Dr Pepper Snapple Group, Inc.
Form 10-Q
July 29, 2010

Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2010
OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission file number 001-33829

Delaware	**98-0517725**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. employer identification number)*
5301 Legacy Drive, Plano, Texas	**75024**
(Address of principal executive offices)	*(Zip code)*

(972) 673-7000
(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 þ No o

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 þ No o

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

Large Accelerated Filer þ	Accelerated Filer o	Non-Accelerated Filer o	Smaller Reporting Company o

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 o No þ

As of July 26, 2010, there were 238,861,420 shares of the registrant s common stock, par value $0.01 per share, outstanding.

DR PEPPER SNAPPLE GROUP, INC.
FORM 10-Q
INDEX

			Page
Part I.	Financial Information		
	Item 1.	Financial Statements (Unaudited)	
		Condensed Consolidated Statements of Operations for the Three and Six Months Ended June 30, 2010 and 2009	1
		Condensed Consolidated Balance Sheets as of June 30, 2010 and December 31, 2009	2
		Condensed Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2010 and 2009	3
		Notes to Condensed Consolidated Financial Statements	4
	Item 2.	Management s Discussion and Analysis of Financial Condition and Results of Operations	30
	Item 3.	Quantitative and Qualitative Disclosures About Market Risk	45
	Item 4.	Controls and Procedures	46
Part II.	Other Information		
	Item 1.	Legal Proceedings	47
	Item 1A.	Risk Factors	47
	Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	47
	Item 6.	Exhibits	48

EX-12.1
EX-31.1
EX-31.2
EX-32.1
EX-32.2

Table of Contents

DR PEPPER SNAPPLE GROUP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
For the Three and Six Months Ended June 30, 2010 and 2009
(Unaudited, in millions, except per share data)

PART I FINANCIAL INFORMATION

Item 1. ***Financial Statements (Unaudited).***

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2010	2009	2010	2009
Net sales	$ 1,519	$ 1,481	$ 2,767	$ 2,741
Cost of sales	593	596	1,089	1,127
Gross profit	926	885	1,678	1,614
Selling, general and administrative expenses	587	550	1,118	1,049
Depreciation and amortization	32	28	63	55
Other operating expense (income), net	(3)	10		(52)
Income from operations	310	297	497	562
Interest expense	29	52	63	107
Interest income	(1)	(1)	(2)	(2)
Other income, net	(2)	(2)	(5)	(5)
Income before provision for income taxes and equity in earnings of unconsolidated subsidiaries	284	248	441	462
Provision for income taxes	102	91	170	173
Income before equity in earnings of unconsolidated subsidiaries	182	157	271	289
Equity in earnings of unconsolidated subsidiaries, net of tax	1	1	1	1
Net income	$ 183	$ 158	$ 272	$ 290
Earnings per common share:				
Basic	$ 0.75	$ 0.62	$ 1.09	$ 1.14
Diluted	$ 0.74	$ 0.62	$ 1.09	$ 1.14
Weighted average common shares outstanding:				
Basic	244.5	254.2	248.8	254.2
Diluted	246.7	255.1	250.8	254.6
Cash dividends declared per common share	$ 0.25	$	$ 0.40	$

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

Table of Contents

DR PEPPER SNAPPLE GROUP, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
As of June 30, 2010 and December 31, 2009
(Unaudited, in millions except share and per share data)

	June 30, 2010	December 31, 2009
Assets		
Current assets:		
Cash and cash equivalents	$ 411	$ 280
Accounts receivable:		
Trade, net	575	540
Other	31	32
Inventories	269	262
Deferred tax assets	56	53
Prepaid expenses and other current assets	161	112
Total current assets	1,503	1,279
Property, plant and equipment, net	1,110	1,109
Investments in unconsolidated subsidiaries	10	9
Goodwill	2,983	2,983
Other intangible assets, net	2,695	2,702
Other non-current assets	542	543
Non-current deferred tax assets	135	151
Total assets	$ 8,978	$ 8,776
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable and accrued expenses	$ 884	$ 850
Deferred revenue	36	
Income taxes payable	40	4
Total current liabilities	960	854
Long-term obligations	2,568	2,960
Non-current deferred tax liabilities	1,042	1,038
Non-current deferred revenue	851	
Other non-current liabilities	734	737
Total liabilities	6,155	5,589
Commitments and contingencies		
Stockholders equity:		
Preferred stock, $.01 par value, 15,000,000 shares authorized, no shares issued		
Common stock, $.01 par value, 800,000,000 shares authorized, 238,836,180 and 254,109,047 shares issued and outstanding for 2010 and 2009, respectively	2	3
Additional paid-in capital	2,617	3,156
Retained earnings	260	87

Accumulated other comprehensive loss		(56)		(59)
Total stockholders equity		2,823		3,187
Total liabilities and stockholders equity	$	8,978	$	8,776

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

Table of Contents

DR PEPPER SNAPPLE GROUP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Six Months Ended June 30, 2010 and 2009
(Unaudited, in millions)

	For the Six Months Ended June 30,	
	2010	**2009**
Operating activities:		
Net income	$ 272	$ 290
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation expense	90	79
Amortization expense	19	20
Amortization of deferred financing costs	3	9
Employee stock-based compensation expense	13	8
Deferred income taxes	13	38
Gain on disposal of intangible assets		(62)
Other, net	7	4
Changes in assets and liabilities:		
Trade and other accounts receivable	(38)	(44)
Inventories	(7)	(21)
Other current assets	(40)	11
Other non-current assets	(11)	(21)
Accounts payable and accrued expenses	17	60
Income taxes payable	39	12
Deferred revenue	36	
Non-current deferred revenue	851	
Other non-current liabilities	2	(12)
Net cash provided by operating activities	1,266	371
Investing activities:		
Purchases of property, plant and equipment	(114)	(138)
Purchases of intangible assets		(7)
Proceeds from disposals of property, plant and equipment	16	4
Proceeds from disposals of intangible assets		68
Net cash used in investing activities	(98)	(73)
Financing activities:		
Repayment of senior unsecured credit facility	(405)	(280)
Repurchase of shares of common stock	(557)	
Dividends paid	(76)	
Other, net		(1)
Net cash used in financing activities	(1,038)	(281)
Cash and cash equivalents net change from:		
Operating, investing and financing activities	130	17
Currency translation	1	4
Cash and cash equivalents at beginning of period	280	214

Cash and cash equivalents at end of period	$	411	$	235
Supplemental cash flow disclosures of non-cash investing and financing activities:				
Capital expenditures included in accounts payable and accrued expenses	$	33	$	21
Non-cash transfer of assets				4
Supplemental cash flow disclosures:				
Interest paid	$	67	$	79
Income taxes paid		84		90

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

3

Table of Contents

DR PEPPER SNAPPLE GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. General

References in this Quarterly Report on Form 10-Q to we , our , us , DPS or the Company refer to Dr Pepper S Group, Inc. and all entities included in our unaudited condensed consolidated financial statements. Cadbury plc and Cadbury Schweppes plc are hereafter collectively referred to as Cadbury unless otherwise indicated. Kraft Foods Inc. acquired Cadbury on February 2, 2010. Kraft Foods, Inc. and/or its subsidiaries are hereafter collectively referred to as Kraft .

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 in this Quarterly Report on Form 10-Q 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. The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and the accompanying notes. Actual results could differ from these estimates. 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, 2009.

The Company has evaluated subsequent events through the date of issuance of the Unaudited Condensed Consolidated Financial Statements.

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 amounts 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. The most significant estimates and judgments are reviewed on an ongoing basis and revised when necessary. Actual amounts may differ from these estimates and judgments. The Company has identified the following policies as critical accounting policies:

- revenue recognition;
- customer marketing programs and incentives;
- goodwill and other indefinite lived intangibles;
- definite lived intangible assets;
- stock-based compensation;
- pension and postretirement benefits;
- risk management programs; and
- income taxes.

These accounting estimates and related policies are discussed in greater detail in DPS Annual Report on Form 10-K for the year ended December 31, 2009.

Table of Contents

DR PEPPER SNAPPLE GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Recently Issued Accounting Updates

In January 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) No. 2010-06, *Improving Disclosures about Fair Value Measurements* (ASU No. 2010-06). The new standard addresses, among other things, guidance regarding activity in Level 3 fair value measurements. Portions of ASU No. 2010-06 that relate to the Level 3 activity disclosures are effective for the annual reporting period beginning after December 15, 2010. The Company will provide the required disclosures beginning with the Company s Annual Report on Form 10-K for the year ending December 31, 2011. Based on the initial evaluation, the Company does not anticipate a material impact to the Company s financial position, results of operations or cash flows as a result of this change.

Recently Adopted Provisions of U.S. GAAP

In accordance with U.S. GAAP, the following provisions, which had no material impact on the Company s financial position, results of operations or cash flows, were effective as of January 1, 2010.

The application of certain key provisions of U.S. GAAP related to consolidation of variable interest entities, including guidance for determining whether an entity is a variable interest entity, ongoing assessments of control over such entities, and additional disclosures about an enterprise s involvement in a variable interest entity.

The addition of certain fair value measurement disclosure requirements specific to the different classes of assets and liabilities, valuation techniques and inputs used, as well as transfers between Level 1 and Level 2. See Note 9 for further information.

2. Inventories

Inventories as of June 30, 2010, and December 31, 2009, consisted of the following (in millions):

	June 30, 2010	December 31, 2009
Raw materials	$ 94	$ 105
Work in process	4	4
Finished goods	210	193
Inventories at FIFO cost	308	302
Reduction to LIFO cost	(39)	(40)
Inventories	$ 269	$ 262

5

Table of Contents

DR PEPPER SNAPPLE GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

3. Goodwill and Other Intangible Assets

Changes in the carrying amount of goodwill for the six months ended June 30, 2010, and the year ended December 31, 2009, by reporting unit are as follows (in millions):

	Beverage Concentrates	WD Reporting Unit[(1)]	DSD Reporting Unit[(1)]	Latin America Beverages	Total
Balance as of December 31, 2008					
Goodwill	$ 1,733	$ 1,220	$ 180	$ 30	$ 3,163
Accumulated impairment losses			(180)		(180)
	1,733	1,220		30	2,983
Foreign currency impact	(1)			1	
Balance as of December 31, 2009					
Goodwill	1,732	1,220	180	31	3,163
Accumulated impairment losses			(180)		(180)
	1,732	1,220		31	2,983
Foreign currency impact	(1)			1	
Balance as of June 30, 2010					
Goodwill	1,731	1,220	180	32	3,163
Accumulated impairment losses			(180)		(180)
	$ 1,731	$ 1,220	$	$ 32	$ 2,983

(1) The Packaged Beverages segment is comprised of two reporting units, the Direct Store Delivery (DSD) system and the Warehouse Direct (WD) system.

The net carrying amounts of intangible assets other than goodwill as of June 30, 2010, and December 31, 2009, are as follows (in millions):

June 30, 2010	December 31, 2009

	Gross Amount	Accumulated Amortization	Net Amount	Gross Amount	Accumulated Amortization	Net Amount
Intangible assets with indefinite lives:						
Brands	$ 2,652	$	$ 2,652	$ 2,652	$	$ 2,652
Distributor rights	8		8	8		8
Intangible assets with finite lives:						
Brands	29	(23)	6	29	(22)	7
Customer relationships	76	(51)	25	76	(45)	31
Bottler agreements	22	(18)	4	21	(17)	4
Distributor rights	2	(2)		2	(2)	
Total	$ 2,789	$ (94)	$ 2,695	$ 2,788	$ (86)	$ 2,702

As of June 30, 2010, the weighted average useful lives of intangible assets with finite lives were 10 years, 8 years and 9 years for brands, customer relationships and bottler agreements, respectively. Amortization expense for intangible assets was $4 million and $8 million for each of the three and six months ended June 30, 2010 and 2009, respectively.

Table of Contents

DR PEPPER SNAPPLE GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Amortization expense of these intangible assets over the remainder of 2010 and the next four years is expected to be the following (in millions):

Year	Aggregate Amortization Expense
Remaining six months for the year ending December 31, 2010	$ 9
2011	8
2012	4
2013	4
2014	4

The Company conducts impairment tests on goodwill and all indefinite lived intangible assets annually, as of December 31, or more frequently if circumstances indicate that the carrying amount of an asset may not be recoverable. The Company uses present value and other valuation techniques to make this assessment. If the carrying amount of goodwill exceeds its implied fair value or the carrying amount of an intangible asset exceeds its fair value, an impairment loss is recognized in an amount equal to that excess. 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 during the six months ended June 30, 2010.

4. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consisted of the following as of June 30, 2010, and December 31, 2009 (in millions):

	June 30, 2010	December 31, 2009
Trade accounts payable	$ 313	$ 252
Customer rebates and incentives	195	209
Accrued compensation	83	126
Insurance reserves	76	68
Interest accrual and interest rate swap liability	20	24
Dividends payable	60	38
Other current liabilities	137	133
Accounts payable and accrued expenses	$ 884	$ 850

5. Long-term obligations

The following table summarizes the Company s long-term obligations as of June 30, 2010, and December 31, 2009 (in millions):

	June 30, 2010	December 31, 2009
Senior unsecured notes[(1)]	$ 2,556	$ 2,542
Revolving credit facility		405
Less current portion		

Subtotal		2,556		2,947
Long-term capital lease obligations		12		13
Long-term obligations	$	2,568	$	2,960

(1) The carrying amount includes an adjustment related to the change in the fair value of interest rate swaps designated as fair value hedges on the 1.70% senior notes due in 2011 (the 2011 Notes) and 2.35% senior notes due in 2012 (the 2012 Notes). The impact of the adjustment increased the carrying amount $7 million as of June 30, 2010 and decreased the carrying amount by $8 million as of December 31, 2009. Refer to Note 6 for further information regarding derivatives.

2010 Borrowings and Repayments

On November 20, 2009, the Company s Board of Directors (the Board) authorized the Company to issue up to $1,500 million of debt securities through the Securities and Exchange Commission shelf registration process. The Company issued $850 million in 2009, as described in the section *The 2011 and 2012 Notes* below. As a result, $650 million remained authorized to be issued as of June 30, 2010.

During the six months ended June 30, 2010, the Company repaid $405 million borrowed from the revolving credit facility (the Revolver).

The following is a description of the Company s senior unsecured credit facility and the senior unsecured notes. The summaries of the senior unsecured credit facility and the senior unsecured notes are qualified in their entirety by the specific terms and provisions of the senior unsecured credit facility agreement (the Facility Agreement) and the indentures governing the senior unsecured notes, respectively, copies of which have previously been filed, as referenced in the exhibits to the Company s Annual Report on Form 10-K for the year ended December 31, 2009.

Senior Unsecured Credit Facility

The Company s senior unsecured credit facility originally provided senior unsecured financing of up to $2,700 million, which consisted of:

- the senior unsecured Term Loan A facility (the Term Loan A) in an aggregate principal amount of $2,200 million with a term of five years, which was fully repaid in December 2009 prior to its maturity, and under which no further borrowings may be made; and

- the Revolver in an aggregate principal amount of $500 million with a maturity in 2013. The balance of principal borrowings under the Revolver was $0 and $405 million as of June 30, 2010 and December 31, 2009, respectively. Up to $75 million of the Revolver is available for the issuance of letters of credit, of which $58 million and $41 million were utilized as of June 30, 2010, and December 31, 2009, respectively. Balances available for additional borrowings and letters of credit were $442 million and $17 million, respectively, as of June 30, 2010.

Borrowings under the senior unsecured credit facility bear interest at a floating rate per annum based upon the London Interbank Offered Rate (LIBOR) or the Alternate Base Rate (ABR), in each case plus an applicable margin which varies based upon the Company s debt ratings, from 1.00% to 2.50% in the case of LIBOR loans and 0.00% to 1.50% in the case of ABR loans. The ABR means the greater of (a) JPMorgan Chase Bank s prime rate and (b) the federal funds effective rate plus one half of 1%. Interest is payable on the last day of the interest period, but not less than quarterly, in the case of any LIBOR loan and on the last day of March, June, September and December of each year in the case of any ABR loan. There were no borrowings during the three months ended June 30, 2010. The average interest rate was 4.50% for the three months ended June 30, 2009. The average interest rate was 2.25% and 4.80% for the six months ended June 30, 2010 and 2009, respectively. Interest expense was $22 million for the three months ended June 30, 2009, and $2 million and $48 million for the six months ended June 30, 2010 and 2009, respectively. Amortization of deferred financing costs of $3 million for the three months ended June 30, 2009, and $1 million and $7 million for the six months ended June 30, 2010 and 2009, respectively, was included in interest expense. There was no interest expense or amortization of deferred financing costs for the three months ended June 30, 2010.

The Company utilized interest rate swaps to effectively convert variable interest rates to fixed rates. Refer to Note 6 for further information regarding derivatives.

An unused commitment fee is payable quarterly to the lenders on the unused portion of the commitments in respect of the Revolver equal to 0.15% to 0.50% per annum, depending upon the Company s debt ratings. There were minimal unused commitment fees for the three and six months ended June 30, 2010. The Company incurred $1 million in unused commitment fees for the three and six months ended June 30, 2009.

Principal amounts outstanding under the Revolver are due and payable in full at maturity in 2013.

All obligations under the senior unsecured credit facility are guaranteed by substantially all of the Company s existing and future direct and indirect domestic subsidiaries.

The Facility Agreement contains customary negative covenants that, among other things, restrict the Company s ability to incur debt at subsidiaries that are not guarantors; incur liens; merge or sell, transfer, lease or otherwise dispose of all or substantially all assets;

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enter into transactions with affiliates; and enter into agreements restricting its ability to incur liens or the ability of subsidiaries to make distributions. These covenants are subject to certain exceptions described in the Facility Agreement. In addition, the Facility Agreement requires the Company to comply with a maximum total leverage ratio covenant and a minimum interest coverage ratio covenant. The Facility Agreement also contains certain usual and customary representations and warranties, affirmative covenants and events of default. As of June 30, 2010 and December 31, 2009, the Company was in compliance with all financial covenant requirements.

Senior Unsecured Notes

The 2011 and 2012 Notes

In December 2009, the Company completed the issuance of $850 million aggregate principal amount of senior unsecured notes consisting of the 2011 and 2012 Notes. The weighted average interest rate of the 2011 and 2012 Notes was 2.04% for the three and six months ended June 30, 2010. The net proceeds from the sale of the debentures were used for repayment of existing indebtedness under the Term Loan A. Interest on the 2011 and 2012 Notes is payable semi-annually on June 21 and December 21. Interest expense was $(1) million and $1 million for the three and six months ended June 30, 2010, respectively. As a result of the economic hedge, the Company recorded realized and unrealized gains of $4 million and $3 million, which reduced interest expense for the three and six months ended June 30, 2010, respectively. Interest expense included $1 million of deferred financing costs associated with the 2011 and 2012 Notes for the three and six months ended June 30, 2010.

The Company utilizes interest rate swaps designated as fair value and economic hedges, to convert fixed interest rates to variable rates. Refer to Note 6 for further information regarding derivatives.

The indenture governing the 2011 and 2012 Notes, among other things, limits 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 2011 and 2012 Notes are guaranteed by substantially all of the Company s existing and future direct and indirect domestic subsidiaries. As of June 30, 2010 and December 31, 2009, the Company was in compliance with all covenant requirements.

The 2013, 2018 and 2038 Notes

During 2008, the Company completed the issuance of $1,700 million aggregate principal amount of senior unsecured notes consisting of $250 million aggregate principal amount of 6.12% senior notes due May 1, 2013 (the 2013 Notes), $1,200 million aggregate principal amount of 6.82% senior notes due May 1, 2018 (the 2018 Notes), and $250 million aggregate principal amount of 7.45% senior notes due May 1, 2038 (the 2038 Notes). The weighted average interest rate of the 2013, 2018 and 2038 Notes was 6.81% for each of the three and six month periods ended June 30, 2010 and 2009. Interest on the senior unsecured notes is payable semi-annually on May 1 and November 1 and is subject to adjustment. Interest expense was $30 million and $29 million for the three months ended June 30, 2010 and 2009, respectively, and $59 million and $58 million for the six months ended June 30, 2010 and 2009, respectively. Amortization of deferred financing costs of $1 million for the three and six months ended June 30, 2010 and 2009 was included in interest expense.

The indenture governing the 2013, 2018, and 2038 Notes, among other things, limits the Company s ability to incur indebtedness secured by principal properties, to enter into certain sale and lease-back transactions and to enter into certain mergers or transfers of substantially all of DPS assets. The senior unsecured notes are guaranteed by substantially all of the Company s existing and future direct and indirect domestic subsidiaries. As of June 30, 2010 and December 31, 2009, the Company was in compliance with all covenant requirements.

Capital Lease Obligations

Long-term capital lease obligations totaled $12 million and $13 million as of June 30, 2010, and December 31, 2009, respectively. Current obligations related to the Company s capital leases were $3 million as of June 30, 2010, and December 31, 2009, and were included as a component of accounts payable and accrued expenses.

Table of Contents

DR PEPPER SNAPPLE GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

6. Derivatives

DPS is exposed to market risks arising from adverse changes in:

interest rates;

foreign exchange 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 swaps, foreign exchange forward contracts, commodity futures 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 swaps 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 instruments deferred in AOCL is reclassified to net income and is reported as a component of the Unaudited Condensed Consolidated Statements of Operations. For derivative instruments that are designated and qualify as fair value hedges, the effective change in the fair value of these instruments, 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 hedging instruments, the gain or loss on the instruments is recognized in earnings in the period of change.

Certain interest rate swap agreements 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, DPS assesses hedge effectiveness and measures hedge ineffectiveness at least quarterly throughout the designated period. Changes in the fair value of the derivative instruments that do not effectively offset changes in the fair value of the underlying hedged item or the variability in the cash flows of the forecasted transaction throughout the designated hedge period are recorded in earnings each period.

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

Interest Rates

Cash Flow Hedges

During 2009, DPS utilized interest rate swaps to manage its exposure to volatility in floating interest rates on borrowings under its Term Loan A. The intent of entering into these interest rate swaps was to provide predictability in the Company s overall cost structure by effectively converting variable interest rates to fixed rates. In February 2009, the Company entered into an interest rate swap effective December 31, 2009, with a duration of twelve months and a $750 million notional amount that amortizes at the rate of $100 million every quarter and designated it as a cash flow hedge. An interest rate swap with a notional amount of $500 million matured in March 2009. As of June 30, 2009, DPS maintained other interest rate swaps with a notional amount of $1.2 billion with a maturity date of December 31, 2009. Upon repayment of the Term Loan A in December 2009, the Company de-designated the cash flow hedge. See the Economic Hedge section within this note for further information.

There were no interest rate swaps in place for the six months ended June 30, 2010, that qualified for hedge accounting as cash flow hedges under U.S. GAAP.

Fair Value Hedges

The Company is also 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.

There were no interest rate swaps in place for the six months ended June 30, 2009, that qualified for hedge accounting as fair value hedges under U.S. GAAP.

DR PEPPER SNAPPLE GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

In December 2009, the Company entered into interest rate swaps having an aggregate notional amount of $850 million and durations ranging from two to three years in order to convert fixed-rate, long-term debt to floating rate debt. These swaps were entered into upon the issuance of the 2011 and 2012 Notes, were originally accounted for as fair value hedges under U.S. GAAP and qualified for the shortcut method of accounting for hedges. Effective March 10, 2010, $225 million notional of the interest rate swap linked to the 2012 Notes was restructured to reflect a change in the variable interest rate to be paid by the Company. This change triggered the de-designation of the $225 million notional fair value hedge and the corresponding fair value hedging relationship was discontinued. With the fair value hedge discontinued, the Company ceased adjusting the carrying value of the 2012 Notes corresponding to the $225 million restructured notional amounts. The $1 million adjustment of the carrying value of the 2012 Notes that resulted from de-designation will continue to be carried on the balance sheet and amortized completely over the remaining term of the 2012 Notes. As a result, the Company had fair value hedges having an aggregate notional amount of $625 million as of June 30, 2010.

As of June 30, 2010, the carrying value of the 2011 and 2012 Notes increased by $7 million, which includes the $1 million adjustment, net of amortization, that resulted from the de-designation discussed above, to reflect the change in fair value of the Company s interest rate swap agreements. Refer to Note 5 for further information.

Economic Hedges

In addition to derivatives instruments that qualify for and are designated as hedging instruments under U.S. GAAP, the Company utilizes interest rate swap instruments that are not designated as cash flow or fair value hedges to manage interest rate risk.

As discussed above under Cash Flow Hedges, the interest rate swap entered into by the Company and designated as a cash flow hedge under U.S. GAAP in February 2009, was subsequently de-designated with the full repayment of the Term Loan A in December 2009. The Company also terminated $345 million of the original notional amount of the $750 million interest rate swap in December 2009, leaving the remaining $405 million notional amount of the interest rate swap that had not been terminated as an economic hedge during the first quarter of 2010. This remaining $405 million notional amount of the interest rate swap was used to economically hedge the volatility in the floating interest rate associated with borrowings under the Revolver during the first quarter. The Company terminated this interest rate swap instrument once the outstanding balance under the Revolver was fully repaid during the first quarter of 2010. The gain or loss on the instrument was recognized in earnings during the period the instrument was outstanding in 2010.

As discussed above under Fair Value Hedges, effective March 10, 2010, $225 million notional of the interest rate swap linked to the 2012 Notes was restructured to reflect a change in the variable interest rate to be paid by the Company. This resulted in the de-designation of the $225 million notional fair value hedge and the discontinuance of the corresponding fair value hedging relationship. The $225 million notional restructured interest rate swap was subsequently accounted for as an economic hedge and the gain or loss on the instrument is recognized in earnings.

Foreign Exchange

Cash Flow Hedges

The Company s Canadian business purchases its inventory through transactions denominated and settled in U.S. Dollars, a currency different from the functional currency of the Canadian business. These inventory purchases are subject to exposure from movements in exchange rates. During the six months ended June 30, 2010 and 2009, the Company utilized foreign exchange forward contracts designated as cash flow hedges to manage the exposures resulting from changes in these foreign currency exchange rates. The intent of these foreign exchange contracts is to provide predictability in the Company s overall cost structure. These foreign exchange contracts, carried at fair value, have maturities between one and 18 months. As of June 30, 2010 and 2009, the Company had outstanding foreign exchange forward contracts with notional amounts of $62 million and $42 million, respectively.

Economic Hedges

The Company s Canadian business has various transactions denominated and settled in U.S. Dollars, a currency different from the functional currency of the Canadian business. These transactions are subject to exposure from movements in exchange rates. During the second quarter of 2010, the Company entered into foreign exchange forward contracts not designated as cash flow hedges to manage foreign currency exposure and economically hedge the exposure from movements in exchange rates. These foreign exchange contracts, carried at fair value, have maturities between 7 and 18 months. As of June 30, 2010, the Company had outstanding foreign exchange forward contracts with notional amounts of $12 million. There were no derivative instruments in place in 2009 to economically hedge the exposure from movements in exchange rates.

Table of Contents

DR PEPPER SNAPPLE GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Commodities

DPS centrally manages the exposure to volatility in the prices of certain commodities used in its production and distribution processes through futures contracts and supplier pricing agreements. The intent of these contracts and agreements is to provide predictability in the Company s overall cost structure. During the six months ended June 30, 2010 and 2009, the Company entered into futures contracts that economically hedge certain of its risks. In these cases, a natural hedging relationship exists whereby 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 net income throughout the term of the derivative instrument and are reported in the same line item of the unaudited Condensed Consolidated Statements of Operations as the hedged transaction. Gains and losses are recognized as a component of unallocated corporate costs until the Company s operating segments are affected by the settlement 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 following table summarizes the location of the fair value of the Company s derivative instruments within the unaudited Condensed Consolidated Balance Sheets as of June 30, 2010, and December 31, 2009 (in millions):

	Balance Sheet Location	June 30, 2010	December 31, 2009
Assets:			
Derivative instruments designated as hedging instruments under U.S. GAAP:			
Interest rate swap contracts	Prepaid expenses and other current assets	$ 5	$ 6
Foreign exchange forward contracts	Prepaid expenses and other current assets	1	
Interest rate swap contracts	Other non-current assets	1	
Foreign exchange forward contracts	Other non-current assets	1	
Derivative instruments not designated as hedging instruments under U.S. GAAP:			
Commodity futures	Prepaid expenses and other current assets	3	1
Interest rate swap contracts	Prepaid expenses and other current assets	3	
Foreign exchange forward contracts	Prepaid expenses and other current assets		
Commodity futures	Other non-current assets	2	9
Interest rate swap contracts	Other non-current assets	1	
Foreign exchange forward contracts	Other non-current assets		
Total assets		$ 17	$ 16
Liabilities:			
Derivative instruments designated as hedging instruments under U.S. GAAP:			
Foreign exchange forward contracts	Accounts payable and accrued expenses	$	$ 2

Interest rate swap contracts	Other non-current liabilities				14
Derivative instruments not designated as hedging instruments under U.S. GAAP:					
Interest rate swap contracts	Accounts payable and accrued expenses				3
Commodity futures	Accounts payable and accrued expenses		1		
Total liabilities		$	1	$	19

12

DR PEPPER SNAPPLE GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

The following table presents the impact of derivative instruments designated as cash flow hedging instruments under U.S. GAAP to the unaudited Condensed Consolidated Statement of Operations and Other Comprehensive Income (OCI) for the three and six months ended June 30, 2010 and 2009 (in millions):

	Amount of Gain (Loss) Recognized in OCI	Amount of Gain (Loss) Reclassified from AOCL into Net Income	Location of Gain (Loss) Reclassified from AOCL into Net Income
For the three months ended June 30, 2010:			
Foreign exchange forward contract	$ 3	$ (1)	Cost of sales
Total	$ 3	$ (1)	
For the six months ended June 30, 2010:			
Foreign exchange forward contract	$ 1	$ (3)	Cost of sales
Total	$ 1	$ (3)	
For the three months ended June 30, 2009:			
Interest rate swap contracts	$ (2)	$ (9)	Interest expense
Foreign exchange forward contract	(3)		Cost of sales
Total	$ (5)	$ (9)	
For the six months ended June 30, 2009:			
Interest rate swap contracts	$ (8)	$ (20)	Interest expense
Foreign exchange forward contract	(2)		Cost of sales
Total	$ (10)	$ (20)	

There was no hedge ineffectiveness recognized in net income for the three and six months ended June 30, 2010 and 2009 with respect to derivative instruments designated as cash flow hedges. During the next 12 months, the Company expects to reclassify net gain of $1 million from AOCL into net income.

The interest rate swap agreements designated as fair value hedges qualify for the shortcut method and no ineffectiveness is recorded in earnings for the three and six months ended June 30, 2010. The following table presents the impact of derivative instruments designated as fair value hedging instruments under U.S. GAAP to the unaudited Condensed Consolidated Statement of Operations for the three and six months ended June 30, 2010 (in millions):

	Amount of Gain (Loss) Recognized in Net Income on Derivative		Location of Gain (Loss) recognized in Net Income on Derivative
For the three months ended June 30, 2010:			
Interest rate swap contracts	$	1	Interest Expense
Total	$	1	
For the six months ended June 30, 2010:			
Interest rate swap contracts	$	4	Interest Expense
Total	$	4	

There were no derivative instruments designated as fair value hedges during the first six months of 2009.

Table of Contents

DR PEPPER SNAPPLE GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

The following table presents the impact of derivative instruments not designated as hedging instruments under U.S. GAAP to the unaudited Condensed Consolidated Statement of Operations for the three and six months ended June 30, 2010 and 2009 (in millions):

	Amount of Gain (Loss) Recognized in Income		Location of Gain (Loss) Recognized in Income
For the three months ended June 30, 2010:			
Interest rate swap contracts	$	4	Interest expense
Foreign exchange forward contracts		1	Cost of sales
Commodity futures		(5)	Cost of sales
Commodity futures		(1)	Selling, general and administrative expenses
Total [1]	$	(1)	
For the six months ended June 30, 2010:			
Interest rate swap contracts	$	3	Interest expense
Foreign exchange forward contracts		1	Cost of sales
Commodity futures		(7)	Cost of sales
Commodity futures			Selling, general and administrative expenses
Total [1]	$	(3)	
For the three months ended June 30, 2009:			
Commodity futures	$	1	Cost of sales
Commodity futures		3	Selling, general and administrative expenses
Total [2]	$	4	
For the six months ended June 30, 2009:			
Commodity futures	$	(2)	Cost of sales
Commodity futures		1	Selling, general and administrative expenses
Total [2]	$	(1)	

(1) The total gain (loss) recognized under commodity futures contracts for the three months ended June 30, 2010, includes a realized $1 million loss which represents contracts that settled during the three months ended June 30, 2010 and an unrealized $5 million loss which represents the change in fair value of outstanding commodity futures contracts during the period. The total gain (loss) recognized for the six months ended June 30, 2010, includes a realized $1 million loss which represents contracts that settled during the six months ended June 30, 2010, and an unrealized $6 million loss which represents the change in fair value of outstanding contracts.

The total gain (loss) recognized under foreign exchange forward

contracts for the three months and six months ended June 30, 2010 includes a $1 million unrealized gain.

The total gain (loss) recognized under interest rate swap contracts for the three months ended June 30, 2010, includes a realized $1 million gain and an unrealized $3 million gain. The total gain (loss) recognized under interest rate swap contracts for the six months ended June 30, 2010, includes an unrealized $3 million gain.

(2) The total gain recognized for the three months ended June 30, 2009, includes a realized $4 million loss which represents contracts that settled during the three months ended June 30, 2009, and an unrealized $8 million gain which represents the change in fair value of outstanding contracts. The

total loss recognized for the six months ended June 30, 2009, includes a realized $10 million loss which represents contracts that settled during the six months ended June 30, 2009, and an unrealized $9 million gain which represents the change in fair value of outstanding contracts.

Refer to Note 9 for more information on the valuation of derivative instruments. 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 at least on a quarterly basis.

Table of Contents

DR PEPPER SNAPPLE GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

7. Other Non-Current Assets and Other Non-Current Liabilities

The table below details the components of other non-current assets and other non-current liabilities as of June 30, 2010, and December 31, 2009 (in millions):

	June 30, 2010	December 31, 2009
Other non-current assets:		
Long-term receivables from Kraft[1]	$ 408	$ 402
Deferred financing costs, net	20	23
Customer incentive programs	81	84
Other	33	34
Other non-current assets	$ 542	$ 543
Other non-current liabilities:		
Long-term payables due to Kraft[1]	$ 114	$ 115
Liabilities for unrecognized tax benefits and other tax related items	544	534
Long-term pension and postretirement liability	55	49
Other	21	39
Other non-current liabilities	$ 734	$ 737

(1) Amounts represent receivables from or payables to Kraft under the Tax Indemnity Agreement entered into in connection with the Company s separation. See Note 8 for further discussion.

8. Income Taxes

The effective tax rates for the three months ended June 30, 2010 and 2009 were 35.9% and 36.7%, respectively. The decrease in the effective tax rate for the three months ended June 30, 2010, was primarily driven by a change in the enacted rate of U.S. domestic manufacturing deduction and resolution of certain foreign tax liabilities.

The effective tax rates for the six months ended June 30, 2010 and 2009 were 38.5% and 37.4%, respectively. The increase in the effective tax rate for the six months ended June 30, 2010, was primarily driven by a previous change in the provincial income tax rate for Ontario, Canada, which caused a write-down of a deferred tax asset, partially offset by foreign tax planning benefits. The impact of the change in tax rate increased the provision for income taxes and effective tax rate by $13 million and 2.9%, respectively.

The Company s Canadian deferred tax assets as of June 30, 2010 included a separation related balance of $129 million that was offset by a liability due to Kraft of $118 million driven by the Tax Indemnity Agreement. Anticipated legislation in Canada could result in a future partial write-down of these tax assets which would be offset to some extent by a partial write-down of the liability due to Kraft.

Under the Tax Indemnity Agreement, Kraft will indemnify DPS for net unrecognized tax benefits and other tax related items of $408 million. This balance increased by $6 million during the six months ended June 30, 2010, and was offset by indemnity income recorded as a component of other income in the unaudited Condensed Consolidated Statement of Operations. In addition, pursuant to the terms of the Tax Indemnity Agreement, if DPS breaches certain covenants or other obligations or DPS is involved in certain change-in-control transactions, Kraft may not be required to indemnify the Company.

Table of Contents

DR PEPPER SNAPPLE GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

9. Fair Value

Under U.S. GAAP, 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. U.S. GAAP provides a framework for measuring fair value and establishes a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability. 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 following table presents the fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of June 30, 2010 (in millions):

	Fair Value Measurements at Reporting Date Using		
	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Commodity futures	$	$ 5	$
Interest rate swaps		10	
Foreign exchange forward contracts		2	
Total assets	$	$ 17	$
Commodity futures	$	$ 1	$
Total liabilities	$	$ 1	$

The following table presents the fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of December 31, 2009 (in millions):

	Fair Value Measurements at Reporting Date Using		
	Quoted Prices in Active Markets for	Significant Other Observable	Significant Unobservable

	Identical Assets Level 1	Inputs Level 2	Inputs Level 3
Commodity futures	$	$ 10	$
Interest rate swaps		6	
Total assets	$	$ 16	$
Interest rate swaps	$	$ 17	$
Foreign exchange forward contracts		2	
Total liabilities	$	$ 19	$

DR PEPPER SNAPPLE GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

The fair values of commodity futures contracts, interest rate swap contracts and foreign currency 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 futures contracts are valued using the market approach based on observable market transactions at the reporting date. Interest rate swap contracts are valued using models based on readily observable market parameters for all substantial terms of our contracts. The fair value of foreign currency forward contracts are valued using quoted forward foreign exchange prices at the reporting date. Therefore, the Company has categorized these contracts as Level 2.

As of June 30, 2010, and December 31, 2009, the Company did not have any assets or liabilities without observable market values that would require a high level of judgment to determine fair value (Level 3).

There were no transfers of financial instruments between the three levels of fair value hierarchy during the three and six months ended June 30, 2010.

The estimated fair values of other financial liabilities not measured at fair value on a recurring basis as of June 30, 2010, and December 31, 2009, are as follows (in millions):

		June 30, 2010		December 31, 2009	
		Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long term debt	2011 Notes	$ 403	$ 401	$ 396	$ 400
Long term debt	2012 Notes	454	455	446	451
Long term debt	2013 Notes	250	278	250	273
Long term debt	2018 Notes	1,199	1,435	1,200	1,349
Long term debt	2038 Notes	250	321	250	291
Long term debt	Revolving credit facility			405	405

Capital leases have been excluded from the calculation of fair value for both 2010 and 2009.

The fair value amounts for cash and cash equivalents, accounts receivable, net and accounts payable and accrued expenses approximate carrying amounts due to the short maturities of these instruments. The fair value amounts of long term debt as of June 30, 2010, and December 31, 2009, were based on quoted market prices for traded securities. 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 at such date.

10. Employee Benefit Plans

The following table sets forth the components of pension benefit costs for the three and six months ended June 30, 2010 and 2009 (in millions):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2010	2009	2010	2009
Service cost	$ 1	$	$ 1	$
Interest cost	3	4	7	8
Expected return on assets	(4)	(3)	(8)	(6)

Recognition of actuarial loss		1		1		2		2
Settlement loss		3				3		
Curtailment loss		1				1		
Net periodic benefit costs	$	5	$	2	$	6	$	4

The estimated prior service cost and transition asset that will be amortized from AOCL into periodic benefit cost for defined pension benefit plans in 2010 are not significant.

DR PEPPER SNAPPLE GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Total net periodic benefit costs for the U.S. postretirement benefit plans were $1 million for each of three and the six month periods ended June 30, 2010 and 2009. The estimated prior service cost, transition obligation and estimated net loss that will be amortized from AOCL into periodic benefit cost for postretirement plans in 2010 are not significant.

During the second quarter of 2010, the total amount of lump sum payments made to participants of certain U.S. defined pension plans exceeded the estimated annual interest cost for 2010. As a result, non-cash settlement charges of $3 million were recognized for the three and six months ended June 30, 2010. Additionally, the Company recognized a one time non-cash curtailment charge of $1 million for the three and six months ended June 30, 2010.

The Company contributed $3 million and $6 million to its pension plans during the three and six months ended June 30, 2010, respectively, and expects to contribute an additional $6 million to these plans during the remainder of 2010.

The Company also contributes to various multi-employer pension plans based on obligations arising from certain of its collective bargaining agreements. The Company recognizes expense in connection with these plans as contributions are funded. Contributions paid into multi-employer defined benefit pension plans for employees under collective bargaining agreements were approximately $1 million for each of the three month periods ended June 30, 2010 and 2009, and approximately $2 million for each of the six month periods ended June 30, 2010 and 2009.

11. Stock-Based Compensation

The Company s Omnibus Stock Incentive Plans of 2008 and 2009 (collectively, the DPS Stock Plans) provide for various long-term incentive awards, including stock options and restricted stock units (RSUs).

The components of stock-based compensation expense for the three and six months ended June 30, 2010 and 2009 are presented below (in millions). Stock-based compensation expense is recorded in selling, general and administrative expenses in the unaudited Condensed Consolidated Statement of Operations.

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2010	2009	2010	2009
Total stock-based compensation expense	$ 7	$ 5	$ 13	$ 8
Income tax benefit recognized in the income statement	(3)	(2)	(5)	(3)
Net stock-based compensation expense	$ 4	$ 3	$ 8	$ 5

The table below summarizes stock option activity for the six months ended June 30, 2010:

	Stock Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (in millions)
Outstanding as of December 31, 2009	2,178,211	$ 18.97	8.79	$ 20
Granted	855,403	32.36		
Exercised	(92,022)	17.95		
Forfeited or expired	(74,645)	17.19		

Outstanding as of June 30, 2010	2,866,947	23.05	8.68	41
Exercisable as of June 30, 2010	999,453	21.32	8.14	16

As of June 30, 2010, there was $10 million of unrecognized compensation cost related to the nonvested stock options granted under the DPS Stock Plans that is expected to be recognized over a weighted average period of 2.33 years.

Table of Contents

DR PEPPER SNAPPLE GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

The table below summarizes RSU activity for the six months ended June 30, 2010:

	RSUs	Weighted Average Grant Date Fair Value	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (in millions)
Outstanding as of December 31, 2009	2,688,551	$ 17.43	1.91	$ 76
Granted	980,836	31.93		
Vested	(34,037)	21.52		
Forfeited	(86,005)	18.55		
Outstanding as of June 30, 2010	3,549,345	21.38	1.80	134

Under the terms of the Company s RSU agreements, individual RSU holders are entitled to dividend equivalent units in the event of a dividend declaration. Under the agreements, unvested RSU awards, as well as the associated dividend equivalents, are forfeitable. As of June 30, 2010, there were 29,094 dividend equivalent units outstanding, which will vest at the time that the underlying RSU vests.

As of June 30, 2010, there was $49 million of unrecognized compensation cost related to the nonvested RSUs granted under the DPS Stock Plans that is expected to be recognized over a weighted average period of 2.25 years.

12. 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 sets forth the computation of basic EPS utilizing the net income for the respective period and the Company s basic shares outstanding and presents the computation of diluted EPS (in millions, except per share data):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2010	2009	2010	2009
Basic EPS:				
Net income	$ 183	$ 158	$ 272	$ 290
Weighted average common shares outstanding	244.5	254.2	248.8	254.2
Earnings per common share basic	$ 0.75	$ 0.62	$ 1.09	$ 1.14
Diluted EPS:				
Net income	$ 183	$ 158	$ 272	$ 290
Weighted average common shares outstanding	244.5	254.2	248.8	254.2
Effect of dilutive securities:				
Stock options, RSUs, and dividend equivalent units	2.2	0.9	2.0	0.4
Weighted average common shares outstanding and common stock equivalents	246.7	255.1	250.8	254.6

Earnings per common share diluted	$ 0.74	$ 0.62	$ 1.09	$ 1.14

Stock options, RSUs and dividend equivalent units totaling 0.8 million shares were excluded from the diluted weighted average shares outstanding for the three months ended June 30, 2010, and 0.6 million shares were excluded from the diluted weighted average shares outstanding for the six months ended June 30, 2010, as they were not dilutive. Weighted average options and RSUs totaling 1.1 million shares were excluded from the diluted weighted average shares outstanding for the three months ended June 30, 2009, and 1.2 million shares were excluded from the diluted weighted average shares outstanding for the six months ended June 30, 2009, as they were not dilutive. Under the terms of our RSU agreements, unvested RSU awards contain forfeitable rights to dividends and dividend equivalent units. Because the dividend equivalent units are forfeitable, they are defined as non-participating securities.

On February 24, 2010, the Board authorized an increase in the total aggregate share repurchase authorization from $200 million up to $1 billion. Subsequent to this approval, the Company repurchased and retired 9.8 million shares of common stock valued at approximately $355 million and 15.6 million shares of common stock valued at approximately $557 million in the three and six months ended June 30, 2010, respectively. These amounts were recorded as a reduction of equity, primarily additional paid-in capital. Refer to Note 19 for discussion related to the Board authorization of additional share repurchases.

Table of Contents

DR PEPPER SNAPPLE GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

13. Commitments and Contingencies

Legal Matters

The Company is occasionally subject to litigation or other legal proceedings as set forth below. 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 business or financial condition of the Company, although such matters may have a material adverse effect on the Company s results of operations or cash flows in a particular period.

Snapple Litigation Labeling Claims

Snapple Beverage Corp. has been sued in various jurisdictions generally alleging that Snapple s labeling of certain of its drinks is misleading and/or deceptive. These cases have been filed as class actions and, generally, seek unspecified damages on behalf of the class, including enjoining Snapple from various labeling practices, disgorging profits, reimbursing of monies paid for product and treble damages. The cases and their status are as follows:

- In 2007, Snapple Beverage Corp. was sued by Stacy Holk in New Jersey Superior Court, Monmouth County. Subsequent to filing, the Holk case was removed to the United States District Court, District of New Jersey. Snapple filed a motion to dismiss the Holk case on a variety of grounds. In June 2008, the district court granted Snapple s motion to dismiss. The plaintiff appealed and in August 2009, the appellate court reversed the judgment and remanded to the district court for further proceedings.

- In 2007, the attorneys in the Holk case also filed a new action in the United States District Court, Southern District of New York on behalf of plaintiffs, Evan Weiner and Timothy McCausland. This case was stayed during the pendency of the Holk motion to dismiss and appeal. This stay is now lifted, the Company filed its answer and the case is proceeding.

- In April 2009, Snapple Beverage Corp. was sued by Frances Von Koenig in the United States District Court, Eastern District of California. A suit filed by Guy Caldwell in August 2009 against Dr Pepper Snapple Group, Inc. in the United States District Court, Southern District of California, was consolidated with the Van Koenig case. On May 7, 2010, Snapple s motion to dismiss was denied in part and granted in part with leave to amend. On May 28, 2010, the plaintiffs filed an amended complaint.

The Company believes it has meritorious defenses to the claims asserted in each of these cases and will defend itself vigorously. However, there is no assurance that the outcome of these cases will be favorable to the Company.

Robert Jones v. Seven Up/RC Bottling Company of Southern California, Inc.

California Wage Audit

In 2007, one of the Company s subsidiaries, Seven Up/RC Bottling Company Inc., was sued by Robert Jones in the Superior Court in the State of California (Orange County), alleging that its subsidiary failed to provide meal and rest periods and itemized wage statements in accordance with applicable California wage and hour law. The case was filed as a class action. The class, which has not yet been certified, consists of employees who have held delivery driver positions in California in the past three years. The potential class size could be substantially higher due to the number of individuals who have held these positions over the three year period. On behalf of the class, the plaintiffs claim lost wages, waiting time penalties and other penalties for each violation of the statute. The Company believes it has meritorious defenses to the claims asserted and will defend itself vigorously. However, there is no assurance that the outcome of this matter will be in our favor.

The Company has been requested to conduct an audit of its meal and rest periods for all non-exempt employees in California at the direction of the California Department of Labor. At this time, the Company has declined to conduct such an audit until there is judicial clarification of the intent of the statute. The Company cannot predict the outcome of such an audit.

DR PEPPER SNAPPLE GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Environmental, Health and Safety Matters

The Company operates many manufacturing, bottling and distribution facilities. In these and other aspects of the Company s business, it is subject to a variety of federal, state and local environment, health and safety laws and regulations. The Company maintains environmental, health and safety policies and a quality, environmental, health and safety program designed to ensure compliance with applicable laws and regulations. However, the nature of the Company s business exposes it to the risk of claims with respect to environmental, health and safety matters, and there can be no assurance that material costs or liabilities will not be incurred in connection with such claims.

The federal Comprehensive Environmental Response, Compensation and Liability Act of 1980 (CERCLA), also known as the Superfund law, as well as similar state laws, generally impose joint and several liability for cleanup and enforcement costs on current and former owners and operators of a site without regard to fault of the legality of the original conduct. In October 2008, DPS was notified by the Environmental Protection Agency that it is a potentially responsible party for study and cleanup costs at a Superfund site in New Jersey. Investigation and remediation costs are yet to be determined, but the Company has reasonably estimated that DPS allocation of costs related to the study for this site will not exceed $250,000.

14. Comprehensive Income

The following table provides a summary of the total comprehensive income, including the Company s proportionate share of equity method investees other comprehensive income, for the three and six months ended June 30, 2010 and 2009 (in millions):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2010	**2009**	**2010**	**2009**
Consolidated net income	$ 183	$ 158	$ 272	$ 290
Other comprehensive income:				
Net foreign currency translation	(15)	21	2	12
Net change in pension liability	(4)	2	(3)	2
Cash flow hedge gain	4	3	4	6
Total comprehensive income	$ 168	$ 184	$ 275	$ 310

A rollforward of the amounts included in AOCL, net of taxes, is shown below for the six months ended June 30, 2010 and the year ended December 31, 2009 (in millions):

	Foreign Currency Translation	**Change in Pension Liability**	**Cash Flow Hedges**	**Accumulated Other Comprehensive Loss**
Balance at December 31, 2008	$ (34)	$ (52)	$ (20)	$ (106)
Changes in fair value	22	7	(20)	9
Reclassification to earnings			38	38

Balance at December 31, 2009	$	(12)	$	(45)	$	(2)	$	(59)
Changes in fair value		2		(3)		1		
Reclassification to earnings						3		3
Balance at June 30, 2010	$	(10)	$	(48)	$	2	$	(56)

21

DR PEPPER SNAPPLE GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

15. Segments

As of June 30, 2010, 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 United States and Canada. Most of the brands in this segment are carbonated soft drink (CSD) brands.

The Packaged Beverages segment reflects sales in the United States 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 DSD and WD.

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

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.

Information about the Company s operations by operating segment for the three and six months ended June 30, 2010 and 2009 is as follows (in millions):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2010	2009	2010	2009
Segment Results Net Sales				
Beverage Concentrates	$ 319	$ 281	$ 559	$ 524
Packaged Beverages	1,091	1,105	2,020	2,049
Latin America Beverages	109	95	188	168
Net sales	$ 1,519	$ 1,481	$ 2,767	$ 2,741

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2010	2009	2010	2009
Segment Results SOP				
Beverage Concentrates	$ 207	$ 184	$ 353	$ 334
Packaged Beverages	163	170	277	277
Latin America Beverages	18	14	25	23
Total SOP	388	368	655	634
Unallocated corporate costs	81	61	158	124
Other operating expense (income), net	(3)	10		(52)
Income from operations	310	297	497	562

Interest expense, net	28	51	61	105
Other income, net	(2)	(2)	(5)	(5)
Income before provision for income taxes and equity in earnings of unconsolidated subsidiaries	$ 284	$ 248	$ 441	$ 462

22

DR PEPPER SNAPPLE GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

16. Agreement with PepsiCo, Inc.

On February 26, 2010, the Company completed the licensing of certain brands to PepsiCo, Inc. (PepsiCo) following PepsiCo s acquisitions of The Pepsi Bottling Group, Inc. (PBG) and PepsiAmericas, Inc. (PAS).

Under the new licensing agreements, PepsiCo began distributing Dr Pepper, Crush and Schweppes in the U.S. territories where these brands were previously being distributed by PBG and PAS. The same applies to Dr Pepper, Crush, Schweppes, Vernors and Sussex in Canada; and Squirt and Canada Dry in Mexico.

Additionally, in U.S. territories where it has a distribution footprint, DPS has begun selling certain owned and licensed brands, including Sunkist soda, Squirt, Vernors and Hawaiian Punch, that were previously distributed by PBG and PAS.

Under the new agreements, DPS received a one-time nonrefundable cash payment of $900 million. The new agreements have an initial period of twenty years with automatic twenty year renewal periods, and require PepsiCo to meet certain performance conditions. The payment was recorded as deferred revenue, which will be recognized as net sales ratably over the estimated 25-year life of the customer relationship.

17. Agreement with The Coca-Cola Company

On June 7, 2010, DPS agreed to license certain brands to The Coca-Cola Company or its affiliates (Coke) on completion of Coke s proposed acquisition of Coca-Cola Enterprises (CCE) North American Bottling Business.

Under the new licensing agreements, Coke will distribute Dr Pepper in the U.S. and Canada Dry in the Northeast U.S. territories where these brands are currently distributed by CCE. The same will apply to Canada Dry and C Plus in Canada. The new agreements will have an initial period of twenty years with automatic twenty year renewal periods, and will require Coke to meet certain performance conditions.

Coke has also agreed to offer Dr Pepper in its local fountain accounts and include Dr Pepper brands in its Freestyle fountain program. The Freestyle agreement will have a period of twenty years.

Additionally, in certain U.S. territories where it has a manufacturing and distribution footprint, DPS will begin selling certain owned and licensed brands, including Canada Dry, Schweppes, Squirt and Cactus Cooler, that were previously distributed by CCE.

Under this arrangement, DPS will receive a one-time nonrefundable cash payment of $715 million. As no competent or verifiable evidence of fair value could be determined for the significant elements in this arrangement, the arrangement will be recorded net. The total cash consideration of $715 million will be recorded as deferred revenue and recognized as net sales ratably over the estimated 25-year life of the customer relationship.

18. Guarantor and Non-Guarantor Financial Information

The Company s 2011, 2012, 2013, 2018 and 2038 Notes (collectively, the Notes) are fully and unconditionally guaranteed by substantially all of the Company s existing and future direct and indirect domestic subsidiaries (except two immaterial subsidiaries associated with the Company s charitable foundations) (the Guarantors), as defined in the indenture governing the Notes. The Guarantors are wholly-owned either directly or indirectly by the Company and jointly and severally guarantee the Company s obligations under the Notes. None of the Company s subsidiaries organized outside of the United States (collectively, the Non-Guarantors) guarantee the Notes.

The following schedules present the financial information for the three and six months ended June 30, 2010 and 2009, and as of June 30, 2010, and December 31, 2009, for Dr Pepper Snapple Group, Inc. (the Parent), Guarantors and Non-Guarantors. The consolidating schedules are provided in accordance with the reporting requirements for guarantor subsidiaries.

DR PEPPER SNAPPLE GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

	Condensed Consolidating Statements of Operations For the Three Months Ended June 30, 2010				
	Parent	Guarantors	Non-Guarantors	Eliminations	Total
	(in millions)				
Net sales	$	$ 1,383	$ 153	$ (17)	$ 1,519
Cost of sales		536	74	(17)	593
Gross profit		847	79		926
Selling, general and administrative expenses		532	55		587
Depreciation and amortization		31	1		32
Other operating expense (income), net		(3)			(3)
Income from operations		287	23		310
Interest expense	29	19		(19)	29
Interest income	(19)		(1)	19	(1)
Other income, net	(2)	3	(3)		(2)
Income before provision for income taxes and equity in earnings of subsidiaries	(8)	265	27		284
Provision for income taxes	(4)	100	6		102
Income before equity in earnings of subsidiaries	(4)	165	21		182
Equity in earnings of consolidated subsidiaries	187	22		(209)	
Equity in earnings of unconsolidated subsidiaries, net of tax			1		1
Net income	$ 183	$ 187	$ 22	$ (209)	$ 183

	Condensed Consolidating Statements of Operations For the Three Months Ended June 30, 2009				
	Parent	Guarantors	Non-Guarantors	Eliminations	Total
	(in millions)				
Net sales	$	$ 1,348	$ 133	$	$ 1,481
Cost of sales		540	56		596
Gross profit		808	77		885
Selling, general and administrative expenses		499	51		550
Depreciation and amortization		28			28
Other operating expense (income), net		11	(1)		10
Income from operations		270	27		297
Interest expense	52	31		(31)	52

Interest income	(31)		(1)	31	(1)
Other income, net	(3)		1		(2)
Income before provision for income taxes and equity in earnings of subsidiaries	(18)	239	27		248
Provision for income taxes	(7)	96	2		91
Income before equity in earnings of subsidiaries	(11)	143	25		157
Equity in earnings of consolidated subsidiaries	169	26		(195)	
Equity in earnings of unconsolidated subsidiaries, net of tax			1		1
Net income	$ 158	$ 169	$ 26	$ (195)	$ 158

Table of Contents

DR PEPPER SNAPPLE GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

	Condensed Consolidating Statements of Operations For the Six Months Ended June 30, 2010				
	Parent	Guarantors	Non-Guarantors	Eliminations	Total
	(in millions)				
Net sales	$	$ 2,522	$ 262	$ (17)	$ 2,767
Cost of sales		983	123	(17)	1,089
Gross profit		1,539	139		1,678
Selling, general and administrative expenses		1,018	100		1,118
Depreciation and amortization		61	2		63
Other operating expense (income), net					
Income from operations		460	37		497
Interest expense	63	39		(39)	63
Interest income	(38)	(1)	(2)	39	(2)
Other income, net	(5)	(1)	1		(5)
Income before provision for income taxes and equity in earnings of subsidiaries	(20)	423	38		441
Provision for income taxes	(10)	163	17		170
Income before equity in earnings of subsidiaries	(10)	260	21		271
Equity in earnings of consolidated subsidiaries	282	22		(304)	
Equity in earnings of unconsolidated subsidiaries, net of tax			1		1
Net income	$ 272	$ 282	$ 22	$ (304)	$ 272

	Condensed Consolidating Statements of Operations For the Six Months Ended June 30, 2009				
	Parent	Guarantors	Non-Guarantors	Eliminations	Total
	(in millions)				
Net sales	$	$ 2,513	$ 228	$	$ 2,741
Cost of sales		1,029	98		1,127
Gross profit		1,484	130		1,614
Selling, general and administrative expenses		963	86		1,049
Depreciation and amortization		53	2		55
Other operating expense (income), net		(46)	(6)		(52)
Income from operations		514	48		562
Interest expense	107	70		(70)	107

Interest income	(70)		(2)	70	(2)
Other income, net	(6)		1		(5)
Income before provision for income taxes and equity in earnings of subsidiaries	(31)	444	49		462
Provision for income taxes	(14)	179	8		173
Income before equity in earnings of subsidiaries	(17)	265	41		289
Equity in earnings of consolidated subsidiaries	307	42		(349)	
Equity in earnings of unconsolidated subsidiaries, net of tax			1		1
Net income	$ 290	$ 307	$ 42	$ (349)	$ 290

25

Table of Contents

DR PEPPER SNAPPLE GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Condensed Consolidating Balance Sheets
As of June 30, 2010

	Parent	Guarantors	Non-Guarantors	Eliminations	Total
			(in millions)		
Current assets:					
Cash and cash equivalents	$	$ 347	$ 64	$	$ 411
Accounts receivable:					
Trade, net		513	62		575
Other		23	8		31
Related party receivable	11	8	1	(20)	
Inventories		245	24		269
Deferred tax assets		52	4		56
Prepaid expenses and other current assets	91	37	33		161
Total current assets	102	1,225	196	(20)	1,503
Property, plant and equipment, net		1,044	66		1,110
Investments in consolidated subsidiaries	3,386	464		(3,850)	
Investments in unconsolidated subsidiaries			10		10
Goodwill		2,961	22		2,983
Other intangible assets, net		2,616	79		2,695
Long-term receivable, related parties	2,805	1,144	89	(4,038)	
Other non-current assets	431	103	8		542
Non-current deferred tax assets			135		135
Total assets	$ 6,724	$ 9,557	$ 605	$ (7,908)	$ 8,978
Current liabilities:					
Accounts payable and accrued expenses	$ 87	$ 734	$ 63	$	$ 884
Related party payable		12	8	(20)	
Deferred revenue		34	2		36
Income taxes payable		39	1		40
Total current liabilities	87	819	74	(20)	960
Long-term obligations to third parties	2,556	12			2,568
Long-term obligations to related parties	1,144	2,894		(4,038)	
Non-current deferred tax liabilities		1,026	16		1,042
Non-current deferred revenue		813	38		851
Other non-current liabilities	114	605	15		734
Total liabilities	3,901	6,169	143	(4,058)	6,155
Total equity	2,823	3,386	464	(3,850)	2,823
Total liabilities and stockholders equity	$ 6,724	$ 9,555	$ 607	$ (7,908)	$ 8,978

26

Table of Contents

DR PEPPER SNAPPLE GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Condensed Consolidating Balance Sheets
As of December 31, 2009

	Parent	Guarantors	Non-Guarantors	Eliminations	Total
	(in millions)				
Current assets:					
Cash and cash equivalents	$	$ 191	$ 89	$	$ 280
Accounts receivable:					
Trade, net		485	55		540
Other		24	8		32
Related party receivable	13	4		(17)	
Inventories		234	28		262
Deferred tax assets		49	4		53
Prepaid and other current assets	79	10	23		112
Total current assets	92	997	207	(17)	1,279
Property, plant and equipment, net		1,044	65		1,109
Investments in consolidated subsidiaries	3,085	471		(3,556)	
Investments in unconsolidated subsidiaries			9		9
Goodwill		2,961	22		2,983
Other intangible assets, net		2,624	78		2,702
Long-term receivable, related parties	3,172	434	38	(3,644)	
Other non-current assets	425	110	8		543
Non-current deferred tax assets			151		151
Total assets	$ 6,774	$ 8,641	$ 578	$ (7,217)	$ 8,776
Current liabilities:					
Accounts payable and accrued expenses	$ 78	$ 710	$ 62	$	$ 850
Related party payable		13	4	(17)	
Income taxes payable			4		4
Total current liabilities	78	723	70	(17)	854
Long-term obligations to third parties	2,946	14			2,960
Long-term obligations to related parties	434	3,209	1	(3,644)	
Non-current deferred tax liabilities		1,015	23		1,038
Other non-current liabilities	129	595	13		737
Total liabilities	3,587	5,556	107	(3,661)	5,589
Total stockholders equity	3,187	3,085	471	(3,556)	3,187
Total liabilities and stockholders equity	$ 6,774	$ 8,641	$ 578	$ (7,217)	$ 8,776

Table of Contents

DR PEPPER SNAPPLE GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

	Condensed Consolidating Statements of Cash Flows For the Six Months Ended June 30, 2010				
	Parent	**Guarantors**	**Non-Guarantors**	**Eliminations**	**Total**
	(in millions)				
Operating activities:					
Net cash provided by operating activities	$ (77)	$ 1,312	$ 31	$	$ 1,266
Investing activities:					
Purchases of property, plant and equipment		(106)	(8)		(114)
Proceeds from disposals of property, plant and equipment		16			16
Return of capital		35	(35)		
Issuance of related party notes receivable		(710)	(15)	725	
Proceeds from repayment of related party notes receivable	405			(405)	
Net cash used in investing activities	405	(765)	(58)	320	(98)
Financing activities:					
Proceeds from related party long-term debt	710	15		(725)	
Repayment of related party long-term debt		(405)		405	
Repayment of senior unsecured credit facility	(405)				(405)
Repurchase of shares of common stock	(557)				(557)
Dividends paid	(76)				(76)
Other, net					
Net cash used in financing activities	(328)	(390)		(320)	(1,038)
Cash and cash equivalents net change from:					
Operating, investing and financing activities		157	(27)		130
Currency translation		(1)	2		1
Cash and cash equivalents at beginning of period		191	89		280
Cash and cash equivalents at end of period	$	$ 347	$ 64	$	$ 411

Table of Contents

DR PEPPER SNAPPLE GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

	Condensed Consolidating Statements of Cash Flows For the Six Months Ended June 30, 2009				
	Parent	**Guarantors**	**Non-Guarantors**	**Eliminations**	**Total**
	(in millions)				
Operating activities:					
Net cash (used in) provided by operating activities	$ (104)	$ 450	$ 25	$	$ 371
Investing activities:					
Purchases of property, plant and equipment		(133)	(5)		(138)
Purchases of intangible assets		(7)			(7)
Proceeds from disposals of property, plant and equipment		4			4
Proceeds from disposals of intangible assets		63	5		68
Issuance of related party notes receivable		(259)		259	
Proceeds from repayment of related party notes receivable	125			(125)	
Net cash (used in) provided by investing activities	125	(332)		134	(73)
Financing activities:					
Proceeds from related party long-term debt	259			(259)	
Repayment of related party long-term debt		(125)		125	
Repayment of senior unsecured credit facility	(280)				(280)
Other, net		(1)			(1)
Net cash provided by (used in) financing activities	(21)	(126)		(134)	(281)
Cash and cash equivalents net change from:					
Operating, investing and financing activities		(8)	25		17
Currency translation			4		4
Cash and cash equivalents at beginning of period		145	69		214
Cash and cash equivalents at end of period	$	$ 137	$ 98	$	$ 235

19. Subsequent Event

On July 12, 2010, the Board authorized the repurchase of an additional $1 billion of the Company s outstanding common stock over the next three years, for a total of $2 billion authorized of which $1.45 billion remains outstanding.

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, 2009.

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, 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 on Form 10-K for the year ended December 31, 2009. 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.

Cadbury plc and Cadbury Schweppes plc are hereafter collectively referred to as Cadbury unless otherwise indicated. Kraft Foods Inc. acquired Cadbury on February 2, 2010. Kraft Foods, Inc. and/or its subsidiaries are hereafter collectively referred to as Kraft .

Overview

We are a leading integrated brand owner, manufacturer and distributor of non-alcoholic beverages in the United States, Canada and Mexico, with a diverse portfolio of flavored carbonated soft drinks (CSDs) and non-carbonated beverages (NCBs), including ready-to-drink teas, juices, juice drinks and mixers. Our brand portfolio includes popular CSD brands such as Dr Pepper, 7UP, Sunkist soda, A&W, Canada Dry, Crush, Squirt, Peñafiel, Schweppes and Venom Energy, and NCB brands such as Snapple, Mott s, Hawaiian Punch, Clamato, Rose s and Mr & Mrs T mixers. Our largest brand, Dr Pepper, is a leading flavored CSD in the United States according to The Nielsen Company. 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 segments. We believe our integrated business model strengthens our route-to-market, 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 Direct Store Delivery (DSD) system and our Warehouse Direct (WD) delivery system, which 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 and ingredient manufacturing and distribution business. In this segment we manufacture and sell beverage concentrates and syrups in the United States and Canada. Most of the brands in this segment are CSD brands. Key brands include Dr Pepper, 7UP, Sunkist soda, A&W, Canada Dry, Crush, Schweppes, Squirt, RC Cola, Sundrop, Diet Rite, Welch s, Vernors and Country Time and

the concentrate form of Hawaiian Punch.

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

Table of Contents

The 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 them in PET containers, glass bottles and aluminum cans, and sell them as a finished beverage 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 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, in the United States and Canada. Key NCB brands in this segment include Snapple, Mott s, Hawaiian Punch, Clamato, Yoo-Hoo, Mistic, Country Time, Venom Energy, Nantucket Nectars, ReaLemon, Mr and Mrs T, Rose s and Margaritaville. Key CSD brands in this segment include Dr Pepper, 7UP, Sunkist soda, A&W, Canada Dry, Squirt, RC Cola, Welch s, Vernors and IBC. Additionally, we distribute third party brands such as FIJI mineral water and AriZona tea and a portion of our sales come from bottling beverages and other products for private label owners or others for a fee. Although the majority of our Packaged Beverages net sales relate to our brands, we also provide a route-to-market for 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 United States 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, glass bottles, PET bottles and caps, paper products, sweeteners, juices, water, beverage concentrates and other ingredients.

We sell our Packaged Beverages products both through our DSD system, supported by a fleet of more than 5,000 trucks and approximately 12,000 employees, including sales representatives, merchandisers, drivers and warehouse workers, as well as through our WD system, both of which include sales to all major retail channels, including supermarkets, mass merchandisers, club stores, 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 and grapefruit flavored CSDs. Key brands include Peñafiel, Squirt, Clamato and Aguafiel.

In Mexico, we manufacture and distribute our products through our bottling operations and third party bottlers and distributors. In the Caribbean, we distribute our products through third party distributors. In Mexico, we also participate in a joint venture to manufacture Aguafiel brand water with Acqua Minerale San Benedetto. We provide expertise in the Mexican beverage market and Acqua Minerale San Benedetto provides expertise in water production and new packaging technologies.

We sell our finished beverages through all major Mexican retail channels, including mom and pop stores, supermarkets, hypermarkets, and on premise channels.

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.

Packaged Beverages Sales Volume

In our Packaged Beverages segment, 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, concentrate case sales and packaged beverage sales volume are not equal during any given period due to changes in bottler concentrate inventory levels, which can be affected by seasonality, bottler inventory and manufacturing practices, and the timing of price increases and new product introductions.

Company Highlights and Recent Developments

Net sales totaled $1,519 million for the three months ended June 30, 2010, an increase of $38 million, or approximately 3%, from the three months ended June 30, 2009.

Net income for the three months ended June 30, 2010, was $183 million, compared to $158 million for the year ago period, an increase of $25 million, or approximately 16%.

Diluted earnings per share were $0.74 per share for the three months ended June 30, 2010, compared with $0.62 for the year ago period.

During the second quarter of 2010, our Board of Directors (the Board) declared a dividend of $0.25 per share, payable on July 9, 2010, to shareholders of record on June 21, 2010. The dividend amount increased approximately 67% compared to previous dividends declared by the Board.

On June 7, 2010, we announced an agreement to license certain brands to The Coca-Cola Company or its affiliates (Coke) on completion of Coke s proposed acquisition of Coca-Cola Enterprises North American Bottling Business. As part of the transaction, we will receive a one-time nonrefundable cash payment of $715 million, which will be recorded as deferred revenue and recognized as net sales ratably over the estimated 25-year life of the customer relationship.

During the three and six months ended June 30, 2010, we repurchased 9.8 million and 15.6 million shares, respectively, of our common stock valued at approximately $355 million and $557 million, respectively.

On July 12, 2010, the Board authorized the repurchase of an additional $1 billion of our outstanding common stock over the next three years, for a total authorization of $2 billion of which $1.45 billion remains outstanding.

Results of Operations

We eliminate from our financial results all intercompany transactions between entities included in the combination 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.

Table of Contents

Three Months Ended June 30, 2010 Compared to Three Months Ended June 30, 2009

Consolidated Operations

The following table sets forth our unaudited consolidated results of operations for the three months ended June 30, 2010 and 2009 (dollars in millions):

	For the Three Months Ended June 30,				
	2010		2009		Percentage
	Dollars	Percent	Dollars	Percent	Change
Net sales	$ 1,519	100.0%	$ 1,481	100.0%	3%
Cost of sales	593	39.0	596	40.2	(1)
Gross profit	926	61.0	885	59.8	5
Selling, general and administrative expenses	587	38.6	550	37.1	7
Depreciation and amortization	32	2.1	28	1.9	14
Other operating expense (income), net	(3)	(0.2)	10	0.7	(130)
Income from operations	310	20.4	297	20.1	4
Interest expense	29	1.9	52	3.5	(44)
Interest income	(1)	(0.1)	(1)	(0.1)	NM
Other income, net	(2)	(0.1)	(2)	(0.1)	NM
Income before provision for income taxes and equity in earnings of unconsolidated subsidiaries	284	18.7	248	16.8	15
Provision for income taxes	102	6.7	91	6.2	12
Income before equity in earnings of unconsolidated subsidiaries	182	12.0	157	10.6	16
Equity in earnings of unconsolidated subsidiaries, net of tax	1	0.1	1	0.1	NM
Net income	$ 183	12.1%	$ 158	10.7%	16%
Earnings per common share:					
Basic	$ 0.75	NM	$ 0.62	NM	19%
Diluted	$ 0.74	NM	$ 0.62	NM	19%

Volume. Volume (BCS) increased 3% for the three months ended June 30, 2010, compared with the three months ended June 30, 2009. In the U.S. and Canada, volume increased 2% and in Mexico and the Caribbean, volume increased 10% compared with the year ago period. Both CSD and NCB volume increased 3%. In CSDs, Crush increased 21% compared with the year ago period due to expanded distribution and innovation. Dr Pepper volume increased by 3% compared with the year ago period. Our Core 4 brands (7UP, Sunkist soda, A&W and Canada Dry) were down 1% compared to the year ago period as high single-digit declines in Sunkist soda and low single-digit declines in A&W and 7UP were partially offset by a double-digit increase in Canada Dry. Peñafiel volume decreased 1% due to decreased sales to third party distributors. Squirt volume increased 13%. In NCBs, 9% growth in Snapple was due to the successful restage of the brand, the growth of value offerings and increased marketing. Additionally, a 7% increase in Hawaiian Punch was partially offset by a 10% decline in Aguafiel and declines in third party NCB brands, such as AriZona.

Although volume (BCS) increased 3% for the three months ended June 30, 2010, compared with the three months ended June 30, 2009, sales volume only increased 1% for the same period as it includes the decline related to contract manufacturing, while volume (BCS) does not.

Net Sales. Net sales increased $38 million, or approximately 3%, for the three months ended June 30, 2010, compared with the three months ended June 30, 2009. The increase was primarily attributable to an increase in our sales volumes, the favorable impact of foreign currency, and $9 million in revenue recognized under the PepsiCo license. These increases were partially offset by a decline in contract manufacturing within our Packaged Beverages segment and an unfavorable product mix.

Gross Profit. Gross profit increased $41 million for the three months ended June 30, 2010, compared with the three months ended June 30, 2009. Gross margin of 61% for the three months ended June 30, 2010, was higher than the 60% gross margin for the three months ended June 30, 2009, primarily due to the favorable product mix as a result of the decline in contract manufacturing and ongoing supply chain efficiencies.

Table of Contents

Income from Operations. Income from operations increased $13 million to $310 million for the three months ended June 30, 2010, compared with the year ago period. The increase was primarily attributable to increased net sales, lower costs driving the improvement in gross margin, partially offset by selling, general and administrative (SG&A) expenses. SG&A expenses increased by $37 million primarily due to an increase in marketing spend related to targeted marketing programs for Snapple, Dr Pepper, Canada Dry and Sunkist soda, the unfavorable comparison of the changes in the fair value of commodity derivatives used in the distribution process and an unfavorable impact of foreign currency.

Interest Expense, Interest Income and Other Income. Interest expense decreased $23 million compared with the year ago period, reflecting the repayment of our senior unsecured Term Loan A facility during December 2009. As a result of indemnity income associated with the Tax Indemnity Agreement with Kraft, other income was $2 million for the three months ended June 30, 2010.

Provision for Income Taxes. The effective tax rates for the three months ended June 30, 2010 and 2009 were 35.9% and 36.7%, respectively. The decrease in the effective tax rate for the three months ended June 30, 2010, was primarily driven by an increase in the enacted rate of U.S. domestic manufacturing deduction and resolution of certain foreign tax liabilities.

Results of Operations by Segment

We report our business in three segments: Beverage Concentrates, Packaged Beverages and Latin America Beverages. The key financial measures management uses to assess the performance of our segments are net sales and segment operating profit (SOP). The following tables set forth net sales and SOP for our segments for the three months ended June 30, 2010 and 2009, 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) (in millions):

	For the Three Months Ended June 30,	
	2010	**2009**
Segment Results Net sales		
Beverage Concentrates	$ 319	$ 281
Packaged Beverages	1,091	1,105
Latin America Beverages	109	95
Net sales	$ 1,519	$ 1,481
Segment Results SOP		
Beverage Concentrates	$ 207	$ 184
Packaged Beverages	163	170
Latin America Beverages	18	14
Total SOP	388	368
Unallocated corporate costs	81	61
Other operating expense (income), net	(3)	10
Income from operations	310	297
Interest expense, net	28	51
Other income, net	(2)	(2)
	$ 284	$ 248

Income before provision for income taxes and equity in earnings of unconsolidated subsidiaries

Table of Contents

Beverage Concentrates

The following table details our Beverage Concentrates segment s net sales and SOP for the three months ended June 30, 2010 and 2009 (in millions):

	For the Three Months Ended June 30,		Amount
	2010	2009	Change
Net sales	$ 319	$ 281	$ 38
SOP	207	184	23

Net sales increased $38 million, or approximately 14%, for the three months ended June 30, 2010, compared with the three months ended June 30, 2009. The increase was primarily due to concentrate price increases, favorability related to trade spend and $9 million in revenue recognized under the PepsiCo license. Concentrate price increases, which were effective in January 2010, added an incremental $11 million to net sales during the three months ended June 30, 2010.

SOP increased $23 million, or approximately 13%, for the three months ended June 30, 2010, as compared with the year ago period, primarily driven by the increase in net sales. The increase in SOP was partially offset by an increase in marketing spend primarily related to targeted marketing programs for Dr Pepper, Canada Dry, and Sunkist soda.

Volume (BCS) increased 1% for the three months ended June 30, 2010, as compared with the year ago period. Dr Pepper increased 4%, led by an increase in both regular and Diet Dr Pepper, offset by decreases in the Dr Pepper Cherry line compared to the year ago period when it was initially introduced. Crush volume increased by 20%, led by the launch of Cherry Crush in the first quarter of 2010. These increases were partially offset by a double-digit decline in Hawaiian Punch and a 6% decline in our Core 4 brands, led by a double-digit decline in Sunkist soda partially offset by a double-digit increase in Canada Dry. The decreases in Sunkist soda and Hawaiian Punch were primarily driven by the repatriation of the brands to our Packaged Beverages segment as a result of the PepsiCo licensing agreement.

Packaged Beverages

The following table details our Packaged Beverages segment s net sales and SOP for the three months ended June 30, 2010 and 2009 (in millions):

	For the Three Months Ended June 30,		Amount
	2010	2009	Change
Net sales	$ 1,091	$ 1,105	$ (14)
SOP	163	170	(7)

Sales volume decreased 1% for the three months ended June 30, 2010, compared with the three months ended June 30, 2009. The decrease was the result of a decline in contract manufacturing partially offset by volume growth in our NCB category. The decline in contract manufacturing negatively impacted total volume by 3%. Total CSD volume remained relatively flat. Volume for our Core 4 brands decreased 1%, due to a mid single-digit decline in 7UP, partially offset by a double-digit increase in Canada Dry due to targeted marketing programs. Total NCB volume increased 6% as a result of a 9% increase in Snapple due to the successful restage of the brand, growth of value offerings and increased marketing. Hawaiian Punch and Mott s increased 10% and 2%, respectively, as a result of increased promotional activity and distribution gains.

Net sales decreased $14 million for the three months ended June 30, 2010, compared with the three months ended June 30, 2009. The decline in contract manufacturing reduced net sales for the three months ended June 30, 2010, by $19 million. Net sales were favorably impacted by volume increases, primarily in NCBs, and the favorable impact of foreign currency, offset in part by net pricing decreases.

SOP decreased $7 million for the three months ended June 30, 2010, compared with the three months ended June 30, 2009, primarily due to the decrease in net sales and costs and depreciation associated with the startup of our manufacturing facility in Victorville, California, partially offset by the favorable product mix as a result of the decline in contract manufacturing.

Table of Contents

Latin America Beverages

The following table details our Latin America Beverages segment s net sales and SOP for the three months ended June 30, 2010 and 2009 (in millions):

	For the Three Months Ended June 30,		Amount
	2010	2009	Change
Net sales	$ 109	$ 95	$ 14
SOP	18	14	4

Sales volume increased 13% for the three months ended June 30, 2010, as compared with the three months ended June 30, 2009. The increase in volume was driven by a 24% increase in Squirt volume due to higher sales to third party bottlers, a 52% increase in Crush volume with the continued growth from the introduction of new flavors in a 2.3 liter value offering, as well as additional distribution routes added throughout 2009 and 2010. These volume increases were partially offset by an 8% decrease in Aguafiel due to decreased sales to third party distributors.

Net sales increased $14 million for the three months ended June 30, 2010, compared with the year ago period primarily due to an increase in sales volume and an $8 million favorable impact of changes in foreign currency, partially offset by an unfavorable impact related to product mix.

SOP increased $4 million for the three months ended June 30, 2010, compared with the three months ended June 30, 2009, primarily due to the increase in sales volume and a $4 million favorable impact of changes in foreign currency, partially offset by increased costs associated with route expansion.

Six Months Ended June 30, 2010 Compared to Six Months Ended June 30, 2009

Consolidated Operations

The following table sets forth our unaudited consolidated results of operations for the six months ended June 30, 2010 and 2009 (dollars in millions):

	For the Six Months Ended June 30,				
	2010		2009		Percentage
	Dollars	Percent	Dollars	Percent	Change
Net sales	$ 2,767	100.0%	$ 2,741	100.0%	1%
Cost of sales	1,089	39.4	1,127	41.1	(3)
Gross profit	1,678	60.6	1,614	58.9	4
Selling, general and administrative expenses	1,118	40.4	1,049	38.3	7
Depreciation and amortization	63	2.3	55	2.0	15
Other operating expense (income), net			(52)	(1.9)	(100)
Income from operations	497	17.9	562	20.5	(12)
Interest expense	63	2.3	107	3.9	(41)
Interest income	(2)	(0.1)	(2)	(0.1)	NM
Other income, net	(5)	(0.2)	(5)	(0.2)	NM
Income before provision for income taxes and equity in earnings of unconsolidated subsidiaries	441	15.9	462	16.9	(5)
Provision for income taxes	170	6.1	173	6.3	(2)
Income before equity in earnings of unconsolidated subsidiaries	271	9.8	289	10.6	(6)

Equity in earnings of unconsolidated subsidiaries, net of tax		1			1		NM
Net income	$	272	9.8%	$	290	10.6%	(6)%
Earnings per common share:							
Basic	$	1.09	NM	$	1.14	NM	(4)%
Diluted	$	1.09	NM	$	1.14	NM	(4)%

Volume. Volume (BCS) increased 3% for the six months ended June 30, 2010, compared with the six months ended June 30, 2009. In the U.S. and Canada, volume increased 2% and in Mexico and the Caribbean, volume increased 7% compared with the year ago period. CSD volume increased 2% and NCB volume increased 4%. In CSDs, Crush increased 21% compared with the year ago period due to expanded distribution. Dr Pepper volume increased 3% compared with the year ago period. Our Core 4 brands were down 2% compared to the year ago period as double-digit declines in Sunkist soda and low single-digit declines in A&W and 7UP were partially offset by a double-digit increase in Canada Dry. Peñafiel volume decreased 5% due to decreased sales to third party distributors. Squirt volume increased 11%. In NCBs, 12% growth in Snapple was due to the successful restage of the brand, the growth of value offerings and increased marketing. An 8% increase in Mott s was the result of new distribution and strong brand support. Additionally, a 7% increase in Hawaiian Punch was partially offset by declines in third party NCB brands, such as AriZona.

Although volume (BCS) increased 3% for the six months ended June 30, 2010, compared with the six months ended June 30, 2009, sales volume decreased 1% for the same period. The sales volume decreased as a result of lower concentrate sales as third-party bottlers purchased higher levels of concentrate during the fourth quarter of 2009, a decline in contract manufacturing, which is not included in volume (BCS) and unfavorable comparisons related to the successful Crush launch and related pipeline fill in the first quarter of 2009.

Net Sales. Net sales increased $26 million, or approximately 1%, for the six months ended June 30, 2010, compared with the six months ended June 30, 2009. The increase was primarily attributable to volume increases in NCBs, the favorable impact of foreign currency and $12 million in revenue recognized under the PepsiCo license. These increases were partially offset by a decline in contract manufacturing and an unfavorable product mix.

Gross Profit. Gross profit increased $64 million for the six months ended June 30, 2010, compared with the six months ended June 30, 2009. Gross margin of approximately 61% for the six months ended June 30, 2010, was higher than the approximately 59% gross margin for the six months ended June 30, 2009, primarily due to the favorable product mix as a result of the decline in contract manufacturing and ongoing supply chain efficiencies.

Income from Operations. Income from operations decreased $65 million to $497 million for the six months ended June 30, 2010, compared with the year ago period. The six months ended June 30, 2009 included one-time gains of $62 million primarily related to the termination of certain distribution agreements. The remaining $3 million decrease in income from operations resulted from increase in SG&A expenses, partially offset by increased net sales, improvement in gross margin related to the decline in contract manufacturing and lower costs for packaging materials and other commodity costs during the six months ended June 30, 2010. Significant drivers of the $69 million increase in SG&A expenses include the increase in marketing spend primarily related to targeted marketing programs, unfavorable impact of foreign currency, unfavorable comparison of the changes in fair value of commodity derivatives used in the distribution process, higher benefit costs, and the one-time transaction costs associated with the PepsiCo agreement.

Interest Expense, Interest Income and Other Income. Interest expense decreased $44 million compared with the year ago period, reflecting the repayment of our senior unsecured Term Loan A facility during December 2009. As a result of indemnity income associated with the Tax Indemnity Agreement with Kraft, other income was $5 million for the six months ended June 30, 2010.

Provision for Income Taxes. The effective tax rates for the six months ended June 30, 2010 and 2009 were 38.5% and 37.4%, respectively. The increase in the effective tax rate for the six months ended June 30, 2010, was primarily driven by a previous change in the provincial income tax rate for Ontario, Canada. The impact of the change in tax rate increased the provision for income taxes and effective tax rate by $13 million and 2.9%, respectively. Refer to Note 8 of the Notes to our Unaudited Condensed Consolidated Financial Statements for further information.

Table of Contents

Results of Operations by Segment

The following tables set forth net sales and SOP for our segments for the six months ended June 30, 2010 and 2009, as well as the other amounts necessary to reconcile our total segment results to our consolidated results presented in accordance with U.S. GAAP (in millions):

	For the Six Months Ended June 30,	
	2010	2009
Segment Results Net sales		
Beverage Concentrates	$ 559	$ 524
Packaged Beverages	2,020	2,049
Latin America Beverages	188	168
Net sales	$ 2,767	$ 2,741
Segment Results SOP		
Beverage Concentrates	$ 353	$ 334
Packaged Beverages	277	277
Latin America Beverages	25	23
Total SOP	655	634
Unallocated corporate costs	158	124
Other operating expense (income), net		(52)
Income from operations	497	562
Interest expense, net	61	105
Other income, net	(5)	(5)
Income before provision for income taxes and equity in earnings of unconsolidated subsidiaries	$ 441	$ 462

Beverage Concentrates

The following table details our Beverage Concentrates segment s net sales and SOP for the six months ended June 30, 2010 and 2009 (in millions):

	For the Six Months Ended June 30,		Amount
	2010	2009	Change
Net sales	$ 559	$ 524	$ 35
SOP	353	334	19

Net sales increased $35 million, or approximately 7%, for the six months ended June 30, 2010, compared with the six months ended June 30, 2009. The increase was primarily due to concentrate price increases, $12 million in revenue recognized under the PepsiCo license, and the favorable impact of foreign currency. Concentrate price increases, which were effective in January 2010, added an incremental $20 million to net sales during the six months ended June 30, 2010. The increase in net sales was partially offset by a 1% decrease in concentrate case sales.

SOP increased $19 million, or approximately 6% for the six months ended June 30, 2010, as compared with the year ago period, primarily driven by the increase in net sales. The increase in SOP was partially offset by an increase in marketing spend primarily related to targeted marketing programs for Dr Pepper, Canada Dry, and Sunkist soda.

Volume (BCS) increased 2% for the six months ended June 30, 2010, as compared with the year ago period, primarily driven by a 3% increase in Dr Pepper, driven by regular and Diet Dr Pepper. Crush increased 19%, primarily driven by the launch of Cherry Crush in the first quarter of 2010. These increases were partially offset by a double-digit decline in Hawaiian Punch and a 2% decrease in our Core 4 brands, led by a mid-single digit decline in Sunkist soda partially offset by a high single-digit increase in Canada Dry. The decreases in Sunkist soda and Hawaiian Punch were primarily driven by the repatriation of the brands to our Packaged Beverages segment as a result of the PepsiCo licensing agreement.

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, 2010 and 2009 (in millions):

	For the Six Months Ended June 30,		Amount
	2010	**2009**	**Change**
Net sales	$ 2,020	$ 2,049	$ (29)
SOP	277	277	

Sales volume decreased 2% for the six months ended June 30, 2010, compared with the six months ended June 30, 2009. The decrease was the result of a decline in contract manufacturing partially offset by volume growth in our NCB category. The decline in contract manufacturing negatively impacted total volume by 4%. Total CSD volume decreased 2%. Volume for our Core 4 brands decreased 3%, due to mid single-digit declines in 7UP and Sunkist soda, partially offset by a double-digit increase in Canada Dry due to targeted marketing programs. Dr Pepper volumes decreased 3%. Total NCB volume increased 6% as a result of an 13% increase in Snapple due to the successful restage of the brand, growth of value offerings and increased marketing. Hawaiian Punch and Mott s increased 11% and 8%, respectively, as a result of increased promotional activity and distribution gains.

Net sales decreased $29 million for the six months ended June 30, 2010, compared with the six months ended June 30, 2009. The decline in contract manufacturing reduced net sales for the six months ended June 30, 2010, by $39 million. Net sales were favorably impacted by volume increases, primarily in NCBs, and the favorable impact of foreign currency, offset in part by the decrease in CSD volume and net pricing decreases, primarily in CSDs.

SOP remained flat for the six months ended June 30, 2010, compared with the six months ended June 30, 2009, primarily due to the favorable product mix as a result of the decline in contract manufacturing and lower costs for packaging materials and other commodity costs. These increases were offset by decreased net sales, costs and depreciation associated with the startup of our manufacturing facility in Victorville, California, higher benefit costs, and legal reserves for pending legal matters.

Latin America Beverages

The following table details our Latin America Beverages segment s net sales and SOP for the six months ended June 30, 2010 and 2009 (in millions):

	For the Six Months Ended June 30,		Amount
	2010	**2009**	**Change**
Net sales	$ 188	$ 168	$ 20
SOP	25	23	2

Sales volume increased 11% for the six months ended June 30, 2010, as compared with the six months ended June 30, 2009. The increase in volume was driven by a 21% increase in Squirt volume due to higher sales to third party bottlers, a 62% increase in Crush volume with the continued growth from the introduction of new flavors in a 2.3 liter value offering, as well as additional distribution routes added throughout 2009 and 2010. These volume increases were partially offset by a 5% decrease in Peñafiel due to decreased sales to third party distributors.

Net sales increased $20 million for the six months ended June 30, 2010, compared with the year ago period primarily due to an increase in sales volume and a $14 million favorable impact of changes in foreign currency, partially offset by an unfavorable impact related to product mix.

SOP increased $2 million for the six months ended June 30, 2010, compared with the six months ended June 30, 2009, primarily due to the increase in sales volume and a $5 million favorable impact of changes in foreign currency, partially offset by increased costs associated with route expansion.

Table of Contents

Critical Accounting Estimates

The process of preparing our unaudited condensed 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. Actual amounts may differ from these estimates and judgments. We have identified the following policies as critical accounting policies:

- revenue recognition;
- customer marketing programs and incentives;
- goodwill and other indefinite lived intangible assets;
- definite lived intangible assets;
- stock-based compensation;
- pension and postretirement benefits;
- risk management programs; and
- income taxes.

These critical accounting policies are discussed in greater detail in our Annual Report on Form 10-K for the year ended December 31, 2009.

Liquidity and Capital Resources

Trends and Uncertainties Affecting Liquidity

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

- changes in economic factors could impact consumers purchasing power; and
- we will continue to make capital expenditures to upgrade our existing plants and distribution fleet of trucks, replace and expand our cold drink equipment and make investments in IT systems in order to improve operating efficiencies and lower costs.

2010 Borrowings and Repayments

On November 20, 2009, the Board authorized us to issue up to $1,500 million of debt securities through the Securities and Exchange Commission shelf registration process. We issued $890 million in 2009, as described in the section The 2011 and 2012 Notes below. As a result, $650 million remained authorized to be issued as of June 30, 2010.

During the six months ended June 30, 2010, we repaid $405 million borrowed from the revolving credit facility (the Revolver).

The following is a description of our senior unsecured credit facility and the senior unsecured notes. The summaries of the senior unsecured credit facility and the senior unsecured notes are qualified in their entirety by the specific terms and provisions of the senior unsecured credit facility agreement (the Facility Agreement) and the indentures governing the senior unsecured notes, respectively, copies of which have previously been filed, as referenced in the exhibits to our Annual Report on Form 10-K for the year ended December 31, 2009.

Table of Contents

Senior Unsecured Credit Facility

Our senior unsecured credit facility originally provided senior unsecured financing of up to $2,700 million, which consisted of:

the senior unsecured Term Loan A facility (the Term Loan A) in an aggregate principal amount of $2,200 million with a term of five years, which was fully repaid in December 2009 prior to its maturity, and under which no further borrowings may be made; and

the Revolver in an aggregate principal amount of $500 million with a maturity in 2013. The balance of principal borrowings under the Revolver was $0 and $405 million as of June 30, 2010 and December 31, 2009, respectively. Up to $75 million of the Revolver is available for the issuance of letters of credit, of which $58 million and $41 million were utilized as of June 30, 2010, and December 31, 2009, respectively. Balances available for additional borrowings and letters of credit were $442 million and $17 million, respectively, as of June 30, 2010.

Borrowings under the senior unsecured credit facility bear interest at a floating rate per annum based upon the London Interbank Offered Rate (LIBOR) or the Alternate Base Rate (ABR), in each case plus an applicable margin which varies based upon our debt ratings, from 1.00% to 2.50% in the case of LIBOR loans and 0.00% to 1.50% in the case of ABR loans. The ABR means the greater of (a) JPMorgan Chase Bank s prime rate and (b) the federal funds effective rate plus one half of 1%. Interest is payable on the last day of the interest period, but not less than quarterly, in the case of any LIBOR loan and on the last day of March, June, September and December of each year in the case of any ABR loan. There were no borrowings during the three months ended June 30, 2010. The average interest rate was 4.50% for the three months ended June 30, 2009. The average interest rate was 2.25% and 4.80% for the six months ended June 30, 2010 and 2009, respectively. Interest expense was $22 million for the three months ended June 30, 2009 and $2 million and $48 million for the six months ended June 30, 2010 and 2009, respectively. Amortization of deferred financing costs of $3 million for the three months ended June 30, 2009, and $1 million and $7 million for the six months ended June 30, 2010 and 2009, respectively, was included in interest expense. There was no interest expense or amortization of deferred financing costs for the three months ended June 30, 2010.

We utilized interest rate swaps to effectively convert variable interest rates to fixed rates. Refer to Note 6 of the Notes to our Unaudited Condensed Consolidated Financial Statements for further information regarding derivatives.

An unused commitment fee is payable quarterly to the lenders on the unused portion of the commitments in respect of the Revolver equal to 0.15% to 0.50% per annum, depending upon our debt ratings. There were minimal unused commitment fees for the three and six months ended June 30, 2010. We incurred $1 million in unused commitment fees for the three and six months ended June 30, 2009.

Principal amounts outstanding under the Revolver are due and payable in full at maturity in 2013.

All obligations under the senior unsecured credit facility are guaranteed by substantially all of our existing and future direct and indirect domestic subsidiaries.

The Facility Agreement contains customary negative covenants that, among other things, restrict our ability to incur debt at subsidiaries that are not guarantors; incur liens; merge or sell, transfer, lease or otherwise dispose of all or substantially all assets; enter into transactions with affiliates; and enter into agreements restricting our ability to incur liens or the ability of subsidiaries to make distributions. These covenants are subject to certain exceptions described in the Facility Agreement. In addition, the Facility Agreement requires us to comply with a maximum total leverage ratio covenant and a minimum interest coverage ratio covenant. The Facility Agreement also contains certain usual and customary representations and warranties, affirmative covenants and events of default. As of June 30, 2010 and December 31, 2009, we were in compliance with all covenant requirements.

Senior Unsecured Notes

The 2011 and 2012 Notes

In December 2009, we completed the issuance of $850 million aggregate principal amount of senior unsecured notes consisting of the 2011 and 2012 Notes. The weighted average interest rate of the 2011 and 2012 Notes was 2.04% for the three and six months ended June 30, 2010. The net proceeds from the sale of the debentures were used for repayment of existing indebtedness under the Term Loan A. Interest on the 2011 and 2012 Notes is payable

semi-annually on June 21 and December 21. Interest expense was $(1) million and $1 million for the three and six months ended June 30, 2010, respectively. As a result of changes in fair value of the economic hedge, we recorded an unrealized gain of $4 million which reduced interest expense for the three and six months ended June 30, 2010. Interest expense included $1 million of amortization of deferred financing costs associated with the 2011 and 2012 Notes for the three and six months ended June 30, 2010.

We utilize interest rate swaps designated as fair value and economic hedges, to convert fixed interest rates to variable rates. Refer to Note 6 of the Notes to our Unaudited Condensed Consolidated Financial Statements for further information regarding derivatives.

The indenture governing the 2011 and 2012 Notes, among other things, limits our 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 2011 and 2012 Notes are guaranteed by substantially all of our existing and future direct and indirect domestic subsidiaries. As of June 30, 2010 and December 31, 2009, we were in compliance with all covenant requirements.

The 2013, 2018 and 2038 Notes

During 2008, we completed the issuance of $1,700 million aggregate principal amount of senior unsecured notes consisting of $250 million aggregate principal amount of 6.12% senior notes due May 1, 2013 (the 2013 Notes), $1,200 million aggregate principal amount of 6.82% senior notes due May 1, 2018 (the 2018 Notes), and $250 million aggregate principal amount of 7.45% senior notes due May 1, 2038 (the 2038 Notes). The weighted average interest rate of the 2013, 2018 and 2038 Notes was 6.81% for each of the three and six month periods ended June 30, 2010 and 2009. Interest on the senior unsecured notes is payable semi-annually on May 1 and November 1 and is subject to adjustment. Interest expense was $30 million and $29 million for the three months ended June 30, 2010 and 2009, respectively, and $59 million and $58 million for the six months ended June 30, 2010 and 2009, respectively. Amortization of deferred financing costs of $1 million for the three and six months ended June 30, 2010 and 2009 was included in interest expense.

The indenture governing the 2013, 2018, and 2038 Notes, among other things, limits our ability to incur indebtedness secured by principal properties, to enter into certain sale and lease-back transactions and to enter into certain mergers or transfers of substantially all of DPS assets. The senior unsecured notes are guaranteed by substantially all of our existing and future direct and indirect domestic subsidiaries. As of June 30, 2010 and December 31, 2009, we were in compliance with all covenant requirements.

Debt Ratings

During the second quarter of 2010, our long term debt rating with Moody s and S&P was Baa2 with a positive outlook and BBB with a stable outlook, respectively. These debt ratings impact the interest we pay on our financing arrangement. A downgrade of one or both of our debt ratings below investment grade could increase our interest expense and decrease the cash available to fund anticipated obligations.

Cash Management

We fund our liquidity needs from cash flow from operations, cash on hand or amounts available under our Revolver.

Capital Expenditures

Cash paid for capital expenditures was $114 million for the six months ended June 30, 2010. Additions primarily related to the development of our new manufacturing and distribution center in Victorville, California, expansion and replacement of existing cold drink equipment, and IT investments for system upgrades. We continue to expect to incur discretionary annual capital expenditures in an amount equal to approximately $175 million, which we expect to fund through cash provided by operating activities.

Acquisitions

We may make future acquisitions. For example, we may make acquisitions of regional bottling companies, distributors, and distribution rights to further extend our geographic coverage. Any acquisitions may require future capital expenditures and restructuring expenses.

Table of Contents

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. Excess cash provided by operating activities may be used to fund capital expenditures, pay dividends and repurchase shares of our common stock. 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 Revolver.

The following table summarizes our cash activity for the three months ended June 30, 2010 and 2009 (in millions):

	For the Six Months Ended June 30,	
	2010	**2009**
Net cash provided by operating activities	$ 1,266	$ 371
Net cash used in investing activities	(98)	(73)
Net cash used in financing activities	(1,038)	(281)

Net Cash Provided by Operating Activities

Net cash provided by operating activities increased $895 million for the six months ended June 30, 2010, compared with the year ago period. Deferred revenue and non-current deferred revenue increased due to the receipt of a one-time nonrefundable cash payment of $900 million from PepsiCo.

Net Cash Used in Investing Activities

The increase of $25 million in cash used in investing activities for the six months ended June 30, 2010, compared with the year ago period, was primarily attributable to the absence of the one-time cash receipts in 2009 of $68 million primarily from the termination of certain distribution agreements, partially offset by lower capital expenditures and higher proceeds from disposal of property, plant and equipment in 2010.

Net Cash Used in Financing Activities

The increase of $757 million in cash used in financing activities for the six months ended June 30, 2010, compared with the year ago period, was driven by the repayment of our senior unsecured credit facility, stock repurchases and dividend payments.

Cash and Cash Equivalents

As a result of the above, cash and cash equivalents increased $131 million to $411 million as of June 30, 2010.

Our cash balances are used to fund working capital requirements, scheduled debt and interest payments, capital expenditures, income tax obligations, dividend payments and repurchases of our common stock. Cash available in our foreign operations may not be immediately available for these purposes. Foreign cash balances constitute approximately 15% of our total cash position as of June 30, 2010.

Dividends

On November 20, 2009, our Board declared our first dividend of $0.15 per share on outstanding common stock, which was paid on January 8, 2010 to stockholders of record at the close of business on December 21, 2009.

On February 3, 2010, our Board declared a quarterly dividend of $0.15 per share on outstanding common stock, which was paid on April 9, 2010 to stockholders of record at the close of business on March 22, 2010.

On May 19, 2010, our Board declared a dividend of $0.25 per share on outstanding common stock, which was paid on July 9, 2010 to stockholders of record at the close of business on June 21, 2010.

Table of Contents

Common Stock Repurchases

On February 24, 2010, the Board approved an increase in the total aggregate share repurchase authorization up to $1 billion. Subsequent to the Board s authorization, we repurchased 15.6 million shares of our common stock valued at approximately $557 million in the six months ended June 30, 2010. Refer to Part II, Item 2 of this Quarterly Report on Form 10-Q for additional information regarding these repurchases.

On July 12, 2010, the Board authorized the repurchase of an additional $1 billion of our outstanding common stock over the next three years, for a total authorization of $2 billion of which $1.45 billion remains outstanding.

Contractual Commitments and Obligations

We enter into various contractual obligations that impact, or could impact, our liquidity. The following table summarizes our contractual obligations and contingencies as of June 30, 2010. 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 and amounts available under our Revolver. Refer to Notes 5 and 10 of the Notes to our Unaudited Condensed Consolidated Financial Statements for additional information regarding the items described in this table.

	Payments Due in Year (in millions)						
	Total	**2010**	**2011**	**2012**	**2013**	**2014**	**After 2014**
Revolver	$	$	$	$	$	$	$
Interest payments[1]	1,253	63	129	127	109	101	724
Operating leases	302	24	46	39	36	32	125
Purchase obligations[2]	787	289	201	127	102	33	35
Total	$ 2,342	$ 376	$ 376	$ 293	$ 247	$ 166	$ 884

(1) Amounts represent our estimated interest payments based on (a) specified interest rates for fixed rate debt, (b) capital lease amortization schedules and (c) debt amortization schedules.

(2) 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.

Through June 30, 2010, there have been no other material changes to the amounts disclosed in our Annual Report on Form 10-K for the year ended December 31, 2009.

Off-Balance Sheet Arrangements

There are no off-balance sheet arrangements that have or are reasonably likely to have a current or future material effect on our results of operations, financial condition, liquidity, capital expenditures or capital resources other than letters of credit outstanding.

Other Matters

On May 23, 2010, approximately 300 employees began a work stoppage at the Company s Williamson, New York manufacturing facility. We continue to work toward a resolution of which the outcome cannot be predicted.

Effect of Recent Accounting Pronouncements

Refer to Note 1 of the Notes to our Unaudited Condensed Consolidated Financial Statements for a discussion of recent accounting standards and pronouncements.

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. We do not enter into derivatives or other financial instruments for trading purposes.

Foreign Exchange Risk

The majority of our net sales, expenses, and capital purchases are transacted in United States dollars. However, we have some 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, 2010, the impact to net income of a 10% change (up or down) in exchange rates is estimated to be an increase or decrease of approximately $11 million on an annual basis.

We use derivative instruments such as foreign exchange forward contracts to manage our exposure to changes in foreign exchange rates. For the period ending June 30, 2010, we had contracts outstanding with a notional value of $74 million maturing at various dates through December 15, 2011.

Interest Rate Risk

We centrally manage our debt portfolio and monitor our mix of fixed-rate and variable rate debt.

We are subject to floating interest rate risk with respect to any borrowings, including those we may borrow in the future, under the senior unsecured credit facility. As of June 30, 2010, there were no borrowings outstanding under the senior unsecured credit facility.

Interest Rate Swaps

We enter into interest rate swaps to convert fixed-rate, long-term debt to floating-rate debt. These swaps are accounted for as either a fair value hedge or an economic hedge under U.S. GAAP. The fair value hedges qualify for the short-cut method of recognition; therefore, no portion of these swaps is treated as ineffective.

In December 2009, we entered into interest rate swaps having an aggregate notional amount of $850 million and durations ranging from two to three years in order to convert fixed-rate, long-term debt to floating rate debt. These swaps were entered into at the inception of the 2011 and 2012 Notes and were originally accounted for as fair value hedges under U.S. GAAP. Effective March 10, 2010, $225 million notional of the interest rate swap linked to the 2012 Notes was restructured to reflect a change in the variable interest rate to be paid by us. This change triggered the de-designation of the $225 million notional fair value hedge and the corresponding fair value hedging relationship was discontinued. The $225 million notional restructured interest rate swap was subsequently accounted for as an economic hedge and the gain or loss on the instrument is recognized in earnings.

As a result of these interest rate swaps, we pay an average floating rate, which fluctuates semi-annually, based on LIBOR. The average floating rate to be paid by us as of June 30, 2010 was less than 1%. The average fixed rate to be received by us as of June 30, 2010 was 2.0%

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 aluminum, corn (for high fructose corn syrup), natural gas (for use in processing and packaging), PET and fuel.

We utilize commodities forward 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, 2010, was a net asset of $4 million.

As of June 30, 2010, the impact to net income of a 10% change (up or down) in market prices of these commodities is estimated to be an increase or decrease of approximately $8 million on an annual basis.

Item 4. ***Controls and Procedures.***

Based on evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Exchange Act) our management, including our Chief Executive Officer and Chief Financial Officer, has concluded that, as of June 30, 2010, 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 Securities and Exchange Commission 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 is accumulated and communicated to our management, including the 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 that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

PART II OTHER INFORMATION

Item 1. *Legal Proceedings.*

Information regarding legal proceedings is incorporated by reference from Note 13 of the Notes to our Unaudited Condensed Consolidated Financial Statements.

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 on Form 10-K for the year ended December 31, 2009.

Item 2. *Unregistered Sales of Equity Securities and Use of Proceeds.*

We repurchased 9.8 million shares of our common stock valued at approximately $355 million in the second quarter of 2010. Our share repurchase activity for each of the three months and the quarter ended June 30, 2010 were as follows (in thousands, except per share data):

Period	Number of Shares Purchased[(1)]	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs[(2)]	Maximum Dollar Value of Shares that May Yet be Purchased Under Publicly Announced Plans or Programs[(3)]
April 1, 2010 April 30, 2010	2,857	$ 35.00	2,857	$ 697,606
May 1, 2010 May 31, 2010	2,736	36.52	2,736	597,661
June 1 2010 June 30, 2010	4,159	37.31	4,019	447,741
For the quarter ended June 30, 2010	9,752	36.41	9,612	

(1) The total number of shares purchased includes: (i) shares purchased in open-market transactions pursuant to our publicly announced repurchase program described in footnote 2 below totaling 2,857 thousand shares, 2,736 thousand shares and 4,019 thousand shares for the months of April, May and June, respectively; and (ii) shares that were repurchased pursuant to a previously unannounced oddlot repurchase program totaling 140 thousand shares for the month of June.

(2) As previously announced, on November 20, 2009, the Board of Directors (the Board) authorized the repurchase of up to $200 million of the Company s outstanding common stock during 2010, 2011 and 2012. On February 24, 2010, the Board approved the repurchase of up to an additional $800 million of the Company s outstanding common stock, bringing the total aggregate share repurchase authorization up to $1 billion. On March 11, 2010, pursuant to authority granted by the Board, the Company s Audit Committee authorized the Company to attempt to effect up to $1 billion in share repurchases during 2010 if prevailing market conditions permit. The repurchase authorization noted above is also subject to certain repurchase parameters, including a maximum price per share. As a result, there can be no assurance that the Company will be able to execute its share repurchase program up to the authorized levels during 2010. This column discloses the number of shares purchased pursuant to these programs during the indicated time periods.

(3) On July 12, 2010, the Board authorized the repurchase of an additional $1 billion of the Company s outstanding common stock over the next three years, for a total of $2 billion authorized of which $1.45 billion remains outstanding.

(4) This column discloses the dollar value remaining under previously announced share repurchase authorizations by the Board. The dollar value of shares to be repurchased under the plan announced subsequent to June 30, 2010 has not been included.

Table of Contents

Item 6. *Exhibits.*

2.1 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).

3.1 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).

3.2 Amended and Restated By-Laws of Dr Pepper Snapple Group, Inc. (filed as Exhibit 3.1 to the Company s Current Report on Form 8-K (filed on July 16, 2009) and incorporated herein by reference).

4.1 Indenture, dated April 30, 2008, between Dr Pepper Snapple Group, Inc. and Wells Fargo Bank, N.A. (filed an Exhibit 4.1 to the Company s Current Report on Form 8-K (filed on May 1, 2008) and incorporated herein by reference).

4.2 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).

4.3 Form of 6.82% Senior Notes due 2013 (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).

4.4 Form of 7.45% Senior Notes due 2013 (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).

4.5 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).

4.6 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).

4.7 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).

4.8 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).

4.9 Third Supplemental Indenture, dated October 19, 2009, among 234DP Aviation, LLC, as a subsidiary guarantor; 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).

4.10 Indenture, dated as of December 15, 2009, between Dr Pepper Snapple Group, Inc. 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 23,

2009) and incorporated herein by reference).

4.11 First Supplemental Indenture, dated as of December 21, 2009, among Dr Pepper Snapple Group, Inc., the guarantors party thereto and Wells Fargo Bank, N.A., as trustee (filed as Exhibit 4.2 to the Company s Current Report on Form 8-K (filed on December 23, 2009) and incorporated herein by reference).

4.12 1.70% Senior Notes due 2011 (in global form) (filed as Exhibit 4.3 to the Company s Current Report on Form 8-K (filed on December 23, 2009) and incorporated herein by reference).

4.13 2.35% Senior Notes due 2012 (in global form) (filed as Exhibit 4.4 to the Company s Current Report on Form 8-K (filed on December 23, 2009) and incorporated herein by reference).

10.1 Letter Agreement, dated June 7, 2010, between Dr Pepper/Seven Up, Inc. and The Coca-Cola Company (filed as Exhibit 10.1 to the Company s Current Report on Form 8-K (filed on June 7, 2010) and incorporated herein by reference).

12.1* Computation of Ratio of Earnings to Fixed Charges.

31.1* Certification of Chief Executive Officer of Dr Pepper Snapple Group, Inc. pursuant to Rule 13a-14(a) or 15d-14(a) promulgated under the Exchange Act .

31.2* Certification of Chief Financial Officer of Dr Pepper Snapple Group, Inc. pursuant to Rule 13a-14(a) or 15d-14(a) promulgated under the Exchange Act.

32.1** Certification of Chief Executive Officer of Dr Pepper Snapple Group, 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 Dr Pepper Snapple Group, 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.

* Filed herewith.

** Furnished herewith.

Table of Contents

SIGNATURES

Pursuant to the requirements of Section 12 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.

Dr Pepper Snapple Group, Inc.

By: /s/ Martin M. Ellen

Name: Martin M. Ellen
Title: Executive Vice President and Chief Financial Officer of Dr Pepper Snapple Group, Inc.

Date: July 29, 2010