PEPSICO INC
Form 10-Q
July 22, 2009
Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

X QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 13, 2009 (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	13-1584302
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
700 Anderson Hill Road, Purchase, New York	10577
(Address of Principal Executive Offices)	(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 required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES X 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. (Check one):

Large accelerated filer X	Accelerated filer __
Non-accelerated filer __ (Do not check if a smaller reporting company)	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 X

Number of shares of Common Stock outstanding as of July 17, 2009: 1,557,857,555

Table of Contents

PEPSICO, INC. AND SUBSIDIARIES

INDEX

Table of Contents

PART I FINANCIAL INFORMATION

ITEM 1. Condensed Consolidated Financial Statements.

PEPSICO, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF INCOME

(in millions except per share amounts, unaudited)

	12 Weeks Ended		24 Weeks Ended	
	6/13/09	6/14/08	**6/13/09**	6/14/08
Net Revenue	**$ 10,592**	$ 10,945	**$ 18,855**	$ 19,278
Cost of sales	**4,881**	5,078	**8,625**	8,912
Selling, general and administrative expenses	**3,507**	3,658	**6,428**	6,588
Amortization of intangible assets	**14**	18	**24**	30
Operating Profit	**2,190**	2,191	**3,778**	3,748
Bottling equity income	**119**	168	**144**	238
Interest expense	**(101)**	(74)	**(199)**	(132)
Interest income	**28**	38	**28**	39
Income before income taxes	**2,236**	2,323	**3,751**	3,893
Provision for income taxes	**568**	618	**942**	1,036
Net income	**1,668**	1,705	**2,809**	2,857
Less: Net income attributable to noncontrolling interests	**8**	6	**14**	10
Net Income Attributable to PepsiCo	**$ 1,660**	$ 1,699	**$ 2,795**	$ 2,847
Net Income Attributable to PepsiCo per Common Share				
Basic	**$ 1.06**	$ 1.07	**$ 1.79**	$ 1.79
Diluted	**$ 1.06**	$ 1.05	**$ 1.78**	$ 1.76
Cash Dividends Declared per Common Share	**$ 0.45**	$ 0.425	**$ 0.875**	$ 0.80

See accompanying Notes to the Condensed Consolidated Financial Statements.

Table of Contents

PEPSICO, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(in millions, unaudited)

	24 Weeks Ended	
	6/13/09	6/14/08
Operating Activities		
Net income	**$ 2,809**	$ 2,857
Depreciation and amortization	**685**	678
Stock-based compensation expense	**108**	112
Restructuring and impairment charges	**36**	
Cash payments for restructuring charges	**(160)**	(24)
Excess tax benefits from share-based payment arrangements	**(8)**	(65)
Pension and retiree medical plan contributions	**(1,088)**	(86)
Pension and retiree medical plan expenses	**192**	211
Bottling equity income, net of dividends	**(101)**	(196)
Deferred income taxes and other tax charges and credits	**4**	222
Change in accounts and notes receivable	**(489)**	(1,102)
Change in inventories	**(384)**	(602)
Change in prepaid expenses and other current assets	**(124)**	(219)
Change in accounts payable and other current liabilities	**(505)**	149
Change in income taxes payable	**669**	427
Other, net	**(152)**	(169)
Net Cash Provided by Operating Activities	**1,492**	2,193
Investing Activities		
Capital spending	**(735)**	(896)
Sales of property, plant and equipment	**26**	65
Acquisitions and investments in noncontrolled affiliates	**(120)**	(262)
Divestitures	**16**	
Cash proceeds from sale of The Pepsi Bottling Group, Inc. (PBG) and PepsiAmericas, Inc. (PAS) stock		200
Short-term investments, by original maturity		
More than three months purchases	**(23)**	(38)
More than three months maturities	**34**	4
Three months or less, net	**6**	1,289
Net Cash (Used for)/Provided by Investing Activities	**(796)**	362
Financing Activities		
Proceeds from issuances of long-term debt	**1,053**	1,733
Payments of long-term debt	**(151)**	(437)
Short-term borrowings, by original maturity		

More than three months proceeds	**33**	64
More than three months payments	**(64)**	(117)
Three months or less, net	**(196)**	758
Cash dividends paid	**(1,331)**	(1,209)
Share repurchases common		(2,904)
Share repurchases preferred	**(3)**	(3)
Proceeds from exercises of stock options	**117**	339
Excess tax benefits from share-based payment arrangements	**8**	65
Net Cash Used for Financing Activities	**(534)**	(1,711)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	**(12)**	14
Net Increase in Cash and Cash Equivalents	**150**	858
Cash and Cash Equivalents Beginning of year	**2,064**	910
Cash and Cash Equivalents End of period	**$ 2,214**	$ 1,768

See accompanying Notes to the Condensed Consolidated Financial Statements.

PEPSICO, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEET

(in millions)

	(Unaudited) 6/13/09	12/27/08
Assets		
Current Assets		
Cash and cash equivalents	**$ 2,214**	$ 2,064
Short-term investments	**210**	213
Accounts and notes receivable, less allowance: 6/09 $82, 12/08 $70	**5,223**	4,683
Inventories		
Raw materials	**1,369**	1,228
Work-in-process	**359**	169
Finished goods	**1,224**	1,125
	2,952	2,522
Prepaid expenses and other current assets	**1,031**	1,324
Total Current Assets	**11,630**	10,806
Property, Plant and Equipment	**23,369**	22,552
Accumulated Depreciation	**(11,521)**	(10,889)
	11,848	11,663
Amortizable Intangible Assets, net	**744**	732
Goodwill	**5,248**	5,124
Other Nonamortizable Intangible Assets	**1,231**	1,128
Nonamortizable Intangible Assets	**6,479**	6,252
Investments in Noncontrolled Affiliates	**4,076**	3,883
Other Assets	**2,273**	2,658
Total Assets	**$37,050**	$35,994

Continued on next page.

Table of Contents

PEPSICO, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEET (continued)

(in millions except per share amounts)

	(Unaudited) **6/13/09**	12/27/08
Liabilities and Equity		
Current Liabilities		
Short-term obligations	**$ 435**	$ 369
Accounts payable and other current liabilities	**7,772**	8,273
Income taxes payable	**412**	145
Total Current Liabilities	**8,619**	8,787
Long-term Debt Obligations	**8,185**	7,858
Other Liabilities	**5,577**	6,541
Deferred Income Taxes	**260**	226
Total Liabilities	**22,641**	23,412
Commitments and Contingencies		
Preferred Stock, no par value	**41**	41
Repurchased Preferred Stock	**(141)**	(138)
PepsiCo Common Shareholders Equity		
Common stock, par value 1 2/3 cents per share:		
Authorized 3,600 shares, issued 6/09 and 12/08 1,782 shares	**30**	30
Capital in excess of par value	**269**	351
Retained earnings	**32,065**	30,638
Accumulated other comprehensive loss	**(4,438)**	(4,694)
Less: repurchased common stock, at cost:		
6/09 225 shares, 12/08 229 shares	**(13,849)**	(14,122)
Total PepsiCo Common Shareholders Equity	**14,077**	12,203
Noncontrolling interests	**432**	476
Total Equity	**14,409**	12,582

Total Liabilities and Equity	**$ 37,050**	$ 35,994

See accompanying Notes to the Condensed Consolidated Financial Statements.

Table of Contents

PEPSICO, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF EQUITY

(in millions, unaudited)

	24 Weeks Ended			
	6/13/09		6/14/08	
	Shares	**Amount**	Shares	Amount
Preferred Stock	**0.8**	**$ 41**	0.8	$ 41
Repurchased Preferred Stock				
Balance, beginning of year	**0.5**	**(138)**	0.5	(132)
Redemptions		**(3)**		(3)
Balance, end of period	**0.5**	**(141)**	0.5	(135)
Common Stock	**1,782**	**30**	1,782	30
Capital in Excess of Par Value				
Balance, beginning of year		**351**		450
Stock-based compensation expense		**108**		112
Stock option exercises/RSUs converted[(a)]		**(158)**		(172)
Withholding tax on RSUs converted		**(32)**		(45)
Balance, end of period		**269**		345
Retained Earnings				
Balance, beginning of year		**30,638**		28,184
SFAS 158 measurement date change				(89)
Adjusted balance, beginning of year				28,095
Net income attributable to PepsiCo		**2,795**		2,847
Cash dividends declared common		**(1,362)**		(1,267)
Cash dividends declared preferred		**(1)**		(1)
Cash dividends declared RSUs		**(5)**		(5)
Balance, end of period		**32,065**		29,669
Accumulated Other Comprehensive Loss				
Balance, beginning of year		**(4,694)**		(952)
SFAS 158 measurement date change				51
Adjusted balance, beginning of year				(901)
Currency translation adjustment		**281**		360
Cash flow hedges, net of tax:				

Net derivative (losses)/gains		**(23)**		31
Reclassification of derivative (gains)/losses to net income		**(16)**		9
Reclassification of pension and retiree medical losses to net income, net of tax		**10**		37
Unrealized gains/(losses) on securities, net of tax		**4**		(5)
Other				(4)
Balance, end of period		**(4,438)**		(473)
Repurchased Common Stock				
Balance, beginning of year	**(229)**	**(14,122)**	(177)	(10,387)
Share repurchases			(43)	(3,005)
Stock option exercises	**3**	**187**	8	478
Other, primarily RSUs converted	**1**	**86**	1	90
Balance, end of period	**(225)**	**(13,849)**	(211)	(12,824)
Total Common Shareholders Equity		**14,077**		16,747
Noncontrolling Interests				
Balance, beginning of year		**476**		62
Net income attributable to noncontrolling interests		**14**		10
Currency translation adjustment		**(62)**		1
Other, net		**4**		(2)
Balance, end of period		**432**		71
Total Equity		**$ 14,409**		$ 16,724

(a) Includes total tax (shortfall)/benefit of $(1) million in 2009 and $53 million in 2008.

See accompanying Notes to the Condensed Consolidated Financial Statements.

Table of Contents

PEPSICO, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT

OF COMPREHENSIVE INCOME

(in millions, unaudited)

	12 Weeks Ended		24 Weeks Ended	
	6/13/09	6/14/08	**6/13/09**	6/14/08
Net Income	**$ 1,668**	$ 1,705	**$ 2,809**	$ 2,857
Other Comprehensive Income				
Currency translation adjustment	**1,324**	206	**219**	361
Reclassification of pension and retiree medical (gains)/losses to net income, net of tax	**(15)**	17	**10**	37
Cash flow hedges, net of tax:				
Net derivative (losses)/gains	**(14)**	19	**(23)**	31
Reclassification of derivative (gains)/losses to net income	**(19)**	3	**(16)**	9
Unrealized gains/(losses) on securities, net of tax	**9**	(3)	**4**	(5)
Other		(4)		(4)
	1,285	238	**194**	429
Comprehensive Income	**2,953**	1,943	**3,003**	3,286
Comprehensive (income)/loss attributable to noncontrolling interests	**(33)**	(6)	**48**	(11)
Comprehensive Income Attributable to PepsiCo	**$ 2,920**	$ 1,937	**$ 3,051**	$ 3,275

See accompanying Notes to the Condensed Consolidated Financial Statements.

Table of Contents

PEPSICO, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Basis of Presentation and Our Divisions

Basis of Presentation

Our Condensed Consolidated Balance Sheet as of June 13, 2009, the Condensed Consolidated Statements of Income and Comprehensive Income for the 12 and 24 weeks ended June 13, 2009 and June 14, 2008, and the Condensed Consolidated Statements of Cash Flows and Equity for the 24 weeks ended June 13, 2009 and June 14, 2008 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 27, 2008 and in our Current Report on Form 8-K dated March 24, 2009, with the exception of the impact of our adoption in the first quarter of 2009 of Statement of Financial Accounting Standards (SFAS) No. 160, *Noncontrolling Interests in Consolidated Financial Statements* (SFAS 160). See *Recent Accounting Pronouncements* for further information on our adoption of SFAS 160. 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.

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.

Our share of equity income or loss from our anchor bottlers is recorded as bottling equity income in our income statement. There were no sales of PBG or PAS stock in the 12 and 24 weeks ended June 13, 2009. Bottling equity income includes pre-tax gains on our sales of PBG and PAS stock of $54 million and $100 million in the 12 and 24 weeks ended June 14, 2008, respectively. Our share of income or loss from other noncontrolled affiliates is recorded as a component of selling, general and administrative expenses.

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 and the months of January through May are reflected in our year-to-date results.

The following information is unaudited. Tabular dollars are presented 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 prior year amounts to conform to the 2009 presentation. This report should be read in conjunction with our Annual Report on Form 10-K for the fiscal year ended December 27, 2008 and our Current Report on Form 8-K dated March 24, 2009, in which we revised historical segment information on a basis consistent with our current segment reporting structure.

Table of Contents

Our Divisions

	12 Weeks Ended		24 Weeks Ended	
	6/13/09	6/14/08	**6/13/09**	6/14/08
Net Revenue				
FLNA	**$ 3,138**	$ 2,950	**$ 6,138**	$ 5,680
QFNA	**396**	406	**881**	901
LAF	**1,378**	1,523	**2,245**	2,494
PAB	**2,618**	2,880	**4,706**	5,240
Europe	**1,642**	1,837	**2,589**	2,821
AMEA	**1,420**	1,349	**2,296**	2,142
	$ 10,592	$ 10,945	**$ 18,855**	$ 19,278
Operating Profit				
FLNA	**$ 783**	$ 735	**$ 1,480**	$ 1,368
QFNA	**132**	122	**307**	288
LAF	**240**	254	**404**	421
PAB	**618**	681	**1,043**	1,185
Europe	**257**	283	**355**	402
AMEA	**237**	218	**373**	344
Total division	**2,267**	2,293	**3,962**	4,008
Corporate net impact of mark-to-market on commodity hedges	**100**	61	**162**	57
Corporate other	**(177)**	(163)	**(346)**	(317)
	$ 2,190	$ 2,191	**$ 3,778**	$ 3,748

10

Table of Contents

	Total Assets	
	6/13/09	12/27/08
FLNA	**$ 6,398**	$ 6,284
QFNA	**993**	1,035
LAF	**3,298**	3,023
PAB	**8,413**	7,673
Europe	**9,158**	8,840
AMEA	**4,268**	3,756
Total division	**32,528**	30,611
Corporate	**1,780**	2,729
Investments in bottling affiliates	**2,742**	2,654
	$ 37,050	$ 35,994

Intangible Assets

	6/13/09	12/27/08
Amortizable intangible assets, net		
Brands	**$ 1,432**	$ 1,411
Other identifiable intangibles	**390**	360
	1,822	1,771
Accumulated amortization	**(1,078)**	(1,039)
	$ 744	$ 732

Table of Contents

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

	Balance 12/27/08	Acquisitions	Translation and Other	**Balance 6/13/09**
FLNA				
Goodwill	$ 277	$ 6	$ 13	**$ 296**
Brands		26	2	**28**
	277	32	15	**324**
QFNA				
Goodwill	175			**175**
LAF				
Goodwill	424		20	**444**
Brands	127		4	**131**
	551		24	**575**
PAB				
Goodwill	2,355		5	**2,360**
Brands	59			**59**
	2,414		5	**2,419**
Europe				
Goodwill	1,469	4	33	**1,506**
Brands	844	12	45	**901**
	2,313	16	78	**2,407**
AMEA				
Goodwill	424		43	**467**
Brands	98		14	**112**
	522		57	**579**
Total goodwill	5,124	10	114	**5,248**
Total brands	1,128	38	65	**1,231**
	$ 6,252	$ 48	$ 179	**$ 6,479**

Stock-Based Compensation

For the 12 weeks, we recognized stock-based compensation expense of $54 million in 2009 and $40 million in 2008. For the 24 weeks, we recognized stock-based compensation expense of $108 million in 2009 and $112 million in 2008. For the 12 weeks in 2009, our grants of stock options and restricted stock units (RSU) were nominal. For the 24 weeks in 2009, we granted 15 million stock options at a weighted average grant price of $52.99 and 3 million RSUs at a weighted average grant price of $53.00, under the terms of our 2007 Long-Term Incentive Plan.

Table of Contents

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

	24 Weeks Ended	
	6/13/09	6/14/08
Expected life	**6 yrs.**	6 yrs.
Risk free interest rate	**2.8%**	2.9%
Expected volatility[(a)]	**17%**	16%
Expected dividend yield	**3.0%**	1.9%

(a) 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**	
	6/13/09	6/14/08	**6/13/09**	6/14/08	**6/13/09**	6/14/08
	U.S.		International			
Service cost	**$ 55**	$ 57	**$ 11**	$ 16	**$ 10**	$ 10
Interest cost	**86**	86	**19**	23	**19**	19
Expected return on plan assets	**(106)**	(96)	**(24)**	(29)		
Amortization of prior service cost/(benefit)	**2**	4			**(4)**	(3)
Amortization of experience loss	**26**	13	**2**	5	**2**	2
	63	64	**8**	15	**27**	28
Curtailment gain	**(2)**					
Total expense	**$ 61**	$ 64	**$ 8**	$ 15	**$ 27**	$ 28

	24 Weeks Ended					
	Pension				**Retiree Medical**	
	6/13/09	6/14/08	**6/13/09**	6/14/08	**6/13/09**	6/14/08
	U.S.		International			
Service cost	**$ 110**	$ 114	**$ 19**	$ 28	**$ 20**	$ 20

Interest cost	**172**	172	**33**	40	**38**	38
Expected return on plan assets	**(213)**	(192)	**(42)**	(51)		
Amortization of prior service cost/ (benefit)	**5**	8	**1**	1	**(8)**	(6)
Amortization of experience loss	**51**	26	**3**	9	**5**	4
	125	128	**14**	27	**55**	56
Curtailment gain	**(2)**					
Total expense	**$ 123**	$ 128	**$ 14**	$ 27	**$ 55**	$ 56

13

Table of Contents

Net Income Attributable to PepsiCo per Common Share

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

	12 Weeks Ended			
	6/13/09		6/14/08	
	Income	**Shares[(a)]**	Income	Shares[(a)]
Net income attributable to PepsiCo	**$ 1,660**		$ 1,699	
Preferred shares:				
Dividends	**(1)**		(1)	
Redemption premium	**(1)**			
Net income available for PepsiCo common shareholders	**$ 1,658**	**1,557**	$ 1,698	1,582
Basic net income attributable to PepsiCo per common share	**$ 1.06**		$ 1.07	
Net income available for PepsiCo common shareholders	**$ 1,658**	**1,557**	$ 1,698	1,582
Dilutive securities:				
Stock options and RSUs[(b)]		**14**		29
ESOP convertible preferred stock	**2**	**1**	1	1
Diluted	**$ 1,660**	**1,572**	$ 1,699	1,612
Diluted net income attributable to PepsiCo per common share	**$ 1.06**		$ 1.05	

	24 Weeks Ended			
	6/13/09		6/14/08	
	Income	**Shares[(a)]**	Income	Shares[(a)]
Net income attributable to PepsiCo	**$ 2,795**		$ 2,847	
Preferred shares:				
Dividends	**(1)**		(1)	
Redemption premium	**(2)**		(2)	
Net income available for PepsiCo common shareholders	**$ 2,792**	**1,556**	$ 2,844	1,591
Basic net income attributable to PepsiCo per common share	**$ 1.79**		$ 1.79	
Net income available for PepsiCo common shareholders	**$ 2,792**	**1,556**	$ 2,844	1,591
Dilutive securities:				
Stock options and RSUs[(b)]		**14**		30
ESOP convertible preferred stock	**3**	**1**	3	1

Diluted	**$ 2,795**	**1,571**	$ 2,847	1,622
Diluted net income attributable to PepsiCo per common share	**$ 1.78**		$ 1.76	

(a) Weighted average common shares outstanding.

(b) Options to purchase 55 million shares for both the 12 and 24 weeks in 2009 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 2009 had average exercise prices of $59.41 and $59.42, respectively. Options to purchase 0.3 million and 0.2 million shares, respectively, for the 12 and 24 weeks in 2008 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 $72.96 and $73.48, respectively.

Table of Contents

Debt Obligations

In the first quarter of 2009, we issued $1.0 billion of senior unsecured notes, bearing interest at 3.75% per year and maturing in 2014. We used the proceeds from the issuance of these notes for general corporate purposes.

As of June 13, 2009, short-term obligations totaled $1.3 billion, of which $0.6 billion was comprised of commercial paper. We have reclassified $0.9 billion to long-term debt based on our intent and ability to refinance on a long-term basis.

Subsequent to the end of the second quarter of 2009, we entered into a new 364-day unsecured revolving credit agreement which enables us to borrow up to $1.975 billion, subject to customary terms and conditions, and expires in June 2010. 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 2011. This agreement replaces a $1.8 billion 364-day unsecured revolving credit agreement we entered into during the fourth quarter of 2008. Funds borrowed under this agreement may be used to repay outstanding commercial paper issued by us or our subsidiaries and for other general corporate purposes, including working capital, capital investments and acquisitions. This agreement is in addition to our existing $2.0 billion unsecured revolving credit agreement which expires in 2012. Our lines of credit remain unused as of June 13, 2009.

Supplemental Cash Flow Information

	24 Weeks Ended	
	6/13/09	6/14/08
Interest paid	**$ 266**	$ 190
Income taxes paid, net of refunds	**$ 270**	$ 387
Acquisitions:		
Fair value of assets acquired	**$ 138**	$ 301
Cash paid and debt issued	**(110)**	(262)
Liabilities assumed	**$ 28**	$ 39

Restructuring and Impairment Charges

In the fourth quarter of 2008, we incurred a charge of $543 million ($408 million after-tax or $0.25 per share) in conjunction with our Productivity for Growth program. The program includes actions in all divisions of the business, including the closure of six plants that we believe will increase cost competitiveness across the supply chain, upgrade and streamline our product portfolio, and simplify the organization for more effective and timely decision-making.

In the 12 and 24 weeks ended June 13, 2009, we incurred charges of $11 million ($10 million after-tax or $0.01 per share) and $36 million ($29 million after-tax or $0.02 per share), respectively, in conjunction with this program. These charges were recorded in selling, general and administrative expenses. These initiatives were completed in the

Table of Contents

second quarter of 2009, and substantially all cash payments related to these charges are expected to be paid by 2010.

A summary of our restructuring and impairment charges in 2009 is as follows:

	12 Weeks Ended		
	Severance and Other Employee Costs[a]	Other Costs	Total
PAB	$ 1	$ 2	$ 3
Europe	(2)		(2)
AMEA	4	6	10
	$ 3	$ 8	$ 11

[a] Primarily reflects termination costs for approximately 40 employees.

	24 Weeks Ended		
	Severance and Other Employee Costs[a]	Other Costs	Total
FLNA	$	$ 2	$ 2
QFNA		1	1
LAF	3		3
PAB	6	10	16
Europe	1		1
AMEA	7	6	13
	$ 17	$ 19	$ 36

[a] Primarily reflects termination costs for approximately 410 employees.

A summary of our restructuring and impairment activity is as follows:

	Severance and Other Employee Costs	Other Costs	Total
Liability as of December 27, 2008	$ 134	$ 64	$ 198

2009 restructuring and impairment charges	17	19	36
Cash payments	(99)	(61)	(160)
Currency translation and other	(3)	17	14
Liability as of June 13, 2009	$ 49	$ 39	$ 88

Table of Contents

Financial Instruments

In March 2008, the Financial Accounting Standards Board (FASB) issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities* (SFAS 161), which amends and expands the disclosure requirements of SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS 133), to provide an enhanced understanding of the use of derivative instruments, how they are accounted for under SFAS 133 and their effect on financial position, financial performance and cash flows. We adopted the disclosure provisions of SFAS 161 in the first quarter of 2009.

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. Cash flows from derivatives used to manage commodity, foreign exchange or interest risks are classified as operating activities. See <u>*Our Business Risks*</u> in Management s Discussion and Analysis of Financial Condition and Results of Operations for further unaudited information on our business risks.

For cash flow hedges, changes in fair value are deferred in accumulated other comprehensive loss within common shareholders equity until the underlying hedged item is recognized in net income. For fair value hedges, changes in fair value are recognized immediately in earnings, consistent with the underlying hedged item. Hedging transactions are limited to an underlying exposure. As a result, any change in the value of our derivative instruments would be substantially offset by an opposite change in the value of the underlying hedged items. Hedging ineffectiveness and a net earnings impact occur when the change in the value of the hedge does not offset the change in the value of the underlying hedged item. Ineffectiveness of our hedges is not material. If the derivative instrument is terminated, we continue to defer the related gain or loss and then include it as a component of the cost of the underlying hedged item. Upon determination that the underlying hedged item will not be part of an actual transaction, we recognize the related gain or loss in net income immediately.

We also use derivatives that do not qualify for hedge accounting treatment. We account for such derivatives at market value with the resulting gains and losses reflected in our income statement. We do not use derivative instruments for trading or speculative purposes.

We enter into arrangements with individual counterparties that we believe are creditworthy and generally settle on a net basis. In addition, we perform a quarterly assessment of our counterparty credit risk, including a review of credit ratings, credit default swap rates and potential nonperformance of the counterparty. Based on our most recent quarterly assessment of our counterparty credit risk, we consider this risk to be low.

Table of Contents

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 and diesel fuel. For those derivatives that qualify for hedge accounting, any ineffectiveness is recorded immediately. 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 losses of $82 million related to cash flow 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 $214 million as of June 13, 2009 and $194 million as of June 14, 2008. Our open commodity derivative contracts that do not qualify for hedge accounting had a face value of $429 million as of June 13, 2009 and $487 million as of June 14, 2008.

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 $1.3 billion as of June 13, 2009 and $2.0 billion as of June 14, 2008. 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 may use interest rate and cross currency interest rate swaps to manage our overall interest expense and foreign exchange risk. These instruments effectively change the interest rate and currency of specific debt issuances. Our interest rate swaps are generally entered into concurrently with the issuance of the debt that they modified. The notional amount, interest payment and maturity date of the swaps match the principal, interest payment and maturity date of the related debt.

In the second quarter of 2009, we entered into a $1.0 billion interest rate swap, maturing in 2013, to effectively convert the interest rate on existing debt from a fixed rate of 4.65%

Table of Contents

to a variable rate based on LIBOR. The terms of the swap match the terms of the debt it modifies.

The notional amounts of the interest rate swaps outstanding as of June 13, 2009 and June 14, 2008 were $3.75 billion and $2.75 billion, respectively. At June 13, 2009, approximately 59% of total debt, after the impact of the related interest rate swaps, was exposed to variable rates. In addition to variable rate long-term debt, all debt with maturities of less than one year is categorized as variable for purposes of this measure.

Subsequent to the end of the second quarter of 2009, we executed interest rate derivative instruments with an aggregate notional value of $1.5 billion in various maturities to hedge forecasted treasury transactions. We will account for these instruments as cash flow hedges. The unrealized gains/losses will be deferred in accumulated other comprehensive loss within common shareholders equity until the forecasted transactions occur and then amortized to interest expense over the term of the underlying hedged items.

Fair Value Measurements

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS 157), which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. We adopted SFAS 157 as of the beginning of our 2008 fiscal year as it relates to recurring financial assets and liabilities. As of the beginning of our 2009 fiscal year, we adopted SFAS 157 as it relates to nonrecurring fair value measurement requirements for nonfinancial assets and liabilities. These include goodwill, other nonamortizable intangible assets and unallocated purchase price for recent acquisitions which are included within other assets. Our adoption of SFAS 157 did not have a material impact on our financial statements.

The fair value framework requires the categorization of assets and liabilities into three levels based upon the assumptions (inputs) used to price the assets or liabilities. Level 1 provides the most reliable measure of fair value, whereas Level 3 generally requires significant management judgment. The three levels are defined as follows:

Level 1: Unadjusted quoted prices in active markets for identical assets and liabilities.

Level 2: Observable inputs other than those included in Level 1. For example, quoted prices for similar assets or liabilities in active markets or quoted prices for identical assets or liabilities in inactive markets.

Level 3: Unobservable inputs reflecting management s own assumptions about the inputs used in pricing the asset or liability.

Table of Contents

The fair values of our financial assets and liabilities are categorized as follows:

	June 13, 2009			
	Total	Level 1	Level 2	Level 3
Assets[(a)]				
Available-for-sale securities[(b)]	**$ 48**	$ 48	$	$
Short-term investments index funds[(c)]	**$ 101**	$ 101	$	$
Derivatives designated as hedging instruments under SFAS 133:				
Forward exchange contracts[(d)]	**$ 38**	$	$ 38	$
Interest rate swaps[(e)]	**127**		127	
Prepaid forward contracts[(f)]	**41**		41	
Commodity contracts - other[(g)]	**5**		5	
	$ 211	$	$ 211	$
Derivatives not designated as hedging instruments under SFAS 133:				
Forward exchange contracts[(d)]	**$ 6**	$	$ 6	$
Commodity contracts - other[(g)]	**8**		8	
	$ 14	$	$ 14	$
Total asset derivatives at fair value	**$ 225**	$	$ 225	$
Total assets at fair value	**$ 374**	$ 149	$ 225	$
Liabilities[(a)]				
Deferred compensation[(h)]	**$ 442**	$ 103	$ 339	$
Derivatives designated as hedging instruments under SFAS 133:				
Forward exchange contracts[(d)]	**$ 26**	$	$ 26	$
Interest rate swaps[(e)]	**18**		18	
Commodity contracts other[(g)]	**22**		22	
Commodity contracts futures[(i)]	**44**	44		
	$ 110	$ 44	$ 66	$
Derivatives not designated as hedging instruments under SFAS 133:				
Forward exchange contracts[(d)]	**$ 35**	$	$ 35	$
Commodity contracts other[(g)]	**133**		133	
Commodity contracts futures[(i)]	**27**	27		
	$ 195	$ 27	$ 168	$
Total liability derivatives at fair value	**$ 305**	$ 71	$ 234	$
Total liabilities at fair value	**$ 747**	$ 174	$ 573	$

(a) Financial assets are classified on our balance sheet as other assets, with the exception of short-term investments. Financial liabilities are classified on our balance sheet as other liabilities.

(b) Based on the price of common stock.

(c) Based on price changes in index funds used to manage a portion of market risk arising from our deferred compensation liability.

(d) Based on observable market transactions of spot and forward rates.

(e) Based on the LIBOR index.

(f) Based primarily on the price of our common stock.

(g) Based on recently reported transactions in the marketplace, primarily swap arrangements.

(h) Based on the fair value of investments corresponding to employees investment elections.

(i) Based on average prices on futures exchanges.

Table of Contents

The effective portion of the pre-tax losses/(gains) on our derivative instruments are categorized in the tables below for the 12 and 24 weeks ended June 13, 2009.

	12 Weeks Ended		
	(Gains)/Losses Recognized in Income Statement	Losses/(Gains) Recognized in Accumulated Other Comprehensive Loss	(Gains)/Losses Reclassified from Accumulated Other Comprehensive Loss into Income Statement
Fair Value/Non-designated Hedges			
Forward exchange contracts[a]	$ (39)		
Commodity contracts[a]	(100)		
Interest rate swaps[b]	198		
Prepaid forward contracts[a]	(3)		
Total	$ 56		
Cash Flow Hedges			
Forward exchange contracts[c]		$ 51	$ (30)
Commodity contracts[c]		(27)	7
Total		$ 24	$ (23)

	24 Weeks Ended		
	Losses/(Gains) Recognized in Income Statement	Losses/(Gains) Recognized in Accumulated Other Comprehensive Loss	(Gains)/Losses Reclassified from Accumulated Other Comprehensive Loss into Income Statement
Fair Value/Non-designated Hedges			
Forward exchange contracts[a]	$ 1		
Commodity contracts[a]	(162)		
Interest rate swaps[b]	264		

Total	$ 103			
Cash Flow Hedges				
Forward exchange contracts[c]		$ 51		$ (52)
Commodity contracts[c]		(6)		33
Total		$ 45		$ (19)

(a) Included in corporate unallocated expenses.

(b) Included in interest expense in our income statement.

(c) Included in cost of sales in our income statement.

Recent Accounting Pronouncements

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations* (SFAS 141R), to improve, simplify and converge internationally the accounting for business combinations. SFAS 141R continues the movement toward the greater use of fair value in financial reporting and increased transparency through expanded disclosures. It changes how business acquisitions are accounted for and will impact financial statements both on the acquisition date and in subsequent periods. We adopted the provisions of SFAS 141R as of the beginning of our 2009 fiscal year and the adoption did not have a material impact on our financial statements. Future adjustments made to valuation allowances on deferred taxes and acquired tax contingencies associated with acquisitions that closed prior to the beginning of our 2009 fiscal year apply the provisions of SFAS 141R and will be evaluated based on the outcome of these matters.

In December 2007, the FASB issued SFAS 160. SFAS 160 amends Accounting Research Bulletin No. 51 (ARB 51) to establish new standards that will govern the accounting for and reporting of (1) noncontrolling interests in partially owned consolidated subsidiaries and (2) the loss of control of subsidiaries. We adopted the accounting provisions of SFAS 160 on a prospective basis as of the beginning of our 2009 fiscal year. The adoption of SFAS 160 did not have a material impact on our financial statements. In addition, we adopted the presentation and disclosure requirements of SFAS 160 on a retrospective basis in the first quarter of 2009.

In May 2009, the FASB issued SFAS No. 165, *Subsequent Events* (SFAS 165). SFAS 165 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before the financial statements are issued or are available to be issued. Although the standard is based on the same principles as those that currently exist in the auditing standards, it includes a new required disclosure of the date through which an entity has evaluated subsequent events. We will include the required disclosures of SFAS 165 beginning in the third quarter of 2009.

Proposed Acquisition of Common Stock of PBG and PAS

In April 2009, we announced proposals to acquire all of the outstanding shares of common stock that we do not already own of our two largest anchor bottlers, PBG and PAS, at a value of $29.50 per share for PBG and $23.27 per share for PAS. We currently own approximately 33% of the outstanding shares of common stock of PBG and approximately 43% of the outstanding shares of common stock of PAS. The offers consist of $14.75 in cash plus 0.283 shares of PepsiCo common stock for each share of common stock of PBG and $11.64 in cash plus 0.223 shares of PepsiCo common stock for each share of common stock of PAS. The offers to acquire shares of PBG and PAS are proposals and are conditioned upon board approval and are subject to the completion of definitive merger agreements and limited confirmatory due diligence. The proposals for both PBG and PAS are cross-conditional based on the successful completion of both transactions. The proposal to acquire PAS common stock is also conditioned upon the approval of a majority of the directors of PAS that are independent from us.

Following the proposals, PBG and PAS each informed us that their respective boards of directors, based on the recommendations of committees comprised of independent directors, had determined not to accept our proposals. We have indicated that we would not sell or otherwise dispose of our PBG or PAS shares in, or vote in favor of, alternative transactions.

Table of Contents

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

FINANCIAL REVIEW

Our discussion and analysis is an integral part of understanding our financial results. Also refer to Basis of Presentation and Our Divisions in the Notes to the Condensed Consolidated Financial Statements. Tabular dollars are presented 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.

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.

Recent Accounting Pronouncements

In December 2007, the FASB issued SFAS 141R, to improve, simplify and converge internationally the accounting for business combinations. SFAS 141R continues the movement toward the greater use of fair value in financial reporting and increased transparency through expanded disclosures. It changes how business acquisitions are accounted for and will impact financial statements both on the acquisition date and in subsequent periods. We adopted the provisions of SFAS 141R as of the beginning of our 2009 fiscal year and the adoption did not have a material impact on our financial statements. Future adjustments made to valuation allowances on deferred taxes and acquired tax contingencies associated with acquisitions that closed prior to the beginning of our 2009 fiscal year apply the provisions of SFAS 141R and will be evaluated based on the outcome of these matters.

Table of Contents

In December 2007, the FASB issued SFAS 160. SFAS 160 amends ARB 51 to establish new standards that will govern the accounting for and reporting of (1) noncontrolling interests in partially owned consolidated subsidiaries and (2) the loss of control of subsidiaries. We adopted the accounting provisions of SFAS 160 on a prospective basis as of the beginning of our 2009 fiscal year. The adoption of SFAS 160 did not have a material impact on our financial statements. In addition, we adopted the presentation and disclosure requirements of SFAS 160 on a retrospective basis in the first quarter of 2009.

In May 2009, the FASB issued SFAS 165. SFAS 165 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before the financial statements are issued or are available to be issued. Although the standard is based on the same principles as those that currently exist in the auditing standards, it includes a new required disclosure of the date through which an entity has evaluated subsequent events. We will include the required disclosures of SFAS 165 beginning in the third quarter of 2009.

Our Business Risks

We discuss expectations regarding our future performance, such as our business outlook, in our annual and quarterly reports, press releases, and other written and oral statements. These forward-looking statements are based on currently available information, operating plans and projections about future events and trends. They are inherently uncertain, and investors must recognize that events could turn out to be significantly different from our expectations. 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 generate approximately 45% of our net revenue. As a result, we are exposed to foreign currency risks, including unforeseen economic changes and political unrest. During the 12 weeks ended June 13, 2009, unfavorable foreign currency impacted net revenue performance by 9 percentage points, primarily due to depreciation of the Mexican peso, British pound, euro and Brazilian real. During the 24 weeks ended June 13, 2009, unfavorable foreign currency impacted net revenue performance by 8 percentage points, primarily due to depreciation of the Mexican peso, British pound, Canadian dollar and euro. Currency declines against the U.S. dollar which are not offset could adversely impact our future results.

In addition, we continue to use the official exchange rate to translate the financial statements of our snack and beverage businesses in Venezuela. It is possible that Venezuela will be designated a hyperinflationary economy this year. If Venezuela is designated as a hyperinflationary economy and there is a devaluation of the official rate, our financial results will be negatively impacted. In the 12 and 24 weeks ended June 13, 2009, our operations in Venezuela generated less than 2% of our net revenue.

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 value as of June 13, 2009.

Cautionary statements included in Item 1A. Risk Factors in our Annual Report on Form 10-K for the fiscal year ended December 27, 2008 and in Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations included in Exhibit 99.4 to our Current Report on Form 8-K dated March 24, 2009 should be considered when evaluating our trends and future results.

24

Table of Contents

Results of Operations Consolidated Review

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 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.

Items Affecting Comparability

The year-over-year comparisons of our financial results are affected by the following items:

	12 Weeks Ended		24 Weeks Ended	
	6/13/09	6/14/08	**6/13/09**	6/14/08
Operating profit				
Mark-to-market net gains	**$ 100**	$ 61	**$ 162**	$ 57
Restructuring and impairment charges	**$ (11)**	$	**$ (36)**	$
Net income attributable to PepsiCo				
Mark-to-market net gains	**$ 65**	$ 39	**$ 105**	$ 36
Restructuring and impairment charges	**$ (10)**	$	**$ (29)**	$
Net income attributable to PepsiCo per common share diluted				
Mark-to-market net gains	**$ 0.04**	$ 0.02	**$ 0.07**	$ 0.02
Restructuring and impairment charges	**$ (0.01)**	$	**$ (0.02)**	$

Mark-to-Market Net Impact

We centrally manage commodity derivatives on behalf of our divisions. These commodity derivatives include energy, fruit 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.

For the 12 weeks ended June 13, 2009, we recognized $100 million ($65 million after-tax or $0.04 per share) of mark-to-market net gains on commodity hedges in corporate unallocated expenses. For the 24 weeks ended June 13, 2009, we recognized $162 million ($105 million after-tax or $0.07 per share) of mark-to-market net gains on commodity hedges in corporate unallocated expenses.

For the 12 weeks ended June 14, 2008, we recognized $61 million ($39 million after-tax or $0.02 per share) of mark-to-market net gains on commodity hedges in corporate unallocated expenses. For the 24 weeks ended June 14, 2008, we recognized $57 million ($36 million after-tax or $0.02 per share) of mark-to-market net gains on commodity hedges in corporate unallocated expenses.

Table of Contents

Restructuring and Impairment Charges

In the fourth quarter of 2008, we incurred a charge of $543 million ($408 million after-tax or $0.25 per share) in conjunction with our Productivity for Growth program. The program includes actions in all divisions of the business, including the closure of six plants that we believe will increase cost competitiveness across the supply chain, upgrade and streamline our product portfolio, and simplify the organization for more effective and timely decision-making.

In the 12 and 24 weeks ended June 13, 2009, we incurred charges of $11 million ($10 million after-tax or $0.01 per share) and $36 million ($29 million after-tax or $0.02 per share), respectively, in conjunction with this program. These initiatives were completed in the second quarter of 2009.

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 13, 2009, total servings increased nearly 1%, as worldwide beverages decreased nearly 1% and worldwide snacks increased 1%. For the 24 weeks ended June 13, 2009, total servings were unchanged, as worldwide beverages decreased 1% and worldwide snacks increased slightly.

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. A portion of our volume is sold by our bottlers, and that portion is based on our bottlers sales to retailers and independent distributors. The remainder of our volume is based on our shipments to retailers and independent distributors. As disclosed in our Current Report on Form 8-K dated March 24, 2009, beginning in the first quarter of 2009, we report BCS volume for PepsiCo Beverages North America on a period basis, rather than on a monthly basis. We continue to 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 bottlers, retailers and independent distributors, and is the measure upon which our revenue is based.

Table of Contents

Consolidated Results

Total Net Revenue and Operating Profit

	12 Weeks Ended			24 Weeks Ended		
	6/13/09	6/14/08	Change	**6/13/09**	6/14/08	Change
Total net revenue	**$ 10,592**	$ 10,945	(3)%	**$ 18,855**	$ 19,278	(2)%
Operating profit						
FLNA	**$ 783**	$ 735	7%	**$ 1,480**	$ 1,368	8%
QFNA	**132**	122	8%	**307**	288	7%
LAF	**240**	254	(6)%	**404**	421	(4)%
PAB	**618**	681	(9)%	**1,043**	1,185	(12)%
Europe	**257**	283	(9)%	**355**	402	(12)%
AMEA	**237**	218	9%	**373**	344	8%
Corporate net impact of mark-to-market on commodity hedges	**100**	61	65%	**162**	57	185%
Corporate other	**(177)**	(163)	9%	**(346)**	(317)	9%
Total operating profit	**$ 2,190**	$ 2,191	%	**$ 3,778**	$ 3,748	1%
Total operating profit margin	**20.7%**	20.0%	0.7	**20.0%**	19.4%	0.6

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

12 Weeks

Total operating profit was flat and operating margin increased 0.7 percentage points. The net favorable mark-to-market impact of our commodity hedges contributed 2 percentage points to operating profit performance and was partially offset by nearly 1 percentage point from the restructuring and impairment charges related to our Productivity for Growth program. Unfavorable foreign currency negatively impacted operating profit performance by 8 percentage points and was slightly offset by the impact of acquisitions, which positively contributed 1 percentage point to the operating profit performance.

Other corporate unallocated expenses increased 9%, primarily reflecting the absence of certain favorable employee-related items in the prior year.

Table of Contents

24 Weeks

Total operating profit increased 1% and operating margin increased 0.6 percentage points. The net favorable mark-to-market impact of our commodity hedges contributed 3 percentage points to operating profit growth and was partially offset by 1 percentage point from the restructuring and impairment charges related to our Productivity for Growth program. Unfavorable foreign currency negatively impacted operating profit growth by almost 8 percentage points and was slightly offset by the impact of acquisitions, which contributed nearly 1 percentage point to the operating profit growth.

Other corporate unallocated expenses increased 9%, primarily reflecting the absence of certain favorable employee-related items in the prior year.

Other Consolidated Results

	12 Weeks Ended			24 Weeks Ended		
	6/13/09	6/14/08	Change	**6/13/09**	6/14/08	Change
Bottling equity income	**$ 119**	$ 168	(29)%	**$ 144**	$ 238	(40)%
Interest expense, net	**$ (73)**	$ (36)	$ (37)	**$ (171)**	$ (93)	$ (78)
Tax rate	**25.4%**	26.6%		**25.1%**	26.6%	
Net income attributable to PepsiCo	**$ 1,660**	$ 1,699	(2)%	**$ 2,795**	$ 2,847	(2)%
Net income attributable to PepsiCo per common share diluted	**$ 1.06**	$ 1.05	%	**$ 1.78**	$ 1.76	1%

12 Weeks

Bottling equity income decreased 29%, primarily reflecting pre-tax gains on our sales of PBG and PAS stock in the prior year.

Net interest expense increased $37 million, primarily reflecting higher average debt balances and lower average rates on our investment balances. This increase was partially offset by gains in the market value of investments used to economically hedge a portion of our deferred compensation costs.

The tax rate decreased 1.2 percentage points compared to the prior year, primarily due to the favorable resolution of a certain foreign tax matter.

Net income attributable to PepsiCo decreased 2% and net income attributable to PepsiCo per common share was flat. The favorable net mark-to-market impact of our commodity hedges was partially offset by the restructuring and impairment charges related to our Productivity for Growth program. These items affecting comparability positively contributed 1 percentage

Table of Contents

point to both the performance of net income attributable to PepsiCo and net income attributable to PepsiCo per common share. Net income attributable to PepsiCo per common share was also favorably impacted by share repurchases in the prior year.

24 Weeks

Bottling equity income decreased 40%, primarily reflecting pre-tax gains on our sales of PBG and PAS stock in the prior year.

Net interest expense increased $78 million, primarily reflecting higher average debt balances and lower average rates on our investment balances. This increase was partially offset by gains in the market value of investments used to economically hedge a portion of our deferred compensation costs.

The tax rate decreased 1.5 percentage points compared to the prior year, primarily due to the favorable resolution of certain foreign tax matters.

Net income attributable to PepsiCo decreased 2% and net income attributable to PepsiCo per common share increased 1%. The favorable net mark-to-market impact of our commodity hedges was partially offset by the restructuring and impairment charges related to our Productivity for Growth program. These items affecting comparability positively contributed over 1 percentage point to both the performance of net income attributable to PepsiCo and net income attributable to PepsiCo per common share. Net income attributable to PepsiCo per common share was also favorably impacted by share repurchases in the prior year.

Results of Operations Division Review

The results and discussions below are based on how our Chief Executive Officer monitors the performance of our divisions. In addition, our operating profit and growth, excluding the impact of restructuring and impairment charges, are not measures defined by accounting principles generally accepted in the U.S. However, we believe investors should consider these measures as they are more indicative of our ongoing performance and with how management evaluates our operating results and trends. For additional information on our divisions and our restructuring and impairment charges, see *Our Divisions* and *Restructuring and Impairment Charges* in the Notes to the Condensed Consolidated Financial Statements.

Table of Contents

Net Revenue

12 Weeks Ended	FLNA	QFNA	LAF	PAB	Europe	AMEA	Total
June 13, 2009	**$ 3,138**	**$ 396**	**$ 1,378**	**$ 2,618**	**$ 1,642**	**$ 1,420**	**$ 10,592**
June 14, 2008	$ 2,950	$ 406	$ 1,523	$ 2,880	$ 1,837	$ 1,349	$ 10,945
% Impact of:							
Volume[a]	2%	(4)%	(1)%	(6)%	(5)%	6%	(1)%
Effective net pricing[b]	5	3	13	(0.5)	5.5	7	5
Foreign exchange	(1.5)	(2)	(22)	(2)	(21)	(9)	(9)
Acquisitions					10	1	2
% Change[c]	*6%*	*(3)%*	*(9)%*	*(9)%*	*(11)%*	*5%*	*(3)%*

Net Revenue

24 Weeks Ended	FLNA	QFNA	LAF	PAB	Europe	AMEA	Total
June 13, 2009	**$ 6,138**	**$ 881**	**$ 2,245**	**$ 4,706**	**$ 2,589**	**$ 2,296**	**$ 18,855**
June 14, 2008	$ 5,680	$ 901	$ 2,494	$ 5,240	$ 2,821	$ 2,142	$ 19,278
% Impact of:							
Volume[a]	1%	(2)%	(3)%	(6)%	(4.5)%	7%	(2)%
Effective net pricing[b]	9	2	14	(2)	6	7	6
Foreign exchange	(2)	(2)	(22)	(2)	(21)	(8)	(8)
Acquisitions					11	2	2
% Change[c]	*8%*	*(2)%*	*(10)%*	*(10)%*	*(8)%*	*7%*	*(2)%*

(a) 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.

(b) 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.

(c) Amounts may not sum due to rounding.

Table of Contents

Frito-Lay North America

	12 Weeks Ended		%	24 Weeks Ended		%
	6/13/09	6/14/08	Change	**6/13/09**	6/14/08	Change
Net revenue	**$ 3,138**	$ 2,950	6	**$ 6,138**	$ 5,680	8
Operating profit	**$ 783**	$ 735	7	**$ 1,480**	$ 1,368	8
Impact of restructuring and impairment charges				**2**		
Operating profit, excluding restructuring and impairment charges	**$ 783**	$ 735	7	**$ 1,482**	$ 1,368	8

12 Weeks

Net revenue grew 6% and pound volume increased 3%. The volume increase reflects high-single-digit growth in trademark Lay s, double-digit growth in dips and mid-single-digit growth in trademark Doritos. Net revenue growth also benefited from favorable net pricing. Foreign currency reduced net revenue growth by 1.5 percentage points.

Operating profit grew 7%, primarily reflecting the net revenue growth. Operating profit growth was adversely impacted by higher commodity costs, as well as the absence of a favorable casualty insurance actuarial adjustment recorded in the prior year. Foreign currency reduced operating profit growth by 1 percentage point.

24 Weeks

Net revenue grew 8% and pound volume increased 1%. Pound volume was adversely impacted by weight outs throughout 2008 to cover commodity cost inflation. Foreign currency reduced net revenue growth by almost 2 percentage points.

Operating profit grew 8%, primarily reflecting the net revenue growth. Operating profit growth was adversely impacted by higher commodity costs, as well as the absence of the favorable casualty insurance actuarial adjustment recorded in the prior year. Foreign currency reduced operating profit growth by 1 percentage point.

Table of Contents

Quaker Foods North America

	12 Weeks Ended		% Change	24 Weeks Ended		% Change
	6/13/09	6/14/08		**6/13/09**	6/14/08	
Net revenue	**$ 396**	$ 406	(3)	**$ 881**	$ 901	(2)
Operating profit	**$ 132**	$ 122	8	**$ 307**	$ 288	7
Impact of restructuring and impairment charges				**1**		
Operating profit, excluding restructuring and impairment charges	**$ 132**	$ 122	8	**$ 308**	$ 288	7

12 Weeks

Net revenue decreased 3% and volume declined 4%. The volume decline primarily reflects a high-single-digit decline in Oatmeal and a mid-single-digit decline in Aunt Jemima syrup and mix. Favorable net pricing, driven by price increases taken last year, was partially offset by unfavorable mix. Unfavorable foreign currency contributed nearly 2 percentage points to the net revenue decline.

Operating profit increased 8%, primarily reflecting lower advertising expenses, as well as the absence of 2008 costs related to flood damage at the Cedar Rapids facility which contributed 4 percentage points to the operating profit growth. Unfavorable foreign currency reduced operating profit growth by 1 percentage point.

24 Weeks

Net revenue decreased 2% and volume declined 2%. The volume decline reflects a mid-single-digit decline in Oatmeal and a high-single-digit decline in trademark Roni, partially offset by low-single-digit growth in ready-to-eat cereals. Favorable net pricing, driven by price increases taken last year, was partially offset by unfavorable mix. Unfavorable foreign currency contributed 2 percentage points to the net revenue decline.

Operating profit increased 7%. A final insurance settlement gain in the first quarter of 2009 related to the prior year Cedar Rapids flood, and the absence of 2008 costs incurred to cover the related insurance deductible, collectively contributed 8 percentage points to the operating profit growth. Unfavorable foreign currency reduced operating profit growth by 1 percentage point.

Table of Contents

Latin America Foods

	12 Weeks Ended		%	24 Weeks Ended		%
	6/13/09	6/14/08	Change	**6/13/09**	6/14/08	Change
Net revenue	**$ 1,378**	$ 1,523	(9)	**$ 2,245**	$ 2,494	(10)
Operating profit	**$ 240**	$ 254	(6)	**$ 404**	$ 421	(4)
Impact of restructuring and impairment charges				**3**		
Operating profit, excluding restructuring and impairment charges	**$ 240**	$ 254	(6)	**$ 407**	$ 421	(4)

12 Weeks

Volume was flat, as a high-single-digit decline at Sabritas in Mexico, largely resulting from pricing actions, was offset by double-digit growth in Brazil and a low-single-digit increase at Gamesa in Mexico.

Net revenue declined 9%, primarily reflecting an unfavorable foreign currency impact of 22 percentage points. The net revenue performance benefited from favorable effective net pricing.

Operating profit declined 6%, driven by unfavorable foreign currency which reduced operating profit by 24 percentage points. Favorable effective net pricing was partially offset by higher commodity costs.

24 Weeks

Volume declined 2%, as a result of pricing actions to cover commodity inflation and fewer trading days. A high-single-digit decline at Sabritas in Mexico was partially offset by mid-single-digit growth in Brazil. Additionally, Gamesa in Mexico declined at a low-single-digit rate.

Net revenue declined 10%, primarily reflecting an unfavorable foreign currency impact of 22 percentage points. Favorable effective net pricing was partially offset by the volume declines.

Operating profit declined 4%, driven by unfavorable foreign currency which reduced operating profit by 25 percentage points. Favorable effective net pricing was partially offset by higher commodity costs.

Table of Contents

PepsiCo Americas Beverages

	12 Weeks Ended		%	24 Weeks Ended		%
	6/13/09	6/14/08	Change	**6/13/09**	6/14/08	Change
Net revenue	**$ 2,618**	$ 2,880	(9)	**$ 4,706**	$ 5,240	(10)
Operating profit	**$ 618**	$ 681	(9)	**$ 1,043**	$ 1,185	(12)
Impact of restructuring and impairment charges	**3**			**16**		
Operating profit, excluding restructuring and impairment charges	**$ 621**	$ 681	(9)	**$ 1,059**	$ 1,185	(11)

12 Weeks

BCS volume declined 6%, reflecting continued softness in the North America liquid refreshment beverage category. Volume declined 7% in North America and our Latin America volume was flat.

In North America, non-carbonated beverage volume declined 14%, primarily driven by double-digit declines in Gatorade sports drinks and in our base Aquafina water business. CSD volumes declined 2%.

Net revenue declined 9%, primarily reflecting the volume declines. Unfavorable foreign currency contributed over 2 percentage points to the net revenue decline.

Operating profit declined 9%, primarily reflecting the net revenue performance. Unfavorable foreign currency contributed 4 percentage points to the decline.

24 Weeks

BCS volume declined 6%, reflecting continued softness in the North America liquid refreshment beverage category. An 8% decline in North America was partially offset by a 0.5% increase in Latin America.

In North America, non-carbonated beverage volume declined 14%, primarily driven by double-digit declines in Gatorade sports drinks and in our base Aquafina water business. CSD volumes declined 3%.

Net revenue declined 10%, primarily reflecting the volume declines. Unfavorable foreign currency contributed over 2 percentage points to the net revenue decline.

Operating profit declined 12%, primarily reflecting the net revenue performance. Unfavorable foreign currency contributed nearly 4 percentage points to the decline. Operating profit was also negatively impacted by over 1 percentage point from charges related to our Productivity for Growth program.

Table of Contents

Europe

	12 Weeks Ended		%	24 Weeks Ended		%
	6/13/09	6/14/08	Change	**6/13/09**	6/14/08	Change
Net revenue	**$ 1,642**	$ 1,837	(11)	**$ 2,589**	$ 2,821	(8)
Operating profit	**$ 257**	$ 283	(9)	**$ 355**	$ 402	(12)
Impact of restructuring and impairment charges	**(2)**			**1**		
Operating profit, excluding restructuring and impairment charges	**$ 255**	$ 283	(9)	**$ 356**	$ 402	(11)

12 Weeks

In the quarter, Europe continued to experience macroeconomic weakness across the region.

Snacks volume declined 1%, reflecting weight outs in response to higher input costs. Spain and Poland experienced double-digit declines and Walkers volume decreased at a low-single-digit rate. Our acquisition in the fourth quarter of 2008 of a snacks company in Serbia positively contributed almost 4 percentage points to the volume performance.

Beverage volume grew 2%, primarily reflecting our acquisition of Lebedyansky in Russia in the fourth quarter of 2008 which contributed 10 percentage points to volume growth. A low-single-digit increase in Germany and a high-single-digit increase in Poland were more than offset by double-digit declines in Russia and the Ukraine.

Net revenue declined 11%, reflecting adverse foreign currency which contributed 21 percentage points to the decline, partially offset by acquisitions which positively contributed 10 percentage points to net revenue performance.

Operating profit declined 9%, reflecting adverse foreign currency which contributed 24 percentage points to the decline, partially offset by acquisitions which positively contributed 6 percentage points to operating profit performance.

24 Weeks

Snacks volume was flat, reflecting weight outs in response to higher input costs. Double-digit volume declines in Spain and Poland were partially offset by low-single-digit growth in Russia. Additionally, Walkers in the United Kingdom declined at a low-single-digit rate. Our acquisition in the fourth quarter of 2008 of a snacks company in Serbia positively contributed 3.5 percentage points to the volume performance.

Beverage volume grew 3%, primarily reflecting our acquisition of Lebedyansky in Russia in the fourth quarter of 2008 which contributed 11 percentage points to volume growth. Slightly positive performance in the United Kingdom and a low-single-digit increase in Germany were more than offset by double-digit declines in Russia and the Ukraine.

Table of Contents

Net revenue declined 8%, reflecting adverse foreign currency which contributed 21 percentage points to the decline, partially offset by acquisitions which positively contributed 11 percentage points to net revenue performance.

Operating profit declined 12%, reflecting adverse foreign currency which contributed 24 percentage points to the decline, partially offset by acquisitions which positively contributed 7 percentage points to operating profit performance. Operating profit performance was nominally impacted by restructuring and impairment charges related to our Productivity for Growth program.

Asia, Middle East & Africa

	12 Weeks Ended		%	24 Weeks Ended		%
	6/13/09	6/14/08	Change	**6/13/09**	6/14/08	Change
Net revenue	**$ 1,420**	$ 1,349	5	**$ 2,296**	$ 2,142	7
Operating profit	**$ 237**	$ 218	9	**$ 373**	$ 344	8
Impact of restructuring and impairment charges	**10**			**13**		
Operating profit, excluding restructuring and impairment charges	**$ 247**	$ 218	13	**$ 386**	$ 344	12

12 Weeks

Snacks volume grew 3%, reflecting high-single-digit growth in the Middle East and low-single-digit growth in India and South Africa. These gains were partially offset by a double-digit decline in China, lapping nearly 30% growth in the prior year.

Beverage volume grew 8%, reflecting broad-based increases driven by double-digit growth in India. Additionally, China grew at a low-single-digit rate and the Middle East grew at a mid-single-digit rate. Acquisitions and divestitures had no impact on the beverage volume growth rate.

Net revenue grew 5%, reflecting favorable effective net pricing and volume growth. Foreign currency reduced net revenue growth by 9 percentage points and the net impact of acquisitions and divestitures contributed 1 percentage point to the net revenue growth.

Operating profit grew 9%, primarily driven by the net revenue growth. Foreign currency reduced operating profit growth by 8 percentage points and the net impact of acquisitions and divestitures increased operating profit growth by 1 percentage point. Operating profit growth was negatively impacted by over 4 percentage points from charges related to our Productivity for Growth program.

24 Weeks

Snacks volume grew 5%, reflecting double-digit growth in the Middle East, partially offset by a low-single-digit decline in South Africa and a mid-single-digit decline in China. Additionally, India experienced mid-single-digit growth.

Table of Contents

Beverage volume grew 9%, reflecting broad-based increases driven by double-digit growth in India. Additionally, China grew at a mid-single-digit rate and the Middle East grew at a high-single-digit rate. Acquisitions and divestitures had no impact on the beverage volume growth rate.

Net revenue grew 7%, reflecting volume growth and favorable effective net pricing. Foreign currency reduced net revenue growth by 8 percentage points and the net impact of acquisitions and divestitures contributed 2 percentage points to the net revenue growth.

Operating profit grew 8%, primarily driven by the net revenue growth. Foreign currency reduced operating profit growth by 5.5 percentage points and the net impact of acquisitions and divestitures reduced operating profit growth by over 1 percentage point. Operating profit growth was negatively impacted by nearly 4 percentage points from charges related to our Productivity for Growth program.

Our Liquidity and Capital Resources

Global capital and credit markets, including the commercial paper markets, continue to experience volatility. Despite this volatility, we continue to have sufficient access to the capital and credit markets. In addition, we have revolving credit facilities. 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 intend to 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 continued or increased 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 from our snack and beverage operations in Venezuela outside of the country. As of the end of the second quarter, our operations in Venezuela comprised 12% of our cash and cash equivalents balance.

Operating Activities

During the 24 weeks, net cash provided by operating activities was $1.5 billion, reflecting a $1.0 billion ($0.8 billion after-tax) discretionary pension contribution to our U.S. pension plans and $160 million of restructuring payments related to our Productivity for Growth program. Net cash provided by operating activities in the 24 weeks also benefited from favorable working capital comparisons to the prior year.

Investing Activities

During the 24 weeks, net cash used for investing activities was $796 million, primarily reflecting $735 million of capital spending. We expect to invest about $2.1 billion in net capital spending in 2009, which excludes the potential impact of the proposed transactions with PBG and PAS.

Table of Contents

Financing Activities

During the 24 weeks, net cash used for financing activities was $534 million, primarily reflecting the return of operating cash flow to our shareholders through dividend payments of $1.3 billion, as well as net repayments of short-term borrowings of $227 million. The use of cash was partially offset by net proceeds from issuances of long-term debt of $902 million and stock option proceeds of $117 million.

In the second quarter of 2009, our Board of Directors approved a 6% increase in the annual dividend from $1.70 to $1.80 per share.

During the 24 weeks, we did not repurchase shares and we do not anticipate repurchasing shares until there is a resolution of the proposed transactions with PBG and PAS.

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

	24 Weeks Ended	
	6/13/09	6/14/08
Net cash provided by operating activities[a]	**$ 1,492**	$ 2,193
Capital spending	**(735)**	(896)
Sales of property, plant and equipment	**26**	65
Management operating cash flow	**$ 783**	$ 1,362

(a) Includes discretionary pension contribution in 2009 and restructuring payments in 2009 and 2008.
See Item 1A. Risk Factors in our Annual Report on Form 10-K for the fiscal year ended December 27, 2008 and Our Business Risks above and in our revised Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations included in Exhibit 99.4 to our Current Report on Form 8-K dated March 24, 2009 for certain factors that may impact our operating cash flows.

Debt Obligations

See *Debt Obligations* in the Notes to the Condensed Consolidated Financial Statements.

Proposed Acquisition of Common Stock of PBG and PAS

In April 2009, we announced proposals to acquire all of the outstanding shares of common stock that we do not already own of our two largest anchor bottlers, PBG and PAS, at a value of $29.50

Table of Contents

per share for PBG and $23.27 per share for PAS. We currently own approximately 33% of the outstanding shares of common stock of PBG and approximately 43% of the outstanding shares of common stock of PAS. The offers consist of $14.75 in cash plus 0.283 shares of PepsiCo common stock for each share of common stock of PBG and $11.64 in cash plus 0.223 shares of PepsiCo common stock for each share of common stock of PAS. The offers to acquire shares of PBG and PAS are proposals and are conditioned upon board approval and are subject to the completion of definitive merger agreements and limited confirmatory due diligence. The proposals for both PBG and PAS are cross-conditional based on the successful completion of both transactions. The proposal to acquire PAS common stock is also conditioned upon the approval of a majority of the directors of PAS that are independent from us.

Following the proposals, PBG and PAS each informed us that their respective boards of directors, based on the recommendations of committees comprised of independent directors, had determined not to accept our proposals. We have indicated that we would not sell or otherwise dispose of our PBG or PAS shares in, or vote in favor of, alternative transactions.

Table of Contents

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders

PepsiCo, Inc.:

We have reviewed the accompanying Condensed Consolidated Balance Sheet of PepsiCo, Inc. and Subsidiaries as of June 13, 2009, the related Condensed Consolidated Statements of Income and Comprehensive Income for the twelve and twenty-four weeks ended June 13, 2009 and June 14, 2008, and the Condensed Consolidated Statements of Cash Flows and Equity for the twenty-four weeks ended June 13, 2009 and June 14, 2008. 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 27, 2008, and the related Consolidated Statements of Income, Cash Flows, and Common Shareholders Equity for the fiscal year then ended not presented herein; and in our report dated February 19, 2009, except as to Notes 1, 3 and 4, which are as of March 24, 2009, 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 27, 2008, is fairly stated, in all material respects, in relation to the Consolidated Balance Sheet from which it has been derived.

As discussed in the notes to the condensed consolidated financial statements, PepsiCo, Inc. and subsidiaries adopted the provisions of FASB 160, Noncontrolling Interests in Consolidated Financial Statements as of December 28, 2008.

/s/ KPMG LLP

New York, New York

July 22, 2009

Table of Contents

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk.

See Management s Discussion and Analysis of Financial Condition and Results of Operations Our Business Risks and *Financial Instruments* in the Notes to the Condensed Consolidated Financial Statements. In addition, see Item 1A. Risk Factors in our Annual Report on Form 10-K for the fiscal year ended December 27, 2008 and Our Business Risks in our revised Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations included in Exhibit 99.4 to our Current Report on Form 8-K dated March 24, 2009.

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 2009, we continued migrating certain of our financial processing systems to SAP software. This software implementation is part of our ongoing global business transformation initiative, and we plan to continue implementing such software throughout other parts of our businesses over the course of the next few years. In connection with the SAP implementation 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 2009 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

PART II OTHER INFORMATION

ITEM 1. Legal Proceedings.

We are party to a variety of 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 27, 2008.

Table of Contents

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

During the second quarter of 2009, there were no common share repurchases under the $8.0 billion repurchase program authorized by our Board of Directors and publicly announced on May 2, 2007, and expiring on June 30, 2010. This authorization has approximately $6.4 billion remaining for repurchase.

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
3/21/09					
3/22/09	4/18/09	1,600	$ 258.55	N/A	N/A
4/19/09	5/16/09		$	N/A	N/A
5/17/09	6/13/09	1,700	$ 248.17	N/A	N/A
Total		3,300	$ 253.20	N/A	N/A

43

Table of Contents

ITEM 4. Submission of Matters to a Vote of Security Holders.

The following matters were submitted to a vote of security holders at PepsiCo s Annual Meeting of Shareholders held on May 6, 2009.

Election of Directors

Nominee	For	Against	Abstain	Broker Non-Votes
Shona L. Brown	1,276,158,283	14,590,372	3,903,104	N/A
Ian M. Cook	1,269,472,245	21,739,803	3,439,711	N/A
Dina Dublon	1,268,905,527	22,144,312	3,601,920	N/A
Victor J. Dzau	1,250,180,185	40,218,957	4,252,617	N/A
Ray L. Hunt	1,252,780,706	37,593,253	4,277,800	N/A
Alberto Ibargüen	1,267,684,872	23,244,388	3,722,499	N/A
Arthur C. Martinez	1,231,430,680	58,850,128	4,370,951	N/A
Indra K. Nooyi	1,257,583,492	33,346,316	3,721,951	N/A
Sharon Percy Rockefeller	1,252,280,027	38,143,824	4,227,908	N/A
James J. Schiro	927,756,258	362,523,979	4,371,522	N/A
Lloyd G. Trotter	1,268,699,031	22,363,544	3,589,184	N/A
Daniel Vasella	1,240,311,143	50,684,897	3,655,719	N/A
Michael D. White	1,261,290,326	29,795,217	3,566,216	N/A

All thirteen directors listed above were elected to a one-year term expiring in 2010 by the margins indicated.

The following proposals were adopted by the margins indicated:

Description of Proposals

	For	Against	Abstain	Broker Non-Votes
Ratification of appointment of KPMG LLP as independent registered public accounting firm	1,278,437,611	13,718,450	2,495,698	N/A
Approval of PepsiCo, Inc. Executive Incentive Compensation Plan	1,216,934,106	68,879,544	8,838,109	N/A

The following proposals were not adopted by the margins indicated:

Description of Proposals

	For	Against	Abstain	Broker Non-Votes
Beverage Container Recycling	75,670,812	793,161,979	178,641,797	247,177,171
Report on Impacts of Genetically Engineered Products	72,631,095	795,321,970	179,521,523	247,177,171
Charitable Contributions Report	46,179,357	872,693,064	128,602,167	247,177,171

Advisory Vote on Compensation	500,493,627	513,098,163	33,882,798	247,177,171

Table of Contents

ITEM 6. Exhibits

See Index to Exhibits on page 47.

Table of Contents

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 22, 2009

/s/ Peter A. Bridgman
Peter A. Bridgman

Senior Vice President and

Controller

Date: July 22, 2009

/s/ Thomas H. Tamoney, Jr.
Thomas H. Tamoney, Jr.
Senior Vice President, Deputy General

Counsel and Assistant Secretary

(Duly Authorized Officer)

Table of Contents

INDEX TO EXHIBITS

ITEM 6 (a)

EXHIBITS

Exhibit 10.1	PepsiCo Pension Equalization Plan (Plan Document for the Pre-Section 409A Program), January 1, 2005 Restatement, As Amended Through December 31, 2008
Exhibit 12	Computation of Ratio of Earnings to Fixed Charges
Exhibit 15	Letter re: Unaudited Interim Financial Information
Exhibit 31	Certifications of Chief Executive Officer and Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
Exhibit 32	Certifications of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002