

Dr Pepper Snapple Group, Inc.
Form 10-Q
October 25, 2017

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, 2017

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 98-0517725
(State or other jurisdiction of (I.R.S. employer
incorporation or organization) identification number)

5301 Legacy Drive, Plano, Texas 75024
(Address of principal executive offices) (Zip code)
(972) 673-7000
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

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

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

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

As of October 23, 2017, there were 180,541,455 shares of the registrant's common stock, par value \$0.01 per share, outstanding.

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ITEM 1. Financial Statements (Unaudited)DR PEPPER SNAPPLE GROUP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
For the Three and Nine Months Ended September 30, 2017 and 2016
(Unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
(in millions, except per share data)	2017	2016	2017	2016
Net sales	\$1,740	\$1,680	\$5,047	\$4,862
Cost of sales	707	683	2,032	1,955
Gross profit	1,033	997	3,015	2,907
Selling, general and administrative expenses	640	603	1,944	1,739
Depreciation and amortization	26	24	76	74
Other operating income, net	—	(3)	(30)	(4)
Income from operations	367	373	1,025	1,098
Interest expense	40	33	124	99
Interest income	(1)	(1)	(3)	(2)
Loss on early extinguishment of debt	13	—	62	—
Other income, net	(2)	(2)	(6)	(25)
Income before provision for income taxes and equity in earnings of unconsolidated subsidiaries	317	343	848	1,026
Provision for income taxes	114	102	279	343
Income before equity in earnings of unconsolidated subsidiaries	203	241	569	683
Equity in loss of unconsolidated subsidiaries, net of tax	—	(1)	(1)	(1)
Net income	\$203	\$240	\$568	\$682
Earnings per common share:				
Basic	\$1.12	\$1.30	\$3.11	\$3.66
Diluted	1.11	1.29	3.09	3.64
Weighted average common shares outstanding:				
Basic	181.4	184.8	182.7	186.1
Diluted	182.1	185.7	183.5	187.1
Cash dividends declared per common share	\$0.58	\$0.53	\$1.74	\$1.59

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

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DR PEPPER SNAPPLE GROUP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the Three and Nine Months Ended September 30, 2017 and 2016
(Unaudited)

	For the	For the		
	Three	Nine		
	Months	Months		
	Ended	Ended		
	September	September		
	30,	30,		
(in millions)	2017	2016	2017	2016
Comprehensive income	\$212	\$229	\$613	\$664

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

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DR PEPPER SNAPPLE GROUP, INC.
 CONDENSED CONSOLIDATED BALANCE SHEETS
 As of September 30, 2017 and December 31, 2016
 (Unaudited)

	September 30, 2017	December 31, 2016
(in millions, except share and per share data)		
Assets		
Current assets:		
Cash and cash equivalents	\$ 66	\$ 1,787
Restricted cash and restricted cash equivalents	89	—
Accounts receivable:		
Trade, net	659	595
Other	47	51
Inventories	261	202
Prepaid expenses and other current assets	144	101
Total current assets	1,266	2,736
Property, plant and equipment, net	1,129	1,138
Investments in unconsolidated subsidiaries	24	23
Goodwill	3,559	2,993
Other intangible assets, net	3,786	2,656
Other non-current assets	215	183
Deferred tax assets	60	62
Total assets	\$ 10,039	\$ 9,791
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 387	\$ 303
Deferred revenue	64	64
Short-term borrowings and current portion of long-term obligations	82	10
Income taxes payable	10	4
Other current liabilities	816	670
Total current liabilities	1,359	1,051
Long-term obligations	4,399	4,468
Deferred tax liabilities	877	812
Non-current deferred revenue	1,071	1,117
Other non-current liabilities	204	209
Total liabilities	7,910	7,657
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$0.01 par value, 15,000,000 shares authorized, no shares issued	—	—
Common stock, \$0.01 par value, 800,000,000 shares authorized, 180,640,432 and 183,119,843 shares issued and outstanding as of September 30, 2017 and December 31, 2016, respectively	2	2
Additional paid-in capital	—	95
Retained earnings	2,311	2,266
Accumulated other comprehensive loss	(184	) (229)
Total stockholders' equity	2,129	2,134
Total liabilities and stockholders' equity	\$ 10,039	\$ 9,791
The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.		

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DR PEPPER SNAPPLE GROUP, INC.
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 For the Nine Months Ended September 30, 2017 and 2016
 (Unaudited)

	For the Nine Months Ended September 30,	
(in millions)	2017	2016
Operating activities:		
Net income	\$568	\$682
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation expense	147	142
Amortization expense	25	24
Amortization of deferred revenue	(48)	(48)
Employee stock-based compensation expense	26	33
Deferred income taxes	65	—
Loss on early extinguishment of debt	62	—
Gain on step acquisition of unconsolidated subsidiaries	(28)	(5)
Gain on extinguishment of multi-employer plan withdrawal liability	—	(21)
Unrealized gains on economic hedges	(10)	(41)
Other, net	14	5
Changes in assets and liabilities, net of effects of acquisition:		
Trade accounts receivable	(34)	(14)
Other accounts receivable	5	(5)
Inventories	(29)	(19)
Other current and non-current assets	(78)	(61)
Other current and non-current liabilities	—	(48)
Trade accounts payable	41	35
Income taxes payable	6	46
Net cash provided by operating activities	732	705
Investing activities:		
Acquisition of business	(1,553)	(15)
Cash acquired in step acquisition of unconsolidated subsidiaries	3	17
Purchase of property, plant and equipment	(85)	(110)
Purchase of intangible assets	(5)	(1)
Investment in unconsolidated subsidiaries	(3)	(6)
Purchase of cost method investment	—	(1)
Proceeds from disposals of property, plant and equipment	3	4
Other, net	(3)	(7)
Net cash used in investing activities	(1,643)	(119)
Financing activities:		
Proceeds from issuance of senior unsecured notes	400	400
Repayment of senior unsecured notes	(562)	(500)
Net issuance of commercial paper	70	—
Repurchase of shares of common stock	(320)	(460)
Dividends paid	(309)	(288)

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Tax withholdings related to net share settlements of certain stock awards	(30)	(31)
Proceeds from stock options exercised	20	14
Premium (discount) on issuance of senior unsecured notes	16	(1)
Proceeds from termination of interest rate swap	13	—
Deferred financing charges paid	(5)	(3)
Capital lease payments	(8)	(6)
Other, net	(2)	(1)
Net cash used in financing activities	(717)	(876)
Cash, cash equivalents, restricted cash and restricted cash equivalents — net change from:		
Operating, investing and financing activities	(1,628	(290)
Effect of exchange rate changes on cash, cash equivalents, restricted cash and restricted cash equivalents	6	(1)
Cash, cash equivalents, restricted cash and restricted cash equivalents at beginning of period	1,787	911
Cash, cash equivalents, restricted cash and restricted cash equivalents at end of period	\$165	\$620

See Note 15 for supplemental cash flow information.

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

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DR PEPPER SNAPPLE GROUP, INC.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

For the Nine Months Ended September 30, 2017

(Unaudited)

	Common Stock		Additional		Accumulated Other		Total
(in millions, except per share data)	Issued Shares	Amount	Paid-In Capital	Retained Earnings	Loss	Comprehensive	Equity
Balance as of January 1, 2017	183.1	\$ 2	\$ 95	\$ 2,266	\$ (229)		\$ 2,134
Shares issued under employee stock-based compensation plans and other	1.0	—	—	—	—		—
Net income	—	—	—	568	—		568
Other comprehensive income	—	—	—	—	45		45
Dividends declared, \$1.74 per share	—	—	2	(320)	—		(318)
Deemed capital contribution from former shareholders of Bai Brands LLC	—	—	4	—	—		4
Stock options exercised and stock-based compensation	—	—	16	—	—		16
Common stock repurchases	(3.5)	—	(117)	(203)	—		(320)
Balance as of September 30, 2017	180.6	\$ 2	\$ —	\$ 2,311	\$ (184)		\$ 2,129

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

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DR PEPPER SNAPPLE GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. General

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

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

BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial information and in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete consolidated financial statements. In the opinion of management, all adjustments, consisting principally of normal recurring adjustments, considered necessary for a fair presentation have been included. These unaudited condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements and the notes thereto in the Company's Annual Report on Form 10-K for the year ended December 31, 2016 ("Annual Report").

PRINCIPLES OF CONSOLIDATION

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

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

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

USE OF ESTIMATES

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

RECLASSIFICATIONS

Discounts on the issuance of senior unsecured notes have been reclassified from other, net to the premium (discount) on senior unsecured notes caption within the financing activities section in the unaudited Condensed Consolidated Statements of Cash Flows for the prior period to conform to the current year's presentation, with no impact to total cash provided by (used in) operating, investing or financing activities.

Excess tax benefit on stock-based compensation in the unaudited Condensed Consolidated Statements of Cash Flows has been reclassified from financing activities to other, net within operating activities for the prior period to conform to the current year's presentation as a result of the adoption of Accounting Standards Update ("ASU")

2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share Based Payment Accounting ("ASU 2016-09"). See Recently Adopted Provisions of U.S. GAAP below for further details on the

impact of the adoption of ASU 2016-09 on the Company's unaudited condensed consolidated financial statements.

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DR PEPPER SNAPPLE GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited, Continued)

RECENTLY ISSUED ACCOUNTING STANDARDS

Effective in 2018

In May 2014, the Financial Accounting Standards Board ("FASB") issued 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. In March 2016, the FASB issued ASU 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net), which clarifies the implementation guidance on principal versus agent considerations for the new model. In April 2016, the FASB issued ASU 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing, which clarifies the implementation guidance related to identifying performance obligations and licensing for the new model. In May 2016, the FASB issued ASU 2016-12, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients, which improves guidance on assessing collectibility, presentation of sales taxes, noncash consideration, and completed contracts and contract modifications at transition. These updates are effective concurrently with Topic 606 (ASU 2014-09).

The Company intends to adopt the above standards using the modified retrospective approach for the quarter ending March 31, 2018. In preparation for the Company's adoption of the new standards, management assembled a project management team, which has obtained representative samples of contracts and other forms of agreements with our customers and is evaluating the provisions contained within those documents based on the new guidance. While the Company does not expect this change to have a material impact on the Company's results of operations, financial position and cash flows once implemented on an annual basis, the Company does expect an increase in contract liabilities and a potential impact on its net sales in interim periods due to timing. The Company is still evaluating the disclosure requirements under these standards. As the Company completes its overall evaluation, the Company is also identifying and preparing to implement changes to its accounting policies, practices and controls to support the new standards.

In March 2017, the FASB issued ASU 2017-07, Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost ("ASU 2017-07"). ASU 2017-07 requires employers who offer defined benefit pension plans or other post-retirement benefit plans to report the service cost component within the same income statement caption as other compensation costs arising from services rendered by employees during the period. The ASU also requires the other components of net periodic benefit cost to be presented separately from the service cost component, in a caption outside of a subtotal of income from operations. Additionally, the ASU provides that only the service cost component is eligible for capitalization. ASU 2017-07 is effective for interim and annual reporting periods beginning after December 15, 2017, and early adoption is permitted. The standard requires retrospective adoption of the presentation of the components of net periodic benefit

costs and prospective application of the capitalization of the service cost component in assets. The Company does not expect this will have a material impact on the consolidated financial statements.

Effective in 2019

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842) ("ASU 2016-02"). The ASU replaces the prior lease accounting guidance in its entirety. The underlying principle of the new standard is the recognition of lease assets and lease liabilities by lessees for substantially all leases, with an exception for leases with terms of less than twelve months. The standard also requires additional quantitative and qualitative disclosures. ASU 2016-02 is effective for interim and annual reporting periods beginning after December 15, 2018, and early adoption is permitted. The standard requires a modified retrospective approach, which includes several optional practical expedients. The Company does not intend to early adopt the standard. The Company has assembled a project management team and is in the early stages of evaluating the impact that ASU 2016-02 will have on the Company's consolidated financial statements. However, the Company anticipates the impact of ASU 2016-02 will be significant to its Consolidated Balance Sheet due to the amount of the Company's lease commitments.

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DR PEPPER SNAPPLE GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited, Continued)

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

RECENTLY ADOPTED PROVISIONS OF U.S. GAAP

As of January 1, 2017, the Company adopted ASU 2015-11, Inventory (Topic 330): Simplifying the Measurement of Inventory ("ASU 2015-11"). ASU 2015-11 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 ASU 2015-11. The adoption of ASU 2015-11 did not have a material impact on the Company's consolidated financial statements.

As of January 1, 2017, the Company adopted ASU 2016-09, which is part of the FASB's simplification initiative. The new standard provides for changes to accounting for stock compensation including 1) excess tax benefits and tax deficiencies related to share based payment awards will be recognized as income tax benefit or expense in the reporting period in which they occur; 2) excess tax benefits will be classified as an operating activity in the statement of cash flow; 3) the option to elect to estimate forfeitures or account for them when they occur; and 4) an increase in the tax withholding requirements threshold to qualify for equity classification. Beginning in 2017, the primary impact of adoption was the recognition of excess tax benefits for our stock awards in the provision for income taxes rather than additional paid-in capital. Additional amendments to the accounting for income taxes and minimum statutory withholding tax requirements had no impact to retained earnings. The Company elected to continue to estimate forfeitures expected to occur to determine the amount of compensation cost to be recognized in each period.

Adoption of the new standard resulted in the recognition of excess tax benefits in our provision for income taxes rather than paid-in capital of \$19 million for the nine months ended September 30, 2017. There was no impact to our provision for income taxes for the three months ended September 30, 2017. The presentation of excess tax benefits on stock-based compensation was adjusted retrospectively within the unaudited Condensed Consolidated Statements of Cash Flows, resulting in a \$22 million increase in net cash provided by operating activities for the nine months ended September 30, 2016, with a corresponding increase to net cash used in financing activities. The presentation requirements for cash flows related to employee taxes paid for withheld shares had no impact to any of the periods presented on the unaudited Condensed Consolidated Statements of Cash Flows as the Company has historically presented them as a financing activity.

As of January 1, 2017, the Company early adopted ASU No. 2016-18, Statement of Cash Flows (Topic 230), Restricted Cash ("ASU 2016-18"), which requires amounts generally described as restricted cash and restricted cash equivalents be included with cash and cash equivalents when reconciling the beginning and ending amounts shown on the statement of cash flows. The Company elected to early adopt the provisions of ASU 2016-18 as of January 1, 2017 and has revised its unaudited Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2017 and 2016 to reflect amounts described as restricted cash and restricted cash equivalents included with cash and cash equivalents in the reconciliation of beginning of period and end of period total amounts shown on the unaudited Condensed Consolidated Statements of Cash Flow. The adoption had no impact on amounts presented

in the unaudited Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2016. Refer to Note 15 for the reconciliation of cash, cash equivalents, restricted cash and restricted cash equivalents as presented on the unaudited Condensed Consolidated Balance Sheets to the amounts as shown on the unaudited Condensed Consolidated Statements of Cash Flows.

2. Acquisitions

BAI BRANDS MERGER

Description of the Transaction

On November 21, 2016, we entered into an Agreement and Plan of Merger (the "Merger Agreement") with Bai Brands LLC ("Bai Brands"), pursuant to which we agreed to acquire Bai Brands for a cash purchase price of \$1.7 billion, subject to certain adjustments in the Merger Agreement (the "Bai Brands Merger"). The acquisition of Bai Brands will further enable the Company to meet growing consumer demand for better-for-you beverages, as Bai Brands is positioned for expanding growth in key beverage segments.

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DR PEPPER SNAPPLE GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited, Continued)

On January 31, 2017, the Company funded the Bai Brands Merger with the net proceeds from the senior unsecured notes issued in December 2016 and cash on hand. In order to complete the Bai Brands Merger, the Company paid \$1,548 million, net of the Company's previous ownership interest, in exchange for the remaining ownership interests and seller transaction costs. Additionally, \$103 million was held back and placed in escrow.

As a result of the Bai Brands Merger, our existing 2.63% equity interest in Bai Brands was remeasured to fair value of \$43 million, which resulted in a gain of \$28 million that was recognized in the first quarter of 2017 and included in other operating income, net.

Two transactions related to the Bai Brands Merger were recognized separately from the acquisition of assets and assumptions of liabilities of Bai Brands:

The Company paid certain seller transaction costs, which included \$2 million to reimburse Bai Brands for payments made on behalf of the Company for buyer acquisition-related costs, which were recorded as selling, general and administrative ("SG&A") expenses. The remainder of the seller transaction costs paid by the Company were accounted for by the Company as part of the consideration transferred.

Bai Brands had an executory contract as of January 31, 2017, which compensated certain counterparties with Profit Interest Units from Bai Brands (the "Predecessor PIUs"). The Predecessor PIUs were based upon the counterparties completing service requirements and various performance criteria. As a result of the Bai Brands Merger, these Predecessor PIUs have fully vested and were converted into cash as of January 31, 2017 based upon the consideration paid by the Company to acquire Bai Brands. The cash was placed in escrow and will be released from escrow to the counterparties on certain anniversary dates as long as the counterparties are not in breach of the executory contract. Although none of the costs of these benefits have been paid by the Company, DPS will record SG&A expenses for the deferred compensation amounts payable to these counterparties by Bai Brands. For the three and nine months ended September 30, 2017, the Company recognized approximately \$2 million and \$4 million, respectively, of compensation expense related to performance on the executory contract. As of September 30, 2017, the total unrecognized compensation cost is \$9 million and the period over which these costs are expected to be recognized is 12 months.

The Company's preliminary purchase price, as of September 30, 2017, was \$1,639 million, net of the Company's previous ownership interest. The components of the preliminary purchase price are presented below:

(in millions)	Preliminary Purchase Price
Cash paid to consummate Bai Brands Merger, net of the Company's previous ownership interest	\$ 1,553
Remaining holdback placed in escrow	88
Less: Seller transaction costs reimbursed to Bai Brands for payments made on behalf of the Company for its acquisition-related costs	(2)
Preliminary Purchase Price - Bai Brands ⁽¹⁾	\$ 1,639

(1) The preliminary purchase price excludes the impact of the Company's pre-existing ownership interest.

Acquisition and integration-related expenses of \$1 million and \$21 million, respectively, were recognized during the three and nine months ended September 30, 2017, and were included in SG&A expenses.

Escrow/Holdback Liability

The \$88 million holdback placed in escrow, as of September 30, 2017, is made up of two components:

Initially, \$90 million was held in escrow to secure indemnification obligations of the sellers relating to the accuracy of representations and warranties and a working capital adjustment. A working capital adjustment of \$11 million, which represents the majority of the working capital adjustment with the exception of one matter, has been agreed upon with the former shareholders of Bai Brands. The Company is in the process of bringing the one remaining matter related to the working capital adjustment to arbitration under the terms of the Merger Agreement. The \$11 million agreed-upon working capital adjustment will be released back to the Company from escrow upon completion of the arbitration

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proceeding. As of January 31, 2018, \$69 million less any working capital adjustment related to the one matter in arbitration is scheduled to be released.

The remaining \$10 million, net of any claims, will be released approximately 4 years after the acquisition date, subject to certain administrative conditions, and

\$9 million of unrecognized compensation associated with the Predecessor PIUs related to the performance of certain counterparties, which will be held in escrow and released over the next 12 months.

The acquisition consideration held in escrow does not meet the definition of contingent consideration as provided under U.S. GAAP. The amount held in escrow was included in the preliminary purchase price as representations and warranties were expected to be valid as of the acquisition date. The escrow is included in restricted cash along with a corresponding amount in the liability section of the unaudited Condensed Consolidated Balance Sheets, which is allocated between other current liabilities and other non-current liabilities. Refer to Note 15 for additional information on location of the restricted cash on the unaudited Condensed Consolidated Balance Sheets.

Preliminary Purchase Price Allocation

The following table summarizes the preliminary allocation, as of September 30, 2017, of the fair value of the assets acquired and liabilities assumed by major class for the Bai Brands Merger:

(in millions)	Fair Value	Useful Life
Property, plant & equipment	\$4	5 - 10 years
Customer relationships	30	7 years
Non-compete agreements	22	2 - 4 years
Brands	1,073	Indefinite
Goodwill	563	Indefinite
Assumed liabilities, net of acquired assets	(13)	N/A
Total	\$1,679	

The acquisition was accounted for as a business combination, and the identifiable assets acquired and liabilities assumed were recorded at their estimated fair values at the date of acquisition. We have completed our preliminary valuation to determine the fair value of the identifiable assets acquired and liabilities assumed. The fair values of the assets acquired were determined using various valuation techniques, including an income approach. The fair value measurements were primarily based on significant inputs that are not directly observable in the market and are considered Level 3 under the fair value measurements and disclosure framework. Key assumptions include cash flow projections of Bai Brands and the discount rate applied to those cash flows. The excess of the purchase price over the estimated fair values was recorded as goodwill.

In connection with this acquisition, the Company has now recorded goodwill of \$563 million, which is deductible for tax purposes. The goodwill recognized was attributable to certain tax benefits the Company will realize over time, Bai Brands' management team and growth opportunities in a "better-for-you" beverage segment.

The Company recorded \$32 million for the fair value of contingent liabilities assumed upon acquisition primarily related to existing manufacturing contracts. The fair value of the contingent liabilities was determined using discounted cash flows on expected future payments related to these contracts. The contingent liabilities will be evaluated each reporting period based on events and circumstances which may impact future payments under these contracts, and any changes in fair value will be recorded in the Company's unaudited Condensed Consolidated Statements of Income.

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Pro Forma Information

The Company's acquisition of Bai Brands is strategically significant to the future growth prospects of the Company; however at the time of the acquisition, the historical results of Bai Brands were immaterial to the Company's consolidated financial results. Assuming the results of Bai Brands had been included in operations beginning on January 1, 2016, the estimated pro forma net operating revenues of the Company for the three and nine months ended September 30, 2017 would have been approximately \$1,740 million and \$5,049 million, respectively, and for the three and nine months ended September 30, 2016 would have been approximately \$1,695 million and \$4,902 million, respectively. The estimated pro forma net income, which includes the alignment of accounting policies, the effect of fair value adjustments related to the Bai Brands Merger, the associated tax effects and the impact of the additional debt to finance the Bai Brands Merger, for the three and nine months ended September 30, 2017 would have been approximately \$200 million and \$552 million, respectively, and for the three and nine months ended September 30, 2016 would have been approximately \$227 million and \$642 million, respectively. This estimated pro forma information is not necessarily indicative of the results that actually would have occurred had the Bai Brands Merger been completed on the date indicated or the future operating results.

Actual Results of Bai Brands

For the periods subsequent to the acquisition date that are included in the three and nine months ended September 30, 2017, Bai Brands had net sales of \$77 million and \$182 million, respectively, and net loss of \$2 million and \$13 million, respectively. These results do not reflect the consolidation impact of the Company's acquisition of Bai Brands.

The following table reconciles the net sales and net loss of Bai Brands since the acquisition date to the impact of Bai Brands to the Company's consolidated results of operations:

	For the Three Months Ended September 30, 2017	For the Nine Months Ended September 30, 2017	For the Three Months Ended September 30, 2017	For the Nine Months Ended September 30, 2017
(in millions)				
Net sales - Bai Brands	\$ 77	\$ 182		
Intercompany sales to Packaged Beverages Excluding Bai	(56)	(131)		
Incremental impact to consolidated net sales	\$ 21	\$ 51		
(in millions)				
Net loss - Bai Brands			\$ (2)	\$ (13)
Impact of intercompany activity with Packaged Beverages Excluding Bai ⁽¹⁾			(2)	(9)
Incremental impact to consolidated net income			\$ (4)	\$ (22)

(1) Impact of intercompany activity includes the elimination of intercompany net sales and the deferral of gross profit recognition on shipments of product still in Packaged Beverages Excluding Bai inventory for the three and nine

months ended September 30, 2017, net of tax.

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3. Inventories

Inventories consisted of the following:

	September	December
(in millions)	30,	31,
	2017	2016
Raw materials	\$ 81	\$ 77
Spare parts	23	22
Work in process	7	5
Finished goods	185	130
Inventories at first in first out cost	296	234
Reduction to LIFO cost	(35)	(32)
Inventories	\$ 261	\$ 202

Approximately \$205 million and \$158 million of the Company's inventory was accounted for under the LIFO method of accounting as of September 30, 2017 and December 31, 2016, respectively. The reduction to LIFO cost reflects the excess of the current cost of LIFO inventories as of September 30, 2017 and December 31, 2016, over the amount at which these inventories were valued on the unaudited Condensed Consolidated Balance Sheets. For the three and nine months ended September 30, 2017, there was no LIFO inventory liquidation. For the three and nine months ended September 30, 2016, LIFO inventory liquidation increased the Company's gross profit by \$3 million and \$5 million, respectively.

4. 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:

	September	December
(in millions)	30,	31,
	2017	2016
Prepaid expenses and other current assets:		
Customer incentive programs	\$ 50	\$ 24
Derivative instruments	21	19
Prepaid income taxes	14	18
Current assets held for sale	—	1
Other	59	39
Total prepaid expenses and other current assets	\$ 144	\$ 101
Other current liabilities:		
Customer rebates and incentives	\$ 308	\$ 280
Accrued compensation	113	134
Insurance liability	38	36
Interest accrual	45	24
Dividends payable	106	97
Derivative instruments	7	2
Holdback liability to former Bai Brands shareholders ⁽¹⁾	78	—
Other	121	97
Total other current liabilities	\$ 816	\$ 670

(1) Refer to Note 2 for additional information on holdback liability to former Bai Brands shareholders as of September 30, 2017.

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5. 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 ⁽¹⁾	DSD Reporting Unit ⁽¹⁾	Bai	Latin America Beverages	Total
Balance as of January 1, 2016						
Goodwill	\$ 1,733	\$ 1,222	\$ 189	\$—	\$ 24	\$3,168
Accumulated impairment losses	—	—	(180)	—	—	(180)
	1,733	1,222	9	—	24	2,988
Foreign currency impact	—	—	—	—	(3)	(3)
Acquisition activity ⁽²⁾	—	—	—	—	8	8
Balance as of December 31, 2016						
Goodwill	1,733	1,222	189	—	29	3,173
Accumulated impairment losses	—	—	(180)	—	—	(180)
	1,733	1,222	9	—	29	2,993
Foreign currency impact	—	—	—	—	3	3
Acquisition activity ⁽³⁾	—	—	—	563	—	563
Balance as of September 30, 2017						
Goodwill	1,733	1,222	189	563	32	3,739
Accumulated impairment losses	—	—	(180)	—	—	(180)
	\$ 1,733	\$ 1,222	\$ 9	\$563	\$ 32	\$3,559

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

(2) Goodwill was recorded to the Latin America Beverages reporting unit during 2016 as a result of the step acquisition of Industria Embotelladora de Bebidas Mexicanas and Embotelladora Mexicana de Agua, S.A. de C.V.

(3) Goodwill was recorded to Bai during the nine months ended September 30, 2017 as a result of the Bai Brands Merger. Refer to Note 2 for additional information about the Bai Brands Merger.

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INTANGIBLE ASSETS OTHER THAN GOODWILL

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

(in millions)	September 30, 2017			December 31, 2016		
	Gross Amount	Accumulated Amortization	Net Amount	Gross Amount	Accumulated Amortization	Net Amount
Intangible assets with indefinite lives:						
Brands ⁽¹⁾	\$3,699	\$ —	\$ 3,699	\$2,621	\$ —	\$ 2,621
Distribution rights ⁽²⁾	32	—	32	27	—	27
Intangible assets with definite lives:						
Customer relationships ⁽¹⁾	106	(78)	) 28	76	(76)) —
Non-compete agreements ⁽¹⁾	22	(1)	) 21	—	—) —
Distribution rights	16	(10)	) 6	16	(8)	) 8
Brands	29	(29)	) —	29	(29)) —
Bottler agreements	19	(19)	) —	19	(19)) —
Total	\$3,923	\$ (137)	) \$ 3,786	\$2,788	\$ (132)	) \$ 2,656

As a result of the Bai Brands Merger, the Company recorded indefinite lived brand assets of \$1,073 million and definite lived non-compete agreements and customer relationships of \$22 million and \$30 million, respectively.

(1) Refer to Note 2 for additional information. The remaining \$5 million increase in brands with indefinite lives is due to foreign currency translation.

(2) In 2017, the Company reacquired certain indefinite lived distribution rights for \$5 million.

As of September 30, 2017, the weighted average useful lives of intangible assets with definite lives are as follows:

	Weighted Average Useful Life
Customer relationships	7 years
Non-compete agreements	4 years
Distribution rights	9 years
Total intangible assets with definite lives	6 years

Amortization expense for intangible assets with definite lives for the three and nine months ended September 30, 2017 and 2016 was as follows:

(in millions)	For the Three Months Ended September 30, 2017		For the Nine Months Ended September 30, 2016	
	2017	2016	2017	2016
Amortization expense for intangible assets with definite lives	\$ 2	\$ 1	\$ 5	\$ 3

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Amortization expense of these intangible assets over the remainder of 2017 and the next four years is expected to be the following:

Year	Aggregate Amortization Expense (in millions)
October 1, 2017 through December 31, 2017	\$ 1
2018	16
2019	13
2020	9
2021	6

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, 2017.

6. Debt

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

	September 30, 2017	December 31, 2016
(in millions)		
Senior unsecured notes	\$ 4,239	\$ 4,325
Capital lease obligations	172	153
Subtotal	4,411	4,478
Less - current portion	(12)	(10)
Long-term obligations	\$ 4,399	\$ 4,468

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

	September 30, 2017	December 31, 2016
(in millions)		
Commercial paper	\$ 70	\$ —
Current portion of long-term obligations:		
Capital lease obligations	12	10
Short-term borrowings and current portion of long-term obligations	\$ 82	\$ 10

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SENIOR UNSECURED NOTES

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

(in millions)	Issuance	Maturity Date	Rate	Principal	Carrying Amount	
				Amount	September	December
				30,	30,	31,
				2017	2017	2016
2018 Notes	May 1, 2018	6.82%	—	—	—	364
2019 Notes	January 15, 2019	2.60%	250	250	249	
2020 Notes	January 15, 2020	2.00%	250	247	247	
2021-A Notes	November 15, 2021	3.20%	250	250	249	
2021-B Notes	November 15, 2021	2.53%	250	247	246	
2022 Notes	November 15, 2022	2.70%	250	269	273	
2023 Notes	December 15, 2023	3.13%	500	496	495	
2025 Notes	November 15, 2025	3.40%	500	495	495	
2026 Notes	September 15, 2026	2.55%	400	397	396	
2027 Notes	June 15, 2027	3.43%	500	498	397	
2038 Notes	May 1, 2038	7.45%	125	135	270	
2045 Notes	November 15, 2045	4.50%	550	558	247	
2046 Notes	December 15, 2046	4.42%	400	397	397	
				\$ 4,225	\$ 4,239	\$ 4,325

The 2027 and 2045 Notes

In June 2017, the Company issued \$400 million of senior unsecured notes, consisting of \$100 million aggregate principal amount of 2027 Notes and \$300 million aggregate principal amount of 2045 Notes in a private offering under Rule 144A under the Securities Act of 1933, as amended. The 2027 Notes and 2045 Notes have substantially identical terms, other than with respect to transfer restrictions and registration rights, as the previously issued 2027 Notes and 2045 Notes. The premium associated with these notes was approximately \$16 million. Debt issuance costs related to the issuance of these notes were approximately \$4 million. A portion of the proceeds from the issuance of the 2027 Notes and 2045 Notes was used to complete the June 2017 tender offer described below.

The 2018 and 2038 Notes

In June 2017, the Company completed a tender offer for a portion of its 2018 Notes and its 2038 Notes. As a result of these transactions, the Company retired, at a premium, an aggregate principal amount of approximately \$63 million of the 2018 Notes and approximately \$125 million of the 2038 Notes. The loss on early extinguishment of the 2018 Notes and the 2038 Notes was approximately \$49 million, comprised of \$62 million for the tender offer consideration, the early tender premium and write off of deferred financing costs, partially offset by a \$13 million gain on the termination of interest rate swap related to the 2038 Notes. Refer to Note 7 for additional information on the termination of the interest rate swap.

In July 2017, the Company used a combination of the remaining proceeds from the June 2017 issuance of 2027 Notes and 2045 Notes and commercial paper to redeem the remainder of its 2018 Notes and retired, at a premium, an aggregate principal amount of approximately \$301 million, which resulted in a loss on early extinguishment of the 2018 Notes of approximately \$13 million.

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UNSECURED CREDIT AGREEMENT

In March 2017, the Company entered into a new five-year unsecured credit agreement (the "Credit Agreement"), which provides for a \$500 million revolving line of credit (the "Revolver"). This Credit Agreement and Revolver fully replaced the Company's previous unsecured credit agreement and revolving line of credit, which was due to expire on September 25, 2017 and was terminated on March 16, 2017. There were no principal borrowings outstanding under the previous unsecured credit agreement upon termination. The Company incurred debt issuance costs of approximately \$1 million in connection with the Credit Agreement during the nine months ended September 30, 2017. 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 the Company's debt ratings. Rates range from 0.000% to 0.300% for the ABR loans and from 0.805% to 1.300% for Eurodollar loans. The ABR is defined as the greater of (a) JPMorgan Chase Bank's prime rate, (b) the Federal Reserve Bank of New York ("NYFRB") rate, as defined below, plus 0.500% and (c) the Adjusted LIBOR, as defined below, for a one month interest period plus 1.00%. The NYFRB rate is the greater of (a) the federal funds effective rate or (b) the overnight bank funding rate. The Adjusted LIBOR is the London interbank offered rate for dollars, adjusted for a statutory reserve rate set by the Board of Governors of the Federal Reserve System of the United States of America. Additionally, the Revolver is available for the issuance of letters of credit, not to exceed \$75 million. Letters of credit will reduce, on a dollar for dollar basis, the amount available under the Revolver. 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 financial covenant that requires the Company to maintain a ratio as provided therein of Consolidated Total Debt to Consolidated EBITDA of no more than 3.50 to 1.00, tested quarterly. During the twelve month period following a Material Acquisition thereunder, the ratio may increase to no more than 4.00 to 1.00. Upon the occurrence of an event of default, among other things, amounts outstanding may be accelerated and the commitments may be terminated. The Company's obligations are guaranteed by certain of the Company's direct and indirect domestic subsidiaries. The Credit Agreement has a maturity date of March 16, 2022; however, with the consent of lenders holding more than 50% of the total commitments thereunder and subject to the satisfaction of certain conditions, the Company may extend the maturity date for up to two additional one-year terms.

The following table provides amounts utilized and available under our Revolver as of September 30, 2017:

(in millions)	Amount Balances	
	Utilized	Available
Revolver	\$ —	\$ 430
Letters of credit	—	75

As of September 30, 2017, the Company was in compliance with all financial covenant requirements relating to the Credit Agreement.

LETTERS OF CREDIT FACILITIES

In addition to the portion of the Revolver reserved for issuance of letters of credit, the Company has incremental letters of credit facilities. Under these facilities, \$120 million is available for the issuance of letters of credit, \$60 million of which was utilized as of September 30, 2017 and \$60 million of which remains available for use.

BRIDGE FINANCING FOR BAI BRANDS MERGER

On November 21, 2016, the Company entered into a commitment letter for a 364-day bridge loan facility (the "Bridge Facility") in an aggregate principal amount of up to \$1,700 million, in order to ensure that financing would be available for the Bai Brands Merger. On January 31, 2017, in accordance with its terms, the commitment under the

Bridge Facility was automatically terminated upon the Company's funding of the Bai Brands Merger.

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SHELF REGISTRATION STATEMENT

On August 10, 2016, the Company's Board of Directors (the "Board") authorized the Company to issue up to \$2,000 million of securities from time to time. Subsequently, the Company filed a "well-known seasoned issuer" shelf registration statement (the "Shelf") with the SEC, effective September 2, 2016, which registered an indeterminate amount of securities for future sales. On September 16, 2016, the Company issued \$400 million of 2026 Notes under the Shelf, leaving \$1,600 million of securities authorized for issuance under the Shelf. On November 16, 2016, the Board replenished the authorized aggregate amount of securities available to be issued by an additional \$400 million, which raised the full authorized amount to \$2,000 million. On December 14, 2016, the Company issued an aggregate of \$1,550 million of 2021, 2023, 2027 and 2046 Notes. As of September 30, 2017, \$450 million remained authorized to be issued under the Shelf.

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 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. Cash flows from derivative instruments designated in a qualifying hedging relationship are classified in the same category as the cash flows from the hedged items.

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

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

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INTEREST RATES

Fair Value Hedges

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

(\$ in millions)	Hedging	Number of	Method of	Notional	Impact to the	
					carrying value	of long-term
Period entered	relationship	instruments	effectiveness	value	September 30, 2017	December 31, 2016
November 2011	2019 Notes	2	Short cut method	\$ 100	\$ —	\$ —
November 2011	2021-A Notes	2	Short cut method	150	1	—
November 2012	2020 Notes	5	Short cut method	120	(2)	(2)
December 2016	2021-B Notes	2	Short cut method	250	(2)	(2)
December 2016	2023 Notes	2	Short cut method	150	(1)	(1)
January 2017	2022 Notes ⁽²⁾	4	Regression	250	21	24
June 2017	2038 Notes ⁽¹⁾	1	Regression	50	11	22
				\$ 1,070	\$ 28	\$ 41

In June 2017, and in connection with the partial redemption of the 2038 Notes, the Company modified and partially terminated the outstanding interest rate swap on the 2038 Notes with a notional amount of \$100 million and (1) maturing in May 2038. The modified interest rate swap has identical terms to the original interest rate swap, except for a reduced notional amount of \$50 million. The Company received \$13 million as settlement for the modification and partial termination of the swap.

As a result of this transaction, the Company de-designated the original hedging relationship. Under the original hedging relationship, the Company recorded \$26 million as an increase to the carrying value of debt due to changes in the fair market value of the debt, pull to par adjustments and ineffectiveness. The Company recognized a \$13 million gain into earnings, which reduced the loss on early extinguishment of debt, as part of the partial redemption of the 2038 Notes. The remaining \$13 million increase in the carrying value of the outstanding 2038 Notes will be amortized into earnings over the remaining term of the 2038 Notes. The Company then designated the new interest rate swap contract as a fair value hedge with a notional amount of \$50 million and maturing in May 2038 in order to effectively convert a portion of the outstanding 2038 Notes from fixed-rate debt to floating-rate debt. The Company uses regression analysis to assess the prospective and retrospective effectiveness of this hedging relationship.

In October 2016, the Company de-designated the hedging relationships between the four outstanding interest rate swaps and the 2022 Notes. The Company will amortize \$25 million into earnings over the remaining term of the 2022 Notes which represents the increase to the carrying value of the debt upon de-designation consisting of (2) changes in fair market value of the debt, pull to par adjustments and ineffectiveness recorded under the previous hedging relationship. The Company recorded the change in the fair value of the interest rate swaps after de-designation into interest expense.

In January 2017, the Company re-designated the hedging relationships between the four outstanding interest rate swaps and the 2022 Notes, which were de-designated in 2016. The Company uses regression analysis to assess the prospective and retrospective effectiveness of these hedging relationships.

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FOREIGN EXCHANGE

Cash Flow Hedges

The Company's Canadian and Mexican businesses purchase inventory through transactions denominated and settled in United States ("U.S.") dollars, a currency different from the functional currency of the those businesses. These inventory purchases are subject to exposure from movements in exchange rates. During the three and nine months ended September 30, 2017 and 2016, 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 twelve months as of September 30, 2017. The Company had outstanding foreign exchange forward contracts with notional amounts of \$55 million and \$7 million as of September 30, 2017 and December 31, 2016, respectively.

COMMODITIES

Economic Hedges

DPS centrally manages the exposure to volatility in the prices of certain commodities used in its production process and transportation through forward and future contracts. The intent of these contracts is to provide a certain level of predictability in the Company's overall cost structure. During the three and nine months ended September 30, 2017 and 2016, the Company held forward and future contracts that economically hedged certain of its risks. In these cases, a natural hedging relationship exists in which changes in the fair value of the instruments act as an economic offset to changes in the fair value of the underlying items. Changes in the fair value of these instruments are recorded in earnings throughout the term of the derivative instrument and are reported in the same line item of the unaudited Condensed Consolidated Statements of Income as the hedged transaction. Unrealized gains and losses are recognized as a component of unallocated corporate costs until the Company's operating segments are affected by the completion of the underlying transaction, at which time the gain or loss is reflected as a component of the respective segment's operating profit ("SOP"). The total notional values of derivatives related to economic hedges of this type were \$221 million and \$296 million as of September 30, 2017 and December 31, 2016, respectively.

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DR PEPPER SNAPPLE GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited, Continued)

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, 2017	December 31, 2016
Assets:			
Derivative instruments designated as hedging instruments under U.S. GAAP:			
Interest rate contracts	Prepaid expenses and other current assets	\$ 2	\$ 6
Interest rate contracts	Other non-current assets	21	21
Derivative instruments not designated as hedging instruments under U.S. GAAP:			
Interest rate contracts	Prepaid expenses and other current assets	—	4
Commodity contracts	Prepaid expenses and other current assets	19	9
Interest rate contracts	Other non-current assets	—	8
Commodity contracts	Other non-current assets	14	12
Total assets		\$ 56	\$ 60
Liabilities:			
Derivative instruments designated as hedging instruments under U.S. GAAP:			
Interest rate contracts	Other current liabilities	\$ 4	\$ 1
Foreign exchange forward contracts	Other current liabilities	3	—
Interest rate contracts	Other non-current liabilities	1	7
Derivative instruments not designated as hedging instruments under U.S. GAAP:			
Commodity contracts	Other current liabilities	—	1
Commodity contracts	Other non-current liabilities	2	—
Total liabilities		\$ 10	\$ 9

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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 Loss ("OCI")	Amount of Loss Reclassified from AOCL into Income	Location of Loss Reclassified from AOCL into Income
For the three months ended September 30, 2017:			
Interest rate contracts	\$ —	\$ (2)	Interest expense
Foreign exchange forward contracts	—	(3)	Cost of sales
Total	\$ —	\$ (5)	

For the nine months ended September 30, 2017:

Interest rate contracts	\$ —	\$ (6)	Interest expense
Foreign exchange forward contracts	(10)	(7)	Cost of sales
Total	\$ (10)	\$ (13)	

For the three months ended September 30, 2016:

Interest rate contracts	\$ —	\$ (2)	Interest expense
Foreign exchange forward contracts	—	—	Cost of sales
Total	\$ —	\$ (2)	

For the nine months ended September 30, 2016:

Interest rate contracts	\$ —	\$ (6)	Interest expense
Foreign exchange forward contracts	(1)	(1)	Cost of sales
Total	\$ (1)	\$ (7)	

There was no hedge ineffectiveness recognized in earnings for the three and nine months ended September 30, 2017 and 2016 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 \$12 million from AOCL into net income.

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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, 2017:		
Interest rate contracts	\$ 3	Interest expense
Interest rate contracts	—	Loss on early extinguishment of debt
Total	\$ 3	
For the nine months ended September 30, 2017:		
Interest rate contracts	\$ 10	Interest expense
Interest rate contracts	13	Loss on early extinguishment of debt
Total	\$ 23	
For the three months ended September 30, 2016:		
Interest rate contracts	\$ 1	Interest expense
Total	\$ 1	
For the nine months ended September 30, 2016:		
Interest rate contracts	\$ 8	Interest expense
Total	\$ 8	

For the three months ended September 30, 2017 and 2016, no hedge ineffectiveness was recognized in earnings with respect to derivative instruments designated as fair value hedges for each period. For the nine months ended September 30, 2017 and 2016, \$1 million and \$2 million, respectively, of hedge ineffectiveness charges were recognized in earnings with respect to derivative instruments designated as fair value hedges.

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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, 2017:		
Commodity contracts ⁽¹⁾	\$ 11	Cost of sales
Commodity contracts ⁽¹⁾	11	SG&A expenses
Total	\$ 22	
For the nine months ended September 30, 2017:		
Commodity contracts ⁽¹⁾	\$ 28	Cost of sales
Commodity contracts ⁽¹⁾	(8)	SG&A expenses
Interest rate contracts ⁽²⁾	1	Interest expense
Total	\$ 21	
For the three months ended September 30, 2016:		
Commodity contracts ⁽¹⁾	\$ 2	Cost of sales
Commodity contracts ⁽¹⁾	1	SG&A expenses
Total	\$ 3	
For the nine months ended September 30, 2016:		
Commodity contracts ⁽¹⁾	\$ 11	Cost of sales
Commodity contracts ⁽¹⁾	9	SG&A expenses
Total	\$ 20	

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

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

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.

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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, 2017	December 31, 2016
Other non-current assets:		
Customer incentive programs	\$ 80	\$ 57
Marketable securities - trading	46	35
Derivative instruments	35	41
Cost method investments ⁽¹⁾	1	16
Non-current restricted cash and restricted cash equivalents ⁽²⁾	10	—
Other	43	34
Total other non-current assets	\$ 215	\$ 183
Other non-current liabilities:		
Long-term payables due to Mondelez International, Inc.	\$ 17	\$ 21
Long-term pension and post-retirement liability ⁽³⁾	18	41
Insurance liability	59	67
Derivative instruments	3	7
Deferred compensation liability	46	35
Holdback liability to former Bai Brands shareholders ⁽²⁾	10	—
Acquired contingent liabilities ⁽²⁾	21	—
Other	30	38
Total other non-current liabilities	\$ 204	\$ 209

Decrease in cost method investments resulted from our consummation of the Bai Brands Merger, as we had a cost method investment in Bai Brands as of December 31, 2016. Refer to Note 2 for additional information regarding the Bai Brands Merger and treatment of our previously held interest in Bai Brands.

Refer to Note 2 for additional information on non-current restricted cash and restricted cash equivalents, the corresponding holdback liability to former Bai Brands shareholders, and the acquired contingent liabilities, as of September 30, 2017.

Refer to Note 10 for additional information regarding the remeasurement of one of the U.S. defined benefit pension plans as of September 30, 2017.

9. Income Taxes

The effective tax rates for the three months ended September 30, 2017 and 2016 were 36.0% and 29.7%, respectively. The effective tax rates for the nine months ended September 30, 2017 and 2016 were 32.9% and 33.4%, respectively. For the nine months ended September 30, 2017, the provision for income taxes included an income tax benefit of \$5 million due primarily to an agreement for an improved filing group with a state taxing authority and \$19 million due to the adoption of ASU 2016-09. Refer to Note 1 for additional information.

For the three and nine months ended September 30, 2016, the provision for income taxes included an income tax benefit of \$17 million driven primarily by a restructuring of the ownership of our Canadian business.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited, Continued)

10. Employee Benefit Plans

During the nine months ended September 30, 2017, the Company made lump sum payments to participants of one U.S. defined benefit pension plan which exceeded the estimated annual interest and service costs of that plan. As a result, a non-cash settlement charge of \$1 million was recognized during the three and nine months ended September 30, 2017. The Company then remeasured the U.S. defined benefit pension plan as of September 30, 2017, which resulted in a decrease to the obligation of approximately \$26 million driven primarily by the increased contributions discussed below and a reduction in the number of participants, partially offset by a decrease in the discount rate. Discount rates were 3.90% and 4.25% as of September 30, 2017 and December 31, 2016, respectively.

Additionally, the Company made the following contributions to its pension plans:

	For the Three Months Ended September 30, 2017		For the Nine Months Ended September 30, 2016	
(in millions)				
Employer contributions to funded U.S. pension plans	\$ 22	\$ 7	\$ 22	\$ 7

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 under current market conditions. 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.

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 as of September 30, 2017 and December 31, 2016:

	September 30, 2017		
	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs
(in millions)	Level 1	Level 2	Level 3

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Commodity contracts	\$—	\$ 33	\$	—
Interest rate contracts	—	23	—	—
Marketable securities - trading	46	—	—	—
Total assets	\$46	\$ 56	\$	—
Commodity contracts	\$—	\$ 2	\$	—
Interest rate contracts	—	5	—	—
Foreign exchange forward contracts	—	3	—	—
Total liabilities	\$—	\$ 10	\$	—

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited, Continued)

(in millions)	December 31, 2016		
	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Commodity contracts	\$—	\$ 21	\$ —
Interest rate contracts	—	39	—
Marketable securities - trading	35	—	—
Total assets	\$35	\$ 60	\$ —
Commodity contracts	\$—	\$ 1	\$ —
Interest rate contracts	—	8	—
Foreign exchange forward contracts	—	—	—
Total liabilities	\$—	\$ 9	\$ —

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, 2017 and December 31, 2016, 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 the fair value hierarchy during the nine months ended September 30, 2017 and 2016.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited, Continued)

ESTIMATED FAIR VALUE OF THE COMPANY'S FINANCIAL INSTRUMENTS

The carrying values and estimated fair values of the Company's financial instruments that are not required to be measured at fair value in the unaudited Condensed Consolidated Balance Sheet are as follows:

(in millions)	Fair Value Hierarchy Level	September 30, 2017		December 31, 2016	
		Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets:					
Cash and cash equivalents ⁽¹⁾	1	\$ 66	\$ 66	\$1,787	\$1,787
Restricted cash and restricted cash equivalents ⁽¹⁾	1	99	99	—	—
Liabilities:					
Commercial Paper	2	70	70	—	—
Long-term debt – 2018 Notes ⁽²⁾	2	—	—	364	389
Long-term debt – 2019 Notes ⁽²⁾	2	250	252	249	254
Long-term debt – 2020 Notes ⁽²⁾	2	247	249	247	248
Long-term debt – 2021-A Notes ⁽²⁾	2	250	257	249	256
Long-term debt – 2021-B Notes ⁽²⁾	2	247	251	246	248
Long-term debt – 2022 Notes ⁽²⁾	2	269	251	273	247
Long-term debt – 2023 Notes ⁽²⁾	2	496	509	495	500
Long-term debt – 2025 Notes ⁽²⁾	2	495	508	495	498
Long-term debt – 2026 Notes ⁽²⁾	2	397	376	396	370
Long-term debt – 2027 Notes ⁽²⁾	2	498	504	397	398
Long-term debt – 2038 Notes ⁽²⁾	2	135	175	270	347
Long-term debt – 2045 Notes ⁽²⁾	2	558	582	247	253
Long-term debt – 2046 Notes ⁽²⁾	2	397	420	397	407

Cash equivalents and restricted cash equivalents are composed of certificates of deposit, money market funds, time deposits and other interest-bearing investments with original maturity dates of three months or less. Cash equivalents and restricted cash equivalents are recorded at cost, which approximates fair value.

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

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DR PEPPER SNAPPLE GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited, Continued)

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:

	For the Three Months Ended September 30, 2017		For the Nine Months Ended September 30, 2016	
(in millions)	2017	2016	2017	2016
Total stock-based compensation expense	\$ 10	\$ 11	\$ 26	\$ 33
Income tax benefit recognized in the Statements of Income	(4)	(4)	(9)	(12)
Stock-based compensation expense, net of tax	\$ 6	\$ 7	\$ 17	\$ 21

STOCK OPTIONS

The table below summarizes stock option activity for the nine months ended September 30, 2017:

	Stock Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (in millions)
Outstanding as of January 1, 2017	1,342,921	\$ 70.83	7.93	\$ 27
Granted	423,745	94.62		
Exercised	(376,846)	53.16		16
Forfeited or expired	(14,427)	90.18		
Outstanding as of September 30, 2017	1,375,393	82.80	8.11	12
Exercisable as of September 30, 2017	559,491	70.53	7.16	10

As of September 30, 2017, there was \$6 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 1.09 years.

RESTRICTED STOCK UNITS

The table below summarizes RSU activity for the nine months ended September 30, 2017. 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, 2017	1,218,244	\$ 71.08	0.80	\$ 110
Granted	407,180	94.46		
Vested and released	(616,647)	58.05		58
Forfeited	(48,320)	89.89		
Outstanding as of September 30, 2017	960,457	88.41	1.06	85

As of September 30, 2017, there was \$47 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 1.04 years.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited, Continued)

During the nine months ended September 30, 2017, 616,647 shares subject to previously granted RSUs vested. A majority of these vested RSUs were net share settled. The Company withheld 194,173 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 \$20 million and \$19 million for the nine months ended September 30, 2017 and 2016, 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 equity.

PERFORMANCE SHARE UNITS

The table below summarizes PSU activity for the nine months ended September 30, 2017. 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, 2017	374,618	\$ 64.86	0.89	\$ 34
Granted	119,879	93.28		
Performance adjustment ⁽¹⁾	146,807	76.17		
Vested and released	(296,821)	51.78		28
Forfeited	(13,223)	80.07		
Outstanding as of September 30, 2017	331,260	55.69	1.24	29

(1) For PSUs which vested during the nine months ended September 30, 2017, the Company awarded additional PSUs, as actual results measured at the end of the performance period exceeded target performance levels.

As of September 30, 2017, there was \$9 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 1.23 years.

During the nine months ended September 30, 2017, 296,821 units subject to previously granted PSUs vested. A majority of these vested PSUs were net share settled. The Company withheld 101,988 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 \$10 million and \$12 million for the nine months ended September 30, 2017 and 2016, 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 equity.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited, Continued)

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:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
(in millions, except per share data)	2017	2016	2017	2016
Basic EPS:				
Net income	\$203	\$240	\$568	\$682
Weighted average common shares outstanding	181.4	184.8	182.7	186.1
Earnings per common share — basic	\$1.12	\$1.30	\$3.11	\$3.66
Diluted EPS:				
Net income	\$203	\$240	\$568	\$682
Weighted average common shares outstanding	181.4	184.8	182.7	186.1
Effect of dilutive securities:				
Stock options	0.2	0.2	0.2	0.2
RSUs	0.4	0.7	0.5	0.7
PSUs	0.1	—	0.1	0.1
Weighted average common shares outstanding and common stock equivalents	182.1	185.7	183.5	187.1
Earnings per common share — diluted	\$1.11	\$1.29	\$3.09	\$3.64

Stock options, RSUs, PSUs and DEUs totaling 1.1 million and 0.8 million shares were excluded from the diluted weighted average shares outstanding for the three and nine months ended September 30, 2017, respectively, as they were not dilutive. Stock options, RSUs, PSUs and DEUs totaling 0.3 million and 0.4 million shares were excluded from the diluted weighted average shares outstanding for the three and nine months ended September 30, 2016, respectively, 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, 2017, there were 45,689 DEUs, which will vest at the time that the underlying RSU or PSU vests. As of September 30, 2017, the Company's Board has authorized a total aggregate share repurchase plan of \$5 billion. The Company repurchased and retired 1.6 million shares of common stock valued at approximately \$143 million and 3.5 million shares of common stock valued at approximately \$320 million for the three and nine months ended September 30, 2017, respectively. The Company repurchased and retired 1.6 million shares of common stock valued at approximately \$157 million and 5.0 million shares of common stock valued at approximately \$460 million for the three and nine months ended September 30, 2016, respectively. These amounts were recorded as a reduction of equity in the unaudited Condensed Consolidated Statement of Changes in Stockholders' Equity. As of September 30, 2017, \$811 million remains available for share repurchases under the Board's authorization.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited, Continued)

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, 2017	\$ (127)	\$ (36)	\$ (30)	\$ (193)
OCI before reclassifications	1	3	—	4
Amounts reclassified from AOCL	—	1	4	5
Net current period OCI	1	4	4	9
Balance as of September 30, 2017	\$ (126)	\$ (32)	\$ (26)	\$ (184)

(in millions)	Foreign Currency Translation	Change in Pension Liability	Cash Flow Hedges	Accumulated Other Comprehensive Loss
Balance as of January 1, 2016	\$ (125)	\$ (36)	\$ (34)	\$ (195)
OCI before reclassifications	(39)	(5)	—	(44)
Amounts reclassified from AOCL	—	4	6	10
Net current year OCI	(39)	(1)	6	(34)
Balance as of December 31, 2016	(164)	(37)	(28)	(229)
OCI before reclassifications	38	3	(7)	34
Amounts reclassified from AOCL	—	2	9	11
Net current period OCI	38	5	2	45
Balance as of September 30, 2017	\$ (126)	\$ (32)	\$ (26)	\$ (184)

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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 Loss Reclassified from AOCL into Income	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
		2017	2016	2017	2016
Loss on cash flow hedges:					
Interest rate contracts	Interest expense	\$(2)	\$(2)	\$(6)	\$(6)
Foreign exchange forward contracts	Cost of sales	(3)	—	(7)	(1)
Total		(5)	(2)	(13)	(7)
Income tax benefit		(1)	(1)	(4)	(3)
Total		\$(4)	\$(1)	\$(9)	\$(4)
Defined benefit pension and postretirement plan items:					
Amortization of actuarial losses, net	SG&A expenses	\$(1)	\$(1)	\$(3)	\$(3)
Settlement loss	SG&A expenses	(1)	—	(1)	—
Total		(2)	(1)	(4)	(3)
Income tax benefit		(1)	—	(2)	(1)
Total		\$(1)	\$(1)	\$(2)	\$(2)
Total reclassifications		\$(5)	\$(2)	\$(11)	\$(6)

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited, Continued)

15. Supplemental Cash Flow Information

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

	September 30, 2017	December 31, 2016
(in millions)		
Cash and cash equivalents	\$ 66	\$ 1,787
Restricted cash and restricted cash equivalents ⁽¹⁾	89	—
Non-current restricted cash and restricted cash equivalents included in Other non-current assets ⁽¹⁾	10	—
Total cash, cash equivalents, restricted cash and restricted cash equivalents shown in the unaudited Condensed Consolidated Statement of Cash Flows	\$ 165	\$ 1,787

⁽¹⁾ Amounts included in restricted cash and restricted cash equivalents represent the holdback held in escrow in connection with the Bai Brands Merger. Refer to Note 2 for additional information on the Bai Brands Merger.

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

	For the Nine Months Ended September 30, 2017 2016	
(in millions)		
Supplemental cash flow disclosures of non-cash investing and financing activities:		
Dividends declared but not yet paid	\$ 106	\$ 97
Capital expenditures included in accounts payable and other current liabilities	19	14
Holdback liability for acquisition of business	88	—
Capital lease additions	28	17
Supplemental cash flow disclosures:		
Interest paid	\$ 88	\$ 59
Income taxes paid	221	301

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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.

17. Segments

As of September 30, 2017 and for the three and nine months ended September 30, 2017, the Company's operating structure consisted of the following four operating segments upon consummation of the Bai Brands Merger:

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 Excluding Bai segment reflects sales in the U.S. and Canada from the manufacture and distribution of finished beverages and other products, including sales of the Company's own brands and third-party brands, through both the Direct Store Delivery system and the Warehouse Direct system.

The Bai segment reflects sales of Bai Brands finished goods to third party distributors, primarily in the U.S., as net sales to the Packaged Beverages Excluding Bai segment are eliminated in consolidation. Refer to Note 2 for additional information regarding the impact of Bai Brands on the Company's net sales presented in the unaudited Condensed Consolidated Statements of Income.

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

The Company has determined that Packaged Beverages Excluding Bai and Bai, which have been identified as operating segments, meet the aggregation criteria under U.S. GAAP. As such, these segments have been aggregated into one reportable segment, Packaged Beverages, based on similarities among the operating units including economic characteristics, the nature of the products and services, the nature of the production processes, the types or class of customer for their products and services, the methods used to distribute their products and services and the nature of the regulatory environment.

As of December 31, 2016 and for the three and nine months ended September 30, 2016, the Company's operating structure consisted of the three operating segments identified prior to the Bai Brands Merger.

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

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DR PEPPER SNAPPLE GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited, Continued)

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

(in millions)	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2017	2016	2017	2016
Segment Results – Net sales				
Beverage Concentrates	\$334	\$323	\$984	\$952
Packaged Beverages	1,273	1,236	3,693	3,558
Latin America Beverages	133	121	370	352
Net sales	\$1,740	\$1,680	\$5,047	\$4,862

(in millions)	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2017	2016	2017	2016
Segment Results – SOP				
Beverage Concentrates	\$218	\$205	\$641	\$622
Packaged Beverages	189	208	526	592
Latin America Beverages	12	21	47	60
Total SOP	419	434	1,214	1,274
Unallocated corporate costs	52	64	219	180
Other operating income, net	—	(3)	(30)	(4)
Income from operations	367	373	1,025	1,098
Interest expense, net	39	32	121	97
Loss on early extinguishment of debt	13	—	62	—
Other income, net	(2)	(2)	(6)	(25)
Income before provision for income taxes and equity in earnings of unconsolidated subsidiaries	\$317	\$343	\$848	\$1,026

(in millions)	September 30,	December 31,
	2017	2016
Identifiable operating assets		
Beverage Concentrates	\$ 4,163	\$ 4,108
Packaged Beverages ⁽¹⁾	5,291	3,474
Latin America Beverages	351	312
Segment total	9,805	7,894
Corporate and other ⁽¹⁾	210	1,874
Total identifiable operating assets	10,015	9,768
Investments in unconsolidated subsidiaries	24	23
Total assets	\$ 10,039	\$ 9,791

The primary driver of the change in identifiable operating assets from December 31, 2016 to September 30, 2017 (1) in the Packaged Beverages segment and Corporate and other is the Bai Brands Merger. Refer to Note 2 for additional information about the Bai Brands Merger.

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DR PEPPER SNAPPLE GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited, Continued)

18. Guarantor and Non-Guarantor Financial Information

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

(in millions)	Condensed Consolidating Statements of Income For the Three Months Ended September 30, 2017				
	Parent	Guarantors	Non-Guarantors	Eliminations	Total
Net sales	\$—	\$ 1,585	\$ 191	\$ (36)	\$ 1,740
Cost of sales	—	637	106	(36)	707
Gross profit	—	948	85	—	1,033
Selling, general and administrative expenses	2	582	56	—	640
Depreciation and amortization	—	24	2	—	26
Other operating (income) expense, net	—	—	—	—	—
Income from operations	(2)	342	27	—	367
Interest expense	71	22	—	(53)	40
Interest income	(19)	(34)	(1)	53	(1)
Loss on extinguishment of debt	13	—	—	—	13
Other (income) expense, net	(1)	(1)	—	—	(2)
Income (loss) before provision (benefit) for income taxes and equity in earnings of subsidiaries	(66)	355	28	—	317
Provision (benefit) for income taxes	(24)	132	6	—	114
Income (loss) before equity in earnings of subsidiaries	(42)	223	22	—	203
Equity in earnings of consolidated subsidiaries	245	22	—	(267)	—
Equity in earnings of unconsolidated subsidiaries, net of tax	—	—	—	—	—
Net income	\$203	\$ 245	\$ 22	\$ (267)	\$ 203

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DR PEPPER SNAPPLE GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited, Continued)

(in millions)	Condensed Consolidating Statements of Income				Total
	Parent	Guarantors	Non-Guarantors	Eliminations	
Net sales	\$—	\$ 1,547	\$ 167	\$ (34)	\$1,680
Cost of sales	—	632	85	(34)	683
Gross profit	—	915	82	—	\$997
Selling, general and administrative expenses	1	550	52	—	603
Depreciation and amortization	—	22	2	—	24
Other operating (income) expense, net	—	1	(4)	—	(3)
Income from operations	(1)	342	32	—	373
Interest expense	58	17	—	(42)	33
Interest income	(14)	(27)	(2)	42	(1)
Other (income) expense, net	12	(15)	1	—	(2)
Income (loss) before provision (benefit) for income taxes and equity in earnings of subsidiaries	(57)	367	33	—	343
Provision (benefit) for income taxes	(21)	113	10	—	102
Income (loss) before equity in earnings of subsidiaries	(36)	254	23	—	241
Equity in earnings of consolidated subsidiaries	276	24	—	(300)	—
Equity in earnings of unconsolidated subsidiaries, net of tax	—	(2)	1	—	(1)
Net income	\$240	\$ 276	\$ 24	\$ (300)	\$240

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DR PEPPER SNAPPLE GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited, Continued)

(in millions)	Condensed Consolidating Statements of Income				Total
	Parent	Guarantors	Non-Guarantors	Eliminations	
Net sales	\$—	\$ 4,639	\$ 520	\$ (112)	\$ 5,047
Cost of sales	—	1,859	285	(112)	2,032
Gross profit	—	2,780	235	—	3,015
Selling, general and administrative expenses	5	1,782	157	—	1,944
Depreciation and amortization	—	70	6	—	76
Other operating income, net	—	(30)	—	—	(30)
Income from operations	(5)	958	72	—	1,025
Interest expense	206	61	—	(143)	124
Interest income	(53)	(91)	(2)	143	(3)
Loss on extinguishment of debt	62	—	—	—	62
Other (income) expense, net	(7)	(2)	3	—	(6)
Income (loss) before provision (benefit) for income taxes and equity in earnings of subsidiaries	(213)	990	71	—	848
Provision (benefit) for income taxes	(78)	340	17	—	279
Income (loss) before equity in earnings of subsidiaries	(135)	650	54	—	569
Equity in earnings of consolidated subsidiaries	703	54	—	(757)	—
Equity in earnings of unconsolidated subsidiaries, net of tax	—	(1)	—	—	(1)
Net income	\$568	\$ 703	\$ 54	\$ (757)	\$ 568

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DR PEPPER SNAPPLE GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited, Continued)

(in millions)	Condensed Consolidating Statements of Income				Total
	For the Nine Months Ended September 30, 2016				
	Parent	Guarantors	Non-Guarantors	Eliminations	
Net sales	\$—	\$ 4,475	\$ 486	\$ (99)	\$ 4,862
Cost of sales	—	1,811	243	(99)	1,955
Gross profit	—	2,664	243	—	2,907
Selling, general and administrative expenses	2	1,583	154	—	1,739
Depreciation and amortization	—	69	5	—	74
Other operating income, net	—	1	(5)	—	(4)
Income from operations	(2)	1,011	89	—	1,098
Interest expense	166	51	—	(118)	99
Interest income	(40)	(75)	(5)	118	(2)
Other (income) expense, net	9	(39)	5	—	(25)
Income (loss) before provision (benefit) for income taxes and equity in earnings of subsidiaries	(137)	1,074	89	—	1,026
Provision (benefit) for income taxes	(51)	369	25	—	343
Income (loss) before equity in earnings of subsidiaries	(86)	705	64	—	683
Equity in earnings of consolidated subsidiaries	768	65	—	(833)	—
Equity in earnings of unconsolidated subsidiaries, net of tax	—	(2)	1	—	(1)
Net income	\$682	\$ 768	\$ 65	\$ (833)	\$682

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DR PEPPER SNAPPLE GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited, Continued)

	Condensed Consolidating Statements of Comprehensive Income For the Three Months Ended September 30, 2017				
(in millions)	Parent	Guarantors	Non-Guarantors	Eliminations	Total
Comprehensive income (loss)	\$212	\$ 253	\$ 26	\$ (279)	\$212

	Condensed Consolidating Statements of Comprehensive Income For the Three Months Ended September 30, 2016				
(in millions)	Parent	Guarantors	Non-Guarantors	Eliminations	Total
Comprehensive income (loss)	\$229	\$ 263	\$ 9	\$ (272)	\$229

	Condensed Consolidating Statements of Comprehensive Income For the Nine Months Ended September 30, 2017				
(in millions)	Parent	Guarantors	Non-Guarantors	Eliminations	Total
Comprehensive income (loss)	\$613	\$ 744	\$ 90	\$ (834)	\$613

	Condensed Consolidating Statements of Comprehensive Income For the Nine Months Ended September 30, 2016				
(in millions)	Parent	Guarantors	Non-Guarantors	Eliminations	Total
Comprehensive income (loss)	\$664	\$ 748	\$ 54	\$ (802)	\$664

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DR PEPPER SNAPPLE GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited, Continued)

(in millions)	Condensed Consolidating Balance Sheets				
	As of September 30, 2017				
	Parent	Guarantors	Non-Guarantors	Eliminations	Total
Current assets:					
Cash and cash equivalents	\$—	\$ 16	\$ 50	\$—	\$66
Restricted cash and cash equivalents	—	89	—	—	89
Accounts receivable:					
Trade, net	—	585	74	—	659
Other	7	36	4	—	47
Related party receivable	19	38	—	(57)	—
Inventories	—	228	33	—	261
Prepaid expenses and other current assets	449	131	18	(454)	144
Total current assets	475	1,123	179	(511)	1,266
Property, plant and equipment, net	—	988	141	—	1,129
Investments in consolidated subsidiaries	8,832	344	—	(9,176)	—
Investments in unconsolidated subsidiaries	—	24	—	—	24
Goodwill	—	3,535	24	—	3,559
Other intangible assets, net	—	3,733	53	—	3,786
Long-term receivable, related parties	3,259	5,957	—	(9,216)	—
Other non-current assets	69	126	20	—	215
Deferred tax assets	18	—	60	(18)	60
Total assets	\$12,653	\$ 15,830	\$ 477	\$ (18,921)	\$ 10,039
Current liabilities:					
Accounts payable	\$—	\$ 354	\$ 33	\$—	\$387
Related party payable	34	19	4	(57)	—
Deferred revenue	—	70	1	(7)	64
Short-term borrowings and current portion of long-term obligations	70	12	—	—	82
Income taxes payable	—	455	2	(447)	10
Other current liabilities	159	603	54	—	816
Total current liabilities	263	1,513	94	(511)	1,359
Long-term obligations to third parties	4,239	160	—	—	4,399
Long-term obligations to related parties	5,957	3,259	—	(9,216)	—
Deferred tax liabilities	—	895	—	(18)	877
Non-current deferred revenue	—	1,044	27	—	1,071
Other non-current liabilities	65	127	12	—	204
Total liabilities	10,524	6,998	133	(9,745)	7,910
Total stockholders' equity	2,129	8,832	344	(9,176)	2,129
Total liabilities and stockholders' equity	\$12,653	\$ 15,830	\$ 477	\$ (18,921)	\$ 10,039

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DR PEPPER SNAPPLE GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited, Continued)

(in millions)	Condensed Consolidating Balance Sheets				
	As of December 31, 2016				
	Parent	Guarantors	Non-Guarantors	Eliminations	Total
Current assets:					
Cash and cash equivalents	\$—	\$ 1,736	\$ 51	\$—	\$1,787
Restricted cash and cash equivalents	—	—	—	—	—
Accounts receivable:					
Trade, net	—	540	55	—	595
Other	3	39	9	—	51
Related party receivable	15	37	—	(52)	—
Inventories	—	178	24	—	202
Prepaid and other current assets	379	84	7	(369)	101
Total current assets	397	2,614	146	(421)	2,736
Property, plant and equipment, net	—	1,007	131	—	1,138
Investments in consolidated subsidiaries	8,067	302	—	(8,369)	—
Investments in unconsolidated subsidiaries	—	23	—	—	23
Goodwill	—	2,972	21	—	2,993
Other intangible assets, net	—	2,609	47	—	2,656
Long-term receivable, related parties	3,209	5,077	—	(8,286)	—
Other non-current assets	64	107	12	—	183
Deferred tax assets	20	—	62	(20)	62
Total assets	\$11,757	\$ 14,711	\$ 419	\$ (17,096)	\$9,791
Current liabilities:					
Accounts payable	\$—	\$ 276	\$ 27	\$—	\$303
Related party payable	31	14	7	(52)	—
Deferred revenue	—	63	1	—	64
Short-term borrowings and current portion of long-term obligations	—	10	—	—	10
Income taxes payable	—	372	1	(369)	4
Other current liabilities	128	502	40	—	670
Total current liabilities	159	1,237	76	(421)	1,051
Long-term obligations to third parties	4,325	143	—	—	4,468
Long-term obligations to related parties	5,077	3,209	—	(8,286)	—
Deferred tax liabilities	(1)	833	—	(20)	812
Non-current deferred revenue	—	1,091	26	—	1,117
Other non-current liabilities	63	131	15	—	209
Total liabilities	9,623	6,644	117	(8,727)	7,657
Total stockholders' equity	2,134	8,067	302	(8,369)	2,134
Total liabilities and stockholders' equity	\$11,757	\$ 14,711	\$ 419	\$ (17,096)	\$9,791

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DR PEPPER SNAPPLE GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited, Continued)

(in millions)	Condensed Consolidating Statements of Cash Flows				
	Parent	Guarantors	Non-Guarantors	Eliminations	Total
Operating activities:					
Net cash (used in) provided by operating activities	\$(166)	\$ 896	\$ 50	\$ (48)	\$ 732
Investing activities:					
Acquisition of business	—	(1,553)	—	—	(1,553)
Cash acquired in step acquisition of unconsolidated subsidiaries	—	3	—	—	3
Purchase of property, plant and equipment	—	(76)	(9)	—	(85)
Investment in unconsolidated subsidiaries	—	(3)	—	—	(3)
Purchase of intangible assets	—	(5)	—	—	(5)
Proceeds from disposals of property, plant and equipment	—	3	—	—	3
Issuance of related party notes receivable	—	(881)	—	881	—
Other, net	(6)	3	—	—	(3)
Net cash (used in) provided by investing activities	(6)	(2,509)	(9)	881	(1,643)
Financing activities:					
Proceeds from issuance of related party debt	881	—	—	(881)	—
Proceeds from issuance of senior unsecured notes	400	—	—	—	400
Repayment of senior unsecured notes	(562)	—	—	—	(562)
Net issuance of commercial paper	70	—	—	—	70
Repurchase of shares of common stock	(320)	—	—	—	(320)
Dividends paid	(309)	—	(48)	48	(309)
Tax withholdings related to net share settlements of certain stock awards	(30)	—	—	—	(30)
Proceeds from stock options exercised	20	—	—	—	20
Premium (discount) on issuance of senior unsecured notes	16	—	—	—	16
Proceeds from termination of interest rate swap	13	—	—	—	13
Deferred financing charges paid	(5)	—	—	—	(5)
Capital lease payments	—	(8)	—	—	(8)
Other, net	(2)	—	—	—	(2)
Net cash (used in) provided by financing activities	172	(8)	(48)	(833)	(717)
Cash and cash equivalents — net change from:					
Operating, investing and financing activities	—	(1,621)	(7)	—	(1,628)
Effect of exchange rate changes on cash and cash equivalents	—	—	6	—	6
Cash, cash equivalents, restricted cash and restricted cash equivalents at beginning of period	—	1,736	51	—	1,787
Cash, cash equivalents, restricted cash and restricted cash equivalents at end of period	\$—	\$ 115	\$ 50	\$ —	\$ 165

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DR PEPPER SNAPPLE GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited, Continued)

(in millions)	Condensed Consolidating Statements of Cash Flows				
	Parent	Guarantors	Non-Guarantors	Eliminations	Total
Operating activities:					
Net cash (used in) provided by operating activities	\$(125)	\$ 765	\$ 65	\$ —	\$ 705
Investing activities:					
Acquisition of business	—	—	(15)	—	(15)
Cash acquired in step acquisition of unconsolidated subsidiaries	—	—	17	—	17
Purchase of property, plant and equipment	—	(79)	(31)	—	(110)
Purchase of intangible assets	—	—	(1)	—	(1)
Purchase of cost method investment	—	(1)	—	—	(1)
Investments in unconsolidated subsidiaries	—	(6)	—	—	(6)
Proceeds from disposals of property, plant and equipment	—	4	—	—	4
Issuance of related party notes receivable	—	(1,002)	—	1,002	—
Other, net	(7)	—	—	—	(7)
Net cash (used in) provided by investing activities	(7)	(1,084)	(30)	1,002	(119)
Financing activities:					
Proceeds from issuance of related party debt	1,002	—	—	(1,002)	—
Proceeds from issuance of senior unsecured notes	400	—	—	—	400
Repayment of senior unsecured notes	(500)	—	—	—	(500)
Repurchase of shares of common stock	(460)	—	—	—	(460)
Dividends paid	(288)	—	—	—	(288)
Tax withholdings related to net share settlements of certain stock awards	(31)	—	—	—	(31)
Proceeds from stock options exercised	14	—	—	—	14
Premium (discount) on issuance of senior unsecured notes	(1)	—	—	—	(1)
Deferred financing charges paid	(3)	—	—	—	(3)
Capital lease payments	—	(6)	—	—	(6)
Other, net	(1)	—	—	—	(1)
Net cash (used in) provided by financing activities	132	(6)	—	(1,002)	(876)
Cash and cash equivalents — net change from:					
Operating, investing and financing activities	—	(325)	35	—	(290)
Effect of exchange rate changes on cash and cash equivalents	—	—	(1)	—	(1)
Cash, cash equivalents, restricted cash and restricted cash equivalents at beginning of period	—	859	52	—	911
Cash, cash equivalents, restricted cash and restricted cash equivalents at end of period	\$—	\$ 534	\$ 86	\$ —	\$ 620

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

You should read the following discussion in conjunction with our audited consolidated financial statements and notes thereto in our Annual Report on Form 10-K for the year ended December 31, 2016 (the "Annual Report").

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

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

BAI BRANDS LLC MERGER

On January 31, 2017, we consummated our Agreement and Plan of Merger (the "Merger Agreement") with Bai Brands LLC ("Bai Brands") and completed the acquisition of Bai Brands for a cash purchase price of \$1.690 billion, subject to certain customary adjustments provided in the Merger Agreement (the "Merger" or the "Bai Brands Merger"). The results of Bai Brands are included in the Packaged Beverages reporting segment.

In discussing our results, we may use the terms "acquired" and "organic". "Acquired" represents the incremental impact to our results due to the Bai Brands Merger, which primarily reflects sales of Bai Brands finished goods to third party distributors. "Organic" represents the incremental impact to our results from our pre-existing business prior to the Bai Brands Merger.

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, Canada Dry, Peñafiel, Squirt, 7UP, Crush, A&W, Sunkist soda and Schweppes, and NCB brands such as Snapple, Hawaiian Punch, Mott's, Clamato, Bai, Mr & Mrs T mixers and Rose's. Our largest brand, Dr Pepper, is a leading flavored CSD in the U.S. as reported by Information Resources, Inc. We have some of the most recognized beverage brands in North America, with significant consumer awareness levels and long histories that evoke strong emotional connections with consumers.

We operate as an integrated brand owner, manufacturer and distributor through our three reporting segments. We believe our integrated business model strengthens our route-to-market and provides opportunities for net sales and profit growth through the alignment of the economic interests of our brand ownership and our manufacturing and distribution businesses through both our 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.

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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.

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

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

PACKAGED BEVERAGES

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

Additionally, we distribute third-party brands such as Big Red, FIJI mineral water, AriZona tea, Vita Coco coconut water, BODYARMOR, Neuro drinks, Core Hydration, Sparkling Fruit₂O, Hydrive energy drinks and High-Brew.

Although the majority of our Packaged Beverages' net sales relate to our brands, we also provide a route-to-market for these third party brand owners seeking effective distribution for their new and emerging brands. These brands give us exposure in certain markets to fast growing segments of the beverage industry with minimal capital investment.

A portion of our sales also comes from bottling beverages and other products for private label owners or others, which is also referred to as contract manufacturing.

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, dollar stores and e-commerce.

LATIN AMERICA BEVERAGES

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

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

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VOLUME

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

Beverage Concentrates Sales Volume

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

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

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

Packaged Beverages Sales Volume

In our Packaged Beverages reporting 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.

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EXECUTIVE SUMMARY - FINANCIAL OVERVIEW AND RECENT DEVELOPMENTS

Net income decreased \$37 million driven primarily by the impact of the Bai Brands Merger, the loss on early extinguishment of debt as we completed a redemption of the remaining 2018 Notes during the three months ended September 30, 2017, the impact of a \$6 million default by a supplier of resin to our operations in Mexico and the unfavorable comparison to the non-taxable gain of \$5 million associated with the step-acquisition within our Latin America Beverages segment recorded in the prior year period.

During July 2017, we completed a redemption of the remainder of our 2018 Notes and retired, at a premium, an aggregate principal amount of approximately \$301 million. The loss on early extinguishment of the 2018 Notes was \$13 million, which decreased diluted earnings per share by \$0.04 for both the three and nine months ended September 30, 2017.

On January 31, 2017, we completed the Bai Brands Merger. For the three and nine months ended September 30, 2017, the primary impacts of the Bai Brands Merger decreased diluted earnings per share in total by \$0.07 and \$0.22, respectively.

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The drivers of this change include:

The interest expense associated with the financing to complete the Bai Brands Merger, which decreased diluted earnings per share by \$0.05 and \$0.13 for the three and nine months ended September 30, 2017, respectively; The ongoing operations of Bai Brands, which decreased diluted earnings per share by \$0.01 and \$0.11 for the three and nine months ended September 30, 2017, respectively;

The associated transaction and integration expenses, which decreased diluted earnings per share by \$0.01 and \$0.08 for the three and nine months ended September 30, 2017, respectively; and

The gain on the step-acquisition of Bai Brands, which increased diluted earnings per share by \$0.10 for the nine months ended September 30, 2017.

The impact of the ongoing operations of Bai Brands includes the incremental profit margin benefit we experienced in the three and nine months ended September 30, 2017 as the brand owner for Bai Brands, the acquired Bai Brands shipments to third parties since the Bai Brands Merger and any associated purchase accounting adjustments, partially offset by the \$9 million initial profit in stock adjustment recorded during the first quarter of 2017 related to Bai Brands inventories.

While the recent hurricanes and earthquakes that hit the U.S. and Mexico during the third quarter of 2017 caused disruptions to our operations, we did not sustain any material loss of distribution or production. We continue to assess the impact of these events, which primarily occurred just before the end of our third quarter of 2017.

During the three and nine months ended September 30, 2017, we repurchased 1.6 million and 3.5 million shares of our common stock valued at approximately \$143 million and \$320 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."

Three Months Ended September 30, 2017 Compared to Three Months Ended September 30, 2016

Consolidated Operations

The following table sets forth our unaudited consolidated results of operations for the three months ended September 30, 2017 and 2016:

(\$ in millions)	For the Three Months Ended				Dollar Change	Percentage Change
	September 30, 2017		September 30, 2016			
	Dollars	Percent	Dollars	Percent		
Net sales	\$1,740	100.0%	\$1,680	100.0%	\$ 60	4 %
Cost of sales	707	40.6	683	40.7	24	4
Gross profit	1,033	59.4	997	59.3	36	4
Selling, general and administrative expenses	640	36.8	603	35.9	37	6
Income from operations	367	21.1	373	22.2	(6)	(2)
Interest expense	40	2.3	33	2.0	7	21
Loss on early extinguishment of debt	13	0.7	—	—	13	NM
Effective tax rate	36.0	% NM	29.7	% NM	NM	NM

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Volume (BCS). Volume (BCS) was flat for the three months ended September 30, 2017 compared with the three months ended September 30, 2016, driven partially by the impact of the recent hurricanes and earthquakes in the U.S. and Mexico. In the U.S. and Canada, volume was flat, and in Mexico and the Caribbean, volume increased 2%, compared with the year ago period. Branded CSD volumes declined 1% and NCB volumes increased 6% in the current period.

In branded CSDs, Dr Pepper declined 2% driven by decreases in regular and diet, driven primarily by the timing of orders for a large customer in our fountain business. 7UP declined 8% driven by reduced promotional activity while A&W decreased 1% compared to the year ago period. Schweppes also declined by 1% as declines in sparkling water were partially offset by continued growth in the ginger ale category. Other CSD brands were 3% lower, led by Rockstar, due to the loss of distribution rights, compared to the year ago period. These declines were partially offset by a 5% increase in Peñafiel as a result of product and package innovation and distribution gains in our Latin America Beverages segment and 2% growth in Canada Dry due to continued growth in the ginger ale category. Squirt also increased 1%.

In branded NCBs, Bai increased 108% driven by the acquired Bai Brands shipments to third party distributors since the Bai Brands Merger and continued growth in our existing distribution as a result of distribution gains and product innovation. Our growth allied brands gained 40% due primarily to distribution gains for BODYARMOR, Core and Fiji, and product innovation for BODYARMOR. Mott's increased 5% primarily due to growth in our sauce products, while Clamato increased 7% compared with the year ago period. These increases were partially offset by a 5% decline in Snapple due to declines in diet and the timing of promotional activity. Our other NCB brands were 1% lower compared to the prior period.

Net Sales. Net sales increased \$60 million, or approximately 4%, for the three months ended September 30, 2017 compared with the three months ended September 30, 2016. The primary factors of the increase in net sales included:

- Favorable product and package mix, which increased net sales by 2.0%;
- \$21 million of acquired Bai Brands shipments to third parties since the Bai Brands Merger, which grew net sales by 1.5%;
- Increase in shipments, excluding the loss of the Rockstar distribution rights, raised net sales by 1.5%;
 - Favorable foreign currency translation of \$9 million, which raised net sales by 0.5%;
- Unfavorable segment mix, which decreased net sales by 1.0%; and
- The loss of the Rockstar distribution rights, which lowered net sales by 0.5%.

Gross Profit. Gross profit increased \$36 million for the three months ended September 30, 2017 compared with the three months ended September 30, 2016. Gross margin of 59.4% for the three months ended September 30, 2017 was slightly higher than the 59.3% gross margin for the three months ended September 30, 2016. The primary drivers of the change in gross margin for the three months ended September 30, 2017 included:

- Incremental profit margin benefit we experienced as a result of becoming the brand owner for Bai Brands and the acquired Bai Brands shipments to third parties since the Bai Brands Merger, which increased our gross margin by 1.20%;
- Favorable segment mix, which raised our gross margin by 0.30%;
- Favorable comparison of \$3 million in our mark-to-market activity on commodity derivative contracts, which grew our gross margin by 0.20%;
 - Ongoing productivity improvements, which increased our gross margin by 0.10%;
- Other manufacturing costs, which includes the impact of a \$6 million default by a supplier of resin to our operations in Mexico, lowered our gross margin by 0.60%;
- Unfavorable product and package mix, which reduced our gross margin by 0.60%;
- The change in our LIFO inventory provision, driven primarily by apples, combined with higher commodity costs, led by packaging, decreased our gross margin by 0.30%; and
- Unfavorable foreign currency effects, which decreased our gross margin by 0.20%.

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The favorable mark-to-market activity on commodity derivative contracts within cost of sales, which is included in unallocated corporate costs, for the three months ended September 30, 2017 was \$8 million in unrealized gains versus \$5 million in unrealized gains in the year ago period.

Selling, General and Administrative Expenses. Selling, general and administrative ("SG&A") expenses increased \$37 million for the three months ended September 30, 2017 compared with the three months ended September 30, 2016. The primary driver of the increase in SG&A expenses was the impact of the Bai Brands Merger, which includes the \$37 million of acquired operating costs, primarily \$20 million in marketing investments as well as people costs. Other drivers of the total SG&A increase include higher people costs, driven by inflationary increases and additional frontline labor investment, and unfavorable foreign currency effects. These increases were partially offset by lower incentive compensation and a \$6 million favorable comparison in the mark-to-market activity on commodity derivative contracts.

The favorable mark-to-market activity on commodity derivative contracts within SG&A expenses, which is included in unallocated corporate costs, for the three months ended September 30, 2017 was \$10 million in unrealized gains versus \$4 million in unrealized gains in the year ago period.

Income from Operations. Income from operations decreased \$6 million to \$367 million for the three months ended September 30, 2017 due to the increase in SG&A expenses partially offset by an increase in gross profit.

Interest Expense. Interest expense increased \$7 million for the three months ended September 30, 2017 compared with the three months ended September 30, 2016 due primarily to the higher average debt balance associated with the senior unsecured notes issued in the fourth quarter of 2016 to fund the Bai Brands Merger. This increase was partially offset by interest savings associated with the redemption of the 2018 Notes, which occurred during the fourth quarter of 2016, the second quarter of 2017 and the third quarter of 2017.

Loss on Early Extinguishment of Debt. In July 2017, we recognized a \$13 million loss on early extinguishment of debt as we completed a redemption of our remaining 2018 Notes and retired, at a premium, an aggregate principal amount of \$301 million of the 2018 Notes. The \$13 million loss on early extinguishment of debt was comprised of the make-whole premium and write off of deferred financing costs.

Effective Tax Rate. The effective tax rates for the three months ended September 30, 2017 and 2016 were 36.0% and 29.7%, respectively. For the three months ended September 30, 2016, the provision for income taxes included an income tax benefit of \$17 million driven primarily by a restructuring of the ownership of our Canadian business.

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Results of Operations by Segment

The following tables set forth net sales and SOP for our segments for the three months ended September 30, 2017 and 2016, 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,	
	2017	2016
Segment Results — Net sales		
Beverage Concentrates	\$334	\$323
Packaged Beverages	1,273	1,236
Latin America Beverages	133	121
Net sales	\$1,740	\$1,680
(in millions)	For the Three Months Ended September 30,	
	2017	2016
Segment Results — SOP		
Beverage Concentrates	\$218	\$205
Packaged Beverages	189	208
Latin America Beverages	12	21
Total SOP	419	434
Unallocated corporate costs	52	64
Other operating income, net	—	(3)
Income from operations	367	373
Interest expense, net	39	32
Loss on early extinguishment of debt	13	—
Other income, net	(2)	(2)
Income before provision for income taxes and equity in earnings of unconsolidated subsidiaries	\$317	\$343

BEVERAGE CONCENTRATES

The following table details our Beverage Concentrates segment's net sales and SOP for the three months ended September 30, 2017 and 2016:

(in millions)	For the Three Months Ended September 30,		Dollar	Percentage
	2017	2016	Change	Change
Net sales	\$334	\$323	\$ 11	3 %
SOP	218	205	13	6

Net Sales. Net sales increased \$11 million for the three months ended September 30, 2017, compared with the three months ended September 30, 2016. The change was due to higher pricing, a 1% increase in concentrate case sales and lower discounts.

SOP. SOP increased \$13 million for the three months ended September 30, 2017, compared with the three months ended September 30, 2016, driven primarily by an increase in net sales.

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Volume (BCS). Volume (BCS) decreased 1% for the three months ended September 30, 2017, compared with the three months ended September 30, 2016, driven partially by the impact of the recent hurricanes in the U.S. Dr Pepper decreased 2% driven by decreases in regular and diet, driven primarily by the timing of orders for a large customer in our fountain business. 7UP declined 4% compared to the year ago period. Schweppes had a decrease of 1% as declines in sparkling water were partially offset by continued growth in the ginger ale category. Our other brands had a 1% decline. These decreases were partially offset by a 3% increase in Canada Dry, driven by growth in the ginger ale category and increases in sparkling water, and 2% growth in A&W.

PACKAGED BEVERAGES

The following table details our Packaged Beverages segment's net sales and SOP for the three months ended September 30, 2017 and 2016:

	For the Three Months Ended			
	September 30,	Dollar	Percentage	
(in millions)	2017	2016	Change	Change
Net sales	\$ 1,273	\$ 1,236	\$ 37	3 %
SOP	189	208	(19)	(9)

Volume. Branded CSD volumes decreased 3% for the three months ended September 30, 2017 compared with the three months ended September 30, 2016, driven partially by the impact of the recent hurricanes in the U.S. 7UP declined 7% as a result of reduced promotional activity, while A&W decreased 3% compared to the prior year period. Dr Pepper decreased 1% as declines in diet and TEN were partially offset by growth in regular. Other CSD brands decreased 3%. These declines were partially offset by Canada Dry, which increased 2% due to continued growth in the ginger ale category.

Branded NCB volumes increased 5% for the three months ended September 30, 2017 compared with the three months ended September 30, 2016, overcoming the impact of the recent hurricanes in the U.S. Bai increased 108% driven by the acquired Bai Brands shipments to third parties since the Bai Brands Merger and continued growth in our existing distribution as a result of distribution gains and product innovation. Our growth allied brands gained 40% due primarily to distribution gains for BODYARMOR, Core and Fiji, and product innovation for BODYARMOR. Mott's increased 6% compared to the prior period primarily due to growth in our sauce products. Clamato increased 7% compared to the prior year period. These increases were partially offset by a 7% decline in Snapple due to declines in diet and the timing of promotional activity and a 4% decline in other NCB brands, led by Rockstar, due to the loss of distribution rights, and AriZona.

Contract manufacturing decreased 3% for the three months ended September 30, 2017 compared with the three months ended September 30, 2016.

Net Sales. Net sales increased \$37 million for the three months ended September 30, 2017, compared with the three months ended September 30, 2016. Net sales increased due to favorable product and package mix, as a result of our NCBs, including our allied brands and \$21 million in acquired Bai Brands shipments to third parties due to the Bai Brands Merger. These increases were partially offset by the loss of the Rockstar distribution rights and higher discounts primarily as a result of a unfavorable comparison in the adjustments to our estimated customer incentive liability.

SOP. SOP decreased \$19 million for the three months ended September 30, 2017, compared with the three months ended September 30, 2016, as increases in SG&A expenses and cost of sales were partially offset by an increase in net sales.

Cost of sales increased as a result of higher costs associated with product and package mix, as a result of our NCBs, including our allied brands and the addition of costs associated with the acquired Bai Brands shipments to third parties since the Bai Brands Merger. These increases were partially offset by the incremental profit margin benefit we experienced as a result of becoming the brand owner for Bai Brands.

SG&A expenses increased driven primarily by the Bai Brands Merger, which include the acquired operating costs, primarily marketing and people costs. Other unfavorable impacts to SG&A expenses included higher people costs,

driven by inflationary increases and additional frontline labor investment.

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LATIN AMERICA BEVERAGES

The following table details our Latin America Beverages segment's net sales and SOP for the three months ended September 30, 2017 and 2016:

	For the Three Months Ended September 30,		Dollar	Percent
(in millions)	2017	2016	Change	Change
Net sales	\$ 133	\$ 121	\$ 12	10 %
SOP	12	21	(9)	(43)

Volume. Sales volume increased 2% for the three months ended September 30, 2017 compared with the three months ended September 30, 2016. The increase in sales volume was driven primarily by a 5% increase in Peñafiel as a result of distribution gains and product and package innovation. Clamato grew 9% due to higher sales as a result of a third party package innovation coupled with product innovation. These increases were partially offset by a 2% decrease in our other brands. Squirt was flat compared to the prior year period. Sales volume was negatively impacted by the recent hurricanes and earthquakes in Mexico.

Net Sales. Net sales increased \$12 million for the three months ended September 30, 2017, compared with the three months ended September 30, 2016. Net sales increased as a result of favorable foreign currency translation of \$6 million, increased sales volume and higher pricing.

SOP. SOP decreased \$9 million for the three months ended September 30, 2017, compared with the three months ended September 30, 2016, driven by increases in cost of sales and SG&A expenses, partially offset by an increase in net sales. Cost of sales increased in the current period as a result of unfavorable foreign currency effects, the impact of a \$6 million default by a supplier of resin to our operations in Mexico and higher costs associated with increased sales volumes. SG&A expenses increased in the current period as a result of unfavorable foreign currency effects. The impact of the unfavorable foreign currency effects on cost of sales and SG&A expenses totaled \$10 million.

Nine Months Ended September 30, 2017 Compared to Nine Months Ended September 30, 2016

Consolidated Operations

The following table sets forth our unaudited consolidated results of operations for the nine months ended September 30, 2017 and 2016:

	For the Nine Months Ended September 30,					
	2017		2016		Dollar	Percentage
(\$ in millions)	Dollars	Percent	Dollars	Percent	Change	Change
Net sales	\$5,047	100.0 %	\$4,862	100.0 %	\$ 185	4 %
Cost of sales	2,032	40.3	1,955	40.2	77	4
Gross profit	3,015	59.7	2,907	59.8	108	4
Selling, general and administrative expenses	1,944	38.5	1,739	35.8	205	12
Other operating income, net	(30)	(0.6)	(4)	(0.1)	(26)	NM
Income from operations	1,025	20.3	1,098	22.6	(73)	(7)
Interest expense	124	2.5	99	2.0	25	25
Loss on early extinguishment of debt	62	1.2	—	—	62	NM
Other income, net	(6)	(0.1)	(25)	(0.5)	19	NM
Effective tax rate	32.9 %	NM	33.4 %	NM	NM	NM

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Volume (BCS). Volume (BCS) increased 1% for the nine months ended September 30, 2017 compared with the nine months ended September 30, 2016. In the U.S. and Canada, volume grew 1%, and in Mexico and the Caribbean, volume increased 4%, compared with the year ago period. Branded CSD and NCB volumes grew 1% and 4%, respectively, in the current period.

In branded CSDs, Peñafiel increased 6% as a result of product and package innovation and distribution gains in our Latin America Beverages segment. Canada Dry increased 4% due to continued growth in the ginger ale category while Squirt increased 3%. Schweppes also grew by 3% due to continued growth in the ginger ale category. These increases were partially offset by a 2% decline in 7UP and a 1% decrease in A&W. Our other CSD brands were 2% lower, led by Rockstar as a result of the loss of distribution rights. Dr Pepper was flat compared to the year ago period as increases in our fountain business were fully offset by declines in TEN and diet.

In branded NCBs, Bai increased 105% driven by the acquired Bai Brands shipments to third parties since the Bai Brands Merger and continued growth in our existing distribution as a result of distribution gains and product innovation. Our growth allied brands gained 40% due primarily to distribution gains for BODYARMOR, Fiji and Core, and product innovation for BODYARMOR. Clamato increased 3% compared with the year ago period. Mott's grew 2% as growth in our sauce products were partially offset by declines in juice. These increases were partially offset by a 4% decline in Snapple due to declines in diet and the frequency of promotional activity. Our other NCB brands were 4% lower compared to the prior period, led by Hawaiian Punch.

Net Sales. Net sales increased \$185 million, or approximately 4%, for the nine months ended September 30, 2017 compared with the nine months ended September 30, 2016. The primary drivers of the increase in net sales included:

- Increase in shipments, excluding the loss of the Rockstar distribution rights, which grew net sales by 2.0%;
- Favorable product and package mix, which increased net sales by 1.5%;
- \$51 million of acquired Bai Brands shipments to third parties since the Bai Brands Merger, which raised net sales by 1.0%;
- Higher pricing and lower discounts as a result of a favorable comparison of the annual true-up of our estimated customer incentive liability, which increased net sales by 0.5%;
- Unfavorable segment mix, which reduced our net sales by 0.5%; and
- The loss of the Rockstar distribution rights, which lowered net sales by 0.5%.

Gross Profit. Gross profit increased \$108 million for the nine months ended September 30, 2017 compared with the nine months ended September 30, 2016. Gross margin was 59.7% for the nine months ended September 30, 2017 compared to the gross margin of 59.8% for the nine months ended September 30, 2016. The primary drivers of the change in gross margin included:

- Unfavorable product and package mix, which reduced our gross margin by 0.6%;
- Increase in our other manufacturing costs, which includes the impact of a \$6 million default by a supplier of resin to our operations in Mexico, reduced our gross margin by 0.5%;
- The change in our LIFO inventory provision, driven primarily by apples, combined with higher commodity costs, led by packaging, reduced our gross margin by 0.2%;
- Unfavorable foreign currency effects, which decreased our gross margin by 0.2%;
 - Increase in our gross margin of 0.9% related to the incremental profit margin benefit we experienced as a result of becoming the brand owner for Bai Brands and the acquired Bai Brands shipments to third parties since the Bai Brands Merger, partially offset by the \$9 million initial profit in stock adjustment as a result of the Bai Brands Merger recorded during the first quarter of 2017;
- Favorable segment mix, which raised our gross margin by 0.2%;
- Ongoing productivity improvements, which increased our gross margin by 0.2%; and
- Higher pricing and lower discounts as a primary result of a favorable comparison of the annual true-up of our estimated customer incentive liability, which raised our gross margin by 0.1%.

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SG&A Expenses. SG&A expenses increased \$205 million for the nine months ended September 30, 2017 compared with the nine months ended September 30, 2016. The primary driver of the increase in SG&A expenses was the impact of the Bai Brands Merger, which includes \$98 million of acquired operating costs, primarily \$51 million of marketing investments as well as people costs, and \$21 million in transaction expenses. Other drivers of the increase include higher people costs, driven by inflationary increases and additional frontline labor investment, a \$30 million unfavorable comparison in the mark-to-market activity on commodity derivative contracts and a \$25 million increase in planned organic marketing investments. These increases were partially offset by lower incentive compensation. The unfavorable mark-to-market activity on commodity derivative contracts within SG&A expenses, which is included in unallocated corporate costs, for the nine months ended September 30, 2017 was \$10 million in unrealized losses versus \$20 million in unrealized gains in the year ago period.

Income from Operations. Income from operations decreased \$73 million to \$1,025 million for the nine months ended September 30, 2017 due primarily to the increase in SG&A expenses, partially offset by the increase in gross profit and the \$28 million gain on the step-acquisition of Bai Brands. Refer to Note 2 of the Notes to our Unaudited Condensed Consolidated Financial Statements for the gain on the step-acquisition of Bai Brands.

Interest Expense. Interest expense increased \$25 million for the nine months ended September 30, 2017 compared with the nine months ended September 30, 2016 due primarily to the higher average debt balance associated with the senior unsecured notes issued in the fourth quarter of 2016 to fund the Bai Brands Merger. This increase was partially offset by interest savings associated with the partial redemption of the 2018 Notes during the fourth quarter of 2016, which were effectively refinanced by the issuance of our 2026 Notes in September 2016.

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

In July 2017, we recognized a \$13 million loss on early extinguishment of debt as we completed a redemption of our remaining 2018 Notes and retired, at a premium, an aggregate principal amount of \$301 million of the 2018 Notes. The \$13 million loss on early extinguishment of debt was comprised of the make-whole premium and write off of deferred financing costs.

Other Income, Net. Other income, net decreased \$19 million for the nine months ended September 30, 2017 compared with the nine months ended September 30, 2016 as a result of the unfavorable comparison to a \$21 million gain on the extinguishment of a multi-employer pension plan withdrawal liability recorded in the prior year.

Effective Tax Rate. The effective tax rates for the nine months ended September 30, 2017 and 2016 were 32.9% and 33.4%, respectively. For the nine months ended September 30, 2017, the provision for income taxes included an income tax benefit of \$5 million due primarily to an agreement for an improved filing group with a state taxing authority and an income tax benefit of \$19 million due to the adoption of the new accounting standard for stock-based compensation. See Recently Adopted Provisions of U.S. GAAP within Note 1 of the Notes to our Unaudited Condensed Consolidated Financial Statements for further information. For the nine months ended September 30, 2016 the provision for income taxes included an income tax benefit of \$17 million driven primarily by a restructuring of the ownership of our Canadian business.

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Results of Operations by Segment

The following tables set forth net sales and SOP for our segments for the nine months ended September 30, 2017 and 2016, as well as the other amounts necessary to reconcile our total segment results to our consolidated results presented in accordance with U.S. GAAP:

	For the Nine Months Ended September 30,	
(in millions)	2017	2016
Segment Results — Net sales		
Beverage Concentrates	\$984	\$952
Packaged Beverages	3,693	3,558
Latin America Beverages	370	352
Net sales	\$5,047	\$4,862
	For the Nine Months Ended September 30,	
(in millions)	2017	2016
Segment Results — SOP		
Beverage Concentrates	\$641	\$622
Packaged Beverages	526	592
Latin America Beverages	47	60
Total SOP	1,214	1,274
Unallocated corporate costs	219	180
Other operating income, net	(30)	(4)
Income from operations	1,025	1,098
Interest expense, net	121	97
Loss on early extinguishment of debt	62	—
Other income, net	(6)	(25)
Income before provision for income taxes and equity in earnings of unconsolidated subsidiaries	\$848	\$1,026

BEVERAGE CONCENTRATES

The following table details our Beverage Concentrates segment's net sales and SOP for the nine months ended September 30, 2017 and 2016:

	For the Nine Months Ended September 30,		Dollar	Percent
(in millions)	2017	2016	Change	Change
Net sales	\$984	\$952	\$ 32	3 %
SOP	641	622	19	3

Net Sales. Net sales increased \$32 million for the nine months ended September 30, 2017 compared with the nine months ended September 30, 2016. The increase was due to higher pricing, a 2% increase in concentrate case sales and lower discounts primarily as a result of a favorable comparison of the annual true-up of our estimated customer incentive liability. These increases were partially offset by unfavorable product mix.

SOP. SOP increased \$19 million for the nine months ended September 30, 2017 compared with the nine months ended September 30, 2016, primarily driven by an increase in net sales which was partially offset by higher SG&A

expenses. The increase in SG&A expenses was primarily the result of a \$12 million increase in marketing investments, including an unfavorable comparison of the annual true-up of our estimated marketing liability, and higher people costs, partially offset by lower incentive compensation.

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Volume (BCS). Volume (BCS) was flat for the nine months ended September 30, 2017 compared with the nine months ended September 30, 2016. Canada Dry and Schweppes had gains of 4% and 3%, respectively, due to continued growth in the ginger ale category for both brands and the sparkling water category for Canada Dry. These increases were fully offset by decreases in 7UP and A&W as both declined 1% compared to the year ago period. Our other brands declined 1% in total as a result of discontinuing the distribution of Country Time. Dr Pepper was flat compared to the year ago period driven by increases in our fountain business fully offset by declines in TEN and diet.

PACKAGED BEVERAGES

The following table details our Packaged Beverages segment's net sales and SOP for the nine months ended September 30, 2017 and 2016:

	For the Nine Months Ended			
	September 30,	Dollar	Percent	
(in millions)	2017	2016	Change	Change
Net sales	\$3,693	\$3,558	\$ 135	4 %
SOP	526	592	(66)	(11 %)

Volume. Branded CSD volumes were flat for the nine months ended September 30, 2017 compared with the nine months ended September 30, 2016. Canada Dry increased 5% due to continued growth in the ginger ale category, while Dr Pepper increased 1% as growth in regular was partially offset by declines in TEN and diet. These increases were fully offset by a 2% decline in A&W, a 1% decrease in 7UP and a 2% decline in other CSD brands.

Branded NCB volumes increased 4% for the nine months ended September 30, 2017 compared with the nine months ended September 30, 2016. Bai increased 105% driven by the acquired Bai Brands shipments to third parties since the Bai Brands Merger and continued growth in our existing distribution as a result of distribution gains and product innovation. Our growth allied brands gained 40% due primarily to distribution gains for BODYARMOR, Fiji and Core, and product innovation for BODYARMOR. Mott's increased 2% compared to the prior period as growth in our sauce products were partially offset by declines in juice. Clamato increased 4%. These increases were partially offset as Snapple declined 4% due to declines in diet and the frequency of promotional activity. Other NCB brands were 5% lower, led by Rockstar, AriZona and Hawaiian Punch. The decline in Rockstar is due to the loss of distribution rights. Contract manufacturing decreased 1% for the nine months ended September 30, 2017 compared with the nine months ended September 30, 2016.

Net Sales. Net sales increased \$135 million for the nine months ended September 30, 2017 compared with the nine months ended September 30, 2016. Net sales increased due to favorable product and package mix, as a result of our NCBs, including our allied brands, \$51 million in acquired Bai Brands shipments to third parties since the Bai Brands Merger and higher organic sales volumes. These increases were partially offset by the loss of the Rockstar distribution rights.

SOP. SOP decreased \$66 million for the nine months ended September 30, 2017, compared with the nine months ended September 30, 2016 as increases in SG&A expenses and cost of sales more than offset the increase in net sales. Cost of sales increased as a result of higher costs associated with product and package mix, as a result of our NCBs, including our allied brands, an increase in costs associated with the acquired Bai Brands shipments to third parties since the Bai Brands Merger and the \$9 million initial profit in stock adjustment as a result of the Bai Brands Merger. These increases were partially offset by the incremental profit margin benefit we experienced as a result of becoming the brand owner for Bai Brands.

SG&A expenses increased driven primarily by the Bai Brands Merger, which include the acquired operating costs, primarily marketing and people costs, as well as transaction and integration expenses. Other drivers of the increase include higher people costs, driven by inflationary increases and additional frontline labor investment, and a \$12 million increase in planned organic marketing investments.

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LATIN AMERICA BEVERAGES

The following table details our Latin America Beverages segment's net sales and SOP for the nine months ended September 30, 2017 and 2016:

	For the Nine Months Ended September 30,		Dollar	Percent
(in millions)	2017	2016	Change	Change
Net sales	\$370	\$352	\$ 18	5 %
SOP	47	60	(13)	(22)

Volume. Sales volume increased 4% for the nine months ended September 30, 2017 compared with the nine months ended September 30, 2016. The increase in sales volume was driven primarily by a 7% increase in Peñafiel as a result of product and package innovation and distribution gains. Squirt grew 2% due to higher sales to third party bottlers, while Clamato increased by 2% due to product innovation and higher sales as a result of a third party package innovation. Our other brands increased 2%.

Net Sales. Net sales increased \$18 million for the nine months ended September 30, 2017 compared with the nine months ended September 30, 2016. Net sales increased as a result of increased sales volume and higher pricing, partially offset by unfavorable foreign currency translation of \$8 million and higher discounts.

SOP. SOP decreased \$13 million for the nine months ended September 30, 2017 compared with the nine months ended September 30, 2016, driven by increases in cost of sales and SG&A expenses, partially offset by an increase in net sales.

Cost of sales increased compared to the prior period as a result of higher costs associated with increased sales volume, higher commodity costs, led by packaging, the impact of a \$6 million default by a supplier of resin to our operations in Mexico and unfavorable foreign currency effects. These increases were partially offset by ongoing productivity improvements. SG&A expenses increased compared to the prior year period as a result of higher people costs and increases in other operating costs, which were partially offset by the favorable comparison to the \$4 million arbitration award related to our Mexican joint venture in the prior year and favorable foreign currency effects. The impact of the net unfavorable foreign currency effects on cost of sales and SG&A expenses totaled \$4 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.

Business Combinations

We record acquisitions using the purchase method of accounting. All of the assets acquired and liabilities assumed are recorded at fair value as of the acquisition date. The excess of the purchase price over the estimated fair values of the net tangible and intangible assets acquired is recorded as goodwill. The application of the purchase method of accounting for business combinations requires management to make significant estimates and assumptions in the determination of the fair value of assets acquired and liabilities assumed, in order to properly allocate purchase price consideration between assets that are depreciated and amortized from goodwill. The fair value assigned to tangible and intangible assets acquired and liabilities assumed are based on management's estimates and assumptions, as well as other information compiled by management, including valuations that utilize customary valuation procedures and techniques. Significant assumptions and estimates include, but are not limited to, the cash flows that an asset is

expected to generate in the future, the appropriate weighted-average cost of capital, and the cost savings expected to be derived from acquiring an asset, if applicable. If the actual results differ from the estimates and judgments used in these estimates, the amounts recorded in the financial statements may be exposed to potential impairment of the intangible assets and goodwill.

There have been no other changes to our critical accounting estimates, which are discussed in greater detail in our Annual Report.

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LIQUIDITY AND CAPITAL RESOURCES

Trends and Uncertainties Affecting Liquidity

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

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

- our continued repurchases of our outstanding common stock pursuant to our repurchase programs;
- our continued payment of dividends;
- our continued capital expenditures;
- 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 up to a maximum aggregate amount outstanding at any time of \$500 million;
- our integration of Bai Brands following completion of the Bai Brands Merger;
- fluctuations in our tax obligations;
- future equity investments in allied brands; and
- future mergers or acquisitions of regional bottling companies, distributors and/or distribution rights to further extend our geographic coverage.

Financing Arrangements

The following descriptions represent our available financing arrangements as of September 30, 2017. As of September 30, 2017, 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 as needed for general corporate purposes. The program is supported by the Revolver (as defined below). As of September 30, 2017, we had \$70 million Commercial Paper outstanding. During the three and nine months ended September 30, 2017, we had weighted average Commercial Paper borrowings of \$93 million and \$42 million, respectively, with maturities of 90 days or less and a weighted average borrowing rate of 1.42% and 1.32%, respectively. During the three months ended September 30, 2016, we had no commercial paper borrowings. During the nine months ended September 30, 2016, we had weighted average commercial paper borrowings of \$1 million, with maturities of 90 days or less and a weighted average borrowing rate of 0.65%.

Unsecured Credit Agreement

In March 2017, we entered into a new five-year unsecured credit agreement (the "Credit Agreement"), which provides for a \$500 million revolving line of credit (the "Revolver"). This Credit Agreement and Revolver fully replaced our previous unsecured credit agreement and revolving line of credit, which was due to expire on September 25, 2017 and was terminated on March 16, 2017. There were no principal borrowings outstanding under the previous unsecured credit agreement upon termination.

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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 the ABR loans and from 0.805% to 1.300% for Eurodollar loans. The ABR is defined as the greater of (a) JPMorgan Chase Bank's prime rate, (b) the Federal Reserve Bank of New York ("NYFRB") rate plus 0.500% and (c) the Adjusted LIBOR for a one month interest period plus 1.00%. The NYFRB rate is the greater of (a) the federal funds effective rate or (b) the overnight bank funding rate. The Adjusted LIBOR is the London interbank offered rate for dollars, adjusted for a statutory reserve rate set by the Board of Governors of the Federal Reserve System of the United States of America.

Additionally, the Revolver is available for the issuance of letters of credit, not to exceed \$75 million. Letters of credit will reduce, on a dollar for dollar basis, the amount available under the Revolver.

Refer to Note 6 of the Notes to our Unaudited Condensed Consolidated Financial Statements for discussion of amounts utilized and available under the Revolver.

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 financial covenant that requires us to maintain a ratio as provided therein of Consolidated Total Debt to Consolidated EBITDA of no more than 3.50 to 1.00, tested quarterly. During the twelve month period following a Material Acquisition thereunder, the ratio may increase to no more than 4.00 to 1.00. Upon the occurrence of an event of default, among other things, amounts outstanding may be accelerated and the commitments may be terminated. Our obligations are guaranteed by certain of our direct and indirect domestic subsidiaries. The Credit Agreement has a maturity date of March 16, 2022; however, with the consent of lenders holding more than 50% of the total commitments thereunder and subject to the satisfaction of certain conditions, we may extend the maturity date for up to two additional one-year terms.

A facility fee is payable quarterly to the lenders on the unused portion of the commitments available under the Revolver equal to 0.07% to 0.20% per annum, depending upon our credit ratings.

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, \$120 million is available for the issuance of letters of credit, \$60 million of which was utilized as of September 30, 2017 and \$60 million of which remains available for use.

Shelf Registration Statement

On August 10, 2016, our Board of Directors (the "Board") authorized us to issue up to \$2,000 million of securities from time to time. Subsequently, we filed a "well-known seasoned issuer" shelf registration statement (the "Shelf") with the SEC, effective September 2, 2016, which registered an indeterminate amount of securities for future sales. On September 16, 2016, we issued \$400 million of 2026 Notes under the Shelf, leaving \$1,600 million of securities authorized for issuance under the Shelf. On November 16, 2016, the Board replenished the authorized aggregate amount of securities available to be issued by an additional \$400 million, which raised the full authorized amount to \$2,000 million. On December 14, 2016, we issued an aggregate of \$1,550 million of 2021, 2023, 2027 and 2046 Notes. As of September 30, 2017, \$450 million remained authorized to be issued under the Shelf.

Debt Ratings

As of September 30, 2017, our credit ratings were as follows:

Rating Agency	Long-Term Debt Rating	Commercial Paper Rating	Outlook	Date of Last Change
Moody's	Baa1	P-2	Stable	May 18, 2011
S&P	BBB+	A-2	Stable	November 13, 2013

These debt and commercial paper ratings impact the interest we pay on our financing arrangements. A downgrade of one or both of our debt and commercial paper ratings could increase our interest expense and decrease the cash available to fund anticipated obligations.

Table of Contents**Cash Management**

We primarily fund our liquidity needs from cash flow from operations and cash on hand. We will use amounts available to us as discussed in "Financing Arrangements" as seasonality of our operating cash flows impact short-term liquidity, our senior unsecured notes mature, or as other events may occur as described in "Acquisitions and Investments."

Capital Expenditures

Capital expenditures were \$85 million for the nine months ended September 30, 2017. Capital expenditures were primarily related to machinery and equipment, fleet, IT investments, and replacement of existing cold drink equipment. In 2017, we expect to incur annual capital expenditures, net of proceeds from disposals, in an amount approximately 3.0% of our net sales, which we expect to fund through cash provided by operating activities.

Acquisitions and Investments

We may make future equity investments in allied brands and/or acquisitions of regional bottling companies, distributors and/or distribution rights to further extend our geographic coverage. Any acquisitions may require additional funding for future capital expenditures and possibly restructuring expenses.

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, 2017 and 2016:

	For the Nine Months Ended September 30,	
(in millions)	2017	2016
Net cash provided by operating activities	\$732	\$705
Net cash used in investing activities	(1,643)	(119)
Net cash used in financing activities	(717)	(876)
NET CASH PROVIDED BY OPERATING ACTIVITIES		

Net cash provided by operating activities increased \$27 million for the nine months ended September 30, 2017, as compared to the nine months ended September 30, 2016, primarily due to an increase in the net income including the associated impact of non-cash adjustments, partially offset by unfavorable working capital changes.

NET CASH USED IN INVESTING ACTIVITIES

Cash used in investing activities for the nine months ended September 30, 2017 consisted primarily of cash paid in connection with our Bai Brands Merger of \$1,553 million and purchases of property, plant and equipment of \$85 million.

Cash used in investing activities for the nine months ended September 30, 2016 consisted primarily of purchases of property, plant and equipment of \$110 million, the step acquisition of IEBM and EMA of \$15 million and an additional investment in BA Sports Nutrition, LLC of \$6 million, partially offset by cash received in the step acquisition of IEBM and EMA of \$17 million.

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NET CASH USED IN FINANCING ACTIVITIES

Cash used in financing activities for the nine months ended September 30, 2017 consisted primarily of: the repayment of the Company's 2018 Notes and a portion of the 2038 Notes of \$562 million, which includes both the aggregate principal amounts of approximately \$364 million of the 2018 Notes and \$125 million of the 2038 Notes, as well as the tender offer premium of \$60 million and the make whole premium of \$13 million;

dividend payments of \$309 million; and

stock repurchases of \$320 million; which was partially offset by

the proceeds from the issuance of 2027 Notes and 2045 Notes, with an aggregate principal amount of \$400 million and a premium of \$16 million; and

the proceeds from the net issuance of \$70 million commercial paper.

Net cash used in financing activities for the nine months ended September 30, 2016 consisted primarily of the repayment of the aggregate principal amount of the 2016 Notes of \$500 million, stock repurchases of \$460 million and dividend payments of \$288 million, partially offset by the issuance of \$400 million aggregate principal amount of the 2026 Notes.

Cash, Cash Equivalents, Restricted Cash and Restricted Cash Equivalents

Cash, cash equivalents, restricted cash and restricted cash equivalents decreased \$1,622 million since December 31, 2016 to \$165 million as of September 30, 2017 primarily driven by the funding of the Bai Brands Merger, returns to our stockholders, and capital expenditures, 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 \$50 million and \$51 million as of September 30, 2017 and December 31, 2016, respectively. We accrue tax costs for repatriation, as applicable, as cash is generated in those foreign jurisdictions.

Total Shareholder Distributions

Our Board declared dividends aggregating \$1.74 and \$1.59 per share on outstanding common stock during the nine months ended September 30, 2017 and 2016, respectively, and we continued common stock repurchases based upon authorizations from our Board. Refer to Part II, Item 2 of this Quarterly Report on Form 10-Q for additional information regarding these repurchases.

The following chart details these payments during the nine months ended September 30, 2017 and 2016.

Table of Contents**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, 2017, that have significantly changed from the amounts disclosed in our Annual Report:

(in millions)	Payments Due in Year						
	Total	2017	2018	2019	2020	2021	After 2021
Senior unsecured notes ⁽¹⁾⁽⁴⁾	\$4,225	\$—	\$—	\$250	\$250	\$500	\$3,225
Commercial paper	70	70	—	—	—	—	—
Bai Brands Merger consideration ⁽²⁾	88	2	76	—	10	—	—
Purchase obligations ⁽³⁾	992	374	283	148	96	36	55
Interest payments ⁽⁴⁾	2,032	53	139	139	133	133	1,435
Total	\$7,407	\$499	\$498	\$537	\$489	\$669	\$4,715

(1) Amounts represent payment for the senior unsecured notes issued by us. Please refer to Note 6 of the Notes to our Unaudited Condensed Consolidated Financial Statements for further information.

(2) Amounts represent the holdback liability to the former shareholders of Bai Brands, which is held in escrow. Please refer to Note 2 of the Notes to our Unaudited Condensed Consolidated Financial Statements for further information.

(3) 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.

(4) In July 2017, the Company redeemed the outstanding 2018 Notes and retired at a premium, an aggregate principal amount of approximately \$301 million. The loss on early extinguishment of the 2018 Notes was approximately \$13 million due primarily to a make-whole provision in the indenture governing the 2018 Notes. Please refer to Note 6 of the Notes to our Unaudited Condensed Consolidated Financial Statements for additional information.

Through September 30, 2017, there have been no other material changes to the amounts disclosed in our Annual Report.

OFF-BALANCE SHEET ARRANGEMENTS

There have been no material changes in off-balance sheet arrangements from those disclosed in our Annual Report.

EFFECT OF RECENT ACCOUNTING PRONOUNCEMENTS

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

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

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

Foreign Exchange Risk

The majority of our net sales, expenses and capital purchases are transacted in U.S. dollars. However, we have exposure with respect to foreign exchange rate fluctuations. Our primary exposure to foreign exchange rates is the Canadian dollar and Mexican peso against the U.S. dollar. Exchange rate gains or losses related to foreign currency transactions are recognized as transaction gains or losses in our income statement as incurred. As of September 30, 2017, 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 \$22 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, 2017, we had derivative contracts outstanding with a notional value of \$55 million maturing at various dates through September 14, 2018.

Interest Rate Risk

We centrally manage our debt portfolio through the use of interest rate swaps and monitor our mix of fixed-rate and variable rate debt. As of September 30, 2017, the carrying value of our fixed-rate debt, excluding capital lease obligations, was \$4,239 million, \$1,070 million of which is designated in fair value hedging relationships and exposed to variability in interest rates.

The following table is an estimate of the impact to the interest rate swaps that could result from hypothetical interest rate changes during the term of the financial instruments, based on debt levels as of September 30, 2017:

Sensitivity Analysis

Hypothetical Change in Interest Rates ⁽¹⁾	Annual Impact to Interest Expense	Change in Fair Value ⁽²⁾
1-percent decrease	\$11 million decrease	\$52 million increase
1-percent increase	\$11 million increase	\$49 million decrease

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

(2) See Notes 4 and 8 of the Notes to our Unaudited Condensed Consolidated Financial Statements for quantification of those derivative positions.

Commodity Risks

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

We utilize commodities forward and future contracts and supplier pricing agreements to hedge the risk of adverse movements in commodity prices for limited time periods for certain commodities. The fair market value of these contracts as of September 30, 2017 was a net asset of \$31 million.

As of September 30, 2017, the impact of a 10% change (up or down) in market prices for these commodities where the risk of adverse movements has not been hedged is estimated to have \$1 million impact to our income from operations for the remainder of 2017.

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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, 2017, 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, 2017 that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II – OTHER INFORMATION

ITEM 1. Legal Proceedings

We are occasionally subject to litigation or other legal proceedings relating to our business. See Note 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.

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

We repurchased approximately 1.6 million shares of our common stock, valued at approximately \$143 million, in the third quarter of 2017. Our share repurchase activity, on a monthly basis, for the quarter ended September 30, 2017 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 ⁽¹⁾
July 1, 2017 – July 31, 2017	549	\$ 90.11	549	\$ 905,630
August 1, 2017 – August 31, 2017	657	90.92	657	845,888
September 1, 2017 – September 30, 2017	386	90.67	386	810,874
For the quarter ended September 30, 2017	1,592	90.58	1,592	

(1) As previously disclosed, the Board has authorized us to repurchase an aggregate amount of up to \$5 billion of our outstanding common stock in prior years. 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, 2017, there was a remaining balance of approximately \$811 million authorized for repurchase that had not been utilized.

ITEM 5. Other Information

On September 20, 2017, the Compensation Committee of the Board of Directors of the Company adopted and approved an amended Severance Pay Plan for Executives (“SPP”), which was effective as of October 15, 2017, for employees of the Company at the level of Senior Vice President or above, including the Company’s Chief Executive Officer (“CEO”). The SPP was effective simultaneously with the expiration of Employment Agreements of certain senior and executive officers who are participants in the SPP.

The SPP provides for the payment of severance and other benefits to eligible executives in the event of a Qualifying Termination (as defined in the SPP). In the event of a Qualifying Termination, the SPP provides for a lump-sum severance payment as follows:

CEO: 2.5 times base salary plus target cash incentive bonus (collectively, the “cash compensation”);

CFO: 2.25 times cash compensation;

Presidents: 2.0 times cash compensation;

Executive Vice Presidents and CEO, Bai Brands: 1.5 times cash compensation; and
Senior Vice Presidents: 1.0 times cash compensation.

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In addition, upon a Qualifying Termination, the SPP provides that the Company will provide certain outplacement benefits and will pay COBRA premiums for 18 months following the applicable termination date.

The preceding summary is qualified in its entirety by reference to the full text of the SPP, a copy of which is attached to this Quarterly Report on Form 10-Q as Exhibit 10.1.

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ITEM 6. Exhibits

- Separation and Distribution Agreement between Cadbury Schweppes plc and Dr Pepper Snapple Group, Inc. and, 2.1 solely for certain provisions set forth therein, Cadbury plc, dated as of May 1, 2008 (filed as Exhibit 2.1 to the Company's Current Report on Form 8-K (filed on May 5, 2008) and incorporated herein by reference).
- Agreement and Plan of Merger, dated as of November 21, 2016, by and among Bai Brands LLC, Dr Pepper 2.2 Snapple Group, Inc., Superfruit Merger Sub, LLC and Fortis Advisors LLC, (filed as Exhibit 2.1 to the Company's Current Report on Form 8-K (filed on November 23, 2016) and incorporated herein by reference).
- Amendment No. 1, dated as of January 31, 2017, to the Agreement and Plan of Merger, dated as of November 21, 2.3 2016, by and among Bai Brands LLC, Dr Pepper Snapple Group, Inc., Superfruit Merger Sub, LLC and Fortis Advisors LLC, (filed as Exhibit 2.2 to the Company's Current Report on Form 8-K (filed on January 31, 2017) and incorporated herein by reference).
- Amended and Restated Certificate of Incorporation of Dr Pepper Snapple Group, Inc. (filed as Exhibit 3.1 to the 3.1 Company's Current Report on Form 8-K (filed on May 12, 2008) and incorporated herein by reference).
- Certificate of Amendment to Amended and Restated Certificate of Incorporation of Dr Pepper Snapple Group, 3.2 Inc. effective as of May 17, 2012 (filed as Exhibit 3.2 to the Company's Quarterly Report on Form 10-Q (filed July 26, 2012) and incorporated herein by reference).
- Certificate of Second Amendment to Amended and Restated Certificate of Incorporation of Dr Pepper Snapple 3.3 Group, Inc. effective as of May 19, 2016 (filed as Exhibit 3.1 to the Company's Current Report on Form 8-K (filed May 20, 2016) and incorporated herein by reference).
- Amended and Restated By-Laws of Dr Pepper Snapple Group, Inc. effective as of January 25, 2016 (filed as 3.4 Exhibit 3.2 to the Company's Current Report on Form 8-K (filed January 25, 2016) and incorporated herein by reference).
- Indenture, dated April 30, 2008, between Dr Pepper Snapple Group, Inc. and Wells Fargo Bank, N.A. (filed as 4.1 Exhibit 4.1 to the Company's Current Report on Form 8-K (filed on May 1, 2008) and incorporated herein by reference).
- Form of 6.12% Senior Notes due 2013 (filed as Exhibit 4.2 to the Company's Current Report on Form 8-K (filed 4.2 on May 1, 2008) and incorporated herein by reference).
- Form of 6.82% Senior Notes due 2018 (filed as Exhibit 4.3 to the Company's Current Report on Form 8-K (filed 4.3 on May 1, 2008) and incorporated herein by reference).
- Form of 7.45% Senior Notes due 2038 (filed as Exhibit 4.4 to the Company's Current Report on Form 8-K (filed 4.4 on May 1, 2008) and incorporated herein by reference).
- Registration Rights Agreement, dated April 30, 2008, between Dr Pepper Snapple Group, Inc., J.P. Morgan 4.5 Securities Inc., Banc of America Securities LLC, Goldman, Sachs & Co., Morgan Stanley & Co. Incorporated, UBS Securities LLC, BNP Paribas Securities Corp., Mitsubishi UFJ Securities International plc, Scotia Capital (USA) Inc., SunTrust Robinson Humphrey, Inc., Wachovia Capital Markets, LLC and TD Securities (USA) LLC (filed as Exhibit 4.5 to the Company's Current Report on Form 8-K (filed on May 1, 2008) and incorporated herein by reference).
- Registration Rights Agreement Joinder, dated May 7, 2008, by the subsidiary guarantors named therein (filed as 4.6 Exhibit 4.2 to the Company's Current Report on Form 8-K (filed on May 12, 2008) and incorporated herein by reference).
- Supplemental Indenture, dated May 7, 2008, among Dr Pepper Snapple Group, Inc., the subsidiary guarantors 4.7 named therein and Wells Fargo Bank, N.A., as trustee (filed as Exhibit 4.1 to the Company's Current Report on Form 8-K (filed on May 12, 2008) and incorporated herein by reference).
- Second Supplemental Indenture dated March 17, 2009, to be effective as of December 31, 2008, among Splash 4.8 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

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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).

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

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

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

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

Third Supplemental Indenture, dated as of November 15, 2011, among Dr Pepper Snapple Group, Inc., the 4.14 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).

2.60% Senior Note due 2019 (in global form), dated November 15, 2011, in the principal amount of \$250 million 4.15 (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).

3.20% Senior Note due 2021 (in global form), dated November 15, 2011, in the principal amount of \$250 million 4.16 (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).

Fourth Supplemental Indenture, dated as of November 20, 2012, among Dr Pepper Snapple Group, Inc., the 4.17 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).

2.00% Senior Note due 2020 (in global form), dated November 20, 2012, in the principal amount of \$250 million 4.18 (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).

2.70% Senior Note due 2022 (in global form), dated November 20, 2012, in the principal amount of \$250 million 4.19 (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).

Fifth Supplemental Indenture, dated as of November 9, 2015, among Dr Pepper Snapple Group, Inc., the 4.20 guarantors party thereto and Wells Fargo Bank, N.A., as trustee (filed as Exhibit 4.1 to the Company's Current Report on Form 8-K (filed on November 10, 2015) and incorporated herein by reference).

3.40% Senior Note due 2025 (in global form), dated November 9, 2015, in the principal amount of \$500,000,000 4.21 (filed as Exhibit 4.2 to the Company's Current Report on Form 8-K (filed on November 10, 2015) and incorporated herein by reference).

4.50% Senior Note due 2045 (in global form), dated November 9, 2015, in the principal amount of \$250,000,000 4.22 (filed as Exhibit 4.3 to the Company's Current Report on Form 8-K (filed on November 10, 2015) and incorporated herein by reference).

Sixth Supplemental Indenture, dated as of September 16, 2016, among Dr Pepper Snapple Group, Inc., the 4.23 guarantors party thereto and Wells Fargo Bank, N.A., as trustee (filed as Exhibit 4.1 to the Company's Current Report on Form 8-K (filed on September 16, 2016) and incorporated herein by reference).

2.55% Senior Note due 2026 (in global form), dated September 16, 2016, in the principal amount of 4.24 \$400,000,000 (filed as Exhibit 4.2 to the Company's Current Report on Form 8-K (filed on September 16, 2016) and incorporated herein by reference).

Seventh Supplemental Indenture, dated as of December 14, 2016, among Dr Pepper Snapple Group, Inc., the 4.25 guarantors party thereto and Wells Fargo Bank, N.A., as trustee (filed as Exhibit 4.1 to the Company's Current Report on Form 8-K (filed on December 14, 2016) and incorporated herein by reference).

2.53% Senior Note due 2021 (in global form), dated December 14, 2016, in the principal amount of \$250,000,000 4.26 (filed as Exhibit 4.2 to the Company's Current Report on Form 8-K (filed on December 14, 2016) and incorporated herein by reference).

3.13% Senior Note due 2023 (in global form), dated December 14, 2016, in the principal amount of \$500,000,000 4.27 (filed as Exhibit 4.3 to the Company's Current Report on Form 8-K (filed on December 14, 2016) and incorporated herein by reference).

3.43% Senior Note due 2027 (in global form), dated December 14, 2016, in the principal amount of \$400,000,000 4.28 (filed as Exhibit 4.4 to the Company's Current Report on Form 8-K (filed on December 14, 2016) and incorporated herein by reference).

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4.42% Senior Note due 2046 (in global form), dated December 14, 2016, in the principal amount of \$400,000,000 4.29 (filed as Exhibit 4.5 to the Company's Current Report on Form 8-K (filed on December 14, 2016) and incorporated herein by reference).

Eighth Supplemental Indenture, dated as of January 31, 2017, among Bai Brands LLC, a New Jersey limited liability company, 184 Innovations Inc., a Delaware corporation (each as a new subsidiary guarantor under the 4.30 Indenture dated April 30, 2008 (as referenced in Item 4.1 in this Exhibit Index), Dr Pepper Snapple Group, Inc., each other then-existing Guarantor under the Indenture) and Wells Fargo, National Bank, N.A., as trustee (filed as Exhibit 4.2 to the Company's Current Report on Form 8-K (filed on February 2, 2017) and incorporated herein by reference).

Ninth Supplemental Indenture, dated as of June 15, 2017, among Dr Pepper Snapple Group, Inc., the guarantors 4.31 party thereto, and Wells Fargo Bank, N.A., as trustee (filed as Exhibit 4.1 to the Company's Current Report on Form 8-K (filed on June 15, 2017) and incorporated herein by reference).

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- 4.32 Registration Rights Agreement, dated June 15, 2017, between Dr Pepper Snapple Group, Inc., Morgan Stanley & Co. LLC, Goldman Sachs & Co. LLC, and J.P. Morgan Securities LLC (filed as Exhibit 4.2 to the Company's Current Report on Form 8-K (filed on June 15, 2017) and incorporated herein by reference).
- 10.1* Severance Pay Plan for Executives, dated to be effective as of October 15, 2017.
- 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, 2017, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Statements of Income for the three and nine months ended September 30, 2017 and 2016, (ii) Condensed Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2017 and 2016, (iii) Condensed Consolidated Balance Sheets as of September 30, 2017 and December 31, 2016, (iv) Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2017 and 2016, (v) Condensed Consolidated Statement of Changes in Stockholders' Equity for the nine months ended September 30, 2017, and (vi) the Notes to Condensed Consolidated Financial Statements.

* Filed herewith.

** Furnished herewith.

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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 25, 2017