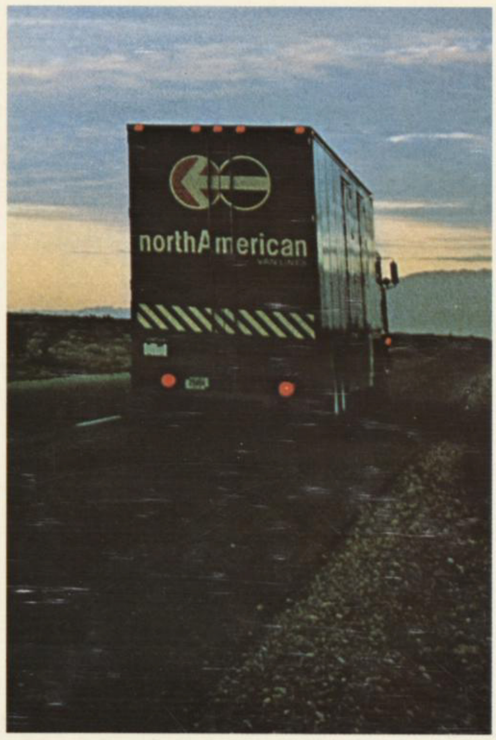
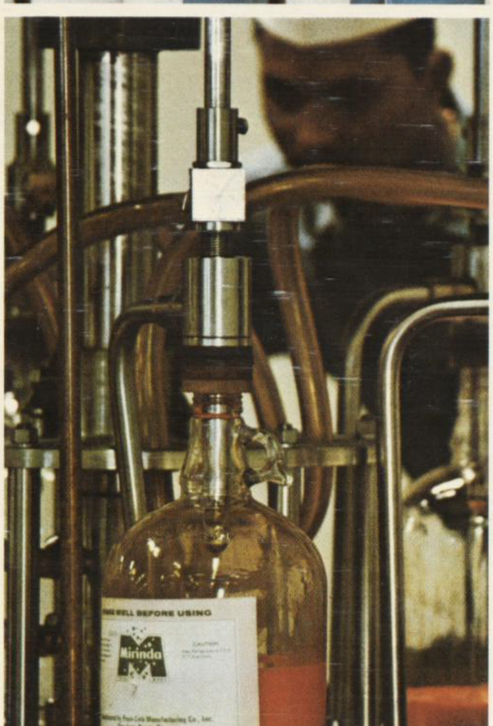
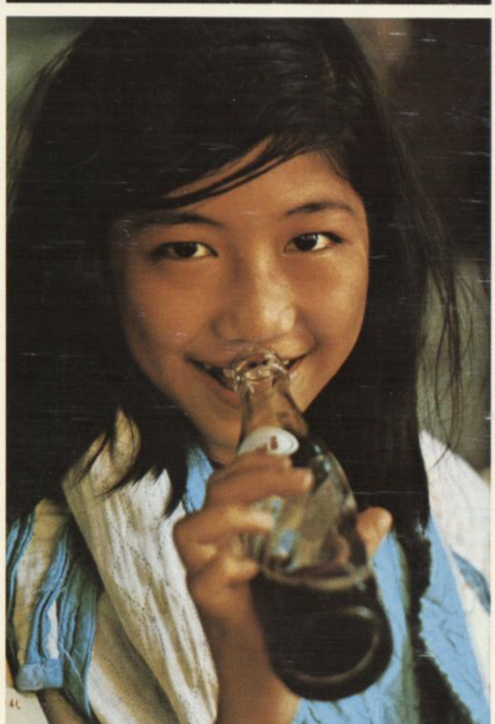
PepsiCo, Inc. Annual Report 1969







On the cover: Photos symbolize the products, services, and activities of PepsiCo, Inc.'s six divisions. PepsiCo is a billion dollar soft drinks, snack foods, leisure time and services company with sales in all 50 states and 116 other countries. Its major products include: Pepsi-Cola, Diet Pepsi-Cola, Mountain Dew, Teem, Patio and Mirinda flavors, Paso de Los Toros tonic water, Tím, Rodeo and other soft drinks; Lay's potato chips, Fritos corn chips, Doritos tortilla chips, Chee•tos cheese puffs, Rold Gold pretzels, Fritos brand dip mixes, and other snack and convenience foods; Wilson sporting goods for golf, tennis, baseball, basketball, football and other sports; leasing and transportation services.

Workmen (right) scale the unique Pepsi-Cola pavilion, at Expo '70 in Osaka, Japan. "Only three U.S. businesses were invited to participate in Expo '70... and Pepsi-Cola was one of them. The theme of the Pepsi Pavilion is 'World Without Boundary', and visitors will experience a unique series of sensations in a light and sound environment. The fact that Pepsi-Cola was invited to help represent the United States alongside the 74 nations that will exhibit here, and to the 50 million people who will attend, is a tribute to our strong Japanese franchise bottler system. And the fact that we are exhibiting is testimony to the potential we think exists for Pepsi in Japan." *Peter K. Warren, president, PepsiCo International.*

Annual Meeting

The Annual Meeting of stockholders will be held at the Corporation's home office at 100 West Tenth Street in Wilmington, Delaware, at 2:00 p.m. (E.D.T.) Wednesday, May 6, 1970. Proxies for the meeting will be solicited by management in a separate Proxy Statement. This report is not a part of such proxy solicitation and is not to be used as such.

Transfer Agents

Marine Midland Grace Trust Company of New York, New York, N.Y.
First Jersey National Bank, Jersey City, N.J.
Harris Trust and Savings Bank, Chicago, Ill.
First National Bank in Dallas, Dallas, Texas
The Fulton National Bank of Atlanta, Atlanta, Ga.

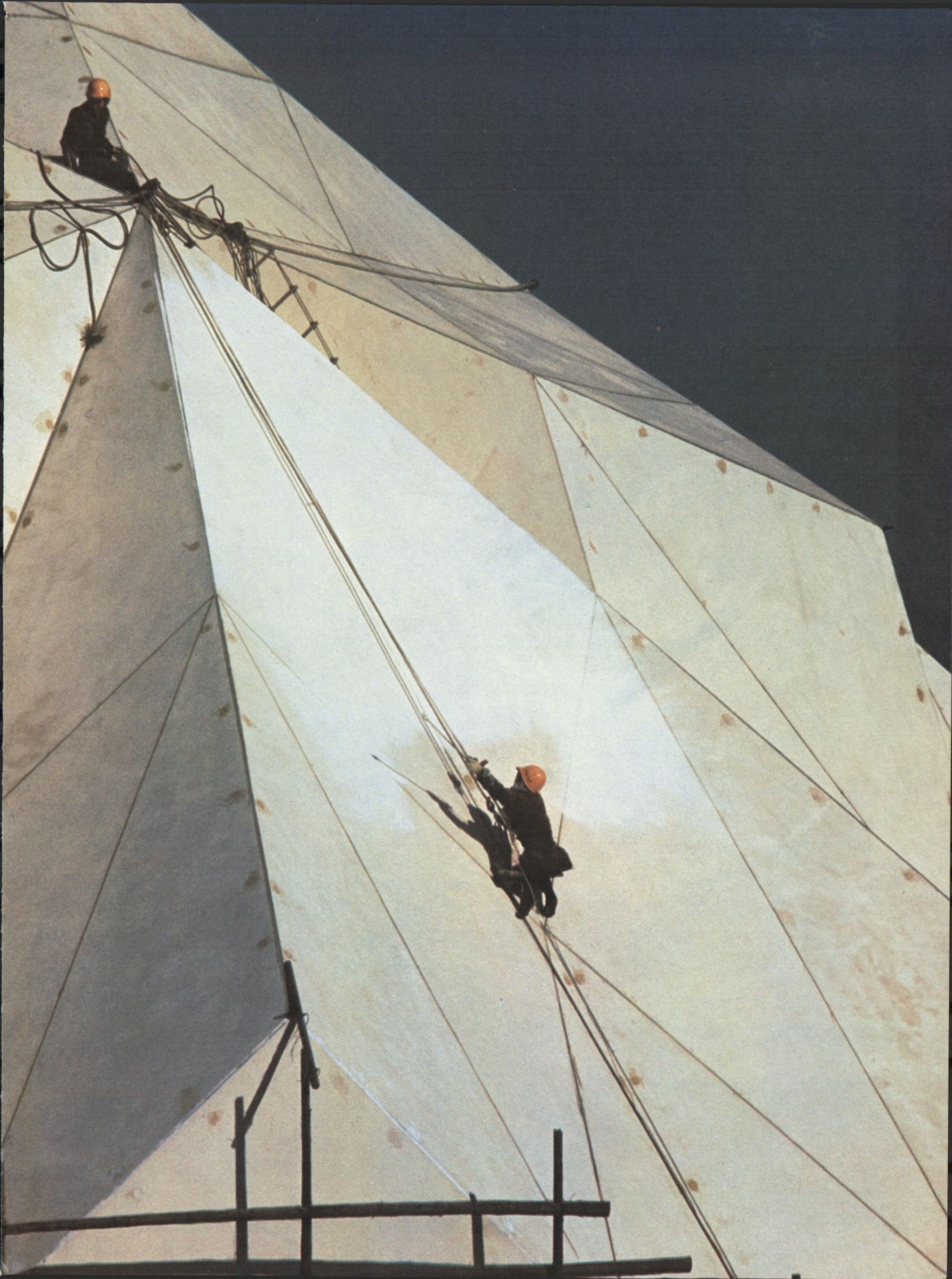
Registrars

The Chase Manhattan Bank N.A., New York, N.Y.
The First National Bank of Chicago, Chicago, Ill.
Republic National Bank of Dallas, Dallas, Texas
The First National Bank of Atlanta, Atlanta, Ga.

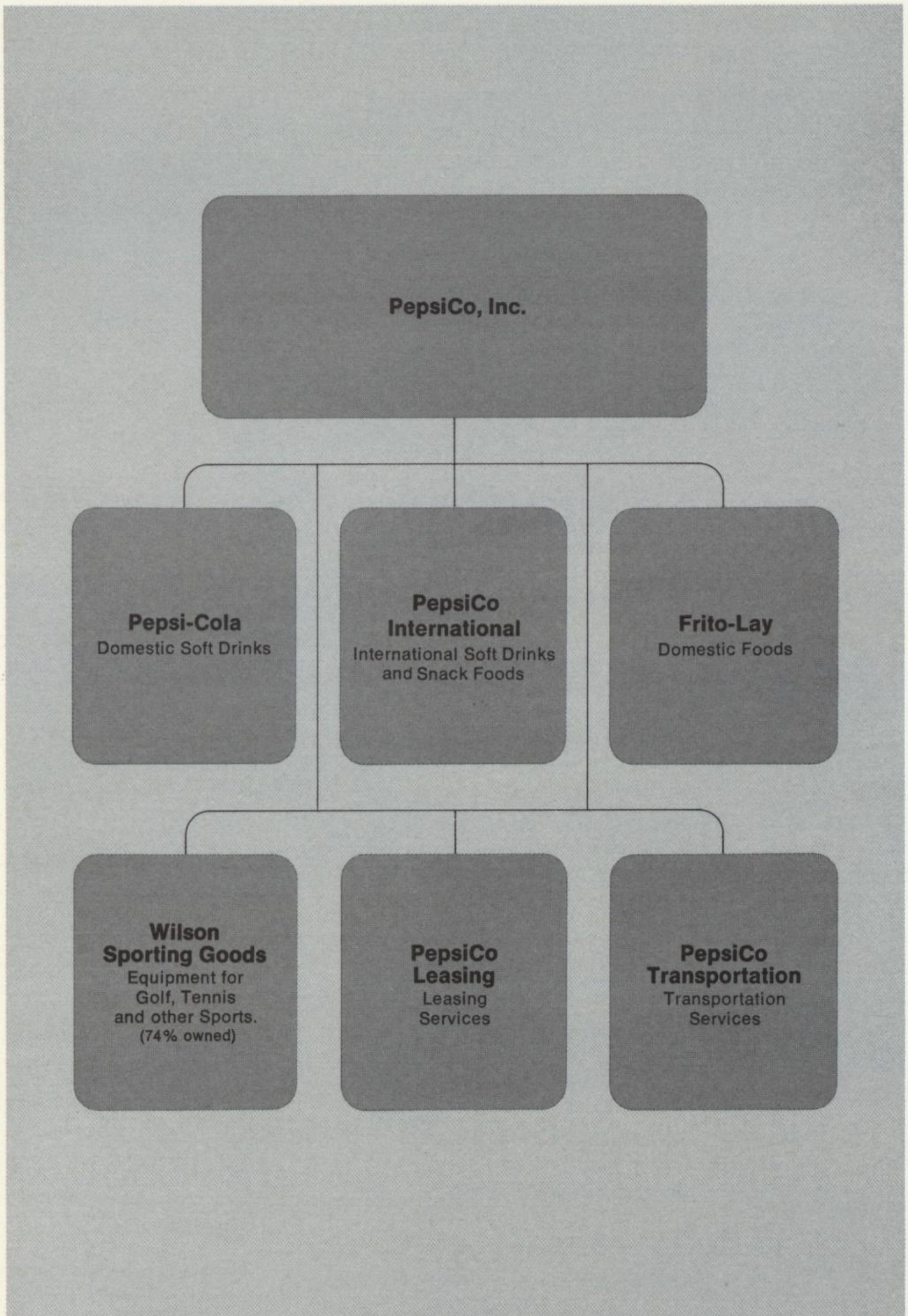
Auditors

Arthur Young & Company, New York, N.Y.

Contents



Organization Chart



To the Shareholders:

PepsiCo, Inc.'s income per share, before an extraordinary charge, rose to a record $2.33 in 1969, an 11 percent gain over the previous year. An extraordinary charge of 11 cents per share resulted from the government's ban on the use of cyclamates in consumer foods last October. In 1968, the Company earned $2.10 per share.

Sales in 1969 reached $949,390,000, a 12 percent increase over the previous year's total of $848,265,000, setting the stage for PepsiCo's sales to pass a billion dollars for the first time in 1970.

Income before the extraordinary item reached $51,884,000, up from $46,454,000 in 1968. After the extraordinary item, net income was $49,404,000, equal to $2.22 per share.

Pepsi-Cola Company management, working hand-in-hand with franchised bottlers, is to be commended for its quick response to the challenges created by the cyclamate ban. Prospects for the new Diet Pepsi-Cola to continue as the leading low calorie cola are good.

On February 27, 1970, the Company acquired a controlling interest in the Wilson Sporting Goods Co., whose quality reputation and varied leisure time products fit closely with PepsiCo's youth image.

In its new campaign, Pepsi-Cola advertises: "You've got a lot to live and Pepsi's got a lot to give!" The thought behind that campaign seems equally applicable today to the selling of soft drinks, snacks and leisure time sporting goods—and to the promise of building a better way of life.

Two directors, each of whom made important contributions to the Company, retired during 1969: Herbert L. Barnet, a former president of Pepsi-Cola, and John D. Williamson, a former president of Frito-Lay.

The Company was fortunate in obtaining experienced and skilled men to join the board. George Champion, who retired last year as chairman of the Chase Manhattan Bank N.A., was elected in June. Harold R. Lilley, president of Frito-Lay, was elected in September. In February of 1970, the directors elected Andrall E. Pearson to the board. Mr. Pearson joined the Company in the new post of Executive Vice President, Operations, strengthening top-level management to meet the demands of continued growth. Prior to joining PepsiCo, Mr. Pearson was a senior partner of McKinsey & Company, a leading management consulting firm.

Construction of PepsiCo's new world headquarters in Purchase, N.Y., is scheduled for completion late this spring. Efficiencies are expected to result from the fact that employees now scattered through several locations will all be under the same roof.

Total capital expenditures for 1969 reached an all time high of $70,000,000. This high level of capital expenditures will enable the Company to meet the demand for its products around the world.

PepsiCo's regular quarterly dividend was raised during 1969 to the equivalent of $1.00 per share on an annual basis, an 11 percent increase over the prior annual rate of 90 cents.

Management expresses its appreciation to employees, customers and suppliers —all of whom contributed to the Company's continued growth in 1969.

Every indication is that PepsiCo's sales and profits will continue to rise. Management anticipates a rate of growth in 1970 equal to or exceeding that of 1969.

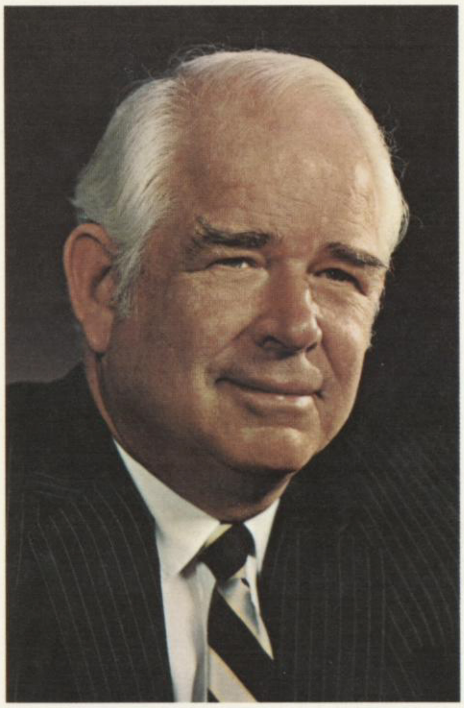
Donald M. Kendall

Donald M. Kendall, *President*

Herman W. Lay

Herman W. Lay, *Chairman of the Board*

March 16, 1970



Donald M. Kendall, *President*

Herman W. Lay, *Chairman of the Board*

Financial Highlights

Pepsi-Cola TV commercial being filmed on New York City's lower East Side. "The new 'Pepsi's got a lot to give!' commercials are different from anything we've ever done before. For one thing, they use real-life men and women in real-life situations such as this wedding party scene. For another thing, we're selling more than just Pepsi-Cola. We hope, too to sell the promise that America has never failed to keep—the promise of a good life in a good land, for those who work at it." *James B. Somerall, president, Pepsi-Cola.*

Net Sales in 1969 were $949,390,000, an increase of 12 percent over $848,265,000 in 1968.

Income before extraordinary item for 1969 was $51,884,000 compared with $46,454,000 for 1968. Net income after extraordinary item in 1969 was $49,404,000.

Earnings Per Share before extraordinary item were $2.33 or 11 percent over $2.10 for 1968. Net income per share after extraordinary item in 1969 was $2.22.

Average Shares Outstanding were 22,286,390 for 1969 and 22,144,232 for 1968.

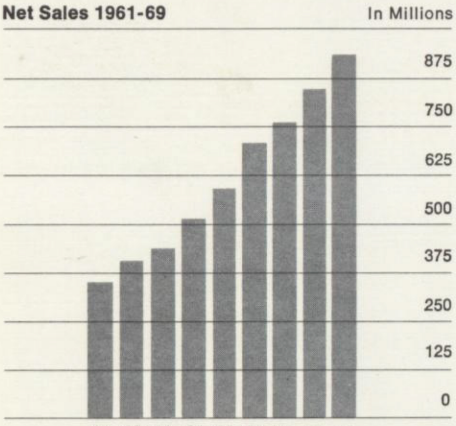
Dividends paid were $21,758,000 for 1969 and $19,436,000 for 1968. On an annual basis the current rate is $1.00 per share.

Plant and Equipment Expenditures were $70,235,000 in 1969 compared with $40,414,000 in 1968.

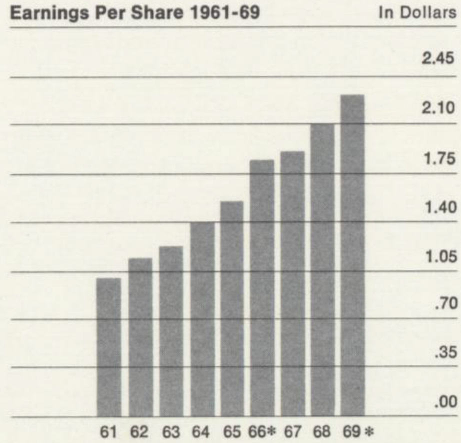
Depreciation and Amortization was $23,832,000 and $22,631,000 for 1969 and 1968, respectively.

Shareholders' Equity increased to $297,573,000 at the end of 1969, compared to $264,163,000 a year earlier.

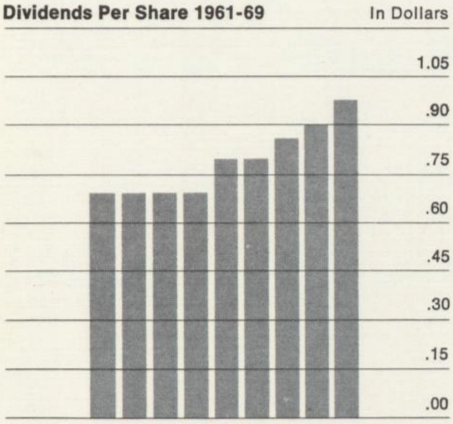
Net Sales 1961-69 In Millions



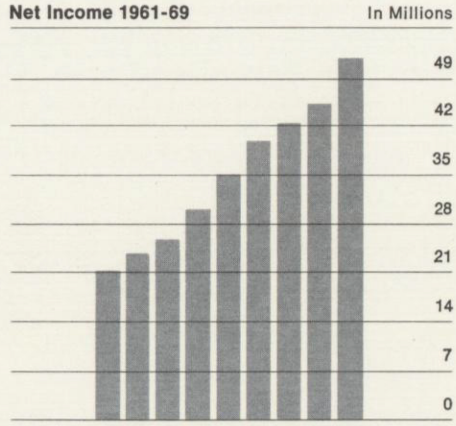
Earnings Per Share 1961-69 In Dollars



Dividends Per Share 1961-69 In Dollars



Net Income 1961-69 In Millions



*Before Extraordinary Item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Pepsi-Cola cans (left) at the canning cooperative at Cheraw, S.C. "Until 1966, Pepsi-Cola franchised bottlers didn't own a single canning cooperative. With a canning cooperative, the franchised bottlers share in the costs, economies and profits. Today, 32 percent of the Pepsi-Cola bottlers in this country get their cans from their eight different canning co-ops." *Robert Loomis, production and technical services vice president, Pepsi-Cola.*

In every corner of the globe and in half-a-hundred languages, "Pepsi-Cola" is synonymous with refreshment. With a handful of other companies' trademarks—such as "Kodak," "Esso," "Kleenex"—it has become one of the world's best understood terms, transcending languages, borders and customs.

But in the last half of the Sixties—even as the mark identified the favorite beverage of a whole generation—"Pepsi" came to have wider association. To be sure, "Pepsi" still identifies a familiar refreshment, as it has since the turn of the century. But today, the famous trademark is also related to PepsiCo, a diversified soft drinks, snack foods, leisure time products and services company that has sales of about a billion dollars and markets products and services throughout the United States and 116 other countries.

PepsiCo, Inc. has 52,000 shareholders and 30,000 employees (not counting the 4,500 employees of Wilson Sporting Goods Co.). It has more than a thousand franchised bottlers—half in the U.S. and half abroad.

Its products and services are offered through six divisions. Pepsi-Cola markets soft drinks in the United States. Frito-Lay makes and sells snacks or convenience foods domestically. PepsiCo International is responsible for the manufacture and sale of both soft drinks and food products abroad. PepsiCo Leasing and PepsiCo Transportation services are described later in this report. Wilson Sporting Goods Co. manufactures and markets equipment for golf, tennis, football, baseball and virtually every other major sport, both in the United States and overseas.

Growing Sales

The sales of Pepsi-Cola kept pace with the industry, helped by growth of both 16-ounce and quart bottles. The sales of Pepsi-Cola in cans spurted sharply again in 1969. Mountain Dew reversed a trend and showed a sales gain during 1969, while Teem sales also rose. The Patio line of flavors continued to show above average growth.

Of particular note is the growth in sales of fountain syrup in 5- and 10-gallon tanks, replacing the familiar one-gallon glass jug. Pepsi-Cola pioneered this innovation, which now accounts for about half of all Pepsi-Cola fountain syrup sales.

A clear sales trend for the new combination of sugar/saccharin Diet Pepsi-Cola has not developed, but it appears that Diet Pepsi has maintained its position as the country's leading low calorie cola. Because it is aimed at a much wider market than before—the large number of "weight watchers" rather than just active dieters—and because tests have shown the new drink tastes better to many consumers than the old, the outlook for the new Diet Pepsi is considered bright.

1969 was a particularly good year for the sales of Frito-Lay's line of snack foods. All nationally advertised and distributed products—Lay's potato chips, Fritos corn chips, Ruffles potato chips, Chee•tos cheese puffs and both the regular and taco-flavored Doritos tortilla chips—made impressive advances.

New Products, New Markets

During 1969, Pepsi-Cola, Frito-Lay and PepsiCo International were active in developing new products to supplement their existing lines.

Sales of Frito-Lay's Fandangos corn chips were expanded throughout the country during the year, based on several successful test markets. Billed as "The new corn snack with wild west flavor," they are offered in two flavors, Buckboard Pizza and Galloping Green Onion.

Three other snack products were introduced into test market in 1969, with encouraging results to date. These are Funyuns onion flavored snacks, Bags of Lay's potato chips (right) come off the line at Frito-Lay's plant in Irving, Tex. "Because of the continuing growth in demand for potato chips, we greatly expanded our production here and in San Jose, Calif. And our new plant in Allen Park, Mich., will also help to fill this demand." *James R. Sappington, sales vice president, Frito-Lay.*

Munchos potato crisps and Intermission popped corn chips. Other snacks are scheduled to be tested during 1970.

PepsiCo International has been testing a number of American-style snacks—specially adapted for Oriental tastes—in Japan, where that division's snack sales to date have basically consisted of popcorn.

The sales of Sabritas snacks in Mexico have grown faster than forecasts. In addition to general distribution in Mexico City, nine Pepsi-Cola franchise bottlers have been distributing these snacks in their districts.

Overseas snack sales, while still small, are rising rapidly: in the last two years, the dollar volume of PepsiCo International snack sales tripled.

During 1969, Pepsi-Cola was introduced in Finland and will be sold in Denmark starting in late spring, thus making Pepsi-Cola available in all the Scandinavian countries. Pepsi was also successfully introduced into Korea during 1969, and is scheduled to be made available in Taiwan, Laos, Budapest and Vienna in 1970.

New Construction

The continuing growth of soft drink and snack food sales has necessitated new facilities to meet those demands. In addition to the millions of dollars in new facilities built by Pepsi-Cola franchised bottlers, new Company-owned plants are being built in Dallas, Phoenix and Philadelphia, at a cost of more than $15 million.

Major building expansions were completed at the Frito-Lay manufacturing plants in Chamblee, Ga. and Irving, Tex. Potato chip production facilities were doubled at Irving and at San Jose, Calif. Doritos tortilla chip facilities were added at six plants around the country, while Fandangos corn snack production was added at six others.

A major new Frito-Lay plant, in Allen Park, Mich., outside Detroit, is currently under construction. When finished early in 1970, this will be one of the largest snack food plants in the world. Work on another new major Frito-Lay facility, this one at Cucamonga, Calif., near Los Angeles, is scheduled to begin production later in the year.

New Packaging

Packaging plays an important role in the sales of PepsiCo's soft drink and snack food products. Appearance is particularly important because these items are frequently bought on impulse. But aside from being attractive, the packaging must also be rugged enough to protect the product from production to the table.

During 1969, Pepsi-Cola Company completely redesigned its packaging for Pepsi-Cola, Diet Pepsi-Cola and Mountain Dew.

Pepsi-Cola cans and labels are now in bold, modern red, white and blue colors, as are cartons and wrappers. The new design gives instant recognition of Pepsi-Cola from any angle, no matter how the packages may be stacked.

Diet Pepsi-Cola labels are similar, yet different, to provide a strong association with regular Pepsi but still have an identification of their own.

Pepsi-Cola researchers have been working to develop a new plastic bottle, which would have several advantages over existing materials. Early in 1970, one such type of plastic bottle went into test market, in an effort to measure consumer acceptance.

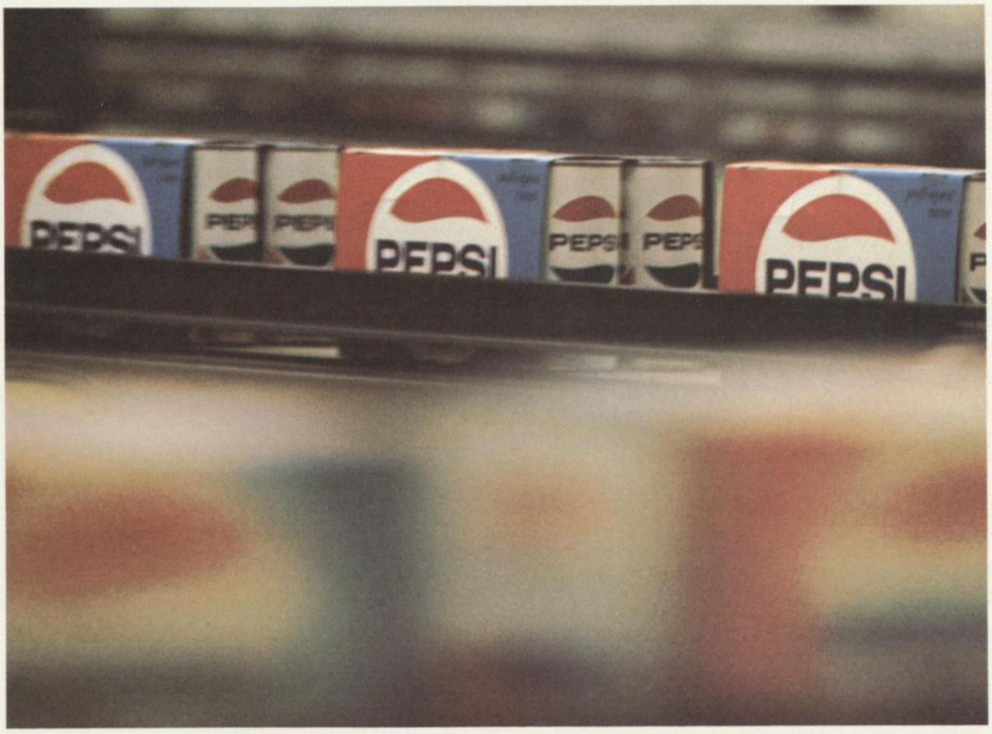
Plastic bottles, if dropped, won't shatter. They weigh less than ordinary glass bottles and, perhaps most importantly, can be disposed of in an incinerator. They can be formed into any shape. And the researchers hope production techniques can be refined until the plastic bottles can be

continued on page 14


POTATO CHIPS


northAmerican
VAN LINES
northAmerican

North American Van Lines (left) speeds a family's household goods westward across the Nevada desert. "The most mobile people in this country, the people who move from city to city most often, are in the 25 to 34 year old age group. And this group will grow by 25 percent over the next five years." *Chester Bradley, Jr., president, North American Van Lines.* Cans (top right) wrapped in the new Pepsi-Cola package design roll off a filling line at the Clinton's Ditch, N.Y., canning cooperative. "This is the most complete package re-design in Pepsi-Cola history. We changed cans, bottle labels, wrappers—almost everything but the classic 'swirl' returnable bottle. They give all our package sizes and types the same look on the shelf, building future sales by helping the shopper more readily identify Pepsi-Cola." *Lon England, vice president for packaging, Pepsi-Cola.* Two Mexican teenagers (bottom right) enjoy a Pepsi-Cola and Doritos tortilla chips in Chapultepec Park. "In Mexico, people eat when they drink and drink when they eat. All over Mexico, there are thousands of 'Changarros' or kiosks, where people stop for a Pepsi and a snack. So we've named several Pepsi-Cola bottlers distributors for the Sabritas line of snacks. This has played a major role in the rapid growth of Sabritas snacks." *Jacinto Avalos, chairman, Pepsi-Cola Mexicana.*



Part of a fleet of modern delivery trucks in the Salisbury, Md., Pepsi-Cola franchise. "The route salesman is at the heart of the Pepsi-Cola franchise system. There are more than 11,000 Pepsi-Cola routes in the U.S. covering virtually every community in the country. It's the route salesman's job to give Pepsi the leg up on the competition—to make sure that there are plenty of Pepsi-Cola products in stock, and that we get our fair share of the shelf space. The route delivery system is a major factor in the continued growth of Pepsi-Cola sales." *Charles V. Mangold, vice president, field operations, Pepsi-Cola.*

Olives are hand-placed in jars at the Belle Products factory in Houston, Tex. "About 90 percent of our olives are packed by machine, but there is still a market for the housewife who wants her olives fancy, hand-packed. Even though we don't cover the whole U.S., Belle Products is the largest olive processor in the country, mostly under the Towie label, filling a growing demand. We also package other specialty foods, such as a complete line of peppers, cocktail onions, Fritos brand Jalapeño bean dip, maraschino cherries, olive oil and artichokes." *Ben Golub, president, Belle Products.*

Canadian youngsters (right) pause for Pepsi-Cola and Lay's potato chips after a hockey match at an outdoor rink in Montreal. "Despite Canada's northern climes, the per-capita consumption of Pepsi-Cola here compares favorably with many semi-tropical markets. Pepsi-Cola Canada covers a big area. We have 109 franchised bottlers stretching 4,300 miles across the country and 2,000 miles north—to Yellowknife, in the Northwest Territories. Pepsi has been in Canada since 1934; although Frito-Lay hasn't been here nearly as long, the sale of soft drinks and snack foods continues to grow rapidly." *Al Goetz, Jr., vice president for marketing, Pepsi-Cola Canada.*

formed at the bottling line.

Frito-Lay plans to test market several new package designs, conceived by one of the nation's leading experts in this field, during 1970. At the same time, it plans to introduce new packaging materials which will give even better protection to both flavor and freshness. Overseas, PepsiCo International's beverage activities have centered on introducing new and larger package sizes of Pepsi-Cola. It has successfully introduced the one liter bottle into several major markets.

New Advertising

There's a whole new way of living
Pepsi helps supply the drive.
It's got a lot to give
to those who like to live,
'cause Pepsi helps them come alive.
It's the Pepsi generation
coming at you, going strong.
Put yourself behind a Pepsi.
If you're living, you belong!
You've got a lot to live.
And Pepsi's got a lot to give!

Those are the already-familiar words to Pepsi-Cola's new commercial theme—part of the most rapidly accepted, highly acclaimed new ad campaign in that product's history.

The new commercials are upbeat, showing real people in real-life situations. They stress the idea that America is a good place to live, and it's a good time and place to enjoy Pepsi-Cola. They reiterate, too, one of the most successful of all Pepsi-Cola themes: "The Pepsi Generation."

The new advertising approach was conceived to achieve a more natural and credible approach to increasingly sophisticated younger Americans who have developed a critical eye and ear toward much of the advertising they see and hear.

Diet Pepsi-Cola advertising continued the successful and familiar "girl watched girls" approach with a switch: the girl watchers are citizens of European capitals such as London, Paris and Rome. From October on, the ads also stressed the fact that the new Diet Pepsi did not contain cyclamates.

Both Fritos corn chips and Lay's potato chips will unveil new advertising campaigns early in 1970. Lay's potato chip ads will continue, in a new format, the successful theme, "You can eat a million of 'em but nobody can eat just one Lay's potato chip." Both Doritos tortilla chips and taco-flavored Doritos had their first exposure on network TV during 1969, while Ruffles potato chips and Chee•tos cheese puffs continued to be advertised before national audiences.

Advertising for Pepsi-Cola in overseas markets took on a new theme during 1969. Members of the young, pace-setting generation are shown in ads stressing that Pepsi is "Our Taste." Pepsi advertising is flexible, geared in each market to the tastes, culture and media of that land.

For the first time, North American Van Lines, Inc. used TV to unveil its new advertising message, "We treat your furniture like eggs."

The Service Industries

PepsiCo's service industry activities can be grouped into two major areas: transportation and leasing.

Transportation services include the activities of North American Van Lines, Inc. and National Trailer Convoy, which move, among other things, household goods, mobile homes and prefabricated building modules.

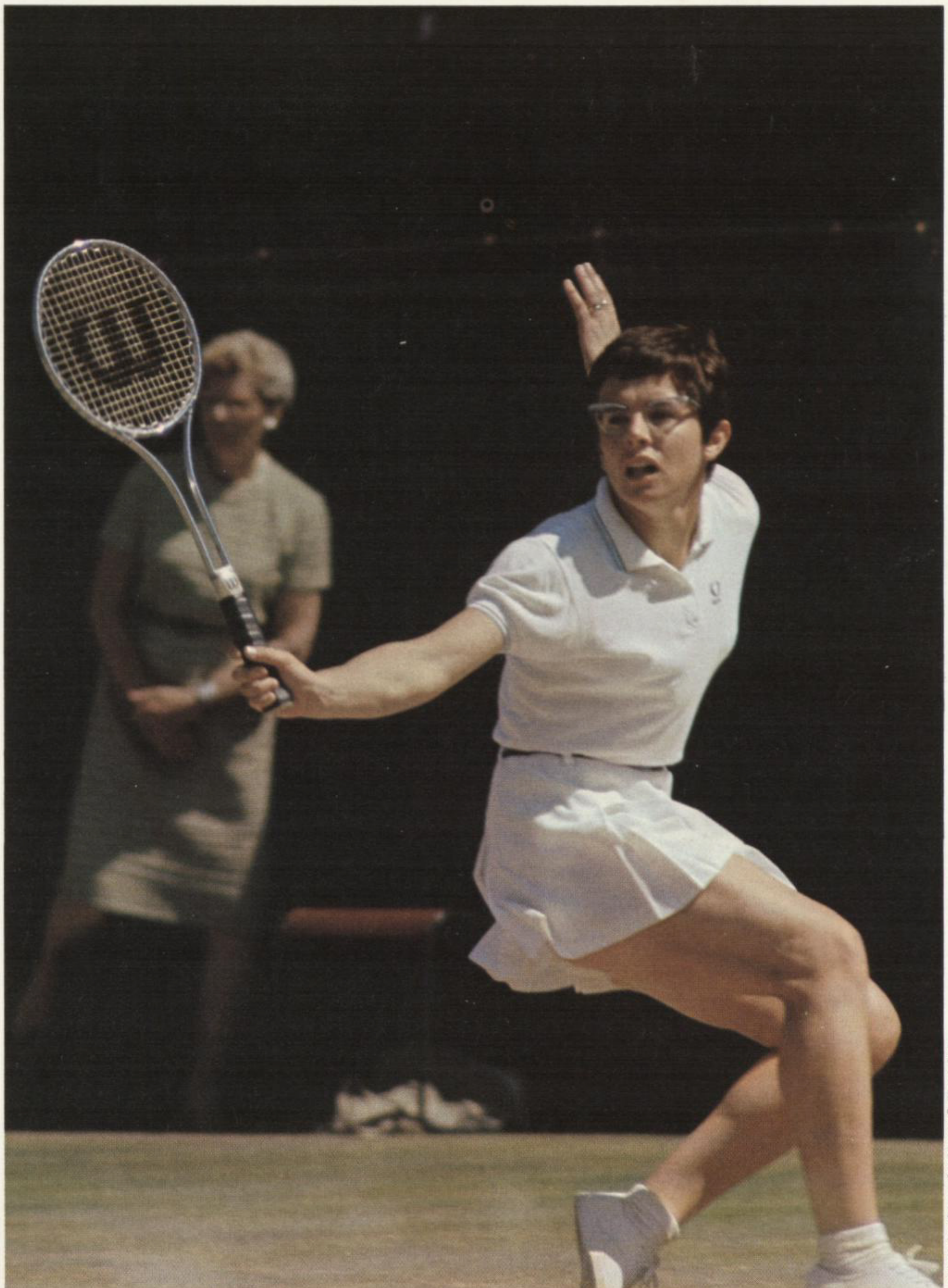
Leasing services are provided by Lease Plan International, Chandler Leasing Corp., Executive Car Leasing Corp. and other special purpose leasing and rental companies. These companies can lease a customer anything from an executive jet to production line and warehouse equipment, a fleet of

continued on page 21


CHIPS
PEPSI


Pepsi-Cola

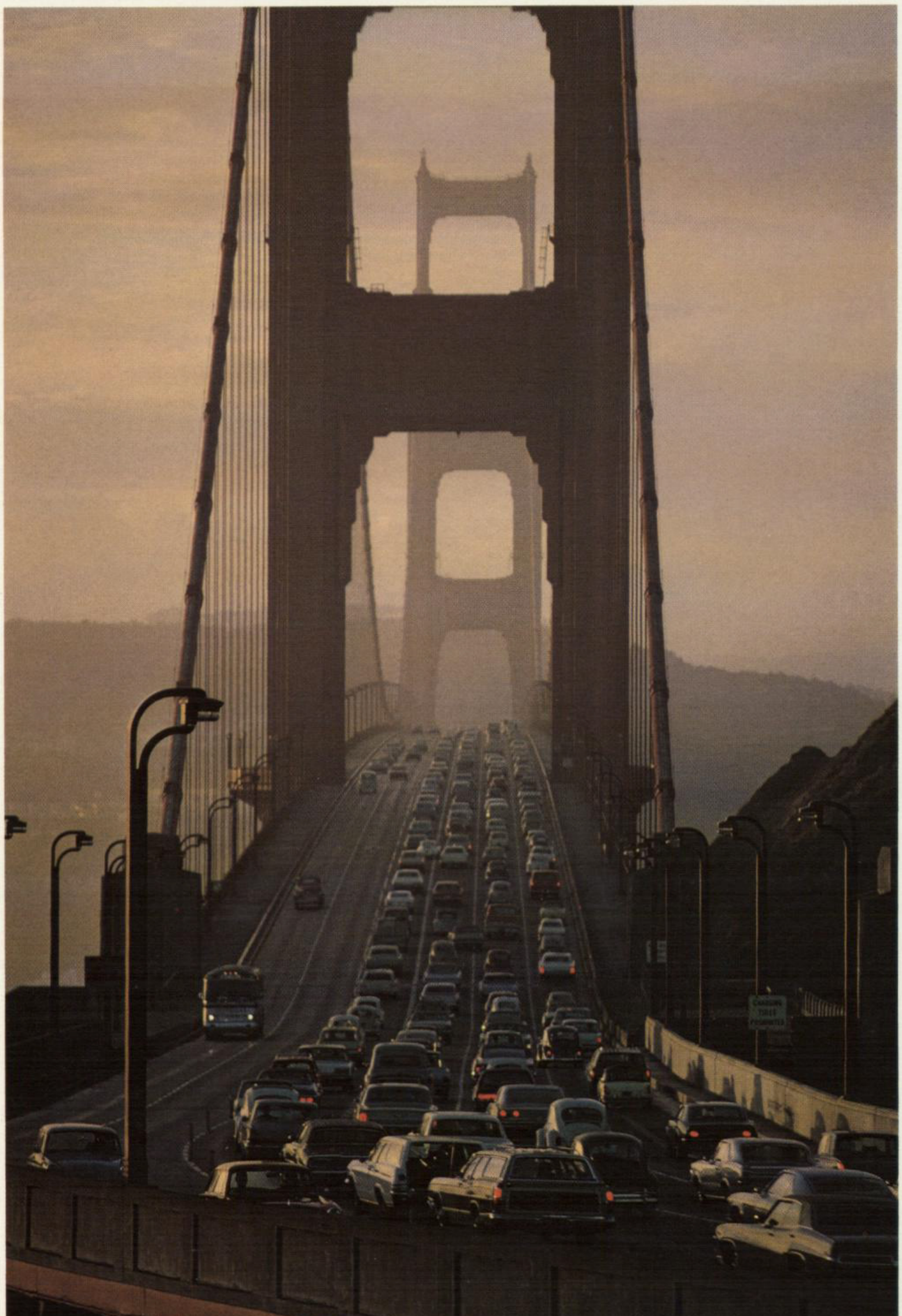
Pepsi-Cola concentrate (left) is readied for shipment from the concentrate plant in Carolina, Puerto Rico. "The demand for Pepsi-Cola in overseas markets has been steadily rising. To meet present and future needs, particularly in the Caribbean, we built this concentrate plant near San Juan. From here, Pepsi-Cola and other concentrates are shipped to a number of major overseas markets. But just as important, this new plant is a contributor to the growing economy of Puerto Rico—a contribution PepsiCo International makes in many developing economies around the world." *W. E. Emerson—vice president, PepsiCo International.* Billie Jean King (below) uses a Wilson T2000 steel tennis racquet in the finals at Wimbledon. "Over the years, Wilson has made a number of technical advances that have revolutionized sports. The steel tennis racquet is one of them. When we introduced this concept, with its exclusive and patented string suspension system, in 1967, it produced an explosion in the tennis world. But we find just as great an acceptance with the weekend player as the Wimbledon pro." *William P. Holmes, president, Wilson Sporting Goods.*

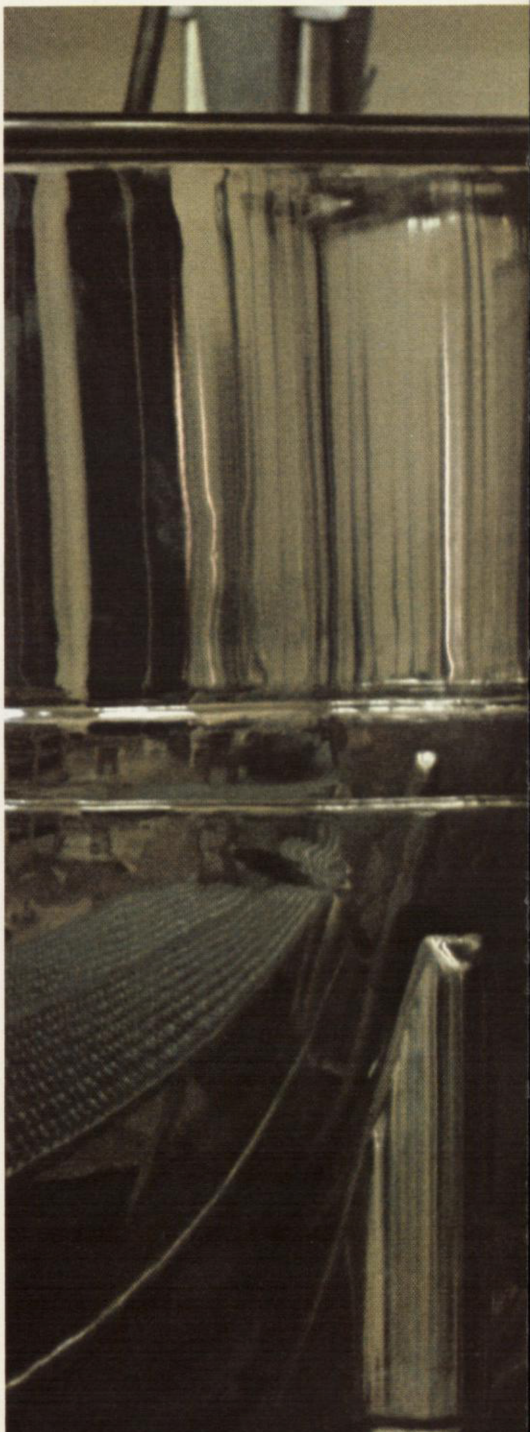


Sports Illustrated photo by Gerry Cranham © Time Inc.

Cars crossing the Golden Gate Bridge during rush hour symbolize the new operations of Executive Car Leasing in San Francisco. "We moved into Northern California for the first time in 1969. Now we have a thousand cars on lease there, giving us over 10,000 leased cars in California and making us the largest auto leasing company in the West. There's great potential for this sort of business; there are growth opportunities in the areas between San Francisco and Los Angeles that we don't cover yet, along with our rapid expansion in those major urban areas. It's an exciting prospect." *Sam Goldman, president, Executive Car Leasing.*

A workman puts the finishing touches on cooking vats for a new $500,000 Fritos brand Jalapeño bean dip facility in Houston. "We're doubling our production facilities for the Fritos brand Jalapeño product. We now package this dip in an easy-to-open pop top can, making it a convenience food in every sense of the word. Housewives like it because it doesn't require refrigeration or any special preparation, and tastes good hot or cold." *Glenn Thompson, sales planning manager for dips, Frito-Lay.*





This room (left) is used for new product concept testing in Frito-Lay's modern research facility in Irving, Tex. "We could turn out several new test products every month. But it's more important to learn which ones are appetizing to consumers, and not just technologically interesting. That's what we do in the panel tests. We ask people to tell us what they think of the taste, texture, smell and appearance, the sweetness or saltiness, of new snacks our research has developed. When we don't want taste to be influenced by the product's appearance, we mask its color with red or blue lighting."
Dr. Ted Dornseifer, product researcher, Frito-Lay.

delivery trucks and cars for its salesmen, sophisticated test equipment for its laboratories, and a desk, chair and electric typewriter for a secretary.

With an aggressive management team at the helm, North American Van Lines presented a new face to the moving public: a redesigned logotype—northAmerican—and vans with distinctive red, white and blue markings.

In addition to continued rapid growth in the U.S. and Canada, NAVL expanded its overseas operations in Europe and Africa. It now operates its own van lines in West Germany, with facilities in Frankfurt, Heidelberg, Dusseldorf and Hamburg.

Although the major part of NAVL's business centers around the movement of personal household goods, another area of operations continued to grow substantially in 1969. This is the delivery of new products, such as appliances, uncrated furniture and sophisticated electronic equipment.

National Trailer Convoy will benefit from expanded operating authorities, giving it additional routes and areas it can service. National Trailer Convoy, which in the past was basically a mover of mobile homes, has been pioneering in the field of transporting building modules.

PepsiCo Truck Rental, a new business, was launched during the fall of 1969 to rent trucks of all sizes, shapes and kinds, by the day or week. Already its bright blue trucks are a familiar sight on the streets of 12 major cities from coast to coast, with the number of locations due to double during 1970. PepsiCo Truck Rental is a logical extension of the company's full maintenance leasing activities.

Wilson Sporting Goods

The Wilson Sporting Goods Co., is one of the oldest, largest and best-known companies in the growing leisure time sports equipment field.

Founded in 1914, it markets more than 8,000 different sports items in the U.S. and abroad, with 1969 sales of $104,899,000.

Because of the quality reputation of its products, Wilson is the choice of sports stars in every field. It makes the official National Football League and National Basketball Association balls, and uniforms for 20 of the 24 major league baseball teams. Its golf clubs are used by such stars as Sam Snead, Billy Casper, Carol Mann and Kathy Whitworth, its tennis racquets by Jack Kramer, Stan Smith, Tony Trabert, Billie Jean King and Ann Haydon Jones.

With more than 4,500 employees, Wilson has 13 manufacturing plants in the U.S. and two overseas. Its products are marketed through a network of 32 U:S. and five foreign sales divisions.

Many of Wilson's products fit closely with PepsiCo's present operations. For instance, sporting events and stadiums are a major market for soft drinks and snacks. And the largest market for Wilson's sporting equipment is among the youth of the "Pepsi Generation."

Corporate Responsibilities

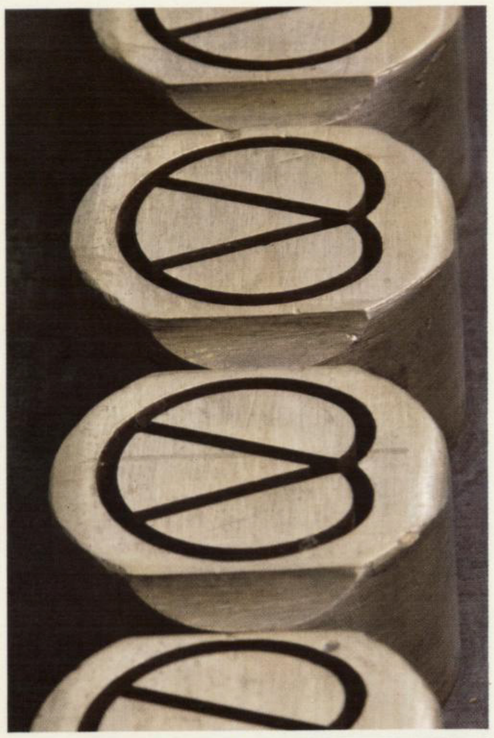
Some new language was added to the lexicon of business in the Sixties, such phrases as "corporate citizenship," "black capitalism," "consumerism" and others.

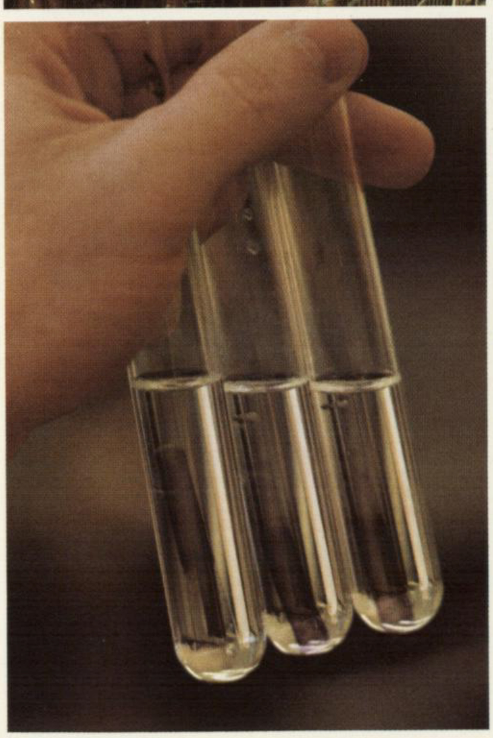
PepsiCo and its divisions have long been in the forefront in facing the social problems confronting America and the world today. The pace of those activities was stepped up in 1969.

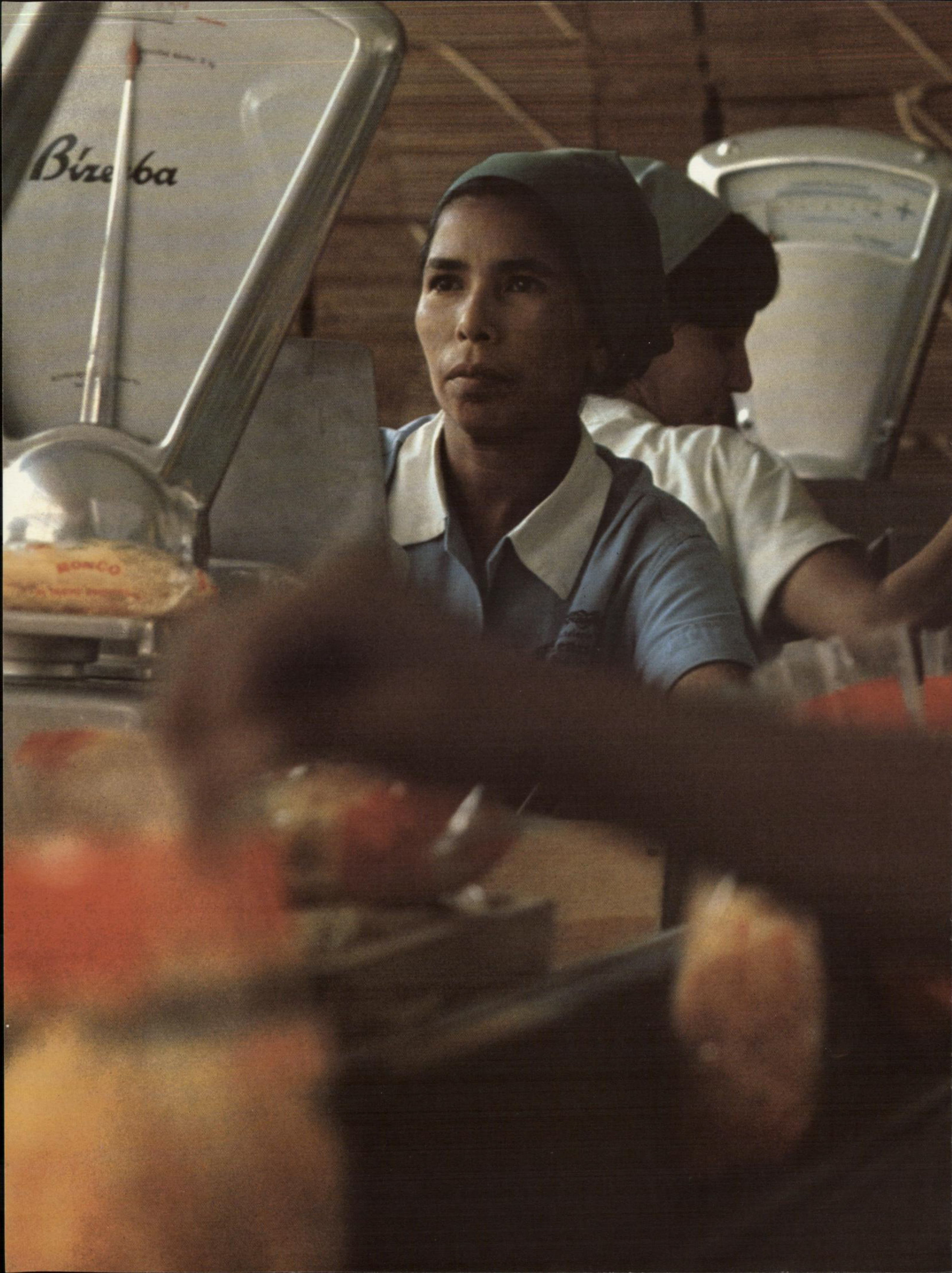
Most significantly, PepsiCo executives played major leadership roles in seeking solutions to some of the nation's pressing problems.

Donald M. Kendall, the Company's
continued on page 25

A Las Vegas housewife (top left) adds Pepsi-Cola's test product to her shopping basket. "We're trying to develop a new kind of drink, one that because it is a cola will have wide acceptance. Skandi is a cola with a tangy, citrus-like taste." *John Sculley, vice president, advertising and merchandising Pepsi-Cola.* A technician (bottom left) holds specimens of potato varieties in the Frito-Lay labs at Irving, Tex. "A potato is mostly water, expensive to buy, ship and store. We evaluate hundreds of new varieties yearly, hunting the one that will make a better potato chip." *Barney Hilton, vice president for research, Frito-Lay.* This die (top right) extrudes pretzel at Frito-Lay's Rold Gold plant in Canton, O. "The first pretzel twists were made by hand in medieval monasteries. Until now, the method hadn't changed, except a machine twisted the knot. These new extruders can do the work of 14 machines, turning out better quality pretzels at lower cost." *J. R. Dwiggens, director of manufacturing, Rold Gold Foods.* A typical, high speed filling line, (bottom right) this one in Cincinnati, O. "Equipment like this is one way to cut production costs. The idea is to cut costs without cutting quality and put more money behind the marketing of Pepsi-Cola. It's the marketing that will, in the long run, make the difference." *T. Bernard Dunlap, president Pepsi-Cola Bottlers Association.* A mobile home (far right) being delivered by National Trailer Convoy. "There's a revolution underway in the manner Americans live . . . mobile homes, modular houses, prefabricated and mass-produced dwellings, innovative new ways to shelter families. With operating rights in 49 states, National Trailer Convoy moves these new forms of housing from the assembly line to the family." *Wayne Thompson, president, National Trailer Convoy.*






Bizerba

Ronco spaghetti (left) is carefully weighed at the La Vienesa food plant in Caracas, Venezuela. "La Vienesa is one of the major food companies in Venezuela, making pastas, bakery products, preserves, fruit drinks and candy. We acquired this business last year, and today it is one of our largest overseas food operations. We have often said there is a great opportunity for snack food sales in international markets, and this is another step in realizing that potential." *Michel A. Lvoff—vice president, PepsiCo International.*

president and chief executive officer, served for a year as chairman of the National Alliance of Businessmen, after being named to that post by President Nixon. The NAB, a volunteer partnership between business and government, seeks to find jobs for the hard-core unemployed in the private sector of the economy.

Together with Paul Kayser, the Company's industrial relations vice president, who served as full-time, unsalaried president of the NAB, Mr. Kendall undertook a rigorous schedule on behalf of the alliance.

The efforts of the NAB resulted in an increase in the number of hard-core holding jobs they found through the alliance from 80,000 in 1968 to 200,000 by the end of 1969. The number of companies offering opportunities through the NAB rose from 14,500 to 23, 500.

American business has proven abilities concerning the manufacturing, distribution and marketing of its products. PepsiCo management believes, with many others, that corporations must now direct their energies toward the solution of the grave social problems facing the country and world today.

Training and Development

Employee training and management development continued to play key roles in the growth of PepsiCo during 1969.

The Pepsi-Cola Management Institute in Phoenix, Ariz., completing its second full year of operation, broadened its program and added 20 new courses. Attendance rose 45 percent over 1968.

Although the institute was founded basically to train Pepsi-Cola Company personnel, it has—as planned—been expanding its function to offer schooling to employees of other PepsiCo divisions. During 1969, it graduated a class from North American Van Lines, and during 1970 will offer courses to PepsiCo International personnel.

Frito-Lay launched a new program of training its route salesmen in the principles of selling and servicing customers during 1969.

Aside from assuring that route salesmen are better trained than ever before, the program has other benefits. In the past, most prospective route salesmen were picked from those with some prior route selling experience. With the new program, this is no longer quite as important, since the prospective route salesman will receive a thorough training in all aspects of his new job. As a result, Frito-Lay has a broader range of personnel from which to select its new salesmen. The training program is expected to help reduce turnover among route salesmen.

Frito-Lay plans to launch two new training programs during 1970. One will incorporate the same concepts and techniques as the salesmen's course to train manufacturing personnel. The other is a management development program, aimed at spotting and developing future Frito-Lay managers.

In Conclusion

At the beginning of the Sixties, PepsiCo, Inc. in its present form did not exist. Pepsi-Cola Company sold three product lines: Pepsi-Cola, Teem (then only two years old) and Patio flavors.

The changes that have taken place in the ensuing decade are illustrated in this report. New products have been born and become staple items on grocery shelves. Advertising campaigns—"the Pepsi Generation," "Betcha Can't Eat Just One"—have become part of the language.

More importantly, there has been dramatic growth, in sales and in earnings. The management of PepsiCo starts the Seventies with confidence that there is an even more interesting story to be written in the decade ahead.

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 27, 1969 and the related statements of consolidated income and retained earnings and consolidated source and application of funds for the year then ended. Our examination was 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, subject to adjustment, if any, of the carrying value of the beet/cane sugar facility as explained in Note 2, the statements mentioned above present fairly the consolidated financial position of PepsiCo, Inc. and subsidiaries at December 27, 1969 and the consolidated results of their operations and the consolidated source and application of their funds for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Arthur Young & Company

277 Park Avenue
New York, N. Y.
March 16, 1970

Consolidated Statement of Income and Retained Earnings

Years ended December 27, 1969 and December 28, 1968

	1969	1968
Revenues	(in thousands)	
Net sales	**$949,390**	$848,265
Interest and other income	**6,564**	6,277
Total revenues	**955,954**	854,542
Costs and Expenses		
Cost of sales	**504,671**	452,674
Marketing, administrative and other expenses	**354,897**	313,954
Interest expense	**5,392**	5,365
Total costs and expenses	**864,960**	771,993
	90,994	82,549
Provision for United States and foreign income taxes (including deferred: 1969—$1,200,000; 1968—$2,100,000)	**42,000**	39,200
	48,994	43,349
Equity in net income of leasing subsidiaries	**2,890**	3,105
Income before extraordinary item	**51,884**	46,454
Extraordinary item—provision for losses on cyclamate ban, less applicable income tax benefit of $2,770,000	**2,480**	—
Net Income	**49,404**	46,454
Retained earnings at beginning of year	**212,725**	186,056
Cash dividends:		
Capital stock (per share: 1969—97½¢; 1968—90¢)	**(21,758)**	(19,436)
Pooled companies, prior to acquisition	**—**	(349)
Retained earnings at end of year	**$240,371**	$212,725
Net Income Per Share (based on average shares outstanding):		
Income before extraordinary item	**$2.33**	$2.10
Extraordinary item	**(.11)**	—
Net income	**$2.22**	$2.10

See accompanying notes.

Consolidated Balance Sheet

December 27, 1969 and December 28, 1968

ASSETS	1969	1968
Current Assets	(in thousands)	
Cash	**$ 31,413**	$ 41,006
Short-term securities (approximates market)	**28,813**	45,489
Notes and accounts receivable, less allowance	**83,051**	71,498
Inventories—at cost (principally average method) not in excess of market	**58,876**	56,402
Prepaid expenses	**13,526**	11,411
	215,679	225,806
Investments and Long-Term Receivables		
Leasing subsidiaries—at equity	**66,012**	22,364
Receivables (non-current) and other investments—at cost	**8,279**	8,540
	74,291	30,904
Property, Plant and Equipment, at Cost		
Land	**16,603**	13,540
Buildings	**80,802**	55,060
Machinery and equipment	**243,835**	220,379
Bottles and cases	**42,200**	33,646
	383,440	322,625
Less accumulated depreciation	**137,138**	124,368
	246,302	198,257
Other Assets	**17,955**	16,949
	$554,227	$471,916

See accompanying notes.

LIABILITIES AND SHAREHOLDERS' EQUITY	1969	1968
Current Liabilities	(in thousands)	
Notes payable (including current installments on long-term debt)	**$ 25,276**	$ 21,418
Accounts payable and accrued liabilities	**102,334**	77,617
United States and foreign income taxes	**16,198**	19,928
Customers' deposits on bottles and cases	**14,734**	14,717
	158,542	133,680
Long-Term Debt	**91,112**	68,273
Deferred Income Taxes	**7,000**	5,800
Shareholders' Equity		
Capital stock, par value 16⅔¢ per share; authorized 30,000,000 shares; issued and outstanding at December 27, 1969, 22,385,946 shares	**3,731**	3,699
Capital in excess of par value	**53,471**	47,739
Retained earnings	**240,371**	212,725
	297,573	264,163
	$554,227	$471,916

Consolidated Statement of Source and Application of Funds Year ended December 27, 1969

Source of Funds	(in thousands)
Operations	
Net income	$49,404
Depreciation (principally straight-line) and amortization	23,832
Deferred income taxes	1,200
Capital stock	4,246
Long-term debt	24,427
Property disposals	7,400
Decrease in working capital	34,989
	$145,498

Application of Funds	(in thousands)
Dividends	$21,758
Plant and equipment	70,235
Containers—net	8,554
Advances to leasing subsidiaries	43,648
Other	1,303
	$145,498

Notes to Consolidated Financial Statements

Note 1—Principles of consolidation. All domestic and foreign subsidiaries have been included in the consolidated financial statements with the exception of leasing subsidiaries which are carried at equity (see Note 7 for condensed financial information).

The Company's policy is to reflect in consolidated net income the current earnings of its foreign subsidiaries. Adequate provision has been made in the financial statements to give effect to the translation of foreign currencies at realistic rates. The total assets, total liabilities and net current liabilities of consolidated subsidiaries and branches outside of the United States and Puerto Rico stated in terms of United States dollars were $143,900,000, $65,300,000 and $8,500,000 respectively, at December 27, 1969.

Note 2—Sugar facility. The Company's beet/cane-sugar facility at Montezuma, New York is leased to Maine Sugar Industries, Inc. for a period of fourteen years with an option for the lessee to purchase the facility in the final year of the lease at a price equal to its then fair market value, with certain adjustments. The facility is included in the property accounts at a net book value of $16,100,000.

The lessee has announced that three of its creditors, having claims totaling about $4,000, have filed a petition in the U.S. District Court for the District of New Jersey, seeking it to be adjudged bankrupt, and that the lessee intends to oppose such petition. In addition, a number of contractors have filed materialman's liens against the refinery property with respect to construction performed for the lessee, and certain growers of sugar beets in New York State have filed a class action in the U.S. District Court for the District of Maine, seeking $1,555,225, alleged to be the sum due members of the Finger Lakes Sugar Beet Growers Association on account of sugar beets sold by them to the lessee in 1969.

In view of all the present uncertainties, the Company is not now in a position to determine the present value of the facility and the extent of impairment, if any, of the plant's economic value.

Note 3—Long-term debt. At December 27, 1969, long-term debt (less current installments) consisted of:

	(in thousands)
4½% convertible debentures, due in 1981	$28,412
4⅞% mortgage note, due in semi-annual installments of $756,418 including interest to 1996	21,724
9% (variable rate) Deutschmark notes payable, due 1972-1973	21,138
5¼% notes payable, due $1,250,000 annually to 1974	6,250
4¼% mortgage note, due in monthly installments of $30,962 including interest to 1990	4,843
5½% note payable, due $380,000 annually to 1981	3,880
Other	4,865
	$91,112

Note 4—Capital stock and capital in excess of par value. Shares reserved at December 27, 1969 were as follows:

Stock options (including 400,000 under shareholder approved 1969 Plan)	731,788
4½% convertible debentures (at $46.50 per share)	611,011
Stock purchase warrant (at $12.50 per share)	120,000
	1,462,799

At December 27, 1969, options were outstanding on 353,422 shares (of which 196,010 were then exercisable) having an aggregate option price of $12,597,000; the balance of 378,366 shares being available for future grants under the Company's 1964 and 1969 Plans. Changes in options during 1969 were as follows: granted as to 75,500 shares having an aggregate option price of $3,875,000; exercised as to 148,578 shares having an aggregate option price of $4,246,000 and cancelled as to 5,500 shares.

The increase of $5,732,000 in capital in excess of par value is accounted for as follows:

Excess of proceeds or conversion price over par value of shares issued under:	(in thousands)
Stock option plans	$4,221
Conversion of debentures (41,795 shares)	1,511
	$5,732

Note 5—Long-term leases and commitments. The Company and its subsidiaries are lessees under long-term leases for office space, plant and warehouse facilities expiring at various dates to 1995 having minimum aggregate annual rentals of $3,800,000 (exclusive of insurance, taxes and repairs).

At December 27, 1969 the Company and its subsidiaries were contingently liable as guarantors of loans, principally to franchised bottlers, aggregating $7,600,000.

The Company is also contingently liable for the repurchase of vending equipment acquired by franchisees, unpaid balances by them to banks in this regard being $3,300,000 at December 27, 1969.

Note 6—Pensions. The Company and its subsidiaries have several noncontributory pension plans covering substantially all domestic employees and certain of its employees outside of the U.S. The Company's policy is to accrue and fund normal cost plus interest on unfunded prior service cost. Pension expense was approximately $5,900,000 in 1969.

Note 7—Leasing subsidiaries. The Company's investments in its leasing subsidiaries are carried at equity in their combined net assets.

The condensed financial statements of the leasing subsidiaries shown below at December 31, 1969 and 1968 and for the years then ended, include the activities of PepsiCo Service Industries Leasing Corporation and Pepsi-Cola Equipment Corp.

CONDENSED FINANCIAL POSITION

	1969	1968
	(in thousands)	
Cash	$ 14,098	$ 8,106
Leases and contracts receivable	285,712	215,448
Property and equipment, less accumulated depreciation (1969—$11,535,000; 1968—$6,952,000)	50,073	24,749
Other assets, including intangibles	9,608	6,521
Assets	359,491	254,824
Secured notes payable	201,042	180,171
Other notes payable	53,965	31,946
Accounts payable and accruals	22,899	7,033
Deferred federal income tax	15,573	13,310
Liabilities	293,479	232,460
PepsiCo equity in leasing subsidiaries	$ 66,012	$ 22,364
Represented by:		
Capital stock and surplus	$ 14,365	$ 11,920
Retained earnings	16,217	13,327
Net worth of leasing subsidiaries	30,582	25,247
Interest-bearing advances payable to PepsiCo, Inc. (including $25,000,000 subordinated note due in 1979)	36,867	—
Less receivable from PepsiCo, Inc.	(1,437)	(2,883)
	$ 66,012	$ 22,364

CONDENSED STATEMENT OF INCOME AND RETAINED EARNINGS

	1969	1968
	(in thousands)	
Leasing and other income	$41,127	$23,745
Costs and expenses (including depreciation—1969—$7,073,000; 1968—$3,694,000)	36,036	18,533
	5,091	5,212
Provision for deferred federal income tax (including current—$384,000 in 1969 and $61,000 in 1968; less investment credit—$552,000 in 1969 and $976,000 in 1968)	2,201	2,107
Net income	2,890	3,105
Retained earnings at beginning of year	13,327	10,304
Dividends of pooled company prior to acquisition	—	(82)
Retained earnings at end of year	$16,217	$13,327

Secured notes payable are generally repayable as the related leases and contracts receivable are collected.

With respect to Pepsi-Cola Equipment Corp., engaged in providing leasing services to franchised Pepsi-Cola bottlers, PepsiCo, Inc. has guaranteed its notes payable of $26,050,000 (included in other notes payable), principally 4½% notes due in 1972; these obligations are not collateralized by the pledge of leases and contracts receivable or rental equipment.

Note 8—Subsequent event. On February 27, 1970 the Company purchased a 74% interest in the Wilson Sporting Goods Co. from Ling-Temco-Vought, Inc. for $63,000,000 or the equivalent of $17.50 per common share of Wilson stock. The Company intends to acquire the remaining 26% publicly held interest in Wilson.

Note 9 — Litigation. A civil anti-trust action was brought against the Company and others in December, 1969 charging violations of Federal anti-trust laws in connection with sales of certain snack foods in California. The Company vigorously contests the validity of the claims and, based on the information available at this stage, is of the opinion that recovery, if any, will not be material.

Part of the new PepsiCo World Headquarters (left), a seven-building complex located on a 112-acre site in Purchase, N.Y. "Until now, our operations have been scattered over five locations in and around New York. Our management is in Manhattan, our computers in White Plains and our services divisions someplace else. Now we'll be able to locate all of them in one location, where they'll be able to meet face to face when the occasion demands. We have adequate room, too, for future expansion and growth. As a result, I look to improvements in our communications and efficiency." *Donald M. Kendall, president, PepsiCo, Inc.*

PepsiCo, Inc. Directors

Herman W. Lay*†
Chairman of the Board, PepsiCo, Inc. and Chairman of the Finance Committee

Donald M. Kendall*†
President and Chief Executive Officer, PepsiCo, Inc. and Chairman of the Executive Committee

Charles Allen, Jr.*†
Senior Partner, Allen & Company, Investment Bankers

Angus S. Alston*
Executive Vice President
American Telephone and Telegraph Company

George Champion
Formerly Chairman of the Board, The Chase Manhattan Bank N.A.

Harry E. Gould*
Chairman of the Board, Universal American Corporation, a division of Gulf + Western Industries, Inc.

Harold R. Lilley
President, Frito-Lay, Inc. and Vice President, Food Operations (U.S.), PepsiCo, Inc.

William B. Oliver
Chairman of the Board, Frito-Lay, Inc.

Andrall E. Pearson,
Executive Vice President, Operations, PepsiCo, Inc.

Herman A. Schaefer†
Executive Vice President, Finance and Administration, PepsiCo, Inc.

James B. Somerall
President, Pepsi-Cola Company and Vice President, Beverage Operations (U.S.), PepsiCo, Inc.

Robert H. Stewart III†
Chairman of the Board, First National Bank in Dallas

Fladger F. Tannery*
Chairman of the Board, PepsiCo International and Executive Vice President, PepsiCo, Inc.

Peter K. Warren
President, PepsiCo International and Vice President, International Operations, PepsiCo, Inc.

PepsiCo, Inc. Executive Offices
500 Park Avenue, New York, N.Y. 10022

Officers

Herman W. Lay
Chairman of the Board

Donald M. Kendall
President and Chief Executive Officer

Andrall E. Pearson,
Executive Vice President, Operations

Herman A. Schaefer
Executive Vice President, Finance and Administration

Fladger F. Tannery
Executive Vice President

Robert J. Abernethy
Vice President, Manufacturing and General Services

Robert G. Clark
Vice President, Leasing

Peter J. De Luca
Vice President, General Counsel, Secretary

Victor DeMaras
Vice President, Transportation

Gerald J. Fischer
Vice President, Corporate Planning and Control

Paul W. Kayser
Vice President, Director of Industrial Relations

Harold R. Lilley
Vice President, Food Operations (U.S.)

Harvey Luppescu
Vice President, Tax Administration

Paul W. Moseley
Vice President, Advertising

Harvey C. Russell
Vice President, Community Affairs

James B. Somerall
Vice President, Beverage Operations (U.S.)

Peter K. Warren
Vice President, International Operations

George Williamson
Vice President, Treasurer

W. Warren Lee
Controller

W. Lamar Lovvorn
Assistant Secretary

James W. Robertson
Assistant Secretary

Harold E. Rome
Assistant Secretary

Edson E. Beckwith
Assistant Treasurer

William T. Leitner
Assistant Treasurer

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Robert G. Clark, *President*

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Victor DeMaras, *President*

Wilson Sporting Goods Co. Executive Offices
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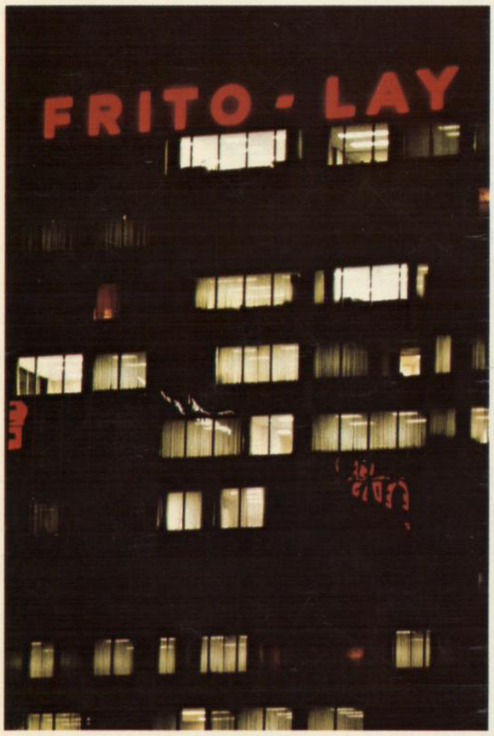
River Grove, Ill. 60171
William P. Holmes, *President*

*Member of Executive Committee
†Member of Finance Committee

PEPSICO INC.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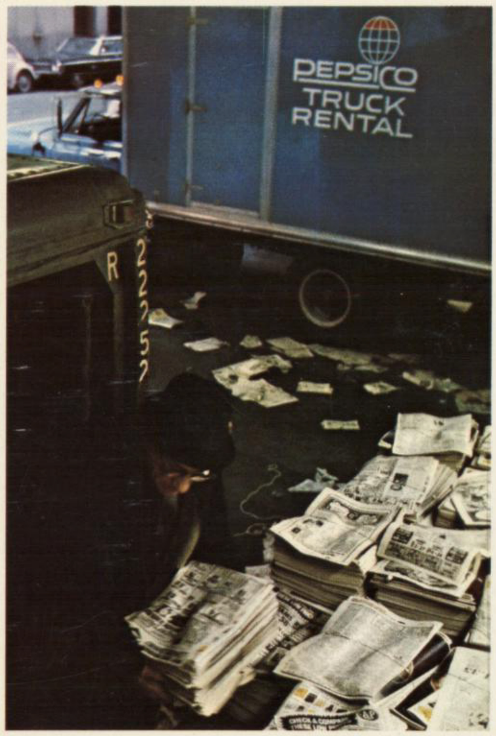
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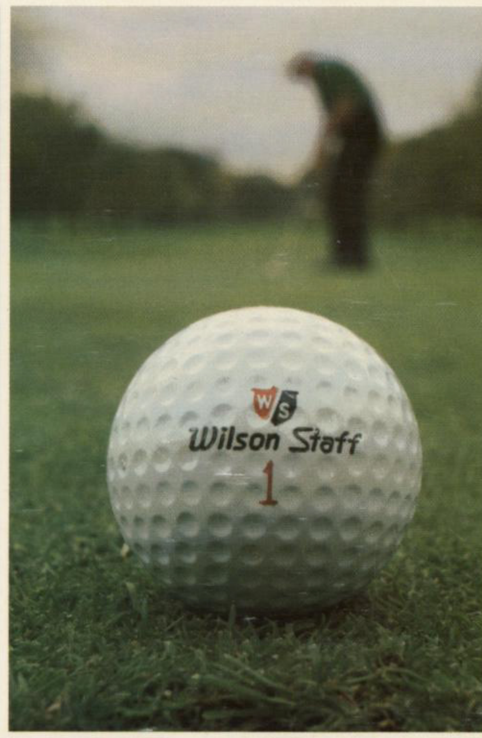
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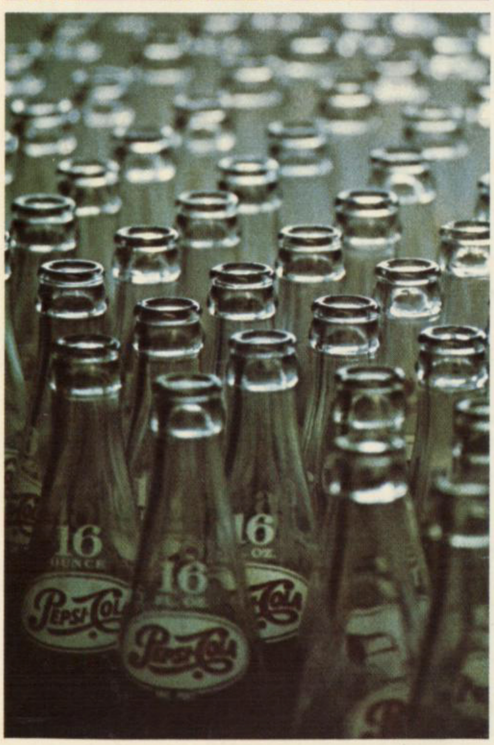
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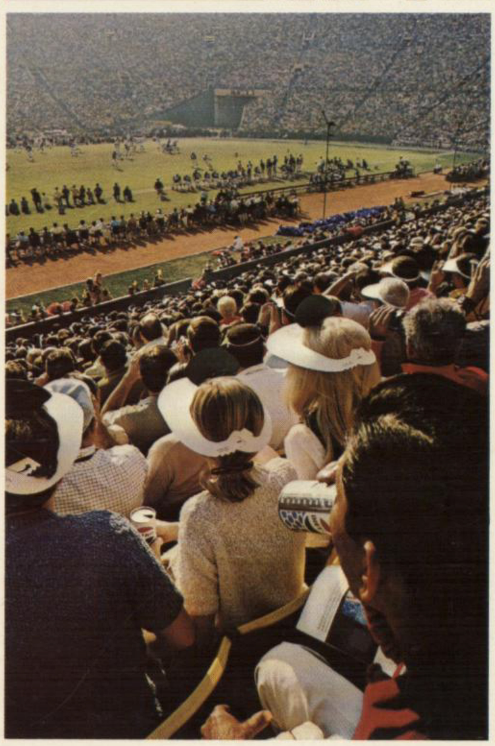

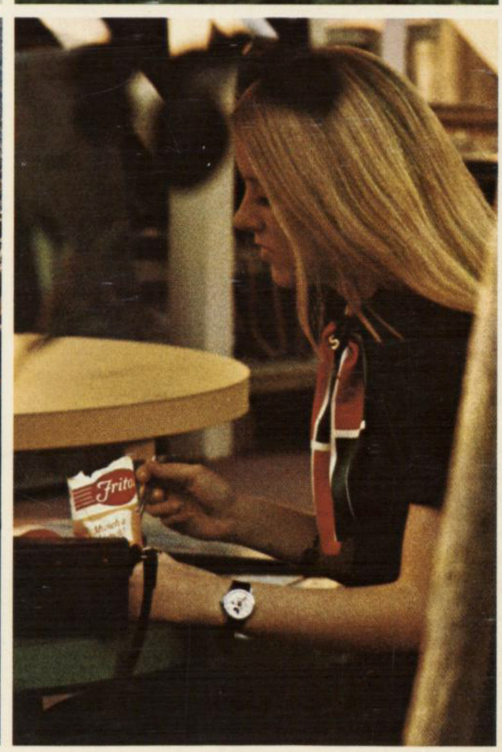
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