PEPSICO INC
Form 10-Q
October 16, 2013
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 7, 2013 (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<br>(State or Other Jurisdiction of<br>Incorporation or Organization) | 13-1584302<br>(I.R.S. Employer<br>Identification No.) |
| 700 Anderson Hill Road, Purchase, New York<br>(Address of Principal Executive Offices) | 10577<br>(Zip Code) |

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES X 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 X | Accelerated filer |
| Non-accelerated filer<br>(Do not check if a smaller reporting company) | Smaller reporting company |

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

Number of shares of Common Stock outstanding as of October 9, 2013: 1,533,599,526

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PepsiCo, Inc. and Subsidiaries

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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 | | 36 Weeks Ended | |
|---|---|---|---|---|
| | 9/7/2013 | 9/8/2012 | 9/7/2013 | 9/8/2012 |
| Net Revenue | $16,909 | $16,652 | $46,297 | $45,538 |
| Cost of sales | 7,946 | 7,833 | 21,678 | 21,637 |
| Selling, general and administrative expenses | 6,158 | 5,992 | 17,237 | 16,920 |
| Amortization of intangible assets | 25 | 27 | 75 | 82 |
| Operating Profit | 2,780 | 2,800 | 7,307 | 6,899 |
| Interest expense | (220) | (204) | (642) | (611) |
| Interest income and other | 17 | 23 | 62 | 47 |
| Income before income taxes | 2,577 | 2,619 | 6,727 | 6,335 |
| Provision for income taxes | 654 | 706 | 1,694 | 1,788 |
| Net income | 1,923 | 1,913 | 5,033 | 4,547 |
| Less: Net income attributable to noncontrolling interests | 10 | 11 | 35 | 30 |
| Net Income Attributable to PepsiCo | $1,913 | $1,902 | $4,998 | $4,517 |
| Net Income Attributable to PepsiCo per Common Share | | | | |
| Basic | $1.24 | $1.22 | $3.23 | $2.89 |
| Diluted | $1.23 | $1.21 | $3.20 | $2.86 |
| Weighted-average common shares outstanding | | | | |
| Basic | 1,542 | 1,556 | 1,545 | 1,562 |
| Diluted | 1,561 | 1,575 | 1,564 | 1,580 |
| Cash dividends declared per common share | $0.5675 | $0.5375 | $1.6725 | $1.59 |

See accompanying notes to the condensed consolidated financial statements.

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

| | 12 Weeks Ended 9/7/2013 | | | 36 Weeks Ended 9/7/2013 | | |
|---|---|---|---|---|---|---|
| | Pre-tax amounts | Tax amounts | After-tax amounts | Pre-tax amounts | Tax amounts | After-tax amounts |
| Net income | | | $1,923 | | | $5,033 |
| Other Comprehensive Loss | | | | | | |
| Currency translation adjustment | $(700) | $— | (700) | $(1,653) | $— | (1,653) |
| Cash flow hedges: | | | | | | |
| Reclassification of net losses to net income | 21 | (7) | 14 | 72 | (26) | 46 |
| Net derivative gains/(losses) | 4 | (4) | — | (14) | 12 | (2) |
| Pension and retiree medical: | | | | | | |
| Reclassification of net losses to net income | 82 | (29) | 53 | 245 | (83) | 162 |
| Remeasurement of net liabilities and translation | (9) | 3 | (6) | 36 | (10) | 26 |
| Unrealized gains on securities | 9 | (4) | 5 | 28 | (14) | 14 |
| Other | 1 | — | 1 | — | (16) | (16) |
| Total Other Comprehensive Loss | $(592) | $(41) | (633) | $(1,286) | $(137) | (1,423) |
| Comprehensive income | | | 1,290 | | | 3,610 |
| Comprehensive income attributable to noncontrolling interests | | | (9) | | | (32) |
| Comprehensive Income Attributable to PepsiCo | | | $1,281 | | | $3,578 |

| | 12 Weeks Ended 9/8/2012 | | | 36 Weeks Ended 9/8/2012 | | |
|---|---|---|---|---|---|---|
| | Pre-tax amounts | Tax amounts | After-tax amounts | Pre-tax amounts | Tax amounts | After-tax amounts |
| Net income | | | $1,913 | | | $4,547 |
| Other Comprehensive Income | | | | | | |
| Currency translation adjustment | $530 | $— | 530 | $(14) | $— | (14) |
| Cash flow hedges: | | | | | | |
| Reclassification of net losses to net income | 20 | (7) | 13 | 58 | (21) | 37 |
| Net derivative losses | (13) | (2) | (15) | (50) | 10 | (40) |
| Pension and retiree medical: | | | | | | |
| Reclassification of net losses to net income | 69 | (24) | 45 | 209 | (71) | 138 |
| Remeasurement of net liabilities and translation | (29) | 7 | (22) | (28) | 6 | (22) |
| Unrealized (losses)/gains on securities | (1) | — | (1) | 2 | — | 2 |
| Other | — | — | — | — | 36 | 36 |
| Total Other Comprehensive Income | $576 | $(26) | 550 | $177 | $(40) | 137 |
| Comprehensive income | | | 2,463 | | | 4,684 |
| Comprehensive income attributable to noncontrolling interests | | | (11) | | | (24) |
| Comprehensive Income Attributable to PepsiCo | | | $2,452 | | | $4,660 |

See accompanying notes to the condensed consolidated financial statements.

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

| | 36 Weeks Ended | |
|---|---|---|
| | 9/7/2013 | 9/8/2012 |
| Operating Activities | | |
| Net income | $5,033 | $4,547 |
| Depreciation and amortization | 1,815 | 1,837 |
| Stock-based compensation expense | 219 | 193 |
| Merger and integration charges | 9 | 7 |
| Cash payments for merger and integration charges | (21) | (57) |
| Restructuring and impairment charges | 37 | 193 |
| Cash payments for restructuring charges | (100) | (243) |
| Restructuring and other charges related to the transaction with Tingyi (Cayman Islands) Holding Corp. (Tingyi) | — | 163 |
| Cash payments for restructuring and other charges related to the transaction with Tingyi | (26) | (98) |
| Non-cash foreign exchange loss related to Venezuela devaluation | 111 | — |
| Excess tax benefits from share-based payment arrangements | (94) | (89) |
| Pension and retiree medical plan contributions | (208) | (1,253) |
| Pension and retiree medical plan expenses | 462 | 414 |
| Deferred income taxes and other tax charges and credits | (66) | 283 |
| Change in accounts and notes receivable | (1,262) | (1,300) |
| Change in inventories | (337) | (234) |
| Change in prepaid expenses and other current assets | (156) | (83) |
| Change in accounts payable and other current liabilities | 734 | 281 |
| Change in income taxes payable | 811 | 736 |
| Other, net | (299) | (179) |
| Net Cash Provided by Operating Activities | 6,662 | 5,118 |
| Investing Activities | | |
| Capital spending | (1,497) | (1,409) |
| Sales of property, plant and equipment | 51 | 58 |
| Cash payments related to the transaction with Tingyi | (3) | (298) |
| Acquisitions and investments in noncontrolled affiliates | (82) | (76) |
| Divestitures | 174 | 7 |
| Short-term investments, by original maturity – three months or less, net | (8) | (21) |
| Other investing, net | (13) | 11 |
| Net Cash Used for Investing Activities | (1,378) | (1,728) |

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

| | 36 Weeks Ended | |
|---|---|---|
| | 9/7/2013 | 9/8/2012 |
| Financing Activities | | |
| Proceeds from issuances of long-term debt | $4,185 | $5,207 |
| Payments of long-term debt | (2,954) | (1,357) |
| Short-term borrowings, by original maturity | | |
| More than three months – proceeds | 2 | 53 |
| More than three months – payments | (476) | (213) |
| Three months or less, net | 662 | (2,034) |
| Cash dividends paid | (2,558) | (2,470) |
| Share repurchases – common | (2,041) | (2,328) |
| Share repurchases – preferred | (5) | (5) |
| Proceeds from exercises of stock options | 991 | 927 |
| Excess tax benefits from share-based payment arrangements | 94 | 89 |
| Acquisition of noncontrolling interests | (20) | (15) |
| Other financing | (15) | (18) |
| Net Cash Used for Financing Activities | (2,135) | (2,164) |
| Effect of exchange rate changes on cash and cash equivalents | (242) | 16 |
| Net Increase in Cash and Cash Equivalents | 2,907 | 1,242 |
| Cash and Cash Equivalents, Beginning of Year | 6,297 | 4,067 |
| Cash and Cash Equivalents, End of Period | $9,204 | $5,309 |

See accompanying notes to the condensed consolidated financial statements.

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Condensed Consolidated Balance Sheet
PepsiCo, Inc. and Subsidiaries
(in millions)

| | (Unaudited) 9/7/2013 | 12/29/2012 |
|---|---|---|
| Assets | | |
| Current Assets | | |
| Cash and cash equivalents | $9,204 | $6,297 |
| Short-term investments | 355 | 322 |
| Accounts and notes receivable, less allowance: 9/13 – $155, 12/12 – $157 | 8,088 | 7,041 |
| Inventories | | |
| Raw materials | 1,791 | 1,875 |
| Work-in-process | 253 | 173 |
| Finished goods | 1,694 | 1,533 |
| | 3,738 | 3,581 |
| Prepaid expenses and other current assets | 1,546 | 1,479 |
| Total Current Assets | 22,931 | 18,720 |
| Property, Plant and Equipment | 35,914 | 36,162 |
| Accumulated Depreciation | (17,842) | (17,026) |
| | 18,072 | 19,136 |
| Amortizable Intangible Assets, net | 1,662 | 1,781 |
| Goodwill | 16,534 | 16,971 |
| Other Nonamortizable Intangible Assets | 14,300 | 14,744 |
| Nonamortizable Intangible Assets | 30,834 | 31,715 |
| Investments in Noncontrolled Affiliates | 1,823 | 1,633 |
| Other Assets | 1,492 | 1,653 |
| Total Assets | $76,814 | $74,638 |

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Condensed Consolidated Balance Sheet (continued)
PepsiCo, Inc. and Subsidiaries
(in millions except per share amounts)

| | (Unaudited) 9/7/2013 | 12/29/2012 |
|---|---|---|
| Liabilities and Equity | | |
| Current Liabilities | | |
| Short-term obligations | $5,256 | $4,815 |
| Accounts payable and other current liabilities | 12,214 | 11,903 |
| Income taxes payable | 998 | 371 |
| Total Current Liabilities | 18,468 | 17,089 |
| Long-Term Debt Obligations | 24,293 | 23,544 |
| Other Liabilities | 6,604 | 6,543 |
| Deferred Income Taxes | 5,047 | 5,063 |
| Total Liabilities | 54,412 | 52,239 |
| Commitments and Contingencies | | |
| Preferred Stock, no par value | 41 | 41 |
| Repurchased Preferred Stock | (169) | (164) |
| PepsiCo Common Shareholders' Equity | | |
| Common stock, par value $1^{2}/_{3}$¢ per share (authorized 3,600 shares, issued, net of repurchased common stock at par value: 1,537 and 1,544 shares, respectively) | 26 | 26 |
| Capital in excess of par value | 4,040 | 4,178 |
| Retained earnings | 45,554 | 43,158 |
| Accumulated other comprehensive loss | (6,907) | (5,487) |
| Repurchased common stock, in excess of par value (329 and 322 shares, respectively) | (20,299) | (19,458) |
| Total PepsiCo Common Shareholders' Equity | 22,414 | 22,417 |
| Noncontrolling interests | 116 | 105 |
| Total Equity | 22,402 | 22,399 |
| Total Liabilities and Equity | $76,814 | $74,638 |

See accompanying notes to the condensed consolidated financial statements.

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

| | 36 Weeks Ended | | | |
|---|---|---|---|---|
| | 9/7/2013 | | 9/8/2012 | |
| | Shares | Amount | Shares | Amount |
| Preferred Stock | 0.8 | $41 | 0.8 | $41 |
| Repurchased Preferred Stock | | | | |
| Balance, beginning of year | (0.6) | (164) | (0.6) | (157) |
| Redemptions | — | (5) | — | (5) |
| Balance, end of period | (0.6) | (169) | (0.6) | (162) |
| Common Stock | | | | |
| Balance, beginning of year | 1,544 | 26 | 1,565 | 26 |
| Repurchased common stock | (7) | — | (13) | — |
| Balance, end of period | 1,537 | 26 | 1,552 | 26 |
| Capital in Excess of Par Value | | | | |
| Balance, beginning of year | | 4,178 | | 4,461 |
| Stock-based compensation expense | | 219 | | 193 |
| Stock option exercises/RSUs converted [a] | | (266) | | (384) |
| Withholding tax on RSUs converted | | (77) | | (65) |
| Other | | (14) | | (26) |
| Balance, end of period | | 4,040 | | 4,179 |
| Retained Earnings | | | | |
| Balance, beginning of year | | 43,158 | | 40,316 |
| Net income attributable to PepsiCo | | 4,998 | | 4,517 |
| Cash dividends declared – common | | (2,583) | | (2,482) |
| Cash dividends declared – preferred | | — | | (1) |
| Cash dividends declared – RSUs | | (19) | | (18) |
| Balance, end of period | | 45,554 | | 42,332 |
| Accumulated Other Comprehensive Loss | | | | |
| Balance, beginning of year | | (5,487) | | (6,229) |
| Currency translation adjustment | | (1,650) | | (8) |
| Cash flow hedges, net of tax: | | | | |
| Reclassification of net losses to net income | | 46 | | 37 |
| Net derivative losses | | (2) | | (40) |
| Pension and retiree medical, net of tax: | | | | |
| Reclassification of net losses to net income | | 162 | | 138 |
| Remeasurement of net liabilities and translation | | 26 | | (22) |
| Unrealized gains on securities, net of tax | | 14 | | 2 |
| Other | | (16) | | 36 |
| Balance, end of period | | (6,907) | | (6,086) |
| Repurchased Common Stock | | | | |
| Balance, beginning of year | (322) | (19,458) | (301) | (17,870) |
| Share repurchases | (27) | (2,125) | (35) | (2,387) |
| Stock option exercises | 18 | 1,146 | 20 | 1,225 |
| Other | 2 | 138 | 2 | 141 |
| Balance, end of period | (329) | (20,299) | (314) | (18,891) |
| Total PepsiCo Common Shareholders’ Equity | | 22,414 | | 21,560 |
| Noncontrolling Interests | | | | |

| | | |
|---|---|---|
| Balance, beginning of year | 105 | 311 |
| Net income attributable to noncontrolling interests | 35 | 30 |
| Distributions to noncontrolling interests | (15) | (15) |
| Currency translation adjustment | (3) | (6) |
| Acquisitions and divestitures | (6) | (175) |
| Balance, end of period | 116 | 145 |
| Total Equity | $22,402 | $21,584 |

(a) Includes total tax benefits of $32 million in 2013 and $57 million in 2012.

See accompanying notes to the condensed consolidated financial statements.

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Notes to the Condensed Consolidated Financial Statements

Note 1 - Basis of Presentation and Our Divisions

Basis of Presentation

When used in this report, the terms “we,” “us,” “our,” “PepsiCo” and the “Company” mean PepsiCo, Inc. and its divisions and subsidiaries.

Our Condensed Consolidated Balance Sheet as of September 7, 2013, Condensed Consolidated Statements of Income and Comprehensive Income for the 12 and 36 weeks ended September 7, 2013 and September 8, 2012 and Condensed Consolidated Statements of Cash Flows and Equity for the 36 weeks ended September 7, 2013 and September 8, 2012 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 29, 2012. In our opinion, these financial statements include all normal and recurring adjustments necessary for a fair presentation. The results for the 12 and 36 weeks are not necessarily indicative of the results expected for the full year.

While our North America (United States and Canada) results are reported on a period basis, most of our international operations report on a monthly calendar basis for which the months of June, July and August are reflected in our third quarter results.

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

The following information is unaudited. Tabular dollars are in millions, except per share amounts. All per share amounts reflect common per share amounts, assume dilution unless otherwise noted, and are based on unrounded amounts. Certain reclassifications were made to the prior year’s amounts to conform to the 2013 presentation. This report should be read in conjunction with our Annual Report on Form 10-K for the fiscal year ended December 29, 2012.

Our Divisions

We are organized into four business units, as follows:

1. PepsiCo Americas Foods, which includes Frito-Lay North America (FLNA), Quaker Foods North America (QFNA) and all of our Latin American food and snack businesses (LAF);
2. PepsiCo Americas Beverages (PAB), which includes all of our North American and Latin American beverage businesses;
3. PepsiCo Europe, which includes all beverage, food and snack businesses in Europe and South Africa; and
4. PepsiCo Asia, Middle East and Africa (AMEA), which includes all beverage, food and snack businesses in AMEA, excluding South Africa.

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

- FLNA,
- QFNA,
- LAF,
- PAB,
- Europe, and
- AMEA.

| | 12 Weeks Ended | | 36 Weeks Ended | |
|---|---|---|---|---|
| | 9/7/2013 | 9/8/2012 | 9/7/2013 | 9/8/2012 |
| Net Revenue | | | | |
| FLNA | $3,424 | $3,269 | $9,879 | $9,472 |
| QFNA | 604 | 615 | 1,815 | 1,821 |
| LAF | 2,049 | 1,883 | 5,532 | 5,066 |
| PAB | 5,406 | 5,530 | 15,086 | 15,330 |
| Europe | 3,818 | 3,691 | 9,413 | 9,153 |
| AMEA | 1,608 | 1,664 | 4,572 | 4,696 |
| | $16,909 | $16,652 | $46,297 | $45,538 |

| | 12 Weeks Ended | | 36 Weeks Ended | |
|---|---|---|---|---|
| | 9/7/2013 | 9/8/2012 | 9/7/2013 | 9/8/2012 |
| Operating Profit | | | | |
| FLNA | $977 | $917 | $2,711 | $2,532 |
| QFNA | 137 | 154 | 450 | 495 |
| LAF | 295 | 219 | 829 | 673 |
| PAB | 843 | 837 | 2,290 | 2,202 |
| Europe | 501 | 483 | 1,014 | 1,017 |
| AMEA | 295 | 317 | 1,003 | 630 |
| Total division | 3,048 | 2,927 | 8,297 | 7,549 |
| Corporate Unallocated | | | | |
| Mark-to-market net (losses)/gains | (19) | 121 | (74) | 126 |
| Merger and integration charges | — | 2 | — | — |
| Restructuring and impairment charges | 1 | (7) | (1) | (8) |
| Venezuela currency devaluation | — | — | (124) | — |
| Other | (250) | (243) | (791) | (768) |
| | $2,780 | $2,800 | $7,307 | $6,899 |

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| | Total Assets | |
|---|---|---|
| | 9/7/2013 | 12/29/2012 |
| FLNA | $5,424 | $5,332 |
| QFNA | 1,016 | 966 |
| LAF | 4,704 | 4,993 |
| PAB | 31,145 | 30,899 |
| Europe | 18,902 | 19,218 |
| AMEA | 5,496 | 5,738 |
| Total division | 66,687 | 67,146 |
| Corporate [(a)] | 10,127 | 7,492 |
| | $76,814 | $74,638 |

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

Note 2 - Recent Accounting Pronouncements

In July 2013, the Financial Accounting Standards Board (FASB) issued new accounting guidance that requires an entity to net its liability for unrecognized tax positions against a net operating loss carryforward, a similar tax loss or a tax credit carryforward when settlement in this manner is available under the tax law. The provisions of this new guidance are effective as of the beginning of our 2014 fiscal year. We are currently evaluating the impact of the new guidance on our financial statements.

In February 2013, the FASB issued guidance that requires an entity to disclose information showing the effect of the items reclassified from accumulated other comprehensive income on the line items of net income. The provisions of this new guidance were effective prospectively as of the beginning of our 2013 fiscal year. Accordingly, we have included enhanced footnote disclosure for the 12 and 36 weeks ended September 7, 2013 in Note 9.

In July 2012, the FASB issued new accounting guidance that permits an entity to first assess qualitative factors to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired as a basis for determining whether it is necessary to perform a quantitative impairment test. An entity would continue to calculate the fair value of an indefinite-lived intangible asset if the asset fails the qualitative assessment, while no further analysis would be required if it passes. The provisions of the new guidance were effective for, and had no impact on, our 2013 annual indefinite-lived intangible asset impairment test results.

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

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Note 3 - Restructuring, Impairment and Integration Charges

In the 12 weeks ended September 7, 2013, we incurred restructuring and impairment charges of $7 million ($6 million after-tax with a nominal amount per share) in conjunction with our multi-year productivity plan (Productivity Plan). In the 36 weeks ended September 7, 2013, we incurred restructuring and impairment charges of $37 million ($29 million after-tax or $0.02 per share) in conjunction with our Productivity Plan. All of these net charges were recorded in selling, general and administrative expenses. The majority of cash payments related to these charges are expected to be paid by the end of 2013.

In the 12 weeks ended September 8, 2012, we incurred restructuring and impairment charges of $83 million ($59 million after-tax or $0.04 per share) in conjunction with our Productivity Plan. In the 36 weeks ended September 8, 2012, we incurred restructuring and impairment charges of $193 million ($139 million after-tax or $0.09 per share) in conjunction with our Productivity Plan. All of these net charges were recorded in selling, general and administrative expenses. The majority of cash payments related to these charges were paid by the end of 2012.

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

A summary of our Productivity Plan charges is as follows:

| | 12 Weeks Ended | | 36 Weeks Ended | |
|---|---|---|---|---|
| | 9/7/2013 | 9/8/2012 | 9/7/2013 | 9/8/2012 |
| FLNA | $1 | $8 | $5 | $40 |
| QFNA | — | 1 | — | 7 |
| LAF | 1 | 29 | 6 | 41 |
| PAB | 3 | 33 | 8 | 76 |
| Europe [(a)] | 2 | (1) | 14 | (2) |
| AMEA | 1 | 6 | 3 | 23 |
| Corporate [(a)] | (1) | 7 | 1 | 8 |
| | $7 | $83 | $37 | $193 |

(a) Income amounts represent adjustments of previously recorded amounts.

A summary of our Productivity Plan activity in 2013 is as follows:

| | Severance and Other Employee Costs | Asset Impairment | Other Costs | Total |
|---|---|---|---|---|
| Liability as of December 29, 2012 | $91 | $— | $36 | $127 |
| 2013 restructuring charges | 12 | 1 | 24 | 37 |
| Cash payments | (71) | — | (29) | (100) |
| Non-cash charges and other | (4) | (1) | (6) | (11) |
| Liability as of September 7, 2013 | $28 | $— | $25 | $53 |

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In the 12 weeks and 36 weeks ended September 7, 2013, we incurred merger and integration charges of $9 million ($7 million after-tax with a nominal amount per share) related to our acquisition of Wimm-Bill-Dann Foods OJSC (WBD), all of which were recorded in selling, general and administrative expenses in the Europe segment. Substantially all cash payments related to these charges are expected to be paid by the end of 2013.
In the 12 weeks ended September 8, 2012, we incurred merger and integration charges of $2 million ($2 million after-tax with a nominal amount per share) related to our acquisition of WBD, including $4 million recorded in the Europe segment and income of $2 million recorded in corporate unallocated expenses representing adjustments of previously recorded amounts. In the 36 weeks ended September 8, 2012, we incurred merger and integration charges of $7 million ($6 million after-tax with a nominal amount per share) related to our acquisition of WBD, all of which were recorded in the Europe segment. These charges were recorded in selling, general and administrative expenses. The majority of cash payments related to these charges were paid by the end of 2012.
A summary of our merger and integration activity in 2013 is as follows:

| | Severance and Other Employee Costs | Asset Impairment | Other Costs | Total |
|---|---|---|---|---|
| Liability as of December 29, 2012 | $18 | $— | $6 | $24 |
| 2013 merger and integration charges [a] | (2) | 8 | 3 | 9 |
| Cash payments | (14) | — | (7) | (21) |
| Non-cash charges and other | (1) | (8) | — | (9) |
| Liability as of September 7, 2013 | $1 | $— | $2 | $3 |

(a) Income amounts represent adjustments of previously recorded amounts.

Note 4 - Intangible Assets

| | 9/7/2013 | | | 12/29/2012 | | |
|---|---|---|---|---|---|---|
| Amortizable intangible assets, net | Gross | Accumulated Amortization | Net | Gross | Accumulated Amortization | Net |
| Acquired franchise rights | $910 | $(78) | $832 | $931 | $(67) | $864 |
| Reacquired franchise rights | 108 | (80) | 28 | 110 | (68) | 42 |
| Brands | 1,392 | (981) | 411 | 1,422 | (980) | 442 |
| Other identifiable intangibles | 675 | (284) | 391 | 736 | (303) | 433 |
| | $3,085 | $(1,423) | $1,662 | $3,199 | $(1,418) | $1,781 |

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

| | Balance 12/29/2012 | Acquisitions/ (Divestitures) | Translation and Other | Balance 9/7/2013 |
|---|---|---|---|---|
| FLNA | | | | |
| Goodwill | $316 | $— | $(8) | $308 |
| Brands | 31 | — | (2) | 29 |
| | 347 | — | (10) | 337 |
| QFNA | | | | |
| Goodwill | 175 | — | — | 175 |
| LAF | | | | |
| Goodwill | 716 | — | (53) | 663 |
| Brands | 223 | — | (17) | 206 |
| | 939 | — | (70) | 869 |
| PAB | | | | |
| Goodwill | 9,988 | 15 | (39) | 9,964 |
| Reacquired franchise rights | 7,337 | 4 | (52) | 7,289 |
| Acquired franchise rights | 1,573 | (8) | (10) | 1,555 |
| Brands | 153 | — | (7) | 146 |
| | 19,051 | 11 | (108) | 18,954 |
| Europe | | | | |
| Goodwill | 5,214 | — | (285) | 4,929 |
| Reacquired franchise rights | 772 | — | (35) | 737 |
| Acquired franchise rights | 223 | — | — | 223 |
| Brands | 4,284 | — | (297) | 3,987 |
| | 10,493 | — | (617) | 9,876 |
| AMEA | | | | |
| Goodwill | 562 | (4) | (63) | 495 |
| Brands | 148 | — | (20) | 128 |
| | 710 | (4) | (83) | 623 |
| Total goodwill | 16,971 | 11 | (448) | 16,534 |
| Total reacquired franchise rights | 8,109 | 4 | (87) | 8,026 |
| Total acquired franchise rights | 1,796 | (8) | (10) | 1,778 |
| Total brands | 4,839 | — | (343) | 4,496 |
| | $31,715 | $7 | $(888) | $30,834 |

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Note 5 - Income Taxes

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

| | 9/7/2013 | 12/29/2012 |
|---|---|---|
| Balance, beginning of year | $2,425 | $2,167 |
| Additions for tax positions related to the current year | 177 | 275 |
| Additions for tax positions from prior years | 138 | 161 |
| Reductions for tax positions from prior years | (110) | (172) |
| Settlement payments | (211) | (17) |
| Statute of limitations expiration | (26) | (3) |
| Translation and other | (7) | 14 |
| Balance, end of period | $2,386 | $2,425 |

In the fourth quarter of 2013, we reached an agreement with the Internal Revenue Service resolving all open matters related to the audits for taxable years 2003 through 2009. As a result, we expect to make net cash tax payments of approximately $700 million that will reduce our net cash provided by operating activities and our reserves for uncertain tax positions for various jurisdictions in the fourth quarter of 2013. In addition, as previously disclosed, we believe it is reasonably possible that our reserves for uncertain tax positions could be further impacted in the fourth quarter of 2013.

Note 6 - Stock-Based Compensation

The following table summarizes our total stock-based compensation expense:

| | 12 Weeks Ended | | 36 Weeks Ended | |
|---|---|---|---|---|
| | 9/7/2013 | 9/8/2012 | 9/7/2013 | 9/8/2012 |
| Stock-based compensation expense | $70 | $68 | $219 | $193 |
| Merger and integration charges | — | 1 | — | 2 |
| Restructuring and impairment benefits | — | — | — | (7) |
| Total | $70 | $69 | $219 | $188 |

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

| | 36 Weeks Ended | |
|---|---|---|
| | 9/7/2013 | 9/8/2012 |
| Expected life | 6 years | 6 years |
| Risk free interest rate | 1.0% | 1.3% |
| Expected volatility [(a)] | 17% | 17% |
| Expected dividend yield | 2.7% | 3.0% |

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

For the 12 weeks ended September 7, 2013, our grants of stock options, restricted stock units (RSUs) and PepsiCo equity performance units (PEPUnits) were nominal. For the 36 weeks ended September 7, 2013, we granted 2.7 million stock options, 4.2 million RSUs and 0.4 million PEPUnits at weighted-average grant prices of $76.22, $76.35 and $75.75, respectively, under the terms of our 2007 Long-Term Incentive Plan.

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For the 12 weeks ended September 8, 2012, our grants of stock options, RSUs and PEPUnits were nominal. For the 36 weeks ended September 8, 2012, we granted 3.6 million stock options, 4.3 million RSUs and 0.4 million PEPUnits at weighted-average grant prices of $66.94, $66.51 and $66.70, respectively, under the terms of our 2007 Long-Term Incentive Plan.

Note 7 - 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 | |
| | 9/7/2013 | 9/8/2012 | 9/7/2013 | 9/8/2012 | 9/7/2013 | 9/8/2012 |
| | U.S. | | International | | | |
| Service cost | $107 | $93 | $28 | $23 | $10 | $12 |
| Interest cost | 122 | 124 | 29 | 27 | 13 | 15 |
| Expected return on plan assets | (190) | (183) | (39) | (34) | (6) | (5) |
| Amortization of prior service cost/(benefit) | 4 | 4 | — | — | (6) | (6) |
| Amortization of net losses | 67 | 60 | 17 | 13 | — | — |
| | 110 | 98 | 35 | 29 | 11 | 16 |
| Settlement/curtailment gain | — | — | — | (2) | — | — |
| Special termination benefits | — | 2 | — | — | — | — |
| Total expense | $110 | $100 | $35 | $27 | $11 | $16 |

| | 36 Weeks Ended | | | | | |
|---|---|---|---|---|---|---|
| | Pension | | | | Retiree Medical | |
| | 9/7/2013 | 9/8/2012 | 9/7/2013 | 9/8/2012 | 9/7/2013 | 9/8/2012 |
| | U.S. | | International | | | |
| Service cost | $323 | $282 | $77 | $65 | $31 | $35 |
| Interest cost | 365 | 370 | 81 | 75 | 38 | 45 |
| Expected return on plan assets | (570) | (550) | (109) | (95) | (18) | (15) |
| Amortization of prior service cost/(benefit) | 13 | 12 | 1 | 1 | (16) | (18) |
| Amortization of net losses | 200 | 179 | 46 | 35 | — | — |
| | 331 | 293 | 96 | 81 | 35 | 47 |
| Settlement/curtailment (gain)/loss | — | (7) | 1 | 1 | — | — |
| Special termination benefits | 3 | 6 | — | — | — | 4 |
| Total expense | $334 | $292 | $97 | $82 | $35 | $51 |

During the first quarter of 2013, we made discretionary contributions of $13 million to our international pension plans. During the first quarter of 2012, we made discretionary contributions of $860 million to our U.S. pension plans and $140 million to our U.S. retiree medical plans.

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Note 8 - Debt Obligations and Commitments

In the first quarter of 2013, we issued:

- $625 million of floating rate notes maturing in February 2016, which bear interest at a rate equal to the three-month London Inter-Bank Offered Rate (LIBOR) plus 21 basis points;
- $625 million of 0.700% senior notes maturing in February 2016; and
- $1.250 billion of 2.750% senior notes maturing in March 2023.

In the third quarter of 2013, we issued:

- $850 million of floating rate notes maturing in July 2015 (2015 Notes), which bear interest at a rate equal to three-month LIBOR plus 20 basis points; and
- $850 million of 2.250% senior notes maturing in January 2019 (2019 Notes).

The net proceeds from the issuances of the notes in the first quarter were used for general corporate purposes, including the repayment of commercial paper. The net proceeds from the issuances of the notes in the third quarter were primarily used for the redemption of our outstanding 3.75% senior notes maturing in March 2014 (2014 Notes), as described below, with the remainder used for general corporate purposes, including the repayment of commercial paper. In the third quarter of 2013, we exercised our option to redeem all of our outstanding 2014 Notes, using approximately $1 billion of the net proceeds from the 2015 Notes and 2019 Notes issued in the quarter.

In the second quarter of 2013, we entered into a new five-year unsecured revolving credit agreement (Five-Year Credit Agreement) which expires on June 10, 2018. The Five-Year Credit Agreement enables us and our borrowing subsidiaries to borrow up to $2.925 billion, subject to customary terms and conditions. We may request that commitments under this agreement be increased up to $3.5 billion. Additionally, we may, once a year, request renewal of the agreement for an additional one-year period.

Also, in the second quarter of 2013, we entered into a new 364-day unsecured revolving credit agreement (364-Day Credit Agreement) which expires on June 9, 2014. The 364-Day Credit Agreement enables us and our borrowing subsidiaries to borrow up to $2.925 billion, subject to customary terms and conditions. We may request that commitments under this agreement be increased up to $3.5 billion. We may request renewal of this facility for an additional 364-day period or convert any amounts outstanding into a term loan for a period of up to one year, which would mature no later than the then effective termination date.

The Five-Year Credit Agreement and the 364-Day Credit Agreement together replaced our $2.925 billion Four-Year Credit Agreement dated as of June 14, 2011 and our $2.925 billion 364-Day Credit Agreement dated as of June 14, 2011. Funds borrowed under the Five-Year Credit Agreement and the 364-Day Credit Agreement may be used for general corporate purposes of PepsiCo and our subsidiaries.

As of September 7, 2013, we had $2.0 billion of commercial paper outstanding.

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Long-Term Contractual Commitments [(a)]

| | Payments Due by Period | | | | |
|---|---|---|---|---|---|
| | Total | 2013 | 2014 – 2015 | 2016 – 2017 | 2018 and beyond |
| Long-term debt obligations [(b)] | $23,826 | $— | $4,092 | $4,355 | $15,379 |
| Interest on debt obligations [(c)] | 8,571 | 291 | 1,597 | 1,357 | 5,326 |
| Operating leases | 1,991 | 138 | 735 | 428 | 690 |
| Purchasing commitments [(d)] | 2,074 | 300 | 1,177 | 289 | 308 |
| Marketing commitments [(d)] | 2,230 | 96 | 668 | 505 | 961 |
| | $38,692 | $825 | $8,269 | $6,934 | $22,664 |

(a) Based on quarter-end foreign exchange rates. We expect to make net cash tax payments of approximately $700 million in the fourth quarter of 2013, as discussed further in Note 5. Reserves for uncertain tax positions are excluded from the table above as we are unable to reasonably predict the ultimate amount or timing of any other settlements.

(b) Excludes $3,174 million related to current maturities of long-term debt, $249 million related to the fair value step-up of debt acquired in connection with our acquisitions of The Pepsi Bottling Group, Inc. (PBG) and PepsiAmericas, Inc. (PAS) in February 2010 and $218 million related to the increase in carrying value of long-term debt reflecting the gains on our fair value interest rate swaps.

(c) Interest payments on floating-rate debt are estimated using interest rates effective as of September 7, 2013.

(d) Primarily reflects non-cancelable commitments as of September 7, 2013.

Most long-term contractual commitments, except for our long-term debt obligations, are not recorded on our balance sheet. Operating leases primarily represent building leases. Non-cancelable purchasing commitments are primarily for packaging materials and oranges and orange juice. Non-cancelable marketing commitments are primarily for sports marketing. Bottler funding to independent bottlers is not reflected in our long-term contractual commitments as it is negotiated on an annual basis. Accrued liabilities for pension and retiree medical plans are not reflected in our long-term contractual commitments because they do not represent expected future cash outflows. See Note 7 for additional information regarding our pension and retiree medical obligations.

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Note 9 - Accumulated Other Comprehensive Loss

The following table summarizes the reclassifications from Accumulated Other Comprehensive Loss to the Condensed Consolidated Statement of Income for the 12 and 36 weeks ended September 7, 2013:

| | 12 Weeks Ended 9/7/2013 Amount Reclassified from Accumulated Other Comprehensive Loss | 36 Weeks Ended 9/7/2013 Amount Reclassified from Accumulated Other Comprehensive Loss | Affected Line Item in the Condensed Consolidated Statement of Income |
|---|---|---|---|
| Losses/(gains) on cash flow hedges: | | | |
| Foreign exchange contracts | $2 | $6 | Cost of sales |
| Interest rate derivatives | 8 | 41 | Interest expense |
| Commodity contracts | 12 | 26 | Cost of sales |
| Commodity contracts | (1) | (1) | Selling, general and administrative expenses |
| Net losses before tax | 21 | 72 | |
| Tax amounts | (7) | (26) | |
| Net losses after tax | $14 | $46 | |
| Amortization of pension and retiree medical items: | | | |
| Net prior service benefit [(a)] | $(2) | $(2) | |
| Net actuarial losses [(a)] | 84 | 247 | |
| Net losses before tax | 82 | 245 | |
| Tax amounts | (29) | (83) | |
| Net losses after tax | $53 | $162 | |
| Total net losses reclassified for the period, net of tax | $67 | $208 | |

(a) These items are included in the components of net periodic benefit cost for pension and retiree medical plans (see Note 7 for additional details).

Note 10 - Financial Instruments

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

- commodity prices, affecting the cost of our raw materials and energy;
- foreign exchange risks and currency restrictions; and
- interest rates.

In the normal course of business, we manage these risks through a variety of strategies, including the use of derivatives. Certain derivatives are designated as either cash flow or fair value hedges and qualify for hedge accounting treatment, while others do not qualify and are marked to market through earnings. Cash flows from derivatives used to manage commodity, foreign exchange or interest rate risks are classified as operating activities in the Condensed Consolidated Statement of Cash Flows. We classify both the earnings and cash flow impact from these derivatives consistent with the underlying hedged item. See “Our Business Risks” in Management’s Discussion and Analysis of Financial Condition and Results of Operations for further unaudited information on our business risks.

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For cash flow hedges, changes in fair value are deferred in accumulated other comprehensive loss within common shareholders' equity until the underlying hedged item is recognized in net income. For fair value hedges, changes in fair value are recognized immediately in earnings, consistent with the underlying hedged item. Hedging transactions are limited to an underlying exposure. As a result, any change in the value of our derivative instruments would be substantially offset by an opposite change in the value of the underlying hedged items. Hedging ineffectiveness and a net earnings impact occur when the change in the value of the hedge does not offset the change in the value of the underlying hedged item. If the derivative instrument is terminated, we continue to defer the related gain or loss and then include it as a component of the cost of the underlying hedged item. Upon determination that the underlying hedged item will not be part of an actual transaction, we recognize the related gain or loss on the hedge in net income immediately.

We also use derivatives that do not qualify for hedge accounting treatment. We account for such derivatives at market value with the resulting gains and losses reflected in our income statement. We do not use derivative instruments for trading or speculative purposes. We perform assessments of our counterparty credit risk regularly, including a review of credit ratings, credit default swap rates and potential nonperformance of the counterparty. Based on our most recent assessment of our counterparty credit risk, we consider this risk to be low. In addition, we enter into derivative contracts with a variety of financial institutions that we believe are creditworthy in order to reduce our concentration of credit risk.

Commodity Prices

We are subject to commodity price risk because our ability to recover increased costs through higher pricing may be limited in the competitive environment in which we operate. This risk is managed through the use of fixed-price purchase orders, pricing agreements and derivatives. In addition, risk to our supply of certain raw materials is mitigated through purchases from multiple geographies and suppliers. We use derivatives, with terms of no more than three years, to economically hedge price fluctuations related to a portion of our anticipated commodity purchases, primarily for agricultural products, energy and metals. For those derivatives that qualify for hedge accounting, any ineffectiveness is recorded immediately in corporate unallocated expenses. Ineffectiveness was not material for all periods presented. During the next 12 months, we expect to reclassify net losses of $32 million related to these hedges from accumulated other comprehensive loss into net income. Derivatives used to hedge commodity price risk that do not qualify for hedge accounting are marked to market each period and reflected in corporate unallocated expenses.

Our open commodity derivative contracts that qualify for hedge accounting had a face value of $512 million as of September 7, 2013 and $488 million as of September 8, 2012.

Our open commodity derivative contracts that do not qualify for hedge accounting had a face value of $947 million as of September 7, 2013 and $636 million as of September 8, 2012.

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Foreign Exchange

We are also exposed to foreign currency risk from foreign currency purchases and foreign currency assets and liabilities created in the normal course of business. We manage this risk through sourcing purchases from local suppliers, negotiating contracts in local currencies with foreign suppliers and through the use of derivatives, primarily forward contracts with terms of no more than two years. Exchange rate gains or losses related to foreign currency transactions are recognized as transaction gains or losses in our income statement as incurred.

Our foreign currency derivatives had a total face value of $2.8 billion as of September 7, 2013 and $2.5 billion as of September 8, 2012. During the next 12 months, we expect to reclassify net gains of $30 million related to foreign currency contracts that qualify for hedge accounting from accumulated other comprehensive loss into net income. Ineffectiveness was not material for all periods presented. For foreign currency derivatives that do not qualify for hedge accounting treatment, all losses and gains were offset by changes in the underlying hedged items, resulting in no net material impact on earnings.

Interest Rates

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

The notional amounts of the interest rate derivative instruments outstanding as of September 7, 2013 and September 8, 2012 were $7.1 billion and $7.3 billion, respectively. For those interest rate derivative instruments that qualify for cash flow hedge accounting, any ineffectiveness is recorded immediately. Ineffectiveness was not material for all periods presented. During the next 12 months, we expect to reclassify net losses of $23 million related to these hedges from accumulated other comprehensive loss into net income.

As of September 7, 2013, approximately 23% of total debt, after the impact of the related interest rate derivative instruments, was exposed to variable rates, compared to 27% as of December 29, 2012.

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Fair Value Measurements

The fair values of our financial assets and liabilities as of September 7, 2013 and September 8, 2012 are categorized as follows:

| | 2013 | | 2012 | |
|---|---|---|---|---|
| | Assets [(a)] | Liabilities [(a)] | Assets [(a)] | Liabilities [(a)] |
| Available-for-sale securities [(b)] | $105 | $— | $61 | $— |
| Short-term investments – index funds [(c)] | $169 | $— | $164 | $— |
| Prepaid forward contracts [(d)] | $38 | $— | $41 | $— |
| Deferred compensation [(e)] | $— | $486 | $— | $503 |
| Derivatives designated as fair value hedging instruments: | | | | |
| Interest rate derivatives [(f)] | $167 | $5 | $293 | $— |
| Derivatives designated as cash flow hedging instruments: | | | | |
| Interest rate derivatives [(f)] | $3 | $— | $— | $— |
| Foreign exchange contracts [(g)] | 33 | 3 | 10 | 31 |
| Commodity contracts [(h)] | 6 | 36 | 13 | 38 |
| | $42 | $39 | $23 | $69 |
| Derivatives not designated as hedging instruments: | | | | |
| Interest rate derivatives [(f)] | $64 | $89 | $128 | $159 |
| Foreign exchange contracts [(g)] | 27 | 12 | 30 | 6 |
| Commodity contracts [(h)] | 16 | 97 | 84 | 25 |
| | $107 | $198 | $242 | $190 |
| Total derivatives at fair value | $316 | $242 | $558 | $259 |
| Total | $628 | $728 | $824 | $762 |

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

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

(c) Based on price changes in index funds used to manage a portion of market risk arising from our deferred compensation liability. Categorized as a Level 1 asset.

(d) Based primarily on the price of our common stock.

(e) Based on the fair value of investments corresponding to employees' investment elections. As of September 7, 2013, all balances are categorized as Level 2 liabilities. As of September 8, 2012, $11 million are categorized as Level 1 liabilities and the remaining balances are categorized as Level 2 liabilities.

(f) Based on LIBOR forward rates and recently reported market transactions of spot and forward rates.

(g) Based on recently reported market transactions of spot and forward rates.

(h) Based on recently reported market transactions, primarily swap arrangements.

The fair value of our debt obligations as of September 7, 2013 was $30 billion, based upon prices of similar instruments in the marketplace.

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

| | 12 Weeks Ended | | | | | |
|---|---|---|---|---|---|---|
| | Fair Value/Non-designated Hedges | | Cash Flow Hedges | | | |
| | (Gains)/Losses Recognized in Income Statement [a] | | (Gains)/Losses Recognized in Accumulated Other Comprehensive Loss | | Losses/(Gains) Reclassified from Accumulated Other Comprehensive Loss into Income Statement [b] | |
| | 9/7/2013 | 9/8/2012 | 9/7/2013 | 9/8/2012 | 9/7/2013 | 9/8/2012 |
| Foreign exchange contracts | $(8) | $(9) | $(5) | $41 | $2 | $(6) |
| Interest rate derivatives | 53 | (5) | (9) | — | 8 | 6 |
| Commodity contracts | 36 | (99) | 10 | (28) | 11 | 20 |
| Total | $81 | $(113) | $(4) | $13 | $21 | $20 |

| | 36 Weeks Ended | | | | | |
|---|---|---|---|---|---|---|
| | Fair Value/Non-designated Hedges | | Cash Flow Hedges | | | |
| | (Gains)/Losses Recognized in Income Statement [a] | | (Gains)/Losses Recognized in Accumulated Other Comprehensive Loss | | Losses/(Gains) Reclassified from Accumulated Other Comprehensive Loss into Income Statement [b] | |
| | 9/7/2013 | 9/8/2012 | 9/7/2013 | 9/8/2012 | 9/7/2013 | 9/8/2012 |
| Foreign exchange contracts | $(3) | $(16) | $(38) | $37 | $6 | $(4) |
| Interest rate derivatives | 104 | 3 | 3 | 4 | 41 | 15 |
| Commodity contracts | 85 | (76) | 49 | 9 | 25 | 47 |
| Total | $186 | $(89) | $14 | $50 | $72 | $58 |

(a) Interest rate derivatives gains/losses are primarily from fair value hedges and are included in interest expense. These gains/losses are substantially offset by increases/decreases in the value of the underlying debt, which are also included in interest expense. Foreign exchange contracts gains/losses are included in selling, general and administrative expenses. Commodity contracts gains/losses are primarily included in cost of sales.

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

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Note 11 - Net Income Attributable to PepsiCo per Common Share

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

| | 12 Weeks Ended | | | |
|---|---|---|---|---|
| | 9/7/2013 | | 9/8/2012 | |
| | Income | Shares [a] | Income | Shares [a] |
| Net income attributable to PepsiCo | $1,913 | | $1,902 | |
| Preferred shares: | | | | |
| Dividends | — | | — | |
| Redemption premium | — | | (1) | |
| Net income available for PepsiCo common shareholders | $1,913 | 1,542 | $1,901 | 1,556 |
| Basic net income attributable to PepsiCo per common share | $1.24 | | $1.22 | |
| Net income available for PepsiCo common shareholders | $1,913 | 1,542 | $1,901 | 1,556 |
| Dilutive securities: | | | | |
| Stock options and RSUs [b] | — | 18 | — | 18 |
| Employee stock ownership plan (ESOP) convertible preferred stock | — | 1 | 1 | 1 |
| Diluted | $1,913 | 1,561 | $1,902 | 1,575 |
| Diluted net income attributable to PepsiCo per common share | $1.23 | | $1.21 | |

| | 36 Weeks Ended | | | |
|---|---|---|---|---|
| | 9/7/2013 | | 9/8/2012 | |
| | Income | Shares [a] | Income | Shares [a] |
| Net income attributable to PepsiCo | $4,998 | | $4,517 | |
| Preferred shares: | | | | |
| Dividends | (1) | | (1) | |
| Redemption premium | (4) | | (4) | |
| Net income available for PepsiCo common shareholders | $4,993 | 1,545 | $4,512 | 1,562 |
| Basic net income attributable to PepsiCo per common share | $3.23 | | $2.89 | |
| Net income available for PepsiCo common shareholders | $4,993 | 1,545 | $4,512 | 1,562 |
| Dilutive securities: | | | | |
| Stock options and RSUs [b] | — | 18 | — | 17 |
| ESOP convertible preferred stock | 5 | 1 | 5 | 1 |
| Diluted | $4,998 | 1,564 | $4,517 | 1,580 |
| Diluted net income attributable to PepsiCo per common share | $3.20 | | $2.86 | |

(a) Weighted-average common shares outstanding (in millions).

(b) For the 12 weeks ended September 7, 2013, the calculation of diluted earnings per common share was unadjusted because there were no out-of-the-money options during the period. Options to purchase 0.9 million shares for the 36 weeks ended September 7, 2013 were not included in the calculation of diluted earnings per common share because these options were out-of-the-money. These out-of-the-money options had an average exercise price of $75.69. Options to purchase 0.6 million and 13.5 million shares, respectively, for the 12 and 36 weeks ended September 8, 2012 were not included in the calculation of diluted earnings per common share because these options were out-of-the-money. These out-of-the-money options for the 12 and 36 weeks ended September 8, 2012 had average exercise prices of $72.26 and $67.51, respectively.

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Note 12 - Divestitures

Suntory Holdings Limited

During our second quarter of 2013, as part of the refranchising of our beverage business in Vietnam, we completed a transaction with Suntory Holdings Limited. Under the terms of the agreement, we sold a controlling interest in our Vietnam bottling operations. The new alliance will serve as the franchise bottler for both companies. In our second quarter 2013 results, we recorded a pre- and after-tax gain of $137 million (or $0.09 per share) associated with this transaction.

Tingyi-Asahi Beverages Holding Co. Ltd.

On March 31, 2012, we completed a transaction with Tingyi. Under the terms of the agreement, we contributed our company-owned and joint venture bottling operations in China to Tingyi's beverage subsidiary, Tingyi-Asahi Beverages Holding Co. Ltd. (TAB), and received as consideration a 5% indirect equity interest in TAB. As a result of this transaction, TAB is now our franchise bottler in China. We also have a call option to increase our indirect holding in TAB to 20% by 2015. We recorded restructuring and other charges of $150 million ($176 million after-tax or $0.11 per share), primarily consisting of employee-related charges, in our 2012 results, of which $137 million ($163 million after-tax or $0.10 per share) was recorded in our results for the 36 weeks ended September 8, 2012. This charge is reflected in items affecting comparability. See "Items Affecting Comparability" in Management's Discussion and Analysis of Financial Condition and Results of Operations.

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 and is provided as an addition to, and should be read in connection with, our condensed consolidated financial statements and the accompanying notes. Also refer to Note 1 of our condensed consolidated financial statements. Tabular dollars are in millions, except per share amounts. All per share amounts reflect common per share amounts, assume dilution unless otherwise noted, and are based on unrounded amounts. Percentage changes are based on unrounded amounts.

Our Critical Accounting Policies

Sales Incentives and Advertising and Marketing Costs

We offer sales incentives and discounts through various programs to customers and consumers. These incentives and discounts are primarily accounted for as a reduction of revenue. A number of our sales incentives, such as bottler funding to independent bottlers and customer volume rebates, are based on annual targets, and accruals are established during the year for the expected payout. These accruals are based on contract terms and our historical experience with similar programs, and require management judgment with respect to estimating customer participation and performance levels. Differences between estimated expense and actual incentive costs are normally insignificant and are recognized in earnings in the period such differences are determined. In addition, certain advertising and marketing costs are also based on annual targets and recognized during the year incurred.

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

Income Taxes

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

Our Business Risks

This Quarterly Report on Form 10-Q contains statements reflecting our views about our future performance that constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 (the Reform Act). Statements that constitute forward-looking statements within the meaning of the Reform Act are generally identified through the inclusion of words such as "believe," "expect," "intend," "estimate," "project," "anticipate," "v similar statements or variations of such words and other similar expressions. All statements addressing our future operating performance, and statements addressing events and developments that we expect or anticipate will occur in the future, are forward-looking statements within the meaning of the Reform Act. These forward-looking statements are based on currently available information, operating plans and projections about future events and trends. They inherently involve risks and uncertainties that could cause actual results to differ materially from those predicted in any such forward-looking statements. Investors are cautioned not to place undue reliance on any such forward-looking statements, which speak only as of the date they are made. We undertake no obligation to update any forward-looking statement, whether as a result of new information, future events or otherwise.

Our operations outside of the U.S. generated 48% of our net revenue in the 36 weeks ended September 7, 2013. As a result, we are exposed to foreign currency risks and unstable economic and political conditions and civil unrest in the markets in which we operate. During 2012 and 2013, certain countries in Europe continued to experience debt and credit issues as well as currency fluctuations and, as a result, the operating environment in Europe remains challenging. In addition, continued political and civil unrest in the Middle East continues to result in a challenging operating environment in this region. We continue to monitor the economic and operating environment in these regions closely and have identified actions to potentially mitigate the unfavorable impact, if any, on the balance of our 2013 year financial results. In the 12 weeks ended September 7, 2013, unfavorable foreign currency decreased net revenue growth by 1 percentage point, primarily due to depreciation of the Venezuelan bolivar fuerte (bolivar), the Canadian dollar, the Brazilian real and the Egyptian pound, partially offset by appreciation of the Mexican peso. In the 36 weeks ended September 7, 2013, unfavorable foreign currency decreased net revenue growth by 1 percentage point, primarily due to depreciation of the Venezuelan bolivar, the Brazilian real, the Egyptian pound and the Russian ruble, partially offset by appreciation of the Mexican peso. Currency declines against the U.S. dollar which are not offset could adversely impact our future results.

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The results of our Venezuelan businesses have been reported under hyperinflationary accounting since the beginning of our 2010 fiscal year, at which time the functional currency of our Venezuelan entities was changed from the bolivar to the U.S. dollar. In 2013 and 2012, the majority of our transactions and net monetary assets qualified to be remeasured at the official exchange rate of obtaining U.S. dollars for dividends through the government-operated Foreign Exchange Administration Board (CADIVI). Effective February 2013, the Venezuelan government devalued the bolivar by resetting the official exchange rate from 4.3 bolivars per dollar to 6.3 bolivars per dollar. Additionally, the Transaction System for Foreign Currency Denominated Securities (SITME) administered by the Central Bank of Venezuela for non-CADIVI transactions was eliminated. To replace the SITME, the government announced a new auction-based foreign exchange system (SICAD) that will function as the official channel to acquire dollars, for non-CADIVI transactions, at a rate higher than the official exchange rate. The devaluation resulted in an after-tax net charge of $111 million in the first quarter of 2013 associated with the remeasurement of bolivar-denominated net monetary assets reflected in items affecting comparability (see “Items Affecting Comparability”). We expect that the impact of this devaluation on PepsiCo’s 2013 net revenue and operating profit will not be material. We continue to use available options to obtain U.S. dollars to meet our operational needs.

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

See Note 10 to our condensed consolidated financial statements for further discussion of our derivative instruments, including their fair values as of September 7, 2013 and September 8, 2012. Cautionary statements included in “Item 1A. Risk Factors” and in “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations – Our Business Risks,” included in our Annual Report on Form 10-K for the fiscal year ended December 29, 2012, should be considered when evaluating our trends and future results.

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Results of Operations – Consolidated Review

Items Affecting Comparability

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

| | 12 Weeks Ended | | 36 Weeks Ended | |
|---|---|---|---|---|
| | 9/7/2013 | 9/8/2012 | 9/7/2013 | 9/8/2012 |
| Operating profit | | | | |
| Mark-to-market net (losses)/gains | $(19) | $121 | $(74) | $126 |
| Merger and integration charges | $(9) | $(2) | $(9) | $(7) |
| Restructuring and impairment charges | $(7) | $(83) | $(37) | $(193) |
| Venezuela currency devaluation | $— | $— | $(111) | $— |
| Restructuring and other charges related to the transaction with Tingyi | $— | $— | $— | $(137) |
| Net income attributable to PepsiCo | | | | |
| Mark-to-market net (losses)/gains | $(10) | $70 | $(47) | $75 |
| Merger and integration charges | $(7) | $(2) | $(7) | $(6) |
| Restructuring and impairment charges | $(6) | $(59) | $(29) | $(139) |
| Venezuela currency devaluation | $— | $— | $(111) | $— |
| Restructuring and other charges related to the transaction with Tingyi | $— | $— | $— | $(163) |
| Net income attributable to PepsiCo per common share – diluted | | | | |
| Mark-to-market net (losses)/gains | $(0.01) | $0.05 | $(0.03) | $0.05 |
| Merger and integration charges | $ ( — ) | $ ( — ) | $ ( — ) | $ ( — ) |
| Restructuring and impairment charges | $ ( — ) | $(0.04) | $(0.02) | $(0.09) |
| Venezuela currency devaluation | $— | $— | $(0.07) | $— |
| Restructuring and other charges related to the transaction with Tingyi | $— | $— | $— | $(0.10) |

Mark-to-Market Net Impact

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

In the 12 weeks ended September 7, 2013, we recognized $19 million ($10 million after-tax or $0.01 per share) of mark-to-market net losses on commodity hedges in corporate unallocated expenses. In the 36 weeks ended September 7, 2013, we recognized $74 million ($47 million after-tax or $0.03 per share) of mark-to-market net losses on commodity hedges in corporate unallocated expenses.

In the 12 weeks ended September 8, 2012, we recognized $121 million ($70 million after-tax or $0.05 per share) of mark-to-market net gains on commodity hedges in corporate unallocated expenses. In the 36 weeks ended September 8, 2012, we recognized $126 million ($75 million after-tax or $0.05 per share) of mark-to-market net gains on commodity hedges in corporate unallocated expenses.

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Merger and Integration Charges

In the 12 weeks and 36 weeks ended September 7, 2013, we incurred merger and integration charges of $9 million ($7 million after-tax with a nominal amount per share) related to our acquisition of WBD, all of which were recorded in the Europe segment.

In the 12 weeks ended September 8, 2012, we incurred merger and integration charges of $2 million ($2 million after-tax with a nominal amount per share) related to our acquisition of WBD, including $4 million recorded in the Europe segment and income of $2 million recorded in corporate unallocated expenses representing adjustments of previously recorded amounts. In the 36 weeks ended September 8, 2012, we incurred merger and integration charges of $7 million ($6 million after-tax with a nominal amount per share) related to our acquisition of WBD, all of which were recorded in the Europe segment.

Restructuring and Impairment Charges

In the 12 weeks ended September 7, 2013, we incurred restructuring and impairment charges of $7 million ($6 million after-tax with a nominal amount per share) in conjunction with our Productivity Plan, including $1 million recorded in the FLNA segment, $1 million recorded in the LAF segment, $3 million recorded in the PAB segment, $2 million recorded in the Europe segment, $1 million recorded in the AMEA segment and income of $1 million recorded in corporate unallocated expenses representing adjustments of previously recorded amounts. In the 36 weeks ended September 7, 2013, we incurred restructuring and impairment charges of $37 million ($29 million after-tax or $0.02 per share) in conjunction with our Productivity Plan, including $5 million recorded in the FLNA segment, $6 million recorded in the LAF segment, $8 million recorded in the PAB segment, $14 million recorded in the Europe segment, $3 million recorded in the AMEA segment and $1 million recorded in corporate unallocated expenses.

In the 12 weeks ended September 8, 2012, we incurred restructuring and impairment charges of $83 million ($59 million after-tax or $0.04 per share) in conjunction with our Productivity Plan, including $8 million recorded in the FLNA segment, $1 million recorded in the QFNA segment, $29 million recorded in the LAF segment, $33 million recorded in the PAB segment, $6 million recorded in the AMEA segment, $7 million recorded in corporate unallocated expenses and income of $1 million recorded in the Europe segment representing adjustments of previously recorded amounts. In the 36 weeks ended September 8, 2012, we incurred restructuring and impairment charges of $193 million ($139 million after-tax or $0.09 per share) in conjunction with our Productivity Plan, including $40 million recorded in the FLNA segment, $7 million recorded in the QFNA segment, $41 million recorded in the LAF segment, $76 million recorded in the PAB segment, $23 million recorded in the AMEA segment, $8 million recorded in corporate unallocated expenses and income of $2 million recorded in the Europe segment representing adjustments of previously recorded amounts.

In conjunction with our Productivity Plan, we expect to incur pre-tax charges of approximately $910 million, $383 million of which was reflected in our 2011 results, $279 million of which was reflected in our 2012 results, $37 million of which was reflected in our results through the third quarter of 2013, with approximately $100 million of additional charges during the remainder of 2013 and the balance of which will be reflected in our 2014 through 2015 results. These charges will consist of approximately $530 million of severance and other employee-related costs; approximately $300 million for other costs, including consulting-related costs and the termination of leases and other contracts; and approximately $80 million for asset impairments (all non-cash) resulting from plant closures and related actions. These charges resulted in cash expenditures of $30 million in 2011, $343 million in 2012, $100 million through the third quarter of 2013, with approximately $40 million of additional cash expenditures expected in the remainder of 2013 and the balance of approximately $200 million expected in 2014 through 2015. See Note 3 to our condensed consolidated financial statements. The Company continues to explore opportunities to further drive productivity.

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Venezuela Currency Devaluation

In the 36 weeks ended September 7, 2013, we recorded a $111 million net charge related to the devaluation of the bolivar for our Venezuela businesses. $124 million of this charge was recorded in corporate unallocated expenses, with the balance (equity income of $13 million) recorded in our PAB segment. In total, this net charge had an after-tax impact of $111 million or $0.07 per share.

Restructuring and Other Charges Related to the Transaction with Tingyi

In the 36 weeks ended September 8, 2012, we recorded restructuring and other charges of $137 million ($163 million after-tax or $0.10 per share) related to the transaction with Tingyi.

Non-GAAP Measures

Certain measures contained in this Form 10-Q are financial measures that are adjusted for items affecting comparability (see "Items Affecting Comparability" for a detailed list and description of each of these items), as well as, in certain instances, adjusted for foreign exchange. These measures are not in accordance with U.S. Generally Accepted Accounting Principles (GAAP). Items adjusted for currency assume foreign exchange rates used for translation based on the rates in effect for the comparable prior year period. In order to compute our constant currency results, we multiply or divide, as appropriate, our current year U.S. dollar results by the current year average foreign exchange rates and then multiply or divide, as appropriate, those amounts by the prior year average foreign exchange rates. We believe investors should consider these non-GAAP measures in evaluating our results as they are more indicative of our ongoing performance and reflect how management evaluates our operational results and trends. These measures are not, and should not be viewed as, a substitute for U.S. GAAP reporting measures. See also "Organic Revenue Growth" and "Management Operating Cash Flow."

Volume

Since our divisions each use different measures of physical unit volume, a common servings metric is necessary to reflect our consolidated physical unit volume. For the 12 and 36 weeks ended September 7, 2013, total servings increased 1% and 3%, respectively. For the 12 and 36 weeks ended September 8, 2012, total servings increased 4% and 3%, respectively. 2013 and 2012 servings growth reflects adjustments to the base years (2012 and 2011) for divestitures that occurred in 2012 and 2011, as applicable.

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

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Consolidated Results

Total Net Revenue and Operating Profit

| | 12 Weeks Ended | | | | 36 Weeks Ended | | | |
|---|---|---|---|---|---|---|---|---|
| | 9/7/2013 | 9/8/2012 | Change | | 9/7/2013 | 9/8/2012 | Change | |
| Total net revenue | $16,909 | $16,652 | 1.5 | % | $46,297 | $45,538 | 2 | % |
| Operating profit | | | | | | | | |
| FLNA | $977 | $917 | 7 | % | $2,711 | $2,532 | 7 | % |
| QFNA | 137 | 154 | (11 | )% | 450 | 495 | (9 | )% |
| LAF | 295 | 219 | 35 | % | 829 | 673 | 23 | % |
| PAB | 843 | 837 | 1 | % | 2,290 | 2,202 | 4 | % |
| Europe | 501 | 483 | 3.5 | % | 1,014 | 1,017 | — | % |
| AMEA | | | | | | | | |