

PEPSICO INC  
Form 10-Q  
July 21, 2011

**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 June 11, 2011 (24 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

13-1584302  
(I.R.S. Employer

Incorporation or Organization)

Identification No.)

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

10577  
(Zip Code)

914-253-2000  
(Registrant's Telephone Number, Including Area Code)

N/A  
(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

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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

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

Number of shares of Common Stock outstanding as of July 15, 2011: 1,582,605,338

**PEPSICO, INC. AND SUBSIDIARIES**

**INDEX**

|   | Page No. |
|---|----------|
| <u>Part I Financial Information</u>   |          |
| <u>Item 1. Condensed Consolidated Financial Statements</u>  | 3        |
| <u>Condensed Consolidated Statement of Income 12 and 24 Weeks Ended June 11, 2011 and June 12, 2010</u>               | 3        |
| <u>Condensed Consolidated Statement of Cash Flows 24 Weeks Ended June 11, 2011 and June 12, 2010</u>                  | 4-5      |
| <u>Condensed Consolidated Balance Sheet June 11, 2011 and December 25, 2010</u>                                       | 6-7      |
| <u>Condensed Consolidated Statement of Equity 24 Weeks Ended June 11, 2011 and June 12, 2010</u>                      | 8        |
| <u>Condensed Consolidated Statement of Comprehensive Income 12 and 24 Weeks Ended June 11, 2011 and June 12, 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       |
| <u>Part II Other Information</u>  |          |
| <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       |

## 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   |           | 24 Weeks Ended   |           |
|--|------------------|-----------|------------------|-----------|
|  | 6/11/11          | 6/12/10   | 6/11/11          | 6/12/10   |
| <b>Net Revenue</b>   | <b>\$ 16,827</b> | \$ 14,801 | <b>\$ 28,764</b> | \$ 24,169 |
| Cost of sales  | <b>7,963</b>     | 6,745     | <b>13,410</b>    | 11,208    |
| Selling, general and administrative expenses               | <b>6,070</b>     | 5,563     | <b>10,809</b>    | 9,612     |
| Amortization of intangible assets                          | <b>40</b>        | 32        | <b>65</b>        | 48        |
| <b>Operating Profit</b>                                    | <b>2,754</b>     | 2,461     | <b>4,480</b>     | 3,301     |
| Bottling equity income                                     |                  | 9         |                  | 718       |
| Interest expense   | <b>(199)</b>     | (172)     | <b>(379)</b>     | (326)     |
| Interest income  | <b>20</b>        | 2         | <b>37</b>        | 8         |
| Income before income taxes                                 | <b>2,575</b>     | 2,300     | <b>4,138</b>     | 3,701     |
| Provision for income taxes                                 | <b>670</b>       | 687       | <b>1,089</b>     | 654       |
| Net income   | <b>1,905</b>     | 1,613     | <b>3,049</b>     | 3,047     |
| Less: Net income attributable to noncontrolling interests  | <b>20</b>        | 10        | <b>21</b>        | 14        |
| <b>Net Income Attributable to PepsiCo</b>                  | <b>\$ 1,885</b>  | \$ 1,603  | <b>\$ 3,028</b>  | \$ 3,033  |
| <b>Net Income Attributable to PepsiCo per Common Share</b> |                  |           |                  |           |
| <b>Basic</b>   | <b>\$ 1.19</b>   | \$ 1.00   | <b>\$ 1.91</b>   | \$ 1.90   |
| <b>Diluted</b>   | <b>\$ 1.17</b>   | \$ 0.98   | <b>\$ 1.89</b>   | \$ 1.87   |
| Cash dividends declared per common share                   | <b>\$ 0.515</b>  | \$ 0.48   | <b>\$ 0.995</b>  | \$ 0.93   |

See accompanying notes to the condensed consolidated financial statements.

## PEPSICO, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(in millions, unaudited)

|  | 24 Weeks Ended |              |
|--|----------------|--------------|
|  | 6/11/11        | 6/12/10      |
| <b>Operating Activities</b>  |                |              |
| Net income   | \$ 3,049       | \$ 3,047     |
| Depreciation and amortization  | 1,187          | 969          |
| Stock-based compensation expense   | 146            | 119          |
| Cash payments for restructuring charges  | (1)            | (28)         |
| Merger and integration costs   | 113            | 476          |
| Cash payments for merger and integration costs   | (207)          | (209)        |
| 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  | (52)           | (47)         |
| Pension and retiree medical plan contributions   | (116)          | (694)        |
| Pension and retiree medical plan expenses  | 254            | 248          |
| Bottling equity income, net of dividends   |                | 42           |
| Deferred income taxes and other tax charges and credits  | (146)          | 186          |
| Change in accounts and notes receivable  | (1,491)        | (994)        |
| Change in inventories  | (742)          | 40           |
| Change in prepaid expenses and other current assets  | (144)          | (139)        |
| Change in accounts payable and other current liabilities   | (65)           | (55)         |
| Change in income taxes payable   | 849            | 337          |
| Other, net   | (281)          | (163)        |
| <b>Net Cash Provided by Operating Activities</b>   | <b>2,353</b>   | <b>2,442</b> |
| <b>Investing Activities</b>  |                |              |
| Capital spending   | (1,231)        | (968)        |
| Sales of property, plant and equipment   | 34             | 37           |
| 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   | (61)           | (34)         |
| Short-term investments, by original maturity   |                |              |
| More than three months purchases   |                | (6)          |
| More than three months maturities  | 10             | 15           |
| Three months or less, net  | (10)           | (46)         |
| Other investing, net   | (2)            | (10)         |

|   |                |                |
|---|----------------|----------------|
| <b>Net Cash Used For Investing Activities</b> | <b>(3,852)</b> | <b>(4,745)</b> |
|---|----------------|----------------|

(Continued on following page)

## PEPSICO, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

(in millions, unaudited)

|   | 24 Weeks Ended  |                 |
|---|-----------------|-----------------|
|   | 6/11/11         | 6/12/10         |
| <b>Financing Activities</b>   |                 |                 |
| Proceeds from issuances of long-term debt   | \$ 1,754        | \$ 4,216        |
| Payments of long-term debt  | (285)           | (26)            |
| Short-term borrowings, by original maturity   |                 |                 |
| More than three months proceeds   | 180             | 31              |
| More than three months payments   | (152)           | (19)            |
| Three months or less, net   | (290)           | 3,329           |
| Cash dividends paid   | (1,530)         | (1,451)         |
| Share repurchases common  | (746)           | (3,308)         |
| Share repurchases preferred   | (4)             | (2)             |
| Proceeds from exercises of stock options  | 652             | 464             |
| Excess tax benefits from share-based payment arrangements   | 52              | 47              |
| Acquisition of noncontrolling interests   | (1,327)         | (159)           |
| Other financing   | (3)             | (6)             |
| <b>Net Cash (Used for)/Provided by Financing Activities</b>   | <b>(1,699)</b>  | <b>3,116</b>    |
| Effect of exchange rate changes on cash and cash equivalents  | 168             | (227)           |
| <b>Net (Decrease)/Increase in Cash and Cash Equivalents</b>   | <b>(3,030)</b>  | <b>586</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>\$ 2,913</b> | <b>\$ 4,529</b> |
| Non-cash activity:  |                 |                 |
| 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.

PEPSICO, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEET

(in millions)

|  | (Unaudited)<br>6/11/11 | 12/25/10  |
|--|------------------------|-----------|
| <b>Assets</b>  |                        |           |
| Current Assets   |                        |           |
| Cash and cash equivalents  | \$ 2,913               | \$ 5,943  |
| Short-term investments   | 431                    | 426       |
| Accounts and notes receivable, less allowance: 6/11 \$154, 12/10 \$144 | 8,283                  | 6,323     |
| Inventories  |                        |           |
| Raw materials  | 2,296                  | 1,654     |
| Work-in-process  | 283                    | 128       |
| Finished goods   | 1,960                  | 1,590     |
|  | 4,539                  | 3,372     |
| Prepaid expenses and other current assets                              | 1,751                  | 1,505     |
| Total Current Assets   | 17,917                 | 17,569    |
| Property, Plant and Equipment  | 35,979                 | 33,041    |
| Accumulated Depreciation   | (15,125)               | (13,983)  |
|  | 20,854                 | 19,058    |
| Amortizable Intangible Assets, net                                     | 2,480                  | 2,025     |
| Goodwill   | 16,299                 | 14,661    |
| Other Nonamortizable Intangible Assets                                 | 15,548                 | 11,783    |
| Nonamortizable Intangible Assets                                       | 31,847                 | 26,444    |
| Investments in Noncontrolled Affiliates                                | 1,449                  | 1,368     |
| Other Assets   | 1,133                  | 1,689     |
| Total Assets   | \$ 75,680              | \$ 68,153 |

(Continued on following page)

## PEPSICO, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED BALANCE SHEET (continued)

(in millions except per share amounts)

|   | (Unaudited)<br>6/11/11 | 12/25/10  |
|---|------------------------|-----------|
| <b>Liabilities and Equity</b>                               |                        |           |
| Current Liabilities   |                        |           |
| Short-term obligations                                      | \$ 5,715               | \$ 4,898  |
| Accounts payable and other current liabilities              | 11,433                 | 10,923    |
| Income taxes payable  | 909                    | 71        |
| Total Current Liabilities                                   | 18,057                 | 15,892    |
| Long-term Debt Obligations                                  | 21,607                 | 19,999    |
| Other Liabilities   | 6,669                  | 6,729     |
| Deferred Income Taxes                                       | 4,977                  | 4,057     |
| Total Liabilities   | 51,310                 | 46,677    |
| Commitments and Contingencies                               |                        |           |
| Preferred Stock, no par value                               | 41                     | 41        |
| Repurchased Preferred Stock                                 | (154)                  | (150)     |
| PepsiCo Common Shareholders' Equity                         |                        |           |
| Common stock, par value 1 2/3 cents per share:              |                        |           |
| Authorized 3,600 shares, issued 6/11 and 12/10 1,865 shares | 31                     | 31        |
| Capital in excess of par value                              | 4,358                  | 4,527     |
| Retained earnings   | 38,527                 | 37,090    |
| Accumulated other comprehensive loss                        | (2,254)                | (3,630)   |
| Less: repurchased common stock, at cost:                    |                        |           |
| 6/11 281 shares, 12/10 284 shares                           | (16,597)               | (16,745)  |
| Total PepsiCo Common Shareholders' Equity                   | 24,065                 | 21,273    |
| Noncontrolling interests                                    | 418                    | 312       |
| Total Equity  | 24,370                 | 21,476    |
| Total Liabilities and Equity                                | \$ 75,680              | \$ 68,153 |

See accompanying notes to the condensed consolidated financial statements.



## PEPSICO, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENT OF EQUITY

(in millions, unaudited)

|  | 24 Weeks Ended |              |         |         |
|--|----------------|--------------|---------|---------|
|  | 6/11/11        |              | 6/12/10 |         |
|  | 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  | ( )            | (4)          | ( )     | (2)     |
| Balance, end of period   | (0.6)          | (154)        | (0.6)   | (147)   |
| <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                                 |                | 146          |         | 119     |
| Stock option exercises/RSUs converted <sup>(a)</sup>             |                | (281)        |         | (321)   |
| Withholding tax on RSUs converted                                |                | (50)         |         | (55)    |
| Equity issued in connection with our acquisitions of PBG and PAS |                |              |         | 4,451   |
| Other  |                | 16           |         | 95      |
| Balance, end of period   |                | 4,358        |         | 4,539   |
| <b>Retained Earnings</b>   |                |              |         |         |
| Balance, beginning of year                                       |                | 37,090       |         | 33,805  |
| Net income attributable to PepsiCo                               |                | 3,028        |         | 3,033   |
| Cash dividends declared common                                   |                | (1,580)      |         | (1,510) |
| Cash dividends declared preferred                                |                | (1)          |         | (1)     |
| Cash dividends declared RSUs                                     |                | (10)         |         | (6)     |
| Other  |                |              |         | 7       |
| Balance, end of period   |                | 38,527       |         | 35,328  |
| <b>Accumulated Other Comprehensive Loss</b>                      |                |              |         |         |
| Balance, beginning of year                                       |                | (3,630)      |         | (3,794) |
| Currency translation adjustment                                  |                | 1,382        |         | (581)   |
| Cash flow hedges, net of tax:                                    |                |              |         |         |
| Net derivative losses  |                | (17)         |         | (86)    |

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|  |              |                  |              |                  |
|--|--------------|------------------|--------------|------------------|
| Reclassification of net losses to net income                                     |              | 7                |              | 23               |
| Reclassification of pension and retiree medical losses to net income, net of tax |              | 23               |              | 211              |
| Unrealized (losses)/gains on securities, net of tax                              |              | (2)              |              | 1                |
| Other  |              | (17)             |              |                  |
| <b>Balance, end of period</b>  |              | <b>(2,254)</b>   |              | <b>(4,226)</b>   |
| <b>Repurchased Common Stock</b>  |              |                  |              |                  |
| Balance, beginning of year   | (284)        | (16,745)         | (217)        | (13,383)         |
| Share repurchases  | (12)         | (811)            | (52)         | (3,370)          |
| Stock option exercises   | 14           | 858              | 11           | 696              |
| Other  | 1            | 101              | (14)         | 117              |
| <b>Balance, end of period</b>  | <b>(281)</b> | <b>(16,597)</b>  | <b>(272)</b> | <b>(15,940)</b>  |
| <b>Total Common Shareholders Equity</b>  |              | <b>24,065</b>    |              | <b>19,732</b>    |
| <b>Noncontrolling Interests</b>  |              |                  |              |                  |
| Balance, beginning of year   |              | 312              |              | 638              |
| Net income attributable to noncontrolling interests                              |              | 21               |              | 14               |
| Contributions from/(distributions to) noncontrolling interests, net              |              | 13               |              | (350)            |
| Currency translation adjustment  |              | 72               |              | (14)             |
| <b>Balance, end of period</b>  |              | <b>418</b>       |              | <b>288</b>       |
| <b>Total Equity</b>  |              | <b>\$ 24,370</b> |              | <b>\$ 19,914</b> |

<sup>(a)</sup> Includes total tax benefits of \$33 million in 2011 and \$30 million in 2010. See accompanying notes to the condensed consolidated financial statements.

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

(in millions, unaudited)

|   | 12 Weeks Ended  |          | 24 Weeks Ended  |          |
|---|-----------------|----------|-----------------|----------|
|   | 6/11/11         | 6/12/10  | 6/11/11         | 6/12/10  |
| Net Income  | <b>\$ 1,905</b> | \$ 1,613 | <b>\$ 3,049</b> | \$ 3,047 |
| Other Comprehensive Income  |                 |          |                 |          |
| Currency translation adjustment   | <b>809</b>      | (700)    | <b>1,454</b>    | (595)    |
| Cash flow hedges, net of tax:   |                 |          |                 |          |
| Net derivative losses   | <b>(25)</b>     | (38)     | <b>(17)</b>     | (86)     |
| Reclassification of net losses to net income  | <b>3</b>        | 5        | <b>7</b>        | 23       |
| Reclassification of pension and retiree medical losses to net income,<br>net of tax | <b>26</b>       | 75       | <b>23</b>       | 211      |
| Unrealized gains/(losses) on securities, net of tax                                 | <b>11</b>       | 2        | <b>(2)</b>      | 1        |
| Other   | <b>1</b>        |          | <b>(17)</b>     |          |
|   | <b>825</b>      | (656)    | <b>1,448</b>    | (446)    |
| Comprehensive Income  | <b>2,730</b>    | 957      | <b>4,497</b>    | 2,601    |
| Comprehensive income attributable to noncontrolling interests                       | <b>(64)</b>     | (11)     | <b>(93)</b>     |          |
| <b>Comprehensive Income Attributable to PepsiCo</b>                                 | <b>\$ 2,666</b> | \$ 946   | <b>\$ 4,404</b> | \$ 2,601 |

See accompanying notes to the condensed consolidated financial statements.

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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 June 11, 2011 and the Condensed Consolidated Statements of Income and Comprehensive Income for the 12 and 24 weeks ended June 11, 2011 and June 12, 2010, and the Condensed Consolidated Statements of Cash Flows and Equity for the 24 weeks ended June 11, 2011 and June 12, 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 24 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 March, April and May are reflected in our second 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 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.



|                       | 12 Weeks Ended |           | 24 Weeks Ended |           |
|-----------------------|----------------|-----------|----------------|-----------|
|                       | 6/11/11        | 6/12/10   | 6/11/11        | 6/12/10   |
| <b>Net Revenue</b>    |                |           |                |           |
| FLNA                  | \$ 3,090       | \$ 2,992  | \$ 5,994       | \$ 5,856  |
| QFNA                  | 583            | 582       | 1,223          | 1,265     |
| LAF                   | 1,808          | 1,538     | 2,916          | 2,521     |
| PAB                   | 5,629          | 5,548     | 10,160         | 8,313     |
| Europe <sup>(a)</sup> | 3,794          | 2,498     | 5,420          | 3,542     |
| AMEA                  | 1,923          | 1,643     | 3,051          | 2,672     |
|                       | \$ 16,827      | \$ 14,801 | \$ 28,764      | \$ 24,169 |

|  | 12 Weeks Ended |          | 24 Weeks Ended |          |
|--|----------------|----------|----------------|----------|
|  | 6/11/11        | 6/12/10  | 6/11/11        | 6/12/10  |
| <b>Operating Profit</b>                          |                |          |                |          |
| FLNA   | \$ 853         | \$ 800   | \$ 1,627       | \$ 1,528 |
| QFNA   | 167            | 159      | 381            | 354      |
| LAF  | 274            | 233      | 445            | 378      |
| PAB  | 983            | 952      | 1,541          | 1,025    |
| Europe   | 407            | 276      | 470            | 394      |
| AMEA   | 299            | 267      | 445            | 422      |
| Total division                                   | 2,983          | 2,687    | 4,909          | 4,101    |
| Corporate Unallocated                            |                |          |                |          |
| Net impact of mark-to-market on commodity hedges | (9)            | (4)      | 22             | 42       |
| Merger and integration costs                     | (12)           | (24)     | (54)           | (112)    |
| Venezuela currency devaluation                   |                |          |                | (129)    |
| Asset write-off                                  |                |          |                | (145)    |
| Foundation contribution                          |                |          |                | (100)    |
| Other  | (208)          | (198)    | (397)          | (356)    |
|  | \$ 2,754       | \$ 2,461 | \$ 4,480       | \$ 3,301 |

|                                    | Total Assets |           |
|------------------------------------|--------------|-----------|
|                                    | 6/11/11      | 12/25/10  |
| FLNA                               | \$ 6,217     | \$ 6,027  |
| QFNA                               | 1,194        | 1,217     |
| LAF                                | 4,327        | 4,053     |
| PAB                                | 33,006       | 31,622    |
| Europe <sup>(a)</sup>              | 21,637       | 13,032    |
| AMEA                               | 5,906        | 5,569     |
| Total division                     | 72,287       | 61,520    |
| Corporate <sup>(b)</sup>           | 3,393        | 6,394     |
| Investments in bottling affiliates |              | 239       |
|                                    | \$ 75,680    | \$ 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.

## 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 24 weeks ended June 12, 2010.

|   | (unaudited)<br>24 Weeks Ended<br>6/12/10 |
|---|--|
| Net Revenue   | \$ 25,913                                |
| Net Income Attributable to PepsiCo                          | \$ 2,569                                 |
| Net Income Attributable to PepsiCo per Common Share Diluted | \$ 1.56                                  |

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

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 of WBD to approximately 77%. Under the guidance on accounting for business combinations, 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 will be 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 the ADS depository) will be entitled to receive 3,883.70 Russian rubles per ordinary share. The ADS depository will convert the Russian rubles paid to it with respect to the ordinary shares

underlying the ADSs (970.925 Russian rubles per ADS) to U.S. dollars at the spot market conversion rates available to it during the period it takes to complete such conversion. The squeeze-out process is expected to be concluded by mid-September 2011, after which time we expect to own 100% of WBD.

### Intangible Assets

|  | 6/11/11         | 12/25/10 |
|--|-----------------|----------|
| <i><b>Amortizable intangible assets, net</b></i> |                 |          |
| Acquired franchise rights                        | <b>\$ 974</b>   | \$ 949   |
| Reacquired franchise rights                      | <b>110</b>      | 110      |
| Brands   | <b>1,543</b>    | 1,463    |
| Other identifiable intangibles                   | <b>1,170</b>    | 747      |
|  | <b>3,797</b>    | 3,269    |
| Accumulated amortization                         | <b>(1,317)</b>  | (1,244)  |
|  | <b>\$ 2,480</b> | \$ 2,025 |

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

|                                   | Balance<br>12/25/10 | Acquisitions | Translation<br>and<br>Other | Balance<br>6/11/11 |
|-----------------------------------|---------------------|--------------|-----------------------------|--------------------|
| <b>FLNA</b>                       |                     |              |                             |                    |
| Goodwill                          | \$ 313              | \$           | \$ 6                        | \$ 319             |
| Brands                            | 31                  |              | 1                           | 32                 |
|                                   | 344                 |              | 7                           | 351                |
| <b>QFNA</b>                       |                     |              |                             |                    |
| Goodwill                          | 175                 |              |                             | 175                |
| <b>LAF</b>                        |                     |              |                             |                    |
| Goodwill                          | 497                 |              | 13                          | 510                |
| Brands                            | 143                 |              | 4                           | 147                |
|                                   | 640                 |              | 17                          | 657                |
| <b>PAB</b>                        |                     |              |                             |                    |
| Goodwill                          | 9,946               | 26           | 22                          | 9,994              |
| Reacquired franchise rights       | 7,283               | 20           | 38                          | 7,341              |
| Acquired franchise rights         | 1,565               |              | 3                           | 1,568              |
| Brands                            | 182                 | 8            | 5                           | 195                |
| Other                             | 10                  |              | 1                           | 11                 |
|                                   | 18,986              | 54           | 69                          | 19,109             |
| <b>Europe<sup>(a)</sup></b>       |                     |              |                             |                    |
| Goodwill                          | 3,040               | 1,228        | 314                         | 4,582              |
| Reacquired franchise rights       | 793                 |              | 62                          | 855                |
| Acquired franchise rights         | 227                 |              | 19                          | 246                |
| Brands                            | 1,380               | 3,300        | 296                         | 4,976              |
|                                   | 5,440               | 4,528        | 691                         | 10,659             |
| <b>AMEA</b>                       |                     |              |                             |                    |
| Goodwill                          | 690                 |              | 29                          | 719                |
| Brands                            | 169                 |              | 8                           | 177                |
|                                   | 859                 |              | 37                          | 896                |
| Total goodwill                    | 14,661              | 1,254        | 384                         | 16,299             |
| Total reacquired franchise rights | 8,076               | 20           | 100                         | 8,196              |
| Total acquired franchise rights   | 1,792               |              | 22                          | 1,814              |
| Total brands                      | 1,905               | 3,308        | 314                         | 5,527              |
| Total other                       | 10                  |              | 1                           | 11                 |

|           |          |        |                  |
|-----------|----------|--------|------------------|
| \$ 26,444 | \$ 4,582 | \$ 821 | <b>\$ 31,847</b> |
|-----------|----------|--------|------------------|

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

## Stock-Based Compensation

For the 12 weeks ended June 11, 2011, we recognized stock-based compensation expense of \$76 million (\$74 million recorded as stock-based compensation expense and \$2 million included in merger and integration charges). For the 24 weeks ended June 11, 2011, we recognized stock-based compensation expense of \$155 million (\$146 million recorded as stock-based compensation expense and \$9 million included in merger and integration charges). For the 12 weeks ended June 12, 2010, we recognized stock-based compensation expense of \$85 million (\$72 million recorded as stock-based compensation expense and \$13 million included in merger and integration charges). For the 24 weeks ended June 12, 2010, we recognized stock-based compensation expense of \$159 million (\$119 million recorded as stock-based compensation expense and \$40 million included in merger and integration charges).

For the 12 weeks ended June 11, 2011, our grants of stock options and restricted stock units (RSU) were nominal. For the 24 weeks ended June 11, 2011, we granted 6.4 million stock options at a weighted-average grant price of \$63.78 and 5.2 million RSUs at a weighted-average grant price of \$63.81, under the terms of our 2007 Long-Term Incentive Plan. For the 12 and 24 weeks ended June 12, 2010, we granted 12.0 million stock options and 4.6 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:

|                                    | 24 Weeks Ended |         |
|------------------------------------|----------------|---------|
|                                    | 6/11/11        | 6/12/10 |
| Expected life                      | <b>6 yrs.</b>  | 5 yrs.  |
| Risk free interest rate            | <b>2.6%</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.

## 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 |              |
|  | 6/11/11        | 6/12/10       | 6/11/11      | 6/12/10      | 6/11/11         | 6/12/10      |
|  | U.S.           | International |              |              |                 |              |
| Service cost                                 | \$ 80          | \$ 69         | \$ 23        | \$ 19        | \$ 11           | \$ 14        |
| Interest cost                                | 126            | 120           | 28           | 26           | 21              | 23           |
| Expected return on plan assets               | (162)          | (150)         | (33)         | (31)         | (4)             |              |
| Amortization of prior service cost/(benefit) | 4              | 2             | 1            | 1            | (6)             | (4)          |
| Amortization of experience loss              | 34             | 25            | 9            | 6            | 3               | 1            |
|  | 82             | 66            | 28           | 21           | 25              | 34           |
| Settlement/Curtailment gain                  |                | (2)           |              |              |                 |              |
| Special termination benefits                 |                | 15            |              |              |                 | 1            |
| <b>Total expense</b>                         | <b>\$ 82</b>   | <b>\$ 79</b>  | <b>\$ 28</b> | <b>\$ 21</b> | <b>\$ 25</b>    | <b>\$ 35</b> |

|  | 24 Weeks Ended |               |              |              |                 |              |
|--|----------------|---------------|--------------|--------------|-----------------|--------------|
|  | Pension        |               |              |              | Retiree Medical |              |
|  | 6/11/11        | 6/12/10       | 6/11/11      | 6/12/10      | 6/11/11         | 6/12/10      |
|  | U.S.           | International |              |              |                 |              |
| Service cost                                 | \$ 162         | \$ 130        | \$ 40        | \$ 33        | \$ 23           | \$ 26        |
| Interest cost                                | 252            | 218           | 49           | 44           | 41              | 43           |
| Expected return on plan assets               | (324)          | (275)         | (57)         | (53)         | (7)             |              |
| Amortization of prior service cost/(benefit) | 7              | 5             | 1            | 1            | (13)            | (8)          |
| Amortization of experience loss              | 67             | 50            | 16           | 10           | 6               | 2            |
|  | 164            | 128           | 49           | 35           | 50              | 63           |
| Settlement/Curtailment gain                  | (9)            | (2)           |              |              |                 |              |
| Special termination benefits                 | 10             | 23            |              |              | 1               | 1            |
| <b>Total expense</b>                         | <b>\$ 165</b>  | <b>\$ 149</b> | <b>\$ 49</b> | <b>\$ 35</b> | <b>\$ 51</b>    | <b>\$ 64</b> |

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**Income Taxes**

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

|   | <b>6/11/11</b>  | 12/25/10 |
|---|-----------------|----------|
| Balance, beginning of year                              | <b>\$ 2,022</b> | \$ 1,731 |
| Additions for tax positions related to the current year | <b>85</b>       | 204      |
| Additions for tax positions from prior years            | <b>4</b>        | 517      |
| Reductions for tax positions from prior years           | <b>(54)</b>     | (391)    |
| Settlement payments                                     | <b>(87)</b>     | (30)     |
| Statute of limitations expiration                       | <b>(5)</b>      | (7)      |
| Translation and other                                   | <b>(2)</b>      | (2)      |
| Balance, end of period                                  | <b>\$ 1,963</b> | \$ 2,022 |

**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 |                       |          |                       |
|---|----------------|-----------------------|----------|-----------------------|
|   | 6/11/11        |                       | 6/12/10  |                       |
|   | Income         | Shares <sup>(a)</sup> | Income   | Shares <sup>(a)</sup> |
| Net income attributable to PepsiCo                          | \$ 1,885       |                       | \$ 1,603 |                       |
| Preferred shares:   |                |                       |          |                       |
| Dividends   | (1)            |                       | (1)      |                       |
| Redemption premium  | (1)            |                       | (1)      |                       |
| Net income available for PepsiCo common shareholders        | \$ 1,883       | 1,583                 | \$ 1,601 | 1,608                 |
| Basic net income attributable to PepsiCo per common share   | \$ 1.19        |                       | \$ 1.00  |                       |
| Net income available for PepsiCo common shareholders        | \$ 1,883       | 1,583                 | \$ 1,601 | 1,608                 |
| Dilutive securities:  |                |                       |          |                       |
| Stock options and RSUs <sup>(b)</sup>                       |                | 21                    |          | 25                    |
| ESOP convertible preferred stock                            | 2              | 1                     | 2        | 1                     |
| Diluted   | \$ 1,885       | 1,605                 | \$ 1,603 | 1,634                 |
| Diluted net income attributable to PepsiCo per common share | \$ 1.17        |                       | \$ 0.98  |                       |

|   | 24 Weeks Ended |                       |          |                       |
|---|----------------|-----------------------|----------|-----------------------|
|   | 6/11/11        |                       | 6/12/10  |                       |
|   | Income         | Shares <sup>(a)</sup> | Income   | Shares <sup>(a)</sup> |
| Net income attributable to PepsiCo                        | \$ 3,028       |                       | \$ 3,033 |                       |
| Preferred shares:   |                |                       |          |                       |
| Dividends   | (1)            |                       | (1)      |                       |
| Redemption premium  | (3)            |                       | (2)      |                       |
| Net income available for PepsiCo common shareholders      | \$ 3,024       | 1,583                 | \$ 3,030 | 1,595                 |
| Basic net income attributable to PepsiCo per common share | \$ 1.91        |                       | \$ 1.90  |                       |
| Net income available for PepsiCo common shareholders      | \$ 3,024       | 1,583                 | \$ 3,030 | 1,595                 |
| Dilutive securities:                                      |                |                       |          |                       |
| Stock options and RSUs <sup>(b)</sup>                     |                | 21                    |          | 24                    |
| ESOP convertible preferred stock                          | 4              | 1                     | 3        | 1                     |
| Diluted   | \$ 3,028       | 1,605                 | \$ 3,033 | 1,620                 |

|   |                |         |
|---|----------------|---------|
| Diluted net income attributable to PepsiCo per common share | <b>\$ 1.89</b> | \$ 1.87 |
|---|----------------|---------|

- (a) Weighted-average common shares outstanding (in millions).
- (b) Options to purchase 10.1 million and 20.7 million shares, respectively, for the 12 and 24 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 \$68.88 and \$67.35, respectively. Options to purchase 22.9 million and 21.8 million shares, respectively, for the 12 and 24 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 24 weeks in 2010 had average exercise prices of \$67.60 and \$67.33, respectively.

## 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 2.50% senior notes maturing in 2016. The net proceeds from the issuance of these notes were used for general corporate purposes.

Subsequent to the end of the second quarter of 2011, we entered into a new four-year unsecured revolving credit agreement (Four-Year Credit Agreement) which enables us to borrow up to \$2.875 billion, subject to customary terms and conditions, and expires in June 2015. 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, subsequent to the end of the second quarter of 2011, we entered into a new 364-day unsecured revolving credit agreement (364-Day Credit Agreement) which enables us to borrow up to \$2.875 billion, subject to customary terms and conditions, and expires in June 2012. 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.

Subsequent to the end of the second 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 will record a \$16 million charge to interest expense in the third quarter, primarily representing the premium paid in the tender offer.

As of June 11, 2011, we had \$2.2 billion of commercial paper outstanding.

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

|   | Total     | Payments Due by Period |              |              |                    |
|---|-----------|------------------------|--------------|--------------|--------------------|
|   |           | 2011                   | 2012<br>2013 | 2014<br>2015 | 2016 and<br>beyond |
| Long-term debt obligations <sup>(b)</sup>   | \$ 21,016 | \$                     | \$ 5,167     | \$ 4,353     | \$ 11,496          |
| Interest on debt obligations <sup>(c)</sup> | 7,556     | 467                    | 1,574        | 1,125        | 4,390              |
| Operating leases                            | 1,901     | 253                    | 678          | 406          | 564                |
| Purchasing commitments                      | 3,496     | 931                    | 2,077        | 406          | 82                 |
| Marketing commitments                       | 2,555     | 102                    | 562          | 543          | 1,348              |
|   | \$ 36,524 | \$ 1,753               | \$ 10,058    | \$ 6,833     | \$ 17,880          |

(a) Reflects non-cancelable commitments as of June 11, 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.

(b) Excludes \$2.4 billion related to current maturities of long-term debt, as well as \$591 million related to the fair value step-up of debt acquired in connection with our acquisitions of PBG and PAS.

(c) Interest payments on floating-rate debt are estimated using interest rates effective as of June 11, 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 June 11, 2011, we incurred merger and integration charges of \$58 million (\$45 million after-tax or \$0.03 per share) related to our acquisitions of PBG, PAS and WBD, including \$32 million recorded in the PAB segment, \$14 million recorded in the Europe segment and \$12 million recorded in corporate unallocated expenses. In the 24 weeks ended June 11, 2011, we incurred merger and integration charges of \$113 million (\$94 million after-tax or \$0.06 per share) related to our acquisitions of PBG, PAS and WBD, including \$53 million recorded in the PAB segment, \$6 million recorded in the Europe segment and \$54 million recorded in corporate unallocated expenses. All of these net charges 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 June 12, 2010, we incurred merger and integration charges of \$155 million related to our acquisitions of PBG and PAS, including \$103 million recorded in the PAB segment, \$28 million recorded in the Europe segment and \$24 million recorded in corporate unallocated expenses. In the 24 weeks ended June 12, 2010, we incurred merger and integration charges of \$467 million related to our acquisitions of PBG and PAS, including \$296 million recorded in the PAB segment, \$29 million recorded in the Europe segment, \$112 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 \$119 million (\$0.07 per share) and \$380 million (\$0.23 per share) for the 12 and 24 weeks ended June 12, 2010, respectively.

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

|                                     | Severance and Other<br>Employee<br>Costs |       | Other Costs | Total  |
|-------------------------------------|--|-------|-------------|--------|
| Liability as of December 25, 2010   | \$                                       | 179   | \$ 25       | \$ 204 |
| 2011 merger and integration charges |  | 36    | 77          | 113    |
| Cash payments                       |  | (101) | (106)       | (207)  |
| Non-cash charges                    |  | (35)  | 14          | (21)   |
| Liability as of June 11, 2011       | \$                                       | 79    | \$ 10       | \$ 89  |

## 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, with terms of no more

than three years, to economically hedge price fluctuations related to a portion of our anticipated commodity purchases, primarily for natural gas, diesel fuel and aluminum. For those derivatives that qualify for hedge accounting, any ineffectiveness is recorded immediately in corporate unallocated expenses. We 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 \$30 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 \$590 million as of June 11, 2011 and \$587 million as of June 12, 2010. These contracts resulted in net unrealized gains of \$61 million as of June 11, 2011 and net unrealized losses of \$15 million as of June 12, 2010.

Our open commodity derivative contracts that do not qualify for hedge accounting had a face value of \$356 million as of June 11, 2011 and \$246 million as of June 12, 2010. These contracts resulted in net gains of \$45 million as of June 11, 2011 and net losses of \$14 million as of June 12, 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 \$2.3 billion as of June 11, 2011 and \$1.3 billion as of June 12, 2010. The contracts that qualify for hedge accounting resulted in net unrealized losses of \$29 million as of June 11, 2011 and net unrealized gains of \$5 million as of June 12, 2010. During the next 12 months, we expect to reclassify net losses of \$28 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 \$7 million as of June 11, 2011 and net gains of \$6 million as of June 12, 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.

The notional amounts of the interest rate derivative instruments outstanding as of June 11, 2011 and June 12, 2010 were \$8.73 billion and \$8.60 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 June 11, 2011, approximately 42% 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 June 11, 2011 and June 12, 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>              | \$ 85                 | \$                         | \$ 79                 | \$                         |
| Short-term investments index funds <sup>(c)</sup>         | \$ 176                | \$                         | \$ 144                | \$                         |
| Deferred compensation <sup>(d)</sup>                      | \$                    | \$ 547                     | \$                    | \$ 554                     |
| <b>Derivatives designated as hedging instruments:</b>     |                       |                            |                       |                            |
| Forward exchange contracts <sup>(e)</sup>                 | \$ 7                  | \$ 36                      | \$ 24                 | \$ 19                      |
| Interest rate derivatives <sup>(f)</sup>                  | 345                   | 14                         | 268                   | 27                         |
| Commodity contracts other <sup>(g)</sup>                  | 73                    | 3                          | 37                    | 27                         |
| Commodity contracts futures <sup>(h)</sup>                | 1                     | 10                         |                       | 26                         |
|   | \$ 426                | \$ 63                      | \$ 329                | \$ 99                      |
| <b>Derivatives not designated as hedging instruments:</b> |                       |                            |                       |                            |
| Forward exchange contracts <sup>(e)</sup>                 | \$ 8                  | \$ 15                      | \$ 12                 | \$ 6                       |
| Interest rate derivatives <sup>(f)</sup>                  | 44                    | 81                         | 7                     | 48                         |
| Commodity contracts other <sup>(g)</sup>                  | 47                    | 2                          | 5                     | 19                         |
| Commodity contracts futures <sup>(h)</sup>                |                       |                            |                       | 1                          |
| Prepaid forward contracts <sup>(i)</sup>                  | 41                    |                            | 61                    |                            |
|   | \$ 140                | \$ 98                      | \$ 85                 | \$ 74                      |
| <b>Total derivatives at fair value</b>                    | <b>\$ 566</b>         | <b>\$ 161</b>              | <b>\$ 414</b>         | <b>\$ 173</b>              |
| <b>Total</b>  | <b>\$ 827</b>         | <b>\$ 708</b>              | <b>\$ 637</b>         | <b>\$ 727</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.

<sup>(b)</sup> 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 June 11, 2011 and June 12, 2010, \$46 million and \$144 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 June 11, 2011 was \$29.2 billion, based upon prices of similar instruments in the marketplace.

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

|                            | 12 Weeks Ended   |         |   |         |  |         |
|----------------------------|--|---------|---|---------|--|---------|
|                            | Fair Value/Non-designated Hedges                             |         | Cash Flow Hedges  |         |  |         |
|                            | Losses/(Gains) Recognized in Income Statement <sup>(a)</sup> |         | Losses/(Gains) Recognized in Accumulated Other Comprehensive Loss |         | Losses/(Gains) Reclassified from Accumulated Other Comprehensive Loss into Income Statement <sup>(b)</sup> |         |
|                            | 6/11/11  | 6/12/10 | 6/11/11   | 6/12/10 | 6/11/11  | 6/12/10 |
| Forward exchange contracts | \$ 2   | \$ (11) | \$ 12   | \$ (21) | \$ 16  | \$ 11   |
| Interest rate derivatives  | (56)   | (70)    | 35  | 23      | 3  |         |
| Prepaid forward contracts  | (4)  | 3       |   |         |  |         |
| Commodity contracts        | (7)  | 3       | (15)  | 70      | (19)   |         |
| Total                      | \$ (65)  | \$ (75) | \$ 32   | \$ 72   | \$   | \$ 11   |

|                            | 24 Weeks Ended   |          |   |         |  |         |
|----------------------------|--|----------|---|---------|--|---------|
|                            | Fair Value/Non-designated Hedges                             |          | Cash Flow Hedges  |         |  |         |
|                            | Losses/(Gains) Recognized in Income Statement <sup>(a)</sup> |          | Losses/(Gains) Recognized in Accumulated Other Comprehensive Loss |         | Losses/(Gains) Reclassified from Accumulated Other Comprehensive Loss into Income Statement <sup>(b)</sup> |         |
|                            | 6/11/11  | 6/12/10  | 6/11/11   | 6/12/10 | 6/11/11  | 6/12/10 |
| Forward exchange contracts | \$ 1   | \$ (5)   | \$ 37   | \$ (8)  | \$ 21  | \$ 22   |
| Interest rate derivatives  | (78)   | (60)     | 29  | 36      | 6  |         |
| Prepaid forward contracts  | (2)  | (15)     |   |         |  |         |
| Commodity contracts        | (46)   | (43)     | (55)  | 58      | (25)   | 16      |
| Total                      | \$ (125)   | \$ (123) | \$ 11   | \$ 86   | \$ 2   | \$ 38   |

<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.



## **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.

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*



*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 24 weeks ended June 11, 2011. As a result, we are exposed to foreign currency risks, including unforeseen economic changes and political unrest. During the 12 weeks ended June 11, 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. During the 24 weeks ended June 11, 2011, favorable foreign currency increased net revenue growth by 2 percentage points, primarily due to appreciation of the Mexican peso, Canadian dollar, euro 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 June 11, 2011 and June 12, 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.

**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 |           | 24 Weeks Ended |           |
|--|----------------|-----------|----------------|-----------|
|  | 6/11/11        | 6/12/10   | 6/11/11        | 6/12/10   |
| <b>Operating profit</b>  |                |           |                |           |
| Mark-to-market net (losses)/gains                                  | \$ (9)         | \$ (4)    | \$ 22          | \$ 42     |
| Merger and integration charges                                     | \$ (58)        | \$ (155)  | \$ (113)       | \$ (437)  |
| Inventory fair value adjustments                                   | \$ (4)         | \$ (76)   | \$ (38)        | \$ (357)  |
| 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                                     | \$             | \$        | \$             | \$ (30)   |
| <b>Net income attributable to PepsiCo</b>                          |                |           |                |           |
| Mark-to-market net (losses)/gains                                  | \$ (5)         | \$ (3)    | \$ 14          | \$ 26     |
| Gain on previously held equity interests                           | \$             | \$        | \$             | \$ 958    |
| Merger and integration charges                                     | \$ (45)        | \$ (119)  | \$ (94)        | \$ (380)  |
| Inventory fair value adjustments                                   | \$ (2)         | \$ (68)   | \$ (23)        | \$ (308)  |
| 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                                  | \$ ( )         | \$ ( )    | \$ 0.01        | \$ 0.02   |
| Gain on previously held equity interests                           | \$             | \$        | \$             | \$ 0.60   |
| Merger and integration charges                                     | \$ (0.03)      | \$ (0.07) | \$ (0.06)      | \$ (0.23) |
| Inventory fair value adjustments                                   | \$ ( )         | \$ (0.04) | \$ (0.01)      | \$ (0.19) |
| 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 energy, fruit, aluminum 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.

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For the 12 weeks ended June 11, 2011, we recognized \$9 million (\$5 million after-tax with a nominal impact per share) of mark-to-market net losses on commodity hedges in corporate unallocated expenses. For the 24 weeks ended June 11, 2011, we recognized \$22 million (\$14

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

For the 12 weeks ended June 12, 2010, we recognized \$4 million (\$3 million after-tax with a nominal impact per share) of market-to-market net losses on commodity hedges in corporate unallocated expenses. For the 24 weeks ended June 12, 2010, we recognized \$42 million (\$26 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 June 11, 2011, we incurred merger and integration charges of \$58 million (\$45 million after-tax or \$0.03 per share) related to our acquisitions of PBG, PAS and WBD, including \$32 million recorded in the PAB segment, \$14 million recorded in the Europe segment and \$12 million recorded in corporate unallocated expenses. In the 24 weeks ended June 11, 2011, we incurred merger and integration charges of \$113 million (\$94 million after-tax or \$0.06 per share) related to our acquisitions of PBG, PAS and WBD, including \$53 million recorded in the PAB segment, \$6 million recorded in the Europe segment and \$54 million recorded in corporate unallocated expenses. These charges also include closing costs and advisory fees related to our acquisition of WBD.

In the 12 weeks ended June 12, 2010, we incurred merger and integration charges of \$155 million related to our acquisitions of PBG and PAS, including \$103 million recorded in the PAB segment, \$28 million recorded in the Europe segment and \$24 million recorded in corporate unallocated expenses. In the 24 weeks ended June 12, 2010, we incurred merger and integration charges of \$467 million related to our acquisitions of PBG and PAS, including \$296 million recorded in the PAB segment, \$29 million recorded in the Europe segment, \$112 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 \$119 million (\$0.07 per share) and \$380 million (\$0.23 per share) for the 12 and 24 weeks ended June 12, 2010, respectively.

### **Inventory Fair Value Adjustments**

In the 12 and 24 weeks ended June 11, 2011, we recorded \$4 million (\$2 million after-tax with a nominal impact per share) and \$38 million (\$23 million after-tax or \$0.01 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.

In the 12 and 24 weeks ended June 12, 2010, we recorded \$76 million (\$68 million after-tax or \$0.04 per share) and \$357 million (\$308 million after-tax or \$0.19 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 June 11, 2011, total servings increased 6%. For the 24 weeks ended June 11, 2011, total servings increased 7%.

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 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 second quarter includes beverage volume outside of North America for

March, April and May. 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 |           |        | 24 Weeks Ended |           |        |
|-----------------------------------|----------------|-----------|--------|----------------|-----------|--------|
|                                   | 6/11/11        | 6/12/10   | Change | 6/11/11        | 6/12/10   | Change |
| Total net revenue                 | \$ 16,827      | \$ 14,801 | 14%    | \$ 28,764      | \$ 24,169 | 19%    |
| Operating profit                  |                |           |        |                |           |        |
| FLNA                              | \$ 853         | \$ 800    | 6%     | \$ 1,627       | \$ 1,528  | 6%     |
| QFNA                              | 167            | 159       | 5.5%   | 381            | 354       | 8%     |
| LAF                               | 274            | 233       | 18%    | 445            | 378       | 18%    |
| PAB                               | 983            | 952       | 3%     | 1,541          | 1,025     | 50%    |
| Europe                            | 407            | 276       | 47%    | 470            | 394       | 19%    |
| AMEA                              | 299            | 267       | 12%    | 445            | 422       | 5%     |
| Corporate Unallocated             |                |           |        |                |           |        |
| Mark-to-market net (losses)/gains | (9)            | (4)       | 167%   | 22             | 42        | (49)%  |
| Merger and integration charges    | (12)           | (24)      | (57)%  | (54)           | (112)     | (53)%  |
| Venezuela currency devaluation    |                |           |        |                | (129)     | n/m    |
| Asset write-off                   |                |           |        |                | (145)     | n/m    |
| Foundation contribution           |                |           |        |                | (100)     | n/m    |
| Other                             | (208)          | (198)     | 6%     | (397)          | (356)     | 12%    |
| Total operating profit            | \$ 2,754       | \$ 2,461  | 12%    | \$ 4,480       | \$ 3,301  | 36%    |
| Total operating profit margin     | 16.4%          | 16.6%     | (0.2)  | 15.6%          | 13.7%     | 1.9    |

*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 12% and operating margin decreased 0.2 percentage points. Operating profit performance was primarily driven by the net revenue growth, partially offset by higher commodity costs. Items affecting comparability (see Items Affecting Comparability ) contributed 7 percentage points to the total operating profit growth and positively contributed 1.2 percentage points to the total operating margin performance.

**24 Weeks**

On a reported basis, total operating profit increased 36% and operating margin increased 1.9 percentage points. Operating profit performance was primarily driven by items affecting comparability (see [Items Affecting Comparability](#) ), which contributed 31 percentage points to the total operating profit growth and 4.2 percentage points to the total operating margin increase.

**Other Consolidated Results**

|   | 12 Weeks Ended |           |        | 24 Weeks Ended |           |          |
|---|----------------|-----------|--------|----------------|-----------|----------|
|   | 6/11/11        | 6/12/10   | Change | 6/11/11        | 6/12/10   | Change   |
| Bottling equity income  | \$             | \$ 9      | \$ (9) | \$             | \$ 718    | \$ (718) |
| Interest expense, net   | \$ (179)       | \$ (170)  | \$ (9) | \$ (342)       | \$ (318)  | \$ (24)  |
| Tax rate  | 26.0%          | 29.9%     |        | 26.3%          | 17.7%     |          |
| Net income attributable to PepsiCo  | \$ 1,885       | \$ 1,603  | 18%    | \$ 3,028       | \$ 3,033  |          |
| Net income attributable to PepsiCo per common share diluted   | \$ 1.17        | \$ 0.98   | 20%    | \$ 1.89        | \$ 1.87   | 1%       |
| Mark-to-market net losses/(gains)   |                |           |        | (0.01)         | (0.02)    |          |
| Gain on previously held equity interests  |                |           |        |                | (0.60)    |          |
| Merger and integration charges  | 0.03           | 0.07      |        | 0.06           | 0.23      |          |
| Inventory fair value adjustments  |                | 0.04      |        | 0.01           | 0.19      |          |
| 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*   | \$ 1.21**      | \$ 1.10** | 10%    | \$ 1.95        | \$ 1.86** | 5%       |
| Impact of foreign currency translation  |                |           | (2)    |                |           | (2)      |
| Growth in net income attributable to PepsiCo per common share diluted, excluding above items, on a constant currency basis* |                |           | 8%     |                |           | 3%       |

\* See Non-GAAP Measures

\*\* Does not sum due to rounding

## 12 Weeks

Net interest expense increased \$9 million, primarily reflecting higher average debt balances, partially offset by higher average rates on our investment balances.

The reported tax rate decreased 3.9% compared to the prior year, primarily reflecting tax benefits related to a portion of our international bottling operations in the current year and the impact of the Patient Protection and Affordable Care Act in the prior year.

Net income attributable to PepsiCo increased 18% and net income attributable to PepsiCo per common share increased 20%. Items affecting comparability (see *Items Affecting Comparability*) increased both net income attributable to PepsiCo and net income attributable to PepsiCo per common share by 10 percentage points.

## 24 Weeks

Bottling equity income decreased \$718 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 \$24 million, primarily reflecting higher average debt balances, partially offset by lower average rates on our debt balances as well as bridge and term financing costs in the prior year in connection with our acquisitions of PBG and PAS.

The reported tax rate increased 8.6% 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 was unchanged and net income attributable to PepsiCo per common share increased 1%. Items affecting comparability (see *Items Affecting Comparability*) decreased both net income attributable to PepsiCo and net income attributable to PepsiCo per common share by 4 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.

**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>June 11, 2011</b>                 | <b>\$ 3,090</b> | <b>\$ 583</b> | <b>\$ 1,808</b> | <b>\$ 5,629</b> | <b>\$ 3,794</b> | <b>\$ 1,923</b> | <b>\$ 16,827</b> |
| June 12, 2010                        | \$ 2,992        | \$ 582        | \$ 1,538        | \$ 5,548        | \$ 2,498        | \$ 1,643        | \$ 14,801        |
| <i>% Impact of:</i>                  |                 |               |                 |                 |                 |                 |                  |
| Volume <sup>(a)</sup>                | 1%              | (2)%          | 5%              | (1)%            | 5%              | 14%             | 3%               |
| Effective net pricing <sup>(b)</sup> | 2               | 1             | 6               | 1               | 6               | 0.5             | 3                |
| Foreign exchange                     | 0.5             | 1             | 7               | 1               | 7               | 2               | 3                |
| Acquisitions                         |                 |               |                 |                 | 33              |                 | 6                |
| <i>% Change<sup>(c)</sup></i>        | 3%              | %             | 18%             | 1%              | 52%             | 17%             | 14%              |

**Net Revenue**

| <b>24 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>June 11, 2011</b>                 | <b>\$ 5,994</b> | <b>\$ 1,223</b> | <b>\$ 2,916</b> | <b>\$ 10,160</b> | <b>\$ 5,420</b> | <b>\$ 3,051</b> | <b>\$ 28,764</b> |
| June 12, 2010                        | \$ 5,856        | \$ 1,265        | \$ 2,521        | \$ 8,313         | \$ 3,542        | \$ 2,672        | \$ 24,169        |
| <i>% Impact of:</i>                  |                 |                 |                 |                  |                 |                 |                  |
| Volume <sup>(a)</sup>                | 1%              | (6)%            | 4%              | *                | *               | 10%             | *                |
| Effective net pricing <sup>(b)</sup> | 1               | 1               | 6               | *                | *               | 1.5             | *                |
| Foreign exchange                     | 0.5             | 1               | 6               | 1                | 4               | 2               | 2                |
| Acquisitions                         |                 |                 |                 | *                | *               |                 | *                |
| <i>% Change<sup>(c)</sup></i>        | 2%              | (3)%            | 16%             | 22%              | 53%             | 14%             | 19%              |

<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.

**Frito-Lay North America**

|  | 12 Weeks Ended  |          | %      | 24 Weeks Ended  |          | %      |
|--|-----------------|----------|--------|-----------------|----------|--------|
|  | 6/11/11         | 6/12/10  | Change | 6/11/11         | 6/12/10  | Change |
| Net revenue  | <b>\$ 3,090</b> | \$ 2,992 | 3      | <b>\$ 5,994</b> | \$ 5,856 | 2      |
| Impact of foreign currency translation                 |                 |          | (0.5)  |                 |          | (0.5)  |
| Net revenue growth, on a constant currency basis*      |                 |          | 3**    |                 |          | 2**    |
| Operating profit                                       | <b>\$ 853</b>   | \$ 800   | 6      | <b>\$ 1,627</b> | \$ 1,528 | 6      |
| Impact of foreign currency translation                 |                 |          | (0.5)  |                 |          |        |
| Operating profit growth, on a constant currency basis* |                 |          | 6**    |                 |          | 6      |

\* See Non-GAAP Measures

\*\* Does not sum due to rounding

**12 Weeks**

Net revenue increased 3% and pound volume grew 2%. The volume increase primarily reflects double-digit growth in both our Sabra joint venture and variety packs, partially offset by a low-single-digit decline in trademark Lay's. Net revenue growth also benefited from effective net pricing.

Operating profit grew 6%, primarily reflecting the net revenue growth and lower advertising and marketing expenses in the quarter.

**24 Weeks**

Net revenue and pound volume each grew 2%. Pound growth primarily reflects double-digit growth in our Sabra joint venture and high-single-digit growth in both variety packs and trademark Ruffles. These gains were partially offset by a double-digit decline in trademark SunChips. Net revenue growth also benefited from effective net pricing.

Operating profit grew 6%, primarily reflecting the net revenue growth, as well as lower advertising and marketing expenses and lower commodity costs, primarily cooking oil.

**Quaker Foods North America**

|  | 12 Weeks Ended |         | %      | 24 Weeks Ended |          | %      |
|--|----------------|---------|--------|----------------|----------|--------|
|  | 6/11/11        | 6/12/10 | Change | 6/11/11        | 6/12/10  | Change |
| Net revenue  | \$ 583         | \$ 582  |        | \$ 1,223       | \$ 1,265 | (3)    |
| Impact of foreign currency translation                 |                |         | (1)    |                |          | (1)    |
| Net revenue growth, on a constant currency basis*      |                |         | (1)    |                |          | (4)    |
| Operating profit                                       | \$ 167         | \$ 159  | 5.5    | \$ 381         | \$ 354   | 8      |
| Impact of foreign currency translation                 |                |         | (1)    |                |          | (1)    |
| Operating profit growth, on a constant currency basis* |                |         | 5**    |                |          | 7      |

\* See Non-GAAP Measures

\*\* Does not sum due to rounding

**12 Weeks**

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

Operating profit grew 5.5%, primarily reflecting the favorable effective net pricing and lower selling and distribution costs. Favorable foreign currency contributed 1 percentage point to operating profit growth.

**24 Weeks**

Net revenue declined 3% and volume declined 6%. The volume decline primarily reflects double-digit declines in ready-to-eat cereals and trademark Roni, as well as mid-single-digit declines in Aunt Jemima syrup and mix and in Chewy granola bars. The impact of positive net pricing, driven primarily by price increases taken in the fourth quarter of 2010, was largely offset by negative mix. Favorable foreign currency positively contributed 1 percentage point to the net revenue performance.

Operating profit grew 8%, largely reflecting a change in accounting methodology for inventory which contributed 4 percentage points to the operating profit growth (see *Basis of Presentation* in the notes to the condensed consolidated financial statements). Additionally, lower selling and distribution costs and lower advertising and marketing expenses contributed to the operating profit growth. Favorable foreign currency contributed nearly 1 percentage point to operating profit growth.



**Latin America Foods**

|  | 12 Weeks Ended  |          | %      | 24 Weeks Ended  |          | %      |
|--|-----------------|----------|--------|-----------------|----------|--------|
|  | 6/11/11         | 6/12/10  | Change | 6/11/11         | 6/12/10  | Change |
| Net revenue  | <b>\$ 1,808</b> | \$ 1,538 | 18     | <b>\$ 2,916</b> | \$ 2,521 | 16     |
| Impact of foreign currency translation                 |                 |          | (7)    |                 |          | (6)    |
| Net revenue growth, on a constant currency basis*      |                 |          | 11     |                 |          | 9**    |
| Operating profit                                       | <b>\$ 274</b>   | \$ 233   | 18     | <b>\$ 445</b>   | \$ 378   | 18     |
| Impact of foreign currency translation                 |                 |          | (6)    |                 |          | (6)    |
| Operating profit growth, on a constant currency basis* |                 |          | 12     |                 |          | 12     |

\* See Non-GAAP Measures

\*\* Does not sum due to rounding

**12 Weeks**

Volume grew 5%, primarily reflecting double-digit increases in Brazil and Argentina. Additionally, Gamesa in Mexico grew at a low-single-digit rate and Sabritas in Mexico was up slightly.

Net revenue increased 18%, primarily reflecting favorable effective net pricing and the volume growth. Favorable foreign currency increased net revenue growth by 7 percentage points.

Operating profit increased 18%, primarily reflecting the net revenue growth, partially offset by higher commodity costs and selling and distribution costs. Additionally, an unfavorable legal settlement in the prior year increased operating profit growth by 5 percentage points. Favorable foreign currency increased operating profit by 6 percentage points.

**24 Weeks**

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

Net revenue increased 16%, primarily reflecting favorable effective net pricing and the volume growth. Favorable foreign currency increased net revenue growth by 6 percentage points.

Operating profit increased 18%, reflecting the net revenue growth, partially offset by higher selling and distribution costs. Additionally, the unfavorable legal settlement in the prior year increased operating profit growth by 3 percentage points. Favorable foreign currency increased operating profit by 6 percentage points.



**PepsiCo Americas Beverages**

|  | 12 Weeks Ended |          | %<br>Change | 24 Weeks Ended |          | %<br>Change |
|--|----------------|----------|-------------|----------------|----------|-------------|
|  | 6/11/11        | 6/12/10  |             | 6/11/11        | 6/12/10  |             |
| Net revenue  | \$ 5,629       | \$ 5,548 | 1           | \$ 10,160      | \$ 8,313 | 22          |
| Impact of foreign currency translation                                       |                |          | (1)         |                |          | (1)         |
| Net revenue growth, on a constant currency basis*                            |                |          |             |                |          | 21          |
| Operating profit   | \$ 983         | \$ 952   | 3           | \$ 1,541       | \$ 1,025 | 50          |
| Merger and integration charges   | 32             | 103      |             | 53             | 296      |             |
| Inventory fair value adjustments   | 4              | 36       |             | 13             | 317      |             |
| Venezuela currency devaluation   |                |          |             |                | (9)      |             |
| Operating profit excluding above items*                                      | \$ 1,019       | \$ 1,091 | (7)         | \$ 1,607       | \$ 1,629 | (1)         |
| Impact of foreign currency translation                                       |                |          | (1)         |                |          | (1)         |
| Operating profit growth excluding above items, on a constant currency basis* |                |          | (7)**       |                |          | (2)         |

\* See Non-GAAP Measures

\*\* Does not sum due to rounding

**12 Weeks**

Volume decreased 1%, primarily reflecting a 2% volume decline in North America, partially offset by a 2% volume increase in Latin America. The volume decline in North America was driven by a 5% decline in CSD volume, partially offset by a 2% increase in non-carbonated beverage volume. The non-carbonated beverage volume growth primarily reflected a mid-single-digit increase in Gatorade sports drinks.

Net revenue increased 1%, as the volume declines were more than offset by effective net pricing. Favorable foreign currency contributed 1 percentage point to net revenue growth.

Reported operating profit increased 3%, primarily driven by the items affecting comparability in the above table (see Items Affecting Comparability ). Excluding the items affecting comparability, operating profit decreased 7%, mainly driven by higher commodity costs and higher selling and distribution costs. These costs were partially offset by the impact of more-favorable settlements of promotional spending accruals in the current year and certain insurance adjustments, which collectively contributed 5 percentage points to the reported operating profit increase.

## 24 Weeks

Volume increased 4%, 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 2 percentage points to volume growth. North America volumes, excluding the impact of the incremental DPSG volume, decreased slightly, as a 3% decline in CSD volume was almost entirely offset by a 4% increase in non-carbonated beverage volume. The non-carbonated beverage volume performance primarily reflected a double-digit increase in Gatorade sports drinks.

Net revenue increased 22%, 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 50%, primarily reflecting the items affecting comparability in the above table (see Items Affecting Comparability ). Excluding these items, operating profit decreased 1%, mainly driven by higher commodity costs and higher selling and distribution costs, partially offset by the incremental profit related to our acquisitions of PBG and PAS. Operating profit performance also benefited from the impact of more-favorable settlements of promotional spending accruals in the current year and certain insurance adjustments, which collectively contributed nearly 5 percentage points to the reported operating profit growth.

**Europe**

|  | 12 Weeks Ended |          | %      | 24 Weeks Ended |          | %      |
|--|----------------|----------|--------|----------------|----------|--------|
|  | 6/11/11        | 6/12/10  | Change | 6/11/11        | 6/12/10  | Change |
| Net revenue  | \$ 3,794       | \$ 2,498 | 52     | \$ 5,420       | \$ 3,542 | 53     |
| Impact of foreign currency translation                                       |                |          | (7)    |                |          | (4)    |
| Net revenue growth, on a constant currency basis*                            |                |          | 45     |                |          | 49     |
| Operating profit   | \$ 407         | \$ 276   | 47     | \$ 470         | \$ 394   | 19     |
| Merger and integration charges   | 14             | 28       |        | 6              | 29       |        |
| Inventory fair value adjustments   |                | 40       |        | 25             | 40       |        |
| Operating profit excluding above items*                                      | \$ 421         | \$ 344   | 23     | \$ 501         | \$ 463   | 8      |
| Impact of foreign currency translation                                       |                |          | (7)    |                |          | (5)    |
| Operating profit growth excluding above items, on a constant currency basis* |                |          | 16     |                |          | 4**    |

\* See Non-GAAP Measures

\*\* Does not sum due to rounding

**12 Weeks**

Snacks volume grew 40%, primarily reflecting our acquisition of WBD, which contributed 35 percentage points to the volume growth. Double-digit increases in Turkey and South Africa, and a high-single-digit increase in Russia (ex-WBD), were partially offset by a low-single-digit decline at Walkers in the United Kingdom and a mid-single-digit decline in Spain.

Beverage volume increased 27%, primarily reflecting our acquisition of WBD, which contributed 22 percentage points to the volume growth. Double-digit increases in Germany and Turkey were partially offset by a high-single-digit decline in the Ukraine. Additionally, Russia (ex-WBD) and the United Kingdom each grew at a low-single-digit rate.

Net revenue grew 52%, primarily reflecting our acquisition of WBD, which contributed 33 percentage points to net revenue growth. Effective net pricing and the volume gains also drove net revenue growth. Favorable foreign currency contributed 7 percentage points to net revenue growth.

Reported operating profit increased 47%, primarily reflecting the net revenue growth, offset by higher commodity costs and increased investments in strategic markets. The accelerated timing of concentrate shipments in connection with our global SAP implementation and the impact of more-favorable settlements of promotional spending accruals in the current year each contributed 6



percentage points to operating profit growth. Our acquisition of WBD contributed 17 percentage points to the reported operating profit growth and reflected net charges of \$4 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 23%. Favorable foreign currency increased operating profit performance by 7 percentage points.

## **24 Weeks**

Snacks volume grew 34%, primarily reflecting our acquisition of WBD, which contributed 29 percentage points to the 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 was up slightly.

Beverage volume increased 27%, primarily reflecting our acquisition of WBD, which contributed 20 percentage points to the volume growth, and incremental brands related to our acquisitions of PBG and PAS, which contributed nearly 2 percentage points to the volume growth. Double-digit increases in Turkey and Germany were partially offset by a mid-single-digit decline in the Ukraine. Additionally, Russia (ex-WBD) grew at a mid-single-digit rate and the United Kingdom grew at a low-single-digit rate.

Net revenue grew 53%, primarily reflecting our acquisition of WBD, which contributed 30 percentage points to net revenue growth, and the incremental finished goods revenue related to our acquisitions of PBG and PAS. Favorable foreign currency contributed over 4 percentage points to net revenue growth.

Reported operating profit increased 19%, primarily reflecting the net revenue growth, offset by higher commodity costs and increased investments in strategic markets. The accelerated concentrate shipments and the impact of more-favorable settlements of promotional spending accruals in the current year each contributed over 4 percentage points to operating profit growth. Our acquisition of WBD contributed 12 percentage points to the reported operating profit growth and reflected net charges of \$15 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 8%. Favorable foreign currency increased operating profit performance by nearly 5 percentage points.

**Asia, Middle East & Africa**

|  | 12 Weeks Ended  |          | %   | 24 Weeks Ended  |          | %     |
|--|-----------------|----------|-----|-----------------|----------|-------|
|  | 6/11/11         | 6/12/10  |     | Change          | 6/11/11  |       |
| Net revenue  | <b>\$ 1,923</b> | \$ 1,643 | 17  | <b>\$ 3,051</b> | \$ 2,672 | 14    |
| Impact of foreign currency                             |                 |          | (2) |                 |          | (2)   |
| Net revenue growth, on a constant currency basis*      |                 |          | 15  |                 |          | 12    |
| Operating profit                                       | <b>\$ 299</b>   | \$ 267   | 12  | <b>\$ 445</b>   | \$ 422   | 5     |
| Impact of foreign currency translation                 |                 |          | (2) |                 |          | (2.5) |
| Operating profit growth, on a constant currency basis* |                 |          | 10  |                 |          | 3**   |

\* See Non-GAAP Measures

\*\* Does not sum due to rounding

**12 Weeks**

Snacks volume grew 15%, reflecting broad-based increases driven by double-digit growth in the Middle East, India and China, partially offset by a low-single-digit decline in Australia.

Beverage volume grew 6%, reflecting broad-based increases driven by double-digit growth in India and China, partially offset by a double-digit decline in Thailand. Additionally, the Middle East grew at a mid-single-digit rate.

Net revenue grew 17%, primarily reflecting the volume growth, as well as the accelerated timing of concentrate shipments in connection with our global SAP implementation, which contributed nearly 2 percentage points to net revenue growth. Foreign currency contributed over 2 percentage points to net revenue growth.

Operating profit grew 12%, reflecting the net revenue growth, as well as the accelerated concentrate shipments, which contributed 8 percentage points to operating profit growth, and the recovery of a previously written-off receivable, which contributed 3 percentage points to operating profit growth, partially offset by higher commodity costs. Favorable foreign currency contributed over 2 percentage points to operating profit growth.

**24 Weeks**

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

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

Net revenue grew 14%, primarily reflecting the volume growth and effective net pricing. Foreign currency contributed over 2 percentage points to net revenue growth. Acquisitions had a nominal impact on net revenue growth.

Operating profit grew 5%, reflecting the net revenue growth, as well as the accelerated concentrate shipments and the recovery of a previously written-off receivable, which each contributed 5 percentage points to the operating profit growth, partially offset by higher commodity costs. Favorable foreign currency contributed 2.5 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 June 11, 2011, our operations in Venezuela comprised 9% of our cash and cash equivalents balance.

#### ***Operating Activities***

During the 24 weeks in 2011, net cash provided by operating activities was \$2.4 billion, compared to net cash provided of \$2.4 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 a \$0.6 billion discretionary pension contribution in the prior year.

#### ***Investing Activities***

During the 24 weeks, net cash used for investing activities was \$3.9 billion, primarily reflecting \$2.4 billion of cash paid, net of cash and cash equivalents acquired, in connection with our acquisition of WBD. Additionally, we used \$1.2 billion for net capital spending in the current year.

#### ***Financing Activities***

During the 24 weeks, net cash used for financing activities was \$1.7 billion, primarily reflecting the return of operating cash flow to our shareholders through share repurchases and dividend payments of \$2.3 billion and our purchase of an additional \$1.3 billion of WBD ordinary shares (including shares underlying ADSs), partially offset by net proceeds from long-term debt of \$1.5

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. 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.

|  | 24 Weeks Ended |          |
|--|----------------|----------|
|  | 6/11/11        | 6/12/10  |
| Net cash provided by operating activities              | \$ 2,353       | \$ 2,442 |
| Capital spending                                       | (1,231)        | (968)    |
| Sales of property, plant and equipment                 | 34             | 37       |
| Management operating cash flow                         | 1,156          | 1,511    |
| Discretionary pension contribution (after-tax)         |                | 384      |
| Payments related to 2009 restructuring charges         | 1              | 28       |
| Merger and integration payments (after-tax)            | 158            | 184      |
| Foundation contribution (after-tax)                    |                | 64       |
| Capital investments related to the PBG/PAS integration | 50             |          |
| Management operating cash flow excluding above items   | \$ 1,365       | \$ 2,171 |

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.

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 June 11, 2011, the related Condensed Consolidated Statements of Income and Comprehensive Income for the twelve and twenty-four weeks ended June 11, 2011 and June 12, 2010, and the Condensed Consolidated Statements of Cash Flows and Equity for the twenty-four weeks ended June 11, 2011 and June 12, 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  
July 21, 2011

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.

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 second 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 second fiscal quarter of 2011 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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 Report on Form 10-Q for the quarter ended March 19, 2011.

On May 8, 2011, Kozep-Duna-Volgyi Kornyezetvedelmi, Termeszettvedelmi es Vizugyi Felugyeloseg (Budapest), the regional Hungarian governmental authority, notified our subsidiary, Fovarosi Asvanyviz- es Uditoipari Zrt., that it assessed monetary sanctions of approximately \$220,000 for alleged violation of applicable wastewater discharge standards in 2010. Fovarosi Asvanyviz- es Uditoipari Zrt. appealed this decision, and the appeal is pending.

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.

## 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 second 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, other than 68,900 shares of common stock which were repurchased pursuant to a privately negotiated block trade transaction.

**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 |
|-----------------|------------------------------------|------------------------------|--|--|
| 3/19/11         |                                    |                              |  | \$ 13,123  |
| 3/20/10 4/16/11 | 2.1                                | \$ 65.18                     | 2.1  | (137)  |
|                 |                                    |                              |  | 12,986   |
| 4/17/11 5/14/11 | 1.0                                | \$ 67.66                     | 1.0  | (70)   |
|                 |                                    |                              |  | 12,916   |
| 5/15/11 6/11/11 | 2.8                                | \$ 69.53                     | 2.8  | (191)  |
| <b>Total</b>    | <b>5.9</b>                         | <b>\$ 67.65</b>              | <b>5.9</b>   | <b>\$ 12,725</b>   |

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 second 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 |
|-----------------|------------------------------------|------------------------------|--|--|
| 3/19/11         |                                    |                              |  |  |
| 3/20/11 4/16/11 | 2,600                              | \$ 330.87                    | N/A  | N/A  |
| 4/17/11 5/14/11 | 1,800                              | \$ 347.52                    | N/A  | N/A  |
| 5/14/11 6/11/11 | 2,300                              | \$ 342.71                    | N/A  | N/A  |
| <b>Total</b>    | <b>6,700</b>                       | <b>\$ 339.41</b>             | <b>N/A</b>   | <b>N/A</b>   |

ITEM 4. (Removed and Reserved).

ITEM 6. Exhibits

See Index to Exhibits on page 54.

**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: July 21, 2011

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

Date: July 21, 2011

/s/ Thomas H. Tamoney, Jr.  
Thomas H. Tamoney, Jr.  
  
Senior Vice President, Deputy General  
Counsel and Assistant Secretary  
  
(Duly Authorized Officer)

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INDEX TO EXHIBITS

ITEM 6

EXHIBITS

- 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 Floating Rate Note due 2013, which is incorporated herein by reference to Exhibit 4.1 to PepsiCo's Current Report on Form 8-K dated May 3, 2011.
- Exhibit 4.2 Form of 2.500% Senior Note due 2016, which is incorporated herein by reference to Exhibit 4.2 to PepsiCo's Current Report on Form 8-K dated May 3, 2011.
- Exhibit 4.3 Board of Directors Resolutions Authorizing PepsiCo's Officers to Establish the Terms of the Floating Rate Notes due 2013 and the 2.500% Senior Notes due 2016, which is incorporated herein by reference to Exhibit 4.3 to PepsiCo's Current Report on Form 8-K dated May 3, 2011.

- Exhibit 10.1 U.S. \$2,875,000,000 Four-Year Credit Agreement, dated as of June 14, 2011, among PepsiCo, Inc., as Borrower, the lenders named therein, and Citibank, N.A., as Administrative Agent, which is incorporated by reference to Exhibit 10.1 to PepsiCo, Inc.'s Current Report on Form 8-K dated June 14, 2011.
- Exhibit 12 Computation of Ratio of Earnings to Fixed Charges.
- Exhibit 15 Letter re: Unaudited Interim Financial Information.
- Exhibit 24 Power of Attorney executed by Indra K. Nooyi, Hugh F. Johnston, Peter A. Bridgman, Shona L. Brown, Ian M. Cook, Dina Dublon, Victor J. Dzau, Ray L. Hunt, Alberto Ibarguen, Arthur C. Martinez, Sharon Percy Rockefeller, James J. Schiro, Lloyd G. Trotter and Daniel Vasella, which is incorporated herein by reference to Exhibit 24 to PepsiCo's Current Report on Form 8-K dated May 3, 2010.
- 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 June 11, 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.