PEPSICO INC
Form 10-Q
October 07, 2010
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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 September 4, 2010 (36 weeks)

OR

__ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ______ to ______

Commission file number 1-1183

PepsiCo, Inc.
(Exact Name of Registrant as Specified in its Charter)

North Carolina	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 _X_ 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 __	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_X_

Number of shares of Common Stock outstanding as of October 1, 2010: 1,584,840,959

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PEPSICO, INC. AND SUBSIDIARIES

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PART I FINANCIAL INFORMATION

ITEM 1. Condensed Consolidated Financial Statements.

PEPSICO, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF INCOME

(in millions except per share amounts, unaudited)

	12 Weeks Ended		36 Weeks Ended	
	9/4/10	9/5/09	**9/4/10**	9/5/09
Net Revenue	**$ 15,514**	$ 11,080	**$ 39,683**	$ 29,935
Cost of sales	**7,008**	5,181	**18,216**	13,806
Selling, general and administrative expenses	**5,676**	3,649	**15,288**	10,077
Amortization of intangible assets	**30**	18	**78**	42
Operating Profit	**2,800**	2,232	**6,101**	6,010
Bottling equity income	**10**	146	**728**	290
Interest expense	**(169)**	(86)	**(495)**	(285)
Interest income	**18**	16	**26**	44
Income before income taxes	**2,659**	2,308	**6,360**	6,059
Provision for income taxes	**729**	575	**1,383**	1,517
Net income	**1,930**	1,733	**4,977**	4,542
Less: Net income attributable to noncontrolling interests	**8**	16	**22**	30
Net Income Attributable to PepsiCo	**$ 1,922**	$ 1,717	**$ 4,955**	$ 4,512
Net Income Attributable to PepsiCo per Common Share				
Basic	**$ 1.21**	$ 1.10	**$ 3.11**	$ 2.90
Diluted	**$ 1.19**	$ 1.09	**$ 3.06**	$ 2.87
Cash Dividends Declared per Common Share	**$ 0.48**	$ 0.45	**$ 1.41**	$ 1.325

See accompanying Notes to the Condensed Consolidated Financial Statements.

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PEPSICO, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(in millions, unaudited)

	36 Weeks Ended	
	9/4/10	9/5/09
Operating Activities		
Net income	**$ 4,977**	$ 4,542
Depreciation and amortization	**1,580**	1,083
Stock-based compensation expense	**191**	159
2009 restructuring and impairment charges		36
Cash payments for 2009 restructuring charges	**(29)**	(183)
PBG/PAS merger and integration costs	**545**	
Cash payments for PBG/PAS merger and integration costs	**(272)**	
Gain on previously held equity interests in PBG and PAS	**(958)**	
Asset write-off	**145**	
Non-cash foreign exchange loss related to Venezuela devaluation	**120**	
Excess tax benefits from share-based payment arrangements	**(73)**	(16)
Pension and retiree medical plan contributions	**(1,350)**	(1,130)
Pension and retiree medical plan expenses	**310**	290
Bottling equity income, net of dividends	**37**	(222)
Deferred income taxes and other tax charges and credits	**291**	59
Change in accounts and notes receivable	**(1,287)**	(459)
Change in inventories	**224**	(128)
Change in prepaid expenses and other current assets	**(14)**	17
Change in accounts payable and other current liabilities	**762**	(241)
Change in income taxes payable	**787**	914
Other, net	**(198)**	(318)
Net Cash Provided by Operating Activities	**5,788**	4,403
Investing Activities		
Capital spending	**(1,670)**	(1,138)
Sales of property, plant and equipment	**55**	33
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)**	
Other acquisitions and investments in noncontrolled affiliates	**(36)**	(300)
Divestitures		100
Cash restricted for pending acquisitions	**(8)**	30
Short-term investments, by original maturity		
More than three months purchases	**(8)**	(29)
More than three months maturities	**21**	55
Three months or less, net	**(53)**	4

Other investing, net	**(12)**	
Net Cash Used for Investing Activities	**(5,444)**	(1,245)
Financing Activities		
Proceeds from issuances of long-term debt	**4,215**	1,057
Payments of long-term debt	**(73)**	(188)
Short-term borrowings, by original maturity		
More than three months proceeds	**55**	32
More than three months payments	**(27)**	(64)
Three months or less, net	**3,351**	(965)
Cash dividends paid	**(2,218)**	(2,032)
Share repurchases common	**(4,418)**	
Share repurchases preferred	**(3)**	(4)
Proceeds from exercises of stock options	**700**	187
Excess tax benefits from share-based payment arrangements	**73**	16
Acquisition of noncontrolling interest in Lebedyansky from PBG	**(159)**	
Other financing	**(6)**	(26)
Net Cash Provided by/(Used for) Financing Activities	**1,490**	(1,987)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	**(200)**	19
Net Increase in Cash and Cash Equivalents	**1,634**	1,190
Cash and Cash Equivalents Beginning of year	**3,943**	2,064
Cash and Cash Equivalents End of period	**$ 5,577**	$ 3,254
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.

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PEPSICO, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEET

(in millions)

	(Unaudited) 9/4/10	12/26/09
Assets		
Current Assets		
Cash and cash equivalents	**$ 5,577**	$ 3,943
Short-term investments	**232**	192
Accounts and notes receivable, less allowance: 9/10 $164, 12/09 $90	**7,245**	4,624
Inventories		
Raw materials	**1,689**	1,274
Work-in-process	**183**	165
Finished goods	**1,487**	1,179
	3,359	2,618
Prepaid expenses and other current assets	**1,488**	1,194
Total Current Assets	**17,901**	12,571
Property, Plant and Equipment	**31,779**	24,912
Accumulated Depreciation	**(13,245)**	(12,241)
	18,534	12,671
Amortizable Intangible Assets, net	**2,053**	841
Goodwill	**13,905**	6,534
Other Nonamortizable Intangible Assets	**11,709**	1,782
Nonamortizable Intangible Assets	**25,614**	8,316
Investments in Noncontrolled Affiliates	**1,401**	4,484
Other Assets	**1,199**	965
Total Assets	**$ 66,702**	$ 39,848

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PEPSICO, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEET (continued)

(in millions except per share amounts)

	(Unaudited) **9/4/10**	12/26/09
Liabilities and Equity		
Current Liabilities		
Short-term obligations	**$ 5,756**	$ 464
Accounts payable and other current liabilities	**10,699**	8,127
Income taxes payable	**662**	165
Total Current Liabilities	**17,117**	8,756
Long-term Debt Obligations	**18,445**	7,400
Other Liabilities	**7,039**	5,591
Deferred Income Taxes	**3,865**	659
Total Liabilities	**46,466**	22,406
Commitments and Contingencies		
Preferred Stock, no par value	**41**	41
Repurchased Preferred Stock	**(148)**	(145)
PepsiCo Common Shareholders Equity		
Common stock, par value 1 2/3 cents per share:		
Authorized 3,600 shares, issued 9/10 1,865 shares, 12/09 1,782 shares	**31**	30
Capital in excess of par value	**4,535**	250
Retained earnings	**36,487**	33,805
Accumulated other comprehensive loss	**(4,358)**	(3,794)
Less: repurchased common stock, at cost:		
9/10 283 shares, 12/09 217 shares	**(16,650)**	(13,383)
Total PepsiCo Common Shareholders Equity	**20,045**	16,908
Noncontrolling interests	**298**	638
Total Equity	**20,236**	17,442
Total Liabilities and Equity	**$ 66,702**	$ 39,848

See accompanying Notes to the Condensed Consolidated Financial Statements.

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PEPSICO, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF EQUITY

(in millions, unaudited)

	36 Weeks Ended			
	9/4/10		9/5/09	
	Shares	**Amount**	Shares	Amount
Preferred Stock	**0.8**	**$ 41**	0.8	$ 41
Repurchased Preferred Stock				
Balance, beginning of year	**(0.6)**	**(145)**	(0.5)	(138)
Redemptions		**(3)**	(0.1)	(4)
Balance, end of period	**(0.6)**	**(148)**	(0.6)	(142)
Common Stock				
Balance, beginning of year	**1,782**	**30**	1,782	30
Shares issued in connection with our acquisitions of PBG and PAS	**83**	**1**		
Balance, end of period	**1,865**	**31**	1,782	30
Capital in Excess of Par Value				
Balance, beginning of year		**250**		351
Stock-based compensation expense		**191**		159
Stock option exercises/RSUs converted[(a)]		**(399)**		(197)
Withholding tax on RSUs converted		**(57)**		(34)
Equity issued in connection with our acquisitions of PBG and PAS		**4,451**		
Other		**99**		
Balance, end of period		**4,535**		279
Retained Earnings				
Balance, beginning of year		**33,805**		30,638
Net income attributable to PepsiCo		**4,955**		4,512
Cash dividends declared common		**(2,270)**		(2,065)
Cash dividends declared preferred		**(1)**		(1)
Cash dividends declared RSUs		**(9)**		(7)
Other		**7**		
Balance, end of period		**36,487**		33,077
Accumulated Other Comprehensive Loss				
Balance, beginning of year		**(3,794)**		(4,694)
Currency translation adjustment		**(291)**		485

Cash flow hedges, net of tax:				
Net derivative losses		**(123)**		(76)
Reclassification of derivative losses/(gains) to net income		**39**		(6)
Pension and retiree medical, net of tax:				
Reclassification of losses to net income		**210**		16
Remeasurement of net liabilities		**(406)**		
Unrealized gains on securities, net of tax		**7**		12
Other				1
Balance, end of period		**(4,358)**		(4,262)
Repurchased Common Stock				
Balance, beginning of year	**(217)**	**(13,383)**	(229)	(14,122)
Share repurchases	**(68)**	**(4,418)**		
Stock option exercises	**17**	**1,029**	5	306
Other	**(15)**	**122**	1	87
Balance, end of period	**(283)**	**(16,650)**	(223)	(13,729)
Total Common Shareholders Equity		**20,045**		15,395
Noncontrolling Interests				
Balance, beginning of year		**638**		476
Net income attributable to noncontrolling interests		**22**		30
(Distributions to)/contributions from noncontrolling interests, net		**(347)**		80
Currency translation adjustment		**(14)**		(41)
Other, net		**(1)**		(8)
Balance, end of period		**298**		537
Total Equity		**$ 20,236**		$ 15,831

(a) Includes total tax benefit of $50 million in 2010 and $7 million in 2009.
See accompanying Notes to the Condensed Consolidated Financial Statements.

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PEPSICO, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT

OF COMPREHENSIVE INCOME

(in millions, unaudited)

	12 Weeks Ended		36 Weeks Ended	
	9/4/10	9/5/09	**9/4/10**	9/5/09
Net Income	**$ 1,930**	$ 1,733	**$ 4,977**	$ 4,542
Other Comprehensive (Loss)/Income				
Currency translation adjustment	**290**	225	**(305)**	444
Pension and retiree medical, net of tax:				
Reclassification of (gains)/losses to net income	**(1)**	6	**210**	16
Remeasurement of net liabilities	**(406)**		**(406)**	
Cash flow hedges, net of tax:				
Net derivative losses	**(37)**	(53)	**(123)**	(76)
Reclassification of derivative losses/(gains) to net income	**16**	10	**39**	(6)
Unrealized gains on securities, net of tax	**6**	8	**7**	12
Other		1		1
	(132)	197	**(578)**	391
Comprehensive Income	**1,798**	1,930	**4,399**	4,933
Comprehensive (income)/loss attributable to noncontrolling interests	**(8)**	(37)	**(8)**	11
Comprehensive Income Attributable to PepsiCo	**$ 1,790**	$ 1,893	**$ 4,391**	$ 4,944

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

The Condensed Consolidated Balance Sheet as of September 4, 2010, the Condensed Consolidated Statements of Income and Comprehensive Income for the 12 and 36 weeks ended September 4, 2010 and September 5, 2009, and the Condensed Consolidated Statements of Cash Flows and Equity for the 36 weeks ended September 4, 2010 and September 5, 2009 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 26, 2009. In our opinion, these financial statements include all normal and recurring adjustments necessary for a fair presentation. The results for the 12 and 36 weeks are not necessarily indicative of the results expected for the full year.

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

On February 26, 2010, we completed our acquisitions of The Pepsi Bottling Group, Inc. (PBG) and PepsiAmericas, Inc. (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. The results of the acquired companies in the U.S., Canada and Mexico are reported within our PAB segment, and the results of the acquired companies in Europe, including Russia, are reported within our Europe segment. 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. Subsequent to our acquisitions of PBG and PAS, we continue to record our share of equity income or loss from Pepsi Bottling Ventures LLC in bottling equity income and our share of income or loss from other noncontrolled affiliates as a component of selling, general and administrative expenses. 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 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. See also *Acquisitions of PBG and PAS* and Items Affecting Comparability in Management s Discussion and Analysis of Financial Condition and Results of Operations.

As of the beginning of our 2010 fiscal year, the results of our Venezuelan businesses are reported under hyperinflationary accounting. See Our Business Risks and Items Affecting Comparability in Management s Discussion and Analysis of Financial Condition and Results of Operations.

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,

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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 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. This report should be read in conjunction with our Annual Report on Form 10-K for the fiscal year ended December 26, 2009.

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), including our Sabritas and Gamesa businesses in Mexico;

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 (referred to as divisions), as follows:

FLNA,

QFNA,

LAF,

PAB,

Europe, and

AMEA.

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	12 Weeks Ended		36 Weeks Ended	
	9/4/10	9/5/09	**9/4/10**	9/5/09
Net Revenue				
FLNA	**$ 3,244**	$ 3,198	**$ 9,506**	$ 9,336
QFNA	**407**	418	**1,266**	1,299
LAF	**1,542**	1,396	**4,063**	3,641
PAB[a]	**5,792**	2,656	**14,105**	7,362
Europe[a]	**2,762**	1,874	**6,171**	4,463
AMEA	**1,767**	1,538	**4,572**	3,834
	$ 15,514	$ 11,080	**$ 39,683**	$ 29,935
Operating Profit				
FLNA	**$ 907**	$ 822	**$ 2,522**	$ 2,302
QFNA	**126**	131	**393**	438
LAF	**238**	199	**616**	603
PAB[a]	**1,017**	607	**2,042**	1,650
Europe[a]	**423**	318	**802**	673
AMEA	**244**	297	**681**	670
Total division	**2,955**	2,374	**7,056**	6,336
Corporate Unallocated				
Net impact of mark-to-market on commodity hedges	**16**	29	**58**	191
PBG/PAS merger and integration costs	**(16)**	(1)	**(128)**	(1)
Venezuela currency devaluation			**(129)**	
Asset write-off			**(145)**	
Foundation contribution			**(100)**	
Other	**(155)**	(170)	**(511)**	(516)
	$ 2,800	$ 2,232	**$ 6,101**	$ 6,010

	Total Assets	
	9/4/10	12/26/09
FLNA	**$ 6,365**	$ 6,337
QFNA	**962**	997
LAF	**3,575**	3,575
PAB[a]	**32,083**	7,670
Europe[a]	**12,878**	9,321
AMEA	**5,488**	4,937
Total division	**61,351**	32,837
Corporate	**5,107**	3,933
Investments in bottling affiliates[a]	**244**	3,078
	$ 66,702	$ 39,848

(a) Changes in 2010 relate primarily to our acquisitions of PBG and PAS.

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Acquisitions of PBG and PAS

On February 26, 2010, PepsiCo announced that pursuant to the terms of merger agreements entered into on August 3, 2009 (the Merger Agreements), PBG and PAS merged with and into Pepsi-Cola Metropolitan Bottling Company, Inc. (Metro), with Metro continuing as the surviving corporation and a wholly owned subsidiary of PepsiCo. 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.

Under the terms of the Merger Agreements: (i) each outstanding share of common stock of PBG not held by Metro, PepsiCo or a subsidiary of PepsiCo or held by PBG as treasury stock (each, a PBG Share) was canceled and converted into the right to receive, at the holder s election, either 0.6432 shares of common stock of PepsiCo (the PBG Per Share Stock Consideration) or $36.50 in cash, without interest (the PBG Cash Election Price), subject to proration provisions which provide that an aggregate 50% of such outstanding PBG Shares were converted into the right to receive common stock of PepsiCo and an aggregate 50% of such outstanding PBG Shares were converted into the right to receive cash and each PBG Share and share of Class B common stock of PBG held by Metro, PepsiCo or a subsidiary of PepsiCo was canceled or converted to the right to receive 0.6432 shares of common stock of PepsiCo; and (ii) each outstanding share of common stock of PAS not held by Metro, PepsiCo or a subsidiary of PepsiCo or held by PAS as treasury stock (each, a PAS Share) was canceled and converted into the right to receive, at the holder s election, either 0.5022 shares of common stock of PepsiCo (the PAS Per Share Stock Consideration) or $28.50 in cash, without interest (the PAS Cash Election Price), subject to proration provisions which provide that an aggregate 50% of such outstanding PAS Shares were converted into the right to receive common stock of PepsiCo and an aggregate 50% of such outstanding PAS Shares were converted into the right to receive cash and each PAS Share held by Metro, PepsiCo or a subsidiary of PepsiCo was canceled or converted into the right to receive 0.5022 shares of common stock of PepsiCo.

Each PBG or PAS stock option was converted into an adjusted PepsiCo stock option to acquire a number of shares of PepsiCo common stock, determined by multiplying the number of shares of PBG or PAS common stock subject to the PBG or PAS stock option by an exchange ratio (the Closing Exchange Ratio) equal to the closing price of a share of PBG or PAS common stock on the business day immediately before the acquisition date divided by the closing price of a share of PepsiCo common stock on the business day immediately before the acquisition date. The exercise price per share of PepsiCo common stock subject to the adjusted PepsiCo stock option is equal to the per share exercise price of PBG or PAS stock option divided by the Closing Exchange Ratio.

Each PBG restricted stock unit (RSU) was adjusted so that its holder is entitled to receive, upon settlement, a number of shares of PepsiCo common stock equal to the number of shares of PBG common stock subject to the PBG RSU multiplied by the PBG Per Share Stock Consideration. PBG performance-based RSUs were converted into PepsiCo RSUs based on 100% target achievement, and, following conversion, remain subject to continued service of the holder. Each PBG RSU held by a non-employee director was vested and canceled at the acquisition date, and, in exchange for cancellation of the PBG RSU, the holder received the PBG Per Share Stock Consideration for each share of PBG common stock subject to the PBG RSU.

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Each cash-settled PAS RSU was canceled in exchange for a cash payment equal to the closing price of a share of PAS common stock on the business day immediately before the closing of the PAS merger for each share of PAS common stock subject to each PAS RSU. Each PAS restricted share was converted into either the PAS Per Share Stock Consideration or the PAS Cash Election Price, at the election of the holder, with the same proration procedures applicable to PAS stockholders described above.

Pursuant to the terms of PBG s executive retention arrangements, PBG equity awards granted to certain executives prior to the PBG merger vest immediately upon a qualifying termination of the executive s employment except for certain PBG executives whose equity awards vested immediately at the effective time of the PBG merger pursuant to the terms of PepsiCo s executive retention agreements. Each PAS equity award granted prior to the PAS merger vested immediately at the effective time of the PAS merger pursuant to the original terms of the awards.

Prior to the mergers, we had equity investments in PBG and PAS. In addition to approximately 32% of PBG s outstanding common stock that we owned at year-end 2009, we owned 100% of PBG s class B common stock and approximately 7% of the equity of Bottling Group, LLC, PBG s principal operating subsidiary. At year-end 2009, we owned approximately 43% of the outstanding common stock of PAS.

The guidance on accounting for business combinations requires that an acquirer remeasure its previously held equity interest in an acquiree at its acquisition date fair value and recognize the resulting gain or loss in earnings. Thus, in connection with our acquisitions of PBG and PAS, the carrying amounts of our previously held equity interests in PBG and PAS were revalued to fair value at the acquisition date, resulting in a gain in the first quarter of 2010 of $958 million, 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.

As discussed in *Debt Obligations and Commitments*, in January 2010, we issued $4.25 billion of fixed and floating rate notes. A portion of the net proceeds from the issuance of these notes was used to finance our acquisitions of PBG and PAS.

Our actual stock price on February 25, 2010 (the last trading day prior to the closing of the mergers) was used to determine the value of stock, stock options and RSUs issued as consideration in connection with our acquisitions of PBG and PAS and thus to calculate the actual purchase price.

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The table below represents the computation of the purchase price excluding assumed debt and the fair value of our previously held equity interests in PBG and PAS as of the acquisition date:

	Total Number of Shares/Awards Issued	Total Estimated Fair Value
Payment in cash, for the remaining (not owned by PepsiCo and its subsidiaries) outstanding shares of PBG and PAS common stock and equity awards vested at consummation of merger		$ 3,813
Payment to PBG and PAS of shares of PepsiCo common stock for the remaining (not owned by PepsiCo and its subsidiaries) outstanding shares of PBG and PAS common stock and equity awards vested at consummation of merger	67	4,175
Issuance of PepsiCo equity awards (vested and unvested) to replace existing PBG and PAS equity awards	16	276
Total purchase price	83	$ 8,264

The following table summarizes the preliminary estimates of the fair value of identifiable assets acquired and liabilities assumed in the PBG and PAS acquisitions and the resulting goodwill as of the acquisition date. 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 presented below, when appraisals are finalized. We expect to finalize these amounts as soon as possible but no later than by the end of 2010.

	Preliminary Estimates of Acquisition Date Fair Value
Inventory	$ 1,007
Property, plant and equipment	6,165
Amortizable intangible assets	1,314
Nonamortizable intangible assets, primarily reacquired franchise rights	9,130
Other current assets and current liabilities[(a)]	830
Other noncurrent assets	266
Debt obligations	(8,814)
Pension and retiree medical benefits	(962)
Other noncurrent liabilities	(688)
Deferred income taxes	(3,471)
Total identifiable net assets	4,777
Goodwill	7,462
Subtotal	12,239

Fair value of acquisition of noncontrolling interest		317
Total purchase price	$	12,556

(a) Includes cash and cash equivalents, accounts receivable, prepaid expenses and other current assets, accounts payable and other current liabilities.

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Goodwill is calculated as the excess of the purchase price paid over the net assets recognized. The goodwill recorded as part of the PBG and PAS acquisitions primarily reflects the value of adding PBG and PAS to PepsiCo to create a more fully integrated supply chain and go-to-market business model, as well as any intangible assets that do not qualify for separate recognition. Goodwill is not amortizable nor deductible for tax purposes. While the final calculation of goodwill and its allocation among reporting units is not complete, substantially all of the goodwill is recorded in our PAB segment.

In connection with our acquisitions of PBG and PAS, we reacquired certain franchise rights which had previously provided PBG and PAS with the exclusive and perpetual rights to manufacture and/or distribute beverages for sale in specified territories. Reacquired franchise rights totaling $8 billion were assigned a perpetual life and are, therefore, not amortizable. Amortizable acquired franchise rights of $0.9 billion have weighted-average estimated useful lives of 49 years. Other amortizable intangible assets, primarily customer relationships, have weighted-average estimated useful lives of 20 years.

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 *Restructuring, Impairment and Integration Charges* for details on the expenses incurred during the 12 and 36 weeks ended September 4, 2010.

The following table presents unaudited consolidated pro forma financial information as if the closing of our acquisitions of PBG and PAS had occurred on December 27, 2009 for purposes of the financial information presented for the 36 weeks ended September 4, 2010; and as if the closing of our acquisitions of PBG and PAS had occurred on December 28, 2008 for purposes of the financial information presented for the 12 and 36 weeks ended September 5, 2009.

	(unaudited)		
	12 Weeks Ended	36 Weeks Ended	
	9/5/09	**9/4/10**	9/5/09
Net Revenue	$ 14,927	**$ 41,427**	$ 40,317
Net Income Attributable to PepsiCo	$ 2,041	**$ 4,491**[(a)]	$ 5,144
Net Income Attributable to PepsiCo per Common Share Diluted	$ 1.24	**$ 2.75**[(a)]	$ 3.13

(a) Includes PBG/PAS merger and integration costs, inventory fair value adjustments and the gain on previously held equity interests.

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 dates indicated, nor is it indicative of the future operating results of PepsiCo.

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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 preliminary estimated acquisition date fair values and changes in certain expenses resulting therefrom;
- additional indebtedness, including, but not limited to, debt issuance costs and interest expense, incurred in connection with the acquisitions; and
- merger and integration charges associated with the acquisitions.

The unaudited pro forma results do not reflect future events that 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.

Intangible Assets

	9/4/10	12/26/09
Amortizable intangible assets, net		
Acquired franchise rights	**$ 943**	$
Reacquired franchise rights	**120**	
Brands	**1,440**	1,465
Other identifiable intangibles	**740**	505
	3,243	1,970
Accumulated amortization	**(1,190)**	(1,129)

	$ 2,053	$ 841

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

	Balance 12/26/09	Acquisitions	Translation and Other	**Balance 9/4/10**
FLNA				
Goodwill	$ 306	$	$ 2	**$ 308**
Brands	30			**30**
	336		2	**338**
QFNA				
Goodwill	175			**175**
LAF				
Goodwill	479		7	**486**
Brands	136		6	**142**
	615		13	**628**
PAB[(a)]				
Goodwill	2,431	6,759	7	**9,197**
Reacquired franchise rights		7,482	16	**7,498**
Acquired franchise rights		647	901[(b)]	**1,548**
Brands	112	22	(2)	**132**
	2,543	14,910	922	**18,375**
Europe[(a)]				
Goodwill	2,624	703	(193)	**3,134**
Reacquired franchise rights		528	(28)	**500**
Acquired franchise rights		463	(26)	**437**
Brands	1,378		(91)	**1,287**
	4,002	1,694	(338)	**5,358**
AMEA				
Goodwill	519	84	2	**605**
Brands	126	8	1	**135**
	645	92	3	**740**
Total goodwill	6,534	7,546	(175)	**13,905**
Total reacquired franchise rights		8,010	(12)	**7,998**
Acquired franchise rights		1,110	875	**1,985**

Total brands	1,782	30	(86)	**1,726**
	$ 8,316	$ 16,696	$ 602	**$ 25,614**

(a) Net increases in 2010 relate primarily to our acquisitions of PBG and PAS.

(b) Includes $900 million related to our upfront payment to Dr Pepper Snapple Group (DPSG) to manufacture and distribute Dr Pepper and certain other DPSG products.

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Stock-Based Compensation

In connection with our acquisition of PBG, we issued 13.4 million stock options and 2.7 million RSUs at weighted-average grant prices of $42.89 and $62.30, respectively, to replace previously held PBG equity awards. In connection with our acquisition of PAS, we issued 0.4 million stock options at a weighted-average grant price of $31.72 to replace previously held PAS equity awards. Our equity issuances included 8.3 million stock options and 0.6 million RSUs which were vested at the acquisition date and were included in the purchase price. The remaining 5.5 million stock options and 2.1 million RSUs issued are unvested and are being amortized over their remaining vesting period, up to 3 years.

For the 12 weeks ended September 4, 2010, we recognized stock-based compensation expense of $77 million ($72 million recorded as stock-based compensation expense and $5 million included in PBG/PAS merger and integration charges). Of the $77 million, $12 million was related to the unvested acquisition-related grants described above. For the 36 weeks ended September 4, 2010, we recognized stock-based compensation expense of $236 million ($191 million recorded as stock-based compensation expense and $45 million included in PBG/PAS merger and integration charges). Of the $236 million, $65 million was related to the unvested acquisition-related grants described above. For the 12 and 36 weeks ended September 5, 2009, we recognized stock-based compensation expense of $51 million and $159 million, respectively.

In connection with our acquisitions of PBG and PAS, the Compensation Committee of PepsiCo s Board of Directors elected to delay the annual equity award grant from the first quarter of 2010 to the second quarter of 2010, in order to ensure that all eligible employees receive grants on the same date and at the same market price. For the 12 weeks ended September 4, 2010, our grants of stock options and RSUs were nominal. For the 36 weeks ended September 4, 2010, we granted 12.2 million stock options and 4.7 million RSUs at weighted-average grant prices of $66.50 and $66.46, respectively, under the terms of our 2007 Long-Term Incentive Plan.

As a result of our annual benefits review, during the third quarter of 2010, the Company approved certain changes to our benefits programs to remain market competitive relative to other leading global companies. These changes included ending the Company s broad-based equity SharePower program. Consequently, beginning in 2011, no new awards will be granted. Outstanding SharePower awards from 2010 and earlier will continue to vest and be exercisable according to the terms and conditions of the program. See *Pension and Retiree Medical Benefits* for additional information regarding other related changes.

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

	36 Weeks Ended	
	9/4/10	9/5/09
Expected life	**5 yrs.**	6 yrs.
Risk free interest rate	**2.3%**	2.8%
Expected volatility[(a)]	**17%**	17%
Expected dividend yield	**2.8%**	3.0%

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

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Pension and Retiree Medical Benefits

In connection with our acquisitions of PBG and PAS, we assumed sponsorship of pension and retiree medical plans that provide defined benefits to U.S. and certain international employees. As of the acquisition date, we preliminarily estimated and recorded the following assets and liabilities for these plans and recorded the net funded status:

	Pension		Retiree Medical
	U.S.	International	
Fair value of plan assets	**$ 1,633**	**$ 52**	**$**
Projected benefit liability	**2,161**	**90**	**396**
Funded status	**$ (528)**	**$ (38)**	**$ (396)**

During the third quarter of 2010, the Compensation Committee of PepsiCo s Board of Directors approved changes to the U.S. pension and retiree medical plans, effective January 1, 2011. Plan design changes include implementing a new employer contribution to the 401(k) savings plan for certain eligible legacy PBG and PAS salaried employees as well as all future eligible salaried new hires of PepsiCo who are not eligible to participate in the defined benefit pension plan. Plan design changes also include implementing a new defined benefit pension formula for certain legacy PBG and PAS hourly employees and certain eligible hourly new hires and phasing out Company subsidies of retiree medical benefits.

In addition, during the third quarter of 2010, we merged the pension plan assets of the legacy PBG and PAS U.S. pension plans with those of PepsiCo into one master trust.

As a result of these changes, we remeasured our pension and retiree medical expenses and liabilities in the third quarter of 2010, which resulted in a one-time pre-tax curtailment gain of $62 million included in retiree medical expense, a $39 million reduction in our retiree medical obligations and a $674 million increase in our pension obligations.

The components of net periodic benefit cost for pension and retiree medical plans (including, in 2010, the impact of our acquisitions of PBG and PAS and the effects of the subsequent remeasurement of the plans) are as follows:

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	12 Weeks Ended					
	Pension				Retiree Medical	
	9/4/10	9/5/09	**9/4/10**	9/5/09	**9/4/10**	9/5/09
	U.S.		International			
Service cost	**$ 73**	$ 55	**$ 19**	$ 11	**$ 13**	$ 11
Interest cost	**123**	86	**26**	20	**22**	18
Expected return on plan assets	**(158)**	(107)	**(31)**	(25)		
Amortization of prior service cost/(benefit)	**3**	3	**1**		**(5)**	(4)
Amortization of experience loss	**30**	26	**6**	2	**2**	3
	71	63	**21**	8	**32**	28
Curtailment gain		(1)			**(62)**	
Total expense	**$ 71**	$ 62	**$ 21**	$ 8	**$ (30)**	$ 28

	36 Weeks Ended					
	Pension				Retiree Medical	
	9/4/10	9/5/09	**9/4/10**	9/5/09	**9/4/10**	9/5/09
	U.S.		International			
Service cost	**$ 203**	$ 165	**$ 52**	$ 30	**$ 39**	$ 31
Interest cost	**341**	258	**70**	53	**65**	56
Expected return on plan assets	**(433)**	(320)	**(84)**	(67)		
Amortization of prior service cost/(benefit)	**8**	8	**2**	1	**(13)**	(12)
Amortization of experience loss	**80**	77	**16**	5	**4**	8
	199	188	**56**	22	**95**	83
Special termination benefits	**23**				**1**	
Curtailment gain	**(2)**	(3)			**(62)**	
Total expense	**$ 220**	$ 185	**$ 56**	$ 22	**$ 34**	$ 83

In 2010, we made discretionary pension contributions of $1.2 billion and expect to make non-discretionary pension contributions of approximately $100 million. Our cash payments for retiree medical benefits are estimated to be approximately $100 million in 2010.

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Income Taxes

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

	9/4/10	12/26/09
Balance, beginning of year	**$ 1,731**	$ 1,711
Additions for tax positions related to the current year	**210**	238
Additions for tax positions from prior years	**416**	79
Reductions for tax positions from prior years	**(393)**	(236)
Settlement payments		(64)
Statute of limitations expiration	**(3)**	(4)
Translation and other		7
Balance, end of period	**$ 1,961**[(a)]	$ 1,731

(a) Includes a preliminary estimate of amounts related to our acquisitions of PBG and PAS.

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Net Income Attributable to PepsiCo per Common Share

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

	12 Weeks Ended			
	9/4/10		9/5/09	
	Income	**Shares[(a)]**	Income	Shares[(a)]
Net income attributable to PepsiCo	**$ 1,922**		$ 1,717	
Preferred shares:				
Dividends				