

PEPSICO INC

Form 10-Q

July 23, 2014

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 14, 2014 (24 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  NO

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

Number of shares of Common Stock outstanding as of July 16, 2014 was 1,506,789,240.

---

Table of Contents

PepsiCo, Inc. and Subsidiaries

## Table of Contents

	Page No.
Part I Financial Information	
Item 1. Condensed Consolidated Financial Statements	<u>3</u>
<u>Condensed Consolidated Statement of Income –</u> <u>12 and 24 Weeks Ended June 14, 2014 and June 15,</u> <u>2013</u>	<u>3</u>
Condensed Consolidated Statement of Comprehensive Income – 12 and 24 Weeks Ended June 14, 2014 and June 15, 2013	<u>4</u>
Condensed Consolidated Statement of Cash Flows – 24 Weeks Ended June 14, 2014 and June 15, 2013	<u>5</u>
Condensed Consolidated Balance Sheet – June 14, 2014 and December 28, 2013	<u>7</u>
Condensed Consolidated Statement of Equity – 24 Weeks Ended June 14, 2014 and June 15, 2013	<u>9</u>
<u>Notes to the Condensed Consolidated Financial Statements</u>	<u>10</u>
Item 2. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>26</u>
Report of Independent Registered Public Accounting Firm	<u>46</u>
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>47</u>
Item 4. <u>Controls and Procedures</u>	<u>47</u>
Part II Other Information	
Item 1. <u>Legal Proceedings</u>	<u>48</u>
Item 1A. <u>Risk Factors</u>	<u>48</u>
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>49</u>
Item 5. Other Information	<u>50</u>
Item 6. <u>Exhibits</u>	<u>50</u>

Table of Contents

## PART I FINANCIAL INFORMATION

## ITEM 1. Condensed Consolidated Financial Statements.

## Condensed Consolidated Statement of Income

PepsiCo, Inc. and Subsidiaries

(in millions except per share amounts, unaudited)

	12 Weeks Ended		24 Weeks Ended	
	6/14/14	6/15/13	6/14/14	6/15/13
Net Revenue	\$16,894	\$16,807	\$29,517	\$29,388
Cost of sales	7,778	7,898	13,525	13,732
Selling, general and administrative expenses	6,198	6,013	11,246	11,079
Amortization of intangible assets	22	27	43	50
Operating Profit	2,896	2,869	4,703	4,527
Interest expense	(209	) (208	) (410	) (422
Interest income and other	18	18	28	45
Income before income taxes	2,705	2,679	4,321	4,150
Provision for income taxes	718	654	1,107	1,040
Net income	1,987	2,025	3,214	3,110
Less: Net income attributable to noncontrolling interests	9	15	20	25
Net Income Attributable to PepsiCo	\$1,978	\$2,010	\$3,194	\$3,085
Net Income Attributable to PepsiCo per Common Share				
Basic	\$1.30	\$1.30	\$2.10	\$1.99
Diluted	\$1.29	\$1.28	\$2.08	\$1.97
Weighted-average common shares outstanding				
Basic	1,515	1,548	1,519	1,546
Diluted	1,532	1,567	1,536	1,565
Cash dividends declared per common share	\$0.655	\$0.5675	\$1.2225	\$1.105

See accompanying notes to the condensed consolidated financial statements.

Table of Contents

Condensed Consolidated Statement of Comprehensive Income  
PepsiCo, Inc. and Subsidiaries  
(in millions, unaudited)

	12 Weeks Ended 6/14/14			24 Weeks Ended 6/14/14		
	Pre-tax amounts	Tax amounts	After-tax amounts	Pre-tax amounts	Tax amounts	After-tax amounts
Net income			\$1,987			\$3,214
Other Comprehensive Income/(Loss)						
Currency translation adjustment	\$460	\$—	460	\$(414)	\$—	(414)
Cash flow hedges:						
Reclassification of net losses to net income	11	(5)	6	21	(9)	12
Net derivative losses	(41)	12	(29)	(25)	7	(18)
Pension and retiree medical:						
Reclassification of net losses to net income	53	(17)	36	101	(33)	68
Remeasurement of net liabilities and translation	(13)	4	(9)	(10)	3	(7)
Unrealized (losses)/gains on securities	(7)	3	(4)	11	(6)	5
Total Other Comprehensive Income/(Loss)	\$463	\$(3)	460	\$(316)	\$(38)	(354)
Comprehensive income			2,447			2,860
Comprehensive income attributable to noncontrolling interests			(10)			(20)
Comprehensive Income Attributable to PepsiCo			\$2,437			\$2,840
	12 Weeks Ended 6/15/13			24 Weeks Ended 6/15/13		
	Pre-tax amounts	Tax amounts	After-tax amounts	Pre-tax amounts	Tax amounts	After-tax amounts
Net income			\$2,025			\$3,110
Other Comprehensive Loss						
Currency translation adjustment	\$(718)	\$—	(718)	\$(953)	\$—	(953)
Cash flow hedges:						
Reclassification of net (gains)/losses to net income	(8)	2	(6)	51	(19)	32
Net derivative gains/(losses)	5	(1)	4	(18)	16	(2)
Pension and retiree medical:						
Reclassification of net losses to net income	84	(27)	57	163	(54)	109
Remeasurement of net liabilities and translation	2	(1)	1	45	(13)	32
Unrealized gains on securities	20	(10)	10	19	(10)	9
Other	(1)	(16)	(17)	(1)	(16)	(17)
Total Other Comprehensive Loss	\$(616)	\$(53)	(669)	\$(694)	\$(96)	(790)
Comprehensive income			1,356			2,320
Comprehensive income attributable to noncontrolling interests			(14)			(23)
Comprehensive Income Attributable to PepsiCo			\$1,342			\$2,297

See accompanying notes to the condensed consolidated financial statements.



Table of Contents

Condensed Consolidated Statement of Cash Flows  
PepsiCo, Inc. and Subsidiaries  
(in millions, unaudited)

	24 Weeks Ended	
	6/14/14	6/15/13
Operating Activities		
Net income	\$3,214	\$3,110
Depreciation and amortization	1,162	1,185
Stock-based compensation expense	140	149
Cash payments for merger and integration charges	—	(17)
Restructuring and impairment charges	190	30
Cash payments for restructuring charges	(112)	(74)
Cash payments for restructuring and other charges related to the transaction with Tingyi (Cayman Islands) Holding Corp. (Tingyi)	—	(18)
Non-cash foreign exchange loss related to Venezuela devaluation	—	111
Excess tax benefits from share-based payment arrangements	(64)	(83)
Pension and retiree medical plan expenses	243	306
Pension and retiree medical plan contributions	(155)	(180)
Deferred income taxes and other tax charges and credits	35	(189)
Change in accounts and notes receivable	(1,554)	(1,088)
Change in inventories	(822)	(659)
Change in prepaid expenses and other current assets	(152)	(241)
Change in accounts payable and other current liabilities	120	400
Change in income taxes payable	636	543
Other, net	(209)	(270)
Net Cash Provided by Operating Activities	2,672	3,015
Investing Activities		
Capital spending	(921)	(911)
Sales of property, plant and equipment	42	30
Cash payments related to the transaction with Tingyi	—	(3)
Acquisitions and investments in noncontrolled affiliates	(31)	(59)
Divestitures		