PEPSIAMERICAS INC/IL/
Form 10-Q
August 14, 2001

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2001

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

For the transition period from _______ to _______

Commission File Number 001-15019

PEPSIAMERICAS, INC.
(Exact name of registrant as specified in its charter)

Delaware	13-6167838
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
3501 Algonquin Road, Rolling Meadows, Illinois	60008
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code (847) 818-5000

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

YES /x/ NO / /

As of July 28, 2001, the Registrant had 156,306,300 outstanding shares (excluding treasury shares) of common stock, par value $0.01 per share, the Registrant's only class of common stock.

CONTENTS

1

PEPSIAMERICAS, INC.
FORM 10-Q
SECOND QUARTER 2001

CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(unaudited and in millions, except per share data)

	Second Quarter		
	2001	2000	200
Sales	$ 856.8	$ 682.6	$ 1,56
Cost of goods sold	513.8	403.5	94
Gross profit	343.0	279.1	62
Selling, delivery and administrative expenses	237.2	189.7	45
Amortization expense	12.2	10.3	2
Special charges	--	--	
Gain on pension curtailment	--	--	(
Operating income	93.6	79.1	14
Interest expense, net	(24.6)	(21.3)	(4
Other (expense) income, net	(1.1)	0.9	
Income before income taxes	67.9	58.7	9
Income taxes	32.5	28.1	4
Income from continuing operations	35.4	30.6	4
Income from discontinued operations, after taxes	--	8.9	
Net income	$ 35.4	$ 39.5	$ 4
Weighted average common shares:			
Basic	156.3	136.4	15
Incremental effect of stock options	0.7	0.3	
Diluted	157.0	136.7	15
Income per share - basic:			
Continuing operations	$ 0.23	$ 0.22	$ 0
Discontinued operations	--	0.07	
Net income	$ 0.23	$ 0.29	$ 0

Income per share - diluted:			
Continuing operations	$ 0.23	$ 0.22	$ 0
Discontinued operations	--	0.07	
Net income	$ 0.23	$ 0.29	$ 0
Cash dividends per share	$ --	$ --	$ 0

See accompanying notes to condensed consolidated financial statements.

2

PEPSIAMERICAS, INC.
FORM 10-Q
SECOND QUARTER 2001

CONDENSED CONSOLIDATED BALANCE SHEETS
(in millions, except per share data)

	End of Second Quarter 2001 (unaudited)
ASSETS:	
Current assets:	
Cash and equivalents	$ 100.7
Receivables	246.6
Inventories	189.5
Other current assets	69.3
Total current assets	606.1
Property (at cost)	1,712.7
Accumulated depreciation	(697.0)
Net property	1,015.7
Intangible assets, net	1,723.3
Investments and other assets	128.3
Total assets	$ 3,473.4
LIABILITIES AND SHAREHOLDERS' EQUITY:	
Current liabilities:	
Short-term debt, including current maturities of long-term debt	$ 331.6
Payables	248.2
Other current liabilities	158.9
Total current liabilities	738.7
Long-term debt	1,084.9
Deferred income taxes	66.6
Other liabilities	81.0

Shareholders' equity:	
Preferred stock ($0.01 par value, 12.5 million shares authorized; no shares issued)	--
Common stock ($0.01 par value, 350 million shares authorized; 167.3 million shares issued	1,540.9
Retained income	192.1
Accumulated other comprehensive loss:	
Cumulative translation adjustment	(29.8)
Unrealized investment and hedging gains	4.9
Accumulated other comprehensive loss	(24.9)
Treasury stock (11 million shares - 2001 and 11.7 million shares - 2000)	(205.9)
Total shareholders' equity	1,502.2
Total liabilities and shareholders' equity	$ 3,473.4

See accompanying notes to condensed consolidated financial statements.

3

PEPSIAMERICAS, INC.
FORM 10-Q
SECOND QUARTER 2001

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited and in millions)

	Firs
	2001
CASH FLOW FROM OPERATING ACTIVITIES:	
Income from continuing operations	$ 48.2
Adjustments to reconcile to net cash provided by operating activities:	
Depreciation and amortization	99.0
Deferred income taxes	13.5
Gain on pension curtailment	(8.9)
Gain on sale of franchises, net of tax	--
Special charges	4.6
Cash outlays related to special charges	(15.6)
Other	(3.5)
Changes in assets and liabilities, exclusive of acquisitions and divestitures:	
Increase in receivables	(44.2)
Increase in inventories	(27.7)
Increase in payables	32.6
Net change in other assets and liabilities	7.0
Net cash provided by operating activities	105.0

CASH FLOWS FROM INVESTING ACTIVITIES:

Franchises and companies acquired, net of cash acquired	(5.1)
Proceeds from sales of franchises, net of cash divested	--
Capital investments, net of proceeds from asset sales	(90.2)
Proceeds from sales of investments	1.9
Net cash used in investing activities	(93.4)
CASH FLOWS FROM FINANCING ACTIVITIES:	
Net (repayments) borrowings of short-term debt	(182.3)
Proceeds from issuance of long-term debt	352.7
Repayment of long-term debt	(129.3)
Dividends	(6.2)
Treasury stock purchases	--
Issuance of common stock	8.4
Net cash provided by financing activities	43.3
Net cash used in discontinued operations	(5.4)
Effects of exchange rate changes on cash and equivalents	--
Change in cash and equivalents	49.5
Cash and equivalents at beginning of first half	51.2
Cash and equivalents at end of first half	$ 100.7

See accompanying notes to condensed consolidated financial statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. The condensed consolidated financial statements included herein have been prepared by PepsiAmericas, Inc. (the "Company") without audit. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission, although the Company believes that the disclosures made are adequate to make the information presented not misleading. It is suggested that these condensed consolidated financial statements be read in conjunction with the financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year 2000. In the opinion of management, the information furnished herein reflects all adjustments (consisting only of normal, recurring adjustments) necessary for a fair statement of results for the interim periods presented.

2. The Company manufactures, packages, sells and distributes carbonated and non-carbonated Pepsi-Cola beverages and a variety of other beverages in the United States, Central Europe and the Caribbean. The Company is the number-two anchor bottler in the Pepsi system and accounts for about 21 percent of all Pepsi-Cola products sold in the United States. The Company operates in a significant portion of an 18 state region, primarily in the Central and Midwestern United States, and outside the United States the

Company operates in the Central European and Caribbean markets in Poland, Hungary, the Czech Republic, Republic of Slovakia, Puerto Rico, Jamaica, Bahamas, and Trinidad and Tobago. The Company serves a total population of more than 117 million people, and its business is highly seasonal. PepsiCo, Inc. holds a 36.6 percent equity interest in the Company.

The following presents sales and operating income of the Company's geographic segments for the second quarter and first half of 2001 and 2000 (in millions):

	Second Quarter		First
	2001	2000	2001
Sales:			
Domestic	$ 737.8	$ 598.7	$ 1,352.2
International	119.0	83.9	210.0
Total	$ 856.8	$ 682.6	$ 1,562.2
Operating income:			
Domestic	$ 95.0	$ 76.7	$ 154.2
International	(1.4)	2.4	(13.8)
Total	$ 93.6	$ 79.1	$ 140.4

There were no material changes in total assets by geographic segment since fiscal year end 2000.

3. The Company's fiscal year consists of 52 or 53 weeks ending on the Saturday closest to December 31; fiscal 2000 ended on December 30, 2000. The Company's second quarters of 2001 and 2000 were based on the thirteen weeks ended June 30, 2001 and July 1, 2000, respectively.

4. On November 30, 2000, the former PepsiAmericas, Inc. (the "former PAS") merged into a wholly-owned subsidiary of Whitman Corporation. In January 2001, Whitman Corporation changed its name to PepsiAmericas, Inc. This transaction is more fully described in the Company's 2000 Annual Report on Form 10-K.

5

During the first quarter of 2001, the Company reached an agreement with Crescent Distributing, LLC ("Crescent"), a wholly-owned subsidiary of Poydras Street Investors LLC ("Poydras"). Under the agreement, the joint venture between the Company and Poydras was terminated with Crescent retaining sole ownership of the rights to the beer operations and related assets and the Company assuming sole ownership of the rights to the soft drink operations and related assets. The results derived from the beer operations were not material to the Company's overall business.

The Company also acquired the Pepsi bottling operations in Trinidad and Tobago on December 29, 2000. This transaction was accounted for under the purchase method. Accordingly, the operating results have been included in the consolidated financial statements since the date of acquisition. The effect of this acquisition is not significant to the Company's operating results, and consideration paid was not significant.

In the first quarter of 2000, the Company sold its operations in the Baltics. This sale resulted in a gain of $2.6 million ($1.4 million after taxes), which is reflected in "Other (expense) income, net" on the Condensed Consolidated Statements of Income.

The pro forma condensed consolidated results of operations presented below for 2001 and 2000 assume the following:

- The territories and companies described above, with the exception of Trinidad and Tobago, were acquired or divested as of the beginning of fiscal 2000. Operating results for Trinidad and Tobago are only included from the date of acquisition.

- The after tax gain from the sale of the Baltics in 2000 was excluded.

- The special charges and pension curtailment gain recorded in the first quarter of 2001 were excluded, as well as other non-recurring items recorded by the Company and the former PAS.

- Interest expense has been adjusted to assume the interest rates in effect for both years for the Company would have been in effect for debt assumed from the former PAS business units.

	Second Quarter		First
	2001	2000	2001
	(unaudited and in millions, except per share		
Sales	$ 856.8	$ 850.9	$ 1,562.2
Net income	35.4	31.9	45.6
Net income per share-basic	0.23	0.21	0.29
Net income per share-diluted	0.23	0.20	0.29

The above pro forma results are for informational purposes only and may not be indicative of actual results that would have occurred had the transactions described taken place as of the beginning of fiscal 2000.

5. The Company's comprehensive income is as follows:

	Second Quarter		Firs
	2001	2000	2001
	(in millions)		
Net income	$ 35.4	$ 39.5	$ 48.2
Foreign currency translation adjustment	2.2	(4.2)	0.5
Unrealized gains (losses) on investments and hedging contracts	3.8	(3.5)	3.3
Comprehensive income	$ 41.4	$ 31.8	$ 52.0

========== ========== ==========

Unrealized gains (losses) on investments and hedging contracts are presented net of tax expense (benefit) of $3.7 million, ($2) million, $3.2 million and $3 million, respectively.

6

6. Interest expense, net, is comprised of the following:

	Second Quarter		First Half	
	2001	2000	2001	200
	(in millions)			
Interest expense	$ (24.8)	$ (21.6)	$ (50.5)	$ (4
Interest income	0.2	0.3	1.4	
Interest expense, net	$ (24.6)	$ (21.3)	$ (49.1)	$ (4

7. Net cash provided by operating activities reflected cash payments and receipts for interest and income taxes as follows:

	First Half	
	2001	2000
	(in millions)	
Interest paid	$ 42.6	$ 43.4
Interest received	0.6	0.7
Income taxes paid, net of refunds	7.4	5.9

8. As of the end of the second quarter of 2001, the components of inventory were approximately 44 percent comprised of raw materials and supplies and 56 percent comprised of finished goods, compared to 50 percent and 50 percent, respectively, at fiscal year end 2000.

9. In the first quarter of 2001, the Company recorded a special charge of $4.6 million ($2.8 million after taxes). The charge, related to further organization changes resulting from the transaction with the former PAS, was principally composed of severance and related benefits.

In the fourth quarter of 2000, the Company recorded a special charge of $21.7 million ($13.2 million after taxes). The charge principally included severance payments and related benefits for employees affected by the integration of operations in connection with the acquisition of the former PAS and is more fully explained in the Company's 2000 Annual Report on Form 10-K.

The following table summarizes activity associated with the special charges (in millions):

Accrued liabilities as of fiscal year end 2000

(all employee-related costs)	$ 17.4
Special charge (employee-related costs)	4.6
Acceleration of stock awards vesting	(1.2)
Expenditures for employee-related costs	(15.6)
Accrued liabilities at the end of the second quarter of 2001	$ 5.2

The 2001 and 2000 charges affected approximately 55 employees, of which 6 remain as of the end of the second quarter of 2001. The accrued liabilities remaining as of the end of the second quarter of 2001 are comprised of deferred severance payments and certain employee benefits. The Company expects to pay a significant portion of the $5.2 million of employee related costs, using cash from operations, during the next 12 months; accordingly, such amounts are classified as other current liabilities.

7

10. In connection with the integration of former Whitman Corporation and former PAS domestic benefit plans during the first quarter of 2001, the Company will freeze pension benefit accruals for all salaried and non-union employees effective December 31, 2001. Employees age 50 or older with 10 or more years of vesting service were grandfathered such that they will continue to accrue benefits after December 31, 2001 based on their final average pay as of December 31, 2001. As a result of the curtailment, the Company recognized a one-time curtailment gain of $8.9 million ($5.4 million after taxes). The existing domestic salaried and non-union pension plans will be replaced by an additional Company contribution to the 401(K) plan.

11. The Company uses aluminum swap contracts to hedge against volatility in future cash flows on anticipated aluminum can purchases, the prices of which are indexed to aluminum market prices. Realized gains and losses on aluminum hedge contracts are deferred until the related finished products are sold. See "Quantitative and Qualitative Disclosures About Market Risk - Commodity Prices." Effective at the beginning of fiscal 2001, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS Nos. 137 and 138. In connection with the adoption, the Company recognized an asset for the fair value of aluminum hedges of $1.4 million and reclassified $0.4 million of previously deferred hedging losses to accumulated other comprehensive income. Accordingly, the impact of adopting SFAS No. 133, as amended, was an increase of $1 million in accumulated other comprehensive income, all of which will be reclassified into cost of goods sold during fiscal 2001.

    As of the end of the second quarter of 2001, the Company had deferred $2.3 million of hedging losses in accumulated other comprehensive income, a majority of which will be reclassified into earnings during the next 12 months. The Company has hedged a portion of its anticipated aluminum can purchases through the end of fiscal 2002.

12. The Company continues to be subject to certain indemnification obligations under agreements with previously sold subsidiaries, including potential environmental liabilities. There is significant uncertainty in assessing the Company's share of the potential liability for such indemnification. The assessment and determination for cleanup at the various sites involved is inherently speculative during the early stages, and the Company's indemnification obligations for such costs is subject to various factors, including possible secondary insurance recoveries and the allocation of liabilities among many other potentially responsible and financially

viable parties.

At the end of the second quarter of 2001, the Company had accruals of $18.5 million to cover potential indemnification obligations, including $5 million classified as current liabilities. Such amounts are determined using estimated undiscounted future cash requirements, and have not been reduced by potential future insurance recoveries. During the second quarter of 2000, a trust was established that will be used to satisfy a portion of the future indemnification obligations. No payments were made by the trust during the first half of 2001, and the trust held $34.1 million as of the end of the second quarter of 2001.

The estimated liabilities include expenses for the remediation of identified sites, payments to third parties for claims and expenses, and the expenses of on-going evaluations and litigation. The estimates are based upon the judgments of outside consultants and experts and their evaluations of the characteristics and parameters of the sites, including results from field inspections, test borings and water flows. The estimates are based upon the use of current technology and remediation techniques, and do not take into consideration any inflationary trends upon such claims or expenses, nor do they reflect the possible benefits of continuing improvements in remediation methods. The accruals also do not provide for any claims for environmental liabilities or other potential issues which may occur in the future.

The Company has contingent liabilities from various pending claims and litigation on a number of matters, including indemnification claims under agreements with previously sold subsidiaries for product liability and toxic torts. The ultimate liability for these claims cannot be determined. In the opinion of management, based upon information currently available, the ultimate resolution of these claims and litigation, including potential environmental exposures, and considering amounts already accrued, should not have a material effect on the Company's financial condition, although amounts recorded in a given period could be material to the results of operations or cash flows for that period. Existing environmental liabilities associated with the Company's continuing operations are not material.

13. Basic earnings per share are based upon the weighted-average number of common shares outstanding. Diluted earnings per share assume the exercise of all options which are dilutive, whether exercisable or not. The dilutive effects of stock options are measured under the treasury stock method.

Options to purchase the following shares were not included in the computation of diluted EPS because the exercise price was greater than the average market price of the common shares during the related period:

	Second Quarter		Firs
	2001	2000	2001
Shares under options outstanding	7,614,439	8,696,743	7,614,439
Weighted-average exercise price per share	$ 18.88	$ 17.28	$ 18.88

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

RESULTS OF OPERATIONS
2001 SECOND QUARTER COMPARED WITH 2000 SECOND QUARTER

Due to the transaction with the former PAS completed in November 2000, the Company believes that pro forma results provide a better indication of current operating trends than reported results. Therefore, included within the following discussion are explanations of both reported results and pro forma results.

Pro forma operating results assume the merger with the former PAS occurred at the beginning of 2000 and exclude the impact of special charges and other non-recurring items recorded in both quarters. The Company's business is highly seasonal; accordingly, the operating results of any individual quarter may not be indicative of a full year's operating results.

Sales for the second quarter of 2001 and 2000 were as follows (in millions):

	Reported		Percent	Pro Forma	
	2001	2000	Change	2001	20
Domestic	$ 737.8	$ 598.7	23.2	$ 737.8	$ 7
International	119.0	83.9	41.8	119.0	1
Total Sales	$ 856.8	$ 682.6	25.5	$ 856.8	$ 8

On a reported basis, sales increased $174.2 million, or 25.5 percent, in the second quarter of 2001 compared to the second quarter of 2000, primarily reflecting sales contributed by the additional territories acquired from the former PAS. The balance of the growth in sales resulted primarily from improved pricing.

On a pro forma basis, sales increased $5.9 million, or 0.7 percent. The growth in sales included an increase in domestic sales of $9.5 million and a decrease in international sales of $3.6 million. Excluding sales contributed in 2000 by the beer operations, which the Company divested in the first quarter of 2001, domestic sales increased $22.3 million, or 3.1 percent. The increase in domestic sales resulted from improved pricing, with average revenue per unit up 3.2 percent, on essentially flat volume, up 0.1 percent. On an 8-ounce equivalent case basis, domestic volume grew 0.6 percent, reflecting the continued mix shift to the 20-ounce and 24-ounce polyethylene (PET) packages. Although domestic volume was essentially flat, total Pepsi-Cola brands were stronger, growing approximately one percent, led by the introduction of Mountain Dew Code Red and Pepsi Twist in the second quarter of 2001, as well as Sierra Mist, which was introduced in the fourth quarter of 2000, and continued strong growth in Aquafina. The lower international sales were due primarily to comparison with unusually strong volume growth in the second quarter of 2000, as well as poor weather conditions in Central Europe. Excluding sales in Trinidad and Tobago, territories acquired in December 2000, international sales were down $6.1 million, or 5 percent. In the second quarter of 2001, net appreciation in foreign currency exchange rates had a favorable impact on international sales of approximately $1.6 million.

The consolidated gross profit margin on a reported basis decreased to 40 percent of sales in the second quarter of 2001 compared with 40.9 percent of sales in the second quarter of 2000. The domestic gross profit margin was higher due to higher net selling prices and favorable mix changes, as well as lower costs for packaging and ingredients other than concentrate, partially offset by higher concentrate costs and the inclusion in 2001 of lower margin territories of the former PAS. Beginning in 2001, the Company outsourced its procurement function to PepsiCo. The international gross profit margin decreased due, in part, to the underabsorption of overhead costs resulting from soft volumes in Central Europe, partially offset by favorable impacts of foreign currency exchange rates. A portion of the product costs in the international operations is fixed in U.S. dollars and therefore was not unfavorably affected by net currency appreciation.

10

On a pro forma basis, and excluding prior year results from the divested beer operations, the consolidated gross profit margin increased to 40 percent of sales in the second quarter of 2001 from 39.8 percent in the second quarter of 2000. The domestic gross profit margin was higher due to higher net selling prices and favorable mix changes, as well as lower costs for packaging and ingredients other than concentrate, partially offset by higher concentrate costs. The international gross profit margin was lower due primarily to the underabsorption of overhead costs resulting from soft volumes in Central Europe.

Reported selling, delivery and administrative ("SD&A") expenses represented 27.7 percent of sales in the second quarter of 2001 compared with 27.8 percent in the second quarter of 2000. Domestic SD&A expenses as a percent of sales were essentially flat, as the benefits of cost reduction efforts initiated in the fourth quarter of 2000 were offset by higher integration costs resulting from the territories acquired from the former PAS, along with higher fuel and utilities costs and higher depreciation resulting from continued capital investments. International SD&A expenses as a percent of sales were lower than the prior year, reflecting the impact of the lower cost structure of the Caribbean operations of the former PAS in the second quarter of 2001.

On a pro forma basis, and excluding prior year results from the divested beer operations, SD&A expenses as a percent of sales in the second quarter of 2001 were 27.7 percent compared to 27.6 percent in the second quarter of 2000. Domestic and international SD&A costs as a percent of sales were essentially flat. Domestically, the benefits of cost reduction efforts initiated in the fourth quarter of 2000 were offset by the higher costs previously discussed. Internationally, cost improvements and the benefits of volume growth in the Caribbean, along with favorable impacts of net foreign currency appreciation, were offset by the effects of soft volumes in Central Europe and the inclusion in the second quarter of 2000 of favorable purchase accounting adjustments for depreciation.

As a result of the actions taken with respect to the merger with the former PAS, which resulted in a special charge of $4.6 million ($2.8 million after tax) recorded in the first quarter of 2001 and a special charge of $21.7 million ($13.2 million after tax) recorded in the fourth quarter of 2000, the Company expects to realize annual savings of approximately $16 million, primarily in 2002 and 2003. This includes reduced employee related costs in both the existing territories and the territories of the former PAS and the benefits of centralized procurement through PepsiCo. A portion of the charges recorded in 2000 and 2001 resulted from payments to former executives of the Company, which will not result in future savings or benefits.

Operating income for the second quarter of 2001 and 2000 was as follows (in millions):

	Reported		Percent	Pro Forma	
	2001	2000	Change	2001	20
Domestic	$ 95.0	$ 76.7	23.9	$ 95.0	$
International	(1.4)	2.4	*	(1.4)	
Total Operating Income	$ 93.6	$ 79.1	18.3	$ 93.6	$

* Not meaningful.

In the second quarter of 2001, reported operating income increased $14.5 million, or 18.3 percent. Domestic reported operating income increased $18.3 million, or 23.9 percent, primarily due to the domestic operating income contributed by the acquired territories. International markets incurred operating losses of $1.4 million in the second quarter of 2001 compared to operating income of $2.4 million in the previous year. This unfavorable comparison was due to the lower volumes and the inclusion of $2.1 million of favorable purchase accounting adjustments for depreciation in the second quarter of 2000, as well as the addition in 2001 of operating losses of the Caribbean territories acquired in the fourth quarter of 2000.

11

On a pro forma basis, operating income increased $3.3 million, or 3.7 percent from the second quarter of 2000. Domestic operating income, excluding 2000 results from the divested beer operations, increased $6.7 million, or 7.6 percent due to improved pricing and lower costs for packaging and other ingredients. The increase in domestic operating income was partially offset by the operating loss incurred by the international operations. International markets incurred losses of $1.4 million in the second quarter of 2001 compared to operating income of $1.5 million last year. Operating income in 2000 included favorable purchase accounting adjustments for depreciation of $2.1 million. Absent these adjustments, international operating losses were $0.8 million unfavorable to last year, primarily due to volume shortfalls and losses incurred by Trinidad and Tobago.

Net interest expense increased $3.3 million in the second quarter of 2001 to $24.6 million. This increase was principally due to the increase in the average outstanding net debt resulting from the transaction with the former PAS.

The Company reported other expense of $1.1 million in the second quarter of 2001 compared to other income of $0.9 million reported in the second quarter of 2000, which was not attributed to any one significant item.

RESULTS OF OPERATIONS
2001 FIRST HALF COMPARED WITH 2000 FIRST HALF

Sales for the first half of 2001 and 2000 were as follows (in millions):

	Reported	Pro Forma

	2001	2000	Percent Change	2001	20
Domestic	$1,352.2	$1,092.2	23.8	$1,352.2	$1,3
International	210.0	139.3	50.8	210.0	2
Total Sales	$1,562.2	$1,231.5	26.9	$1,562.2	$1,5

On a reported basis, sales increased $330.7 million, or 26.9 percent, in the first half of 2001 compared to the first half of 2000, primarily reflecting sales contributed by the additional territories acquired from the former PAS. The balance of the growth in sales resulted primarily from improved pricing.

On a pro forma basis, sales increased $24 million, or 1.6 percent. The growth in sales was driven domestically, with an increase of $24.4 million, or 1.8 percent. Excluding results of the Company's divested beer operations, domestic sales increased $37.7 million, or 2.9 percent. The increase in domestic sales resulted from improved pricing, with average net revenue per unit up 3.1 percent, on essentially flat volume, up 0.1 percent. On an 8-ounce equivalent case basis, domestic volume grew one percent, reflecting the continued mix shift to 20-ounce and 24-ounce PET packages. Although domestic volume grew only slightly, total Pepsi-Cola brands were stronger, growing approximately one percent, led by Sierra Mist, which was introduced in the fourth quarter of 2000 and second quarter 2001 introductions of Mountain Dew Code Red and Pepsi Twist, as well as continued strong growth in Aquafina. The lower international sales were due to comparison with unusually strong volume growth in the first half of 2000, particularly in the second quarter, as well as poor weather conditions in Central Europe. Excluding sales in Trinidad and Tobago, territories acquired in December 2000, international sales were down $5.2 million, or 2.5 percent. In the first half of 2001, changes in foreign currency exchange rates did not have a significant impact on international sales.

The consolidated gross profit margin on a reported basis decreased to 39.7 percent of sales in the first half of 2001 compared with 41.3 percent of sales in the first half of 2000. The domestic gross profit margin was lower due primarily to the inclusion in 2001 of lower margin territories of the former PAS. The international gross profit margin decreased due, in part, to the underabsorption of overhead costs resulting from soft volumes in Central Europe.

12

On a pro forma basis, and excluding results from the divested beer operations, the consolidated gross profit margin decreased to 39.8 percent of sales in the first half of 2001 from 40.1 percent in the first half of 2000. The domestic gross profit margin was essentially flat, as increased concentrate costs were offset by the benefits of higher net selling prices and favorable mix, as well as lower costs for packaging and other ingredients. The international gross profit margin was lower due to the underabsorption of overhead costs resulting from weak volumes in Central Europe, partially offset by improved margins in the Caribbean resulting from strong volume and pricing improvements.

Reported SD&A expenses represented 29.4 percent of sales in the first half of 2001 compared with 30.1 percent in the first half of 2000. The decline in the percentage of SD&A expenses is attributable to domestic cost reduction efforts initiated in the fourth quarter of 2000, as well as the impact of the lower cost structure of the Caribbean operations of the former PAS in the first half of 2001.

On a pro forma basis, and excluding results from the divested beer operations, SD&A expenses as a percent of sales in the first half of 2001 were 29.5 percent compared to 29.9 percent in the first half of 2000. Domestic SD&A costs as a percent of sales were lower due to the aforementioned cost reduction efforts, partially offset by higher fuel and utilities costs and higher depreciation resulting from continued capital investments. International SD&A costs as a percent of sales were lower due to cost improvements and the benefits of volume growth in the Caribbean, partially offset by unfavorable comparisons in Central Europe caused by weak volumes and the inclusion in the first half of 2000 of favorable purchase accounting adjustments for depreciation.

Operating income for the first half of 2001 and 2000 was as follows (in millions):

	Reported		Percent	Pro Forma	
	2001	2000	Change	2001	20
Domestic	$ 154.2	$ 126.5	21.9	$ 149.9	$ 1
International	(13.8)	(9.8)	(40.8)	(13.8)	(
Total Operating Income	$ 140.4	$ 116.7	20.3	$ 136.1	$ 1

In the first half of 2001, reported operating income increased $23.7 million, or 20.3 percent. Included in the first half of 2001 were a special charge of $4.6 million and a gain on pension curtailment of $8.9 million. Excluding these non-recurring items, reported operating income increased $19.4 million, or 16.6 percent, primarily due to the domestic operating income contributed by the acquired territories. Reported international operating losses increased by $4 million due primarily to the addition in 2001 of operating losses of the Caribbean territories acquired from the former PAS and the inclusion in the first half of 2000 of $2.1 million of favorable purchase accounting adjustments for depreciation.

On a pro forma basis, operating income increased $5.8 million, or 4.5 percent from the first half of 2000. The improvement was primarily driven by a $6.6 million improvement in domestic operating income, resulting from improved pricing and cost reduction efforts initiated in the fourth quarter of 2000, as well as the benefits of centralized procurement through PepsiCo, partially offset by higher concentrate costs. Excluding the divested beer operations, domestic operating income increased $7.2 million, or 5 percent. International operating losses increased by $0.8 million, driven by the inclusion in the first half of 2000 of $2.1 million of favorable purchase accounting adjustments for depreciation, as well as weak volumes in Central Europe and the inclusion of operating losses of Trinidad and Tobago in the first half of 2001, partially offset by cost improvements and the benefits of volume growth in the Caribbean.

Net interest expense increased $7.5 million in the first half of 2001 to $49.1 million. This increase was principally due to the increase in the average outstanding net debt resulting from the transaction with the former PAS.

13

The Company reported other income of $0.4 million in the first half of 2001 compared to other income of $3 million reported in the first half of 2000.

Included in other income in the first half of 2000 is a gain of $2.6 million resulting from the sale of the franchise operations in the Baltics. Absent this gain, other income was unchanged from the first half of 2000.

LIQUIDITY AND CAPITAL RESOURCES

Net cash provided by continuing operations increased by $31.1 million to $105 million in the first half of 2001. This increase was primarily due to operating cash flow provided by the domestic operations acquired from the former PAS and improved operating cash flow in the existing domestic territories.

Investing activities of $5.1 million in the first half of 2001 included cash paid to acquire the minority partner's interest in the soft drink operations in New Orleans, as well as payments related to the acquisition of Trinidad and Tobago. The Company made capital investments of $90.2 million, net of proceeds from asset sales, in its operations in the first half of 2001 compared with $87.6 million in the first half of 2000. This increase resulted from capital spending in the acquired territories in 2001, partially offset by reduced capital investments to support the Company's cold drink initiative, reflecting the Company's focus on redeploying existing cold drink equipment, along with a reduction in international spending. In addition, the Company is expanding its refurbishment efforts by converting a production facility in Ft. Wayne, Indiana to a refurbishment facility for cold drink equipment. Proceeds from the sales of investments of $1.9 million in the first half of 2001 related to miscellaneous land sales associated with the Company's non-operating real estate subsidiaries.

The Company's total debt increased $43.1 million to $1,416.5 million at the end of the second quarter of 2001, from $1,373.4 million at the end of fiscal 2000. During February and March 2001, the Company issued $200 million and $150 million of notes with coupon rates of 5.95 percent due 2006 and 5.79 percent due 2013, respectively. The notes issued in March 2001 will be remarketed in March 2003, at which time the notes will either be mandatorily purchased and reissued by the underwriter or mandatorily redeemed by the Company. Proceeds from these notes were used to repay outstanding commercial paper. The Company repurchased no shares of its common stock in the first half of 2001, but did repurchase three million shares for $35.7 million in the first half of 2000. On August 1, 2001, the Company announced that it will resume purchasing its common stock under a previously authorized repurchase program, under which approximately 12 million shares remain available for repurchase. The Company declared an annual dividend of four cents per share in the first quarter of 2001, which was paid in the second quarter of 2001. This dividend rate was unchanged from the annual dividend rate in 2000. The issuance of common stock from treasury shares for the exercise of stock options resulted in cash inflows of $8.4 million in the first half of 2001, compared to $1.2 million in the first half of 2000.

The Company has revolving credit agreements with maximum borrowings of $750 million, which act as back-up for the Company's $750 million commercial paper program; accordingly, the Company has a total of $750 million available under the commercial paper program and revolving credit facilities combined. Total commercial paper borrowings were $220 million at the end of the second quarter of 2001. The Company believes that with its existing operating cash flows, available lines of credit, and the potential for additional debt and equity offerings, it will have sufficient resources to fund its future growth and expansion.

RECENT ACCOUNTING PRONOUNCEMENTS

In July 2001, the Financial Accounting Standards Board issued SFAS No. 141, "Business Combinations" and SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 requires the purchase method of accounting to be used for all business combinations initiated after June 30, 2001. The Company does not expect SFAS No. 141 to impact its consolidated financial statements. SFAS No. 142 changes the accounting for goodwill from an amortization method to an impairment-only approach. Goodwill and other intangible assets that have an indefinite life will not be amortized, but rather will be tested for impairment annually or whenever an event occurs indicating that the asset may be impaired. The Company will adopt SFAS No. 142 effective the beginning of fiscal 2002 and expects to cease amortization of substantially all intangible assets, which principally represent franchise rights granted in perpetuity. The Company will test its intangible assets for impairment in fiscal 2002, as required by SFAS No. 142.

FORWARD-LOOKING STATEMENTS

This quarterly report on Form 10-Q contains forward-looking statements of expected future developments, as defined in the Private Securities Litigation Reform Act of 1995. The forward-looking statements in this Form 10-Q refer to the expectations regarding continuing operating improvement and other matters. These forward-looking statements reflect management's expectations and are based on currently available data; however, actual results are subject to future risks and uncertainties, which could materially affect actual performance. Risks and uncertainties that could adversely affect such future performance include, but are not limited to, the following: competition, including product and pricing pressures; changing trends in consumer tastes; changes in the Company's relationship and/or support programs with PepsiCo and other brand owners; market acceptance of new product offerings; weather conditions; cost and availability of raw materials; availability of capital; labor and employee benefit costs; unfavorable interest rate and currency fluctuations; costs of legal proceedings; outcomes of environmental claims and litigation; and general economic, business and political conditions in the countries and territories where the Company operates.

These events and uncertainties are difficult or impossible to predict accurately and many are beyond the Company's control. The Company assumes no obligation to publicly release the result of any revisions that may be made to any forward-looking statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

The Company is subject to various market risks, including risks from changes in commodity prices, interest rates and currency exchange rates.

COMMODITY PRICES

The risk from commodity price changes relates to the Company's ability to recover higher product costs through price increases to customers, which may be limited due to the competitive pricing environment that exists in the soft drink business. The Company uses swap contracts to hedge price fluctuations for a portion of its aluminum requirements. Each contract hedges price fluctuations on a portion of the Company's aluminum can requirements over a specified period of time. Because of the high correlation between aluminum commodity prices and the Company's contractual cost of aluminum cans, the Company considers these hedges to be highly effective. As of the end of the second quarter of 2001, the Company has hedged a portion of its future aluminum requirements through the end of fiscal 2002.

INTEREST RATES

In the first half of 2001, the risk from changes in interest rates was not material to the Company's operations because a significant portion of the Company's debt issues were fixed rate obligations. The Company's floating rate exposure relates to changes in the six month LIBOR rate and the overnight Federal Funds rate. Assuming consistent levels of floating rate debt with those held at the end of the second quarter of 2001, a 50 basis point (0.5 percent) change in each of these rates would have had an impact of approximately $0.6 million on the Company's interest expense in the first half of 2001. The Company has from time to time used interest rate swaps and forward contracts to convert fixed rate debt to floating rate debt and to lock interest rates on debt issues; however, there were no such agreements outstanding at the end of the second quarter of 2001. The Company had cash equivalents throughout the first half of 2001, principally invested in money market funds and commercial paper, which were most closely tied to overnight Federal Funds rates. Assuming a change of 50 basis points in the rate of interest associated with the Company's cash equivalents, interest income would not have changed by a significant amount.

CURRENCY EXCHANGE RATES

Because the Company operates in international franchise territories, it is subject to exposure resulting from changes in currency exchange rates. Currency exchange rates are influenced by a variety of economic factors including local inflation, growth, interest rates and governmental actions, as well as other factors. The Company currently does not hedge the translation risks of investments in its international operations. Any positive cash flows generated by international operations have been reinvested in the operations, or used to repay intercompany loans from the manufacturing operations in Poland.

Based on sales, international operations represented approximately 13 percent of the Company's total operations in the first half of 2001. Changes in currency exchange rates impact the translation of the results of certain international operations from their local currencies into U.S. dollars. If the currency exchange rates had changed by five percent in the first half of 2001, the Company estimates the impact on reported operating income would have been approximately $1 million. This estimate does not take into account the possibility that rates can move in opposite directions and that gains in one category may or may not be offset by losses from another category.

16

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

From approximately 1945 to 1995, various entities owned and operated a hydraulic equipment facility which engaged in chrome plating in the City of Willits, California. The plant site is contaminated by various chemicals and metals. On August 23, 1999, an action entitled Donna M. Avila, et al. v. Willits Environmental Remediation Trust, Remco Hydraulics, Inc., M-C Industries, Inc., Pneumo Abex Corporation and Whitman Corporation, Case No. C99-3941 CAL, was filed in United States District Court for the Northern District of California. On January 16, 2001, a second action, entitled Pamela Jo Alrich, et al. v. Willits Environmental Remediation Trust, et al., Case No. C 01 0266 SI, against essentially the same defendants was filed in the same court. In the two actions, individual plaintiffs claim that the Company is liable for personal injury and/or property damage resulting from environmental contamination at the facility. In July 2001, plaintiffs' counsel asserted that hundreds of additional plaintiffs may be added to the actions. To date, there are approximately 500 plaintiffs in the actions seeking an unspecified amount of damages, punitive damages, injunctive relief and medical monitoring damages from the Company. In August 2001, the Company filed a motion to dismiss the amended complaints filed in these lawsuits. The Company is actively defending the actions. At this time, the Company does not believe these actions are material to the business or financial condition of the Company, although the outcome of the actions cannot be predicted with certainty.

Item 4. Submission of Matters to a Vote of Security Holders.

(a) May 3, 2001 Annual Meeting of Shareholders.

(b) Election of Directors

The following persons were elected at the Annual Meeting of Shareholders held on May 3, 2001 to serve as directors for the ensuing year:

Herbert M. Baum	Jarobin Gilbert, Jr.
Richard G. Cline	Victoria B. Jackson
Pierre S. du Pont	Matthew M. McKenna
Archie R. Dykes	Robert C. Pohlad
Charles W. Gaillard	Robert F. Sharpe, Jr.

(c) Matters Voted Upon

Proposal 1: Election of Directors

The following votes were recorded with respect thereto:

	Votes For	Votes Withheld
Herbert M. Baum	143,717,731	1,011,254
Richard G. Cline	143,750,278	978,707
Pierre S. du Pont	143,719,022	1,009,963
Archie R. Dykes	143,743,404	985,581
Charles W. Gaillard	143,570,632	1,158,353
Jarobin Gilbert, Jr.	143,752,031	976,954
Victoria B. Jackson	143,569,569	1,159,416
Matthew M. McKenna	143,780,372	948,613
Robert C. Pohlad	143,780,372	948,613
Robert F. Sharpe, Jr.	143,620,775	1,108,210

Item 6. Exhibits.

(a) Exhibits.

12. Statement of Calculation of Ratio of Earnings to Fixed Charges.

(b) Reports on Form 8-K.

None

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the

Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

PEPSIAMERICAS, INC.

Date: August 14, 2001

By: /s/ G. MICHAEL DURKIN, JR.

G. Michael Durkin, Jr.
Senior Vice President and Chief Financial Officer
(As Chief Accounting Officer and Duly Authorized Officer of PepsiAmericas, Inc.)