UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

(Mark One)
X QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 8, 2007 (36 weeks)

OR

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

Commission file number 1-1183

PepsiCo, Inc.
(Exact name of registrant as specified in its charter)

North Carolina (State or Other Jurisdiction of Incorporation or Organization)	13-1584302 (I.R.S. Employer Identification No.)
700 Anderson Hill Road, Purchase, New York (Address of Principal Executive Offices)	10577 (Zip Code)

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

N/A
(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES X NO __

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer X Accelerated filer__ Non-accelerated filer__

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

Number of shares of Common Stock outstanding as of October 5, 2007: 1,609,702,374

PEPSICO, INC. AND SUBSIDIARIES

INDEX

PART I FINANCIAL INFORMATION
ITEM 1. Condensed Consolidated Financial Statements

PEPSICO, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF INCOME
(in millions except per share amounts, unaudited)

	12 Weeks Ended		36 Weeks Ended	
	9/8/07	9/9/06	**9/8/07**	9/9/06
Net Revenue	**$10,171**	$9,134	**$27,128**	$24,567
Cost of sales	**4,627**	4,108	**12,254**	10,932
Selling, general and administrative expenses	**3,467**	3,129	**9,397**	8,614
Amortization of intangible assets	**15**	41	**37**	108
Operating Profit	**2,062**	1,856	**5,440**	4,913
Bottling equity income	**218**	204	**465**	440
Interest expense	**(57)**	(51)	**(153)**	(172)
Interest income	**21**	39	**82**	110
Income before income taxes	**2,244**	2,048	**5,834**	5,291
Provision for income taxes	**501**	554	**1,438**	1,475
Net Income	**$ 1,743**	$1,494	**$ 4,396**	$ 3,816
Net Income Per Common Share				
Basic	**$ 1.08**	$ 0.90	**$ 2.70**	$ 2.30
Diluted	**$ 1.06**	$ 0.89	**$ 2.64**	$ 2.26
Cash Dividends Declared Per Common Share	**$ 0.375**	$ 0.30	**$ 1.05**	$ 0.86

See accompanying Notes to the Condensed Consolidated Financial Statements.

PEPSICO, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(in millions, unaudited)

	36 Weeks Ended	
	9/8/07	9/9/06
Operating Activities		
Net income	**$ 4,396**	$ 3,816
Depreciation and amortization	**948**	940
Stock-based compensation expense	**182**	191
Excess tax benefits from share-based payment arrangements	**(118)**	(91)
Pension and retiree medical plan contributions	**(155)**	(90)
Pension and retiree medical plan expenses	**362**	370
Bottling equity income, net of dividends	**(398)**	(381)
Deferred income taxes and other tax charges and credits	**(3)**	48
Change in accounts and notes receivable	**(844)**	(785)
Change in inventories	**(244)**	(246)
Change in prepaid expenses and other current assets	**51**	2
Change in accounts payable and other current liabilities	**324**	263
Change in income taxes payable	**830**	242
Other, net	**(161)**	(8)
Net Cash Provided by Operating Activities	**5,170**	4,271
Investing Activities		
Capital spending	**(1,260)**	(1,130)
Sales of property, plant and equipment	**23**	37
Proceeds from (Investment in) finance assets	**3**	(11)
Acquisitions and investments in noncontrolled affiliates	**(988)**	(444)
Cash proceeds from sale of The Pepsi Bottling Group (PBG) stock	**296**	285
Short-term investments, by original maturity		
More than three months – purchases	**(78)**	(17)
More than three months – maturities	**58**	21
Three months or less, net	**(3)**	1,095
Net Cash Used for Investing Activities	**(1,949)**	(164)
Financing Activities		
Proceeds from issuances of long-term debt	**1,005**	25
Payments of long-term debt	**(542)**	(136)
Short-term borrowings, by original maturity		
More than three months – proceeds	**181**	127
More than three months – payments	**(70)**	(256)
Three months or less, net	**(513)**	(1,905)
Cash dividends paid	**(1,598)**	(1,359)
Share repurchases – common	**(3,123)**	(2,157)
Share repurchases – preferred	**(8)**	(7)
Proceeds from exercises of stock options	**666**	1,008
Excess tax benefits from share-based payment arrangements	**118**	91
Net Cash Used for Financing Activities	**(3,884)**	(4,569)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	**47**	12
Net Decrease in Cash and Cash Equivalents	**(616)**	(450)
Cash and Cash Equivalents – Beginning of year	**1,651**	1,716
Cash and Cash Equivalents – End of period	**$ 1,035**	$ 1,266

See accompanying Notes to the Condensed Consolidated Financial Statements.

PEPSICO, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEET
(in millions)

	(Unaudited) 9/8/07	12/30/06
Assets		
Current Assets		
Cash and cash equivalents	**$ 1,035**	$ 1,651
Short-term investments	**1,203**	1,171
Accounts and notes receivable, less allowance: 9/07 - $66, 12/06 - $64	**4,764**	3,725
Inventories		
Raw materials	**1,086**	860
Work-in-process	**209**	140
Finished goods	**988**	926
	2,283	1,926
Prepaid expenses and other current assets	**662**	657
Total Current Assets	**9,947**	9,130
Property, Plant and Equipment	**20,638**	19,058
Accumulated Depreciation	**(10,241)**	(9,371)
	10,397	9,687
Amortizable Intangible Assets, net	**662**	637
Goodwill	**4,814**	4,594
Other Nonamortizable Intangible Assets	**1,227**	1,212
Nonamortizable Intangible Assets	**6,041**	5,806
Investments in Noncontrolled Affiliates	**3,997**	3,690
Other Assets	**1,364**	980
Total Assets	**$ 32,408**	$29,930

Continued on next page.

PEPSICO, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEET (continued)
(in millions except per share amounts)

	(Unaudited) 9/8/07	12/30/06
Liabilities and Shareholders' Equity		
Current Liabilities		
Short-term obligations	**$ 27**	$ 274
Accounts payable and other current liabilities	**7,291**	6,496
Income taxes payable	**785**	90
Total Current Liabilities	**8,103**	6,860
Long-term Debt Obligations	**2,954**	2,550
Other Liabilities	**4,781**	4,624
Deferred Income Taxes	**326**	528
Total Liabilities	**16,164**	14,562
Commitments and Contingencies		
Preferred Stock, no par value	**41**	41
Repurchased Preferred Stock	**(128)**	(120)
Common Shareholders' Equity		
Common stock, par value 1 2/3 cents per share:		
Authorized 3,600 shares, issued 9/07 and 12/06 – 1,782 shares	**30**	30
Capital in excess of par value	**461**	584
Retained earnings	**27,526**	24,837
Accumulated other comprehensive loss	**(1,837)**	(2,246)
	26,180	23,205
Less: repurchased common stock, at cost:		
9/07 – 172 shares, 12/06 – 144 shares	**(9,849)**	(7,758)
Total Common Shareholders' Equity	**16,331**	15,447
Total Liabilities and Shareholders' Equity	**$ 32,408**	$ 29,930

See accompanying Notes to the Condensed Consolidated Financial Statements.

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

	12 Weeks Ended		36 Weeks Ended	
	9/8/07	9/9/06	**9/8/07**	9/9/06
Net Income	**$ 1,743**	$ 1,494	**$ 4,396**	$ 3,816
Other Comprehensive Income				
Currency translation adjustment	**27**	90	**333**	262
Reclassification of pension and retiree medical losses to net income, net of tax	**31**	–	**86**	–
Cash flow hedges, net of tax:				
Net derivative losses	**(5)**	(4)	**(32)**	(16)
Reclassification of losses/(gains) to net income	**7**	–	**13**	(7)
Unrealized (losses)/gains on securities, net of tax	**(8)**	4	**6**	(2)
Other	**(1)**	1	**3**	5
	51	91	**409**	242
Comprehensive Income	**$ 1,794**	$ 1,585	**$ 4,805**	$ 4,058

See accompanying Notes to the Condensed Consolidated Financial Statements.

PEPSICO, INC. AND SUBSIDIARIES
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Basis of Presentation and Our Divisions

Basis of Presentation

Our Condensed Consolidated Balance Sheet as of September 8, 2007, the Condensed Consolidated Statements of Income and Comprehensive Income for the 12 and 36 weeks ended September 8, 2007 and September 9, 2006, and the Condensed Consolidated Statement of Cash Flows for the 36 weeks ended September 8, 2007 and September 9, 2006 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 30, 2006. In our opinion, these financial statements include all normal and recurring adjustments necessary for a fair presentation. The results for the 12 and 36 weeks are not necessarily indicative of the results expected for the year.

Our significant interim accounting policies include the recognition of a pro rata share of certain estimated annual sales incentives, and certain advertising and marketing costs, generally in proportion to revenue, and the recognition of income taxes using an estimated annual effective tax rate. Raw materials, direct labor and plant overhead, as well as purchasing and receiving costs, costs directly related to production planning, inspection costs and raw material handling facilities, are included in cost of sales. The costs of moving, storing and delivering finished product are included in selling, general and administrative expenses.

Bottling equity income includes our share of the net income or loss of our noncontrolled bottling affiliates and the impact of any changes in our ownership interests in these affiliates. Bottling equity income includes pre-tax gains on our sale of PBG stock of $58 million and $162 million in the 12 and 36 weeks ended September 8, 2007, respectively, and pre-tax gains of $61 million and $167 million in the 12 and 36 weeks ended September 9, 2006, respectively.

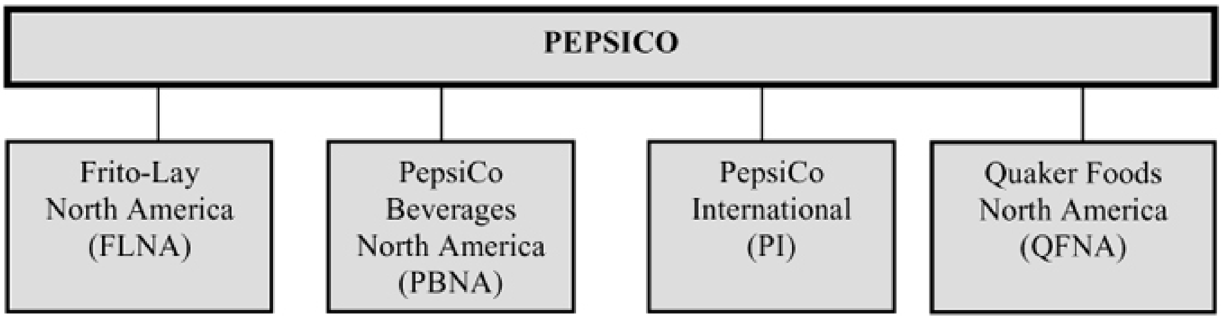
In the first quarter of 2007, the reporting calendars of certain operating units within PepsiCo International’s (“PI”) reporting segment were changed such that most PI operations now report on a monthly calendar basis instead of a period reporting basis. Monthly reporting is preferable for our international businesses to facilitate local statutory reporting, which is generally based on monthly calendars. The change in reporting substantially reduces the number of financial closings and reconciliations executed by the international operations, improving overall efficiency. As a result of this change, third quarter PepsiCo results primarily reflect international monthly results for the months of June, July and August, and year-to-date PepsiCo results primarily reflect international monthly results for the months of January through August. Prior period amounts have been adjusted to reflect this change, including a net gain from the sale of non-core cereal brands and a plant in the United Kingdom previously recorded in the third quarter of 2006 and now reflected in the fourth quarter of 2006.

In addition, beginning in the first quarter of 2007, income for certain non-consolidated international bottling interests was reclassified from bottling equity income and corporate unallocated results to PI’s division operating results, to be consistent with PepsiCo’s internal management accountability. Prior period amounts have been adjusted to reflect this reclassification.

Table of Contents

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 prior year amounts to conform to the 2007 presentation. This report should be read in conjunction with our Annual Report on Form 10-K for the fiscal year ended December 30, 2006.

Our Divisions



	12 Weeks Ended		36 Weeks Ended	
	9/8/07	9/9/06	**9/8/07**	9/9/06
Net Revenue				
FLNA	**$ 2,800**	$2,642	**$ 8,076**	$ 7,602
PBNA	**2,698**	2,608	**7,411**	7,104
PI	**4,262**	3,482	**10,377**	8,643
QFNA	**411**	402	**1,264**	1,218
	$10,171	$9,134	**$27,128**	$ 24,567
Operating Profit				
FLNA	**$ 742**	$ 694	**$ 2,034**	$ 1,897
PBNA	**649**	603	**1,724**	1,657
PI	**707**	595	**1,762**	1,460
QFNA	**126**	123	**399**	389
Total division	**2,224**	2,015	**5,919**	5,403
Corporate	**(162)**	(159)	**(479)**	(490)
	$ 2,062	$1,856	**$ 5,440**	$ 4,913

	9/8/07	12/30/06
Total Assets		
FLNA	**$ 6,149**	$ 5,969
PBNA	**7,239**	6,567
PI	**13,741**	11,571
QFNA	**1,004**	1,003
Total division	**28,133**	25,110
Corporate	**1,056**	1,739
Investments in bottling affiliates	**3,219**	3,081
	$32,408	$ 29,930

Intangible Assets

	9/8/07	12/30/06
Amortizable intangible assets, net		
Brands	**$1,334**	$ 1,288
Other identifiable intangibles	**313**	290
	1,647	1,578
Accumulated amortization	**(985)**	(941)
	$ 662	$ 637

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

	Balance 12/30/06	Acquisitions	Translation and Other	**Balance 9/8/07**
FLNA				
Goodwill	$ 284	$ –	$ 15	**$ 299**
PBNA				
Goodwill	2,203	–	15	**2,218**
Brands	59	–	–	**59**
	2,262	–	15	**2,277**
PI				
Goodwill	1,932	124	66	**2,122**
Brands	1,153	–	15	**1,168**
	3,085	124	81	**3,290**
QFNA				
Goodwill	175	–	–	**175**
Total goodwill	4,594	124	96	**4,814**
Total brands	1,212	–	15	**1,227**
	$ 5,806	$ 124	$ 111	**$ 6,041**

Stock-Based Compensation

For the 12 weeks, we recognized stock-based compensation expense of $58 million in 2007 and $64 million in 2006. For the 36 weeks, we recognized stock-based compensation expense of $182 million in 2007 and $191 million in 2006. For the 12 weeks in 2007, our grants of stock options and restricted stock units (RSU) were nominal. For the 36 weeks in 2007, we granted 11 million stock options at a weighted-average grant price of $64.99 and 2 million RSUs at a weighted-average grant price of $65.01.

Table of Contents

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

	36 Weeks Ended	
	9/8/07	9/9/06
Expected life	**6 yrs.**	6 yrs.
Risk free interest rate	**4.8%**	4.5%
Expected volatility[(a)]	**15%**	18%
Expected dividend yield	**1.9%**	1.9%

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

Pension and Retiree Medical Benefits

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

	12 Weeks Ended					
	Pension				Retiree Medical	
	9/8/07	9/9/06	**9/8/07**	9/9/06	**9/8/07**	9/9/06
	U.S.		International			
Service cost	**$ 56**	$ 56	**$ 14**	$ 13	**$ 11**	$ 11
Interest cost	**78**	73	**19**	16	**18**	17
Expected return on plan assets	**(92)**	(90)	**(23)**	(19)	**–**	–
Amortization of prior service cost/(benefit)	**1**	1	**–**	–	**(3)**	(3)
Amortization of experience loss	**32**	38	**7**	6	**4**	5
Total expense	**$ 75**	$ 78	**$ 17**	$ 16	**$ 30**	$ 30

	36 Weeks Ended					
	Pension				Retiree Medical	
	9/8/07	9/9/06	**9/8/07**	9/9/06	**9/8/07**	9/9/06
	U.S.		International			
Service cost	**$ 168**	$ 168	**$ 38**	$ 37	**$ 33**	$ 33
Interest cost	**234**	219	**52**	44	**54**	51
Expected return on plan assets	**(276)**	(270)	**(63)**	(52)	**–**	–
Amortization of prior service cost/(benefit)	**3**	3	**1**	–	**(9)**	(9)
Amortization of experience loss	**96**	114	**19**	17	**12**	15
Total expense	**$ 225**	$ 234	**$ 47**	$ 46	**$ 90**	$ 90

Table of Contents

Net Income Per Common Share

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

	12 Weeks Ended			
	9/8/07		9/9/06	
	Income	**Shares[(a)]**	Income	Shares[(a)]
Net income	**$ 1,743**		$ 1,494	
Preferred shares:				
Dividends	**–**		–	
Redemption premium	**(2)**		(3)	
Net income available for common shareholders	**$ 1,741**	**1,615**	$ 1,491	1,648
Basic net income per common share	**$ 1.08**		$ 0.90	
Net income available for common shareholders	**$ 1,741**	**1,615**	$ 1,491	1,648
Dilutive securities:				
Stock options and RSUs[(b)]	**–**	**34**	–	38
ESOP convertible preferred stock	**2**	**2**	3	2
Diluted	**$ 1,743**	**1,651**	$ 1,494	1,688
Diluted net income per common share	**$ 1.06**		$ 0.89	

	36 Weeks Ended			
	9/8/07		9/9/06	
	Income	**Shares[(a)]**	Income	Shares[(a)]
Net income	**$ 4,396**		$ 3,816	
Preferred shares:				
Dividends	**(1)**		(1)	
Redemption premium	**(6)**		(7)	
Net income available for common shareholders	**$ 4,389**	**1,627**	$ 3,808	1,652
Basic net income per common share	**$ 2.70**		$ 2.30	
Net income available for common shareholders	**$ 4,389**	**1,627**	$ 3,808	1,652
Dilutive securities:				
Stock options and RSUs[(b)]	**–**	**34**	–	36
ESOP convertible preferred stock	**7**	**2**	8	2
Diluted	**$ 4,396**	**1,663**	$ 3,816	1,690
Diluted net income per common share	**$ 2.64**		$ 2.26	

(a) Weighted average common shares outstanding.

(b) Options to purchase 3.8 million shares for the 36 weeks in 2007 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 an average exercise price of $65.01. Out-of-the-money options for the 12 and 36 weeks in 2006 were nominal and had an average exercise price of $63.00 for both the 12 and 36 weeks in 2006. There were no out-of-the-money options for the 12 weeks in 2007.

Debt Obligations and Commitments

In the second quarter of 2007, we issued $1 billion of senior unsecured notes maturing in 2012. We used a portion of the proceeds from the issuance of the notes to repay existing short-term debt of $500 million, bearing interest at 3.2% per year and maturing on May 15, 2007, with the balance of the proceeds used primarily for general corporate purposes. In connection with the issuance of the $1 billion notes, we entered into an interest rate swap to effectively convert the interest rate from a fixed rate of 5.15% to a variable rate based on LIBOR. The terms of the interest rate swap match the terms of the debt it modifies.

Additionally, in the second quarter of 2007, we extended the maturity of our $1.5 billion unsecured revolving credit agreement by one year to 2012, and in the third quarter of 2007, we increased the amount of this agreement from $1.5 billion to $2 billion. The other terms of the credit facility remain unchanged. Funds borrowed under this agreement may be used for general corporate purposes, including supporting our outstanding commercial paper issuances. This line of credit remains unused as of September 8, 2007.

In the third quarter of 2007, we updated our U.S. $2.5 billion euro medium term note program following the expiration of the existing program. Under the program, we may issue unsecured notes under mutually agreed upon terms with the purchasers of the notes. Proceeds from any issuance of notes may be used for general corporate purposes, except as otherwise specified in the related prospectus. As of September 8, 2007, we have no outstanding notes under the program.

As of September 8, 2007, we have reclassified $1.2 billion of short-term debt to long-term debt based on our intent and ability to refinance on a long-term basis.

The Long-Term Contractual Commitments disclosed in Note 9 of our Form 10-K for the year ended December 30, 2006 did not include any reserves for income taxes under Financial Accounting Standards Board (FASB) Interpretation No. 48 (FIN 48). Because we are unable to reasonably predict the ultimate amount or timing of settlement of our reserves for income taxes, the Long-Term Contractual Commitments table has not been updated to include our reserves for income taxes. Subject to the foregoing, there has been no material change to the Long-Term Contractual Commitments table or our reserves for income taxes since December 30, 2006, and, therefore, the table has not been included in this Form 10-Q. As of September 8, 2007, our reserves for income taxes totaled $1.7 billion. See *Income Taxes*.

Supplemental Cash Flow Information

	36 Weeks Ended	
	9/8/07	9/9/06
Interest paid	**$ 183**	$ 154
Income taxes paid, net of refunds	**$ 613**	$ 1,203
Acquisitions:		
Fair value of assets acquired	**$ 1,228**	$ 574
Less: net cash paid	**(988)**	(444)
Fair value of liabilities assumed	**$ 240**	$ 130

Income Taxes

In 2006, the FASB issued FIN 48, which clarifies the accounting for uncertainty in tax positions. FIN 48 requires that we recognize in our financial statements the impact of a tax position, if that position is more likely than not of being sustained on audit, based on the technical merits of the position. We adopted the provisions of FIN 48 as of the beginning of our 2007 fiscal year. As a result of our adoption of FIN 48, we recognized a $7 million decrease to reserves for income taxes, with a corresponding increase to retained earnings, as of the beginning of our 2007 fiscal year.

As of the beginning of our 2007 fiscal year, the total gross amount of reserves for income taxes, which is reported in other liabilities, is $1.3 billion. Of that amount, $1.2 billion, if recognized, would affect our effective tax rate. Any prospective adjustments to our reserves for income taxes will be recorded as an increase or decrease to provision for income taxes and would impact our effective tax rate. In addition, we accrue interest related to reserves for income taxes in provision for income taxes and any associated penalties are recorded in selling, general and administrative expenses. The gross amount of interest accrued as of the beginning of our 2007 fiscal year is $0.3 billion.

We file income tax returns in the U.S. federal jurisdiction, various state and local jurisdictions, and many foreign jurisdictions. A number of years may elapse before an uncertain tax position is audited and finally resolved. While it is often difficult to predict the final outcome or the timing of resolution of any particular uncertain tax position, we believe that our reserves for income taxes reflect the most probable outcome. We adjust these reserves, as well as the related interest, in light of changing facts and circumstances. Settlement of any particular position would usually require the use of cash. The resolution of a matter would be recognized as an adjustment to our provision for income taxes and our effective tax rate in the period of resolution.

The number of years with open tax audits varies depending on the tax jurisdiction. Our major taxing jurisdictions include the U.S., Mexico, the United Kingdom and Canada. In the U.S, the Internal Revenue Service (IRS), in the fourth quarter of 2006, issued a Revenue Agent's Report (RAR) related to the years 1998 through 2002. We are in agreement with their conclusion, except for one matter which we continue to dispute. We made the appropriate cash payment during the fourth quarter of 2006 to settle the agreed-upon issues, and we do not anticipate the resolution of the open matter will significantly impact our financial statements. The IRS initiated their audit of our U.S. tax returns for the years 2003 through 2005 during the first quarter of 2007. In Mexico, during 2006, we completed and agreed with the conclusions of an audit of our tax returns for the years 2001 through 2005. In the United Kingdom, audits have been completed for all taxable years prior to 2004. In Canada, audits have been completed for all taxable years prior to 2004. We are disputing some of the adjustments for the years 1999 through 2003. We do not anticipate the resolution of the 1999 through 2003 tax years will significantly impact our financial statements. The Canadian tax return for 2004 is currently under audit and no adjustments are expected to significantly impact our financial statements.

In the third quarter of 2007, we recognized $115 million of non-cash tax benefits related to the favorable resolution of certain foreign tax matters.

In October 2007, Mexico enacted new tax legislation that will take effect on January 1, 2008. We are currently evaluating the impact of the new legislation on our financial statements and do not believe the impact to net income in 2007 will exceed $50 million.

Recent Accounting Pronouncements

We adopted FIN 48 as of the beginning of our 2007 fiscal year. Additionally, in May 2007, the FASB published FASB Staff Position No. FIN 48-1, *Definition of Settlement in FASB Interpretation No. 48* (FSP FIN 48-1). FSP FIN 48-1 is an amendment to FIN 48. It clarifies how an enterprise should determine whether a tax position is effectively settled for the purpose of recognizing previously unrecognized tax benefits. As of our adoption date of FIN 48, our accounting is consistent with the guidance in FSP FIN 48-1. See *Income Taxes*.

In September 2006, the FASB issued SFAS 157, *Fair Value Measurements* (SFAS 157), which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The provisions of SFAS 157 are effective as of the beginning of our 2008 fiscal year. We are currently evaluating the impact of adopting SFAS 157 on our financial statements.

In February 2007, the FASB issued SFAS 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115* (SFAS 159), which permits entities to choose to measure many financial instruments and certain other items at fair value. The provisions of SFAS 159 are effective as of the beginning of our 2008 fiscal year. We are currently evaluating the impact of adopting SFAS 159 on our financial statements.

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

FINANCIAL REVIEW

Our discussion and analysis is an integral part of understanding our financial results. Also refer to Basis of Presentation and Our Divisions in the Notes to the Condensed Consolidated Financial Statements. Tabular dollars are presented in millions, except per share amounts. All per share amounts reflect common per share amounts, assume dilution unless noted, and are based on unrounded amounts. Percentage changes are based on unrounded amounts.

Our Critical Accounting Policies

Sales Incentives and Advertising and Marketing Costs

We offer sales incentives and discounts through various programs to customers and consumers. These incentives are accounted for as a reduction of revenue. Certain sales incentives are recognized at the time of sale while other incentives, such as bottler funding and customer volume rebates, are recognized during the year incurred, generally in proportion to revenue, based on annual targets. Anticipated payments are estimated based on historical experience with similar programs and require management judgment with respect to estimating customer participation and performance levels. Differences between estimated expense and actual incentive costs are normally insignificant and are recognized in earnings in the period such differences are determined. In addition, certain advertising and marketing costs are also recognized during the year incurred, generally in proportion to revenue.

Income Taxes

In determining our quarterly provision for income taxes, we use an estimated annual effective tax rate which is based on our expected annual income, statutory tax rates and tax planning opportunities available to us in the various jurisdictions in which we operate. Our estimated annual effective tax rate also reflects our best estimate of the ultimate outcome of tax audits. In accordance with our income tax policy, significant or unusual items are separately recognized in the quarter in which they occur.

Stock-Based Compensation

We account for our employee stock options, which include grants under our executive program and broad-based SharePower program, under the fair value method of accounting using a Black-Scholes valuation model to measure stock option expense at the date of grant. All stock option grants have an exercise price equal to the fair market value of our common stock on the date of grant and generally have a 10-year term. The fair value of stock option grants is amortized to expense over the vesting period, generally three years. RSU expense is based on the fair value of PepsiCo stock on the date of grant and is amortized over the vesting period, generally three years. Volatility reflects movements in our stock price over the most recent historical period equivalent to the expected life.

For our 2007 Black-Scholes assumptions, see *Stock-Based Compensation* in the Notes to the Condensed Consolidated Financial Statements.

Table of Contents

Recent Accounting Pronouncements

We adopted FIN 48 as of the beginning of our 2007 fiscal year. Additionally, in May 2007, the FASB published FSP FIN 48-1. FSP FIN 48-1 is an amendment to FIN 48. It clarifies how an enterprise should determine whether a tax position is effectively settled for the purpose of recognizing previously unrecognized tax benefits. As of our adoption date of FIN 48, our accounting is consistent with the guidance in FSP FIN 48-1. See *Income Taxes* in the Notes to the Condensed Consolidated Financial Statements.

In September 2006, the FASB issued SFAS 157, which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The provisions of SFAS 157 are effective as of the beginning of our 2008 fiscal year. We are currently evaluating the impact of adopting SFAS 157 on our financial statements.

In February 2007, the FASB issued SFAS 159, which permits entities to choose to measure many financial instruments and certain other items at fair value. The provisions of SFAS 159 are effective as of the beginning of our 2008 fiscal year. We are currently evaluating the impact of adopting SFAS 159 on our financial statements.

Our Business Risks

We discuss expectations regarding our future performance, such as our business outlook, in our annual and quarterly reports, press releases, and other written and oral statements. These "forward-looking statements" are based on currently available competitive, financial and economic data and our operating plans. They are inherently uncertain, and investors must recognize that events could turn out to be significantly different from our expectations. We undertake no obligations to update any forward-looking statement.

Our operations outside of the United States generate approximately 45% of our net revenue. As a result, we are exposed to foreign currency risks, including unforeseen economic changes and political unrest. During the 36 weeks, net favorable foreign currency contributed 2 percentage points to net revenue growth, primarily due to appreciation in the euro and British pound. Currency declines which are not offset could adversely impact our future results.

In the second quarter of 2007, we expanded our commodity hedging program to include derivative contracts used to mitigate our exposure to price changes associated with our purchases of fruit. Similar to our energy contracts, these contracts 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 then subsequently reflected in divisional results. We expect to be able to continue to reduce the impact of increases in our raw material and energy costs through our hedging strategies and ongoing productivity initiatives.

Cautionary statements included in Management's Discussion and Analysis and in Item 1A. in our Annual Report on Form 10-K for the fiscal year ended December 30, 2006 should be considered when evaluating our trends and future results.

[Table of Contents](#)

Results of Operations – Consolidated Review

In the discussions of net revenue and operating profit below, "effective net pricing" reflects the year-over-year impact of discrete pricing actions, sales incentive activities and mix resulting from selling varying products in different package sizes and in different countries.

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, total servings increased almost 4%, with worldwide beverages growing 3.5% and worldwide snacks growing 4.5%. For the 36 weeks, total servings increased 4%, with worldwide beverages growing 4% and worldwide snacks growing 6%.

We discuss volume for our beverage businesses on a bottler case sales (BCS) basis in which all beverage volume is converted to an 8-ounce-case metric. A portion of our volume is sold by our bottlers, and that portion is based on our bottlers' sales to retailers and independent distributors. The remainder of our volume is based on our shipments to retailers and independent distributors. BCS is reported to us by our bottlers on a monthly basis. Our third quarter beverage volume includes bottler sales for June, July, and August. Concentrate shipments and equivalents (CSE) represent our physical beverage volume shipments to bottlers, retailers and independent distributors, and is the measure upon which our revenue is based.

Consolidated Results

Total Net Revenue and Operating Profit

	12 Weeks Ended			36 Weeks Ended		
	9/8/07	9/9/06	Change	**9/8/07**	9/9/06	Change
Total net revenue	**$10,171**	$9,134	11%	**$27,128**	$24,567	10%
Operating profit						
FLNA	**$ 742**	$ 694	7%	**$ 2,034**	$ 1,897	7%
PBNA	**649**	603	7%	**1,724**	1,657	4%
PI	**707**	595	19%	**1,762**	1,460	21%
QFNA	**126**	123	2%	**399**	389	2%
Corporate unallocated	**(162)**	(159)	0.5%	**(479)**	(490)	(2.5)%
Total operating profit	**$ 2,062**	$1,856	11%	**$ 5,440**	$ 4,913	11%
Total operating profit margin	**20.3%**	20.3%	–	**20.1%**	20.0%	0.1

12 Weeks

Net revenue increased 11% reflecting positive effective net pricing across all divisions, as well as our volume growth. Effective net pricing contributed 3.5 percentage points to net revenue growth and the volume gains contributed 2 percentage points. Acquisitions contributed 3 percentage points and foreign currency contributed nearly 3 percentage points to net revenue growth.

Total operating profit increased 11% and operating margin was unchanged. The operating profit performance reflects leverage from the revenue growth, partially offset by the impact of higher raw material costs.

Corporate unallocated expenses increased 0.5% primarily reflecting higher net losses of $28 million from certain mark-to-market derivatives, mostly offset by lower deferred compensation costs of $16 million. The decrease in deferred compensation costs is offset (as a reduction to interest income) by losses on investments used to economically hedge these costs.

36 Weeks

Net revenue increased 10% primarily reflecting positive effective net pricing across all divisions, as well as our volume growth. Effective net pricing contributed 3.5 percentage points to net revenue growth and the volume gains contributed 3 percentage points. The impact of acquisitions contributed over 2 percentage points to net revenue growth and foreign currency contributed 2 percentage points.

Total operating profit increased 11% and margin increased 0.1 percentage points. The operating profit performance reflects leverage from the revenue growth, partially offset by the impact of higher raw material costs.

Corporate unallocated expenses decreased 2.5% reflecting lower pension costs of $13 million and foreign exchange gains of $9 million. In 2006, corporate unallocated expenses also reflect a gain of $11 million related to the revaluation of an asset held for sale.

Other Consolidated Results

	12 Weeks Ended			36 Weeks Ended		
	9/8/07	9/9/06	Change	**9/8/07**	9/9/06	Change
Bottling equity income	**$ 218**	$ 204	6%	**$ 465**	$ 440	6%
Interest expense, net	**$ (36)**	$ (12)	$ (24)	**$ (71)**	$ (62)	$ (9)
Tax rate	**22.3%**	27.0%		**24.7%**	27.9%	
Net income	**$1,743**	$1,494	17%	**$4,396**	$3,816	15%
Net income per common share – diluted	**$ 1.06**	$ 0.89	19%	**$ 2.64**	$ 2.26	17%

12 Weeks

Bottling equity income increased 6% primarily reflecting higher earnings from our anchor bottlers.

Net interest expense increased $24 million primarily reflecting losses of $10 million in the market value of investments used to economically hedge a portion of our deferred compensation costs, compared to gains of $6 million in the prior year. The unfavorable impact of lower average investment balances was mostly offset by higher average interest rates on investments.

The tax rate decreased 4.7 percentage points compared to the prior year primarily due to $115 million of tax benefits in the current quarter related to the favorable resolution of certain foreign tax matters.

Net income increased 17% and the related net income per share increased 19%. These increases primarily reflect our solid operating profit growth and the $115 million of tax benefits related to the favorable resolution of certain foreign tax matters. Net income per share was also favorably impacted by our share repurchases.

36 Weeks

Bottling equity income increased 6% primarily reflecting higher earnings from our anchor bottlers.

Net interest expense increased $9 million primarily reflecting the impact of lower investment balances and higher average rates on our debt, partially offset by lower average debt balances and higher average interest rates on our investments. Net interest expense also reflected $6 million of gains in the market value of investments used to economically hedge a portion of our deferred compensation costs, compared to gains of $8 million in the prior year.

The tax rate decreased 3.2 percentage points compared to the prior year primarily due to the $115 million of tax benefits in the current quarter related to the favorable resolution of certain foreign tax matters.

Net income increased 15% and the related net income per share increased 17%. These increases primarily reflect our solid operating profit growth, as well as the decrease in our effective tax rate which includes the impact of the $115 million of tax benefits related to the favorable resolution of certain foreign tax matters. Net income per share was also favorably impacted by our share repurchases.

Table of Contents

Results of Operations – Division Review

The results and discussions below are based on how our Chief Executive Officer monitors the performance of our divisions. For additional information on our divisions, see *Our Divisions* in the Notes to the Condensed Consolidated Financial Statements.

Net Revenue **12 Weeks Ended**	**FLNA**	**PBNA**	**PI**	**QFNA**	**Total**
Q3, 2007	**$2,800**	**$2,698**	**$ 4,262**	**$ 411**	**$10,171**
Q3, 2006	$2,642	$2,608	$ 3,482	$ 402	$ 9,134
% Impact of:					
Volume	2%	(3)%[a]	7%[a]	(2)%	2%
Effective net pricing[b]	4	4	3	3.5	3.5
Foreign exchange	1	–	6	1	3
Acquisitions/divestitures	–	2	7	–	3
% Change[c]	*6%*	*3%*	*22%*	*2%*	*11%*

Net Revenue **36 Weeks Ended**	**FLNA**	**PBNA**	**PI**	**QFNA**	**Total**
Q3, 2007	**$8,076**	**$7,411**	**$10,377**	**$1,264**	**$27,128**
Q3, 2006	$7,602	$7,104	$ 8,643	$1,218	$24,567
% Impact of:					
Volume	2.5%	(2)%[a]	7%[a]	1%	3%
Effective net pricing[b]	3.5	4	3	3	3.5
Foreign exchange	–	–	5	–	2
Acquisitions/divestitures	–	2	5	–	2
% Change[c]	*6%*	*4%*	*20%*	*4%*	*10%*

(a) Volume growth varies from the amounts disclosed in the following divisional discussions due primarily to non-consolidated joint venture volume and temporary timing differences between BCS and CSE. Our net revenue excludes non-consolidated joint venture volume and is based on CSE.

(b) Includes 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.

Frito-Lay North America

	12 Weeks Ended			36 Weeks Ended		
	9/8/07	9/9/06	Change	**9/8/07**	9/9/06	Change
Net revenue	**$2,800**	$2,642	6%	**$8,076**	$7,602	6%
Operating profit	**$ 742**	$ 694	7%	**$2,034**	$1,897	7%

12 Weeks

Net revenue grew 6% reflecting volume growth of 2% and positive effective net pricing due to pricing actions and favorable mix. Pound volume grew primarily due to high-single-digit growth in trademark Doritos, and double-digit growth in dips, multipack and SunChips. These volume gains were partially offset by a mid-single-digit decline in trademark Lay's. Overall, salty snacks revenue grew 5% with volume growth of 1.5%, and other macro snacks revenue grew 10% with volume growth of 5%.

Operating profit grew 7% driven by the net revenue growth. This growth was partially offset by increased advertising and marketing expenses, as well as higher commodity costs.

Smart Spot eligible products represented approximately 15% of net revenue. These products experienced high-single-digit revenue growth, while the balance of the portfolio grew in the mid-single-digit range.

36 Weeks

Net revenue grew 6% reflecting volume growth of 2.5% and positive effective net pricing due to pricing actions and favorable mix. Pound volume grew primarily due to double-digit growth in trademark Doritos, SunChips, dips and multipack. These volume gains were partially offset by a mid-single-digit decline in trademark Lay's. Overall, salty snacks revenue grew 6% with volume growth of 2.5%, and other macro snacks revenue grew 10% with volume growth of 4%.

Operating profit grew 7% driven by the net revenue growth, as well as a favorable casualty insurance actuarial adjustment reflecting improved safety performance. The operating profit growth was partially offset by increased advertising and marketing expenses, as well as higher commodity costs.

Smart Spot eligible products represented approximately 16% of net revenue. These products experienced double-digit revenue growth, while the balance of the portfolio grew in the mid-single-digit range.

PepsiCo Beverages North America

	12 Weeks Ended			36 Weeks Ended		
	9/8/07	9/9/06	Change	**9/8/07**	9/9/06	Change
Net revenue	**$2,698**	$2,608	3%	**$7,411**	$7,104	4%
Operating profit	**$ 649**	$ 603	7%	**$1,724**	$1,657	4%

12 Weeks

BCS volume declined 1% driven by a 3% decline in carbonated soft drinks (CSD), partially offset by a 2% increase in non-carbonated beverages. The decline in CSDs reflects a mid-single-digit decline in trademark Pepsi, partially offset by a low-single-digit increase in trademark Mountain Dew. Trademark Sierra Mist volume was flat. Across the brands, regular and diet CSDs experienced a low-single-digit decline. The non-carbonated portfolio performance was driven by double-digit growth in Lipton ready-to-drink teas and high-single-digit growth in waters and enhanced waters under the Aquafina, Propel and SoBe trademarks, partially offset by mid-single-digit declines in both Gatorade and our juice and juice drinks portfolio. The decline in our juice and juice drinks portfolio reflects a double-digit decline in Tropicana Pure Premium driven by significant price increases taken in prior quarters.

Net revenue grew 3% driven by net price increases, primarily on Tropicana Pure Premium and CSD concentrate. Acquisitions contributed 2 percentage points to net revenue growth.

Operating profit increased 7% reflecting the net revenue growth, as well as manufacturing and distribution efficiencies, partially offset by higher cost of sales, mainly due to higher fruit and juice costs. Operating profit also benefited from the absence of amortization expense recorded in 2006 related to a prior acquisition. The impact of acquisitions reduced operating profit by 1 percentage point.

Smart Spot eligible products represented over 70% of net revenue. These products experienced low-single-digit net revenue growth, while the balance of the portfolio grew in the mid-single-digit range.

36 Weeks

BCS volume was flat due to a 3% decline in CSDs, entirely offset by a 4% increase in non-carbonated beverages. The decline in the CSD portfolio reflects a mid-single-digit decline in trademark Pepsi and a low-single-digit decline in trademark Mountain Dew, offset slightly by a low-single-digit increase in trademark Sierra Mist. Across the brands, regular CSDs experienced a mid-single-digit decline and diet CSDs experienced a low-single-digit decline. The non-carbonated portfolio performance was driven by double-digit growth in Lipton ready-to-drink teas and double-digit growth in waters and enhanced waters under the Aquafina, Propel and SoBe trademarks, partially offset by a low-single-digit decline in Gatorade and a mid-single-digit decline in our juice and juice drinks portfolio. The decline in our juice and juice drinks portfolio reflects a double-digit decline in Tropicana Pure Premium driven by significant price increases taken in prior quarters.

Net revenue grew 4% driven by effective net pricing, primarily reflecting the price increases on Tropicana Pure Premium and CSD concentrate and the continuing migration from CSDs to higher-priced non-carbonated beverages. Acquisitions contributed 2 percentage points to net revenue growth.

Operating profit increased 4% reflecting the net revenue growth, partially offset by higher cost of sales, mainly due to higher fruit and juice costs. Operating profit was also positively impacted by the absence of amortization expense related to a prior acquisition, partially offset by the absence of a $29 million favorable insurance settlement, both recorded in 2006. The impact of acquisitions reduced operating profit by 0.5 percentage points.

Smart Spot eligible products represented over 70% of net revenue. These products, as well as the balance of the portfolio, experienced mid-single-digit net revenue growth.

PepsiCo International

	12 Weeks Ended			36 Weeks Ended		
	9/8/07	9/9/06	Change	**9/8/07**	9/9/06	Change
Net revenue	**$4,262**	$3,482	22%	**$10,377**	$8,643	20%
Operating profit	**$ 707**	$ 595	19%	**$ 1,762**	$1,460	21%

12 Weeks

International snacks volume grew 7%, reflecting double-digit growth at Gamesa in Mexico, as well as double-digit growth in Russia, the Middle East and Brazil, partially offset by a mid-single-digit decline at Sabritas in Mexico and a low-single-digit decline at Walkers in the United Kingdom. Additionally, India and China both grew at a double-digit rate. Overall, the Europe, Middle East & Africa region grew 7%, the Latin America region grew 5% and the Asia Pacific region grew 20%. The acquisition of a business in New Zealand in the first quarter of 2007 increased the Asia Pacific region volume by 10 percentage points. In aggregate, acquisitions contributed 1 percentage point to the reported total PepsiCo International snack volume growth rate.

Beverage volume grew 8%, led by double-digit growth in Pakistan, China, the Middle East and Russia, partially offset by a low-single-digit decline in Mexico and a high-single-digit decline in Spain. The Europe, Middle East & Africa region grew 9%, the Asia Pacific region grew 12%, and the Latin America region grew 3%. Acquisitions had no impact on the growth rates. CSDs grew at a high-single-digit rate while non-carbonated beverages grew at a double-digit rate.

Net revenue grew 22%, reflecting the volume growth and favorable effective net pricing. Foreign currency contributed 6 percentage points of growth primarily reflecting the favorable euro, British pound and Brazilian real. The net impact of acquisitions and divestitures contributed 7 percentage points to net revenue growth.

Operating profit grew 19% driven largely by the volume growth and favorable effective net pricing, partially offset by increased raw material costs. Foreign currency contributed nearly 6 percentage points of growth primarily reflecting the favorable euro and the British pound. The net impact of acquisitions and divestitures on operating profit growth was minimal.

36 Weeks

International snacks volume grew 9%, led by double-digit growth at Gamesa in Mexico, as well as double-digit growth in Russia, partially offset by low-single digit declines at Sabritas in Mexico and at Walkers in the United Kingdom. Additionally, India grew at a double-digit rate. Overall, the Europe, Middle East & Africa region grew 10%, the Latin America region grew 7%, and the Asia Pacific region grew 19%. The acquisition of a business in Europe in the third quarter of 2006 increased the Europe, Middle East & Africa region volume growth by 2 percentage points. The acquisition of a business in New Zealand in the first quarter of 2007 increased the Asia Pacific region volume by 10 percentage points. In aggregate, acquisitions contributed 2 percentage points to the reported total PepsiCo International snack volume growth rate.

Beverage volume grew 8%, led by double-digit growth in Pakistan, Russia, China and the Middle East, partially offset by a low-single-digit decline in Mexico and a mid-single-digit decline in Thailand. The Europe, Middle East & Africa region grew 10%, the Asia Pacific region grew 8%, and the Latin America region grew 4%. Acquisitions had no impact on the growth rates. CSDs grew at a high-single-digit rate while non-carbonated beverages grew at a double-digit rate.

Net revenue grew 20%, reflecting the volume growth and favorable effective net pricing. Foreign currency contributed 5 percentage points of growth primarily reflecting the favorable euro and the British pound. The net impact of acquisitions and divestitures also contributed 5 percentage points to net revenue growth.

Operating profit grew 21% driven largely by the volume growth and favorable effective net pricing, partially offset by increased raw material costs. Foreign currency contributed 4.5 percentage points of growth primarily reflecting the favorable British pound and euro. The net impact of acquisitions and divestitures on operating profit growth was minimal.

Quaker Foods North America

	12 Weeks Ended			36 Weeks Ended		
	9/8/07	9/9/06	Change	**9/8/07**	9/9/06	Change
Net revenue	**$ 411**	$ 402	2%	**$1,264**	$1,218	4%
Operating profit	**$ 126**	$ 123	2%	**$ 399**	$ 389	2%

12 weeks

Net revenue increased 2% and volume declined 2%. The volume performance reflects a double-digit decline in Rice-A-Roni, a low-single-digit decline in Oatmeal and a double-digit decline in Pasta Roni. These decreases were partially offset by mid-single-digit growth in Cap’n Crunch cereal. The net revenue growth was primarily driven by price increases taken in the first quarter, partially offset by the lower volume. Favorable Canadian foreign exchange rates contributed almost 1 percentage point to net revenue growth.

Operating profit increased 2% reflecting the net revenue growth partially offset by increased raw material costs.

Smart Spot eligible products represented over half of net revenue and experienced low-single-digit net revenue growth. The balance of the portfolio also grew in the low-single-digit range.

36 weeks

Net revenue increased 4% and volume grew 1%. The volume increase primarily reflects low-single-digit growth in Oatmeal and Cap'n Crunch cereal. These increases were partially offset by a double-digit decline in Rice-A-Roni, a low-single-digit decline in Life cereal and a mid-single-digit decline in Pasta Roni. The net revenue growth was primarily driven by positive effective net pricing, as well as the volume growth.

Operating profit increased 2% reflecting the net revenue growth partially offset by increased raw material costs.

Smart Spot eligible products represented over half of net revenue and experienced mid-single-digit net revenue growth. The balance of the portfolio also grew in the mid-single-digit range.

OUR LIQUIDITY AND CAPITAL RESOURCES

Operating Activities

During the 36 weeks, our operations provided $5.2 billion of cash, primarily reflecting our solid business results, compared to $4.3 billion in the prior year. Our operating cash flow in 2006 also reflects a tax payment of $420 million related to our repatriation of international cash in connection with the American Jobs Creation Act (AJCA).

We make periodic regulatory contributions to our qualified pension plans during the course of the year. We also make annual discretionary contributions to these plans to maintain fully funded status on an accumulated benefit obligation (ABO) basis. We expect the assets for these plans to meet or exceed the liabilities for service to date as of September 30, 2007, our measurement date.

Investing Activities

During the 36 weeks, we used $1.9 billion for our investing activities primarily reflecting $1.3 billion for capital spending and $1.0 billion for acquisitions. Significant acquisitions included our acquisition of the remaining interest in a snacks joint venture in Latin America, our acquisitions of Naked Juice Company and Bluebird Foods, and the acquisition of a minority interest in a juice company in the Ukraine through a joint venture with PepsiAmericas, Inc. Proceeds from our sale of PBG stock of $296 million partially offset the use of cash.

We anticipate net capital spending of approximately $2.6 billion in 2007, which is expected to be within our net capital spending target of approximately 5% to 7% of net revenue in each of the next few years.

Financing Activities

During the 36 weeks, we used $3.9 billion for our financing activities, primarily reflecting the return of operating cash flow to our shareholders through common share repurchases of $3.1 billion and dividend payments of $1.6 billion, as well as net repayments of short-term borrowings of $402 million. The use of cash was partially offset by stock option proceeds of $666 million and net proceeds from issuances of long-term debt of $463 million.

In the second quarter of 2007, our Board of Directors approved an increase in our targeted dividend payout rate from 45% to 50% of prior year's earnings, excluding certain items. The Board of Directors also authorized stock repurchases of up to an additional $8 billion through mid-2010, once the current share repurchase authorization is complete. The current $8.5 billion authorization began in 2006 and has approximately $4.2 billion remaining.

Management Operating Cash Flow

We focus on management operating cash flow as a key element in achieving maximum shareholder value, and it is the primary measure we use to monitor cash flow performance. However, it is not a measure provided by accounting principles generally accepted in the U.S. Since net capital spending is essential to our product innovation initiatives and maintaining our operational capabilities, we believe that it is a recurring and necessary use of cash. As such, we believe investors should also consider net capital spending when evaluating our cash from operating activities. The table below reconciles net cash provided by operating activities as reflected in our Condensed Consolidated Statement of Cash Flows to our management operating cash flow.

	36 Weeks Ended	
	9/8/07	9/9/06
Net cash provided by operating activities	**$ 5,170**	$ 4,271
Capital spending	**(1,260)**	(1,130)
Sales of property, plant and equipment	**23**	37
Management operating cash flow	**$ 3,933**	$ 3,178

In 2006, management operating cash flow reflects our prior year first quarter tax payment of $420 million related to our repatriation of international cash in 2005 in connection with the AJCA. During 2007, we expect to return approximately all of our management operating cash flow to our shareholders through dividends and share repurchases. However, see "Risk Factors" in Item 1A. and "Our Business Risks" in our Annual Report on Form 10-K for the fiscal year ended December 30, 2006 for certain factors that may impact our operating cash flows.

Debt Obligations and Commitments

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

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 September 8, 2007, the related Condensed Consolidated Statements of Income and Comprehensive Income for the twelve and thirty-six weeks ended September 8, 2007 and September 9, 2006, and the Condensed Consolidated Statements of Cash Flows for the thirty-six weeks ended September 8, 2007 and September 9, 2006. These interim condensed consolidated financial statements are the responsibility of PepsiCo, Inc.'s management.

We conducted our reviews 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 30, 2006, and the related Consolidated Statements of Income, Common Shareholders' Equity and Cash Flows for the year then ended not presented herein; and in our report dated February 16, 2007, 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 30, 2006, 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
October 11, 2007

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 third fiscal quarter of 2007, we continued migrating certain of our financial processing systems to SAP software. This software implementation is part of our ongoing global Business Process Transformation initiative, and we plan to continue implementing such software throughout our businesses over the course of the next few years. In connection with the SAP implementation and resulting business process changes, we continue to enhance the design and documentation of our internal control processes to ensure suitable controls over our financial reporting. Except as described above, there were no changes in our internal control over financial reporting during our third fiscal quarter of 2007 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

ITEM 1. Legal Proceedings

We are party to a variety of legal proceedings arising in the normal course of business. While the results of proceedings cannot be predicted with certainty, management believes that the final outcome of these proceedings will not have a material adverse effect on our consolidated financial statements, results of operations or cash flows.

ITEM 1A. Risk Factors

There have been no material changes with respect to the risk factors disclosed in our Annual Report on Form 10-K for the fiscal year ended December 30, 2006.

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 third quarter under the $8.5 billion repurchase program authorized by our Board of Directors and publicly announced on May 3, 2006, and expiring on June 30, 2009, is set forth in the following table. All such shares of common stock were repurchased pursuant to open market transactions, other than 203,000 shares of common stock which were repurchased pursuant to a privately negotiated block trade transaction.

Issuer Purchases of Common Stock

Period	(a) Total Number of Shares Repurchased	(b) Average Price Paid Per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares that may Yet Be Purchased Under the Plans or Programs
6/16/07				$ 5,323
6/17/07 – 7/14/07	6.1	$ 65.63	6.1	(402)
				4,921
7/15/07 – 8/11/07	5.9	67.02	5.9	(397)
				4,524
8/12/07 – 9/8/07	4.8	68.12	4.8	(323)
Total	16.8	$ 66.82	16.8	$ 4,201

In addition to the above, the Board of Directors also authorized in the second quarter of 2007 stock repurchases of up to an additional $8 billion through mid-2010, once the current share repurchase authorization is complete.

In addition, PepsiCo 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 third quarter:

Issuer Purchases of Convertible Preferred Stock

Period	(a) Total Number of Shares Repurchased	(b) Average Price Paid Per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares that may Yet Be Purchased Under the Plans or Programs
6/16/07				
6/17/07 – 7/14/07	2,300	$ 321.97	N/A	N/A
7/15/07 – 8/11/07	1,300	337.85	N/A	N/A
8/12/07 – 9/8/07	2,800	338.39	N/A	N/A
Total	6,400	$ 332.38	N/A	N/A

ITEM 6. Exhibits

See Index to Exhibits on page 34.

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.

PepsiCo, Inc.
(Registrant)

Date: October 11, 2007

/S/ PETER A. BRIDGMAN
Peter A. Bridgman
Senior Vice President and
Controller

Date: October 11, 2007

/S/ THOMAS H. TAMONEY, JR.
Thomas H. Tamoney, Jr.
Vice President, Deputy General
Counsel and Assistant Secretary
(Duly Authorized Officer)

Table of Contents

INDEX TO EXHIBITS
ITEM 6(a)

EXHIBITS

Exhibit 1.1	Supplemental Programme Agreement dated July 31, 2007 between the Company and the Dealers named therein, which is incorporated herein by reference to Exhibit 1.1 to PepsiCo's Current Report on Form 8-K dated as of August 2, 2007
Exhibit 4.1	Supplemental Agency Agreement dated July 31, 2007 by and among the Company and The Bank of New York, which is incorporated herein by reference to Exhibit 4.1 to PepsiCo's Current Report on Form 8-K dated as of August 2, 2007
Exhibit 10.1	Amendment effective August 1, 2007 to Five-Year Credit Agreement dated as of May 22, 2006 among PepsiCo, Inc., as Borrower, the Lenders named therein, and Citibank, N.A., as Administrative Agent, which is incorporated herein by reference to Exhibit 10.1 to PepsiCo's Current Report on Form 8-K dated as of August 2, 2007
Exhibit 10.2	PepsiCo, Inc. 2007 Long-Term Incentive Plan, as amended and restated effective September 13, 2007*
Exhibit 10.3	First Amendment to the PepsiCo Director Deferral Program, effective September 13, 2007*
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

* Compensatory plan or arrangement

EXHIBIT 10.2

PepsiCo, Inc.

2007 LONG-TERM INCENTIVE PLAN
(as amended and restated effective September 13, 2007)

1. Purposes.

The purposes of the Plan are to provide long-term incentives to those persons with significant responsibility for the success and growth of PepsiCo and its subsidiaries, divisions and affiliated businesses, to associate the interests of such persons with those of PepsiCo's shareholders, to assist PepsiCo in recruiting, retaining and motivating a diverse group of employees and outside directors on a competitive basis, and to ensure a pay for performance linkage for such employees and outside directors. If approved by PepsiCo's shareholders, the Plan shall replace the 2003 Long-Term Incentive Plan, and no further awards shall be made under the 2003 Long-Term Incentive Plan.

2. Definitions.

For purposes of the Plan:

(a) "2003 Long-Term Incentive Plan" means the PepsiCo, Inc. 2003 Long-Term Incentive Plan, as amended and restated from time to time.

(b) "Award" means a grant of Options, Stock Appreciation Rights, Restricted Shares, Restricted Stock Units, Performance Shares, Performance Units, Stock Awards, or any or all of them (but a Stock Award may not be granted to employees or officers).

(c) "Board" means the Board of Directors of PepsiCo.

(d) "Cause" has the meaning set forth in Section 11(b)(ii).

(e) "Change in Control" has the meaning set forth in Section 11(b)(i).

(f) "Change-in-Control Treatment" has the meaning set forth in Section 11(a)(ii).

(g) "Code" means the Internal Revenue Code of 1986, as amended.

(h) "Committee" means, with respect to any matter relating to Section 8 of the Plan, the Board, and with respect to all other matters under the Plan, the Compensation Committee of the Board. The Compensation Committee shall be appointed by the Board and shall consist of two or more outside, disinterested members of the Board. In the judgment of the Board, the Compensation Committee shall be qualified to administer the Plan as contemplated by (a) Rule 16b-3 of the Exchange Act, (b) Code Section 162(m) and the regulations thereunder (or any successor Code Section and regulations), and (c) any rules and regulations of a stock exchange on which Common Stock is traded. Any member of the Compensation Committee of the Board who does not satisfy the qualifications set out in the preceding sentence may recuse himself or herself from any vote or other action taken by the Compensation Committee of the Board. The Board may, at any time and in its complete discretion, remove any member of the Compensation Committee and may fill any vacancy in the Compensation Committee.

(i) "Common Stock" means the common stock, par value $1\,^{2}/_{3}$ cents per share, of PepsiCo.

(j) "Company" means PepsiCo, its subsidiaries, divisions and affiliated businesses.

(k) “Covered Employee” means any PepsiCo employee for whom PepsiCo is subject to the deductibility limitation imposed by Code Section 162(m).

(l) “Eligible Person” means any of the following individuals who is designated by the Committee as eligible to receive Awards, subject to the conditions set forth in the Plan: (i) any employee of the Company (including any officer of the Company and any Employee Director) provided that the term employee does not include any individual who is not, as of the grant date of an Award, classified by the Company as an employee on its corporate books and records even if that individual is later reclassified (by the Company, any court or any governmental agency) as an employee as of the grant date; (ii) any consultant or advisor of the Company; and (iii) any Non-Employee Director who is eligible to receive an Award in accordance with Section 8 hereof.

(m) “Employee Director” means a member of the Board who is also an employee of the Company.

(n) “Exchange Act” means the Securities Exchange Act of 1934, as amended from time to time, and any successor thereto.

(o) “Fair Market Value” on any date means the average of the high and low market prices at which a share of Common Stock shall have been sold on such date, or the immediately preceding trading day if such date was not a trading day, as reported on the New York Stock Exchange Composite Transactions Listing and, in the case of an ISO, means fair market value as determined by the Committee in accordance with Code Section 422 and, in the case of an Option that is not exempt from Code Section 409A, fair market value as determined by the Committee in accordance with Code Section 409A.

(p) “Good Reason” has the meaning set forth in Section 11(b)(iii).

(q) “Initial Grant” has the meaning set forth in Section 8(b).

(r) “ISO” means an Option satisfying the requirements of Code Section 422 and designated as an ISO by the Committee.

(s) “Non-Employee Director” means a member of the Board who is not an employee of the Company.

(t) “NQSO” or “Non-Qualified Stock Option” means an Option that does not satisfy the requirements of Code Section 422 or that is not designated as an ISO by the Committee.

(u) “Options” means the right to purchase shares of Common Stock at a specified price for a specified period of time.

(v) “Option Exercise Price” means the purchase price per share of Common Stock covered by an Option granted pursuant to the Plan.

(w) “Participant” means an Eligible Person who has received an Award under the Plan.

(x) “PepsiCo” means PepsiCo, Inc., a North Carolina corporation, and its successors and assigns.

(y) “Performance Awards” means an Award of Options, Performance Shares, Performance Units, Restricted Shares, Restricted Stock Units or SARs conditioned on the achievement of Performance Goals during a Performance Period.

(z) “Performance-Based Exception” means the performance-based exception to the deductibility limitations of Code Section 162(m), as set forth in Code Section 162(m)(4)(C).

(aa) "Performance Goals" means the goals established by the Committee under Section 7(d).

(bb) "Performance Measures" means the criteria set out in Section 7(d) that may be used by the Committee as the basis for a Performance Goal.

(cc) "Performance Period" means the period established by the Committee during which the achievement of Performance Goals is assessed in order to determine whether and to what extent an Award that is conditioned on attaining Performance Goals has been earned.

(dd) "Performance Shares" means an Award of shares of Common Stock awarded to a Participant based on the achievement of Performance Goals during a Performance Period.

(ee) "Performance Units" means an Award denominated in shares of Common Stock, cash or a combination thereof, as determined by the Committee, awarded to a Participant based on the achievement of Performance Goals during a Performance Period.

(ff) "Plan" means this PepsiCo, Inc. 2007 Long-Term Incentive Plan, as amended and restated from time to time.

(gg) "Prior Plans" means the PepsiCo, Inc. 2003 Long-Term Incentive Plan, the PepsiCo, Inc. 1994 Long-Term Incentive Plan, the PepsiCo, Inc. 1995 Stock Option Incentive Plan, the PepsiCo SharePower Stock Option Plan, the Director Stock Plan, the PepsiCo 1987 Incentive Plan, the Quaker Long Term Incentive Plan of 1990, the Quaker Long Term Incentive Plan of 1999 and the Quaker Stock Compensation Plan for Outside Directors, each as amended and restated from time to time.

(hh) "Restricted Shares" means shares of Common Stock that are subject to such restrictions and such other terms and conditions as the Committee may establish.

(ii) "Restricted Stock Units" means the right, as described in Section 7(c), to receive an amount, payable in either cash, shares of Common Stock or a combination thereof, equal to the value of a specified number of shares of Common Stock, subject to such terms and conditions as the Committee may establish.

(jj) "Restriction Period" means, with respect to Performance Shares, Performance Units, Restricted Shares or Restricted Stock Units, the period during which any risk of forfeiture or other restrictions set by the Committee remain in effect. Such restrictions remain in effect until such time as they have lapsed under the terms and conditions of the Performance Shares, Performance Units, Restricted Shares or Restricted Stock Units or as otherwise determined by the Committee.

(kk) "SharePower Program" means the broad-based equity program under the Plan.

(ll) "Stock Appreciation Rights" or "SARs" means the right to receive a payment equal to the excess of the Fair Market Value of a share of Common Stock on the date the Stock Appreciation Rights are exercised over the exercise price per share of Common Stock established for those Stock Appreciation Rights at the time of grant, multiplied by the number of shares of Common Stock with respect to which the Stock Appreciation Rights are exercised.

(mm) "Stock Award" means an Award of shares of Common Stock that are subject to such terms, conditions and restrictions (if any) as determined by the Committee in accordance with Section 7(e).

3. *Administration of the Plan.*

(a) *Authority of Committee.* The Plan shall be administered by the Committee, which shall have all the powers vested in it by the terms of the Plan, such powers to include the authority (within the limitations described in the Plan):

- to select the persons to be granted Awards under the Plan;
- to determine the type, size and terms of Awards to be made to each Participant;
- to determine the time when Awards are to be granted and any conditions that must be satisfied before an Award is granted;
- to establish objectives and conditions for earning Awards;
- to determine whether an Award shall be evidenced by an agreement and, if so, to determine the terms and conditions of such agreement (which shall not be inconsistent with the Plan) and who must sign such agreement;
- to determine whether the conditions for earning an Award have been met and whether an Award will be paid at the end of an applicable Performance Period;
- except as otherwise provided in Section 7(d), to modify the terms of Awards made under the Plan;
- to determine if, when and under what conditions payment of all or any part of an Award may be deferred;
- to determine whether the amount or payment of an Award should be reduced or eliminated;
- to determine the guidelines and/or procedures for the payment or exercise of Awards; and
- to determine whether an Award should qualify, regardless of its amount, as deductible in its entirety for federal income tax purposes, including whether any Awards granted to Covered Employees should comply with the Performance-Based Exception.

(b) *Interpretation of Plan.* The Committee shall have full power and authority to administer and interpret the Plan and to adopt or establish such rules, regulations, agreements, guidelines, procedures and instruments, which are not contrary to the terms of the Plan and which, in its opinion, may be necessary or advisable for the administration and operation of the Plan. The Committee's interpretations of the Plan, and all actions taken and determinations made by the Committee pursuant to the powers vested in it hereunder, shall be conclusive and binding on all parties concerned, including PepsiCo, its shareholders and all Eligible Persons and Participants.

(c) *Delegation of Authority.* To the extent not prohibited by law, the Committee (i) may delegate its authority hereunder to one or more of its members or other persons (except that no such delegation shall be permitted with respect to Awards to Eligible Persons who are subject to Section 16 of the Exchange Act and Awards intended to comply with the Performance-Based Exception) and (ii) may grant authority to employees or designate employees of the Company to execute documents on behalf of the Committee or to otherwise assist the Committee in the administration and operation of the Plan.

4. Eligibility.

(a) *General.* Subject to the terms and conditions of the Plan, the Committee may, from time to time, select from all Eligible Persons those to whom Awards shall be granted under Section 7 and shall determine the nature and amount of each Award. Non-Employee Directors shall be eligible to receive Awards only pursuant to Section 8.

(b) *International Participants.* Notwithstanding any provision of the Plan to the contrary, in order to foster and promote achievement of the purposes of the Plan or to comply with provisions of the laws in countries outside the United States in which the Company operates or has employees, the Committee, in its sole discretion, shall have the power and authority to (i) determine which Eligible Persons (if any) employed by the Company outside the United States should participate in the Plan, (ii) modify the terms and conditions of any Awards made to such Eligible Persons, and (iii) establish sub-plans, modified Option exercise procedures and other Award terms, conditions and procedures to the extent such actions may be necessary or advisable to comply with provisions of the laws in such countries outside the United States in order to assure the lawfulness, validity and effectiveness of Awards granted under the Plan and to the extent such actions are consistent with the Committee's authority to amend the Plan absent shareholder approval pursuant to Section 13(b).

5. Shares of Common Stock Subject to the Plan.

(a) *Authorized Number of Shares*. Unless otherwise authorized by PepsiCo's shareholders and subject to the provisions of this Section 5 and Section 10, the maximum aggregate number of shares of Common Stock available for issuance under the Plan shall be the total of (i) 65 million plus (ii) the total number of shares of Common Stock underlying awards under the Prior Plans that are cancelled or expire after the effective date of the Plan without delivery of shares. Any of the authorized shares may be used for any of the types of Awards described in the Plan, except:

(i) at least 20 million of the authorized shares of Common Stock will be exclusively available for issuance pursuant to Awards under the SharePower Program;

(ii) no more than 20 million of the authorized shares of Common Stock may be issued pursuant to Awards other than Options or SARs;

(iii) no more than 45 million of the authorized shares of Common Stock may be issued in the form of ISOs; and

(iv) no more than 150,000 of the authorized shares of Common Stock may be issued in connection with (A) Restricted Shares or Restricted Stock Units having a time-based Restriction Period less than three years (but in no event less than one year), subject to acceleration due to the Participant's death, total disability, retirement or retirement eligibility; (B) Restricted Shares or Restricted Stock Units having a time-based Restriction Period that is actually accelerated due to a Participant's transfer to an affiliated business; or (C) Stock Awards having a restriction on transferability of less than three years (not including transfers to satisfy required tax withholding or intra-family transfers permitted by the Committee), subject to acceleration due to the Participant's death or total disability, in each case described in (A), (B) or (C) above as specified in the applicable award agreement.

(b) *Share Counting.* The following rules shall apply in determining the number of shares of Common Stock remaining available for grant under the Plan:

(i) In connection with the granting of an Option or other Award, the number of shares of Common Stock available for issuance under the Plan shall be reduced by the number of shares of Common Stock in respect of which the Option or Award is granted or denominated. For example, upon the grant of stock-settled SARs, the number of shares of Common Stock available for issuance under the Plan shall be reduced by the full number of SARs granted, and the number of shares of Common Stock available for issuance under the Plan shall not thereafter be increased upon the exercise of the SARs and settlement in shares of Common Stock, even if the actual number of shares of Common Stock delivered in settlement of the SARs is less than the full number of SARs exercised. However, Awards that by their terms do not permit settlement in shares of Common Stock shall not reduce the number of shares of Common Stock available for issuance under the Plan.

(ii) Any shares of Common Stock that are tendered by a Participant or withheld as full or partial payment of withholding or other taxes or as payment for the exercise or conversion price of an Award under the Plan shall not be added back to the number of shares of Common Stock available for issuance under the Plan.

(iii) Whenever any outstanding Option or other Award (or portion thereof) expires, is cancelled, is settled in cash rather than in shares of Common Stock (pursuant to the terms of an Award that permits but does not require cash settlement) or is otherwise terminated for any reason without having been exercised or payment having been made in the form of shares of Common Stock, the number of shares of Common Stock available for issuance under the Plan shall be increased by the number of shares of Common Stock allocable to the expired, cancelled, settled or otherwise terminated Option or other Award (or portion thereof).

(iv) Any shares of Common Stock underlying Awards granted through the assumption of, or in substitution for, outstanding awards previously granted to individuals who become employees of the Company as a result of a merger, consolidation, acquisition or other corporate transaction involving the Company shall not, unless required by law or regulation, count against the reserve of available shares of Common Stock under the Plan.

(c) *Shares to be Delivered.* The source of shares of Common Stock to be delivered by the Company under the Plan shall be determined by the Company and may consist in whole or in part of authorized but unissued shares or repurchased shares.

6. Award Limitations.

The maximum number of shares of Common Stock subject to Options and SARs that can be granted to any Eligible Person during a single calendar year shall not exceed two (2) million. The maximum amount of Awards other than Options and SARs that can be granted to any Eligible Person during a single calendar year shall not exceed $15 million; provided that the foregoing limitation shall be applied to an Award that is denominated in shares of Common Stock on the basis of the Fair Market Value of such shares on the date the Award is granted. Notwithstanding the limitation set forth in the preceding sentence, the maximum Award that may be granted to any Eligible Person for a Performance Period longer than one calendar year shall not exceed the foregoing annual maximum multiplied by the number of full calendar years in the Performance Period.

7. Awards to Eligible Persons.

(a) *Options.*

(i) *Grants*. Subject to the terms and conditions of the Plan, Options may be granted to Eligible Persons. Options may consist of ISOs or NQSOs, as the Committee shall determine. Options may be granted alone or in tandem with SARs. With respect to Options granted in tandem with SARs, the exercise of either such Options or such SARs will result in the simultaneous cancellation of the same number of tandem SARs or Options, as the case may be.

(ii) *Option Exercise Price*. The Option Exercise Price shall be equal to or, at the Committee's discretion, greater than the Fair Market Value on the date the Option is granted, unless the Option was granted through the assumption of, or in substitution for, outstanding awards previously granted to individuals who became employees of the Company as a result of a merger, consolidation, acquisition or other corporate transaction involving the Company.

(iii) *Term*. The term of Options shall be determined by the Committee in its sole discretion, but in no event shall the term exceed ten (10) years from the date of grant; provided, however, that Awards of NQSOs and SARs covering up to five (5) million shares of Common Stock, in the aggregate, may be issued with a term of up to fifteen (15) years.

(iv) *ISO Limits*. ISOs may be granted only to Eligible Persons who are employees of PepsiCo or of any parent or subsidiary corporation (within the meaning of Code Section 424) on the date of grant, and may only be granted to an employee who, at the time the Option is granted, does not own stock possessing more than ten percent (10%) of the total combined voting power of all classes of stock of PepsiCo or of any parent or subsidiary corporation (within the meaning of Code Section 424). The aggregate Fair Market Value of all shares of Common Stock with respect to which ISOs are exercisable by a Participant for the first time during any calendar year (under all plans of the Company) shall not exceed $100,000 or such other amount as may subsequently be specified by the Code and/or applicable regulations. The aggregate Fair Market Value of such shares shall be determined at the time the Option is granted. ISOs shall contain such other provisions as the Committee shall deem advisable but shall in all events be consistent with and contain or deem to contain all provisions required in order to qualify as incentive stock options under Code Section 422.

(v) *No Repricing*. Except for adjustments made pursuant to Section 10, the Option Exercise Price for any outstanding Option granted under the Plan may not be decreased after the date of grant nor may any outstanding Option granted under the Plan be surrendered to the Company as consideration for the grant of a new Option with a lower Option Exercise Price without the approval of PepsiCo's shareholders.

(vi) *Form of Payment*. The Option Exercise Price shall be paid to the

Company at the time of such exercise, subject to any applicable rules or regulations adopted by the Committee:

(A) to the extent permitted by applicable law, pursuant to cashless exercise procedures that are, from time to time, approved by the Committee; proceeds from any such exercise shall be used to pay the exercise costs, which include the Option Exercise Price, statutory minimum applicable taxes, brokerage commissions and SEC fees; any remaining proceeds from the sale shall be delivered to the Participant in cash or stock as specified by the Participant;

(B) through the tender of shares of Common Stock owned by the Participant (or by delivering a certification or attestation of ownership of such shares) valued at their Fair Market Value on the date of exercise;

(C) in cash or its equivalent; or

(D) by any combination of (A), (B), and (C) above.

(vii) *No Dividend Equivalents*. No dividends or dividend equivalents may be paid on Options. Except as otherwise provided herein, a Participant shall have no rights as a holder of Common Stock with respect to shares of Common Stock covered by an Option unless and until such shares of Common Stock have been registered to the Participant as the owner.

(b) *Stock Appreciation Rights.*

(i) *Grants*. Subject to the terms and provisions of the Plan, SARs may be granted to Eligible Persons. SARs may be granted alone or in tandem with Options. With respect to SARs granted in tandem with Options, the exercise of either such Options or such SARs will result in the simultaneous cancellation of the same number of tandem SARs or Options, as the case may be.

(ii) *Exercise Price.* The exercise price per share of Common Stock covered by a SAR granted pursuant to the Plan shall be equal to or, at the Committee's discretion, greater than Fair Market Value on the date the SAR is granted, unless the SAR was granted through the assumption of, or in substitution for, outstanding awards previously granted to individuals who became employees of the Company as a result of a merger, consolidation, acquisition or other corporate transaction involving the Company.

(iii) *Term.* The term of a SAR shall be determined by the Committee in its sole discretion, but, subject to Section 7(a)(iii), in no event shall the term exceed ten (10) years from the date of grant.

(iv) *No Repricing*. Except for adjustments made pursuant to Section 10, the exercise price for any outstanding SAR granted under the Plan may not be decreased after the date of grant nor may any outstanding SAR granted under the Plan be surrendered to the Company as consideration for the grant of a new SAR with a lower exercise price without the approval of PepsiCo's shareholders.

(v) *Form of Payment*. The Committee may authorize payment of a SAR in the form of cash, Common Stock valued at its Fair Market Value on the date of the exercise, a combination thereof, or by any other method as the Committee may determine.

(vi) *No Dividend Equivalents*. No dividends or dividend equivalents may be paid on SARs.

(c) *Restricted Shares / Restricted Stock Units.*

(i) *Grants*. Subject to the terms and provisions of the Plan, Restricted Shares or Restricted Stock Units may be granted to Eligible Persons.

(ii) *Restrictions.* The Committee shall impose such terms, conditions and/or restrictions on any Restricted Shares or Restricted Stock Units granted pursuant to the Plan as it may deem advisable including, without limitation: a requirement that Participants pay a stipulated purchase price for each Restricted Share or each Restricted Stock Unit; forfeiture conditions; transfer restrictions; restrictions based upon the achievement of specific performance goals (Company-wide, divisional, and/or individual); time-based restrictions on vesting; and/or restrictions under applicable federal or state securities laws. Except in the case of Awards covered by Section 5(a)(iv), any time-based Restriction Period shall be for a minimum of three years (subject to acceleration due to the Participant's death, total disability, retirement or retirement eligibility, in each case as specified in the applicable award agreement). To the extent the Restricted Shares or Restricted Stock Units are intended to be deductible under Code Section 162(m), the applicable restrictions shall be based on the achievement of Performance Goals over a Performance Period, as described in Section 7(d) below.

(iii) *Payment of Restricted Stock Units*. Restricted Stock Units that become payable in accordance with their terms and conditions shall be settled in cash, shares of Common Stock, or a combination of cash and shares, as determined by the Committee. Any person who holds Restricted Stock Units shall have no ownership interest in the shares of Common Stock to which the Restricted Stock Units relate unless and until payment with respect to such Restricted Stock Units is actually made in shares of Common Stock.

(iv) *Transfer Restrictions.* During the Restriction Period, Restricted Shares may not be sold, assigned, transferred or otherwise disposed of, or mortgaged, pledged or otherwise encumbered. In order to enforce the limitations imposed upon the Restricted Shares, the Committee may (a) cause a legend or legends to be placed on any certificates evidencing such Restricted Shares, and/or (b) cause "stop transfer" instructions to be issued, as it deems necessary or appropriate. Restricted Stock Units may not be sold, assigned, transferred or otherwise disposed of, or mortgaged, pledged, or otherwise encumbered at any time.

(v) *Dividend and Voting Rights*. Unless otherwise determined by the Committee, during the Restriction Period, Participants who hold Restricted Shares shall have the right to receive dividends in cash or other property or other distribution or rights in respect of such shares and shall have the right to vote such shares as the record owners thereof; provided that, unless otherwise determined by the Committee, any dividends or other property payable to a Participant during the Restriction Period shall be distributed to the Participant only if and when the restrictions imposed on the applicable Restricted Shares lapse. Unless otherwise determined by the Committee, during the Restriction Period, Participants who hold Restricted Stock Units shall be credited with dividend equivalents in respect of such Restricted Stock Units; provided that, unless otherwise determined by the Committee, such dividend equivalents shall be distributed (without interest) to the Participant only if and when the restrictions imposed on the applicable Restricted Stock Units lapse.

(vi) *Ownership of Restricted Shares*. Restricted Shares issued under the Plan shall be registered in the name of the Participant on the books and records of the Company or its designee (or by one or more physical certificates if physical certificates are issued with respect to such Restricted Shares) subject to the applicable restrictions imposed by the Plan. If a Restricted Share is forfeited in accordance with the restrictions that apply to such Restricted Shares, such interest or certificate, as the case may be, shall be cancelled. At the end of the Restriction Period that applies to Restricted Shares, the number of shares to which the Participant is then entitled shall be delivered to the Participant free and clear of the restrictions, either in certificated or uncertificated form. No shares of Common Stock shall be registered in the name of the Participant with respect to a Restricted Stock Unit unless and until such unit is paid in shares of Common Stock.

(d) *Performance Awards.*

(i) *Grants*. Subject to the provisions of the Plan, Performance Awards may be granted to Eligible Persons. Performance Awards may be granted either alone or in addition to other Awards made under the Plan.

(ii) *Performance Goals*. Unless otherwise determined by the Committee, Performance Awards shall be conditioned on the achievement of Performance Goals (which shall be based on one or more Performance Measures, as determined by the Committee) over a Performance Period. The Performance Period shall be one year, unless otherwise determined by the Committee, provided that the Restriction Period for Performance Awards (not including Options, SARs or Awards covered by Section 5(a)(iv)) shall be for a minimum of three years, subject to acceleration due to the Participant's death or total disability, in each case as specified in the applicable award agreement.

(iii) *Performance Measures*. The Performance Measure(s) to be used for purposes of Performance Awards may be described in terms of objectives that are related to the individual Participant or objectives that are Company-wide or related to a subsidiary, division, department, region, function or business unit of the Company, and may consist of one or more or any combination of the following criteria: stock price; market share; sales revenue; cash flow; sales volume; earnings per share; return on equity; return on assets; return on sales; return on invested capital; economic value added; net earnings; total shareholder return; gross margin; and costs. The Performance Goals based on these Performance Measures may be expressed in absolute terms or relative to the performance of other entities.

(iv) *Negative Discretion*. Notwithstanding the achievement of any Performance Goal established under the Plan, the Committee has the discretion to reduce, but not increase, some or all of a Performance Award that would otherwise be paid to a Participant.

(v) *Extraordinary Events*. At, or at any time after, the time an Award is granted, and to the extent permitted under Code Section 162(m) and the regulations thereunder without adversely affecting the treatment of the Award under the Performance-Based Exception, the Committee, in its sole discretion, may provide for the manner in which performance will be measured against the Performance Goals (or may adjust the Performance Goals) to reflect the impact of specific corporate transactions, accounting or tax law changes and other extraordinary and nonrecurring events.

(vi) *Performance-Based Exception*. With respect to any Award that is intended to satisfy the conditions for the Performance-Based Exception under Code Section 162(m): (A) the Committee shall interpret the Plan and this Section 7(d) in light of Code Section 162(m) and the regulations thereunder; (B) the Committee shall have no discretion to amend the Award in any way that would adversely affect the treatment of the Award under Code Section 162(m) and the regulations thereunder; and (C) such Award shall not be paid until the Committee shall first have certified that the Performance Goals have been achieved.

(e) *Stock Awards.*

(i) *Grants*. Subject to the provisions of the Plan, Stock Awards consisting of shares of Common Stock may be granted pursuant to this Section 7(e) only to Eligible Persons who are consultants or advisors to the Company and may not be granted to employees of the Company (including Employee Directors). Non-Employee Directors are eligible to receive Stock Awards only pursuant to Section 8. Stock Awards may be granted either alone or in addition to other Awards made under the Plan.

(ii) *Terms and Conditions*. The shares of Common Stock subject to a Stock Award shall be immediately vested at the time of grant and nonforfeitable at all times but shall be subject to such other terms and conditions, including restrictions on transferability, as determined by the Committee in its discretion subject to Section 5(a)(iv) and the other provisions of the Plan. The shares of Common Stock subject to a Stock Award shall be registered in the name of the Participant.

8. Awards to Non-Employee Directors.

(a) *Sole Awards*. Notwithstanding anything in the other sections of the Plan to the contrary, Non-Employee Directors are eligible to receive only Awards authorized by this Section 8. The terms applicable under Section 7 for each such category of Award shall apply under this Section 8 to the extent not inconsistent with the provisions of this Section 8. The Committee retains the discretion to change the amount and terms of the Initial Grant or the types of Awards to Non-Employee Directors notwithstanding paragraphs (a), (b) and (c) of this Section 8.

(b) *Initial Grants*. Each newly appointed Non-Employee Director shall, as soon as practicable after initially becoming a member of the Board, be granted an Award (the “Initial Grant”) of a Stock Award consisting of 1,000 shares of Common Stock subject to the transfer restrictions in Section 8(c)(i) below.

(c) *Terms of Initial Grants to Non-Employee Directors.*

(i) Shares of Common Stock subject to a Stock Award granted to a Non-Employee Director shall be immediately vested at the time of grant and nonforfeitable at all times. However, such shares of Common Stock may not be sold, assigned, transferred or otherwise disposed of, or mortgaged pledged or otherwise encumbered, until the date the Non-Employee Director’s membership on the Board ceases (except that this transfer restriction shall not prohibit: (A) PepsiCo’s retaining shares to satisfy required tax withholding under Section 12(e), and (B) intra-family transfers permitted by the Committee). In order to enforce the limitations imposed upon such shares of Common Stock, the Committee may (a) cause a legend or legends to be placed on any certificates evidencing such shares, and/or (b) cause "stop transfer" instructions to be issued, as it deems necessary or appropriate.

(ii) Non-Employee Directors who hold shares of Common Stock pursuant to a Stock Award granted under this Section 8 shall have the right to receive dividends in cash or other property and shall have the right to vote such shares as the record owners thereof; provided that any securities of the Company that are distributed to a Non-Employee Director shall be subject to the same transfer restrictions that apply to such shares of Common Stock.

9. Deferred Payments.

Subject to the terms of the Plan, the Committee may determine that all or a portion of any Award to a Participant, whether it is to be paid in cash, shares of Common Stock or a combination thereof, shall be deferred or may, in its sole discretion, approve deferral elections made by Participants. Deferrals shall be for such periods and upon such terms as the Committee may determine in its sole discretion, which terms shall be designed to comply with Code Section 409A. Notwithstanding the foregoing, deferral of Option or SAR gains shall not be permitted under the Plan.

10. Dilution and Other Adjustments.

In the event of any merger, reorganization, consolidation, recapitalization, stock dividend, stock split, combination or exchange of shares or other change in corporate structure affecting any class of Common Stock, the Committee shall make such adjustments in the class and aggregate number of shares which may be delivered under the Plan as described in Section 5, the individual award maximums under Section 6, the class, number, and Option Exercise Price of outstanding Options, the class number and exercise price of outstanding SARs and the class and number of shares subject to any other Awards granted under the Plan (provided the number of shares of any class subject to any Award shall always be a whole number), as may be, and to such extent (if any), determined to be appropriate and equitable by the Committee, and any such adjustment may, in the sole discretion of the Committee, take the form of Options covering more than one class of Common Stock. Such adjustment shall be conclusive and binding for all purposes of the Plan.

11. Change in Control.

(a) *Impact of Event*. Notwithstanding any other provision of the Plan to the contrary, in the event of a Change in Control:

(i) If and to the extent that outstanding Awards under the Plan (A) are assumed by the successor corporation (or affiliate thereto) or (B) are replaced with equity awards that preserve the existing value of the Awards at the time of the Change in Control and provide for subsequent payout in accordance with a vesting schedule and Performance Goals, as applicable, that are the same or more favorable to the Participants than the vesting schedule and Performance Goals applicable to the Awards, then all such Awards or such substitutes thereof shall remain outstanding and be governed by their respective terms and the provisions of the Plan subject to Section 11(a)(iv) below.

(ii) If and to the extent that outstanding Awards under the Plan are not assumed or replaced in accordance with Section 11(a)(i) above, then upon the Change in Control the following treatment (referred to as "Change-in-

Control Treatment") shall apply to such Awards: (A) outstanding Options and SARs shall immediately vest and become exercisable; (B) the restrictions and other conditions applicable to outstanding Restricted Shares, Restricted Stock Units and Stock Awards, including vesting requirements, shall immediately lapse; such Awards shall be free of all restrictions and fully vested; and, with respect to Restricted Stock Units, shall be payable immediately in accordance with their terms or, if later, as of the earliest permissible date under Code Section 409A; and (C) outstanding Performance Awards granted under the Plan shall immediately vest and shall become immediately payable in accordance with their terms as if 100% of the Performance Goals have been achieved.

(iii) If and to the extent that outstanding Awards under the Plan are not assumed or replaced in accordance with Section 11(a)(i) above, then in connection with the application of the Change-in-Control Treatment set forth in Section 11(a)(ii) above, the Board may, in its sole discretion, provide for cancellation of such outstanding Awards at the time of the Change in Control in which case a payment of cash, property or a combination thereof shall be made to each such Participant upon the consummation of the Change in Control that is determined by the Board in its sole discretion and that is at least equal to the excess (if any) of the value of the consideration that would be received in such Change in Control by the holders of PepsiCo's securities relating to such Awards over the exercise or purchase price (if any) for such Awards.

(iv) If and to the extent that (A) outstanding Awards are assumed or replaced in accordance with Section 11(a)(i) above and (B) a Participant's employment with, or performance of services for, the Company is terminated by the Company for any reasons other than Cause or by such Participant for Good Reason, in each case, within the two-year period commencing on the Change in Control, then, as of the date of such Participant's termination, the Change-in-Control Treatment set forth in Section 11(a)(ii) above shall apply to all assumed or replaced Awards of such Participant then outstanding.

(v) Outstanding Options or SARs that are assumed or replaced in accordance with Section 11(a)(i) may be exercised by the Participant in accordance with the applicable terms and conditions of such Award as set forth in the applicable award agreement or elsewhere; provided, however, that Options or SARs that become exercisable in accordance with Section 11(a)(iv) may be exercised until the expiration of the original full term of such Option or SAR notwithstanding the other original terms and conditions of such Award.

(b) *Definitions.*

(i) For purposes of this Section 11, "Change in Control" means the occurrence of any of the following events: (A) acquisition of 20% or more of the outstanding voting securities of PepsiCo by another entity or group; excluding, however, the following (1) any acquisition by PepsiCo or (2) any acquisition by an employee benefit plan or related trust sponsored or maintained by PepsiCo; (B) during any consecutive two-year period, persons who constitute the Board at the beginning of the period cease to constitute at least 50% of the Board (unless the election of each new Board member was approved by a majority of directors who began the two-year period); (C) PepsiCo shareholders approve a merger or consolidation of PepsiCo with another company, and PepsiCo is not the surviving company; or, if after such transaction, the other entity owns, directly or indirectly, 50% or more of the outstanding voting securities of PepsiCo; (D) PepsiCo shareholders approve a plan of complete liquidation of PepsiCo or the sale or disposition of all or substantially all of PepsiCo's assets; or (E) any other event, circumstance, offer or proposal occurs or is made, which is intended to effect a change in the control of PepsiCo, and which results in the occurrence of one or more of the events set forth in clauses (A) through (D) of this Section 11(b)(i).

(ii) For purposes of this Section 11, "Cause" means with respect to any Participant, unless otherwise provided in the applicable award agreement, (A) the Participant's willful misconduct that materially injures the Company; (B) the Participant's conviction of a felony or a plea of nolo contendere by Participant with respect to a felony; or (C) the Participant's continued failure to substantially perform his or her duties with the Company (other than by reason of the Participant's disability) after written demand by the Company that identifies the manner in which the Company believes that the Participant has not performed his or her duties. A termination for Cause must be communicated to the Participant by written notice that specifies the event or events claimed to provide a basis for termination for Cause.

(iii) For purposes of this Section 11, "Good Reason" means with respect to any Participant, unless otherwise provided in the applicable award agreement, without the Participant's written consent, (A) the Company's requiring the Participant's principal place of employment to be based at any location in excess of thirty-five (35) miles from his or her primary place of employment as it existed immediately prior to the Change in Control except for reasonably required travel on the Company's business that is not greater than such travel requirements prior to the Change in Control; (B) a reduction in the Participant's base salary or wage rate or target annual or long-term cash incentive opportunities as in effect immediately prior to the Change in Control (other than an isolated, insubstantial and inadvertent failure that is promptly remedied by the Company upon notice from the Participant) or failure to provide compensation and benefits that are substantially similar in the aggregate to those provided for by the Company immediately prior to the Change in Control; or (C) a material reduction in the Participant's job responsibilities, position or duties with the Company as in effect immediately prior to the Change in Control. A termination for Good Reason must be communicated to the Company by written notice that specifies the event or events claimed to provide a basis for termination for Good Reason; provided that the Participant's written notice must be tendered within ninety (90) days of the occurrence of such event or events.

12. Miscellaneous Provisions.

(a) *Misconduct.* Except as otherwise provided in agreements covering Awards hereunder, a Participant shall forfeit all rights in his or her outstanding Awards under the Plan, and all such outstanding Awards shall automatically terminate and lapse, if the Committee determines that such Participant has (i) used for profit or disclosed to unauthorized persons, confidential information or trade secrets of the Company, (ii) breached any contract with or violated any fiduciary obligation to the Company, including without limitation, a violation of any Company code of conduct, (iii) engaged in unlawful trading in the securities of PepsiCo or of another company based on information gained as a result of that Participant's employment or other relationship with the Company, or (iv) committed a felony or other serious crime.

(b) *Rights as Shareholder*. Except as otherwise provided herein, a Participant shall have no rights as a holder of Common Stock with respect to Awards hereunder, unless and until the shares of Common Stock have been registered to the Participant as the owner.

(c) *No Loans.* No loans from the Company to Participants shall be permitted in connection with the Plan.

(d) *Assignment or Transfer*. Except as otherwise provided under the Plan, no Award under the Plan or any rights or interests therein shall be transferable other than by will or the laws of descent and distribution. The Committee may, in its discretion, provide that an Award (other than an ISO) is transferable without the payment of any consideration to a Participant's family member, whether directly or by means of a trust or otherwise, subject to such terms and conditions as the Committee may impose. For this purpose, "family member" has the meaning given to such term in the General Instructions to the Form S-8 registration statement under the Securities Act of 1933. All Awards under the Plan shall be exercisable, during the Participant's lifetime, only by the Participant or a person who is a permitted transferee pursuant to this Section 12(d). Once awarded, the shares of Common Stock (other than Restricted Shares) received by Participants may be freely transferred, assigned, pledged or otherwise subjected to lien, subject to: (i) the transfer restrictions in Sections 7(e)(ii) and 8(c)(i) above; and (ii) the restrictions imposed by the Securities Act of 1933, Section 16 of the Exchange Act and PepsiCo's Insider Trading Policy, each as amended from time to time.

(e) *Withholding Taxes.* PepsiCo shall have the right to deduct from all Awards paid in cash to a Participant any taxes required by law to be withheld with respect to such Awards. All statutory minimum applicable withholding taxes arising with respect to Awards paid in shares of Common Stock to a Participant shall be satisfied by PepsiCo retaining shares of Common Stock having a Fair Market Value on the date the tax is to be determined that is equal to the amount of such statutory minimum applicable withholding tax (rounded, if necessary, to the next highest whole number of shares of Common Stock); provided, however, that, subject to any restrictions or limitations that the Committee deems appropriate, a Participant may elect to satisfy such statutory minimum applicable withholding tax through cash or cash proceeds.

(f) *Currency and Other Restrictions*. The obligations of the Company to make delivery of Awards in cash or Common Stock shall be subject to currency or other restrictions imposed by any governmental authority or regulatory body having jurisdiction over such Awards.

(g) *No Rights to Awards*. Neither the Plan nor any action taken hereunder shall be construed as giving any person any right to be retained in the employ or service of the Company, and the Plan shall not interfere with or limit in any way the right of the Company to terminate any person's employment or service at any time. Except as set forth herein, no employee or other person shall have any claim or right to be granted an Award under the Plan. By accepting an Award, the Participant acknowledges and agrees that (i) the Award will be exclusively governed by the terms of the Plan, including the right reserved by the Company to amend or cancel the Plan at any time without the Company incurring liability to the Participant (except, to the extent the terms of the Award so provide, for Awards already granted under the Plan), (ii) Awards are not a constituent part of salary and the Participant is not entitled, under the terms and conditions of employment, or by accepting or being granted Awards under the Plan to require Awards to be granted to him or her in the future under the Plan or any other plan, (iii) the value of Awards received under the Plan shall be excluded from the calculation of termination indemnities or other severance payments or benefits, and (iv) the Participant shall seek all necessary approval under, make all required notifications under, and comply with all laws, rules and regulations applicable to the ownership of Options and shares of Common Stock and the exercise of Options, including, without limitation, currency and exchange laws, rules and regulations.

(h) *Beneficiary Designation*. To the extent allowed by the Committee, each Participant under the Plan may, from time to time, name any beneficiary or beneficiaries (who may be named on a contingent or successive basis) to whom any benefit under the Plan is to be paid in case of his or her death before he or she receives any or all of such benefit. Unless the Committee determines otherwise, each such designation shall revoke all prior designations by the same Participant, shall be in a form prescribed by the Committee, and shall be effective only when filed by the Participant in writing with the Company during the Participant's lifetime. In the absence of any such designation, benefits remaining unpaid at the Participant's death shall be paid to the Participant's estate.

(i) *Costs and Expenses*. The cost and expenses of administering the Plan shall be borne by PepsiCo and not charged to any Award or to any Participant.

(j) *Fractional Shares*. Fractional shares of Common Stock shall not be issued or transferred under an Award, but the Committee may direct that cash be paid in lieu of fractional shares or may round off fraction shares, in its discretion.

(k) *Funding of Plan*. The Plan shall be unfunded and any benefits under the Plan shall represent an unsecured promise to pay by the Company. PepsiCo shall not be required to establish or fund any special or separate account or to make any other segregation of assets to assure the payment of any Award under the Plan and the existence of any such account or other segregation of assets shall be consistent with the "unfunded" status of the Plan.

(l) *Indemnification*. Provisions for the indemnification of officers and directors of the Company in connection with the administration of the Plan shall be as set forth in PepsiCo's Certificate of Incorporation and Bylaws as in effect from time to time.

(m) *Successors*. All obligations of PepsiCo under the Plan with respect to Awards granted hereunder shall be binding on any successor to PepsiCo, whether the existence of such successor is the result of a direct or indirect purchase, merger, consolidation, or otherwise, of all or substantially all of the business and/or assets of PepsiCo.

(n) *Compliance with Code Section 409A*. The Plan is intended to satisfy the requirements of Code Section 409A and any regulations or guidance that may be adopted thereunder from time to time, including any transition relief available under applicable guidance related to Code Section 409A. Pursuant to Section 13(b), the Plan may be amended or interpreted by the Committee as it determines necessary or appropriate in accordance with Code Section 409A and to avoid a plan failure under Code Section 409A(a)(1).

13. Effective Date, Governing Law, Amendments and Termination.

(a) *Effective Date*. The Plan was approved by the Board on February 2, 2007 and shall become effective on the date it is approved by PepsiCo's shareholders.

(b) *Amendments.* The Committee or the Board may at any time terminate or from time to time amend the Plan in whole or in part, but no such action shall adversely affect any rights or obligations with respect to any Awards granted prior to the date of such termination or amendment without the consent of the affected Participant except to the extent that the Committee reasonably determines that such termination or amendment is necessary or appropriate to comply with applicable law (including the provisions of Code Section 409A and the regulations thereunder pertaining to the deferral of compensation) or the rules and regulations of any stock exchange on which Common Stock is listed or quoted. Notwithstanding the foregoing, unless PepsiCo's shareholders shall have first approved the amendment, no amendment of the Plan shall be effective if the amendment would (i) increase the maximum number of shares of Common Stock that may be delivered under the Plan or to any one individual (except to the extent such amendment is made pursuant to Section 10 hereof), (ii) extend the maximum period during which Awards may be granted under the Plan, (iii) add to the types of awards that can be made under the Plan, (iv) change the Performance Measures pursuant to which Performance Awards are earned, (v) modify the requirements as to eligibility for participation in the Plan, (vi) decrease the grant or exercise price of any Option or SAR to less than the Fair Market Value on the date of grant; or (vii) require shareholder approval pursuant to the Plan or applicable law or the rules of the principal securities exchange on which shares of Common Stock are traded in order to be effective.

(c) *Governing Law*. All questions pertaining to the construction, interpretation, regulation, validity and effect of the provisions of the Plan shall be determined in accordance with the laws of the State of North Carolina without giving effect to conflict of laws principles.

(d) *Termination*. No Awards shall be made under the Plan after the tenth anniversary of the date on which PepsiCo's shareholders approve the Plan.

EXHIBIT 10.3

First Amendment to the PepsiCo Director Deferral Program
(effective September 13, 2007)

WHEREAS, the Board of Directors (the “Board”) of PepsiCo, Inc. (the “Company”) has previously adopted the PepsiCo Director Deferral Program (the “Plan”);

WHEREAS, on September 13, 2007, the Board established that a portion of the annual compensation for each of the Company’s non-employee directors shall be paid in the form of an award of phantom units of PepsiCo Common Stock pursuant to the Plan, effective with the 2007 annual compensation award to non-employee directors on October 1, 2007;

WHEREAS, the Plan is hereby amended as set forth below in order to implement such award of phantom units; and

WHEREAS, capitalized terms used but not defined herein shall have the meaning ascribed thereto in the Plan;

NOW THEREFORE, effective as of the date hereof, the Plan is hereby amended as follows:

1. Article II is hereby amended by adding the following Section 2.06(2) to Article II:

2.06(2) <u>Compensation Year</u>:

The 12-month period of time for which Directors are compensated for their services on the Board, commencing with the annual retainer payable on October 1 in one calendar year and concluding on September 30 of the following calendar year.

2. Section 3.01(c) is hereby amended to read in its entirety as follows:

(c) Each Eligible Director becomes an active Participant on the date an amount is first withheld from his or her compensation pursuant to an Election Form submitted by the Director to the Plan Administrator under Section 4.01 or on the date a Mandatory Deferral is first credited to the Eligible Director pursuant to Section 4.05.

3. Article IV is hereby amended by adding the following Section 4.05 to the end of Article IV:

4.05 <u>Mandatory Deferrals</u>:

(a) <u>General</u>. As provided in this Section, the Board of Directors of the Company may require that Director Compensation be deferred under the Plan. Such portion of an Eligible Director’s Director Compensation for a Compensation Year that the Board of Directors of the Company requires to be deferred under this Section 4.05

shall be referred to as a “Mandatory Deferral.”

(b) Time for Committee’s Determination. To be effective hereunder, any determination by the Board of Directors of the Company to require a Mandatory Deferral of a portion of an Eligible Director’s Director Compensation for a Compensation Year must be made no later than the December 31 immediately preceding the calendar year in which the Eligible Director performs the services to which such Director Compensation relates (or, to the extent the Eligible Director is not permitted to make any payment election with respect to such Mandatory Deferral and it would result in a later deadline, no later than the time the Eligible Director first has a legally binding right to such Director Compensation). As of such date or time, the determination by the Board of Directors of the Company to require the deferral of the Director Compensation shall be irrevocable. Any Mandatory Deferral for a Compensation Year shall be credited to a separate Deferral Subaccount for such Compensation Year.

(c) Current Mandatory Deferrals. Pursuant to a September 13, 2007 resolution of the Board of Directors of the Company, a Mandatory Deferral of $150,000 shall be credited as of October 1 of each Compensation Year to each individual who is an Eligible Director on such October 1, commencing with a Mandatory Deferral on October 1, 2007; provided that (1) a Director newly appointed or elected during a Compensation Year shall be credited with a pro-rated Mandatory Deferral as of the commencement date of his or her status as a Director, with such pro-rated amount determined by multiplying the Mandatory Deferral for the current Compensation Year by the ratio of the number of full and partial quarters remaining during the Compensation Year as of such commencement date over four and (2) the Board of Directors of the Company retains the discretion to change the amount subject to Mandatory Deferral or eliminate Mandatory Deferrals entirely with respect to Compensation Years after the 2007-2008 Compensation Year. At the same time, any such discretion shall not alter the determination to defer Director Compensation to the extent such determination has become irrevocable with respect to specific Director Compensation in accordance with subsection (b) above. However, the preceding sentence shall not limit the discretion of the Company’s Board of Directors to forfeit outright specific Director Compensation.

(d) Time and Form of Payment. Each Mandatory Deferral shall be distributed in accordance with Section 6.07. The Eligible Director shall specify the form of payment of each of his or her Mandatory Deferrals by designating either a lump sum payment or annual installment payments to be paid over a period of 5 years but not later than the Eligible Director’s 80th birthday; provided that no such election shall be permitted for the Mandatory Deferral on October 1, 2007 or any potential pro-rated Mandatory Deferral during 2007 to a new Director. An Eligible Director shall make such election with respect to a Mandatory Deferral no later than December 31 immediately preceding the calendar year in which the Eligible Director provides the services to which the Mandatory Deferral relates (although the Plan Administrator may adopt policies that encourage or require earlier submission of election forms). If an Eligible Director does not (or is not permitted to) make a form of payment election for a Mandatory Deferral, the Mandatory Deferral shall be paid in a lump sum. If the Eligible Director elects installment payments and the installments would otherwise extend beyond the Eligible Director’s 80th birthday, such election shall be treated as an election for installments over a period of whole and partial years that ends on the Eligible Director's 80th birthday, provided that (1) the amounts to be distributed in connection with the installments prior to the Eligible Director's 80th birthday shall be determined in accordance with Section 6.08 by assuming that the installments shall continue for the full number of installments and (2) the remaining balance shall be distributed on the Eligible Director's 80th birthday. The Eligible Director shall be entitled to elect to change the time and form of payment in accordance with Section 4.04 only to the extent expressly permitted by the Board of Directors.

4. Section 6.03 is hereby amended by adding the following paragraph (d) to the end of Section 6.03:

(d) Notwithstanding the foregoing in this Section 6.03, with respect to Mandatory Deferrals, if a Participant incurs a Separation from Service (other than as a result of Disability or death), the Participant's total Account balance with respect to Mandatory Deferrals shall be distributed as soon as administratively practicable following the first day of the calendar quarter beginning after the first anniversary of the Participant's Separation from Service.

5. Article VI is hereby amended by adding the following Section 6.10 to the end of Article VI:

6.10 Distributions of Mandatory Deferrals:

This Section 6.10 shall govern the distribution of all Mandatory Deferrals under the Plan. Subject to the last sentence of this Section 6.10, a Participant's Deferral Subaccount(s) for Mandatory Deferrals shall be distributed upon the earliest of the following to occur:

(a) The Participant's Separation from Service (other than on account of a Disability or death) pursuant to the distribution rules of Section 6.03;

(b) The Participant's death pursuant to the distribution rules of Section 6.04;

(c) The Participant's Disability pursuant to the distribution rules of Section 6.06; or

(d) The occurrence of an Unforeseeable Emergency with respect to the Participant pursuant to the distribution rules of Section 6.07.

Notwithstanding the foregoing, the Board of Directors of the Company may specify different terms for the distribution of Mandatory Deferrals. Such specification may always occur not later than when the Mandatory Deferral becomes irrevocable under Section 4.05(c). Such specification may also occur later, but only to the extent that such later specification satisfies the requirements of Section 4.04 (as if it were an election by the Participant). In addition, to the extent expressly permitted by the Board of Directors, the Participant may make an election under Section 4.04.

EXHIBIT 12

PEPSICO, INC. AND SUBSIDIARIES
Computation of Ratio of Earnings to Fixed Charges
(in millions except ratio amounts, unaudited)

	36 Weeks Ended	
	9/8/07	9/9/06
Earnings:		
Income before income taxes	**$ 5,834**	$ 5,291
Unconsolidated affiliates interests, net	**(320)**	(272)
Amortization of capitalized interest	**3**	4
Interest expense [(a)]	**153**	172
Interest portion of rent expense [(b)]	**71**	56
Earnings available for fixed charges	**$ 5,741**	$ 5,251
Fixed Charges:		
Interest expense	**$ 153**	$ 172
Capitalized interest	**14**	11
Interest portion of rent expense [(b)]	**71**	56
Total fixed charges	**$ 238**	$ 239
Ratio of Earnings to Fixed Charges [(c)]	**24.10**	21.99

(a) Excludes interest related to our reserves for income taxes as such interest is included in provision for income taxes.

(b) One-third of net rent expense is the portion deemed representative of the interest factor.

(c) Based on unrounded amounts.

Accountant's Acknowledgement

To the Board of Directors of PepsiCo, Inc.

We hereby acknowledge our awareness of the use of our report dated October 11, 2007 included within the Quarterly Report on Form 10-Q of PepsiCo, Inc. for the twelve and thirty-six weeks ended September 8, 2007, and incorporated by reference in the following Registration Statements and in the related Prospectuses:

Description, Registration Statement Number

Form S-3

- PepsiCo SharePower Stock Option Plan for PCDC Employees, 33-42121
- $32,500,000, Puerto Rico Industrial, Medical and Environmental Pollution Control Facilities Financing Authority Adjustable Rate Industrial Revenue Bonds, 33-53232
- Extension of the PepsiCo SharePower Stock Option Plan to Employees of Snack Ventures Europe, a joint venture between PepsiCo Foods International and General Mills, Inc., 33-50685
- $4,587,000,000 Debt Securities and Warrants, 33-64243
- $500,000,000 Capital Stock, 1 2/3 cents par value, 333-56302
- Automatic Shelf Registration Statement, 333-133735

Form S-4

- 330,000,000 Shares of Common Stock, 1 2/3 cents par value and 840,582 Shares of Convertible Stock, no par value, 333-53436
- $1,000,000 4-5/8% Senior Notes guaranteed by PepsiCo, 333-102035

Form S-8

- PepsiCo, Inc. 2007 Long-Term Incentive Plan, 333-142811
- PepsiCo, Inc. 2003 Long-Term Incentive Plan, 333-109509
- PepsiCo SharePower Stock Option Plan, 33-35602, 33-29037, 33-42058, 33-51496, 33-54731, 33-66150 & 333-109513
- Director Stock Plan, 33-22970 & 333-110030
- 1979 Incentive Plan and the 1987 Incentive Plan, 33-19539
- 1994 Long-Term Incentive Plan, 33-54733
- PepsiCo, Inc. 1995 Stock Option Incentive Plan, 33-61731, 333-09363 & 333-109514
- 1979 Incentive Plan, 2-65410
- PepsiCo, Inc. Long Term Savings Program, 2-82645, 33-51514 & 33-60965
- PepsiCo 401(K) Plan, 333-89265
- PepsiCo Puerto Rico 1165(e) Plan, 333-56524
- Retirement Savings and Investment Plan for Union Employees of Tropicana Products, Inc. and Affiliates and the Retirement Savings and Investment Plan for Union Employees of Tropicana Products, Inc. and Affiliates (Teamster Local Union #173), 333-65992
- The Quaker Long Term Incentive Plan of 1990, The Quaker Long Term Incentive Plan of 1999 and The Quaker Oats Company Stock Option Plan for Outside Directors, 333-66632
- The Quaker 401(K) Plan for Salaried Employees and The Quaker 401(k) Plan for Hourly Employees, 333-66634
- The PepsiCo 401(k) Plan for Salaried Employees, 333-76196
- The PepsiCo 401(k) Plan for Hourly Employees 333-76204
- The PepsiCo Share Award Plan, 333-87526

Pursuant to Rule 436 (c) under the Securities Act of 1933 (the "Act"), such report is not considered part of a registration statement prepared or certified by an independent registered public accounting firm, or a report prepared or certified by an independent registered public accounting firm within the meaning of Sections 7 and 11 of the Act.

/s/ KPMG LLP

New York, New York
October 11, 2007

EXHIBIT 31

CERTIFICATION

I, **Indra K. Nooyi,** certify that:

1. I have reviewed this quarterly report on Form 10-Q of PepsiCo, Inc. (PepsiCo);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of PepsiCo as of, and for, the periods presented in this report;
4. PepsiCo's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for PepsiCo and have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to PepsiCo, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) Evaluated the effectiveness of PepsiCo's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) Disclosed in this report any change in PepsiCo's internal control over financial reporting that occurred during PepsiCo's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, PepsiCo's internal control over financial reporting; and
5. PepsiCo's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to PepsiCo's auditors and the audit committee of PepsiCo's board of directors:
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect PepsiCo's ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in PepsiCo's internal control over financial reporting.

Date: October 11, 2007

/s/ INDRA K. NOOYI

Indra K. Nooyi
Chairman of the Board and
Chief Executive Officer

CERTIFICATION

I, **Richard Goodman,** certify that:

1. I have reviewed this quarterly report on Form 10-Q of PepsiCo, Inc. (PepsiCo);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of PepsiCo as of, and for, the periods presented in this report;
4. PepsiCo's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for PepsiCo and have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to PepsiCo, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) Evaluated the effectiveness of PepsiCo's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) Disclosed in this report any change in PepsiCo's internal control over financial reporting that occurred during PepsiCo's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, PepsiCo's internal control over financial reporting; and
5. PepsiCo's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to PepsiCo's auditors and the audit committee of PepsiCo's board of directors:
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect PepsiCo's ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in PepsiCo's internal control over financial reporting.

Date: October 11, 2007

/s/ RICHARD GOODMAN
Richard Goodman
Chief Financial Officer

CERTIFICATION PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of PepsiCo, Inc. (the "Corporation") on Form 10-Q for the quarterly period ended September 8, 2007 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Indra K. Nooyi, Chairman of the Board and Chief Executive Officer of the Corporation, certify to my knowledge, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350), that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Corporation.

Date: October 11, 2007

/s/ INDRA K. NOOYI
Indra K. Nooyi
Chairman of the Board and
Chief Executive Officer

CERTIFICATION PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of PepsiCo, Inc. (the “Corporation”) on Form 10-Q for the quarterly period ended September 8, 2007 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Richard Goodman, Chief Financial Officer of the Corporation, certify to my knowledge, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350), that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Corporation.

Date: October 11, 2007

/s/ RICHARD GOODMAN
Richard Goodman
Chief Financial Officer