Prospectus dated March 21, 1986 **Foreign Interest Payment Securities**

FIPS

PEPSICO INC.

Purchase, New York, U.S.A.

Foreign Interest Payment Bonds 1986ff of SFr. 400,000,000

Denomination:	SFr. 5,000 and SFr. 100,000 per Bond.
Issue Price:	100% (plus 0.3% tax on negotiation of securities).
Life:	Until the liquidation, if any, of PepsiCo, Inc.
Redemption:	At the option of the Bondholder in accordance with Section 3.3 of the Terms of the Bonds. At the option of the Borrower in accordance with Sections 3.2 and 5.4 of the Terms of the Bonds.
Fixed Exchange Rate:	SFr. 1.8690 to US$1.
Interest Rate:	The interest rate for the first 10 years will be 7½% per annum, resulting in annual interest payments of US$200.64 and US$4,012.84 on the face amount of SFr. 5,000 and SFr. 100,000 respectively per Bond, converted at the fixed exchange rate of SFr. 1.8690 to US$1. The interest rate will be adjusted every 10 years to a level equivalent to the average yield of 10-year U.S. Treasury securities, minus 50 basis points, converted to an annual basis and rounded to the nearest ⅛%.
Settlement Date:	April 18, 1986.
Delivery of the Bonds:	As soon as possible.
Selling Restrictions:	The Bonds have not been and will not be registered under the Securities Act of 1933, as amended, of the United States and may not be offered, sold or delivered directly or indirectly in the United States (as defined herein) or to any United States Person (as defined herein).

The banks named below (the "Banking Syndicate") have entered into an agreement to purchase these Bonds and offer them for public subscription until March 26, 1986, noon.

Credit Suisse

Swiss Volksbank	**Bank Leu Ltd**	**Members of the Groupement des Banquiers Privés Genevois**
Private Bank and Trust Company	**Members of the Groupement de Banquiers Privés Zurichois**	**Swiss Cantonalbanks**

Algemene Bank Nederland (Schweiz) AG	**Banca della Svizzera Italiana**	**Bank Hofmann AG**
Banque Bruxelles Lambert (Suisse) SA	**Banque Nationale de Paris (Suisse) SA**	**Banque Paribas (Suisse) SA**
Citicorp Investment Bank (Switzerland)	**Daiwa (Switzerland) Ltd.**	**Dresdner Bank (Schweiz) AG**
Lloyds Bank Plc	**Manufacturers Hanover (Suisse) S.A.**	**Mitsui Trust Finance (Switzerland) Ltd.**
Morgan Guaranty (Schweiz) AG	**Salomon Brothers Finanz AG**	**J. Henry Schroder Bank AG**

Swiss Security No. 894 131

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In this Prospectus, unless otherwise specified or the context otherwise requires, references to "dollars", "US$" or "$" are to United States dollars and references to "francs" or "SFr." are to Swiss francs.

PEPSICO INC.

Purchase, New York, U.S.A.

Foreign Interest Payment Bonds 1986ff of SFr. 400,000,000

FIPS

In accordance with the resolutions of its Board of Directors adopted on February 27, 1986 and pursuant to the Bond Purchase and Paying Agency Agreement (the "Agreement") with Credit Suisse, Zurich ("Credit Suisse" or the "Bank"), PepsiCo, Inc. (the "Borrower" or "PepsiCo") undertakes to launch in Switzerland a public bond issue of SFr. 400,000,000, with an initial interest rate of 7½%.

The Bonds have not been and will not be registered under the Securities Act of 1933, as amended, of the United States (the "Act") or the securities laws of any state of the United States (in each case a "State Act") and may not be offered, sold or delivered, directly or indirectly, in the United States or to any United States Person during the public subscription period. Any offers, sales or deliveries of Bonds in the United States or to a United States Person may constitute a violation of United States law unless made in compliance with the registration requirements of, or pursuant to an exemption from, the Act and any applicable State Act.

Except as set forth herein, payments of interest and principal, plus premium (if any), will be made free and clear of, and without withholding or deduction for, any taxes of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the United States.

The net proceeds from the sale of the Bonds will be used for general corporate purposes.

The Bonds will be in bearer form and will bear the following legend: "This Bond has not been and will not be registered under the United States Securities Act of 1933 and may at no time be converted into a registered Bond. Any United States Person holding this Bond will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the United States Internal Revenue Code of 1954, as amended." The sections referred to in such legend provide that persons subject to United States taxation, with certain exceptions, will not be entitled to deduct any loss on the Bonds and will not be entitled to capital gains treatment of any gain on any sale, disposition or payment of principal of the Bonds.

The Banking Syndicate undertakes that during the period of public subscription of the Bonds ending March 26, 1986, they will not offer, sell or deliver, directly or indirectly, Bonds in the United States or to or for the account of any United States Person.

Each allotment of Bonds will contain a statement that by accepting such allotment the acceptor shall be deemed to have certified that (i) he is not a United States Person, and (ii) he has not purchased any of the Bonds for the benefit of any United States Person and (iii) that he has not, and will not, offer, sell or deliver, directly or indirectly, the Bonds so allotted in the United States or to any United States Person.

As used herein, the term "United States" means the United States of America, its territories and possessions and areas subject to its jurisdiction and any political subdivision thereof, and the term "United States Person" means any citizen, national or resident of the United States, including the estate or trust of any such person, and any corporation, partnership or other entity created or organized in or under the laws of the United States and any estate or trust that is subject to United States federal income taxation regardless of the source of its income.

The terms of the Bonds (the "Terms of the Bonds"), which form an integral part of the Agreement, shall be stated in English on the reverse side of the definitive Bonds. English shall be the governing language for the understanding and interpretation of the Terms of the Bonds, which are the following:

TERMS OF THE BONDS

1. Form and Denomination

The Bonds, which have not been and will not be registered under the Securities Act of 1933, as amended, of the United States, and may not at any time be converted into registered bonds, shall be evidenced by bearer bonds of Swiss francs 5,000 and 100,000 Face Amount each, the latter in particular for the collective safe-custody system. The term "Face Amount" as used herein with respect to the Bonds shall mean the amount denominated on the face of such Bonds in Swiss francs.

2. Interest

2.1 *Interest Payments*

2.1.1 The Bonds bear interest from April 18, 1986 (the "Payment Date") payable in legal currency of the United States of America ("US$") annually in arrears on April 18 (the "Interest Payment Date"). For this purpose, the Bonds are furnished with annual interest coupons (the "Coupons") and talons (the "Talons") in accordance with Section 2.1.3 of the Terms of the Bonds. The first Coupon will become due and payable on April 18, 1987.

2.1.2 The interest payable on the Bonds shall be calculated by applying the relevant per annum interest rate (determined in accordance with Section 2.2 of the Terms of the Bonds) to the appropriate Face Amount of the Bonds as converted into United States dollars at a fixed exchange rate of SFr. 1.8690 = US$1 (the "Fixed Exchange Rate"). Interest will be computed on the basis of a 360-day year consisting of twelve months of 30 calendar days each.

2.1.3 Each Bond will initially be furnished with a sheet of ten Coupons (the "Coupon Sheet") and a sheet of ten Talons (the "Talon Sheet"). After all the Coupons on a Coupon Sheet have matured, and have been presented and surrendered, a replacement Coupon Sheet (the "Replacement Coupon Sheet") with Coupons for the interest payments due in respect of the Bonds for the next succeeding 10 years will be issued, against presentation of the Bond together with the appropriate Talon and upon cancellation or surrender of such Talon, at the cost of the Borrower, in due course, at the offices of the Paying Agents in Switzerland in accordance with Section 4.2 of the Terms of the Bonds. Upon presentation of the last of the Talons on a Talon Sheet, a replacement Talon Sheet (the "Replacement Talon Sheet") with ten additional Talons, as well as a Replacement Coupon Sheet, will be issued at the cost of the Borrower, in due course, at the offices of the Paying Agents in Switzerland in accordance with Section 4.2 of the Terms of the Bonds. Talons which are presented without the corresponding Bond will not confer to the holder of such Bond any right to receive a new Coupon Sheet or a new Talon Sheet.

2.2 *Interest Rate*

2.2.1 The applicable interest rate for the first ten years payable on the first ten Interest Payment Dates will be 7½% per annum, which, applied in accordance with Section 2.1.2 hereof, will result in annual interest payments of US$200.64 and US$4,012.84 on the Face Amounts of SFr. 5,000 and SFr. 100,000, respectively.

2.2.2 On each March 6th immediately prior to each 10-year anniversary of the Payment Date (the "Interest Adjustment Date"), the annual interest rate applicable for the next succeeding 10-year period (the "Adjusted Interest Rate") shall be determined by the Bank (the term the "Bank", as used herein, shall mean CREDIT SUISSE, or any successor designated pursuant to Section 4.3 of the Terms of the Bonds). If any such March 6th is not a Business Day then the appropriate Interest Adjustment Date shall be the Business Day immediately preceding such March 6th. The Adjusted Interest Rate shall be the arithmetic mean of the Yields of Comparable Maturity U.S. Treasury Obligations on the 5 (five)

Business Days immediately preceding the Interest Adjustment Date minus 0.5%,converted to an annual basis and rounded, if necessary, to the nearest ⅛%.

The term "Yields of Comparable Maturity U.S. Treasury Obligations", as used herein, shall mean the interest rates presently published by the Federal Reserve Board in the weekly statistical release designated as "H.15 (519), Selected Interest Rates" opposite the caption "U.S. Government Securities—Treasury Constant Maturities" for a 10-year period, or in any successor or equivalent publication.

2.2.3 If, for any Interest Adjustment Date, no Yields of Comparable Maturity U.S. Treasury Obligations are available, the Adjusted Interest Rate shall be the arithmetic mean of the yields to maturity of the two most recent 10-year U.S. Treasury securities (which 10-year Treasury securities shall not be older than one year), weighted by size of the issue, based on the daily closing bid (or less frequently if daily quotations are not available) quoted by at least three recognized U.S. Government securities primary dealers selected by the Bank (hereinafter called "Dealers" or individually "Dealer"), on the 5 (five) Business Days immediately preceding the Interest Adjustment Date minus 0.5%, converted to an annual basis and rounded, if necessary, to the nearest ⅛%.

2.2.4 If, for any Interest Adjustment Date, no two 10-year U.S. Treasury securities not older than one year should be outstanding, the Adjusted Interest Rate shall be the arithmetic mean of the yields to maturity of any two U.S. Treasury securities (with a maturity of not less than 9 years nor greater than 11 years), weighted by size of the issue, deemed to be the most representative securities actively traded by the respective Dealers, based on the daily closing bid (or less frequently if daily quotations are not available) quoted by at least three Dealers on the 5 (five) Business Days immediately preceding the Interest Adjustment Date minus 0.5%, converted to an annual basis and rounded, if necessary, to the nearest ⅛%.

2.2.5 If, on any Interest Adjustment Date, the Adjusted Interest Rate is not ascertainable through any one of the methods described in Sections 2.2.2, 2.2.3 and 2.2.4 of the Terms of the Bonds, the Borrower shall, on the Interest Payment Date following such Interest Adjustment Date, redeem the Bonds at 100% of their Face Amount in Swiss francs, in accordance with Section 3.1 of the Terms of the Bonds. The most recently applicable interest rate shall continue to be payable by the Borrower up to such redemption of the Bonds.

2.2.6 The term "Business Day" or "Business Days" shall mean a day or days on which commercial banks are open for business (including dealings in foreign exchange) during the entire day both in Zurich and in New York, provided, however, that for the purposes of determining the Adjusted Interest Rate, the terms "Business Day" or "Business Days" shall mean a day on which commercial banks are open for domestic business in New York.

2.3 *Publication of Adjusted Interest Rate*

The Bank shall have each Adjusted Interest Rate published as soon as possible in accordance with Section 13 of the Terms of the Bonds and shall notify the Borrower of such Adjusted Interest Rate within 1 (one) Business Day after such Adjusted Interest Rate is determined.

3. **Redemption and Purchase of Bonds**

3.1 *Mandatory Redemption*

The Borrower will redeem the Bonds at 100% of their Face Amount in Swiss francs automatically and without any previous notice

a) not later than 3 (three) Business Days after that date which is the earlier of:

i) the date of the resolution of the general meeting of the shareholders of the Borrower to dissolve, liquidate or wind up the affairs of the Borrower, or

ii) the date of any final judgment rendered by a court of competent jurisdiction ordering the dissolution, liquidation or winding up of the affairs of the Borrower; or

b) on the Interest Payment Date following any 10th anniversary of the Payment Date if, pursuant to Section 2.2.5 of the Terms of the Bonds, an Adjusted Interest Rate has not been ascertainable.

3.2 *Option of the Borrower to Redeem*

3.2.1 On each 10th anniversary of the Payment Date (each one being a "Redemption Date"), the first time as of April 18, 1996, the Borrower shall be entitled to redeem all, but not part of, the outstanding Bonds at 100% of their Face Amount in Swiss francs provided the Borrower has given to the Bank notice of such redemption, such notice to be received by the Bank not later than 2 (two) Business Days after the Interest Adjustment Date. If the Bank has not received such notice by such date, the Bonds may not be redeemed by the Borrower on such Redemption Date irrespective of whether such notice has been sent by the Borrower.

3.2.2 If, however, more than 75% (seventy five percent) of the aggregate principal amount of the Bonds issued by the Borrower are to be redeemed by the Borrower pursuant to Section 3.3 of the Terms of the Bonds below, the Borrower may at its option redeem the remaining balance of such outstanding Bonds as of each Redemption Date at 100% of their Face Amount in Swiss francs. In case of any such exercise of its option to redeem, the Borrower shall give notice to the Bank of the Borrower's intent to exercise this option to redeem at least 8 (eight) Business Days prior to the applicable Redemption Date.

3.3 *Option of the Bondholders to Cause the Borrower to Redeem*

3.3.1 On each Redemption Date, each holder of a Bond (hereinafter collectively called "Bondholders" or individually a "Bondholder") may cause the Borrower to redeem such Bondholder's Bond, provided the Bondholder has given written notice of such redemption to the Bank at its head office by not later than the March 27th immediately preceding such Redemption Date, or if such March 27th is not a Business Day then on the Business Day immediately preceding such March 27th, such notice to be accompanied by a written confirmation of a Paying Agent that the Bond to be so redeemed has been deposited with the Paying Agent for such purpose. Without such confirmation, the notice for redemption shall have no legal effect.

3.3.2 On such March 27th (or if not a Business Day, the immediately preceding Business Day) prior to the Redemption Date (the "Redemption Exchange Rate Determination Date"), the Bank shall determine the redemption exchange rate based on the offering SFr./US$ exchange rate for large commercial transactions quoted by the Bank at 10 a.m. Swiss time (the "Redemption Exchange Rate"). If, on any Redemption Exchange Rate Determination Date, the Bank is for any reason not quoting a bid/offer price for SFr./US$ exchange, the Redemption Exchange Rate shall be the offering SFr./US$ exchange rate for large commercial transactions quoted by another major Swiss bank selected by the Bank.

3.3.3 In the event any of the Bonds are redeemed at the option of the Bondholders, the amount of principal payable to such Bondholders in Swiss francs shall be determined as follows:

a) if, at the Redemption Exchange Rate Determination Date, the Redemption Exchange Rate is equal to or greater than the Fixed Exchange Rate (US$1 is equal to or greater than SFr. 1.8690), the Bonds shall be redeemed at 100% of their Face Amount in Swiss francs,

b) if, at the Redemption Exchange Rate Determination Date, the Redemption Exchange Rate is below the Fixed Exchange Rate (US$1 is less than SFr. 1.8690), the Bonds shall be redeemed in Swiss francs in an amount calculated by the following formula:

$$\frac{\text{Face Amount x Redemption Exchange Rate}}{\text{Fixed Exchange Rate}}$$

rounded to the next SFr. 0.10.

Upon receipt of all relevant notices given pursuant to Sections 3.2 and 3.3 of the Terms of the Bonds either by the Borrower or by the Bondholders, the Bank shall immediately publish a notice of such redemption as provided in Section 13 of the Terms of the Bonds.

3.4 *Presentation and Surrender*

The Bonds so redeemed under either Section 3.1, 3.2, 3.3 or 5.4 of the Terms of the Bonds shall cease to bear interest from the Redemption Date (unless the Borrower shall default in the payment of such Bonds). Each such Bond must be presented and surrendered for payment with all unmatured Coupons and Talons attached; the amount of any missing unmatured Coupons, as determined by the respective Paying Agent, will be deducted from the amount due to the Bondholder at the exchange rate, as determined by the Bank, in effect as of such presentation and surrender, but such unmatured Coupons shall be paid upon subsequent presentation and surrender, at their face amount in US$, provided such Coupons have not become unenforceable under Swiss law.

3.5 *Purchase of Bonds*

Nothing herein shall be deemed to prohibit the Borrower from acquiring any of the Bonds in the open market at any time, in private transactions or otherwise.

4. **Payments**

4.1 The Bank is hereby appointed as the Principal Paying Agent for the Bonds.

4.2 The Borrower undertakes to pay to the Bank, for the benefit of the Bondholders when due,

a) *principal* (Face Amount or such amount as determined under Section 3.3.3(b), whichever is applicable) of the Bonds in freely disposable legal currency of the Swiss Confederation,

b) *interest* on the Bonds in freely disposable legal currency of the United States of America,

c) *any additional* sums payable pursuant to Section 5.2 hereof in freely disposable legal currency of the United States of America or of the Swiss Confederation, depending upon whether such additional amounts are payable with respect to the principal, premium (if any) or interest on the Bonds, and

d) *any additional* sums payable pursuant to Section 5.4 hereof in freely disposable legal currency of the Swiss Confederation,

without collection cost to the Bondholders, without any limitations and under all circumstances notwithstanding any transfer restrictions, regardless of any bilateral or multilateral payment or clearing agreement in existence between the United States of America and the Swiss Confederation, irrespective of the citizenship, nationality, residence or domicile of any of the Bondholders and without requiring any affidavit or the fulfillment of any formalities, other than presentation and surrender of the Bonds and/or Coupons to which such payments relate.

The funds required for the payment of

a) *principal*,

b) *interest* and

c) *any additional* sums payable pursuant to Section 5 hereof,

shall be made available to the Bank at its head office in Switzerland by the Borrower in good time before each applicable Interest Payment Date and Redemption Date. The receipt of the funds by the Bank on behalf of the Bondholders shall release the Borrower from its obligations in respect of the payments due at the respective dates for principal, premium (if any), interest and additional sums payable pursuant to Section 5 of the Terms of the Bonds.

The Bank will arrange for payment of such funds as and when due to the holders of Bonds and Coupons. Bonds, Coupons and Talons may be presented and surrendered for payment or, as the case may be, for exchange for Replacement Coupon Sheets and Replacement Talon Sheets, at the offices in Switzerland of the following banks (the "Paying Agents"):

CREDIT SUISSE
Swiss Volksbank
Bank Leu Ltd
Members of the Groupement des Banquiers Privés Genevois
Private Bank and Trust Company
Members of the Groupement des Banquiers Privés Zurichois
Swiss Cantonalbanks
Algemene Bank Nederland (Schweiz) AG
Banca della Svizzera Italiana
Bank Hofmann AG
Banque Bruxelles Lambert (Suisse) SA
Banque Nationale de Paris (Suisse) SA
Banque Paribas (Suisse) SA
Citicorp Investment Bank (Switzerland)
Dresdner Bank (Schweiz) AG
Lloyds Bank Plc
Manufacturers Hanover Trust Company, New York, Zurich Branch
Morgan Guaranty Trust Company of New York, Zurich Branch
J. Henry Schroder Bank AG

The Bondholders will be paid with respect to interest in accordance with Section 2, with respect to principal in accordance with Section 3 and in case of redemption pursuant to Section 5 hereof including the additional amounts mentioned therein.

4.3 If, at any time during the life of the Bonds, CREDIT SUISSE, or any successor as the Bank, shall wish to resign or be incapable, for any reason, of acting as the Bank, or of acting as agent of the Bondholders as contemplated by the Terms of the Bonds, the Bondholders expressly agree that CREDIT SUISSE or any such successor as the Bank may be replaced, after consultation with the Borrower, by a majority decision of the remaining Paying Agents. If the remaining Paying Agents shall fail to replace CREDIT SUISSE or any such successor as the Bank within 30 (thirty) days of notice of such desire to resign or incapacity, then the Borrower shall replace CREDIT SUISSE or any such successor as the Bank. In the event of any replacement of CREDIT SUISSE or any successor as the Bank, all references to the Bank shall be deemed to refer to such replacement.

Each Paying Agent may resign or be replaced by the Borrower after consultation with the Bank. Only institutions which qualify under Swiss law to act as Paying Agents may be appointed as such.

The Borrower covenants with each Bondholder and as a separate and independent obligation from the other obligations on its part contained herein that so long as any amount hereunder is outstanding it will maintain in office as Principal Paying Agent an institution which qualifies under Swiss law to act as Paying Agent and is of good repute.

Notice of appointment of any replacement Bank or Paying Agent shall be published in accordance with Section 13 of the Terms of the Bonds.

4.4 If the due date of any amount of principal or interest in respect of any Bond is not a business day in the place where the relevant Bond or Coupon, as the case may be, is surrendered or presented for payment, then the holder thereof will not be entitled to payment of the amount due in such place until the next following business day in Switzerland and will not be entitled to any further interest or other payment in respect of any such delay.

4.5 Payments by the Paying Agents of any amount payable in US$ will be made by a dollar check drawn on a bank in New York City or by transfer from a US$ account maintained by the payer with a bank in New York City.

No payments on the Bonds or Coupons or pursuant to Section 5 of the Terms of the Bonds will be made at any office of any Paying Agent located outside of Switzerland. In addition, no payments on the Bonds or Coupons will be made by mail to an address in the United States of America or by transfer to an account in the United States of America.

5. **Taxation**

5.1 All payments of interest and principal (Face Amount or such amount as determined under Section 3.3.3(b), whichever is applicable) plus premium (if any), shall be made without deduction of any taxes, imposts, penalties, duties, assessments or governmental charges of any kind or nature (hereinafter individually referred to as "Taxes"), present or future, which are required to be withheld at source (including, without limitation, back-up withholding) by the Borrower (or any Paying Agent in its capacity as such), and which are levied or imposed or to be levied or imposed by the United States of America, its territories and possessions and areas subject to its jurisdiction and any political subdivision thereof (a "Taxing Jurisdiction"), provided, however, that the foregoing is subject to Section 5.3 of the Terms of the Bonds.

5.2 In the event that any such Taxes should at any time be imposed or levied by any such Taxing Jurisdiction, the Borrower shall remit to the Bank such additional amounts as may be necessary to ensure that after deduction of any such Taxes of a Taxing Jurisdiction, but before any deduction made pursuant to Swiss law, every net payment of the principal, premium (if any), and interest on a Bond will not be less than the face amount of any Coupon and the principal amount of any Bond that may be due and owing at the time of payment thereof, plus premium (if any).

The Borrower's obligation to remit such additional amounts shall not be subject to the fulfillment of any disclosure or certification requirement with respect to the citizenship, nationality, residence, status or identity of the recipient of the payment or the beneficial owner of the Bond and/or Coupons in question.

5.3 The foregoing provisions do not, however, exempt a holder of a Bond or Coupon from any Taxes imposed or levied in a Taxing Jurisdiction, and the Borrower shall not be obligated to remit funds and pay any additional amounts on account of such Taxes if the holder of the Bond or Coupon is subject to taxation in a Taxing Jurisdiction for reasons other than his ownership of such Bond or Coupon or receipt of principal, premium (if any) or interest in respect thereof, nor shall the Borrower be obligated to remit funds and pay additional amounts in the event any Taxes are imposed for or on account of one or more of the following:

a) such holder (or fiduciary, settlor, beneficiary, person holding a power, member or shareholder, if such holder is an estate, trust, partnership or corporation) being or having been engaged in a trade or business in, or being or having been physically present or having or having had a permanent establishment in, a Taxing Jurisdiction;

b) a relationship or former relationship between such holder (or between a fiduciary, settlor, beneficiary, person holding a power, member or shareholder, if such holder is an estate, trust, partnership or corporation) and a Taxing Jurisdiction, including such holder being or having been a citizen, national or resident thereof;

c) such holder's status for United States tax purposes as a domestic or foreign personal holding company or corporation subject to accumulated earnings tax or as a controlled foreign corporation or as a "10-percent shareholder" of the Borrower as defined in section 871(h)(3) of the United States Internal Revenue Code of 1954, as amended, or as a private foundation or other tax exempt organization;

d) any tax, assessment or governmental charge that is payable otherwise than by withholding or deduction from payments of principal (or amounts in respect thereof), premium (if any) and/or interest on the Bonds; or

e) any estate, inheritance, gift, sales, transfer or personal property tax or any tax, assessment or governmental charge similar to any of the foregoing.

5.4 If at any time, the Borrower furnishes evidence satisfactory to the Bank that there is a material possibility that (i) the Borrower either is, or on or before the next interest payment date will be, required by law or regulation to withhold at source any Taxes in respect of the interest and/or principal plus premium (if any) with respect to the Bonds which cannot be avoided by the use of any reasonable measures or (ii) the Borrower is, or on or before the next Interest Payment Date will be, prohibited from performing or observing any of its obligations contained in this Section 5, then the Borrower may, on giving not less than 60 days' notice to the Bank, redeem the outstanding Bonds on any date thereafter in whole but not in part at the following percentages of the Face Amount:

102% in case of redemption on or after April 18, 1986 but prior to April 18, 1987

101½% in case of redemption on or after April 18, 1987 but prior to April 18, 1988

101% in case of redemption on or after April 18, 1988 but prior to April 18, 1989

100½% in case of redemption on or after April 18, 1989 but prior to April 18, 1990

100% in case of redemption on or after April 18, 1990

by making payments in Swiss francs, plus, in each case, the interest accrued in US$ until the Redemption Date.

The notice of such redemption will thereafter be published by the Bank in the newspapers mentioned in Section 13 of the Terms of the Bonds.

Prior to the publication of notice of redemption of the Bonds pursuant to this Section 5, the Borrower will deliver to the Bank a certificate of the Borrower (upon which the Bank may conclusively rely) stating that the Borrower is entitled to effect such redemption and setting forth in reasonable detail a statement of facts showing that the conditions precedent to the right of the Borrower to redeem the Bonds pursuant to this Section 5 have occurred.

5.5 The interest on the Bonds is, in accordance with Swiss law as presently in force, not subject to the Swiss Federal Anticipatory Tax.

6. Status of the Bonds and Negative Pledge

6.1 The Bonds, which constitute direct, unsecured and unconditional obligations of the Borrower, rank and will rank at least pari passu in right of payment and in all other respects with all other present or future unsecured and unsubordinated obligations of the Borrower.

6.2 So long as any of the Bonds shall be outstanding neither the Borrower, nor any Restricted Subsidiary (as defined below), will incur, suffer to exist or guarantee any indebtedness for borrowed money ("Debt") secured by a mortgage, pledge or lien ("Mortgage") on any Principal Property (as defined below) or on any shares of stock of or Debt of any Restricted Subsidiary, unless the Borrower or such Restricted Subsidiary secures or causes such Restricted Subsidiary to secure the Bonds and Coupons (and any other Debt of the Borrower or such Restricted Subsidiary, at the option of the Borrower, not subordinate to the Bonds and Coupons), equally and ratably with (or prior to) such secured Debt, unless after giving effect thereto the aggregate amount of all such Debt so secured does not exceed 10% of Consolidated Net Tangible Assets (as defined below). This restriction will not, however, apply to Debt secured by

a) Mortgages existing prior to the issuance of the Bonds,

b) Mortgages on property of, or on shares of stock of or Debt of, any corporation existing at the time such corporation becomes a Restricted Subsidiary,

c) Mortgages in favor of the Borrower or a Restricted Subsidiary,

d) Mortgages in favor of governmental bodies to secure progress or advance payments,

e) Mortgages on property, shares of stock or Debt existing at the time of acquisition thereof (including acquisition through merger or consolidation) and purchase money mortgages, and

f) Any extension, renewal or refunding of any Mortgage referred to in the foregoing sub-paragraphs (a) through (e), inclusive.

6.3 The transfer of a Principal Property to an Unrestricted Subsidiary (as defined below) or the change in designation from Restricted Subsidiary to Unrestricted Subsidiary which owns a Principal Property shall not be restricted.

6.4 "Consolidated Net Tangible Assets" will be defined to mean the total amount of assets (less applicable depreciation, amortization and other valuation reserves) except to the extent resulting from write-ups of capital assets (except write-ups in connection with accounting for acquisitions in accordance with generally accepted accounting principles in the United States) of the Borrower and its Restricted Subsidiaries after deducting therefrom (i) all current liabilities of the Borrower and its Restricted Subsidiaries (excluding any such liabilities which are intercompany items) and (ii) all goodwill, trade names, trademarks, patents, unamortized debt discount and expense and other like intangibles, all as set forth on the latest consolidated balance sheet of the Borrower and its Restricted Subsidiaries prepared in accordance with generally accepted accounting principles in the United States.

"Principal Property" will be defined to mean any single manufacturing or processing plant, office building or warehouse owned or leased by the Borrower or a Restricted Subsidiary other than a plant, warehouse, office building or portion thereof which, in the reasonable opinion of the Borrower's Board of Directors, is not of material importance to the business conducted by the Borrower and its Restricted Subsidiaries as an entirety.

"Restricted Subsidiary" will be defined to mean at any time any Subsidiary other than a Subsidiary which is at the time an Unrestricted Subsidiary.

"Subsidiary" will be defined to mean any corporation or other entity of which securities, or other ownership interests having ordinary voting power to elect a majority of the board of directors or other persons performing similar functions, are directly or indirectly owned by the Borrower.

"Unrestricted Subsidiary" will be defined to mean Pizza Hut, Inc., Taco Bell Corp., and any other Subsidiary (not at the time designated a Restricted Subsidiary) (i) the major part of whose business consists of finance, banking, credit, leasing, insurance, financial services or other similar operations, (ii) substantially all the assets of which consist of capital stock of one or more such Subsidiaries, or (iii) designated as such by the Borrower's Board of Directors, provided that immediately after such designation, no violation of the Terms of the Bonds shall exist. A Subsidiary designated as an Unrestricted Subsidiary may be designated as a Restricted Subsidiary unless immediately after such designation a violation of the Terms of the Bonds shall exist.

7. **Events of Default**

The Bank has the right but not the obligation, on behalf of the Bondholders, to declare all outstanding Bonds to be immediately redeemed at 100% of their Face Amount in Swiss francs plus accrued interest in US$ to the date of such payment for:

a) nonpayment of the principal of any of the Bonds as and when the same shall become due and payable pursuant to any provision of any section of the Terms of the Bonds; or

b) nonpayment of the installment of interest on, or additional amounts payable pursuant to, any provision of any section of the Terms of the Bonds as and when the same shall become due and payable and continuance thereof for a period of 30 days; or

c) failure on the part of the Borrower duly to observe or perform any other of the material covenants or agreements on its part contained in the Terms of the Bonds for a period of 30 days after the date on which written notice by the Bank of such failure, requiring the Borrower to remedy the same, shall have been given to the Borrower; or

d) any indebtedness in any individual material transaction of money borrowed or debt assumed or guaranteed by the Borrower having been declared due and payable prior to the date on which it would otherwise become due and payable, if such acceleration is not stayed, rescinded or annulled, or such indebtedness is not paid or otherwise satisfied within 30 days after such acceleration, provided that such acceleration is not caused by the fact that the Borrower is prevented, directly or indirectly, by any government or other authority from fulfilling the relevant obligation (for the purposes of this clause the term "material" shall refer to at least 10% of the Borrower's total assets); or

e) the Borrower's having generally not paid its debts as they became due, or admitted in writing its inability to pay its debts, or made a general assignment for the benefit of creditors; or

f) the Borrower's having commenced any case, proceeding or other action seeking reorganization, arrangement, adjustment, liquidation, dissolution or composition of it or its debts under any law relating to bankruptcy, insolvency, reorganization or relief of debtors, or seeking appointment of a receiver, trustee, custodian or other similar official for it or for all or any substantial part of its property, whether such law be the Federal Bankruptcy Code or any other similar applicable Federal or state law of the United States; or

g) the Borrower's having taken any corporate action to authorize any of the actions set forth above in paragraph (f); or

h) any case, proceeding or other action against the Borrower having been commenced seeking to have an order for relief entered against it as debtor, or seeking reorganization, arrangement, adjustment, liquidation, dissolution or composition of it or its debts under any law relating to bankruptcy, insolvency, reorganization or relief of debtors, or seeking appointment of a receiver, trustee, custodian or other similar official for it or for all of or any substantial part of its property, where such case, proceeding or other action results in the entering of an order for relief against it which is not fully stayed within 60 days after the entering thereof or remains undismissed for a period of 60 days.

8. Liquidation, Sale, Merger or Reorganization

In case of

(i) liquidation, sale or transfer of all or substantially all of the assets of the Borrower or merger in which the Borrower is not the surviving company, unless the succeeding company assumes all obligations of the Borrower,

(ii) *reorganization of the Borrower pursuant to Chapter 11 of the United States Bankruptcy* Act, or any successor thereto, unless in the opinion of the Bank such reorganization includes adequate protection of the Bondholders,

the Bank has the right, but not the obligation, notwithstanding the provisions of Section 7 heretofore, to declare on behalf of the Bondholders all outstanding Bonds, plus accrued interest, to be due and payable in advance at 100% of their Face Amount in Swiss francs 30 days after receipt of a written notice addressed to the Borrower by the Bank.

9. Replacement of Borrower

Should the Borrower wish to be replaced by a non-Swiss directly or indirectly majority-owned subsidiary company of the Borrower at a later date as the direct debtor of these Bonds by means other than those permitted by Section 8 above, the Borrower shall request prior approval to such an action from the Bank on behalf of the Bondholders. Such an approval shall not be withheld if, in the opinion of the Bank, the interests of the Bondholders are satisfactorily protected, in particular with regard to their tax status. In the event of such substitution, all covenants and conditions pertaining to the Borrower shall be applicable to the debtor replacing the Borrower, and all costs in this connection shall be borne by the Borrower.

10. **Statute of Limitations**

Coupons, by virtue of the Statute of Limitations of present Swiss law, shall become unenforceable after a period of five years and the Bonds after a period of ten years, calculated from their respective due or redemption dates.

11. **Replacement of Bonds, Coupons and Talons**

Bonds with Talons, Talon Sheets or Coupon Sheets which are mutilated, lost or destroyed may be replaced at the head office of the Bank on payment of such costs as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Borrower and the Bank may require and, in the case of mutilation, upon surrender of the Bond with Talons, Talon Sheet or Coupon Sheet.

12. **Listing**

The Borrower will use its best endeavors to have the Bonds listed on the Stock Exchanges of Zurich, Basle, Geneva, Berne and Lausanne and to maintain such listings during the whole life of the Bonds.

13. **Notices**

All notices regarding the Bonds shall be published in the Feuille Officielle Suisse du Commerce and in a daily newspaper in Zurich, Basle, Geneva, Berne and Lausanne.

14. **Governing Law and Jurisdiction**

The Terms of the Bonds, the Coupons and the Talons, the English version of which shall prevail, shall be subject to and governed by Swiss law. Any dispute which might arise between Bondholders on the one hand and the Borrower on the other hand regarding the Bonds, the Coupons and/or the Talons shall be settled in accordance with Swiss law and falls within the jurisdiction of the Ordinary Courts of the Canton of Zurich, the place of jurisdiction being Zurich 1, with the right of appeal to the Swiss Federal Court of Justice in Lausanne, where the law permits. Only for that purpose and only for the purpose of enforcement in Switzerland, the Borrower elects legal and special domicile at CREDIT SUISSE, Zurich, which has agreed forthwith to notify the Borrower of any communication received under this Article.

The above-mentioned jurisdiction is also valid for the declaration of cancellation of the Bonds with Talons, Talon Sheets and Coupon Sheets. The Borrower shall be discharged by and to the extent of any payment made to a holder of a Bond, Coupon or Talon recognized as a creditor by an enforceable judgment of a Swiss court.

As creditors, the holders of Bonds, Coupons or Talons are also at liberty to enforce their rights and to take legal action before the competent Courts of the United States of America, in which case Swiss law shall be applicable with respect to the terms, conditions and form of the Bonds, Coupons and/or Talons.

15. **Judgment Currency**

15.1 If a judgment or order is rendered against the Borrower by a court or tribunal of any jurisdiction for the payment of any amount owing to the holder of a Bond or any Coupon thereof under such Bond or under a judgment or order of a court or tribunal of any other jurisdiction in respect thereof or for the payment of damages in respect of either thereof, any such judgment or order being expressed in a currency other than Swiss francs (the "Judgment Currency"), the Borrower shall indemnify and hold such holder harmless against any loss or damage arising or resulting from any variation in rates of exchange as between the Judgment Currency and Swiss francs, occurring between (i) the date as of which any amount expressed in Swiss francs is converted, for the purpose of any such judgment or order, into an equivalent amount in the Judgment Currency and (ii) the date or dates of discharge of such amount (or part thereof) or of such first mentioned judgment or order (or part thereof) as appropriate; provided, however, that if the result of any such variation in rates of exchange is to give rise to a surplus, the Borrower shall be entitled thereto.

15.2 This indemnity shall constitute a separate and independent obligation from the other obligations contained herein, shall give rise to a separate and independent cause of action and shall apply irrespective of any indulgence granted by a holder of a Bond or Coupon or by the Bank on behalf of any such holder from time to time and shall continue in full force and effect notwithstanding any judgment or order for a liquidated sum or sums in respect of amounts due hereunder or under any such judgment or order. Any such loss or damage aforesaid shall be deemed to constitute a loss suffered by the holder of a Bond or Coupon and no further proof or evidence of any actual loss shall be required by the Borrower.

GENERAL INFORMATION ON THE BORROWER

Incorporation and Duration

PepsiCo was incorporated under the name of Loft Incorporated on September 18, 1919 under the laws of the State of Delaware for a perpetual duration. Since June 9, 1965, PepsiCo has operated under its present name.

The executive offices of PepsiCo are located at 700 Anderson Hill Road, Purchase, New York 10577, U.S.A., and its registered office is located at c/o Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware 19801, U.S.A. Unless the context indicates otherwise, the term PepsiCo when used herein, shall mean PepsiCo, Inc. and its subsidiaries.

Purpose and Business

Through various divisions and subsidiaries, PepsiCo is engaged in the following business activities: soft drinks, snack foods and restaurants.

Soft Drinks

PepsiCo's domestic soft drink business consists of the Pepsi-Cola U.S.A. division ("Pepsi-Cola"), which primarily manufactures and sells soft drink concentrates in the United States to company-owned and independent bottlers licensed by PepsiCo, and Pepsi-Cola Bottling Group, consisting of domestic company-owned bottling operations which manufacture, sell and distribute soft drink products primarily in the United States. These soft drink concentrates and products are manufactured, sold and distributed under trademarks owned by PepsiCo, including PEPSI-COLA, DIET PEPSI, MOUNTAIN DEW, PEPSI LIGHT, PEPSI FREE, DIET PEPSI FREE, SLICE and DIET SLICE. SLICE and DIET SLICE are PepsiCo's newest soft drink products, containing 10% real fruit juice.

The Pepsi-Cola International division, primarily through independent bottlers, manufactures, sells and distributes soft drink products outside of the United States principally under PEPSI-COLA, DIET PEPSI, MIRINDA, TEEM and other trademarks. Among its markets are Argentina, Brazil, Canada, Egypt, Mexico, the Philippines, Saudi Arabia, Venezuela and West Germany. In addition, PepsiCo's soft drink products are manufactured, sold and distributed in the Soviet Union and the People's Republic of China.

Snack Foods

Frito-Lay, Inc. ("Frito-Lay") primarily manufactures, sells and distributes throughout the United States a varied line of snack foods, including FRITOS brand corn chips, LAY'S, RUFFLES, and O'GRADYS brand potato chips, MUNCHOS brand potato crisps, CHEE-TOS brand cheese flavored snacks, DORITOS and TOSTITOS brand tortilla chips, ROLD GOLD brand pretzels, GRANDMA'S brand cookies, the FRITO-LAY brand product line of nuts and crackers, and FRITO-LAY brand party dips. Since its introduction in 1984, O'GRADYS brand potato chips has become Frito-Lay's seventh brand product with annual sales of over $100 million.

The PepsiCo Foods International division manufactures and markets snack foods and other food products outside the United States, primarily through company-owned facilities and joint ventures. Among its principal markets are Australia, Brazil, Canada, Mexico, Spain and Taiwan. Many snack products, such as SABRITAS brand potato chips in Mexico, are similar in taste to Frito-Lay snacks sold in the United States. The division also sells a variety of food products which appeal to local tastes.

Restaurants

Pizza Hut, Inc. ("Pizza Hut") is principally engaged in the operation, development and franchising of a system of casual family restaurants and pizza delivery operating under the name PIZZA HUT. The restaurants serve several varieties of pizza as well as pasta, salads and sandwiches. In 1985, Pizza Hut introduced PRIAZZO brand Italian pie, a double-crusted pizza stuffed with one of five fillings and topped with cheese and zesty tomato sauce.

Taco Bell Corp. is principally engaged in the operation, development and franchising of TACO BELL restaurants, a chain of fast-service restaurants featuring a menu of inexpensively priced, quality Mexican-style food.

La Petite Boulangerie Inc. is principally engaged in the operation, development and franchising of a chain of retail bakeries which sell a wide variety of fresh baked bread products under the LA PETITE BOULANGERIE trademark.

The PepsiCo Food Service International division is principally engaged in the operation, development and franchising of PIZZA HUT and TACO BELL restaurants outside the United States through company-owned facilities, franchises and joint ventures. Principal markets outside the United States include Australia, Belgium, Canada, Japan, Mexico, the United Kingdom and West Germany.

Stockholders' Equity

The authorized capital stock of PepsiCo presently consists of 135,000,000 shares of Capital Stock, par value $.05 per share. The shares of Capital Stock are listed in the United States on the New York Stock Exchange and the Midwest Stock Exchange. In Europe they are listed in Amsterdam, Zurich and Geneva. As of February 21, 1986 there were 95,898,068 shares of Capital Stock issued, of which 85,556,306 were outstanding.

	Unaudited Sept. 7, 1985	Dec. 29, 1984
	(US$ millions)	
Shares issued: 9/85: 95,898,162—12/84: 95,164,331	$ 4.8	$ 4.8
Capital in excess of par value	274.7	251.9
Retained earnings	2,012.1	1,678.9
Cumulative translation adjustment	(43.6)	(49.4)
Less cost of repurchased shares: 9/85: 5,697,298—12/84: 1,256,768	(297.6)	(32.8)
Total stockholders' equity	$1,950.4	$1,853.4

Voting Rights

PepsiCo Capital Stock has full voting powers and each holder of such stock is entitled to one vote for each share of Capital Stock owned.

Board of Directors

D. Wayne Calloway	President and Chief Operating Officer, PepsiCo, Inc.
Frank T. Cary	Chairman of the Executive Committee, International Business Machines Corporation
William T. Coleman, Jr............	Partner, O'Melveny & Myers
Clifton C. Garvin, Jr	Chairman of the Board and Chief Executive Officer, Exxon Corporation
Michael H. Jordan	Executive Vice President and Chief Financial Officer, PepsiCo, Inc.
Donald M. Kendall	Chairman of the Board and Chief Executive Officer, PepsiCo, Inc.
John J. Murphy	Chairman, Chief Executive Officer and President, Dresser Industries, Inc.
Thomas A. Murphy	Retired Chairman and Chief Executive Officer, General Motors Corporation
Andrall E. Pearson	Professor, Harvard Business School
Sharon Percy Rockefeller.........	Member, Board of Directors, Corporation for Public Broadcasting
Robert H. Stewart, III	Chairman and Chief Executive Officer, InterFirst Corporation and InterFirst Bank Dallas, N.A.
Robert S. Strauss................	Partner, Akin, Gump, Strauss, Hauer & Feld
Arnold R. Weber.................	President, Northwestern University

Auditors

Arthur Young and Company, 277 Park Avenue, New York, New York 10172, U.S.A.

Fiscal Year

The fiscal year of PepsiCo ends on the last Saturday in December.

Dividends and Utilization of Profits

Subject to the provisions of the Certificate of Incorporation of PepsiCo, Inc., the holders of shares of the issued and outstanding Capital Stock are entitled to receive dividends at such times and in such amounts as the Board of Directors may deem advisable. Dividends on shares of Capital Stock may be paid in cash, in property or in shares of Capital Stock.

For the periods indicated below, PepsiCo, Inc. has declared the following dividends per share on its Capital Stock:

Fiscal Year					1st Quarter
1981	1982	1983	1984	1985	1986
$1.42	$1.58	$1.62	$1.665	$1.755	$.445

Major Subsidiaries

Name	Jurisdiction of Incorporation	Direct or Indirect Ownership
Frito-Lay, Inc.	Delaware	100%
Pepsi-Cola Metropolitan Bottling Company, Inc.	New Jersey	100%
Pizza Hut, Inc.	Delaware	100%
Taco Bell Corp.	California	100%

As the above subsidiaries are all 100% owned, the Borrower does not presently publish information as to their issued capital stock. No one of these subsidiaries currently has outstanding any publicly traded debt issue.

Outstanding Notes Payable, Long-Term Debt and Capital Lease Obligations of PepsiCo

(as of September 7, 1985)*

	Unaudited Sept. 7, 1985 (US$ millions)
Notes Payable	
10.125% notes due 1986	$150.0
Current maturities on other long-term debt and capital lease obligations	14.7
Other notes payable, primarily to foreign banks	696.9
Total notes payable	$861.6
Long-term Debt (less current maturities)	
5.25% bearer bonds, 130 million Swiss francs, due 1995	$ 47.7
Zero coupon serial debentures, $850 million face value due 1988-2012 (13.91% semiannual yield to maturity)	85.7
8% convertible subordinated debentures due 1996	41.5
Zero coupon notes, $100 million face value due 1992 (14.42% semiannual yield to maturity)	41.0
Zero coupon notes, $125 million face value due 1994 (14.08% semiannual yield to maturity)	39.4
Other	147.6
Total long-term debt	$402.9
Capital lease obligations	$125.3

* For a description of debt issued subsequent to September 7, 1985, see "Recent Developments-Debt" on page 20.

Accounting Principles

The financial statements of PepsiCo have been prepared in accordance with generally accepted accounting principles of the United States of America. Depreciation is calculated principally on a straight line basis over the estimated useful lives of the respective assets.

Further information on PepsiCo's accounting principles is set out in the Notes to Financial Statements contained in PepsiCo's 1984 Annual Report (Annex A, page A-13), which forms an integral part of this prospectus.

Financial Statements and Report of Certified Public Accountants

The Consolidated Financial Statements of PepsiCo and the Notes thereto can be found in the Company's 1984 Annual Report (Annex A, pages A-8 through A-12 and following pages), which forms an integral part of this prospectus.

The Report of Certified Public Accountants relative thereto can be found in the 1984 Annual Report (Annex A, page A-21).

Recent Developments

Interim Financial Statements

PepsiCo's financial results and condition for the quarters ended March 23, 1985, June 15, 1985 and September 7, 1985 are set out in its Quarterly Reports on Form 10-Q attached as Annex B, Annex C and Annex D respectively, each of which forms an integral part of this prospectus. The 1984 amounts included in the June 15, 1985 and September 7, 1985 Quarterly Reports on Form 10-Q have been restated to reflect the 1985 divestiture of Wilson Sporting Goods (see "Divestitures" on page 19).

1985 Results

On February 5, 1986, the Company announced its results for 1985. They were as follows (in US$ millions except per share data):

	Fourth Quarter		Full Year	
	1985*	1984**	1985	1984**
Net Sales	$2,420.5	$2,196.3	$8,056.7	$7,451.1
Income from continuing operations	$ 105.0	$ 85.6	$ 420.1	$ 275.0
Per Share	$ 1.17	$ .90	$ 4.51	$ 2.90
Income (loss) from discontinued operations	$ (15.7)	$ 4.0	$ 123.6	$ (62.5)
Per Share	$ (.17)	$ .05	$ 1.32	$ (.65)
Net income	$ 89.3	$ 89.6	$ 543.7	$ 212.5
Per Share	$ 1.00	$ .95	$ 5.83	$ 2.25

* Unaudited

** As restated to reflect the 1985 divestiture of Wilson Sporting Goods

Fourth Quarter

Income from continuing operations rose 23 percent to $105 million and related earnings per share increased 30 percent to $1.17. Fourth quarter results benefited from a lower tax rate due to an increase in lower-taxed domestic income and an adjustment to the actual full-year tax rate as well as the repurchase of over seven million shares in the last half of 1985.

Two one-time charges to income from continuing operations were offset by a one-time credit. Frito-Lay recorded a $16 million pre-tax charge related to strategic changes in packaged cookies. Another pre-tax charge of $12 million was incurred for expenses related to the planned move by Pepsi-Cola to a new headquarters in Somers, New York. A one-time pre-tax credit of $26 million resulted from more favorable results than originally estimated from the 1984 refranchising of PepsiCo-owned foreign bottling operations.

With respect to discontinued operations, a $15.7 million after-tax charge was recorded, principally due to the uncollectability of amounts relating to the 1984 sale of Lee Way Motor Freight Inc. ("Lee Way") and the revaluation of securities received in connection with the 1985 sale of Wilson Sporting Goods ("Wilson").

Full Year

Income from continuing operations rose 53 percent to $420 million and related earnings per share increased 56 percent to $4.51. Full-year results also reflected a reduced tax rate due to lower effective domestic and foreign tax rates and fewer shares outstanding.

The 1985 income from discontinued operations includes a gain of $139 million ($1.49 per share) on the sale of North American Van Lines ("NAVL") and an estimated loss of $25.0 million ($.27 per share) attributable to the sale of Wilson and an increase to the loss on disposal of Lee Way recorded in 1984. The 1984 amount includes a $15 million ($.16 per share) loss on the sale of Lee Way and a $59 million ($.61 per share) restructuring provision relating to Wilson.

Divestitures

On September 16, 1985, the Company completed the sale of its Wilson Sporting Goods operation to an affiliate of Wesray Capital Corporation. As of February 27, 1986, PepsiCo remains contingently liable for various obligations of Wilson, principally short-term letters of credit. In addition, PepsiCo has extended to Wilson a $10 million line of credit, expiring December 31, 1986. As of February 27, 1986, the line of credit remains unused. As of February 27, 1986, the audit of Wilson's balance sheet is still continuing. If PepsiCo and the buyer are unable to agree upon certain adjustments related to the audit, the matter will be settled by arbitration.

On January 2, 1986, an interest-bearing deferred payment of $376 million was received relating to the sale of NAVL.

Acquisitions

In December, 1985, PepsiCo agreed to purchase the soft drink business of MEI Corporation ("MEI") for a cash price of approximately $590 million. The transaction is subject to various conditions including approval by the shareholders of MEI as well as certain regulatory filings and approvals.

In January 1986, PepsiCo agreed to purchase the domestic and international franchise beverage businesses of The Seven-Up Company from Philip Morris Incorporated for a cash price of approximately $380 million. The transaction is subject to various conditions including review by various United States and foreign governmental agencies.

Also in January 1986, PepsiCo agreed to purchase A&M Food Services, Inc. ("A&M") in exchange for PepsiCo Capital Stock. The number of shares of PepsiCo Capital Stock to be received by the stockholders of A&M will be between 584,000 and 741,000. The transaction is subject to approval by the shareholders of A&M, as well as certain regulatory filings and approvals.

Debt

On September 26, 1985, a subsidiary of PepsiCo issued Australian $50 million of 13% Guaranteed Notes Due 1990 unconditionally guaranteed by PepsiCo (the "13% Guaranteed Notes"). Subsequent to the issuance of the 13% Guaranteed Notes, PepsiCo entered into an interest rate swap converting the fixed interest rate to a variable interest rate based on a 90-day Australian Bank Bill Rate.

In the fourth quarter of 1985, PepsiCo reclassified $603 million of commercial paper obligations into long-term debt. At December 28, 1985, PepsiCo had unused credit facilities aggregating $1.52 billion, providing it with domestic and international credit availability and support for the issuance of commercial paper. These unused credit facilities provide PepsiCo the ability to refinance short-term borrowings and currently support the classification of $603 million of commercial paper as long-term debt, since it is PepsiCo's intent to refinance this commercial paper during 1986 on a long-term basis.

On February 24, 1986, PepsiCo issued Australian $75 million of 14.125% Notes Due 1989 (the "14.125% Notes"). The proceeds of the 14.125% Notes were converted to approximately US$51.8 million. Concurrently with the issuance of the 14.125% Notes, PepsiCo committed to enter into a currency exchange agreement. The debt issuance and related agreement create a US$ liability in the amount of US$51 million at maturity with a floating interest rate based upon the 1-month AA Federal Reserve Composite Commercial Paper Rate.

On February 25, 1986, a subsidiary of PepsiCo committed to issue US$100 million of 8.375% Guaranteed Notes Due 1991 unconditionally guaranteed by PepsiCo (the "8.375% Guaranteed Notes"). It is anticipated that the 8.375% Guaranteed Notes will be issued on April 1, 1986.

Stock Repurchase

On September 30, 1985, PepsiCo announced plans to repurchase approximately 5 million shares of its Capital Stock. The shares, to be used for general corporate purposes, will be purchased from time to time in the open market and through negotiated transactions.

As of December 28, 1985, PepsiCo had purchased 2.6 million shares at an aggregate purchase price of $179.8 million and had an obligation to purchase 0.3 million shares at an aggregate purchase price of $18.1 million. As of February 27, 1986, PepsiCo had purchased 4.9 million shares at an aggregate purchase price of $337.8 million.

FINANCIAL REVIEW

Foreword—Restructuring Actions

During 1984, PepsiCo announced a series of actions to restructure its operations through the sale of its transportation segment, the refranchising of several company-owned foreign bottling operations and the restructuring of Wilson Sporting Goods. This series of actions allows PepsiCo's financial and managerial resources to be focused on those core businesses that have consistently achieved the highest growth and profits—beverages, food products and food service. These actions resulted in charges to continuing operations of $121 million after-tax ($1.26 per share) and a loss on the sale of Lee Way Motor Freight of $15 million after-tax ($.16 per share), which is reflected in discontinued operations. In 1985, we expect an approximately equal gain on the pending sale of North American Van Lines.

The discussion that follows focuses on continuing operations before the unusual charges related to the 1984 restructuring actions and the 1982 reduction in the net assets of PepsiCo's foreign bottling operations. Information on the unusual charges and the sale of the transportation segment, which is accounted for as a discontinued operation, can be found in Notes 2 and 3 to the Consolidated Financial Statements, respectively.

Subsequent to the second quarter refranchising decision, the operating results of company-owned foreign bottling operations to be refranchised were applied to the reserves established when the refranchising decision was made. Consequently, the results of these operations have not been reflected in the beverage segment operating profits and continuing operations results since the date of the refranchising decision. Net foreign exchange gains related to the local currency denominated debt of these operations, previously reflected in either the beverage segment operating profits or the cumulative translation adjustment, have been netted against general corporate expenses, and were excluded from beverage segment results, since the date of the refranchising decision.

PepsiCo's 1984 and 1982 fiscal years had 52 weeks, while 1983 had 53 weeks. The volume information included in this financial review has been adjusted to a comparable 52 week basis.

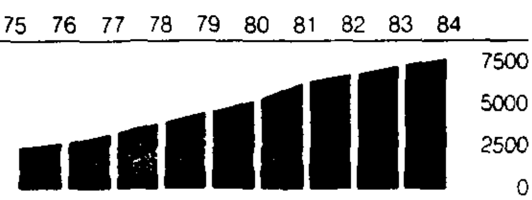
Analysis of Continuing Operations Before Unusual Charges

Revenues increased seven percent in 1984 to $7.7 billion, following a five percent increase in 1983. Income from continuing operations before unusual charges was $328 million in 1984, up 21 percent from $271 million a year ago. The related earnings per share were $3.45 in 1984, up 20 percent from $2.88 in 1983. PepsiCo's growth in 1984 reflects a turnaround in foreign operating results and strong performance in both the food products and food service segments.

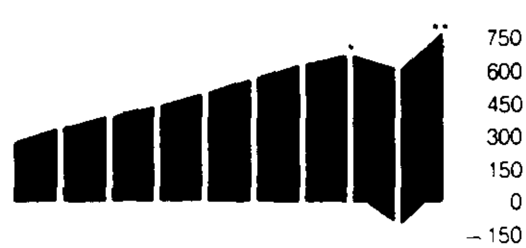
Revenue increases reflected excellent growth in our food service and food products businesses and our domestic beverage operations. Cost of sales, up five percent in 1984 and two percent in 1983, continued to increase more slowly than revenues. The 1984 increase in cost of sales reflects increased volume and higher ingredient costs in the beverage and food products segments. (The impact of inflation on costs is reviewed below under Discussion of the Effects of Inflation.) Gross profits were up nine percent in 1984, primarily reflecting increased volume and modest pricing actions. In 1983, gross profits were eight percent ahead of 1982.

Combined marketing, administrative and other expenses increased six percent in 1984 after a 12 percent increase in 1983. Advertising and marketing costs alone increased 16 percent in 1984 and 15 percent in 1983. These increases reflect competitive spending and new product introductory costs in our domestic beverage, food product and food service businesses. In 1984, the combined marketing,

Domestic and Foreign Revenues
(In Millions)
■ Domestic
■ Foreign



Domestic and Foreign Operating Profit
(In Millions)
■ Domestic
■ Foreign



*Excludes a $79 million foreign unusual charge
**Excludes $156 million of foreign and $64 million of domestic unusual charges

administrative and other expense increases were offset by substantially increased foreign exchange gains, which were netted against other expense.

Foreign currency translation gains were $54 million in 1984 compared to $17 million in 1983 and $12 million in 1982. The 1984 gains primarily reflect an increase in borrowings under foreign government sponsored programs which were initially used to hedge foreign investments in certain Latin American countries and the Philippines against devaluations. Nineteen eighty-four results also reflect the absence of foreign currency losses experienced in Venezuela in the prior year. The foreign currency gains in 1983 and 1982 were primarily due to the devaluation of hyperinflationary foreign currencies such as those in Argentina, Brazil and Mexico in which PepsiCo was in a net monetary liability position.

Income from continuing operations before interest and taxes increased 31 percent in 1984, following a 16 percent decrease in 1983. The results in 1984 primarily reflect the turnaround in foreign beverage and food products operations and continuing growth in domestic food products and food service. The 1983 decline in income from continuing operations before interest and income taxes resulted as strong domestic growth was reduced by losses in foreign beverage and food products.

Net interest expense (after deducting interest income) decreased two percent to $121 million in 1984 due to lower net domestic borrowing costs, which more than offset increased foreign currency borrowing costs related in part to the foreign currency hedges discussed above. The six percent increase in 1983 was primarily due to higher cost borrowings in hyperinflationary foreign currencies such as those of Argentina, Brazil and Mexico.

Excluding the impact of unusual charges, the provision for taxes on income from continuing operations was 42.9 percent in 1984, 33.1 percent in 1983 and 43.1 percent in 1982. The 1983 provision reflected U.S. tax benefits with respect to legal reorganizations and tax elections related to certain major foreign operations. The 1983 provision also reflects U.S. tax benefits on the refranchising of several foreign bottling operations, which benefits substantially offset the associated pre-tax losses. In part, these 1983 actions yielded tax benefits related to foreign bottling losses incurred in years prior to 1983, for which no U.S. or foreign tax benefits were then available.

PepsiCo's 1984 return on assets employed in continuing operations was 13.3 percent, compared to 12.3 percent in 1983 and 13.2 percent in 1982. The increase in 1984 was primarily due to the 21 percent improvement in income from continuing operations before unusual charges. The improvement in return on assets employed was lessened by the increase in net assets employed, which primarily reflect increased cash and marketable securities and expenditures for domestic plant and equipment. The decrease in return on assets employed from 1982 to 1983 resulted from a decline in income from continuing operations. Before unusual charges, the return on average shareholders' equity was 17.7 percent in 1984, 16.5 percent in 1983 and 18.5 percent in 1982. After the unusual charges in 1984 and 1982, return on average shareholders' equity was 11.7 percent and 14.0 percent, respectively.

Business Segments

Revenues *(in millions)*	1984		1983		1982	
	$	%	$	%	$	%
Beverage	2,908.4[1]	38	2,940.4	41	2,908.0	43
Food products	2,709.2	35	2,430.1	34	2,323.8	34
Food service	1,833.5	24	1,529.4	21	1,260.6	18
Sporting goods	247.6	3	265.7	4	318.5	5
Total continuing operations	7,698.7	100	7,165.6	100	6,810.9	100
Foreign portion	992.1[1]	13	1,153.7	16	1,424.1	21
Operating Profits (in millions)[2]						
Beverage	246.4[1,3]	31	126.2	21	217.7[4]	32
Food products	393.9	49	347.7	56	326.4	48
Food service	175.2	22	154.3	25	119.3	17
Sporting goods	(16.7)[5]	(2)	(11.2)	(2)	19.2	3
Total continuing operations	798.3	100	617.0	100	682.6	100
Foreign portion	37.6[3]	5	(97.9)	(16)	20.4[4]	3

[1] Excludes the results of those foreign bottling operations to be refranchised, subsequent to the second quarter refranchising decision (see Note 2 to Consolidated Financial Statements).

[2] Excludes general corporate expenses (net) and interest expense (net) which totaled as follows (in millions): 1984 $224.4, 1983 $211.4, 1982 $169.8.

[3] Excludes a $156.0 million provision for refranchising foreign bottling operations (see Note 2 to Consolidated Financial Statements).

[4] Excludes a $79.4 million reduction in net assets of foreign bottling operations (see Note 2 to Consolidated Financial Statements).

[5] Excludes a $64.0 million provision for restructuring Wilson Sporting Goods (see Note 2 to Consolidated Financial Statements).

Beverage Beverage revenues declined one percent in 1984 after one percent growth in 1983. Revenues in 1984 were down primarily because results of company-owned foreign bottling units being refranchised were not included after the decision to refranchise them was made in the second quarter of 1984. Domestic bottlers' case sales advanced eight percent in 1984, following six percent growth in 1983, led by strong sales of brand Pepsi, reformulated Diet Pepsi and fountain syrup. The increased fountain syrup volume primarily reflects the late 1983 conversion of Burger King Corporation's domestic restaurants to Pepsi-Cola products. Foreign bottlers' case sales, including those of the company-owned bottling operations to be refranchised, were about the same in 1984 as they were in 1983, which declined two percent from 1982. In 1983, strong domestic revenue growth was substantially offset by declines overseas due to reduced foreign concentrate shipments and economic and foreign currency-related difficulties.

Nineteen eighty-four operating profits were almost twice those of 1983. The significant profit improvement in 1984 primarily reflects a recovery in many international markets, compared to a depressed 1983 when large losses were incurred. Also contributing to the 1984 improvement is the exclusion, in the second half, of operating losses incurred by company-owned foreign bottling operations to be refranchised. Foreign profits benefited from substantial first quarter concentrate shipments to Venezuela, one of our largest overseas markets. No shipments were made to Venezuela in 1983 because of the devaluation of the bolivar and the related uncertainty regarding that country's foreign exchange policy. Results in 1984 include significantly larger foreign currency gains versus 1983, primarily from exchange activity prior to the second quarter decision to refranchise certain company-owned foreign bottling operations. In addition, 1984 foreign operations benefited from the absence of the significant Venezuelan foreign exchange losses that were experienced in 1983. Domestic profits in 1984 improved only modestly as strong volume gains and price increases were largely offset by new ingredient costs and substantially increased advertising and marketing costs related to new product introductions and competitive promotional spending.

Operating profits dropped 42 percent in 1983 when compared to 1982 operating profits. Continued domestic growth in 1983 was offset by increased foreign operating losses primarily due to unfavorable year-to-year comparisons in Venezuela and Mexico. In addition, PepsiCo incurred $33 million in losses on 1983 foreign refranchising activities.

Food Products The food products segment recorded substantially stronger results with revenue growth of 11 percent in 1984, following growth of five percent in 1983. Revenue growth in 1984 reflects the continued strength of Frito-Lay and international improvements, primarily in Mexico. Frito-Lay's volume improved eight percent in 1984, primarily as a result of the successful national introduction of O'Gradys brand potato chips and the continued rollout of Frito-Lay brand Cheese Dips. In 1983, domestic volume advanced one percent. Foreign volume increased 11 percent in 1984 led by an increase in sweet snack food volume in Mexico. Nineteen eighty-three foreign volume declined 13 percent due to economic difficulties in Mexico, our major international market.

Food products recorded solid profit growth of 13 percent in 1984, following a seven percent increase in 1983. Frito-Lay profits in 1984 benefited from strong volume increases and improved manufacturing and distribution productivity, partially offset by increased costs associated with new product introductions and raw materials. Foreign operations recorded substantial profit gains in 1984, benefiting from pricing above the impact of local inflation and foreign currency translation effects. This compares with 1983 when a loss was reported, primarily as a result of unfavorable Mexican peso translation effects following the severe 1982 year-end devaluation.

Food Service Food service had another successful year in 1984, led by outstanding results at Taco Bell. Revenues and profits grew 20 and 14 percent, following respective increases of 21 and 29 percent in 1983. These gains were primarily due to volume growth and, to a lesser degree, increased pricing. Average store sales at company-operated Pizza Hut and Taco Bell restaurants advanced 12 percent in 1984, following a 17 percent increase in 1983. Average real volume per store advanced seven percent in 1984 and 11 percent in 1983. Taco Bell's outstanding results continued to benefit from wide consumer response to several new products. Pizza Hut's performance softened compared to the dramatic 1983 volume and profit gains resulting from its new lunchtime Personal Pan Pizza product. Pizza Hut profits grew moderately, primarily reflecting modest real volume growth per store and increased product development and promotional expenditures. Profits resulting from the refranchising of company-owned restaurants amounted to less than five percent of food service operating profit in 1984 and 1983, down from 11 percent in 1982.

Sporting Goods Wilson Sporting Goods 1984 revenues declined, and operating losses increased as sales of high margin products were sluggish and new product introductions pushed costs higher. Results in 1983 declined versus a strong 1982 performance because of high retail inventories early in 1983 due to increased shipments throughout the industry late in the prior year, increased competition, sluggish retail sales of team sport products and an $8 million pre-tax charge primarily related to the contractio of the wood tennis racket operation.

PepsiCo is studying the feasibility of selling Wilson and has engaged an investment banking firm assist in this study.

Capital Spending, Identifiable Assets, Depreciation and Amortization Expense (in millions)

	Capital Spending[1]			Identifiable Assets[2]			Depreciation and Amortization Expense		
	1984	1983	1982	1984	1983	1982	1984	1983	1982
	$	$	$	$	$	$	$	$	$
Beverage	83.6[3]	93.7	111.2	1,038.9[3]	1,249.0	1,388.8	71.1[3]	84.9	81.2
Food products	188.9	180.2	166.8	1,254.5	1,110.1	949.5	93.6	81.9	70.9
Food service	252.5	217.9	128.0	1,020.7	825.9	649.9	75.7	58.0	44.4
Sporting goods	11.5	5.3	11.0	215.9	275.5	284.5	6.5	6.4	5.9
Corporate[4]	30.8	11.5	30.3	1,277.0	882.7	648.8	9.3	8.1	4.8
Total continuing operations	567.3	508.6	447.3	4,807.0	4,343.2	3,921.5	256.2	239.3	207.2
Foreign portion	36.8[3]	43.1	71.9	716.4[3]	979.2	1,256.0	37.1[3]	52.0	51.4

[1] Excludes expenditures for returnable, reusable bottles and cases.

[2] Net assets of the discontinued operations were $143.2 in 1984; $149.5 in 1983; and $175.0 in 1982 (see Note 3 to Consolidated Financial Statements).

[3] Excludes amounts related to those foreign bottling operations to be refranchised, subsequent to the second quarter refranchising decision (see Note 2 to Consolidated Financial Statements).

[4] Corporate assets are principally marketable securities, investment in tax leases and administrative office buildings.

PepsiCo's capital spending reached record levels in each of the three years, 1982 through 1984. Capital expenditures totaled $567 million in 1984, up 12 percent from $509 million in 1983, which was up 14 percent from 1982.

The fast growing domestic food service segment accounted for 42 percent of PepsiCo's capital expenditures in 1984, as Pizza Hut and Taco Bell added 227 company-owned stores and upgraded existing stores. Frito-Lay continued to expand its distribution facilities and add to its production capacity. Domestic beverage spending primarily focused on expanding product distribution capabilities. Declining foreign expenditures primarily reflect PepsiCo's international refranchising actions in 1984 and 1983, and adequate foreign capacity.

In addition to the record capital expenditures discussed above, investment in returnable, reusable bottles and cases was $18 million in 1984, $22 million in 1983 and $57 million in 1982. The reduced need for bottles and cases in foreign operations is evident in the declining investment from 1982 to 1984.

Liquidity, Financial Resources and Capital Structure

PepsiCo maintains its strong financial position by allocating financial resources to businesses and investments which meet appropriate return criteria. Management continues to emphasize long-term profit growth and return on assets as key objectives. Growth is supported by the proper management of capital and external funds which, in turn, permits financial flexibility and minimizes long-term financing costs.

PepsiCo's internal generation of funds from operations continues to be the company's greatest financial strength. Cash provided by continuing operations totaled $995 million in 1984, exceeding PepsiCo's total expenditures of $722 million for plant, equipment and dividends. In 1983, cash provided by continuing operations was $651 million, down two percent from 1982. Working capital associated with continuing operations provided $198 million of funds in 1984 compared to a $14 million use in 1983. The 1984 source of funds was principally increased accounts payable and other current liabilities that were partially offset by increased inventories.

In 1984, additional financial resources totaling $165 million were provided by property disposals of $47 million and net realized benefits of $118 million resulting from investments in tax leases. In 1983 these sources provided $158 million, with $115 million relating to tax lease investments. The tax lease benefits result from PepsiCo's $429 million investment in accelerated depreciation deductions and tax credits in accordance with the provisions of the Economic Recovery Tax Act of 1981. Since 1981, this investment has generated $598 million in cumulative benefits, $247 million of which represent temporary tax savings.

Net borrowings decreased $148 million in 1984, following a $13 million increase in 1983. The decrease in 1984 reflects the maturity of $175 million in notes during 1984. PepsiCo's 1984 ratio of debt to capital employed reflected this decline in debt as it dropped to 26.9 percent from 31.9 percent in 1983. In 1982 the ratio was 34.9 percent. The decline in the ratio from 1982 to 1984 has also been influenced by the strong growth in internally generated capital.

As a result of its strong financial position, PepsiCo has an excellent credit standing and access to capital markets throughout the world. The company also maintains substantial unused bank credit facilities and continues to carry a sizeable amount of marketable securities in Puerto Rico that can be repatriated at management's discretion upon payment of a modest tollgate tax. Together, these sources of funds provide PepsiCo with a strong financial base and the flexibility to support continued future growth.

Capital Structure	1984	1983
	(in thousands)	
Short-term borrowings	$ 165,523	$ 157,361
Long-term borrowings		
–*current*	*107,870*	*106,630*
–non-current		
–senior	463,640	590,588
–*subordinated*	*77,436*	*77,706*
Total long-term borrowings	648,946	774,924
Total borrowings	814,469	932,285
Capital lease obligations		
–current	10,887	12,071
–non-current	145,218	147,519
Total capital lease obligations	156,105	159,590
Total debt (including capital lease obligations)	970,574	1,091,875
Shareholders' equity	1,853,376	1,794,158
Total debt and shareholders' equity	2,823,950	2,886,033
Deferred income taxes and other liabilities and deferred credits	785,232	532,187
Total capital employed	$3,609,182	$3,418,220

Discussion of the Effects of Inflation

The high rates of inflation that the American economy experienced in the late 1970s and early 1980s resulted in the erosion of the purchasing power of the dollar. Despite the recent slowing of inflation, the current as well as past inflation continues to distort the conventional measures of financial performance based on historical cost accounting. To assist readers of financial statements in assessing the impact of inflation, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 33, "Financial Reporting and Changing Prices," as amended. The amended standard requires presentation of certain information on the effects of inflation on a business enterprise *under the current cost method*.

The current cost method attempts to measure the effects of changes in the specific costs of PepsiCo's assets from the dates they were acquired to the present. These amounts were estimated in a number of ways, *including direct pricing and indexing, which are intended to reflect costs to replace existing assets* with identical assets rather than with different or technologically improved assets.

The accompanying statement of earnings and five-year summary of selected data reflect certain adjustments to the amounts shown in the primary financial statements using the current cost method. Since this method involves the use of assumptions, approximations and estimates, readers are cautioned that the following information should not be viewed as precise indicators of the effect of inflation on PepsiCo's operations.

Under the guidelines of SFAS 33, as amended, only cost of sales and depreciation expense are required to be adjusted in the statement of earnings, since these are the items of income which are most affected by inflation. During inflationary periods these adjustments will usually result in lower earnings than reported in the primary financial statements.

Although *productivity improvements have helped offset the inflationary impact of higher inventory* costs on the primary financial statements, it should be noted that the ability of a company to recover cost increases by raising selling prices is subject to competitive factors.

In accordance with SFAS 33, as amended, restated income from continuing operations does not reflect an adjustment to historical dollar income tax expense, because present tax laws do not allow deductions for increased depreciation expense and cost of sales due to inflation. Consequently, the 1984 effective tax rate on a current cost basis of 52.5 percent is higher than the historical effective rate of 41.7 percent.

Besides the impact of inflation on the conventional measures of income, inflation affects monetary assets and liabilities, such as cash, receivables and payables. During periods of inflation, monetary assets lose purchasing power since they will buy fewer goods or services as the general level of prices rises. Conversely, holders of monetary liabilities benefit during inflation because cheaper dollars are used to satisfy these obligations in the future.

Since PepsiCo had net monetary liabilities during the year, a net gain in purchasing power is disclosed in the adjusted statement of earnings under the current cost method. This gain, which amounted *to $61,648,000 in 1984, $47,745,000 in 1983 and $47,819,000 in 1982 (stated in average 1984 dollars)*, should be viewed as part of the overall impact of inflation on operations. Since the interest rate charged by lenders is intended, in part, to compensate them for lost purchasing power during inflation, historical dollar interest expense should theoretically be reduced by the purchasing power gain from holding net monetary liabilities. However, the FASB requires that this gain be shown separately from net income in the statement of earnings.

SFAS 33, as amended, also requires that increases in current costs based on specific prices of inventories and property, plant and equipment during the year be compared with the amount of such increases based on changes in the general price level. This comparison indicates that the change in the current costs of those assets adjusted for inflation resulted in a significant differential due to the slowing of price increases domestically and the decrease of the cost of assets of certain foreign operations when translated into U.S. dollars.

In addition to the statement of earnings, various financial data for the past five years have been restated into average 1984 dollars and are presented in a separate schedule. The schedule shows that in "real" terms (i.e., after removing the effects of inflation), sales have grown each year since 1979.

The value of PepsiCo's net assets on a current cost basis is considerably higher than the historical dollar amount, primarily due to the impact of inflation on property, plant and equipment.

Dividends have increased every year between 1980 and 1984 on a historical cost basis. When adjusted for inflation, the dividend level peaked in 1982 and then declined slightly in 1983 and 1984.

Between year-end 1980 and year-end 1984, the actual as well as inflation-adjusted market price of PepsiCo's common stock increased, although year-to-year changes moved in both directions.

Statement of Earnings Adjusted for the Effects of Inflation For the Year Ended December 29, 1984

(in thousands except per share amounts)

	As Reported in the Primary Financial Statements (Historical Cost)	Adjusted for Changes in Specific Prices (Current Cost)
Net sales	$7,698,678	$7,698,678
Cost of sales, excluding depreciation	3,065,935	3,076,000
Depreciation and amortization	244,798	307,521
Other operating expenses, net	3,692,747	3,692,747
Net interest expense	120,825	120,825
Provision for restructuring	220,000	220,000
Provision for income taxes	147,701	147,701
	7,492,006	7,564,794
Income from continuing operations	$ 206,672	$ 133,884
Per common share	$ 2.19	$ 1.43
Purchasing power gain on net monetary liabilities		$ 61,648
Effect of changes in general price level and specific prices on inventories and property, plant and equipment during the year:		
Increase in general price level		$ 96,867
Decrease in specific prices (current costs) [1]		126,267
Excess of increase in general price level over decrease in specific prices		$ 223,134

[1] At December 29, 1984 current cost of inventory was $469,503 compared to $451,781 at historical cost. The current cost of property, plant and equipment, net of accumulated depreciation, was $2,645,512 compared to $2,163,013 at historical cost.

Five-Year Comparison of Selected Supplementary Financial Data Adjusted for the Effects of Inflation

(in thousands of average 1984 dollars except per share amounts)

	1984	1983	1982	1981	1980
Net sales	$7 698.678	$7,470 556	$7 327,251	$7,199.034	$6.703.520
Current Cost Information:					
Income from continuing operations	$ 133.884[1]	$ 211.236	$ 132.278[2]	$ 219.603	$ 207 013
Per common share	$ 1 43[1]	$ 2 25	$ 1.43[2]	$ 2 40	$ 2 27
Excess of increase in general price level over the change in specific prices	$ 223.134	$ 123.861	$ 121.937	$ 157.224	$ 115.562
Net assets	$2.353.303	$2.556.267	$2 512.964	$2.583.667	$2.573 512
Other Information:					
Purchasing power gain on net monetary liabilities	$ 61,648	$ 47,745	$ 47.819	$ 107.933	$ 132 025
Cash dividends declared per common share	$ 1 665	$ 1 668	$ 1 700	$ 1 622	$ 1 589
Market price per common share at year-end	$ 41 29	$ 39 21	$ 36 18	$ 40 20	$ 31 30
Average consumer price index (1967 = 100)	311 1	298 4	289 1	272 4	246 8

[1] After $121.300 in after-tax charges ($1 26 per share) related to a series of restructuring actions (see Note 2 to Consolidated Financial Statements)

[2] After a $79.400 charge ($.83 per share) related to a reduction in the net assets of foreign bottling operations. This charge was without tax benefit (see Note 2 to Consolidated Financial Statements)

Quarterly Financial Data and Information on Capital Stock

The following table presents (in thousands except per share amounts) summarized quarterly financial data for continuing and discontinued operations (see Note 3 to Consolidated Financial Statements):

1984 Quarters Ended	*Net Sales*	Gross *Profit* From Continuing *Operations*	Income *(Loss)* From Continuing *Operations*	Income *(Loss)* From Discontinued *Operations*	Income (Loss) *Per Share* From Continuing *Operations*	Income (Loss) *Per Share* From Discontinued *Operations*	Net Income (Loss) *Per Share*
March 24 (12 weeks)	$1 605.304	$ 948.215	$ 46.270	$ 883	$ 49	$ 01	$ 50
June 16 (12 weeks)	1.886.295	1,108.867	(28.222)[1]	(14.324)[2]	(29)[1]	(15)[2]	(44)[1][2]
September 8 (12 weeks)	1.934.336	1.150 782	108.527	9.766	1 14	10	1 24
December 29 (16 weeks)	2.272.743	1.340.874	80.097	9.550	85	10	95
Total	$7.698.678	$4.548.738	$206.672[1]	$ 5.875[2]	$2 19[1]	$ 06[2]	$2 25[1][2]

1983 Quarters Ended							
March 19 (12 weeks)	$1 421.901	$ 819.907	$ 37.842	$ (830)	$ 41	$(01)	$ 40
June 11 (12 weeks)	1.685.930	977.091	72.228	2.529	76	03	79
September 3 (12 weeks)	1 795 805	1.054.414	88.383	6 776	93	07	1 00
December 31 (17 weeks)	2 261.950	1.306.776	72.884	4.299	78	04	82
Total	$7 165.586	$4.158.188	$271.337	$12 774	$2 88	$ 13	$3 01

[1] After $121 million in after-tax charges ($1 26 per share) related to a series of restructuring actions (see Note 2 to Consolidated *Financial Statements)*

[2] After a $15 million after-tax loss ($ 16 per share) on disposal of Lee Way Motor Freight, Inc (see Note 3 to Consolidated Financial Statements)

Shares of PepsiCo Capital Stock are traded on the New York and Midwest Stock Exchanges. The range of market prices for PepsiCo stock, as reported on the composite tape for issues listed on the New York Stock Exchange, Inc., and the dividends declared in each quarter of the last two years are set forth in the table below. The quarterly dividend was increased four percent in May 1984 from 40½ cents per share to 42 cents per share. As of February 22, 1985 the approximate number of holders of record of Capital Stock was 66,000.

Quarter	High	Low	Close	Dividend
1984				
1st Quarter	38⅜	34½	36½	40½¢
2nd Quarter	43	36¼	42⅜	42¢
3rd Quarter	45	40½	42⅛	42¢
4th Quarter	45⅝	39⅛	41⅛	42¢
1983				
1st Quarter	39	32¾	35	40½¢
2nd Quarter	40¼	35	35⅝	40½¢
3rd Quarter	37	33⅛	33¼	40½¢
4th Quarter	38⅞	32⅝	38¼	40½¢

CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

(in thousands except per share amounts)
PepsiCo, Inc. and Subsidiaries
Years ended December 29, 1984 (fifty-two weeks), December 31, 1983 (fifty-three weeks) and December 25, 1982 (fifty-two weeks)

		1984	1983	1982
Revenues	Net sales	**$7,698,678**	$7,165,586	$6,810,929
Costs and Expenses	Cost of sales	**3,149,940**	3,007,398	2,949,160
	Marketing, administrative and other expenses	**3,853,540**	3,629,509	3,233,050
	Interest expense	**206,956**	176,759	165,270
	Interest income	**(86,131)**	(53,650)	(49,325)
		7,124,305	6,760,016	6,298,155
Income From Continuing Operations Before Unusual Charges and Income Taxes		**574,373**	405,570	512,774
Unusual Charges	Provision for restructuring	**220,000**	–	–
	Reduction in net assets of foreign bottling operations (without tax benefit)	**–**	–	79,400
Income From Continuing Operations Before Income Taxes		**354,373**	405,570	433,374
	Provision for United States and foreign income taxes	**147,701**	134,233	220,947
Income From Continuing Operations		**206,672**	271,337	212,427
Discontinued Operations	Income from discontinued operations (net of income taxes of $14,915, $6,728 and $5,846 in 1984, 1983 and 1982, respectively)	**20,875**	12,774	11,861
	Loss on disposal (net of $500 tax benefit)	**(15,000)**	–	–
		5,875	12,774	11,861
Net Income		**212,547**	284,111	224,288
	Retained earnings at beginning of year	**1,622,550**	1,489,797	1,412,636
	Cash dividends (per share: 1984–$1.665; 1983–$1.62; 1982–$1.58)	**(156,185)**	(151,358)	(147,127)
	Retained earnings at end of year	**$1,678,912**	$1,622,550	$1,489,797
Net Income Per Share	Continuing operations	**$ 2.19**	$ 2.88	$ 2.27
	Discontinued operations	**.06**	.13	.13
	Net income	**$ 2.25**	$ 3.01	$ 2.40

See accompanying notes

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CONSOLIDATED BALANCE SHEET

(in thousands)
PepsiCo, Inc. and Subsidiaries
December 29, 1984 and December 31, 1983

		1984	1983
Assets	**Current Assets**		
	Cash	**$ 28,139**	$ 24,434
	Marketable securities	**784,684**	529,326
	Notes and accounts receivable, less allowance: 1984–$31,966; 1983–$33,738	**640,081**	647,329
	Inventories	**451,781**	375,606
	Prepaid expenses, taxes and other current assets	**242,181**	159,247
	Net assets of the transportation segment held for disposal	**143,210**	149,504
		2,290,076	1,885,446
	Long-term Receivables and Investments		
	Long-term receivables and other investments	**178,647**	161,283
	Investment in tax leases	**73,236**	77,941
		251,883	239,224
	Property, Plant and Equipment		
	Land	**218,231**	190,942
	Buildings	**819,990**	732,999
	Machinery and equipment	**1,988,112**	1,891,046
	Capital leases	**191,924**	190,842
	Bottles and cases, net of customers' deposits: 1984–$11,678; 1983–$32,777	**23,785**	56,550
		3,242,042	3,062,379
	Less accumulated depreciation and amortization	**1,079,029**	1,019,000
		2,163,013	2,043,379
	Goodwill	**163,904**	235,768
	Other Assets	**81,358**	88,919
		$4,950,234	$4,492,736

See accompanying notes

Liabilities and Shareholders' Equity

	1984	1983
Current Liabilities		
Notes payable (including current installments on long-term debt and capital lease obligations)	**$ 284,280**	$ 276,062
Accounts payable	**505,843**	406,339
United States and foreign income taxes	**114,372**	80,329
Other accrued taxes	**64,338**	66,144
Other current liabilities	**656,499**	521,704
	1,625,332	1,350,578
Long-term Debt	**541,076**	668,294
Deferred Income Taxes	**621,300**	387,000
Capital Lease Obligations	**145,218**	147,519
Other Liabilities and Deferred Credits	**163,932**	145,187
Shareholders' Equity		
Capital stock, par value 5¢ per share; authorized 135,000,000 shares; issued: 1984–95,164,331; 1983–94,986,557 shares	**4,758**	4,749
Capital in excess of par value	**251,915**	245,030
Retained earnings	**1,678,912**	1,622,550
Cumulative translation adjustment	**(49,426)**	(40,976)
Less cost of repurchased shares: 1984–1,256,768; 1983–1,425,915	**(32,783)**	(37,195)
	1,853,376	1,794,158
	$4,950,234	$4,492,736

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

(in thousands)
PepsiCo, Inc. and Subsidiaries
Years ended December 29, 1984 (fifty-two weeks), December 31, 1983 (fifty-three weeks) and December 25, 1982 (fifty-two weeks)

		1984	1983	1982
Financial Resources Provided	Continuing operations			
	Net income	**$ 206,672**	$ 271,337	$ 212,427
	Depreciation and amortization	**256,150**	239,275	207,231
	Deferred income taxes	**128,200**	47,400	69,200
	Unusual charges	**121,300**	–	79,400
	Other	**85,137**	107,685	4,513
	Working capital provided by operations	**797,459**	665,697	572,771
	Change in components of operating working capital (except cash and marketable securities)			
	Notes and accounts receivable	**(12,591)**	1,070	953
	Inventories	**(104,417)**	13,574	15,434
	Prepaid expenses, taxes and other current assets	**17,844**	(55,683)	(70,024)
	Accounts payable	**129,217**	(89,504)	100,060
	Other current liabilities	**111,498**	68,787	25,950
	Taxes payable	**56,351**	47,390	16,318
		197,902	(14,366)	88,691
	Cash provided by continuing operations	**995,361**	651,331	661,462
	Discontinued operations			
	Cash provided by (used in) discontinued operations	**(8,091)**	43,542	61,194
	Other	**7,959**	(43,524)	(60,852)
	Total from (used in) discontinued operations	**(132)**	18	342
	Realized benefit on investment in tax leases	**118,177**	115,390	283,662
	Property disposals	**46,600**	42,727	22,199
		1,160,006	809,466	967,665
Financial Resources Applied	Plant and equipment	**567,252**	508,579	447,381
	Bottles and cases, net	**7,269**	(11,685)	8,973
	Acquisitions	**–**	–	130,284
	Investment in tax leases	**–**	–	56,318
	Other	**35,434**	(94,670)	594
		609,955	402,224	643,550
	Total before financing	**550,051**	407,242	324,115
Total Financing	Additions to long-term debt	**41,356**	62,257	149,730
	Reductions of long-term debt and capital lease obligations	**(197,244)**	(135,785)	(132,294)
	Notes payable	**8,218**	86,177	(220,100)
	Cash dividends	**(154,624)**	(151,271)	(142,497)
	Capital stock (including conversion of debt)	**11,306**	5,888	62,085
		(290,988)	(132,734)	(283,076)
Increase in Cash and Marketable Securities		**$ 259,063**	$ 274,508	$ 41,039

See accompanying notes

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1/Summary of Significant Accounting Policies

Principles of Consolidation. The consolidated financial statements include the accounts of PepsiCo, Inc. and its subsidiaries. The financial statements and accompanying notes have been reclassified for discontinued operations (see Note 3). All significant intercompany transactions have been eliminated.

Marketable Securities. Marketable securities are stated at cost, which approximates market, and include time deposits of $481,000,000 in 1984 and $321,000,000 in 1983.

Inventories. Inventories are valued at the lower of cost (computed on the average, first-in, first-out or last-in, first-out method) or net realizable value (see Note 4).

Tax Leases. The investment in tax leases represents the unamortized cost of tax leases purchased under the "safe harbor" leasing provisions of the Economic Recovery Tax Act of 1981, plus income accrued on the outstanding investment. The investment is reduced as tax credits and tax savings from accelerated depreciation deductions equal to the purchase cost are realized. These tax benefits are not included in PepsiCo's tax provision (see Note 9). The remaining unrecovered cost is amortized by an interest method over the periods during which the company has the use of additional temporary tax savings.

Property, Plant and Equipment. Land, buildings, and machinery and equipment are stated at cost. Depreciation is calculated principally on a straight-line basis over the estimated useful lives of the respective assets.

Valuation of returnable, reusable bottles and cases is based on periodic physical inventories of those in-plant and on estimates of those in-trade. In-plant and estimated in-trade breakage, less related customers' deposits, is charged to cost of sales. Returnable, reusable bottles and cases are adjusted to deposit value over periods not in excess of their useful lives.

Goodwill. Goodwill represents the excess of cost over net tangible assets of companies acquired and trademarks. Goodwill is amortized over appropriate periods not exceeding 40 years. Amortization was $10,332,000 in 1984, $7,881,000 in 1983 and $5,840,000 in 1982. Approximately $54 million of goodwill relating to the pre-November 1, 1970 acquisition of Wilson Sporting Goods, which had not been subject to amortization, was written off during 1984 pursuant to management's decision to restructure the operation (see Note 2).

Marketing Costs. Costs of advertising and other marketing and promotional programs are charged to expense during the year, generally in relation to sales, and except for materials in inventory and prepayments, are substantially expensed by the end of the year in which the cost is incurred.

Interest Costs. Interest costs associated with the construction of new facilities or major expansions are capitalized and amortized to expense over the lives of the related assets. The amount of interest capitalized was $8,306,000 in 1984, $6,628,000 in 1983 and $6,097,000 in 1982.

Income Taxes. Deferred income taxes arise from the deferral of investment tax credits, which are amortized over the estimated useful lives of the related assets, and from timing differences between financial and tax reporting, principally financing transactions, depreciation and restructuring provisions.

Taxes that would result from dividend distributions by foreign subsidiaries to the U.S. parent are provided to the extent dividends are anticipated. All other undistributed earnings of subsidiaries operating outside the United States have been reinvested indefinitely. Accordingly, no provision has been made for additional taxes that might be payable with regard to such earnings in the event of remittance (see Note 9).

Net Income Per Share. Net income per share is computed by dividing net income (adjusted for interest expense related to convertible debentures) by the average number of common shares and common share equivalents outstanding during each year. The conversion of all convertible debentures would not result in a material dilution.

Fiscal Year. PepsiCo's fiscal year ends on the last Saturday in December. Fiscal years 1984 and 1982 ended on December 29, 1984 and December 25, 1982, respectively, and each comprised fifty-two weeks. Fiscal year 1983 ended on December 31, 1983 and comprised fifty-three weeks.

Business Segments. Information related to revenues, operating profits, identifiable assets, depreciation and amortization expense and capital expenditures for PepsiCo's business segments is presented on pages 35 and 37.

Audit Committee of the Board of Directors. The Audit Committee of the Board, composed entirely of outside directors, meets on a regular basis with PepsiCo's financial management, internal auditors and certified public accountants to review internal and external audit plans, activities and recommendations, as well as PepsiCo's financial controls.

Note 2/Unusual Charges

Provision for restructuring

PepsiCo recorded provisions in 1984 for the refranchising of several company-owned foreign bottling operations and the restructuring of Wilson Sporting Goods (Wilson). The $220 million pre-tax charge for these two programs is reflected in the Continuing Operations section of the Consolidated Statement of Income under the caption "Provision for restructuring" and is summarized below:

	Pre-Tax Charge	Tax Benefit	After-Tax Charge	Per Share
	(in millions)			
Foreign Bottling	$156	$94	$ 62	$ .65
Wilson	64	5	59	.61
Total	$220	$99	$121	$1.26

The charges for the foreign refranchising program include $24 million pre-tax ($11 million after-tax) for estimated losses from operations expected to be incurred during the course of the program and $132 million pre-tax ($51 million after-tax) for estimated net losses upon disposition of the various operations. The tax benefits, primarily from the United States, associated with the refranchisings are related in part to foreign bottling losses incurred in years prior to 1984, for which no U.S. or foreign tax benefits were then available. Subsequent to the initiation of the program, charges applied to the operating loss reserve totaled $11 million before-tax and $3 million after-tax. Net losses actually incurred upon disposition of those operations refranchised in 1984 totaled $29 million before-tax and $19 million after-tax.

The refranchising of the company-owned bottling operation in Mexico and of most of the operations in Brazil was completed during 1984. In addition, refranchisings were completed in Belgium, South Africa and parts of Canada in early 1985. The balance of the foreign refranchising program is expected to be substantially completed during 1985.

After a review of Wilson's business was completed in the second quarter of 1984, management decided to restructure the operation by consolidating certain manufacturing and distribution facilities and rationalizing certain product lines. Accordingly, a provision of $10 million before-tax ($5 million after-tax) was recorded for these actions, which are expected to be substantially completed in 1985. In addition, PepsiCo's management concluded that the goodwill resulting from PepsiCo's purchase of Wilson should be written off. This decision resulted in a $54 million charge (without tax benefit).

The remaining net assets of the company-owned foreign bottling operations to be refranchised are carried, net of accruals for future operating and disposition related losses, in the Consolidated Balance Sheet under the caption "Other current liabilities." As of December 29, 1984, the net liability arising from the refranchising program is detailed below (in thousands):

Current assets	$ 47,318
Current liabilities	39,696
Net current assets	7,622
Property, plant and equipment (net)	78,888
Other non-current assets	11,602
Non-current liabilities	2,001
Net non-current assets	88,489
Net assets	96,111
Less: Accrued future operating and disposition related losses*	160,606
Net liability from refranchising	$ 64,495

*Represents the year-end balance of the approximately $201 million of accruals established at the outset of the refranchising program. These accruals were reduced by approximately $45 million of balance sheet translation gains transferred from the "Cumulative translation adjustment" account (see Note 7), resulting in the $156 million pre-tax charge.

Reduction in net assets of foreign bottling operations

As part of a 1982 investigation of financial irregularities discovered at certain company-owned foreign bottling operations, PepsiCo conducted a review of financial practices at these operations. As a result of this review, the net assets of certain operations were reduced in 1982 by an amount totaling $79.4 million. This reduction primarily involved a reassessment of the bottle and case inventories required for current operations and was without tax benefit. The charge reduced net income per share by $.83.

Note 3/Discontinued Operations

In 1984, PepsiCo adopted a plan to sell its transportation segment, which was comprised of North American Van Lines, Inc. (NAVL) and Lee Way Motor Freight, Inc. (Lee Way). Pursuant to this plan, PepsiCo has entered into a definitive agreement to sell the stock of NAVL for cash. The sales price is the sum of a base price of $315 million and an additional amount equal to the prime rate of interest on the base price from December 31, 1983 to the closing date. If the pending sale had been consummated on December 29, 1984, a gain of approximately $197 million before-tax and $141 million after-tax ($1.47 per share) would have been produced. This gain has not been recorded because the sale is contingent on obtaining approvals from both United States and Canadian regulatory authorities, including the United States Interstate Commerce Commission. It is likely that a regulatory decision will be received in 1985.

The divestiture of Lee Way, which became final on August 6, 1984, resulted in a second quarter loss of $15.5 million before-tax and $15 million after-tax ($.16 per share). Total proceeds were approximately $22 million. The loss on the sale of Lee Way is reflected in the Consolidated Statement of Income under the caption "Loss on disposal."

The results of operations of Lee Way through June 5, 1984, the date prior to which the buyer assumed management and control, and NAVL (for the full year) are included in the Consolidated Statement of Income under the caption "Income from discontinued operations" and include:

	1984	1983 (in thousands)	1982
Operating revenues	$729,316	$730,350	$688,069
Costs and expenses	692,498	710,517	673,202
Interest expense (income)	1,028	331	(2,840)
Provision for income taxes	14,915	6,728	5,846
Income from discontinued operations	$ 20,875	$ 12,774	$ 11,861

The net assets of NAVL and Lee Way are carried at their historical cost in the Consolidated Balance Sheet caption "Net assets of the transportation segment held for disposal" as follows:

	NAVL December 29, 1984	NAVL and Lee Way December 31, 1983
	(in thousands)	
Current assets	$236,214	$187,929
Current liabilities	164,500	141,511
Net current assets	71,714	46,418
Property, plant and equipment (net)	98,855	127,122
Other non-current assets	52,969	4,008
Non-current liabilities	*80,328*	28,044
Net non-current assets	71,496	103,086
Net assets of the transportation segment held for disposal	$143,210	$149,504

Note 4/Inventories

Inventories at December 29, 1984 and December 31, 1983 are summarized as follows:

	1984	1983
	(in thousands)	
Finished goods	$221,784	$185,001
Raw materials, supplies and in-process	237,914	199,116
Total (approximates current cost)	459,698	384,117
Excess of current cost over LIFO cost	(7,917)	(8,511)
	$451,781	$375,606

Inventories valued at cost, computed on the last-in, first-out (LIFO) method comprised 64 percent of inventories at December 29, 1984 and December 31, 1983.

Note 5/Notes Payable and Long-term Debt

Notes payable and long-term debt (less current maturities) at December 29, 1984 and December 31, 1983 *are summarized below (in thousands):*

	1984	1983
Notes Payable		
8 1/4% notes due 1985	$100,000	$ -
9 1/4% notes due 1984	-	100,000
Current maturities on other long-term debt and capital lease obligations	18,757	18,701
Other notes payable, primarily to foreign banks	165,523	157,361
Total notes payable	$284,280	$276,062
Long-term Debt (less current maturities)		
10 1/8% notes due 1986	$150,000	$150,000
8 1/4% notes due 1985	-	100,000
Zero coupon serial debentures, $850,000 face value due 1988-2012 (13.91% semiannual yield to maturity)	78,014	68,124
8% convertible subordinated debentures due 1996	73,184	73,184
Zero coupon notes, $100,000 face value due 1992 (14.42% semiannual yield to maturity)	37,213	32,399
Zero coupon notes, $125,000 face value due 1994 (14.08% semiannual yield to maturity)	35,896	31,345
Zero coupon notes, $75,000 face value due 1984 (14.29% semiannual yield to maturity)	-	70,204
Other	166,769	143,038
Total long-term debt	$541,076	$668,294

The original issue discounts associated with the zero coupon issues above are being amortized over the lives of the issues on a yield to maturity basis. For tax purposes, the original issue discounts are deductible on a straight-line basis over the lives of the issues, thus reducing the effective costs of these transactions.

At December 29, 1984 PepsiCo had unused credit facilities aggregating $341 million, providing it with domestic and international credit availability and support for the issuance of commercial paper. Of the total, approximately $81 million represents lines of credit and $260 million represents a revolving credit agreement. This revolving credit agreement covers potential borrowings of up to $245 million maturing January 2, 1990 and $15 million maturing January 2, 1985. These facilities provide the company an ability to refinance short-term borrowing. The $75 million face value zero coupon notes due in 1984 were classified as long-term at year-end 1983 because it was PepsiCo's intention at the time to refinance them. However, as a result of strong cash flow during 1984, PepsiCo retired these notes.

Maturities of long-term debt (excluding capital lease obligations) are as follows: 1985-$108,000,000; 1986-$179,000,000; 1987-$4,700,000; 1988-$48,000,000; and 1989-$24,800,000. The debt agreements to which PepsiCo is a party include various restrictions, none of which is presently significant to the company.

During 1984, PepsiCo issued $104 million of Deutsche mark denominated bearer bonds yielding 7-1/4 percent, due February 26, 1994. A major portion of the bond proceeds were used to purchase higher yielding notes of the West German Government that yield cash flows sufficient to meet the interest and principal payments of the bearer bonds. PepsiCo defeased the bonds by depositing the Deutsche mark denominated government notes in an irrevocable trust established for the sole purpose of servicing the bearer bonds. This defeasance resulted in a $1.7 million ($.02 per share) gain, after related expenses and taxes. The bearer bonds and promissory notes of the West German Government offset each other in the Consolidated Balance Sheet.

Note 6/Capital Stock and Capital in Excess of Par Value

The changes in capital stock and capital in excess of par value are summarized as follows:

	Capital Stock		Capital in Excess of	Re-purchased
	Shares	Amount	Par Value	Shares
		(dollars in thousands)		
Balance at December 26, 1981	91,605,437	$4,746	$225,208	$(86,326)
Issued for acquisitions	1,217,132	–	9,368	31,721
Issued to TRASOP	286,507	–	5,999	7,470
Payment of compensation awards and exercise of stock options	181,109	–	1,201	4,722
Conversion of debentures	84,154	–	378	2,194
Balance at December 25, 1982	93,374,339	4,746	242,154	(40,219)
Issued to TRASOP	115,969	–	886	3,024
Payment of compensation awards and exercise of stock options	53,765	2	1,640	–
Conversion of debentures	16,569	1	350	–
Balance at December 31, 1983	93,560,642	4,749	245,030	(37,195)
Payment of compensation awards and exercise of stock options	169,991	9	4,237	–
Issued to PAYSOP	169,147	–	2,484	4,412
Conversion of debentures	7,783	–	164	–
Balance at December 29, 1984	93,907,563	$4,758	$251,915	$(32,783)

Shares reserved at December 29, 1984 were as follows:	
Incentive plan	3,657,286
Convertible subordinated debentures (primarily at $38 per share)	1,946,598
	5,603,884

Under PepsiCo's stock option plans, options for 158,082 shares were exercised at $23.88 and $24.125 per share during 1984. Options for 22,175 and 83,814 shares were exercised in 1983 and 1982, respectively, at $28.31 per share in 1983 and at prices ranging from $12.67 to $28.31 in 1982.

At December 29, 1984 and December 31, 1983, there were outstanding options for the purchase of 876,471 and 745,092 shares, respectively, at prices ranging from $23.88 to $43.06 in both 1984 and 1983. At December 29, 1984, options for 209,329 shares were exercisable. In 1984, 103,352 options were cancelled.

Options were granted during 1984 for 526,590 shares (47,508 shares were subsequently cancelled), virtually all of which will be exercisable at $37.00.

In January 1984, 141,352 stock appreciation rights (SAR's) were granted with respect to certain stock options. Each SAR entitles an optionee to receive shares of PepsiCo capital stock or a combination of cash and stock (as determined by the Compensation Committee of PepsiCo's Board of Directors), for the excess, if any, of the fair market value of a share of capital stock on the date the SAR is exercised, less the option exercise price. Options are automatically cancelled upon exercise of the related SAR. SAR's expire on the same dates as the related options. At December 29, 1984, 107,781 SAR's were outstanding.

Under the 1979 Incentive Plan, the Compensation Committee of the Board of Directors may award performance shares (each unit being limited to the market value of a share of PepsiCo capital stock on date of grant), and an equal number of stock options to purchase capital stock to senior management employees, and may award incentive stock units, rather than options, to other management employees. Performance shares are not paid unless PepsiCo achieves growth in earnings per share, as defined by the committee, over the period following the award. Incentive stock units are rights to receive shares of capital stock or their value at the date of issue, which vest over a period of time, without payment of any amounts to PepsiCo or satisfaction of any performance objectives.

Payments for performance share units and incentive stock units may be made in cash or in capital stock, or a combination thereof, as the committee decides. The aggregate number of shares of capital stock which may be delivered or purchased under the plan may not exceed 4,600,000 shares. During 1982 and 1984, 1,008,224 performance share units were awarded, of which 804,136 were outstanding at December 29, 1984. From 1979 to 1984, 500,711 incentive stock units were awarded, of which 209,448 were outstanding at December 29, 1984. The cost of awards under the 1972 Performance Share Plan and the 1979 Incentive Plan is being charged to income ($11,205,000 in 1984, $12,534,000 in 1983 and $3,996,000 in 1982) over the applicable term of the award period.

Effective January 1, 1981, PepsiCo established a Tax Reduction Act Stock Ownership Plan (TRASOP) for the benefit of certain employees. Beginning January 1, 1983, this plan was changed as a result of the

Tax Reform Act of 1982, to a Payroll-based Employee Stock Ownership Plan (PAYSOP). Under these plans, PepsiCo may make a tax creditable contribution of either cash or stock to a trust on behalf of participating employees. During 1984 and 1983, PepsiCo contributed 169,147 and 115,969 shares, respectively, to the employee trust.

Note 7/Cumulative Translation Adjustment and Foreign Exchange Gains

An analysis of the changes in the "Cumulative translation adjustment" account for the years ended December 29, 1984 and December 31, 1983 follows:

	1984	1983
	(in thousands)	
Cumulative translation adjustment at the beginning of the year	$(40,976)	$(46,013)
Translation adjustments and gains and losses from certain intercompany balances (net of hedges)	10,694	28,341
Income taxes allocated to translation adjustments	(18,731)	(25,870)
Amount transferred to the provision for restructuring related to the refranchising of company-owned foreign bottling operations (net of income taxes of $44,500)	(391)	
Other amounts transferred to net income	(22)	2,566
Cumulative translation adjustment at the end of the year	$(49,426)	$(40,976)

Foreign exchange gains included in the income statements in 1984, 1983 and 1982 were $53,500,000, $17,100,000 and $12,300,000, respectively.

Note 8/Leases and Commitments

PepsiCo and its subsidiaries have noncancellable commitments for rental of restaurant facilities, office space, plant and warehouse facilities, transportation equipment and other personal property under both capital and operating leases. Certain franchised restaurants are leased and subsequently subleased to franchisees. Lease commitments on capital and operating leases expire at various dates to 2050 and 2026, respectively. An analysis of leased property under capital leases by major classes at December 29, 1984 and December 31, 1983 is summarized as follows:

	1984	1983
	(in thousands)	
Buildings	$183,778	$177,917
Machinery and equipment	8,146	12,925
	191,924	190,842
Less accumulated amortization	77,784	80,750
	$114,140	$110,092

Following is a schedule by year of future minimum lease commitments and sublease receivables under all noncancellable leases (in thousands):

	Commitments		Sublease Receivables	
	Capital	Operating	Direct Financing	Operating
1985	$ 27,424	$ 58,889	$ (9,314)	$ (8,618)
1986	26,684	48,126	(9,306)	(8,298)
1987	26,027	38,103	(9,177)	(7,878)
1988	24,756	32,870	(8,890)	(7,304)
1989	22,956	29,020	(8,578)	(6,955)
Later years	157,178	182,590	(84,382)	(62,157)
Total minimum lease commitments (receivables)	$285,025	$389,598	$(129,647)	$(101,210)

The present value of minimum lease payments for capital leases amounts to $156,105,000 after deducting $3,314,000 for estimated executory costs (taxes, maintenance and insurance) and $125,606,000 representing imputed interest. The present value of minimum sublease receivables amounts to $48,018,000 after deducting $81,042,000 of unearned income. Total rental expense for all operating leases for years ended December 29, 1984, December 31, 1983 and December 25, 1982 was $111,177,000, $110,318,000 and $104,131,000, respectively. Total rental income from all operating subleases for years ended December 29, 1984, December 31, 1983 and December 25, 1982 was $14,945,000, $15,454,000 and $9,238,000, respectively.

At December 29, 1984, PepsiCo and its subsidiaries were contingently liable under direct and indirect guarantees aggregating $50,000,000.

Note 9/Income Taxes

The provision for U.S. Federal and foreign income taxes on continuing operations is comprised of the following:

	1984	1983	1982
		(in thousands)	
Current			
U.S.	$127,318	$ 74,048	$126,421
Foreign	13,983	12,785	25,326
Deferred (principally U.S.)	6,400	47,400	69,200
	$147,701	$134,233	$220,947

The provision for current U.S. Federal income taxes excludes tax benefits in 1984, 1983 and 1982 of $115,765,000, $119,311,000 and $150,132,000, respectively, from tax lease transactions (see Note 1).

The provision for state income taxes which is included in administrative and other expenses, was $13,200,000 in 1984, $26,100,000 in 1983 and $18,400,000 in 1982.

U.S. and foreign income (loss) from continuing operations before federal and foreign income taxes were as follows:

	1984	1983	1982
		(in thousands)	
U.S.	$481,947	$496,454	$502,178
Foreign	92,426	(90,884)	10,596
	574,373	405,570	512,774
Unusual Charges			
Provision for restructuring	220,000	-	-
Reduction in net assets of foreign bottling operations	-	-	79,400
Total	$354,373	$405,570	$433,374

The differences between the effective and statutory U.S. Federal income tax rate on continuing operations are comprised of the following:

	1984	1983	1982
U.S. statutory rate	46.0%	46.0%	46.0%
Investment tax credits	(4.8)	(3.7)	(2.6)
Write-off of Wilson Sporting Goods goodwill without tax benefit	7.0	-	-
Losses on refranchising of foreign bottling operations taxed at an aggregate rate different than the statutory U.S. rate	(6.3)	(4.1)	.6
Earnings and losses of foreign operations taxed at an aggregate rate different than the statutory U.S. rate	(1.9)	(6.1)	(1.1)
Charge for reduction in net assets of foreign bottling operations without tax benefit	-	-	7.9
Other-net	1.7	1.0	.2
Effective rate	41.7%	33.1%	51.0%

The effective tax rate on the earnings of the discontinued transportation segment was 41.7 percent in 1984, 34.5 percent in 1983 and 33.0 percent in 1982. The difference between the effective and the statutory U.S. Federal income tax rate is principally due to the amortization of investment tax credits. The $15,500,000 pre-tax loss on disposal of Lee Way Motor Freight (see Note 3) generated $500,000 of tax benefits due to a difference in the book and tax basis of the capital stock sold and the treatment of the sale as a capital loss.

Deferred income tax expense on continuing operations arises from the following items:

	1984	1983	1982
		(in thousands)	
Excess of tax over financial statement expense related to depreciable assets (including capital leases)	$36,600	$32,700	$19,100
Excess of tax over financial statement expense related to financing transactions	21,500	22,200	26,900
Excess of financial statement expense over tax related to restructuring provisions	(55,800)	–	–
Deferral of investment tax credit benefits	4,400	3,600	9,600
Income from installment sales	(6,000)	(2,600)	11,000
Other-net	5,700	(8,500)	2,600
	$ 6,400	$47,400	$69,200

U.S. and foreign income taxes payable consists of the following:

	1984	1983
	(in thousands)	
U.S.	$ 88,600	$57,617
Foreign	25,772	22,712
	$114,372	$80,329

Deferred income taxes payable include:

	1984	1983
	(in thousands)	
Deferred income taxes	$554,100	$324,200
Deferred investment tax credits	67,200	62,800
	$621,300	$387,000

Unremitted earnings of subsidiaries operating outside the United States that have been, or are intended to be, reinvested indefinitely, on which taxes have not been provided, aggregated approximately $220,000,000 at December 29, 1984. These unremitted earnings are exclusive of amounts that if remitted in the future would result in little or no tax under current tax laws.

PepsiCo has received notice of proposed deficiencies of income taxes from the Internal Revenue Service of $100,000,000 for the years 1973 through 1978 relating to a reallocation to the U.S. parent company of a portion of the income of subsidiaries operating primarily in Puerto Rico and Ireland under tax incentive grants. PepsiCo expects to reach an administrative settlement of the proposed deficiencies. Management believes that the ultimate resolution of these matters, including amounts applicable to years 1979 through 1984, will not have a material adverse effect on the consolidated financial position of the company.

Note 10/Employee Benefit Plans

PepsiCo and its subsidiaries have several non-contributory pension plans covering substantially all domestic employees (mostly non-union). The total pension expense for all plans for 1984, 1983 and 1982 was approximately $43,400,000, $38,600,000 and $34,400,000, respectively, which includes amortization of unfunded past service cost over 30 years for certain defined benefit plans. During 1982 the company changed certain actuarial assumptions used in computing pension costs which reduced 1982 pension expense by $8,000,000. PepsiCo makes annual contributions equal to amounts accrued for pension expense. A comparison of accumulated plan benefits and plan net assets for PepsiCo's domestic defined benefit plans is presented below:

	January 1 1984	1983
	(in thousands)	
Actuarial present value of accumulated plan benefits		
Vested	$268,795	$235,287
Non-vested	77,285	72,603
	$346,080	$307,890
Net assets available for benefits	$433,360	$361,627

The rate of return used in determining the actuarial present value of accumulated plan benefits was seven percent for both 1984 and 1983.

PepsiCo and its subsidiaries provide certain health care and life insurance benefits for retired non-union employees. Substantially all of the company's employees, including employees in certain foreign countries, may become eligible for those benefits if they reach retirement age while still working for the company. The domestic expenditures for current retired employees under these programs for the years ended December 29, 1984, December 31, 1983 and December 25, 1982 were $4,253,204, $2,943,935 and $1,756,827, respectively.

The cost of retiree health care benefits is recognized as an expense as claims are paid. The company recognizes the cost of providing retiree life insurance by expensing the annual insurance premiums for these benefits.

Note 11/Litigation

In 1982, PepsiCo announced that it had discovered financial irregularities in its foreign bottling subsidiaries. Based on information provided by PepsiCo, the Securities and Exchange Commission opened an investigation of these matters. PepsiCo continues to cooperate in that investigation.

PepsiCo and its subsidiaries are involved in various litigated matters, but believe that these matters will not have a material effect on PepsiCo's business or financial condition. PepsiCo intends to prosecute or defend vigorously, as the case may be, all such matters.

Report of Chief Financial Officer

To Our Shareholders:

PepsiCo, Inc. is responsible for the integrity and objectivity of its financial statements. To fulfill this responsibility, PepsiCo maintains an accounting system and related controls directed towards the safeguarding of assets and the reliability of financial information. An integral part of such controls is an internal audit program *designed to monitor compliance with PepsiCo's policies and procedures.*

The international accounting firm of Arthur Young & Company has been retained to examine the financial statements of PepsiCo and to report to our shareholders the results of that examination. Representatives of that firm meet regularly with the Audit Committee of the Board of Directors, composed entirely of non-employee directors, to discuss the results of their audit, which includes a review and evaluation of PepsiCo's internal controls and financial reporting. Arthur Young & Company's report to you on our financial statements is presented below.

Michael H. Jordan

Michael H. Jordan
Executive Vice President
and Chief Financial Officer

Report of Certified Public Accountants

Board of Directors and Shareholders
PepsiCo, Inc.

We have examined the accompanying consolidated balance sheet of PepsiCo, Inc. and subsidiaries at December 29, 1984 and December 31, 1983, and the related consolidated statements of income and retained earnings and changes in financial position for each of the three years in the period ended December 29, 1984. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the statements mentioned above present fairly the consolidated financial position of PepsiCo, Inc. and subsidiaries at December 29, 1984 and December 31, 1983, and the consolidated results of operations and changes in financial position for each of the three years in the period ended December 29, 1984, in conformity with generally accepted accounting principles applied on a consistent basis during the period.

Arthur Young & Company

277 Park Avenue
New York, New York
February 5, 1985

TEN-YEAR COMPARATIVE SUMMARY

PepsiCo Inc and Subsidiaries

		1984	1983
Summary of Operations (in thousands except per common share)	Net sales	**$7,698,678**	$7,165,586
	Cost of sales	**3,149,940**	3,007,398
	Marketing, administrative and other expenses	**3,853,540**	3,629,509
	Interest expense	**206,956**	176,759
	Interest income	**(86,131)**	(53,650)
		7,124,305	6,760,016
		574,373	405,570
	Unusual charges	**220,000**[2]	–
		354,373	405,570
	U.S. and foreign income taxes	**147,701**	134,233
	Income from continuing operations	**206,672**	271,337
	Income from discontinued operations	**5,875**[4]	12,774
	Net income	**212,547**	284,111
	Net income per share		
	Continuing operations	**$ 2.19**	$ 2.88
	Discontinued operations	**.06**	.13
	Net income	**$ 2.25**	$ 3.01
	Cash dividends declared	**156,185**	151,358
	Per common share	**$ 1.665**	$ 1.62
	Additions to property, plant and equipment	**567,252**	508,579
	Depreciation and amortization	**256,150**	239,275
	Average common shares and equivalents	**95,827**	95,480
Year-End Position (in thousands except per common share)	Working capital	**664,744**	534,868
	Property, plant and equipment–net	**2,163,013**	2,043,379
	Total assets	**4,950,234**	4,492,736
	Long-term debt[6]	**686,294**	815,813
	Shareholders' equity	**1,853,376**	1,794,158
	Per common share	**$ 19.74**	$ 19.18
	Common shares outstanding	**93,908**	93,561
Statistics and Ratios	Current assets to current liabilities	**1.4 to 1**	1.4 to 1
	Return on average shareholders' equity	**11.7%**	16.5%
	Return on revenues	**2.7%**	3.8%
	Long-term debt[6] to total capital employed[6][7]	**19.0%**	23.9%
	Total debt[6] to total capital employed[6][7]	**26.9%**	31.9%
	Employees	**150,000**	154,000
	Shareholders	**62,000**	60,000

[1] PepsiCo adopted Statement of Financial Accounting Standards (SFAS) No. 52 on foreign currency translation at the beginning of 1982. Prior year results have not been restated for SFAS 52.
[2] Charge related to the refranchising of several company-owned foreign bottling operations and the restructuring of Wilson Sporting Goods ($1.26 per share). See Note 2 to Consolidated Financial Statements.
[3] Charge related to a reduction in net assets of foreign bottling operations ($.83 per share). The charge was without tax benefit. See Note 2 to Consolidated Financial Statements.
[4] After a $15 million after-tax loss ($.16 per share) on disposal of Lee Way Motor Freight, Inc. See Note 3 to Consolidated Financial Statements.
[5] Before an extraordinary charge of $17,762 ($.19 per share) related to a write-off of motor carrier operating rights. The charge was without tax benefit.
[6] Includes capital leases.
[7] Total capital employed is total debt, shareholders' equity, deferred income taxes and other liabilities and deferred credits.

1982[1]	1981	1980	1979	1978	1977	1976	1975
$6,810,929	$6,301,370	$5,320,174	$4,529,048	$3,834,155	$3,244,199	$2,770,044	$2,418,164
2,949,160	2,858,743	2,487,965	2,127,683	1,854,458	1,563,911	1,378,609	1,263,676
3,233,050	2,860,360	2,318,243	1,946,032	1,577,308	1,328,745	1,098,253	920,949
165,270	148,782	113,903	72,509	51,411	45,328	43,964	50,532
(49,325)	(35,835)	(27,290)	(22,099)	(19,380)	(21,831)	(23,115)	(18,926)
6,298,155	5,832,050	4,892,821	4,124,125	3,463,797	2,916,153	2,497,711	2,216,231
512,774	469,320	427,353	404,923	370,358	328,046	272,333	201,933
79,400[3]	–	–	–	–	–	–	–
433,374	469,320	427,353	404,923	370,358	328,046	272,333	201,933
220,947	194,544	186,915	163,171	162,285	145,707	123,996	89,112
212,427	274,776	240,438	241,752	208,073	182,339	148,337	112,821
11,861	22,708	20,267[5]	8,637	15,141	14,402	13,398	10,665
224,288	297,484	260,705	250,389	223,214	196,741	161,735	123,486
$ 2.27	$ 2.98	$ 2.64	$ 2.61	$ 2.24	$ 1.98	$ 1.64	$ 1.26
.13	.24	.22[5]	.09	.16	.16	.15	.12
$ 2.40	$ 3.22	$ 2.86	$ 2.70	$ 2.40	$ 2.14	$ 1.79	$ 1.38
147,127	129,944	114,886	102,449	88,385	67,021	47,764	37,085
$ 1.58	$ 1.42	$ 1.26	$ 1.105	$ .975	$ .825	$ .633	$ .500
447,381	376,197	414,745	349,685	317,939	236,616	158,069	139,838
207,231	183,277	151,365	122,053	99,719	78,723	63,791	72,739
94,904	93,060	91,165	92,808	92,883	92,046	90,600	89,288
358,697	449,018	437,593	467,726	444,122	497,485	501,187	427,315
1,910,583	1,762,634	1,608,988	1,271,289	1,024,161	792,044	635,733	552,528
4,096,481	3,953,046	3,313,097	2,800,924	2,308,213	2,039,170	1,782,149	1,583,895
860,371	817,076	782,524	614,794	474,723	463,069	429,719	449,437
1,650,465	1,556,264	1,380,855	1,246,628	1,165,104	1,003,401	868,480	719,532
$ 17.68	$ 16.99	$ 15.13	$ 13.71	$ 12.52	$ 10.93	$ 9.50	$ 8.09
93,374	91,605	91,277	90,954	93,075	91,794	91,420	88,894
1.3 to 1	1.3 to 1	1.5 to 1	1.6 to 1	1.7 to 1	2.0 to 1	2.1 to 1	2.2 to 1
14.0%	20.3%	19.8%[5]	20.8%	20.6%	21.0%	20.4%	18.3%
3.1%	4.4%	4.5%[5]	5.3%	5.4%	5.6%	5.4%	4.7%
28.5%	27.3%	31.5%	29.3%	26.4%	29.2%	30.5%	34.7%
34.9%	40.9%	37.1%	33.8%	29.5%	32.2%	34.1%	39.6%
133,000	120,000	111,000	105,000	95,000	83,000	77,000	71,000
48,000	49,000	51,000	53,000	55,000	52,000	48,000	49,000

ANNEX B

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OF THE
SECURITIES AND EXCHANGE ACT OF 1934

For the Quarter Ended March 23, 1985
(12 weeks)

Commission file number 1-1183

PEPSICO, INC.
(Name of registrant)

Delaware
(State of incorporation)

13-1584302
(I.R.S. Employer Identification No.)

Purchase, New York
(Address of principal executive offices)

10577
(Zip Code)

Telephone Number 914-253-2000

Neither name, address nor fiscal year has changed since last report

Registrant (1) has filed all reports required to be filed by Section 13 of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days.

Number of shares of Capital Stock outstanding as of April 19, 1985: 94,048,466

PEPSICO, INC. AND SUBSIDIARIES

INDEX

PART I - FINANCIAL INFORMATION

PEPSICO, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF INCOME
(unaudited)
(in thousands except per share data)

	12 Weeks Ended	
	3/23/85	3/24/84
Net sales	$1,683,560	$1,605,304
Costs and expenses:		
Cost of sales	685,178	657,089
Marketing, administrative and other expenses	874,954	833,940
Interest expense	44,855	47,573
Interest income	(19,300)	(16,071)
Total costs and expenses	1,585,687	1,522,531
Income from continuing operations before income taxes	97,873	82,773
Provision for United States and foreign income taxes	39,149	36,503
Income from continuing operations	58,724	46,270
Income from discontinued operations (net of income taxes of $2,634 in 1985 and $546 in 1984)	4,116	883
Net income	$ 62,840	$ 47,153
Net income per share:		
Continuing operations	$0.62	$0.49
Discontinued operations	0.04	0.01
Net income	$0.66	$0.50
Dividends per share	$0.420	$0.405
Average shares outstanding used to calculate net income per share	96,040	95,679

See accompanying notes.

PEPSICO, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEET
March 23, 1985 and December 29, 1984
(dollars in thousands)

ASSETS

	Unaudited 3/23/85	12/29/84
Current assets		
Cash	$ 28,796	$ 28,139
Marketable securities, at cost (approximates market)	548,843	784,684
Notes and accounts receivable, less allowance: 3/85 - $31,087; 12/84 - $31,966	633,789	640,081
Inventories:		
Finished goods	240,957	217,673
Raw materials, supplies and in-process	220,370	234,108
	461,327	451,781
Prepaid expenses, taxes and other current assets	245,135	242,181
Net assets of the transportation segment held for disposal	141,303	143,210
Total current assets	2,059,193	2,290,076
Long-term receivables and investments	151,932	178,647
Investment in tax leases	72,248	73,236
Property, plant and equipment (net of customers' deposits on bottles and cases: 3/85 - $9,490; 12/84 - $11,678)	3,357,052	3,242,042
Less accumulated depreciation and amortization	1,126,324	1,079,029
Net property, plant and equipment	2,230,728	2,163,013
Goodwill	164,429	163,904
Other assets	91,366	81,358
	$4,769,896	$4,950,234

Continued on next page.

PEPSICO, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEET
March 23, 1985 and December 29, 1984
(dollars in thousands)

LIABILITIES AND SHAREHOLDERS' EQUITY

	Unaudited 3/23/85	12/29/84
Current liabilities		
Notes payable (including current installments on long-term debt and capital lease obligations)........................	$ 174,950	$ 284,280
Accounts payable............................	422,380	505,843
United States and foreign income taxes........	83,253	114,372
Other accrued taxes..........................	68,417	64,338
Other current liabilities....................	590,404	656,499
Total current liabilities..................	1,339,404	1,625,332
Long-term debt..................................	593,069	541,076
Deferred income taxes...........................	657,400	621,300
Capital lease obligations.......................	141,390	145,218
Other liabilities and deferred credits..........	159,893	163,932
Shareholders' equity		
Capital stock, par value 5¢ per share; authorized 135,000,000 shares; issued 3/85 - 95,298,838; and 12/84 - 95,164,331 shares..................................	4,766	4,758
Capital in excess of par value................	255,899	251,915
Retained earnings.............................	1,703,665	1,678,912
Cumulative translation adjustment............	(52,807)	(49,426
Less cost of repurchased shares: 3/85 - 1,256,768; 12/84 - 1,256,768..........	(32,783)	(32,783
Total shareholders' equity................	1,878,740	1,853,376
	$4,769,896	$4,950,234

See accompanying notes.

PEPSICO, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
(unaudited)
(in thousands)

	12 Weeks Ended 3/23/85	3/24/84
FINANCIAL RESOURCES PROVIDED		
Continuing Operations:		
Working capital provided by operations.	$ 151,148	$ 143,969
Change in components of operating working capital (except cash and marketable securities)	(167,502)	(48,282)
Cash provided by (used in) continuing operations.	(16,354)	95,687
Discontinued Operations:		
Cash provided by operations	5,779	4,147
Other	(6,362)	(3,690)
Total from (used in) discontinued operations. . .	(583)	457
Cash provided by (used in) operations	(16,937)	96,144
Realized benefit on investment in tax leases. . .	19,756	19,644
Property disposals.	5,528	11,174
Other	1,076	3,600
	9,423	130,562
FINANCIAL RESOURCES APPLIED		
Property, plant and equipment	136,155	85,481
Bottles and cases, net.	7,029	99
	143,184	85,580
TOTAL BEFORE FINANCING AND OTHER.	(133,761)	44,982
TOTAL FINANCING AND OTHER		
Additions to long-term debt	50,937	104,925
Reduction of long-term debt and capital lease obligations	(7,581)	(173,797)
Long-term investments	-	(92,603)
Notes payable	(109,330)	90,509
Cash dividends.	(39,441)	(37,874)
Capital stock	3,992	4,294
	(101,423)	(104,546)
DECREASE IN CASH AND MARKETABLE SECURITIES. . . .	$(235,184)	$ (59,564)

See accompanying notes.

PEPSICO, INC. AND SUBSIDIARIES
(unaudited)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(1) The Condensed Consolidated Balance Sheet at March 23, 1985 and the condensed consolidated financial statements for the 12 weeks ended March 23, 1985 and March 24, 1984 have not been audited but have been prepared in conformity with the accounting principles applied in the Annual Report to Shareholders for the year ended December 29, 1984. This information includes all adjustments, which are, in the opinion of management, necessary for a fair presentation. The results of the 12 weeks are not necessarily indicative of the results expected for the year.

(2) In the second quarter of 1984, PepsiCo adopted a plan to sell its transportation segment, which was comprised of North American Van Lines, Inc. (NAVL) and Lee Way Motor Freight, Inc. (Lee Way). Pursuant to this plan, PepsiCo entered into a definitive agreement to sell the stock of NAVL for cash. The sales price is the sum of a base price of $315 million and an additional amount equal to the prime rate of interest on the base price from December 31, 1983 to the closing date. If the pending sale had been consummated on March 23, 1985, a gain of approximately $203 million before-tax and $146 million after-tax ($1.52 per share) would have been produced. This gain has not been recorded because the sale is contingent on obtaining approval from the United States Interstate Commerce Commission (the "ICC") and certain Canadian regulatory authorities. Substantially all Canadian approvals have been received and, subsequent to the close of the first quarter, the ICC unanimously voted in favor of the pending sale. It is expected that the sale will close later this year.

The divestiture of Lee Way was completed on August 6, 1984.

The results of operations of NAVL for the first quarter of 1985 and of NAVL and Lee Way for the first quarter of 1984 are included in the Condensed Consolidated Statement of Income under the caption "Income from discontinued operations". Net operating revenues of the discontinued transportation segment were $133 million and $163 million in the first quarters of 1985 and 1984, respectively.

The net assets of NAVL are carried at their historical cost in the Condensed Consolidated Balance Sheet under the caption "Net assets of the transportation segment held for disposal". The net assets at March 23, 1985, equal $141 million and consist of assets of $373 million net of liabilities of $232 million.

(3) In the second quarter of 1984, PepsiCo recorded a $156 million before-tax provision ($62 million after-tax) for the refranchising of several company-owned foreign bottling operations. This provision was comprised of a $24 million before-tax charge ($11 million after-tax) for estimated losses from operations expected to be incurred during the course of the program and a $132 million before-tax charge ($51 million after-tax) for estimated net losses upon disposition of the various operations.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Subsequent to the initiation of the program, charges applied to the operating loss reserve totaled $17 million before-tax and $7 million after-tax. Net losses actually incurred to March 23, 1985 upon the disposition of operations refranchised totaled $52 million before-tax (including "Cumulative translation adjustment" write-offs of $9 million) and $32 million after-tax.

In the first quarter of 1985, refranchisings were completed in Belgium, South Africa and parts of Canada. Subsequent to the close of the first quarter, the company-owned bottling operations in the Philippines were refranchised. The balance of the foreign refranchising program is expected to be substantially completed during 1985.

The remaining net assets of the company-owned foreign bottling operations to be refranchised are carried, net of accruals for future operating and disposition related losses, in the Condensed Consolidated Balance Sheet under the caption "Other current liabilities". As of March 23, 1985, the net liability arising from the refranchising program was $51 million and was comprised of net assets of $90 million less accrued losses of $141 million.

(4) During the first quarter, PepsiCo issued Swiss Francs ("SFr.") 130 million of 5-1/4 percent Bearer Bonds, due March 1995. Simultaneously with the issuance of the SFr. Bonds, PepsiCo entered into a currency swap with a major U.S. bank to fully hedge the net proceeds of the SFr. offering into U.S. dollars. The debt issuance and related currency swap have created a U.S. dollar liability in the amount of $50 million with a semiannual yield to maturity of 10.96 percent and a maturity date of March 1995.

(5) On May 1, 1985, PepsiCo announced that it plans to repurchase up to 4.7 million shares of its capital stock, or five percent of its 94 million outstanding shares. The shares will be purchased from time to time in the open market and through negotiated transactions. They will be used to fund outstanding convertible securities and employee stock plans and for other general corporate purposes. The purchase program is expected to begin in the near future.

MANAGEMENT'S ANALYSIS OF OPERATIONS

Foreword

Beginning in the first quarter of 1985, PepsiCo's principal business segments, formerly referred to as beverages, food products and food service, have been renamed soft drinks, snack foods and restaurants, as the new titles more clearly reflect the principal products and services of each business. This change affects only the names of the business segments, and has no effect on the comparability of current results with those of prior periods.

In the second quarter of 1984, PepsiCo initiated a series of actions to restructure its operations, including the sale of its transportation segment and the refranchising of several company-owned foreign bottling operations (the "Refranchising Program").

Pending the closing of the sale of North American Van Lines, the results of this division are reported as discontinued operations.

Comparisons of 1985 and 1984 results from continuing operations are impacted by the 1984 Refranchising Program. Subsequent to the second quarter of 1984, the operating results of each operation in the Refranchising Program (prior to the completion of its sale) have been applied to the reserves established. Consequently, for 1985, the results of these operations are not included in the soft drinks segment and continuing operations results. However, these results were included in the first quarter of 1984. Also, the net foreign exchange gain related to the local currency denominated debt of these operations was reflected in either the soft drinks operating profits or the cumulative translation adjustment in the first quarter of 1984. In 1985, the net foreign exchange loss has been included in general corporate expenses and has been excluded from soft drinks results or the cumulative translation adjustment.

Analysis of Continuing Operations

PepsiCo's first quarter revenues were $1.7 billion, up five percent from 1984. Income from continuing operations in the quarter was $59 million, up 27 percent versus last year. The related earnings per share amount was $.62, an increase of 27 percent.

Revenue growth reflects strong domestic volume growth in the soft drinks, snack foods and restaurants segments, offset by a significant decline in foreign soft drinks revenues. The decline in foreign soft drinks is attributed principally to the exclusion in 1985 of the revenues of the bottling operations in the Refranchising Program. Gross profits increased five percent in the first quarter reflecting increased volume. Marketing, administrative and other costs were also up five percent versus 1984 reflecting increased competitive and promotional spending levels, primarily in domestic soft drinks and restaurants operations. These increased costs were partially offset in 1985 by the exclusion of expenses of bottling operations in the Refranchising Program. The first quarter net foreign exchange gain of $2.8 million declined from the prior year net gain of $10.7 million. This reduction principally reflects a foreign exchange loss resulting from the appreciation of the Philippine peso against the U.S. dollar. Income from continuing operations before interest and taxes increased eight percent over 1984.

Net interest expense (after deducting interest income) for the first quarter decreased by $6 million, or 19 percent from 1984. The decrease was primarily due to a decrease in domestic long-term debt balances and increased interest income.

The first quarter provision for U.S. and foreign income taxes was 40.0 percent of income from continuing operations before taxes, compared to 44.1 percent in 1984. This decline primarily reflects lower effective tax rates applicable to foreign operations, excluding bottling operations in the Refranchising Program.

Soft Drinks

Revenues declined seven percent in the first quarter, primarily because 1985 revenues of the bottling operations in the Refranchising Program are not included. However, operating profits increased five percent. Domestic bottlers' case sales increased nine percent versus 1984, primarily due to strong growth in Diet Pepsi, resulting from the conversion to 100 percent aspartame, and exceptional growth of Slice, a new lemon-lime soft drink that contains 10 percent real fruit juice. Domestic profits grew modestly due to increased competitive promotional spending and increased ingredient costs.

Foreign bottlers' case sales, including those of the bottling operations in the Refranchising Program, declined two percent versus the first quarter of 1984. In addition to the revenue decline related to the Refranchising Program, foreign revenues were unfavorably impacted by the absence of concentrate shipments to Venezuela, one of our largest overseas markets. In contrast, substantial shipments were made in the first quarter of 1984. Foreign profits improved slightly, benefiting from a continued recovery in many international markets and the absence in 1985 of losses incurred by the bottling operations in the Refranchising Program; such losses were included in the first quarter of 1984. However, 1985 foreign profits were adversely impacted by the lack of concentrate shipments to Venezuela.

The net foreign exchange gain included in the segment was lower in 1985 than in 1984, primarily due to the inclusion in 1984 of gains from the bottling operations in the Refranchising Program. As explained in the foreword, the 1985 net exchange loss for these operations was included in general corporate expenses and excluded from the segment.

Snack Foods

Revenues rose ten percent reflecting strong domestic growth at Frito-Lay and substantial international growth, primarily in Mexico and Brazil. Frito-Lay's unit volume improved four percent versus 1984, led by the strong growth of O'Gradys brand potato chips, Frito-Lay's brand Cheese Dips and single-serve snacks. Foreign unit volume increased 11 percent in the first quarter as sweet snacks recorded significant gains in Mexico, the segment's largest international market. Brazil also recorded strong unit gains.

Profits were up an exceptional 22 percent in the first quarter of 1985. Frito-Lay results benefited from favorable raw material costs and solid volume increases in most of its salty snack brands. Foreign profits increased dramatically over the prior year's results. These gains, principally in Mexico, were the result of volume increases and margin improvements.

Restaurants

Revenues and profits increased 17 percent and five percent, respectively, over strong results in the first quarter of 1984. The substantial revenue growth was primarily due to the addition of new units, real growth per store and increased pricing. The profit growth reflected a significant increase at Taco Bell and lower margins at Pizza Hut, compared to Pizza Hut's very strong 1984 performance. Profit growth was moderated by increased levels of promotional spending and support expenses. Combined average store sales in company-operated Pizza Hut and Taco Bell restaurants increased eight percent, as average real volume per store increased four percent over the first quarter of 1984. Taco Bell's growth was strong in the first quarter, reflecting the continued success of new product introductions. Pizza Hut recorded modest real growth over the strong first quarter of 1984, when the new lunchtime Personal Pan Pizza stimulated growth. There was no resale activity in either the first quarter of 1985 or 1984.

Sporting Goods

Wilson Sporting Goods recorded a six percent revenue gain, but operating losses increased modestly from the first quarter 1984 level.

As previously announced, PepsiCo is studying the feasibility of selling Wilson and has engaged an investment banking firm to assist in this study.

Financial Condition

During the first quarter of 1985, $16 million in cash was used in PepsiCo's continuing operations compared to last year when $96 million of cash was provided. The use of cash in 1985 primarily reflects the reduction of accounts payable, accrued liabilities and taxes payable during the quarter.

Investments in tax leases provided $20 million of cash flow through realized tax benefits. Cash flow from property disposals totaled $6 million in the quarter. These same sources provided a total of $31 million in the first quarter of 1984.

PepsiCo's first quarter capital expenditures increased to $136 million from $85 million in the first quarter of 1984. This increase reflects management's commitment to support and enhance the future growth of its principal domestic businesses.

Net borrowings decreased $66 million in the quarter as the repayment of $100 million in 8-1/4 percent notes maturing in January was partially offset by the issuance of $50 million of long-term foreign debt in March. (See Note 4 to Condensed Consolidated Financial Statements.) The ratio of debt to capital employed was 25.2 percent down from 26.9 percent at year-end 1984, reflecting the decline in net borrowings.

Significant capital spending, the reduction of accounts payable, accrued liabilities and taxes payable and the decline in net borrowings were the major factors causing the $235 million reduction in cash and marketable securities during the quarter.

PepsiCo continues to maintain substantial unused bank credit facilities and access to capital markets throughout the world.

A MEMBER OF ARTHUR YOUNG INTERNATIONAL

ARTHUR YOUNG

277 Park Avenue
New York, New York 10172

Board of Directors
PepsiCo, Inc.

We have made reviews of the condensed consolidated financial statements of PepsiCo, Inc. and subsidiaries at March 23, 1985, and for the twelve-week periods ended March 23, 1985 and March 24, 1984, in accordance with Standards established by the American Institute of Certified Public Accountants.

A review of interim financial information consists principally of obtaining an understanding of the system for the preparation of interim financial information, 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 examination 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 at March 23, 1985, and for the twelve-week periods ended March 23, 1985 and March 24, 1984, for them to be in conformity with generally accepted accounting principles.

We have previously examined, in accordance with generally accepted auditing standards, the consolidated financial statements of PepsiCo, Inc. and subsidiaries at December 29, 1984 and for the year then ended (not presented herein); and in our report dated February 5, 1985, 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 29, 1984, is fairly stated in all material respects in relation to the consolidated balance sheet from which it has been derived.

April 25, 1985

PART II. OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibit index

Exhibit 11A - Computation of Net Income Per Share of Capital Stock - Primary

Exhibit 11B - Computation of Net Income Per Share of Capital Stock - Fully Diluted

Exhibit 15 - Letter from Arthur Young & Company regarding unaudited financial information.

(b) Reports on Form 8-K

No reports on Form 8-K have been filed during the quarter for which this report is filed.

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 April 25, 1985

Robert L. Carleton
Vice President and Controller

Date April 25, 1985

Lawrence F. Dickie
Assistant Secretary

EXHIBIT 11A

PEPSICO, INC. AND SUBSIDIARIES

Computation of Net Income Per Share of Capital Stock - Primary

(in thousands except per share data)

	12 Weeks Ended	
	3/23/85	3/24/84
Shares outstanding at beginning of year.............	93,908	93,561
Weighted average of shares issued during the period for conversion of debentures, exercise of options, and payment of compensation awards................	64	80
Dilutive shares contingently issuable upon conversion of debentures, exercise of stock options and payout of compensation awards, net of shares assumed to have been purchased for treasury (at the average price) with assumed proceeds from exercise of stock options and compensation awards.............	2,068	2,038
Total primary shares	96,040	95,679
Income from continuing operations before adjustment..	$58,724	$46,270
Decrease in interest and amortization of debt expense relating to convertible debentures, net of income tax benefit..	754	743
Income from continuing operations as adjusted........	$59,478	$47,013
Income from discontinued operations.................	$ 4,116	$ 883
Income per share from continuing operations -primary...	$0.62	$0.49
Income per share from discontinued operations -primary...	0.04	0.01
Total net income per share - primary.................	$0.66	$0.50

EXHIBIT 11B

PEPSICO, INC. AND SUBSIDIARIES

Computation of Net Income Per Share of Capital Stock - Fully Diluted

(in thousands except per share data)

	12 Weeks Ended	
	3/23/85	3/24/84
Shares outstanding at beginning of year..............	93,908	93,561
Shares issued during the period for conversion of debentures, exercise of options and payment of compensation awards................................	135	120
Dilutive shares contingently issuable upon conversion of debentures, exercise of stock options and payout of compensation awards, net of shares assumed to have been purchased for treasury (at the higher of average or quarter end price) with assumed proceeds from exercise of stock options and compensation awards..	2,102	2,042
Total shares - fully diluted.........................	96,145	95,723
Income from continuing operations before adjustment..	$58,724	$46,270
Decrease in interest and amortization of debt expense relating to convertible debentures, net of income tax benefit.......................................	757	747
Income from continuing operations as adjusted........	$59,481	$47,017
Income from discontinued operations..................	$ 4,116	$ 883
Income per share from continuing operations - fully diluted..	$0.62	$0.49
Income per share from discontinued operations - fully diluted..	0.04	0.01
Total net income per share - fully diluted...........	$0.66	$0.50

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ARTHUR YOUNG

277 Park Avenue
New York, New York 10172

Exhibit 15

April 25, 1985

Securities and Exchange Commission
Washington, D.C. 20549

We are aware of the incorporation by reference in the registration statements on Form S-8 (No. 2-65410, No. 2-82645, No. 2-93162 and No. 2-93163) of PepsiCo, Inc. of our report dated April 25, 1985 relating to the unaudited condensed interim consolidated financial statements of PepsiCo, Inc. which is included in its Form 10-Q for the twelve weeks ended March 23, 1985.

Pursuant to Rule 436(c) of the Securities Act of 1933 our report is not a part of the registration statements prepared or certified by accountants within the meaning of Section 7 or 11 of the Securities Act of 1933.

Very truly yours,

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OF THE
SECURITIES AND EXCHANGE ACT OF 1934

For the Quarter Ended June 15, 1985
(24 weeks)

Commission file number 1-1183

PEPSICO, INC.
(Name of registrant)

Delaware
(State of incorporation)

13-1584302
(I.R.S. Employer Identification No.)

Purchase, New York
(Address of principal executive offices)

10577
(Zip Code)

Telephone Number 914-253-2000

Neither name, address nor fiscal year has changed since last report

Registrant (1) has filed all reports required to be filed by Section 13 of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days.

Number of shares of Capital Stock outstanding as of July 13, 1985: 91,348,154

PEPSICO, INC. AND SUBSIDIARIES

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FINANCIAL INFORMATION

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

	12 Weeks Ended		24 Weeks Ended	
	6/15/85	6/16/84	6/15/85	6/16/84
Net sales	$1,937,512	$1,815,831	$3,564,405	$3,367,903
Costs and expenses:				
Cost of sales	756,958	730,670	1,401,262	1,351,420
Marketing, administrative and other expenses	956,137	889,979	1,812,485	1,704,909
Interest expense	43,810	47,601	88,300	94,814
Interest income	(18,050)	(17,228)	(37,349)	(33,290)
Total costs and expenses	1,738,855	1,651,022	3,264,698	3,117,853
Income from continuing operations before provision for restructuring and income taxes	198,657	164,809	299,707	250,050
Provision for restructuring	-	156,000	-	156,000
Income from continuing operations before income taxes	198,657	8,809	299,707	94,050
Provision (benefit) for United States and foreign income taxes	79,362	(21,525)	119,883	16,237
Income from continuing operations	119,295	30,334	179,824	77,813
Discontinued operations:				
Income (loss) from discontinued operations (net of income tax provision (benefit) in the 12 weeks ended of $5,454 in 1985 and $(3,454) in 1984 and in the 24 weeks ended of $6,716 in 1985 and $(4,167) in 1984)	7,298	(57,880)	9,609	(58,206)
Gain (loss) from disposals (net of $35,800 tax provision and $500 tax benefit in 1985 and 1984, respectively)	129,700	(15,000)	129,700	(15,000)
Net income (loss)	$ 256,293	$ (42,546)	$ 319,133	$ 4,607
Net income (loss) per share:				
Continuing operations	$1.25	$ .32	$1.89	$ .83
Discontinued operations	1.43	(.76)	1.45	(.77)
Net income (loss)	$2.68	$(.44)	$3.34	$ .06
Dividends per share	$0.445	$0.420	$0.865	$0.825
Average shares outstanding used to calculate net income per share	95,964	95,801	95,983	95,737

See accompanying notes.

CONDENSED CONSOLIDATED BALANCE SHEET
June 15, 1985 and December 29, 1984
(in thousands except share amounts)

ASSETS

	Unaudited 6/15/85	12/29/84
Current assets		
Cash	$ 22,367	$ 27,501
Marketable securities, at cost (approximates market)	650,847	784,684
Notes and accounts receivable, less allowance: 6/85 - $30,051; 12/84 - $30,663	738,232	587,373
Receivable from sale of North American Van Lines	368,950	-
Inventories:		
Finished goods	161,235	136,224
Raw materials, supplies and in-process	196,341	204,465
	357,576	340,689
Prepaid expenses, taxes and other current assets	323,849	232,998
Net assets held for disposal	125,555	289,593
Total current assets	2,587,376	2,262,838
Long-term receivables and investments	158,747	180,948
Investment in tax leases	70,764	73,236
Property, plant and equipment (net of customers' deposits on bottles and cases: 6/85 - $10,314; 12/84 - $11,678)	3,428,955	3,158,598
Less accumulated depreciation and amortization	1,132,813	1,042,617
Net property, plant and equipment	2,296,142	2,115,981
Goodwill	163,845	163,904
Other assets	92,317	79,497
	$5,369,191	$4,876,404

Continued on next page.

PEPSICO, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEET
June 15, 1985 and December 29, 1984
(in thousands except share amounts)

LIABILITIES AND SHAREHOLDERS' EQUITY

	Unaudited 6/15/85	12/29/84
Current liabilities		
Notes payable (including current installments on long-term debt and capital lease obligations)	$ 597,632	$ 280,796
Accounts payable	460,253	487,451
United States and foreign income taxes	92,538	117,736
Other accrued taxes	69,566	63,414
Other current liabilities	665,898	622,658
Total current liabilities	1,885,887	1,572,055
Long-term debt	413,352	536,076
Deferred income taxes	700,300	618,600
Capital lease obligations	127,573	133,565
Other liabilities and deferred credits	168,404	162,732
Shareholders' equity		
Capital stock, par value 5¢ per share; authorized 135,000,000 shares; issued 6/85 - 95,809,206; and 12/84 - 95,164,331 shares	4,790	4,758
Capital in excess of par value	275,222	251,915
Retained earnings	1,916,539	1,678,912
Cumulative translation adjustment	(43,143)	(49,426)
Less cost of repurchased shares: 6/85 - 2,050,068; 12/84 - 1,256,768	(79,733)	(32,783)
Total shareholders' equity	2,073,675	1,853,376
	$5,369,191	$4,876,404

See accompanying notes.

PEPSICO, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
(unaudited)
(in thousands)

	24 Weeks Ended	
	6/15/85	6/16/84
FINANCIAL RESOURCES PROVIDED		
Continuing Operations:		
Working capital provided by operations.	$ 375,960	$ 275,667
Restructuring charge.	-	62,000
Change in components of operating working capital (except cash and marketable securities)	(193,271)	(99,810)
Allegheny Pepsi-Cola acquisition.	(160,000)	-
Cash provided by continuing operations.	22,689	237,857
Discontinued Operations:		
Cash provided by (used in) operations	16,507	(46,111)
Restructuring charge.	-	59,300
Other	(15,147)	(13,876)
Total from (used in) discontinued operations. . .	1,360	(687)
Cash provided by operations	24,049	237,170
Proceeds from sale of North American Van Lines. .	368,950	-
Receivable from sale of North American Van Lines.	(368,950)	-
Realized benefit on investment in tax leases. . .	50,825	49,163
Property disposals.	10,764	20,691
Other	18,077	35,076
	103,715	342,100
FINANCIAL RESOURCES APPLIED		
Property, plant and equipment	318,417	203,740
TOTAL BEFORE FINANCING AND OTHER.	(214,702)	138,360
TOTAL FINANCING AND OTHER		
Additions to long-term debt	51,392	116,814
Reduction of long-term debt and capital lease obligations	(189,946)	(163,581)
Long-term investments	-	(92,603)
Notes payable	316,836	57,786
Cash dividends.	(78,940)	(75,817)
Shares repurchased.	(46,950)	-
Capital stock	23,339	5,734
	75,731	(151,667)
DECREASE IN CASH AND MARKETABLE SECURITIES. . . .	$(138,971)	$ (13,307)

See accompanying notes.

PEPSICO, INC. AND SUBSIDIARIES
(unaudited)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) The Condensed Consolidated Balance Sheet at June 15, 1985 and the condensed consolidated financial statements for the 12 and 24 weeks ended June 15, 1985 and June 16, 1984 have not been audited but have been prepared in conformity with the accounting principles applied in the Annual Report to Shareholders for the year ended December 29, 1984. This information includes all adjustments, which are, in the opinion of management, necessary for a fair presentation. The results of the 12 and 24 weeks are not necessarily indicative of the results expected for the year..

(2) On May 17, 1985, PepsiCo entered into an agreement for the sale of its Wilson Sporting Goods operation (Wilson) to Wesray Sporting Goods, Inc., an affiliate of Wesray Capital Corporation. The estimated sale proceeds, valued at $134 million, will consist of cash and Wilson 10 percent cumulative preferred stock, $30 million face value. The sale, scheduled to close later this year, is expected to produce a loss of approximately $29 million before-tax and $9 million after-tax ($.10 per share), which includes a provision of $2 million before-tax ($.8 million after-tax) for operating losses expected to be incurred from May 17, 1985 through the date of disposal. The estimated loss is reflected in the Condensed Consolidated Statement of Income under the caption "Gain (loss) from disposals" and is subject to adjustments arising from the audit of Wilson's balance sheet as of the closing date and the final valuation of the Wilson preferred stock to be received as part of the proceeds.

In the second quarter of 1984, PepsiCo adopted a plan to sell its transportation segment, which was comprised of North American Van Lines, Inc. (NAVL) and Lee Way Motor Freight, Inc. (Lee Way).

Following Interstate Commerce Commission (the "ICC") approval in May 1985, the sale of NAVL was completed in June, 1985 for $369 million. The sale resulted in a gain of $194 million before-tax and $139 million after-tax ($1.45 per share) in the quarter. The gain is reflected in the Condensed Consolidated Statement of Income under the caption "Gain (loss) from disposals."

In June 1985, terms for the NAVL sale were changed from cash to an interest bearing deferred payment due January 2, 1986. This change in terms is subject to ICC approval, which is expected to be received in the third quarter. Pending ICC approval, the buyer deposited $369 million cash in escrow which, if the ICC approves the deferred payment agreement, will be returned (together with earnings thereon) to the buyer, who will make the deferred payment when due. If the ICC rejects the deferred payment agreement or fails to act on the application for approval by December 31, 1985, the cash in escrow, together with earnings thereon, will be delivered to PepsiCo.

The divestiture of Lee Way was completed on August 6, 1984. A loss of $16 million before-tax and $15 million after-tax ($.16 per share) was recorded in the second quarter of 1984. This loss is reflected in the Condensed Consolidated Statement of Income under the caption "Gain (loss) from disposals."

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The results of operations of NAVL and Wilson for 1985 and of NAVL, Wilson and Lee Way for 1984 are included in the Condensed Consolidated Statement of Income under the caption "Income (loss) from discontinued operations." Also included under such caption is the $64 million before-tax and $59 million after-tax ($.62 per share) Wilson restructuring provision recorded in the second quarter of 1984. Net operating revenues of the discontinued transportation segment and Wilson were $233 million and $250 million in the second quarter of 1985 and 1984, respectively, and $422 million and $466 million in the respective year-to-date periods.

The net assets of Wilson are carried at their net realizable value, $126 million, in the June 15, 1985 Condensed Consolidated Balance Sheet under the caption "Net assets held for disposal" and consist of assets of $222 million net of liabilities of $96 million. The Wilson and NAVL net assets held for disposal at December 29, 1984 are carried at historical cost and consist of assets of $604 million net of liabilities of $314 million.

3) In the second quarter of 1984, PepsiCo recorded a $156 million before-tax and $62 million after-tax ($.65 per share) provision for the refranchising of several company-owned foreign bottling operations. This provision was comprised of a $24 million before-tax charge ($11 million after-tax) for estimated losses from operations expected to be incurred during the course of the program and a $132 million before-tax charge ($51 million after-tax) for estimated net losses upon disposition of the various operations.

Subsequent to the initiation of the program, charges applied to the operating loss reserve totaled $21 million before-tax and $9 million after-tax. Net losses actually incurred to June 15, 1985 upon the disposition of operations refranchised totaled $55 million before-tax (including "Cumulative translation adjustment" write-offs of $9 million) and $35 million after-tax.

During the second quarter, the company-owned bottling operations in the Philippines were refranchised. This refranchising has not been recorded against the reserve in the financial statements, pending completion of the final audit required for the transaction. The balance of the foreign refranchising program is expected to be substantially completed during 1985.

The remaining net assets of the company-owned foreign bottling operations to be refranchised (including those in the Philippines) are carried, net of accruals for future operating and disposition related losses, in the Condensed Consolidated Balance Sheet under the caption "Other current liabilities." As of June 15, 1985, the net liability relating to the refranchising program was $65 million.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4) In May 1985, PepsiCo purchased the Allegheny Pepsi-Cola Bottling Company (Allegheny) at a cost of $160 million. Allegheny was acquired with the intent of refranchising the operations to other purchasers. Accordingly, the acquisition has been accounted for as a temporary investment under the cost method of accounting and is included in the Condensed Consolidated Balance Sheet under the caption "Prepaid expenses, taxes and other current assets."

5) In June 1985, PepsiCo reached an administrative settlement with the Internal Revenue Service regarding proposed tax deficiencies of $100 million. The proposed deficiencies dealt with the reallocation to the U.S. parent company of a portion of the income of subsidiaries operating primarily in Puerto Rico and Ireland under tax incentive grants. The settlement, which covers the years 1973 through 1978, was for significantly less than the proposed deficiencies and had no effect on PepsiCo's 1985 results of operations.

6) On May 1, 1985, PepsiCo announced plans to repurchase up to 4.7 million shares of its capital stock. The shares will be purchased from time to time in the open market and through negotiated transactions. They will be used to fund outstanding convertible securities, employee stock plans and for other general corporate purposes. Through the end of the second quarter, PepsiCo had purchased 793,300 shares at an average price of $59.18.

As of July 23, PepsiCo's repurchase program had been substantially completed. At that date, the cost of repurchases was $260 million or $59.23 per share.

Management's Analysis of Operations

Foreword

In the second quarter of 1984, PepsiCo announced a series of actions to restructure its operations through the sale of its transportation segment, the restructuring of Wilson Sporting Goods and the refranchising of several company-owned foreign bottling operations (the "Refranchising Program").

The sale of North American Van Lines ("NAVL") to Norfolk Southern Corporation has been completed and is reported in the second quarter 1985 results. The gain on sale ($139 million after-tax) and the results of NAVL's operations are reported as discontinued operations. (See Note 2 to the Financial Statements for further information.)

In the second quarter of 1985, PepsiCo entered into an agreement for the sale of its Wilson Sporting Goods operation ("Wilson"). The sale is expected to close later this year. The estimated loss on sale ($9 million after-tax) and the results of Wilson's operations are now reported as discontinued operations. (See Note 2 to the Financial Statements for further information.)

As a result of the 1984 Refranchising Program, a restructuring provision of $156 million before-tax ($62 million after-tax) was recorded in continuing operations in the second quarter of 1984. (See Note 3 to the Financial Statements for further information.)

Comparisons of 1985 and 1984 results from continuing operations are impacted by the 1984 Refranchising Program. In the the first half of 1984, the operating results of each operation in the Refranchising Program were included in the soft drinks segment and continuing operations. Subsequent to the second quarter of 1984, the operating results of each operation in the Refranchising Program (prior to the completion of its sale) have been applied to the reserves established. Consequently, for 1985, the results of these operations are not included in the soft drinks segment and continuing operations results. In addition, the net foreign exchange gain related to the local currency denominated debt of these operations was reflected in either the soft drinks operating profits or the cumulative translation adjustment in the first half of 1984. In 1985, the net foreign exchange gain for the quarter and net foreign exchange loss year-to-date have been included in general corporate expenses.

The analysis that follows focuses on a comparison of results from continuing operations excluding the restructuring provision recorded in the second quarter of 1984.

Analysis of Continuing Operations

PepsiCo recorded strong earnings and revenue growth from continuing operations for the quarter and year-to-date as compared to 1984. Revenues increased seven percent in the second quarter to $1.9 billion and six percent year-to-date to $3.6 billion. Income from continuing operations of $119 million increased 29 percent for the quarter versus last year's earnings of $92 million, while year-to-date income of $180 million also advanced 29 percent over 1984's earnings of $140 million. Second quarter earnings per share of $1.25 compared to $.97 in 1984, a 29 percent increase, while year-to-date earnings per share rose 28 percent to $1.89 from $1.48 in 1984.

Revenue growth reflects strong domestic volume growth in the soft drinks segment and pricing actions taken by the snack foods and restaurants segments, partially offset by a significant decline in foreign soft drinks revenues. The decline in foreign soft drinks was attributed principally to the absence in

1985 of the revenues of the bottling operations in the Refranchising Program. Gross profits advanced nine percent in the second quarter and seven percent year-to-date, reflecting increased volume, pricing actions and favorable snack food raw material costs. Marketing, administrative and other costs rose seven percent in the quarter and six percent year-to-date, reflecting increased competitive and promotional spending, primarily in the soft drinks and restaurants operations. Nineteen eighty-five benefited from the absence of these costs from the bottling operations in the Refranchising Program.

Second quarter and year-to-date net foreign currency gains were $13.8 million and $16.5 million, respectively, compared to prior year net gains of $11.4 million and $21.9 million. The increase for the quarter primarily reflects an increase in foreign currency gains due to the devaluation of the Argentine peso. The reduction in the year-to-date net gain principally reflects a foreign exchange loss resulting from the appreciation of the Philippine peso against the U.S. dollar in the first quarter of 1985.

Income from continuing operations before interest and taxes increased 15 percent in the second quarter and 13 percent year-to-date.

Net interest expense (after deducting interest income) decreased $5 million or 15 percent in the second quarter, and year-to-date expense decreased $11 million or 17 percent. In the second quarter, the decrease was primarily due to decreased interest expense abroad. For the year-to-date, the decrease is primarily due to lower domestic interest expense and increased interest income.

The provision for U.S. and foreign income taxes was 40.0 percent of income from continuing operations before taxes for both the quarter and year-to-date, compared to 44.0 percent and 44.1 percent for the corresponding periods in 1984. This decline primarily reflects lower effective tax rates applicable to foreign operations.

Soft Drinks

Combined foreign and domestic revenues increased three percent during the quarter, but declined two percent year-to-date. The quarter and year-to-date revenues reflect a strong domestic increase offset by lower foreign revenues due to the absence in 1985 of revenues from the bottling operations in the Refranchising Program. Year-to-date revenues were lower due to significantly reduced concentrate shipments in 1985 to Venezuela, one of our largest overseas markets.

The domestic growth was fueled by volume increases led by the continued success of Slice, Pepsi Cola's new lemon lime soft drink with 10 percent real fruit juice, and strong growth in Diet Pepsi. Domestic bottler case sales increased 11 percent in the quarter and ten percent year-to-date. Foreign bottler case sales declined one percent for both the quarter and year-to-date.

Operating profits for the segment increased ten percent and eight percent for the quarter and year-to-date, respectively. Domestic profitability improved four percent, both for the quarter and year-to-date, reflecting higher promotional expenditures and ingredient costs. Foreign profits for the second quarter and year-to-date improved significantly over 1984, primarily due to the absence in 1985 of operating losses from the refranchised bottling operations included in 1984 results. The year-to-date profitability was also impacted by significantly reduced concentrate shipments to Venezuela.

The quarter and year-to-date net foreign exchange gains included in the segment were lower in 1985 than 1984 due primarily to the absence in 1985 of gains from the bottling operations in the Refranchising Program (as explained in the foreword). Nineteen eighty-five foreign exchange gains benefited from the devaluation of the Argentine peso.

Snack Foods

Revenues advanced seven percent in the second quarter and nine percent year-to-date, reflecting continued solid domestic growth at Frito-Lay and exceptional international growth, primarily in Mexico. Frito-Lay's core brand supermarket unit volume rose four percent for the quarter and five percent year-to-date. Substantial volume gains were recorded in both Lay's and Ruffles brand potato chips for the quarter and year-to-date. Foreign unit volume increased 18 percent and 15 percent for the quarter and year-to-date, respectively, led by continued significant gains in Mexico.

Profits rose substantially in both the quarter and year-to-date, increasing 19 percent and 21 percent for the respective periods. Frito-Lay's results continued to benefit from revenue gains, favorable raw material costs and manufacturing efficiencies. Foreign profits for the second quarter and year-to-date continue to significantly exceed prior year's results, primarily in Mexico, where gains were the result of volume increases and margin improvements. The quarter and year-to-date foreign exchange gains increased moderately over 1984. The increase was primarily attributable to the devaluation of the Mexican peso and Brazilian cruzeiro.

Restaurants

Revenues rose 13 percent for the second quarter and 15 percent year-to-date. The strong revenue growth was attributed to the addition of new units, pricing actions and moderate real growth. Combined average store sales in company-operated Pizza Hut and Taco Bell restaurants increased five percent in the second quarter and seven percent year-to-date. Average real volume per store increased two percent and three percent for the respective periods. Taco Bell's growth remained strong through the first half of 1985 with the continued success of new product introductions. Pizza Hut's growth was modest when compared against a strong performance in the first half of 1984.

Profits declined by six percent for the second quarter and two percent year-to-date. The decline in profits represents a strong performance at Taco Bell, offset by expected weaker results at Pizza Hut and foreign operations. Pizza Hut, continuing to lap a strong performance during the first half of 1984, was affected by increased promotional, new product and new store development costs. The decline in profits in foreign operations was primarily attributable to the strength of the U.S. dollar and increased new store development costs. Resale activity had no significant impact on the second quarter or year-to-date results for 1985 or 1984.

Financial Condition

During the first half of 1985, cash and marketable securities decreased $139 million compared to a decrease of $13 million in the prior year. PepsiCo's continuing operations provided $23 million in cash compared to 1984 when $238 million was provided. This decrease from prior year primarily reflects the acquisition of Allegheny Pepsi-Cola Bottling Company as a temporary investment (see Note 4 to the Financial Statements), an increase in receivables and a reduction in accounts payable during the year.

The sale of North American Van Lines provided both a source and use of funds because of the modification of payment terms to a deferred payment agreement.

Investments in tax leases provided $51 million of cash flow through realized tax benefits and cash from property disposals totaled $11 million year-to-date. These same sources provided a total of $70 million in the first half of 1984.

PepsiCo's continued commitment to its businesses is reflected in the increased spending in property, plant and equipment, led by restaurants and domestic snack foods. Capital expenditures increased $114 million over 1984 levels to $318 million through the first half of 1985.

Combined long-term and short-term borrowings increased $178 million year-to-date, as the repayment of $100 million 8-1/4 percent notes in January was offset by the issuance of $50 million of long-term debt in March and an increase in the Company's short-term borrowings to finance the Allegheny acquisition and the stock repurchase program. The ratio of debt to capital employed was 27.9 percent, up from 26.5 percent at year-end 1984, reflecting the increase in net borrowings.

As discussed in Note 6 to the Financial Statements, PepsiCo repurchased 793,300 shares during the quarter, at a total cost of $47 million and had substantially completed the entire repurchase program by July 23. The cost of the repurchases as of that date was $260 million, which was funded by short-term borrowings.

PepsiCo continues to maintain substantial unused bank credit facilities and access to capital markets throughout the world.

ARTHUR YOUNG

277 Park Avenue
New York, New York 10172

Board of Directors
PepsiCo, Inc.

We have made reviews of the condensed consolidated financial statements of PepsiCo, Inc. and subsidiaries at June 15, 1985, and for the twelve and twenty-four week periods ended June 15, 1985 and June 16, 1984, in accordance with Standards established by the American Institute of Certified Public Accountants.

A review of interim financial information consists principally of obtaining an understanding of the system for the preparation of interim financial information, 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 examination 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 at June 15, 1985, and for the twelve and twenty-four week periods ended June 15, 1985 and June 16, 1984, for them to be in conformity with generally accepted accounting principles.

We have previously examined, in accordance with generally accepted auditing standards, the consolidated financial statements of PepsiCo, Inc. and subsidiaries at December 29, 1984 and for the year then ended (not presented herein); and in our report dated February 5, 1985, 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 29, 1984, is fairly stated in all material respects in relation to the consolidated balance sheet from which it has been derived.

July 23, 1985

PART II. OTHER INFORMATION

Item 6. <u>Exhibits and Reports on Form 8-K</u>

(a) <u>Exhibit index</u>

Exhibit 11A - Computation of Net Income Per Share of Capital Stock - Primary

Exhibit 11B - Computation of Net Income Per Share of Capital Stock - Fully Diluted

Exhibit 15 - Letter from Arthur Young & Company regarding unaudited financial information.

(b) <u>Reports on Form 8-K</u>

A report was filed on Form 8-K dated July 9, 1985, describing settlement of certain litigation.

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 July 23, 1985

Robert L. Carleton
Vice President and Controller

Date July 23, 1985

Lawrence F. Dickie
Assistant Secretary

EXHIBIT 11A

PEPSICO, INC. AND SUBSIDIARIES

Computation of Net Income Per Share of Capital Stock - Primary

(in thousands except per share data)

	12 Weeks Ended		24 Weeks Ended	
	6/15/85	6/16/84	6/15/85	6/16/84
Shares outstanding at beginning of period...	94,042	93,698	93,908	93,561
Weighted average of shares issued during the period for conversion of debentures, exercise of options, and payment of compensation awards......................	179	32	196	122
Shares repurchased (weighted)...............	(198)	-	(113)	-
Dilutive shares contingently issuable upon conversion of debentures, exercise of stock options and payout of compensation awards, net of shares assumed to have been purchased for treasury (at the average price) with assumed proceeds from exercise of stock options and compensation awards......................	1,941	2,071	1,992	2,054
Total primary shares	95,964	95,801	95,983	95,737
Income from continuing operations before adjustment...............................	$119,295	$ 30,334	$179,824	$ 77,813
Decrease in interest and amortization of debt expense relating to convertible debentures, net of income tax benefit.....	758	743	1,512	1,487
Income from continuing operations as adjusted.................................	$120,053	$ 31,077	$181,336	$ 79,300
Income (loss) from discontinued operations..	$136,998	$(72,880)	$139,309	$(73,206)
Income per share from continuing operations-primary.......................	$1.25	$ .32	$1.89	$ .83
Income (loss) per share from discontinued operations-primary.......................	1.43	(.76)	1.45	(.77)
Total net income (loss) per share-primary...	$2.68	$(.44)	$3.34	$ .06

EXHIBIT 11B

PEPSICO, INC. AND SUBSIDIARIES

Computation of Net Income Per Share of Capital Stock - Fully Diluted

(in thousands except per share data)

	12 Weeks Ended		24 Weeks Ended	
	6/15/85	6/16/84	6/15/85	6/16/84
Shares outstanding at beginning of period................................	94,042	93,698	93,908	93,561
Shares issued during the period for conversion of debentures, exercise of options and payment of compensation awards............................	510	60	645	198
Shares repurchased (weighted)..............	(198)	-	(113)	-
Dilutive shares contingently issuable upon conversion of debentures, exercise of stock options and payout of compensation awards, net of shares assumed to have been purchased for treasury (at the higher of average or quarter end price) with assumed proceeds from exercise of stock options and compensation awards.....	1,649	2,087	1,633	2,042
Total shares - fully diluted...............	96,003	95,845	96,073	95,801
Income from continuing operations before adjustment..............................	$119,295	$ 30,334	$179,824	$ 77,813
Decrease in interest and amortization of debt expense relating to convertible debentures, net of income tax benefit......	760	747	1,517	1,493
Income from continuing operations as adjusted..................................	$120,055	$ 31,081	$181,341	$ 79,306
Income (loss) from discontinued operations...	$136,998	$(72,880)	$139,309	$(73,206)
Income per share from continuing operations - fully diluted................	$1.25	$ .32	$1.89	$ .83
Income (loss) per share from discontinued operations - fully diluted................	1.43	(.76)	1.45	(.77)
Total net income (loss) per share - fully diluted..........................	$2.68	$(.44)	$3.34	$ .06

A MEMBER OF ARTHUR YOUNG INTERNATIONAL

ARTHUR YOUNG

277 Park Avenue
New York, New York 10172

Exhibit 15

July 23, 1985

Securities and Exchange Commission
Washington, D.C. 20549

We are aware of the incorporation by reference in the registration statements on Form S-8 (No. 2-65410, No. 2-82645, No. 2-93162 and No. 2-93163) of PepsiCo, Inc. of our report dated July 23, 1985 relating to the unaudited condensed interim consolidated financial statements of PepsiCo, Inc. which is included in its Form 10-Q for the twelve weeks ended June 15, 1985.

Pursuant to Rule 436(c) of the Securities Act of 1933 our report is not a part of the registration statements prepared or certified by accountants within the meaning of Section 7 or 11 of the Securities Act of 1933.

Very truly yours,

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OF THE
SECURITIES AND EXCHANGE ACT OF 1934

For the Quarter Ended September 7, 1985 (36 weeks) — Commission file number 1-1183

PEPSICO, INC.
(Name of registrant)

Delaware
(State of incorporation)

13-1584302
(I.R.S. Employer Identification No.)

Purchase, New York
(Address of principal executive offices)

10577
(Zip Code)

Telephone Number 914-253-2000

Neither name, address nor fiscal year has changed since last report

Registrant (1) has filed all reports required to be filed by Section 13 of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days.

Number of shares of Capital Stock outstanding as of October 4, 1985: 90,325,059

PEPSICO, INC. AND SUBSIDIARIES

INDEX

PART I - FINANCIAL INFORMATION

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

	12 Weeks Ended		36 Weeks Ended	
	9/7/85	9/8/84	9/7/85	9/8/84
Net sales	$2,071,752	$1,886,894	$5,636,157	$5,254,797
Costs and expenses:				
Cost of sales	804,438	750,360	2,205,700	2,101,780
Marketing, administrative and other expenses	1,018,199	916,950	2,830,684	2,621,859
Interest expense	47,979	46,659	136,279	141,473
Interest income	(24,371)	(21,998)	(61,720)	(55,288)
Total costs and expenses	1,846,245	1,691,971	5,110,943	4,809,824
Income from continuing operations before provision for restructuring and income taxes	225,507	194,923	525,214	444,973
Provision for restructuring	-	-	-	156,000
Income from continuing operations before income taxes	225,507	194,923	525,214	288,973
Provision for United States and foreign income taxes	90,203	83,291	210,086	99,528
Income from continuing operations	135,304	111,632	315,128	189,445
Discontinued operations:				
Income (loss) from discontinued operations (net of income tax provision (benefit) in the 12 weeks ended of $3,083 in 1984 and in the 36 weeks ended of $6,716 in 1985 and $(1,084) in 1984)	-	6,661	9,609	(51,545)
Gain (loss) from disposals (net of $35,800 tax provision and $500 tax benefit in 1985 and 1984, respectively)	-	-	129,700	(15,000)
Net income	$ 135,304	$ 118,293	$ 454,437	$ 122,900
Net income (loss) per share:				
Continuing operations	$1.45	$1.17	$3.34	$2.00
Discontinued operations	-	.07	1.47	(0.70)
Net income	$1.45	$1.24	$4.81	$1.30
Dividends per share	$0.445	$0.420	$1.31	$1.245
Average shares outstanding used to calculate net income per share	92,830	95,869	94,781	95,775

See accompanying notes.

PEPSICO, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEET
September 7, 1985 and December 29, 1984
(in thousands except share amounts)

ASSETS

	Unaudited 9/7/85	12/29/84
Current assets		
Cash	$ 20,571	$ 27,501
Short-term investments, at cost (approximates market)	814,892	784,684
Notes and accounts receivable, less allowance: 9/85 - $30,301; 12/84 - $30,663	691,354	587,373
Receivable from sale of North American Van Lines	371,572	-
Inventories:		
Finished goods	149,941	136,224
Raw materials, supplies and in-process	*186,836*	*204,465*
	336,777	340,689
Prepaid expenses, taxes and other current assets	282,461	232,998
Net assets held for disposal	116,248	289,593
Total current assets	2,633,875	2,262,838
Long-term receivables and investments	153,445	180,948
Investment in tax leases	69,275	73,236
Property, plant and equipment (net of customers' deposits on bottles and cases: 9/85 - $10,408; 12/84 - $11,678)	3,596,707	3,158,598
Less accumulated depreciation and amortization	1,191,442	1,042,617
Net property, plant and equipment	2,405,265	2,115,981
Goodwill	162,140	163,904
Other assets	103,944	79,497
	$5,527,944	$4,876,404

Continued on next page.

PEPSICO, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEET
September 7, 1985 and December 29, 1984
(in thousands except share amounts)

LIABILITIES AND SHAREHOLDERS' EQUITY

	Unaudited 9/7/85	12/29/84
Current liabilities		
Notes payable (including current installments on long-term debt and capital lease obligations)	$ 861,576	$ 280,796
Accounts payable	463,784	487,451
United States and foreign income taxes	98,304	117,736
Other accrued taxes	70,558	63,414
Other current liabilities	638,804	622,658
Total current liabilities	2,133,026	1,572,055
Long-term debt	402,949	536,076
Deferred income taxes	745,800	618,600
Capital lease obligations	125,256	133,565
Other liabilities and deferred credits	170,537	162,732
Shareholders' equity		
Capital stock, par value 5¢ per share; authorized 135,000,000 shares; issued 9/85 - 95,898,162; and 12/84 - 95,164,331 shares	4,795	4,758
Capital in excess of par value	274,688	251,915
Retained earnings	2,012,094	1,678,912
Cumulative translation adjustment	(43,574)	(49,426)
Less cost of repurchased shares: 9/85 - 5,697,298; 12/84 - 1,256,768	(297,627)	(32,783)
Total shareholders' equity	1,950,376	1,853,376
	$5,527,944	$4,876,404

See accompanying notes.

PEPSICO, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
(unaudited)
(in thousands)

	36 Weeks Ended	
	9/7/85	9/8/84
FINANCIAL RESOURCES PROVIDED		
Continuing Operations:		
Working capital provided by operations.	$ 611,707	$ 467,938
Restructuring charge.	-	62,000
Change in components of operating working capital (except cash and short-term investments).	(92,555)	61,710
Cash provided by continuing operations.	519,152	591,648
Discontinued Operations:		
Cash provided by (used in) operations	16,507	(53,514)
Wilson restructuring charge	-	59,300
Other	(15,147)	(5,379)
Total from discontinued operations.	1,360	407
Cash provided by operations	520,512	592,055
Proceeds from sale of North American Van Lines. .	368,950	-
Receivable from sale of North American Van Lines.	(371,572)	-
Realized benefit on investment in tax leases. . .	79,095	78,718
Property disposals.	23,112	24,582
Other	3,504	42,318
	623,601	737,673
FINANCIAL RESOURCES APPLIED		
Property, plant and equipment	500,762	332,414
Allegheny Pepsi-Cola acquisition.	160,000	-
	660,762	332,414
TOTAL BEFORE FINANCING AND OTHER.	(37,161)	405,259
TOTAL FINANCING AND OTHER		
Additions to long-term debt	51,496	125,597
Reduction of long-term debt and capital lease obligations	(208,904)	(169,413)
Long-term investments	-	(92,603)
Notes payable	580,780	(17,220)
Cash dividends.	(120,899)	(115,192)
Shares repurchased.	(278,418)	-
Capital stock	36,384	6,387
	60,439	(262,444)
INCREASE IN CASH AND SHORT-TERM INVESTMENTS . . .	$ 23,278	$ 142,815

See accompanying notes.

PEPSICO, INC. AND SUBSIDIARIES
(unaudited)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) The Condensed Consolidated Balance Sheet at September 7, 1985 and the condensed consolidated financial statements for the 12 and 36 weeks ended September 7, 1985 and September 8, 1984 have not been audited but have been prepared in conformity with the accounting principles applied in the Annual Report to Shareholders for the year ended December 29, 1984. This information includes all adjustments, which are, in the opinion of management, necessary for a fair presentation. The results of the 12 and 36 weeks are not necessarily indicative of the results expected for the year.

(2) In the second quarter of 1985, PepsiCo entered into an agreement for the sale of its Wilson Sporting Goods operation (Wilson). The sale of Wilson closed on September 16, 1985. The proceeds from the sale, estimated at \$143 million, consisted of cash and Wilson 10 percent cumulative preferred stock, \$42 million face value. The sale produced an estimated loss of approximately \$29 million before-tax and \$9 million after-tax (\$.10 per share) in the second quarter, which includes a provision of \$5 million before-tax (\$2.5 million after-tax) for estimated operating losses incurred from the date of the agreement through the date of closing. The loss is reflected in the Condensed Consolidated Statement of Income under the caption "Gain (loss) from disposals" and is subject to adjustments arising from the audit of Wilson's balance sheet as of the closing date and the final valuation of the Wilson preferred stock received as part of the proceeds. As of September 16, PepsiCo remains contingently liable for \$25 million of various obligations of Wilson, principally short-term letters of credit. In addition, PepsiCo and the purchaser have extended Wilson a \$10 million and \$5 million line of credit, respectively, expiring December 31, 1986. As of October 15, 1985, the lines of credit remain unused.

In the second quarter of 1984, PepsiCo adopted a plan to sell its transportation segment, which was comprised of North American Van Lines, Inc. (NAVL) and Lee Way Motor Freight, Inc. (Lee Way).

The sale of NAVL was completed in June 1985 for \$369 million. The sale resulted in a second quarter gain of \$194 million before-tax and \$139 million after-tax (\$1.47 per share). The gain is reflected in the Condensed Consolidated Statement of Income under the caption "Gain (loss) from disposals." The terms of the sale were changed in June 1985 from cash to an interest-bearing deferred payment due January 2, 1986. This change was approved by the Interstate Commerce Commission on August 22, 1985.

The sale of Lee Way was completed in the third quarter of 1984. A loss of \$16 million before-tax and \$15 million after-tax (\$.16 per share) was recorded in the second quarter of 1984. This loss is reflected in the Condensed Consolidated Statement of Income under the caption "Gain (loss) from disposals."

PEPSICO, INC. AND SUBSIDIARIES
(unaudited)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The caption "Income (loss) from discontinued operations" in the Condensed Consolidated Statement of Income includes the results of operations of NAVL, Wilson and Lee Way through the dates in 1984 and 1985 on which the sales of the respective operations were recorded in the financial statements. Also included under such caption is the $64 million before-tax and $59 million after-tax ($.62 per share) Wilson restructuring provision recorded in the second quarter of 1984. Net operating revenues of Wilson for the third quarter of 1985 were $50 million. Net operating revenues of the discontinued transportation segment and Wilson were $231 million in the third quarter of 1984 and $472 million and $697 million in the respective 1985 and 1984 year-to-date periods.

The net assets of Wilson are carried at their net realizable value, $116 million, in the September 7, 1985 Condensed Consolidated Balance Sheet under the caption "Net assets held for disposal" and consist of assets of $201 million net of liabilities of $85 million. The Wilson and NAVL net assets held for disposal at December 29, 1984 are carried at historical cost and consist of assets of $604 million net of liabilities of $314 million.

3) In the second quarter of 1984, PepsiCo recorded a $156 million before-tax and $62 million after-tax ($.65 per share) provision for the refranchising of several company-owned foreign bottling operations. This provision was comprised of a $24 million before-tax and $11 million after-tax charge for estimated losses from operations expected to be incurred during the course of the program and a $132 million before-tax and $51 million after-tax charge for estimated net losses upon disposition of the various operations.

Subsequent to the initiation of the program, charges applied to the operating loss reserve totaled $23 million before-tax and $12 million after-tax. Net losses actually incurred to September 7, 1985 upon the disposition of operations refranchised totaled $24 million before-tax (net of a "Cumulative translation adjustment" gain of $50 million) and $19 million after-tax.

The company-owned bottling operations in the Philippines were refranchised in the second quarter of 1985. This refranchising was recorded against the reserve in the financial statements in the third quarter of 1985 after the completion of the final audit.

The remaining net assets of the company-owned foreign bottling operations to be refranchised are carried, net of accruals for future operating and disposition related losses, in the Condensed Consolidated Balance Sheet under the caption "Other current liabilities." As of September 7, 1985, the net liability relating to the refranchising program was $85 million.

PEPSICO, INC. AND SUBSIDIARIES
(unaudited)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4) On July 25, 1985, PepsiCo completed its previously announced program to repurchase 4.7 million shares of its capital stock. The shares will be used to fund outstanding convertible securities, employee stock plans and for other general corporate purposes. The aggregate purchase price of the program was $278 million or $59.24 per share.

On September 30, 1985, PepsiCo announced plans to repurchase approximately 5 million additional shares of its capital stock. The shares, to be used for general corporate purposes, will be purchased from time to time in the open market and through negotiated transactions.

Management's Analysis of Operations

Foreword

As a result of PepsiCo's decision in 1984 to refranchise several company-owned foreign bottling operations (the "Refranchising Program"), a restructuring provision of $156 million before-tax ($62 million after-tax) was recorded in continuing operations in the second quarter of 1984 and is reported in the 1984 year-to-date results. (See Note 3 to the Consolidated Financial Statements for further information.)

Comparisons of 1985 and 1984 year-to-date results from continuing operations are impacted by the Refranchising Program. In the the first half of 1984, the operating results of each operation in the Refranchising Program were included in the soft drink segment and continuing operations. Subsequent to the second quarter of 1984, the operating results of each operation in the Refranchising Program (prior to the completion of its sale) have been applied to the reserves established. Consequently, for 1985, the results of these operations are not included in the soft drink segment and continuing operations results. In addition, the net foreign exchange gain related to the local currency denominated debt of these operations was reflected in either the soft drink operating profits or the cumulative translation adjustment in the first half of 1984. Beginning with the third quarter of 1984, the net foreign exchange gain or loss has been included in general corporate expenses.

The analysis that follows focuses on a comparison of results from continuing operations excluding the restructuring provision recorded in the second quarter of 1984.

Analysis of Continuing Operations

PepsiCo recorded strong revenue and earnings growth from continuing operations for the quarter and year-to-date as compared to 1984. Revenues increased ten percent in the third quarter to $2.1 billion and seven percent year-to-date to $5.6 billion. Income from continuing operations of $135 million increased 21 percent for the quarter versus last year's earnings of $112 million, while year-to-date income of $315 million advanced 25 percent over 1984's earnings of $251 million. Third quarter earnings per share of $1.45 compared to $1.17 in 1984, a 24 percent increase, while year-to-date earnings per share rose 26 percent to $3.34 from $2.65 in 1984.

Revenue growth for the third quarter and year-to-date reflected strong domestic volume growth in the soft drink segment and new unit expansion in the domestic restaurant segment. Year-to-date revenue was lowered by a significant decline in foreign soft drink revenues attributed principally to the inclusion in the first half of 1984 of the revenues of the bottling operations in the Refranchising Program. Gross profits advanced 12 percent in the third quarter and nine percent year-to-date, primarily due to increased domestic soft drink volume and favorable snack food raw material costs. Marketing, administrative and other costs rose 11 percent in the quarter and eight percent year-to-date. This increase reflects increased competitive and promotional spending, primarily in the soft drink and restaurant segments and increased costs resulting from restaurant development activities. Year-to-date comparisons benefited from the inclusion in the first half of 1984 of the marketing, administrative and other costs of the bottling operations in the Refranchising Program.

Third quarter and year-to-date net foreign currency gains were $9.8 million and $26.3 million, respectively, compared to prior year net gains of $10.5 million and $32.4 million. The modest decrease for the quarter primarily reflects lower foreign currency gains in Argentina and Brazil, offset by higher net gains in Mexico and the Philippines. The reduction in the year-to-date net gain principally reflects a foreign exchange loss resulting from the appreciation of the Philippine peso against the U.S. dollar in the first quarter of 1985 and reduced foreign exchange gains in Brazil, partially offset by increased gains in Argentina.

Income from continuing operations before interest and taxes increased 13 percent in both the third quarter and year-to-date.

Net interest expense (after deducting interest income) decreased $1 million or four percent in the third quarter and $12 million or 13 percent year-to-date. The third quarter decrease was primarily due to interest income from the NAVL receivable and reduced international interest expense, offset by higher interest expense on short-term borrowings used to finance the share repurchase program and the second quarter acquisition of the Allegheny Pepsi-Cola Bottling Company. For the year-to-date, the decrease was primarily due to higher income from short-term investments and the NAVL receivable and lower domestic long-term debt expense, partially offset by increased domestic short-term debt expense.

The provision for U.S. and foreign income taxes was 40.0 percent of income from continuing operations before taxes for both the quarter and year-to-date, compared to 42.7 percent and 43.5 percent for the corresponding periods in 1984. These declines primarily reflect lower effective tax rates applicable to foreign operations.

Soft Drinks

Combined foreign and domestic revenues increased 13 percent during the quarter and three percent year-to-date. Third quarter revenues reflect strong domestic and foreign increases, while year-to-date revenues reflect strong domestic increases, partially offset by lower foreign revenues due to the inclusion in the first half of 1984 of revenues from the bottling operations in the Refranchising Program.

The domestic growth was fueled by volume increases led by the continued success of Slice and strong growth in Diet Pepsi in the third quarter. Domestic bottler case sales increased 11 percent for both the quarter and year-to-date. Foreign bottler case sales increased three percent for the quarter, with year-to-date results about even with last year.

Operating profits for the segment increased two percent and five percent for the quarter and year-to-date, respectively. Domestic profits were lower in the third quarter, reflecting significantly higher costs for promotional and competitive spending, causing year-to-date results to decline modestly. In addition, third quarter and year-to-date ingredient costs increased primarily due to the shift in volume mix to higher cost diet soft drinks and Slice. Third quarter foreign profits improved substantially due to significant concentrate shipments to Venezuela as well as lapping weak 1984 results. Year-to-date foreign profits were nearly double those in 1984, primarily due to the effect of including operating losses from the bottling operations in the Refranchising Program in the first half of 1984.

The third quarter net foreign exchange gain included in the segment declined in 1985 primarily due to the 1984 gain from a significant devaluation of the Argentine currency. The year-to-date net foreign exchange gain was lower principally due to the inclusion in the first half of 1984 of gains from the bottling operations in the Refranchising Program (as explained in the foreword), partially offset by increased gains on a year-to-date basis from the devaluation of the Argentine currency.

Snack Foods

Revenues advanced four percent in the third quarter and seven percent year-to-date, reflecting moderate domestic growth at Frito-Lay and exceptional international growth, primarily in Mexico. Frito-Lay's core brand supermarket unit volume rose three percent for the quarter and four percent year-to-date. Continued solid growth in the potato chip category has been somewhat moderated by the mixed performance of other brands. Foreign unit volume increased 28 percent and 19 percent for the quarter and year-to-date, respectively, led by continued significant gains in Mexico.

Profits improved 12 percent for the quarter and 17 percent year-to-date. Frito-Lay's results continued to benefit from favorable raw material costs and manufacturing efficiencies. Foreign profits for the third quarter and year-to-date continue to significantly exceed prior year's results, primarily in Mexico, where increased profits were the result of volume increases and, in the third quarter of 1985, significantly increased foreign exchange gains. The increase in foreign exchange gains was primarily attributable to the effect of the devaluation of the controlled exchange rate for the Mexican peso.

Restaurants

Revenues rose 13 percent for the third quarter and 14 percent year-to-date. The strong revenue growth was attributed to the addition of new units, pricing actions and moderate real growth. Combined average store sales in company-operated Pizza Hut and Taco Bell restaurants increased six percent in both the third quarter and year-to-date. Average real volume per store increased two percent for both of the respective periods. Pizza Hut's third quarter growth was solid, primarily due to the successful introduction of Priazzo, a deep-dish double-crusted Italian pie. Taco Bell's third quarter average store sales were about even with last year due to the lapping of exceptionally strong results in the third quarter of 1984 when Taco Salad was introduced. Taco Bell's third quarter revenues continue to show improvement due to strong unit expansion.

Profits increased 18 percent for the third quarter and seven percent year-to-date. The significant increase in profits for the quarter was primarily due to a strong performance by Pizza Hut and modest improvement at Taco Bell. Taco Bell's results included a one-time gain from a property exchange. The increase in year-to-date profits was driven by the effect of 1984 new product introductions on Taco Bell's first half 1985 results, offset by weaker first half results at Pizza Hut. Restaurant operations were affected by increased promotional, new product and new and existing store development costs. Resale activity had no significant impact on the third quarter or year-to-date results for 1985 or 1984.

Financial Condition

Year-to-date, cash and short-term investments increased $23 million as compared to an increase of $143 million in 1984. PepsiCo's continuing operations provided $519 million of cash as compared to $592 million in the prior year. This decrease primarily reflects increased operating working capital versus 1984, partially offset by increased cash generated from stronger operating earnings in 1985.

The sale of North American Van Lines provided $369 million, offset by a $372 million deferred payment due January 2, 1986 for the sales proceeds and accrued interest.

Investments in tax leases provided $79 million of cash flow through realized tax benefits and cash from property disposals totaled $23 million. These same sources provided $103 million through the third quarter of 1984.

PepsiCo's capital expenditures through the third quarter totaled $501 million, a $168 million increase over the prior year. Increased capital spending was led by expenditures for restaurants, followed by snack foods and soft drinks, reflecting PepsiCo's continued commitment to growing its businesses.

In the second quarter of 1985, PepsiCo acquired the Allegheny Pepsi-Cola Bottling Company as a temporary investment for $160 million.

Combined long-term and short-term borrowings increased $423 million year-to-date, as the repayment of $100 million 8-1/4 percent notes in January was offset by issuance of $50 million of long-term debt in March and increased short-term borrowings to finance the Allegheny acquisition and the share repurchase program. The ratio of debt to capital employed was 32.7 percent, up from 26.5 percent at year-end 1984, reflecting the increase in net borrowings.

As discussed in Note 4 to the Consolidated Financial Statements, PepsiCo repurchased 4.7 million shares of its capital stock during the second and third quarters at an aggregate purchase price of $278 million. In September, PepsiCo announced plans to repurchase approximately 5 million additional shares. The cost of the additional share repurchases is expected to be funded by short-term borrowings.

PepsiCo continues to maintain substantial unused bank credit facilities and access to capital markets throughout the world.

A MEMBER OF ARTHUR YOUNG INTERNATIONAL

ARTHUR YOUNG

277 Park Avenue
New York, New York 10172

Board of Directors
PepsiCo, Inc.

We have made reviews of the condensed consolidated financial statements of PepsiCo, Inc. and subsidiaries at September 7, 1985, and for the twelve and thirty-six week periods ended September 7, 1985 and September 8, 1984, in accordance with Standards established by the American Institute of Certified Public Accountants.

A review of interim financial information consists principally of obtaining an understanding of the system for the preparation of interim financial information, 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 examination 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 at September 7, 1985, and for the twelve and thirty-six week periods ended September 7, 1985 and September 8, 1984, for them to be in conformity with generally accepted accounting principles.

We have previously examined, in accordance with generally accepted auditing standards, the consolidated financial statements of PepsiCo, Inc. and subsidiaries at December 29, 1984 and for the year then ended (not presented herein); and in our report dated February 5, 1985, 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 29, 1984, is fairly stated in all material respects in relation to the consolidated balance sheet from which it has been derived.

October 15, 1985

PART II. OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibit index

Exhibit 11A - Computation of Net Income Per Share of Capital Stock - Primary

Exhibit 11B - Computation of Net Income Per Share of Capital Stock - Fully Diluted

Exhibit 15 - Letter from Arthur Young & Company regarding unaudited financial information.

(b) Reports on Form 8-K

A report was filed on Form 8-K dated July 9, 1985, describing settlement of certain litigation.

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 15, 1985

Robert L. Carleton
Vice President and Controller

Date October 15, 1985

Lawrence F. Dickie
Assistant Secretary

EXHIBIT 11A

PEPSICO, INC. AND SUBSIDIARIES

Computation of Net Income Per Share of Capital Stock - Primary

(in thousands except per share data)

	12 Weeks Ended		36 Weeks Ended	
	9/7/85	9/8/84	9/7/85	9/8/84
Shares outstanding at beginning of period...	93,759	93,758	93,908	93,561
Weighted average of shares issued during the period for conversion of debentures, exercise of options, and payment of compensation awards......................	12	9	112	149
Shares issued during the period for the conversion of debentures (formerly common stock equivalents).......................	325	-	833	-
Shares repurchased (weighted)..............	(2,571)	-	(1,346)	-
Dilutive shares contingently issuable upon conversion of debentures, exercise of stock options and payout of compensation awards, net of shares assumed to have been purchased for treasury (at the average price) with assumed proceeds from exercise of stock options and compensation awards......................	1,305	2,102	1,274	2,065
Total primary shares	92,830	95,869	94,781	95,775
Income from continuing operations before adjustment...............................	$135,304	$111,632	$315,128	$189,445
Decrease in interest and amortization of debt expense relating to convertible debentures, net of income tax benefit.....	107	743	1,619	2,230
Income from continuing operations as adjusted..................................	$135,411	$112,375	$316,747	$191,675
Income (loss) from discontinued operations..	$ -	$ 6,661	$139,309	$(66,545)
Income per share from continuing operations-primary.......................	$1.45	$1.17	$3.34	$2.00
Income (loss) per share from discontinued operations-primary.......................	-	.07	1.47	(.70)
Total net income per share-primary..........	$1.45	$1.24	$4.81	$1.30

Exhibit 15

October 15, 1985

Securities and Exchange Commission
Washington, D.C. 20549

We are aware of the incorporation by reference in the registration statements on Form S-8 (No. 2-65410, No. 2-82645, No. 2-93162 and No. 2-93163) of PepsiCo, Inc. of our report dated October 15, 1985 relating to the unaudited condensed interim consolidated financial statements of PepsiCo, Inc. which is included in its Form 10-Q for the twelve weeks ended September 7, 1985.

Pursuant to Rule 436(c) of the Securities Act of 1933 our report is not a part of the registration statements prepared or certified by accountants within the meaning of Section 7 or 11 of the Securities Act of 1933.

Very truly yours,

EXHIBIT 11B

PEPSICO, INC. AND SUBSIDIARIES

Computation of Net Income Per Share of Capital Stock - Fully Diluted

(in thousands except per share data)

	12 Weeks Ended		36 Weeks Ended	
	9/7/85	9/8/84	9/8/85	9/7/84
Shares outstanding at beginning of period..............................	93,759	93,758	93,908	93,561
Shares issued during the period for conversion of debentures, exercise of options and payment of compensation awards...........................	348	21	993	219
Shares repurchased (weighted)...............	(2,571)	-	(1,346)	-
Dilutive shares contingently issuable upon conversion of debentures, exercise of stock options and payout of compensation awards, net of shares assumed to have been purchased for treasury (at the higher of average or quarter-end price) with assumed proceeds from exercise of stock options and compensation awards.....	1,310	2,122	1,299	2,058
Total shares - fully diluted................	92,846	95,901	94,854	95,838
Income from continuing operations before adjustment..............................	$135,304	$111,632	$315,128	$189,445
Decrease in interest and amortization of debt expense relating to convertible debentures, net of income tax benefit......	110	746	1,627	2,240
Income from continuing operations as adjusted.................................	$135,414	$112,378	$316,755	$191,685
Income (loss) from discontinued operations...	$ -	$ 6,661	$139,309	$(66,545)
Income per share from continuing operations - fully diluted................	$1.45	$1.17	$3.34	$2.00
Income (loss) per share from discontinued operations - fully diluted................	-	.07	1.47	(.70)
Total net income per share - fully diluted..........................	$1.45	$1.24	$4.81	$1.30

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PEPSICO INC.

PEPSI®-COLA

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