

PEPSICO INC  
Form 10-Q  
October 12, 2011  
Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 3, 2011 (36 weeks)

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 1-1183

PepsiCo, Inc.

(Exact Name of Registrant as Specified in its Charter)

North Carolina  
(State or Other Jurisdiction of

Incorporation or Organization)

700 Anderson Hill Road, Purchase, New York  
(Address of Principal Executive Offices)

13-1584302  
(I.R.S. Employer

Identification No.)

10577  
(Zip Code)

914-253-2000

(Registrant's Telephone Number, Including Area Code)

N/A

Edgar Filing: PEPSICO INC - Form 10-Q

(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 the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer   
Non-accelerated filer

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

Number of shares of Common Stock outstanding as of October 5, 2011: 1,563,410,224

**Table of Contents****PEPSICO, INC. AND SUBSIDIARIES****INDEX**

	Page No.
Part I Financial Information	
<u>Item 1. Condensed Consolidated Financial Statements</u>	3
<u>Condensed Consolidated Statement of Income 12 and 36 Weeks Ended September 3, 2011 and September 4, 2010</u>	3
<u>Condensed Consolidated Statement of Cash Flows 36 Weeks Ended September 3, 2011 and September 4, 2010</u>	4-5
<u>Condensed Consolidated Balance Sheet September 3, 2011 and December 25, 2010</u>	6-7
<u>Condensed Consolidated Statement of Equity 36 Weeks Ended September 3, 2011 and September 4, 2010</u>	8
<u>Condensed Consolidated Statement of Comprehensive Income 12 and 36 Weeks Ended September 3, 2011 and September 4, 2010</u>	9
<u>Notes to the Condensed Consolidated Financial Statements</u>	10-27
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	28-47
<u>Report of Independent Registered Public Accounting Firm</u>	48
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	49
<u>Item 4. Controls and Procedures</u>	49
Part II Other Information	
<u>Item 1. Legal Proceedings</u>	50
<u>Item 1A. Risk Factors</u>	50
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	51-52
<u>Item 4. (Removed and Reserved)</u>	52
<u>Item 6. Exhibits</u>	52

**Table of Contents**

## PART I FINANCIAL INFORMATION

## ITEM 1. Condensed Consolidated Financial Statements.

## PEPSICO, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENT OF INCOME

(in millions except per share amounts, unaudited)

	12 Weeks Ended		36 Weeks Ended	
	9/3/11	9/4/10	9/3/11	9/4/10
<b>Net Revenue</b>	<b>\$ 17,582</b>	\$ 15,514	<b>\$ 46,346</b>	\$ 39,683
Cost of sales	<b>8,452</b>	7,008	<b>21,862</b>	18,216
Selling, general and administrative expenses	<b>6,186</b>	5,676	<b>16,995</b>	15,288
Amortization of intangible assets	<b>38</b>	30	<b>103</b>	78
<b>Operating Profit</b>	<b>2,906</b>	2,800	<b>7,386</b>	6,101
Bottling equity income		10		728
Interest expense	<b>(205)</b>	(169)	<b>(584)</b>	(495)
Interest income and other	<b>(4)</b>	18	<b>33</b>	26
Income before income taxes	<b>2,697</b>	2,659	<b>6,835</b>	6,360
Provision for income taxes	<b>686</b>	729	<b>1,775</b>	1,383
Net income	<b>2,011</b>	1,930	<b>5,060</b>	4,977
Less: Net income attributable to noncontrolling interests	<b>11</b>	8	<b>32</b>	22
<b>Net Income Attributable to PepsiCo</b>	<b>\$ 2,000</b>	\$ 1,922	<b>\$ 5,028</b>	\$ 4,955
<b>Net Income Attributable to PepsiCo per Common Share</b>				
<b>Basic</b>	<b>\$ 1.27</b>	\$ 1.21	<b>\$ 3.18</b>	\$ 3.11
<b>Diluted</b>	<b>\$ 1.25</b>	\$ 1.19	<b>\$ 3.14</b>	\$ 3.06
Cash dividends declared per common share	<b>\$ 0.515</b>	\$ 0.48	<b>\$ 1.51</b>	\$ 1.41

See accompanying notes to the condensed consolidated financial statements.

**Table of Contents**

## PEPSICO, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(in millions, unaudited)

	36 Weeks Ended	
	9/3/11	9/4/10
<b>Operating Activities</b>		
Net income	\$ 5,060	\$ 4,977
Depreciation and amortization	1,877	1,580
Stock-based compensation expense	222	191
Cash payments for restructuring charges	(1)	(29)
Merger and integration costs	174	545
Cash payments for merger and integration costs	(293)	(272)
Gain on previously held equity interests in The Pepsi Bottling Group, Inc. (PBG) and PepsiAmericas, Inc. (PAS)		(958)
Asset write-off		145
Non-cash foreign exchange loss related to Venezuela devaluation		120
Excess tax benefits from share-based payment arrangements	(56)	(73)
Pension and retiree medical plan contributions	(185)	(1,350)
Pension and retiree medical plan expenses	389	310
Bottling equity income, net of dividends		37
Deferred income taxes and other tax charges and credits	132	291
Change in accounts and notes receivable	(1,643)	(1,287)
Change in inventories	(466)	224
Change in prepaid expenses and other current assets	(54)	(14)
Change in accounts payable and other current liabilities	142	762
Change in income taxes payable	936	787
Other, net	(400)	(198)
<b>Net Cash Provided by Operating Activities</b>	<b>5,834</b>	<b>5,788</b>
<b>Investing Activities</b>		
Capital spending	(1,962)	(1,670)
Sales of property, plant and equipment	46	55
Acquisitions of PBG and PAS, net of cash and cash equivalents acquired		(2,833)
Acquisition of manufacturing and distribution rights from Dr Pepper Snapple Group, Inc. (DPSG)		(900)
Acquisition of Wimm-Bill-Dann Foods OJSC (WBD), net of cash and cash equivalents acquired	(2,428)	
Investment in WBD	(164)	
Other acquisitions and investments in noncontrolled affiliates	(160)	(36)
Divestitures	10	
Cash restricted for pending acquisitions		(8)

Short-term investments, by original maturity		
More than three months purchases		(8)
More than three months maturities	<b>14</b>	21
Three months or less, net	<b>(48)</b>	(53)
Other investing, net	<b>(3)</b>	(12)
<b>Net Cash Used for Investing Activities</b>	<b>(4,695)</b>	(5,444)

(Continued on following page)

**Table of Contents**

## PEPSICO, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

(in millions, unaudited)

	36 Weeks Ended	
	9/3/11	9/4/10
<b>Financing Activities</b>		
Proceeds from issuances of long-term debt	\$ 3,000	\$ 4,215
Payments of long-term debt	(1,596)	(73)
Debt repurchase	(771)	
Short-term borrowings, by original maturity		
More than three months proceeds	224	55
More than three months payments	(274)	(27)
Three months or less, net	106	3,351
Cash dividends paid	(2,349)	(2,218)
Share repurchases common	(1,929)	(4,418)
Share repurchases preferred	(5)	(3)
Proceeds from exercises of stock options	724	700
Excess tax benefits from share-based payment arrangements	56	73
Acquisition of noncontrolling interests	(1,327)	(159)
Other financing	(2)	(6)
<b>Net Cash (Used for)/Provided by Financing Activities</b>	<b>(4,143)</b>	<b>1,490</b>
Effect of exchange rate changes on cash and cash equivalents	144	(200)
<b>Net (Decrease)/Increase in Cash and Cash Equivalents</b>	<b>(2,860)</b>	<b>1,634</b>
<b>Cash and Cash Equivalents, Beginning of Year</b>	<b>5,943</b>	<b>3,943</b>
<b>Cash and Cash Equivalents, End of Period</b>	<b>\$ 3,083</b>	<b>\$ 5,577</b>
<b>Non-cash activity:</b>		
Issuance of common stock and equity awards in connection with our acquisitions of PBG and PAS, as reflected in investing and financing activities		\$ 4,451

See accompanying notes to the condensed consolidated financial statements.

Table of Contents

PEPSICO, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEET

(in millions)

	(Unaudited) 9/3/11	12/25/10
<b>Assets</b>		
Current Assets		
Cash and cash equivalents	\$ 3,083	\$ 5,943
Short-term investments	452	426
Accounts and notes receivable, less allowance: 9/11 \$147, 12/10 \$144	8,330	6,323
Inventories		
Raw materials	2,152	1,654
Work-in-process	237	128
Finished goods	1,816	1,590
	4,205	3,372
Prepaid expenses and other current assets	1,764	1,505
Total Current Assets	17,834	17,569
Property, Plant and Equipment	36,262	33,041
Accumulated Depreciation	(15,525)	(13,983)
	20,737	19,058
Amortizable Intangible Assets, net	2,426	2,025
Goodwill	16,272	14,661
Other Nonamortizable Intangible Assets	15,433	11,783
Nonamortizable Intangible Assets	31,705	26,444
Investments in Noncontrolled Affiliates	1,500	1,368
Other Assets	1,176	1,689
Total Assets	\$ 75,378	\$ 68,153



(Continued on following page)

**Table of Contents**

## PEPSICO, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED BALANCE SHEET (continued)

(in millions except per share amounts)

	(Unaudited) 9/3/11	12/25/10
<b>Liabilities and Equity</b>		
Current Liabilities		
Short-term obligations	\$ 5,070	\$ 4,898
Accounts payable and other current liabilities	11,524	10,923
Income taxes payable	971	71
Total Current Liabilities	17,565	15,892
Long-term Debt Obligations	21,781	19,999
Other Liabilities	6,859	6,729
Deferred Income Taxes	5,170	4,057
Total Liabilities	51,375	46,677
Commitments and Contingencies		
Preferred Stock, no par value	41	41
Repurchased Preferred Stock	(155)	(150)
PepsiCo Common Shareholders' Equity		
Common stock, par value 1 2/3 cents per share:		
Authorized 3,600 shares, issued 9/11 and 12/10 1,865 shares	31	31
Capital in excess of par value	4,406	4,527
Retained earnings	39,714	37,090
Accumulated other comprehensive loss	(2,800)	(3,630)
Less: repurchased common stock, at cost: 9/11 297 shares, 12/10 284 shares	(17,660)	(16,745)
Total PepsiCo Common Shareholders' Equity	23,691	21,273
Noncontrolling interests	426	312
Total Equity	24,003	21,476
Total Liabilities and Equity	\$ 75,378	\$ 68,153

See accompanying notes to the condensed consolidated financial statements.



**Table of Contents**

## PEPSICO, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENT OF EQUITY

(in millions, unaudited)

	36 Weeks Ended			
	9/3/11		9/4/10	
	Shares	Amount	Shares	Amount
<b>Preferred Stock</b>	<b>0.8</b>	<b>\$ 41</b>	0.8	\$ 41
<b>Repurchased Preferred Stock</b>				
Balance, beginning of year	(0.6)	(150)	(0.6)	(145)
Redemptions	( )	(5)	( )	(3)
Balance, end of period	(0.6)	(155)	(0.6)	(148)
<b>Common Stock</b>				
Balance, beginning of year	1,865	31	1,782	30
Shares issued in connection with our acquisitions of PBG and PAS			83	1
Balance, end of period	1,865	31	1,865	31
<b>Capital in Excess of Par Value</b>				
Balance, beginning of year		4,527		250
Stock-based compensation expense		222		191
Stock option exercises/RSUs converted <sup>(a)</sup>		(303)		(399)
Withholding tax on RSUs converted		(54)		(57)
Equity issued in connection with our acquisitions of PBG and PAS				4,451
Other		14		99
Balance, end of period		4,406		4,535
<b>Retained Earnings</b>				
Balance, beginning of year		37,090		33,805
Net income attributable to PepsiCo		5,028		4,955
Cash dividends declared common		(2,388)		(2,270)
Cash dividends declared preferred		(1)		(1)
Cash dividends declared RSUs		(15)		(9)
Other				7
Balance, end of period		39,714		36,487
<b>Accumulated Other Comprehensive Loss</b>				
Balance, beginning of year		(3,630)		(3,794)
Currency translation adjustment		870		(291)

<b>Cash flow hedges, net of tax:</b>				
Net derivative losses		(63)		(123)
Reclassification of net losses to net income		11		39
<b>Pension and retiree medical, net of tax:</b>				
Reclassification of losses to net income		49		210
Remeasurement of net liabilities				(406)
Unrealized (losses)/gains on securities, net of tax		(20)		7
Other		(17)		
<b>Balance, end of period</b>		<b>(2,800)</b>		<b>(4,358)</b>
<b>Repurchased Common Stock</b>				
Balance, beginning of year	(284)	(16,745)	(217)	(13,383)
Share repurchases	(30)	(1,970)	(68)	(4,418)
Stock option exercises	15	948	17	1,029
Other	2	107	(15)	122
<b>Balance, end of period</b>	<b>(297)</b>	<b>(17,660)</b>	<b>(283)</b>	<b>(16,650)</b>
<b>Total Common Shareholders Equity</b>		<b>23,691</b>		<b>20,045</b>
<b>Noncontrolling Interests</b>				
Balance, beginning of year		312		638
Net income attributable to noncontrolling interests		32		22
Contributions from/(distributions to) noncontrolling interests, net		13		(347)
Currency translation adjustment		69		(14)
Other, net				(1)
<b>Balance, end of period</b>		<b>426</b>		<b>298</b>
<b>Total Equity</b>		<b>\$ 24,003</b>		<b>\$ 20,236</b>

<sup>(a)</sup> Includes total tax benefits of \$35 million in 2011 and \$50 million in 2010. See accompanying notes to the condensed consolidated financial statements.

**Table of Contents**

PEPSICO, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENT  
OF COMPREHENSIVE INCOME

(in millions, unaudited)

	12 Weeks Ended		36 Weeks Ended	
	<b>9/3/11</b>	9/4/10	<b>9/3/11</b>	9/4/10
Net Income	<b>\$ 2,011</b>	\$ 1,930	<b>\$ 5,060</b>	\$ 4,977
Other Comprehensive (Loss)/Income				
Currency translation adjustment	<b>(515)</b>	290	<b>939</b>	(305)
Cash flow hedges, net of tax:				
Net derivative losses	<b>(46)</b>	(37)	<b>(63)</b>	(123)
Reclassification of net losses to net income	<b>4</b>	16	<b>11</b>	39
Pension and retiree medical, net of tax:				
Reclassification of losses/(gains) to net income	<b>26</b>	(1)	<b>49</b>	210
Remeasurement of net liabilities		(406)		(406)
Unrealized (losses)/gains on securities, net of tax	<b>(18)</b>	6	<b>(20)</b>	7
Other			<b>(17)</b>	
	<b>(549)</b>	(132)	<b>899</b>	(578)
Comprehensive Income	<b>1,462</b>	1,798	<b>5,959</b>	4,399
Comprehensive income attributable to noncontrolling interests	<b>(8)</b>	(8)	<b>(101)</b>	(8)
<b>Comprehensive Income Attributable to PepsiCo</b>	<b>\$ 1,454</b>	\$ 1,790	<b>\$ 5,858</b>	\$ 4,391

See accompanying notes to the condensed consolidated financial statements.

**Table of Contents**

PEPSICO, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

**Basis of Presentation and Our Divisions**

***Basis of Presentation***

Our Condensed Consolidated Balance Sheet as of September 3, 2011 and the Condensed Consolidated Statements of Income and Comprehensive Income for the 12 and 36 weeks ended September 3, 2011 and September 4, 2010, and the Condensed Consolidated Statements of Cash Flows and Equity for the 36 weeks ended September 3, 2011 and September 4, 2010 have not been audited. These statements have been prepared on a basis that is substantially consistent with the accounting principles applied in our Annual Report on Form 10-K for the fiscal year ended December 25, 2010 and in our Current Report on Form 8-K dated March 31, 2011. In our opinion, these financial statements include all normal and recurring adjustments necessary for a fair presentation. The results for the 12 and 36 weeks are not necessarily indicative of the results expected for the full year.

While the majority of our results are reported on a period basis, most of our international operations report on a monthly calendar basis for which the months of June, July and August are reflected in our third quarter results.

On February 26, 2010, we completed our acquisitions of PBG and PAS. The results of the acquired companies in the U.S. and Canada are reflected in our condensed consolidated results as of the acquisition date, and the international results of the acquired companies have been reported as of the beginning of our second quarter of 2010, consistent with our monthly international reporting calendar. Prior to our acquisitions of PBG and PAS, we recorded our share of equity income or loss from the acquired companies in bottling equity income in our income statement. Additionally, in the first quarter of 2010, in connection with our acquisitions of PBG and PAS, we recorded a gain on our previously held equity interests of \$958 million, comprising \$735 million which was non-taxable and recorded in bottling equity income and \$223 million related to the reversal of deferred tax liabilities associated with these previously held equity interests. Our share of income or loss from noncontrolled affiliates is reflected as a component of selling, general and administrative expenses. See also *Acquisitions* and *Items Affecting Comparability* in Management's Discussion and Analysis of Financial Condition and Results of Operations.

In the first quarter of 2011, Quaker Foods North America (QFNA) changed its method of accounting for certain U.S. inventories from the last-in, first-out (LIFO) method to the average cost method. This change is considered preferable by management as we believe that the average cost method of accounting for all U.S. foods inventories will improve our financial reporting by better matching revenues and expenses and better reflecting the current value of inventory. In addition, the change from the LIFO method to the average cost method will enhance the comparability of QFNA's financial results with our other food businesses, as well as with peer companies where the average cost method is widely used. The impact of this change on consolidated net income in the first quarter of 2011 was approximately \$9 million (or less than a penny per share). Prior periods were not restated as the impact of the change on previously issued financial statements was not considered material.

Our significant interim accounting policies include the recognition of a pro rata share of certain estimated annual sales incentives, and certain advertising and marketing costs, generally in





**Table of Contents**

proportion to revenue, and the recognition of income taxes using an estimated annual effective tax rate. Raw materials, direct labor and plant overhead, as well as purchasing and receiving costs, costs directly related to production planning, inspection costs and raw material handling facilities, are included in cost of sales. The costs of moving, storing and delivering finished product are included in selling, general and administrative expenses.

The following information is unaudited. Tabular dollars are in millions, except per share amounts. All per share amounts reflect common per share amounts, assume dilution unless otherwise noted, and are based on unrounded amounts. Certain reclassifications were made to the prior year's amounts to conform to the 2011 presentation. This report should be read in conjunction with our Annual Report on Form 10-K for the fiscal year ended December 25, 2010 and our Current Report on Form 8-K dated March 31, 2011, in which we reclassified historical segment information on a basis consistent with our current segment reporting structure.

***Our Divisions***

We are organized into four business units, as follows:

1. PepsiCo Americas Foods (PAF), which includes Frito-Lay North America (FLNA), Quaker Foods North America (QFNA) and all of our Latin American food and snack businesses (LAF);
2. PepsiCo Americas Beverages (PAB), which includes PepsiCo Beverages Americas and Pepsi Beverages Company;
3. PepsiCo Europe, which includes all beverage, food and snack businesses in Europe; and
4. PepsiCo Asia, Middle East and Africa (AMEA), which includes all beverage, food and snack businesses in AMEA.

Our four business units comprise six reportable segments (also referred to as divisions), as follows:

FLNA,

QFNA,

LAF,

PAB,

Europe, and

AMEA.

**Table of Contents**

	12 Weeks Ended		36 Weeks Ended	
	9/3/11	9/4/10	9/3/11	9/4/10
<b>Net Revenue</b>				
FLNA	\$ 3,173	\$ 3,050	\$ 9,167	\$ 8,906
QFNA	614	601	1,837	1,866
LAF	1,841	1,542	4,757	4,063
PAB	5,947	5,792	16,107	14,105
Europe <sup>(a)</sup>	3,909	2,848	9,329	6,390
AMEA	2,098	1,681	5,149	4,353
	\$ 17,582	\$ 15,514	\$ 46,346	\$ 39,683

	12 Weeks Ended		36 Weeks Ended	
	9/3/11	9/4/10	9/3/11	9/4/10
<b>Operating Profit</b>				
FLNA	\$ 918	\$ 866	\$ 2,545	\$ 2,394
QFNA	177	167	558	521
LAF	275	238	720	616
PAB	992	1,017	2,533	2,042
Europe	514	432	984	826
AMEA	285	235	730	657
Total division	3,161	2,955	8,070	7,056
Corporate Unallocated				
Net impact of mark-to-market on commodity hedges	(53)	16	(31)	58
Merger and integration costs	(10)	(16)	(64)	(128)
Venezuela currency devaluation				(129)
Asset write-off				(145)
Foundation contribution				(100)
Other	(192)	(155)	(589)	(511)
	\$ 2,906	\$ 2,800	\$ 7,386	\$ 6,101

	Total Assets	
	9/3/11	12/25/10
FLNA	\$ 6,185	\$ 6,027
QFNA	1,242	1,217
LAF	4,288	4,053
PAB	32,641	31,622
Europe <sup>(a)</sup>	21,180	13,032
AMEA	6,163	5,569
Total division	71,699	61,520
Corporate <sup>(b)</sup>	3,679	6,394
Investments in bottling affiliates		239

**\$ 75,378**    \$ 68,153

- (a) Change in 2011 relates primarily to our acquisition of WBD.
  
- (b) Corporate assets consist principally of cash and cash equivalents, short-term investments, derivative instruments and property, plant and equipment.

**Table of Contents****Acquisitions*****PBG and PAS***

On February 26, 2010, we acquired PBG and PAS to create a more fully integrated supply chain and go-to-market business model, improving the effectiveness and efficiency of the distribution of our brands and enhancing our revenue growth. The total purchase price was approximately \$12.6 billion, which included \$8.3 billion of cash and equity and the fair value of our previously held equity interests in PBG and PAS of \$4.3 billion. The acquisitions were accounted for as business combinations, and, accordingly, the identifiable assets acquired and liabilities assumed were recorded at their estimated fair values at the date of acquisition. Our fair market valuations of the identifiable assets acquired and liabilities assumed have been completed and the final valuations did not materially differ from those fair values reported as of December 25, 2010.

The following table presents unaudited consolidated pro forma financial information as if the closing of our acquisitions of PBG and PAS had occurred on December 27, 2009 for purposes of the financial information presented for the 36 weeks ended September 4, 2010.

	(unaudited) 36 Weeks Ended 9/4/10
Net Revenue	\$ 41,427
Net Income Attributable to PepsiCo	\$ 4,491
Net Income Attributable to PepsiCo per Common Share Diluted	\$ 2.75

The unaudited consolidated pro forma financial information was prepared in accordance with the acquisition method of accounting under existing standards, and the regulations of the U.S. Securities and Exchange Commission, and is not necessarily indicative of the results of operations that would have occurred if our acquisitions of PBG and PAS had been completed on the date indicated, nor is it indicative of the future operating results of PepsiCo.

The historical unaudited consolidated financial information has been adjusted to give effect to pro forma events that are (1) directly attributable to the acquisitions, (2) factually supportable, and (3) expected to have a continuing impact on the combined results of PepsiCo, PBG and PAS.

The unaudited pro forma results have been adjusted with respect to certain aspects of our acquisitions of PBG and PAS to reflect:

the consummation of the acquisitions;

consolidation of PBG and PAS which are now owned 100% by PepsiCo and the corresponding gain resulting from the remeasurement of our previously held equity interests in PBG and PAS;

the elimination of related party transactions between PepsiCo and PBG, and PepsiCo and PAS;

changes in assets and liabilities to record their acquisition date fair values and changes in certain expenses resulting therefrom; and

---

**Table of Contents**

additional indebtedness, including, but not limited to, debt issuance costs and interest expense, incurred in connection with the acquisitions.

The unaudited pro forma results do not reflect future events that either have occurred or may occur after the acquisitions, including, but not limited to, the anticipated realization of ongoing savings from operating synergies in subsequent periods. They also do not give effect to certain one-time charges we expect to incur in connection with the acquisitions, including, but not limited to, charges that are expected to achieve ongoing cost savings and synergies.

**WBD**

On February 3, 2011, we acquired the ordinary shares, including shares underlying American Depositary Shares (ADSs) and Global Depositary Shares (GDSs), of WBD, a company incorporated in the Russian Federation, which represented in the aggregate approximately 66% of WBD's outstanding ordinary shares, pursuant to the purchase agreement dated December 1, 2010 between PepsiCo and certain selling shareholders of WBD for approximately \$3.8 billion in cash. The acquisition of those shares increased our total ownership to approximately 77%, giving us a controlling interest in WBD. Under the guidance on accounting for business combinations, once a controlling interest is obtained, we are required to recognize and measure 100% of the identifiable assets acquired, liabilities assumed and noncontrolling interests at their full fair values. As a result, the total consideration transferred was approximately \$5.8 billion, which included the \$3.8 billion of cash (or \$2.4 billion, net of cash and cash equivalents acquired), the fair value of our previously held equity interest in WBD of \$0.7 billion and the fair value of the remaining noncontrolling interests in WBD of \$1.3 billion. The preliminary estimates of the fair value of the identifiable assets acquired and liabilities assumed in WBD as of the acquisition date include goodwill and other intangible assets of \$4.9 billion; property, plant and equipment of \$1.3 billion; debt obligations of \$1.1 billion; and other net assets of \$0.7 billion, all of which are recorded in our Europe segment. The preliminary estimates of the fair value of identifiable assets acquired and liabilities assumed are subject to revisions, which may result in adjustments to the preliminary values discussed above as valuations are finalized. We expect to finalize these amounts as soon as possible but no later than by the end of 2011.

Under the guidance on accounting for business combinations, merger and integration costs are not included as components of consideration transferred but are accounted for as expenses in the period in which the costs are incurred. See *Merger and Integration Charges* for details on the expenses incurred during 2011.

On March 10, 2011, we commenced our tender offers in Russia and the U.S. for all remaining outstanding ordinary shares and ADSs of WBD for 3,883.70 Russian rubles per ordinary share and 970.925 Russian rubles per ADS, respectively. The Russian offer was made to all holders of ordinary shares and the U.S. offer was made to all holders of ADSs. We completed the Russian offer on May 19, 2011 and the U.S. offer on May 16, 2011. After completion of the offers, we paid approximately \$1.3 billion for WBD's ordinary shares (including shares underlying ADSs) and increased our total ownership of WBD to approximately 98.6%.

On June 30, 2011, we elected to exercise our squeeze-out rights under Russian law with respect to all remaining WBD ordinary shares not already owned by us. Therefore, under Russian law, all remaining WBD shareholders were required to sell their ordinary shares (including those underlying ADSs) to us at the same price that was offered to WBD shareholders in the Russian tender offer. Accordingly, all registered holders of ordinary shares on August 15, 2011 (including

**Table of Contents**

the ADS depository) received 3,883.70 Russian rubles per ordinary share. After completion of the squeeze-out in September 2011 (during our fourth quarter), we paid approximately \$79 million for WBD's ordinary shares (including shares underlying ADSs) and increased our total ownership to 100% of WBD.

**Intangible Assets**

	9/3/11	12/25/10
<b><i>Amortizable intangible assets, net</i></b>		
Acquired franchise rights	\$ 967	\$ 949
Reacquired franchise rights	110	110
Brands	1,538	1,463
Other identifiable intangibles	1,159	747
	<b>3,774</b>	3,269
Accumulated amortization	<b>(1,348)</b>	(1,244)
	<b>\$ 2,426</b>	\$ 2,025



**Table of Contents**

The change in the book value of nonamortizable intangible assets is as follows:

	Balance 12/25/10	Acquisitions	Translation and Other	Balance 9/3/11
<b>FLNA</b>				
Goodwill	\$ 313	\$	\$ 4	\$ 317
Brands	31		1	32
	344		5	349
<b>QFNA</b>				
Goodwill	175			175
<b>LAF</b>				
Goodwill	497	18	9	524
Brands	143		3	146
	640	18	12	670
<b>PAB</b>				
Goodwill	9,946	57	9	10,012
Reacquired franchise rights	7,283	79	25	7,387
Acquired franchise rights	1,565		2	1,567
Brands	182	11	3	196
Other	10			10
	18,986	147	39	19,172
<b>Europe<sup>(a)</sup></b>				
Goodwill	3,040	1,240	240	4,520
Reacquired franchise rights	793		36	829
Acquired franchise rights	227		20	247
Brands	1,380	3,300	162	4,842
	5,440	4,540	458	10,438
<b>AMEA</b>				
Goodwill	690		34	724
Brands	169		8	177
	859		42	901
Total goodwill	14,661	1,315	296	16,272
Total reacquired franchise rights	8,076	79	61	8,216

Edgar Filing: PEPSICO INC - Form 10-Q

Total acquired franchise rights	1,792		22	<b>1,814</b>
Total brands	1,905	3,311	177	<b>5,393</b>
Total other	10			<b>10</b>
	\$ 26,444	\$ 4,705	\$ 556	<b>\$ 31,705</b>

<sup>(a)</sup> Net increases in 2011 relate primarily to our acquisition of WBD.

**Table of Contents****Stock-Based Compensation**

For the 12 weeks ended September 3, 2011, we recognized stock-based compensation expense of \$77 million (\$76 million recorded as stock-based compensation expense and \$1 million included in merger and integration charges). For the 36 weeks ended September 3, 2011, we recognized stock-based compensation expense of \$232 million (\$222 million recorded as stock-based compensation expense and \$10 million included in merger and integration charges). For the 12 weeks ended September 4, 2010, we recognized stock-based compensation expense of \$77 million (\$72 million recorded as stock-based compensation expense and \$5 million included in merger and integration charges). For the 36 weeks ended September 4, 2010, we recognized stock-based compensation expense of \$236 million (\$191 million recorded as stock-based compensation expense and \$45 million included in merger and integration charges).

For the 12 weeks ended September 3, 2011, our grants of stock options and restricted stock units (RSU) were nominal. For the 36 weeks ended September 3, 2011, we granted 6.8 million stock options at a weighted-average grant price of \$64.28 and 5.2 million RSUs at a weighted-average grant price of \$63.88, under the terms of our 2007 Long-Term Incentive Plan. For the 12 weeks ended September 4, 2010, our grants of stock options and RSUs were nominal. For the 36 weeks ended September 4, 2010, we granted 12.2 million stock options and 4.7 million RSUs at weighted-average grant prices of \$66.50 and \$66.46, respectively, under the terms of our 2007 Long-Term Incentive Plan.

Our weighted-average Black-Scholes fair value assumptions are as follows:

	36 Weeks Ended	
	9/3/11	9/4/10
Expected life	<b>6 yrs.</b>	5 yrs.
Risk free interest rate	<b>2.5%</b>	2.3%
Expected volatility <sup>(a)</sup>	<b>16%</b>	17%
Expected dividend yield	<b>2.9%</b>	2.8%

<sup>(a)</sup> Reflects movements in our stock price over the most recent historical period equivalent to the expected life.

**Table of Contents****Pension and Retiree Medical Benefits**

The components of net periodic benefit cost for pension and retiree medical plans are as follows:

	12 Weeks Ended					
	Pension				Retiree Medical	
	9/3/11	9/4/10	9/3/11	9/4/10	9/3/11	9/4/10
	U.S.		International			
Service cost	\$ 80	\$ 73	\$ 22	\$ 19	\$ 12	\$ 13
Interest cost	127	123	28	26	20	22
Expected return on plan assets	(163)	(158)	(32)	(31)	(3)	
Amortization of prior service cost/(benefit)	3	3	1	1	(6)	(5)
Amortization of experience loss	34	30	10	6	2	2
	81	71	29	21	25	32
Settlement/Curtailment gain						(62)
Total expense	\$ 81	\$ 71	\$ 29	\$ 21	\$ 25	\$ (30)

	36 Weeks Ended					
	Pension				Retiree Medical	
	9/3/11	9/4/10	9/3/11	9/4/10	9/3/11	9/4/10
	U.S.		International			
Service cost	\$ 242	\$ 203	\$ 62	\$ 52	\$ 35	\$ 39
Interest cost	379	341	77	70	61	65
Expected return on plan assets	(487)	(433)	(89)	(84)	(10)	
Amortization of prior service cost/(benefit)	10	8	2	2	(19)	(13)
Amortization of experience loss	101	80	26	16	8	4
	245	199	78	56	75	95
Settlement/Curtailment gain	(9)	(2)				(62)
Special termination benefits	10	23			1	1
Total expense	\$ 246	\$ 220	\$ 78	\$ 56	\$ 76	\$ 34

**Table of Contents****Income Taxes**

A rollforward of our reserves for all federal, state and foreign tax jurisdictions, is as follows:

	<b>9/3/11</b>	12/25/10
Balance, beginning of year	<b>\$ 2,022</b>	\$ 1,731
Additions for tax positions related to the current year	<b>143</b>	204
Additions for tax positions from prior years	<b>74</b>	517
Reductions for tax positions from prior years	<b>(66)</b>	(391)
Settlement payments	<b>(87)</b>	(30)
Statute of limitations expiration	<b>(3)</b>	(7)
Translation and other	<b>1</b>	(2)
Balance, end of period	<b>\$ 2,084</b>	\$ 2,022

**Table of Contents****Net Income Attributable to PepsiCo per Common Share**

The computations of basic and diluted net income attributable to PepsiCo per common share are as follows:

	12 Weeks Ended			
	9/3/11		9/4/10	
	Income	Shares <sup>(a)</sup>	Income	Shares <sup>(a)</sup>
Net income attributable to PepsiCo	\$2,000		\$1,922	
Preferred shares:				
Dividends				
Redemption premium	(1)			
Net income available for PepsiCo common shareholders	\$1,999	1,578	\$1,922	1,588
Basic net income attributable to PepsiCo per common share	\$1.27		\$1.21	
Net income available for PepsiCo common shareholders	\$1,999	1,578	\$1,922	1,588
Dilutive securities:				
Stock options and RSUs <sup>(b)</sup>		20		23
ESOP convertible preferred stock	1	1		1
Diluted	\$2,000	1,599	\$1,922	1,612
Diluted net income attributable to PepsiCo per common share	\$1.25		\$1.19	

	36 Weeks Ended			
	9/3/11		9/4/10	
	Income	Shares <sup>(a)</sup>	Income	Shares <sup>(a)</sup>
Net income attributable to PepsiCo	\$5,028		\$4,955	
Preferred shares:				
Dividends	(1)		(1)	
Redemption premium	(4)		(2)	
Net income available for PepsiCo common shareholders	\$5,023	1,581	\$4,952	1,593
Basic net income attributable to PepsiCo per common share	\$3.18		\$3.11	
Net income available for PepsiCo common shareholders	\$5,023	1,581	\$4,952	1,593
Dilutive securities:				
Stock options and RSUs <sup>(b)</sup>		21		24
ESOP convertible preferred stock	5	1	3	1
Diluted	\$5,028	1,603	\$4,955	1,618

Diluted net income attributable to PepsiCo per common share    **\$ 3.14**   \$ 3.06

- (a)    Weighted-average common shares outstanding (in millions).
  
- (b)    Options to purchase 22.1 million and 21.2 million shares, respectively, for the 12 and 36 weeks in 2011 were not included in the calculation of earnings per share because these options were out-of-the-money. These out-of-the-money options had average exercise prices of \$67.67 and \$67.46, respectively. Options to purchase 31.9 million and 25.1 million shares, respectively, for the 12 and 36 weeks in 2010 were not included in the calculation of earnings per share because these options were out-of-the-money. Out-of-the-money options for the 12 and 36 weeks in 2010 had average exercise prices of \$66.85 and \$67.13, respectively.

**Table of Contents**

**Debt Obligations and Commitments**

In the second quarter of 2011, we issued \$750 million of floating rate notes maturing in 2013, which bear interest at a rate equal to the three-month London Inter-Bank Offered Rate (LIBOR) plus 8 basis points, and \$1.0 billion of 2.500% senior notes maturing in 2016. The net proceeds from the issuance of these notes were used for general corporate purposes.

In the third quarter of 2011, we issued \$500 million of 0.800% senior notes maturing in 2014 and \$750 million of 3.000% senior notes maturing in 2021. The net proceeds from the issuance of these notes will be used for general corporate purposes.

In the third quarter of 2011, we entered into a new four-year unsecured revolving credit agreement (Four-Year Credit Agreement) which expires in June 2015. Effective August 8, 2011, commitments under this agreement were increased to enable us to borrow up to \$2.925 billion, subject to customary terms and conditions. We may request to increase the commitments under this agreement to up to \$3.5 billion. Additionally, we may, once a year, request renewal of the agreement for an additional one-year period.

Also, in the third quarter of 2011, we entered into a new 364-day unsecured revolving credit agreement (364-Day Credit Agreement) which expires in June 2012. Effective August 8, 2011, commitments under this agreement were increased to enable us to borrow up to \$2.925 billion, subject to customary terms and conditions. We may request to increase the commitments under this agreement to up to \$3.5 billion. We may request renewal of this facility for an additional 364-day period or convert any amounts outstanding into a term loan for a period of up to one year, which would mature no later than June 2013.

The Four-Year Credit Agreement and the 364-Day Credit Agreement, together replaced our \$2 billion unsecured revolving credit agreement, our \$2.575 billion 364-day unsecured revolving credit agreement and our \$1.080 billion amended PBG credit facility. Funds borrowed under the Four-Year Credit Agreement and the 364-Day Credit Agreement may be used for general corporate purposes, including but not limited to repayment of outstanding commercial paper issued by us and our subsidiaries, working capital, capital investments and/or acquisitions.

In the third quarter of 2011, we paid \$784 million in a cash tender offer to repurchase \$766 million (aggregate principal amount) of certain WBD debt obligations. As a result of this debt repurchase, we recorded a \$16 million charge to interest expense in the third quarter, primarily representing the premium paid in the tender offer.

As of September 3, 2011, we had \$2.8 billion of commercial paper outstanding.



**Table of Contents****Long-Term Contractual Commitments<sup>(a)</sup>**

	Total	Payments Due by Period			
		2011	2012 2013	2014 2015	2016 and beyond
Long-term debt obligations <sup>(b)</sup>	\$ 21,226	\$	\$ 4,043	\$ 4,866	\$ 12,317
Interest on debt obligations <sup>(c)</sup>	7,538	244	1,564	1,161	4,569
Operating leases	1,942	154	755	435	598
Purchasing commitments	3,198	567	2,089	451	91
Marketing commitments	2,501	53	573	539	1,336
	\$ 36,405	\$ 1,018	\$ 9,024	\$ 7,452	\$ 18,911

<sup>(a)</sup> Reflects non-cancelable commitments as of September 3, 2011 based on foreign exchange rates in effect on that date and excludes any reserves for uncertain tax positions as we are unable to reasonably predict the ultimate amount or timing of settlement.

<sup>(b)</sup> Excludes \$1.5 billion related to current maturities of long-term debt, as well as \$555 million related to the fair value step-up of debt acquired in connection with our acquisitions of PBG and PAS.

<sup>(c)</sup> Interest payments on floating-rate debt are estimated using interest rates effective as of September 3, 2011. Most long-term contractual commitments, except for our long-term debt obligations, are not recorded on our balance sheet. Non-cancelable operating leases primarily represent building leases. Non-cancelable purchasing commitments are primarily for packaging materials, sugar and other sweeteners, oranges and orange juice. Non-cancelable marketing commitments are primarily for sports marketing. Bottler funding to independent bottlers is not reflected in our long-term contractual commitments as it is negotiated on an annual basis. Accrued liabilities for pension and retiree medical plans are not reflected in our long-term contractual commitments because they do not represent expected future cash outflows. See *Pension and Retiree Medical Benefits* for additional information regarding our pension and retiree medical obligations.

**Merger and Integration Charges**

In the 12 weeks ended September 3, 2011, we incurred merger and integration charges of \$61 million (\$53 million after-tax or \$0.03 per share) related to our acquisitions of PBG, PAS and WBD, including \$24 million recorded in the PAB segment, \$11 million recorded in the Europe segment, \$10 million recorded in corporate unallocated expenses and \$16 million recorded in interest expense. In the 36 weeks ended September 3, 2011, we incurred merger and integration charges of \$174 million (\$147 million after-tax or \$0.09 per share) related to our acquisitions of PBG, PAS and WBD, including \$77 million recorded in the PAB segment, \$17 million recorded in the Europe segment, \$64 million recorded in corporate unallocated expenses and \$16 million recorded in interest expense. All of these net charges, other than the interest expense portion, were recorded in selling, general and administrative expenses. These

charges also include closing costs and advisory fees related to our acquisition of WBD. Substantially all cash payments related to the above charges are expected to be paid by the end of 2011.

In the 12 weeks ended September 4, 2010, we incurred merger and integration charges of \$69 million related to our acquisitions of PBG and PAS, including \$38 million recorded in the PAB segment, \$15 million recorded in the Europe segment and \$16 million recorded in corporate unallocated expenses. In the 36 weeks ended September 4, 2010, we incurred merger and

**Table of Contents**

integration charges of \$536 million related to our acquisitions of PBG and PAS, including \$334 million recorded in the PAB segment, \$44 million recorded in the Europe segment, \$128 million recorded in corporate unallocated expenses and \$30 million recorded in interest expense. All of these charges, other than the interest expense portion, were recorded in selling, general and administrative expenses. These charges also include closing costs, one-time financing costs and advisory fees related to our acquisitions of PBG and PAS. In addition, in the first quarter of 2010, we recorded \$9 million of charges, representing our share of the respective merger costs of PBG and PAS, in bottling equity income. Substantially all cash payments related to the above charges are expected to be paid by the end of 2011. In total, these charges had an after-tax impact of \$51 million (\$0.03 per share) and \$431 million (\$0.27 per share) for the 12 and 36 weeks ended September 4, 2010, respectively.

A summary of our merger and integration activity in 2011 is as follows:

	Severance and Other		
	Employee Costs	Other Costs	Total
Liability as of December 25, 2010	\$ 179	\$ 25	\$ 204
2011 merger and integration charges	54	120	174
Cash payments	(148)	(145)	(293)
Non-cash charges	(20)	7	(13)
Liability as of September 3, 2011	\$ 65	\$ 7	\$ 72

**Financial Instruments**

We are exposed to market risks arising from adverse changes in:

commodity prices, affecting the cost of our raw materials and energy,

foreign exchange risks, and

interest rates.

In the normal course of business, we manage these risks through a variety of strategies, including the use of derivatives. Certain derivatives are designated as either cash flow or fair value hedges and qualify for hedge accounting treatment, while others do not qualify and are marked to market through earnings. Ineffectiveness of our hedges is not material. We do not use derivative instruments for trading or speculative purposes. We perform assessments of our counterparty credit risk regularly, including a review of credit ratings, credit default swap rates and potential nonperformance of the counterparty. Based on our most recent assessment of our counterparty credit risk, we consider this risk to be low. In addition, we enter into derivative contracts with a variety of financial institutions that we believe are creditworthy in order to reduce our concentration of credit risk.

**Commodity Prices**

We are subject to commodity price risk because our ability to recover increased costs through higher pricing may be limited in the competitive environment in which we operate. This risk is managed through the use of fixed-price purchase orders, pricing agreements, geographic diversity and derivatives. We use derivatives, primarily with terms of no more than three years, to economically hedge price fluctuations related to a portion of our anticipated commodity purchases, primarily for aluminum, fuel and natural gas. For those derivatives that qualify for hedge accounting, any ineffectiveness is recorded immediately in corporate unallocated expenses. We

## **Table of Contents**

classify both the earnings and cash flow impact from these derivatives consistent with the underlying hedged item. During the next 12 months, we expect to reclassify net gains of \$2 million related to these hedges from accumulated other comprehensive loss into net income. Derivatives used to hedge commodity price risk that do not qualify for hedge accounting are marked to market each period and reflected in our income statement.

Our open commodity derivative contracts that qualify for hedge accounting had a face value of \$586 million as of September 3, 2011 and \$577 million as of September 4, 2010. These contracts resulted in net unrealized gains of \$11 million as of September 3, 2011 and \$7 million as of September 4, 2010.

Our open commodity derivative contracts that do not qualify for hedge accounting had a face value of \$537 million as of September 3, 2011 and \$254 million as of September 4, 2010. These contracts resulted in net losses of \$6 million as of September 3, 2011 and \$3 million as of September 4, 2010.

## ***Foreign Exchange***

Financial statements of foreign subsidiaries are translated into U.S. dollars using period-end exchange rates for assets and liabilities and weighted-average exchange rates for revenues and expenses. Adjustments resulting from translating net assets are reported as a separate component of accumulated other comprehensive loss within common shareholders equity as currency translation adjustment.

We may enter into derivatives, primarily forward contracts with terms of no more than two years, to manage our exposure to foreign currency transaction risk. Exchange rate gains or losses related to foreign currency transactions are recognized as transaction gains or losses in our income statement as incurred.

Our foreign currency derivatives had a total face value of \$2.5 billion as of September 3, 2011 and \$1.4 billion as of September 4, 2010. The contracts that qualify for hedge accounting resulted in net unrealized losses of \$11 million as of September 3, 2011 and \$5 million as of September 4, 2010. During the next 12 months, we expect to reclassify net losses of \$10 million related to these hedges from accumulated other comprehensive loss into net income. The contracts that do not qualify for hedge accounting resulted in net losses of \$14 million as of September 3, 2011 and a net gain of \$1 million as of September 4, 2010. All losses and gains were offset by changes in the underlying hedged items, resulting in no net material impact on earnings.

## ***Interest Rates***

We centrally manage our debt and investment portfolios considering investment opportunities and risks, tax consequences and overall financing strategies. We use various interest rate derivative instruments including, but not limited to, interest rate swaps, cross currency interest rate swaps, Treasury locks and swap locks to manage our overall interest expense and foreign exchange risk. These instruments effectively change the interest rate and currency of specific debt issuances. Certain of our fixed rate indebtedness has been swapped to floating rates. The notional amount, interest payment and maturity date of the interest rate and cross-currency swaps match the principal, interest payment and maturity date of the related debt. Our Treasury locks and swap locks are entered into to protect against unfavorable interest rate changes relating to forecasted debt transactions.

**Table of Contents**

The notional amounts of the interest rate derivative instruments outstanding as of September 3, 2011 and September 4, 2010 were \$8.9 billion and \$9.2 billion, respectively. For those interest rate derivative instruments that qualify for cash flow hedge accounting, any ineffectiveness is recorded immediately. We classify both the earnings and cash flow impact from these interest rate derivative instruments consistent with the underlying hedged item. During the next 12 months, we expect to reclassify net losses of \$16 million related to these hedges from accumulated other comprehensive loss into net income.

As of September 3, 2011, approximately 40% of total debt, after the impact of the related interest rate derivative instruments, was exposed to variable rates, compared to 43% as of December 25, 2010.

**Fair Value Measurements**

The fair values of our financial assets and liabilities as of September 3, 2011 and September 4, 2010 are categorized as follows:

	2011		2010	
	Assets <sup>(a)</sup>	Liabilities <sup>(a)</sup>	Assets <sup>(a)</sup>	Liabilities <sup>(a)</sup>
Available-for-sale securities <sup>(b)</sup>	\$ 61	\$	\$ 88	\$
Short-term investments index funds <sup>(c)</sup>	\$ 159	\$	\$ 147	\$
Deferred compensation <sup>(d)</sup>	\$	\$ 519	\$	\$ 553
<b>Derivatives designated as hedging instruments:</b>				
Forward exchange contracts <sup>(e)</sup>	\$ 12	\$ 23	\$ 19	\$ 24
Interest rate derivatives <sup>(f)</sup>	428	56	402	91
Commodity contracts other <sup>(g)</sup>	27	16	45	12
Commodity contracts futures <sup>(h)</sup>	1	1	1	27
	\$ 468	\$ 96	\$ 467	\$ 154
<b>Derivatives not designated as hedging instruments:</b>				
Forward exchange contracts <sup>(e)</sup>	\$ 5	\$ 19	\$ 6	\$ 5
Interest rate derivatives <sup>(f)</sup>	104	140	56	97
Commodity contracts other <sup>(g)</sup>	24	29	6	8
Commodity contracts futures <sup>(h)</sup>		1		1
Prepaid forward contracts <sup>(i)</sup>	38		48	
	\$ 171	\$ 189	\$ 116	\$ 111
Total derivatives at fair value	\$ 639	\$ 285	\$ 583	\$ 265
<b>Total</b>	<b>\$ 859</b>	<b>\$ 804</b>	<b>\$ 818</b>	<b>\$ 818</b>

<sup>(a)</sup> Financial assets are classified on our balance sheet within other assets, with the exception of short-term investments. Financial liabilities are classified on our balance sheet within other current liabilities and other liabilities. Unless specifically indicated, all financial assets and liabilities are categorized as Level 2 assets or

liabilities.

- (b) Based on the price of common stock. Categorized as a Level 1 asset.
- (c) Based on price changes in index funds used to manage a portion of market risk arising from our deferred compensation liability. Categorized as a Level 1 asset.
- (d) Based on the fair value of investments corresponding to employees' investment elections. As of September 3, 2011 and September 4, 2010, \$43 million and \$147 million, respectively, are categorized as Level 1 liabilities. The remaining balances are categorized as Level 2 liabilities.

- (e) Based on observable market transactions of spot and forward rates.
- (f) Based on LIBOR and recently reported transactions in the marketplace.
- (g) Based on recently reported transactions in the marketplace, primarily swap arrangements.
- (h) Based on average prices on futures exchanges. Categorized as a Level 1 asset or liability.
- (i) Based primarily on the price of our common stock.

The fair value of our debt obligations as of September 3, 2011 was \$29.4 billion, based upon prices of similar instruments in the marketplace.



**Table of Contents**

The effective portion of the pre-tax losses/(gains) on our derivative instruments are categorized in the tables below.

	Fair Value/Non-designated Hedges		12 Weeks Ended			
			Cash Flow Hedges		Losses/(Gains) Reclassified from Accumulated Other Comprehensive Loss into Income Statement <sup>(b)</sup>	
	Losses/(Gains) Recognized in Income Statement <sup>(a)</sup>		(Gains)/Losses Recognized in Accumulated Other Comprehensive Loss			
	9/3/11	9/4/10	9/3/11	9/4/10	9/3/11	9/4/10
Forward exchange contracts	\$ 7	\$ 5	\$ (9)	\$ 17	\$ 9	\$ 10
Interest rate derivatives	(84)	(135)	42	62	4	
Prepaid forward contracts	3	(2)				
Commodity contracts	29	(15)	40	(32)	(12)	12
Total	\$ (45)	\$ (147)	\$ 73	\$ 47	\$ 1	\$ 22

	Fair Value/Non-designated Hedges		36 Weeks Ended			
			Cash Flow Hedges		Losses/(Gains) Reclassified from Accumulated Other Comprehensive Loss into Income Statement <sup>(b)</sup>	
	Losses/(Gains) Recognized in Income Statement <sup>(a)</sup>		Losses/(Gains) Recognized in Accumulated Other Comprehensive Loss			
	9/3/11	9/4/10	9/3/11	9/4/10	9/3/11	9/4/10
Forward exchange contracts	\$ 8	\$	\$ 28	\$ 9	\$ 30	\$ 32
Interest rate derivatives	(162)	(195)	71	98	10	
Prepaid forward contracts	1	(4)				
Commodity contracts	(17)	(58)	(15)	26	(37)	28
Total	\$ (170)	\$(257)	\$ 84	\$ 133	\$ 3	\$ 60

<sup>(a)</sup> Interest rate gains/losses are included in interest expense in our income statement. All other gains/losses are included in corporate unallocated expenses.

<sup>(b)</sup>

Interest rate losses are included in interest expense in our income statement. All other gains/losses are included in cost of sales in our income statement.

**Table of Contents**

**Recent Accounting Pronouncements**

In June 2011, the Financial Accounting Standards Board (FASB) amended its guidance on the presentation of comprehensive income in financial statements to improve the comparability, consistency and transparency of financial reporting and to increase the prominence of items that are recorded in other comprehensive income. The new accounting guidance requires entities to report components of comprehensive income in either (1) a continuous statement of comprehensive income or (2) two separate but consecutive statements. The provisions of this new guidance are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. We are currently evaluating the impact of adopting this guidance on our financial statements.

In September 2011, the FASB amended its guidance regarding the disclosure requirements for employers participating in multiemployer pension and other postretirement benefit plans (multiemployer plans) to improve transparency and increase awareness of the commitments and risks involved with participation in multiemployer plans. The new accounting guidance requires employers participating in multiemployer plans to provide additional quantitative and qualitative disclosures to provide users with more detailed information regarding an employer's involvement in multiemployer plans. The provisions of this new guidance are effective for annual periods beginning with fiscal years ending after December 15, 2011, with early adoption permitted. We have reviewed our level of participation in multiemployer plans and determined that the impact of adopting this guidance is not material to our financial statements.

**Table of Contents**

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

**FINANCIAL REVIEW**

*Our discussion and analysis is an integral part of understanding our financial results. Also refer to Basis of Presentation and Our Divisions in the notes to the condensed consolidated financial statements. Tabular dollars are in millions, except per share amounts. All per share amounts reflect common per share amounts, assume dilution unless otherwise noted and are based on unrounded amounts. Percentage changes are based on unrounded amounts.*

**Our Critical Accounting Policies**

***Sales Incentives and Advertising and Marketing Costs***

We offer sales incentives and discounts through various programs to customers and consumers. These incentives are accounted for as a reduction of revenue. Certain sales incentives are recognized at the time of sale while other incentives, such as bottler funding and customer volume rebates, are recognized during the year incurred, generally in proportion to revenue, based on annual targets. Anticipated payments are estimated based on historical experience with similar programs and require management judgment with respect to estimating customer participation and performance levels. Differences between estimated expense and actual incentive costs are normally insignificant and are recognized in earnings in the period such differences are determined. In addition, certain advertising and marketing costs are also recognized during the year incurred, generally in proportion to revenue, based on annual targets.

***Income Taxes***

In determining our quarterly provision for income taxes, we use an estimated annual effective tax rate which is based on our expected annual income, statutory tax rates and tax planning opportunities available to us in the various jurisdictions in which we operate. Subsequent recognition, derecognition and measurement of a tax position taken in a previous period are separately recognized in the quarter in which they occur.

**Our Business Risks**

*This Quarterly Report on Form 10-Q contains statements reflecting our views about our future performance that constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 (the Reform Act). Statements that constitute forward-looking statements within the meaning of the Reform Act are generally identified through the inclusion of words such as believe, expect, intend, estimate, project, anticipate, will and variations of such words and other similar expressions. All statements addressing our future operating performance, and statements addressing events and developments that we expect or anticipate will occur in the future, are forward-looking statements within the meaning of the Reform Act. These forward-looking statements are based on currently available information, operating plans and projections about future events and trends. They inherently involve risks and uncertainties that could cause actual results to differ materially from those predicted in any such forward-looking statements. Investors are cautioned not to place undue reliance on any such*

*forward-looking statements, which speak only as of the date they are made. We undertake no*

**Table of Contents**

*obligation to update any forward-looking statement, whether as a result of new information, future events or otherwise.*

Our operations outside of the United States generated approximately 50% of our net revenue in the 36 weeks ended September 3, 2011. As a result, we are exposed to foreign currency risks, including unforeseen economic changes and political unrest. During the 12 weeks ended September 3, 2011, favorable foreign currency increased net revenue growth by 3.5 percentage points, primarily due to appreciation of the euro, Mexican peso, Russian ruble and Canadian dollar. During the 36 weeks ended September 3, 2011, favorable foreign currency increased net revenue growth by nearly 3 percentage points, primarily due to appreciation of the euro, Mexican peso, Canadian dollar and Brazilian real. Currency declines against the U.S. dollar which are not offset could adversely impact our future results.

We expect to be able to reduce the impact of volatility in our raw material and energy costs through our hedging strategies and ongoing sourcing initiatives.

See *Financial Instruments* in the notes to the condensed consolidated financial statements for further discussion of our derivative instruments, including their fair values as of September 3, 2011 and September 4, 2010. Cautionary statements included in Item 1A. Risk Factors in our Annual Report on Form 10-K for the fiscal year ended December 25, 2010 and in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Our Business Risks included in Exhibit 99.1 to our Current Report on Form 8-K dated March 31, 2011, should be considered when evaluating our trends and future results.

**Table of Contents****Results of Operations Consolidated Review****Items Affecting Comparability**

Our reported financial results are impacted by the following items in each of the following periods:

	12 Weeks Ended		36 Weeks Ended	
	9/3/11	9/4/10	9/3/11	9/4/10
<b>Operating profit</b>				
Mark-to-market net (losses)/gains	\$ (53)	\$ 16	\$ (31)	\$ 58
Merger and integration charges	\$ (45)	\$ (69)	\$ (158)	\$ (506)
Inventory fair value adjustments	\$ (3)	\$ (17)	\$ (41)	\$ (374)
Venezuela currency devaluation	\$	\$	\$	\$ (120)
Asset write-off	\$	\$	\$	\$ (145)
Foundation contribution	\$	\$	\$	\$ (100)
<b>Bottling equity income</b>				
Gain on previously held equity interests	\$	\$	\$	\$ 735
Merger and integration charges	\$	\$	\$	\$ (9)
<b>Interest expense</b>				
Merger and integration charges	\$ (16)	\$	\$ (16)	\$ (30)
<b>Net income attributable to PepsiCo</b>				
Mark-to-market net (losses)/gains	\$ (34)	\$ 10	\$ (20)	\$ 36
Gain on previously held equity interests	\$	\$	\$	\$ 958
Merger and integration charges	\$ (53)	\$ (51)	\$ (147)	\$ (431)
Inventory fair value adjustments	\$ (2)	\$ (11)	\$ (25)	\$ (319)
Venezuela currency devaluation	\$	\$	\$	\$ (120)
Asset write-off	\$	\$	\$	\$ (92)
Foundation contribution	\$	\$	\$	\$ (64)
<b>Net income attributable to PepsiCo per common share diluted</b>				
Mark-to-market net (losses)/gains	\$ (0.02)	\$ 0.01	\$ (0.01)	\$ 0.02
Gain on previously held equity interests	\$	\$	\$	\$ 0.60
Merger and integration charges	\$ (0.03)	\$ (0.03)	\$ (0.09)	\$ (0.27)
Inventory fair value adjustments	\$ ( )	\$ (0.01)	\$ (0.02)	\$ (0.20)
Venezuela currency devaluation	\$	\$	\$	\$ (0.07)
Asset write-off	\$	\$	\$	\$ (0.06)
Foundation contribution	\$	\$	\$	\$ (0.04)
<b>Mark-to-Market Net Impact</b>				

We centrally manage commodity derivatives on behalf of our divisions. These commodity derivatives include aluminum, fuel, natural gas and other raw materials. Certain of these commodity derivatives do not qualify for hedge accounting treatment and are marked to market with the resulting gains and losses recognized in corporate unallocated expenses. These gains and losses are subsequently reflected in division results when the divisions take delivery of the underlying commodity. Therefore, the divisions realize the economic effects of the derivative without experiencing any resulting mark-to-market volatility which remains in corporate unallocated expenses.

Edgar Filing: PEPSICO INC - Form 10-Q

For the 12 weeks ended September 3, 2011, we recognized \$53 million (\$34 million after-tax or \$0.02 per share) of mark-to-market net losses on commodity hedges in corporate unallocated expenses. For the 36 weeks ended September 3, 2011, we recognized \$31 million (\$20 million



---

**Table of Contents**

after-tax or \$0.01 per share) of mark-to-market net losses on commodity hedges in corporate unallocated expenses.

For the 12 weeks ended September 4, 2010, we recognized \$16 million (\$10 million after-tax or \$0.01 per share) of market-to-market net gains on commodity hedges in corporate unallocated expenses. For the 36 weeks ended September 4, 2010, we recognized \$58 million (\$36 million after-tax or \$0.02 per share) of market-to-market net gains on commodity hedges in corporate unallocated expenses.

**Gain on Previously Held Equity Interests**

In the first quarter of 2010, in connection with our acquisitions of PBG and PAS, we recorded a gain on our previously held equity interests of \$958 million (\$0.60 per share), comprising \$735 million which is non-taxable and recorded in bottling equity income and \$223 million related to the reversal of deferred tax liabilities associated with these previously held equity interests.

**Merger and Integration Charges**

In the 12 weeks ended September 3, 2011, we incurred merger and integration charges of \$61 million (\$53 million after-tax or \$0.03 per share) related to our acquisitions of PBG, PAS and WBD, including \$24 million recorded in the PAB segment, \$11 million recorded in the Europe segment, \$10 million recorded in corporate unallocated expenses and \$16 million recorded in interest expense. In the 36 weeks ended September 3, 2011, we incurred merger and integration charges of \$174 million (\$147 million after-tax or \$0.09 per share) related to our acquisitions of PBG, PAS and WBD, including \$77 million recorded in the PAB segment, \$17 million recorded in the Europe segment, \$64 million recorded in corporate unallocated expenses and \$16 million recorded in interest expense. These charges also include closing costs and advisory fees related to our acquisition of WBD.

In the 12 weeks ended September 4, 2010, we incurred merger and integration charges of \$69 million related to our acquisitions of PBG and PAS, including \$38 million recorded in the PAB segment, \$15 million recorded in the Europe segment and \$16 million recorded in corporate unallocated expenses. In the 36 weeks ended September 4, 2010, we incurred merger and integration charges of \$536 million related to our acquisitions of PBG and PAS, including \$334 million recorded in the PAB segment, \$44 million recorded in the Europe segment, \$128 million recorded in corporate unallocated expenses and \$30 million recorded in interest expense. These charges also include closing costs, one-time financing costs and advisory fees related to our acquisitions of PBG and PAS. In addition, in the first quarter of 2010, we recorded \$9 million of charges, representing our share of the respective merger costs of PBG and PAS, in bottling equity income. In total, these charges had an after-tax impact of \$51 million (\$0.03 per share) and \$431 million (\$0.27 per share) for the 12 and 36 weeks ended September 4, 2010, respectively.

**Inventory Fair Value Adjustments**

In the 12 and 36 weeks ended September 3, 2011, we recorded \$3 million (\$2 million after-tax with a nominal impact per share) and \$41 million (\$25 million after-tax or \$0.02 per share), respectively, of incremental costs in cost of sales related to fair value adjustments to the acquired inventory included in WBD's balance sheet at the acquisition date and other related hedging contracts included in PBG's and PAS's balance sheets at the acquisition date.

---

**Table of Contents**

In the 12 and 36 weeks ended September 4, 2010, we recorded \$17 million (\$11 million after-tax or \$0.01 per share) and \$374 million (\$319 million after-tax or \$0.20 per share), respectively, of incremental costs related to fair value adjustments to the acquired inventory and other related hedging contracts included in PBG's and PAS's balance sheets at the acquisition date. Substantially all of these costs were recorded in cost of sales.

**Venezuela Currency Devaluation**

As of the beginning of our 2010 fiscal year, we recorded a one-time \$120 million net charge related to our change to hyperinflationary accounting for our Venezuelan businesses and the related devaluation of the bolivar. \$129 million of this net charge was recorded in corporate unallocated expenses, with the balance (income of \$9 million) recorded in our PAB segment. In total, this net charge had an after-tax impact of \$120 million or \$0.07 per share.

**Asset Write-Off**

In the first quarter of 2010, we recorded a \$145 million charge (\$92 million after-tax or \$0.06 per share) related to a change in scope of one release in our ongoing migration to SAP software. This change was driven, in part, by a review of our North America systems strategy following our acquisitions of PBG and PAS. This change does not impact our overall commitment to continue our implementation of SAP across our global operations over the next few years.

**Foundation Contribution**

In the first quarter of 2010, we made a \$100 million (\$64 million after-tax or \$0.04 per share) contribution to The PepsiCo Foundation, Inc., in order to fund charitable and social programs over the next several years. This contribution was recorded in corporate unallocated expenses.

***Non-GAAP Measures***

Certain measures contained in this Form 10-Q are financial measures that are adjusted for items affecting comparability (see *Items Affecting Comparability* for a detailed list and description of each of these items), as well as, in certain instances, adjusted for foreign currency. These measures are not in accordance with U.S. Generally Accepted Accounting Principles (GAAP). Items adjusted for currency assume foreign currency exchange rates used for translation based on the rates in effect for the comparable prior-year period. We believe investors should consider these non-GAAP measures in evaluating our results as they are more indicative of our ongoing performance and with how management evaluates our operational results and trends. These measures are not, and should not be viewed as, a substitute for U.S. GAAP reporting measures. See also *Management Operating Cash Flow*.

***Volume***

Since our divisions each use different measures of physical unit volume, a common servings metric is necessary to reflect our consolidated physical unit volume. For the 12 weeks ended September 3, 2011, total servings increased 4.5%. For the 36 weeks ended September 3, 2011, total servings increased 6%.

We discuss volume for our beverage businesses on a bottler case sales (BCS) basis in which all beverage volume is converted to an 8-ounce-case metric. Most of our beverage volume is sold by

**Table of Contents**

our company-owned and franchise-owned bottlers, and that portion is based on our bottlers' sales to retailers and independent distributors. The remainder of our volume is based on our direct shipments to retailers and independent distributors. We report our international beverage volume on a monthly basis. Our third quarter includes beverage volume outside of North America for June, July and August. Concentrate shipments and equivalents (CSE) represent our physical beverage volume shipments to independent bottlers, retailers and independent distributors, and is the measure upon which our revenue is based.

**Consolidated Results****Total Net Revenue and Operating Profit**

	12 Weeks Ended			36 Weeks Ended		
	9/3/11	9/4/10	Change	9/3/11	9/4/10	Change
Total net revenue	\$ 17,582	\$ 15,514	13%	\$ 46,346	\$ 39,683	17%
Operating profit						
FLNA	\$ 918	\$ 866	6%	\$ 2,545	\$ 2,394	6%
QFNA	177	167	6%	558	521	7%
LAF	275	238	15%	720	616	17%
PAB	992	1,017	(2.5)%	2,533	2,042	24%
Europe	514	432	19%	984	826	19%
AMEA	285	235	21%	730	657	11%
Corporate Unallocated						
Mark-to-market net (losses)/gains	(53)	16	n/m	(31)	58	n/m
Merger and integration charges	(10)	(16)	(28)%	(64)	(128)	(50)%
Venezuela currency devaluation					(129)	n/m
Asset write-off					(145)	n/m
Foundation contribution					(100)	n/m
Other	(192)	(155)	24%	(589)	(511)	15%
Total operating profit	\$ 2,906	\$ 2,800	4%	\$ 7,386	\$ 6,101	21%
Total operating profit margin	16.5%	18.0%	(1.5)	15.9%	15.4%	0.5

*n/m = not meaningful*

See Results of Operations – Division Review for a tabular presentation and discussion of key drivers of net revenue.

**12 Weeks**

On a reported basis, total operating profit increased 4% and operating margin decreased 1.5 percentage points. Operating profit performance was primarily driven by the net revenue growth,

**Table of Contents**

partially offset by higher commodity costs. Items affecting comparability (see [Items Affecting Comparability](#) ) reduced total operating profit growth by 1 percentage point and total operating margin by 0.1 percentage points.

**36 Weeks**

On a reported basis, total operating profit increased 21% and operating margin increased 0.5 percentage points. Operating profit growth was primarily driven by the net revenue growth, partially offset by higher commodity costs. Items affecting comparability (see [Items Affecting Comparability](#) ) contributed 17 percentage points to the total operating profit growth and 2.5 percentage points to the total operating margin increase.

**Table of Contents****Other Consolidated Results**

	12 Weeks Ended			36 Weeks Ended		
	9/3/11	9/4/10	Change	9/3/11	9/4/10	Change
Bottling equity income	\$	\$ 10	\$ (10)	\$	\$ 728	\$ (728)
Interest expense, net	\$ (209)	\$ (151)	\$ (58)	\$ (551)	\$ (469)	\$ (82)
Tax rate	25.4%	27.4%		26.0%	21.7%	
Net income attributable to PepsiCo	\$ 2,000	\$ 1,922	4%	\$ 5,028	\$ 4,955	1.5%
Net income attributable to PepsiCo per common share diluted	\$ 1.25	\$ 1.19	5%	\$ 3.14	\$ 3.06	2%
Mark-to-market net losses/(gains)	0.02	(0.01)		0.01	(0.02)	
Gain on previously held equity interests					(0.60)	
Merger and integration charges	0.03	0.03		0.09	0.27	
Inventory fair value adjustments		0.01		0.02	0.20	
Venezuela currency devaluation					0.07	
Asset write-off					0.06	
Foundation contribution					0.04	
Net income attributable to PepsiCo per common share diluted, excluding above items*	\$ 1.31**	\$ 1.22	7%	\$ 3.26	\$ 3.08	6%

\* See Non-GAAP Measures

\*\* Does not sum due to rounding

---

**Table of Contents**

**12 Weeks**

Net interest expense increased \$58 million, primarily reflecting higher average debt balances and losses in the market value of investments used to economically hedge a portion of our deferred compensation costs, partially offset by lower average rates on our debt balances.

The reported tax rate decreased 2.0% compared to the prior year, primarily reflecting the impact of adjustments to previous estimates of geographic earnings mix in the quarter.

Net income attributable to PepsiCo increased 4% and net income attributable to PepsiCo per common share increased 5%. Items affecting comparability (see *Items Affecting Comparability*) decreased both net income attributable to PepsiCo and net income attributable to PepsiCo per common share by 2 percentage points.

**36 Weeks**

Bottling equity income decreased \$728 million, primarily reflecting the gain in the prior year on our previously held equity interests in connection with our acquisitions of PBG and PAS.

Net interest expense increased \$82 million, primarily reflecting higher average debt balances, partially offset by lower average rates on our debt balances.

The reported tax rate increased 4.3% compared to the prior year, primarily reflecting the prior year non-taxable gain and reversal of deferred taxes attributable to our previously held equity interests in connection with our acquisitions of PBG and PAS.

Net income attributable to PepsiCo increased 1.5% and net income attributable to PepsiCo per common share increased 2%. Items affecting comparability (see *Items Affecting Comparability*) decreased both net income attributable to PepsiCo and net income attributable to PepsiCo per common share by 3 percentage points.

**Results of Operations    Division Review**

The results and discussions below are based on how our Chief Executive Officer monitors the performance of our divisions. For additional information, see *Our Divisions* and *Merger and Integration Charges* in the notes to the condensed consolidated financial statements and *Items Affecting Comparability*.

Furthermore, in the discussions of net revenue and operating profit below, *effective net pricing* reflects the year-over-year impact of discrete pricing actions, sales incentive activities and mix resulting from selling varying products in different package sizes and in different countries, and *net pricing* reflects the year-over-year combined impact of list price changes, weight changes per package, discounts and allowances. Additionally, *acquisitions*, except as otherwise noted, reflect all mergers and acquisitions activity, including the impact of acquisitions, divestitures and changes in ownership or control in consolidated subsidiaries and nonconsolidated equity investees.

**Table of Contents****Net Revenue**

<b>12 Weeks Ended</b>	<b>FLNA</b>	<b>QFNA</b>	<b>LAF</b>	<b>PAB</b>	<b>Europe</b>	<b>AMEA</b>	<b>Total</b>
<b>September 3, 2011</b>	<b>\$ 3,173</b>	<b>\$ 614</b>	<b>\$ 1,841</b>	<b>\$ 5,947</b>	<b>\$ 3,909</b>	<b>\$ 2,098</b>	<b>\$ 17,582</b>
September 4, 2010	\$ 3,050	\$ 601	\$ 1,542	\$ 5,792	\$ 2,848	\$ 1,681	\$ 15,514
<i>% Impact of:</i>							
Volume <sup>(a)</sup>	(1)%	(4.5)%	3.5%	%	(1)%	11%	1%
Effective net pricing <sup>(b)</sup>	4	6	8	2	4	9	4
Foreign exchange	1	1	8	1	9	5	3.5
Acquisitions					26		5
<i>% Change<sup>(c)</sup></i>	<i>4%</i>	<i>2%</i>	<i>19%</i>	<i>3%</i>	<i>37%</i>	<i>25%</i>	<i>13%</i>

**Net Revenue**

<b>36 Weeks Ended</b>	<b>FLNA</b>	<b>QFNA</b>	<b>LAF</b>	<b>PAB</b>	<b>Europe</b>	<b>AMEA</b>	<b>Total</b>
<b>September 3, 2011</b>	<b>\$ 9,167</b>	<b>\$ 1,837</b>	<b>\$ 4,757</b>	<b>\$ 16,107</b>	<b>\$ 9,329</b>	<b>\$ 5,149</b>	<b>\$ 46,346</b>
September 4, 2010	\$ 8,906	\$ 1,866	\$ 4,063	\$ 14,105	\$ 6,390	\$ 4,353	\$ 39,683
<i>% Impact of:</i>							
Volume <sup>(a)</sup>	%	(5)%	4%	*	*	10%	*
Effective net pricing <sup>(b)</sup>	2	3	7	*	*	5	*
Foreign exchange	0.5	1	7	1	6	3	3
Acquisitions				*	*		*
<i>% Change<sup>(c)</sup></i>	<i>3%</i>	<i>(2)%</i>	<i>17%</i>	<i>14%</i>	<i>46%</i>	<i>18%</i>	<i>17%</i>

<sup>(a)</sup> Excludes the impact of acquisitions. In certain instances, volume growth varies from the amounts disclosed in the following divisional discussions due to nonconsolidated joint venture volume, and, for our beverage businesses, temporary timing differences between BCS and CSE. Our net revenue excludes nonconsolidated joint venture volume, and, for our beverage businesses, is based on CSE.

<sup>(b)</sup> Includes the year-over-year impact of discrete pricing actions, sales incentive activities and mix resulting from selling varying products in different package sizes and in different countries.

<sup>(c)</sup> Amounts may not sum due to rounding.

\* It is impractical to separately determine and quantify the impact of our acquisitions of PBG and PAS from changes in our pre-existing beverage business since we now manage these businesses as an integrated system.

**Table of Contents****Frito-Lay North America**

	12 Weeks Ended		%	36 Weeks Ended		%
	9/3/11	9/4/10	Change	9/3/11	9/4/10	Change
Net revenue	\$ 3,173	\$ 3,050	4	\$ 9,167	\$ 8,906	3
Impact of foreign currency translation			(1)			(0.5)
Net revenue growth, on a constant currency basis*			3			2**
Operating profit	\$ 918	\$ 866	6	\$ 2,545	\$ 2,394	6
Impact of foreign currency translation			(1)			(0.5)
Operating profit growth, on a constant currency basis*			5.5**			6**

\* See Non-GAAP Measures

\*\* Does not sum due to rounding

**12 Weeks**

Net revenue increased 4% and pound volume grew 1%. The volume increase primarily reflects double-digit growth in our Sabra joint venture, partially offset by a high-single-digit decline in dips. Net revenue growth also benefited from effective net pricing.

Operating profit grew 6%, primarily reflecting the net revenue growth, partially offset by higher commodity costs.

**36 Weeks**

Net revenue increased 3% and pound volume grew 1%. Pound growth primarily reflects double-digit growth in our Sabra joint venture and high-single-digit growth in variety packs, partially offset by a mid-single-digit decline in dips. Net revenue growth also benefited from effective net pricing.

Operating profit grew 6%, primarily reflecting the net revenue growth.



**Table of Contents****Quaker Foods North America**

	12 Weeks Ended		%	36 Weeks Ended		%
	9/3/11	9/4/10	Change	9/3/11	9/4/10	Change
Net revenue	\$ 614	\$ 601	2	\$ 1,837	\$ 1,866	(2)
Impact of foreign currency translation			(1)			(1)
Net revenue growth, on a constant currency basis*			1			(2)**
Operating profit	\$ 177	\$ 167	6	\$ 558	\$ 521	7
Impact of foreign currency translation			(1)			(1)
Operating profit growth, on a constant currency basis*			5			6

\* See Non-GAAP Measures

\*\* Does not sum due to rounding

**12 Weeks**

Net revenue increased 2% and volume declined 4.5%. The volume decline primarily reflects double-digit declines in ready-to-eat cereals and Chewy granola bars. The impact of positive net pricing, driven primarily by price increases taken in the fourth quarter of 2010, was partially offset by negative mix. Favorable foreign currency contributed 1 percentage point to net revenue growth.

Operating profit grew 6%, primarily reflecting the net revenue growth, partially offset by higher commodity costs. Favorable foreign currency contributed 1 percentage point to operating profit growth.

**36 Weeks**

Net revenue declined 2% and volume declined 5%. The volume decline primarily reflects double-digit declines in ready-to-eat cereals and Chewy granola bars, as well as mid-single-digit declines in Aunt Jemima syrup and mix. The impact of positive net pricing, driven primarily by price increases taken in the fourth quarter of 2010, was partially offset by negative mix. Favorable foreign currency positively contributed 1 percentage point to the net revenue performance.

Operating profit grew 7%, reflecting the favorable effective net pricing and lower selling and distribution costs. Additionally, a change in accounting methodology for inventory contributed 3 percentage points to the operating profit growth (see *Basis of Presentation* in the notes to the condensed consolidated financial statements). Favorable foreign currency contributed 1 percentage point to operating profit growth.



**Table of Contents****Latin America Foods**

	12 Weeks Ended		%	36 Weeks Ended		%
	9/3/11	9/4/10	Change	9/3/11	9/4/10	Change
Net revenue	\$ 1,841	\$ 1,542	19	\$ 4,757	\$ 4,063	17
Impact of foreign currency translation			(8)			(7)
Net revenue growth, on a constant currency basis*			12**			10
Operating profit	\$ 275	\$ 238	15	\$ 720	\$ 616	17
Impact of foreign currency translation			(7)			(6)
Operating profit growth, on a constant currency basis*			8			11

\* See Non-GAAP Measures

\*\* Does not sum due to rounding

**12 Weeks**

Volume grew 3.5%, primarily reflecting high-single-digit growth in Brazil. Additionally, Gamesa in Mexico grew at a low-single-digit rate and Sabritas in Mexico grew slightly.

Net revenue increased 19%, primarily reflecting favorable effective net pricing and the volume growth. Favorable foreign currency contributed 8 percentage points to net revenue growth.

Operating profit increased 15%, primarily reflecting the net revenue growth, partially offset by higher commodity costs. Favorable foreign currency contributed 7 percentage points to operating profit growth.

**36 Weeks**

Volume grew 4%, primarily reflecting mid-single-digit growth in Brazil. Additionally, Gamesa and Sabritas in Mexico each grew at a low-single-digit rate.

Net revenue increased 17%, primarily reflecting favorable effective net pricing and the volume growth. Favorable foreign currency contributed 7 percentage points to net revenue growth.

Operating profit increased 17%, primarily reflecting the net revenue growth, partially offset by higher selling and distribution costs and higher commodity costs. Additionally, an unfavorable legal settlement in the prior year increased operating profit growth by 2 percentage points. Favorable foreign currency contributed 6 percentage points to operating profit growth.



**Table of Contents*****PepsiCo Americas Beverages***

	12 Weeks Ended		%	36 Weeks Ended		%
	9/3/11	9/4/10	Change	9/3/11	9/4/10	Change
Net revenue	\$ 5,947	\$ 5,792	3	\$ 16,107	\$ 14,105	14
Impact of foreign currency translation			(1)			(1)
Net revenue growth, on a constant currency basis*			1.5**			13
Operating profit	\$ 992	\$ 1,017	(2.5)	\$ 2,533	\$ 2,042	24
Merger and integration charges	24	38		77	334	
Inventory fair value adjustments	3	17		16	334	
Venezuela currency devaluation					(9)	
Operating profit excluding above items*	\$ 1,019	\$ 1,072	(5)	\$ 2,626	\$ 2,701	(3)
Impact of foreign currency translation			(1)			(1)
Operating profit growth excluding above items, on a constant currency basis*			(6)			(4)

\* See Non-GAAP Measures

\*\* Does not sum due to rounding

**12 Weeks**

Volume increased slightly, primarily reflecting a 2.5% volume increase in Latin America, partially offset by a 1% volume decline in North America. The volume decline in North America was driven by a 5% decline in CSD volume, partially offset by a 5% increase in non-carbonated beverage volume. The non-carbonated beverage volume growth primarily reflected a high-single-digit increase in Gatorade sports drinks and a double-digit increase in our base Aquafina water business.

Net revenue increased 3%, primarily driven by effective net pricing. Favorable foreign currency contributed 1 percentage point to net revenue growth.

Reported operating profit decreased 2.5%, mainly driven by higher commodity costs and higher selling and distribution costs, partially offset by the net revenue growth. Additionally, the items affecting comparability in the above table (see Items Affecting Comparability ) favorably impacted the reported operating profit performance. Excluding the items affecting comparability, operating profit decreased 5%. Favorable foreign currency positively contributed 1 percentage point to the operating profit performance.



**Table of Contents**

**36 Weeks**

Volume increased 3%, primarily reflecting volume from incremental brands related to our acquisition of PBG's operations in Mexico, as well as incremental volume related to our DPSG manufacturing and distribution agreement, each of which contributed 1 percentage point to volume growth. North America volumes, excluding the impact of the incremental DPSG volume, decreased slightly, as a 3.5% decline in CSD volume was partially offset by a 4.5% increase in non-carbonated beverage volume. The non-carbonated beverage volume growth primarily reflected a double-digit increase in Gatorade sports drinks and high-single-digit growth in our base Aquafina water business.

Net revenue increased 14%, primarily reflecting the incremental finished goods revenue related to our acquisitions of PBG and PAS. Favorable foreign currency contributed 1 percentage point to net revenue growth.

Reported operating profit increased 24%, primarily reflecting the items affecting comparability in the above table (see Items Affecting Comparability ). Excluding these items, operating profit decreased 3%, mainly driven by higher commodity costs and higher selling and distribution costs, partially offset by the net revenue growth. Operating profit performance also benefited from the impact of more-favorable settlements of promotional spending accruals in the current year and certain insurance adjustments in the second quarter, which collectively contributed 2 percentage points to the reported operating profit growth.

**Table of Contents****Europe**

	12 Weeks Ended		%	36 Weeks Ended		%
	9/3/11	9/4/10	Change	9/3/11	9/4/10	Change
Net revenue	\$ 3,909	\$ 2,848	37	\$ 9,329	\$ 6,390	46
Impact of foreign currency translation			(9)			(6)
Net revenue growth, on a constant currency basis*			28			40
Operating profit	\$ 514	\$ 432	19	\$ 984	\$ 826	19
Merger and integration charges	11	15		17	44	
Inventory fair value adjustments				25	40	
Operating profit excluding above items*	\$ 525	\$ 447	17	\$ 1,026	\$ 910	13
Impact of foreign currency translation			(8)			(6)
Operating profit growth excluding above items, on a constant currency basis*			9			7

\* See Non-GAAP Measures

**12 Weeks**

Snacks volume grew 35%, primarily reflecting our acquisition of WBD, which contributed 30 percentage points to volume growth. Double-digit increases in Turkey and France and a high-single-digit increase in Russia (ex-WBD) were partially offset by a high-single-digit decline in Spain and a low-single-digit decrease in the Netherlands. Additionally, Walkers in the United Kingdom experienced low-single-digit growth.

Beverage volume increased 13%, primarily reflecting our acquisition of WBD, which contributed 17 percentage points to volume growth. A double-digit decrease in Russia (ex-WBD) was partially offset by double-digit gains in Turkey. Additionally, the United Kingdom grew in the low-single-digit range.

Net revenue grew 37%, primarily reflecting our acquisition of WBD, which contributed 26 percentage points to net revenue growth. Net revenue also benefited from effective net pricing in the quarter. Favorable foreign currency contributed 9 percentage points to net revenue growth.

Reported operating profit increased 19%, primarily reflecting the favorable effective net pricing and lower advertising and marketing expenses, offset by higher commodity costs and selling and distribution costs. Additionally, the accelerated timing of concentrate shipments into the second quarter in connection with our global SAP implementation reduced operating profit growth by nearly 4 percentage points. Our acquisition of WBD contributed 13 percentage points to the reported operating profit growth and reflected net charges of \$4 million included in items affecting





**Table of Contents**

comparability in the above table (see [Items Affecting Comparability](#) ). Excluding the items affecting comparability in the above table, operating profit increased 17%. Favorable foreign currency contributed 8 percentage points to operating profit growth.

**36 Weeks**

Snacks volume grew 35%, primarily reflecting our acquisition of WBD, which contributed 30 percentage points to volume growth. Double-digit growth in Turkey, South Africa and Russia (ex-WBD) was partially offset by a mid-single-digit decline in Spain. Additionally, Walkers in the United Kingdom experienced low-single-digit growth.

Beverage volume increased 21%, primarily reflecting our acquisition of WBD, which contributed 19 percentage points to volume growth, and incremental brands related to our acquisitions of PBG and PAS, which contributed 1 percentage point to volume growth. A double-digit increase in Turkey, mid-single-digit growth in Germany and a low-single-digit increase in the United Kingdom were offset by a high-single-digit decline in Russia (ex-WBD).

Net revenue grew 46%, primarily reflecting our acquisition of WBD, which contributed 28 percentage points to net revenue growth, and the incremental finished goods revenue related to our acquisitions of PBG and PAS. Favorable foreign currency contributed 6 percentage points to net revenue growth.

Reported operating profit increased 19%, primarily reflecting the net revenue growth, offset by higher commodity costs. The impact of more-favorable settlements of promotional spending accruals in the current year contributed 2.5 percentage points to operating profit growth. Our acquisition of WBD contributed 13 percentage points to the reported operating profit growth and reflected net charges of \$19 million included in items affecting comparability in the above table (see [Items Affecting Comparability](#) ). Excluding the items affecting comparability in the above table, operating profit increased 13%. Favorable foreign currency contributed 6 percentage points to operating profit growth.

**Table of Contents****Asia, Middle East & Africa**

	12 Weeks Ended		%	36 Weeks Ended		%
	9/3/11	9/4/10	Change	9/3/11	9/4/10	Change
Net revenue	\$ 2,098	\$ 1,681	25	\$ 5,149	\$ 4,353	18
Impact of foreign currency translation			(5)			(3)
Net revenue growth, on a constant currency basis*			20			15
Operating profit	\$ 285	\$ 235	21	\$ 730	\$ 657	11
Impact of foreign currency translation			(4)			(3)
Operating profit growth, on a constant currency basis*			18**			8

\* See Non-GAAP Measures

\*\* Does not sum due to rounding

**12 Weeks**

Snacks volume grew 16%, reflecting broad-based increases driven by double-digit growth in India, China and the Middle East. Additionally, Australia grew at a low-single-digit rate.

Beverage volume grew 6%, driven by double-digit growth in India and high-single-digit growth in the Middle East. Additionally, China grew at a low-single-digit rate. Acquisitions had a nominal impact on beverage volume growth.

Net revenue grew 25%, reflecting the volume growth and favorable effective net pricing. Additionally, the accelerated timing of concentrate shipments into the second quarter in connection with our global SAP implementation reduced net revenue growth by almost 2 percentage points. Foreign currency contributed nearly 5 percentage points to net revenue growth.

Operating profit grew 21%, reflecting the net revenue growth, partially offset by higher commodity costs, as well as the accelerated concentrate shipments, which reduced operating profit growth by 9 percentage points. Favorable foreign currency contributed 4 percentage points to operating profit growth and acquisitions reduced operating profit growth by nearly 1 percentage point.

**36 Weeks**

Snacks volume grew 14%, reflecting broad-based increases driven by double-digit growth in India, China and the Middle East, partially offset by a low-single-digit decline in Australia.

Beverage volume grew 6%, driven by double-digit growth in India and mid-single-digit growth in China and the Middle East. Acquisitions had a nominal impact on beverage volume growth.

Net revenue grew 18%, reflecting the volume growth and favorable effective net pricing. Foreign currency contributed 3 percentage points to net revenue growth. Acquisitions had a nominal

## **Table of Contents**

impact on net revenue growth.

Operating profit grew 11%, primarily reflecting the net revenue growth, partially offset by higher commodity costs. Favorable foreign currency contributed 3 percentage points to operating profit growth and acquisitions reduced operating profit growth by nearly 1 percentage point.

## **Our Liquidity and Capital Resources**

We believe that our cash generating capability and financial condition, together with our revolving credit facilities and other available methods of debt financing (including long-term debt financing which, depending upon market conditions, we may use to replace a portion of our commercial paper borrowings), will be adequate to meet our operating, investing and financing needs. However, there can be no assurance that volatility in the global capital and credit markets will not impair our ability to access these markets on terms commercially acceptable to us or at all.

In addition, currency restrictions enacted by the government in Venezuela have impacted our ability to pay dividends outside of the country from our snack and beverage operations in Venezuela. As of September 3, 2011, our operations in Venezuela comprised 10% of our cash and cash equivalents balance.

### ***Operating Activities***

During the 36 weeks in 2011, net cash provided by operating activities was \$5.8 billion, compared to net cash provided of \$5.8 billion in the prior year period. The operating cash flow performance primarily reflects unfavorable working capital comparisons to the prior year, offset by the overlap of discretionary pension contributions of \$1.2 billion in the prior year.

### ***Investing Activities***

During the 36 weeks in 2011, net cash used for investing activities was \$4.7 billion, primarily reflecting \$2.4 billion of cash paid, net of cash and cash equivalents acquired, in connection with our acquisition of WBD and \$1.9 billion for net capital spending.

### ***Financing Activities***

During the 36 weeks in 2011, net cash used for financing activities was \$4.1 billion, primarily reflecting the return of operating cash flow to our shareholders through share repurchases and dividend payments of \$4.3 billion, our purchase of an additional \$1.3 billion of WBD ordinary shares (including shares underlying ADSs) and our repurchase of certain WBD debt obligations of \$0.8 billion, partially offset by net proceeds from long-term debt of \$1.4 billion and stock option proceeds of \$0.7 billion. We anticipate share repurchases of approximately \$2.5 billion in 2011.

### ***Management Operating Cash Flow***

We focus on management operating cash flow as a key element in achieving maximum shareholder value, and it is the primary measure we use to monitor cash flow performance. However, it is not a measure provided by accounting principles generally accepted in the U.S. Therefore, this measure is not, and should not be viewed as, a substitute for U.S. GAAP cash flow measures. Since net capital spending is essential to our product innovation initiatives and maintaining our operational capabilities, we believe that it is a recurring and necessary use of cash.



**Table of Contents**

As such, we believe investors should also consider net capital spending when evaluating our cash from operating activities. Additionally, we consider certain items (included in the table below), in evaluating management operating cash flow. We believe investors should consider these items in evaluating our management operating cash flow results.

The table below reconciles net cash provided by operating activities, as reflected in our cash flow statement, to our management operating cash flow excluding the impact of the items below.

	36 Weeks Ended	
	9/3/11	9/4/10
Net cash provided by operating activities	\$ 5,834	\$ 5,788
Capital spending	(1,962)	(1,670)
Sales of property, plant and equipment	46	55
Management operating cash flow	3,918	4,173
Discretionary pension contribution (after-tax)		768
Payments related to 2009 restructuring charges (after-tax)	1	29
Merger and integration payments (after-tax)	223	233
Foundation contribution (after-tax)		64
Capital investments related to the PBG/PAS integration	91	33
Management operating cash flow excluding above items	\$ 4,233	\$ 5,300

We expect to continue to return management operating cash flow to our shareholders through dividends and share repurchases while maintaining short-term credit ratings that ensure appropriate financial flexibility and ready access to global and capital credit markets at favorable interest rates. However, see Item 1A. Risk Factors in our Annual Report on Form 10-K for the fiscal year ended December 25, 2010 and Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Our Business Risks in our Current Report on Form 8-K dated March 31, 2011 for certain factors that may impact our operating cash flows.

**Table of Contents**

**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Shareholders

PepsiCo, Inc.:

We have reviewed the accompanying Condensed Consolidated Balance Sheet of PepsiCo, Inc. and Subsidiaries as of September 3, 2011, the related Condensed Consolidated Statements of Income and Comprehensive Income for the twelve and thirty-six weeks ended September 3, 2011 and September 4, 2010, and the Condensed Consolidated Statements of Cash Flows and Equity for the thirty-six weeks ended September 3, 2011 and September 4, 2010. These interim condensed consolidated financial statements are the responsibility of PepsiCo, Inc.'s management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying interim condensed consolidated financial statements referred to above for them to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Consolidated Balance Sheet of PepsiCo, Inc. and Subsidiaries as of December 25, 2010, and the related Consolidated Statements of Income, Cash Flows and Equity for the fiscal year then ended not presented herein; and in our report dated February 18, 2011, except for notes 1, 3 and 4, which are as of March 31, 2011, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying Condensed Consolidated Balance Sheet as of December 25, 2010, is fairly stated, in all material respects, in relation to the Consolidated Balance Sheet from which it has been derived.

/s/ KPMG LLP

New York, New York  
October 12, 2011



**Table of Contents**

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk.

See Management's Discussion and Analysis of Financial Condition and Results of Operations Our Business Risks and *Financial Instruments* in the notes to the condensed consolidated financial statements. In addition, see Item 1A. Risk Factors in our Annual Report on Form 10-K for the fiscal year ended December 25, 2010 and Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Our Business Risks included in Exhibit 99.1 to our Current Report on Form 8-K dated March 31, 2011, as updated by Management's Discussion and Analysis of Financial Condition and Results of Operations Our Business Risks in our Quarterly Reports on Form 10-Q for the quarters ended March 19, 2011 and June 11, 2011.

ITEM 4. Controls and Procedures.

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as such term is defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that as of the end of the period covered by this report our disclosure controls and procedures were effective to ensure that information required to be disclosed by us in reports we file or submit under the Exchange Act is (1) recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and (2) accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

During our third fiscal quarter of 2011, we continued migrating certain of our financial processing systems to an enterprise-wide systems solution. These systems implementations are part of our ongoing global business transformation initiative, and we plan to continue implementing such systems throughout other parts of our businesses over the course of the next few years. In connection with these implementations and resulting business process changes, we continue to enhance the design and documentation of our internal control processes to ensure suitable controls over our financial reporting.

Except as described above, there were no changes in our internal control over financial reporting during our third fiscal quarter of 2011 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**Table of Contents**

**PART II OTHER INFORMATION**

**ITEM 1. Legal Proceedings.**

The following information supplements and amends the discussion set forth under Part I, Item 3 Legal Proceedings in our Annual Report on Form 10-K for the fiscal year ended December 25, 2010, as updated by our Quarterly Reports on Form 10-Q for the quarters ended March 19, 2011 and June 11, 2011.

On July 22, 2011, the Harbin Environmental Protection Bureau issued an environmental protection decision to one of our subsidiaries, Harbin Pepsi-Cola Beverages Company Limited, imposing fines of approximately \$200,000 in connection with violations of applicable water pollution prevention and control regulations pertaining to one of the wastewater treatment facilities at its plant. The wastewater treatment facilities at this plant were designed and operated by a third-party contractor. During the third quarter, our subsidiary paid this fine and took actions to remediate the violations.

In September 2010, Rosprirodnadzor (the Russian Environmental Compliance Body) identified certain violations connected to the discharge of packaging and other waste in excess of permitted limits and without valid permits at the Kashira plant of our subsidiary, Frito-Lay Manufacturing OOO ( FLM ) for the period from 2008 to 2010. FLM appealed this decision and on September 29, 2011 the decision was upheld. As a result, Rosprirodnadzor can now bring a civil claim against FLM which may be required to pay damages of approximately \$300,000 in connection with this matter.

In addition, we and our subsidiaries are party to a variety of other legal proceedings arising in the normal course of business. While the results of these proceedings cannot be predicted with certainty, management believes that the final outcome of these proceedings will not have a material adverse effect on our consolidated financial statements, results of operations or cash flows.

**ITEM 1A. Risk Factors.**

There have been no material changes with respect to the risk factors disclosed in our Annual Report on Form 10-K for the fiscal year ended December 25, 2010.

**Table of Contents**

## ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds.

A summary of our common stock repurchases (in millions, except average price per share) during the third quarter under the \$15.0 billion repurchase program authorized by our Board of Directors and publicly announced on March 15, 2010, and expiring on June 30, 2013, is set forth in the following table. All such shares of common stock were repurchased pursuant to open market transactions.

**Issuer Purchases of Common Stock**

Period	Total Number of Shares Repurchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares that may Yet Be Purchased Under the Plans or Programs
6/11/11				\$ 12,725
6/12/11 7/9/11	2.4	\$ 69.39	2.4	(166)
				12,559
7/10/11 8/6/11	7.4	\$ 64.76	7.4	(483)
				12,076
8/7/11 9/3/11	8.1	\$ 63.08	8.1	(509)
Total	17.9	\$ 64.63	17.9	\$ 11,567

**Table of Contents**

PepsiCo also repurchases shares of its convertible preferred stock from an employee stock ownership plan (ESOP) fund established by Quaker in connection with share redemptions by ESOP participants. The following table summarizes our convertible preferred share repurchases during the third quarter.

**Issuer Purchases of Convertible Preferred Stock**

Period	Total Number of Shares Repurchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares that may Yet Be Purchased Under the Plans or Programs
6/11/11				
6/12/11 7/9/11	1,700	\$ 348.42	N/A	N/A
7/10/11 8/6/11			N/A	N/A
8/7/11 9/3/11	900	\$ 319.73	N/A	N/A
<b>Total</b>	<b>2,600</b>	<b>\$ 338.49</b>	<b>N/A</b>	<b>N/A</b>

ITEM 4. (Removed and Reserved).

ITEM 6. Exhibits

See Index to Exhibits on page 54.

Table of Contents

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

PepsiCo, Inc.  
(Registrant)

Date: October 12, 2011

/s/ Marie T. Gallagher  
Marie T. Gallagher  
Senior Vice President and Controller

Date: October 12, 2011

/s/ Maura Abeln Smith  
Maura Abeln Smith  
Executive Vice President, Government Affairs,  
General Counsel and Corporate Secretary  
  
(Duly Authorized Officer)

Table of ContentsINDEX TO EXHIBITSITEM 6EXHIBITS

- Exhibit 2.1 Agreement and Plan of Merger dated as of August 3, 2009, among PepsiCo, Inc., The Pepsi Bottling Group, Inc. and Pepsi-Cola Metropolitan Bottling Company, Inc. (the schedules have been omitted pursuant to Item 601(b)(2) of Regulation S-K), which is incorporated herein by reference to Exhibit 2.1 to PepsiCo's Current Report on Form 8-K dated August 3, 2009.
- Exhibit 2.2 Agreement and Plan of Merger dated as of August 3, 2009, among PepsiCo, Inc., PepsiAmericas, Inc. and Pepsi-Cola Metropolitan Bottling Company, Inc. (the schedules have been omitted pursuant to Item 601(b)(2) of Regulation S-K), which is incorporated herein by reference to Exhibit 2.2 to PepsiCo's Current Report on Form 8-K dated August 3, 2009.
- Exhibit 2.3 Purchase Agreement dated as of December 1, 2010 among PepsiCo, Inc., Pepsi-Cola (Bermuda) Limited, Gavril A. Yushvaev, David Iakobachvili, Mikhail V. Dubinin, Sergei A. Plastinin, Alexander S. Orlov, Mikhail I. Vishnaykov, Aladaro Limited, Tony D. Maher, Dmitry Ivanov, Wimm Bill Dann Finance Cyprus Ltd. and Wimm-Bill-Dann Finance Co. Ltd. (the schedules have been omitted pursuant to Item 601(b)(2) of Regulation S-K), which is incorporated herein by reference to Exhibit 2.1 to PepsiCo's Current Report on Form 8-K dated December 1, 2010.
- Exhibit 3.1 Articles of Incorporation of PepsiCo, Inc., as amended and restated, effective as of May 9, 2011, which are incorporated herein by reference to Exhibit 3.1 to PepsiCo, Inc.'s Current Report on Form 8-K dated May 3, 2011.
- Exhibit 3.2 By-laws of PepsiCo, Inc., as amended, effective as of July 14, 2011, which are incorporated herein by reference to Exhibit 3.2 to PepsiCo, Inc.'s Current Report on Form 8-K dated July 14, 2011.
- Exhibit 4.1 Form of 0.800% Senior Note due 2014, which is incorporated herein by reference to Exhibit 4.1 to PepsiCo Inc.'s Current Report on Form 8-K dated August 22, 2011.
- Exhibit 4.2 Form of 3.000% Senior Note due 2021, which is incorporated herein by reference to Exhibit 4.2 to PepsiCo, Inc.'s Current Report on Form 8-K dated August 22, 2011.
- Exhibit 4.3 Board of Directors Resolutions Authorizing PepsiCo's Officers to Establish the Terms of the 0.800% Senior Note due 2014 and the 3.000% Senior Note due 2021, which is incorporated herein by reference to Exhibit 4.3 to PepsiCo's Current Report on Form 8-K dated May 3, 2011.

**Table of Contents**

Exhibit 10.1	Amendment to the PBG Pension Equalization Plan (Plan Document for the Pre-409A Program), effective as of January 1, 2011.
Exhibit 12	Computation of Ratio of Earnings to Fixed Charges.
Exhibit 15	Letter re: Unaudited Interim Financial Information.
Exhibit 31	Certifications of Chief Executive Officer and Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
Exhibit 32	Certifications of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
Exhibit 101	The following materials from PepsiCo, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 3, 2011 formatted in XBRL (eXtensible Business Reporting Language): (i) the Condensed Consolidated Statement of Income, (ii) the Condensed Consolidated Statement of Cash Flows, (iii) the Condensed Consolidated Balance Sheet, (iv) the Condensed Consolidated Statement of Equity, (v) the Condensed Consolidated Statement of Comprehensive Income, and (vi) notes to the condensed consolidated financial statements.