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Keurig Dr Pepper Inc.  
Form 10-Q  
August 08, 2018

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED June 30, 2018

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

KEURIG DR PEPPER INC.

Commission file number 001-33829

Delaware

(State or other jurisdiction of  
incorporation or organization)

98-0517725

(I.R.S. employer  
identification number)

53 South Avenue, Burlington, Massachusetts 01803

(Address of principal executive offices) (Zip code)

(877) 208-9991

(Registrant's telephone number, including area code)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer", "accelerated filer", "smaller reporting company", and "emerging growth company" in Rule 12b-2 of the Securities Exchange Act of 1934.

Large Accelerated Filer <input checked="" type="checkbox"/>	Accelerated Filer <input type="checkbox"/>	Non-Accelerated Filer <input type="checkbox"/>	Smaller Reporting Company <input type="checkbox"/>	Emerging Growth Company <input type="checkbox"/>
(Do not check if a smaller reporting company)				

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Securities Exchange Act of 1934). Yes ☐ No ☒

As of August 6, 2018, there were 1,388,733,463 shares of the registrant's common stock, par value \$0.01 per share, outstanding.



## INTRODUCTORY NOTE

On January 29, 2018, Dr Pepper Snapple Group, Inc. ("DPS" or the "Company") entered into an Agreement and Plan of Merger (the "Merger Agreement") by and among DPS, Maple Parent Holdings Corp. ("Maple") and Salt Merger Sub, Inc., a wholly-owned subsidiary of DPS ("Merger Sub"), whereby Merger Sub would merge with and into Maple, with Maple surviving the merger as a wholly-owned subsidiary of the Company (the "Maple Merger").

Upon consummation of the Maple Merger, which occurred on July 9, 2018, DPS was renamed Keurig Dr Pepper Inc. ("KDP"). KDP continues to operate as a public company traded on the New York Stock Exchange under the ticker symbol "KDP". KDP now conducts the combined business operations of DPS and Maple, including Keurig Green Mountain, Inc. ("Keurig").

In consideration for the Maple Merger, each share of common stock of Maple issued and outstanding immediately prior to the closing of the Maple Merger (the "Effective Time") was converted into the right to receive 96.4 shares of common stock of DPS pursuant to an exchange ratio set forth in the Merger Agreement (the "Acquisition Shares"). The Merger Agreement provided for DPS to declare a special cash dividend equal to \$103.75 per share, subject to any withholding of taxes required by law, payable to holders of its common stock as of the record date for the special dividend, which was July 6, 2018 (such special dividend, together with the Maple Merger, the "Maple Transaction"). As a result of the Maple Transaction, the equity holders of Maple as of immediately prior to the Effective Time own approximately 87% of KDP common stock following the closing and the equityholders of DPS as of immediately prior to the Effective Time own approximately 13% of KDP common stock on a fully diluted basis.

While DPS is the surviving entity in the Maple Merger, because the transaction is treated as a "reverse acquisition", Maple is deemed to be the acquirer for accounting purposes. Accordingly, KDP will apply purchase accounting to the assets and liabilities of DPS as of July 9, 2018. Also, for all future filings under the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended, the historical financial statements of KDP for periods prior to the consummation of the Maple Merger will be those of Maple. DPS' businesses will be included in KDP's financial statements for all periods subsequent to the consummation of the Maple Merger only.

All information included in this report reflects only DPS' results on a stand alone basis for the relevant periods and does not reflect any impact of the Maple Merger.

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ITEM 1. Financial Statements (Unaudited)DR PEPPER SNAPPLE GROUP, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF INCOME  
For the Three and Six Months Ended June 30, 2018 and 2017  
(Unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
(in millions, except per share data)	2018	2017	2018	2017
Net sales	\$1,886	\$1,797	\$3,480	\$3,307
Cost of sales	790	718	1,471	1,325
Gross profit	1,096	1,079	2,009	1,982
Selling, general and administrative expenses	721	681	1,347	1,301
Depreciation and amortization	28	25	55	50
Other operating income, net	(15)	(2)	(14)	(30)
Income from operations	362	375	621	661
Interest expense	43	44	84	84
Interest income	—	(1)	(1)	(2)
Loss on early extinguishment of debt	—	49	—	49
Other income, net	(2)	—	(2)	(1)
Income before provision for income taxes and equity in loss of unconsolidated subsidiaries	321	283	540	531
Provision for income taxes	83	94	137	165
Income before equity in loss of unconsolidated subsidiaries	238	189	403	366
Equity in loss of unconsolidated subsidiaries, net of tax	(3)	(1)	(9)	(1)
Net income	\$235	\$188	\$394	\$365
Earnings per common share:				
Basic	\$1.30	\$1.02	\$2.19	\$1.99
Diluted	1.30	1.02	2.17	1.98
Weighted average common shares outstanding:				
Basic	180.2	183.2	180.1	183.3
Diluted	181.1	183.7	181.0	184.1
Cash dividends declared per common share	\$—	\$0.58	\$0.58	\$1.16

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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DR PEPPER SNAPPLE GROUP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the Three and Six Months Ended June 30, 2018 and 2017

(Unaudited)

	For the Three Months Ended June 30,	For the Six Months Ended June 30,	
(in millions)	2018	2017	2018 2017
Comprehensive income	\$218	\$201	\$396 \$401

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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DR PEPPER SNAPPLE GROUP, INC.  
 CONDENSED CONSOLIDATED BALANCE SHEETS  
 As of June 30, 2018 and December 31, 2017  
 (Unaudited)

	June 30, 2018	December 31, 2017
(in millions, except share and per share data)		
Assets		
Current assets:		
Cash and cash equivalents	\$64	\$61
Restricted cash and restricted cash equivalents	25	18
Accounts receivable:		
Trade, net	814	668
Other	52	42
Inventories	265	229
Prepaid expenses and other current assets	196	99
Total current assets	1,416	1,117
Property, plant and equipment, net	1,183	1,198
Investments in unconsolidated subsidiaries	34	24
Goodwill	3,562	3,561
Other intangible assets, net	3,777	3,781
Other non-current assets	214	279
Deferred tax assets	60	62
Total assets	\$10,246	\$10,022
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$484	\$365
Deferred revenue	64	64
Short-term borrowings and current portion of long-term obligations	264	79
Income taxes payable	39	11
Other current liabilities	675	719
Total current liabilities	1,526	1,238
Long-term obligations	4,126	4,400
Deferred tax liabilities	645	614
Non-current deferred revenue	1,021	1,055
Other non-current liabilities	206	264
Total liabilities	7,524	7,571
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$0.01 par value, 15,000,000 shares authorized, no shares issued	—	—
Common stock, \$0.01 par value, 800,000,000 shares authorized, 180,288,812 and 179,743,028 shares issued and outstanding as of June 30, 2018 and December 31, 2017, respectively	2	2
Additional paid-in capital	—	—
Retained earnings	2,920	2,651
Accumulated other comprehensive loss	(200)	(202)
Total stockholders' equity	2,722	2,451
Total liabilities and stockholders' equity	\$10,246	\$10,022
The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.		





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## DR PEPPER SNAPPLE GROUP, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Six Months Ended June 30, 2018 and 2017

(Unaudited)

	For the Six Months Ended June 30, 2018 2017	
(in millions)		
Operating activities:		
Net income	\$394	\$365
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation expense	99	98
Amortization expense	20	17
Amortization of deferred revenue	(32 )	(32 )
Employee stock-based compensation expense	21	16
Deferred income taxes	44	48
Loss on early extinguishment of debt	—	49
Gain on step acquisition of unconsolidated subsidiaries	—	(28 )
Unrealized losses on economic hedges	3	7
Other, net	1	6
Changes in assets and liabilities, net of effects of acquisition:		
Trade accounts receivable	(148 )	(72 )
Other accounts receivable	(10 )	10
Inventories	(37 )	(35 )
Other current and non-current assets	(103 )	(95 )
Other current and non-current liabilities	18	(5 )
Trade accounts payable	121	24
Income taxes payable	27	37
Net cash provided by operating activities	418	410
Investing activities:		
Acquisition of business	(73 )	(1,550)
Cash acquired in step acquisition of unconsolidated subsidiaries	—	3
Purchase of property, plant and equipment	(79 )	(41 )
Purchase of intangible assets	(5 )	(5 )
Investment in unconsolidated subsidiaries	(19 )	(1 )
Proceeds from disposals of property, plant and equipment	1	1
Other, net	(4 )	(2 )
Net cash used in investing activities	(179 )	(1,595)
Financing activities:		
Proceeds from issuance of senior unsecured notes	—	400
Repayment of senior unsecured notes	—	(248 )
Net repayment of commercial paper	(66 )	—
Repurchase of shares of common stock	—	(177 )
Dividends paid	(209 )	(204 )
Tax withholdings related to net share settlements of certain stock awards	(21 )	(30 )
Proceeds from stock options exercised	7	19
Premium on issuance of senior unsecured notes	—	16

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Proceeds from termination of interest rate swap	—	13
Deferred financing charges paid	—	(5 )
Capital lease payments	(7 )	(5 )
Other, net	—	1
Net cash used in financing activities	(296 )	(220 )
Cash, cash equivalents, restricted cash and restricted cash equivalents — net change from:		
Operating, investing and financing activities	(57 )	(1,405 )
Effect of exchange rate changes on cash, cash equivalents, restricted cash and restricted cash equivalents	—	5
Cash, cash equivalents, restricted cash and restricted cash equivalents at beginning of period	158	1,787
Cash, cash equivalents, restricted cash and restricted cash equivalents at end of period	\$101	\$387

See Note 13 for supplemental cash flow information.

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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## DR PEPPER SNAPPLE GROUP, INC.

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

For the Six Months Ended June 30, 2018

(Unaudited)

	Common		Additional		Accumulated		
	Stock		Paid-In		Other		
(in millions, except per share data)	Issued	Amount	Capital	Retained	Comprehensive	Total	
	Shares			Earnings	Loss	Equity	
Balance as of January 1, 2018	179.7	\$ 2	\$ —	\$2,651	\$ (202 )	\$2,451	
Adoption of new accounting standards	—	—	—	(31 )	—	(31 )	
Shares issued under employee stock-based compensation plans and other	0.6	—	—	—	—	—	
Net income	—	—	—	394	—	394	
Other comprehensive income	—	—	—	—	2	2	
Dividends declared, \$0.58 per share	—	—	1	(106 )	—	(105 )	
Deemed capital contribution from former shareholders of Bai Brands LLC	—	—	4	—	—	4	
Stock options exercised and stock-based compensation	—	—	(5 )	12	—	7	
Balance as of June 30, 2018	180.3	\$ 2	\$ —	\$2,920	\$ (200 )	\$2,722	

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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DR PEPPER SNAPPLE GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. General

References in this Quarterly Report on Form 10-Q to "DPS" or "the Company" refer to Dr Pepper Snapple Group, Inc. and all entities included in the unaudited condensed consolidated financial statements.

This Quarterly Report on Form 10-Q refers to some of DPS' owned or licensed trademarks, trade names and service marks, which are referred to as the Company's brands. All of the product names included herein are either DPS' registered trademarks or those of the Company's licensors.

**BASIS OF PRESENTATION**

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial information and in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete consolidated financial statements. In the opinion of management, all adjustments, consisting principally of normal recurring adjustments, considered necessary for a fair presentation have been included. These unaudited condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements and the notes thereto in the Company's Annual Report on Form 10-K for the year ended December 31, 2017 ("Annual Report").

**PRINCIPLES OF CONSOLIDATION**

DPS consolidates all wholly owned subsidiaries. The Company uses the equity method to account for investments in companies if the investment provides the Company with the ability to exercise significant influence over operating and financial policies of the investee. Consolidated net income includes DPS' proportionate share of the net income or loss of these companies. Judgment regarding the level of influence over each equity method investment includes considering key factors such as ownership interest, representation on the board of directors or similar governing body, participation in policy-making decisions and material intercompany transactions.

The Company is also required to consolidate entities that are variable interest entities ("VIEs") of which DPS is the primary beneficiary. Judgments are made in assessing whether the Company is the primary beneficiary, including determination of the activities that most significantly impact the VIE's economic performance.

The Company eliminates from its financial results all intercompany transactions between entities included in the unaudited condensed consolidated financial statements and the intercompany transactions with its equity method investees.

**USE OF ESTIMATES**

The process of preparing DPS' unaudited condensed consolidated financial statements in conformity with U.S. GAAP requires the use of estimates and judgments that affect the reported amount of assets, liabilities, revenue and expenses. These estimates and judgments are based on historical experience, future expectations and other factors and assumptions the Company believes to be reasonable under the circumstances. These estimates and judgments are reviewed on an ongoing basis and are revised when necessary. Changes in estimates are recorded in the period of change. Actual amounts may differ from these estimates.

**FAIR VALUE**

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Based upon the transparency of inputs to the valuation of an asset or liability, a three-level hierarchy has been established for fair value measurements. The three-level hierarchy for disclosure of fair value measurements is as follows:

Level 1 - Quoted market prices in active markets for identical assets or liabilities.

Level 2 - Observable inputs such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.

Level 3 - Valuations with one or more unobservable significant inputs that reflect the reporting entity's own assumptions.

The fair value of senior unsecured notes and marketable securities as of June 30, 2018 and December 31, 2017 are based on quoted market prices for publicly traded securities.

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DR PEPPER SNAPPLE GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited, Continued)

The Company estimates fair values of financial instruments measured at fair value in the financial statements on a recurring basis to ensure they are calculated based on market rates to settle the instruments. These values represent the estimated amounts the Company would pay or receive to terminate agreements, taking into consideration current market rates and creditworthiness.

As of June 30, 2018 and December 31, 2017, the Company did not have any assets or liabilities measured on a recurring basis without observable market values that would require a high level of judgment to determine fair value (Level 3).

Transfers between levels are recognized at the end of each reporting period. There were no transfers of financial instruments between the three levels of fair value hierarchy during the three and six months ended June 30, 2018 and 2017.

Refer to Notes 6, 7, 12 and 13 for additional information.

**RECLASSIFICATIONS**

Pension and other post-retirement benefit plan expenses of \$2 million and \$3 million for the three and six months ended June 30, 2017, respectively, were reclassified from selling, general & administrative ("SG&A") expenses to other income, net, as a result of the retrospective adoption of Accounting Standard Update ("ASU") 2017-07, Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost ("ASU 2017-07"). Refer to Recently Adopted Provisions of U.S. GAAP below.

**RECENTLY ISSUED ACCOUNTING STANDARDS**

**Effective in 2019**

In February 2016, the Financial Accounting Standards Board ("FASB") issued ASU 2016-02, Leases (Topic 842) ("ASU 2016-02"). The ASU replaces the prior lease accounting guidance in its entirety. The underlying principle of the new standard is the recognition of lease assets and lease liabilities by lessees for substantially all leases, with an exception for leases with terms of less than twelve months. The standard also requires additional quantitative and qualitative disclosures.

Topic 842 is effective for interim and annual reporting periods beginning after December 15, 2018, and early adoption is permitted. Topic 842 requires a modified retrospective approach, which includes several optional practical expedients. The Company intends to adopt the standard during the quarter ending March 31, 2019. The Company has assembled a cross functional project management team, selected a software provider and has begun the implementation of the software. The Company anticipates the impact of Topic 842 will be significant to its Consolidated Balance Sheet due to the amount of the Company's lease commitments.

In August 2017, the FASB issued ASU 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities ("ASU 2017-12"). The objective of the ASU is to improve the financial reporting of hedging relationships in order to better portray the economic results of an entity's risk management activities in its financial statements and to make certain targeted improvements to simplify the application of hedge accounting guidance. ASU 2017-12 is effective for interim and annual reporting periods beginning after December 15, 2018, and early adoption is permitted. The Company is currently evaluating the impact of ASU 2017-12 on the Company's consolidated financial statements.

In February 2018, the FASB issued ASU 2018-02, Income Statement - Reporting Comprehensive Income (Topic 220) ("ASU 2018-02"). The objective of the ASU is to allow a reclassification from accumulated comprehensive income (loss) to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act ("TCJA") and will improve the usefulness of information reported to financial statement users. ASU 2018-02 is effective for interim and annual reporting periods beginning after December 15, 2018, and early adoption is permitted. The Company is currently evaluating the impact of ASU 2018-02 on the Company's consolidated financial statements.

**RECENTLY ADOPTED PROVISIONS OF U.S. GAAP**

As of January 1, 2018, the Company adopted Revenue from Contracts with Customers (Topic 606) ("ASC 606"). The new guidance sets forth a new five-step revenue recognition model which replaces the prior revenue recognition guidance in its entirety and is intended to eliminate numerous industry-specific pieces of revenue recognition guidance that have historically existed in U.S. GAAP. The underlying principle of the new standard is that a business or other organization will recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects what it expects to receive in exchange for the goods or services. The standard also requires more detailed disclosures and provides additional guidance for transactions that were not addressed completely in the prior accounting guidance. The Company adopted the standard using the modified retrospective method and recognized the cumulative effect of initially applying the standard, which was primarily driven by the acceleration of certain customer incentives, as a \$35 million reduction to the opening balance of retained earnings. The Company expects that the impact to net income of the new standard will be immaterial on an ongoing annual basis; however, the Company does anticipate that the new standard will have an impact on its net sales in interim periods due to timing. The comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods. Refer to Note 3 for additional information regarding the Company's adoption of ASC 606.

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DR PEPPER SNAPPLE GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited, Continued)

As of January 1, 2018, the Company adopted ASU 2016-16, Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other than Inventory ("ASU 2016-16"). ASU 2016-16 requires entities to recognize the income tax consequences of intra-entity transfers of assets other than inventories when such transfers occur. The ASU was adopted on a modified retrospective basis through a cumulative-effect adjustment, which resulted in an increase to the opening balance of retained earnings of approximately \$4 million as of January 1, 2018.

As a result of the adoption of ASC 606 and ASU 2016-16, retained earnings decreased approximately \$31 million as of January 1, 2018.

As of January 1, 2018, the Company adopted ASU 2017-07, which requires employers who offer defined benefit pension plans or other post-retirement benefit plans to report the service cost component within the same income statement caption as other compensation costs arising from services rendered by employees during the period. The ASU also requires the other components of net periodic benefit cost to be presented separately from the service cost component, in a caption outside of a subtotal of income from operations. Additionally, the ASU provides that only the service cost component is eligible for capitalization. As a result of the adoption, the Company reclassified \$2 million and \$3 million for the three and six months ended June 30, 2017, respectively, from SG&A expenses to other income, net.

As of January 1, 2018, the Company adopted ASU 2016-01, Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities ("ASU 2016-01"), which makes several targeted improvements to U.S. GAAP. Among other things, ASU 2016-01 eliminates the cost method of accounting and investments in equity securities which were previously accounted for under the cost method must now be measured at fair value, with changes in fair value recognized in net income, under guidance in the newly added Topic 321, Investments - Equity Securities, to the Accounting Standards Codification. Equity instruments that do not have readily determinable fair values may be measured at cost less impairment, plus or minus changes resulting from observable price changes in orderly transactions for identical or similar investments of the same issuer. The Company also adopted ASU 2018-03, Technical Corrections and Improvements to Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities, which provides clarification on certain guidance issued under ASU 2016-01. The Company holds two investments in equity securities which were accounted for under the cost method of accounting prior to January 1, 2018, which do not have readily determinable fair values. The adoption of these standards did not have a material impact on such investments or the Company's consolidated financial statements.

2. Acquisitions and Investments in Unconsolidated Subsidiaries

ANNOUNCEMENT OF MERGER WITH MAPLE PARENT HOLDINGS CORP.

On January 29, 2018, DPS entered into an Agreement and Plan of Merger (the "Merger Agreement") by and among DPS, Maple Parent Holdings Corp. ("Maple") and Salt Merger Sub, Inc., a wholly-owned subsidiary of DPS ("Merger Sub"), whereby Merger Sub would merge with and into Maple, with Maple surviving the merger as a wholly-owned subsidiary of the Company (the "Maple Merger").

On July 9, 2018, the Maple Merger was completed. Refer to Note 17 for additional information.

BAI BRANDS MERGER UPDATE

On January 31, 2018, the purchase price allocation for the merger with Bai Brands LLC ("Bai Brands") ("Bai Brands Merger") was finalized. There were no changes from the preliminary purchase price allocation as of December 31, 2017, as disclosed in our Annual Report.

In February 2018, the arbitration between the Company and the former shareholders of Bai Brands was completed and the working capital adjustment, which was agreed upon during the year ended December 31, 2017, was released from restricted cash. In June 2018, the Company released an additional \$69 million from escrow upon resolution of certain indemnification obligations. The remaining non-current restricted cash and corresponding non-current holdback liability, net of any claims, are anticipated to be released approximately four years after the acquisition date, subject to



certain administrative conditions.

The following table provides a rollforward of the holdback placed in escrow from December 31, 2017 to June 30, 2018:

(in millions)	Indemnification Escrow	Unrecognized Compensation Costs	Total Holdback Liability
Balance as of December 31, 2017	\$ 79	\$ 7	\$ 86
Release from escrow to former Bai Brands shareholders	(69 )	—	(69 )
Recognized compensation costs	—	(4 )	(4 )
Balance as of June 30, 2018	\$ 10	\$ 3	\$ 13

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DR PEPPER SNAPPLE GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited, Continued)

## TRANSACTION AND INTEGRATION EXPENSES

The following table provides information about the Company's transaction and integration expenses incurred during the three and six months ended June 30, 2018 and 2017:

	For the		For the	
	Three		Six	
	Months		Months	
	Ended		Ended	
	June 30,		June 30,	
(in millions)	2018	2017	2018	2017
Maple Merger	11	—	\$23	\$ —
Bai Brands Merger	—	1	1	20
Total transaction and integration expenses incurred	\$11	\$ 1	\$24	\$ 20

## INVESTMENTS IN UNCONSOLIDATED SUBSIDIARIES

On January 5, 2018, the Company acquired a 5.1% interest in Core Nutrition, LLC ("Core") for \$18 million. The investment is accounted for as an equity method investment as the Company is deemed to have the ability to exercise significant influence through a more than minor interest in the investee in accordance with U.S. GAAP.

## 3. Revenues

The Company recognizes revenue when obligations under the terms of a contract with the customer are satisfied. Branded product sales, which include carbonated soft drinks ("CSDs"), non-carbonated beverages ("NCBs") and allied brand sales, occur once control is transferred upon delivery to the customer's facility. Contract manufacturing sales occur once control is transferred, either upon shipment or at the time the finished goods are ready for shipment and billed to the customer, based upon the terms of the contract with the customer. Revenue is measured as the amount of consideration the Company expects to receive in exchange for transferring goods. The amount of consideration the Company receives and revenue the Company recognizes varies with changes in customer incentives the Company offers to its customers and their customers. Sales taxes and other similar taxes are excluded from revenue. Costs associated with shipping and handling activities, such as merchandising, are included in SG&A expenses as revenue is recognized.

The Company entered into arrangements during 2010 to license the manufacturing and distribution of certain brands to PepsiCo, Inc. ("PepsiCo") and The Coca-Cola Company ("Coca-Cola") and to sell and deliver all concentrates used in the manufacture of licensed beverages under these arrangements as PepsiCo and Coca-Cola place orders for these concentrates. In these cases, the Company first determined whether the arrangements represented separate performance obligations. The primary requirements to meet the separate performance obligation criteria is whether the performance obligation is capable of being distinct and distinct in the context of the contract. As the sale of the manufacturing and distribution rights and the ongoing sales of concentrate would not have economic benefit to the customer on its own or together with other resources that are available to the customer and the promises are not capable of being distinct, only one performance obligation was identified for these arrangements. The one-time nonrefundable cash receipts from PepsiCo and Coca-Cola were therefore recorded as deferred revenue and are recognized as net sales ratably over time during the estimated 25-year life of the customer relationship.

For the three and six months ended June 30, 2018, the Company recognized \$16 million and \$32 million, respectively, of net sales that were included in deferred revenue at the beginning of the respective periods, which relates to the PepsiCo and Coca-Cola arrangements primarily within the Beverage Concentrates operating segment.

The adoption of ASC 606 resulted in an immaterial impact to the individual financial statement line items of the Company's unaudited Condensed Consolidated Statements of Income during the three and six months ended June 30, 2018.



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DR PEPPER SNAPPLE GROUP, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited, Continued)

Information about the Company's net sales by reporting segment and portfolio for the three and six months ended June 30, 2018 and 2017 is as follows:

(in millions)	Beverage Concentrates	Packaged Beverages	Latin America Beverages	Total
For the three months ended June 30, 2018:				
CSDs <sup>(1)</sup>	\$ 348	\$ 528	\$ 96	\$972
NCBs <sup>(2)</sup>	3	567	40	610
Contract manufacturing <sup>(3)</sup>	1	78	—	79
Allied brand sales <sup>(4)</sup>	—	196	—	196
Other <sup>(5)</sup>	20	9	—	29
Net sales	\$ 372	\$ 1,378	\$ 136	\$1,886
For the six months ended June 30, 2018:				
CSDs <sup>(1)</sup>	\$ 628	\$ 1,005	\$ 172	\$1,805
NCBs <sup>(2)</sup>	6	1,044	76	1,126
Contract manufacturing <sup>(3)</sup>	1	147	1	149
Allied brand sales <sup>(4)</sup>	—	343	—	343
Other <sup>(5)</sup>	40	17	—	57
Net sales	\$ 675	\$ 2,556	\$ 249	\$3,480
For the three months ended June 30, 2017: <sup>(6)</sup>				
CSDs <sup>(1)</sup>	\$ 332	\$ 521	\$ 98	\$951
NCBs <sup>(2)</sup>	3	546	40	589
Contract manufacturing <sup>(3)</sup>	1	67	1	69
Allied brand sales <sup>(4)</sup>	—	159	—	159
Other <sup>(5)</sup>	20	9	—	29
Net sales	\$ 356	\$ 1,302	\$ 139	\$1,797
For the six months ended June 30, 2017: <sup>(6)</sup>				
CSDs <sup>(1)</sup>	\$ 603	\$ 983	\$ 164	\$1,750
NCBs <sup>(2)</sup>	6	995	72	1,073
Contract manufacturing <sup>(3)</sup>	1	127	1	129
Allied brand sales <sup>(4)</sup>	—	298	—	298
Other <sup>(5)</sup>	40	17	—	57
Net sales	\$ 650	\$ 2,420	\$ 237	\$3,307

Represents product sales of owned CSD brands within our portfolio and the net sales recognized ratably under the (1)PepsiCo and Coca-Cola arrangements. Product sales include the sale of beverage concentrates, syrup and packaged beverages.

(2)

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Represents product sales of owned NCB brands within our portfolio. Product sales primarily include packaged beverages.

(3) Net sales from contract manufacturing, bottling beverages and other products for private label owners or others.

(4) Allied brand sales represent product distribution of third party brands.

(5) Other sales include miscellaneous revenues, such as royalties.

(6) Prior period amounts were not adjusted for the adoption of the new revenue recognition guidance under ASC 606.

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DR PEPPER SNAPPLE GROUP, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited, Continued)

Information about the Company's net sales by reporting segment and geography for the three and six months ended June 30, 2018 and 2017 is as follows:

(in millions)	Beverage Concentrates	Packaged Beverages	Latin America Beverages	Total
For the three months ended June 30, 2018:				
United States ("U.S.")	\$ 350	\$ 1,331	\$ —	\$1,681
Canada	22	47	—	69
Latin America and other <sup>(1)</sup>	—	—	136	136
Net sales	\$ 372	\$ 1,378	\$ 136	\$1,886
For the six months ended June 30, 2018:				
U.S.	\$ 634	\$ 2,477	\$ —	\$3,111
Canada	41	79	—	120
Latin America and other <sup>(1)</sup>	—	—	249	249
Net sales	\$ 675	\$ 2,556	\$ 249	\$3,480
For the three months ended June 30, 2017: <sup>(2)</sup>				
U.S.	\$ 336	\$ 1,260	\$ —	\$1,596
Canada	20	42	—	62
Latin America and other <sup>(1)</sup>	—	—	139	139
Net sales	\$ 356	\$ 1,302	\$ 139	\$1,797
For the six months ended June 30, 2017: <sup>(2)</sup>				
U.S.	\$ 613	\$ 2,349	\$ —	\$2,962
Canada	37	71	—	108
Latin America and other <sup>(1)</sup>	—	—	237	237
Net sales	\$ 650	\$ 2,420	\$ 237	\$3,307

(1) Other includes immaterial net sales in geographical locations outside of U.S., Latin America and Canada.

(2) Prior period amounts were not adjusted for the adoption of the new revenue recognition guidance under ASC 606.

## 4. Goodwill and Other Intangible Assets

## CHANGE IN THE COMPANY'S OPERATING SEGMENTS AND REPORTING UNITS

As of January 1, 2018, due to changes to the information reviewed by the chief operating decision maker and limited availability of discrete financial information, the Company has determined that Bai no longer meets the criteria to be considered an operating segment. Therefore, as of January 1, 2018, the Company has three operating segments: Beverage Concentrates, Packaged Beverages, and Latin America Beverages. There is no change to the Company's reportable segments, as previously Bai and Packaged Beverages Excluding Bai were aggregated into the Packaged Beverages reportable segment.

The Company has additionally concluded that Bai meets the criteria to be considered a component of the Packaged Beverages segment. However, as the economic characteristics of Bai and Warehouse Direct ("WD") are similar, the Company has aggregated Bai and WD into a single reporting unit as of January 1, 2018.

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DR PEPPER SNAPPLE GROUP, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited, Continued)

## GOODWILL

Changes in the carrying amount of goodwill by reporting unit are as follows:

(in millions)	Beverage Concentrates	WD Reporting Unit <sup>(1)</sup>	DSD Reporting Unit <sup>(1)</sup>	Bai <sup>(1)</sup>	Latin America Beverages	Total
Balance as of December 31, 2017						
Goodwill	\$ 1,733	\$ 1,222	\$ 189	\$ 568	\$ 29	\$ 3,741
Accumulated impairment losses	—	—	(180 )	—	—	(180 )
	1,733	1,222	9	568	29	3,561
Foreign currency impact	—	—	—	—	1	1
Reclassifications <sup>(2)</sup>	—	568	—	(568 )	—	—
Balance as of June 30, 2018						
Goodwill	1,733	1,790	189	—	30	3,742
Accumulated impairment losses	—	—	(180 )	—	—	(180 )
	\$ 1,733	\$ 1,790	\$ 9	\$ —	\$ 30	\$ 3,562

(1) As of January 1, 2018, the Packaged Beverages operating segment is comprised of three reporting units, the Direct Store Delivery ("DSD") system, WD and Bai.

As of January 1, 2018, due to changes in the Company's operating segments and reporting units, the goodwill (2) associated with the Bai operating segment was reclassified to the WD reporting unit. Refer to Change in the Company's Operating Segments and Reporting Units above.

## INTANGIBLE ASSETS OTHER THAN GOODWILL

The net carrying amounts of intangible assets other than goodwill are as follows:

(in millions)	June 30, 2018			December 31, 2017		
	Gross Amount	Accumulated Amortization	Net Amount	Gross Amount	Accumulated Amortization	Net Amount
Intangible assets with indefinite lives:						
Brands	\$3,694		\$ 3,694	\$3,694		\$ 3,694
Distribution rights	33		33	32		32
Intangible assets with definite lives:						
Customer relationships	106	\$ (82 )	24	106	\$ (79 )	27
Non-compete agreements	22	(6 )	16	22	(2 )	20
Distribution rights	21	(11 )	10	18	(10 )	8
Brands	29	(29 )	—	29	(29 )	—
Bottler agreements	19	(19 )	—	19	(19 )	—
Total	\$3,924	\$ (147 )	\$ 3,777	\$3,920	\$ (139 )	\$ 3,781

Amortization expense for intangible assets with definite lives was \$5 million and \$8 million for the three and six months ended June 30, 2018, respectively. Amortization expense for intangible assets with definite lives was \$1 million and \$3 million for the three and six months ended June 30, 2017, respectively.

Amortization expense of these intangible assets over the remainder of 2018 and the next four years is expected to be as follows:

(in millions)	Remainder of 2018	For the Years Ending December 31,			
		2019	2020	2021	2022
Projected amortization expense for intangible assets with definite lives	\$ 8	\$ 14	\$ 10	\$ 6	\$ 6





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DR PEPPER SNAPPLE GROUP, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited, Continued)

## IMPAIRMENT TESTING

The Company conducts impairment tests on goodwill and all indefinite lived intangible assets annually or more frequently if circumstances indicate that the carrying amount of an asset may not be recoverable. DPS did not identify any circumstances that indicated that the carrying amount of any goodwill or any indefinite lived intangible asset may not be recoverable as of June 30, 2018.

## 5. Income Taxes

The legislation commonly referred to as the Tax Cuts and Jobs Act (the "TCJA") was enacted on December 22, 2017. The TCJA reduced the U.S. federal statutory tax rate from 35% to 21% effective January 1, 2018, repealed the domestic manufacturing deduction effective January 1, 2018 and made changes to the international tax rules. The effective tax rates for the three months ended June 30, 2018 and 2017 were 25.9% and 33.2%, respectively. The effective tax rates for the six months ended June 30, 2018 and 2017 were 25.4% and 31.1%, respectively.

The following is a reconciliation of the provision for income taxes computed at the U.S. federal statutory tax rate to the provision for income taxes reported in the unaudited Condensed Consolidated Statements of Income:

	For the Three Months Ended June 30,				For the Six Months Ended June 30,			
	2018		2017		2018		2017	
(in millions)	Dollar	Percent	Dollar	Percent	Dollar	Percent	Dollar	Percent
Statutory federal income tax <sup>(1)</sup>	\$67	21.0 %	\$99	35.0 %	\$113	21.0 %	\$186	35.0 %
State income taxes, net <sup>(2)</sup>	16	4.9 %	4	1.4 %	26	4.7 %	12	2.3 %
US federal domestic manufacturing benefit <sup>(3)</sup>	—	— %	(7 )	(2.5 )%	—	— %	(13 )	(2.4 )%
Impact of non-US operations <sup>(4)</sup>	1	0.3 %	(3 )	(1.1 )%	2	0.4 %	(4 )	(0.8 )%
Stock-based compensation benefit <sup>(5)</sup>	(1 )	(0.3 )%	(1 )	(0.4 )%	(6 )	(1.1 )%	(19 )	(3.6 )%
Other	—	— %	2	0.8 %	2	0.4 %	3	0.6 %
Total income tax provision	\$83	25.9 %	\$94	33.2 %	\$137	25.4 %	\$165	31.1 %

For the three and six months ended June 30, 2018, the TCJA

(1) reduced the U.S. federal statutory tax rate from 35% to 21%.

decreased the federal income tax benefit from the deduction of state income taxes from 35% to 21%; additionally, (2) for the prior year period, state income taxes included a benefit of \$6 million due primarily to an agreement for an improved filing group with a state taxing authority, which was not related to the TCJA.

(3) repealed the U.S. federal domestic manufacturing deduction.

(4) caused the impact of non-U.S. operations to switch from an income tax benefit to an income tax detriment due to the lower U.S. federal statutory tax rate.

(5) reduced the tax benefit from stock-based compensation for the six months ended June 30, 2018 due to the lower U.S. federal statutory tax rate; additionally, the pre-tax windfall in the current period was less than the prior period.

On December 22, 2017, the SEC staff issued Staff Accounting Bulletin ("SAB") 118, Income Tax Accounting Implications of the Tax Cuts and Jobs Act ("SAB 118"), which provides guidance on accounting for the impact of the TCJA, in effect allowing an entity to use a methodology similar to the measurement period in a business combination for tax impacts effective in the fourth quarter of 2017. Pursuant to the provisions of SAB 118, as of June 30, 2018, the Company has not completed its accounting for the tax effects of the TCJA. The Company recorded a reasonable estimate of the impact from the TCJA, but is still analyzing the TCJA and refining our calculations. Additionally, future guidance from the Internal Revenue Service, SEC, or the FASB could result in changes to our accounting for the tax effects of the TCJA.

The Company had been pursuing U.S. Competent Authority relief through the IRS related to an adjustment proposed by the Canada Revenue Authority ("CRA"). The Company will accept the terms of the mutual agreement between the

CRA and IRS.

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DR PEPPER SNAPPLE GROUP, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited, Continued)

## 6. Long-term Obligations and Borrowing Arrangements

The following table summarizes the Company's long-term obligations:

	June 30, 2018	December 31, 2017
(in millions)		
Senior unsecured notes	\$4,205	\$ 4,230
Capital lease obligations	185	183
Subtotal	4,390	4,413
Less - current portion	(264 )	(13 )
Long-term obligations	\$4,126	\$ 4,400

The following table summarizes the Company's short-term borrowings and current portion of long-term obligations:

	Fair Value Hierarchy Level	June 30, 2018 Carrying Value	Fair Value	December 31, 2017 Carrying Value	Fair Value
(in millions)					
Commercial paper	1	\$ —	\$ —	\$ 66	\$ 66
Current portion of long-term obligations:					
Senior unsecured notes	2	249	249	—	—
Capital lease obligations <sup>(1)</sup>	N/A	15		13	
Short-term borrowings and current portion of long-term obligations		\$ 264	\$ 249	\$ 79	\$ 66

(1) Capital lease obligations are specifically excluded from the calculation of fair value under U.S. GAAP.

## SENIOR UNSECURED NOTES

The Company's senior unsecured notes (collectively, the "Notes") consisted of the following carrying values and estimated fair values that are not required to be measured at fair value in the Consolidated Balance Sheets are as follows:

			Fair Value Hierarchy Level	June 30, 2018 Carrying Value	Fair Value	December 31, 2017 Carrying Value	Fair Value
(in millions)							
Issuance	Maturity Date	Rate					
2019 Notes	January 15, 2019	2.60%	2	\$250	\$249	\$250	\$251
2020 Notes	January 15, 2020	2.00%	2	250	246	250	248
2021-A Notes	November 15, 2021	3.20%	2	250	246	250	255
2021-B Notes	November 15, 2021	2.53%	2	250	242	250	249
2022 Notes	November 15, 2022	2.70%	2	250	242	250	248
2023 Notes	December 15, 2023	3.13%	2	500	489	500	504
2025 Notes	November 15, 2025	3.40%	2	500	473	500	508
2026 Notes	September 15, 2026	2.55%	2	400	353	400	378
2027 Notes	June 15, 2027	3.43%	2	500	468	500	501
2038 Notes	May 1, 2038	7.45%	2	125	163	125	179
2045 Notes	November 15, 2045	4.50%	2	550	503	550	588
2046 Notes	December 15, 2046	4.42%	2	400	375	400	424
Principal amount				\$4,225	\$4,049	\$4,225	\$4,333
Unamortized premiums, discounts, and debt issuance costs				(12 )		(13 )	

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Adjustments to carrying value for interest rate swaps <sup>(1)</sup>	(8 )	18
Carrying amount	\$4,205	\$4,230

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(1) Refer to Note 7 for additional information on the Company's interest rate swaps.

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DR PEPPER SNAPPLE GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited, Continued)

The indentures governing the Notes, among other things, limit the Company's ability to incur indebtedness secured by principal properties, to enter into certain sale and leaseback transactions and to enter into certain mergers or transfers of substantially all of DPS' assets. The Notes are guaranteed by all of the Company's existing and future direct and indirect subsidiaries that guarantee any of the Company's other indebtedness.

The fair value amounts of long term debt were based on current market rates available to the Company. The difference between the fair value and the carrying value represents the theoretical net premium or discount that would be paid or received to retire all debt and related unamortized costs to be incurred at such date. The carrying amount includes the unamortized discounts and issuance costs on the issuance of debt and impact of interest rate swaps designated as fair value hedges and other hedge related adjustments. Refer to Note 7 for additional information regarding the notes subject to fair value hedges.

On May 17, 2018, the Company commenced an offer to exchange up to \$100 million of its outstanding 3.43% Senior Notes due 2027, which were privately placed on June 15, 2017, for a like principal amount of 3.43% Senior Notes due 2027 that have been registered under the Securities Act of 1933, as amended (the "Securities Act"), and up to \$300 million of its outstanding 4.50% Senior Notes due 2045, which were privately placed on June 15, 2017, for a like principal amount of 4.50% Senior Notes due 2045 that have been registered under the Securities Act (the "Exchange Offer"). On June 14, 2018, the Company completed the Exchange Offer.

**BORROWING ARRANGEMENTS****Commercial Paper Program**

The following table provides information about the Company's weighted average borrowings under its commercial paper program for the three and six months ended June 30, 2018 and 2017:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
(in millions, except percentages)				
Weighted average commercial paper borrowings <sup>(1)</sup>	\$73	\$28	\$94	\$17
Weighted average borrowing rates	2.29%	1.20%	2.09%	1.14%

(1) Borrowings during the period had maturities of 90 days or less.

Upon execution of the Merger Agreement on January 29, 2018, the Company became limited to a maximum aggregate amount of commercial paper outstanding of \$200 million until the merger close date, unless it obtained Maple's approval. Refer to Notes 2 and 17 for additional information about the Merger Agreement.

**Unsecured Credit Agreement**

The following table provides amounts utilized and available under the revolving line of credit (the "Revolver") as of June 30, 2018:

(in millions)	Amount Utilized	Balances Available
Revolver	\$ —	\$ 500
Letters of credit	—	75

The Company terminated the unsecured credit agreement (the "Credit Agreement") effective on July 9, 2018 in connection with the Maple Merger. Refer to Note 17 for additional information.

**Shelf Registration Statement**

The Company filed a "well-known seasoned issuer" shelf registration statement with the SEC, effective September 2, 2016, which registered an indeterminate amount of securities for future sales. The Company's Board of Directors (the "Board") authorizes the amount of securities that the Company may issue. As of June 30, 2018, \$50 million remained

authorized to be issued under the Board's authorization.

Letters of Credit Facilities

In addition to the portion of the Revolver reserved for issuance of letters of credit, the Company has incremental letters of credit facilities. Under these facilities, \$120 million is available for the issuance of letters of credit, \$60 million of which was utilized as of June 30, 2018 and \$60 million of which remains available for use.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited, Continued)

## 7. Derivatives

DPS is exposed to market risks arising from adverse changes in interest rates, foreign exchange ("FX") rates, and commodity prices affecting the cost of raw materials and fuels. The Company manages these risks through a variety of strategies, including the use of interest rate contracts, FX forward contracts, commodity forward and future contracts and supplier pricing agreements. DPS does not hold or issue derivative financial instruments for trading or speculative purposes.

The Company formally designates and accounts for certain interest rate contracts and foreign exchange forward contracts that meet established accounting criteria under U.S. GAAP as either fair value or cash flow hedges. For derivative instruments that are designated and qualify as cash flow hedges, the effective portion of the gain or loss on the derivative instruments is recorded, net of applicable taxes, in Accumulated Other Comprehensive Loss ("AOCL"), a component of Stockholders' Equity in the unaudited Condensed Consolidated Balance Sheets. When net income is affected by the variability of the underlying transaction, the applicable offsetting amount of the gain or loss from the derivative instrument deferred in AOCL is reclassified to net income and is reported as a component of the unaudited Condensed Consolidated Statements of Income. For derivative instruments that are designated and qualify as fair value hedges, the effective change in the fair value of the instrument, as well as the offsetting gain or loss on the hedged item attributable to the hedged risk, are recognized immediately in current-period earnings. For derivatives that are not designated or are de-designated as a hedging instrument, the gain or loss on the instrument is recognized in earnings in the period of change. Cash flows from derivative instruments designated in a qualifying hedging relationship are classified in the same category as the cash flows from the hedged items.

Certain interest rate contracts qualify for the "shortcut" method of accounting for hedges under U.S. GAAP. Under the shortcut method, the hedges are assumed to be perfectly effective and no ineffectiveness is recorded in earnings. For all other designated hedges, the Company assesses whether the derivative instrument is effective in offsetting the changes in fair value or variability of cash flows at the inception of the derivative contract. DPS measures hedge ineffectiveness on a quarterly basis throughout the designated period. Changes in the fair value of the derivative instrument that do not effectively offset changes in the fair value of the underlying hedged item throughout the designated hedge period are recorded in earnings each period.

If a fair value or cash flow hedge were to cease to qualify for hedge accounting, or were terminated, the derivatives would continue to be carried on the balance sheet at fair value until settled and hedge accounting would be discontinued prospectively. If the underlying hedged transaction ceases to exist, any associated amounts reported in AOCL would be reclassified to earnings at that time.

## INTEREST RATES

## Fair Value Hedges

The Company is exposed to the risk of changes in the fair value of certain fixed-rate debt attributable to changes in interest rates and manages these risks through the use of receive-fixed, pay-variable interest rate swaps. Any ineffectiveness is recorded as interest during the period incurred. The following table presents information regarding these interest rate swaps and the associated hedging relationships:

(\$ in millions)		Method of measuring effectiveness	Notional value	Impact to the carrying value of long-term debt	
Period entered	Hedging relationship			June 30, 2018	December 31, 2017
November 2011	2019 Notes	Short cut method	\$ 100	\$(1)	\$ —

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November 2011	2021-A Notes	2	Short cut method	150	(4 )	(1 )	
November 2012	2020 Notes	5	Short cut method	120	(3 )	(2 )	
December 2016	2021-B Notes	2	Short cut method	250	(8 )	(4 )	
December 2016	2023 Notes	2	Short cut method	150	(7 )	(3 )	
January 2017	2022 Notes	4	Regression	250	6	17	
June 2017	2038 Notes	1	Regression	50	9	11	
				\$ 1,070	\$(8)	\$ 18	



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DR PEPPER SNAPPLE GROUP, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited, Continued)

## FOREIGN EXCHANGE

## Cash Flow Hedges

The Company's Canadian and Mexican businesses purchase certain inventory through transactions denominated and settled in United States ("U.S.") dollars, a currency different from the functional currency of those businesses. These inventory purchases are subject to exposure from movements in exchange rates. During the three and six months ended June 30, 2018 and 2017, the Company utilized FX forward contracts designated as cash flow hedges to manage the exposures resulting from changes in these foreign currency exchange rates. The intent of these FX contracts is to provide predictability in the Company's overall cost structure. These FX contracts, carried at fair value, have maturities between one and six months as of June 30, 2018. The Company had outstanding FX forward contracts with notional amounts of \$24 million and \$48 million as of June 30, 2018 and December 31, 2017, respectively.

## COMMODITIES

## Economic Hedges

DPS centrally manages the exposure to volatility in the prices of certain commodities used in its production process and transportation through forward and future contracts. The intent of these contracts is to provide a certain level of predictability in the Company's overall cost structure. During the three and six months ended June 30, 2018 and 2017, the Company held forward and future contracts that economically hedged certain of its risks. In these cases, a natural hedging relationship exists in which changes in the fair value of the instruments act as an economic offset to changes in the fair value of the underlying items. Changes in the fair value of these instruments are recorded in earnings throughout the term of the derivative instrument and are reported in the same line item of the unaudited Condensed Consolidated Statements of Income as the hedged transaction. Unrealized gains and losses are recognized as a component of unallocated corporate costs until the Company's operating segments are affected by the completion of the underlying transaction, at which time the gain or loss is reflected as a component of the respective segment's operating profit ("SOP"). The total notional values of derivatives related to economic hedges of this type were \$157 million and \$199 million as of June 30, 2018 and December 31, 2017, respectively.

## FAIR VALUE OF DERIVATIVE INSTRUMENTS

The following table summarizes the fair value hierarchy and the location of the fair value of the Company's derivative instruments designated as hedging instruments within the unaudited Condensed Consolidated Balance Sheets as of June 30, 2018 and December 31, 2017:

(in millions)	Fair Value Hierarchy Level	Balance Sheet Location	June 30, 2018	December 31, 2017
<b>Assets:</b>				
Interest rate contracts	2	Prepaid expenses and other current assets	\$ 1	\$ 3
FX forward contracts	2	Prepaid expenses and other current assets	1	2
Interest rate contracts	2	Other non-current assets	7	16
<b>Liabilities:</b>				
Interest rate contracts	2		7	3

		Other current liabilities		
FX forward contracts	2	Other current liabilities	—	—
Interest rate contracts	2	Other non-current liabilities	16	8

The following table summarizes the fair value hierarchy and the location of the fair value of the Company's derivative instruments not designated as hedging instruments within the unaudited Condensed Consolidated Balance Sheets as of June 30, 2018 and December 31, 2017:

(in millions)	Fair Value Hierarchy Level	Balance Sheet Location	June 30, 2018	December 31, 2017
Assets:				
Commodity contracts	2	Prepaid expenses and other current assets	\$ 25	\$ 27
Commodity contracts	2	Other non-current assets	17	17
Liabilities:				
Commodity contracts	2	Other non-current liabilities	1	—

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## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited, Continued)

The fair values of commodity contracts, interest rate contracts and FX forward contracts are determined based on inputs that are readily available in public markets or can be derived from information available in publicly quoted markets. The fair value of commodity contracts are valued using the market approach based on observable market transactions, primarily underlying commodities futures or physical index prices, at the reporting date. Interest rate contracts are valued using models based primarily on readily observable market parameters, such as LIBOR forward rates, for all substantial terms of the Company's contracts and credit risk of the counterparties. The fair value of FX forward contracts are valued using quoted forward FX prices at the reporting date. Therefore, the Company has categorized these contracts as Level 2.

## IMPACT OF CASH FLOW HEDGES

The following table presents the impact of derivative instruments designated as cash flow hedging instruments under U.S. GAAP to the unaudited Condensed Consolidated Statements of Income and Comprehensive Income:

(in millions)	Amount of Income (Loss) Recognized in Other Comprehensive Income ("OCI")	Amount of Loss Reclassified from AOCL into Income	Location of Amounts Reclassified from AOCL into Income
For the three months ended June 30, 2018:			
Interest rate contracts	\$ —	\$ (2 )	Interest expense
Foreign exchange forward contracts	2	—	Cost of sales
Total	\$ 2	\$ (2 )	
For the six months ended June 30, 2018:			
Interest rate contracts	\$ —	\$ (4 )	Interest expense
FX forward contracts	(1 )	—	Cost of sales
Total	\$ (1 )	\$ (4 )	
For the three months ended June 30, 2017:			
Interest rate contracts	\$ —	\$ (2 )	Interest expense
Foreign exchange forward contracts	(3 )	(4 )	Cost of sales
Total	\$ (3 )	\$ (6 )	
For the six months ended June 30, 2017:			
Interest rate contracts	\$ —	\$ (4 )	Interest expense
FX forward contracts	(10 )	(4 )	Cost of sales
Total	\$ (10 )	\$ (8 )	

For the three and six months ended June 30, 2018 and 2017, no hedge ineffectiveness was recognized in earnings with respect to derivative instruments designated as cash flow hedges. During the next 12 months, the Company expects to reclassify pre-tax net losses of \$8 million from AOCL into net income.

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DR PEPPER SNAPPLE GROUP, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited, Continued)

## IMPACT OF FAIR VALUE HEDGES

The following table presents the impact of derivative instruments designated as fair value hedging instruments under U.S. GAAP to the unaudited Condensed Consolidated Statements of Income:

(in millions)	Amount of Gain Recognized in Income	Location of Gain Recognized in Income
For the three months ended June 30, 2018:		
Interest rate contracts	\$ 1	Interest expense
For the six months ended June 30, 2018:		
Interest rate contracts	\$ 2	Interest expense
For the three months ended June 30, 2017:		
Interest rate contracts	\$ 3	Interest expense
Interest rate contracts	13	Loss on early extinguishment of debt
Total	\$ 16	
For the six months ended June 30, 2017:		
Interest rate contracts	\$ 7	Interest expense
Interest rate contracts	13	Loss on early extinguishment of debt
Total	\$ 20	

For the three and six months ended June 30, 2018 and 2017, \$1 million loss on hedge ineffectiveness was recognized in earnings with respect to derivative instruments designated as fair value hedges for each period.

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DR PEPPER SNAPPLE GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited, Continued)

## IMPACT OF ECONOMIC HEDGES

The following table presents the impact of derivative instruments not designated as hedging instruments under U.S. GAAP to the unaudited Condensed Consolidated Statements of Income:

(in millions)	Amount of Gain (Loss) Recognized in Income	Location of Gain (Loss) Recognized in Income
For the three months ended June 30, 2018:		
Commodity contracts <sup>(1)</sup>	\$ 7	Cost of sales
Commodity contracts <sup>(1)</sup>	12	SG&A expenses
Total	\$ 19	
For the six months ended June 30, 2018:		
Commodity contracts <sup>(1)</sup>	\$ (1 )	Cost of sales
Commodity contracts <sup>(1)</sup>	15	SG&A expenses
Total	\$ 14	
For the three months ended June 30, 2017:		
Commodity contracts <sup>(1)</sup>	\$ (4 )	Cost of sales
Commodity contracts <sup>(1)</sup>	(6 )	SG&A expenses
Total	\$ (10 )	
For the six months ended June 30, 2017:		
Commodity contracts <sup>(1)</sup>	\$ 17	Cost of sales
Commodity contracts <sup>(1)</sup>	(19 )	SG&A expenses
Interest rate contracts <sup>(2)</sup>	1	Interest expense
Total	\$ (1 )	

(1) Commodity contracts include both realized and unrealized gains and losses.

(2) Represents gains on the interest rate contracts related to the 2022 Notes prior to re-designation of hedging relationship in January 2017.

The Company has exposure to credit losses from derivative instruments in an asset position in the event of nonperformance by the counterparties to the agreements. Historically, DPS has not experienced credit losses as a result of counterparty nonperformance. The Company selects and periodically reviews counterparties based on credit ratings, limits its exposure to a single counterparty under defined guidelines and monitors the market position of the programs upon execution of a hedging transaction and at least on a quarterly basis.

## 8. Stock-Based Compensation

The Company's Omnibus Stock Incentive Plan of 2009 ("DPS Stock Plan") provides for various long-term incentive awards, including stock options, restricted stock units ("RSUs") and performance share units ("PSUs").

Stock-based compensation expense is recorded in SG&A expenses in the unaudited Condensed Consolidated Statements of Income. The components of stock-based compensation expense are presented below:

For the	For the Six
Three	Months
Months	Ended

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(in millions)	Ended		June 30,	
	2018	2017	2018	2017
Total stock-based compensation expense	\$11	\$10	\$21	\$16
Income tax benefit recognized in the Statements of Income	(3 )	(3 )	(5 )	(5 )
Stock-based compensation expense, net of tax	\$8	\$7	\$16	\$11

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DR PEPPER SNAPPLE GROUP, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited, Continued)

## STOCK OPTIONS

The table below summarizes stock option activity for the six months ended June 30, 2018:

	Stock Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (in millions)
Outstanding as of January 1, 2018	1,372,606	\$ 82.83	7.86	\$ 20
Exercised	(91,553 )	80.04		4
Forfeited or expired	(7,765 )	93.74		
Outstanding as of June 30, 2018	1,273,288	82.96	7.38	50
Exercisable as of June 30, 2018	871,624	77.98	6.94	38

As of June 30, 2018, there was \$3 million of unrecognized compensation cost related to unvested stock options granted under the DPS Stock Plan that was expected to be recognized over a weighted average period of 1.01 years. As described in Notes 2 and 17, upon closing of the Maple Merger, any unrecognized compensation cost related to unvested stock options will be accelerated and recorded in the Company's SG&A expenses at that time. Refer to Note 17 for additional information.

## RESTRICTED STOCK UNITS

The table below summarizes RSU activity for the six months ended June 30, 2018. The fair value of RSUs is determined based on the number of units granted and the grant date price of the Company's common stock.

	RSUs	Weighted Average Grant Date Fair Value	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (in millions)
Outstanding as of January 1, 2018	942,124	\$ 88.44	0.82	\$ 91
Granted	433,637	116.14		
Vested and released	(509,756 )	84.31		59
Forfeited	(17,756 )	100.70		
Outstanding as of June 30, 2018	848,249	104.83	1.56	103

As of June 30, 2018, there was \$70 million of unrecognized compensation cost related to unvested RSUs granted under the DPS Stock Plan that was expected to be recognized over a weighted average period of 1.55 years. As described in Notes 2 and 17, upon closing of the Maple Merger, any unrecognized compensation cost related to unvested RSUs will be accelerated and recorded in the Company's SG&A expenses at that time. Refer to Note 17 for additional information.

During the six months ended June 30, 2018, 509,756 shares subject to previously granted RSUs vested. A majority of these vested RSUs were net share settled. The Company withheld 147,366 shares based upon the Company's closing stock price on the vesting date to settle the employees' minimum statutory obligation for applicable income and other employment taxes. Subsequently, the Company remitted the required funds to the appropriate taxing authorities.

## PERFORMANCE SHARE UNITS

The table below summarizes PSU activity for the six months ended June 30, 2018. The fair value of PSUs is determined based on the number of units granted and the grant date price of the Company's common stock.

PSUs	Weighted Average	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic
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		Grant Date Fair Value		Value (in millions)
Outstanding as of January 1, 2018	329,490	\$ 51.69	0.98	\$ 32
Vested and released	(93,199 )	67.42		11
Forfeited	(22,756 )	67.05		
Outstanding as of June 30, 2018	213,535	45.49	1.00	26

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DR PEPPER SNAPPLE GROUP, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited, Continued)

As of June 30, 2018, there was \$5 million of unrecognized compensation cost related to unvested PSUs granted under the DPS Stock Plan that was expected to be recognized over a weighted average period of 1.00 year. As described in Notes 2 and 17, upon closing of the Maple Merger, any unrecognized compensation cost related to unvested PSUs will be accelerated and recorded in the Company's SG&A expenses at that time. Refer to Note 17 for additional information.

During the six months ended June 30, 2018, 93,199 units subject to previously granted PSUs vested. A majority of these vested PSUs were net share settled. The Company withheld 27,412 shares based upon the Company's closing stock price on the vesting date to settle the employees' minimum statutory obligation for the applicable income and other employment taxes. Subsequently, the Company remitted the required funds to the appropriate taxing authorities.

## 9. Earnings Per Share

Basic earnings per share ("EPS") is computed by dividing net income by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the assumed conversion of all dilutive securities. The following table presents the basic and diluted EPS and the Company's basic and diluted shares outstanding:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
(in millions, except per share data)	2018	2017	2018	2017
Basic EPS:				
Net income	\$235	\$188	\$394	\$365
Weighted average common shares outstanding	180.2	183.2	180.1	183.3
Earnings per common share — basic	\$1.30	\$1.02	\$2.19	\$1.99
Diluted EPS:				
Net income	\$235	\$188	\$394	\$365
Weighted average common shares outstanding	180.2	183.2	180.1	183.3
Effect of dilutive securities:				
Stock options	0.5	0.1	0.3	0.2
RSUs	0.2	0.4	0.4	0.5
PSUs	0.2	—	0.2	0.1
Weighted average common shares outstanding and common stock equivalents	181.1	183.7	181.0	184.1
Earnings per common share — diluted	\$1.30	\$1.02	\$2.17	\$1.98
Anti-dilutive shares excluded from the diluted weighted average shares outstanding calculation	—	0.9	0.1	0.7

Under the terms of our RSU and PSU agreements, unvested RSU and PSU awards contain forfeitable rights to dividends and dividend equivalent units ("DEUs"). Because the DEUs are forfeitable, they are defined as non-participating securities. As of June 30, 2018, there were 27,174 DEUs, which will vest at the time that the underlying RSU or PSU vests.

The Company's Board has authorized a total aggregate share repurchase plan of \$5 billion. The Company's share repurchase program was suspended during negotiation of the Maple Transaction, and it remains suspended as of June 30, 2018 under the terms of the Merger Agreement. The Company therefore did not repurchase any shares during the three and six months ended June 30, 2018. The Company repurchased and retired 1.6 million shares of common stock valued at approximately \$149 million and 1.9 million shares of common stock valued at approximately \$177 million for the three and six months ended June 30, 2017, respectively.



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DR PEPPER SNAPPLE GROUP, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited, Continued)

## 10. Accumulated Other Comprehensive Loss

The following tables provide a summary of changes in the balances of each component of AOCL, net of taxes:

(in millions)	Foreign Currency Translation	Change in Pension Liability	Cash Flow Hedges	Accumulated Other Comprehensive Loss
Balance as of April 1, 2018	\$ (130 )	\$ (31 )	\$ (22 )	\$ (183 )
OCI before reclassifications	(20 )	—	2	(18 )
Amounts reclassified from AOCL	—	—	1	1
Net current year OCI	(20 )	—	3	(17 )
Balance as of June 30, 2018	\$ (150 )	\$ (31 )	\$ (19 )	\$ (200 )
Balance as of January 1, 2018	(148 )	(32 )	(22 )	(202 )
OCI before reclassifications	(2 )	—	—	(2 )
Amounts reclassified from AOCL	—	1	3	4
Net current period OCI	(2 )	1	3	2
Balance as of June 30, 2018	\$ (150 )	\$ (31 )	\$ (19 )	\$ (200 )

The following table presents the amount of loss reclassified from AOCL into the unaudited Condensed Consolidated Statements of Income:

(in millions)	Location of Loss Reclassified from AOCL into Income	For the Three Months Ended June 30, 2018	For the Six Months Ended June 30, 2017	For the Three Months Ended June 30, 2018	For the Six Months Ended June 30, 2017
Loss on cash flow hedges:					
Interest rate contracts	Interest expense	\$ (2)	\$ (2)	\$ (4)	\$ (4)
Foreign exchange forward contracts	Cost of sales	—	(4 )	—	(4 )
Total		(2 )	(6 )	(4 )	(8 )
Income tax benefit		(1 )	(2 )	(1 )	(3 )
Total		\$ (1)	\$ (4)	\$ (3)	\$ (5)
Defined benefit pension and post-retirement plan items:					
Amortization of actuarial losses, net	Other income, net	\$—	\$ (1)	\$ (1)	\$ (2)
Total		—	(1 )	(1 )	(2 )
Income tax benefit		—	(1 )	—	(1 )
Total		\$—	\$—	\$ (1)	\$ (1)
Total reclassifications		\$ (1)	\$ (4)	\$ (4)	\$ (6)

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DR PEPPER SNAPPLE GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited, Continued)

## 11. Inventories

Inventories consisted of the following:

	June	December
(in millions)	30, 2018	31, 2017
Raw materials	\$81	\$ 81
Spare parts	25	24
Work in process	6	7
Finished goods	190	149
Inventories at first in first out cost	302	261
Reduction to LIFO cost	(37 )	(32 )
Inventories	\$265	\$ 229

Approximately \$210 million and \$177 million of the Company's inventory was accounted for under the LIFO method of accounting as of June 30, 2018 and December 31, 2017, respectively. The reduction to LIFO cost reflects the excess of the current cost of LIFO inventories as of June 30, 2018 and December 31, 2017, over the amount at which these inventories were valued on the unaudited Condensed Consolidated Balance Sheets. For the three and six months ended June 30, 2018 and 2017, there was no LIFO inventory liquidation.

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DR PEPPER SNAPPLE GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited, Continued)

## 12. Other Assets and Liabilities

The table below details the components of other assets and other liabilities:

	June 30, 2018	December 31, 2017
(in millions)		
Prepaid expenses and other current assets:		
Customer incentive programs	\$84	\$ 16
Derivative instruments	27	32
Prepaid income taxes	2	7
Other	83	44
Total prepaid expenses and other current assets	\$196	\$ 99
Other non-current assets:		
Customer incentive programs	\$88	\$ 76
Marketable securities - trading <sup>(1)</sup>	53	48
Derivative instruments	24	33
Equity securities without readily determinable fair values <sup>(2)</sup>	17	1
Non-current restricted cash and restricted cash equivalents	12	79
Other	20	42
Total other non-current assets	\$214	\$ 279
Other current liabilities:		
Customer rebates and incentives	\$335	\$ 299
Accrued compensation	104	130
Insurance liability	38	34
Interest accrual	21	20
Dividends payable	—	103
Derivative instruments	7	3
Holdback liability to former Bai Brands shareholders	3	7
Acquired contingent liabilities	11	14
Other	156	109
Total other current liabilities	\$675	\$ 719
Other non-current liabilities:		
Long-term payables due to Mondelēz International, Inc.	\$16	\$ 16
Long-term pension and post-retirement liability	19	19
Insurance liability	60	60
Derivative instruments	17	8
Deferred compensation liability	53	48
Holdback liability to former Bai Brands shareholders	10	79
Acquired contingent liabilities	4	5
Other	27	29
Total other non-current liabilities	\$206	\$ 264

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Fair values of marketable securities are determined using quoted market prices from daily exchange traded

(1) markets, based on the closing price as of the balance sheet date, and are classified as Level 1. The fair value of marketable securities was \$53 million and \$48 million as of June 30, 2018 and December 31, 2017, respectively.

As of June 30, 2018, the Company was aware of an impending transaction between KDP and Big Red Group Holdings, LLC ("Big Red") to purchase Big Red for \$300 million, which had been agreed-upon but not executed as of June 30, 2018. Refer to Note 17 for further information. As the agreed-upon purchase of Big Red represents a price change observable to the Company in an orderly transaction, the Company remeasured its equity investment in Big Red, which resulted in a \$16 million increase to the Company's investments in equity securities without readily determinable fair values. The corresponding benefit was recorded to other operating income, net.

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DR PEPPER SNAPPLE GROUP, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited, Continued)

### 13. Supplemental Cash Flow Information

The following table provides a reconciliation of cash, cash equivalents, restricted cash and restricted cash equivalents reported with the unaudited Condensed Consolidated Balance Sheets to the total of the same amounts shown in the unaudited Condensed Consolidated Statements of Cash Flows:

		June 30, 2018		December 31, 2017	
(in millions)	Fair Value Hierarchy Level	Carrying Value	Fair Value	Carrying Value	Fair Value
Cash and cash equivalents	1	\$64	\$ 64	\$ 61	\$ 61
Restricted cash and restricted cash equivalents <sup>(1)</sup>	1	25	25	18	18
Non-current restricted cash and restricted cash equivalents included in Other non-current assets <sup>(2)</sup>	1	12	12	79	79
Total cash, cash equivalents, restricted cash and restricted cash equivalents shown in the unaudited Condensed Consolidated Statement of Cash Flows		\$ 101	\$ 101	\$ 158	\$ 158

Current restricted cash and restricted cash equivalents primarily includes the liability related to the contingent (1)change in control ("CIC") severance payments to certain executives in connection with the Maple Merger. Refer to Note 17 for additional information on the Maple Merger.

(2) Non-current restricted cash and restricted cash equivalents primarily includes the holdback liability associated with the Bai Brands Merger. Refer to Note 2 for additional information on the Bai Brands Merger.

The following table details supplemental cash flow disclosures of non-cash investing and financing activities:

(in millions)	For the Six Months Ended June 30, 20182017	
Supplemental cash flow disclosures of non-cash investing and financing activities:		
Dividends declared but not yet paid <sup>(1)</sup>	\$—	\$105
Capital expenditures included in accounts payable and other current liabilities	17	17
Holdback liability for acquisition of business	13	101
Capital lease additions	9	15
Supplemental cash flow disclosures:		
Interest paid	\$72	\$74
Income taxes paid	60	93

On June 26, 2018, the Company issued a press release which announced that its Board had conditionally set July 6, 2018 as the record date for the special dividend of \$103.75 per share on the Company's common stock

(1)contemplated by the Merger Agreement, contingent upon the consummation of the Maple Merger. This contingent dividend is not reflected within dividends declared but not yet paid for the six months ended June 30, 2018. Refer to Note 17 for additional information on the Maple Merger.

### 14. Commitments and Contingencies

#### LEGAL MATTERS

In connection with the Maple Transaction, purported DPS stockholders have filed five lawsuits (excluding a lawsuit that was subsequently voluntarily withdrawn) against DPSG and each member of the Board in federal court alleging that the preliminary proxy statement filed on March 8, 2018 (the "Proxy Statement") failed to disclose material information in violation of the federal securities laws.

In a sixth lawsuit, City of North Miami Beach General Employees' Retirement Plan and Maitland Police Officers and Firefighters Retirement Trust v. Dr Pepper Snapple Group, Inc., et al. (C.A. 2018-0227-AGB) (the "Delaware Court Lawsuit"), two purported DPS stockholders filed suit in the Delaware Court of Chancery (the "Delaware Court") against DPS, each member of the Board, Maple and Merger Sub alleging that DPS stockholders are entitled to appraisal rights in connection with the Maple Transaction and that such rights should have been disclosed to stockholders. DPS disagreed and argued before the Delaware Court on the issue at a hearing that occurred on May 25, 2018. On June 1, 2018, the Delaware Court granted DPS' and the other defendants' motions for summary judgment, ruling that DPS stockholders do not have appraisal rights, and that the disclosures in the Proxy Statement with respect to the lack of appraisal rights were correct (the "Delaware Court Decision"). The plaintiffs in the Delaware Court Lawsuit have not appealed the Delaware Court Decision to the Delaware Supreme Court and the time to file any appeal has now expired.



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DR PEPPER SNAPPLE GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited, Continued)

In addition, the Company is occasionally subject to certain other litigation or other legal proceedings. The Company does not believe that the outcome of these, or any other, pending legal matters, individually or collectively, will have a material adverse effect on the results of operations, financial condition or liquidity of the Company.

## 15. Segments

As of June 30, 2018 and for the three and six months ended June 30, 2018, the Company's operating structure consisted of the following three operating segments:

The Beverage Concentrates segment reflects sales of the Company's branded concentrates and syrup to third-party bottlers primarily in the U.S. and Canada. Most of the brands in this segment are carbonated soft drink brands.

The Packaged Beverages segment reflects sales in the U.S. and Canada from the manufacture and distribution of finished beverages and other products, including sales of the Company's own brands and third-party brands, through both the DSD system and the WD system.

The Latin America Beverages segment reflects sales in Mexico, the Caribbean, and other international markets from the manufacture and distribution of concentrates, syrup and finished beverages.

As of December 31, 2017 and for the three and six months ended June 30, 2017, the Company's operating structure consisted of the four operating segments identified as a result of the Bai Brands Merger. Refer to Note 4 for additional information about the change in the Company's operating structure as of January 1, 2018.

Segment results are based on management reports. Net sales and SOP are the significant financial measures used to assess the operating performance of the Company's operating segments. Intersegment sales are recorded at cost and are eliminated in the unaudited Condensed Consolidated Statements of Income. "Unallocated corporate costs" are excluded from the Company's measurement of segment performance and include stock-based compensation expense, unrealized commodity derivative gains and losses, and certain general corporate expenses.

Information about the Company's operations by reporting segment is as follows:

	For the Three Months Ended June 30, 2018		For the Six Months Ended June 30, 2017	
(in millions)	2018	2017	2018	2017
Segment Results – Net sales				
Beverage Concentrates	\$372	\$356	\$675	\$650
Packaged Beverages	1,378	1,302	2,556	2,420
Latin America Beverages	136	139	249	237
Net sales	\$1,886	\$1,797	\$3,480	\$3,307

	For the Three Months Ended June 30, 2018		For the Six Months Ended June 30, 2017	
(in millions)	2018	2017	2018	2017
Segment Results – SOP				
Beverage Concentrates	\$249	\$237	\$443	\$423
Packaged Beverages	148	196	298	337
Latin America Beverages	27	24	39	35
Total SOP	424	457	780	795
Unallocated corporate costs	77	84	173	164
Other operating income, net	(15)	(2)	(14)	(30)
Income from operations	362	375	621	661
Interest expense, net	43	43	83	82

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Loss on early extinguishment of debt	—	49	—	49
Other income, net	(2 )	—	(2 )	(1 )
Income before provision for income taxes and equity in earnings of unconsolidated subsidiaries	\$321	\$283	\$540	\$531

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DR PEPPER SNAPPLE GROUP, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited, Continued)

## 16. Guarantor and Non-Guarantor Financial Information

The Company's outstanding senior unsecured notes (the "Notes") are fully and unconditionally guaranteed by substantially all of the Company's existing and future direct and indirect domestic subsidiaries (except one immaterial subsidiary associated with charitable purposes) (the "Guarantors"), as defined in the indentures governing the Notes. The Guarantors are 100% owned either directly or indirectly by the Company and jointly and severally guarantee, subject to the release provisions described below, the Company's obligations under the Notes. None of the Company's subsidiaries organized outside of the U.S. or immaterial subsidiaries used for charitable purposes (collectively, the "Non-Guarantors") guarantee the Notes. The subsidiary guarantees with respect to the Notes are subject to release upon the occurrence of certain events, including the sale of all or substantially all of a subsidiary's assets, the release of the subsidiary's guarantee of other indebtedness of the Company, the Company's exercise of its legal defeasance option with respect to the Notes and the discharge of the Company's obligations under the applicable indenture. The following schedules present the financial information for Dr Pepper Snapple Group, Inc. (the "Parent"), Guarantors and Non-Guarantors. The consolidating schedules are provided in accordance with the reporting requirements of Rule 3-10 under SEC Regulation S-X for guarantor subsidiaries.

(in millions)	Condensed Consolidating Statements of Income For the Three Months Ended June 30, 2018				
	Parent	Guarantors	Non-Guarantors	Eliminations	Total
Net sales	\$—	\$ 1,732	\$ 189	\$ (35 )	\$ 1,886
Cost of sales	—	732	93	(35 )	790
Gross profit	—	1,000	96	—	1,096
Selling, general and administrative expenses	1	663	57	—	721
Depreciation and amortization	—	27	1	—	28
Other operating (income) expense, net	(16 )	1	—	—	(15 )
Income from operations	15	309	38	—	362
Interest expense	94	31	—	(82 )	43
Interest income	(27 )	(55 )	—	82	—
Loss on extinguishment of debt	—	—	—	—	—
Other (income) expense, net	(2 )	(1 )	1	—	(2 )
Income (loss) before provision (benefit) for income taxes and equity in earnings (loss) of subsidiaries	(50 )	334	37	—	321
Provision (benefit) for income taxes	(12 )	79	16	—	83
Income (loss) before equity in earnings of subsidiaries	(38 )	255	21	—	238
Equity in earnings of consolidated subsidiaries	273	21	—	(294 )	—
Equity in loss of unconsolidated subsidiaries, net of tax	—	(3 )	—	—	(3 )
Net income	\$235	\$ 273	\$ 21	\$ (294 )	\$ 235

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DR PEPPER SNAPPLE GROUP, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited, Continued)

Condensed Consolidating Statements of Income  
For the Three Months Ended June 30, 2017

(in millions)	Parent	Guarantors	Non-Guarantors	Eliminations	Total
Net sales	\$—	\$ 1,647	\$ 193	\$ (43 )	\$ 1,797
Cost of sales	—	658	103	(43 )	718
Gross profit	—	989	90	—	\$ 1,079
Selling, general and administrative expenses	1	621	59	—	681
Depreciation and amortization	—	23	2	—	25
Other operating (income) expense, net	—	(2 )	—	—	(2 )
Income from operations	(1 )	347	29	—	375
Interest expense	72	20	—	(48 )	44
Interest income	(18 )	(30 )	(1 )	48	(1 )
Loss on extinguishment of debt	49	—	—	—	49
Other (income) expense, net	(2 )	2	—	—	—
Income (loss) before provision (benefit) for income taxes and equity in earnings (loss) of subsidiaries	(102 )	355	30	—	283
Provision (benefit) for income taxes	(38 )	125	7	—	94
Income (loss) before equity in earnings of subsidiaries	(64 )	230	23	—	189
Equity in earnings of consolidated subsidiaries	252	23	—	(275 )	—
Equity in loss of unconsolidated subsidiaries, net of tax	—	(1 )	—	—	(1 )
Net income	\$ 188	\$ 252	\$ 23	\$ (275 )	\$ 188

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DR PEPPER SNAPPLE GROUP, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited, Continued)

Condensed Consolidating Statements of Income  
For the Six Months Ended June 30, 2018

(in millions)	Parent	Guarantors	Non-Guarantors	Eliminations	Total
Net sales	\$—	\$ 3,205	\$ 342	\$ (67 )	\$ 3,480
Cost of sales	—	1,361	177	(67 )	1,471
Gross profit	—	1,844	165	—	2,009
Selling, general and administrative expenses	1	1,239	107	—	1,347
Depreciation and amortization	—	52	3	—	55
Other operating income, net	(16 )	2	—	—	(14 )
Income from operations	15	551	55	—	621
Interest expense	176	56	—	(148 )	84
Interest income	(50 )	(98 )	(1 )	148	(1 )
Other (income) expense, net	(4 )	(2 )	4	—	(2 )
Income (loss) before provision (benefit) for income taxes and equity in earnings (loss) of subsidiaries	(107 )	595	52	—	540
Provision (benefit) for income taxes	(25 )	142	20	—	137
Income (loss) before equity in earnings (loss) of subsidiaries	(82 )	453	32	—	403
Equity in earnings of consolidated subsidiaries	476	32	—	(508 )	—
Equity in loss of unconsolidated subsidiaries, net of tax	—	(9 )	—	—	(9 )
Net income	\$394	\$ 476	\$ 32	\$ (508 )	\$ 394

Condensed Consolidating Statements of Income  
For the Six Months Ended June 30, 2017

(in millions)	Parent	Guarantors	Non-Guarantors	Eliminations	Total
Net sales	\$—	\$ 3,054	\$ 329	\$ (76 )	\$ 3,307
Cost of sales	—	1,222	179	(76 )	1,325
Gross profit	—	1,832	150	—	1,982
Selling, general and administrative expenses	3	1,197	101	—	1,301
Depreciation and amortization	—	46	4	—	50
Other operating income, net	—	(30 )	—	—	(30 )
Income from operations	(3 )	619	45	—	661
Interest expense	135	39	—	(90 )	84
Interest income	(34 )	(57 )	(1 )	90	(2 )
Loss on extinguishment of debt	49	—	—	—	49
Other (income) expense, net	(6 )	2	3	—	(1 )
Income (loss) before provision (benefit) for income taxes and equity in earnings (loss) of subsidiaries	(147 )	635	43	—	531
Provision (benefit) for income taxes	(54 )	208	11	—	165
Income (loss) before equity in earnings (loss) of subsidiaries	(93 )	427	32	—	366
Equity in earnings of consolidated subsidiaries	458	32	—	(490 )	—
Equity in loss of unconsolidated subsidiaries, net of tax	—	(1 )	—	—	(1 )
Net income	\$365	\$ 458	\$ 32	\$ (490 )	\$ 365

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DR PEPPER SNAPPLE GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited, Continued)

	Condensed Consolidating Statements of Comprehensive Income				
	For the Three Months Ended June 30, 2018				
(in millions)	Parent	Guarantors	Non-Guarantors	Eliminations	Total
Comprehensive income (loss)	\$217	\$ 254	\$ 3	\$ (256 )	\$218

	Condensed Consolidating Statements of Comprehensive Income				
	For the Three Months Ended June 30, 2017				
(in millions)	Parent	Guarantors	Non-Guarantors	Eliminations	Total
Comprehensive income (loss)	\$201	\$ 264	\$ 34	\$ (298 )	\$201

	Condensed Consolidating Statements of Comprehensive Income				
	For the Six Months Ended June 30, 2018				
(in millions)	Parent	Guarantors	Non-Guarantors	Eliminations	Total
Comprehensive income (loss)	\$395	\$ 474	\$ 30	\$ (503 )	\$396

	Condensed Consolidating Statements of Comprehensive Income				
	For the Six Months Ended June 30, 2017				
(in millions)	Parent	Guarantors	Non-Guarantors	Eliminations	Total
Comprehensive income (loss)	\$401	\$ 491	\$ 64	\$ (555 )	\$401

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DR PEPPER SNAPPLE GROUP, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited, Continued)

(in millions)	Condensed Consolidating Balance Sheets				
	As of June 30, 2018				
	Parent	Guarantors	Non-Guarantors	Eliminations	Total
Current assets:					
Cash and cash equivalents	\$—	\$ 40	\$ 24	\$—	\$64
Restricted cash and cash equivalents	—	24	1	—	25
Accounts receivable:					
Trade, net	—	725	89	—	814
Other	1	44	7	—	52
Related party receivable	30	62	—	(92)	—
Inventories	—	233	32	—	265
Prepaid expenses and other current assets	499	178	21	(502)	196
Total current assets	530	1,306	174	(594)	1,416
Property, plant and equipment, net	—	1,043	140	—	1,183
Investments in consolidated subsidiaries	9,827	299	—	(10,126)	—
Investments in unconsolidated subsidiaries	—	34	—	—	34
Goodwill	—	3,540	22	—	3,562
Other intangible assets, net	—	3,729	48	—	3,777
Long-term receivable, related parties	3,320	6,660	—	(9,980)	—
Other non-current assets	77	137	2	(2)	214
Deferred tax assets	10	—	59	(9)	60
Total assets	\$13,764	\$16,748	\$ 445	\$ (20,711)	\$10,246
Current liabilities:					
Accounts payable	\$—	\$ 441	\$ 43	\$—	\$484
Related party payable	55	28	9	(92)	—
Deferred revenue	—	67	1	(4)	64
Short-term borrowings and current portion of long-term obligations	249	15	—	—	264
Income taxes payable	—	535	2	(498)	39
Other current liabilities	33	582	60	—	675
Total current liabilities	337	1,668	115	(594)	1,526
Long-term obligations to third parties	3,956	170	—	—	4,126
Long-term obligations to related parties	6,660	3,320	—	(9,980)	—
Deferred tax liabilities	4	650	—	(9)	645
Non-current deferred revenue	—	999	24	(2)	1,021
Other non-current liabilities	85	114	7	—	206
Total liabilities	11,042	6,921	146	(10,585)	7,524
Total stockholders' equity	2,722	9,827	299	(10,126)	2,722
Total liabilities and stockholders' equity	\$13,764	\$16,748	\$ 445	\$ (20,711)	\$10,246

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DR PEPPER SNAPPLE GROUP, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited, Continued)

(in millions)	Condensed Consolidating Balance Sheets				
	As of December 31, 2017				
	Parent	Guarantors	Non-Guarantors	Eliminations	Total
Current assets:					
Cash and cash equivalents	\$—	\$ 15	\$ 46	\$—	\$61
Restricted cash and cash equivalents	—	18	—	—	18
Accounts receivable:					
Trade, net	—	595	73	—	668
Other	1	35	6	—	42
Related party receivable	20	42	—	(62)	—
Inventories	—	199	30	—	229
Prepaid and other current assets	473	83	18	(475)	99
Total current assets	494	987	173	(537)	1,117
Property, plant and equipment, net	—	1,062	136	—	1,198
Investments in consolidated subsidiaries	9,373	332	—	(9,705)	—
Investments in unconsolidated subsidiaries	—	24	—	—	24
Goodwill	—	3,539	22	—	3,561
Other intangible assets, net	—	3,733	48	—	3,781
Long-term receivable, related parties	3,278	6,233	—	(9,511)	—
Other non-current assets	65	195	22	(3)	279
Deferred tax assets	11	—	62	(11)	62
Total assets	\$13,221	\$16,105	\$ 463	\$ (19,767)	\$10,022
Current liabilities:					
Accounts payable	\$—	\$ 333	\$ 32	\$—	\$365
Related party payable	37	20	5	(62)	—
Deferred revenue	—	68	2	(6)	64
Short-term borrowings and current portion of long-term obligations	66	13	—	—	79
Income taxes payable	—	479	1	(469)	11
Other current liabilities	133	532	54	—	719
Total current liabilities	236	1,445	94	(537)	1,238
Long-term obligations to third parties	4,230	170	—	—	4,400
Long-term obligations to related parties	6,233	3,278	—	(9,511)	—
Deferred tax liabilities	—	625	—	(11)	614
Non-current deferred revenue	—	1,032	26	(3)	1,055
Other non-current liabilities	71	182	11	—	264
Total liabilities	10,770	6,732	131	(10,062)	7,571
Total stockholders' equity	2,451	9,373	332	(9,705)	2,451
Total liabilities and stockholders' equity	\$13,221	\$16,105	\$ 463	\$ (19,767)	\$10,022



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DR PEPPER SNAPPLE GROUP, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited, Continued)

## Condensed Consolidating Statements of Cash Flows

For the Six Months Ended June 30, 2018

Parent Guarantors Non-Guarantors Eliminations Total

(in millions)

## Operating activities:

Net cash (used in) provided by operating activities	\$ (134)	\$ 560	\$ 55	\$ (63 )	\$ 418
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## Investing activities:

Acquisition of business	—	(73 )	—	—	(73 )
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Purchase of property, plant and equipment	—	(65 )	(14 )	—	(79 )
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Purchase of intangible assets	—	(5 )	—	—	(5 )
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Investment in unconsolidated subsidiaries	—	(19 )	—	—	(19 )
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Proceeds from disposals of property, plant and equipment	—	1	—	—	1
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Issuance of related party notes receivable	—	(427 )	—	427	—
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Other, net	(4 )	—	—	—	(4 )
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Net cash (used in) provided by investing activities	(4 )	(588 )	(14 )	427	(179 )
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## Financing activities:

Proceeds from issuance of related party debt	427	—	—	(427 )	—
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Net repayment of commercial paper	(66 )	—	—	—	(66 )
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Dividends paid	(209 )	—	(63 )	63	(209 )
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Tax withholdings related to net share settlements of certain stock awards	(21 )	—	—	—	(21 )
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Proceeds from stock options exercised	7	—	—	—	7
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Capital lease payments	—	(7 )	—	—	(7 )
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Net cash (used in) provided by financing activities	138	(7 )	(63 )	(364 )	(296 )
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Cash, cash equivalents, restricted cash and restricted cash equivalents — net change from:

Operating, investing and financing activities	—	(35 )	(22 )	—	(57 )
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Effect of exchange rate changes on cash, cash equivalents, restricted cash and restricted cash equivalents	—	—	—	—	—
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Cash, cash equivalents, restricted cash and restricted cash equivalents at beginning of period	—	111	47	—	158
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Cash, cash equivalents, restricted cash and restricted cash equivalents at end of period	\$ —	\$ 76	\$ 25	\$ —	\$ 101
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DR PEPPER SNAPPLE GROUP, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited, Continued)

Condensed Consolidating Statements of Cash  
Flows

For the Six Months Ended June 30, 2017

Parent Guarantors Non-Guarantors Eliminations Total

(in millions)

## Operating activities:

Net cash (used in) provided by operating activities \$(112) \$ 529 \$ 3 \$ (10 ) \$410

## Investing activities:

Acquisition of business — (1,550 ) — — (1,550 )

Cash acquired in step acquisition of unconsolidated subsidiaries — 3 — — 3

Purchase of property, plant and equipment — (36 ) (5 ) — (41 )

Purchase of intangible assets — (5 ) — — (5 )

Investments in unconsolidated subsidiaries — (1 ) — — (1 )

Proceeds from disposals of property, plant and equipment — 1 — — 1

Issuance of related party notes receivable — (333 ) — 333 —

Other, net (6 ) 4 — — (2 )

Net cash (used in) provided by investing activities (6 ) (1,917 ) (5 ) 333 (1,595 )

## Financing activities:

Proceeds from issuance of related party debt 333 — — (333 ) —

Proceeds from issuance of senior unsecured notes 400 — — — 400

Repayment of senior unsecured notes (248 ) — — — (248 )

Repurchase of shares of common stock (177 ) — — — (177 )

Dividends paid (204 ) — (10 ) 10 (204 )

Tax withholdings related to net share settlements of certain stock awards (30 ) — — — (30 )

Proceeds from stock options exercised 19 — — — 19

Premium on issuance of senior unsecured notes 16 — — — 16

Proceeds from termination of interest rate swap 13 — — — 13

Deferred financing charges paid (5 ) — — — (5 )

Capital lease payments — (5 ) — — (5 )

Other, net 1 — — — 1

Net cash (used in) provided by financing activities 118 (5 ) (10 ) (323 ) (220 )

Cash, cash equivalents, restricted cash and restricted cash

equivalents — net change from:

Operating, investing and financing activities — (1,393 ) (12 ) — (1,405 )

Effect of exchange rate changes on cash, cash equivalents, — — 5 — 5

restricted cash and restricted cash equivalents

Cash, cash equivalents, restricted cash and restricted cash

equivalents at beginning of period — 1,736 51 — 1,787

Cash, cash equivalents, restricted cash and restricted cash

equivalents at end of period \$— \$ 343 \$ 44 \$ — \$387

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DR PEPPER SNAPPLE GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited, Continued)

17. Subsequent Events

**MERGER WITH MAPLE PARENT HOLDINGS CORP.**

On July 9, 2018, the Maple Merger was completed. The Maple Merger was accounted for as a reverse merger under the acquisition method of accounting for business combinations and Maple Parent was considered to be the acquiring company. Maple is the indirect parent of Keurig Green Mountain, Inc. ("Keurig"), through which Maple conducts all of its operations. Keurig is a leading producer of specialty coffee and innovative single serve brewing systems. The Maple Merger created Keurig Dr Pepper Inc., a new beverage company of scale with a portfolio of iconic consumer brands and expanded distribution capability to reach virtually every point-of-sale in North America.

In consideration for the Maple Merger, each share of common stock of Maple issued and outstanding immediately prior to the closing of the Maple Merger (the "Effective Time") was converted into the right to receive 96.4 shares of common stock of DPS pursuant to an exchange ratio set forth in the Merger Agreement (the "Acquisition Shares").

The Merger Agreement provided for DPS to declare a special cash dividend equal to \$103.75 per share, subject to any withholding of taxes required by law, payable to holders of its common stock as of the record date for the special dividend, which was July 6, 2018 (such special dividend, together with the Maple Merger, the "Maple Transaction"). The special dividend was primarily funded through the \$9 billion equity contribution from JAB Holding Company to Maple, the \$8 billion issuance of Maple Notes (as defined below) and cash on hand.

As a result of the Maple Transaction, the equity holders of Maple as of immediately prior to the Effective Time own approximately 87% of DPS' common stock following the closing and the equityholders of DPS as of immediately prior to the Effective Time own approximately 13% on a fully diluted basis.

Upon completion of the Maple Transaction:

- all DPS unvested stock option awards, RSUs and PSUs vested immediately as a result of the Change in Control (as defined in the terms of each individual award agreement); and

- the \$500 million Revolver was terminated as a result of the Change in Control (as defined in the Company's Credit Agreement).

The Company agreed to pay a fee to Credit Suisse Securities (USA) LLC, as the Company's financial advisor in relation to the Maple Transaction, of approximately \$50 million, \$5 million of which was for the delivery of the fairness opinion during the first quarter of 2018, and the remaining portion of which became due upon consummation of the Maple Transaction.

Under the acquisition method of accounting, the consideration transferred was the aggregate fair value of DPS common stock of \$22,587 million. Due to the limited time between the Maple Transaction and the filing of this Quarterly Report on Form 10-Q, it is not practicable for the Company to disclose the preliminary allocation of purchase price to assets acquired and liabilities assumed. The Company expects that the allocation of purchase price to assets acquired and liabilities assumed will change the Company's estimate of amortization expense of intangible assets with definite lives as disclosed in Note 4.

**Assumption of Maple Financing Arrangements**

In connection with the Merger Agreement, Maple entered into (i) a new term loan agreement, dated as of February 28, 2018 (the "Maple Term Loan Agreement"), among Maple, and, upon and at any time after the Effective Time, DPS, the banks party thereto and JPMorgan Chase Bank, N.A., as administrative agent, pursuant to which DPS obtained a term loan of \$2.7 billion and (ii) a new credit agreement, dated as of February 28, 2018 (the "Maple Credit Agreement" and, together with the Maple Term Loan Agreement, the "Maple Credit Agreements"), among Maple, and, upon and at any time after the Effective Time, DPS, the banks and issuers of letters of credit party thereto, and JPMorgan Chase Bank, N.A., as administrative agent, pursuant to which DPS obtained a \$2.4 billion revolving credit facility. In connection with the Maple Merger, DPS entered into (i) a borrower joinder to the Maple Term Loan Agreement, dated July 9,

2018 (the “Term Loan Agreement Joinder”) with Maple and JPMorgan Chase Bank, N.A., as administrative agent, and (ii) a borrower joinder to the Maple Credit Agreement, dated July 9, 2018 (the “Credit Agreement Joinder” and, together with the Term Loan Agreement Joinder, the “Credit Agreement Joinders”), with Maple and JPMorgan Chase Bank, N.A., as administrative agent, assuming all of the obligations of Maple under the Maple Credit Agreements. The proceeds of the Maple Credit Agreements funded (i) the Maple Merger and the other transactions contemplated by the Merger Agreement, (ii) fees and expenses related to the Maple Merger and (iii) KDP’s general corporate needs. The Maple Credit Agreements are unsecured.

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DR PEPPER SNAPPLE GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited, Continued)

On May 25, 2018, Maple Escrow Subsidiary, Inc., a Delaware corporation and wholly owned subsidiary of Maple (the “Escrow Issuer”), issued in a private offering \$8.0 billion aggregate principal amount of senior notes, comprised of \$1,750 million aggregate principal amount of 3.551% senior notes due 2021 (the “Maple 2021 Notes”), \$2,000 million aggregate principal amount of 4.057% senior notes due 2023 (the “Maple 2023 Notes”), \$1,000 million aggregate principal amount of 4.417% senior notes due 2025 (the “Maple 2025 Notes”), \$2,000 million aggregate principal amount of 4.597% senior notes due 2028 (the “Maple 2028 Notes”), \$500 million aggregate principal amount of 4.985% senior notes due 2038 (the “Maple 2038 Notes”), and \$750 million aggregate principal amount of 5.085% senior notes due 2048 (the “Maple 2048 Notes” and, collectively, the “Maple Notes”), in each case issued pursuant to the related base indenture, dated as of May 25, 2018 (the “Base Indenture”), between the Escrow Issuer and Wells Fargo Bank, N.A., as trustee (the “Trustee”), as supplemented by the First Supplemental Indenture, dated as of May 25, 2018, among the Escrow Issuer, Maple as limited parent guarantor, and the Trustee, related to the Maple 2021 Notes, the Second Supplemental Indenture, dated as of May 25, 2018, among the Escrow Issuer, Maple as limited parent guarantor, and the Trustee, related to the Maple 2023 Notes, the Third Supplemental Indenture, dated as of May 25, 2018, among the Escrow Issuer, Maple as limited parent guarantor, and the Trustee, related to the Maple 2025 Notes, the Fourth Supplemental Indenture, dated as of May 25, 2018, among the Escrow Issuer, Maple as limited parent guarantor, and the Trustee, related to the Maple 2028 Notes, the Fifth Supplemental Indenture, dated as of May 25, 2018, among the Escrow Issuer, Maple as limited parent guarantor, and the Trustee, related to the Maple 2038 Notes, and the Sixth Supplemental Indenture, dated as of May 25, 2018, among the Escrow Issuer, Maple as limited parent guarantor, and the Trustee, related to the Maple 2048 Notes (collectively, the “Existing Supplemental Indentures” and together with the Base Indenture, the “Existing Indenture”). The net proceeds of the offering of the Maple Notes were used, along with borrowings under the Maple Credit Agreements and cash on hand, to fund a special cash dividend, payable on July 10, 2018, in an amount equal to \$103.75 in respect of each share of the Company’s common stock held by a holder of record as of the close of business on July 6, 2018.

In connection with the consummation of the Maple Merger, the Escrow Issuer merged with and into the Company, and the Company assumed the obligations of the Escrow Issuer under the Maple Notes, the Base Indenture and the Existing Supplemental Indentures (the “Escrow Assumption”). Upon consummation of the Escrow Assumption, the limited parent guarantee of Maple was automatically and unconditionally released and, pursuant to the terms of the Existing Indenture, all of the Company’s existing subsidiaries that guarantee other indebtedness of the Company, subject to certain exceptions, executed a guarantee of the Maple Notes pursuant to a supplemental indenture, dated as of July 9, 2018, among the Company, all the subsidiary guarantors named therein (the “Subsidiary Guarantors”), and the Trustee (the “Seventh Supplemental Indenture” and, together with the Existing Indenture, the “Indenture”).

**ACQUISITION OF BIG RED**

On July 9, 2018, KDP entered into an agreement to purchase Big Red for an estimated purchase price of \$300 million. Prior to the proposed acquisition of Big Red, the Company owned 14.36% of Big Red’s common shares which were previously earned based on the Company’s distribution of Big Red’s products. Due to the limited time between the entry into the agreement with Big Red and the filing of this Quarterly Report on Form 10-Q, it is not practicable for the Company to disclose the preliminary allocation of purchase price to assets acquired and liabilities assumed.

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

You should read the following discussion in conjunction with our audited consolidated financial statements and notes thereto in our Annual Report on Form 10-K for the year ended December 31, 2017, as amended by Amendment No. 1 to the Annual Report on Form 10-K for the year ended December 31, 2017 filed on March 20, 2018 (the "Annual Report").

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), including, in particular, statements about future events, future financial performance, plans, strategies, expectations, prospects, competitive environment, regulation, labor matters and availability of raw materials. Forward-looking statements include all statements that are not historical facts and can be identified by the use of forward-looking terminology such as the words "may," "will," "expect," "anticipate," "believe," "estimate," "plan," "intend" or the negative of these terms or similar expressions in this Quarterly Report on Form 10-Q. We have based these forward-looking statements on our current views with respect to future events and financial performance. Our actual financial performance could differ materially from those projected in the forward-looking statements due to the inherent uncertainty of estimates, forecasts and projections, and our financial performance may be better or worse than anticipated. Given these uncertainties, you should not put undue reliance on any forward-looking statements. All of the forward-looking statements are qualified in their entirety by reference to the factors discussed under "Risk Factors" in Part I, Item 1A of our Annual Report. Forward-looking statements represent our estimates and assumptions only as of the date that they were made. We do not undertake any duty to update the forward-looking statements, and the estimates and assumptions associated with them, after the date of this Quarterly Report on Form 10-Q, except to the extent required by applicable securities laws.

This Quarterly Report on Form 10-Q contains the names of some of our owned or licensed trademarks, trade names and service marks, which we refer to as our brands. All of the product names included in this Quarterly Report on Form 10-Q are either our registered trademarks or those of our licensors.

#### MAPLE MERGER

On July 9, 2018, the Maple Merger was completed. The Maple Merger was accounted for as a reverse merger under the acquisition method of accounting for business combinations and Maple Parent was considered to be the acquiring company. Maple is the indirect parent of Keurig, through which Maple conducts all of its operations. Keurig is a leading producer of specialty coffee and innovative single serve brewing systems. The Maple Merger created Keurig Dr Pepper Inc., a new beverage company of scale with a portfolio of iconic consumer brands and expanded distribution capability to reach virtually every point-of-sale in North America.

Refer to Note 17 of the Notes to our Unaudited Condensed Consolidated Financial Statements for further information.

#### OVERVIEW

DPS is a leading integrated brand owner, manufacturer and distributor of non-alcoholic beverages in the U.S., Canada and Mexico with a diverse portfolio of flavored (non-cola) CSDs and NCBs, including ready-to-drink teas, juices, juice drinks, water and mixers. Our brand portfolio includes popular CSD brands such as Dr Pepper, Canada Dry, Peñafiel, Squirt, 7UP, Crush, A&W, Sunkist soda and Schweppes, and NCB brands such as Snapple, Hawaiian Punch, Mott's, Clamato, Bai, Mr & Mrs T mixers and Rose's. Our largest brand, Dr Pepper, is a leading flavored CSD in the U.S. as reported by Information Resources, Inc. We have some of the most recognized beverage brands in North America, with significant consumer awareness levels and long histories that evoke strong emotional connections with consumers.

We operate as an integrated brand owner, manufacturer and distributor through our three reporting segments. We believe our integrated business model strengthens our route-to-market and provides opportunities for net sales and profit growth through the alignment of the economic interests of our brand ownership and our manufacturing and distribution businesses through both our DSD system and our WD delivery system. Our integrated business model enables us to be more flexible and responsive to the changing needs of our large retail customers and allows us to more fully leverage our scale and reduce costs by creating greater geographic manufacturing and distribution coverage.

The beverage market is subject to some seasonal variations. Our beverage sales are generally higher during the warmer months and also can be influenced by the timing of holidays and religious festivals as well as weather fluctuations.

#### BEVERAGE CONCENTRATES

Our Beverage Concentrates segment is principally a brand ownership business. In this segment we manufacture and sell beverage concentrates in the U.S. and Canada. Most of the brands in this segment are CSD brands. Key brands include Dr Pepper, Canada Dry, Squirt, 7UP, Crush, A&W, Schweppes, Sunkist soda, RC Cola, Sundrop, Vernors, Diet Rite and the concentrate form of Hawaiian Punch.

Almost all of our beverage concentrates are manufactured at our plant in St. Louis, Missouri.

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Beverage concentrates are shipped to third-party bottlers, as well as to our own manufacturing systems, who combine them with carbonation, water, sweeteners and other ingredients, package the combined product in PET containers, glass bottles and aluminum cans, and sell them as finished beverages to retailers. Beverage concentrates are also manufactured into syrup, which is shipped to fountain customers, such as fast food restaurants, who mix the syrup with water and carbonation to create a finished beverage at the point of sale to consumers. Dr Pepper represents most of our fountain channel volume. Concentrate prices historically have been reviewed and adjusted at least on an annual basis.

Our Beverage Concentrates brands are sold by our bottlers, including our own Packaged Beverages segment, through all major retail channels including supermarkets, fountains, mass merchandisers, club stores, vending machines, convenience stores, gas stations, small groceries, drug chains and dollar stores.

### **PACKAGED BEVERAGES**

Our Packaged Beverages reporting segment is principally a brand ownership, manufacturing and distribution business. In this segment, we primarily manufacture and distribute packaged beverages and other products, including our brands, third-party owned brands and certain private label beverages, primarily in the U.S. and Canada. Key NCB brands in this segment include Snapple, Hawaiian Punch, Mott's, FIJI mineral water, Clamato, Bai, Yoo-Hoo, Deja Blue, ReaLemon, BODYARMOR, Vita Coco coconut water, AriZona tea, Mr and Mrs T mixers, Nantucket Nectars, Garden Cocktail, Mystic and Rose's. Key CSD brands in this segment include Dr Pepper, 7UP, Canada Dry, A&W, Sunkist soda, Squirt, RC Cola, Big Red, Vernors, Venom, IBC, Diet Rite and Sun Drop.

Additionally, we distribute third-party brands such as FIJI mineral water, Big Red, BODYARMOR, Vita Coco coconut water, AriZona tea, CORE Hydration, Neuro drinks, Sunny Delight, High Brew, Hydrive energy drinks and Sparkling Fruit<sub>2</sub>O. Although the majority of our Packaged Beverages' net sales relate to our brands, we also provide a route-to-market for these third party brand owners seeking effective distribution for their new and emerging brands. These brands give us exposure in certain markets to fast growing segments of the beverage industry with minimal capital investment.

Our Packaged Beverages' products are manufactured in multiple facilities across the U.S. and are sold or distributed to retailers and their warehouses by our own distribution network or by third-party distributors. The raw materials used to manufacture our products include aluminum cans and ends, PET bottles and caps, glass bottles and closures, paper products, sweeteners, juices, water and other ingredients.

We sell our Packaged Beverages' products through our DSD system and our WD system, both of which include the sales to all major retail channels, including supermarkets, fountains, mass merchandisers, club stores, vending machines, convenience stores, gas stations, small groceries, drug chains and dollar stores.

### **LATIN AMERICA BEVERAGES**

Our Latin America Beverages segment is a brand ownership, manufacturing and distribution business. This segment participates mainly in the carbonated mineral water, flavored CSD, bottled water and vegetable juice categories, with particular strength in carbonated mineral water, vegetable juice categories and grapefruit flavored CSDs. Key brands include Peñafiel, Squirt, Aguafiel, Clamato and Crush.

In Mexico, we manufacture and distribute our products through our bottling operations and third party bottlers and distributors. We sell our finished beverages through all major Mexican retail channels, including "mom and pop" stores, supermarkets, hypermarkets, convenience stores and on-premise channels. In the Caribbean, we distribute our products through third-party bottlers and distributors. We have also begun to distribute certain products in other international jurisdictions through various third-party bottlers and distributors.

### **VOLUME**

In evaluating our performance, we consider different volume measures depending on whether we sell beverage concentrates or finished beverages.

#### **Beverage Concentrates Sales Volume**

In our Beverage Concentrates segment, we measure our sales volume in two ways: (1) "concentrate case sales" and (2) "bottler case sales." The unit of measurement for both concentrate case sales and bottler case sales equals 288 fluid ounces of finished beverage, the equivalent of 24 twelve ounce servings.



Concentrate case sales represent units of measurement for concentrates sold by us to our bottlers and distributors. A concentrate case is the amount of concentrate needed to make one case of 288 fluid ounces of finished beverage. It does not include any other component of the finished beverage other than concentrate. Our net sales in our concentrate businesses are based on our sales of concentrate cases.

Although net sales in our concentrate businesses are based on concentrate case sales, we believe that bottler case sales are also a significant measure of our performance because they measure sales of packaged beverages into retail channels.

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Packaged Beverages and Latin America Beverages Sales Volume

In our Packaged Beverages and Latin America Beverages segments, we measure volume as case sales to customers. A case sale represents a unit of measurement equal to 288 fluid ounces of packaged beverage sold by us. Case sales include both our owned brands and certain brands licensed to and/or distributed by us.

Volume in Bottler Case Sales

In addition to sales volume, we measure volume in bottler case sales ("volume (BCS)") as sales of packaged beverages, in equivalent 288 fluid ounce cases, sold by us and our bottling partners to retailers and independent distributors. Our contract manufacturing sales are not included or reported as part of volume (BCS).

Bottler case sales and concentrates and packaged beverage sales volumes are not equal during any given period due to changes in bottler concentrates inventory levels, which can be affected by seasonality, bottler inventory and manufacturing practices and the timing of price increases and new product introductions.

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EXECUTIVE SUMMARY - FINANCIAL OVERVIEW AND RECENT DEVELOPMENTS

• Net sales grew approximately 5%, due primarily to favorable product and package mix, segment mix, an increase in contract manufacturing and an increase in sales volume.

• Income from operations declined 3% as the increases in cost of sales and SG&A expenses were partially offset by the increase in net sales. Increases in cost of sales and SG&A expenses were primarily driven by higher commodity costs, an increase in logistics costs, higher planned marketing investments and an increase in people costs, driven by inflationary increases, frontline investment and the growth in sales volumes.

• On July 9, 2018, the Maple Merger was completed and the Company changed its name to Keurig Dr Pepper Inc. ("KDP").

• On July 9, 2018, KDP entered into an agreement to purchase Big Red for an estimated purchase price of \$300 million.

Table of Contents**RESULTS OF OPERATIONS**

We eliminate from our financial results all intercompany transactions between entities included in our consolidated financial statements and the intercompany transactions with our equity method investees.

References in the financial tables to percentage changes that are not meaningful are denoted by "NM."

Three Months Ended June 30, 2018 Compared to Three Months Ended June 30, 2017

**Consolidated Operations**

The following table sets forth our unaudited consolidated results of operations for the three months ended June 30, 2018 and 2017:

	For the Three Months Ended June 30,				Dollar Change	Percentage Change
	2018		2017			
(\$ in millions)	Dollars	Percent	Dollars	Percent		
Net sales	\$1,886	100.0 %	\$1,797	100.0 %	\$ 89	5 %
Cost of sales	790	41.9	718	40.0	72	10
Gross profit	1,096	58.1	1,079	60.0	17	2
Selling, general and administrative expenses	721	38.2	681	37.9	40	6
Other operating income, net	(15 )	(0.8 )	(2 )	(0.1 )	(13)	NM
Income from operations	362	19.2	375	20.9	(13)	(3 )
Loss on early extinguishment of debt	—	—	49	2.7	(49)	NM
Effective tax rate	25.9 %	NM	33.2 %	NM	NM	NM

Volume (BCS). Volume (BCS) increased 1% for the three months ended June 30, 2018 compared with the three months ended June 30, 2017. In the U.S. and Canada, volume increased 1%, and in Mexico and the Caribbean, volume decreased 1%, compared with the year ago period. Branded CSD volumes declined 1% and NCB volumes increased 8% in the current period.

In branded CSDs, Dr Pepper decreased 1% driven by decreases in regular and diet. 7UP declined 7% driven by reduced promotional activity while Peñafiel decreased 3% as a result of category decline partially offset by distribution gains and product and package innovation in our Latin America Beverages segment. Schweppes decreased by 3% driven primarily by declines in sparkling water. A&W decreased 1% compared to the year ago period while other CSD brands were 4% lower. These declines were partially offset by 9% growth in Canada Dry due to product innovation and continued growth in the ginger ale category. Squirt was flat compared to the prior year period.

In branded NCBs, our growth allied brands gained 44% due primarily to distribution gains and product innovation. Bai increased 22% driven by distribution gains, product innovation and promotional activity. Mott's increased 12% primarily due to growth in juice, driven by product innovation and increased promotional activity, while Clamato increased 8% compared with the year ago period primarily due to increased promotional activity and higher sales to third party bottlers in our Latin America Beverages segment. Snapple and our other NCB brands were flat compared to the prior period.

Net Sales. Net sales increased \$89 million, or approximately 5%, for the three months ended June 30, 2018 compared with the three months ended June 30, 2017. The primary factors of the increase in net sales included:

• Favorable product and package mix, which increased net sales by 2%;

• Favorable segment mix, which grew net sales by 1%;

• Increase in contract manufacturing, which raised net sales by 1%; and

• Increase in shipments, which grew net sales by 1% and overcame the shift of the Easter holiday activity into the first quarter of 2018.

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**Gross Profit.** Gross profit increased \$17 million for the three months ended June 30, 2018 compared with the three months ended June 30, 2017. Gross margin of 58.1% for the three months ended June 30, 2018 was lower than the 60.0% gross margin for the three months ended June 30, 2017. The primary drivers of the change in gross margin for the three months ended June 30, 2018 included:

- Higher commodity costs, led by packaging, combined with the change in our LIFO inventory provision decreased our gross margin by 1.60%;

- Unfavorable product and package mix, which reduced our gross margin by 0.60%;

- The impact of contract manufacturing, which lowered our gross margin by 0.20%;

- Unfavorable segment mix, which decreased our gross margin by 0.20%;

- Favorable comparison of \$6 million in our mark-to-market activity on commodity derivative contracts, which grew our gross margin by 0.40%;

- Ongoing productivity improvements, which increased our gross margin by 0.20%; and

- Favorable foreign currency effects, which raised our gross margin by 0.10%.

The favorable mark-to-market activity on commodity derivative contracts within cost of sales, which is included in unallocated corporate costs, for the three months ended June 30, 2018 was no unrealized gains or losses versus \$6 million in unrealized losses in the year ago period.

**Selling, General and Administrative Expenses.** Selling, general and administrative ("SG&A") expenses increased \$40 million for the three months ended June 30, 2018 compared with the three months ended June 30, 2017. The primary driver of the increase included higher logistics costs, an increase in planned marketing investments, higher people costs, driven by inflationary increases, frontline investment and the growth in sales volumes, and \$11 million of transaction and integration expenses for the Maple Transaction that closed in July 2018. These increases were partially offset by a \$15 million favorable comparison in the mark-to-market activity on commodity derivative contracts.

The favorable mark-to-market activity on commodity derivative contracts within SG&A expenses, which is included in unallocated corporate costs, for the three months ended June 30, 2018 was \$9 million in unrealized gains versus \$6 million in unrealized losses in the year ago period.

**Other operating income, net.** Other operating income, net increased \$13 million as a result of the \$16 million remeasurement of our equity investment in Big Red. See Note 12 of the Notes to our Unaudited Condensed Consolidated Financial Statements for additional information.

**Income from Operations.** Income from operations decreased \$13 million to \$362 million for the three months ended June 30, 2018 primarily due to the increase in SG&A expenses partially offset by an increase in gross profit and the remeasurement of the Company's investment in Big Red.

**Loss on Early Extinguishment of Debt.** In June 2017, we recognized a \$49 million loss on early extinguishment of debt as we completed a tender offer on a portion of our 2038 Notes and our 2018 Notes and retired, at a premium, an aggregate principal amount of \$125 million of the 2038 Notes and \$63 million of the 2018 Notes. The \$49 million loss on early extinguishment of debt was comprised of \$62 million for the tender offer consideration, the early tender premium and write off of deferred financing costs, partially offset by a \$13 million gain on the termination of interest rate swap related to the 2038 Notes.

**Effective Tax Rate.** The effective tax rates for the three months ended June 30, 2018 and 2017 were 25.9% and 33.2%, respectively. For the three months ended June 30, 2018, the provision for income taxes was lower than the prior year quarter primarily due to the TCJA which was enacted in December 2017. See Note 5 of the Notes to our Unaudited Condensed Consolidated Financial Statements for additional information.

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## Results of Operations by Segment

The following tables set forth net sales and SOP for our segments for the three months ended June 30, 2018 and 2017, as well as the other amounts necessary to reconcile our total segment results to our consolidated results presented in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"):

	For the Three Months Ended June 30,	
(in millions)	2018	2017
Segment Results — Net sales		
Beverage Concentrates	\$372	\$356
Packaged Beverages	1,378	1,302
Latin America Beverages	136	139
Net sales	\$1,886	\$1,797
	For the Three Months Ended June 30,	
(in millions)	2018	2017
Segment Results — SOP		
Beverage Concentrates	\$249	\$237
Packaged Beverages	148	196
Latin America Beverages	27	24
Total SOP	424	457
Unallocated corporate costs	77	84
Other operating income, net	(15)	(2)
Income from operations	362	375
Interest expense, net	43	43
Loss on early extinguishment of debt	—	49
Other income, net	(2)	—
Income before provision for income taxes and equity in earnings of unconsolidated subsidiaries	\$321	\$283

**BEVERAGE CONCENTRATES**

The following table details our Beverage Concentrates segment's net sales and SOP for the three months ended June 30, 2018 and 2017:

	For the Three Months Ended June 30,		Dollar		Percentage	
(in millions)	2018	2017	Change	Change		
Net sales	\$372	\$356	\$ 16	4	%	
SOP	249	237	12	5		

Net Sales. Net sales increased \$16 million for the three months ended June 30, 2018, compared with the three months ended June 30, 2017. The change was due to higher pricing, lower discounts and favorable product mix.

SOP. SOP increased \$12 million for the three months ended June 30, 2018, compared with the three months ended June 30, 2017, driven primarily by an increase in net sales partially offset by an increase in SG&A expenses. SG&A expenses increased as a result of planned marketing investments.

Volume (BCS). Volume (BCS) decreased 1% for the three months ended June 30, 2018, compared with the three months ended June 30, 2017. Dr Pepper decreased 1% driven by decreases in regular and TEN, partially offset by

growth in diet. 7UP declined 6% compared to the year ago period. Schweppes had a decrease of 4% primarily due to declines in sparkling water. Our other brands had a 2% decline. These decreases were partially offset by a 7% increase in Canada Dry, driven by product innovation and continued growth in the ginger ale category, and 1% growth in A&W.

Table of Contents**PACKAGED BEVERAGES**

The following table details our Packaged Beverages segment's net sales and SOP for the three months ended June 30, 2018 and 2017:

	For the Three Months Ended			
(in millions)	June 30, 2018	June 30, 2017	Dollar Change	Percentage Change
Net sales	\$1,378	\$1,302	\$ 76	6 %
SOP	148	196	(48 )	(24 )

Volume. Branded CSD volumes were flat for the three months ended June 30, 2018 compared with the three months ended June 30, 2017, driven partially by the shift of the Easter holiday activity into the first quarter of 2018. Canada Dry grew 13% due to product innovation and continued growth in the ginger ale category, which was fully offset by declines in the rest of our brands. 7UP declined 4%, while Dr Pepper decreased 1% as declines in regular and TEN were partially offset by growth in diet. A&W was 1% lower compared to the prior year period, while our other CSD brands decreased 3%.

Branded NCB volumes increased 7% for the three months ended June 30, 2018 compared with the three months ended June 30, 2017, overcoming the shift of the Easter holiday activity into the first quarter of 2018. Our growth allied brands gained 44% due primarily to distribution gains, product innovation and promotional activity. Bai increased 22% driven by distribution gains, product innovation and promotional activity. Mott's grew 13% compared to the prior period primarily due to growth in juice, driven by product innovation and increased promotional activity. Clamato increased 5% compared to the prior year period. These increases were partially offset by a 3% decline in other NCB brands. Snapple was flat compared to the prior year period.

Contract manufacturing increased 15% for the three months ended June 30, 2018 compared with the three months ended June 30, 2017.

Net Sales. Net sales increased \$76 million for the three months ended June 30, 2018, compared with the three months ended June 30, 2017. Net sales increased due to favorable product and package mix, higher sales volumes and an increase in contract manufacturing. These increases were partially offset by increased promotional activity.

SOP. SOP decreased \$48 million for the three months ended June 30, 2018, compared with the three months ended June 30, 2017, as increases in cost of sales and SG&A expenses were partially offset by an increase in net sales.

Cost of sales increased as a result of higher costs associated with product and package mix, higher commodity costs, led by packaging and an increase in costs associated with growth in our sales volumes and contract manufacturing. SG&A expenses were higher as a result of higher logistics costs, an increase in planned marketing investments and higher people costs, driven by inflationary increases, frontline investment and the growth in sales volumes.

**LATIN AMERICA BEVERAGES**

The following table details our Latin America Beverages segment's net sales and SOP for the three months ended June 30, 2018 and 2017:

	For the Three Months Ended			
(in millions)	June 30, 2018	June 30, 2017	Dollar Change	Percent Change
Net sales	\$136	\$139	\$ (3 )	(2 )%
SOP	27	24	3	13

Volume. Sales volume decreased 1% for the three months ended June 30, 2018 compared with the three months ended June 30, 2017. The decrease in sales volume was driven primarily by a 3% decrease in Peñafiel as a result of category decline partially offset by distribution gains and product and package innovation and a 1% decline in Squirt due to lower sales to third party bottlers. These decreases were partially offset by growth of 12% in Clamato due to increased



promotional activity and higher sales to third party bottlers and a 1% increase in our other brands.

Net Sales. Net sales decreased \$3 million for the three months ended June 30, 2018, compared with the three months ended June 30, 2017. Net sales decreased as a result of unfavorable foreign currency translation of \$6 million, higher discounts and lower sales volumes, partially offset by higher pricing and favorable product and package mix.

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SOP. SOP increased \$3 million for the three months ended June 30, 2018, compared with the three months ended June 30, 2017, driven by a decrease in cost of sales partially offset by a decrease in net sales. Cost of sales decreased in the current period as a result of a \$5 million recovery in the second quarter of 2018 on the default by a supplier of resin to our operations in Mexico recorded during the third quarter of 2017 and favorable foreign currency effects of \$4 million on cost of sales. These decreases were partially offset by a rate increase in the Mexican sugar tax, higher costs associated with favorable product and package mix and higher commodity costs, led by packaging.

Six Months Ended June 30, 2018 Compared to Six Months Ended June 30, 2017

## Consolidated Operations

The following table sets forth our unaudited consolidated results of operations for the six months ended June 30, 2018 and 2017:

(\$ in millions)	For the Six Months Ended June 30,					
	2018		2017		Dollar	Percentage
	Dollars	Percent	Dollars	Percent	Change	Change
Net sales	\$3,480	100.0 %	\$3,307	100.0 %	\$ 173	5 %
Cost of sales	1,471	42.3	1,325	40.1	146	11
Gross profit	2,009	57.7	1,982	59.9	27	1
SG&A expenses	1,347	38.7	1,301	39.3	46	4
Other operating income, net	(14 )	(0.4 )	(30 )	(0.9 )	16	NM
Income from operations	621	17.8	661	20.0	(40 )	(6 )
Provision for income taxes	137	3.9	165	5.0	(28 )	(17 )
Equity in loss of unconsolidated subsidiaries, net of tax	(9 )	(0.3 )	(1 )	—	(8 )	NM
Effective tax rate	25.4 %	NM	31.1 %	NM	NM	NM

Volume (BCS). Volume (BCS) increased 1% for the six months ended June 30, 2018 compared with the six months ended June 30, 2017. In the U.S. and Canada, volume grew 2%, and in Mexico and the Caribbean, volume decreased 1%, compared with the year ago period. Branded NCB volumes grew 7% in the current period, while branded CSD volumes were flat.

In branded CSDs, Canada Dry increased 10% due to product innovation and continued growth in the ginger ale category, while Squirt increased 1%. These increases were partially offset by a 5% decline in 7UP, a 1% decrease in Peñafiel and a 1% decline in A&W. Our other CSD brands were 3% lower compared to the prior year period. Dr Pepper and Schweppes were both flat compared to the year ago period.

In branded NCBs, our growth allied brands gained 39% due primarily to distribution gains, product innovation and promotional activity. Bai increased 34% driven by distribution gains, product innovation and promotional activity. Bai also included six months of shipments to third-party distributors for the six months ended June 30, 2018 compared with five months of similar shipments in the prior year period due to the timing of the Bai Brands Merger. Mott's grew 9% compared to the prior period due to growth in juice, driven by product innovation and increased promotional activity. Clamato increased 5% compared with the year ago period, while Snapple was 1% higher. These increases were partially offset by our other NCB brands, which were 1% lower compared to the prior period.

Net Sales. Net sales increased \$173 million, or approximately 5%, for the six months ended June 30, 2018 compared with the six months ended June 30, 2017. The primary drivers of the increase in net sales included:

- Favorable product and package mix, which raised net sales by 2%;
- The increase in branded shipments, which grew net sales by 1%;
- Favorable segment mix, which increased our net sales by 1%; and
- The increase in contract manufacturing activity, which raised our net sales by 1%.

Gross Profit. Gross profit increased \$27 million for the six months ended June 30, 2018 compared with the six months ended June 30, 2017. Gross margin was 57.7% for the six months ended June 30, 2018 compared to the gross margin of 59.9% for the six months ended June 30, 2017. The primary drivers of the change in gross margin included:

- Higher commodity costs, led by packaging, combined with the unfavorable change in our LIFO inventory provision, reduced our gross margin by 1.5%;



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Unfavorable comparison of \$24 million in our mark-to-market activity on commodity derivative contracts, which lowered our gross margin by 0.7%;

The impact of contract manufacturing, which decreased our gross margin by 0.3%;

Increase in our other manufacturing costs, which lowered our gross margin by 0.2%.

Unfavorable product and package mix, which reduced our gross margin by 0.1%;

Increase in our gross margin of 0.3% related to the favorable comparison to the \$9 million initial profit in stock adjustment as a result of the Bai Brands Merger recorded during the first quarter of 2017;

Ongoing productivity improvements, which increased our gross margin by 0.2%; and

Favorable foreign currency effects, which raised our gross margin by 0.1%.

The unfavorable mark-to-market activity on commodity derivative contracts within cost of sales, which is included in unallocated corporate costs, for the six months ended June 30, 2018 was \$12 million in unrealized losses versus \$12 million in unrealized gains in the year ago period.

SG&A Expenses. SG&A expenses increased \$46 million for the six months ended June 30, 2018 compared with the six months ended June 30, 2017. The primary drivers of the increase included higher logistics costs, higher people costs, driven by inflationary increases, frontline investment and the growth in sales volumes, \$23 million of transaction and integration expenses for the Maple Transaction and an increase in planned marketing investments. These drivers were partially offset by the \$30 million favorable comparison in the mark-to-market activity on commodity derivative contracts and the favorable comparison to \$20 million of transaction and integration expenses for the Bai Brands Merger in the prior year.

The favorable mark-to-market activity on commodity derivative contracts within SG&A expenses, which is included in unallocated corporate costs, for the six months ended June 30, 2018 was \$10 million in unrealized gains versus \$20 million in unrealized losses in the year ago period.

Other operating income, net. Other operating income, net decreased \$16 million primarily driven by the unfavorable comparison to the \$28 million gain on the step-acquisition of Bai Brands recorded in 2017, partially offset by the \$16 million remeasurement of our equity investment in Big Red. See Note 12 of the Notes to our Unaudited Condensed Consolidated Financial Statements for additional information.

Income from Operations. Income from operations decreased \$40 million to \$621 million for the six months ended June 30, 2018 due primarily to unfavorable comparison to the \$28 million gain on the step-acquisition of Bai Brands recorded in the prior year and the increase in SG&A expenses, partially offset by the increase in gross profit.

Loss on Early Extinguishment of Debt. In June 2017, we recognized a \$49 million loss on early extinguishment of debt as we completed a tender offer on a portion of our 2038 Notes and our 2018 Notes and retired, at a premium, an aggregate principal amount of \$125 million of the 2038 Notes and \$63 million of the 2018 Notes. The \$49 million loss on early extinguishment of debt was comprised of \$62 million for the tender offer consideration, the early tender premium and write off of deferred financing costs, partially offset by a \$13 million gain on the termination of interest rate swap related to the 2038 Notes.

Effective Tax Rate. The effective tax rates for the six months ended June 30, 2018 and 2017 were 25.4% and 31.1%, respectively. For the six months ended June 30, 2018, the provision for income taxes was lower than the prior year period primarily due to the TCJA which was enacted in December 2017. See Note 5 of the Notes to our Unaudited Condensed Consolidated Financial Statements for additional information.

Equity in loss of unconsolidated subsidiaries, net of tax. This line represents our proportionate share of net income or loss from each of our equity method investees. For the six months ended June 30, 2018, a charge of \$9 million reflects the unfavorable results of our 15.5% interest in BA Sports Nutrition, LLC.

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## Results of Operations by Segment

The following tables set forth net sales and SOP for our segments for the six months ended June 30, 2018 and 2017, as well as the other amounts necessary to reconcile our total segment results to our consolidated results presented in accordance with U.S. GAAP:

	For the Six Months Ended June 30,	
(in millions)	2018	2017
Segment Results — Net sales		
Beverage Concentrates	\$675	\$650
Packaged Beverages	2,556	2,420
Latin America Beverages	249	237
Net sales	\$3,480	\$3,307

	For the Six Months Ended June 30,	
(in millions)	2018	2017
Segment Results — SOP		
Beverage Concentrates	\$443	\$423
Packaged Beverages	298	337
Latin America Beverages	39	35
Total SOP	780	795
Unallocated corporate costs	173	164
Other operating income, net	(14)	(30)
Income from operations	621	661
Interest expense, net	83	82
Loss on early extinguishment of debt	—	49
Other income, net	(2)	(1)
Income before provision for income taxes and equity in loss of unconsolidated subsidiaries	\$540	\$531

**BEVERAGE CONCENTRATES**

The following table details our Beverage Concentrates segment's net sales and SOP for the six months ended June 30, 2018 and 2017:

	For the Six Months Ended June 30,		Dollar		Percent	
(in millions)	2018	2017	Change	Change		
Net sales	\$675	\$650	\$ 25	4	%	
SOP	443	423	20	5		

**Net Sales.** Net sales increased \$25 million for the six months ended June 30, 2018 compared with the six months ended June 30, 2017. The increase was due to higher pricing, lower discounts and favorable product mix.

**SOP.** SOP increased \$20 million for the six months ended June 30, 2018 compared with the six months ended June 30, 2017, primarily driven by an increase in net sales which was partially offset by higher cost of sales. The increase in cost of sales was primarily the result of higher costs associated with product mix and an increase in commodity costs, led by flavors.

**Volume (BCS).** Volume (BCS) was flat for the six months ended June 30, 2018 compared with the six months ended June 30, 2017. Canada Dry had an 8% gain due to product innovation and continued growth in the ginger ale category.

This increase was fully offset by a 4% decline in 7UP and a 1% decrease in Schweppes, as declines in sparkling water were partially offset by growth in the ginger ale category. Our other brands were 1% lower compared to the prior year period, while Dr Pepper and A&W were both flat.

Table of Contents**PACKAGED BEVERAGES**

The following table details our Packaged Beverages segment's net sales and SOP for the six months ended June 30, 2018 and 2017:

	For the Six			
	Months Ended		Dollar	Percent
	June 30,			
(in millions)	2018	2017	Change	Change
Net sales	\$2,556	\$2,420	\$ 136	6 %
SOP	298	337	(39 )	(12 )

Volume. Branded CSD volumes increased 1% for the six months ended June 30, 2018 compared with the six months ended June 30, 2017. Canada Dry increased 15% due to product innovation and continued growth in the ginger ale category, which was partially offset by a 4% decline in 7UP and a 1% decrease in our other CSD brands. Dr Pepper and A&W were both flat compared to the prior year period.

Branded NCB volumes increased 7% for the six months ended June 30, 2018 compared with the six months ended June 30, 2017. Our growth allied brands gained 39% due primarily to distribution gains, product innovation and promotional activity. Bai increased 34% driven by distribution gains, product innovation and promotional activity. Bai also included six months of shipments to third-party distributors for the six months ended June 30, 2018 compared with five months of similar shipments in the prior year period due to the timing of the Bai Brands Merger. Mott's increased 9% compared to the prior year period due to growth in juice, driven by product innovation and increased promotional activity. Clamato increased 5%, while Snapple grew 1%. These increases were partially offset by a 3% decline in our other NCB brands.

Contract manufacturing volume increased 13% for the six months ended June 30, 2018 compared with the six months ended June 30, 2017.

Net Sales. Net sales increased \$136 million for the six months ended June 30, 2018 compared with the six months ended June 30, 2017. Net sales increased due to higher sales volumes, favorable product and package mix and the increase in contract manufacturing, which was partially offset by increased promotional activity.

SOP. SOP decreased \$39 million for the six months ended June 30, 2018, compared with the six months ended June 30, 2017 as the increases in cost of sales and SG&A expenses were partially offset by the increase in net sales.

Cost of sales increased as a result of higher commodity costs, led by packaging, higher costs associated with increased sales volumes, higher costs associated with product and package mix and an increase in costs associated with the growth in contract manufacturing. SG&A expenses were higher as a result of increased logistics costs, higher people costs, driven by inflationary increases, frontline investment and the growth in sales volumes and an increase in planned marketing investments.

**LATIN AMERICA BEVERAGES**

The following table details our Latin America Beverages segment's net sales and SOP for the six months ended June 30, 2018 and 2017:

	For the Six			
	Months		Dollar	Percent
	Ended June			
	30,			
(in millions)	2018	2017	Change	Change
Net sales	\$249	\$237	\$ 12	5 %
SOP	39	35	4	11

Volume. Sales volume decreased 1% for the six months ended June 30, 2018 compared with the six months ended June 30, 2017. Peñafiel decreased by 1% as a result of category decline partially offset by distribution gains and product and package innovation and a 2% decline in our other brands. These decreases were partially offset by a 6% increase in Clamato, primarily due to increased promotional activity and higher sales to third party bottlers. Squirt was flat in the current period.

Net Sales. Net sales increased \$12 million for the six months ended June 30, 2018 compared with the six months ended June 30, 2017. Net sales increased as a result of higher pricing and favorable product and package mix, partially offset by higher discounts.

SOP. SOP increased \$4 million for the six months ended June 30, 2018 compared with the six months ended June 30, 2017, driven by increases in net sales, partially offset by increases in SG&A expenses and cost of sales.

Cost of sales increased compared to the prior period as a result of higher commodity costs, led by packaging, increased costs associated with product and package mix, higher costs due to the Mexican sugar tax and an increase in other manufacturing costs. These increases were partially offset by the \$6 million recovery in the first six months of 2018 on the default by a supplier of resin to our operations in Mexico recorded during the third quarter of 2017 and favorable foreign currency effects. SG&A expenses increased compared to the prior year period as a result of an increase in other operating costs and unfavorable foreign currency effects. The impact of the net favorable foreign currency effects on cost of sales and SG&A expenses totaled \$2 million.



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## Non-GAAP Financial Information

We report our financial results in accordance with U.S. GAAP. However, we believe that certain non-GAAP measures that reflect the way management evaluates the business may provide investors with additional information regarding our results, trends and ongoing performance on a comparable basis.

Core results is defined as reported results adjusted for the unrealized mark-to-market impact of commodity and interest rate derivatives not designated as hedges in accordance with U.S. GAAP and certain items that are excluded for comparison to prior year periods. Management believes that core results provide a comparable basis to evaluate our results period over period, which is also used as the basis for incentive compensation for our employees. The method used to calculate our non-GAAP financial measures may differ from the methods used by other companies to calculate their non-GAAP measures.

The certain items excluded for the three and six months ended June 30, 2018 are (i) the impact of transaction and integration expenses associated with the Maple Merger and the Bai Brands Merger and (ii) restructuring charges. The certain item excluded for the the three and six months ended June 30, 2017, is the impact of transaction and integration expenses associated with the Bai Brands Merger.

## For the Three Months Ended June 30, 2018

	Reported	Mark to Market	Transition and Integration Expenses	Restructuring	Total Adjustments	Core
Income from operations	\$362	\$ (9 )	\$ 11	\$ (1 )	\$ 1	\$363

## For the Six Months Ended June 30, 2018

	Reported	Mark to Market	Transition and Integration Expenses	Restructuring	Total Adjustments	Core
Income from operations	\$621	\$ 2	\$ 24	\$ (1 )	\$ 25	\$646

## For the Three Months Ended June 30, 2017

	Reported	Mark to Market	Transition and Integration Expenses	Total Adjustments	Core
Income from operations	\$375	\$ 12	\$ 1	\$ 13	\$388

## For the Six Months Ended June 30, 2017

	Reported	Mark to Market	Transition and Integration Expenses	Total Adjustments	Core
Income from operations	\$661	\$ 8	\$ 20	\$ 28	\$689

## CRITICAL ACCOUNTING ESTIMATES

The process of preparing our consolidated financial statements in conformity with U.S. GAAP requires the use of estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses. Critical accounting estimates are both fundamental to the portrayal of a company's financial condition and results and require difficult, subjective or complex estimates and assessments. These estimates and judgments are based on historical experience, future expectations and other factors and assumptions we believe to be reasonable under the circumstances. The most significant estimates and judgments are reviewed on an ongoing basis and revised when necessary. These critical accounting estimates are discussed in greater detail in our Annual Report on Form 10-K for the year ended December 31, 2017.

## LIQUIDITY AND CAPITAL RESOURCES

#### Trends and Uncertainties Affecting Liquidity

Customer and consumer demand for our products may be impacted by the risk factors discussed under "Risk Factors" in Part I, Item 1A, of our Annual Report on Form 10-K that could have a material effect on production, delivery and consumption of our products in the U.S., Mexico and the Caribbean or Canada, which could result in a reduction in our sales volume. Similarly, disruptions in financial and credit markets may impact our ability to manage normal commercial relationships with our customers, suppliers and creditors. These disruptions could have a negative impact on the ability of our customers to timely pay their obligations to us, thus reducing our cash flow, or the ability of our vendors to timely supply materials.

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We believe that the following events, trends and uncertainties may also impact liquidity:

- upon consummation of the Maple Transaction, we will incur substantial third party indebtedness;
- our ability to issue unsecured commercial paper notes ("Commercial Paper") on a private placement basis up to a maximum aggregate amount outstanding at any time of \$500 million, which, prior to the completion of the Maple Transaction has been limited to \$200 million pursuant to the Merger Agreement unless we had obtained Maple's approval;
- continued payment of dividends;
- future mergers or acquisitions of regional bottling companies, distributors and/or distribution rights to further extend our geographic coverage;
- continued capital expenditures;
- fluctuations in our tax obligations;
- seasonality of our operating cash flows could impact short-term liquidity; and
- future equity investments in allied brands.

### Financing Arrangements

Refer to Note 6 of the Notes to our Unaudited Condensed Consolidated Financial Statements for management's discussion of financing arrangements.

### Liquidity

Based on our current and anticipated level of operations, we believe that our operating cash flows will be sufficient to meet our anticipated obligations for the next twelve months. To the extent that our operating cash flows are not sufficient to meet our liquidity needs, we may utilize cash on hand or amounts available under our financing arrangements, if necessary.

The following table summarizes our cash activity for the six months ended June 30, 2018 and 2017:

	For the Six Months Ended June 30,	
(in millions)	2018	2017
Net cash provided by operating activities	\$418	\$410
Net cash used in investing activities	(179 )	(1,595 )
Net cash used in financing activities	(296 )	(220 )

### NET CASH PROVIDED BY OPERATING ACTIVITIES

Net cash provided by operating activities increased \$8 million for the six months ended June 30, 2018, as compared to the six months ended June 30, 2017, primarily due to the increase in net income, which was offset by unfavorable working capital changes.

### NET CASH USED IN INVESTING ACTIVITIES

Net cash used in investing activities for the six months ended June 30, 2018 consisted primarily of purchases of property, plant and equipment of \$79 million, cash paid in connection with our Bai Brands Merger of \$73 million and our investment in Core of \$18 million.

Net cash used in investing activities for the six months ended June 30, 2017 consisted primarily of cash paid in connection with our Bai Brands Merger of \$1,550 million and purchases of property, plant and equipment of \$41 million.

### NET CASH USED IN FINANCING ACTIVITIES

Net cash used in financing activities for the six months ended June 30, 2018 consisted primarily of dividend payments of \$209 million and commercial paper payments of \$66 million.

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Net cash used in financing activities for the six months ended June 30, 2017 consisted primarily of: the repayment of a portion of the Company's 2018 and 2038 Notes of \$248 million, which includes both the aggregate principal amounts of approximately \$63 million of the 2018 Notes and \$125 million of the 2038 Notes and the tender offer premium of \$60 million; dividend payments of \$204 million; and stock repurchases of \$177 million; which was partially offset by the proceeds from the issuance of 2027 Notes and 2045 Notes, with an aggregate principal amount of \$400 million and a premium of \$16 million.

**Debt Ratings**

As of June 30, 2018, our credit ratings were as follows:

Rating Agency	Long-Term Debt Rating	Commercial Paper Rating	Outlook	Date of Last Change <sup>(1)</sup>
Moody's	Baa2	P-2	Negative	May 11, 2018
S&P	BBB	A-2	Stable	May 14, 2018

(1) In May 2018, our long-term credit ratings were downgraded by Moody's and S&P but remain investment grade. These debt and commercial paper ratings impact the interest we pay on our financing arrangements. A downgrade of one or both of our debt and commercial paper ratings could increase our interest expense and decrease the cash available to fund anticipated obligations.

DPS expects that all series of senior unsecured notes outstanding under the indentures dated April 30, 2008 and December 15, 2009 or any related supplement (the "Indentures") will continue to remain outstanding after the consummation of the Maple Transaction. The Indentures require us (or any successor to DPS) to offer to repurchase all outstanding notes of a series at 101% of the principal amount thereof plus accrued and unpaid interest, if any, to the date of repurchase if DPS undergoes a change of control and the credit rating of the relevant series is downgraded to below investment grade by each of Moody's Investors Service, Inc. ("Moody's") and Standard & Poor's Ratings Services ("S&P") within 60 days after the change of control. Because the Maple Transaction constituted a change of control of DPS, if the credit ratings of any series of notes issued pursuant to the Indentures are downgraded to below investment grade within 60 days following the effectiveness of the merger, the combined company will be required to offer to repurchase all outstanding notes of each such series on such terms. DPS's long-term credit ratings were downgraded by Moody's on May 11, 2018 and by S&P on May 14, 2018, but remain investment grade. Accordingly, based on the proposed capital structure of the combined company, including the proposed refinancing of certain indebtedness of Maple outstanding prior to the consummation of the Maple Transaction, the anticipated value creation and synergies of the Maple Transaction and the anticipated timing of closing of the Maple Transaction, DPS anticipates that these notes will continue to be rated investment grade following the closing date and that the combined company will not be required to make a change of control offer.

**Capital Expenditures**

Capital expenditures were \$79 million for the six months ended June 30, 2018. Capital expenditures were primarily related to machinery and equipment, replacement of existing cold drink equipment, IT equipment and fleet.

**Cash, Cash Equivalents, Restricted Cash and Restricted Cash Equivalents**

Cash, cash equivalents, restricted cash and restricted cash equivalents decreased \$57 million since December 31, 2017 to \$101 million as of June 30, 2018, primarily driven by dividends paid, capital expenditures, cash paid in connection with our Bai Brands Merger and repayments of commercial paper, partially offset by our operating cash flows. Our cash balances are used to fund working capital requirements, scheduled debt and interest payments, capital expenditures, income tax obligations and dividend payments. Cash generated by our foreign operations is generally repatriated to the U.S. periodically as working capital funding requirements in those jurisdictions allow. Foreign cash balances, which includes restricted cash, were \$25 million and \$46 million as of June 30, 2018 and December 31, 2017, respectively. We accrue tax costs for repatriation, as applicable, as cash is generated in those foreign jurisdictions.



Table of Contents**Acquisitions and Investments**

We have shown a disciplined approach to strategic investments in certain allied brands to enhance our position in premium and high growth categories and strengthen our existing distribution partnerships. We may make future equity investments in allied brands and/or acquisitions of regional bottling companies, distributors and/or distribution rights to further extend our geographic coverage. Any acquisitions may require additional funding for future capital expenditures and possibly restructuring expenses. Refer to Notes 2 and 17 for additional information.

**Total Shareholder Distributions**

Our Board declared dividends aggregating \$0.58 per share and \$1.16 per share on outstanding common stock during the six months ended June 30, 2018 and 2017, respectively. Our share repurchase program was suspended during the six months ended June 30, 2018. Refer to Part II, Item 2 of this Quarterly Report on Form 10-Q for additional information regarding these repurchases.

The following chart details these payments during the six months ended June 30, 2018 and 2017.

**Contractual Commitments and Obligations**

We enter into various contractual obligations that impact, or could impact, our liquidity. Based on our current and anticipated level of operations, we believe that our proceeds from operating cash flows will be sufficient to meet our anticipated obligations. To the extent that our operating cash flows are not sufficient to meet our liquidity needs, we may utilize cash on hand or amounts available under our financing arrangements, if necessary.

The following table summarizes our contractual obligations and contingencies, as of June 30, 2018, that have significantly changed from the amounts disclosed in our Annual Report on Form 10-K:

**Payments Due in Year**

(in millions)	2018	2019	2020	2021	2022	After 2022
Commercial paper	\$—	\$—	\$—	\$—	\$—	\$—
Purchase obligations <sup>(1)(2)</sup>	1,213	222	139	97	84	169

(1) Amounts represent payments under agreements to purchase goods or services that are legally binding and that specify all significant terms, including capital obligations and long-term contractual obligations.

(2) Amounts do not include the \$45 million transaction fee to our financial advisor and CIC severance payments that are contingent upon the consummation of the Maple Transaction.

Through June 30, 2018, there have been no other material changes to the amounts disclosed in our Annual Report on Form 10-K.

**OFF-BALANCE SHEET ARRANGEMENTS**

There have been no material changes in off-balance sheet arrangements from those disclosed in our Annual Report on Form 10-K for the year ended December 31, 2017.

**EFFECT OF RECENT ACCOUNTING PRONOUNCEMENTS**

Refer to Note 1 of the Notes to our Unaudited Condensed Consolidated Financial Statements for a discussion of recently issued accounting standards and recently adopted provisions of U.S. GAAP.

Table of Contents**ITEM 3. Quantitative and Qualitative Disclosures About Market Risk**

We are exposed to market risks arising from changes in market rates and prices, including movements in foreign currency exchange rates, interest rates and commodity prices. From time to time, we may enter into derivatives or other financial instruments to hedge or mitigate commercial risks. We do not enter into derivative instruments for speculation, investing or trading.

**Foreign Exchange Risk**

The majority of our net sales, expenses and capital purchases are transacted in U.S. dollars. However, we have exposure with respect to foreign exchange rate fluctuations. Our primary exposure to foreign exchange rates is the Canadian dollar and Mexican peso against the U.S. dollar. Exchange rate gains or losses related to foreign currency transactions are recognized as transaction gains or losses in our income statement as incurred. As of June 30, 2018, the impact to our income from operations of a 10% change (up or down) in exchange rates is estimated to be an increase or decrease of approximately \$21 million on an annual basis.

We use derivative instruments such as foreign exchange forward contracts to manage a portion of our exposure to changes in foreign exchange rates. As of June 30, 2018, we had derivative contracts outstanding with a notional value of \$24 million maturing at various dates through December 17, 2018.

**Interest Rate Risk**

We centrally manage our debt portfolio through the use of interest rate swaps and monitor our mix of fixed-rate and variable rate debt. As of June 30, 2018, the carrying value of our fixed-rate debt, excluding capital lease obligations, was \$4,205 million, \$1,070 million of which is designated in fair value hedging relationships and exposed to variability in interest rates.

The following table is an estimate of the impact to the interest rate swaps that could result from hypothetical interest rate changes during the term of the financial instruments, based on debt levels as of June 30, 2018:

**Sensitivity Analysis**

Hypothetical Change in Interest Rates <sup>(1)</sup>	Annual Impact to Interest Expense	Change in Fair Value <sup>(2)</sup>
1-percent decrease	\$11 million decrease	\$43 million increase
1-percent increase	\$11 million increase	\$41 million decrease

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We pay an average floating rate, which fluctuates periodically, based on LIBOR and a credit spread, as a result of (1) designated fair value hedges on certain debt instruments. See Note 7 of the Notes to our Unaudited Condensed Consolidated Financial Statements for further information.

(2) See Note 7 of the Notes to our Unaudited Condensed Consolidated Financial Statements for quantification of those derivative positions.

**Commodity Risks**

We are subject to market risks with respect to commodities because our ability to recover increased costs through higher pricing may be limited by the competitive environment in which we operate. Our principal commodities risks relate to our purchases of PET, aluminum, diesel fuel, corn (for high fructose corn syrup), apple juice concentrate, apples, sucrose and natural gas (for use in processing and packaging).

We utilize commodities forward and future contracts and supplier pricing agreements to hedge the risk of adverse movements in commodity prices for limited time periods for certain commodities. The fair market value of these contracts as of June 30, 2018 was a net asset of \$41 million.

As of June 30, 2018, the impact of a 10% change (up or down) in market prices for these commodities where the risk of adverse movements has not been hedged is estimated to have an \$12 million impact on our income from operations for the remainder of 2018.

**ITEM 4. Controls and Procedures**

Based on evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) of the Exchange Act) our management, including our Chief Executive Officer and Chief Financial Officer, has concluded that, as of June 30, 2018, our disclosure controls and procedures are effective to (i) provide reasonable assurance that information required to be disclosed in the Exchange Act filings is recorded, processed, summarized

and reported within the time periods specified by the SEC's rules and forms, and (ii) ensure that information required to be disclosed by us in the reports we file or submit under the Exchange Act are accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

No change in our internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) occurred during the quarter ended June 30, 2018 that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.



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PART II – OTHER INFORMATION

ITEM 1. Legal Proceedings

We are occasionally subject to litigation or other legal proceedings relating to our business. See Note 14 of the Notes to our Unaudited Condensed Consolidated Financial Statements for more information related to commitments and contingencies, which is incorporated herein by reference.

ITEM 1A. Risk Factors

There have been no material changes that we are aware of from the risk factors set forth in Part I, Item 1A in our Annual Report for the year ended December 31, 2017.

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds

The Board has authorized the Company to repurchase an aggregate amount of up to \$5 billion of our outstanding common stock in prior years. This authorization has no expiration date. As of June 30, 2018, there was a remaining balance of approximately \$733 million authorized for repurchase that had not been utilized.

The Company's share repurchase program was suspended during negotiation of the Maple Transaction and it remains suspended as of June 30, 2018 under the terms of the Merger Agreement. The Company therefore did not repurchase any shares during the three months ended June 30, 2018.

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### ITEM 6. Exhibits

- Separation and Distribution Agreement between Cadbury Schweppes plc and Dr Pepper Snapple Group, Inc. and, solely for certain provisions set forth therein, Cadbury plc, dated as of May 1, 2008 (filed as Exhibit 2.1 to the Company's Current Report on Form 8-K (filed on May 5, 2008) and incorporated herein by reference).
- Agreement and Plan of Merger, dated as of November 21, 2016, by and among Bai Brands LLC, Dr Pepper Snapple Group, Inc., Superfruit Merger Sub, LLC and Fortis Advisors LLC, (filed as Exhibit 2.1 to the Company's Current Report on Form 8-K (filed on November 23, 2016) and incorporated herein by reference).
- Amendment No. 1, dated as of January 31, 2017, to the Agreement and Plan of Merger, dated as of November 21, 2016, by and among Bai Brands LLC, Dr Pepper Snapple Group, Inc., Superfruit Merger Sub, LLC and Fortis Advisors LLC, (filed as Exhibit 2.2 to the Company's Current Report on Form 8-K (filed on January 31, 2017) and incorporated herein by reference).
- Agreement and Plan of Merger, dated as of January 29, 2018, by and among Dr Pepper Snapple Group, Inc., Maple Parent Holdings Corp. and Salt Merger Sub, Inc. (filed as Exhibit 2.1 to the Company's Current Report on Form 8-K (filed on January 31, 2018) and incorporated herein by reference).
- Amended and Restated Certificate of Incorporation of Dr Pepper Snapple Group, Inc. (filed as Exhibit 3.1 to the Company's Current Report on Form 8-K (filed on May 12, 2008) and incorporated herein by reference).
- Certificate of Amendment to Amended and Restated Certificate of Incorporation of Dr Pepper Snapple Group, Inc. effective as of May 17, 2012 (filed as Exhibit 3.2 to the Company's Quarterly Report on Form 10-Q (filed July 26, 2012) and incorporated herein by reference).
- Certificate of Second Amendment to Amended and Restated Certificate of Incorporation of Dr Pepper Snapple Group, Inc. effective as of May 19, 2016 (filed as Exhibit 3.1 to the Company's Current Report on Form 8-K (filed May 20, 2016) and incorporated herein by reference).
- Amended and Restated By-Laws of Dr Pepper Snapple Group, Inc. effective as of January 25, 2016 (filed as Exhibit 3.2 to the Company's Current Report on Form 8-K (filed January 25, 2016) and incorporated herein by reference).
- Indenture, dated April 30, 2008, between Dr Pepper Snapple Group, Inc. and Wells Fargo Bank, N.A. (filed as Exhibit 4.1 to the Company's Current Report on Form 8-K (filed on May 1, 2008) and incorporated herein by reference).
- Form of 6.12% Senior Notes due 2013 (filed as Exhibit 4.2 to the Company's Current Report on Form 8-K (filed on May 1, 2008) and incorporated herein by reference).
- Form of 6.82% Senior Notes due 2018 (filed as Exhibit 4.3 to the Company's Current Report on Form 8-K (filed on May 1, 2008) and incorporated herein by reference).
- Form of 7.45% Senior Notes due 2038 (filed as Exhibit 4.4 to the Company's Current Report on Form 8-K (filed on May 1, 2008) and incorporated herein by reference).
- Registration Rights Agreement, dated April 30, 2008, between Dr Pepper Snapple Group, Inc., J.P. Morgan Securities Inc., Banc of America Securities LLC, Goldman, Sachs & Co., Morgan Stanley & Co. Incorporated, UBS Securities LLC, BNP Paribas Securities Corp., Mitsubishi UFJ Securities International plc, Scotia Capital (USA) Inc., SunTrust Robinson Humphrey, Inc., Wachovia Capital Markets, LLC and TD Securities (USA) LLC (filed as Exhibit 4.5 to the Company's Current Report on Form 8-K (filed on May 1, 2008) and incorporated herein by reference).
- Registration Rights Agreement Joinder, dated May 7, 2008, by the subsidiary guarantors named therein (filed as Exhibit 4.2 to the Company's Current Report on Form 8-K (filed on May 12, 2008) and incorporated herein by reference).
- Supplemental Indenture, dated May 7, 2008, among Dr Pepper Snapple Group, Inc., the subsidiary guarantors named therein and Wells Fargo Bank, N.A., as trustee (filed as Exhibit 4.1 to the Company's Current Report on Form 8-K (filed on May 12, 2008) and incorporated herein by reference).
- Second Supplemental Indenture dated March 17, 2009, to be effective as of December 31, 2008, among Splash Transport, Inc., as a subsidiary guarantor, Dr Pepper Snapple Group, Inc., and Wells Fargo Bank, N.A., as trustee

(filed as Exhibit 4.8 to the Company's Annual Report on Form 10-K (filed on March 26, 2009) and incorporated herein by reference).

Third Supplemental Indenture, dated October 19, 2009, among 234DP Aviation, LLC, as a subsidiary guarantor; 4.9 Dr Pepper Snapple Group, Inc., and Wells Fargo Bank, N.A., as trustee (filed as Exhibit 4.9 to the Company's Quarterly Report on Form 10-Q (filed November 5, 2009) and incorporated herein by reference).

Fourth Supplemental Indenture, dated as of January 31, 2017, among Bai Brands LLC, a New Jersey limited liability company, 184 Innovations Inc., a Delaware corporation (each as a new subsidiary guarantors under the 4.10 Indenture dated April 30, 2008 (as referenced in Item 4.1 in this Exhibit Index), Dr Pepper Snapple Group, Inc., each other then-existing Guarantor under the Indenture and Wells Fargo, National Bank, N.A., as trustee (filed as Exhibit 4.1 to the Company's Current Report on Form 8-K (filed February 2, 2017) and incorporated herein by reference).

Indenture, dated as of December 15, 2009, between Dr Pepper Snapple Group, Inc. and Wells Fargo Bank, N.A., 4.11 as trustee (filed as Exhibit 4.1 to the Company's Current Report on Form 8-K (filed on December 23, 2009) and incorporated herein by reference).

Second Supplemental Indenture, dated as of January 11, 2011, among Dr Pepper Snapple Group, Inc., the 4.12 guarantors party thereto and Wells Fargo Bank, N.A., as trustee (filed as Exhibit 4.1 to the Company's Current Report on Form 8-K (filed on January 11, 2011) and incorporated herein by reference).

2.90% Senior Note due 2016 (in global form), dated January 11, 2011, in the principal amount of \$500 million 4.13 (filed as Exhibit 4.2 to the Company's Current Report on Form 8-K (filed on January 11, 2011) and incorporated herein by reference).

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- 4.14 Third Supplemental Indenture, dated as of November 15, 2011, among Dr Pepper Snapple Group, Inc., the guarantors party thereto and Wells Fargo Bank, N.A., as trustee (filed as Exhibit 4.1 to the Company's Current Report on Form 8-K (filed on November 15, 2011) and incorporated herein by reference).
- 4.15 2.60% Senior Note due 2019 (in global form), dated November 15, 2011, in the principal amount of \$250 million (filed as Exhibit 4.2 to the Company's Current Report on Form 8-K (filed on November 15, 2011) and incorporated herein by reference).
- 4.16 3.20% Senior Note due 2021 (in global form), dated November 15, 2011, in the principal amount of \$250 million (filed as Exhibit 4.3 to the Company's Current Report on Form 8-K (filed on November 15, 2011) and incorporated herein by reference).
- 4.17 Fourth Supplemental Indenture, dated as of November 20, 2012, among Dr Pepper Snapple Group, Inc., the guarantors party thereto and Wells Fargo Bank, N.A., as trustee (filed as Exhibit 4.1 to the Company's Current Report on Form 8-K (filed on November 20, 2012) and incorporated herein by reference).
- 4.18 2.00% Senior Note due 2020 (in global form), dated November 20, 2012, in the principal amount of \$250 million (filed as Exhibit 4.2 to the Company's Current Report on Form 8-K (filed on November 20, 2012) and incorporated herein by reference).
- 4.19 2.70% Senior Note due 2022 (in global form), dated November 20, 2012, in the principal amount of \$250 million (filed as Exhibit 4.3 to the Company's Current Report on Form 8-K (filed on November 20, 2012) and incorporated herein by reference).
- 4.20 Fifth Supplemental Indenture, dated as of November 9, 2015, among Dr Pepper Snapple Group, Inc., the guarantors party thereto and Wells Fargo Bank, N.A., as trustee (filed as Exhibit 4.1 to the Company's Current Report on Form 8-K (filed on November 10, 2015) and incorporated herein by reference).
- 4.21 3.40% Senior Note due 2025 (in global form), dated November 9, 2015, in the principal amount of \$500,000,000 (filed as Exhibit 4.2 to the Company's Current Report on Form 8-K (filed on November 10, 2015) and incorporated herein by reference).
- 4.22 4.50% Senior Note due 2045 (in global form), dated November 9, 2015, in the principal amount of \$250,000,000 (filed as Exhibit 4.3 to the Company's Current Report on Form 8-K (filed on November 10, 2015) and incorporated herein by reference).
- 4.23 Sixth Supplemental Indenture, dated as of September 16, 2016, among Dr Pepper Snapple Group, Inc., the guarantors party thereto and Wells Fargo Bank, N.A., as trustee (filed as Exhibit 4.1 to the Company's Current Report on Form 8-K (filed on September 16, 2016) and incorporated herein by reference).
- 4.24 2.55% Senior Note due 2026 (in global form), dated September 16, 2016, in the principal amount of \$400,000,000 (filed as Exhibit 4.2 to the Company's Current Report on Form 8-K (filed on September 16, 2016) and incorporated herein by reference).
- 4.25 Seventh Supplemental Indenture, dated as of December 14, 2016, among Dr Pepper Snapple Group, Inc., the guarantors party thereto and Wells Fargo Bank, N.A., as trustee (filed as Exhibit 4.1 to the Company's Current Report on Form 8-K (filed on December 14, 2016) and incorporated herein by reference).
- 4.26 2.53% Senior Note due 2021 (in global form), dated December 14, 2016, in the principal amount of \$250,000,000 (filed as Exhibit 4.2 to the Company's Current Report on Form 8-K (filed on December 14, 2016) and incorporated herein by reference).
- 4.27 3.13% Senior Note due 2023 (in global form), dated December 14, 2016, in the principal amount of \$500,000,000 (filed as Exhibit 4.3 to the Company's Current Report on Form 8-K (filed on December 14, 2016) and incorporated herein by reference).
- 4.28 3.43% Senior Note due 2027 (in global form), dated December 14, 2016, in the principal amount of \$400,000,000 (filed as Exhibit 4.4 to the Company's Current Report on Form 8-K (filed on December 14, 2016) and incorporated herein by reference).
- 4.29 4.42% Senior Note due 2046 (in global form), dated December 14, 2016, in the principal amount of \$400,000,000 (filed as Exhibit 4.5 to the Company's Current Report on Form 8-K (filed on December 14, 2016) and incorporated herein by reference).

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- 4.30 Eighth Supplemental Indenture, dated as of January 31, 2017, among Bai Brands LLC, a New Jersey limited liability company, 184 Innovations Inc., a Delaware corporation (each as a new subsidiary guarantor under the Indenture dated April 30, 2008 (as referenced in Item 4.1 in this Exhibit Index), Dr Pepper Snapple Group, Inc., each other then-existing Guarantor under the Indenture) and Wells Fargo, National Bank, N.A., as trustee (filed as Exhibit 4.2 to the Company's Current Report on Form 8-K (filed on February 2, 2017) and incorporated herein by reference).
- 4.31 Ninth Supplemental Indenture, dated as of June 15, 2017, among Dr Pepper Snapple Group, Inc., the guarantors party thereto, and Wells Fargo Bank, N.A., as trustee (filed as Exhibit 4.1 to the Company's Current Report on Form 8-K (filed on June 15, 2017) and incorporated herein by reference).
- 12.1\* Computation of Ratio of Earnings to Fixed Charges.
- 31.1\* Certification of Chief Executive Officer of Keurig Dr Pepper Inc. pursuant to Rule 13a-14(a) or 15d-14(a) promulgated under the Exchange Act.
- 31.2\* Certification of Chief Financial Officer of Keurig Dr Pepper Inc. pursuant to Rule 13a-14(a) or 15d-14(a) promulgated under the Exchange Act.
- 32.1\*\* Certification of Chief Executive Officer of Keurig Dr Pepper Inc. pursuant to Rule 13a-14(b) or 15d-14(b) promulgated under the Exchange Act, and Section 1350 of Chapter 63 of Title 18 of the United States Code.
- 32.2\*\* Certification of Chief Financial Officer of Keurig Dr Pepper Inc. pursuant to Rule 13a-14(b) or 15d-14(b) promulgated under the Exchange Act, and Section 1350 of Chapter 63 of Title 18 of the United States Code.

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The following financial information from Dr Pepper Snapple Group, Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2018, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Statements of Income for the three and six months ended June 30, 2018 and 2017, (ii) Condensed Consolidated Statements of Comprehensive Income for the three and six months ended June 30, 2018 and 2017, 101\* (iii) Condensed Consolidated Balance Sheets as of June 30, 2018 and December 31, 2017, (iv) Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2018 and 2017, (v) Condensed Consolidated Statement of Changes in Stockholders' Equity for the six months ended June 30, 2018, and (vi) the Notes to Condensed Consolidated Financial Statements.

\* Filed herewith.

\*\* Furnished herewith.

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**SIGNATURES**

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.

Keurig Dr Pepper Inc.

By: /s/ Ozan Dokmecioglu

Name: Ozan Dokmecioglu

Title: Chief Financial Officer of Keurig Dr Pepper Inc.  
(Principal Financial Officer)

Date: August 8, 2018