

PEPSICO INC  
Form 10-Q  
April 26, 2012  
Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 24, 2012 (12 weeks)

OR

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

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

Commission file number 1-1183

PepsiCo, Inc.

(Exact Name of Registrant as Specified in its Charter)

North Carolina  
(State or Other Jurisdiction of

Incorporation or Organization)

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

13-1584302  
(I.R.S. Employer

Identification No.)

10577  
(Zip Code)

914-253-2000

(Registrant's Telephone Number, Including Area Code)

Edgar Filing: PEPSICO INC - Form 10-Q

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  NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES  NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Non-accelerated filer

Accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

Number of shares of Common Stock outstanding as of April 20, 2012: 1,563,964,807

**Table of Contents**

**PEPSICO, INC. AND SUBSIDIARIES**

**INDEX**

	Page No.
Part I Financial Information	
<u>Item 1. Condensed Consolidated Financial Statements</u>	3
<u>Condensed Consolidated Statement of Income 12 Weeks Ended March 24, 2012 and March 19, 2011</u>	3
<u>Condensed Consolidated Statement of Comprehensive Income 12 Weeks Ended March 24, 2012 and March 19, 2011</u>	4
<u>Condensed Consolidated Statement of Cash Flows 12 Weeks Ended March 24, 2012 and March 19, 2011</u>	5-6
<u>Condensed Consolidated Balance Sheet March 24, 2012 and December 31, 2011</u>	7-8
<u>Condensed Consolidated Statement of Equity 12 Weeks Ended March 24, 2012 and March 19, 2011</u>	9
<u>Notes to the Condensed Consolidated Financial Statements</u>	10-25
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	26-41
<u>Report of Independent Registered Public Accounting Firm</u>	42
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	43
<u>Item 4. Controls and Procedures</u>	43
Part II Other Information	
<u>Item 1. Legal Proceedings</u>	44
<u>Item 1A. Risk Factors</u>	44
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	45-46
<u>Item 6. Exhibits</u>	46

**Table of Contents**

## PART I FINANCIAL INFORMATION

## ITEM 1. Condensed Consolidated Financial Statements.

## PEPSICO, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENT OF INCOME

(in millions except per share amounts, unaudited)

	12 Weeks Ended	
	3/24/12	3/19/11
<b>Net Revenue</b>	<b>\$ 12,428</b>	<b>\$ 11,937</b>
Cost of sales	5,889	5,447
Selling, general and administrative expenses	4,792	4,739
Amortization of intangible assets	25	25
<b>Operating Profit</b>	<b>1,722</b>	<b>1,726</b>
Interest expense	(198)	(180)
Interest income and other	23	17
Income before income taxes	1,547	1,563
Provision for income taxes	414	419
Net income	1,133	1,144
Less: Net income attributable to noncontrolling interests	6	1
<b>Net Income Attributable to PepsiCo</b>	<b>\$ 1,127</b>	<b>\$ 1,143</b>
<b>Net Income Attributable to PepsiCo per Common Share</b>		
<b>Basic</b>	<b>\$ 0.72</b>	<b>\$ 0.72</b>
<b>Diluted</b>	<b>\$ 0.71</b>	<b>\$ 0.71</b>
Weighted-average common shares outstanding		
Basic	1,568	1,583
Diluted	1,584	1,605
Cash dividends declared per common share	\$ 0.515	\$ 0.48

See accompanying notes to the condensed consolidated financial statements.



**Table of Contents**

PEPSICO, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENT  
OF COMPREHENSIVE INCOME  
(in millions, unaudited)

	12 Weeks Ended	
	3/24/12	3/19/11
Net Income	<b>\$ 1,133</b>	\$ 1,144
Other Comprehensive Income		
Currency translation adjustment	<b>1,687</b>	645
Cash flow hedges, net of tax:		
Net derivative (losses)/gains <sup>(a)</sup>	<b>(14)</b>	8
Reclassification of net losses to net income <sup>(b)</sup>	<b>7</b>	4
Pension and retiree medical, net of tax:		
Reclassification of losses/(gains) to net income <sup>(c)</sup>	<b>25</b>	(3)
Remeasurement of net liabilities <sup>(d)</sup>	<b>7</b>	
Unrealized gains/(losses) on securities, net of tax <sup>(e)</sup>	<b>13</b>	(13)
Other	<b>36</b>	(18)
Total Other Comprehensive Income	<b>1,761</b>	623
Comprehensive Income	<b>2,894</b>	1,767
Comprehensive income attributable to noncontrolling interests	<b>(2)</b>	(29)
<b>Comprehensive Income Attributable to PepsiCo</b>	<b>\$ 2,892</b>	\$ 1,738

<sup>(a)</sup> Net of tax benefits of \$1 million in 2012 and tax expense of \$13 million in 2011.

<sup>(b)</sup> Net of tax benefits of \$5 million in 2012 and tax expense of \$2 million in 2011.

<sup>(c)</sup> Net of tax benefits of \$15 million in 2012 and tax benefits of \$1 million in 2011.

<sup>(d)</sup> Net of tax expense of \$4 million in 2012.

<sup>(e)</sup> Net of tax benefits of \$5 million in 2011.

See accompanying notes to the condensed consolidated financial statements.

**Table of Contents**

## PEPSICO, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(in millions, unaudited)

	12 Weeks Ended	
	3/24/12	3/19/11
<b>Operating Activities</b>		
Net income	\$ 1,133	\$ 1,144
Depreciation and amortization	555	523
Stock-based compensation expense	56	72
Restructuring and impairment charges	33	
Cash payments for restructuring charges	(44)	(1)
Merger and integration charges	2	55
Cash payments for merger and integration charges	(20)	(117)
Excess tax benefits from share-based payment arrangements	(35)	(24)
Pension and retiree medical plan contributions	(1,100)	(59)
Pension and retiree medical plan expenses	129	119
Deferred income taxes and other tax charges and credits	120	(98)
Change in accounts and notes receivable	(71)	(271)
Change in inventories	(266)	(77)
Change in prepaid expenses and other current assets	(197)	(137)
Change in accounts payable and other current liabilities	(960)	(1,028)
Change in income taxes payable	90	362
Other, net	(115)	(83)
<b>Net Cash (Used for)/Provided by Operating Activities</b>	<b>(690)</b>	<b>380</b>
<b>Investing Activities</b>		
Capital spending	(316)	(433)
Sales of property, plant and equipment	17	12
Acquisition of Wimm-Bill-Dann Foods OJSC (WBD), net of cash and cash equivalents acquired		(2,428)
Investment in WBD		(164)
Other acquisitions and investments in noncontrolled affiliates	(32)	(28)
Divestitures	9	
Short-term investments, by original maturity		
More than three months maturities		6
Three months or less, net	52	57
Other investing, net	13	(1)
<b>Net Cash Used for Investing Activities</b>	<b>(257)</b>	<b>(2,979)</b>

(Continued on following page)



**Table of Contents**

## PEPSICO, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

(in millions, unaudited)

	12 Weeks Ended	
	3/24/12	3/19/11
<b>Financing Activities</b>		
Proceeds from issuances of long-term debt	\$ 2,733	\$ 9
Payments of long-term debt	(9)	(10)
Short-term borrowings, by original maturity		
More than three months proceeds	13	21
More than three months payments	(107)	(64)
Three months or less, net	(1,696)	1,160
Cash dividends paid	(816)	(769)
Share repurchases common	(142)	(361)
Share repurchases preferred	(1)	(2)
Proceeds from exercises of stock options	274	218
Excess tax benefits from share-based payment arrangements	35	24
Other financing	(1)	
<b>Net Cash Provided by Financing Activities</b>	<b>283</b>	<b>226</b>
Effect of exchange rate changes on cash and cash equivalents	82	92
<b>Net Decrease in Cash and Cash Equivalents</b>	<b>(582)</b>	<b>(2,281)</b>
<b>Cash and Cash Equivalents, Beginning of Year</b>	<b>4,067</b>	<b>5,943</b>
<b>Cash and Cash Equivalents, End of Period</b>	<b>\$ 3,485</b>	<b>\$ 3,662</b>

See accompanying notes to the condensed consolidated financial statements.

Table of Contents

PEPSICO, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEET

(in millions)

	(Unaudited) 3/24/12	12/31/11
<b>Assets</b>		
Current Assets		
Cash and cash equivalents	\$ 3,485	\$ 4,067
Short-term investments	328	358
Accounts and notes receivable, less allowance: 3/12 \$168, 12/11 \$157	7,158	6,912
Inventories		
Raw materials	2,071	1,883
Work-in-process	302	207
Finished goods	1,841	1,737
	4,214	3,827
Prepaid expenses and other current assets	2,393	2,277
Total Current Assets	17,578	17,441
Property, Plant and Equipment	36,193	35,140
Accumulated Depreciation	(16,188)	(15,442)
	20,005	19,698
Amortizable Intangible Assets, net	1,960	1,888
Goodwill	17,208	16,800
Other Nonamortizable Intangible Assets	15,093	14,557
Nonamortizable Intangible Assets	32,301	31,357
Investments in Noncontrolled Affiliates	1,515	1,477
Other Assets	1,032	1,021
Total Assets	\$ 74,391	\$ 72,882

(Continued on following page)

**Table of Contents**

## PEPSICO, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED BALANCE SHEET (continued)

(in millions except per share amounts)

	(Unaudited) 3/24/12	12/31/11
<b>Liabilities and Equity</b>		
Current Liabilities		
Short-term obligations	\$ 5,656	\$ 6,205
Accounts payable and other current liabilities	11,180	11,757
Income taxes payable	149	192
Total Current Liabilities	16,985	18,154
Long-term Debt Obligations	22,054	20,568
Other Liabilities	7,323	8,266
Deferred Income Taxes	5,075	4,995
Total Liabilities	51,437	51,983
Commitments and Contingencies		
Preferred Stock, no par value	41	41
Repurchased Preferred Stock	(158)	(157)
PepsiCo Common Shareholders' Equity		
Common stock, par value 1 2/3 cents per share:		
Authorized 3,600 shares, issued 3/12 and 12/11 1,865 shares	31	31
Capital in excess of par value	4,251	4,461
Retained earnings	40,631	40,316
Accumulated other comprehensive loss	(4,464)	(6,229)
Less: repurchased common stock, at cost: 3/12 298 shares, 12/11 301 shares	(17,691)	(17,875)
Total PepsiCo Common Shareholders' Equity	22,758	20,704
Noncontrolling interests	313	311
Total Equity	22,954	20,899
Total Liabilities and Equity	\$ 74,391	\$ 72,882

See accompanying notes to the condensed consolidated financial statements.

**Table of Contents**

## PEPSICO, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENT OF EQUITY

(in millions, unaudited)

	12 Weeks Ended			
	3/24/12		3/19/11	
	Shares	Amount	Shares	Amount
<b>Preferred Stock</b>	<b>0.8</b>	<b>\$ 41</b>	0.8	\$ 41
<b>Repurchased Preferred Stock</b>				
Balance, beginning of year	(0.6)	(157)	(0.6)	(150)
Redemptions	( )	(1)	( )	(2)
Balance, end of period	(0.6)	(158)	(0.6)	(152)
<b>Common Stock</b>	<b>1,865</b>	<b>31</b>	1,865	31
<b>Capital in Excess of Par Value</b>				
Balance, beginning of year		4,461		4,527
Stock-based compensation expense		56		72
Stock option exercises/RSUs converted <sup>(a)</sup>		(194)		(160)
Withholding tax on RSUs converted		(52)		(40)
Other		(20)		8
Balance, end of period		4,251		4,407
<b>Retained Earnings</b>				
Balance, beginning of year		40,316		37,090
Net income attributable to PepsiCo		1,127		1,143
Cash dividends declared common		(809)		(762)
Cash dividends declared RSUs		(3)		(5)
Balance, end of period		40,631		37,466
<b>Accumulated Other Comprehensive Loss</b>				
Balance, beginning of year		(6,229)		(3,630)
Currency translation adjustment		1,691		617
Cash flow hedges, net of tax:				
Net derivative (losses)/gains		(14)		8
Reclassification of net losses to net income		7		4
Pension and retiree medical, net of tax:				
Reclassification of net losses/(gains) to net income		25		(3)
Remeasurement of net liabilities		7		
Unrealized gains/(losses) on securities, net of tax		13		(13)

Other		<b>36</b>		(18)
Balance, end of period		<b>(4,464)</b>		(3,035)
<b>Repurchased Common Stock</b>				
Balance, beginning of year		<b>(301)</b>	<b>(17,875)</b>	(284) (16,745)
Share repurchases		<b>(5)</b>	<b>(294)</b>	(7) (413)
Stock option exercises		<b>6</b>	<b>356</b>	5 296
Other		<b>2</b>	<b>122</b>	2 89
Balance, end of period		<b>(298)</b>	<b>(17,691)</b>	(284) (16,773)
<b>Total Common Shareholders Equity</b>			<b>22,758</b>	22,096
<b>Noncontrolling Interests</b>				
Balance, beginning of year			<b>311</b>	312
Net income attributable to noncontrolling interests			<b>6</b>	1
Currency translation adjustment			<b>(4)</b>	28
Acquisitions and divestitures			<b>(1)</b>	1,348
Other, net			<b>1</b>	
Balance, end of period			<b>313</b>	1,689
<b>Total Equity</b>			<b>\$ 22,954</b>	\$ 23,674

<sup>(a)</sup> Includes total tax benefits of \$14 million in 2012 and \$13 million in 2011. See accompanying notes to the condensed consolidated financial statements.

**Table of Contents**

PEPSICO, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

**Basis of Presentation and Our Divisions**

***Basis of Presentation***

Our Condensed Consolidated Balance Sheet as of March 24, 2012 and the Condensed Consolidated Statements of Income, Comprehensive Income, Cash Flows and Equity for the 12 weeks ended March 24, 2012 and March 19, 2011 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 31, 2011. In our opinion, these financial statements include all normal and recurring adjustments necessary for a fair presentation. The results for the 12 weeks are not necessarily indicative of the results expected for the full year.

While the majority of our results are reported on a period basis, most of our international operations report on a monthly calendar basis for which the months of January and February are reflected in our first quarter results.

In the first quarter of 2011, Quaker Foods North America (QFNA) changed its method of accounting for certain U.S. inventories from the last-in, first-out (LIFO) method to the average cost method. This change was considered preferable by management as we believe that the average cost method of accounting for all U.S. foods inventories improves our financial reporting by better matching revenues and expenses and better reflecting the current value of inventory. In addition, the change from the LIFO method to the average cost method enhances the comparability of QFNA's financial results with our other food businesses, as well as with peer companies where the average cost method is widely used. The impact of this change on consolidated net income in the first quarter of 2011 was approximately \$9 million (or less than a penny per share).

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

The following information is unaudited. Tabular dollars are in millions, except per share amounts. All per share amounts reflect common per share amounts, assume dilution unless otherwise noted, and are based on unrounded amounts. Certain reclassifications were made to the prior year's amounts to conform to the 2012 presentation. This report should be read in conjunction with our Annual Report on Form 10-K for the fiscal year ended December 31, 2011.

***Our Divisions***

We are organized into four business units, as follows:



1. PepsiCo Americas Foods (PAF), which includes Frito-Lay North America (FLNA), Quaker Foods North America (QFNA) and all of our Latin American food and snack businesses (LAF);

**Table of Contents**

2. PepsiCo Americas Beverages (PAB), which includes all of our North American and Latin American beverage businesses;
3. PepsiCo Europe, which includes all beverage, food and snack businesses in Europe, including South Africa; and
4. PepsiCo Asia, Middle East and Africa (AMEA), which includes all beverage, food and snack businesses in AMEA, excluding South Africa.

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

FLNA,

QFNA,

LAF,

PAB,

Europe, and

AMEA.

**Table of Contents**

	12 Weeks Ended			
	Net Revenue		Operating Profit	
	3/24/12	3/19/11	3/24/12	3/19/11
FLNA	\$ 3,010	\$ 2,904	\$ 780	\$ 774
QFNA	623	640	187	214
LAF	1,235	1,108	183	171
PAB	4,448	4,531	525	558
Europe	1,845	1,626	81	63
AMEA	1,267	1,128	148	146
Total division	12,428	11,937	1,904	1,926
Corporate Unallocated				
Net impact of mark-to-market on commodity hedges			84	31
Restructuring and impairment charges			2	
Merger and integration charges				(42)
Other			(268)	(189)
	\$ 12,428	\$ 11,937	\$ 1,722	\$ 1,726

	Total Assets	
	3/24/12	12/31/11
FLNA	\$ 6,075	\$ 6,120
QFNA	1,205	1,174
LAF	4,967	4,731
PAB	31,690	31,187
Europe	19,755	18,479
AMEA	6,305	6,048
Total division	69,997	67,739
Corporate <sup>(a)</sup>	4,394	5,143
	\$ 74,391	\$ 72,882

<sup>(a)</sup> Corporate assets consist principally of cash and cash equivalents, short-term investments, derivative instruments and property, plant and equipment.

---

**Table of Contents****Acquisitions and Divestitures*****WBD***

On February 3, 2011, we acquired the ordinary shares, including shares underlying American Depositary Shares (ADS) and Global Depositary Shares (GDS), of WBD, a company incorporated in the Russian Federation, which represented in the aggregate approximately 66% of WBD's outstanding ordinary shares, pursuant to the purchase agreement dated December 1, 2010 between PepsiCo and certain selling shareholders of WBD for approximately \$3.8 billion in cash. The acquisition of those shares increased our total ownership to approximately 77%, giving us a controlling interest in WBD. Under the guidance on accounting for business combinations, once a controlling interest is obtained, we are required to recognize and measure 100% of the identifiable assets acquired, liabilities assumed and noncontrolling interests at their full fair values. Our fair market valuations of the identifiable assets acquired and liabilities assumed have been completed and the final valuations did not materially differ from those fair values reported as of December 31, 2011.

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

On June 30, 2011, we elected to exercise our squeeze-out rights under Russian law with respect to all remaining WBD ordinary shares not already owned by us. Therefore, under Russian law, all remaining WBD shareholders were required to sell their ordinary shares (including those underlying ADSs) to us at the same price that was offered to WBD shareholders in the Russian tender offer. Accordingly, all registered holders of ordinary shares on August 15, 2011 (including the ADS depository) received 3,883.70 Russian rubles per ordinary share. After completion of the squeeze-out in September 2011 (during our fourth quarter), we paid approximately \$79 million for WBD's ordinary shares (including shares underlying ADSs) and increased our total ownership to 100% of WBD.

***Tingyi-Asahi Beverages Holding Co Ltd***

On March 31, 2012 (during our second quarter), we completed a transaction with Tingyi (Cayman Islands) Holding Corp. (Tingyi). Under the terms of the agreement, we contributed our company-owned and joint venture bottling operations in China to Tingyi's beverage subsidiary, Tingyi-Asahi Beverages Holding Co Ltd (TAB), and received as consideration a 5% indirect equity interest in TAB. As a result of this transaction, TAB is now our franchise bottler in China. We also have a call option to increase our indirect holding in TAB to 20% by 2015. We anticipate recording an after-tax loss of approximately \$200 million associated with this transaction in our second quarter results. This loss will be reflected in items affecting comparability in our 2012 second quarter Form 10-Q (see *Items Affecting Comparability* in Management's Discussion and Analysis of Financial Condition and Results of Operations).

**Table of Contents****Intangible Assets**

	<b>3/24/12</b>	12/31/11
<b><i>Amortizable intangible assets, net</i></b>		
Acquired franchise rights	<b>\$ 929</b>	\$ 916
Reacquired franchise rights	<b>110</b>	110
Brands	<b>1,440</b>	1,417
Other identifiable intangibles	<b>862</b>	777
	<b>3,341</b>	3,220
Accumulated amortization	<b>(1,381)</b>	(1,332)
	<b>\$ 1,960</b>	\$ 1,888

**Table of Contents**

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

	Balance 12/31/11	Acquisitions/ (Divestitures)	Translation and Other	Balance 3/24/12
<b>FLNA</b>				
Goodwill	\$ 311	\$	\$ 4	\$ 315
Brands	30		1	31
	341		5	346
<b>QFNA</b>				
Goodwill	175			175
<b>LAF</b>				
Goodwill	793	(162)	37	668
Brands	157	112	9	278
	950	(50)	46	946
<b>PAB</b>				
Goodwill	9,932	2	20	9,954
Reacquired franchise rights	7,342	(1)	24	7,365
Acquired franchise rights	1,562		2	1,564
Brands	168		5	173
	19,004	1	51	19,056
<b>Europe</b>				
Goodwill	4,900	78	392	5,370
Reacquired franchise rights	732		63	795
Acquired franchise rights	218		11	229
Brands	4,178	(96)	397	4,479
	10,028	(18)	863	10,873
<b>AMEA</b>				
Goodwill	689		37	726
Brands	170		9	179
	859		46	905
Total goodwill	16,800	(82)	490	17,208
Total reacquired franchise rights	8,074	(1)	87	8,160
Total acquired franchise rights	1,780		13	1,793
Total brands	4,703	16	421	5,140

\$ 31,357	\$ (67)	\$ 1,011	<b>\$ 32,301</b>
-----------	---------	----------	------------------

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

For the 12 weeks ended March 24, 2012, we recognized stock-based compensation expense of \$50 million (\$56 million recorded as stock-based compensation expense, \$1 million included in merger and integration charges and income of \$7 million included in restructuring and impairment charges). For the 12 weeks ended March 19, 2011, we recognized stock-based compensation expense of \$79 million (\$72 million recorded as stock-based compensation expense and \$7 million included in merger and integration charges).

In connection with our multi-year productivity plan (Productivity Plan) announced in February 2012, the Compensation Committee of PepsiCo's Board of Directors elected to delay the grant of the annual equity award from March to April, in order to appropriately administer the award following employee headcount reductions. Therefore, for the 12 weeks ended March 24, 2012, we did not issue any grants of stock options or restricted stock units (RSU). For the 12 weeks ended March 19, 2011, we granted 6.4 million stock options and 5.1 million RSUs at a weighted-average grant price of \$63.75, under the terms of our 2007 Long-Term Incentive Plan.

Our weighted-average Black-Scholes fair value assumptions in the prior year were as follows:

	12 Weeks Ended 3/19/11
Expected life	6 yrs.
Risk free interest rate	2.6%
Expected volatility <sup>(a)</sup>	16%
Expected dividend yield	2.9%

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



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

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

	12 Weeks Ended					
	Pension				Retiree Medical	
	3/24/12	3/19/11	3/24/12	3/19/11	3/24/12	3/19/11
	U.S.		International			
Service cost	\$ 95	\$ 82	\$ 18	\$ 17	\$ 12	\$ 12
Interest cost	123	126	20	21	15	20
Expected return on plan assets	(184)	(162)	(26)	(24)	(5)	(3)
Amortization of prior service cost/(benefit)	4	3			(6)	(7)
Amortization of experience loss	60	33	10	7		3
	98	82	22	21	16	25
Curtailment gain	(7)	(9)				
Special termination benefits	4	10			4	1
<b>Total expense</b>	<b>\$ 95</b>	<b>\$ 83</b>	<b>\$ 22</b>	<b>\$ 21</b>	<b>\$ 20</b>	<b>\$ 26</b>

During the first quarter of 2012, we made discretionary contributions of \$860 million to our pension plans and \$140 million to our retiree medical plans.

**Income Taxes**

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

	3/24/12	12/31/11
Balance, beginning of year	\$ 2,167	\$ 2,022
Additions for tax positions related to the current year	45	233
Additions for tax positions from prior years	5	147
Reductions for tax positions from prior years	(5)	(46)
Settlement payments	(4)	(156)
Statute of limitations expiration		(15)
Translation and other	(7)	(18)
<b>Balance, end of period</b>	<b>\$ 2,201</b>	<b>\$ 2,167</b>



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

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

	12 Weeks Ended			
	3/24/12		3/19/11	
	Income	Shares <sup>(a)</sup>	Income	Shares <sup>(a)</sup>
Net income attributable to PepsiCo	\$ 1,127		\$ 1,143	
Preferred shares:				
Dividends				
Redemption premium	(1)		(2)	
Net income available for PepsiCo common shareholders	\$ 1,126	1,568	\$ 1,141	1,583
Basic net income attributable to PepsiCo per common share	\$ 0.72		\$ 0.72	
Net income available for PepsiCo common shareholders	\$ 1,126	1,568	\$ 1,141	1,583
Dilutive securities:				
Stock options and RSUs <sup>(b)</sup>		15		21
ESOP convertible preferred stock	1	1	2	1
Diluted	\$ 1,127	1,584	\$ 1,143	1,605
Diluted net income attributable to PepsiCo per common share	\$ 0.71		\$ 0.71	

<sup>(a)</sup> Weighted-average common shares outstanding (in millions).

<sup>(b)</sup> Options to purchase 29.6 million shares in 2012 and 31.3 million shares in 2011 were not included in the calculation of earnings per share because these options were out-of-the-money. These out-of-the-money options had average exercise prices of \$66.93 in 2012 and \$66.85 in 2011.

**Debt Obligations and Commitments**

In the first quarter of 2012, we issued:

\$750 million of 0.750% senior notes maturing in 2015;  
\$1.250 billion of 2.750% senior notes maturing in 2022; and  
\$750 million of 4.000% senior notes maturing in 2042.

The net proceeds from the issuances of the above notes were used for general corporate purposes, including the repayment of commercial paper.

As of March 24, 2012, we had \$1.2 billion of commercial paper outstanding.

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

	Total	Payments Due by Period			
		2012	2013 2014	2015 2016	2017 and beyond
Long-term debt obligations <sup>(b)</sup>	\$ 21,289	\$	\$ 4,930	\$ 4,195	\$ 12,164
Interest on debt obligations <sup>(c)</sup>	8,521	711	1,545	1,223	5,042
Operating leases	1,861	367	632	355	507
Purchasing commitments	3,123	1,113	1,525	422	63
Marketing commitments	2,461	200	570	526	1,165
	\$ 37,255	\$ 2,391	\$ 9,202	\$ 6,721	\$ 18,941

<sup>(a)</sup> Reflects non-cancelable commitments as of March 24, 2012 based on foreign exchange rates in effect on that date and excludes any reserves for uncertain tax positions as we are unable to reasonably predict the ultimate amount or timing of settlement.

<sup>(b)</sup> Excludes \$3,743 million related to current maturities of long-term debt, \$441 million related to the fair value step-up of debt acquired in connection with our acquisitions of The Pepsi Bottling Group, Inc. (PBG) and PepsiAmericas, Inc. (PAS), and \$324 million related to the increase in carrying value of long-term debt reflecting the gains on our fair value interest rate swaps.

<sup>(c)</sup> Interest payments on floating-rate debt are estimated using interest rates effective as of March 24, 2012. Most long-term contractual commitments, except for our long-term debt obligations, are not recorded on our balance sheet. Non-cancelable operating leases primarily represent building leases. Non-cancelable purchasing commitments are primarily for packaging materials, sugar and other sweeteners, oranges and orange juice. Non-cancelable marketing commitments are primarily for sports marketing. Bottler funding to independent bottlers is not reflected in our long-term contractual commitments as it is negotiated on an annual basis. Accrued liabilities for pension and retiree medical plans are not reflected in our long-term contractual commitments because they do not represent expected future cash outflows. See *Pension and Retiree Medical Benefits* for additional information regarding our pension and retiree medical obligations.

**Restructuring, Impairment and Integration Charges**

In the 12 weeks ended March 24, 2012, we incurred restructuring and impairment charges of \$33 million (\$23 million after-tax or \$0.01 per share) in conjunction with our Productivity Plan, including \$8 million recorded in the FLNA segment, \$5 million recorded in the QFNA segment, \$6 million recorded in the LAF segment, \$8 million recorded in the PAB segment, \$9 million recorded in the AMEA segment and income of \$1 million and \$2 million recorded in the Europe segment and in corporate unallocated expenses, respectively, representing adjustments of previously recorded amounts. All of these net charges were recorded in selling, general and administrative expenses. Substantially all cash

payments related to these charges are expected to be paid by the end of 2012. The Productivity Plan includes actions in every aspect of our business that we believe will strengthen our complementary food, snack and beverage businesses by leveraging new technologies and processes across PepsiCo's operations, go-to-market and information systems; heightening the focus on best practice sharing across the globe; consolidating manufacturing, warehouse and sales facilities; and implementing simplified organization structures, with wider spans of control and fewer layers of management. The Productivity Plan is expected to enhance PepsiCo's cost-competitiveness, provide a source of funding for future brand-building and innovation initiatives, and serve as a financial cushion for potential macroeconomic uncertainty beyond 2012.

**Table of Contents**

A summary of our Productivity Plan activity in 2012 is as follows:

	Severance and Other Employee Costs	Asset Impairment	Other Costs	Total
Liability as of December 31, 2011	\$ 249	\$	\$ 27	\$ 276
2012 restructuring and impairment charges	(2)	17	18	33
Cash payments	(24)		(20)	(44)
Non-cash charges		(17)		(17)
Liability as of March 24, 2012	\$ 223	\$	\$ 25	\$ 248

In the 12 weeks ended March 24, 2012, we incurred merger and integration charges of \$2 million (\$2 million after-tax with a nominal amount per share) related to our acquisition of WBD. These charges were recorded in selling, general and administrative expenses in the Europe segment. Cash payments related to these charges are expected to be paid by the end of 2012.

In the 12 weeks ended March 19, 2011, we incurred merger and integration charges of \$55 million (\$49 million after-tax or \$0.03 per share) related to our acquisitions of PBG, PAS and WBD, including \$21 million recorded in the PAB segment, \$42 million recorded in corporate unallocated expenses and income of \$8 million recorded in the Europe segment, primarily reflecting a gain on our previously held equity interest in WBD. All of these net charges were recorded in selling, general and administrative expenses. These charges also include closing costs and advisory fees related to our acquisition of WBD. Substantially all cash payments related to these charges were paid by the end of 2011.

A summary of our merger and integration activity in 2012 is as follows:

	Severance and Other Employee Costs	Other Costs	Total
Liability as of December 31, 2011	\$ 98	\$ 7	\$ 105
2012 merger and integration charges	2		2
Cash payments	(19)	(1)	(20)
Non-cash charges	4	(1)	3
Liability as of March 24, 2012	\$ 85	\$ 5	\$ 90

**Table of Contents**

**Financial Instruments**

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

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

foreign exchange rates and currency restrictions, and

interest rates.

In the normal course of business, we manage these risks through a variety of strategies, including productivity initiatives, global purchasing programs and hedging strategies. Our hedging strategies include 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. 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 perform assessments of our counterparty credit risk regularly, including a review of credit ratings, credit default swap rates and potential nonperformance of the counterparty. Based on our most recent assessment of our counterparty credit risk, we consider this risk to be low. In addition, we enter into derivative contracts with a variety of financial institutions that we believe are creditworthy in order to reduce our concentration of credit risk.

***Commodity Prices***

We are subject to commodity price risk because our ability to recover increased costs through higher pricing may be limited in the competitive environment in which we operate. This risk is managed through the use of fixed-price purchase orders, pricing agreements and derivatives. In addition, risk to our supplies of certain raw materials is mitigated through purchases from multiple geographies and suppliers. 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 metals, energy and agricultural products. For those derivatives that qualify for hedge accounting, any ineffectiveness is recorded immediately in corporate unallocated expenses. Ineffectiveness is not material. 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 \$33 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.

## **Table of Contents**

Our open commodity derivative contracts that qualify for hedge accounting had a face value of \$552 million as of March 24, 2012 and \$573 million as of March 19, 2011.

Our open commodity derivative contracts that do not qualify for hedge accounting had a face value of \$628 million as of March 24, 2012 and \$300 million as of March 19, 2011.

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

Our foreign currency derivatives had a total face value of \$2.7 billion as of March 24, 2012 and \$2.3 billion as of March 19, 2011. During the next 12 months, we expect to reclassify net losses of \$9 million related to foreign currency contracts that qualify for hedge accounting from accumulated other comprehensive loss into net income. Additionally, ineffectiveness is not material. For foreign currency derivatives that do not qualify for hedge accounting treatment, all losses and gains were offset by changes in the underlying hedged items, resulting in no net material impact on earnings.

## ***Interest Rates***

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

The notional amounts of the interest rate derivative instruments outstanding as of March 24, 2012 and March 19, 2011 were \$8.33 billion and \$9.23 billion, respectively. We classify both the earnings and cash flow impact from these interest rate derivative instruments consistent with the underlying hedged item. For those interest rate derivative instruments that qualify for cash flow hedge accounting, any ineffectiveness is recorded immediately. Ineffectiveness is not material. During the next 12 months, we expect to reclassify net losses of \$23 million related to these hedges from accumulated other comprehensive loss into net income.

**Table of Contents**

As of March 24, 2012, approximately 32% of total debt, after the impact of the related interest rate derivative instruments, was exposed to variable rates, compared to 38% as of December 31, 2011.

**Fair Value Measurements**

The fair values of our financial assets and liabilities as of March 24, 2012 and March 19, 2011 are categorized as follows:

	2012		2011	
	Assets <sup>(a)</sup>	Liabilities <sup>(a)</sup>	Assets <sup>(a)</sup>	Liabilities <sup>(a)</sup>
Available-for-sale securities <sup>(b)</sup>	\$ 72	\$	\$ 70	\$
Short-term investments index funds <sup>(c)</sup>	\$ 166	\$	\$ 177	\$
Prepaid forward contracts <sup>(d)</sup>	\$ 37	\$	\$ 43	\$
Deferred compensation <sup>(e)</sup>	\$	\$ 523	\$	\$ 553
<b>Derivatives designated as fair value hedging instruments:</b>				
Interest rate derivatives <sup>(f)</sup>	\$ 274	\$ 2	\$ 293	\$ 4
<b>Derivatives designated as cash flow hedging instruments:</b>				
Forward exchange contracts <sup>(g)</sup>	\$ 9	\$ 18	\$ 4	\$ 38
Interest rate derivatives <sup>(f)</sup>			3	12
Commodity contracts <sup>(h)</sup>	14	42	90	17
	\$ 23	\$ 60	\$ 97	\$ 67
<b>Derivatives not designated as hedging instruments:</b>				
Forward exchange contracts <sup>(g)</sup>	\$ 30	\$ 9	\$ 6	\$ 11
Interest rate derivatives <sup>(f)</sup>	95	128	14	52
Commodity contracts <sup>(h)</sup>	39	30	59	1
	\$ 164	\$ 167	\$ 79	\$ 64
<b>Total derivatives at fair value</b>	<b>\$ 461</b>	<b>\$ 229</b>	<b>\$ 469</b>	<b>\$ 135</b>
<b>Total</b>	<b>\$ 736</b>	<b>\$ 752</b>	<b>\$ 759</b>	<b>\$ 688</b>

(a) Financial assets are classified on our balance sheet within prepaid expenses and other current assets and other assets, with the exception of available-for-sale securities and short-term investments. Financial liabilities are classified on our balance sheet within accounts payable, other current liabilities and other liabilities. Unless specifically indicated, all financial assets and liabilities are categorized as Level 2 assets or liabilities.

(b) Based on the price of common stock. Categorized as a Level 1 asset.

- (c) Based on price changes in index funds used to manage a portion of market risk arising from our deferred compensation liability. Categorized as a Level 1 asset.
- (d) Based primarily on the price of our common stock.
- (e) Based on the fair value of investments corresponding to employees' investment elections. As of March 24, 2012 and March 19, 2011, \$49 million and \$63 million, respectively, are categorized as Level 1 liabilities. The remaining balances are categorized as Level 2 liabilities.
- (f) Based on LIBOR forward rates.
- (g) Based on recently reported market transactions of spot and forward rates.
- (h) Based on recently reported market transactions, primarily swap arrangements, except for liabilities as of March 19, 2011, which primarily related to commodity futures contracts. The futures contracts are valued based on average prices on futures exchanges and categorized as Level 1 liabilities.  
The fair value of our debt obligations as of March 24, 2012 was \$30 billion, based upon prices of similar instruments in the marketplace.

**Table of Contents**

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

	Fair Value/Non-designated Hedges		12 Weeks Ended			
			Losses/(Gains) Recognized in Accumulated Other Comprehensive Loss		Cash Flow Hedges (Gains)/Losses Reclassified from Accumulated Other Comprehensive Loss into Income Statement <sup>(b)</sup>	
	(Gains) /Losses Recognized in Income Statement <sup>(a)</sup>		Losses/(Gains) Recognized in Accumulated Other Comprehensive Loss		(Gains)/Losses Reclassified from Accumulated Other Comprehensive Loss into Income Statement <sup>(b)</sup>	
	3/24/12	3/19/11	3/24/12	3/19/11	3/24/12	3/19/11
Forward exchange contracts	\$ (10)	\$ (1)	\$ 29	\$ 25	\$ (3)	\$ 5
Interest rate derivatives	27	(22)	4	(6)	4	3
Commodity contracts	(49)	(39)	(18)	(40)	11	(6)
<b>Total</b>	<b>\$ (32)</b>	<b>\$ (62)</b>	<b>\$ 15</b>	<b>\$ (21)</b>	<b>\$ 12</b>	<b>\$ 2</b>

<sup>(a)</sup> Interest rate derivatives gains are primarily from fair value hedges and are included in interest expense. These gains are substantially offset by increases in the value of the underlying debt, which is also included in interest expense. All other gains/losses are from non-designated hedges and are included in corporate unallocated expenses.

<sup>(b)</sup> Interest rate losses are included in interest expense. All other gains/losses are primarily included in cost of sales.

---

**Table of Contents****Recent Accounting Pronouncements**

In the second quarter of 2010, the Patient Protection and Affordable Care Act (PPACA) was signed into law. The PPACA changes the tax treatment related to an existing retiree drug subsidy (RDS) available to sponsors of retiree health benefit plans that provide a benefit that is at least actuarially equivalent to the benefits under Medicare Part D. As a result of the PPACA, RDS payments will effectively become taxable in tax years beginning in 2013, by requiring the amount of the subsidy received to be offset against our deduction for health care expenses. The provisions of the PPACA required us to record the effect of this tax law change beginning in our second quarter of 2010, and consequently we recorded a one-time related tax charge of \$41 million in the second quarter of 2010. In the first quarter of 2012, we began pre-paying funds within our 401(h) voluntary employee beneficiary associations (VEBA) trust to fully cover prescription drug benefit liabilities for Medicare eligible retirees. As a result, the receipt of future Medicare subsidy payments for prescription drugs will not be taxable and, consequently, we recorded a \$55 million tax benefit reflecting this change.

In June 2011, the Financial Accounting Standards Board (FASB) amended its accounting guidance on the presentation of comprehensive income in financial statements to improve the comparability, consistency and transparency of financial reporting and to increase the prominence of items that are recorded in other comprehensive income. The new accounting guidance requires entities to report components of comprehensive income in either (1) a continuous statement of comprehensive income or (2) two separate but consecutive statements. In December 2011, the FASB approved a deferral of the effective date of certain requirements related to the presentation and disclosure of reclassification adjustments from other comprehensive income to net income. The provisions of the retained guidance were effective as of the beginning of our 2012 fiscal year. Accordingly, we have presented the components of net income and other comprehensive income for the 12 weeks ended March 24, 2012 and March 19, 2011 as two separate but consecutive statements. We will continue to monitor the FASB's activities related to the deferral of the presentation and disclosure of reclassification adjustments from other comprehensive income to net income.

In September 2011, the FASB issued new accounting guidance that permits an entity to first assess qualitative factors of whether it is more likely than not that a reporting unit's fair value is less than its carrying amount before applying the two-step goodwill impairment test. An entity would continue to perform the historical first step of the impairment test if it fails the qualitative assessment, while no further analysis would be required if it passes. The provisions of the new guidance are effective for our 2012 annual goodwill impairment test. We are currently evaluating the impact of the new guidance on our financial statements.

In December 2011, the FASB issued new disclosure requirements that are intended to enhance current disclosures on offsetting financial assets and liabilities. The new disclosures require an entity to disclose both gross and net information about financial instruments eligible for offset on the balance sheet and instruments and transactions subject to an agreement similar to a master netting arrangement. The provisions of the new disclosure requirements are effective as of the beginning of our 2014 fiscal year. We are currently evaluating the impact of the new guidance on our financial statements.

**Table of Contents**

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

**FINANCIAL REVIEW**

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

**Our Critical Accounting Policies**

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

We offer sales incentives and discounts through various programs to customers and consumers. These incentives and discounts are accounted for as a reduction of revenue. A number of our sales incentives, such as bottler funding to independent bottlers and customer volume rebates, are based on annual targets, and accruals are established during the year for the expected payout. These accruals are based on contract terms and our 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 based on annual targets and recognized during the year incurred.

For interim reporting, our policy is to allocate our forecasted full-year sales incentives for most of our programs to each of our interim reporting periods in the same year that benefits from the programs. The allocation methodology is based on our forecasted sales incentives for the full year and the proportion of each interim period's actual gross revenue and volume, as applicable, to our forecasted annual gross revenue and volume, as applicable. Based on our review of the forecasts at each interim period, any changes in estimates and the related allocation of sales incentives are recognized in the interim period as they are identified. In addition, we apply a similar allocation methodology for interim reporting purposes for other marketplace spending, which includes the costs of advertising and other marketing activities.

***Income Taxes***

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

**Our Business Risks**

*This Quarterly Report on Form 10-Q contains statements reflecting our views about our future performance that constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995*

*(the Reform Act ). Statements that constitute forward-looking statements within the meaning of the Reform Act are generally identified through the*



**Table of Contents**

*inclusion of words such as believe, expect, intend, estimate, project, anticipate, will and variations of such words and other similar expressions. All statements addressing our future operating performance, and statements addressing events and developments that we expect or anticipate will occur in the future, are forward-looking statements within the meaning of the Reform Act. These forward-looking statements are based on currently available information, operating plans and projections about future events and trends. They inherently involve risks and uncertainties that could cause actual results to differ materially from those predicted in any such forward-looking statements. Investors are cautioned not to place undue reliance on any such forward-looking statements, which speak only as of the date they are made. We undertake no obligation to update any forward-looking statement, whether as a result of new information, future events or otherwise.*

Our operations outside of the United States generated approximately 40% of our net revenue in the 12 weeks ended March 24, 2012. As a result, we are exposed to foreign currency risks, including unforeseen economic changes and political unrest. During 2011, the economic environment in Europe deteriorated and certain countries experienced debt and credit issues as well as currency fluctuations. We are identifying actions to potentially mitigate the unfavorable impact, if any, on our 2012 results. During the 12 weeks ended March 24, 2012, unfavorable foreign currency decreased net revenue growth by 1 percentage point, primarily due to depreciation of the Mexican peso and Indian rupee, partially offset by appreciation of the Chinese yuan. Currency declines against the U.S. dollar which are not offset could adversely impact our future results.

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

See *Financial Instruments* in the notes to the condensed consolidated financial statements for further discussion of our derivative instruments, including their fair values as of March 24, 2012 and March 19, 2011. Cautionary statements included in Item 1A. Risk Factors and in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Our Business Risks, included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2011, should be considered when evaluating our trends and future results.

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

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

	12 Weeks Ended	
	3/24/12	3/19/11
<b>Operating profit</b>		
Mark-to-market net gains	\$ 84	\$ 31
Restructuring and impairment charges	\$ (33)	\$
Merger and integration charges	\$ (2)	\$ (55)
Inventory fair value adjustments	\$	\$ (34)
<b>Net income attributable to PepsiCo</b>		
Mark-to-market net gains	\$ 60	\$ 19
Restructuring and impairment charges	\$ (23)	\$
Merger and integration charges	\$ (2)	\$ (49)
Inventory fair value adjustments	\$	\$ (21)
<b>Net income attributable to PepsiCo per common share diluted</b>		
Mark-to-market net gains	\$ 0.04	\$ 0.01
Restructuring and impairment charges	\$ (0.01)	\$
Merger and integration charges	\$ ( )	\$ (0.03)
Inventory fair value adjustments	\$	\$ (0.01)
<b>Mark-to-Market Net Impact</b>		

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

For the 12 weeks ended March 24, 2012, we recognized \$84 million (\$60 million after-tax or \$0.04 per share) of mark-to-market net gains on commodity hedges in corporate unallocated expenses.

In the 12 weeks ended March 19, 2011, we recognized \$31 million (\$19 million after-tax or \$0.01 per share) of mark-to-market net gains on commodity hedges in corporate unallocated expenses.

**Restructuring and Impairment Charges**

For the 12 weeks ended March 24, 2012, we incurred restructuring and impairment charges of \$33 million (\$23 million after-tax or \$0.01 per share) in conjunction with our multi-year Productivity Plan, including \$8 million recorded in the FLNA segment, \$5 million recorded in the QFNA segment,



---

**Table of Contents**

\$6 million recorded in the LAF segment, \$8 million recorded in the PAB segment, \$9 million recorded in the AMEA segment and income of \$1 million and \$2 million recorded in the Europe segment and in corporate unallocated expenses, respectively, representing adjustments of previously recorded amounts. The Productivity Plan includes actions in every aspect of our business that we believe will strengthen our complementary food, snack and beverage businesses by leveraging new technologies and processes across PepsiCo's operations, go-to-market and information systems; heightening the focus on best practice sharing across the globe; consolidating manufacturing, warehouse and sales facilities; and implementing simplified organization structures, with wider spans of control and fewer layers of management. The Productivity Plan is expected to enhance PepsiCo's cost-competitiveness, provide a source of funding for future brand-building and innovation initiatives, and serve as a financial cushion for potential macroeconomic uncertainty beyond 2012. As a result, we expect to incur pre-tax charges of approximately \$910 million, \$383 million of which was reflected in our 2011 results, approximately \$425 million of which will be reflected in our 2012 results and the balance of which will be reflected in our 2013, 2014 and 2015 results. These charges will be comprised of approximately \$500 million of severance and other employee-related costs; approximately \$325 million for other costs, including consulting-related costs and the termination of leases and other contracts; and approximately \$85 million for asset impairments (all non-cash) resulting from plant closures and related actions. These charges resulted in cash expenditures of \$30 million in 2011 and cash expenditures of \$44 million in the first quarter of 2012, and we anticipate approximately \$506 million of additional related cash expenditures during the remainder of 2012, with the balance of approximately \$175 million of related cash expenditures in 2013 through 2015. We expect that the Productivity Plan will be substantially completed by the end of 2012 with incremental productivity initiatives continuing through the end of 2015.

**Merger and Integration Charges**

In the 12 weeks ended March 24, 2012, we incurred merger and integration charges of \$2 million (\$2 million after-tax with a nominal amount per share) related to our acquisition of WBD and recorded in the Europe segment.

In the 12 weeks ended March 19, 2011, we incurred merger and integration charges of \$55 million (\$49 million after-tax or \$0.03 per share) related to our acquisitions of PBG, PAS and WBD, including \$21 million recorded in the PAB segment, \$42 million recorded in corporate unallocated expenses and income of \$8 million recorded in the Europe segment, primarily reflecting a gain on our previously held equity interest in WBD. These charges also include closing costs and advisory fees related to our acquisition of WBD.

**Inventory Fair Value Adjustments**

In the 12 weeks ended March 19, 2011, we recorded \$34 million (\$21 million after-tax or \$0.01 per share) of incremental costs in cost of sales related to fair value adjustments to the acquired inventory included in WBD's balance sheet at the acquisition date and other related hedging contracts included in PBG's and PAS's balance sheets at the acquisition date.

***Non-GAAP Measures***

Certain measures contained in this Form 10-Q are financial measures that are adjusted for items affecting comparability (see *Items Affecting Comparability* for a detailed list and description of each of these items), as well as, in certain instances, adjusted for foreign currency. These

**Table of Contents**

measures are not in accordance with U.S. Generally Accepted Accounting Principles (GAAP). Items adjusted for currency assume foreign currency exchange rates used for translation based on the rates in effect for the comparable prior-year period. In order to compute our constant currency results, we multiply or divide, as appropriate, our current year U.S. dollar results by the current year average foreign exchange rates and then multiply or divide, as appropriate, those amounts by the prior year average foreign exchange rates. We believe investors should consider these non-GAAP measures in evaluating our results as they are more indicative of our ongoing performance and with how management evaluates our operational results and trends. These measures are not, and should not be viewed as, a substitute for U.S. GAAP reporting measures. See also Management Operating Cash Flow.

***Volume***

Since our divisions each use different measures of physical unit volume, a common servings metric is necessary to reflect our consolidated physical unit volume. For the 12 weeks ended March 24, 2012, total servings increased 2%. For the 12 weeks ended March 19, 2011, total servings increased 9%. 2012 servings growth reflects an adjustment to the base year (2011) for divestitures that occurred in 2011, as applicable.

We discuss volume for our beverage businesses on a bottler case sales (BCS) basis in which all beverage volume is converted to an 8-ounce-case metric. Most of our beverage volume is sold by our company-owned and franchise-owned bottlers, and that portion is based on our bottlers' sales to retailers and independent distributors. The remainder of our volume is based on our direct shipments to retailers and independent distributors. We report our international beverage volume on a monthly basis. Our first quarter includes beverage volume outside of North America for January and February. Concentrate shipments and equivalents (CSE) represent our physical beverage volume shipments to independent bottlers, retailers and independent distributors, and is the measure upon which our revenue is based.

**Table of Contents****Consolidated Results****Total Net Revenue and Operating Profit**

	12 Weeks Ended		
	3/24/12	3/19/11	Change
Total net revenue	\$ 12,428	\$ 11,937	4%
Operating profit			
FLNA	\$ 780	\$ 774	1%
QFNA	187	214	(12)%
LAF	183	171	7%
PAB	525	558	(6)%
Europe	81	63	29%
AMEA	148	146	2%
Corporate Unallocated			
Mark-to-market net gains	84	31	175%
Restructuring and impairment charges	2		n/m
Merger and integration charges		(42)	n/m
Other	(268)	(189)	42%
Total operating profit	\$ 1,722	\$ 1,726	%
Total operating profit margin	13.9%	14.5%	(0.6)

*n/m = not meaningful*

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

On a reported basis, total operating profit was flat and operating margin decreased 0.6 percentage points. Operating profit performance was primarily driven by higher commodity costs, offset by the net revenue growth. Commodity cost inflation was approximately \$300 million compared to the prior year period, primarily attributable to PAB and FLNA. Items affecting comparability (see Items Affecting Comparability ) positively contributed 6 percentage points to total operating profit performance and 0.9 percentage points to total operating margin.

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

	3/24/12	12 Weeks Ended 3/19/11	Change
Interest expense, net	\$ (175)	\$ (163)	\$ (12)
Tax rate	26.7%	26.8%	
Net income attributable to PepsiCo	\$ 1,127	\$ 1,143	(1)%
Net income attributable to PepsiCo per common share diluted	\$ 0.71	\$ 0.71	%
Mark-to-market net gains	(0.04)	(0.01)	
Restructuring and impairment charges	0.01		
Merger and integration charges		0.03	
Inventory fair value adjustments		0.01	
Net income attributable to PepsiCo per common share diluted, excluding above items*	\$ 0.69**	\$ 0.74	(7)%

\* See *Non-GAAP Measures*

\*\* Does not sum due to rounding

Net interest expense increased \$12 million, primarily reflecting higher average debt balances and higher rates on international borrowings, partially offset by gains in the market value of investments used to economically hedge a portion of our deferred compensation costs.

The reported tax rate decreased 0.1% compared to the prior year, primarily reflecting current year planning initiatives, including the pre-payment of Medicare subsidy liabilities, partially offset by income mix shift and the favorable resolution of certain tax matters in 2011.

Net income attributable to PepsiCo decreased 1% and net income attributable to PepsiCo per common share was flat. Items affecting comparability (see *Items Affecting Comparability*) increased both net income attributable to PepsiCo and net income attributable to PepsiCo per common share by 7 percentage points.

**Results of Operations Division Review**

The results and discussions below are based on how our Chief Executive Officer monitors the performance of our divisions. Accordingly, 2012 volume growth measures reflect an adjustment to the base year (2011) for divestitures that occurred in 2011. See *Items Affecting Comparability* for a discussion of items to consider when evaluating our results and related information regarding non-GAAP measures.

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 and divestitures, except as otherwise noted, reflect all mergers and acquisitions activity, including the impact of acquisitions, divestitures and changes in ownership or control in consolidated subsidiaries and nonconsolidated equity investees.



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

<b>12 Weeks Ended</b>	<b>FLNA</b>	<b>QFNA</b>	<b>LAF</b>	<b>PAB</b>	<b>Europe</b>	<b>AMEA</b>	<b>Total</b>
<b>March 24, 2012</b>	<b>\$ 3,010</b>	<b>\$ 623</b>	<b>\$ 1,235</b>	<b>\$ 4,448</b>	<b>\$ 1,845</b>	<b>\$ 1,267</b>	<b>\$ 12,428</b>
March 19, 2011	\$ 2,904	\$ 640	\$ 1,108	\$ 4,531	\$ 1,626	\$ 1,128	\$ 11,937
<i>% Impact of:</i>							
Volume <sup>(a)</sup>	(2)%	(5)%	4.5%	(2)%	(0.5)%	5%	(1)%
Effective net pricing <sup>(b)</sup>	6	3	11	4	5	7	5.5
Foreign exchange			(6)		(4)		(1)
Acquisitions and divestitures			1	(3)	13		1
<i>% Change<sup>(c)</sup></i>	<i>4%</i>	<i>(3)%</i>	<i>11%</i>	<i>(2)%</i>	<i>13%</i>	<i>12%</i>	<i>4%</i>

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

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

(c) Amounts may not sum due to rounding.

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

	12 Weeks Ended		%
	3/24/12	3/19/11	Change
Net revenue	<b>\$ 3,010</b>	\$ 2,904	4
Impact of foreign currency translation			
Net revenue growth, on a constant currency basis*			4
Operating profit	<b>\$ 780</b>	\$ 774	1
Restructuring and impairment charges	<b>8</b>		
Operating profit excluding above item	<b>\$ 788</b>	\$ 774	2
Impact of foreign currency translation			
Operating profit growth excluding above item, on a constant currency basis*			2

\* See Non-GAAP Measures

Net revenue increased 4% and pound volume declined 2%. The volume decline primarily reflects high-single-digit declines in trademark Lay's and dips, partially offset by double-digit growth in variety packs. Volume performance was negatively impacted by approximately 2 percentage points due to the extra week of results in 2011, which caused the key pre-New Year's holiday week to be included in the fourth quarter of 2011 rather than in the first quarter of 2012. Net revenue growth was driven by effective net pricing, which more than offset the volume declines.

Operating profit grew 1%, reflecting the net revenue growth, partially offset by higher commodity costs, primarily cooking oil. Restructuring and impairment charges reduced operating profit growth by 1 percentage point.

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

	12 Weeks Ended		%
	3/24/12	3/19/11	Change
Net revenue	<b>\$ 623</b>	\$ 640	(3)
Impact of foreign currency translation			
Net revenue growth, on a constant currency basis*			(2)**
Operating profit	<b>\$ 187</b>	\$ 214	(12)
Restructuring and impairment charges	<b>5</b>		
Operating profit excluding above item	<b>\$ 192</b>	\$ 214	(10)
Impact of foreign currency translation			
Operating profit growth excluding above item, on a constant currency basis*			(10)

\* See Non-GAAP Measures

\*\* *Does not sum due to rounding*

Net revenue declined 3% and volume declined 5%. The volume decline primarily reflects high single-digit declines in Oatmeal and ready-to-eat cereals and double-digit declines in Chewy granola bars, partially offset by a mid-single-digit increase in grits. Net revenue performance benefited from positive net pricing.

Operating profit declined 12%, reflecting higher commodity costs. Additionally, the benefit from a change in accounting methodology for inventory recorded in the prior year contributed 7 percentage points to the operating profit decline. Restructuring charges negatively impacted operating profit performance by 2 percentage points.

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

	12 Weeks Ended		%
	3/24/12	3/19/11	Change
Net revenue	<b>\$ 1,235</b>	\$ 1,108	11
Impact of foreign currency translation			6
Net revenue growth, on a constant currency basis*			17
Operating profit	<b>\$ 183</b>	\$ 171	7
Restructuring and impairment charges	<b>6</b>		
Operating profit excluding above item	<b>\$ 189</b>	\$ 171	10
Impact of foreign currency translation			8
Operating profit growth excluding above item, on a constant currency basis*			18

\* See Non-GAAP Measures

Volume grew 15%, primarily reflecting acquisitions in Brazil and Argentina in the fourth quarter of 2011, which contributed 10 percentage points to the volume growth. Additionally, Mexico grew at a mid-single-digit rate and Brazil grew at a low-single-digit rate (excluding the impact of the acquisition).

Net revenue increased 11%, primarily reflecting favorable effective net pricing and the volume growth. Unfavorable foreign currency reduced net revenue growth by 6 percentage points. Acquisitions and divestitures contributed over 1 percentage point to the net revenue growth.

Operating profit increased 7%, primarily reflecting the net revenue growth, partially offset by higher commodity costs. Unfavorable foreign currency reduced operating profit growth by 8 percentage points and acquisitions and divestitures reduced operating profit growth by 5 percentage points. Restructuring and impairment charges reduced operating profit growth by 3 percentage points.

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

	12 Weeks Ended		%
	3/24/12	3/19/11	Change
Net revenue	\$ 4,448	\$ 4,531	(2)
Impact of foreign currency translation			
Net revenue growth, on a constant currency basis*			(2)
Operating profit	\$ 525	\$ 558	(6)
Restructuring and impairment charges	8		
Merger and integration charges		21	
Inventory fair value adjustments		9	
Operating profit excluding above items*	\$ 533	\$ 588	(9)
Impact of foreign currency translation			1
Operating profit growth excluding above items, on a constant currency basis*			(9)**

\* See Non-GAAP Measures

\*\* Does not sum due to rounding

Volume decreased 1%, primarily reflecting North America volume declines of 2.5%, partially offset by a 3.5% increase in Latin America volume. North America volume declines were driven by a 4% decline in CSD volume, while non-carbonated beverage volume was unchanged. Latin America volume growth primarily reflected a double-digit increase in Mexico and a high-single-digit increase in Argentina, partially offset by a double-digit decline in Venezuela.

Net revenue decreased 2%, primarily reflecting the divestiture of our Mexico beverage business in the fourth quarter of 2011, which contributed 4 percentage points to the net revenue decline. Additionally, volume declines were more than offset by favorable effective net pricing.

Reported operating profit decreased 6%, primarily reflecting higher commodity costs, partially offset by favorable effective net pricing and lower general and administrative costs. Excluding the items affecting comparability in the above table (see Items Affecting Comparability), operating profit decreased 9%. The divestiture of our Mexico beverage business increased reported operating profit by nearly 1 percentage point.

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

	12 Weeks Ended		%
	3/24/12	3/19/11	Change
Net revenue	\$ 1,845	\$ 1,626	13
Impact of foreign currency translation			4
Net revenue growth, on a constant currency basis*			18**
Operating profit	\$ 81	\$ 63	29
Restructuring and impairment charges	(1)		
Merger and integration charges	2	(8)	
Inventory fair value adjustments		25	
Operating profit excluding above items*	\$ 82	\$ 80	2.5
Impact of foreign currency translation			2
Operating profit growth excluding above items, on a constant currency basis*			4**

\* See Non-GAAP Measures

\*\* Does not sum due to rounding

Snacks volume grew 17%, primarily reflecting our acquisition of WBD, which contributed 15 percentage points to volume growth and grew at a high-single-digit rate for the comparable post-acquisition period in February. Mid-single-digit increases in the United Kingdom and South Africa were partially offset by low-single-digit declines in Turkey and the Netherlands.

Beverage volume increased 10%, primarily reflecting our acquisition of WBD, which contributed 11 percentage points to volume growth and grew at a high-single-digit rate for the comparable post-acquisition period in February. A double-digit decrease in Russia (ex-WBD) and a high-single-digit decrease in Turkey were partially offset by a double-digit increase in the United Kingdom and a mid-single-digit increase in Germany.

Net revenue grew 13%, primarily reflecting our acquisition of WBD and favorable effective net pricing. Unfavorable foreign currency reduced net revenue growth by 4 percentage points.

Reported operating profit increased 29%, primarily reflecting the net revenue growth and lower advertising and marketing expenses, partially offset by higher commodity costs. Excluding the items affecting comparability in the above table (see Items Affecting Comparability), operating profit increased 2.5%. Operating profit performance was negatively impacted by unfavorable settlements of promotional spending accruals in the current year compared to the prior year, which decreased reported operating profit growth by 15 percentage points. Acquisitions contributed 7 percentage points to operating profit growth, partially offset by unfavorable foreign currency, which reduced operating profit growth by 2 percentage points.



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

	12 Weeks Ended		%
	3/24/12	3/19/11	Change
Net revenue	<b>\$ 1,267</b>	\$ 1,128	12
Impact of foreign currency translation			
Net revenue growth, on a constant currency basis*			12
Operating profit	<b>\$ 148</b>	\$ 146	2
Restructuring and impairment charges	<b>9</b>		
Operating profit excluding above item	<b>\$ 157</b>	\$ 146	7
Impact of foreign currency translation			(1)
Operating profit growth excluding above item, on a constant currency basis*			6

\* See Non-GAAP Measures

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

Beverage volume grew 2%, reflecting broad-based increases driven by double-digit growth in the Middle East and India, partially offset by an 11% decline in China, primarily due to the timing of the New Year's holiday and the impact of the introduction of a 500 ml PET value package in the third quarter of 2011, which largely replaced our 600 ml offering in that market. Acquisitions had a nominal impact on the beverage volume growth rate.

Net revenue grew 12%, reflecting favorable effective net pricing and the volume growth.

Operating profit grew 2%, driven primarily by the net revenue growth, partially offset by higher commodity costs. Restructuring charges reduced operating profit growth by nearly 6 percentage points. Favorable foreign currency increased operating profit growth by 1 percentage point and acquisitions and divestitures reduced operating profit growth by 0.5 percentage points.



## **Table of Contents**

### **Our Liquidity and Capital Resources**

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

As of March 24, 2012, we had cash, cash equivalents and short-term investments of \$2.9 billion outside the U.S. In addition, currency restrictions enacted by the government in Venezuela have impacted our ability to pay dividends outside of the country from our snack and beverage operations in Venezuela. As of March 24, 2012, our operations in Venezuela held 11% of our cash and cash equivalents balance. To the extent foreign earnings are repatriated, such amounts would be subject to income tax liabilities, both in the U.S. and in the various applicable foreign tax jurisdictions.

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

During the 12 weeks in 2012, net cash used for operating activities was \$690 million, compared to net cash provided of \$380 million in the prior year period. The operating cash flow performance primarily reflects discretionary pension and post-retirement contributions of \$1.0 billion in the current year.

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

During the 12 weeks in 2012, net cash used for investing activities was \$257 million, primarily reflecting \$299 million for net capital spending.

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

During the 12 weeks in 2012, net cash provided by financing activities was \$283 million, primarily reflecting net proceeds from long-term debt of \$2.7 billion and stock option proceeds of \$274 million, partially offset by net payments of short-term borrowings of \$1.8 billion and the return of operating cash flow to our shareholders through share repurchases and dividend payments of \$958 million. We anticipate dividends and share repurchases of more than \$6 billion in 2012.

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

We focus on management operating cash flow as a key element in achieving maximum shareholder value, and it is the primary measure we use to monitor cash flow performance. However, it is not a measure provided by accounting principles generally accepted in the U.S. Therefore, this measure is not, and should not be viewed as, a substitute for U.S. GAAP cash flow measures. Since net capital spending is essential to our product innovation initiatives and maintaining our operational capabilities, we believe that it is a recurring and necessary use of cash. As such, we believe investors should also consider net capital spending when evaluating our cash from operating activities. Additionally, we consider certain items (included in the table below), in evaluating management operating cash flow. We believe investors should consider these items in evaluating our management operating cash flow results.



**Table of Contents**

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

	12 Weeks Ended	
	3/24/12	3/19/11
Net cash (used for)/provided by operating activities	\$ (690)	\$ 380
Capital spending	(316)	(433)
Sales of property, plant and equipment	17	12
Management operating cash flow	(989)	(41)
Discretionary pension and retiree medical contributions	1,000	
Payments related to restructuring charges	44	1
Merger and integration payments (after-tax)	20	97
Capital investments related to the PBG/PAS integration	4	21
Management operating cash flow excluding above items	\$ 79	\$ 78

We expect to continue to return management operating cash flow to our shareholders through dividends and share repurchases while maintaining credit ratings that provide us with ready access to global and capital credit markets. However, see Item 1A. Risk Factors and Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Our Business Risks, included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2011, for certain factors that may impact our operating cash flows.

Any downgrade of our credit ratings by a credit rating agency, especially any downgrade to below investment grade, could increase our future borrowing costs or impair our ability to access capital and credit markets on terms commercially acceptable to us, or at all. In addition, any downgrade of our current short-term credit ratings could impair our ability to access the commercial paper market with the same flexibility that we have experienced historically, and therefore require us to rely more heavily on more expensive types of debt financing. See Item 1A. Risk Factors and Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Our Business Risks, included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2011 and *Debt Obligations and Commitments* in the notes to the condensed consolidated financial statements.

**Table of Contents**

**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Shareholders

PepsiCo, Inc.:

We have reviewed the accompanying Condensed Consolidated Balance Sheet of PepsiCo, Inc. and Subsidiaries as of March 24, 2012, and the related Condensed Consolidated Statements of Income, Comprehensive Income, Cash Flows and Equity for the twelve weeks ended March 24, 2012 and March 19, 2011. These interim condensed consolidated financial statements are the responsibility of PepsiCo, Inc.'s management.

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

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

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Consolidated Balance Sheet of PepsiCo, Inc. and Subsidiaries as of December 31, 2011, and the related Consolidated Statements of Income, Cash Flows and Equity for the fiscal year then ended not presented herein; and in our report dated February 27, 2012 we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying Condensed Consolidated Balance Sheet as of December 31, 2011, is fairly stated, in all material respects, in relation to the Consolidated Balance Sheet from which it has been derived.

/s/ KPMG LLP

New York, New York  
April 26, 2012

**Table of Contents**

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk.

See Management's Discussion and Analysis of Financial Condition and Results of Operations Our Business Risks and *Financial Instruments* in the notes to the condensed consolidated financial statements. In addition, see Item 1A. Risk Factors and Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Our Business Risks in our Annual Report on Form 10-K for the fiscal year ended December 31, 2011.

ITEM 4. Controls and Procedures.

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

During our first fiscal quarter of 2012, we continued migrating certain of our financial processing systems to an enterprise-wide systems solution. These systems implementations are part of our ongoing global business transformation initiative, and we plan to continue implementing such systems throughout other parts of our businesses over the course of the next few years. Moreover, we continue to integrate our WBD business, which was acquired in 2011. In connection with these implementations and integration, and resulting business process changes, we continue to enhance the design and documentation of our internal control over financial reporting processes to maintain suitable controls over our financial reporting.

Except as described above, there were no changes in our internal control over financial reporting during our first fiscal quarter of 2012 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**Table of Contents**

PART II OTHER INFORMATION

ITEM 1. Legal Proceedings.

We and our subsidiaries are party to a variety of legal, administrative, regulatory and government proceedings, claims and inquiries arising in the normal course of business. While the results of these proceedings, claims and inquiries cannot be predicted with certainty, management believes that the final outcome of the foregoing will not have a material adverse effect on our consolidated financial statements, results of operations or cash flows. See Item 1. Business Regulatory Environment and Environmental Compliance in our Annual Report on Form 10-K for the fiscal year ended December 31, 2011.

ITEM 1A. Risk Factors.

There have been no material changes with respect to the risk factors disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2011.

**Table of Contents**

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

A summary of our common stock repurchases (in millions, except average price per share) during the first quarter under the \$15.0 billion repurchase program authorized by our Board of Directors and publicly announced on March 15, 2010, and expiring on June 30, 2013, is set forth in the following table. All such shares of common stock were repurchased pursuant to open market transactions, other than 381,528 shares of common stock which were repurchased pursuant to a privately negotiated block trade transaction.

**Issuer Purchases of Common Stock**

Period	Total Number of Shares Repurchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares that may Yet Be Purchased Under the Plans or Programs
12/31/11				\$ 11,047
1/1/12 1/28/12				11,047
1/29/12 2/25/12				11,047
2/26/12 3/24/12	4.5	\$ 65.15	4.5	(294)
<b>Total</b>	<b>4.5</b>	<b>\$ 65.15</b>	<b>4.5</b>	<b>\$ 10,753</b>

**Table of Contents**

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

**Issuer Purchases of Convertible Preferred Stock**

Period	Total Number of Shares Repurchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares that may Yet Be Purchased Under the Plans or Programs
12/31/11				
1/1/12 1/28/12	1,600	\$ 326.58	N/A	N/A
1/29/12 2/25/12	500	\$ 316.06	N/A	N/A
2/26/12 3/24/12	1,900	\$ 313.31	N/A	N/A
<b>Total</b>	<b>4,000</b>	<b>\$ 318.96</b>	<b>N/A</b>	<b>N/A</b>

## ITEM 6. Exhibits

See Index to Exhibits on page 48.



Table of Contents

**SIGNATURES**

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

PepsiCo, Inc.  
(Registrant)

Date: April 26, 2012

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

Date: April 26, 2012

/s/ Maura Abeln Smith  
Maura Abeln Smith  
PepsiCo General Counsel, Public Policy &  
Government Affairs and Corporate Secretary  
  
(Duly Authorized Officer)

Table of Contents

INDEX TO EXHIBITS

ITEM 6

EXHIBITS

- Exhibit 2.1 Agreement and Plan of Merger dated as of August 3, 2009, among PepsiCo, Inc., The Pepsi Bottling Group, Inc. and Pepsi-Cola Metropolitan Bottling Company, Inc. (the schedules have been omitted pursuant to Item 601(b)(2) of Regulation S-K), which is incorporated herein by reference to Exhibit 2.1 to PepsiCo's Current Report on Form 8-K filed with the Securities and Exchange Commission on August 4, 2009.
- Exhibit 2.2 Agreement and Plan of Merger dated as of August 3, 2009, among PepsiCo, Inc., PepsiAmericas, Inc. and Pepsi-Cola Metropolitan Bottling Company, Inc. (the schedules have been omitted pursuant to Item 601(b)(2) of Regulation S-K), which is incorporated herein by reference to Exhibit 2.2 to PepsiCo's Current Report on Form 8-K filed with the Securities and Exchange Commission on August 4, 2009.
- Exhibit 2.3 Purchase Agreement dated as of December 1, 2010 among PepsiCo, Inc., Pepsi-Cola (Bermuda) Limited, Gavril A. Yushvaev, David Iakobachvili, Mikhail V. Dubinin, Sergei A. Plastinin, Alexander S. Orlov, Mikhail I. Vishnaykov, Aladaro Limited, Tony D. Maher, Dmitry Ivanov, Wimm Bill Dann Finance Cyprus Ltd. and Wimm-Bill-Dann Finance Co. Ltd. (the schedules have been omitted pursuant to Item 601(b)(2) of Regulation S-K), which is incorporated herein by reference to Exhibit 2.1 to PepsiCo's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 2, 2010.
- Exhibit 3.1 Articles of Incorporation of PepsiCo, Inc., as amended and restated, effective as of May 9, 2011, which are incorporated herein by reference to Exhibit 3.1 to PepsiCo, Inc.'s Current Report on Form 8-K filed with the Securities and Exchange Commission on May 9, 2011.
- Exhibit 3.2 By-laws of PepsiCo, Inc., as amended, effective as of March 8, 2012, which are incorporated herein by reference to Exhibit 3.2 to PepsiCo, Inc.'s Current Report on Form 8-K filed with the Securities and Exchange Commission on March 12, 2012.
- Exhibit 4.1 Form of 0.750% Senior Note due 2015, which is incorporated herein by reference to Exhibit 4.1 to PepsiCo's Current Report on Form 8-K filed with the Securities and Exchange Commission on March 2, 2012.
- Exhibit 4.2 Form of 2.750% Senior Note due 2022, which is incorporated herein by reference to Exhibit 4.2 to PepsiCo's Current Report on Form 8-K filed with the Securities and Exchange Commission on March 2, 2012.

**Table of Contents**

Exhibit 4.3	Form of 4.000% Senior Note due 2042, which is incorporated herein by reference to Exhibit 4.3 to PepsiCo's Current Report on Form 8-K filed with the Securities and Exchange Commission on March 2, 2012.
Exhibit 4.4	Board of Directors Resolutions Authorizing PepsiCo's Officers to Establish the Terms of the 0.750% Senior Note due 2015, the 2.750% Senior Note due 2022 and the 4.000% Senior Note due 2042, which are incorporated herein by reference to Exhibit 4.4 to PepsiCo's Current Report on Form 8-K filed with the Securities and Exchange Commission on March 2, 2012.
Exhibit 10.1	Form of Annual Long-Term Incentive Award Agreement.
Exhibit 12	Computation of Ratio of Earnings to Fixed Charges.
Exhibit 15	Letter re: Unaudited Interim Financial Information.
Exhibit 31	Certifications of Chief Executive Officer and Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
Exhibit 32	Certifications of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
Exhibit 101	The following materials from PepsiCo, Inc.'s Quarterly Report on Form 10-Q for the quarter ended March 24, 2012 formatted in XBRL (eXtensible Business Reporting Language): (i) the Condensed Consolidated Statement of Income, (ii) the Condensed Consolidated Statement of Comprehensive Income, (iii) the Condensed Consolidated Statement of Cash Flows, (iv) the Condensed Consolidated Balance Sheet, (v) the Condensed Consolidated Statement of Equity, and (vi) notes to the condensed consolidated financial statements.