

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

(Mark One)

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

For the quarterly period ended September 8, 2001 (12 and 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



PEPSICO, INC.

(Exact name of registrant as specified in its charter)

North Carolina

13-1584302

-----  
(State or other jurisdiction of  
Employer incorporate or organization)

-----  
(I. R. S.  
Identification No.)

700 Anderson Hill Road, Purchase, New York

10577

-----  
(Address of principal executive offices)

-----  
(Zip Code)

914-253-2000

-----  
(Registrant's telephone number, including area code)

N/A

-----  
(Former fiscal year, if changed since last report.)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES  NO

Number of shares of Capital Stock outstanding as of October 5, 2001: 1,749,594,431

**PEPSICO, INC. AND SUBSIDIARIES**

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**PEPSICO, INC. AND SUBSIDIARIES**

**CONDENSED CONSOLIDATED STATEMENT OF INCOME**

(in millions except per share amounts, unaudited)

	12 Weeks Ended		36 Weeks Ended	
	9/8/01	9/2/00	9/8/01	9/2/00
Net Sales.....	\$6,906	\$6,421	\$18,949	\$17,612
Costs and Expenses				
Cost of sales.....	2,728	2,539	7,542	7,043
Selling, general and administrative expenses.....	2,916	2,750	8,047	7,560
Amortization of intangible assets.....	39	34	113	102
Merger-related costs.....	235	-	235	-
Other impairment and restructuring charges.....	13	6	21	178
Operating Profit.....	975	1,092	2,991	2,729
Bottling equity income, net.....	85	76	153	135
Interest expense.....	(46)	(64)	(151)	(189)
Interest income.....	11	18	43	49
Income Before Income Taxes.....	1,025	1,122	3,036	2,724
Provision for Income Taxes.....	398	367	1,041	879
Net Income.....	\$ 627	\$ 755	\$ 1,995	\$ 1,845
Net Income Per Common Share				
Basic.....	\$ 0.35	\$ 0.43	\$ 1.13	\$ 1.05
Diluted.....	\$ 0.34	\$ 0.42	\$ 1.10	\$ 1.03
Cash Dividends Declared Per Common Share*.....	\$0.145	\$ 0.14	\$ 0.43	\$ 0.415

\* Represents that of PepsiCo prior to the consummation of the merger.

[See accompanying notes.](#)

**PEPSICO, INC. AND SUBSIDIARIES**

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**

(in millions, unaudited)

	36 Weeks Ended	
	9/8/01	9/2/00
Cash Flows - Operating Activities		
Net income.....	\$ 1,995	\$ 1,845
Adjustments to reconcile net income to net cash provided by operating activities		
Bottling equity income, net.....	(153)	(135)
Depreciation and amortization.....	737	711
Merger-related costs.....	235	-
Other impairment and restructuring charges.....	21	178
Cash payments for merger-related costs and restructuring charges.....	(159)	(19)
Deferred income taxes.....	(4)	138
Deferred compensation - ESOP.....	48	35
Other noncash charges and credits, net.....	154	219
Net change in operating working capital.....	(390)	(388)
Net Cash Provided by Operating Activities.....	2,484	2,584
Cash Flows - Investing Activities		
Capital spending.....	(756)	(744)
Acquisitions and investments in unconsolidated affiliates.....	(432)	(66)
Sales of property, plant and equipment.....	27	47
Short-term investments, by original maturity		
More than three months - purchases.....	(3,026)	(836)
More than three months - maturities.....	1,389	726
Three months or less, net.....	(67)	(55)
Other, net.....	111	(150)
Net Cash Used for Investing Activities.....	(2,754)	(1,078)
Cash Flows - Financing Activities		
Proceeds from issuances of long-term debt.....	11	108
Payments of long-term debt.....	(317)	(799)
Short-term borrowings, by original maturity		
More than three months - proceeds.....	125	125
More than three months - payments.....	(180)	(83)
Three months or less, net.....	(54)	341
Cash dividends paid.....	(752)	(710)
Share repurchases.....	(11)	(1,238)
Pre-merger Quaker share repurchases.....	(5)	(174)
Proceeds from issuance of shares in connection with Quaker merger.....	524	-
Proceeds from exercises of stock options.....	351	506
Net Cash Used for Financing Activities.....	(308)	(1,924)
Effect of Exchange Rate Changes on Cash and Cash Equivalents.....	-	(9)

Net Decrease in Cash and Cash Equivalents.....	(578)	(427)
Cash and Cash Equivalents - Beginning of year.....	1,038	1,246
Cash and Cash Equivalents - End of period.....	\$ 460	\$ 819
	=====	=====

[See accompanying notes.](#)

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**PEPSICO, INC. AND SUBSIDIARIES**

**CONDENSED CONSOLIDATED BALANCE SHEET**

(in millions)

**ASSETS**

	(Unaudited) 9/8/01	12/30/00
	-----	-----
<b>Current Assets</b>		
Cash and cash equivalents.....	\$ 460	\$ 1,038
Short-term investments, at cost.....	2,170	467
	-----	-----
	2,630	1,505
Accounts and notes receivable, less allowance: 9/01- \$120, 12/00 - \$126.....	2,598	2,129
<b>Inventories</b>		
Raw materials.....	563	503
Work-in-process.....	236	160
Finished goods.....	584	529
	-----	-----
	1,383	1,192
Prepaid expenses and other current assets.....	846	791
	-----	-----
<b>Total Current Assets</b> .....	<b>7,457</b>	<b>5,617</b>
Property, Plant and Equipment.....	11,910	11,466
Accumulated Depreciation.....	(5,224)	(4,908)
	-----	-----
	6,686	6,558
<b>Intangible Assets, net</b>		
Goodwill.....	4,127	3,798
Trademarks.....	632	585
Other identifiable intangibles.....	235	331
	-----	-----
	4,994	4,714
Investments in Unconsolidated Affiliates.....	2,963	2,979
Other Assets.....	936	889
	-----	-----
<b>Total Assets</b> .....	<b>\$23,036</b>	<b>\$20,757</b>
	=====	=====

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**PEPSICO, INC. AND SUBSIDIARIES**

**CONDENSED CONSOLIDATED BALANCE SHEET (continued)**

(in millions except per share amounts)

**LIABILITIES AND SHAREHOLDERS' EQUITY**

	9/8/01	12/30/00
	-----	-----
<b>Current Liabilities</b>		
Short-term borrowings.....	\$ 252	\$ 202
Accounts payable and other current liabilities.....	4,582	4,529
Income taxes payable.....	370	64
	-----	-----
<b>Total Current Liabilities</b> .....	<b>5,204</b>	<b>4,795</b>
Long-term Debt.....	2,559	3,009
Other Liabilities.....	4,154	3,960
Deferred Income Taxes.....	1,349	1,367
Preferred Stock, no par value.....	33	49
Deferred Compensation - preferred.....	-	(27)
<b>Common Shareholders' Equity</b>		
Common stock, par value 1 2/3 cents per share: Authorized 3,600 shares, issued 9/01 - 1,779 and 12/00 - 2,029 shares.....	30	34
Capital in excess of par value.....	84	375
Deferred compensation.....	-	(21)
Retained earnings.....	11,108	16,510
Accumulated other comprehensive loss.....	(1,485)	(1,374)
	-----	-----
	9,737	15,524
Less: Repurchased shares, at cost: 12/00 - 280 shares.....	-	(7,920)
	-----	-----
<b>Total Common Shareholders' Equity</b> .....	<b>9,737</b>	<b>7,604</b>
	-----	-----
<b>Total Liabilities and Shareholders' Equity</b> .....	<b>\$23,036</b>	<b>\$20,757</b>
	=====	=====

**PEPSICO, INC. AND SUBSIDIARIES**

**CONDENSED CONSOLIDATED STATEMENT  
OF COMPREHENSIVE INCOME**

(in millions, unaudited)

	12 Weeks Ended		36 Weeks Ended	
	9/8/01	9/2/00	9/8/01	9/2/00
Net Income.....	\$627	\$755	\$1,995	\$1,845
Other Comprehensive Loss				
Currency translation adjustment, net of related taxes.....	(20)	(15)	(107)	(242)
Cash flow hedges, net of related taxes:				
Cumulative effect of accounting change.....	-	-	3	-
Net derivative losses.....	(3)	-	(6)	-
Reclassification to net income.....	3	-	(3)	-
Other.....	-	(2)	2	2
	(20)	(17)	(111)	(240)
Comprehensive Income.....	\$607	\$738	\$1,884	\$1,605

[See accompanying notes.](#)

**PEPSICO, INC. AND SUBSIDIARIES**

**NOTES TO UNAUDITED, CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(unaudited; tabular dollars in millions; all per share amounts reflect common per share amounts and assume dilution unless noted)

(1) General

Our Condensed Consolidated Balance Sheet at September 8, 2001 and the Condensed Consolidated Statements of Income and Comprehensive Income for the 12 and 36 weeks ended September 8, 2001 and September 2, 2000 and the Condensed Consolidated Statement of Cash Flows for the 36 weeks ended September 8, 2001 and September 2, 2000 have not been audited and, except for the adoption of Statement of Financial Accounting Standards (SFAS) 133 as described in Note 9, have been prepared on a basis that is substantially consistent with the accounting principles applied in our 2000 consolidated financial statements. Our 2000 financial statements were restated to reflect the merger with The Quaker Oats Company in our Form 8-K filed on August 27, 2001. In our opinion, this information includes 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.

(2) Merger of PepsiCo and The Quaker Oats Company

On August 2, 2001, we completed a merger transaction, which resulted in The Quaker Oats Company becoming a wholly-owned subsidiary of PepsiCo. Under the merger agreement dated December 2, 2000, Quaker shareholders received 2.3 shares of PepsiCo common stock for each share of Quaker common stock, including a cash payment for fractional shares. We issued approximately 306 million shares of our common stock in exchange for all the outstanding common stock of Quaker.

In connection with the merger transaction, we sold the global rights of our All Sport beverage brand to The Monarch Company, Inc. of Atlanta. As part of the terms of the sale, we agreed that, for 10 years after the Quaker transaction closing date, we would not distribute Gatorade through our bottling system and would not include Gatorade with Pepsi-Cola products in certain marketing or promotional arrangements covering specific distribution channels.

The transaction was accounted for as a tax-free transaction and as a pooling-of-interests under Accounting Principles Board Opinion No. 16, Business Combinations. As a result, the prior period financial statements described in Note 1 were restated to include the results of operations, financial position and cash flows of both companies as if they had always been combined. Certain reclassifications were made to conform the presentation of the restated financial statements, and the fiscal calendar and certain interim reporting policies were also conformed. There were no material transactions between pre-merger PepsiCo and Quaker.

We incurred transaction costs of approximately \$117 million related to the merger.

The results of operations of the separate companies and the combined company for the 12 and 36 weeks ended September 2, 2000 are as follows:

	12 Weeks Ended 9/2/00	36 Weeks Ended 9/2/00
Net Sales:		
PepsiCo.....	\$4,909	\$14,028
Quaker.....	1,475	4,045
Adjustments (a).....	37	(461)
Combined.....	\$6,421	\$17,612
Net Income:		
PepsiCo.....	\$ 587	\$ 1,572
Quaker.....	159	312
Adjustments (a).....	9	(39)
Combined.....	\$ 755	\$ 1,845

(a) Adjustments reflect the impact of changing Quaker's fiscal calendar to conform to PepsiCo's and adjustments to conform accounting policies of the two companies applicable to interim reporting. Accordingly, these changes have no impact on full year net sales or net income.

(3) Net Income Per Common Share

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

	12 Weeks Ended	
	September 8, 2001	September 2, 2000
	Average Shares Out- standing	Average Shares Out- standing
Income	Income	Income

Net income .....	\$ 627		\$ 755	
Less: preferred dividends.....	1		1	
Net income available for common shareholders.....	\$ 626	1,776	\$ 754	1,749
Basic net income per common share.....	\$0.35		\$0.43	
Net income available for common shareholders.....	\$ 626	1,776	\$ 754	1,749
Effect of dilutive securities:				
Stock options.....	-	37	-	42
ESOP convertible preferred stock.....	1	4	1	4
Non-vested stock awards.....	-	-	-	1
Diluted.....	\$ 627	1,817	\$ 755	1,796
Diluted net income per common share.....	\$0.34		\$0.42	

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	36 Weeks Ended			
	September 8, 2001		September 2, 2000	
	Income	Average Shares Outstanding	Income	Average Shares Outstanding
Net income .....	\$1,995		\$1,845	
Less: preferred dividends.....	3		3	
Net income available for common shareholders.....	\$1,992	1,765	\$1,842	1,749
Basic net income per common share.....	\$ 1.13		\$ 1.05	
Net income available for common shareholders.....	\$1,992	1,765	\$1,842	1,749
Effect of dilutive securities:				
Stock options.....	-	40	-	35
ESOP convertible preferred stock.....	2	4	1	4
Non-vested stock awards.....	-	-	-	1
Diluted.....	\$1,994	1,809	\$1,843	1,789
Diluted net income per common share .....	\$ 1.10		\$ 1.03	

(4) Business Segments

	12 Weeks Ended		36 Weeks Ended	
	9/8/01	9/2/00	9/8/01	9/2/00
Net Sales				
Worldwide Snacks				
-Frito-Lay North America.....	\$ 2,315	\$ 2,172	\$ 6,588	\$ 6,207
-Frito-Lay International.....	1,190	1,101	3,484	3,272
	3,505	3,273	10,072	9,479
Worldwide Beverages				
-Pepsi-Cola North America.....	969	821	2,702	2,258
-Gatorade/Tropicana North America..	1,198	1,122	3,009	2,786
-PepsiCo Beverages International...	724	716	1,841	1,803
	2,891	2,659	7,552	6,847
Quaker Foods North America.....	510	489	1,325	1,286
Total Net Sales.....	\$ 6,906	\$ 6,421	\$18,949	\$17,612

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	12 Weeks Ended		36 Weeks Ended	
	9/8/01	9/2/00	9/8/01	9/2/00
Operating Profit				
Worldwide Snacks				
-Frito-Lay North America .....	\$ 526	\$ 478	\$1,444	\$1,321
-Frito-Lay International.....	144	128	428	364
	670	606	1,872	1,685
Worldwide Beverages				
-Pepsi-Cola North America.....	238	211	669	593
-Gatorade/Tropicana North America..	189	171	450	420
-PepsiCo Beverages International...	93	81	218	169
	520	463	1,337	1,182
Quaker Foods North America.....	110	104	275	263
Combined Segments.....	1,300	1,173	3,484	3,130
Corporate Unallocated .....	(77)	(75)	(237)	(223)
Merger-related costs .....	(235)	-	(235)	-
Other impairment and restructuring.	(13)	(6)	(21)	(178)
Total Operating Profit.....	\$ 975	\$1,092	\$2,991	\$2,729
Total Assets			9/8/01	12/30/00
Worldwide Snacks				
- Frito-Lay North America.....			\$4,397	\$4,282

- Frito-Lay International.....	4,411	4,352
Worldwide Beverages		
- Pepsi-Cola North America.....	1,420	836
- Gatorade/Tropicana North America.....	4,436	4,143
- PepsiCo Beverages International.....	1,984	1,923
Quaker Foods North America.....	933	952
Combined segments.....	17,581	16,488
Corporate.....	2,908	1,737
Bottling investments.....	2,547	2,532
Total Assets.....	\$23,036	\$20,757

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(5) Supplemental Cash Flow Information

	36 Weeks Ended	
	9/8/01	9/2/00
Interest paid.....	\$ 119	\$ 159
Income taxes paid.....	\$ 537	\$ 526
Supplemental Schedule of Noncash Investing and Financing Activities		
Fair value of assets acquired.....	\$ 603	\$ 82
Cash paid.....	(432)	(66)
Liabilities assumed.....	\$ 171	\$ 16

(6) Merger-Related Costs

During the third quarter, we recognized merger-related costs of \$235 million associated with our merger with Quaker. The components of these costs were as follows:

Transaction costs.....	\$ 117
Integration and restructuring costs.....	118
Total merger-related costs.....	\$ 235
After-tax.....	\$ 231
Per share.....	\$0.13

Transaction costs were incurred to complete the merger and consist primarily of fees and expenses for investment bankers, attorneys and accountants, SEC filing fees, stock exchange listing fees and financial printing and other related charges.

Integration costs represent incremental one-time merger-related costs. Such costs include consulting fees and expenses, expense for accelerated vesting under change-in-control provisions, information system integration costs and other costs associated with the integration of Quaker.

The restructuring charges primarily reflect termination costs for approximately 250 corporate, sales, distribution, research and marketing employees. Employee termination costs include retirement benefit and severance costs and expenses associated with change-in-control provisions of pre-merger employment contracts. All of the merger-related restructuring charges are employee related costs. As of September 8, 2001, approximately 40 of the terminations have occurred. The terminations are expected to be completed during 2002.

We expect to incur additional costs to integrate the two companies.

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Analysis of integration cost and merger-related restructuring reserves:

	Employee Related Restructuring	Integration Costs	Total
2001 integration and restructuring charges.....	\$ 62	\$ 56	\$ 118
Cash payments.....	(1)	(43)	(44)
Reclassification to postretirement liabilities.....	(25)	-	(25)
Other non-cash utilization.....	-	(12)	(12)
Reserves, September 8, 2001.....	\$ 36	\$ 1	\$ 37

These reserves are included in accounts payable and other current liabilities in the Condensed Consolidated Balance Sheet.

(7) Other Asset Impairment and Restructuring

	12 Weeks Ended		36 Weeks Ended	
	9/8/01	9/2/00	9/8/01	9/2/00
Asset impairment charges				
Held and used in the business				
Property, plant and equipment.....	\$ 8	\$ 2	\$ 10	\$ 123
Restructuring charges				
Employee related costs.....	2	3	2	41
Other charges.....	3	1	9	14
Total restructuring.....	5	4	11	55
Total.....	\$ 13	\$ 6	\$ 21	\$ 178
After-tax.....	\$ 8	\$ 4	\$ 13	\$ 107
Per share.....	-	-	\$0.01	\$0.06

The 2001 and 2000 other asset impairment and restructuring charges relate to a three-year supply chain reconfiguration project announced in 1999 to upgrade and optimize Quaker's manufacturing and distribution capabilities across all of its North American businesses.

In 2000, in conjunction with the supply chain reconfiguration project, Quaker adopted plans for the closure of two cereal manufacturing facilities and two distribution centers in the United States. The asset impairment charges of \$123 million primarily reflect the reduction in the carrying value of the land, buildings and production machinery and equipment to their estimated fair market value based on analyses of the liquidation values of similar assets. The restructuring charges of \$55 million primarily include severance and termination benefits and other shutdown costs.

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Analysis of other restructuring reserves:

	Employee Related	Facility Closure	Third Party Termination	Other	Total
Reserve, December 30, 2000.....	\$ 43	\$ 9	\$ 9	\$ 2	\$ 63
2001 restructuring charges.....	2	9	-	-	11
Cash payments.....	(25)	(15)	-	(1)	(41)
Reclassification to postretirement liabilities.....	(6)	-	-	-	(6)
Reserve, September 8, 2001.....	\$ 14	\$ 3	\$ 9	\$ 1	\$ 27

These other restructuring reserves are included in accounts payable and other current liabilities in the Condensed Consolidated Balance Sheet.

#### (8) Derivative Instruments and Hedging Activities

On December 31, 2000, we adopted Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended by SFAS 137 and SFAS 138. SFAS 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. It requires that we recognize all derivative instruments as either current or non-current assets or liabilities in the Condensed Consolidated Balance Sheet and measure those instruments at fair value. The adoption of SFAS 133 on December 31, 2000 increased assets by approximately \$12 million and liabilities by approximately \$10 million with approximately \$3 million recognized in accumulated other comprehensive income and less than \$1 million recognized in the Condensed Consolidated Statement of Income. Accumulated other comprehensive loss included net accumulated derivative losses of \$6 million as of September 8, 2001.

In the normal course of business, we manage risks associated with commodity prices, foreign exchange rates, interest rates and equity prices through a variety of strategies, including the use of hedging transactions, executed in accordance with our policies. Our hedging transactions include, but are not limited to, the use of various derivative financial and commodity instruments. As a matter of policy, we do not use derivative instruments unless there is an underlying exposure. Any change in the value of our derivative instruments would be substantially offset by an opposite change in the value of the underlying hedged items. We do not use derivative instruments for trading or speculative purposes.

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#### Accounting Policies

Using qualifying criteria defined in SFAS 133, derivative instruments are designated and accounted for as either a hedge of a recognized asset or liability (fair value hedge) or a hedge of a forecasted transaction (cash flow hedge). For a fair value hedge, both the effective and ineffective portions of the change in fair value of the derivative instrument, along with an adjustment to the carrying amount of the hedged item for fair value changes attributable to the hedged risk, are recognized in earnings. For a cash flow hedge, changes in the fair value of the derivative instrument that is highly effective are deferred in accumulated other comprehensive income or loss until the underlying hedged item is recognized in earnings. The ineffective portion of fair value changes on qualifying hedges is recognized in earnings immediately. If a fair value or cash flow hedge were to cease to qualify for hedge accounting or be terminated, it would continue to be carried on the balance sheet at fair value until settled but hedge accounting would be discontinued prospectively. If a forecasted transaction were no longer probable of occurring, amounts previously deferred in accumulated other comprehensive income would be recognized immediately in earnings.

On occasion, we may enter into a derivative instrument for which hedge accounting is not required because it is entered into to offset changes in the fair value of an underlying transaction which is required to be recognized in earnings (natural hedge). These instruments are reflected in the Condensed Consolidated Balance Sheet at fair value with changes in fair value recognized in earnings.

#### Commodity Prices

We are subject to market risk with respect to the cost of commodities because our ability to recover increased costs through higher pricing may be limited by the competitive environment in which we operate. We manage this risk primarily through the use of fixed-price purchase orders, pricing agreements, geographic diversity and derivative instruments. Derivative instruments, including futures, options and swaps, are used to hedge fluctuations in prices of a portion of anticipated commodity purchases, primarily vegetable oil, corn, oats, packaging materials, natural gas and fuel. Our use of derivative instruments is not significant to our commodity purchases. Derivative instruments designated as hedges of anticipated commodity purchases are accounted for as either cash flow or natural hedges. The earnings impact from commodity hedges is classified as either cost of sales or selling, general and administrative expenses consistent with the expense classification of the underlying hedged items.

We expect to reclassify into earnings, during the next twelve months, currently deferred net after-tax losses from accumulated other comprehensive income of approximately \$5 million at the time the underlying hedged transactions are realized. Substantially all cash flow hedges at September 8, 2001 are for periods of less than two years. Cash flow hedges for longer periods are not material. Ineffectiveness resulting from cash flow hedging activities was not material to our results of operations. No cash flow hedges were discontinued during the quarter ended September 8, 2001 as a result of anticipated transactions that are no longer probable of occurring.

#### Foreign Exchange

International operations constitute about one-fifth of our annual business segment operating profit. Operating in international markets involves exposure to movements in foreign exchange rates, primarily the Mexican peso, British pound, Canadian dollar, euro and Brazilian real which principally impacts the translation of our international operating profit into U.S. dollars.

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On occasion, we may enter into derivative financial instruments, as necessary, to reduce the effect of foreign exchange rate changes. We manage the use of foreign exchange derivatives centrally. Forward exchange contracts used to hedge the foreign currency exposure resulting from assets and liabilities denominated in currencies other than the functional currency and anticipated intercompany purchases are accounted for as either natural or cash flow hedges, as applicable. The earnings impact from these hedges is classified as either cost of sales or selling, general and administrative expenses consistent with the expense classification of the underlying hedged items. The fair value of such contracts designated as cash flow hedges was not material at September 8, 2001.

#### Interest Rates

We centrally manage our debt and investment portfolios considering investment opportunities and risks, tax consequences and overall financing strategies. We use interest rate and currency swaps to effectively change the interest rate and currency of specific debt issuances, with the objective of reducing our overall borrowing costs. These swaps are entered into concurrently with the issuance of the debt that they are intended to modify. The notional amount, interest payment and maturity dates of the swaps match the principal, interest payment and maturity dates of the related debt. Accordingly, any market risk or opportunity associated with these swaps is offset by the opposite market impact on the related debt. Our credit risk related to interest rate and currency swaps is considered low because such swaps are entered into only with strong creditworthy counterparties, are generally settled on a net basis and are of relatively short duration. Further, there is no significant concentration with counterparties.

Interest rate and currency swaps are designated as hedges of underlying fixed rate obligations and accounted for as fair value hedges. The earnings impact from these hedges is classified as interest expense. The ineffective portion of debt fair value hedges was not material to our results of operations.

#### Equity Prices

Equity derivative contracts with financial institutions are used to hedge a portion of our deferred compensation liability which is based on PepsiCo's stock price. These prepaid forward contracts indexed to PepsiCo's stock price are accounted for as natural hedges. The earnings impact from these hedges is classified as selling, general and administrative expenses consistent with the expense classification of the underlying hedged item.

#### (9) New Accounting Standards

During 2000, the Financial Accounting Standards Board's Emerging Issues Task Force (EITF) added to its agenda various issues that impact the income statement classification of certain promotional payments. In May 2000, the EITF reached a consensus on Issue 00-14, Accounting for Certain Sales Incentives. EITF 00-14 addresses the recognition and income statement classification of various sales incentives. Among its requirements, the consensus will require the costs related to consumer coupons currently classified as marketing costs to be classified as a reduction of revenue. In April 2001, the EITF delayed the effective date for this consensus to 2002. The impact of adopting this consensus is not expected to have a material impact on our consolidated financial statements.

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In January 2001, the EITF reached a consensus on Issue 00-22, Accounting for "Points" and Certain Other Time-Based or Volume-Based Sales Incentive Offers, and Offers for Free Products or Services to Be Delivered in the Future. Issue 00-22 requires that certain volume-based cash rebates to customers currently recognized as marketing costs be classified as a reduction of revenue. The consensus was effective for the first quarter of 2001 and was not material to our consolidated financial statements.

In April 2001, the EITF reached a consensus on Issue 00-25, Vendor Income Statement Characterization of Consideration Paid to a Reseller of the Vendor's Products. EITF 00-25 addresses the income statement classification of consideration, other than that directly addressed in Issue 00-14, from a vendor to a reseller, or another party that purchases the vendor's products. The consensus requires most of our customer promotional incentives

currently classified as marketing costs to be classified as a reduction of revenue. Annual promotional expenses classified as marketing costs were \$3.2 billion in 2000. The consensus is effective for 2002.

In July 2001, the FASB issued SFAS 141, Business Combinations which supersedes APB 16, Business Combinations. SFAS 141 eliminates the pooling-of-interests method of accounting for business combinations and modifies the application of the purchase accounting method. The elimination of the pooling-of-interests method is effective for transactions initiated after June 30, 2001. The remaining provisions of SFAS 141 will be effective for transactions accounted for using the purchase method that are completed after June 30, 2001. Since our merger with The Quaker Oats Company is accounted for as a pooling-of-interests and was initiated in December 2000, adoption of this Statement did not have an impact on our consolidated financial statements.

In July 2001, the FASB also issued SFAS 142, Goodwill and Intangible Assets, which supersedes APB 17, Intangible Assets. SFAS 142 eliminates the current requirement to amortize goodwill and indefinite-lived intangible assets, addresses the amortization of intangible assets with a defined life and the impairment testing and recognition for goodwill and intangible assets. SFAS 142 will apply to goodwill and intangible assets arising from transactions completed before and after the effective date. SFAS 142 is effective for 2002. We are currently assessing the Statement and the impact that adoption will have on our consolidated financial statements.

(10) Share Repurchases

Subsequent to the quarter, we repurchased 35.4 million shares of our common stock at a cost of \$1.7 billion under the emergency and exemptive orders from the Securities and Exchange Commission aimed at facilitating the reopening of the U.S. equities markets on September 17, 2001, following the September 11th terrorist attacks. Our Board of Directors authorized the repurchase of up to \$2 billion worth of our common stock during the terms of the orders. Repurchases under the orders did not compromise our ability to account for the merger with Quaker as a pooling-of-interests.

**Management's Discussion and Analysis of Results of Operations and Financial Condition**

(tabular dollars are presented in millions, except per share amounts)

All per share amounts reflect common per share amounts, assume dilution and are based on unrounded amounts. Percentage changes are based on unrounded amounts.

In the discussions below, the year-over-year dollar change in unit sales is referred to as *volume*. Price changes over the prior year and the impact of product, package and country sales mix changes are referred to as *effective net pricing*.

Comparable results discussed below exclude the costs associated with our merger with The Quaker Oats Company, other impairment and restructuring charges and various Quaker one-time charges. The comparable results also reflect the impact of the reclassification in 2000 of equity derivative contracts from interest income to corporate unallocated.

Cautionary Statements

From time to time, in written reports and in oral statements, we discuss expectations regarding our future performance including synergies from the merger, the impact of the euro conversion, the impact of global macro-economic issues and the impact of the September 11, 2001 terrorist attacks. 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.

Market Risk

Our market risks are described in Note 8. Global macro-economic issues and the impact of the September 11, 2001 terrorist attacks on global macro-economics may impact our ability to manage these risks.

Merger of PepsiCo and The Quaker Oats Company

On August 2, 2001, we completed a merger transaction with The Quaker Oats Company. Under the merger agreement dated December 2, 2000, Quaker shareholders received 2.3 shares of PepsiCo common stock in exchange for each share of Quaker common stock, including a cash payment for fractional shares. We issued approximately 306 million shares of our common stock in exchange for all the outstanding common stock of Quaker.

In connection with the merger transaction, we sold the global rights of our All Sport beverage brand to The Monarch Company, Inc. of Atlanta. As part of the terms of the sale, we agreed that, for 10 years after the Quaker transaction closing date, we would not distribute Gatorade through our bottling system and would not include Gatorade with Pepsi-Cola products in certain marketing or promotional arrangements covering specific distribution channels.

The merger was accounted for as a tax-free transaction and as a pooling-of-interests under Accounting Principles Board Opinion No. 16, Business Combinations. As a result, all prior period consolidated financial statements presented were restated to include the results of operations, financial position and cash flows of both companies as if they had always been combined. Certain reclassifications were made to conform the presentation of the financial statements, and the fiscal calendar and certain interim reporting policies were also conformed. There were no material transactions between pre-merger PepsiCo and Quaker.

The results of operations of the separate companies and the combined company for the 12 and 36 weeks ended September 2, 2000 are as follows:

	12 Weeks Ended 9/2/00	36 Weeks Ended 9/2/00
-----		
Net Sales:		
PepsiCo.....	\$4,909	\$14,028
Quaker.....	1,475	4,045
Adjustments (a).....	37	(461)
	-----	-----
Combined.....	\$6,421	\$17,612
	=====	=====
Net Income:		
PepsiCo.....	\$ 587	\$ 1,572
Quaker.....	159	312
Adjustments (a).....	9	(39)
	-----	-----
Combined.....	\$ 755	\$ 1,845
	=====	=====

(a) Adjustments reflect the impact of changing Quaker's fiscal calendar to conform to PepsiCo's and adjustments to conform accounting policies of the two companies applicable to interim reporting. Accordingly, these changes have no impact on full year net sales or net income.

Merger-Related Costs

During the third quarter, we recognized merger-related costs of \$235 million associated with our merger with Quaker. The components of these costs were as follows:

Transaction costs.....	\$ 117
Integration and restructuring costs.....	118
	-----
Total merger-related costs.....	\$ 235
	=====
After-tax.....	\$ 231
	=====
Per share.....	\$ 0.13
	=====

Transaction costs were incurred to complete the merger and consist primarily of fees and expenses for investment bankers, attorneys and accountants, SEC filing fees, stock exchange listing fees and financial printing and other related charges.

Integration costs represent incremental one-time merger-related costs. Such costs include consulting fees and expenses, various employee benefit costs, information system integration costs and other costs associated with the integration of Quaker.

The restructuring charges primarily reflect termination costs for approximately 250 corporate, sales, distribution, research and marketing employees. Employee termination costs include retirement benefit and severance costs and expenses associated with change-in-control provisions of pre-merger employment contracts. All of the merger-related restructuring charges are employee related costs. As of September 8, 2001, approximately 40 of the terminations have occurred. The terminations are expected to be completed during 2002.



Additional merger-related actions over the next two years are expected to bring the total integration costs and restructuring charges to between \$450 million and \$550 million. Ongoing merger-related cost savings and revenue enhancement opportunities are expected to reach \$400 million a year by 2005. Between \$140 million and \$175 million of the synergies are expected to be achieved by the end of 2002.

#### Other Asset Impairment and Restructuring

	12 Weeks Ended		36 Weeks Ended	
	9/8/01	9/2/00	9/8/01	9/2/00
Asset impairment charges				
Held and used in the business				
Property, plant and equipment.....	\$ 8	\$ 2	\$ 10	\$ 123
Restructuring charges				
Employee related costs.....	2	3	2	41
Other charges.....	3	1	9	14
Total restructuring.....	5	4	11	55
Total.....	\$13	\$ 6	\$ 21	\$ 178
After-tax.....	\$ 8	\$ 4	\$ 13	\$ 107
Per share.....	-	-	\$0.01	\$0.06

The 2001 and 2000 other asset impairment and restructuring charges relate to a three-year supply chain reconfiguration project announced in 1999 to upgrade and optimize Quaker's manufacturing and distribution capabilities across all of its North American businesses.

In 2000, in conjunction with the supply chain reconfiguration project, Quaker adopted plans for the closure of two cereal manufacturing facilities and two distribution centers in the United States. The asset impairment charges of \$123 million primarily reflect the reduction in the carrying value of the land, buildings and production machinery and equipment to their estimated fair market value based on analyses of the liquidation values of similar assets. The restructuring charges of \$55 million primarily included severance and termination benefits and other shutdown costs.

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#### Analysis of Consolidated Operations

##### Net Sales, Operating Profit and Operating Profit Margin

	12 Weeks Ended		%	36 Weeks Ended		%
	9/8/01	9/2/00	Change	9/8/01	9/2/00	Change
Net sales	\$6,906	\$6,421	8%	\$18,949	\$17,612	8%
Reported						
Total operating profit	\$ 975	\$1,092	(11)%	\$ 2,991	\$ 2,729	10%
Total operating profit margin	14.1%	17.0%	(2.9)	15.8%	15.5%	0.3
Comparable						
Total operating profit	\$1,223	\$1,100	11%	\$ 3,245	\$ 2,919	11%
Total operating profit margin	17.7%	17.1%	0.6	17.1%	16.6%	0.5

For the quarter, net sales increased 8% primarily due to volume gains and higher effective net pricing across all segments, as well as the acquisition of SoBe. These gains were partially offset by a net unfavorable foreign currency impact. The SoBe acquisition enhanced net sales growth by 1 percentage point and the unfavorable foreign currency impact reduced net sales growth by 1 percentage point.

For the quarter, comparable operating profit increased 11% primarily reflecting the higher effective net pricing and increased volume. These increases were partially offset by increased advertising and marketing at Frito-Lay North America and Gatorade/Tropicana North America, as well as higher manufacturing costs. Advertising and marketing expenses grew at a slightly slower rate than sales.

Year-to-date, net sales increased 8% due to volume gains and higher effective net pricing across all segments, as well as the acquisition of SoBe. These gains were partially offset by a net unfavorable foreign currency impact. The SoBe acquisition enhanced net sales growth by 1 percentage point and the unfavorable foreign currency impact reduced net sales growth by 1 percentage point.

Year-to-date, comparable operating profit increased 11% primarily reflecting the higher effective net pricing and increased volume. These increases were partially offset by increased advertising and marketing and selling and distribution expenses, as well as higher manufacturing costs. Advertising and marketing expenses grew at a faster rate than sales while selling and distribution expenses grew at a significantly slower rate.

#### Volume

Servings are based on U.S. Food and Drug Administration guidelines for single serving sizes of our products.

For the quarter and year-to-date, total servings increased 5% due to contributions from all divisions, particularly our international divisions and Pepsi-Cola North America.

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#### Bottling Equity Income

Bottling equity income increased 12% to \$85 million for the quarter and 13% to \$153 million year-to-date. The increases reflect our share of the higher net earnings from our bottling equity investments. Year-to-date, bottling equity income also includes a second quarter gain of \$59 million from the sale of approximately 2 million shares of The Pepsi Bottling Group, Inc. stock and second quarter impairment charges related to certain international bottling investments which exceeded the gain. A significant portion of these charges related to our equity investee in Turkey which was impacted by a major currency devaluation and adverse macro economic conditions.

#### Interest Expense, net

	12 Weeks Ended		%	36 Weeks Ended		%
	9/8/01	9/2/00	Change	9/8/01	9/2/00	Change
Reported						
Interest expense	\$(46)	\$(64)	28	\$(151)	\$(189)	20
Interest income	11	18	(37)	43	49	(12)
Interest expense, net	\$(35)	\$(46)	25	\$(108)	\$(140)	23
Comparable						
Interest expense	\$(46)	\$(64)	28	\$(151)	\$(189)	20
Interest income	11	17	(31)	43	40	10
Interest expense, net	\$(35)	\$(47)	27	\$(108)	\$(149)	28

Reported and comparable interest income includes gains or losses on equity investments used to economically hedge a portion of our deferred compensation liability. Reported interest income in 2000 also includes gains or losses from the equity derivative contracts used to hedge a portion of our deferred compensation liability. These equity contracts are now classified in selling, general and administrative expenses in connection with the 2001 adoption of the new accounting standard on derivative instruments. Comparable interest income for 2000 was restated to reflect this reclassification.

For the quarter, comparable interest expense, net of interest income, declined 27%. Interest expense declined primarily as a result of significantly lower average debt levels. Interest income declined primarily due to lower average interest rates and a loss on equity investments, partially offset by higher average investment balances.

Year-to-date comparable interest expense, net of interest income, declined 28%. Interest expense declined primarily as a result of significantly lower average debt levels. Interest income increased primarily due to higher average investment balances, partially offset by lower average interest rates and a loss on equity investments used to hedge a portion of our deferred compensation liability

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#### Provision for Income Taxes

	12 Weeks Ended		36 Weeks Ended	
	9/8/01	9/2/00	9/8/01	9/2/00
Reported				
Provision for income taxes	\$398	\$367	\$1,041	\$879
Effective tax rate	38.8%	32.7%	34.3%	32.3%
Comparable				
Provision for income taxes	\$407	\$370	\$1,052	\$951
Effective tax rate	32.0%	32.7%	32.0%	32.7%

For the quarter and year-to-date, the comparable effective tax rate decreased 0.7 percentage point primarily due to lower taxes on foreign results.

For the quarter, the reported effective tax rate is 6.8 percentage points higher than the comparable effective tax rate, primarily due to limited tax benefits associated with certain merger-related costs recognized during the quarter.

#### Net Income and Net Income per Common Share

	12 Weeks Ended		% Change	36 Weeks Ended		% Change
	9/8/01	9/2/00	B/(W)	9/8/01	9/2/00	B/(W)
Reported						
Net income	\$ 627	\$ 755	(17)	\$1,995	\$1,845	8
Net income per common share	\$0.34	\$0.42	(18)	\$ 1.10	\$ 1.03	7
Comparable						
Net income	\$ 866	\$ 759	14	\$2,238	\$1,954	15
Net income per common share	\$0.48	\$0.42	13	\$ 1.24	\$ 1.09	13

For the quarter, comparable net income increased 14% and the related net income per common share increased 13%. These increases primarily reflect increased operating profit, a lower effective tax rate and lower net interest expense. The increase in net income per common share also reflects the negative impact of a 1.2% increase in shares outstanding primarily related to the issuance of 13.2 million of repurchased shares in connection with the Quaker merger.

Year-to-date comparable net income increased 15% and the related net income per common share increased 13%. These increases primarily reflect increased operating profit, lower net interest expense and a lower effective tax rate. The increase in net income per common share also reflects the negative impact of a 1.2% increase in shares outstanding primarily related to the issuance of 13.2 million of repurchased shares in connection with the Quaker merger.

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#### Analysis of Business Segments

##### Worldwide Snacks

Volume growth is reported on a systemwide basis which includes joint ventures.

##### Frito-Lay North America

	12 Weeks Ended		% Change	36 Weeks Ended		% Change
	9/8/01	9/2/00	B/(W)	9/8/01	9/2/00	B/(W)
Net sales	\$2,315	\$2,172	7	\$6,588	\$6,207	6
Operating profit	\$ 526	\$ 478	10	\$1,444	\$1,321	9

##### 12 Weeks

Net sales grew 7% due to higher effective net pricing and increased volume.

Pound volume advanced 3% primarily due to growth from the introduction of our new Lay's Bistro gourmet potato chips, double-digit growth in Fritos brand corn chips and single-digit growth in Lay's brand potato chips and Cheetos brand cheese puffs. These gains were partially offset by a single-digit decline in Ruffles brand potato chips.

Operating profit increased 10% primarily reflecting the higher effective net pricing and increased volume, partially offset by higher advertising and marketing expenses. Advertising and marketing expenses grew at a faster rate than sales due primarily to increased promotional allowances.

##### 36 Weeks

Net sales grew 6% due to higher effective net pricing and increased volume.

Pound volume advanced 2% primarily due to single-digit growth in Lay's brand potato chips and Cheetos brand cheese puffs, the introduction of our new Lay's Bistro gourmet potato chips and growth in Doritos brand tortilla chips. These gains were partially offset by a double-digit decline in Ruffles brand potato chips.

Operating profit increased 9% primarily reflecting the higher effective net pricing and increased volume, partially offset by increased advertising and marketing expenses and higher energy costs. Advertising and marketing expenses grew at a faster rate than sales due primarily to increased promotional allowances.

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##### Frito-Lay International

	12 Weeks Ended		% Change	36 Weeks Ended		% Change
	9/8/01	9/2/00	B/(W)	9/8/01	9/2/00	B/(W)
Net sales	\$1,190	\$1,101	8	\$3,484	\$3,272	6
Operating profit	\$ 144	\$ 128	13	\$ 428	\$ 364	18

#### 12 Weeks

Net sales increased 8%, primarily driven by Sabritas and Gamesa in Mexico, the U.K. and Poland. Acquisitions contributed 1 percentage point of growth. The net impact of weaker foreign currencies, primarily in Brazil and in the U.K., decreased net sales growth by 3 percentage points.

Kilo volume increased 9%, primarily driven by a 12% increase in salty snack kilos and a 5% increase in sweet snack kilos. The salty snack growth was led by double-digit growth in Brazil and at our European joint venture and strong single-digit growth at Walkers in the U.K. The European salty volume growth reflected the impact of promotional programs. The sweet snack increase was attributable to growth at Gamesa and Sabritas. Acquisitions contributed 1 percentage point of growth.

Operating profit increased 13%, led by double-digit growth at Sabritas and in the U.K. The net impact of weaker foreign currencies, primarily in the U.K. and Brazil, decreased operating profit growth by nearly 2 percentage points.

#### 36 Weeks

Net sales increased 6%, primarily driven by Sabritas and Gamesa in Mexico, Poland and the U.K. Acquisitions contributed 1 percentage point of growth. The net impact of weaker foreign currencies, primarily in the U.K., Brazil and Australia, decreased net sales growth by 4 percentage points.

Kilo volume increased 8%, primarily driven by a 9% increase in salty snack kilos and a 6% increase in sweet snack kilos. The salty snack growth was led by double-digit growth at our European joint venture, Brazil and Poland and single-digit growth at Walkers in the U.K., partially offset by a single-digit decline at Sabritas. European volume growth was largely driven by promotional programs. The sweet snack increase was attributable to growth at Gamesa and Sabritas. The impact from acquisitions contributed 1 percentage point of growth.

Operating profit increased 18%, led by the strong performances at Sabritas, in Poland and at Walkers and increased equity income from our European joint venture. The net impact of weaker foreign currencies, primarily in the U.K., decreased operating profit growth by nearly 3 percentage points.

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#### Worldwide Beverages

Bottler case sales (BCS) represents PepsiCo-owned brands as well as brands that we have been granted the right to produce, distribute and market and are based on system bottlers' sales.

Third quarter BCS includes the months of June, July and August. Concentrate shipments and equivalents for PCNA includes shipments of concentrate and finished goods to bottlers as well as bottler case sales of Aquafina.

#### Pepsi-Cola North America

	12 Weeks Ended		% Change	36 Weeks Ended		% Change
	9/8/01	9/2/00	B/(W)	9/8/01	9/2/00	B/(W)
Net sales	\$969	\$821	18	\$2,702	\$2,258	20
Operating profit	\$238	\$211	13	\$ 669	\$ 593	13

#### 12 Weeks

Net sales increased 18% primarily due to increased volume and higher effective net pricing. The acquisition of SoBe and our new products, Dole, Mountain Dew Code Red and Sierra Mist drove the volume growth. SoBe and Dole are sold as finished product to our bottling system. Accordingly, net sales growth was accelerated due to their significantly higher price per unit. The SoBe acquisition contributed 7 percentage points to net sales growth.

Concentrate shipments and equivalents increased approximately 4% driven by Sierra Mist, strong double-digit growth in Aquafina, and mid single-digit growth in Mountain Dew reflecting the introduction of Code Red, as well as the acquisition of SoBe and launch of Dole. These gains were partially offset by a low single-digit decline in trademark Pepsi and a double-digit decline in Lemon-Lime Slice. BCS volume increased over 4%. The acquisition of SoBe contributed 1 percentage point to both concentrate shipments and equivalents and BCS growth.

Operating profit increased 13% primarily due to the increased volume and higher concentrate pricing. These gains were partially offset by higher advertising and marketing and general and administrative expenses. Excluding SoBe, advertising and marketing expenses grew at a significantly slower rate than sales while general and administrative expenses grew at a significantly faster rate. The SoBe acquisition reduced operating profit growth by 7 percentage points.

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#### 36 Weeks

Net sales increased 20% primarily due to increased volume and higher effective net pricing. The acquisition of SoBe and our new products, Dole, Sierra Mist and Mountain Dew Code Red, drove the volume growth. These gains were partially offset by increased customer support. The SoBe acquisition contributed 7 percentage points to net sales growth.

Concentrate shipments and equivalents increased 5% driven primarily by Sierra Mist, mid single-digit growth in Mountain Dew reflecting the introduction of Code Red, strong double-digit growth in Aquafina, as well as the acquisition of SoBe and launch of Dole. These gains were partially offset by a low single-digit decline in trademark Pepsi and a double-digit decline in Lemon-Lime Slice. BCS volume increased 4%. The acquisition of SoBe contributed 1 percentage point to both concentrate shipments and equivalents and BCS growth.

Operating profit increased 13% primarily due to the increased volume and higher concentrate pricing. These gains were partially offset by the increased advertising and marketing expenses related to bottler funding and other programs, general and administrative expenses and the increased customer support. Excluding SoBe, advertising and marketing expenses grew at a slower rate than sales and general and administrative expenses grew at faster rate. The SoBe acquisition reduced operating profit growth by 2 percentage points.

#### Gatorade/Tropicana North America

	12 Weeks Ended		% Change	36 Weeks Ended		% Change
	9/8/01	9/2/00	B/(W)	9/8/01	9/2/00	B/(W)
Net sales	\$1,198	\$1,122	7	\$3,009	\$2,786	8
Operating profit	\$ 189	\$ 171	10	\$ 450	\$ 420	7

#### 12 Weeks

Net sales increased 7% due to volume gains and higher effective net pricing of Gatorade.

Volume grew 5%, led by growth of Gatorade driven by three new flavors and double-digit growth of Tropicana Pure Premium nutritionals.

Operating profit increased by 10% reflecting the volume gains and higher effective net pricing, partially offset by higher advertising and marketing expenses due to promotional allowances and higher manufacturing and packaging costs.

### 36 Weeks

Net sales increased 8% due to volume gains and higher effective net pricing of Gatorade.

Volume grew 5%, led by growth of three new Gatorade flavors and double-digit growth of Tropicana Pure Premium nutritionals.

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Operating profit increased 7% due to the volume gains and higher effective net pricing, partially offset by higher advertising and marketing expenses due to promotional allowances and higher manufacturing costs, primarily energy and packaging costs.

#### **PepsiCo Beverages International**

	12 Weeks Ended		%	36 Weeks Ended		%
	9/8/01	9/2/00	Change B/(W)	9/8/01	9/2/00	Change B/(W)
Net sales	\$724	\$716	1	\$1,841	\$1,803	2
Operating profit	\$ 93	\$ 81	15	\$ 218	\$ 169	29

### 12 Weeks

Net sales increased 1% primarily due to volume gains and higher effective net pricing, partially offset by a net unfavorable foreign currency impact. The net unfavorable foreign currency impact, primarily in Europe and Egypt, reduced net sales growth by 4 percentage points.

Volume increased 5% due to broad-based increases led by Russia. These increases were partially offset by declines in Saudi Arabia, resulting from price increases, and in Turkey due to macro economic conditions. For June through August, total concentrate shipments to franchisees, including those bottlers in which we own an equity interest, grew 2% while their BCS grew at a slightly higher rate.

Operating profit increased 15% primarily due to the increased volume and a favorable advertising and marketing expense comparison, partially offset by a net unfavorable foreign currency impact. The net unfavorable foreign currency impact reduced operating profit growth by 7 percentage points.

### 36 Weeks

Net sales increased 2%. This increase was primarily due to volume gains, partially offset by a net unfavorable foreign currency impact. The net unfavorable foreign currency impact, primarily in Europe and Egypt, reduced net sales growth by 4 percentage points.

Volume increased 5% due to broad-based increases led by Russia, China and Brazil. These increases were partially offset by pricing related declines in Mexico and Saudi Arabia and a decline in Turkey due to macro economic conditions. Through August, total concentrate shipments to franchisees, including those bottlers in which we own an equity interest, grew 4% while their BCS grew at about the same rate.

Operating profit increased 29% primarily reflecting the volume gains and higher effective net pricing, partially offset by a net unfavorable foreign currency impact. The net unfavorable foreign currency impact reduced operating profit growth by 10 percentage points.

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#### **Quaker Foods North America**

	12 Weeks Ended		%	36 Weeks Ended		%
	9/8/01	9/2/00	Change B/(W)	9/8/01	9/2/00	Change B/(W)
Net sales	\$510	\$489	4	\$1,325	\$1,286	3
Operating profit	\$110	\$104	6	\$ 275	\$ 263	5

### 12 Weeks

Net sales increased 4% primarily due to higher volume and higher effective net pricing.

Volume increased 1% primarily driven by growth in hot cereals and ready-to-eat cereals, partially offset by declines in flavored rice and pasta. The hot cereals growth resulted primarily from new products and flavor varieties.

Operating profit increased 6% reflecting the higher volume and higher effective net pricing, partially offset by higher advertising and marketing expenses. Advertising and marketing expenses increased at a faster rate than sales.

### 36 Weeks

Net sales increased 3% primarily due to higher volume and higher effective net pricing.

Volume increased 2% primarily driven by growth in hot cereals. The hot cereals growth resulted primarily from new products and flavor varieties.

Operating profit increased 5% reflecting the higher volume and higher effective net pricing, partially offset by higher advertising and marketing expenses. Advertising and marketing expenses grew at about the same rate as net sales.

#### **Cash Flows**

Our 2001 cash and cash equivalents decreased \$578 million to \$460 million. This decrease primarily reflects net purchases of short-term investments, dividend payments, capital spending, the acquisition of SoBe and net debt payments, partially funded by operating income and the proceeds from the issuance of shares in connection with the merger with Quaker and the exercise of stock options.

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

Our strong cash-generating capability and financial condition give us ready access to capital markets throughout the world.

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During the quarter, we cancelled \$500 million of our existing revolving credit facilities. As of September 8, 2001, we maintain \$750 million of these facilities. Of the \$750 million, approximately \$375 million will expire in June 2002 with the balance expiring in June 2006. At expiration, these facilities can be extended an additional year upon the mutual consent of PepsiCo and the lending institutions. The credit facilities exist largely to support issuances of short-term debt.

In April 2001, we issued 13.2 million shares of our repurchased common stock to qualify for pooling-of-interests accounting treatment in connection with our merger with The Quaker Oats Company. We received \$524 million in net proceeds.

We have identified ongoing merger-related cost savings and revenue enhancement opportunities that are expected to reach \$400 million a year by 2005. Synergies expected to be achieved by the end of 2002 approximate \$140 to \$175 million.

We have incurred approximately \$117 million of transaction costs to complete the Quaker merger and expect to incur a total of approximately \$450 to \$550 million of additional costs to integrate the two companies. The substantial portion of these costs is expected to be cash and will be paid over a two-year period from the consummation of the merger.

Subsequent to the quarter, we contributed \$421 million to our U.S. pension plans compared to a contribution of \$75 million in 2000. This payment was made following a review of our anticipated future sources and uses of cash. We do not expect to make a cash contribution to our U.S. pension plans in 2002.

Additionally, subsequent to the quarter, we repurchased 35.4 million shares of our common stock at a cost of \$1.7 billion under the emergency and exemptive orders from the Securities and Exchange Commission aimed at facilitating the reopening of the U.S. equities market on September 17, 2001, following the September 11th terrorist attacks. Our Board of Directors authorized the repurchase of up to \$2 billion worth of our common stock during the terms of the orders. Repurchases under the orders did not compromise our ability to account for the merger with Quaker as a pooling-of-interests.

#### Euro Conversion

On January 1, 1999, member countries of the European Union fixed conversion rates between their existing currencies (legacy currencies) and one common currency—the euro. The euro trades on currency exchanges and is used in business transactions. Conversion to the euro eliminated currency exchange rate risk between the member countries. Beginning in January 2002, new euro-denominated bills and coins will be issued, and legacy currencies will be withdrawn from circulation. Our operating subsidiaries affected by the euro conversion are executing plans to address the issues raised by the euro currency conversion. These issues include, among others, the need to adapt computer and financial systems, business processes and equipment, such as vending machines, to accommodate euro-denominated transactions and the impact of one common currency on pricing. Since financial systems and processes currently accommodate multiple currencies, the plans contemplate conversion by the end of 2001 if not already addressed in conjunction with other system or process initiatives. The system and equipment conversion costs are not material. Due to numerous uncertainties, we cannot reasonably estimate the long-term effects one common currency will have on pricing and the resulting impact, if any, on financial condition or results of operations.

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#### Independent Accountants' Review Report

The Board of Directors  
PepsiCo, Inc.

We have reviewed the accompanying condensed consolidated balance sheet of PepsiCo, Inc. and Subsidiaries as of September 8, 2001 and the related condensed consolidated statements of income and comprehensive income for the twelve and thirty-six weeks ended September 8, 2001 and September 2, 2000 and the condensed consolidated statement of cash flows for the thirty-six weeks ended September 8, 2001 and September 2, 2000. These condensed consolidated financial statements are the responsibility of PepsiCo, Inc.'s management.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical review procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, 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 condensed consolidated financial statements referred to above for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheet of PepsiCo, Inc. and Subsidiaries as of December 30, 2000, and the related consolidated statements of income, cash flows and common shareholders' equity for the year then ended not presented herein; and in our report dated August 20, 2001 which appears in the Current Report on Form 8-K of PepsiCo, Inc. and Subsidiaries dated August 27, 2001, 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, 2000 is fairly presented, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

KPMG LLP

New York, New York  
October 10, 2001

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#### PART II - OTHER INFORMATION AND SIGNATAURES

##### Item 6. Exhibits and Reports on Form 8-K

- (a) Exhibits  
See Index to Exhibits on page 33.
  - (b) Reports on Form 8-K
- 1) On July 19, 2001, we filed a Current Report on Form 8-K attaching a press release dated July 19, 2001 announcing our earnings for the second quarter of 2001.
  - 2) On August 1, 2001, we filed a Current Report on Form 8-K attaching a press release dated August 1, 2001 announcing that the Federal Trade Commission had cleared our plans to merge with Quaker.
  - 3) On August 2, 2001, we filed a Current Report on Form 8-K attaching a press release dated August 2, 2001 announcing the completion of our merger with Quaker.
  - 4) On August 8, 2001, we filed a Current Report on Form 8-K attaching unaudited supplemental pro forma financial information.
  - 5) On August 8, 2001, we filed a Current Report on Form 8-K attaching a press release dated August 8, 2001, announcing several organizational changes following the merger with Quaker.
  - 6) On August 10, 2001, we filed a Current Report on Form 8-K attaching graphic information related to a webcast scheduled for August 10, 2001 in connection with the merger with Quaker.
  - 7) On August 13, 2001, we filed a Current Report on Form 8-K attaching a press release dated August 13, 2001, whereby management announced an increase in the estimated synergies from the merger with Quaker.
  - 8) On August 27, 2001, we filed a Current Report on Form 8-K attaching required supplemental consolidated financial statements, financial statements of acquired businesses and pro forma financial information.
  - 9) On September 17, 2001, we filed a Current Report on Form 8-K attaching a press release dated September 17, 2001, announcing our intent to resume share repurchases under the terms of the emergency relief order from the Securities and Exchange Commission.
  - 10) On October 10, 2001, we filed a Current Report on Form 8-K attaching a press release dated October 10, 2001 announcing our earnings for the third quarter of 2001.

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Pursuant to the requirement 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 17, 2001  
-----

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

Date: October 17, 2001

/S/ W. TIMOTHY HEAVISIDE

-----  
W. Timothy Heaviside  
Vice President and Assistant  
General Counsel

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INDEX TO EXHIBITS

ITEM 6(a)

EXHIBITS

Exhibit 12 Computation of Ratio of Earnings to Fixed Charges

Exhibit 15 Accountants' Acknowledgment

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## PEPSICO, INC. AND SUBSIDIARIES

**Computation of Ratio of Earnings to Fixed Charges (a)**  
(in millions except ratio amounts, unaudited)

	36 Weeks Ended	
	9/8/01	9/2/00
Earnings:		
Income before income taxes.....	\$3,036	\$2,724
Unconsolidated affiliates interest, net.....	(144)	(117)
Amortization of capitalized interest.....	7	6
Interest expense.....	151	189
Interest portion of rent expense (b).....	43	35
	-----	-----
Earnings available for fixed charges.....	\$3,093	\$2,837
	=====	=====
Fixed Charges:		
Interest expense.....	\$ 151	\$ 189
Capitalized interest.....	2	6
Interest portion of rent expense (b).....	43	35
	-----	-----
Total fixed charges.....	\$ 196	\$ 230
	=====	=====
Ratio of Earnings to Fixed Charges (c).....	15.77	12.33
	=====	=====

(a) Includes merger-related costs of \$235 million in 2001, other asset impairment and restructuring costs of \$21 million in 2001 and \$178 million in 2000 and Quaker one-time items of \$2 million of income in 2001 and \$3 million of expense in 2000. Excluding these items, the ratio of earnings to fixed charges for the 36 weeks ended September 8, 2001 would have been 17.07 and September 2, 2000 would have been 13.12.

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

(c) Based on unrounded amounts.

## Accountant's Acknowledgment

The Board of Directors  
PepsiCo, Inc.

We hereby acknowledge our awareness of the use of our report dated October 10, 2001 included within the Quarterly Report on Form 10-Q of PepsiCo, Inc. for the twelve and thirty-six weeks ended September 8, 2001, 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
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
Form S-8 -----	
PepsiCo SharePower Stock Option Plan	33-35602, 33-29037, 33-42058, 33-51496, 33-54731 & 33-66150
1988 Director Stock Plan	33-22970
1979 Incentive Plan and the 1987 Incentive Plan	33-19539
1994 Long-Term Incentive Plan	33-54733
1995 Stock Option Incentive Plan	33-61731 & 333-09363
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 (Teamster Local Union #173) and Retirement Savings and Investment Plan for Union Employees of Tropicana Products, Inc. and Affiliates	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

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

KPMG LLP

New York, New York  
October 17, 2001