PEPSICO INC
Form 10-Q
October 08, 2009
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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 5, 2009 (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 __ 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 October 2, 2009: 1,560,444,589

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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	
	9/5/09	9/6/08	**9/5/09**	9/6/08
Net Revenue	**$ 11,080**	$ 11,244	**$ 29,935**	$ 30,522
Cost of sales	**5,181**	5,268	**13,806**	14,180
Selling, general and administrative expenses	**3,649**	3,972	**10,077**	10,560
Amortization of intangible assets	**18**	13	**42**	43
Operating Profit	**2,232**	1,991	**6,010**	5,739
Bottling equity income	**146**	201	**290**	439
Interest expense	**(86)**	(73)	**(285)**	(205)
Interest income	**16**	14	**44**	53
Income before income taxes	**2,308**	2,133	**6,059**	6,026
Provision for income taxes	**575**	550	**1,517**	1,586
Net income	**1,733**	1,583	**4,542**	4,440
Less: Net income attributable to noncontrolling interests	**16**	7	**30**	17
Net Income Attributable to PepsiCo	**$ 1,717**	$ 1,576	**$ 4,512**	$ 4,423
Net Income Attributable to PepsiCo per Common Share				
Basic	**$ 1.10**	$ 1.01	**$ 2.90**	$ 2.79
Diluted	**$ 1.09**	$ 0.99	**$ 2.87**	$ 2.74
Cash Dividends Declared per Common Share	**$ 0.45**	$ 0.425	**$ 1.325**	$ 1.225

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	
	9/5/09	9/6/08
Operating Activities		
Net income	**$ 4,542**	$ 4,440
Depreciation and amortization	**1,083**	1,055
Stock-based compensation expense	**159**	169
Restructuring and impairment charges	**36**	
Cash payments for restructuring charges	**(183)**	(24)
Excess tax benefits from share-based payment arrangements	**(16)**	(83)
Pension and retiree medical plan contributions	**(1,130)**	(132)
Pension and retiree medical plan expenses	**290**	318
Bottling equity income, net of dividends	**(222)**	(372)
Deferred income taxes and other tax charges and credits	**59**	275
Change in accounts and notes receivable	**(459)**	(1,166)
Change in inventories	**(128)**	(362)
Change in prepaid expenses and other current assets	**17**	(49)
Change in accounts payable and other current liabilities	**(241)**	212
Change in income taxes payable	**914**	566
Other, net	**(318)**	(189)
Net Cash Provided by Operating Activities	**4,403**	4,658
Investing Activities		
Capital spending	**(1,138)**	(1,399)
Sales of property, plant and equipment	**33**	85
Acquisitions and investments in noncontrolled affiliates	**(300)**	(1,707)
Divestitures	**100**	
Cash restricted for pending acquisitions	**30**	(297)
Cash proceeds from sale of The Pepsi Bottling Group, Inc. (PBG) and PepsiAmericas, Inc. (PAS) stock		342
Short-term investments, by original maturity		
More than three months purchases	**(29)**	(143)
More than three months maturities	**55**	44
Three months or less, net	**4**	1,299
Net Cash Used for Investing Activities	**(1,245)**	(1,776)
Financing Activities		
Proceeds from issuances of long-term debt	**1,057**	1,733
Payments of long-term debt	**(188)**	(488)

Short-term borrowings, by original maturity		
More than three months proceeds	**32**	42
More than three months payments	**(64)**	(120)
Three months or less, net	**(965)**	2,080
Cash dividends paid	**(2,032)**	(1,879)
Share repurchases common		(4,197)
Share repurchases preferred	**(4)**	(4)
Proceeds from exercises of stock options	**187**	495
Other financing	**(26)**	
Excess tax benefits from share-based payment arrangements	**16**	83
Net Cash Used for Financing Activities	**(1,987)**	(2,255)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	**19**	(20)
Net Increase in Cash and Cash Equivalents	**1,190**	607
Cash and Cash Equivalents Beginning of year	**2,064**	910
Cash and Cash Equivalents End of period	**$ 3,254**	$ 1,517

See accompanying Notes to the Condensed Consolidated Financial Statements .

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PEPSICO, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEET

(in millions)

	(Unaudited) **9/5/09**	12/27/08
Assets		
Current Assets		
Cash and cash equivalents	**$ 3,254**	$ 2,064
Short-term investments	**206**	213
Accounts and notes receivable, less allowance: 9/09 $78, 12/08 $70	**5,216**	4,683
Inventories		
Raw materials	**1,333**	1,228
Work-in-process	**267**	169
Finished goods	**1,116**	1,125
	2,716	2,522
Prepaid expenses and other current assets	**1,024**	1,324
Total Current Assets	**12,416**	10,806
Property, Plant and Equipment	**23,848**	22,552
Accumulated Depreciation	**(11,815)**	(10,889)
	12,033	11,663
Amortizable Intangible Assets, net	**843**	732
Goodwill	**6,351**	5,124
Other Nonamortizable Intangible Assets	**1,702**	1,128
Nonamortizable Intangible Assets	**8,053**	6,252
Investments in Noncontrolled Affiliates	**4,339**	3,883
Other Assets	**936**	2,658
Total Assets	**$38,620**	$35,994

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PEPSICO, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEET (continued)

(in millions except per share amounts)

	(Unaudited) **9/5/09**	12/27/08
Liabilities and Equity		
Current Liabilities		
Short-term obligations	**$ 511**	$ 369
Accounts payable and other current liabilities	**8,141**	8,273
Income taxes payable	**643**	145
Total Current Liabilities	**9,295**	8,787
Long-term Debt Obligations	**7,434**	7,858
Other Liabilities	**5,713**	6,541
Deferred Income Taxes	**347**	226
Total Liabilities	**22,789**	23,412
Commitments and Contingencies		
Preferred Stock, no par value	**41**	41
Repurchased Preferred Stock	**(142)**	(138)
PepsiCo Common Shareholders Equity		
Common stock, par value 1 2/3 cents per share:		
Authorized 3,600 shares, issued 9/09 and 12/08 1,782 shares	**30**	30
Capital in excess of par value	**279**	351
Retained earnings	**33,077**	30,638
Accumulated other comprehensive loss	**(4,262)**	(4,694)
Less: repurchased common stock, at cost:		
9/09 223 shares, 12/08 229 shares	**(13,729)**	(14,122)
Total PepsiCo Common Shareholders Equity	**15,395**	12,203
Noncontrolling interests	**537**	476
Total Equity	**15,831**	12,582

Total Liabilities and Equity	**$ 38,620**	$ 35,994

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			
	9/5/09		9/6/08	
	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	**(0.1)**	**(4)**		(4)
Balance, end of period	**(0.6)**	**(142)**	(0.5)	(136)
Common Stock	**1,782**	**30**	1,782	30
Capital in Excess of Par Value				
Balance, beginning of year		**351**		450
Stock-based compensation expense		**159**		169
Stock option exercises/RSUs converted[(a)]		**(197)**		(228)
Withholding tax on RSUs converted		**(34)**		(49)
Balance, end of period		**279**		342
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		**4,512**		4,423
Cash dividends declared common		**(2,065)**		(1,930)
Cash dividends declared preferred		**(1)**		(1)
Cash dividends declared RSUs		**(7)**		(6)
Balance, end of period		**33,077**		30,581
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		**485**		(91)
Cash flow hedges, net of tax:				

Net derivative (losses)/gains		**(76)**		8
Reclassification of derivative (gains)/losses to net income		**(6)**		13
Reclassification of pension and retiree medical losses to net income, net of tax		**16**		57
Unrealized gains/(losses) on securities, net of tax		**12**		(19)
Other		**1**		(12)
Balance, end of period		**(4,262)**		(945)
Repurchased Common Stock				
Balance, beginning of year	**(229)**	**(14,122)**	(177)	(10,387)
Share repurchases			(62)	(4,265)
Stock option exercises	**5**	**306**	12	692
Other, primarily RSUs converted	**1**	**87**	2	99
Balance, end of period	**(223)**	**(13,729)**	(225)	(13,861)
Total Common Shareholders Equity		**15,395**		16,147
Noncontrolling Interests				
Balance, beginning of year		**476**		62
Net income attributable to noncontrolling interests		**30**		17
Purchase of subsidiary shares from noncontrolling interests, net		**80**		436
Currency translation adjustment		**(41)**		1
Other, net		**(8)**		(5)
Balance, end of period		**537**		511
Total Equity		**$ 15,831**		$ 16,563

(a) Includes total tax benefit of $7 million in 2009 and $71 million in 2008.

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	
	9/5/09	9/6/08	**9/5/09**	9/6/08
Net Income	**$ 1,733**	$ 1,583	**$ 4,542**	$ 4,440
Other Comprehensive Income				
Currency translation adjustment	**225**	(451)	**444**	(90)
Reclassification of pension and retiree medical losses to net income, net of tax	**6**	20	**16**	57
Cash flow hedges, net of tax:				
Net derivative (losses)/gains	**(53)**	(23)	**(76)**	8
Reclassification of derivative losses/(gains) to net income	**10**	4	**(6)**	13
Unrealized gains/(losses) on securities, net of tax	**8**	(14)	**12**	(19)
Other	**1**	(8)	**1**	(12)
	197	(472)	**391**	(43)
Comprehensive Income	**1,930**	1,111	**4,933**	4,397
Comprehensive (income)/loss attributable to noncontrolling interests	**(37)**	(7)	**11**	(18)
Comprehensive Income Attributable to PepsiCo	**$ 1,893**	$ 1,104	**$ 4,944**	$ 4,379

See accompanying Notes to the Condensed Consolidated Financial Statements .

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PEPSICO, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Basis of Presentation and Our Divisions

Basis of Presentation

Our Condensed Consolidated Balance Sheet as of September 5, 2009, the Condensed Consolidated Statements of Income and Comprehensive Income for the 12 and 36 weeks ended September 5, 2009 and September 6, 2008, and the Condensed Consolidated Statements of Cash Flows and Equity for the 36 weeks ended September 5, 2009 and September 6, 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 August 27, 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.

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 36 weeks ended September 5, 2009. Bottling equity income includes pre-tax gains on our sales of PBG and PAS stock of $45 million and $145 million in the 12 and 36 weeks ended September 6, 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 June, July and August are reflected in our third quarter results and the months of January through August 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 August 27, 2009, which includes historical segment information on a basis consistent with our current segment reporting structure, and in which we adopted the presentation and disclosure requirements of Statement of Financial Accounting Standards (SFAS) No. 160, *Noncontrolling Interests in Consolidated Financial Statements* (SFAS 160).

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Our Divisions

	12 Weeks Ended		36 Weeks Ended	
	9/5/09	9/6/08	**9/5/09**	9/6/08
Net Revenue				
FLNA	**$ 3,198**	$ 3,057	**$ 9,336**	$ 8,737
QFNA	**418**	391	**1,299**	1,292
LAF	**1,396**	1,544	**3,641**	4,038
PAB	**2,656**	2,923	**7,362**	8,163
Europe	**1,874**	1,913	**4,463**	4,734
AMEA	**1,538**	1,416	**3,834**	3,558
	$ 11,080	$ 11,244	**$ 29,935**	$ 30,522
Operating Profit				
FLNA	**$ 822**	$ 785	**$ 2,302**	$ 2,153
QFNA	**131**	134	**438**	422
LAF	**199**	225	**603**	646
PAB	**607**	662	**1,650**	1,847
Europe	**318**	314	**673**	716
AMEA	**297**	199	**670**	543
Total division	**2,374**	2,319	**6,336**	6,327
Corporate net impact of mark-to-market on commodity hedges	**29**	(176)	**191**	(119)
Corporate other	**(171)**	(152)	**(517)**	(469)
	$ 2,232	$ 1,991	**$ 6,010**	$ 5,739

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	Total Assets	
	9/5/09	12/27/08
FLNA	**$ 6,385**	$ 6,284
QFNA	**1,003**	1,035
LAF	**3,358**	3,023
PAB	**7,974**	7,673
Europe	**9,430**	8,840
AMEA	**4,595**	3,756
Total division	**32,745**	30,611
Corporate	**2,918**	2,729
Investments in bottling affiliates	**2,957**	2,654
	$ 38,620	$ 35,994

Intangible Assets

	9/5/09	12/27/08
Amortizable intangible assets, net		
Brands	**$ 1,451**	$ 1,411
Other identifiable intangibles	**492**	360
	1,943	1,771
Accumulated amortization	**(1,100)**	(1,039)
	$ 843	$ 732

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

	Balance 12/27/08	Acquisitions	Translation and Other	**Balance 9/5/09**
FLNA				
Goodwill	$ 277	$ 6	$ 17	**$ 300**
Brands		26	2	**28**
	277	32	19	**328**
QFNA				
Goodwill	175			**175**
LAF				
Goodwill	424	2	25	**451**
Brands	127		6	**133**
	551	2	31	**584**
PAB				
Goodwill	2,355		7	**2,362**
Brands	59			**59**
	2,414		7	**2,421**
Europe				
Goodwill	1,469	1,291	(190)	**2,570**
Brands	844	572	(54)	**1,362**
	2,313	1,863	(244)	**3,932**
AMEA				
Goodwill	424		69	**493**
Brands	98		22	**120**
	522		91	**613**
Total goodwill	5,124	1,299	(72)	**6,351**
Total brands	1,128	598	(24)	**1,702**
	$ 6,252	$ 1,897	$ (96)	**$ 8,053**

Stock-Based Compensation

For the 12 weeks, we recognized stock-based compensation expense of $51 million in 2009 and $57 million in 2008. For the 36 weeks, we recognized stock-based compensation expense of $159 million in 2009 and $169 million in 2008. For the 12 weeks in 2009, our grants of stock options and restricted stock units (RSU) were nominal. For the 36 weeks in 2009, we granted 15 million stock options at a weighted-average grant price of $53.02 and 3 million RSUs at a weighted-average grant price of $53.03, under the terms of our 2007 Long-Term Incentive Plan.

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

	36 Weeks Ended	
	9/5/09	9/6/08
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**	
	9/5/09	9/6/08	**9/5/09**	9/6/08	**9/5/09**	9/6/08
	U.S.		International			
Service cost	**$ 55**	$ 57	**$ 11**	$ 16	**$ 11**	$ 10
Interest cost	**86**	86	**20**	23	**18**	19
Expected return on plan assets	**(107)**	(96)	**(25)**	(29)		
Amortization of prior service cost/(benefit)	**3**	4			**(4)**	(3)
Amortization of experience loss	**26**	13	**2**	5	**3**	2
	63	64	**8**	15	**28**	28
Curtailment gain	**(1)**					
Total expense	**$ 62**	$ 64	**$ 8**	$ 15	**$ 28**	$ 28

	36 Weeks Ended					
	Pension				**Retiree Medical**	
	9/5/09	9/6/08	**9/5/09**	9/6/08	**9/5/09**	9/6/08
	U.S.		International			
Service cost	**$ 165**	$ 171	**$ 30**	$ 44	**$ 31**	$ 30
Interest cost	**258**	258	**53**	63	**56**	57
Expected return on plan assets	**(320)**	(288)	**(67)**	(80)		

Amortization of prior service cost/ (benefit)	**8**	12	**1**	1	**(12)**	(9)
Amortization of experience loss	**77**	39	**5**	14	**8**	6
	188	192	**22**	42	**83**	84
Curtailment gain	**(3)**					
Total expense	**$ 185**	$ 192	**$ 22**	$ 42	**$ 83**	$ 84

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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			
	9/5/09		9/6/08	
	Income	**Shares[(a)]**	Income	Shares[(a)]
Net income attributable to PepsiCo	**$ 1,717**		$ 1,576	
Preferred shares:				
Dividends				
Redemption premium	**(1)**		(2)	
Net income available for PepsiCo common shareholders	**$ 1,716**	**1,558**	$ 1,574	1,564
Basic net income attributable to PepsiCo per common share	**$ 1.10**		$ 1.01	
Net income available for PepsiCo common shareholders	**$ 1,716**	**1,558**	$ 1,574	1,564
Dilutive securities:				
Stock options and RSUs[(b)]		**18**		28
ESOP convertible preferred stock	**1**	**1**	2	1
Diluted	**$ 1,717**	**1,577**	$ 1,576	1,593
Diluted net income attributable to PepsiCo per common share	**$ 1.09**		$ 0.99	

	36 Weeks Ended			
	9/5/09		9/6/08	
	Income	**Shares[(a)]**	Income	Shares[(a)]
Net income attributable to PepsiCo	**$ 4,512**		$ 4,423	
Preferred shares:				
Dividends	**(1)**		(1)	
Redemption premium	**(3)**		(4)	
Net income available for PepsiCo common shareholders	**$ 4,508**	**1,557**	$ 4,418	1,582
Basic net income attributable to PepsiCo per common share	**$ 2.90**		$ 2.79	
Net income available for PepsiCo common shareholders	**$ 4,508**	**1,557**	$ 4,418	1,582
Dilutive securities:				
Stock options and RSUs[(b)]		**15**		29
ESOP convertible preferred stock	**4**	**1**	5	1
Diluted	**$ 4,512**	**1,573**	$ 4,423	1,612

Diluted net income attributable to PepsiCo per common share	**$ 2.87**	$ 2.74

(a) Weighted-average common shares outstanding.

(b) Options to purchase 31 million and 47 million shares, respectively, for the 12 and 36 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 36 weeks in 2009 had average exercise prices of $64.02 and $60.43, respectively. Options to purchase 12 million and 4 million shares, respectively, for the 12 and 36 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 $68.86 and $71.94, respectively.

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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 September 5, 2009, short-term obligations totaled $0.5 billion, of which $0.2 billion was comprised of commercial paper.

In the third 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 replaced 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 September 5, 2009.

We have received commitment letters pursuant to which, subject to the conditions set forth therein, a group of lenders have committed to provide up to $4.0 billion of loans under a bridge facility. The bridge facility will be available to us, as the borrower, on a revolving basis for a period of 364 days from the closing date of the Mergers (as defined in *Acquisition of Common Stock of PBG and PAS*). The bridge loans, if required, will be used to finance a portion of the purchase price for the Mergers and to pay related fees and expenses. We will be required to prepay the bridge loans under specified circumstances, including upon specified non-ordinary course asset sales, specified incurrences of debt, and equity issuances by us or our subsidiaries and upon the issuance of debt securities for the purpose of refinancing the bridge facility. Documentation governing the bridge facility has not been finalized. Accordingly, the actual terms of these financing arrangements may differ from those described herein.

Supplemental Cash Flow Information

	36 Weeks Ended	
	9/5/09	9/6/08
Interest paid	**$ 319**	$ 257
Income taxes paid, net of refunds	**$ 541**	$ 747
Acquisitions:		
Fair value of assets acquired	**$ 557**	$ 2,624
Cash paid	**(266)**	(1,707)
Liabilities and noncontrolling interests assumed	**$ 291**	$ 917

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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 36 weeks ended September 5, 2009, we incurred charges of $36 million ($29 million after-tax or $0.02 per share) in conjunction with this program. These charges were recorded in selling, general and administrative expenses. These initiatives were completed in the 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:

	36 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	(116)	(67)	(183)
Currency translation and other	(4)	15	11
Liability as of September 5, 2009	$ 31	$ 31	$ 62

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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 *Our Business Risks* 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.

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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 $116 million related to these hedges from accumulated other comprehensive loss into net income. Derivatives used to hedge commodity price risk that do not qualify for hedge accounting are marked to market each period and reflected in our income statement.

Our open commodity derivative contracts that qualify for hedge accounting had a face value of $169 million as of September 5, 2009 and $287 million as of September 6, 2008. Our open commodity derivative contracts that do not qualify for hedge accounting had a face value of $319 million as of September 5, 2009 and $682 million as of September 6, 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 September 5, 2009 and $2.0 billion as of September 6, 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 use various interest rate derivative instruments including, but not limited to, interest rate swaps, cross currency interest rate swaps, Treasury locks and swap locks to manage our overall interest expense and foreign exchange risk. These instruments effectively change the interest rate and currency of specific debt issuances. Our interest rate and cross currency 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 interest rate and cross currency swaps match the principal, interest payment and maturity date of the related debt. Our Treasury locks and swap locks are entered into to protect against unfavorable interest rate changes relating to the forecasted debt transactions.

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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% 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 derivative instruments outstanding as of September 5, 2009 and September 6, 2008 were $5.25 billion and $2.75 billion, respectively. For those interest rate derivative instruments that qualify for cash flow hedge accounting, any ineffectiveness is recorded immediately. We classify both the earnings and cash flow impact from these interest rate derivative instruments consistent with the underlying hedged item. During the next 12 months, we expect to reclassify net losses of $4 million related to cash flow hedges from accumulated other comprehensive loss into net income.

At September 5, 2009, approximately 56% of total debt, after the impact of the related interest rate derivative instruments, 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.

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.

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

	September 5, 2009			
	Total	Level 1	Level 2	Level 3
Assets[a]				
Available-for-sale securities[b]	**$ 60**	$ 60	$	$
Short-term investments index funds[c]	**$ 111**	$ 111	$	$
Derivatives designated as hedging instruments under SFAS 133:				
Forward exchange contracts[d]	**$ 18**	$	$ 18	$
Interest rate derivatives[e]	**202**		202	
Prepaid forward contracts[f]	**43**		43	
Commodity contracts other[g]	**3**		3	
	$ 266	$	$ 266	$
Derivatives not designated as hedging instruments under SFAS 133:				
Forward exchange contracts[d]	**$ 7**	$	$ 7	$
Commodity contracts other[g]	**5**		5	
	$ 12	$	$ 12	$
Total asset derivatives at fair value	**$ 278**	$	$ 278	$
Total assets at fair value	**$ 449**	$ 171	$ 278	$
Liabilities[a]				
Deferred compensation[h]	**$ 452**	$ 107	$ 345	$
Derivatives designated as hedging instruments under SFAS 133:				
Forward exchange contracts[d]	**$ 30**	$	$ 30	$
Interest rate derivatives[e]	**67**		67	
Commodity contracts other[g]	**14**		14	
Commodity contracts futures[i]	**49**	49		
	$ 160	$ 49	$ 111	$
Derivatives not designated as hedging instruments under SFAS 133:				
Forward exchange contracts[d]	**$ 4**	$	$ 4	$
Commodity contracts other[g]	**109**		109	
Commodity contracts futures[i]	**19**	19		
	$ 132	$ 19	$ 113	$
Total liability derivatives at fair value	**$ 292**	$ 68	$ 224	$
Total liabilities at fair value	**$ 744**	$ 175	$ 569	$

(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 and recently reported transactions in the marketplace.

(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.

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The effective portion of the pre-tax (gains)/losses on our derivative instruments are categorized in the tables below for the 12 and 36 weeks ended September 5, 2009.

	12 Weeks Ended		
	Gains Recognized in Income Statement	Losses 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]	$ (32)		
Commodity contracts[a]	(29)		
Interest rate derivatives[b]	(93)		
Prepaid forward contracts[a]	(2)		
Total	$ (156)		
Cash Flow Hedges			
Forward exchange contracts[c]		$ 16	$ (10)
Commodity contracts[c]		20	25
Interest rate derivatives[b]		66	
Total		$ 102	$ 15

	36 Weeks Ended		
	(Gains)/Losses Recognized in Income Statement	Losses 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]	$ (31)		
Commodity contracts[a]	(191)		
Interest rate derivatives[b]	171		

Prepaid forward contracts[a]	(2)			
Total	$ (53)			
Cash Flow Hedges				
Forward exchange contracts[c]		$ 67		$ (62)
Commodity contracts[c]		14		58
Interest rate derivatives[b]		66		
Total		$ 147		$ (4)

(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.

The fair value of our debt obligations as of September 5, 2009 was $8.7 billion, based upon prices of similar instruments in the marketplace.

The table above excludes guarantees, including our guarantee aggregating $2.3 billion of Bottling Group, LLC s long-term debt. The guarantee had a fair value of $29 million at September 5, 2009 based on our estimate of the cost to us of transferring the liability to an independent financial institution.

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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. 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. However, SFAS 141R changes how business acquisitions are accounted for and will impact financial statements both on the acquisition date and in subsequent periods. Additionally, under SFAS 141R, transaction costs are now expensed rather than capitalized. 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 adopted the provisions of SFAS 165 in the third quarter of 2009. We evaluated subsequent events through October 8, 2009, the date the financial statements were issued, and determined that there have been no events that have occurred that would require adjustments to our financial statements.

Acquisition of Common Stock of PBG and PAS

On August 3, 2009, we entered into an Agreement and Plan of Merger with PBG and Pepsi-Cola Metropolitan Bottling Company, Inc. (Metro), our wholly-owned subsidiary (the PBG Merger Agreement) and a separate Agreement and Plan of Merger with PAS and Metro (the PAS Merger Agreement).

The PBG Merger Agreement provides that, upon the terms and subject to the conditions set forth in the PBG Merger Agreement, PBG will be merged with and into Metro (the PBG Merger), with Metro continuing as the surviving corporation and our wholly owned subsidiary. At the effective time of the PBG Merger, each share of PBG common stock outstanding immediately prior to the effective time not held by us or any of our subsidiaries will be converted into the right to receive either 0.6432 of a share of PepsiCo common stock or, at the election of the holder, $36.50 in cash, without interest, and in each case subject to proration procedures which provide that we will pay

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cash for a number of shares equal to 50% of the PBG common stock outstanding immediately prior to the effective time of the PBG Merger not held by us or any of our subsidiaries and issue shares of PepsiCo common stock for the remaining 50% of such shares. Each share of PBG common stock held by PBG as treasury stock, held by us or held by Metro, and each share of PBG Class B common stock held by us or Metro, in each case immediately prior to the effective time of the PBG Merger, will be canceled, and no payment will be made with respect thereto. Each share of PBG common stock and PBG Class B common stock owned by any subsidiary of ours other than Metro immediately prior to the effective time of the PBG Merger will automatically be converted into the right to receive 0.6432 of a share of PepsiCo common stock.

The PAS Merger Agreement provides that, upon the terms and subject to the conditions set forth in the PAS Merger Agreement, PAS will be merged with and into Metro (the PAS Merger, and together with the PBG Merger, the Mergers), with Metro continuing as the surviving corporation and our wholly owned subsidiary. At the effective time of the PAS Merger, each share of PAS common stock outstanding immediately prior to the effective time not held by us or any of our subsidiaries will be converted into the right to receive either 0.5022 of a share of PepsiCo common stock or, at the election of the holder, $28.50 in cash, without interest, and in each case subject to proration procedures which provide that we will pay cash for a number of shares equal to 50% of the PAS common stock outstanding immediately prior to the effective time of the PAS Merger not held by us or any of our subsidiaries and issue shares of PepsiCo common stock for the remaining 50% of such shares. Each share of PAS common stock held by PAS as treasury stock, held by us or held by Metro, in each case, immediately prior to the effective time of the PAS Merger, will be canceled, and no payment will be made with respect thereto. Each share of PAS common stock owned by any subsidiary of ours other than Metro immediately prior to the effective time of the PAS Merger will automatically be converted into the right to receive 0.5022 of a share of PepsiCo common stock.

Consummation of each of the Mergers is subject to various conditions, including, in the case of the PBG Merger, the adoption of the PBG Merger Agreement by PBG s stockholders, the absence of legal prohibitions and the receipt of requisite regulatory approvals, and, in the case of the PAS Merger, the adoption of the PAS Merger Agreement by PAS s stockholders, the absence of legal prohibitions and the receipt of requisite regulatory approvals. In addition, consummation of the PAS Merger is subject to the satisfaction of specified conditions in the PBG Merger Agreement to the extent they relate to antitrust and competition laws. Consummation of the Mergers is not subject to a financing condition.

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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. 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. However, SFAS 141R changes how business acquisitions are accounted for and will impact financial statements both on the acquisition date and in subsequent periods. Additionally, under SFAS 141R, transaction costs are now expensed rather than capitalized. 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 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 adopted the provisions of SFAS 165 in the third quarter of 2009. We evaluated subsequent events through October 8, 2009, the date the financial statements were issued, and determined there have been no events that have occurred that would require adjustments to our financial statements.

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 September 5, 2009, unfavorable foreign currency impacted net revenue performance by 6 percentage points, primarily due to depreciation of the Mexican peso, British pound, euro and Brazilian real. During the 36 weeks ended September 5, 2009, unfavorable foreign currency impacted net revenue performance by 7 percentage points, primarily due to depreciation of the Mexican peso, British pound, euro and Canadian dollar. 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 expected that Venezuela will be designated a hyperinflationary economy no later than the beginning of our 2010 fiscal year. Additionally, the Venezuelan government may change the official exchange rate. 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 36 weeks ended September 5, 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 September 5, 2009.

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Cautionary statements included below in Item 1A. Risk Factors, 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 99.1 to our Current Report on Form 8-K dated August 27, 2009 should be considered when evaluating our trends and future results.

Results of Operations Consolidated Review

Items Affecting Comparability

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

	12 Weeks Ended		36 Weeks Ended	
	9/5/09	9/6/08	**9/5/09**	9/6/08
Operating profit				
Mark-to-market net gains/(losses)	**$ 29**	$ (176)	**$ 191**	$ (119)
Restructuring and impairment charges	**$**	$	**$ (36)**	$
PBG/PAS merger costs	**$ (1)**	$	**$ (1)**	$
Bottling equity income				
PBG/PAS merger costs	**$ (8)**	$	**$ (8)**	$
Net income attributable to PepsiCo				
Mark-to-market net gains/(losses)	**$ 19**	$ (112)	**$ 124**	$ (76)
Restructuring and impairment charges	**$**	$	**$ (29)**	$
PBG/PAS merger costs	**$ (8)**	$	**$ (8)**	$
Net income attributable to PepsiCo per common share diluted				
Mark-to-market net gains/(losses)	**$ 0.01**	$ (0.07)	**$ 0.08**	$ (0.05)
Restructuring and impairment charges	**$**	$	**$ (0.02)**	$
PBG/PAS merger costs	**$ (0.01)**	$	**$ (0.01)**	$

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 September 5, 2009, we recognized $29 million ($19 million after-tax or $0.01 per share) of mark-to-market net gains on commodity hedges in corporate unallocated expenses. For the 36 weeks ended September 5, 2009, we recognized $191 million ($124 million after-tax or $0.08 per share) of mark-to-market net gains on commodity hedges in corporate unallocated expenses.

For the 12 weeks ended September 6, 2008, we recognized $176 million ($112 million after-tax or $0.07 per share) of mark-to-market net losses on commodity hedges in corporate unallocated expenses. For the 36 weeks ended September 6, 2008, we recognized $119 million ($76 million after-tax or $0.05 per share) of mark-to-market net

losses on commodity hedges in corporate unallocated expenses.

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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 36 weeks ended September 5, 2009, we incurred charges of $36 million ($29 million after-tax or $0.02 per share) in conjunction with this program. These initiatives were completed in the second quarter of 2009.

PBG/PAS Merger Costs

In the third quarter of 2009, we incurred $1 million of costs associated with the proposed mergers with PBG and PAS, as well as an additional $8 million of costs, representing our share of the respective merger costs of PBG and PAS, recorded in bottling equity income. In total, these costs had an after-tax impact of $8 million or $0.01 per share.

Volume

Since our divisions each use different measures of physical unit volume, a common servings metric is necessary to reflect our consolidated physical unit volume. For the 12 weeks ended September 5, 2009, total servings increased 1%, as worldwide beverages increased 0.5% and worldwide snacks increased 2%. For the 36 weeks ended September 5, 2009, total servings increased slightly, as worldwide beverages decreased slightly and worldwide snacks increased 1%.

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 August 27, 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 third quarter includes beverage volume outside of North America for June, July and August. Concentrate shipments and equivalents (CSE) represent our physical beverage volume shipments to bottlers, retailers and independent distributors, and is the measure upon which our revenue is based.

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Consolidated Results

Total Net Revenue and Operating Profit

	12 Weeks Ended			36 Weeks Ended		
	9/5/09	9/6/08	Change	**9/5/09**	9/6/08	Change
Total net revenue	**$ 11,080**	$ 11,244	(1.5)%	**$ 29,935**	$ 30,522	(2)%
Operating profit						
FLNA	**$ 822**	$ 785	5%	**$ 2,302**	$ 2,153	7%
QFNA	**131**	134	(1)%	**438**	422	4%
LAF	**199**	225	(11)%	**603**	646	(7)%
PAB	**607**	662	(8)%	**1,650**	1,847	(11)%
Europe	**318**	314	1%	**673**	716	(6)%
AMEA	**297**	199	49%	**670**	543	23%
Corporate net impact of mark-to-market on commodity hedges	**29**	(176)	n/m	**191**	(119)	n/m
Corporate other	**(171)**	(152)	13%	**(517)**	(469)	10%
Total operating profit	**$ 2,232**	$ 1,991	12%	**$ 6,010**	$ 5,739	5%
Total operating profit margin	**20.1%**	17.7%	2.4	**20.1%**	18.8%	1.3

n/m = not meaningful

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

12 Weeks

Total operating profit increased 12% and operating margin increased 2.4 percentage points. The net favorable mark-to-market impact of our commodity hedges contributed 10 percentage points to operating profit growth. Foreign currency negatively impacted operating profit growth by 7 percentage points and was partially offset by the impact of acquisitions, which contributed 4.5 percentage points to the operating profit growth.

Other corporate unallocated expenses increased 13%, primarily reflecting deferred compensation losses, compared to gains in the prior year. The deferred compensation losses are offset (as an increase to interest income) by gains on investments used to economically hedge these costs.

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36 Weeks

Total operating profit increased 5% and operating margin increased 1.3 percentage points. The net favorable mark-to-market impact of our commodity hedges contributed 5 percentage points to operating profit growth and was partially offset by nearly 1 percentage point from the restructuring and impairment charges related to our Productivity for Growth program. Foreign currency negatively impacted operating profit growth by 7 percentage points and was partially offset by the impact of acquisitions, which contributed 2 percentage points to the operating profit growth.

Other corporate unallocated expenses increased 10%, primarily reflecting deferred compensation losses, compared to gains in the prior year. The deferred compensation losses are offset (as an increase to interest income) by gains on investments used to economically hedge these costs.

Other Consolidated Results

	12 Weeks Ended			36 Weeks Ended		
	9/5/09	9/6/08	Change	**9/5/09**	9/6/08	Change
Bottling equity income	**$ 146**	$ 201	(27)%	**$ 290**	$ 439	(34)%
Interest expense, net	**$ (70)**	$ (59)	$ (11)	**$ (241)**	$ (152)	$ (89)
Tax rate	**24.9%**	25.8%		**25.0%**	26.3%	
Net income attributable to PepsiCo	**$ 1,717**	$ 1,576	9%	**$ 4,512**	$ 4,423	2%
Net income attributable to PepsiCo per common share diluted	**$ 1.09**	$ 0.99	10%	**$ 2.87**	$ 2.74	5%

12 Weeks

Bottling equity income decreased 27%, primarily reflecting pre-tax gains on our sales of PBG and PAS stock in the prior year.

Net interest expense increased $11 million, primarily reflecting lower average rates on our investment balances and higher average debt 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 0.9 percentage points compared to the prior year, primarily due to the favorable resolution of certain foreign tax matters and certain deferred tax adjustments recorded in the current quarter.

Net income attributable to PepsiCo increased 9% and net income attributable to PepsiCo per common share increased 10%. The favorable net mark-to-market impact of our commodity hedges was partially offset by PBG/PAS merger costs. These items affecting comparability increased net income attributable to PepsiCo and net income attributable to PepsiCo per common share by 8 percentage points. Net income attributable to PepsiCo per common share was also favorably impacted by share repurchases in the prior year.

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36 Weeks

Bottling equity income decreased 34%, primarily reflecting pre-tax gains on our sales of PBG and PAS stock in the prior year.

Net interest expense increased $89 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 1.3 percentage points compared to the prior year, primarily due to the favorable resolution of certain foreign tax matters, lower taxes on foreign results in the current year and certain deferred tax adjustments recorded in the current quarter.

Net income attributable to PepsiCo increased 2% and net income attributable to PepsiCo per common share increased 5%. The favorable net mark-to-market impact of our commodity hedges was partially offset by restructuring and impairment charges related to our Productivity for Growth program and PBG/PAS merger costs. These items affecting comparability increased net income attributable to PepsiCo and net income attributable to PepsiCo per common share by 4 percentage points. 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.

Furthermore, in the discussions of net revenue and operating profit below, effective net pricing reflects the year-over-year impact of discrete pricing actions, sales incentive activities and mix resulting from selling varying products in different package sizes and in different countries, and net pricing reflects the year-over-year combined impact of list price changes, weight changes per package, discounts and allowances. Additionally, acquisitions 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.

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Net Revenue

12 Weeks Ended	FLNA	QFNA	LAF	PAB	Europe	AMEA	Total
September 5, 2009	**$ 3,198**	**$ 418**	**$ 1,396**	**$ 2,656**	**$ 1,874**	**$ 1,538**	**$ 11,080**
September 6, 2008	$ 3,057	$ 391	$ 1,544	$ 2,923	$ 1,913	$ 1,416	$ 11,244
% Impact of:							
Volume[(a)]	2%	8%	(3.5)%	(8)%	(0.5)%	10%	(0.5)%
Effective net pricing[(b)]	3		12	1	2	2	3
Foreign exchange	(1)	(1)	(19)	(2)	(14)	(4.5)	(6)
Acquisitions			0.5		10	1	2
% Change[(c)]	*5%*	*7%*	*(10)%*	*(9)%*	*(2)%*	*9%*	*(1.5)%*

Net Revenue

36 Weeks Ended	FLNA	QFNA	LAF	PAB	Europe	AMEA	Total
September 5, 2009	**$ 9,336**	**$ 1,299**	**$ 3,641**	**$ 7,362**	**$ 4,463**	**$ 3,834**	**$ 29,935**
September 6, 2008	$ 8,737	$ 1,292	$ 4,038	$ 8,163	$ 4,734	$ 3,558	$ 30,522
% Impact of:							
Volume[(a)]	1%	1%	(3)%	(7)%	(3)%	8%	(1)%
Effective net pricing[(b)]	7	1	13	(1)	5	5	5
Foreign exchange	(1)	(2)	(21)	(2)	(18)	(7)	(7)
Acquisitions					11	1.5	2
% Change[(c)]	*7%*	*1%*	*(10)%*	*(10)%*	*(6)%*	*8%*	*(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.

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Frito-Lay North America

	12 Weeks Ended		%	36 Weeks Ended		%
	9/5/09	9/6/08	Change	**9/5/09**	9/6/08	Change
Net revenue	**$ 3,198**	$ 3,057	5	**$ 9,336**	$ 8,737	7
Operating profit	**$ 822**	$ 785	5	**$ 2,302**	$ 2,153	7
Impact of restructuring and impairment charges				**2**		
Operating profit, excluding restructuring and impairment charges	**$ 822**	$ 785	5	**$ 2,304**	$ 2,153	7

12 Weeks

Net revenue grew 5% and pound volume increased 3%. The volume increase primarily reflects high-single-digit growth in trademark Lay s, as well as double-digit growth from our Sabra joint venture. Net revenue growth also benefited from effective net pricing. Foreign currency reduced net revenue growth by 1 percentage point.

Operating profit grew 5%, primarily reflecting the net revenue growth, partially offset by higher commodity costs. Foreign currency adversely impacted operating profit growth by almost 1 percentage point.

36 Weeks

Net revenue grew 7% and pound volume increased 2%. The volume increase reflects high-single-digit growth in dips, double-digit growth from our Sabra joint venture and low-single-digit growth in trademark Lay s. Net revenue growth also benefited from effective net pricing. Foreign currency reduced net revenue growth by over 1 percentage point.

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 adversely impacted operating profit growth by 1 percentage point.

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Quaker Foods North America

	12 Weeks Ended		%	36 Weeks Ended		%
	9/5/09	9/6/08	Change	**9/5/09**	9/6/08	Change
Net revenue	**$ 418**	$ 391	7	**$ 1,299**	$ 1,292	1
Operating profit	**$ 131**	$ 134	(1)	**$ 438**	$ 422	4
Impact of restructuring and impairment charges				**1**		
Operating profit, excluding restructuring and impairment charges	**$ 131**	$ 134	(1)	**$ 439**	$ 422	4

12 Weeks

Net revenue increased 7% and volume increased 8%, reflecting favorable comparisons to the prior year due to the Cedar Rapids flood that occurred at the end of the second quarter in 2008. The volume increase primarily reflects a double-digit increase in ready-to-eat cereals. Unfavorable foreign currency reduced net revenue growth by 1 percentage point.

Operating profit declined 1%, as revenue gains were more than offset by the absence of business disruption insurance recoveries, recorded in the prior year, associated with the Cedar Rapids flood.

36 Weeks

Net revenue and volume each increased 1%. The volume increase reflects double-digit growth in ready-to-eat cereals, largely offset by a low-single-digit decline in Oatmeal and a double-digit decline in trademark Roni. Favorable net pricing, driven by price increases taken last year, was partially offset by unfavorable mix. Unfavorable foreign currency reduced net revenue growth by almost 2 percentage points.

Operating profit increased 4%, primarily reflecting the net revenue growth. The impact of the final insurance settlement gain in the first quarter of 2009 related to the Cedar Rapids flood was offset by the related business disruption insurance recoveries recorded in the prior year. Unfavorable foreign currency reduced operating profit growth by 1 percentage point.

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Latin America Foods

	12 Weeks Ended		%	36 Weeks Ended		%
	9/5/09	9/6/08	Change	**9/5/09**	9/6/08	Change
Net revenue	**$ 1,396**	$ 1,544	(10)	**$ 3,641**	$ 4,038	(10)
Operating profit	**$ 199**	$ 225	(11)	**$ 603**	$ 646	(7)
Impact of restructuring and impairment charges				**3**		
Operating profit, excluding restructuring and impairment charges	**$ 199**	$ 225	(11)	**$ 606**	$ 646	(6)

12 Weeks

Volume declined 3%, largely reflecting pricing actions to cover commodity inflation. The volume performance reflects mid-single-digit declines at Gamesa in Mexico, Sabritas in Mexico and in Brazil.

Net revenue declined 10%, primarily reflecting an unfavorable foreign currency impact of 19 percentage points. Favorable effective net pricing was partially offset by the volume declines.

Operating profit declined 11%, driven by unfavorable foreign currency which reduced operating profit by 22 percentage points. Favorable effective net pricing was partially offset by higher commodity costs. Operating profit was negatively impacted by 5 percentage points due to certain items, primarily a favorable insurance recovery in the prior year.

36 Weeks

Volume declined 3%, largely reflecting pricing actions to cover commodity inflation. A mid-single-digit decline at Sabritas in Mexico and a low-single-digit decline at Gamesa in Mexico was partially offset by low-single-digit growth in Brazil.

Net revenue declined 10%, primarily reflecting an unfavorable foreign currency impact of 21 percentage points. Favorable effective net pricing was partially offset by the volume declines.

Operating profit declined 7%, driven by unfavorable foreign currency which reduced operating profit by 24 percentage points. Favorable effective net pricing was partially offset by higher commodity costs. Operating profit was negatively impacted by almost 2 percentage points due to certain items, primarily a favorable insurance recovery in the prior year.

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PepsiCo Americas Beverages

	12 Weeks Ended		%	36 Weeks Ended		%
	9/5/09	9/6/08	Change	**9/5/09**	9/6/08	Change
Net revenue	**$ 2,656**	$ 2,923	(9)	**$ 7,362**	$ 8,163	(10)
Operating profit	**$ 607**	$ 662	(8)	**$ 1,650**	$ 1,847	(11)
Impact of restructuring and impairment charges				**16**		

Tax Consequences of Ownership of Shares

Taxation of the Fund's Income. No U.S. federal income tax is paid by the Fund on its income. Instead, the Fund files annual partnership returns, and each U.S. Shareholder is required to report on its U.S. federal income tax return its allocable share of the income, gain, loss, deductions and credits reflected on such returns. If the Fund recognizes income in the form of interest on Treasury Securities and net capital gains from cash settlement of Wheat Interests for a taxable year, Shareholders must report their share of these items even though the Fund makes no distributions of cash or property during the taxable year. Consequently, a Shareholder may be taxable on income or gain recognized by the Fund but receive no cash distribution with which to pay the resulting tax liability, or may receive a distribution that is insufficient to pay such liability. Because the Sponsor currently does not intend to make distributions, it is likely that that a U.S. Shareholder that realizes net income or gain with respect to

Shares for a taxable year will be required to pay any resulting tax from sources other than Fund distributions. Additionally, for taxable years beginning after December 31, 2012, individuals with income in excess of $200,000 ($250,000 in the case of married individuals filing jointly) and certain estates and trusts are subject to an additional 3.8% tax on their "net investment income," which generally includes net income from interest, dividends, annuities, royalties, and rents, and net capital gains (other than certain amounts earned from trades or businesses).

Monthly Conventions for Allocations of the Fund's Profit and Loss and Capital Account Restatements. Under Code section 704, the determination of a partner's distributive share of any item of income, gain, loss, deduction or credit is governed by the applicable organizational document unless the allocation provided by such document lacks "substantial economic effect." An allocation that lacks substantial economic effect nonetheless will be respected if it is in accordance with the partners' interests in the partnership, determined by taking into account all facts and circumstances relating to the economic arrangements among the partners. Subject to the discussion below concerning certain conventions to be used by the Fund, allocations pursuant to the Trust Agreement should be considered as having substantial economic effect or being in accordance with Shareholders' interests in the Fund.

In situations where a partner's interest in a partnership is redeemed or sold during a taxable year, the Code generally requires that partnership tax items for the year be allocated to the partner using either an interim closing of the books or a daily proration method. The Fund intends to allocate tax items using an interim closing of the books method under which income, gains, losses and deductions will be determined on a monthly basis, taking into account the Fund's accrued income and deductions and gains and losses (both realized and unrealized) for the month. The tax items for each month during a taxable year will then be allocated among the holders of Shares in proportion to the number of Shares owned by them as of the close of trading on the last trading day of the preceding month (the "monthly allocation convention").

Under the monthly allocation convention, an investor who disposes of a Share during the current month will be treated as disposing of the Share as of the beginning of the first day of the immediately succeeding month. For example, an investor who buys a Share on April 10 of a year and sells it on May 20 of the same year will be allocated all of the tax items attributable to May (because it is deemed to hold the Share through the last day of May) but none of those attributable to April. The tax items attributable to that Share for April will be allocated to the person who is the actual or deemed holder of the Share as of

the close of trading on the last trading day of March. Under the monthly allocation convention, an investor who purchases and sells

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a Share during the same month, and therefore does not hold (and is not deemed to hold) the Share at the close of the last trading day of either that month or the previous month, will receive no allocations with respect to that Share for any period. Accordingly, investors may receive no allocations with respect to Shares that they actually held, or may receive allocations with respect to Shares attributable to periods that they did not actually hold the Shares. Investors who hold a Share on the last trading day of the first month of the Fund's operation will be allocated the tax items for that month, as well as the tax items for the following month, attributable to the Share.

By investing in Shares, a U.S. Shareholder agrees that, in the absence of new legislation, regulatory or administrative guidance, or judicial rulings to the contrary, it will file its U.S. income tax returns in a manner that is consistent with the monthly allocation convention as described above and with the IRS Schedule K-1 or any successor form provided to Shareholders by the Fund or the Trust.

For any month in which a Creation Basket is issued or a Redemption Basket is redeemed, the Fund will credit or debit the "book" capital accounts of existing Shareholders with the amount of any unrealized gain or loss, respectively, on Fund assets. For this purpose, unrealized gain or

loss will be computed based on the lowest NAV of the Fund's assets during the month in which Shares are issued or redeemed, which may be different than the value of the assets on the date of an issuance or redemption. The capital accounts as adjusted in this manner will be used in making tax allocations intended to account for differences between the tax basis and fair market value of property owned by the Fund at the time new Shares are issued or outstanding Shares are redeemed (so-called "reverse Code section 704(c) allocations"). The intended effect of these adjustments is to equitably allocate among Shareholders any unrealized appreciation or depreciation in the Fund's assets existing at the time of a contribution or redemption for book and tax purposes.

The Sponsor believes that application of the conventions and methods described above is consistent with the intent of the partnership provisions of the Code and that the resulting allocations should have substantial economic effect or otherwise should be respected as being in accordance with Shareholders' interests in the Fund for U.S. federal income tax purposes. The Code and existing Treasury Regulations do not expressly permit adoption of these conventions, although the monthly allocation convention described above is consistent with a semi-monthly method permitted under proposed Treasury Regulations, as well as the legislative history for the provisions that requires allocations to appropriately reflect

changes in ownership interests. It is possible that the IRS could successfully challenge the Fund's allocation methods on the ground that they do not satisfy the technical requirements of the Code or Treasury Regulations, requiring a Shareholder to report a greater or lesser share of items of income, gain, loss, or deduction than if the conventions were respected. The Sponsor is authorized to revise the Fund's methods to conform to the requirements of any future Treasury Regulations.

As noted above, the conventions used by the Fund in making tax allocations may cause a Shareholder to be allocated more or less income or loss for U.S. federal income tax purposes than its proportionate share of the economic income or loss realized by the Fund during the period it held its Shares. This mismatch between taxable and economic income or loss in some cases may be temporary, reversing itself in a later year when the Shares are sold, but could be permanent. For example, a Shareholder could be allocated income accruing after it sold its Shares, resulting in an increase in the basis of the Shares (see "*Tax Basis of Shares*" below). In connection with the disposition of the Shares, the additional basis might produce a capital loss the deduction of which may be limited (see "*Limitations on Deductibility of Losses and Certain Expenses*" below).

Section 754 election. The Fund intends to make the election permitted by section 754 of the Code, which election is irrevocable without the consent of the IRS. The effect of this election is that when a secondary market sale of Shares occurs, the Fund adjusts the purchaser's proportionate share of the tax basis of the Fund's assets to fair market value, as reflected in the price paid for the Shares, as if the purchaser had directly acquired an interest in the Fund's assets. The section 754 election is intended to eliminate disparities between a partner's basis in its partnership interest and its share of the tax basis of the partnership's assets, so that the partner's allocable share of taxable gain or loss on a disposition of an asset will correspond to its share of the appreciation or depreciation in the value of the asset since it acquired its interest. Depending on the price paid for Shares and the tax basis of the Fund's assets at the time of the purchase, the effect of the section 754 election on a purchaser of Shares may be favorable or unfavorable. In order to make the appropriate basis

adjustments in a cost effective manner, the Fund will use certain simplifying conventions and assumptions. In particular, the Fund will obtain information regarding secondary market transactions in its Shares and use this information to make adjustments to the Shareholders' indirect basis in Fund assets. It is possible the IRS could successfully assert that the conventions and assumptions applied are improper and require different basis adjustments to be made, which could adversely affect some Shareholders.

Section 1256 Contracts. Under the Code, special rules apply to instruments constituting "section 1256 contracts." A section 1256 contract is defined as including, in relevant part: (1) a futures contract that is traded on or subject to the rules of a national securities exchange which is registered with the SEC, a domestic board of trade designated as a contract market by the CFTC, or any other board of trade or exchange designated by the Secretary of the Treasury, and with respect to which the amount required to be deposited and the amount that may be withdrawn depends on a system of "marking to market"; and (2) a non-equity option traded on or subject to the rules of a qualified board or exchange. Section 1256 contracts held at the end of each taxable year are treated as if they were sold for their fair market value on the last business day of the taxable year (*i.e.*, are "marked to market"). In addition, any gain or loss realized from a disposition,

termination or marking-to-market of a section 1256 contract is treated as long-term capital gain or loss to the extent of 60% thereof, and as short-term capital gain or loss to the extent of 40% thereof, without regard to the actual holding period ("60-40 treatment").

Many of the Fund's Wheat Futures Contracts will qualify as "section 1256 contracts" under the Code. Some Other Wheat Interests that are cleared through a qualified board or exchange will also constitute section 1256 contracts. Gain or loss recognized as a result of the disposition, termination or marking-to-market of the Fund's section 1256 contracts during a calendar month will be subject to 60-40 treatment and allocated to Shareholders in accordance with the monthly allocation convention. Under recently enacted legislation, Cleared Wheat Swaps and other commodity swaps will most likely not qualify as section 1256 contracts. If a commodity swap is not taxable as a section 1256 contract, any gain or loss on the swap will be recognized at the time of disposition or termination as long-term or short-term capital gain or loss depending on the holding period of the swap in the Fund's hands.

Limitations on Deductibility of Losses and Certain Expenses. A number of different provisions of the Code may defer or disallow the deduction of losses or expenses allocated to

Shareholders by the Fund, including but not limited to those described below.

A Shareholder’s deduction of its allocable share of any loss of the Fund is limited to the lesser of (1) the tax basis in its Shares or (2) in the case of a Shareholder that is an individual or a closely held corporation, the amount which the Shareholder is considered to have “at risk” with respect to the Fund’s activities. In general, the amount at risk will be a Shareholder’s invested capital. Losses in excess of the amount at risk must be deferred until years in which the Fund generates additional taxable income against which to offset such carryover losses or until additional capital is placed at risk.

Individuals and other non-corporate taxpayers are permitted to deduct capital losses only to the extent of their capital gains for the taxable year plus $3,000 of other income. Unused capital losses can be carried forward and used to offset capital gains in future years. In addition, a non-corporate taxpayer may elect to carry back net losses on section 1256 contracts to each of the three preceding years and use them to offset section 1256 contract gains in those years, subject to certain limitations. Corporate taxpayers generally may deduct capital losses only to the extent of capital gains, subject to special carryback and carryforward rules.

Otherwise deductible expenses incurred by non-corporate taxpayers constituting "miscellaneous itemized deductions," generally including investment-related expenses (other than interest and certain other specified expenses), are deductible only to the extent they exceed 2% of the taxpayer's adjusted gross income for the year. Although the matter is not free from doubt, we believe management fees the Fund pays to the Sponsor and other expenses of the Fund constitute investment-related expenses subject to this miscellaneous itemized deduction limitation, rather than expenses incurred in connection with a trade or business, and will report these expenses consistent with that interpretation. The Code imposes additional limitations on the amount of certain itemized deductions allowable to individuals with adjusted gross income in excess of certain amounts by reducing the otherwise allowable portion of such deductions by an amount equal to the lesser of:

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- 3% of the individual's adjusted gross income in excess of certain threshold amounts; or

- 80% of the amount of certain itemized deductions otherwise allowable for the taxable year.

Non-corporate Shareholders generally may deduct "investment interest expense" only to the extent of their "net investment income." Investment interest expense of a Shareholder will generally include any interest accrued by the Fund and any interest paid or accrued on direct borrowings by a Shareholder to purchase or carry its Shares, such as interest with respect to a margin account. Net investment income generally includes gross income from property held for investment (including "portfolio income" under the passive loss rules but not, absent an election, long-term capital gains or certain qualifying dividend income) less deductible expenses other than interest directly connected with the production of investment income.

To the extent that the Fund allocates losses or expenses to you that must be deferred or are disallowed as a result of these or other limitations in the Code, you may be taxed on income in excess of your economic income or distributions (if any) on your Shares. As one example, you could be allocated and required to pay tax on your share of interest

income accrued by the Fund for a particular taxable year, and in the same year allocated a share of a capital loss that you cannot deduct currently because you have insufficient capital gains against which to offset the loss. As another example, you could be allocated and required to pay tax on your share of interest income and capital gain for a year, but be unable to deduct some or all of your share of management fees and/or margin account interest incurred by you with respect to your Shares. Shareholders are urged to consult their own professional tax advisor regarding the effect of limitations under the Code on their ability to deduct your allocable share of the Fund's losses and expenses.

Tax Basis of Shares

A Shareholder's tax basis in its Shares is important in determining (1) the amount of taxable gain or loss it will realize on the sale or other disposition of its Shares, (2) the amount of non-taxable distributions that it may receive from the Fund, and (3) its ability to utilize its distributive share of any losses of the Fund on its tax return. A Shareholder's initial tax basis of its Shares will equal its cost for the Shares plus its share of the Fund's liabilities (if any) at the time of purchase. In general, a Shareholder's "share" of those liabilities will equal the sum of (i) the entire amount of any otherwise nonrecourse liability of the Fund as to which the Shareholder or an affiliate of the

Shareholder is the creditor (a "partner nonrecourse liability") and (ii) a pro rata share of any nonrecourse liabilities of the Fund that are not partner nonrecourse liabilities as to any Shareholder.

A Shareholder's tax basis in its Shares generally will be (1) increased by (a) its allocable share of the Fund's taxable income and gain and (b) any additional contributions by the Shareholder to the Fund and (2) decreased (but not below zero) by (a) its allocable share of the Fund's tax deductions and losses and (b) any distributions by the Fund to the Shareholder. For this purpose, an increase in a Shareholder's share of the Fund's liabilities will be treated as a contribution of cash by the Shareholder to the Fund and a decrease in that share will be treated as a distribution of cash by the Fund to the Shareholder. Pursuant to certain IRS rulings, a Shareholder will be required to maintain a single, "unified" basis in all Shares that it owns. As a result, when a Shareholder that acquired its Shares at different prices sells less than all of its Shares, such Shareholder will not be entitled to specify particular Shares (*e.g.*, those with a higher basis) as having been sold. Rather, it must determine its gain or loss on the sale by using an "equitable apportionment" method to allocate a portion of its unified basis in its Shares to the Shares sold.

Treatment of Fund Distributions. If the Fund makes non-liquidating distributions to

Shareholders, such distributions generally will not be taxable to the Shareholders for federal income tax purposes except to the extent that the sum of (i) the amount of cash and (ii) the fair market value of marketable securities distributed exceeds the Shareholder's adjusted basis of its interest in the Fund immediately before the distribution. Any cash distributions in excess of a Shareholder's tax basis generally will be treated as gain from the sale or exchange of Shares.

Constructive Termination of the Partnership. The Fund will be considered to have been terminated for tax purposes if there is a sale or exchange of 50% or more of the total interests in its Shares within a 12-month period. A termination would result in the closing of the Fund's taxable year for all Shareholders. In the case of

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a Shareholder reporting on a taxable year other than a fiscal year ending December 31, the closing of the Fund's taxable year may result in more than 12 months of our taxable income or loss being includable in its taxable income for the year of termination. We would be required to make new tax elections after a termination. A termination could result in tax penalties if we were unable to determine that the termination had occurred. Moreover, a termination might either accelerate the application of, or subject us to, any tax legislation enacted before the termination.

***Tax Consequences of Disposition of Share*s**

If a Shareholder sells its Shares, it will recognize gain or loss equal to the difference between the amount realized and its adjusted tax basis for the Shares sold. A Shareholder's amount realized will be the sum of the cash or the fair market value of other property received plus its share of any Fund debt outstanding.

Gain or loss recognized by a Shareholder on the sale or exchange of Shares held for more than one year will generally be taxable as long-term capital gain or loss; otherwise, such gain or loss will generally be taxable as short-term capital gain or loss. A special election is available under the Treasury Regulations that

allows Shareholders to identify and use the actual holding periods for the Shares sold for purposes of determining whether the gain or loss recognized on a sale of Shares will give rise to long-term or short-term capital gain or loss. It is expected that most Shareholders will be eligible to elect, and generally will elect, to identify and use the actual holding period for Shares sold. If a Shareholder fails to make the election or is not able to identify the holding periods of the Shares sold, the Shareholder will have a split holding period in the Shares sold. Under such circumstances, a Shareholder will be required to determine its holding period in the Shares sold by first determining the portion of its entire interest in the Fund that would give rise to long-term capital gain or loss if its entire interest were sold and the portion that would give rise to short-term capital gain or loss if the entire interest were sold. The Shareholder would then treat each Share sold as giving rise to long-term capital gain or loss and short-term capital gain or loss in the same proportions as if it had sold its entire interest in the Fund.

Under Section 751 of the Code, a portion of a Shareholder's gain or loss from the sale of Shares (regardless of the holding period for such Shares), will be separately computed and taxed as ordinary income or loss to the extent attributable to "unrealized receivables" or "inventory" owned by the Fund. The term "unrealized receivables" includes, among other things, market discount bonds and short-term debt instruments to the extent such items would give rise

to ordinary income if sold by the Fund.

If some or all of a Shareholder's Shares are lent by its broker or other agent to a third party — for example, for use by the third party in covering a short sale — the Shareholder may be considered as having made a taxable disposition of the loaned Shares, in which case —

- the Shareholder may recognize taxable gain or loss to the same extent as if it had sold the Shares for cash;
- any of the income, gain, loss or deduction allocable to those Shares during the period of the loan is not reportable by the Shareholder for tax purposes; and
- any distributions the Shareholder receives with respect to the Shares under the loan agreement will be fully taxable to the Shareholder, most likely as ordinary income.

Shareholders desiring to avoid these and other possible consequences of a deemed disposition of their Shares should consider modifying any applicable brokerage account agreements to prohibit the lending of their Shares.

Other Tax Matters

Information Reporting. The Fund provides tax information to the Shareholders and to the IRS. Shareholders of the Fund are treated as partners for federal income tax purposes. Accordingly, the Fund will furnish Shareholders each year with tax information on IRS Schedule K-1 (Form 1065), which will be used

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by the Shareholders in completing their tax returns. The IRS has ruled that assignees of partnership interests who have not been admitted to a partnership as partners but who have the capacity to exercise substantial dominion and control over the assigned partnership interests will be considered partners for federal income tax purposes. On the basis of this ruling, except as otherwise provided herein, we will treat as a Shareholder any person whose shares are held on their behalf by a broker or other nominee if that person has the right to direct the nominee in the exercise of all substantive rights attendant to the ownership of the Shares.

Persons who hold an interest in the Fund as a nominee for another person are required to furnish to us the following information: (1) the name, address and taxpayer identification number of the beneficial owner and the nominee; (2) whether the beneficial owner is (a) a person that is not a U.S. person, (b) a foreign government, an international organization or any wholly-owned agency or instrumentality of either of the foregoing, or (c) a tax-exempt entity; (3) the number and a description of Shares acquired or transferred for the beneficial owner; and (4) certain information including the dates of acquisitions and transfers, means of acquisitions and transfers, and acquisition cost for purchases, as well as the amount of net proceeds from sales. Brokers and financial institutions are required

to furnish additional information, including whether they are U.S. persons and certain information on Shares they acquire, hold or transfer for their own account. A penalty of $100 per failure, up to a maximum of $1,500,000 per calendar year, is imposed by the Code for failure to report such information to the Fund. The nominee is required to supply the beneficial owner of the Shares with the information furnished to the Fund.

Partnership Audit Procedures. The IRS may audit the federal income tax returns filed by the Fund. Adjustments resulting from any such audit may require a Shareholder to adjust a prior year's tax liability and could result in an audit of the Shareholder's own return. Any audit of a Shareholder's return could result in adjustments of non-partnership items as well as Fund items. Partnerships are generally treated as separate entities for purposes of federal tax audits, judicial review of administrative adjustments by the IRS, and tax settlement proceedings. The tax treatment of partnership items of income, gain, loss and deduction are determined at the partnership level in a unified partnership proceeding rather than in separate proceedings with the partners. The Code provides for one partner to be designated as the "tax matters partner" and to represent the partnership purposes of these proceedings. The Trust Agreement appoints the Sponsor as the tax matters partner of the Fund.

Reportable Transaction Rules. In certain circumstances the Code and Treasury Regulations require that the IRS be notified of transactions through a disclosure statement attached to a taxpayer's United States federal income tax return. These disclosure rules may apply to transactions irrespective of whether they are structured to achieve particular tax benefits. They could require disclosure by the Trust or Shareholders if a Shareholder incurs a loss in excess of a specified threshold from a sale or redemption of its Shares and possibly in other circumstances. While these rules generally do not require disclosure of a loss recognized on the disposition of an asset in which the taxpayer has a "qualifying basis" (generally a basis equal to the amount of cash paid by the taxpayer for such asset), they apply to a loss recognized with respect to interests in a pass-through entity, such as the Shares, even if the taxpayer's basis in such interests is equal to the amount of cash it paid. In addition, significant monetary penalties may be imposed in connection with a failure to comply with these reporting requirements. Investors should consult their own tax advisor concerning the application of these reporting requirements to their specific situation.

Tax-Exempt Organizations. Subject to numerous exceptions, qualified retirement plans and individual retirement accounts, charitable

organizations and certain other organizations that otherwise are exempt from U.S. federal income tax (collectively “exempt organizations”) nonetheless are subject to the tax on unrelated business taxable income (“UBTI”). Generally, UBTI means the gross income derived by an exempt organization from a trade or business that it regularly carries on, the conduct of which is not substantially related to the exercise or performance of its exempt purpose or function, less allowable deductions directly connected with that trade or business. If the Fund were to regularly carry on (directly or indirectly) a trade or business that is unrelated with respect to an exempt organization Shareholder, then in computing its UBTI, the Shareholder must include its share of (1) the Fund’s gross income from the unrelated trade or business, whether or not distributed, and (2) the Fund’s allowable deductions directly connected with that gross income.

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UBTI generally does not include dividends, interest, or payments with respect to securities loans and gains from the sale of property (other than property held for sale to customers in the ordinary course of a trade or business). Nonetheless, income on, and gain from the disposition of, "debt-financed property" is UBTI. Debt-financed property generally is income-producing property (including securities), the use of which is not substantially related to the exempt organization's tax-exempt purposes, and with respect to which there is "acquisition indebtedness" at any time during the taxable year (or, if the property was disposed of during the taxable year, the 12-month period ending with the disposition). Acquisition indebtedness includes debt incurred to acquire property, debt incurred before the acquisition of property if the debt would not have been incurred but for the acquisition, and debt incurred subsequent to the acquisition of property if the debt would not have been incurred but for the acquisition and at the time of acquisition the incurrence of debt was foreseeable. The portion of the income from debt-financed property attributable to acquisition indebtedness is equal to the ratio of the average outstanding principal amount of acquisition indebtedness over the average adjusted basis of the property for the year. The Fund currently does not anticipate that it will borrow money to acquire investments; however, the Fund cannot be certain that it will not borrow for such purpose in the future. In addition, an exempt

organization Shareholder that incurs acquisition indebtedness to purchase its Shares in the Fund may have UBTI.

The federal tax rate applicable to an exempt organization Shareholder on its UBTI generally will be either the corporate or trust tax rate, depending upon the Shareholder's form of organization. The Fund may report to each such Shareholder information as to the portion, if any, of the Shareholder's income and gains from the Fund for any year that will be treated as UBTI; the calculation of that amount is complex, and there can be no assurance that the Fund's calculation of UBTI will be accepted by the IRS. An exempt organization Shareholder will be required to make payments of estimated federal income tax with respect to its UBTI.

Regulated Investment Companies. Interests in and income from "qualified publicly traded partnerships" satisfying certain gross income tests are treated as qualifying assets and income, respectively, for purposes of determining eligibility for regulated investment company ("RIC") status. A RIC may invest up to 25% of its assets in interests in a qualified publicly traded partnership. The determination of whether a publicly traded partnership such as the Fund is a qualified publicly traded partnership is made on an annual basis. The Fund expects to be a qualified publicly traded

partnership in each of its taxable years. However, such qualification is not assured.

Non-U.S. Shareholders

Generally, non-U.S. persons who derive U.S. source income or gain from investing or engaging in a U.S. business are taxable on two categories of income. The first category consists of amounts that are fixed or determinable, annual or periodic income, such as interest, dividends and rent that are not connected with the operation of a U.S. trade or business ("FDAP"). The second category is income that is effectively connected with the conduct of a U.S. trade or business ("ECI"). FDAP income (other than interest that is considered "portfolio interest;" as discussed below) is generally subject to a 30% withholding tax, which may be reduced for certain categories of income by a treaty between the U.S. and the recipient's country of residence. In contrast, ECI is generally subject to U.S. tax on a net basis at graduated rates upon the filing of a U.S. tax return. Where a non-U.S. person has ECI as a result of an investment in a partnership, the ECI is currently subject to a withholding tax at a rate of 39.6% for individual Shareholders and a rate of 35% for corporate Shareholders. The tax withholding on ECI, which is the highest tax rate under Code section 1 for non-corporate Non-U.S. Shareholders and Code section 11(b) for corporate

Non-U.S. Shareholders, may increase in future tax years if tax rates increase from their current levels.

Withholding on Allocations and Distributions. The Code provides that a non-U.S. person who is a partner in a partnership that is engaged in a U.S. trade or business during a taxable year will also be considered to be engaged in a U.S. trade or business during that year. Classifying an activity by a partnership as an investment or an operating business is a factual determination. Under certain safe harbors in the Code, an investment fund whose activities consist of trading in stocks, securities, or commodities for its own account generally will not be considered to be engaged in a U.S. trade or business unless it is a dealer is such stocks, securities, or commodities. This safe harbor applies to investments in commodities only if the commodities are of a kind customarily dealt in on an organized commodity exchange and if the transaction is of a kind

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customarily consummated at such place. Although the matter is not free from doubt, the Fund believes that the activities directly conducted by the Fund do not result in the Fund being engaged in a trade or business within in the United States. However, there can be no assurance that the IRS would not successfully assert that the Fund's activities constitute a U.S. trade or business.

In the event that the Fund's activities were considered to constitute a U.S. trade or business, the Fund would be required to withhold at the highest rate specified in Code section 1 (currently 39.6%) on allocations of our income to non-corporate Non-U.S. Shareholders and the highest rate specified in Code section 11(b) (currently 35%) on allocations of our income to corporate Non-U.S. Shareholders when such income is distributed. A Non-U.S. Shareholder with ECI will generally be required to file a U.S. federal income tax return, and the return will provide the Non-U.S. Shareholder with the mechanism to seek a refund of any withholding in excess of such Shareholder's actual U.S. federal income tax liability. Any amount withheld by the Fund will be treated as a distribution to the Non-U.S. Shareholder to the extent possible. In some cases, the Fund may not be able to match the economic cost of satisfying its withholding obligations to a particular Non-U.S. Shareholder, which may result in said cost being borne by the Fund, generally, and

accordingly, by all Shareholders.

If the Fund is not treated as engaged in a U.S. trade or business, a Non-U.S. Shareholder may nevertheless be treated as having FDAP income, which would be subject to a 30% withholding tax (possibly subject to reduction by treaty), with respect to some or all of its distributions from the Fund or its allocable share of Fund income. Amounts withheld on behalf of a Non-U.S. Shareholder will be treated as being distributed to such Shareholder.

To the extent any interest income allocated to a Non-U.S. Shareholder that otherwise constitutes FDAP is considered "portfolio interest," neither the allocation of such interest income to the non-U.S. Shareholder nor a subsequent distribution of such interest income to the non-U.S. Shareholder will be subject to withholding, provided that the Non-U.S. Shareholder is not otherwise engaged in a trade or business in the U.S. and provides the Fund with a timely and properly completed and executed IRS Form W-8BEN or other applicable form. In general, portfolio interest is interest paid on debt obligations issued in registered form, unless the recipient owns 10% or more of the voting power of the issuer.

The Trust expects that most of the Fund's interest income will qualify as portfolio interest. In order for

the Fund to avoid withholding on any interest income allocable to Non-U.S. Shareholders that would qualify as portfolio interest, it will be necessary for all Non-U.S. Shareholders to provide the Fund with a timely and properly completed and executed Form W-8BEN (or other applicable form).

Gain from Sale of Shares. Gain from the sale or exchange of Shares may be taxable to a Non-U.S. Shareholder if the Non-U.S. Shareholder is a nonresident alien individual who is present in the U.S. for 183 days or more during the taxable year. In such case, the nonresident alien individual will be subject to a 30% withholding tax on the amount of such individual's gain.

Prospective Non-U.S. Shareholders should consult their own tax advisor regarding these and other tax issues unique to Non-U.S. Shareholders.

Backup Withholding

The Fund may be required to withhold U.S. federal income tax ("backup withholding") from payments to: (1) any Shareholder who fails to furnish the Fund with his, her or its correct taxpayer identification number or a certificate that the Shareholder is exempt from backup withholding, and (2) any Shareholder with

respect to whom the IRS notifies the Fund that the Shareholder is subject to backup withholding. Backup withholding is not an additional tax and may be returned or credited against a taxpayer's regular federal income tax liability if appropriate information is provided to the IRS. The backup withholding rate is the fourth lowest rate applicable to individuals under Code section 1(c), and may increase in future tax years.

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Other Tax Considerations

In addition to federal income taxes, Shareholders may be subject to other taxes, such as state and local income taxes, unincorporated business taxes, business franchise taxes, and estate, inheritance or intangible taxes that may be imposed by the various jurisdictions in which the Fund does business or owns property or where the Shareholders reside. Although an analysis of those various taxes is not presented here, each prospective Shareholder should consider their potential impact on its investment in the Fund. It is each Shareholder's responsibility to file the appropriate U.S. federal, state, local, and foreign tax returns. Reed Smith has not provided an opinion concerning any aspects of state, local or foreign tax or U.S. federal tax other than those U.S. federal income tax issues discussed herein.

Recently enacted legislation that becomes effective after December 31, 2012, generally imposes a 30% withholding tax on payments of certain types of income to foreign financial institutions that fail to enter into an agreement with the United States Treasury to report certain required information with respect to accounts held by U.S. persons (or held by foreign entities that have U.S. persons as substantial owners). The IRS and the Treasury Department have announced that the full

implementation of these rules will be phased in over the next several years, including the obligation to withhold. The types of income subject to the tax include U.S.-source interest and dividends and the gross proceeds from the sale of any property that could produce U.S.-source interest or dividends. The information required to be reported includes the identity and taxpayer identification number of each account holder that is a U.S. person and transaction activity within the holder's account. In addition, subject to certain exceptions, this legislation also imposes a 30% withholding tax on payments to foreign entities that are not financial institutions unless the foreign entity certifies that it does not have a greater than 10% U.S. owner or provides the withholding agent with identifying information on each greater than 10% U.S. owner. When these provisions become effective, depending on the status of a Non-U.S. Shareholder and the status of the intermediaries through which it holds Shares, a Non-U.S. Shareholder could be subject to this 30% withholding tax with respect to distributions on its Shares and proceeds from the sale of its Shares. Under certain circumstances, a Non-U.S. Shareholder might be eligible for refund or credit of such taxes.

Investment By ERISA Accounts

General

Most employee benefit plans and individual retirement accounts ("IRAs") are subject to the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), or the Code, or both. This section discusses certain considerations that arise under ERISA and the Code that a fiduciary of an employee benefit plan as defined in ERISA or a plan as defined in Section 4975 of the Code who has investment discretion should take into account before deciding to invest the plan's assets in the Fund. Employee benefit plans under ERISA and plans under the Code are collectively referred to below as "plans," and fiduciaries with investment discretion are referred to below as "plan fiduciaries."

This summary is based on the provisions of ERISA and the Code as of the date hereof. This summary is not intended to be complete, but only to address certain questions under ERISA and the Code likely to be raised by your advisors. The summary does not include state or local law.

Potential plan investors are urged to consult with their own professional advisors concerning the appropriateness of an investment in the Fund and the manner in which Shares should be purchased.

Special Investment Considerations

Each plan fiduciary must consider the facts and circumstances that are relevant to an investment in the Fund, including the role that an investment in the Fund would play in the plan's overall investment portfolio. Each plan fiduciary, before deciding to invest in the Fund, must be satisfied that the investment is prudent for the plan, that the investments of the plan are diversified so as to minimize the risk of large losses, and that an investment in the Fund complies with the terms of the plan.

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The Fund and Plan Assets

A regulation issued under ERISA contains rules for determining when an investment by a plan in an equity interest of a statutory trust will result in the underlying assets of the statutory trust being deemed plan assets for purposes of ERISA and Section 4975 of the Code. Those rules provide that assets of a statutory trust will not be plan assets of a plan that purchases an equity interest in the statutory trust if the equity interest purchased is a publicly-offered security. If the underlying assets of a statutory trust are considered to be assets of any plan for purposes of ERISA or Section 4975 of the Code, the operations of that trust would be subject to and, in some cases, limited by the provisions of ERISA and Section 4975 of the Code.

The publicly-offered security exception described above applies if the equity interest is a security that is:

(1) freely transferable (determined based on the relevant facts and circumstances);
(2) part of a class of securities that is widely held (meaning that the class of securities is owned by 100 or more investors independent of the issuer and of each other); and
(3) either (a) part of a class of securities registered under Section 12(b) or 12(g) of the Exchange Act or (b) sold to the plan as part of a public offering pursuant to an

effective registration statement under the 1933 Act and the class of which such security is a part is registered under the Exchange Act within 120 days (or such later time as may be allowed by the SEC) after the end of the fiscal year of the issuer in which the offering of such security occurred.

The plan asset regulations under ERISA state that the determination of whether a security is freely transferable is to be made based on all the relevant facts and circumstances. In the case of a security that is part of an offering in which the minimum investment is $10,000 or less, the following requirements, alone or in combination, ordinarily will not affect a finding that the security is freely transferable: (1) a requirement that no transfer or assignment of the security or rights relating to the security be made that would violate any federal or state law; and (2) a requirement that no transfer or assignment be made without advance written notice given to the entity that issued the security.

The Sponsor believes that the conditions described above are satisfied with respect to the Shares. The Sponsor believes that the Shares therefore constitute publicly-offered securities, and the underlying assets of the Fund should not be considered to constitute plan assets of any plan that purchases Shares.

Prohibited Transactions

ERISA and the Code generally prohibit certain transactions involving a plan and persons who have certain specified relationships to the plan. In general, Shares may not be purchased with the assets of a plan if the Sponsor, the clearing brokers, the trading advisors (if any), or any of their affiliates, agents or employees either:

- exercise any discretionary authority or discretionary control with respect to management of the plan;
- exercise any authority or control with respect to management or disposition of the assets of the plan;
- render investment advice for a fee or other compensation, direct or indirect, with respect to any moneys or other property of the plan;
- have any authority or responsibility to render investment advice with respect to any monies or other property of the plan; or
- have any discretionary authority or discretionary responsibility in the administration of the plan.

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Also, a prohibited transaction may occur under ERISA or the Code when circumstances indicate that (1) the investment in Shares is made or retained for the purpose of avoiding application of the fiduciary standards of ERISA, (2) the investment in Shares constitutes an arrangement under which the Fund is expected to engage in transactions that would otherwise be prohibited if entered into directly by the plan purchasing the Shares, (3) the investing plan, by itself, has the authority or influence to cause the Fund to engage in such transactions, or (4) a person who is prohibited from transacting with the investing plan may, but only with the aid of certain of its affiliates and the investing plan, cause the Fund to engage in such transactions with such person.

Special IRA Rules

IRAs are not subject to ERISA's fiduciary standards, but are subject to their own rules, including the prohibited transaction rules of Section 4975 of the Code, which generally mirror ERISA's prohibited transaction rules. For example, IRAs are subject to special custody rules and must maintain a qualifying IRA custodial arrangement separate and distinct from the Fund and its custodial arrangement. If a separate qualifying custodial arrangement is not maintained, an investment in the Shares will be treated as a distribution from the IRA. Second, IRAs are

prohibited from investing in certain commingled investments, and the Sponsor makes no representation regarding whether an investment in Shares is an inappropriate commingled investment for an IRA. Third, in applying the prohibited transaction provisions of Section 4975 of the Code, in addition to the rules summarized above, the individual for whose benefit the IRA is maintained is also treated as the creator of the IRA. For example, if the owner or beneficiary of an IRA enters into any transaction, arrangement, or agreement involving the assets of his or her IRA to benefit the IRA owner or beneficiary (or his or her relatives or business affiliates) personally, or with the understanding that such benefit will occur, directly or indirectly, such transaction could give rise to a prohibited transaction that is not exempted by any available exemption. Moreover, in the case of an IRA, the consequences of a non-exempt prohibited transaction are that the IRA's assets will be treated as if they were distributed, causing immediate taxation of the assets (including any early distribution penalty tax applicable under Section 72 of the Code), in addition to any other fines or penalties that may apply.

Exempt Plans

Certain employee benefit plans may be governmental plans or church plans. Governmental plans and church plans are generally not subject to ERISA, nor do the prohibited transaction

provisions described above apply to them. These plans are, however, subject to prohibitions against certain related-party transactions under Section 503 of the Code, which are similar to the prohibited transaction rules described above. In addition, the fiduciary of any governmental or church plan must consider any applicable state or local laws and any restrictions and duties of common law imposed upon the plan.

No view is expressed as to whether an investment in the Fund (and any continued investment in the Fund), or the operation and administration of the fund, is appropriate or permissible for any governmental plan or church plan under Code Section 503, or under any state, county, local or other law relating to that type of plan.

Allowing an investment in the Fund is not to be construed as a representation by the Trust, the Fund, the Sponsor, any trading advisor, any clearing broker, the Distributor or legal counsel or other advisors to such parties or any other party that this investment meets some or all of the relevant legal requirements with respect to investments by any particular plan or that this investment is appropriate for any such particular plan. The person with investment discretion should consult with the plan's attorney and financial advisors as to the propriety of an investment in the Fund in light of the circumstances of the

particular plan, current tax law and ERISA.

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INCORPORATION BY REFERENCE OF CERTAIN INFORMATION

We are a reporting company and file annual, quarterly and current reports and other information with the SEC. The rules of the SEC allow us to "incorporate by reference" information that we file with them, which means that we can disclose important information to you by referring you to those documents. The information incorporated by reference is an important part of this prospectus. This prospectus incorporates by reference the documents set forth below that have been previously filed with the SEC:

- our Annual Report on Form 10-K for the fiscal year ended December 31, 2012, filed with the SEC on March 18, 2013; and
- our Current Report on Form 8-K filed with the SEC on April 3, 2013.

Any statement contained in a document incorporated by reference in this prospectus shall be deemed to be modified or superseded for purposes of this prospectus to the extent that a statement contained in this prospectus or in any other subsequently filed document that also is or is deemed to be incorporated by reference in this prospectus modifies or supersedes such statement. Any statement so modified or superseded shall not

be deemed, except as so modified or superseded, to constitute a part of this prospectus.

We will provide to each person to whom a prospectus is delivered, including any beneficial owner, a copy of these filings at no cost, upon written or oral request at the following address or telephone number:

Teucrium Wheat Fund
Attention: Barbara Riker
232 Hidden Lake Road, Building A
Brattleboro, Vermont 05301
(802) 257-1617

Our Internet website is www.teucriumwheatfund.com. We make our electronic filings with the SEC, including our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to these reports available on our website free of charge as soon as practicable after we file or furnish them with the SEC. The information contained on our website is not incorporated by reference in this prospectus and should not be considered a part of this prospectus.

INFORMATION YOU SHOULD KNOW

This prospectus contains information you should consider when making an investment decision about the Shares. You should rely only on the information contained in this prospectus or any applicable prospectus supplement. None of the Trust, the Fund or the Sponsor has authorized any person to provide you with different information and, if anyone provides you with different or inconsistent information, you should not rely on it. This prospectus is not an offer to sell the Shares in any jurisdiction where the offer or sale of the Shares is not permitted.

The information contained in this prospectus was obtained from us and other sources believed by us to be reliable.

You should disregard anything we said in an earlier document that is inconsistent with what is included in this prospectus or any applicable prospectus supplement. Where the context requires, when we refer to this "prospectus," we are referring to this prospectus and (if applicable) the relevant prospectus supplement.

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You should not assume that the information in this prospectus or any applicable prospectus supplement is current as of any date other than the date on the front page of this prospectus or the date on the front page of any applicable prospectus supplement.

We include cross references in this prospectus to captions in these materials where you can find further related discussions. The table of contents tells you where to find these captions.

WHERE YOU CAN FIND MORE INFORMATION

The Trust has filed on behalf of the Fund a registration statement on Form S-1 with the SEC under the 1933 Act. This prospectus does not contain all of the information set forth in the registration statement (including the exhibits to the registration statement), parts of which have been omitted in accordance with the rules and regulations of the SEC. For further information about the Trust, the Fund or the Shares, please refer to the registration statement, which you may inspect, without charge, at the public reference facilities of the SEC at the below address or online at www.sec.gov, or obtain at prescribed rates from the public reference facilities of the SEC at the below address. Information

about the Trust, the Fund and the Shares can also be obtained from the Fund's website, which is **www.teucriumweatfund.com**. The Fund's website address is only provided here as a convenience to you and the information contained on or connected to the website is not part of this prospectus or the registration statement of which this prospectus is part. The Trust is subject to the informational requirements of the Exchange Act and will file certain reports and other information with the SEC under the Exchange Act. The Sponsor will file an updated prospectus annually for the Fund pursuant to the 1933 Act. The reports and other information can be inspected at the public reference facilities of the SEC located at 100 F Street, N.E., Washington, DC 20549 and online at www.sec.gov. You may also obtain copies of such material from the public reference facilities of the SEC at 100 F Street, NE, Washington, D.C. 20549, at prescribed rates. You may obtain more information concerning the operation of the public reference facilities of the SEC by calling the SEC at 1-800-SEC-0330 or visiting online at www.sec.gov.

APPENDIX A

Glossary of Defined Terms

In this prospectus, each of the following terms have the meanings set forth after such term:

Administrator: The Bank of New York Mellon

Authorized Purchaser: One that purchases or redeems Creation Baskets or Redemption Baskets, respectively, from or to the Fund.

Benchmark: A weighted average of daily changes in the closing settlement prices of (1) the second-to-expire Wheat Futures Contract traded on the CBOT, weighted 35%, (2) the third-to-expire CBOT Wheat Futures Contract, weighted 30%, and (3) the CBOT Wheat Futures Contract expiring in the December following the expiration month of third-to-expire contract, weighted 35%.

Benchmark Component Futures Contracts: The three Wheat Futures Contracts that at any given time make up the Benchmark.

Business Day: Any day other than a day when any of the NYSE Arca, the CBOT or the New York Stock Exchange is closed for regular trading.

CFTC: Commodity Futures Trading Commission, an independent agency with the mandate to regulate commodity futures and options in the United States.

Chicago Board of Trade (CBOT): The primary exchange on which Wheat Futures Contracts are traded in the U.S. The Fund expressly disclaims any association with the CBOT or endorsement of the Fund by the CBOT and acknowledges that "CBOT" and "Chicago Board of Trade" are registered trademarks of such exchange.

Cleared Wheat Swap: A wheat-based swap agreement that is cleared through the CBOT or its affiliated provider of clearing services.

Code: Internal Revenue Code.

Commodity Pool: An enterprise in which several individuals contribute funds in order to trade futures contracts or options on futures contracts collectively.

Commodity Pool Operator or CPO: Any person engaged in a business which is of the nature of an investment trust, syndicate, or similar enterprise, and who, in connection therewith, solicits, accepts, or receives from others, funds, securities, or property, either directly or through capital contributions, the sale of stock or other forms of securities, or otherwise, for the purpose of trading in any commodity for future delivery or commodity option on or subject to the rules of any contract market.

Creation Basket: A block of 25,000 Shares used by the Fund to issue Shares.

Custodian: The Bank of New York Mellon

DTC: The Depository Trust Company. DTC will act as the securities depository for the Shares.

DTC Participant: An entity that has an account with DTC.

DTEF: A derivatives transaction execution facility.

Exchange Act: The Securities Exchange Act of 1934.

Exchange for Risk: A privately negotiated and simultaneous exchange of a futures contract position for a swap or other over-the-counter instrument on the corresponding commodity.

FINRA: Financial Industry Regulatory Authority, formerly the National Association of Securities Dealers.

Indirect Participants: Banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a DTC Participant, either directly or indirectly.

Limited Liability Company (LLC): A type of business ownership combining several features of corporation and partnership structures.

Margin: The amount of equity required for an investment in futures contracts.

NAV: Net Asset Value of the Fund.

NFA: National Futures Association.

NSCC: National Securities Clearing Corporation.

1933 Act: The Securities Act of 1933.

Option: The right, but not the obligation, to buy or sell a futures contract or forward contract at a specified price on or before a specified date.

Other Wheat Interests: Other wheat-related investments such as options on Wheat Futures Contracts, swaps agreements other than Cleared Wheat Swaps and forward contracts relating to wheat, and over-the-counter transactions that are based on the price of wheat, Wheat Futures Contracts and indices based on the foregoing.

Over-the-Counter Derivative: A financial contract, whose value is designed to track the return on stocks, bonds, currencies, commodities, or some other benchmark, that is traded over-the-counter or off organized exchanges.

Redemption Basket: A block of 25,000 Shares used by the Fund to redeem Shares.

SEC: Securities and Exchange Commission.

Secondary Market: The stock exchanges and the over-the-counter market. Securities are first issued as a primary offering to the public. When the securities are traded from that first holder to another, the issues trade in these secondary markets.

Shareholders: Holders of Shares.

Shares: Common units representing fractional undivided beneficial interests in the Fund.

Sponsor: Teucrium Trading, LLC, a Delaware limited liability company, which is registered as a Commodity Pool Operator, who controls the investments and other decisions of the Fund.

Spot Contract: A cash market transaction in which the buyer and seller agree to the immediate purchase and sale of a commodity, usually with a two-day settlement.

Swap Agreement: An over-the-counter derivative that generally involves an exchange of a stream of payments between the contracting parties based on a notional amount and a specified index.

Tracking Error: Possibility that the daily NAV of the Fund will not track the Benchmark.

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Treasury Securities: Obligations of the U.S. government with remaining maturities of 2 years or less.

Trust Agreement: The Second Amended and Restated Declaration of Trust and Trust Agreement of the Trust effective as of October 21, 2010.

Valuation Day: Any day as of which the Fund calculates its NAV.

Wheat Futures Contracts: Futures contracts for wheat that are traded on the CBOT, the Kansas City Board of Trade, the Minneapolis Grain Exchange, or foreign exchanges.

Wheat Interests: Wheat Futures Contracts, Cleared Wheat Swaps and Other Wheat Interests.

You: The owner of Shares.

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STATEMENT OF ADDITIONAL INFORMATION

TEUCRIUM WHEAT FUND

This statement of additional information is the second part of a two part document. The first part is the Fund's disclosure document. The disclosure document and this statement of additional information are bound together, and both parts contain important information. This statement of additional information should be read in conjunction with the disclosure document. To obtain a copy of the disclosure document without charge, call the Fund at (802) 257-1617. Before you decide whether to invest, you should read the entire prospectus carefully and consider the risk factors beginning on page 15.

This statement of additional information and accompanying disclosure document are both dated April 30, 2013

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Commodity Market Participants

The two broad classes of persons who trade commodities are hedgers and speculators. Hedgers include financial institutions that manage or deal in interest rate-sensitive instruments, foreign currencies or stock portfolios, and commercial market participants, such as farmers and manufacturers, that market or process commodities. Hedging is a protective procedure designed to effectively lock in prices that would otherwise change due to an adverse movement in the price of the underlying commodity, such as, the adverse price movement between the time a merchandiser or processor enters into a contract to buy or sell a raw or processed commodity at a certain price and the time he must perform the contract. For example, if a hedger contracts to physically sell the commodity at a future date, he may simultaneously buy a futures or forward contract for the necessary equivalent quantity of

the commodity. At the time for performance of the physical contract, the hedger may accept delivery under his futures contract and sell the commodity quantity as required by the physical contract or he may buy the actual commodity, sell it under the physical contract and close out his futures contract position by making an offsetting sale.

The Commodity Interest markets enable the hedger to shift the risk of price fluctuations. The usual objective of the hedger is to protect the profit that he expects to earn from farming, merchandising, or processing operations rather than to profit from his trading. However, at times the impetus for a hedge transaction may result in part from speculative objectives and hedgers can end up paying higher prices than they would have if they did not enter into a Commodity Interest transaction if current market prices are lower than the locked-in price.

Unlike the hedger, the speculator generally expects neither to make nor take delivery of the underlying commodity. Instead, the speculator risks his capital with the hope of making profits from price fluctuations in the commodities. The speculator is, in effect, the risk bearer who assumes the risks that the hedger seeks to avoid. Speculators rarely make or take delivery of the underlying commodity; rather they attempt to close out their positions prior to the delivery date. A speculator who takes a

long position generally will make a profit if the price of the underlying commodity goes up and incur a loss if the price of the underlying commodity goes down, while a speculator who takes a short position generally will make a profit if the price of the underlying commodity goes down and incur a loss if the price of the underlying commodity goes up.

Regulation

The CFTC possesses exclusive jurisdiction to regulate the activities of commodity pool operators and has adopted regulations with respect to the activities of those persons and/or entities. Under the Commodity Exchange Act ("CEA"), a registered commodity pool operator, such as the Sponsor, is required to make annual filings with the CFTC describing its organization, capital structure, management and controlling persons. In addition, the CEA authorizes the CFTC to require and review books and records of, and documents prepared by, registered commodity pool operators. Pursuant to this authority, the CFTC requires commodity pool operators to keep accurate, current and orderly records for each pool that they operate. The CFTC may suspend the registration of a commodity pool operator (1) if the CFTC finds that the operator's trading practices tend to disrupt orderly market conditions, (2) if any controlling person of the operator is subject to an order of the CFTC

denying such person trading privileges on any exchange, and (3) in certain other circumstances. Suspension, restriction or termination of the Sponsor's registration as a commodity pool

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operator would prevent it, until that registration were to be reinstated, from managing the Fund, and might result in the termination of the Fund if a successor sponsor is not elected pursuant to the Trust Agreement. Neither the Trust nor the Fund is required to be registered with the CFTC in any capacity.

The CEA requires all futures commission merchants, such as the Fund's clearing broker, to meet and maintain specified fitness and financial requirements, to segregate customer funds from proprietary funds and account separately for all customers' funds and positions, and to maintain specified books and records open to inspection by the staff of the CFTC. The CEA also authorizes the CFTC to regulate trading by futures commission merchants and by their officers and directors.

The Fund's investors are afforded prescribed rights for reparations under the CEA. Investors may also be able to maintain a private right of action for violations of the CEA. The CFTC has adopted rules implementing the reparation provisions of the CEA, which provide that any person may file a complaint for a reparations award with the CFTC for violation of the CEA against a floor broker or a futures commission merchant, introducing broker, commodity trading advisor, commodity pool operator, and their respective associated persons.

Pursuant to authority in the CEA, the NFA has been formed and registered with the CFTC as a registered futures association. At the present time, the NFA is the only SRO for commodity interest professionals, other than futures exchanges. The CFTC has delegated to the NFA responsibility for the registration of commodity pool operators and futures commission merchants and their respective associated persons. The Sponsor and the Fund's clearing broker are members of the NFA. As such, they will be subject to NFA standards relating to fair trade practices, financial condition and consumer protection. The NFA also arbitrates disputes between members and their customers and conducts registration and fitness screening of applicants for membership and audits of its existing members. Neither the Trust nor the Fund is itself required to become a member of the NFA.

The regulations of the CFTC and the NFA prohibit any representation by a person registered with the CFTC or by any member of the NFA, that registration with the CFTC, or membership in the NFA, in any respect indicates that the CFTC or the NFA, has approved or endorsed that person or that person's trading program or objectives. The registrations and memberships of the parties described in this summary must not be considered as constituting any such approval or endorsement. Likewise, no

futures exchange has given or will give any similar approval or endorsement.

The regulation of commodity interest trading in the United States and other countries is an evolving area of the law. The various statements made in this summary are subject to modification by legislative action and changes in the rules and regulations of the CFTC, the NFA, the futures exchanges, clearing organizations and other regulatory bodies.

Potential Advantages of Investment

Interest Income

Unlike some alternative investment funds, the Fund does not borrow money in order to obtain leverage, so the Fund does not incur any interest expense. Rather, the Fund's margin deposits and cash reserves are maintained in Treasury Securities and interest is earned on 100% of the Fund's available assets, which include unrealized profits credited to the Fund's accounts

Fund Performance

The following graph sets forth the historical performance of the Fund from commencement of

operations on September 19, 2011 until January 31, 2013.

PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE RESULTS

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PART II

Information Not Required in the Prospectus

Item 13. ***Other Expenses of Issuance and Distribution***

Set forth below is an estimate (except as indicated) of the amount of fees and expenses (other than underwriting commissions and discounts) payable by the registrant in connection with the issuance and distribution of the units pursuant to the prospectus contained in this registration statement.

	Amount
SEC registration fee (actual)	$29,025
NYSE Arca Listing Fee (actual)	$5,000
FINRA filing fees (actual)	$25,500
Blue Sky expenses	n/a
Auditor's fees and expenses	$20,000
Legal fees and expenses	$118,000
Printing expenses	$5,000
Miscellaneous expenses	n/a
Total	$202,525

Item 14. ***Indemnification of Directors and Officers***

The Trust's Second Amended and Restated Declaration of Trust and Trust Agreement (the "Trust Agreement") provides that the Sponsor shall be indemnified by the Trust (or, by a series of the Trust separately to the extent the matter in question relates to a single series or disproportionately affects a series in relation to other series) against any losses, judgments, liabilities, expenses and amounts paid in settlement of any claims sustained by it in connection with its activities for the Trust, provided that (i) the Sponsor was acting on behalf of or performing services for the Trust and has determined, in good faith, that such course of conduct was in the best interests of the Trust and such liability or loss was not the result of gross negligence, willful misconduct, or a breach of the Trust Agreement on the part of the Sponsor and (ii) any such indemnification will only be recoverable from the applicable trust estate or trust estates. All rights to indemnification permitted by the Trust Agreement and payment of associated expenses shall not be affected by the dissolution or other cessation to exist of the Sponsor, or the withdrawal, adjudication of bankruptcy or insolvency of the Sponsor, or the filing of a voluntary or involuntary petition in bankruptcy under Title 11 of the Bankruptcy Code by or against the Sponsor.

Notwithstanding the foregoing, the Sponsor shall not be indemnified for any losses, liabilities or expenses arising

from or out of an alleged violation of U.S. federal or state securities laws unless (i) there has been a successful adjudication on the merits of each count involving alleged securities law violations as to the particular indemnitee and the court approves the indemnification of such expenses (including, without limitation, litigation costs), (ii) such claims have been dismissed with prejudice on the merits by a court of competent jurisdiction as to the particular indemnitee and the court approves the indemnification of such expenses (including, without limitation, litigation costs) or (iii) a court of competent jurisdiction approves a settlement of the claims against a particular indemnitee and finds that indemnification of the settlement and related costs should be made.

The Trust and its series shall not incur the cost of that portion of any insurance which insures any party against any liability, the indemnification of which is prohibited by the Trust Agreement.

Expenses incurred in defending a threatened or pending civil, administrative or criminal action suit or proceeding against the Sponsor shall be paid by the Trust in advance of the final disposition of such action, suit or proceeding, if (i) the legal action relates to the performance of duties or services by the Sponsor on behalf of the Trust; (ii) the legal action is initiated by a party other than the Trust; and (iii) the Sponsor

undertakes to repay the advanced funds with interest to the Trust in cases in which it is not entitled to indemnification under the Trust Agreement.

For purposes of the indemnification provisions of the Trust Agreement, the term "Sponsor" includes, in addition to the Sponsor, any other covered person performing services on behalf of the Trust and acting within the scope of the Sponsor's authority as set forth in the Trust Agreement.

In the event the Trust is made a party to any claim, dispute, demand or litigation or otherwise incurs any loss, liability, damage, cost or expense as a result of or in connection with any Shareholder's (or assignee's) obligations or liabilities unrelated to Trust business, such Shareholder (or assignees cumulatively) shall indemnify, defend, hold harmless, and reimburse the Trust for all such loss, liability, damage, cost and expense incurred, including attorneys' and accountants' fees.

The payment of any amount pursuant to the Trust Agreement shall take into account the allocation of liabilities and other amounts, as appropriate, among the series of the Trust.

Item 15. ***Recent Sales of Unregistered Securities***

Not applicable.

Item 16. ***Exhibits and Financial Statement Schedules***

(a) *Exhibits*

3.1[1]	Second Amended and Restated Declaration of Trust and Trust Agreement of the Registrant.
3.2[2]	Certificate of Trust of the registrant.
3.3[3]	Instrument establishing the Fund.
5.1[6]	Opinion of Reed Smith LLP relating to the legality of the Shares.
8.1[6]	Opinion of Reed Smith LLP with respect to federal income tax consequences.
10.1[3]	Form of Authorized Purchaser Agreement.
10.2[5]	Amended and Restated Distribution Services Agreement.
10.3[5]	Amendment to Amended and Restated Distribution Services Agreement.
10.4[5]	Second Amendment to Amended and Restated Distribution Services Agreement.
10.5[4]	Global Custody Agreement
10.6[4]	Services Agreement.

10.7[4]	Transfer Agency and Service Agreement
10.8[1]	Distribution Consulting and Marketing Services Agreement
23.1[7]	Consent of Reed Smith LLP
23.2[7]	Consent of Independent Registered Public Accounting Firm.

(1) Previously filed as like-numbered exhibit to Post-Effective Amendment No. 1 to Registration Statement No. 333-162033, filed on October 22, 2010 and incorporated by reference herein.

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(2) Previously filed as like-numbered exhibit to Registration Statement No. 333-162033, filed on September 21, 2009 and incorporated by reference herein.

(3) Previously filed as like-numbered exhibit to Pre-Effective Amendment No. 1 to Registration Statement No. 333-167591, filed on March 9, 2011 and incorporated by reference herein.

(4) Previously filed as like-numbered exhibit to Pre-Effective Amendment No. 3 to Registration Statement No. 333-162033, filed on March 29, 2010 and incorporated by reference herein.

(5) Previously filed as like-numbered exhibit to Current Report on Form 8-K for the Teucrium Corn Fund, filed on November 11, 2011 and incorporated by reference herein.

(6) Incorporated by reference to Post-Effective Amendment No. 2 to the Registration Statement on Form S-1 for Teucrium Commodity Trust (File No. 333-167591) filed on June 26, 2012.

(7) Filed herewith.

(b) *Financial Statement Schedules*

The financial statement schedules are either not applicable or the required information is included in the financial statements and footnotes related thereto.

Item 17. ***Undertakings***

(a) Each undersigned registrant hereby undertakes:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:

(i) To include any prospectus required by section 10(a)(3) of the Securities Act of 1933;

(ii) To reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement. Notwithstanding the foregoing, any increase or decrease in volume of securities

offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Securities and Exchange Commission pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than 20 percent change in the maximum aggregate offering price set forth in the "Calculation of Registration Fee" table in the effective registration statement.

(iii) To include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement.

(2) That, for the purpose of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial *bona fide* offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

(4) That, for the purpose of determining liability under the Securities Act of 1933 to any purchaser:

(i) If the registrant is subject to Rule 430C (§230.430C of this chapter), each prospectus filed pursuant to Rule 424(b) as part of a registration statement relating to an offering, other than registration statements relying on

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Rule 430B or other than prospectuses filed in reliance on Rule 430A (§230.430A of this chapter), shall be deemed to be part of and included in the registration statement as of the date it is first used after effectiveness. Provided, however, that no statement made in a registration statement or prospectus that is part of the registration statement or made in a document incorporated or deemed incorporated by reference into the registration statement or prospectus that is part of the registration statement will, as to a purchaser with a time of contract of sale prior to such first use, supersede or modify any statement that was made in the registration statement or prospectus that was part of the registration statement or made in any such document immediately prior to such date of first use.

(5) That, for the purpose of determining liability of the registrant under the Securities Act of 1933 to any purchaser in the initial distribution of the securities: The undersigned registrant undertakes that in a primary offering of securities of the undersigned registrant pursuant to this registration statement, regardless of the underwriting method used to sell the securities to the purchaser, if the securities are offered or sold to such purchaser by means of any of the following communications, the undersigned registrant will be a seller to the purchaser and will be considered to offer or sell such securities to such purchaser:

(i) Any preliminary prospectus or prospectus of the undersigned registrant relating to the offering required to be filed pursuant to Rule 424 (§230.424 of this chapter);

(ii) Any free writing prospectus relating to the offering prepared by or on behalf of the undersigned registrant or used or referred to by the undersigned registrant;

(iii) The portion of any other free writing prospectus relating to the offering containing material information about the undersigned registrant or its securities provided by or on behalf of the undersigned registrant; and

(iv) Any other communication that is an offer in the offering made by the undersigned registrant to the purchaser.

(b) Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for

indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the Registrant has duly caused this Registration Statement on Form S-1 to be signed on its behalf by the undersigned, thereunder duly authorized, in the town of Brattleboro, state of Vermont, on April 8, 2013.

	Teucrium Commodity Trust
By:	Teucrium Trading, LLC, Sponsor
By:	/s/ Dale Riker
Name:	Dale Riker
Title:	Principal Executive Officer, Secretary and Member

Pursuant to the requirements of the Securities Act of 1933, this registration statement has been signed by the following persons in the capacities and on the dates as indicated.

Signature	Title	Date
* Sal Gilbertie	President/Chief Investment Officer/Member of the Sponsor	April 8, 2013

/s/ Dale Riker		
Dale Riker	Secretary/Chief Executive Officer/Principal Executive Officer/Member of the Sponsor	April 8, 2013
/s/ Barbara Riker		
Barbara Riker	Chief Financial Officer/Chief Accounting Officer/ Chief Compliance Officer/Principal Financial Officer	April 8, 2013
/s/ Steve Kahler		April 8, 2013
Steve Kahler	Chief Operating Officer	
*		April 8, 2013
Carl N. Miller III	Member of the Sponsor	

*Signed by Dale Riker pursuant to a power of attorney signed by each of the persons noted above and filed as part of the Registration Statement on Form S-1 (File No. 333-167591), filed on June 17, 2010.

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EXHIBIT INDEX

23.1	Consent of Reed Smith LLP.
23.2	Consent of Independent Registered Public Accounting Firm.