

Edgar Filing: Dr Pepper Snapple Group, Inc. - Form 10-Q

Dr Pepper Snapple Group, Inc.  
Form 10-Q  
October 22, 2015

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

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED September 30, 2015

OR

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

(State or other jurisdiction of  
incorporation or organization)

98-0517725

(I.R.S. employer  
identification number)

5301 Legacy Drive, Plano, Texas  
(Address of principal executive offices)  
(972) 673-7000

(Registrant's telephone number, including area code)

75024

(Zip 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  R No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  R No

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  R Accelerated Filer  Non-Accelerated Filer  Smaller Reporting Company   
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Securities Exchange Act of 1934).

Yes  No  R

As of October 19, 2015, there were 188,892,081 shares of the registrant's common stock, par value \$0.01 per share, outstanding.

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

	Page
<u>Part I. Financial Information</u>	
<u>Item 1. Financial Statements (Unaudited)</u>	
<u>Condensed Consolidated Statements of Income for the Three and Nine Months Ended September 30, 2015 and 2014</u>	1
<u>Condensed Consolidated Statements of Comprehensive Income for the Three and Nine Months Ended September 30, 2015 and 2014</u>	2
<u>Condensed Consolidated Balance Sheets as of September 30, 2015 and December 31, 2014</u>	3
<u>Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2015 and 2014</u>	4
<u>Condensed Consolidated Statement of Stockholders' Equity for the Nine Months Ended September 30, 2015</u>	5
<u>Notes to Condensed Consolidated Financial Statements</u>	6
1 <u>General</u>	6
2 <u>Inventories</u>	8
3 <u>Investments in Unconsolidated Subsidiaries</u>	8
4 <u>Goodwill and Other Intangible Assets</u>	9
5 <u>Prepaid Expenses and Other Current Assets and Other Current Liabilities</u>	11
6 <u>Debt</u>	11
7 <u>Derivatives</u>	13
8 <u>Other Non-Current Assets and Other Non-Current Liabilities</u>	20
9 <u>Income Taxes</u>	20
10 <u>Employee Benefit Plans</u>	21
11 <u>Fair Value</u>	21
12 <u>Stock-Based Compensation</u>	23
13 <u>Earnings Per Share</u>	25
14 <u>Accumulated Other Comprehensive Loss</u>	26
15 <u>Supplemental Cash Flow Information</u>	27
16 <u>Commitments and Contingencies</u>	28
17 <u>Segments</u>	28
18 <u>Guarantor and Non-Guarantor Financial Information</u>	29
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	39
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	55
<u>Item 4. Controls and Procedures</u>	56
<u>Part II. Other Information</u>	
<u>Item 1. Legal Proceedings</u>	57
<u>Item 1A. Risk Factors</u>	57
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	57
<u>Item 6. Exhibits</u>	58

Table of Contents

DR PEPPER SNAPPLE GROUP, INC.  
 CONDENSED CONSOLIDATED STATEMENTS OF INCOME  
 For the Three and Nine Months Ended September 30, 2015 and 2014  
 (Unaudited, in millions, except per share data)

PART I - FINANCIAL INFORMATION  
 ITEM 1. Financial Statements (Unaudited)

	For the		For the	
	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
Net sales	\$1,630	\$1,583	\$4,736	\$4,612
Cost of sales	673	658	1,949	1,877
Gross profit	957	925	2,787	2,735
Selling, general and administrative expenses	592	581	1,730	1,727
Depreciation and amortization	26	28	79	86
Other operating expense (income), net	2	—	2	(2)
Income from operations	337	316	976	924
Interest expense	28	27	83	80
Interest income	—	—	(1)	(1)
Other expense, net	1	4	1	2
Income before provision for income taxes and equity in earnings of unconsolidated subsidiaries	308	285	893	843
Provision for income taxes	106	97	314	291
Income before equity in earnings of unconsolidated subsidiaries	202	188	579	552
Equity in earnings of unconsolidated subsidiaries, net of tax	—	—	—	1
Net income	\$202	\$188	\$579	\$553
Earnings per common share:				
Basic	\$1.06	\$0.97	\$3.02	\$2.81
Diluted	1.05	0.96	3.00	2.79
Weighted average common shares outstanding:				
Basic	190.4	194.8	191.6	196.4
Diluted	191.5	196.2	192.8	197.8
Cash dividends declared per common share	\$0.48	\$0.41	\$1.44	\$1.23

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 COMPREHENSIVE INCOME

For the Three and Nine Months Ended September 30, 2015 and 2014

(Unaudited, in millions)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2015	2014	2015	2014
Comprehensive income	\$161	\$174	\$526	\$542

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 September 30, 2015 and December 31, 2014  
 (Unaudited, in millions, except share and per share data)

	September 30, 2015	December 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	\$207	\$237
Accounts receivable:		
Trade, net	571	556
Other	57	61
Inventories	201	204
Deferred tax assets	73	67
Prepaid expenses and other current assets	113	86
Total current assets	1,222	1,211
Property, plant and equipment, net	1,077	1,141
Investments in unconsolidated subsidiaries	31	14
Goodwill	2,988	2,990
Other intangible assets, net	2,673	2,684
Other non-current assets	172	159
Non-current deferred tax assets	62	74
Total assets	\$8,225	\$8,273
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$310	\$289
Deferred revenue	64	64
Short-term borrowings and current portion of long-term obligations	505	3
Income taxes payable	25	10
Other current liabilities	685	672
Total current liabilities	1,589	1,038
Long-term obligations	2,130	2,588
Non-current deferred tax liabilities	846	801
Non-current deferred revenue	1,198	1,250
Other non-current liabilities	265	302
Total liabilities	6,028	5,979
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$0.01 par value, 15,000,000 shares authorized, no shares issued	—	—
Common stock, \$0.01 par value, 800,000,000 shares authorized, 189,112,688 and 192,957,696 shares issued and outstanding for 2015 and 2014, respectively	2	2
Additional paid-in capital	313	658
Retained earnings	2,072	1,771
Accumulated other comprehensive loss	(190)	(137)
Total stockholders' equity	2,197	2,294
Total liabilities and stockholders' equity	\$8,225	\$8,273

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 Nine Months Ended September 30, 2015 and 2014  
(Unaudited, in millions)

	For the Nine Months Ended September 30,	
	2015	2014
Operating activities:		
Net income	\$579	\$553
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation expense	143	148
Amortization expense	25	26
Amortization of deferred revenue	(48)	(48)
Employee stock-based compensation expense	33	35
Deferred income taxes	27	33
Other, net	(7)	(20)
Changes in assets and liabilities, net of effects of acquisition:		
Trade accounts receivable	(25)	15
Other accounts receivable	3	(6)
Inventories	(2)	8
Other current and non-current assets	(33)	(49)
Other current and non-current liabilities	(35)	24
Trade accounts payable	25	49
Income taxes payable	38	1
Net cash provided by operating activities	723	769
Investing activities:		
Purchase of property, plant and equipment	(71)	(103)
Purchase of intangible assets	(1)	(1)
Investment in unconsolidated subsidiaries	(20)	—
Purchase of cost method investment	(15)	—
Proceeds from disposals of property, plant and equipment	12	7
Other, net	—	(3)
Net cash used in investing activities	(95)	(100)
Financing activities:		
Net issuance of commercial paper	—	(65)
Repurchase of shares of common stock	(404)	(276)
Dividends paid	(264)	(237)
Tax withholdings related to net share settlements of certain stock awards	(27)	(16)
Proceeds from stock options exercised	28	32
Excess tax benefit on stock-based compensation	22	9
Other, net	(3)	—
Net cash used in financing activities	(648)	(553)
Cash and cash equivalents — net change from:		
Operating, investing and financing activities	(20)	116
Effect of exchange rate changes on cash and cash equivalents	(10)	(3)
Cash and cash equivalents at beginning of period	237	153
Cash and cash equivalents at end of period	\$207	\$266

See Note 15 for supplemental cash flow information.

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

Table of Contents

## DR PEPPER SNAPPLE GROUP, INC.

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

For the Nine Months Ended September 30, 2015

(Unaudited, in millions, except per share data)

	Common Stock Issued Shares	Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Equity
Balance as of January 1, 2015	193.0	\$ 2	\$ 658	\$ 1,771	\$ (137 )	\$ 2,294
Shares issued under employee stock-based compensation plans and other	1.3	—	—	—	—	—
Net income	—	—	—	579	—	579
Other comprehensive loss	—	—	—	—	(53 )	(53 )
Dividends declared, \$1.44 per share	—	—	3	(278 )	—	(275 )
Stock options exercised and stock-based compensation, net of tax of (\$22)	—	—	56	—	—	56
Common stock repurchases	(5.2 )	—	(404 )	—	—	(404 )
Balance as of September 30, 2015	189.1	\$ 2	\$ 313	\$ 2,072	\$ (190 )	\$ 2,197

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

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 "DPS" or "the Company" refer to Dr Pepper Snapple Group, Inc. and all entities included in the unaudited condensed consolidated financial statements.

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

**BASIS OF PRESENTATION**

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial information and in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete consolidated financial statements. In the opinion of management, all adjustments, consisting principally of normal recurring adjustments, considered necessary for a fair presentation have been included. 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, 2014.

**PRINCIPLES OF CONSOLIDATION**

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

The Company is also required to consolidate entities that are variable interest entities ("VIEs") of which DPS is the primary beneficiary. Judgments are made in assessing whether the Company is the primary beneficiary, including determination of the activities that most significantly impact the VIE's economic performance. During the year ended December 31, 2014, the Company provided 100% financing to a VIE as part of a short term leasing structure for which DPS is the primary beneficiary. As a result, DPS has consolidated that entity. The Company's financing of the VIE, which totaled \$21 million as of December 31, 2014, included a transfer of cash and assignment of the rights to deposits previously made with a manufacturer in prior years. The Company's financing of the VIE, which eliminates in consolidation, was used by the VIE to purchase certain property, plant and equipment. During the quarter ended June 30, 2015, the leasing arrangement with the VIE was terminated through the Company assuming ownership of the property, plant and equipment purchased by the VIE as repayment of the Company's financing of the VIE. No gain or loss was recorded as a result of the termination.

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

Table of Contents

DR PEPPER SNAPPLE GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited, Continued)

USE OF ESTIMATES

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

- goodwill and other indefinite-lived intangible assets;
- revenue recognition;
- pension and postretirement benefits;
- multi-employer pension plan withdrawal liability;
- risk management programs; and
- income taxes.

These critical accounting estimates are discussed in greater detail in our Annual Report on Form 10-K for the year ended December 31, 2014.

RECENTLY ISSUED ACCOUNTING STANDARDS

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers (Topic 606) ("ASU 2014-09"). The new guidance sets forth a new five-step revenue recognition model which replaces the prior revenue recognition guidance in its entirety and is intended to eliminate numerous industry-specific pieces of revenue recognition guidance that have historically existed in U.S. GAAP. The underlying principle of the new standard is that a business or other organization will recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects what it expects in exchange for the goods or services. The standard also requires more detailed disclosures and provides additional guidance for transactions that were not addressed completely in the prior accounting guidance. ASU 2014-09 provides alternative methods of initial adoption. In August 2015, the FASB issued ASU 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date, which defers the effective date of ASU 2014-09 by one year to December 15, 2017 for interim and annual reporting periods beginning after that date and permitted early adoption of the standard, but not before the original effective date. The Company is currently evaluating the impact that these standards will have on the consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs ("ASU 2015-03"), in order to simplify the presentation of debt issuance costs. The ASU requires debt issuance costs to be presented on the balance sheet as a direct deduction from the related debt liability rather than an asset. In August 2015, the FASB issued ASU 2015-15, Interest - Imputation of Interest (Subtopic 835-30): Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements - Amendments to SEC Paragraphs Pursuant to Staff Announcement at June 18, 2015 EITF Meeting (SEC Update) ("ASU 2015-15"), which clarifies that companies may continue to present unamortized debt issuance costs associated with line of credit arrangements as an asset. ASU 2015-03 and ASU 2015-15 are effective for public companies for annual periods beginning after December 15, 2015, and interim periods thereafter, with early adoption permitted. The guidance also requires retrospective application to all prior periods presented. The Company will early adopt these standards as of December 31, 2015, and does not anticipate a significant impact to the Company's financial position as a result of this change.

In July 2015, the FASB issued ASU 2015-11, Inventory (Topic 330): Simplifying the Measurement of Inventory ("ASU 2015-11"). This ASU requires inventories measured under any methods other than last-in, first-out ("LIFO") or the retail inventory method to be subsequently measured at the lower of cost or net realizable value, rather than at the lower of cost or market. Subsequent measurement of inventory using LIFO or the retail inventory method is

unchanged by this ASU. ASU 2015-11 is effective for public companies for interim and annual periods beginning after December 15, 2016. The Company is currently evaluating the impact that this standard will have on the consolidated financial statements and does not anticipate a significant impact to the Company's financial position as a result of this change.

.

7

---

Table of Contents

DR PEPPER SNAPPLE GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited, Continued)

## 2. Inventories

Inventories consisted of the following:

(in millions)	September 30, 2015	December 31, 2014
Raw materials	\$78	\$92
Spare parts	18	18
Work in process	5	5
Finished goods	136	126
Inventories at first in first out cost	237	241
Reduction to LIFO cost	(36	) (37
Inventories	\$201	\$204

Approximately \$154 million and \$151 million of the Company's inventory was accounted for under the LIFO method of accounting as of September 30, 2015 and December 31, 2014, respectively. The reduction to LIFO cost reflects the excess of the current cost of LIFO inventories as of September 30, 2015 and December 31, 2014, over the amount at which these inventories were valued on the unaudited Condensed Consolidated Balance Sheets. For the nine months ended September 30, 2015, a LIFO inventory liquidation increased the Company's gross profit by \$1 million. For the three months ended September 30, 2015 and for the three and nine months ended September 30, 2014, there was no LIFO inventory liquidation.

## 3. Investments in Unconsolidated Subsidiaries

On August 10, 2015, the Company acquired an 11.7% interest in BA Sports Nutrition, LLC for \$20 million. The investment is accounted for as an equity method investment as the Company is deemed to have the ability to exercise influence through more than a minor interest in the investee in accordance with U.S. GAAP. The carrying value of the investment was \$20 million as of September 30, 2015.

Table of Contents

DR PEPPER SNAPPLE GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited, Continued)

## 4. Goodwill and Other Intangible Assets

## GOODWILL

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

(in millions)	Beverage Concentrates	WD Reporting Unit <sup>(1)</sup>	DSD Reporting Unit <sup>(1)</sup>	Latin America Beverages	Total
Balance as of January 1, 2014					
Goodwill	\$1,732	\$1,220	\$185	\$31	\$3,168
Accumulated impairment losses	—	—	(180)	) —	(180)
	1,732	1,220	5	31	2,988
Foreign currency impact	—	—	—	(3)	) (3)
Acquisition activity <sup>(2)</sup>	—	2	3	—	5
Balance as of December 31, 2014					
Goodwill	1,732	1,222	188	28	3,170
Accumulated impairment losses	—	—	(180)	) —	(180)
	1,732	1,222	8	28	2,990
Foreign currency impact	—	—	—	(3)	) (3)
Acquisition activity <sup>(2)</sup>	—	—	1	—	1
Balance as of September 30, 2015					
Goodwill	1,732	1,222	189	25	3,168
Accumulated impairment losses	—	—	(180)	) —	(180)
	\$1,732	\$1,222	\$9	\$25	\$2,988

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

(2) The acquisition activity represents the goodwill associated with the purchase of Davis Beverage Group, Inc. and Davis Bottling Co, Inc. in 2014.

Table of Contents

DR PEPPER SNAPPLE GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited, Continued)

## INTANGIBLE ASSETS OTHER THAN GOODWILL

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

(in millions)	September 30, 2015			December 31, 2014		
	Gross Amount	Accumulated Amortization	Net Amount	Gross Amount	Accumulated Amortization	Net Amount
Intangible assets with indefinite lives:						
Brands <sup>(1)</sup>	\$2,635	\$—	\$2,635	\$2,643	\$—	\$2,643
Distribution rights	27	—	27	27	—	27
Intangible assets with finite lives:						
Brands	29	(28	) 1	29	(28	) 1
Distribution rights	14	(6	) 8	13	(4	) 9
Customer relationships	76	(74	) 2	76	(72	) 4
Bottler agreements	19	(19	) —	19	(19	) —
Total	\$2,800	\$(127	) \$2,673	\$2,807	\$(123	) \$2,684

(1) For the nine months ended September 30, 2015, brands with indefinite lives decreased due to an \$8 million change in foreign currency translation.

As of September 30, 2015, the weighted average useful life of intangible assets with finite lives was 10 years for distribution rights, brands, customer relationships, and in total. Amortization expense for intangible assets was \$1 million and \$4 million for the three and nine months ended September 30, 2015, respectively, and \$2 million and \$4 million for the three and nine months ended September 30, 2014, respectively.

Amortization expense of these intangible assets over the remainder of 2015 and the next four years is expected to be the following (in millions):

Year	Aggregate Amortization Expense
October 1, 2015 through December 31, 2015	\$2
2016	3
2017	1
2018	1
2019	1

## IMPAIRMENT TESTING

The Company conducts impairment tests on goodwill and all indefinite-lived intangible assets annually or more frequently if circumstances indicate that the carrying amount of an asset may not be recoverable. DPS did not identify any circumstances that indicated that the carrying amount of any goodwill or any indefinite-lived intangible asset may not be recoverable as of September 30, 2015.

Table of Contents

DR PEPPER SNAPPLE GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited, Continued)

## 5. Prepaid Expenses and Other Current Assets and Other Current Liabilities

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

(in millions)	September 30, 2015	December 31, 2014
Prepaid expenses and other current assets:		
Customer incentive programs	\$43	\$18
Derivative instruments	10	11
Current assets held for sale	3	12
Other	57	45
Total prepaid expenses and other current assets	\$113	\$86
Other current liabilities:		
Customer rebates and incentives	\$243	\$248
Accrued compensation	116	127
Insurance liability	43	46
Interest accrual	40	26
Dividends payable	90	79
Derivative instruments	37	18
Other	116	128
Total other current liabilities	\$685	\$672

## 6. Debt

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

(in millions)	September 30, 2015	December 31, 2014
Senior unsecured notes <sup>(1)</sup>	\$2,523	\$2,505
Capital lease obligations	112	86
Subtotal	2,635	2,591
Less - current portion	(505	) (3
Long-term obligations	\$2,130	\$2,588

The carrying amount includes the unamortized net discount on debt issuances and adjustments of \$51 million and (1)\$34 million as of September 30, 2015 and December 31, 2014, respectively, related to the change in the fair value of interest rate swaps designated as fair value hedges. See Note 7 for further information regarding derivatives.

Table of Contents

DR PEPPER SNAPPLE GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited, Continued)

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

(in millions)	September 30, 2015	December 31, 2014
Commercial paper	\$—	\$—
Current portion of long-term obligations:		
Senior unsecured notes	500	—
Capital lease obligations	5	3
Short-term borrowings and current portion of long-term obligations	\$505	\$3

**SENIOR UNSECURED NOTES**

The Company's senior unsecured notes consisted of the following:

(in millions)			Principal Amount September 30, 2015	Carrying Amount September 30, 2015	December 31, 2014
Issuance	Maturity Date	Rate			
2016 Notes	January 15, 2016	2.90%	\$ 500	\$ 500	\$ 500
2018 Notes	May 1, 2018	6.82%	724	724	724
2019 Notes	January 15, 2019	2.60%	250	252	250
2020 Notes	January 15, 2020	2.00%	250	248	245
2021 Notes	November 15, 2021	3.20%	250	254	249
2022 Notes	November 15, 2022	2.70%	250	270	265
2038 Notes	May 1, 2038	7.45%	250	275	272
			\$2,474	\$2,523	\$2,505

**COMMERCIAL PAPER PROGRAM**

On December 10, 2010, the Company entered into a commercial paper program under which the Company may issue unsecured commercial paper notes (the "Commercial Paper") on a private placement basis up to a maximum aggregate amount outstanding at any time of \$500 million. The program is supported by a \$500 million revolving line of credit (the "Revolver"). Outstanding Commercial Paper reduces the amount of borrowing capacity available under the Revolver and outstanding amounts under the Revolver reduce the Commercial Paper availability. As of September 30, 2015 and December 31, 2014, the Company had no outstanding Commercial Paper.

**UNSECURED CREDIT AGREEMENT**

The following table provides amounts utilized and available under the Revolver and each sublimit arrangement type as of September 30, 2015:

(in millions)	Amount Utilized	Balances Available
Revolver	\$—	\$499
Letters of credit	1	74
Swingline advances	—	50

As of September 30, 2015, the Company was in compliance with all financial covenant requirements relating to its unsecured credit agreement.

Table of Contents

DR PEPPER SNAPPLE GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited, Continued)

SHELF REGISTRATION STATEMENT

On February 7, 2013, the Company's Board of Directors (the "Board") authorized the Company to issue up to \$1,500 million of securities from time to time. Subsequently, the Company filed a "well-known seasoned issuer" shelf registration statement with the Securities and Exchange Commission ("SEC"), effective May 23, 2013, which registered an indeterminable amount of securities for future sales. As of September 30, 2015, the Company had not issued any securities under this shelf registration statement.

LETTERS OF CREDIT FACILITIES

In addition to the portion of the Revolver reserved for issuance of letters of credit, the Company has incremental letters of credit facilities. Under these facilities, \$140 million is available for the issuance of letters of credit, \$61 million of which was utilized as of September 30, 2015 and \$79 million of which remains available for use.

7. 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, which are recorded in cost of sales and selling, general and administrative ("SG&A") expenses, respectively.

The Company manages these risks through a variety of strategies, including the use of interest rate contracts, foreign exchange forward contracts, commodity forward and future contracts and supplier pricing agreements. DPS does not hold or issue derivative financial instruments for trading or speculative purposes.

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

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

Table of Contents

DR PEPPER SNAPPLE GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited, Continued)

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

**INTEREST RATES****Cash Flow Hedges**

In order to hedge the variability in cash flows from interest rate changes associated with the Company's planned issuances of long-term debt, the Company has entered into the following forward starting swap agreements:

(\$ in millions)

Period Entered	Future 30 year debt issuance		Future 10 year debt issuance	
	Number of instruments	Notional value	Number of instruments	Notional value
Fourth quarter 2014	1	\$125	—	\$—
First quarter 2015	3	100	—	—
Third quarter 2015	1	25	4	175
Total	5	\$250	4	\$175

The effective portion of changes in the fair value of the derivative that is designated as a cash flow hedge is being recorded in AOCL and will be subsequently reclassified into earnings during the period in which the hedged forecasted transaction affects earnings. Ineffectiveness, if any, related to the Company's changes in estimates about the debt issuance related to the forward starting swap would be recognized directly in earnings as a component of interest expense during the period incurred. During the three and nine months ended September 30, 2015, the Company realized no ineffectiveness as a result of these hedging relationships. The forward starting swaps are expected to be unwound at the planned issuance of the debt.

Table of Contents

DR PEPPER SNAPPLE GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited, Continued)

## Fair Value Hedges

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

(\$ in millions)

Period entered	Hedging relationship	Number of instruments	Method of measuring effectiveness	Notional value	Impact to the carrying value of long-term debt	
					September 30, 2015	December 31, 2014
November 2011	2019 Notes	2	Short cut method	\$100	\$2	—
November 2011	2021 Notes	2	Short cut method	150	4	(1 )
November 2012	2020 Notes	5	Short cut method	120	(1 )	(4 )
December 2013	2022 Notes	4	Cumulative dollar offset <sup>(1)</sup>	250	21	16
February 2015	2038 Notes <sup>(2)</sup>	1	Regression	100	25	23
					\$51	\$34

(1) The assessment of hedge effectiveness is made by comparing the cumulative change in the fair value of the hedged item attributable to changes in the benchmark interest rate with the cumulative changes in the fair value of the interest rate swap.

(2) In December 2010, the Company entered into an interest rate swap having a notional amount of \$100 million and maturing in May 2038 in order to effectively convert a portion of the 2038 Notes from fixed-rate debt to floating-rate debt and designated it as a fair value hedge. The assessment of hedge effectiveness is made by comparing the cumulative change in the fair value of the hedged item attributable to changes in the benchmark interest rate with the cumulative changes in the fair value of the interest rate swap, with any ineffectiveness recorded in earnings as interest expense during the period incurred. In February 2015, the swap agreement was modified and transferred to another counterparty through a novation transaction. As a result, the Company de-designated the original hedging relationship. Under the original hedging relationship, the \$25 million recorded as an increase to debt due to the changes in fair market value of the debt will be amortized into earnings over the remaining term of the 2038 Notes.

In February 2015, the Company then designated the new interest rate swap contract as a fair value hedge with a notional amount of \$100 million and maturing in May 2038 in order to effectively convert a portion of the 2038 Notes from fixed-rate debt to floating-rate debt. The Company uses regression analysis to assess the prospective and retrospective effectiveness of this hedge relationship.

## FOREIGN EXCHANGE

## Cash Flow Hedges

The Company's Canadian business purchases its inventory through transactions denominated and settled in United States ("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 three and nine months ended September 30, 2015 and 2014, 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 three months as of September 30, 2015. The Company had outstanding foreign exchange forward contracts with notional amounts of \$6 million and \$10 million as

of September 30, 2015 and December 31, 2014, respectively.

15

---

Table of Contents

DR PEPPER SNAPPLE GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited, Continued)

## COMMODITIES

## Economic Hedges

DPS centrally manages the exposure to volatility in the prices of certain commodities used in its production process and transportation through forward and future contracts. The intent of these contracts is to provide a certain level of predictability in the Company's overall cost structure. During the three and nine months ended September 30, 2015 and 2014, the Company held forward and future contracts that economically hedged certain of its risks. In these cases, a natural hedging relationship exists in which changes in the fair value of the instruments act as an economic offset to changes in the fair value of the underlying items. Changes in the fair value of these instruments are recorded in net income throughout the term of the derivative instrument and are reported in the same line item of the unaudited Condensed Consolidated Statements of Income as the hedged transaction. Unrealized gains and losses are recognized as a component of unallocated corporate costs until the Company's operating segments are affected by the completion of the underlying transaction, at which time the gain or loss is reflected as a component of the respective segment's operating profit ("SOP"). The total notional values of derivatives related to economic hedges of this type were \$174 million and \$160 million as of September 30, 2015 and December 31, 2014, respectively.

## FAIR VALUE OF DERIVATIVE INSTRUMENTS

The following table summarizes the location of the fair value of the Company's derivative instruments within the unaudited Condensed Consolidated Balance Sheets:

(in millions)	Balance Sheet Location	September 30, 2015	December 31, 2014
Assets:			
Derivative instruments designated as hedging instruments under U.S. GAAP:			
Interest rate contracts	Prepaid expenses and other current assets	\$9	\$11
Foreign exchange forward contracts	Prepaid expenses and other current assets	1	—
Interest rate contracts	Other non-current assets	45	29
Total assets		\$55	\$40
Liabilities:			
Derivative instruments designated as hedging instruments under U.S. GAAP:			
Interest rate contracts	Other current liabilities	\$12	\$—
Interest rate contracts	Other non-current liabilities	1	9
Derivative instruments not designated as hedging instruments under U.S. GAAP:			
Commodity contracts	Other current liabilities	25	18
Commodity contracts	Other non-current liabilities	6	8
Total liabilities		\$44	\$35

Table of Contents

DR PEPPER SNAPPLE GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited, Continued)

## IMPACT OF CASH FLOW HEDGES

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

(in millions)	Amount of (Loss) Recognized in Other Comprehensive Income (Loss) ("OCI")	Amount of Gain (Loss) Reclassified from AOCL into Income	Location of Gain (Loss) Reclassified from AOCL into Income
For the three months ended September 30, 2015:			
Interest rate contracts	\$(24	) \$(2	) Interest expense
Foreign exchange forward contracts	—	1	Cost of sales
Total	\$(24	) \$(1	)
For the nine months ended September 30, 2015:			
Interest rate contracts	\$(9	) \$(6	) Interest expense
Foreign exchange forward contracts	—	1	Cost of sales
Total	\$(9	) \$(5	)
For the three months ended September 30, 2014:			
Interest rate contracts	\$—	\$(2	) Interest expense
Foreign exchange forward contracts	—	—	Cost of sales
Total	\$—	\$(2	)
For the nine months ended September 30, 2014:			
Interest rate contracts	\$—	\$(6	) Interest expense
Foreign exchange forward contracts	(1	) 1	Cost of sales
Total	\$(1	) \$(5	)

There was no hedge ineffectiveness recognized in earnings for the three and nine months ended September 30, 2015 and 2014 with respect to derivative instruments designated as cash flow hedges. During the next 12 months, the Company expects to reclassify pre-tax net losses of \$8 million from AOCL into net income.

Table of Contents

DR PEPPER SNAPPLE GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited, Continued)

## IMPACT OF FAIR VALUE HEDGES

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

(in millions)	Amount of Gain Recognized in Income	Location of Gain Recognized in Income
For the three months ended September 30, 2015:		
Interest rate contracts <sup>(1)</sup>	\$4	Interest expense
Total	\$4	
For the nine months ended September 30, 2015:		
Interest rate contracts <sup>(1)</sup>	\$13	Interest expense
Total	\$13	
For the three months ended September 30, 2014:		
Interest rate contracts	\$4	Interest expense
Total	\$4	
For the nine months ended September 30, 2014:		
Interest rate contracts	\$12	Interest expense
Total	\$12	

(1) Interest expense for the three and nine months ended September 30, 2015 includes amortization of the forward starting swap associated with the 2038 Notes, which was de-designated in February 2015, and basis adjustments related to the 2038 and 2022 Notes.

For the three and nine months ended September 30, 2015, no hedge ineffectiveness was recognized in earnings with respect to derivative instruments designated as fair value hedges. There was no hedge ineffectiveness recognized in earnings for the three months ended September 30, 2014. For the nine months ended September 30, 2014, a \$1 million benefit due to hedge ineffectiveness was recognized in earnings with respect to derivative instruments designated as fair value hedges.

Table of Contents

DR PEPPER SNAPPLE GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited, Continued)

## IMPACT OF ECONOMIC HEDGES

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

(in millions)	Amount of Gain (Loss) Recognized in Income	Location of Gain (Loss) Recognized in Income
For the three months ended September 30, 2015:		
Commodity contracts <sup>(1)</sup>	\$(10	) Cost of sales
Commodity contracts <sup>(1)</sup>	(8	) SG&A expenses
Total	\$(18	)
For the nine months ended September 30, 2015:		
Commodity contracts <sup>(1)</sup>	\$(17	) Cost of sales
Commodity contracts <sup>(1)</sup>	(9	) SG&A expenses
Total	\$(26	)
For the three months ended September 30, 2014:		
Commodity contracts <sup>(1)</sup>	\$(3	) Cost of sales
Commodity contracts <sup>(1)</sup>	(6	) SG&A expenses
Total	\$(9	)
For the nine months ended September 30, 2014:		
Commodity contracts <sup>(1)</sup>	\$6	) Cost of sales
Commodity contracts <sup>(1)</sup>	(4	) SG&A expenses
Total	\$2	

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

Refer to Note 11 for additional 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 upon execution of a hedging transaction and at least on a quarterly basis.

Table of Contents

DR PEPPER SNAPPLE GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited, Continued)

## 8. 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:

(in millions)	September 30, 2015	December 31, 2014
Other non-current assets:		
Deferred financing costs, net	\$7	\$9
Customer incentive programs	55	55
Marketable securities - trading	24	25
Derivative instruments	45	29
Cost method investments <sup>(1)</sup>	15	—
Other	26	41
Total other non-current assets	\$172	\$159
Other non-current liabilities:		
Long-term payables due to Mondelez International, Inc.	\$26	\$37
Long-term pension and post-retirement liability	42	44
Multi-employer pension plan withdrawal liability	56	57
Insurance liability	74	90
Derivative instruments	7	17
Deferred compensation liability	24	25
Other	36	32
Total other non-current liabilities	\$265	\$302

During the quarter ended March 31, 2015, the Company acquired a minor interest in Bai Brands, LLC for \$15 million. This investment is accounted for as a cost-method investment, as the Company owns a minor interest and does not have the ability to exercise significant influence over operating and financial policies of the entity. This cost method investment does not have a readily determinable fair value as the entity is not publicly traded.

## 9. Income Taxes

The effective tax rates for the three months ended September 30, 2015 and 2014 were 34.4% and 34.0%, respectively. The effective tax rates for the nine months ended September 30, 2015 and 2014 were 35.2% and 34.5%, respectively. For the three months and nine months ended September 30, 2014, the provision for income taxes included an income tax benefit of \$4 million due to the resolution of a tax audit in a foreign jurisdiction.

Table of Contents

DR PEPPER SNAPPLE GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited, Continued)

## 10. Employee Benefit Plans

The following table sets forth the components of net periodic benefit costs for the Company's pension plans:

(in millions)	For the Three Months Ended		For the Nine Months Ended		
	September 30,		September 30,		
	2015	2014	2015	2014	
Service cost	\$1	\$1	\$2	\$2	
Interest cost	2	3	7	10	
Expected return on assets	(2	) (4	) (7	) (11	)
Recognition of actuarial loss	1	1	3	2	
Settlement loss	3	—	3	—	
Net periodic benefit costs	\$5	\$1	\$8	\$3	

The Company made the following contributions to its pension plans:

(in millions)	For the Three Months Ended		For the Nine Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
Employer contributions to pension plans	\$7	\$—	\$8	\$1

## 11. 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.

Table of Contents

DR PEPPER SNAPPLE GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited, Continued)

## RECURRING FAIR VALUE MEASUREMENTS

The following table presents the fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis:

	Fair Value Measurements at September 30, 2015		
	Quoted Prices in	Significant	Significant
	Active Markets	Other	Unobservable
	for Identical	Observable	Inputs
Assets	Inputs	Level 3	
(in millions)	Level 1	Level 2	
Interest rate contracts	\$—	\$54	\$—
Foreign exchange forward contracts	—	1	—
Marketable securities - trading	24	—	—
Total assets	\$24	\$55	\$—
Commodity contracts	\$—	\$31	\$—
Interest rate contracts	—	13	—
Total liabilities	\$—	\$44	\$—
	Fair Value Measurements at December 31, 2014		
	Quoted Prices in	Significant	Significant
	Active Markets	Other	Unobservable
	for Identical	Observable	Inputs
Assets	Inputs	Level 3	
(in millions)	Level 1	Level 2	
Interest rate contracts	\$—	\$40	\$—
Marketable securities - trading	25	—	—
Total assets	\$25	\$40	\$—
Commodity contracts	\$—	\$26	\$—
Interest rate contracts	—	9	—
Total liabilities	\$—	\$35	\$—

The fair values of marketable securities are determined using quoted market prices from daily exchange traded markets based on the closing price as of the balance sheet date and are classified as Level 1. The fair values of commodity forward and future 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 forward and future contracts are valued using the market approach based on observable market transactions, primarily underlying commodities futures or physical index prices, at the balance sheet date. Interest rate swap contracts are valued using models based primarily on readily observable market parameters, such as London Interbank Offered Rate forward rates, for all substantial terms of the Company's contracts and credit risk of the counterparties. 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 September 30, 2015 and December 31, 2014, the Company did not have any assets or liabilities measured on a recurring basis without observable market values that would require a high level of judgment to determine fair value (Level 3).

There were no transfers of financial instruments between the three levels of fair value hierarchy during the three and nine months ended September 30, 2015 and 2014.

Table of Contents

DR PEPPER SNAPPLE GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited, Continued)

## ESTIMATED FAIR VALUE OF LONG-TERM OBLIGATIONS

The estimated fair values of long-term obligations are as follows:

(in millions)	September 30, 2015		December 31, 2014	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term debt – 2016 Notes	\$500	\$503	\$500	\$510
Long-term debt – 2018 Notes	724	814	724	835
Long-term debt – 2019 Notes <sup>(1)</sup>	252	254	250	253
Long-term debt – 2020 Notes <sup>(1)</sup>	248	245	245	244
Long-term debt – 2021 Notes <sup>(1)</sup>	254	256	249	255
Long-term debt – 2022 Notes <sup>(1)</sup>	270	243	265	244
Long-term debt – 2038 Notes <sup>(1)</sup>	275	340	272	363
	\$2,523	\$2,655	\$2,505	\$2,704

The carrying amount includes the unamortized discounts on the issuance of debt and adjustments related to the (1) change in the fair value of interest rate swaps designated as fair value hedges on the 2019, 2020, 2021, 2022 and 2038 Notes. Refer to Note 7 for additional information regarding derivatives.

Capital lease obligations have been excluded from the calculation of fair value for both 2015 and 2014.

The fair value amounts of long term debt as of September 30, 2015 and December 31, 2014 were based on current market rates available to the Company (Level 2 inputs). 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.

## FAIR VALUE OF OTHER FINANCIAL INSTRUMENTS

The fair value amounts for cash and cash equivalents, accounts receivable, net, commercial paper, accounts payable and other current liabilities approximate carrying amounts due to the short maturities of these instruments.

## 12. Stock-Based Compensation

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

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

(in millions)	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2015	2014	2015	2014
Total stock-based compensation expense	\$12	\$13	\$33	\$35
Income tax benefit recognized in the statement of income	(5	) (4	) (12	) (12
Stock-based compensation expense, net of tax	\$7	\$9	\$21	\$23

Table of Contents

DR PEPPER SNAPPLE GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited, Continued)

## STOCK OPTIONS

The table below summarizes stock option activity for the nine months ended September 30, 2015:

	Stock Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (in millions)
Outstanding as of January 1, 2015	1,529,235	\$45.27	8.20	\$40
Granted	427,698	79.20		
Exercised	(666,822)	) 41.67		25
Forfeited or expired	(14,783)	) 64.22		
Outstanding as of September 30, 2015	1,275,328	58.31	8.42	27
Exercisable as of September 30, 2015	245,655	44.70	7.43	8

As of September 30, 2015, there was \$5 million of unrecognized compensation cost related to unvested stock options granted under the DPS Stock Plan that is expected to be recognized over a weighted average period of 1.03 years.

## RESTRICTED STOCK UNITS

The table below summarizes RSU activity for the nine months ended September 30, 2015. The fair value of RSUs is determined based on the number of units granted and the grant date price of the Company's common stock.

	RSUs	Weighted Average Grant Date Fair Value	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (in millions)
Outstanding as of January 1, 2015	1,925,934	\$43.85	1.08	\$138
Granted	380,349	79.18		
Vested and released	(751,601)	) 37.86		59
Forfeited	(41,236)	) 55.60		
Outstanding as of September 30, 2015	1,513,446	55.38	1.28	120

As of September 30, 2015, there was \$42 million of unrecognized compensation cost related to unvested RSUs granted under the DPS Stock Plan that is expected to be recognized over a weighted average period of 1.25 years. During the nine months ended September 30, 2015, 751,601 shares subject to previously granted RSUs vested. A majority of these vested RSUs were net share settled. The Company withheld 237,088 shares based upon the Company's closing stock price on the vesting date to settle the employees' minimum statutory obligation for applicable income and other employment taxes. Subsequently, the Company remitted the required funds to the appropriate taxing authorities.

Total payments for the employees' tax obligations to the relevant taxing authorities were \$22 million and \$14 million for the nine months ended September 30, 2015 and 2014, respectively, and are reflected as a financing activity within the unaudited Condensed Consolidated Statements of Cash Flows. These payments were used for tax withholdings related to the net share settlements of RSUs and dividend equivalent units ("DEUs"). These payments had the effect of share repurchases by the Company as they reduced the number of shares that would have otherwise been issued on the vesting date and were recorded as a reduction of additional paid-in capital.

Table of Contents

DR PEPPER SNAPPLE GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited, Continued)

## PERFORMANCE SHARE UNITS

The table below summarizes PSU activity for the nine months ended September 30, 2015. The fair value of PSUs is determined based on the number of units granted and the grant date price of the Company's common stock.

	PSUs	Weighted Average Grant Date Fair Value	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (in millions)
Outstanding as of January 1, 2015	444,281	\$44.97	1.07	\$32
Granted	191,112	66.26		
Vested and released	(188,675)	) 37.80		15
Forfeited	(3,344)	) 66.23		
Outstanding as of September 30, 2015	443,374	57.03	1.14	35

As of September 30, 2015, there was \$15 million of unrecognized compensation cost related to unvested PSUs granted under the DPS Stock Plan that is expected to be recognized over a weighted average period of 1.13 years. During the nine months ended September 30, 2015, 188,675 shares subject to previously granted PSUs vested. A majority of these vested PSUs were net share settled. The Company withheld 62,208 shares based upon the Company's closing stock price on the vesting date to settle the employees' minimum statutory obligation for the applicable income and other employment taxes. Subsequently, the Company remitted the required funds to the appropriate taxing authorities.

Total payments for the employees' tax obligations to the relevant taxing authorities were \$5 million and \$2 million for the nine months ended September 30, 2015 and 2014, respectively, and are reflected as a financing activity within the unaudited Condensed Consolidated Statements of Cash Flows. These payments were used for tax withholdings related to the net share settlements of PSUs and DEUs. These payments had the effect of share repurchases by the Company as they reduced the number of shares that would have otherwise been issued on the vesting date and were recorded as a reduction of additional paid-in capital.

## 13. Earnings Per Share

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

(in millions, except per share data)	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2015	2014	2015	2014
Basic EPS:				
Net income	\$202	\$188	\$579	\$553
Weighted average common shares outstanding	190.4	194.8	191.6	196.4
Earnings per common share — basic	\$1.06	\$0.97	\$3.02	\$2.81
Diluted EPS:				
Net income	\$202	\$188	\$579	\$553
Weighted average common shares outstanding	190.4	194.8	191.6	196.4
Effect of dilutive securities:				
Stock options, RSUs, PSUs and DEUs	1.1	1.4	1.2	1.4
Weighted average common shares outstanding and common stock equivalents	191.5	196.2	192.8	197.8
Earnings per common share — diluted	\$1.05	\$0.96	\$3.00	\$2.79



Table of Contents

DR PEPPER SNAPPLE GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited, Continued)

Stock options, RSUs, PSUs and DEUs totaling 0.4 million shares were excluded from the diluted weighted average shares outstanding for the three and nine months ended September 30, 2015, as they were not dilutive. There were no anti-dilutive stock options, RSUs, PSUs, or DEUs excluded from the diluted weighted average shares outstanding for the three months ended September 30, 2014. Stock options, RSUs, PSUs and DEUs totaling 0.4 million shares were excluded from the diluted weighted average shares outstanding for the nine months ended September 30, 2014 as they were not dilutive.

Under the terms of our RSU and PSU agreements, unvested RSU and PSU awards contain forfeitable rights to dividends and DEUs. Because the DEUs are forfeitable, they are defined as non-participating securities. As of September 30, 2015, there were 90,236 DEUs, which will vest at the time that the underlying RSU or PSU vests. Through 2011, the Board authorized a total aggregate share repurchase plan of \$3 billion. In February 2015, the Board authorized an additional \$1 billion of share repurchases. The Company repurchased and retired 2.0 million shares of common stock valued at approximately \$153 million and 5.2 million shares of common stock valued at approximately \$404 million for the three and nine months ended September 30, 2015, respectively. The Company repurchased and retired 1.1 million shares of common stock valued at approximately \$70 million and 5.0 million shares of common stock valued at approximately \$276 million for the three and nine months ended September 30, 2014, respectively. These amounts were recorded as a reduction of equity, primarily additional paid-in capital in the unaudited Condensed Consolidated Statement of Equity. As of September 30, 2015, \$768 million remains available for share repurchases under the Board's authorization.

## 14. Accumulated Other Comprehensive Loss

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

(in millions)	Foreign Currency Translation	Change in Pension Liability	Cash Flow Hedges	Accumulated Other Comprehensive Loss
Balance as of July 1, 2015	\$(87)	) \$(38)	) \$(24)	) \$(149)
OCI before reclassifications	(27)	) (3)	) (14)	) (44)
Amounts reclassified from AOCL	—	) 3	—	) 3
Net current year OCI	(27)	) —	) (14)	) (41)
Balance as of September 30, 2015	\$(114)	) \$(38)	) \$(38)	) \$(190)

(in millions)	Foreign Currency Translation	Change in Pension Liability	Cash Flow Hedges	Accumulated Other Comprehensive Loss
Balance as of January 1, 2014	\$(17)	) \$(33)	) \$(38)	) \$(88)
OCI before reclassifications	(44)	) (19)	) (2)	) (65)
Amounts reclassified from AOCL	—	) 12	) 4	) 16
Net current year OCI	(44)	) (7)	) 2	) (49)
Balance as of December 31, 2014	(61)	) (40)	) (36)	) (137)
OCI before reclassifications	(53)	) (2)	) (5)	) (60)
Amounts reclassified from AOCL	—	) 4	) 3	) 7
Net current year OCI	(53)	) 2	) (2)	) (53)
Balance as of September 30, 2015	\$(114)	) \$(38)	) \$(38)	) \$(190)

Table of Contents

DR PEPPER SNAPPLE GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited, Continued)

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

(in millions)	Location of (Gain) Loss Reclassified from AOCL into Income	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
		2015	2014	2015	2014
Loss on cash flow hedges:					
Interest rate contracts	Interest expense	\$ (2 )	\$ (2 )	\$ (6 )	\$ (6 )
Foreign exchange forward contracts	Cost of sales	1	—	1	1
Total		(1 )	(2 )	(5 )	(5 )
Income tax expense		(1 )	—	(2 )	(1 )
Total		\$—	\$ (2 )	\$ (3 )	\$ (4 )
Defined benefit pension and postretirement plan items:					
Amortization of prior service costs	SG&A expenses	\$—	\$—	\$—	\$—
Amortization of actuarial losses, net	SG&A expenses	(1 )	(1 )	(3 )	(2 )
Settlement loss	SG&A expenses	(3 )	—	(3 )	—
Total		(4 )	(1 )	(6 )	(2 )
Income tax expense		(1 )	(1 )	(2 )	(1 )
Total		\$ (3 )	\$—	\$ (4 )	\$ (1 )
Total reclassifications		\$ (3 )	\$ (2 )	\$ (7 )	\$ (5 )

## 15. Supplemental Cash Flow Information

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

(in millions)	For the Nine Months Ended September 30,	
	2015	2014
Supplemental cash flow disclosures of non-cash investing and financing activities:		
Dividends declared but not yet paid	\$90	\$80
Capital expenditures included in accounts payable and other current liabilities	11	17
Capital lease additions	29	3
Supplemental cash flow disclosures:		
Interest paid	\$59	\$60
Income taxes paid	246	258

Table of Contents

DR PEPPER SNAPPLE GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited, Continued)

16. Commitments and Contingencies

LEGAL MATTERS

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

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 environmental, 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, 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 or 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, therefore no reasonable estimate exists on which to base a loss accrual. Through September 30, 2015, the Company has paid approximately \$850,000 since the notification for DPS' allocation of costs related to the study for this site.

17. Segments

As of September 30, 2015 and December 31, 2014 and for the three and nine months ended September 30, 2015 and 2014, the Company's operating structure consisted of the following three operating segments:

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

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

• The Latin America Beverages segment reflects sales in the Mexico, Caribbean, and other international 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.

Table of Contents

DR PEPPER SNAPPLE GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited, Continued)

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

	For the Three Months Ended		For the Nine Months Ended	
	September 30,		September 30,	
(in millions)	2015	2014	2015	2014
Segment Results – Net sales				
Beverage Concentrates	\$308	\$306	\$923	\$914
Packaged Beverages	1,193	1,134	3,434	3,294
Latin America Beverages	129	143	379	404
Net sales	\$1,630	\$1,583	\$4,736	\$4,612
	For the Three Months Ended		For the Nine Months Ended	
	September 30,		September 30,	
(in millions)	2015	2014	2015	2014
Segment Results – SOP				
Beverage Concentrates	\$204	\$200	\$609	\$588
Packaged Beverages	194	170	525	478
Latin America Beverages	24	22	68	59
Total SOP	422	392	1,202	1,125
Unallocated corporate costs	83	76	224	203
Other operating expense (income), net	2	—	2	(2)
Income from operations	337	316	976	924
Interest expense, net	28	27	82	79
Other expense, net	1	4	1	2
Income before provision for income taxes and equity in earnings of unconsolidated subsidiaries	\$308	\$285	\$893	\$843

The Company presents segment information in accordance with U.S. GAAP, which establishes reporting and disclosure standards for an enterprise's operating segments. Operating segments are defined as components of an enterprise that are businesses, for which separate financial information is available and for which the financial information is regularly reviewed by the Company's leadership team.

## 18. Guarantor and Non-Guarantor Financial Information

The Company's 2016, 2018, 2019, 2020, 2021, 2022 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 one immaterial subsidiary associated with charitable purposes) (the "Guarantors"), as defined in the indentures governing the Notes. The Guarantors are 100% owned either directly or indirectly by the Company and jointly and severally guarantee, subject to the release provisions described below, the Company's obligations under the Notes. None of the Company's subsidiaries organized outside of the U.S. or immaterial subsidiaries used for charitable purposes (collectively, the "Non-Guarantors") guarantee the Notes. The subsidiary guarantees with respect to the Notes are subject to release upon the occurrence of certain events, including the sale of all or substantially all of a subsidiary's assets, the release of the subsidiary's guarantee of other indebtedness of the Company, the Company's exercise of its legal defeasance option with respect to the Notes and the discharge of the Company's obligations under the applicable indenture.

The following schedules present the financial information for Dr Pepper Snapple Group, Inc. (the "Parent"), Guarantors and Non-Guarantors. The consolidating schedules are provided in accordance with the reporting requirements of Rule 3-10 under SEC Regulation S-X for guarantor subsidiaries.



Table of Contents

DR PEPPER SNAPPLE GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited, Continued)

(in millions)	Condensed Consolidating Statements of Income				
	For the Three Months Ended September 30, 2015				
	Parent	Guarantors	Non-Guarantors	Eliminations	Total
Net sales	\$—	\$1,469	\$166	\$(5)	) \$1,630
Cost of sales	—	601	77	(5)	) 673
Gross profit	—	868	89	—	957
Selling, general and administrative expenses	(2	) 540	54	—	592
Depreciation and amortization	—	24	2	—	26
Other operating expense (income), net	—	2	—	—	2
Income from operations	2	302	33	—	337
Interest expense	26	15	—	(13)	) 28
Interest income	(11	) (1	) (1	) 13	—
Other expense (income), net	2	(1	) —	—	1
Income (loss) before provision (benefit) for income taxes and equity in earnings of subsidiaries	(15	) 289	34	—	308
Provision (benefit) for income taxes	(6	) 103	9	—	106
Income (loss) before equity in earnings of subsidiaries	(9	) 186	25	—	202
Equity in earnings of consolidated subsidiaries	211	25	—	(236)	) —
Equity in earnings of unconsolidated subsidiaries, net of tax	—	—	—	—	—
Net income	\$202	\$211	\$25	\$(236)	) \$202

Table of Contents

DR PEPPER SNAPPLE GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited, Continued)

(in millions)	Condensed Consolidating Statements of Income				
	For the Three Months Ended September 30, 2014				
	Parent	Guarantors	Non-Guarantors	Eliminations	Total
Net sales	\$—	\$1,408	\$185	\$(10)	) \$1,583
Cost of sales	—	576	92	(10)	) 658
Gross profit	—	832	93	—	925
Selling, general and administrative expenses	—	521	60	—	581
Depreciation and amortization	—	26	2	—	28
Other operating (income) expense, net	—	—	—	—	—
Income from operations	—	285	31	—	316
Interest expense	26	14	—	(13)	) 27
Interest income	(11)	) —	(2)	) 13	—
Other expense (income), net	1	3	—	—	4
Income (loss) before provision (benefit) for income taxes and equity in earnings of subsidiaries	(16)	) 268	33	—	285
Provision (benefit) for income taxes	(6)	) 97	6	—	97
Income (loss) before equity in earnings of subsidiaries	(10)	) 171	27	—	188
Equity in earnings of consolidated subsidiaries	198	27	—	(225)	) —
Equity in earnings of unconsolidated subsidiaries, net of tax	—	—	—	—	—
Net income	\$188	\$198	\$27	\$(225)	) \$188

Table of Contents

DR PEPPER SNAPPLE GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited, Continued)

(in millions)	Condensed Consolidating Statements of Income					
	For the Nine Months Ended September 30, 2015					
	Parent	Guarantors	Non-Guarantors	Eliminations	Total	
Net sales	\$—	\$4,270	\$485	\$(19)	) \$4,736	
Cost of sales	—	1,735	233	(19)	) 1,949	
Gross profit	—	2,535	252	—	2,787	
Selling, general and administrative expenses	(1	) 1,571	160	—	1,730	
Depreciation and amortization	—	74	5	—	79	
Other operating expense (income), net	—	2	—	—	2	
Income from operations	1	888	87	—	976	
Interest expense	77	42	—	(36)	) 83	
Interest income	(31	) (1	) (5	) 36	(1	)
Other (income) expense, net	—	(4	) 5	—	1	
Income (loss) before provision (benefit) for income taxes and equity in earnings of subsidiaries	(45	) 851	87	—	893	
Provision (benefit) for income taxes	(17	) 308	23	—	314	
Income (loss) before equity in earnings of subsidiaries	(28	) 543	64	—	579	
Equity in earnings of consolidated subsidiaries	607	64	—	(671)	) —	
Equity in earnings of unconsolidated subsidiaries, net of tax	—	—	—	—	—	
Net income	\$579	\$607	\$64	\$(671)	) \$579	

Table of Contents

DR PEPPER SNAPPLE GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited, Continued)

(in millions)	Condensed Consolidating Statements of Income				
	For the Nine Months Ended September 30, 2014				
	Parent	Guarantors	Non-Guarantors	Eliminations	Total
Net sales	\$—	\$4,123	\$515	\$(26)	) \$4,612
Cost of sales	—	1,648	255	(26)	) 1,877
Gross profit	—	2,475	260	—	2,735
Selling, general and administrative expenses	1	1,552	174	—	1,727
Depreciation and amortization	—	80	6	—	86
Other operating expense (income), net	—	(2	) —	—	(2 )
Income from operations	(1	) 845	80	—	924
Interest expense	77	38	—	(35	) 80
Interest income	(30	) —	(6	) 35	(1 )
Other expense (income), net	(1	) —	3	—	2
Income (loss) before provision (benefit) for income taxes and equity in earnings of subsidiaries	(47	) 807	83	—	843
Provision (benefit) for income taxes	(18	) 291	18	—	291
Income (loss) before equity in earnings of subsidiaries	(29	) 516	65	—	552
Equity in earnings of consolidated subsidiaries	582	66	—	(648	) —
Equity in earnings of unconsolidated subsidiaries, net of tax	—	—	1	—	1
Net income	\$553	\$582	\$66	\$(648	) \$553

Table of Contents

DR PEPPER SNAPPLE GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited, Continued)

	Condensed Consolidating Statements of Comprehensive Income For the Three Months Ended September 30, 2015				
(in millions)	Parent	Guarantors	Non-Guarantors	Eliminations	Total
Comprehensive income (loss)	\$161	\$182	\$(16)	\$(166)	\$161

	Condensed Consolidating Statements of Comprehensive Income For the Three Months Ended September 30, 2014				
(in millions)	Parent	Guarantors	Non-Guarantors	Eliminations	Total
Comprehensive income (loss)	\$174	\$180	\$1	\$(181)	\$174

	Condensed Consolidating Statements of Comprehensive Income For the Nine Months Ended September 30, 2015				
(in millions)	Parent	Guarantors	Non-Guarantors	Eliminations	Total
Comprehensive income (loss)	\$526	\$551	\$(18)	\$(533)	\$526

	Condensed Consolidating Statements of Comprehensive Income For the Nine Months Ended September 30, 2014				
(in millions)	Parent	Guarantors	Non-Guarantors	Eliminations	Total
Comprehensive income (loss)	\$542	\$565	\$39	\$(604)	\$542

Table of Contents

DR PEPPER SNAPPLE GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited, Continued)

	Condensed Consolidating Balance Sheets				
	As of September 30, 2015				
(in millions)	Parent	Guarantors	Non-Guarantors	Eliminations	Total
Current assets:					
Cash and cash equivalents	\$—	\$112	\$95	\$—	\$207
Accounts receivable:					
Trade, net	—	513	58	—	571
Other	7	40	10	—	57
Related party receivable	10	8	—	(18)	—
Inventories	—	172	29	—	201
Deferred tax assets	3	67	3	—	73
Prepaid expenses and other current assets	232	100	5	(224)	113
Total current assets	252	1,012	200	(242)	1,222
Property, plant and equipment, net	—	984	93	—	1,077
Investments in consolidated subsidiaries	6,801	593	—	(7,394)	—
Investments in unconsolidated subsidiaries	—	20	11	—	31
Goodwill	—	2,972	16	—	2,988
Other intangible assets, net	—	2,612	61	—	2,673
Long-term receivable, related parties	3,148	5,379	275	(8,802)	—
Other non-current assets	77	92	3	—	172
Non-current deferred tax assets	20	—	62	(20)	62
Total assets	\$10,298	\$13,664	\$721	\$(16,458)	\$8,225
Current liabilities:					
Accounts payable	\$—	\$286	\$24	\$—	\$310
Related party payable	—	10	8	(18)	—
Deferred revenue	—	63	1	—	64
Short-term borrowings and current portion of long-term obligations	500	5	—	—	505
Income taxes payable	—	243	6	(224)	25
Other current liabilities	149	486	50	—	685
Total current liabilities	649	1,093	89	(242)	1,589
Long-term obligations to third parties	2,023	107	—	—	2,130
Long-term obligations to related parties	5,379	3,423	—	(8,802)	—
Non-current deferred tax liabilities	—	866	—	(20)	846
Non-current deferred revenue	—	1,169	29	—	1,198
Other non-current liabilities	50	205	10	—	265
Total liabilities	8,101	6,863	128	(9,064)	6,028
Total stockholders' equity	2,197	6,801	593	(7,394)	2,197
Total liabilities and stockholders' equity	\$10,298	\$13,664	\$721	\$(16,458)	\$8,225

Table of Contents

DR PEPPER SNAPPLE GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited, Continued)

(in millions)	Condensed Consolidating Balance Sheets				
	As of December 31, 2014				
	Parent	Guarantors	Non-Guarantors	Eliminations	Total
Current assets:					
Cash and cash equivalents	\$—	\$186	\$51	\$—	\$237
Accounts receivable:					
Trade, net	—	494	62	—	556
Other	3	42	16	—	61
Related party receivable	10	10	—	(20)	—
Inventories	—	168	36	—	204
Deferred tax assets	—	65	3	(1)	67
Prepaid and other current assets	218	67	9	(208)	86
Total current assets	231	1,032	177	(229)	1,211
Property, plant and equipment, net	—	1,039	102	—	1,141
Investments in consolidated subsidiaries	6,194	612	—	(6,806)	—
Investments in unconsolidated subsidiaries	1	—	13	—	14
Goodwill	—	2,971	19	—	2,990
Other intangible assets, net	—	2,615	69	—	2,684
Long-term receivable, related parties	3,118	4,647	295	(8,060)	—
Other non-current assets	63	90	6	—	159
Non-current deferred tax assets	23	—	74	(23)	74
Total assets	\$9,630	\$13,006	\$755	\$(15,118)	\$8,273
Current liabilities:					
Accounts payable	\$—	\$258	\$31	\$—	\$289
Related party payable	—	10	10	(20)	—
Deferred revenue	—	62	2	—	64
Short-term borrowings and current portion of long-term obligations	—	3	—	—	3
Income taxes payable	—	212	6	(208)	10
Other current liabilities	112	512	49	(1)	672
Total current liabilities	112	1,057	98	(229)	1,038
Long-term obligations to third parties	2,505	83	—	—	2,588
Long-term obligations to related parties	4,647	3,413	—	(8,060)	—
Non-current deferred tax liabilities	—	824	—	(23)	801
Non-current deferred revenue	—	1,216	34	—	1,250
Other non-current liabilities	72	219	11	—	302
Total liabilities	7,336	6,812	143	(8,312)	5,979
Total stockholders' equity	2,294	6,194	612	(6,806)	2,294
Total liabilities and stockholders' equity	\$9,630	\$13,006	\$755	\$(15,118)	\$8,273

Table of Contents

DR PEPPER SNAPPLE GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited, Continued)

(in millions)	Condensed Consolidating Statements of Cash Flows				
	For the Nine Months Ended September 30, 2015				
	Parent	Guarantors	Non-Guarantors	Eliminations	Total
Operating activities:					
Net cash (used in) provided by operating activities	\$(63 )	\$697	\$89	\$—	\$723
Investing activities:					
Purchase of property, plant and equipment	—	(56 )	(15 )	—	(71 )
Purchase of cost method investment	—	(15 )	—	—	(15 )
Investment in unconsolidated subsidiaries	—	(20 )	—	—	(20 )
Purchase of intangible assets	—	(1 )	—	—	(1 )
Proceeds from disposals of property, plant and equipment	—	12	—	—	12
Issuance of related party notes receivable	—	(730 )	(20 )	750	—
Net cash (used in) provided by investing activities	—	(810 )	(35 )	750	(95 )
Financing activities:					
Proceeds from issuance of related party debt	730	20	—	(750 )	—
Repurchase of shares of common stock	(404 )	—	—	—	(404 )
Dividends paid	(264 )	—	—	—	(264 )
Tax withholdings related to net share settlements of certain stock awards	(27 )	—	—	—	(27 )
Proceeds from stock options exercised	28	—	—	—	28
Excess tax benefit on stock-based compensation	—	22	—	—	22
Other, net	—	(3 )	—	—	(3 )
Net cash (used in) provided by financing activities	63	39	—	(750 )	(648 )
Cash and cash equivalents — net change from:					
Operating, investing and financing activities	—	(74 )	54	—	(20 )
Effect of exchange rate changes on cash and cash equivalents	—	—	(10 )	—	(10 )
Cash and cash equivalents at beginning of period	—	186	51	—	237
Cash and cash equivalents at end of period	\$—	\$112	\$95	\$—	\$207

Table of Contents

DR PEPPER SNAPPLE GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited, Continued)

(in millions)	Condensed Consolidating Statements of Cash Flows				
	For the Nine Months Ended September 30, 2014				
	Parent	Guarantors	Non-Guarantors	Eliminations	Total
Operating activities:					
Net cash (used in) provided by operating activities	\$(79 )	\$761	\$87	\$—	\$769
Investing activities:					
Purchase of property, plant and equipment	—	(87 )	(16 )	—	(103 )
Purchase of intangible assets	—	(1 )	—	—	(1 )
Return of capital	—	2	(2 )	—	—
Proceeds from disposals of property, plant and equipment	—	7	—	—	7
Issuance of related party notes receivable	—	(644 )	(37 )	681	—
Other, net	(3 )	—	—	—	(3 )
Net cash (used in) provided by investing activities	(3 )	(723 )	(55 )	681	(100 )
Financing activities:					
Proceeds from issuance of related party debt	644	37	—	(681 )	—
Net issuance of commercial paper	(65 )	—	—	—	(65 )
Repurchase of shares of common stock	(276 )	—	—	—	(276 )
Dividends paid	(237 )	—	—	—	(237 )
Tax withholdings related to net share settlements of certain stock awards	(16 )	—	—	—	(16 )
Proceeds from stock options exercised	32	—	—	—	32
Excess tax benefit on stock-based compensation	—	9	—	—	9
Net cash (used in) provided by financing activities	82	46	—	(681 )	(553 )
Cash and cash equivalents — net change from:					
Operating, investing and financing activities	—	84	32	—	116
Effect of exchange rate changes on cash and cash equivalents	—	—	(3 )	—	(3 )
Cash and cash equivalents at beginning of period	—	88	65	—	153
Cash and cash equivalents at end of period	\$—	\$172	\$94	\$—	\$266

Table of Contents

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, 2014.

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), including, in particular, statements about future events, future financial performance, plans, strategies, expectations, prospects, competitive environment, regulation, labor matters and availability of raw materials. Forward-looking statements include all statements that are not historical facts and can be identified by the use of forward-looking terminology such as the words "may," "will," "expect," "anticipate," "believe," "estimate," "plan," "intend" or the negative of these terms or similar expressions in this Quarterly Report on Form 10-Q. We have based these forward-looking statements on our current views with respect to future events and financial performance. Our actual financial performance could differ materially from those projected in the forward-looking statements due to the inherent uncertainty of estimates, forecasts and projections, and our financial performance may be better or worse than anticipated. Given these uncertainties, you should not put undue reliance on any forward-looking statements. All of the forward-looking statements are qualified in their entirety by reference to the factors discussed under "Risk Factors" in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2014.

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.

**OVERVIEW**

We are a leading integrated brand owner, manufacturer and distributor of non-alcoholic beverages in the United States ("U.S."), Canada and Mexico with a diverse portfolio of flavored (non-cola) carbonated soft drinks ("CSDs") and non-carbonated beverages ("NCBs"), including ready-to-drink teas, juices, juice drinks, water and mixers. Our brand portfolio includes popular CSD brands such as Dr Pepper, Sunkist soda, 7UP, A&W, Canada Dry, Crush, Squirt, Peñafiel and Schweppes, 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 U.S. 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 and provides opportunities for net sales and profit growth through the alignment of the economic interests of our brand ownership and our manufacturing and distribution businesses through both our Direct Store Delivery ("DSD") system and our Warehouse Direct ("WD") delivery system. Our integrated business model enables us to be more flexible and responsive to the changing needs of our large retail customers and allows us to more fully leverage our scale and reduce costs by creating greater geographic manufacturing and distribution coverage.

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

**BEVERAGE CONCENTRATES**

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

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

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 finished beverages to retailers. Beverage concentrates are also manufactured into syrup, which is shipped to fountain customers, such as fast food restaurants, who mix the syrup with water and carbonation to create a finished beverage at the point of sale to consumers. Dr Pepper represents most of our fountain channel volume. Concentrate prices historically have been reviewed and adjusted at least on an annual basis.

## Table of Contents

Our Beverage Concentrates brands are sold by 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 U.S. and Canada. Key NCB brands in this segment include Snapple, Hawaiian Punch, Mott's, Yoo-Hoo, Clamato, Deja Blue, Mystic, Nantucket Nectars, ReaLemon, Mr and Mrs T mixers, Rose's and Country Time. Key CSD brands in this segment include 7UP, Dr Pepper, A&W, Sunkist soda, Canada Dry, Squirt, RC Cola, Sun Drop, Diet Rite, IBC and Vernors. Additionally, we distribute third party brands such as Big Red, AriZona tea, FIJI mineral water, Neuro beverages, Vita Coco coconut water, Bai 5, Sparkling Fruit<sub>2</sub>O and Hydrive energy drinks. We also derive a portion of our sales 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 U.S. and are sold or distributed to retailers and their warehouses by our own distribution network or by third party distributors. The raw materials used to manufacture our products include aluminum cans and ends, glass bottles, PET bottles and caps, paper products, sweeteners, juices, water and other ingredients.

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

### LATIN AMERICA BEVERAGES

Our Latin America Beverages segment is a brand ownership, manufacturing and distribution business. This segment participates mainly in the carbonated mineral water, flavored CSD, bottled water and vegetable juice categories, with particular strength in carbonated mineral water 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 and other international locations, we distribute our products through third party bottlers and 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 the "mom and pop" stores, supermarkets, hypermarkets, convenience stores 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.

40

---

Table of Contents

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

EXECUTIVE SUMMARY - FINANCIAL OVERVIEW AND RECENT DEVELOPMENTS

Net sales totaled \$1,630 million for the three months ended September 30, 2015, an increase of \$47 million, or 3%, from the three months ended September 30, 2014. Net sales for the three months ended September 30, 2015 was reduced 2% for foreign currency translation compared to the prior year period.

Net income for the three months ended September 30, 2015 was \$202 million, compared to \$188 million for the three months ended September 30, 2014, an increase of \$14 million, or 7%.

Income from operations and net income for the three months ended September 30, 2015 was reduced 3% and 2%, respectively, for foreign currency translation compared to the prior year period.

Diluted earnings per share was \$1.05 for the three months ended September 30, 2015 and \$0.96 for the year ago period, an increase of \$0.09, or 9%.

During the third quarter of 2015, our Board of Directors (our "Board") declared a dividend of \$0.48 per share on outstanding common stock, which was paid on October 2, 2015 to stockholders of record on September 14, 2015.

During the three and nine months ended September 30, 2015, we repurchased 2.0 million and 5.2 million shares of our common stock valued at approximately \$153 million and \$404 million, respectively.

RESULTS OF OPERATIONS

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

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

Table of ContentsThree Months Ended September 30, 2015 Compared to Three Months Ended September 30, 2014  
Consolidated Operations

The following table sets forth our unaudited consolidated results of operations for the three months ended September 30, 2015 and 2014:

(dollars in millions)	For the Three Months Ended September 30,				Dollar Change	Percentage Change
	2015		2014			
	Dollars	Percent	Dollars	Percent		
Net sales	\$1,630	100.0 %	\$1,583	100.0 %	\$47	3 %
Cost of sales	673	41.3	658	41.6	15	2
Gross profit	957	58.7	925	58.4	32	3
Selling, general and administrative expenses	592	36.3	581	36.7	11	2
Income from operations	337	20.7	316	20.0	21	7
Provision for income taxes	106	6.5	97	6.1	9	9
Effective tax rate	34.4 %	NM	34.0 %	NM	NM	NM

Volume (BCS). Volume (BCS) increased 2% for the three months ended September 30, 2015 compared with the three months ended September 30, 2014. In the U.S. and Canada, volume gained 1%, and in Mexico and the Caribbean, volume increased 8%, compared with the year ago period. Branded CSD and NCB volume increased 2% and 4%, respectively.

In branded CSDs, Peñafiel grew 14% in our Latin America Beverages segment as a result of increased promotional activity and distribution gains. Schweppes was 11% higher in the current period reflecting distribution gains in our seltzer water and growth in the ginger ale category. Squirt increased 5% due primarily to higher sales to our third-party bottlers in our Latin America Beverages segment. Our other CSD brands in total increased 1%. These increases were partially offset by a 6% reduction in RC Cola. Dr Pepper was flat as growth in our regular extension was fully offset by declines in our diet. Canada Dry, 7UP, A&W and Sunkist soda (our "Core 4 brands") were flat as a 8% increase in Canada Dry was fully offset by a 7% decrease in 7UP, a 3% decline in Sunkist soda and a 1% reduction in A&W. Crush was flat compared with the year ago period.

In branded NCBs, our water category increased 16% due to distribution gains and product innovation for Bai 5 and marketing investments behind Fiji. Clamato grew 15% primarily driven by distribution gains and increased promotional activity in our Latin America Beverages segment. Snapple grew 5% primarily due to product innovation. These increases were partially offset by a 3% decrease in our other NCB brands in total and a 1% decline in Hawaiian Punch. Mott's was flat compared with the year ago period.

Net Sales. Net sales increased \$47 million, or approximately 3%, for the three months ended September 30, 2015 compared with the three months ended September 30, 2014. The drivers of the increase in net sales were a 3% increase in concentrate case sales, favorable product and package mix and higher pricing, partially offset by \$39 million in unfavorable foreign currency translation and higher discounts primarily driven by our fountain business.

Table of Contents

**Gross Profit.** Gross profit increased \$32 million for the three months ended September 30, 2015 compared with the three months ended September 30, 2014. Gross margin of 58.7% for the three months ended September 30, 2015, was higher than the 58.4% gross margin for the three months ended September 30, 2014. The primary drivers of the change in gross margin for the three months ended September 30, 2015 included:

• Lower commodity costs, led by packaging and apple juice concentrate, and net of the change in our LIFO inventory provision, which increased our gross margin by 1.0%;

• Ongoing productivity improvements, which increased our gross margin by 0.6%;

• Higher pricing, which increased our gross margin by 0.4%;

• Decrease in our other manufacturing costs, which increased our gross margin by 0.3%;

• Unfavorable comparison in our mark-to-market activity on commodity derivative contracts, which decreased our gross margin by 0.7%;

• Unfavorable product, package and segment mix, which reduced our gross margin by 0.5%;

• Higher discounts, which reduced our gross margin by 0.4%; and

• Unfavorable foreign currency effects, which decreased our gross margin by 0.4%.

The unfavorable mark-to-market activity on commodity derivative contracts for the three months ended September 30, 2015 was \$7 million in unrealized losses versus \$4 million in unrealized gains in the year ago period.

**Selling, general and administrative expenses.** Selling, general and administrative ("SG&A") expenses increased \$11 million for the three months ended September 30, 2015 compared with the three months ended September 30, 2014. The driver of the increase in SG&A expenses was primarily higher people costs, which were driven by inflationary increases, the unfavorable comparison to certain health and wellness and risk insurance adjustments in the prior year period and the impact of increased sales volumes. Other drivers of the increase included a settlement charge related to our U.S. pension plans and an increase in our incentive compensation costs. These increase were partially offset by \$12 million of favorable foreign currency effects.

**Income from Operations.** Income from operations increased \$21 million to \$337 million for the three months ended September 30, 2015 due to the increase in gross profit partially offset by an increase in SG&A expenses.

**Provision for Income Taxes.** The effective tax rates for the three months ended September 30, 2015 and 2014 were 34.4% and 34.0%, respectively. The prior year provision for income taxes included an income tax benefit of \$4 million due to the resolution of a tax audit in a foreign jurisdiction.

Table of Contents

## Results of Operations by Segment

The following tables set forth net sales and SOP for our segments for the three months ended September 30, 2015 and 2014, 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 September 30,	
	2015	2014
Segment Results — Net sales		
Beverage Concentrates	\$308	\$306
Packaged Beverages	1,193	1,134
Latin America Beverages	129	143
Net sales	\$1,630	\$1,583

(in millions)	For the Three Months Ended September 30,	
	2015	2014
Segment Results — SOP		
Beverage Concentrates	\$204	\$200
Packaged Beverages	194	170
Latin America Beverages	24	22
Total SOP	422	392
Unallocated corporate costs	83	76
Other operating expense (income), net	2	—
Income from operations	337	316
Interest expense, net	28	27
Other expense, net	1	4
Income before provision for income taxes and equity in earnings of unconsolidated subsidiaries	\$308	\$285

**BEVERAGE CONCENTRATES**

The following table details our Beverage Concentrates segment's net sales and SOP for the three months ended September 30, 2015 and 2014:

(in millions)	For the Three Months Ended September 30,		Dollar Change	Percentage Change	%
	2015	2014			
Net sales	\$308	\$306	\$2	1	
SOP	204	200	4	2	

**Net Sales.** Net sales increased \$2 million for the three months ended September 30, 2015, compared with the three months ended September 30, 2014. The change was due to a 3% increase in concentrate case sales, higher pricing and favorable mix, partially offset by higher discounts primarily driven by our fountain business and unfavorable foreign currency translation of \$3 million.

**SOP.** SOP increased \$4 million for the three months ended September 30, 2015, compared with the three months ended September 30, 2014, driven primarily by an increase in net sales and a decrease in SG&A expenses. The decrease in SG&A expenses was the result of \$2 million in lower marketing investments partially offset by higher people costs.

Table of Contents

Volume (BCS). Volume (BCS) had a 1% increase for the three months ended September 30, 2015, compared with the three months ended September 30, 2014. Schweppes had an 11% increase driven by distribution gains in our seltzer water and growth in the ginger ale category. Our Core 4 brands were 1% higher compared to the prior year as a result of a 7% increase in Canada Dry which was partially offset by an 8% decrease in 7UP, a 4% reduction in Sunkist soda and a 2% decline in A&W. These increases were partially offset by a 2% decline in our other brands in total. Dr Pepper and Crush were flat compared to the prior year.

**PACKAGED BEVERAGES**

The following table details our Packaged Beverages segment's net sales and SOP for the three months ended September 30, 2015 and 2014:

(in millions)	For the Three Months Ended		Dollar Change	Percentage Change	
	September 30, 2015	2014			
Net sales	\$1,193	\$1,134	\$59	5	%
SOP	194	170	24	14	

Volume. Branded CSD volumes increased 1% for the three months ended September 30, 2015 compared with the three months ended September 30, 2014. Volume for our Core 4 brands increased 1% compared to the prior year period, led by a 13% increase in Canada Dry and a 1% gain in A&W, partially offset by a 6% decrease in 7UP and a 1% decline in Sunkist soda. Squirt gained 6% in the current period. These increases were partially offset by a 2% decrease for RC Cola. Dr Pepper and our other CSD brands were flat compared to the prior period.

Branded NCB volumes increased 6%, driven primarily by our water category and Snapple. Our water category increased 22% due to distribution gains and product innovation for Bai 5 and marketing investments behind Fiji, while Snapple grew 6% due primarily to product innovation. Our other NCB brands increased 3%, led by Venom. Clamato and Mott's gained 11% and 2%, respectively. Hawaiian Punch was flat compared to the prior period.

Contract manufacturing decreased 3% for the three months ended September 30, 2015 compared with the three months ended September 30, 2014.

Net Sales. Net sales increased \$59 million for the three months ended September 30, 2015, compared with the three months ended September 30, 2014. Net sales increased due to favorable product mix, higher branded sales volumes and higher pricing, partially offset by \$8 million of unfavorable foreign currency translation.

SOP. SOP increased \$24 million for the three months ended September 30, 2015, compared with the three months ended September 30, 2014 as increases in net sales were partially offset by increases in SG&A expenses and cost of sales. Cost of sales increased as a result of higher costs associated with product mix and increased branded sales volumes, partially offset by lower commodity costs, led by packaging, a decrease in other manufacturing costs and ongoing productivity improvements. SG&A expenses increased primarily due to higher people costs, which were driven by inflationary increases, the unfavorable comparison to certain health and wellness and risk insurance adjustments in the prior year period and the impact of increased sales volumes.

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 September 30, 2015 and 2014:

(in millions)	For the Three Months Ended		Dollar Change	Percent Change	
	September 30, 2015	2014			
Net sales	\$129	\$143	\$(14	) (10	)%
SOP	24	22	2	9	

Volume. Sales volume increased 8% for the three months ended September 30, 2015, as compared with the three months ended September 30, 2014. The increase in sales volume was primarily driven by a 14% increase in Peñafiel as a result of increased promotional activity and distribution gains. Squirt grew 5% as a result of increased sales to third party bottlers. Clamato grew 26% as a result of distribution gains and increased promotional activity. Aguafiel and 7UP increased 4% and 11%, respectively. These increases were partially offset by a 10% decline in our other brands. Crush was flat in the current period.

Net Sales. Net sales decreased \$14 million for the three months ended September 30, 2015, compared with the three months ended September 30, 2014. Net sales decreased as a result of unfavorable foreign currency translation of \$27 million partially offset by increased sales volume and favorable product mix.

SOP. SOP increased \$2 million for the three months ended September 30, 2015, compared with the three months ended September 30, 2014, driven by decreases in cost of sales and SG&A expenses, partially offset by decreases in net sales. Cost of sales declined in the current period as a result of favorable foreign currency effects, ongoing productivity improvements, and lower commodity costs, led by packaging costs. These decreases were partially offset by higher costs associated with increased sales volumes. SG&A expenses declined in the current period as a result of favorable foreign currency effects and lower marketing investments, partially offset by higher logistics costs. The impact of the favorable foreign currency effects, which decreased cost of sales and SG&A expenses, totaled \$18 million.

## Nine Months Ended September 30, 2015 Compared to Nine Months Ended September 30, 2014

## Consolidated Operations

The following table sets forth our unaudited consolidated results of operations for the nine months ended September 30, 2015 and 2014:

(dollars in millions)	For the Nine Months Ended September 30,				Dollar Change	Percentage Change	
	2015		2014				
	Dollars	Percent	Dollars	Percent			
Net sales	\$4,736	100.0 %	\$4,612	100.0 %	\$124	3	%
Cost of sales	1,949	41.2	1,877	40.7	72	4	
Gross profit	2,787	58.8	2,735	59.3	52	2	
Selling, general and administrative expenses	1,730	36.5	1,727	37.4	3	—	
Income from operations	976	20.6	924	20.0	52	6	
Provision for income taxes	314	6.6	291	6.3	23	8	
Effective tax rate	35.2 %	NM	34.5 %	NM	NM	NM	

Volume (BCS). Volume (BCS) increased 2% for the nine months ended September 30, 2015 compared with the nine months ended September 30, 2014. In the U.S. and Canada, volume grew 1%, and in Mexico and the Caribbean, volume increased 9%, compared with the year ago period. Branded CSD volume increased 2% while branded NCB volume grew 4%.

Table of Contents

In branded CSDs, Peñafiel grew 15% as a result of distribution gains and increased promotional activity in our Latin America Beverages segment. Squirt increased 8% due primarily to higher sales to our third-party bottlers in our Latin America Beverages segment. Schweppes increased 9% reflecting distribution gains in our seltzer water and growth in the ginger ale category. Our Core 4 brands increased 1% compared to the year ago period, driven by a 9% increase in Canada Dry partially offset by a 5% decrease in 7UP, a 3% decline in Sunkist soda and a 1% decrease in A&W. These gains were partially offset by a 2% decline in Crush and a 3% decrease in RC Cola. Dr Pepper was flat as growth in our regular extension was fully offset by declines in our diet. Our other CSD brands both were flat.

In branded NCBs, growth was driven by our water category grew 11%, due to distribution gains and product innovation for Bai 5 and marketing investments behind Fiji, which were partially offset by declines in AguaFiel. Snapple increased 7% partially driven by product innovation. Clamato grew 14% due to increased promotional activity. Hawaiian Punch was 2% higher as a result of package innovation and increased promotional activity. These gains were slightly offset by declines of 3% and 2% in Mott's and our other NCB brands in total, respectively.

Net Sales. Net sales increased \$124 million, or approximately 3%, for the nine months ended September 30, 2015 compared with the nine months ended September 30, 2014. The primary drivers of the increase were favorable product and package mix, a 2% increase in concentrate case sales and favorable segment mix, partially offset by \$86 million in unfavorable foreign currency translation.

Gross Profit. Gross profit increased \$52 million for the nine months ended September 30, 2015 compared with the nine months ended September 30, 2014. Gross margin was 58.8% for the nine months ended September 30, 2015 compared to the gross margin of 59.3% for the nine months ended September 30, 2014. The primary drivers of the change in gross margin included:

- Unfavorable product, package and segment mix, which decreased our gross margin by 0.7%;
- Unfavorable comparison in our mark-to-market activity on commodity derivative contracts, which decreased our gross margin by 0.6%;
- Unfavorable foreign currency effects, which decreased our gross margin by 0.4%;
- Lower commodity costs, led by packaging and sweeteners, and net of the change in our LIFO inventory provision, which increased our gross margin by 0.5%;
  - Ongoing productivity improvements, which increased our gross margin by 0.5%;
- Decrease in our other manufacturing costs, which increased our gross margin by 0.1%.

The unfavorable mark-to-market activity on commodity derivative contracts for the nine months ended September 30, 2015 was \$11 million in unrealized losses versus \$15 million in unrealized gains in the year ago period.

SG&A expenses. SG&A expenses increased \$3 million for the nine months ended September 30, 2015 compared with the nine months ended September 30, 2014. The drivers of the increase in SG&A expenses were higher people costs, which were driven by inflationary increases and the impact of higher sales volume, and minor increases in other general & administrative costs. These increases were partially offset by \$27 million of favorable foreign currency effects and an \$11 million favorable comparison in our mark-to-market activity on commodity derivative contracts. The favorable mark-to-market activity on commodity derivative contracts for the nine months ended September 30, 2015 was the result of \$6 million in unrealized gains versus \$5 million in unrealized losses in the year ago period.

Income from Operations. Income from operations increased \$52 million to \$976 million for the nine months ended September 30, 2015 due primarily to the increase in gross profit.

Provision for Income Taxes. The effective tax rates for the nine months ended September 30, 2015 and 2014 were 35.2% and 34.5%, respectively. The prior year provision for income taxes included an income tax benefit of \$4 million due to the resolution of a tax audit in a foreign jurisdiction.

Table of Contents

## Results of Operations by Segment

The following tables set forth net sales and SOP for our segments for the nine months ended September 30, 2015 and 2014, 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 Nine Months Ended September 30,	
	2015	2014
Segment Results — Net sales		
Beverage Concentrates	\$923	\$914
Packaged Beverages	3,434	3,294
Latin America Beverages	379	404
Net sales	\$4,736	\$4,612
(in millions)	For the Nine Months Ended September 30,	
	2015	2014
Segment Results — SOP		
Beverage Concentrates	\$609	\$588
Packaged Beverages	525	478
Latin America Beverages	68	59
Total SOP	1,202	1,125
Unallocated corporate costs	224	203
Other operating expense (income), net	2	(2)
Income from operations	976	924
Interest expense, net	82	79
Other expense, net	1	2
Income before provision for income taxes and equity in earnings of unconsolidated subsidiaries	\$893	\$843

**BEVERAGE CONCENTRATES**

The following table details our Beverage Concentrates segment's net sales and SOP for the nine months ended September 30, 2015 and 2014:

(in millions)	For the Nine Months Ended September 30,		Dollar Change	Percent Change	%
	2015	2014			
Net sales	\$923	\$914	\$9	1	
SOP	609	588	21	4	

**Net Sales.** Net sales increased \$9 million for the nine months ended September 30, 2015, compared with the nine months ended September 30, 2014. The change was due to favorable mix and higher pricing, which were partially offset by higher discounts primarily driven by our fountain business and unfavorable foreign currency translation of \$8 million. Concentrate case sales were flat in the current period.

**SOP.** SOP increased \$21 million for the nine months ended September 30, 2015, compared with the nine months ended September 30, 2014, primarily driven by an increase in net sales and lower SG&A expenses. The decrease in SG&A expenses was the result of \$7 million in lower marketing investments and lower information technology ("IT") costs, partially offset by higher people costs.

Table of Contents

Volume (BCS). Volume (BCS) had a 1% increase for the nine months ended September 30, 2015 compared with the nine months ended September 30, 2014. Schweppes had gains of 9% driven by distribution gains in our seltzer water and growth in the ginger ale category. Our Core 4 brands were 2% higher compared to the prior year as a result of a 8% increase in Canada Dry, partially offset by a 6% reduction in 7UP, a 4% decrease in Sunkist soda and a 3% decline in A&W. These gains were fully offset by 2% decline in Crush and a 3% in our other brands in total. Dr Pepper was flat in the current period.

**PACKAGED BEVERAGES**

The following table details our Packaged Beverages segment's net sales and SOP for the nine months ended September 30, 2015 and 2014:

(in millions)	For the Nine Months Ended		Dollar Change	Percent Change	
	September 30, 2015	2014			
Net sales	\$3,434	\$3,294	\$140	4	%
SOP	525	478	47	10	

Volume. Branded CSD volumes were flat for the nine months ended September 30, 2015 compared with the nine months ended September 30, 2014. Volume for our Core 4 brands increased 1% compared to the prior year period, led by a 14% increase in Canada Dry and a 1% gain in A&W, partially offset by a 5% decrease in 7UP and a 2% decline in Sunkist soda. Squirt increased 5%. These increases were fully offset by 1% declines in Dr Pepper, RC Cola and our other CSD brands.

Branded NCB volumes increased 6%, driven primarily by a 21% increase in our water category, due to distribution gains and product innovation for Bai 5 and marketing investments behind Fiji. Snapple gained 6% partially driven by product innovation, while Hawaiian Punch increased 3% as a result of package innovation and increased promotional activity. Clamato increased 9% driven primarily by increased promotional activity. Our other NCB brands were 3% higher compared to the prior period, led by Venom. These increases were partially offset by a 1% decrease in Mott's due to declines in our juice category.

Contract manufacturing decreased 2% for the nine months ended September 30, 2015 compared with the nine months ended September 30, 2014.

Net Sales. Net sales increased \$140 million for the nine months ended September 30, 2015 compared with the nine months ended September 30, 2014. Net sales increased due to higher branded sales volumes and favorable product mix, partially offset by \$17 million of unfavorable foreign currency translation.

SOP. SOP increased \$47 million for the nine months ended September 30, 2015, compared with the nine months ended September 30, 2014 as a result of increases in net sales partially offset by increases in cost of sales and SG&A expenses. Cost of sales increased as a result of higher costs associated with product mix and increased branded sales volumes. These increases in our cost of sales were partially offset by lower commodity costs, led by packaging, ongoing productivity improvements and a reduction in our other manufacturing costs. SG&A expenses increased due to higher people costs, which were driven by inflationary increases and the impact of increased sales volumes.

**LATIN AMERICA BEVERAGES**

The following table details our Latin America Beverages segment's net sales and SOP for the nine months ended September 30, 2015 and 2014:

(in millions)	For the Nine Months Ended		Dollar Change	Percent Change	
	September 30, 2015	2014			
Net sales	\$379	\$404	\$(25)	(6)	%)
SOP	68	59	9	15	

Volume. Sales volume increased 9% for the nine months ended September 30, 2015 as compared with the nine months ended September 30, 2014. The increase in sales volume was primarily driven by a 15% increase in Peñafiel as a result of distribution gains and increased promotional activity. Squirt grew by 11% as a result of increased sales to third party bottlers. Clamato grew 23% due to distribution gains and increased promotional activity, while 7UP

increased 6%. These increases were partially offset by declines in Aguafiel and Crush of 6% and 7%, respectively, while our other brands decreased 5%.

Table of Contents

Net Sales. Net sales decreased \$25 million for the nine months ended September 30, 2015 compared with the nine months ended September 30, 2014. Net sales decreased as a result of unfavorable foreign currency translation of \$61 million partially offset by increased sales volume.

SOP. SOP increased \$9 million for the nine months ended September 30, 2015 compared with the nine months ended September 30, 2014, driven by decreases in cost of sales and SG&A expenses partially offset by decreases in net sales. Cost of sales declined in the current period as a result of favorable foreign currency effects, ongoing productivity improvements, lower commodity costs, led by packaging costs, and a reduction in other manufacturing costs. These decreases were partially offset by higher costs associated with increased sales volumes. SG&A expenses declined in the current period as a result of favorable foreign currency effects and lower marketing investments, partially offset by higher logistics costs. The impact of the favorable foreign currency effects, which decreased cost of sales and SG&A expenses, totaled \$40 million.

**CRITICAL ACCOUNTING ESTIMATES**

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

We have identified the items described below as our critical accounting estimates:

- goodwill and other indefinite-lived intangible assets;
- revenue recognition;
- pension and post-retirement benefits;
- multi-employer pension plan withdrawal liability;
- risk management programs; and
- income taxes.

These critical accounting estimates are discussed in greater detail in our Annual Report on Form 10-K for the year ended December 31, 2014.

Table of Contents

LIQUIDITY AND CAPITAL RESOURCES

Trends and Uncertainties Affecting Liquidity

Customer and consumer demand for the Company's products may be impacted by various risk factors discussed under "Risk Factors" in Part I, Item 1A, of our Annual Report on Form 10-K for the year ended December 31, 2014, including recession or other economic downturn in the U.S., Canada, Mexico or the Caribbean, which could result in a reduction in our sales volume. Similarly, disruptions in financial and credit markets may impact our ability to manage normal commercial relationships with our customers, suppliers and creditors. These disruptions could have a negative impact on the ability of our customers to timely pay their obligations to us, thus reducing our cash flow, or the ability of our vendors to timely supply materials.

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

- continued capital expenditures to upgrade our existing plants and fleet of distribution trucks, make investments in IT systems and replace and expand our cold drink equipment;
  - continued payment of dividends;
  - seasonality of our operating cash flows could impact short-term liquidity;
  - our ability to issue unsecured commercial paper notes ("Commercial Paper") on a private placement basis;
  - our continued repurchases of our outstanding common stock pursuant to our repurchase programs;
  - acquisitions of or investments in companies to further extend our geographic coverage or access to new products or processes; and
  - our ability to refinance \$500 million of our outstanding 2.90% senior notes due January 15, 2016 (the "2016 Notes").
- We intend to issue senior notes to refinance the 2016 Notes before the maturity date of the 2016 Notes.

Financing Arrangements

The following descriptions represent our available financing arrangements as of September 30, 2015. As of September 30, 2015, we were in compliance with all covenant requirements for our senior unsecured notes, unsecured credit agreement and commercial paper program.

Commercial Paper Program

On December 10, 2010, we entered into a commercial paper program under which we may issue Commercial Paper on a private placement basis up to a maximum aggregate amount outstanding at any time of \$500 million. The maturities of the Commercial Paper will vary, but may not exceed 364 days from the date of issuance. We issue Commercial Paper for general corporate purposes as Commercial Paper is now a more significant part of our overall cash management strategy. The program is supported by the Revolver (as defined below). Outstanding Commercial Paper reduces the amount of borrowing capacity available under the Revolver and outstanding amounts under the Revolver reduce the Commercial Paper availability. As of September 30, 2015, we had no Commercial Paper outstanding. However, under this program, during the nine months ended September 30, 2015, we had weighted average commercial paper borrowings of \$30 million. These borrowings had maturities of 90 days or less and a weighted average annual rate of 0.51%. There were no commercial paper borrowings during the three months ended September 30, 2015.

Unsecured Credit Agreement

On September 25, 2012, we entered into a five-year unsecured credit agreement (the "Credit Agreement"), which provides for a \$500 million revolving line of credit (the "Revolver"). Borrowings under the Revolver bear interest at a floating rate per annum based upon the alternate base rate ("ABR") or the Eurodollar rate, in each case plus an applicable margin which varies based upon our debt ratings. Rates range from 0.000% to 0.300% for ABR loans and from 0.795% to 1.300% for Eurodollar loans. The ABR is defined as the greater of (a) JPMorgan Chase Bank's prime rate, (b) the federal funds effective rate plus 0.500% and (c) the adjusted London Interbank Offered Rate ("LIBOR") for a one month interest period. The adjusted LIBOR is LIBOR for dollars adjusted for a statutory reserve rate set by the Board of Governors of the U.S. Federal Reserve System.

Additionally, the Revolver is available for the issuance of letters of credit and swingline advances not to exceed \$75 million and \$50 million, respectively. Swingline advances will accrue interest at a rate equal to the ABR plus the applicable margin. Letters of credit and swingline advances will reduce, on a dollar for dollar basis, the amount

available under the Revolver.

51

---

Table of Contents

The following table provides amounts utilized and available under the Revolver and each sublimit arrangement type as of September 30, 2015:

(in millions)	Amount Utilized	Balances Available
Revolver	\$—	\$499
Letters of credit	1	74
Swingline advances	—	50

The Credit Agreement further provides that we may request at any time, subject to the satisfaction of certain conditions, that the aggregate commitments under the facility be increased by a total amount not to exceed \$250 million.

The Credit Agreement's representations, warranties, covenants and events of default are generally customary for investment grade credit and include a covenant that requires us to maintain a ratio of consolidated total debt (as defined in the Credit Agreement) to annualized consolidated EBITDA (as defined in the Credit Agreement) of no more than 3.00 to 1.00, tested quarterly. Upon the occurrence of an event of default, among other things, amounts outstanding under the Credit Agreement may be accelerated and the commitments may be terminated. Our obligations under the Credit Agreement are guaranteed by certain of our direct and indirect domestic subsidiaries on the terms set forth in the Credit Agreement. The Credit Agreement has a maturity date of September 25, 2017; however, with the consent of lenders holding more than 50% of the total commitments under the Credit Agreement and subject to the satisfaction of certain conditions, we may extend the maturity date for up to two additional one-year terms.

An unused commitment fee is payable quarterly to the lenders on the unused portion of the commitments available under the Revolver equal to 0.08% to 0.20% per annum, depending upon our credit ratings.

**Shelf Registration Statement**

On February 7, 2013, our Board authorized us to issue up to \$1,500 million of securities from time to time.

Subsequently, we filed a "well-known seasoned issuer" shelf registration statement with the SEC, effective May 23, 2013, which registers an indeterminable amount of securities for future sales. As of September 30, 2015, we had not issued any securities under this shelf registration statement.

**Letters of Credit Facilities**

We currently have letters of credit facilities available in addition to the portion of the Revolver reserved for issuance of letters of credit. Under these incremental letters of credit facilities, \$140 million is available for the issuance of letters of credit, \$61 million of which was utilized as of September 30, 2015 and \$79 million of which remains available for use.

**Credit Ratings**

As of September 30, 2015, our credit ratings were as follows:

Rating Agency	Long-Term Debt Rating	Commercial Paper Rating	Outlook
Moody's	Baa1	P-2	Stable
S&P	BBB+	A-2	Stable

Our credit ratings impact our borrowing costs, access to capital markets and operating lease costs. The rating agency ratings are not recommendations to buy, sell or hold our unsecured senior notes or commercial paper. Each rating may be subject to revision or withdrawal at any time by the assigning rating organization and should be evaluated independently of any other rating.

**Cash Management**

We primarily fund our liquidity needs from cash flow from operations and cash on hand. We will use amounts available under our financing arrangements as seasonality of our operating cash flows impact short-term liquidity or our senior unsecured notes mature.

Table of Contents**Capital Expenditures**

Capital expenditures were \$71 million for the nine months ended September 30, 2015. Capital expenditures were primarily related to machinery and equipment, distribution fleet, replacement of existing cold drink equipment, and IT investments. In 2015, we expect to incur annual capital expenditures, net of proceeds from disposals, in an amount approximately 3% of our net sales, which we expect to fund through cash provided by operating activities.

**Acquisitions**

We may make future acquisitions of or investments in companies to further extend our geographic coverage or access to new products or processes. Any acquisitions or investments may require additional funding for future capital expenditures and possibly restructuring expenses.

**Liquidity**

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

The following table summarizes our cash activity for the nine months ended September 30, 2015 and 2014:

(in millions)	For the Nine Months Ended September 30,	
	2015	2014
Net cash provided by operating activities	\$723	\$769
Net cash used in investing activities	(95	) (100
Net cash used in financing activities	(648	) (553

**NET CASH PROVIDED BY OPERATING ACTIVITIES**

Net cash provided by operating activities decreased \$46 million for the nine months ended September 30, 2015, as compared to the nine months ended September 30, 2014, primarily due to changes in working capital.

**NET CASH USED IN INVESTING ACTIVITIES**

Cash used in investing activities for the nine months ended September 30, 2015, consisted primarily of purchases of property, plant and equipment of \$71 million, the equity method investment in BA Sports Nutrition, LLC of \$20 million, and the purchase of a cost method investment in BAI Brands, LLC for \$15 million.

**NET CASH USED IN FINANCING ACTIVITIES**

Cash used in financing activities for the nine months ended September 30, 2015, consisted primarily of stock repurchases of \$404 million and dividend payments of \$264 million. Net cash used in financing activities for the nine months ended September 30, 2014, consisted primarily of stock repurchases of \$276 million and dividend payments of \$237 million.

**Cash and Cash Equivalents**

Cash and cash equivalents decreased \$30 million since December 31, 2014 to \$207 million as of September 30, 2015 primarily driven by returns to our stockholders, capital expenditures and investments in allied brands, partially offset by operating cash flows.

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 generated by our foreign operations is generally repatriated to the U.S. periodically as working capital funding requirements in those jurisdictions allow. Foreign cash balances were \$95 million and \$51 million as of September 30, 2015 and December 31, 2014, respectively. We accrue tax costs for repatriation, as applicable, as cash is generated in those foreign jurisdictions.

Table of Contents

## Total Stockholder Returns

## Dividends Declared

Our Board declared dividends aggregating \$1.44 and \$1.23 per share on outstanding common stock during the nine months ended September 30, 2015 and 2014, respectively.

## Dividends Paid

We paid dividends of \$264 million and \$237 million during the nine months ended September 30, 2015 and 2014, respectively.

## Common Stock Repurchases

The Board has authorized us to repurchase an aggregate amount of up to \$4 billion of our outstanding common stock. For the nine months ended September 30, 2015 and 2014, we repurchased and retired 5.2 million and 5.0 million shares of common stock, respectively, valued at approximately \$404 million and \$276 million, respectively. Refer to Part II, Item 2 of this Quarterly Report on Form 10-Q for additional information regarding these repurchases.

## Contractual Commitments and Obligations

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

The following table summarizes our contractual obligations and contingencies, as of September 30, 2015, that have significantly changed from the amounts disclosed in our Annual Report on Form 10-K for the year ended December 31, 2014:

(in millions)	Payments Due in Year						
	Total	2015	2016	2017	2018	2019	After 2019
Purchase obligations <sup>(1)</sup>	\$762	\$283	\$302	\$63	\$47	\$42	\$25
Interest payments	652	33	87	83	61	35	353
Total	\$1,414	\$316	\$389	\$146	\$108	\$77	\$378

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

Through September 30, 2015, 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, 2014.

## OFF-BALANCE SHEET ARRANGEMENTS

We currently participate in three multi-employer pension plans. In the event that we withdraw from participation in one of these plans, the plan will ultimately assess us a withdrawal liability for exiting the plan, and U.S. GAAP would require us to record the withdrawal charge as an expense in our consolidated statements of income and as a liability on our consolidated balance sheets once the multi-employer pension withdrawal charge is probable and estimable.

There are no other 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. Refer to Note 6 of the Notes to our Unaudited Condensed Consolidated Financial Statements for additional information regarding outstanding letters of credit.

## EFFECT OF RECENT ACCOUNTING PRONOUNCEMENTS

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

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

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

**Foreign Exchange Risk**

The majority of our net sales, expenses and capital purchases are transacted in U.S. dollars. However, we have 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 September 30, 2015, the impact to our income from operations of a 10% change (up or down) in exchange rates is estimated to be an increase or decrease of approximately \$23 million on an annual basis.

We use derivative instruments such as foreign exchange forward contracts to manage a portion of our exposure to changes in foreign exchange rates. As of September 30, 2015, we had derivative contracts outstanding with a notional value of \$6 million maturing at various dates through December 15, 2015.

**Interest Rate Risk**

We centrally manage our debt portfolio through the use of interest rate swaps and monitor our mix of fixed-rate and variable rate debt. As of September 30, 2015, the carrying value of our fixed-rate debt, excluding capital lease obligations, was \$2,523 million, \$720 million of which is designated in fair value hedging relationships and exposed to variability in interest rates.

The following table is an estimate of the impact to the fair value hedges that could result from hypothetical interest rate changes during the term of the financial instruments, based on debt levels as of September 30, 2015:

**Sensitivity Analysis**

Hypothetical Change in Interest Rates	Annual Impact to Interest Expense	Change in Fair Value <sup>(2)</sup>
1-percent decrease <sup>(1)</sup>	\$—	\$58 million increase
1-percent increase	\$7 million increase	\$52 million decrease

We pay an average floating rate, which fluctuates periodically, based on LIBOR and a credit spread, as a result of designated fair value hedges on certain debt instruments. See Note 7 of the Notes to our Unaudited Condensed Consolidated Financial Statements for further information. As LIBOR would not fall below zero, we did not calculate the hypothetical change in the interest rate.

(2) The change in fair value would impact the carrying value of our unsecured senior notes with an offset to our derivative instrument positions. See Notes 5 and 8 of the Notes to our Unaudited Condensed Consolidated Financial Statements for quantification of those positions.

**Commodity Risks**

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

We utilize commodities forward and future contracts and supplier pricing agreements to hedge the risk of adverse movements in commodity prices for limited time periods for certain commodities. The fair market value of these contracts as of September 30, 2015 was a net liability of \$31 million.

As of September 30, 2015, the impact of a 10% change (up or down) in market prices for these commodities where the risk of adverse movements has not been hedged is estimated to be an increase or decrease of approximately \$1 million to our income from operations for the remainder of 2015.

Table of Contents

ITEM 4. Controls and Procedures

Based on evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) of the Exchange Act) our management, including our Chief Executive Officer and Chief Financial Officer, has concluded that, as of September 30, 2015, our disclosure controls and procedures are effective to (i) provide reasonable assurance that information required to be disclosed in the Exchange Act filings is recorded, processed, summarized and reported within the time periods specified by the SEC's rules and forms, and (ii) ensure that information required to be disclosed by us in the reports we file or submit under the Exchange Act are accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

No change in our internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) occurred during the quarter ended September 30, 2015 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

We are occasionally subject to litigation or other legal proceedings relating to our business. See Note 16 of the Notes to our Unaudited Condensed Consolidated Financial Statements for more information related to commitments and contingencies, which is incorporated herein by reference.

## ITEM 1A. Risk Factors

There have been no material changes that we are aware of from the risk factors set forth in Part I, Item 1A in our Annual Report on Form 10-K for the year ended December 31, 2014.

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

We repurchased approximately 2.0 million shares of our common stock, valued at approximately \$153 million, in the third quarter of 2015. Our share repurchase activity, on a monthly basis, for the quarter ended September 30, 2015 was as follows (in thousands, except per share data):

Period	Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Dollar Value of Shares that May Yet be Purchased Under Publicly Announced Plans or Programs <sup>(1)</sup>
July 1, 2015 – July 31, 2015	144	\$76.93	144	\$909,753
August 1, 2015 – August 31, 2015	611	79.56	611	861,127
September 1, 2015 – September 30, 2015	1,210	76.83	1,210	768,133
For the quarter ended September 30, 2015	1,965	77.68	1,965	

<sup>(1)</sup> The Board has authorized us to repurchase an aggregate amount of up to \$4 billion of our outstanding common stock. This column discloses the dollar value of shares available to be repurchased pursuant to these programs during the indicated time periods. As of September 30, 2015, there was a remaining balance of \$768 million authorized for repurchase that had not been utilized.

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 Certificate of Amendment to Amended and Restated Certificate of Incorporation of Dr Pepper Snapple Group, Inc. effective as of May 17, 2012 (filed as Exhibit 3.2 to the Company's Quarterly Report on Form 10-Q (filed July 26, 2012) and incorporated herein by reference).
- 3.3 Amended and Restated By-Laws of Dr Pepper Snapple Group, Inc. effective as of September 17, 2014 (filed as Exhibit 3.1 to the Company's Current Report on Form 8-K (filed September 17, 2014) 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 as 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 2018 (filed as Exhibit 4.3 to the Company's Current Report on Form 8-K (filed on May 1, 2008) and incorporated herein by reference).
- 4.4 Form of 7.45% Senior Notes due 2038 (filed as Exhibit 4.4 to the Company's Current Report on Form 8-K (filed on May 1, 2008) and incorporated herein by reference).
- 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 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).
- 4.7 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).
- 4.8 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).
- 4.9 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 Second Supplemental Indenture, dated as of January 11, 2011, among Dr Pepper Snapple Group, Inc., the guarantors party thereto and Wells Fargo Bank, N.A., as trustee (filed as Exhibit 4.1 to the Company's Current Report on Form 8-K (filed on January 11, 2011) and incorporated herein by reference).
- 4.12 2.90% Senior Note due 2016 (in global form), dated January 11, 2011, in the principal amount of \$500 million (filed as Exhibit 4.2 to the Company's Current Report on Form 8-K (filed on January 11, 2011)

and incorporated herein by reference).

- 4.13 Third Supplemental Indenture, dated as of November 15, 2011, among Dr Pepper Snapple Group, Inc., the guarantors party thereto and Wells Fargo Bank, N.A., as trustee (filed as Exhibit 4.1 to the Company's Current Report on Form 8-K (filed on November 15, 2011) and incorporated herein by reference).
- 4.14 2.60% Senior Note due 2019 (in global form), dated November 15, 2011, in the principal amount of \$250 million (filed as Exhibit 4.2 to the Company's Current Report on Form 8-K (filed on November 15, 2011) and incorporated herein by reference).
- 4.15 3.20% Senior Note due 2021 (in global form), dated November 15, 2011, in the principal amount of \$250 million (filed as Exhibit 4.3 to the Company's Current Report on Form 8-K (filed on November 15, 2011) and incorporated herein by reference).

Table of Contents

4.16	Fourth Supplemental Indenture, dated as of November 20, 2012, among Dr Pepper Snapple Group, Inc., the guarantors party thereto and Wells Fargo Bank, N.A., as trustee (filed as Exhibit 4.1 to the Company's Current Report on Form 8-K (filed on November 20, 2012) and incorporated herein by reference).
4.17	2.00% Senior Note due 2020 (in global form), dated November 20, 2012, in the principal amount of \$250 million (filed as Exhibit 4.2 to the Company's Current Report on Form 8-K (filed on November 20, 2012) and incorporated herein by reference).
4.18	2.70% Senior Note due 2022 (in global form), dated November 20, 2012, in the principal amount of \$250 million (filed as Exhibit 4.3 to the Company's Current Report on Form 8-K (filed on November 20, 2012) and incorporated herein by reference).
10.1	First Amendment, dated as of August 21, 2015, to Credit Agreement dated as of September 25, 2012, by and among the Loan Parties and the Administrative Agent (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K (filed on August 25, 2015) 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.
101*	The following financial information from Dr Pepper Snapple Group, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2015, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Statements of Income for the three and nine months ended September 30, 2015 and 2014, (ii) Condensed Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2015 and 2014, (iii) Condensed Consolidated Balance Sheets as of September 30, 2015 and December 31, 2014, (iv) Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2015 and 2014, (v) Condensed Consolidated Statement of Changes in Stockholders' Equity for the nine months ended September 30, 2015, and (vi) the Notes to Condensed Consolidated Financial Statements.

\* 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: October 22, 2015