involves complex legislative and public policy issues. Furthermore, the IOM principles upon which the proposal is based are very complex. A full and complete explanation of the IOM principles and how they relate to the many pending health care reform proposals would require voluminous detail and analysis. This would be an expensive and time consuming project, and we believe that Sysco's Annual Meeting is not the proper forum to consider these matters. The Board believes that such issues are best addressed by elected officials, health care and public policy experts, and industry groups. Furthermore, the Board does not believe that Sysco's adoption of the broad and vague health care principles in this proposal would effectively contribute to the ongoing debate surrounding health care reform.

Finally, it is not in the best interests of Sysco and our stockholders for the Board to potentially constrain the Company's ability to provide health care programs to our employees by adopting the principles of any single organization. We must be able to make appropriate determinations about what health care alternatives are in the best interests of our employees and their families and to offer innovative health care solutions.

For the foregoing reasons, the Board of Directors believes that this stockholder proposal is not in the best interest of Sysco and its stockholders. *Therefore, the Board of Directors unanimously recommends a vote AGAINST this stockholder proposal.*

STOCKHOLDER PROPOSALS

Presenting Business

If you would like to present a proposal under Rule 14a-8 of the Securities Exchange Act of 1934 at our 2010 Annual Meeting of Stockholders, send the proposal in time for us to receive it no later than June 9, 2010. If the date of our 2010 Annual Meeting is subsequently changed by more than 30 days from the date of this year's Annual Meeting, we will inform you of the change and the date by which we must receive proposals. If you want to present business at our 2010 Annual Meeting outside of the shareholder proposal rules of Rule 14a-8 of the Exchange Act and instead pursuant to Article I, Section 8 of the company's Bylaws, the Corporate Secretary must receive notice of your proposal by August 20, 2010, but not before July 11, 2010, and you must be a stockholder of record on the date you provide notice of your proposal to the company and on the record date for determining stockholders entitled to notice of the meeting and to vote.

Nominating Directors for Election

The Corporate Governance and Nominating Committee will consider any director nominees you recommend in writing for the 2010 Annual Meeting if you submit such written recommendation in conformity with the procedural and informational requirements set forth at Corporate Governance And Board Of Directors Matters Nominating Committee Policies and Procedures in Identifying and Evaluating Potential Director Nominees no later than May 1, 2010. You may also nominate someone yourself at the 2010 Annual Meeting, as long as the Corporate Secretary receives notice of such nomination between July 11, 2010 and August 20, 2010, and you follow the procedures outlined in Article I, Section 7 of the company's Bylaws.

Meeting Date Changes

If the date of next year's Annual Meeting is advanced by more than 30 days prior to or delayed by more than 60 days after the date of this year's Annual Meeting, we will inform you of the change, and we must receive your director nominee notices or your stockholder proposals outside of Rule 14a-8 of the Exchange Act by the latest of 90 days before the Annual Meeting, 10 days after we mail the notice of the changed date of the Annual Meeting or 10 days after we publicly disclose the changed date of the Annual Meeting.

**SYSCO CORPORATION
2009 NON-EMPLOYEE DIRECTORS STOCK PLAN**

**ARTICLE 1
GENERAL**

This 2009 Non-Employee Directors Stock Plan (the Plan) is established to attract, retain and compensate for service as members of the Board of Directors highly qualified individuals who are not current employees of Sysco Corporation (the Corporation) and to enable them to increase their ownership in the Corporation s common stock. This Plan will be beneficial to the Corporation and its stockholders since it will allow these Directors to have a greater personal financial stake in the Corporation through the ownership of the Corporation s common stock, in addition to underscoring their common interest with stockholders in increasing the value of the Corporation over the longer term. The Plan provides for the grant of Restricted Stock, Restricted Stock Units, Elected Shares and Additional Shares (all as defined herein, and collectively, Awards)

Section 1.1 *Eligibility.* All members of the Corporation s Board of Directors who are not current employees of the Corporation or any of its subsidiaries (Non-Employee Directors) are eligible to participate in this Plan.

Section 1.2 *Shares Available.*

(a) *Number of Shares Available.* There are reserved for issuance under this Plan 750,000 shares of the Corporation s Common Stock, \$1.00 par value (Common Stock), which may be authorized but unissued shares, treasury shares, or shares purchased on the open market.

(b) *Recapitalization Adjustment.* In the event of a reorganization, recapitalization, stock split, stock dividend, combination of shares, merger, consolidation, rights offering, or any other change in the corporate structure or shares of the Corporation, adjustments in the number and kind of shares authorized by this Plan and in the number and kind of shares that may or are required to be issued hereunder pursuant to any type of Award hereunder shall automatically be made if, and in the same manner as, similar adjustments are made to awards issued under the Corporation s incentive plans for management of the Corporation then in effect.

(c) *Replenishment.* If any shares of Common Stock subject to an Award are forfeited or cancelled, or if an Award terminates or expires without a distribution of shares to the grantee, the shares of Common Stock with respect to such Award shall, to the extent of any such forfeiture or cancellation, again be available for Awards under the Plan. Shares of Common Stock shall not again be available if such shares are surrendered or withheld as payment of withholding taxes in respect of an Award. Awards that are settled solely in cash shall not reduce the number of shares of Common Stock available for Awards.

Section 1.3 *Deferral of Shares.* A Non-Employee Director may elect to defer receipt of all or any portion of any shares of Common Stock to be issued under this Plan, whether such shares are to be issued as a grant of Restricted Stock, Elected Shares or Additional Shares, or upon the vesting of a Restricted Stock Unit grant. Deferral elections shall be made in accordance with terms and conditions set forth in the Sysco Corporation 2009 Board of Directors Stock Deferral Plan (the Deferred Stock Plan). Shares of Common Stock to be issued to the Non-Employee Director as a result of a deferral election, without regard to the reinvestment of deemed dividends, if any, at the times and in the form provided under the Deferred Stock Plan shall not be available for other Awards under this Plan. Notwithstanding

the foregoing, in the event that Common Stock to be issued under the Deferred Stock Plan resulting from the reinvestment of deemed dividends, if any, would cause the Corporation to exceed the maximum number of shares of Common Stock that may be issued under this Plan, the Common Stock attributable to such dividends shall be paid to the Non-Employee Director in cash based on the Fair Market Value on the date the Non-Employee Director's deferral otherwise is paid. For purposes of determining the Fair Market Value of a share of Common Stock as of any date, the Fair Market Value as of that date shall be the last closing price of the Common Stock on the first business day prior to that date on the New York Stock Exchange or, if the Common Stock is not listed on the New York Stock Exchange, on any other exchange or quotation system on which the Common Stock is listed or quoted.

ARTICLE 2
ELECTION TO RECEIVE COMMON STOCK

Section 2.1 *Eligibility.*

(a) A Non-Employee Director who is otherwise eligible to receive cash payment for services provided as a Director may elect to receive up to 100% of his or her annual retainer fee (excluding (i) any additional retainer fee paid for serving as a

committee chairman (a *Committee Chairman*), (ii) any fees or other amounts payable for attendance at the meetings of the Board or for service on any committee thereof and (iii) any additional retainer fee paid to a Non-Executive Chairman of the Board (a *Board Chairman*) for his or her service in such capacity), in 10% increments, in the form of Common Stock (a *Stock Election*), subject to the following terms of this Article 2.

(b) In addition to the Stock Election, a Board Chairman or a Committee Chairman who is otherwise eligible to receive an additional cash payment for his or her service in such capacity (the *Chairman's Fee*) may elect to receive up to 100% of such Chairman's Fee, in 10% increments, in the form of Common Stock (a *Chairman's Stock Election*), subject to the following terms of this Article 2.

(c) The amount of the fee which a Non-Employee Director, Board Chairman or Committee Chairman elects to receive in Common Stock is referred to herein as the *Elected Amount*. The Elected Amount shall be deducted ratably from the quarterly payments of the annual retainer fee payable to such Non-Employee Director, Board Chairman or Committee Chairman in that calendar year in which the Elected Amount would have been paid but for the Stock Election.

Section 2.2 *Common Stock*.

(a) Any Non-Employee Director, Board Chairman or Committee Chairman who makes a Stock Election or Chairman's Stock Election pursuant to Section 2.1 (an *Electing Director*) shall have an account created on the books of the Corporation to which shares of Common Stock shall be credited and debited as provided in this Article 2 (the *Stock Account*).

(b) The *Eligible Elected Amount* is the lesser of a Non-Employee Director's Stock Election made pursuant to Section 2.1(a) or 50% of his or her annual retainer fee eligible for a Stock Election made pursuant to Section 2.1(a). With respect to this Section 2.2(b), only a Non-Employee Director's Eligible Elected Amount shall be used in the calculation of Additional Shares, as described in Section 2.2(b)(ii) below. Each Electing Director who makes a Stock Election pursuant to Section 2.1(a) shall, except as provided in Section 1.3, have credited to his or her Stock Account on the date of each quarterly payment of the annual retainer fee (the *Quarterly Payment Date*) the sum of (i) that number of shares of Common Stock determined by dividing his or her Elected Amount attributable to a Stock Election made pursuant to Section 2.1(a) by the Fair Market Value on such Quarterly Payment Date (such shares are referred to as *Elected Shares*) and (ii) that number of shares of Common Stock determined by dividing 50% of the Eligible Elected Amount by the Fair Market Value on such Quarterly Payment Date (such shares are referred to as *Additional Shares*).

(c) Any Board Chairman or Committee Chairman who makes a Chairman's Stock Election pursuant to Section 2.1(b) shall, except as provided in Section 1.3, have credited to his or her Stock Account on the Quarterly Payment Date that number of shares of Common Stock determined by dividing his or her Elected Amount attributable to a Chairman's Stock Election made pursuant to Section 2.1(b) by the Fair Market Value on such Quarterly Payment Date (such shares are referred to as *Chairman's Elected Shares*). For purposes of this Plan, all references to *Elected Shares* shall be deemed to include the Chairman's Elected Shares.

Section 2.3 *Vesting*. All Elected Shares and Additional Shares shall be 100% vested as of the date they are credited to the Electing Director's Stock Account. Elected Shares may not be sold or transferred prior to the date they are issued. Additional Shares may not be sold or transferred for a period of one year after the date as of which they are issued (or, if deferred, the date as of which they would have been issued, but for the deferral) and such shares shall bear a legend setting forth this restriction (the *Restriction*). The Restriction shall remain in effect after the date an Electing Director ceases to be a Director; provided, however, that (i) if an Electing Director ceases to be a Director by reason of death, disability or cessation of service under the circumstances described in Section 4.1 (a) or (b), or as otherwise determined by the Board of Directors, the Restriction shall lapse and be of no further force or effect on or

after the date of such death, disability, cessation of service or determination; and (ii) the Restriction shall lapse and be of no further force or effect on the date of a Change in Control, as defined below.

For purposes of this Plan, Change in Control means:

(i) The acquisition by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934, as amended (the Exchange Act)) (a Person) of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 20% or more of either (A) the then-outstanding shares of Common Stock of the Corporation (the Outstanding Corporation Common Stock) or (B) the combined voting power of the then-outstanding voting securities of the Corporation entitled to vote generally in the election of directors (the Outstanding Corporation Voting Securities); *provided, however*, that, for purposes of this definition, the following acquisitions shall not constitute a Change in Control: (1) any acquisition directly from the Corporation, (2) any acquisition by the Corporation, (3) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Corporation or any company controlled by, controlling or under common control with the Corporation or (4) any

acquisition by any corporation pursuant to a transaction that complies with subparagraphs (iii)(A), (iii)(B) and (iii)(C) below;

(ii) The occurrence of the following: Individuals who, as of November 18, 2009, constitute the Board (the Incumbent Board) cease for any reason to constitute at least a majority of the Board; *provided, however*, that any individual becoming a director subsequent to November 18, 2009 whose election, or nomination for election by the Corporation's stockholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board;

(iii) Consummation of a reorganization, merger, statutory share exchange or consolidation or similar corporate transaction involving the Corporation or any of its subsidiaries, a sale or other disposition of all or substantially all of the assets of the Corporation, or the acquisition of assets or stock of another entity by the Corporation or any of its subsidiaries (each, a Business Combination), in each case unless, following such Business Combination, (A) all or substantially all of the individuals and entities that were the beneficial owners of the Outstanding Corporation Common Stock and the Outstanding Corporation Voting Securities immediately prior to such Business Combination beneficially own, directly or indirectly, more than 60% of the then-outstanding shares of common stock and the combined voting power of the then-outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the corporation resulting from such Business Combination (including, without limitation, a corporation that, as a result of such transaction, owns the Corporation or all or substantially all of the Corporation's assets either directly or through one or more subsidiaries) in substantially the same proportions to one another as their ownership immediately prior to such Business Combination of the Outstanding Corporation Common Stock and the Outstanding Corporation Voting Securities, as the case may be, (B) no Person (excluding any corporation resulting from such Business Combination or any employee benefit plan (or related trust) of the Corporation or such corporation resulting from such Business Combination) beneficially owns, directly or indirectly, 20% or more of, respectively, the then-outstanding shares of common stock of the corporation resulting from such Business Combination or the combined voting power of the then-outstanding voting securities of such corporation, except to the extent that such ownership existed prior to the Business Combination, and (C) at least a majority of the members of the board of directors of the corporation resulting from such Business Combination were members of the Incumbent Board at the time of the execution of the initial agreement or of the action of the Board providing for such Business Combination; or

(iv) Approval by the stockholders of the Corporation of a complete liquidation or dissolution of the Corporation.

Section 2.4 *Date of Issuance*. The effective date of issuance of Common Stock issued pursuant to this Article 2 (the Issue Date) shall be December 31 for any year as to which a Non-Employee Director, Board Chairman or Committee Chairman has made a Stock Election or Chairman's Stock Election as described in Section 2.1 hereof, or if December 31 is not a business day for the Corporation's transfer agent, the last business day of the Corporation's transfer agent prior to December 31. On, or as soon as practicable after, the Issue Date, a certificate for the total number of vested shares in his or her account on the Issue Date shall be issued to such Electing Director subject to the other terms and conditions of this Plan, and at that time, the balance in such Electing Director's Stock Account shall be debited by the number of shares issued. Notwithstanding the foregoing, if a Non-Employee Director, Board Chairman or Committee Chairman ceases to be a director for any reason when there are shares credited to such director's Stock Account, certificates for such shares shall be issued within 60 days of the date such Non-Employee Director, Board Chairman or Committee Chairman ceases to be a Director and the Issue Date of such shares shall be the date such Non-Employee Director ceased to be a director.

Section 2.5 *Method of Election.* A Non-Employee Director, Board Chairman or Committee Chairman who wishes to make a Stock Election or Chairman's Stock Election must deliver to the Secretary of the Corporation a written irrevocable election specifying the Elected Amount by December 31 of the calendar year immediately prior to the calendar year to which the Stock Election or Chairman's Stock Election relates (or at such other time required under rules established by the Board).

Section 2.6 *Calendar 2009 Stock Elections.* Elected Shares and Additional Shares may be issued under the Plan pursuant to Stock Elections made in calendar 2009 pursuant to the Corporation's Amended and Restated 2005 Non-Employee Directors Stock Plan (the Prior Directors Plan); provided, however, that such shares shall be subject to the provisions of the Prior Directors Plan.

ARTICLE 3
RESTRICTED STOCK AND RESTRICTED STOCK UNITS

Section 3.1 *Grant of Restricted Stock or Restricted Stock Units.* Subject to the terms and provisions of the Plan, the Board of Directors, at any time and from time to time, may grant shares of Restricted Stock and/or Restricted Stock Units, as such terms are defined below, to participants in such amounts and upon such terms and conditions as the Board shall determine; provided, however, that no grant of Restricted Stock or of any Restricted Stock Unit shall in any event vest earlier than one year following the date of grant. Restricted Stock means an award of Common Stock subject to forfeiture based on the passage of time, the achievement of performance goals, and/or upon the occurrence of other events as determined by the Board in its discretion, granted subject to the terms of this Plan. Restricted Stock Unit means an award denominated in units whose value is derived from Common Stock and which is subject to forfeiture based on the passage of time, the achievement of performance goals, and/or upon the occurrence of other events as determined by the Board in its discretion, granted subject to the terms of this Plan.

Section 3.2 *Restricted Stock or Restricted Stock Unit Agreement.* Each Restricted Stock and/or Restricted Stock Unit grant shall be evidenced by an Award Agreement duly executed by the Corporation and the Non-Employee Director to whom the award is granted that shall specify the period(s) and types of restrictions, the number of shares of Restricted Stock or the number of Restricted Stock Units granted, and any such other provisions as the Board shall determine.

Section 3.3 *Other Restrictions.*

(a) The Board shall impose, in the Award Agreement at the time of grant or anytime thereafter, such other conditions and/or restrictions on any shares of Restricted Stock or Restricted Stock Units granted pursuant to this Plan as it may deem advisable including, without limitation, a requirement that participants pay a stipulated purchase price for each share of Restricted Stock or each Restricted Stock Unit, that specific performance goals be obtained, the imposition of time-based restrictions on vesting following the attainment of the performance goals, time-based restrictions, restrictions under applicable laws or under the requirements of any stock exchange or market upon which such shares are listed or traded, or holding requirements or sale restrictions placed on the shares by the Corporation upon vesting of such Restricted Stock or Restricted Stock Units. Except as otherwise provided in this Article 3 or the applicable Award Agreement, shares of Restricted Stock covered by each Restricted Stock award shall become freely transferable by the participant, subject to compliance with applicable laws, after all conditions and restrictions applicable to such shares have been satisfied or lapse.

(b) Common Stock subject to a Restricted Stock award may not be sold, assigned, transferred, pledged or otherwise encumbered prior to the date it is vested, and except as otherwise specified by the Board, Restricted Stock Units may not be transferred.

(c) Each certificate issued in respect of Common Stock pursuant to a Restricted Stock award shall be registered in the name of the Non-Employee Director and deposited with the Corporation until such time as all restrictions have lapsed.

Section 3.4 *Certificate Legend.* In addition to any other legends placed on certificates, each certificate representing shares of Restricted Stock granted pursuant to the Plan may bear a legend such as the following:

The sale or other transfer of the shares of stock represented by this certificate, whether voluntary, involuntary, or by operation of law, is subject to certain restrictions on transfer as set forth in the Sysco Corporation 2009 Non-Employee Directors Stock Plan, and in the associated Award Agreement. A copy of the Plan and such Award Agreement may be obtained from Sysco Corporation.

Section 3.5 *Voting Rights*. To the extent required by law, participants in whose names shares of Restricted Stock granted hereunder shall be issued, shall be granted the right to exercise full voting rights with respect to those shares during the period of restriction. A participant shall have no voting rights with respect to any Restricted Stock Units granted hereunder.

Section 3.6 *Dividends and Other Distributions*. During the period of restriction, participants holding shares of Restricted Stock or Restricted Stock Units granted hereunder may, if the Board so determines, be credited with dividends paid with respect to the underlying shares or dividend equivalents while they are so held in a manner determined by the Board in its sole discretion. The Board may apply any restrictions to the dividends or dividend equivalents that the Board deems appropriate. The Board, in its sole discretion, may determine the form of payment of dividends or dividend equivalents, including cash, unrestricted Common Stock, Restricted Stock, or Restricted Stock Units.

Section 3.7 *Payment in Consideration of Restricted Stock Units*. When and if Restricted Stock Units become payable, a participant having received the grant of such units shall be entitled to receive payment from the Corporation in cash, shares of Common Stock of equivalent value (based on the Fair Market Value thereof), in some combination thereof, or in any other form determined by the Board in its sole discretion. The Board's determination regarding the form of payout shall be set forth or reserved for later determination in the Award Agreement pertaining to the grant of the Restricted Stock Unit.

ARTICLE 4
MISCELLANEOUS

Section 4.1 *Cessation of Service.* Except as set forth below and unless otherwise determined by the Board, upon cessation of service as a Non-Employee Director (for reasons other than death), all Restricted Stock and Restricted Stock Units shall be forfeited by the grantee; provided, however, that, unless otherwise determined by the Board, if (a) any Non-Employee Director serves out his/her term but does not stand for re-election at the end thereof or (b) any Non-Employee Director shall retire from service on the Board (for reasons other than death) prior to the expiration of his or her term and on or after the date he or she attains age 71, such grantee's Restricted Stock and Restricted Stock Units shall remain in effect and vest as if the grantee had remained a Non-Employee Director of the Corporation. The status of Elected Shares and Additional Shares shall be governed by Section 2.3.

Section 4.2 *Death.* Upon the death of a Non-Employee Director, all Restricted Stock and Restricted Stock Units shall vest and all restrictions with respect to Additional Shares shall lapse.

Section 4.3 *Administration.* This Plan shall be administered by the Board of Directors of the Corporation. This Plan may be terminated or amended by the Board of Directors as they deem advisable. The Board may delegate its authority hereunder to the Non-Employee Directors, or to any two or more thereof.

Section 4.4 *Amendments.* No amendment may revoke or alter in a manner unfavorable to the grantees any Restricted Stock, Restricted Stock Units, Elected Shares or Additional Shares then outstanding, and no amendment, unless approved by the Corporation's stockholders, can increase the number of shares authorized for issuance hereunder.

Section 4.5 *Term.* No Restricted Stock, Restricted Stock Unit, Elected Shares or Additional Shares may be credited or awarded under this Plan after November 18, 2016. Restricted Stock and Restricted Stock Units granted prior to November 18, 2016 shall continue to vest in accordance with their terms and may be paid in accordance with the terms thereof and Elected Shares and Additional Shares credited prior to November 18, 2016 shall continue to be subject to the provisions hereof and may be issued in accordance with the terms hereof.

Section 4.6 *No Other Rights.* Except as provided in this Plan, no Non-Employee Director shall have any claim or right to be granted or issued a Restricted Stock Award, Restricted Stock Unit, Elected Shares or Additional Shares under this Plan. Neither this Plan nor any actions hereunder shall be construed as giving any Director any right to be retained as a director of the Corporation.

Section 4.7 *Regulations and Other Approvals.*

(a) The obligation of the Corporation to deliver Common Stock with respect to any Award granted under the Plan shall be subject to all applicable laws, rules and regulations, including all applicable federal and state securities laws, and the obtaining of all such approvals by governmental agencies as may be deemed necessary or appropriate by the Board.

(b) Each Award is subject to the requirement that, if at any time the Board determines, in its absolute discretion, that the listing, registration or qualification of Stock issuable pursuant to the Plan is required by any securities exchange or under any state or federal law, or the consent or approval of any governmental regulatory body is necessary or desirable as a condition of, or in connection with, the grant of an Award or the issuance of Common Stock, no such Award shall be granted or payment made or Common Stock issued, in whole or in part, unless listing, registration, qualification, consent or approval has been effected or obtained free of any conditions not acceptable to the Board.

(c) In the event that the disposition of Common Stock acquired pursuant to the Plan is not covered by a then current registration statement under the Securities Act of 1933, as amended (the Securities Act), and is not otherwise exempt from such registration, such Common Stock shall be restricted against transfer to the extent required by the Securities Act, or regulations thereunder, and applicable state securities laws, and the Board may require a grantee receiving Common Stock pursuant to the Plan, as a condition precedent to receipt of such Common Stock, to represent to the Corporation in writing that the Common Stock acquired by such grantee is acquired for investment only and not with a view to distribution.

(d) With respect to persons subject to Section 16 of the Exchange Act, it is the intent of the Corporation that the Plan and all transactions under the Plan comply with all applicable provisions of Rule 16b-3, as promulgated under the Exchange Act.

Section 4.8 *Prior Plan*. This Plan supersedes the Prior Directors Plan. Options granted under the Prior Directors Plan shall continue to become exercisable and may be exercised according to their terms, Restricted Stock Awards and retainer stock awards granted under the Prior Directors Plan shall continue to vest in accordance with their terms and Additional Shares (as defined in the Prior Directors Plan) granted under the Prior Directors Plan shall continue to be subject to the provisions thereof. Awards (as defined within the Prior Directors Plan) with respect to a Non-Employee Director's service in calendar 2009 may be issued under the Prior Directors Plan.

**SYSCO CORPORATION
2007 STOCK INCENTIVE PLAN
(conformed version as amended)**

**SECTION 1
GENERAL**

1.1 *Purpose.* The Sysco Corporation 2007 Stock Incentive Plan (the Plan) has been established by Sysco Corporation (the Company) to promote the interests of the Company and the stockholders of the Company by providing executive officers and other employees of the Company with appropriate incentives and rewards to encourage them to enter into and continue in the employ of the Company and to acquire a proprietary interest in the long-term success of the Company, as well as to reward the performance of these individuals in fulfilling their personal responsibilities for long-range and annual achievements. The Plan provides for the grant, in the sole discretion of the Committee, as defined below, of options (including incentive stock options and nonqualified stock options), stock appreciation rights, restricted stock, restricted stock units and other stock-based awards. The Plan is designed so that awards granted hereunder intended to comply with the requirements for performance-based compensation under Section 162(m) of the Code may comply with such requirements, and the Plan and such awards shall be interpreted in a manner consistent with such requirements.

1.2 *Definitions.* Capitalized terms in the Plan shall be defined as set forth below:

In addition to the other definitions contained herein, the following definitions shall apply:

(a) *Affiliated Company.* The term Affiliated Company means any company controlled by, controlling or under common control with the Company.

(b) *Award.* The term Award shall mean any award or benefit granted under the Plan, including, without limitation, Options, SARs, Restricted Stock, Restricted Stock Units and Other Stock-Based Awards.

(c) *Award Agreement.* The term Award Agreement means a written employment, consulting or similar agreement between a Grantee and the Company or a written Award grant agreement under the Plan.

(d) *Board.* The term Board shall mean the Board of Directors of the Company.

(e) *Cause.* The term Cause means, unless otherwise provided by the Committee, (1) Cause as defined in any Award Agreement to which the Grantee is a party, or (2) if there is no such Award Agreement or if it does not define Cause: (A) conviction of the Grantee for committing a felony under federal law or the law of the state in which such action occurred, (B) dishonesty in the course of fulfilling the Grantee's employment duties or (C) willful and deliberate failure on the part of the Grantee to perform the Grantee's employment duties in any material respect. The Committee shall, unless otherwise provided in an Award Agreement with a Grantee, have the sole discretion to determine whether Cause exists, and its determination shall be final.

(f) *Change in Control.* The term Change in Control shall mean:

(i) The acquisition by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934, as amended (the Exchange Act)) (a Person) of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 20% or more of either (A) the then-outstanding shares of common stock of the Company (the Outstanding Company Common Stock) or (B) the combined voting power of the then-outstanding voting securities of the Company entitled to vote generally in the election of directors (the Outstanding Company Voting Securities); *provided, however*, that, for purposes of this definition, the following acquisitions shall not constitute a Change in Control: (1) any acquisition directly from the Company, (2) any acquisition by the Company, (3) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any Affiliated Company or (4) any acquisition by any corporation; pursuant to a transaction that complies with subparagraphs (iii)(A), (iii)(B) and (iii)(C) below;

(ii) The occurrence of the following: Individuals who, as of November 9, 2007, constitute the Board (the Incumbent Board) cease for any reason to constitute at least a majority of the Board; *provided, however*, that any individual becoming a director subsequent to November 9, 2007 whose election, or nomination for election by the Company s stockholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this

purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board;

(iii) Consummation of a reorganization, merger, statutory share exchange or consolidation or similar corporate transaction involving the Company or any of its subsidiaries, a sale or other disposition of all or substantially all of the assets of the Company, or the acquisition of assets or stock of another entity by the Company or any of its subsidiaries (each, a Business Combination), in each case unless, following such Business Combination, (A) all or substantially all of the individuals and entities that were the beneficial owners of the Outstanding Company Common Stock and the Outstanding Company Voting Securities immediately prior to such Business Combination beneficially own, directly or indirectly, more than 60% of the then-outstanding shares of common stock and the combined voting power of the then-outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the corporation resulting from such Business Combination (including, without limitation, a corporation that, as a result of such transaction, owns the Company or all or substantially all of the Company's assets either directly or through one or more subsidiaries) in substantially the same proportions as their ownership immediately prior to such Business Combination of the Outstanding Company Common Stock and the Outstanding Company Voting Securities, as the case may be, (B) no Person (excluding any corporation resulting from such Business Combination or any employee benefit plan (or related trust) of the Company or such corporation resulting from such Business Combination) beneficially owns, directly or indirectly, 20% or more of, respectively, the then-outstanding shares of common stock of the corporation resulting from such Business Combination or the combined voting power of the then-outstanding voting securities of such corporation, except to the extent that such ownership existed prior to the Business Combination, and (C) at least a majority of the members of the board of directors of the corporation resulting from such Business Combination were members of the Incumbent Board at the time of the execution of the initial agreement or of the action of the Board providing for such Business Combination; or

(iv) Approval by the stockholders of the Company of a complete liquidation or dissolution of the Company.

(g) Code. The term Code means the Internal Revenue Code of 1986, as amended. A reference to any provision of the Code shall include reference to any successor provision of the Code.

(h) Committee. The term Committee means the committee of the Board described in Section 3 hereof and any sub-committee established by such Committee pursuant to Section 2.3.

(i) Covered Employee. The term Covered Employee means an employee who is, or who is anticipated to become, between the time of grant and payment of the Award, a covered employee, as such term is defined in Section 162(m)(3) of the Code (or any successor section thereof).

(j) Eligible Grantee. The term Eligible Grantee shall mean any executive officer or employee of the Company or a Subsidiary, as determined by the Committee in its sole discretion.

(k) Fair Market Value. For purposes of determining the Fair Market Value of a share of Stock as of any date, the Fair Market Value as of that date shall be the closing sale price of the Stock on the first business day prior to that date on the New York Stock Exchange.

(l) Grantee. The term Grantee means an executive officer or employee of the Company or a Subsidiary who has been granted an Award under the Plan.

(m) ISO. The term ISO means any Option intended to be and designated as an incentive stock option within the meaning of Section 422 of the Code.

(n) NQSO. The term NQSO means any Option that is not designated as an ISO, or which is designated by the Committee as an ISO but which subsequently fails or ceases to qualify as an ISO.

(o) Option. The term Option means a right, granted to an Eligible Grantee under Section 4.2(a), to purchase shares of Stock. An Option may be either an ISO or an NQSO.

(q) Other Stock-Based Award. The term Other Stock-Based Award means a right or other interest granted to an Eligible Grantee under Section 4.2(e) of the Plan that may be denominated or payable in, valued in whole or in part by reference to, or otherwise based on, or related to, Stock, including but not limited to (i) unrestricted Stock awarded as a bonus or upon the attainment of Performance Goals or otherwise as permitted under the Plan, and (ii) a right granted to an Eligible Grantee to acquire Stock from the Company containing terms and conditions prescribed by the Committee.

(r) Performance Goals. The term Performance Goals means performance goals based on the attainment by the Company or any Subsidiary of the Company or any Affiliated Company (or any division or business unit of any such entity), or any two or more of the foregoing, of performance goals pre-established by the Committee in its sole discretion, based on one or more of the following criteria (if applicable, such criteria shall be determined in accordance with generally accepted accounting principles (GAAP) or based upon the Company s GAAP financial statements): (1) return on total stockholder equity; (2) earnings per share of Stock; (3) earnings before any or all of interest, taxes, minority interest, depreciation and amortization; (4) economic profit; (5) sales or revenues; (6) return on assets, capital or investment; (7) market share; (8) control of operating or non-operating expenses; (9) implementation or completion of critical projects or processes; (10) operating cash flow, (11) free cash flow, (12) return on capital or increase in pretax earnings; (13) net earnings; (14) margins; (15) market price of the Company s securities, and (16) any combination of, or a specified increase in, any of the foregoing. The Performance Goals may be based upon the attainment of specified levels of performance under one or more of the criteria described above relative to the performance of other comparable entities. To the extent permitted under Section 162(m) of the Code (including, without limitation, compliance with any requirements for stockholder approval), the Committee in its sole discretion may designate additional business criteria on which the Performance Goals may be based or adjust, or modify or amend the aforementioned business criteria. Performance Goals may include a threshold level of performance below which no Award will be earned, a level of performance at which the target amount of an Award will be earned and a level of performance at which the maximum amount of the Award will be earned. The Committee in its sole discretion shall have the authority to make equitable adjustments to the Performance Goals in recognition of unusual or non-recurring events affecting the Company or any Subsidiary of the Company or any Affiliated Company or the financial statements of the Company or any Subsidiary of the Company or any Affiliated Company, in response to changes in applicable laws or regulations, including changes in generally accepted accounting principles or practices, or to account for items of gain, loss or expense determined to be extraordinary or unusual in nature or infrequent in occurrence or related to the disposal of a segment of a business, as applicable.

(s) Restricted Stock. The term Restricted Stock means an Award of shares of Stock to an Eligible Grantee under Section 4.2(c) that may be subject to certain restrictions and to a risk of forfeiture. Stock issued upon the exercise of Options or SARs is not Restricted Stock for purposes of the plan, even if subject to post-issuance transfer restrictions or forfeiture conditions. When Restricted Stock vests, it ceases to be Restricted Stock for purposes of the Plan.

(t) Restricted Stock Unit. The term Restricted Stock Unit means a right granted to an Eligible Grantee under Section 4.2(d) to receive Stock or cash at the end of a specified deferral period, which right may be conditioned on the satisfaction of specified performance or other criteria.

(u) Rule 16b-3. The term Rule 16b-3 means Rule 16b-3, as from time to time in effect promulgated by the Securities and Exchange Commission under Section 16 of the Securities Exchange Act of 1934, as amended, including any successor to such Rule.

(v) Stock. The term Stock means shares of the common stock, par value \$1 per share, of the Company.

(w) Stock Appreciation Right or SAR. The term Stock Appreciation Right or SAR means the right, granted to an Eligible Grantee under Section 4.2(b), to be paid an amount measured by the appreciation in the Fair Market Value of Stock from the date of grant to the date of exercise of the right.

(x) Subsidiary. The term Subsidiary means any present or future subsidiary corporation of the Company within the meaning of Section 424(f) of the Code, and any present or future business venture designated by the Committee in which the Company has a significant interest, including, without limitation, any subsidiary corporation in which the Company has at least a 20% ownership interest, as determined in the discretion of the Committee, and also including

the Bough Supply Chain Cooperative, Inc. and all of its members.

**SECTION 2
ADMINISTRATION**

2.1 Committee. The authority to manage the operation of and administer the Plan shall be vested in a committee (the Committee) in accordance with this Section 2. The Committee shall be selected by the Board, and shall consist solely of two or more members of the Board who are non-employee directors within the meaning of Rule 16b-3 and are outside directors within the meaning of Code Section 162(m). Unless otherwise determined by the Board, Sysco's Compensation Committee shall be designated as the Committee hereunder.

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2.2 Powers of Committee. The Committee's administration of the Plan shall be subject to the following:

(a) Subject to the provisions of the Plan, the Committee will have the authority and discretion to select from among the Eligible Grantees those persons who shall receive Awards, to determine the time or times of receipt, to determine the types of Awards and the number of shares covered by the Awards, and to establish the terms, conditions, performance criteria, restrictions, and other provisions of such Awards.

(b) The Committee will have the authority and discretion to interpret the Plan, to establish, amend, and rescind any rules and regulations relating to the Plan, to determine the terms and provisions of any Award Agreement made pursuant to the Plan, and to make all other determinations that may be necessary or advisable for the administration of the Plan.

(c) Any interpretation of the Plan by the Committee and any decision made by it under the Plan is final and binding on all persons.

(d) In managing the operation of and administering the Plan, the Committee shall take action in a manner that conforms to the certificate of incorporation and by-laws of the Company, and applicable state corporate law.

(e) Subject to Section 3.2 hereof, neither the Board, the Committee nor their respective delegates shall have the authority to (i) reprice (or cancel and regrant) any Option, SAR or, if applicable, other Award at a lower exercise, base or purchase price without first obtaining the approval of the Company's stockholders, (ii) take any other action (whether in the form of an amendment, cancellation or replacement grant, or a cash-out of underwater options) that has the effect of repricing an Option, SAR or other Award, or (iii) grant any Option, SAR or other Award that contains a so-called "reload" feature under which additional Options, SARs or other Awards are granted automatically to the Grantee upon exercise of the original Option, SAR or Award.

(f) Anything in the Plan to the contrary notwithstanding, the Committee's authority to modify outstanding Awards shall be limited to the extent necessary so that the existence of such authority does not (i) cause an Award that is not otherwise deferred compensation subject to Section 409A of the Code to become deferred compensation subject to Section 409A of the Code or (ii) cause an Award that is otherwise deferred compensation subject to Section 409A of the Code to fail to meet the requirements prescribed by Section 409A of the Code.

(g) Anything in the Plan to the contrary notwithstanding, neither the Board nor the Committee may accelerate the payment or vesting of any Option, SAR or other Award except in the event of death, disability, retirement or a Change in Control.

2.3 Delegation by Committee. Except to the extent prohibited by applicable law or the applicable rules of a stock exchange, the Committee may allocate all or any portion of its responsibilities and powers to any one or more of its members, including without limitation, the power to designate Grantees hereunder and determine the amount, timing and terms of Awards hereunder. Any such allocation or delegation may be revoked by the Committee at any time.

2.4 Information to be Furnished to Committee. The Company and its Subsidiaries and Affiliated Companies shall furnish the Committee with such data and information as it determines may be required for it to discharge its duties. The records of the Company and its Subsidiaries and Affiliated Companies as to an employee's or Grantee's employment, termination of employment, leave of absence, reemployment and compensation shall be conclusive unless the Committee determines such records to be incorrect. Grantees and other persons entitled to benefits under the Plan must furnish the Committee such evidence, data or information as the Committee considers desirable to carry out the terms of the Plan.

2.5 *Indemnification*. Each person who is or shall have been a member of the Committee, or the Board, shall be indemnified and held harmless by the Company against and from any loss, cost, liability or expense that may be imposed upon or reasonably incurred by him or her in connection with or resulting from any claim, action, suit or proceeding to which he or she may be a party or in which he or she may be involved by reason of any action taken or failure to act under the Plan and against and from any and all amounts paid by him or her in settlement thereof, with the Company's approval, or paid by him or her in satisfaction of any judgment in any such action, suit or proceeding against him or her, provided he or she shall give the Company an opportunity, at its own expense, to handle and defend the same before he or she undertakes to handle and defend it on his or her own behalf. The foregoing right of indemnification shall be in addition to any other rights of indemnification or elimination of liability to which such persons may be entitled under the Company's Certificate of Incorporation or Bylaws, as a matter of law, or otherwise, or any power that the Company may have to indemnify them or hold them harmless.

SECTION 3 STOCK SUBJECT TO PLAN

3.1 Shares Available for Awards; Individual Limitations. Subject to the adjustments described below, the maximum number of shares of Stock reserved for the grant of Awards under the Plan shall be 55 million shares of Stock. Of the 55 million shares of Stock reserved for the grant of Awards under the Plan, up to 55 million shares of Stock may be issued in the aggregate pursuant to Options, which may be either ISOs or NQSOs, and SARs, and up to 10 million shares of Stock may be awarded under the Plan in the aggregate in respect of Awards other than Options and SARs. The maximum number of shares of Stock that may be covered by all Options and/or SARs granted to any individual during any fiscal year under the Plan is 750,000. The maximum number of shares of Stock that may be covered by all Awards other than Options or SARs granted to any individual during any fiscal year under the Plan is 250,000. Shares of Stock issuable hereunder may, in whole or in part, be authorized but unissued shares or shares of Stock that shall have been or may be reacquired by the Company in the open market, in private transactions or otherwise. The Company's three-year rolling average annual usage of shares under the Plan will not exceed 11/2% of total shares outstanding, measured as of the first day of each fiscal year in which grants are being made. If any shares of Stock subject to an Award are forfeited or cancelled, or if an Award terminates or expires without a distribution of shares to the Grantee, the shares of Stock with respect to such Award shall, to the extent of any such forfeiture or cancellation, again be available for Awards under the Plan; provided, however, that with respect to SARs that are settled in Stock, the aggregate number of shares of Stock subject to the SAR grant shall be counted against the shares available for issuance under the Plan as one share for every share subject thereto, regardless of the number of shares used to settle the SAR upon exercise. Shares of Stock shall not again be available if such shares are surrendered or withheld as payment of either the exercise price of an Award and/ or withholding taxes in respect of an Award. Awards that are settled solely in cash shall not reduce the number of shares of Stock available for Awards. Upon the exercise of any Award granted in tandem with any Award pursuant to Section 4.2(b)(i), such related Awards shall be cancelled to the extent of the number of shares of Stock as to which the Award is exercised and, notwithstanding the foregoing, such number of shares shall no longer be available for Awards under the Plan.

3.2 Adjustments for Changes in Capitalization. If the outstanding shares of Stock are changed into or exchanged for a different number or kind of shares or other securities of the Company by reason of any recapitalization, reclassification, stock split, stock dividend, combination, subdivision or similar transaction, or if the Company makes an extraordinary dividend or distribution to its stockholders (including without limitation to implement a spinoff) (each, a Corporate Transaction) then, subject to any required action by the stockholders of the Company, the number and kind of shares of Stock available under the Plan or subject to any limit or maximum hereunder shall automatically be proportionately adjusted, with no action required on the part of the Committee or otherwise. Subject to any required action by the stockholders, the number and kind of shares covered by each outstanding Award, and the price per share in each such Award, to the extent applicable, shall be automatically proportionately adjusted for any increase or decrease in the number of issued shares of the Company resulting from a Corporate Transaction to the extent necessary to prevent dilution or enlargement of the rights of Grantees under the Plan.

3.3 Certain Mergers and Other Extraordinary Events. If the Company merges or consolidates with another corporation, whether or not the Company is a surviving corporation, or if the Company is liquidated or sells or otherwise disposes of substantially all of its assets while unexercised Options or other Awards remain outstanding under the plan, (A) subject to the provisions of clause (C) below, after the effective date of the merger, consolidation, liquidation, sale or other disposition, as the case may be, each holder of an outstanding Option or other Award shall be entitled, upon exercise of that Option or Award or in place of it, as the case may be, to receive, at the option of the Committee and in lieu of shares of Stock, (i) the number and class or classes of shares of stock or other securities or property to which the holder would have been entitled if, immediately prior to the merger, consolidation, liquidation, sale or other disposition, the holder had been the holder of record of a number of shares of Stock equal to the number

of shares of Stock as to which that Option may be exercised or are subject to the Award or (ii) shares of stock of the company that is the surviving corporation in such merger, consolidation, liquidation, sale or other disposition having a value, as of the date of payment under (i) above, as determined by the Committee in its sole discretion, equal to the value of the shares of stock or other securities or property otherwise payable under (i) above; (B) if Options or other Awards have not already become exercisable or vested under Section 4.2(g) hereof, the Committee may waive any limitations set forth in or imposed pursuant to the Plan so that all Options or other Awards, from and after a date prior to the effective date of that merger, consolidation, liquidation, sale or other disposition, as the case may be, specified by the Committee, shall be exercisable in full and/or fully vested; and (C) all outstanding Options or SARs may be cancelled by the Committee as of the effective date of any merger, consolidation, liquidation, sale or other disposition, provided that any such cancellation pursuant to this Section 3.3 shall be contingent upon the payment to the affected Grantees, in the case of an in-the-money Option or SAR, cash, property or a combination thereof having an aggregate value equal to the excess of the value of the per-share amount of consideration paid pursuant to the merger, consolidation, liquidation, sale or other disposition, as the case may be, giving rise to such cancellation, over the exercise price of such Option or SAR multiplied by the number of shares of Stock subject to the Option or SAR. Any

adjustments pursuant to this Section 3.3 shall be made by the Committee in its sole discretion, and its determination in that respect shall be final, binding and conclusive, regardless of whether or not any such adjustment shall have the result of causing an ISO to cease to qualify as an ISO.

3.4 Limitation on Grantees' Rights. Except as hereinbefore expressly provided in this Section 3, a Grantee shall have no rights by reason of any subdivision or consolidation of shares of stock of any class or the payment of any stock dividend or any other increase or decrease in the number of shares of stock of any class or by reason of any dissolution, liquidation, merger, or consolidation or spin-off of assets or stock of another corporation, and any issue by the Company of shares of stock of any class shall not affect, and no adjustment by reason thereof shall be made with respect to, the number or price of shares of Stock subject to an Award, unless the Committee shall otherwise determine.

3.5 Company Right and Power. The grant of any Award pursuant to the Plan shall not affect in any way the right or power of the Company (A) to make adjustments, reclassifications, reorganizations or changes of its capital or business structure, (B) to merge or consolidate, (C) to dissolve, liquidate, sell, or transfer all or any part of its business or assets or (D) to issue any bonds, debentures, or preferred or other preference stock ahead of or affecting the Stock.

3.6 Fractional Shares. Notwithstanding anything contained in this Section 3, if any action described in this Section 3 results in a fractional share for any Grantee under any Award hereunder, such fraction shall be completely disregarded and the Grantee shall only be entitled to the whole number of shares resulting from such adjustment. All adjustments made by the Committee to effect the terms of this Section 3 shall be final, conclusive and binding upon the holders of Options, SARS and other Awards.

SECTION 4 AWARDS

4.1 General. The term of each Award shall be for such period as may be determined by the Committee, subject to the limitations set forth below. Subject to the terms of the Plan and any applicable Award Agreement, payments to be made by the Company or any Subsidiary of the Company upon the grant, maturation, or exercise of an Award may be made in such forms as the Committee shall determine at the date of grant or thereafter, including, without limitation, cash, Stock, or other property. In addition to the foregoing, the Committee may impose on any Award or the exercise thereof, at the date of grant, such additional terms and conditions, not inconsistent with the provisions of the Plan, as the Committee shall determine; provided, however, that any such terms and conditions shall not be inconsistent with Section 409A of the Code.

4.2 Types of Awards. The Committee is authorized to grant the Awards described in this Section 4.2, under such terms and conditions as deemed by the Committee to be consistent with the purposes of the Plan. Such Awards may be granted with value and payment contingent upon Performance Goals. Each Award shall be evidenced by an Award Agreement containing such terms and conditions applicable to such Award as the Committee shall determine.

(a) Options. The Committee is authorized to grant Options to Grantees on the following terms and conditions:

(i) Type of Award. The Award Agreement evidencing an Option shall designate the Option as either an ISO or an NQO, as determined in the discretion of the Committee.

(ii) Exercise Price. The exercise price of each Option granted under this Section 4.2 shall be established by the Committee or shall be determined by a method established by the Committee at the time the Option is granted; provided, however, that the exercise price shall not be less than 100% of the Fair Market Value of a share of Stock on the date of grant of the Award.

(iii) *Exercise.*

(A) Subject to the provisions of the Plan, Options shall be exercisable in accordance with such terms and conditions and during such periods as may be established by the Committee; provided, however, that no Option may be exercised more than seven years after its grant date.

(B) Except as set forth in Section 5.11, no Option granted hereunder may be exercised after the earlier of (I) the expiration of the Option or (II) ninety days after the severance of an Option holder's employment with the Company or any Subsidiary. At the time of the grant of Options, the Committee may place restrictions on the exercisability or vesting of Options that shall lapse, in whole or in part, only upon the attainment of Performance Goals; provided that such Performance Goals shall relate to periods of performance of at least one fiscal year, and if the Award is granted to a Covered Employee, the grant of the Award and the establishment of the Performance Goals shall be made during the period required under Code Section 162(m).

(C) Whether an authorized leave of absence, or an absence for military or government service, constitutes severance of an Option holder's employment relationship with the Company or a Subsidiary will be determined by the Committee at the time of the event, in its sole discretion.

(iv) Payment of Option Exercise Price. The payment of the exercise price of an Option granted under this Section 4 shall be subject to the following:

(A) Subject to the following provisions of this Section 4.2(a)(iv), the full exercise price for shares of Stock purchased upon the exercise of any Option shall be paid at the time of such exercise (except that, in the case of an exercise arrangement approved by the Committee and described in paragraph 4.2(a)(iv)(C) payment may be made as soon as practicable after the exercise).

(B) The exercise price shall be payable in cash or by tendering (either by actual delivery of shares or by attestation) shares of Stock that are acceptable to the Committee and were valued at Fair Market Value as of the day the shares are tendered, or in any combination of cash, shares, or attested shares, as determined by the Committee.

(C) To the extent permitted by applicable law and the policies adopted from time to time by the Committee, a Grantee may elect to pay the exercise price upon the exercise of an Option by irrevocably authorizing a third party to sell shares of Stock (or a sufficient portion of the shares) acquired upon exercise of the Option and remit to the Company a sufficient portion of the sale proceeds to pay the entire exercise price and any tax withholding resulting from such exercise.

(b) SARs. The Committee is authorized to grant SARs to Grantees on the following terms and conditions:

(i) In General. SARs may be granted independently or in tandem with an Option at the time of grant of the related Option. An SAR granted in tandem with an Option shall be exercisable only to the extent the underlying Option is exercisable. Payment of an SAR may be made in cash, Stock, property, or a combination of the foregoing, as specified in the Award Agreement or determined in the sole discretion of the Committee. At the time of the grant of SARs, the Committee may place restrictions on the exercisability or vesting of SARs that shall lapse, in whole or in part, only upon the attainment of Performance Goals; provided that such Performance Goals shall relate to periods of performance of at least one fiscal year, and if the Award is granted to a Covered Employee, the grant of the Award and the establishment of the Performance Goals shall be made during the period required under Code Section 162(m).

(ii) Term and Exercisability of SARs. SARs shall be exercisable over the exercise period at such times and upon such conditions as the Committee may determine, as reflected in the Award Agreement; provided, however, that no SAR may be exercised more than seven years after its grant date. Except as set forth in Section 5.11, no SAR granted hereunder may be exercised after the earlier of (A) the expiration of the SAR or (B) ninety days after the severance of an SAR holder's employment with the Company or any Subsidiary.

(iii) Payment. An SAR shall confer on the Grantee a right to receive an amount with respect to each share of Stock subject thereto, upon exercise thereof, equal to the excess of (A) the Fair Market Value of one share of Stock on the date of exercise over (B) the grant price of the SAR (which in the case of an SAR granted in tandem with an Option shall be equal to the exercise price of the underlying Option, and which in the case of any other SAR shall be such price as the Committee may determine but in no event shall be less than the Fair Market Value of a share of Stock on the date of grant of such SAR). An SAR may be exercised by giving written notice of such exercise to the Committee or its designated agent.

(c) Restricted Stock. The Committee is authorized to grant Restricted Stock to Grantees on the following terms and conditions:

(i) Issuance and Restrictions. Restricted Stock shall be subject to such restrictions on transferability and other restrictions, if any, as the Committee may impose at the date of grant, which restrictions may lapse separately or in combination at such times, under such circumstances, in such installments, or otherwise, as the Committee may determine. The Committee may place restrictions on Restricted Stock that shall lapse, in whole or in part, only upon the attainment of Performance Goals; provided that such Performance Goals shall relate to periods of performance of at least one fiscal year, and if the Award is granted to a Covered Employee, the grant of the Award and the establishment of the Performance Goals shall be made during the period required under Code Section 162(m). Except to the extent restricted under the Award Agreement relating to the Restricted Stock, a Grantee granted Restricted Stock shall have all of the rights of a stockholder including, without limitation, the right to vote Restricted Stock and the right to receive dividends thereon.

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(ii) Certificates for Stock. Restricted Stock granted under the Plan may be evidenced in such manner as the Committee shall determine. If certificates representing Restricted Stock are registered in the name of the Grantee, such certificates shall bear an appropriate legend referring to the terms, conditions, and restrictions applicable to such Restricted Stock, and the Company may retain physical possession of the certificate.

(iii) Dividends. Except to the extent restricted under the applicable Award Agreement, cash dividends paid on Restricted Stock shall be paid at the dividend payment date subject to no restriction. Unless otherwise determined by the Committee, Stock distributed in connection with a stock split or stock dividend shall be subject to the transfer restrictions, forfeiture risks and vesting conditions to the same extent as the Restricted Stock with respect to which such Stock or other property has been distributed.

(d) Restricted Stock Units. The Committee is authorized to grant Restricted Stock Units to Grantees, subject to the following terms and conditions:

(i) Conditions to Vesting. At the time of the grant of Restricted Stock Units, the Committee may place restrictions on Restricted Stock Units that shall lapse, in whole or in part, only upon the attainment of Performance Goals; provided that such Performance Goals shall relate to periods of performance of at least one fiscal year, and if the Award is granted to a Covered Employee, the grant of the Award and the establishment of the Performance Goals shall be made during the period required under Code Section 162(m).

(ii) Benefit Upon Vesting. Unless otherwise provided in an Award Agreement, upon the vesting of a Restricted Stock Unit, there shall be delivered to the Grantee, within 30 days of the date on which such Award (or any portion thereof) vests, the number of shares of Stock equal to the number of Restricted Stock Units becoming so vested.

(iii) Dividend Equivalents. Subject to the requirements of Section 409A of the Code, an Award of Restricted Stock Units may provide the Grantee with the right to receive dividend equivalent payments with respect to Stock subject to the Award (both before and after the Stock subject to the Award is earned, vested, or acquired), which payments may be either made currently or credited to an account for the Grantee, and may be settled in cash or Stock, as determined by the Committee. Any such settlements and any such crediting of dividend equivalents may, at the time of grant of the Restricted Stock Unit, be made subject to the transfer restrictions, forfeiture risks, vesting and conditions of the Restricted Stock Units and subject to such other conditions, restrictions and contingencies as the Committee shall establish at the time of grant of the Restricted Stock Unit, including the reinvestment of such credited amounts in Stock equivalents, provided that all such conditions, restrictions and contingencies shall comply with the requirements of Section 409A of the Code.

(e) Other Stock-Based Awards. The Committee is authorized to grant Awards to Grantees in the form of Other Stock-Based Awards, as deemed by the Committee to be consistent with the purposes of the Plan. At the time of the grant of Other Stock-Based Awards, the Committee may place restrictions on the payout or vesting of Other Stock-Based Awards that shall lapse, in whole or in part, only upon the attainment of Performance Goals; provided that such Performance Goals shall relate to periods of performance of at least one fiscal year, and if the Award is granted to a Covered Employee, the grant of the Award and the establishment of the Performance Goals shall be made during the period required under Code Section 162(m).

The Committee shall determine the terms and conditions of such Awards at the date of grant. Other Stock-Based Awards may not be granted with the right to receive dividend equivalent payments.

(f) Settlement of Options and SARs. Shares of Stock delivered pursuant to the exercise of an Option or SAR shall be subject to such conditions, restrictions and contingencies as the Committee may establish in the applicable Award

Agreement. Settlement of SARs may be made in shares of Stock (valued at their Fair Market Value at the time of exercise), in cash, or in a combination thereof, as determined in the discretion of the Committee. The Committee, in its discretion, may impose such conditions, restrictions and contingencies with respect to shares of Stock acquired pursuant to the exercise of an Option or an SAR as the Committee determines to be desirable.

(g) *Vesting: Additional Terms.* Except as set forth below and in Sections 3.3 and 5.11, and other than Options, SARs, Restricted Stock, Restricted Stock Units or Other Stock-Based Awards conditioned upon the attainment of Performance Goals that relate to performance periods of at least one fiscal year, no Award granted hereunder may vest in excess of 1/3 of the number of shares subject to the Award per year for the first three years after the grant date. Unless the Committee determines otherwise, the date on which the Committee adopts a resolution expressly granting an Award shall be considered the day on which such Award is granted. The term of any Award granted under the Plan will not exceed seven years from the date of grant. Notwithstanding the foregoing, if before the expiration of an Option or SAR, the holder s

employment relationship with the Company or a Subsidiary terminates as a result of retirement in good standing or disability under the established rules of the Company then in effect, the Option or SAR will remain in effect, vest and be exercisable in accordance with its terms as if the holder remained an employee of the Company or Subsidiary. In the event of an Option or SAR holder's death during the term of his or her Option or SAR, all unvested Options and SARs will vest immediately and may be exercised by the holder's estate, or by the person to whom such right devolves from the holder by reason of his or her death, at any time within three years after the date of the holder's death but in no event later than the original termination date of the Option or SAR. In no event may an Option or SAR be exercised after three years following the holder's death. With respect to all other Awards, any unvested Awards shall immediately vest, and all restrictions pertaining to such other Awards shall lapse and have no further effect, upon the holder's death or retirement in good standing or disability under the established rules of the Company then in effect, except as otherwise provided by the Committee at grant of the Award. Upon the occurrence of a Change in Control, all outstanding Options and SARs shall vest and become exercisable and all other outstanding Awards shall vest and all restrictions pertaining to such other Awards shall lapse and have no further effect.

SECTION 5 OPERATION

5.1 *Duration.* Grants may be made under the Plan through November 9, 2014. In the event of Plan termination while Awards remain outstanding, the Plan shall remain in effect as long as any Awards under it are outstanding, although no further grants may be made following Plan termination.

5.2 *Uncertificated Stock.* Nothing contained in the Plan shall prohibit the issuance of Stock on an uncertificated basis, to the extent allowed by the Company's Certificate of Incorporation and Bylaws, by applicable law and by the applicable rules of any stock exchange.

5.3 *Tax Withholding.* All distributions under the Plan are subject to withholding of all applicable taxes, and the Committee may condition the delivery of any shares or other benefits under the Plan on satisfaction of the applicable withholding obligations. The Committee, in its discretion, and subject to such requirements as the Committee may impose prior to the occurrence of such withholding, may permit such withholding obligations to be satisfied through cash payment by the Grantee, through the surrender of shares of Stock which the Grantee already owns, or through the surrender of unrestricted shares of Stock to which the Grantee is otherwise entitled under the Plan, but only to the extent of the minimum amount required to be withheld under applicable law.

5.4 *Use of Shares.* Subject to the limitations on the number of shares of Stock that may be delivered under the Plan, the Committee may use available shares of Stock as the form of payment for compensation, grants or rights earned or due under any other compensation plans or arrangements of the Company or a Subsidiary, including the plans and arrangements of the Company or a Subsidiary assumed in business combinations.

5.5 *Transferability.* Except as otherwise provided by the Committee, Options, SARs and any other unvested Awards or Awards subject to any restrictions hereunder are not transferable except as designated by the Grantee by will or by the laws of descent and distribution. Notwithstanding the foregoing, in no event may any such Award be transferred to a third party for consideration at any time.

5.6 *Form and Time of Elections.* Unless otherwise specified herein, each election required or permitted to be made by any Grantee or other person entitled to benefits under the Plan, and any permitted modification, or revocation thereof, shall be in writing filed with the Committee at such times, in such form, and subject to such restrictions and limitations, not inconsistent with the terms of the Plan, as the Committee shall require.

5.7 Agreement With Company. An Award under the Plan shall be subject to such terms and conditions, not inconsistent with the Plan, as the Committee shall, in its sole discretion, prescribe. The terms and conditions of any Award to any Grantee shall be reflected in such form of written document as is determined by the Committee. A copy of such document shall be provided to the Grantee, and the Committee may, but need not, require that the Grantee shall sign a copy of such document. Such document is referred to in the Plan as an Award Agreement regardless of whether any Grantee signature is required.

5.8 Gender and Number. Where the context admits, words in any gender shall include any other gender, words in the singular shall include the plural and the plural shall include the singular.

5.9 Limitation of Implied Rights.

(a) Neither a Grantee nor any other person shall, by reason of participation in the Plan, acquire any right in or title to any assets, funds or property of the Company or any Subsidiary whatsoever, including, without limitation, any specific funds, assets, or other property which the Company or any Subsidiary, in its sole discretion, may set aside in anticipation of a liability under the Plan. A Grantee shall have only a contractual right to the Stock or amounts, if any, payable under the Plan, unsecured by any assets of the Company or any Subsidiary, and nothing contained in the Plan shall constitute a guarantee that the assets of the Company or any Subsidiary shall be sufficient to pay any benefits to any person.

(b) The Plan does not constitute a contract of employment, and selection as a Grantee will not give any participating employee the right to be retained in the employ of the Company or any Subsidiary, nor any right or claim to any benefit under the Plan, unless such right or claim has specifically accrued under the terms of the Plan. Except as otherwise provided in the Plan or the Award Agreement, no Award under the Plan shall confer upon the holder thereof any rights as a stockholder of the Company prior to the date on which the individual fulfills all conditions for receipt of such rights.

5.10 Forfeiture: Non-Competition Agreements. Notwithstanding any other provision of the Plan, except as provided in Section 5.11 below, if the Committee finds by a majority vote that: (i) the Grantee, before or after termination of his or her employment or consulting relationship with the Company or a Subsidiary (as used in this Section 5.10, an Employer) for any reason, (a) committed fraud, embezzlement, theft, a felony, or proven dishonesty in the course of his or her employment or other engagement by Employer, and by such act damaged Employer, or (b) disclosed trade secrets of Employer; or (ii) the Grantee, before or after termination of his or her employment or other engagement with Employer for any reason, participated, engaged or had a financial or other interest (whether as an employee, officer, director, consultant, contractor, stockholder, owner, or otherwise) in any commercial endeavor in the United States competitive with the business of Employer (a) in violation of the Sysco Corporation Code of Business Conduct, as in effect on the date of such participation or other engagement, or (b) in such a manner that would have violated the Code of Business Conduct had Grantee been employed by Employer at the time of the activity in question, then any outstanding Awards which, in the case of Options or SARs, have not been exercised and, in the case of Awards other than Options or SARs, have not vested, will be forfeited. The decision of the Committee as to the nature of a Grantee's conduct, the damage done to Employer and the extent of the Grantee's competitive activity will be final. No decision of the Committee, however, will affect the finality of the discharge of the Grantee by Employer in any manner. The Committee may, in its discretion, include a form of non-compete, non-solicitation and/or non-disparagement agreement in any Award Agreement, and such non-compete, non-solicitation or non-disparagement agreement may be personalized, in the Committee's discretion, to fit the circumstances of any specific Grantee.

5.11 Termination of Employment Following Change In Control. In the event that the employment of a Grantee who is an employee of the Company or a Subsidiary is terminated by the Company other than for Cause during the 24-month period following a Change in Control, all of such Grantee's outstanding Options and SARs may thereafter be exercised by the Grantee, to the extent that such Options and SARs were exercisable as of the date of such termination of employment (x) for a period of 24 months from such date of termination or (y) until expiration of the stated term of such Option or SAR, whichever period is the shorter. The provisions of clause (ii) of Section 5.10 of the Plan shall not apply to any Grantee who incurs a termination of employment pursuant to this Section 5.11 with respect to activity after such termination of employment.

5.12 Section 409A. It is intended that all Options and SARs granted under the Plan shall be exempt from the provisions of Section 409A of the Code and that all other Awards under the Plan, to the extent that they constitute non-qualified deferred compensation within the meaning of Section 409A of the Code, will comply with Section 409A

of the Code (and any regulations and guidelines issued thereunder). The Plan and any Award Agreements issued hereunder may be amended in any respect deemed by the Board or the Committee to be necessary in order to preserve compliance with Section 409A of the Code.

5.14 *Regulations and Other Approvals.*

(a) The obligation of the Company to sell or deliver Stock with respect to any Award granted under the Plan shall be subject to all applicable laws, rules and regulations, including all applicable federal and state securities laws, and the obtaining of all such approvals by governmental agencies as may be deemed necessary or appropriate by the Committee.

(b) Each Award is subject to the requirement that, if at any time the Committee determines, in its absolute discretion, that the listing, registration or qualification of Stock issuable pursuant to the Plan is required by any securities exchange or under any state or federal law, or the consent or approval of any governmental regulatory body is necessary or desirable as a condition of, or in connection with, the grant of an Award or the issuance of Stock, no such Award shall be granted or payment made or Stock issued, in whole or in part, unless listing, registration, qualification, consent or approval has been effected or obtained free of any conditions not acceptable to the Committee.

(c) In the event that the disposition of Stock acquired pursuant to the Plan is not covered by a then current registration statement under the Securities Act and is not otherwise exempt from such registration, such Stock shall be restricted against transfer to the extent required by the Securities Act of 1933, as amended, or regulations thereunder, and applicable state securities laws, and the Committee may require a Grantee receiving Stock pursuant to the Plan, as a condition precedent to receipt of such Stock, to represent to the Company in writing that the Stock acquired by such Grantee is acquired for investment only and not with a view to distribution.

(d) With respect to persons subject to section 16 of the Securities and Exchange Act of 1934, as amended, it is the intent of the Company that the Plan and all transactions under the Plan comply with all applicable provisions of Rule 16b-3.

5.15 Awards to Employees Subject to Taxation Outside of the United States. Without amending the plan, Awards may be granted to Grantees who are foreign nationals or who are employed outside the United States or both, on such terms and conditions different from those specified in the Plan as may, in the judgment of the Committee, be necessary or desirable to further the purposes of the Plan. Such different terms and conditions may be reflected in Addenda to the Plan or in the applicable Award Agreement. However, no such different terms or conditions shall be employed if such terms or conditions constitute, or in effect result in, an increase in the aggregate number of shares which may be issued under the Plan or a change in the definition of Eligible Grantee.

SECTION 6 AMENDMENT AND TERMINATION

(a) The Plan may be terminated or amended by the Board of Directors at any time, except that the following actions may not be taken without stockholder approval:

(i) any increase in the number of shares that may be issued under the Plan (except by certain adjustments provided for under the Plan);

(ii) any change in the class of persons eligible to receive ISOs under the Plan;

(iii) any change in the requirements of Sections 4.2(a)(ii) and 4.2(b)(iii) hereof regarding the exercise price of Options and the grant price of SARs; or

(iv) any repricing or cancellation and regrant of any Option or, if applicable, other Award at a lower exercise, base or purchase price, whether in the form of an amendment, cancellation or replacement grant, or a cash-out of underwater options or any action that provides for Awards that contain a so-called reload feature under which additional Options or other Awards are granted automatically to the Grantee upon exercise of the original Option or Award.

(v) any other amendment to the Plan that would require approval of the Company's stockholders under applicable law, regulation or rule or stock exchange listing requirement.

Notwithstanding any of the foregoing, adjustments pursuant to Section 3 shall not be subject to the foregoing limitations of this Section 6.

(b) Options may not be granted under the Plan after the date of termination of the Plan, but Options granted prior to that date shall continue to be exercisable according to their terms.

**SECTION 7
GOVERNING LAW**

The plan shall be governed by, and construed in accordance with, the laws of the State of Texas, except to the extent that the General Corporation Law of the State of Delaware shall be applicable.

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SYSKO CORPORATION
2009 MANAGEMENT INCENTIVE PLAN

This SYSKO CORPORATION 2009 MANAGEMENT INCENTIVE PLAN (the Plan) effective for awards granted on or after May 1, 2010, was recommended by the Compensation Committee (the Committee) of the Board of Directors (the Board of Directors) of Sysko Corporation (the Company) on September 3, 2009, and adopted by the Board of Directors of the Company on September 3, 2009.

1. Statement of Principle

The purpose of the Plan is to reward (i) certain key management personnel for outstanding performance in the management of one or more Operating Companies (as defined herein) and (ii) certain corporate personnel for managing the operations of the Company as a whole and/or managing the operations of one or more Operating Companies (as defined herein). For purposes of the Plan, the term Operating Company means (i) any entity in which the Company, directly or indirectly, owns more than 50% of the vote or value of the equity interests issued by such entity, or (ii) any other entity, operating division, employment location or business unit designated by the Committee as an Operating Company for purposes of this Plan. All references to Performance Periods in the Plan are to fiscal years of the Company unless otherwise specifically noted.

2. Plan Compensation Committee

The Committee is charged with structuring, proposing the implementation of, and implementing the terms and conditions of the Plan. The Committee shall have the authority to: (i) adopt, alter, amend and repeal such rules, guidelines and practices governing the Plan as it shall, from time to time, deem advisable; (ii) interpret the terms and provisions of the Plan and any award issued under the Plan (and any agreements relating thereto), including without limitation the manner of determining financial and accounting concepts discussed in the Plan; (iii) otherwise supervise the administration of the Plan; and, (iv) except as to the application of the Plan to executive officers, delegate such authority provided to the Committee under the Plan as it may deem necessary or appropriate to the Chairman of the Board, Chief Executive Officer, Chief Operating Officer, President and any Executive Vice President, and any of them individually. All decisions made by the Committee pursuant to the provisions of the Plan shall be made in the Committee's sole discretion and shall be final and binding on all persons, including the Company and all Participants (as defined herein).

3. Participation

(A) *Designation of Participants.* The Committee shall designate from time to time those employees of the Company and its Operating Companies who are eligible to receive a bonus (each a Participant and collectively, the Participants) under the Plan. To the extent possible, the Committee shall make such designation prior to the commencement of the Performance Period for which such employee will be eligible for a bonus under the Plan, or as soon as practicable during the Performance Period in which an employee first becomes eligible to participate in the Plan. Except as otherwise provided herein, once an employee has been designated as a Participant for a Performance Period, the Committee shall have the right to remove such employee as a Participant in the Plan for such Performance Period, with or without cause, at any time on or before the last day of such Performance Period and except as otherwise provided herein, the Participant shall not be entitled to any bonus under the Plan for the Performance Period in which such Participant is removed regardless of when during the Performance Period the Participant is removed.

(B) *Senior Executive Participants.* Notwithstanding anything to the contrary contained herein, if it is determined that a Participant is a covered employee of the Company within the meaning of Section 162(m)(3) of the Internal Revenue Code of 1986, as amended (and any Treasury Regulations or guidance issued thereunder) (the Code) for a Performance Period (a Senior Executive Participant), such Participant's bonus shall be calculated without regard to such Participant's status as a Senior Executive Participant, provided, however, that such Participant's bonus shall be subject to any and all limitations and restrictions applicable to Senior Executive Participants under the Plan and the annual incentive program (and any related agreements) for the Performance Period.

4. *Determination of Performance Goals.*

(A) *In General.* Before the beginning of the relevant Performance Period, but in no event later than ninety (90) days after the beginning of such Performance Period, the Committee, in its sole discretion, shall establish for such Performance Period (i) the Performance Period over which performance is to be measured; (ii) the payment date for the Performance Period; (iii) the Performance Goals (as defined below) for each Participant; and (iv) the method for evaluating performance for the Performance

Period. Notwithstanding the foregoing, the Committee shall have the right to alter the bonus formula with respect to any Participant by changing the performance targets or otherwise as determined in the sole discretion of the Committee; *provided that* any such change shall not apply to a Participant who is also a Senior Executive Participant with respect to such Performance Period unless such change complies with the requirements of the performance based compensation exception under Section 162(m) of the Code.

(B) Performance Goals. The Performance Goals established by the Committee for a Performance Period may include any one or more of the following criteria (i) return on capital, (ii) return on assets, (iii) sales growth, (iv) market share, (v) margin growth, (vi) return on equity, (vii) total shareholder return, (viii) increase in net after-tax earnings per share, (ix) increase in operating pre-tax earnings, (x) operating profit or improvements in operating profit, (xi) improvements in certain asset or financial measures (including working capital and the ratio of sales to net working capital), (xii) reductions in certain costs (including reductions in inventories or accounts receivable or reductions in operating or non-operating expenses), (xiii) net earnings, (xiv) pre-tax earnings or variations of income criteria in varying time periods, (xv) economic value added, (xvi) general comparisons with other peer companies or industry groups or classifications with regard to one or more of these criteria; (xvii) market price of the Company securities or (xviii) with respect to a Participant (other than a Senior Executive Participant) other factors directly tied to the performance of the Company or an Operating Company (the Performance Goals). Subject to the Committee's discretion to formulate a different bonus structure as to any Participant other than Senior Executive Participants, the Performance Goals may be based on one or more of the following: (i) the performance of the Company as a whole; (ii) the performance of the Operating Company which employs such Participant (or the Operating Company designated by the Committee as the Operating Company by reference to which performance is to be measured); or (iii) the aggregate performance of the Operating Companies over which such Participant has managerial authority. The relative weights of the criteria that comprise the Performance Goals shall be determined by the Committee in its sole discretion. In establishing the Performance Goals for a Performance Period, the Committee may establish different Performance Goals for individual Participants or groups of Participants.

(C) Additional Bonus. In addition to the bonus determined using the Performance Goals set forth above, a Participant employed by an Operating Company may also be eligible for an additional bonus (Additional Bonus) as determined by the Committee in its sole discretion. The Additional Bonus may be established by the Committee at one or more times during such Performance Period or within ninety (90) days following the end of such Performance Period based on such criteria as the Committee may develop in its sole discretion; *provided however*, any Participant who is also a Senior Executive Participant with respect to such Performance Period shall not be eligible for an Additional Bonus unless such Additional Bonus is established in accordance with the requirements of the performance based compensation exception under Section 162(m) of the Code.

(D) General Rules Regarding Bonus Calculation.

(i) Whether or not the results of operations of one or more Operating Companies or the Company for a given Performance Period result in a bonus, generally accepted accounting principles shall be applied on a basis consistent with prior periods unless otherwise modified by the Committee; *provided however*, no such modification shall apply to a Senior Executive Participant unless the requirements for the performance based compensation exception under Section 162(m) of the Code have been satisfied with respect to such modification. Any determination made pursuant to this Section 4(D)(i) shall be based on the calculations made by the Company and shall be binding on each Participant.

(ii) Except as provided in Section 9, as to Senior Executive Participants, there is no limit to the bonus that can be earned under this Plan. Prior to the payment of a bonus to a Senior Executive Participant, other than a bonus payable following a Change of Control pursuant to Section 7, the Committee shall certify that the Performance Goals and other material terms of the Plan have been achieved with respect to such Senior Executive Participant.

(iii) This Section 4(D)(iii) shall apply whenever the Performance Goals for a Performance Period take into account performance for one or more fiscal years of 53 weeks (each, a Long Fiscal Year). In making any determination as to whether the Performance Goals have been satisfied or as to the amount of the bonus payable with respect to a Performance Period, the relevant Performance Goals for a Long Fiscal Year shall be deemed to be a number equal to the numerical measure of each such Performance Goal based on the performance of the Company and/or its Operating Companies for such Long Fiscal Year minus an amount equal to the product of (i) $1/14^{\text{th}}$; and (ii) the numerical measure of each such Performance Goal based on the performance of the Company and/or its Operating Companies for the last fiscal quarter of such Long Fiscal Year. Notwithstanding the foregoing, the Committee may exercise its discretion in determining the extent of the adjustment, if any, to the calculation of any Performance Goal for a Long Fiscal Year appropriate to more accurately compare performance during a Long Fiscal Year to that during a 52-week fiscal year; provided that, the Committee may not exercise such discretion after the first ninety (90) days of the Performance Period with respect to Senior Executive Participants unless such exercise of discretion results in a reduction of the bonus payable to the Senior Executive Participants for such Performance Period.

5. *Payment*

The bonus payable to Participants under this Plan shall be paid solely in cash and shall be paid on or before ninety (90) days following the end of each Performance Period; *provided, however*, subject to the requirements of the applicable deferred compensation plan and such other rules and requirements as the Committee may from time to time prescribe, the Committee may allow a Participant to defer receipt of all or a portion of the Participant's bonus under the Plan if permitted under the terms of the deferred compensation plan sponsored by the Company in which the Participant is eligible to participate.

6. *Clawback of Bonus.*

In accordance with the Company's incentive payment clawback policy, in the event of a restatement of financial results (other than a restatement due to a change in accounting policy) within thirty-six (36) months of the payment of a bonus under the Plan, if the Committee determines in its sole and absolute discretion, that the bonus paid to a Participant under the Plan would have been lower had it been calculated based on such restated results (the Adjusted MIP Bonus), then the Committee shall, subject to applicable governing law, have the right to recoup from such Participant, in such form and at such time as the Committee determines in its sole and absolute discretion, the difference between the amount previously paid to such Participant pursuant to the Plan (without regard to amounts deferred by such Participant under the Company's executive benefit plans) and the Adjusted MIP Bonus.

7. *Change of Control*

(A) *Change of Control* means the occurrence of one or more of the following events:

(i) The acquisition by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934, as amended (the Exchange Act)) (a Person) of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 20% or more of either (i) the then-outstanding shares of Common Stock of the Company (the Outstanding Company Common Stock) or (ii) the combined voting power of the then-outstanding voting securities of the Company entitled to vote generally in the election of directors (the Outstanding Company Voting Securities); provided, however, that, for purposes of this Section 7(A)(i), the following acquisitions shall not constitute a Change of Control: (1) any acquisition directly from the Company, (2) any acquisition by the Company, (3) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any affiliated company or (4) any acquisition by any corporation pursuant to a transaction that complies with Sections 7(A)(iii)(1), 7(A)(iii)(2) and 7(A)(iii)(3);

(ii) The occurrence of the following: Individuals who, as of September 9, 2009, constitute the Board (the Incumbent Board) cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to September 9, 2009 whose election, or nomination for election by the Company's stockholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board;

(iii) Consummation of a reorganization, merger, statutory share exchange or consolidation or similar corporate transaction involving the Company or any of its Operating Companies, a sale or other disposition of all or substantially all of the assets of the Company, or the acquisition of assets or stock of another entity by the Company or any of its Operating Companies (each, a Business Combination), in each case unless, following such Business Combination, (1) all or substantially all of the individuals and entities that were the beneficial owners of the

Outstanding Company Common Stock and the Outstanding Company Voting Securities immediately prior to such Business Combination beneficially own, directly or indirectly, more than 60% of the then-outstanding shares of Common Stock and the combined voting power of the then-outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the corporation resulting from such Business Combination (including, without limitation, a corporation that, as a result of such transaction, owns the Company or all or substantially all of the Company's assets either directly or through one or more Operating Companies) in substantially the same proportions (as compared to the other beneficial owners of the Company's Voting Securities immediately prior to such Business Combination) as their ownership immediately prior to such Business Combination of the Outstanding Company Common Stock and the Outstanding Company Voting Securities, as the case may be, (2) no Person (excluding any corporation resulting from such Business Combination or any employee benefit plan (or related trust) of the Company or such corporation resulting from such Business Combination) beneficially owns, directly or indirectly, 20% or more of, respectively, the then-outstanding shares of common stock of the corporation resulting from such Business Combination or the combined voting power of the then-outstanding voting securities of such

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corporation, except to the extent that such ownership existed prior to the Business Combination, and (3) at least a majority of the members of the board of directors of the corporation resulting from such Business Combination were members of the Incumbent Board at the time of the execution of the initial agreement or of the action of the Board providing for such Business Combination; or

(iv) Approval by the stockholders of the Company of a complete liquidation or dissolution of the Company.

(B) Notwithstanding anything to the contrary contained herein, and in lieu of any other payments due hereunder other than pursuant to this Section 7, within ninety (90) days following the date on which a Change of Control has occurred, each person who was a Participant at the time of the Change of Control shall be paid a cash bonus hereunder, equal to the following (subject to reduction in the case of certain severance payments, as set forth below): the product of (i) a fraction equal to the number of days in the Performance Period in which the Change of Control occurs up to and including the date of the Change of Control divided by 365, and (ii) the bonus that would have been paid under this Plan, calculated using a Performance Goal equal to the product of (a) the Company's and/or one or more Operating Companies' performance through and including the end of the most recently completed fiscal quarter occurring prior to and in the same Performance Period as the Change of Control (the Measurement Date), calculated in accordance with generally accepted accounting principles, if applicable, and (b) a fraction, the numerator of which is 365 and the denominator of which is the number of days in such Performance Period up to and including the Measurement Date.

(C) In addition to any bonus paid or payable pursuant to Section 7(B), any Participant who remains in the employ of the Company or any Operating Company on the last day of the Performance Period in which a Change of Control occurs shall be entitled to receive, in cash, within ninety (90) days after the end of the Performance Period, an amount equal to the positive difference, if any, between (a) the bonus that would have been paid to the Participant for such Performance Period under the Plan as in effect on the date of the Change of Control, using the actual Performance of the Company and/or one or more Operating Companies for the entire Performance Period, and (b) the amount paid pursuant to Section 7(B).

(D) Notwithstanding the foregoing, with respect to any Participant who is a party to the Company's form of severance agreement on file with the Securities and Exchange Commission, or any future severance agreement with the Company, the bonus paid pursuant to this Section 7 shall be reduced, but to not less than zero, by the amount of any payment pursuant to such Participant's severance agreement that is determined or calculated with respect to payments received or to be received under this Plan or any predecessor or successor thereof.

8. *No Employment Arrangements Implied*

Nothing herein shall imply any right of continued employment for a Participant, and except as set forth in Section 7 with respect to a Change of Control or as otherwise determined by the Committee in its discretion, if a Participant is terminated, voluntarily or involuntarily, with or without cause, prior to the end of a given Performance Period, such Participant shall not be entitled to any bonus for such Performance Period regardless of whether or not a bonus would have been earned had such Participant remained employed by the Company or an Operating Company through the end of the relevant Performance Period, *provided, however*, any bonus earned with respect to a Performance Period that remains unpaid at the time of any such termination shall not be affected.

9. *Term; Amendment or Termination.*

(A) *Effective Date and Term.* The Plan has been adopted by the Board of Directors on September 3, 2009 and is effective, subject to obtaining stockholder approval of the material terms of the 2009 MIP Plan at the 2009 annual meeting, for awards granted on or after November 18, 2009 (the Effective Date). In no events will payments be made under this Plan to Senior Executive Participants unless this Plan has been approved by the Company's stockholders in

a vote meeting the requirements of Section 162(m) of the Code. The term of the Plan shall continue until November 18, 2014, unless sooner terminated by the Board of Directors. No new awards may be made after the termination of the Plan, but any awards granted prior to November 18, 2014 that have not yet been paid in will continue to remain outstanding and will be payable in accordance with and to the extent provided in the Plan and the applicable grant agreements and programs.

(B) *Amendment or Termination.* The Plan may be amended at any time by the Board of Directors and any such amendment shall be effective as of commencement of the Performance Period during which the Plan is amended, regardless of the date of the amendment, unless otherwise stated by the Board of Directors. The Plan may be terminated at any time by the Board of Directors and such termination will be effective as of the commencement of the Performance Period in which such action to terminate the Plan is taken. Notwithstanding the foregoing, no amendment or termination following a Change of Control may in any way decrease or eliminate a payment due to a Participant pursuant to Section 7.

10. *Overall Limitation upon Payments under Plan to Senior Executive Participants*

Notwithstanding any other provision in the Plan to the contrary, in no event shall any Senior Executive Participant be entitled to a bonus amount for any Performance Period in excess of \$10 million.

11. *Prior Plan*

As of the Effective Date, this Plan shall supersede the Sysco Corporation 2005 Management Incentive Plan, as amended and restated (the Prior Plan). No further awards will be granted under the Prior Plan following such date, but any awards granted under the Prior Plan before November 18, 2009 that have not yet been paid as of that date will continue to remain outstanding and will be payable in accordance with and to the extent provided in the Prior Plan and the applicable grant agreements or programs.

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