Dr Pepper Snapple Group, Inc.
Form 10-Q
October 27, 2010

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

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

(972) 673-7000
(Registrant s telephone number, including area code)

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

Yes þ No o

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

Yes þ No o

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

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

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

Yes o No þ

As of October 25, 2010, there were 227,092,120 shares of the registrant s common stock, par value $0.01 per share, outstanding.

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

PART I FINANCIAL INFORMATION

Item 1. *Financial Statements (Unaudited).*

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2010	2009	2010	2009
Net sales	$ 1,457	$ 1,434	$ 4,224	$ 4,175
Cost of sales	600	579	1,689	1,706
Gross profit	857	855	2,535	2,469
Selling, general and administrative expenses	564	547	1,682	1,596
Depreciation and amortization	32	29	95	84
Other operating expense (income), net	1	7	1	(45)
Income from operations	260	272	757	834
Interest expense	31	51	94	158
Interest income		(1)	(2)	(3)
Other income, net	(2)	(20)	(7)	(25)
Income before provision for income taxes and equity in earnings of unconsolidated subsidiaries	231	242	672	704
Provision for income taxes	87	92	257	265
Income before equity in earnings of unconsolidated subsidiaries	144	150	415	439
Equity in earnings of unconsolidated subsidiaries, net of tax		1	1	2
Net income	$ 144	$ 151	$ 416	$ 441
Earnings per common share:				
Basic	$ 0.61	$ 0.59	$ 1.70	$ 1.73
Diluted	0.60	0.59	1.68	1.73
Weighted average common shares outstanding:				
Basic	238.0	254.2	245.1	254.2
Diluted	240.4	255.5	247.3	255.0
Cash dividends declared per common share	$ 0.25	$	$ 0.65	$

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, 2010 and December 31, 2009
(Unaudited, in millions except share and per share data)

	September 30, 2010	December 31, 2009
Assets		
Current assets:		
Cash and cash equivalents	$ 224	$ 280
Accounts receivable:		
Trade, net	527	540
Other	31	32
Inventories	283	262
Deferred tax assets	58	53
Prepaid expenses and other current assets	176	112
Total current assets	1,299	1,279
Property, plant and equipment, net	1,123	1,109
Investments in unconsolidated subsidiaries	11	9
Goodwill	2,984	2,983
Other intangible assets, net	2,693	2,702
Other non-current assets	541	543
Non-current deferred tax assets	139	151
Total assets	$ 8,790	$ 8,776
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable and accrued expenses	$ 947	$ 850
Deferred revenue	36	
Income taxes payable	1	4
Total current liabilities	984	854
Long-term obligations	2,571	2,960
Non-current deferred tax liabilities	1,083	1,038
Non-current deferred revenue	843	
Other non-current liabilities	724	737
Total liabilities	6,205	5,589
Commitments and contingencies		
Stockholders equity:		
Preferred stock, $.01 par value, 15,000,000 shares authorized, no shares issued		
Common stock, $.01 par value, 800,000,000 shares authorized, 229,446,161 and 254,109,047 shares issued and outstanding for 2010 and 2009, respectively	2	3
Additional paid-in capital	2,277	3,156

Retained earnings	346	87
Accumulated other comprehensive loss	(40)	(59)
Total stockholders equity	2,585	3,187
Total liabilities and stockholders equity	$ 8,790	$ 8,776

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, 2010 and 2009
(Unaudited, in millions)

	For the Nine Months Ended September 30, 2010	2009
Operating activities:		
Net income	$ 416	$ 441
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation expense	137	121
Amortization expense	28	30
Amortization of deferred financing costs	4	14
Amortization of deferred revenue	(21)	
Employee stock-based compensation expense	21	13
Deferred income taxes	44	48
Gain on disposal of intangible assets		(63)
Other, net	15	4
Changes in assets and liabilities:		
Trade and other accounts receivable	9	
Inventories	(21)	(11)
Other current and non-current assets	(62)	(8)
Accounts payable and accrued expenses	73	127
Income taxes payable	2	11
Current and non-current deferred revenue	899	
Other non-current liabilities	(5)	(26)
Net cash provided by operating activities	1,539	701
Investing activities:		
Purchases of property, plant and equipment	(170)	(223)
Investments in unconsolidated subsidiaries	(1)	
Purchases of intangible assets		(7)
Proceeds from disposals of property, plant and equipment	16	5
Proceeds from disposals of intangible assets		68
Other, net	4	
Net cash used in investing activities	(151)	(157)
Financing activities:		
Repayment of senior unsecured credit facility	(405)	(480)
Repurchase of shares of common stock	(910)	
Dividends paid	(136)	
Other, net	4	(3)
Net cash used in financing activities	(1,447)	(483)
Cash and cash equivalents net change from:		
Operating, investing and financing activities	(59)	61
Currency translation	3	7

Cash and cash equivalents at beginning of period		280		214
Cash and cash equivalents at end of period	$	224	$	282
Supplemental cash flow disclosures of non-cash investing and financing activities:				
Capital expenditures included in accounts payable and accrued expenses	$	36	$	15
Non-cash transfer of assets				4
Supplemental cash flow disclosures:				
Interest paid	$	67	$	87
Income taxes paid		191		162

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

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

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) for interim financial information and in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete consolidated financial statements. In the opinion of management, all adjustments, consisting principally of normal recurring adjustments, considered necessary for a fair presentation have been included. The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and the accompanying notes. Actual results could differ from these estimates. These unaudited condensed consolidated financial statements should be read in conjunction with the Company s audited consolidated financial statements and the notes thereto in the Company s Annual Report on Form 10-K for the year ended December 31, 2009.

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

Use of Estimates

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

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

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

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

Recently Issued Accounting Updates

In January 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) 2010-06, *Improving Disclosures about Fair Value Measurements* (ASU 2010-06). The new standard addresses, among other things, guidance regarding activity in Level 3 fair value measurements. Portions of ASU 2010-06 that relate to the Level 3 activity disclosures are effective for the first interim or annual reporting period beginning after December 15, 2010. The Company will provide the required disclosures beginning with the Company s Quarterly Report on Form 10-Q for the period ending March 31, 2011. Based on the initial evaluation, the Company does not anticipate a material impact to the Company s financial position, results of operations or cash flows as a result of this change.

Recently Adopted Provisions of U.S. GAAP

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

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

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

2. Inventories

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

	September 30, 2010	December 31, 2009
Raw materials	$ 96	$ 105
Work in process	4	4
Finished goods	222	193
Inventories at FIFO cost	322	302
Reduction to LIFO cost	(39)	(40)
Inventories	$ 283	$ 262

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

3. Goodwill and Other Intangible Assets

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

	Beverage Concentrates	WD Reporting Unit[1]	DSD Reporting Unit[1]	Latin America Beverages	Total
Balance as of December 31, 2008					
Goodwill	$ 1,733	$ 1,220	$ 180	$ 30	$ 3,163
Accumulated impairment losses			(180)		(180)
	1,733	1,220		30	2,983
Foreign currency impact	(1)			1	
Balance as of December 31, 2009					
Goodwill	1,732	1,220	180	31	3,163
Accumulated impairment losses			(180)		(180)
	1,732	1,220		31	2,983
Foreign currency impact				1	1
Balance as of September 30, 2010					
Goodwill	1,732	1,220	180	32	3,164
Accumulated impairment losses			(180)		(180)
	$ 1,732	$ 1,220	$	$ 32	$ 2,984

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

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

September 30, 2010	December 31, 2009

	Gross Amount	Accumulated Amortization	Net Amount	Gross Amount	Accumulated Amortization	Net Amount
Intangible assets with indefinite lives:						
Brands	$ 2,654	$	$ 2,654	$ 2,652	$	$ 2,652
Distributor rights	8		8	8		8
Intangible assets with finite lives:						
Brands	29	(23)	6	29	(22)	7
Customer relationships	76	(54)	22	76	(45)	31
Bottler agreements	22	(19)	3	21	(17)	4
Distributor rights	2	(2)		2	(2)	
Total	$ 2,791	$ (98)	$ 2,693	$ 2,788	$ (86)	$ 2,702

As of September 30, 2010, the weighted average useful lives of intangible assets with finite lives were 10 years, 9 years and 9 years for brands, customer relationships and bottler agreements, respectively. Amortization expense for intangible assets was $4 million and $12 million for each of the three and nine months ended September 30, 2010 and 2009, respectively.

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(Unaudited)

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

Year	Aggregate Amortization Expense
Remaining three months for the year ending December 31, 2010	$ 5
2011	8
2012	4
2013	4
2014	4

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

4. Accounts Payable and Accrued Expenses

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

	September 30, 2010	December 31, 2009
Trade accounts payable	$ 315	$ 252
Customer rebates and incentives	215	209
Accrued compensation	94	126
Insurance reserves	80	68
Interest accrual and interest rate swap liability	54	24
Dividends payable	60	38
Other current liabilities	129	133
Accounts payable and accrued expenses	$ 947	$ 850

5. Long-term obligations

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

	September 30, 2010	December 31, 2009
Senior unsecured notes[(1)]	$ 2,560	$ 2,542
Revolving credit facility		405
Less current portion		
Subtotal	2,560	2,947
Long-term capital lease obligations	11	13

Long-term obligations	$ 2,571	$ 2,960

(1) The carrying amount includes an adjustment related to the change in the fair value of interest rate swaps designated as fair value hedges on the 1.70% senior notes due in 2011 (the 2011 Notes) and 2.35% senior notes due in 2012 (the 2012 Notes), including the impact of de-designations of the fair value hedges associated with the 2012 Notes in March and September 2010. The impact of the adjustment increased the carrying amount $10 million as of September 30, 2010 and decreased the carrying amount $8 million as of December 31, 2009. Refer to Note 6 for further information regarding derivatives.

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

2010 Borrowings and Repayments

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

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

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

Senior Unsecured Credit Facility

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

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

- the Revolver in an aggregate principal amount of $500 million with a maturity in 2013. The balance of principal borrowings under the Revolver was $0 and $405 million as of September 30, 2010 and December 31, 2009, respectively. Up to $75 million of the Revolver is available for the issuance of letters of credit, of which $14 million and $41 million were utilized as of September 30, 2010, and December 31, 2009, respectively. Balances available for additional borrowings and letters of credit were $486 million and $61 million, respectively, as of September 30, 2010.

Borrowings under the senior unsecured credit facility bear interest at a floating rate per annum based upon the London Interbank Offered Rate (LIBOR) or the Alternate Base Rate (ABR), in each case plus an applicable margin which varies based upon the Company s debt ratings, from 1.00% to 2.50% in the case of LIBOR loans and 0.00% to 1.50% in the case of ABR loans. The ABR means the greater of (a) JPMorgan Chase Bank s prime rate and (b) the federal funds effective rate plus one half of 1%. Interest is payable on the last day of the interest period, but not less than quarterly, in the case of any LIBOR loan and on the last day of March, June, September and December of each year in the case of any ABR loan. There were no borrowings during the three months ended September 30, 2010. The average interest rate was 4.88% for the three months ended September 30, 2009. The average interest rate was 2.25% and 4.84% for the nine months ended September 30, 2010 and 2009, respectively. Interest expense was $2 million and $21 million for the three months ended September 30, 2010 and 2009, respectively. Interest expense was $4 million and $69 million for the nine months ended September 30, 2010 and 2009, respectively. Amortization of deferred financing costs of $1 million and $4 million for the three months ended September 30, 2010 and 2009, respectively, was included in interest expense. For the nine months ended September 30, 2010 and 2009, amortization of deferred financing costs of $2 million and $11 million was included in interest expense, respectively.

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

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

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

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

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

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

Senior Unsecured Notes

The 2011 and 2012 Notes

In December 2009, the Company completed the issuance of $850 million aggregate principal amount of senior unsecured notes consisting of the 2011 and 2012 Notes. The weighted average interest rate of the 2011 and 2012 Notes was 2.04% for the three and nine months ended September 30, 2010. The net proceeds from the sale of the debentures were used for repayment of existing indebtedness under the Term Loan A. Interest on the 2011 and 2012 Notes is payable semi-annually on June 21 and December 21. Interest expense was $1 million for the nine months ended September 30, 2010. There was no interest expense for the three months ended September 30, 2010. As a result of changes in fair value prior to the termination of the economic hedge in September 2010, the Company recorded a gain of $3 million and $6 million, which reduced interest expense for the three and nine months ended September 30, 2010, respectively. Interest expense included $1 million of deferred financing costs associated with the 2011 and 2012 Notes for the nine months ended September 30, 2010. For the three months ended September 30, 2010, there was minimal amortization of deferred financing costs.

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

The indenture governing the 2011 and 2012 Notes, among other things, limits the Company s ability to incur indebtedness secured by principal properties, to enter into certain sale and leaseback transactions and to enter into certain mergers or transfers of substantially all of DPS assets. The 2011 and 2012 Notes are guaranteed by substantially all of the Company s existing and future direct and indirect domestic subsidiaries. As of September 30, 2010 and December 31, 2009, the Company was in compliance with all covenant requirements.

The 2013, 2018 and 2038 Notes

During 2008, the Company completed the issuance of $1,700 million aggregate principal amount of senior unsecured notes consisting of $250 million aggregate principal amount of 6.12% senior notes due May 1, 2013 (the 2013 Notes), $1,200 million aggregate principal amount of 6.82% senior notes due May 1, 2018 (the 2018 Notes), and $250 million aggregate principal amount of 7.45% senior notes due May 1, 2038 (the 2038 Notes). The weighted average interest rate of the 2013, 2018 and 2038 Notes was 6.81% for each of the three and nine month periods ended September 30, 2010 and 2009. Interest on the senior unsecured notes is payable semi-annually on May 1 and November 1 and is subject to adjustment. Interest expense was $29 million and $30 million for the three months ended September 30, 2010 and 2009, respectively, and $88 million for the nine months ended September 30, 2010 and 2009. Amortization of deferred financing costs of $1 million for the nine months ended September 30, 2010 and 2009 was included in interest expense. For the three months ended September 30, 2010 and 2009, there was minimal amortization of deferred financing costs.

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

Capital Lease Obligations

Long-term capital lease obligations totaled $11 million and $13 million as of September 30, 2010, and December 31, 2009, respectively. Current obligations related to the Company s capital leases were $3 million as of September 30, 2010, and December 31, 2009, and were included as a component of accounts payable and accrued expenses.

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

Letters of Credit Facility

Effective June 2010, the Company entered into a Letter of Credit Facility in addition to the portion of the Revolver reserved for issuance of letters of credit. Under the Letter of Credit Facility, $65 million is available for the issuance of letters of credit, of which $35 million was utilized as of September 30, 2010. Balances available for additional letters of credit was $30 million as of September 30, 2010.

6. Derivatives

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

interest rates;

foreign exchange rates; and

commodity prices, affecting the cost of raw materials and fuels.

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

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

Certain interest rate swap agreements qualify for the shortcut method of accounting for hedges under U.S. GAAP. Under the shortcut method, the hedges are assumed to be perfectly effective and no ineffectiveness is recorded in earnings. For all other designated hedges, DPS assesses hedge effectiveness and measures hedge ineffectiveness at least quarterly throughout the designated period. Changes in the fair value of the derivative instruments that do not effectively offset changes in the fair value of the underlying hedged item or the variability in the cash flows of the forecasted transaction throughout the designated hedge period are recorded in earnings each period.

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

Interest Rates

Cash Flow Hedges

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

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

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

Fair Value Hedges

The Company is also exposed to the risk of changes in the fair value of certain fixed-rate debt attributable to changes in interest rates and manages these risks through the use of receive-fixed, pay-variable interest rate swaps.

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

In December 2009, the Company entered into interest rate swaps having an aggregate notional amount of $850 million and durations ranging from two to three years in order to convert fixed-rate, long-term debt to floating rate debt. These swaps were entered into upon the issuance of the 2011 and 2012 Notes, and were originally accounted for as fair value hedges under U.S. GAAP and qualified for the shortcut method of accounting for hedges.

Effective March 10, 2010, $225 million notional of the interest rate swap linked to the 2012 Notes was restructured to reflect a change in the variable interest rate to be paid by the Company. This change triggered the de-designation of the $225 million notional fair value hedge and the corresponding fair value hedging relationship was discontinued. With the fair value hedge discontinued, the Company ceased adjusting the carrying value of the 2012 Notes corresponding to the $225 million restructured notional amounts. The $1 million adjustment of the carrying value of the 2012 Notes that resulted from de-designation will continue to be carried on the balance sheet and amortized completely over the remaining term of the 2012 Notes.

Effective September 21, 2010, the remaining $225 million notional interest rate swap linked to the 2012 Notes was terminated and settled, thus the corresponding fair value hedging relationship was discontinued. With the fair value hedge discontinued, the Company ceased adjusting the carrying value of the 2012 Notes corresponding to the remaining $225 million notional amount. The $4 million adjustment of the carrying value of the 2012 Notes that resulted from de-designation will continue to be carried on the balance sheet and amortized completely over the remaining term of the 2012 Notes.

As a result of these changes, the Company had a fair value hedge with a notional amount of $400 million remaining as of September 30, 2010 linked to the 2011 Notes.

As of September 30, 2010, the carrying value of the 2011 and 2012 Notes increased by $10 million, which includes the $5 million adjustment, net of amortization, that resulted from the de-designation events discussed above, to reflect the change in fair value of the Company s interest rate swap agreements. Refer to Note 5 for further information.

Economic Hedges

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

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

As discussed above under *Fair Value Hedges*, effective March 10, 2010, $225 million notional of the interest rate swap linked to the 2012 Notes was restructured to reflect a change in the variable interest rate to be paid by the Company. This resulted in the de-designation of the $225 million notional fair value hedge and the discontinuance of the corresponding fair value hedging relationship. The $225 million notional restructured interest rate swap was subsequently accounted for as an economic hedge and the gain or loss on the instrument was recognized in earnings during the period the instrument was outstanding in 2010. Effective September 21, 2010, the interest rate swap was terminated and settled.

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Foreign Exchange

Cash Flow Hedges

The Company s Canadian business purchases its inventory through transactions denominated and settled in U.S. Dollars, a currency different from the functional currency of the Canadian business. These inventory purchases are subject to exposure from movements in exchange rates. During the nine months ended September 30, 2010 and 2009, the Company utilized foreign exchange forward contracts designated as cash flow hedges to manage the exposures resulting from changes in these foreign currency exchange rates. The intent of these foreign exchange contracts is to provide predictability in the Company s overall cost structure. These foreign exchange contracts, carried at fair value, have maturities between one and 27 months. As of September 30, 2010 and 2009, the Company had outstanding foreign exchange forward contracts with notional amounts of $95 million and $29 million, respectively.

Economic Hedges

The Company s Canadian business has various transactions denominated and settled in U.S. Dollars, a currency different from the functional currency of the Canadian business. These transactions are subject to exposure from movements in exchange rates. During the second quarter of 2010, the Company entered into foreign exchange forward contracts not designated as cash flow hedges to manage foreign currency exposure and economically hedge the exposure from movements in exchange rates. These foreign exchange contracts, carried at fair value, have maturities between 4 and 15 months. As of September 30, 2010, the Company had outstanding foreign exchange forward contracts with notional amounts of $12 million. There were no derivative instruments in place in 2009 to economically hedge the exposure from movements in exchange rates.

Commodities

DPS centrally manages the exposure to volatility in the prices of certain commodities used in its production and distribution processes through futures contracts and supplier pricing agreements. The intent of these contracts and agreements is to provide predictability in the Company s overall cost structure. During the nine months ended September 30, 2010 and 2009, the Company entered into futures contracts that economically hedge certain of its risks. In these cases, a natural hedging relationship exists whereby changes in the fair value of the instruments act as an economic offset to changes in the fair value of the underlying items. Changes in the fair value of these instruments are recorded in net income throughout the term of the derivative instrument and are reported in the same line item of the unaudited Condensed Consolidated Statements of Operations as the hedged transaction. Gains and losses are recognized as a component of unallocated corporate costs until the Company s operating segments are affected by the settlement of the underlying transaction, at which time the gain or loss is reflected as a component of the respective segment s operating profit (SOP).

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The following table summarizes the location of the fair value of the Company s derivative instruments within the unaudited Condensed Consolidated Balance Sheets as of September 30, 2010, and December 31, 2009 (in millions):

	Balance Sheet Location	September 30, 2010	December 31, 2009
Assets:			
Derivative instruments designated as hedging instruments under U.S. GAAP:			
Interest rate swap contracts	Prepaid expenses and other current assets	$ 6	$ 6
Interest rate swap contracts	Other non-current assets	1	
Derivative instruments not designated as hedging instruments under U.S. GAAP:			
Commodity futures	Prepaid expenses and other current assets	9	1
Commodity futures	Other non-current assets	3	9
Total assets		$ 19	$ 16
Liabilities:			
Derivative instruments designated as hedging instruments under U.S. GAAP:			
Foreign exchange forward contracts	Accounts payable and accrued expenses	$	$ 2
Interest rate swap contracts	Other non-current liabilities		14
Derivative instruments not designated as hedging instruments under U.S. GAAP:			
Interest rate swap contracts	Accounts payable and accrued expenses		3
Commodity futures	Accounts payable and accrued expenses	3	
Commodity futures	Other non-current liabilities	1	
Total liabilities		$ 4	$ 19

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

	Amount of Gain (Loss) Recognized in OCI	Amount of Gain (Loss) Reclassified from AOCL into Net Income	Location of Gain (Loss) Reclassified from AOCL into Net Income
For the three months ended September 30, 2010:			
Foreign exchange forward contract	$ (2)	$	Cost of sales
Total	$ (2)	$	
For the nine months ended September 30, 2010:			
Foreign exchange forward contract	$ (1)	$ 3	Cost of sales
Total	$ (1)	$ 3	
For the three months ended September 30, 2009:			
Interest rate swap contracts	$ (4)	$ (9)	Interest expense
Foreign exchange forward contract	(3)	(1)	Cost of sales
Total	$ (7)	$ (10)	
For the nine months ended September 30, 2009:			
Interest rate swap contracts	$ (12)	$ (29)	Interest expense
Foreign exchange forward contract	(5)	(1)	Cost of sales
Total	$ (17)	$ (30)	

There was no hedge ineffectiveness recognized in net income for the three and nine months ended September 30, 2010 and 2009 with respect to derivative instruments designated as cash flow hedges.

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

	Amount of Gain (Loss) Recognized in Net Income on Derivative	Location of Gain (Loss) recognized in Net Income on Derivative
For the three months ended September 30, 2010:		
Interest rate swap contracts	$ 2	Interest Expense
Total	$ 2	
For the nine months ended September 30, 2010:		
Interest rate swap contracts	$ 5	Interest Expense
Total	$ 5	

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

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

	Amount of Gain (Loss) Recognized in Income		Location of Gain (Loss) Recognized in Income
For the three months ended September 30, 2010:			
Interest rate swap contracts	$	3	Interest expense
Commodity futures		3	Cost of sales
Commodity futures		1	Selling, general and administrative expenses
Total	$	7	
For the nine months ended September 30, 2010:			
Interest rate swap contracts	$	6	Interest expense
Foreign exchange forward contracts		1	Cost of sales
Commodity futures		(4)	Cost of sales
Commodity futures		1	Selling, general and administrative expenses
Total	$	4	
For the three months ended September 30, 2009:			
Commodity futures	$	3	Cost of sales
Commodity futures		(1)	Selling, general and administrative expenses
Total	$	2	
For the nine months ended September 30, 2009:			
Commodity futures	$	1	Cost of sales
Commodity futures			Selling, general and administrative expenses
Total	$	1	

Refer to Note 9 for more information on the valuation of derivative instruments. The Company has exposure to credit losses from derivative instruments in an asset position in the event of nonperformance by the counterparties to the agreements. Historically, DPS has not experienced credit losses as a result of counterparty nonperformance. The Company selects and periodically reviews counterparties based on credit ratings, limits its exposure to a single counterparty under defined guidelines, and monitors the market position of the programs at least on a quarterly basis.

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

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

	September 30, 2010	December 31, 2009
Other non-current assets:		
Long-term receivables from Kraft[1]	$ 411	$ 402
Deferred financing costs, net	19	23
Customer incentive programs	81	84
Other	30	34
Other non-current assets	$ 541	$ 543
Other non-current liabilities:		
Long-term payables due to Kraft[1]	$ 111	$ 115
Liabilities for unrecognized tax benefits and other tax related items	550	534
Long-term pension and postretirement liability	35	49
Other	28	39
Other non-current liabilities	$ 724	$ 737

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

8. Income Taxes

The effective tax rates for the three months ended September 30, 2010 and 2009 were 37.7% and 38.0%, respectively. The decrease in the effective tax rate for the three months ended September 30, 2010, was primarily driven by separation related costs in the prior period that did not recur.

The effective tax rates for the nine months ended September 30, 2010 and 2009 were 38.2% and 37.6%, respectively. The increase in the effective tax rate for the nine months ended September 30, 2010, was primarily driven by a previous change in the provincial income tax rate for Ontario, Canada. The impact of the change in tax rate increased the provision for income taxes and effective tax rate by $13 million and 1.9%, respectively. The impact of the Canadian provincial tax rate change was partially offset by other items including separation related costs in the prior period that did not recur.

The Company s Canadian deferred tax assets as of September 30, 2010 included a separation related balance of $131 million that was offset by a liability due to Kraft of $115 million driven by the Tax Indemnity Agreement. Anticipated legislation in Canada could result in a future partial write-down of these tax assets which would be offset to some extent by a partial write-down of the liability due to Kraft.

Under the Tax Indemnity Agreement, Kraft will indemnify DPS for net unrecognized tax benefits and other tax related items of $411 million. This balance increased by $9 million during the nine months ended September 30, 2010, and was offset by indemnity income recorded as a component of other income in the unaudited Condensed Consolidated Statement of Operations. In addition, pursuant to the terms of the Tax Indemnity Agreement, if DPS breaches certain covenants or other obligations or DPS is involved in certain change-in-control transactions, Kraft may not be required to indemnify the Company.

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9. Fair Value

Under U.S. GAAP, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. U.S. GAAP provides a framework for measuring fair value and establishes a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability. The three-level hierarchy for disclosure of fair value measurements is as follows:

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

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

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

The following table presents the fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of September 30, 2010 (in millions):

	Fair Value Measurements at Reporting Date Using		
	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Commodity futures	$	$ 12	$
Interest rate swaps		7	
Total assets	$	$ 19	$
Commodity futures	$	$ 4	$
Total liabilities	$	$ 4	$

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

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

	Identical Assets Level 1	Level 2	Level 3
Cash and cash equivalents	$ 280	$	$
Commodity futures		10	
Interest rate swaps		6	
Total assets	$ 280	$ 16	$
Interest rate swaps	$	$ 17	$
Foreign exchange forward contracts		2	
Total liabilities	$	$ 19	$

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The fair values of commodity futures contracts, interest rate swap contracts and foreign currency forward contracts are determined based on inputs that are readily available in public markets or can be derived from information available in publicly quoted markets. The fair value of commodity futures contracts are valued using the market approach based on observable market transactions at the reporting date. Interest rate swap contracts are valued using models based on readily observable market parameters for all substantial terms of our contracts. The fair value of foreign currency forward contracts are valued using quoted forward foreign exchange prices at the reporting date. Therefore, the Company has categorized these contracts as Level 2.

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

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

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

		September 30, 2010		December 31, 2009	
		Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long term debt	2011 Notes	$ 405	$ 404	$ 396	$ 400
Long term debt	2012 Notes	455	463	446	451
Long term debt	2013 Notes	250	280	250	273
Long term debt	2018 Notes	1,200	1,501	1,200	1,349
Long term debt	2038 Notes	250	333	250	291
Long term debt	Revolving credit facility			405	405

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

The fair value amounts for cash and cash equivalents, accounts receivable, net and accounts payable and accrued expenses approximate carrying amounts due to the short maturities of these instruments. The fair value amounts of long term debt as of September 30, 2010, and December 31, 2009, were based on quoted market prices for traded securities. The difference between the fair value and the carrying value represents the theoretical net premium or discount that would be paid or received to retire all debt at such date.

10. Employee Benefit Plans

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2010	2009	2010	2009
Service cost	$	$	$ 1	$
Interest cost	3	4	10	12
Expected return on assets	(3)	(3)	(11)	(9)
Recognition of actuarial loss	1	1	3	3
Settlement loss	1		4	

Net periodic benefit costs	$ 2	$ 2	$ 7	$ 6

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

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There were no significant net periodic benefit costs for the U.S. postretirement benefit plans for either of the three month periods ended September 30, 2010 or 2009. Total net periodic benefit costs for the U.S. postretirement benefit plans were $1 million for each of the nine month periods ended September 30, 2010 and 2009. The estimated prior service cost, transition obligation and estimated net loss that will be amortized from AOCL into periodic benefit cost for postretirement plans in 2010 are not significant.

During 2010, the total amount of lump sum payments made to participants of certain U.S. defined pension plans exceeded the estimated annual interest and service costs for 2010. As a result, non-cash settlement charges of $1 million and $4 million were recognized for the three and nine month periods ended September 30, 2010, respectively.

The Company contributed $5 million and $11 million to its pension plans during the three and nine months ended September 30, 2010, respectively, and expects to contribute an additional $1 million to these plans during the remainder of 2010.

The Company also contributes to various multi-employer pension plans based on obligations arising from certain of its collective bargaining agreements. The Company recognizes expense in connection with these plans as contributions are funded. Contributions paid into multi-employer defined benefit pension plans for employees under collective bargaining agreements were approximately $1 million and $2 million for the three month period ended September 30, 2010 and 2009, respectively. Multi-employer contributions were approximately $3 million and $4 million for the nine month periods ended September 30, 2010 and 2009, respectively. Additionally, during the third quarter of 2009, a trustee-approved mass withdrawal under one multi-employer plan was triggered, which resulted in additional expense of approximately $3 million for the three and nine months ended September 30, 2009.

11. Stock-Based Compensation

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

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2010	**2009**	**2010**	**2009**
Total stock-based compensation expense	$ 8	$ 5	$ 21	$ 13
Income tax benefit recognized in the income statement	(3)	(2)	(8)	(5)
Net stock-based compensation expense	$ 5	$ 3	$ 13	$ 8

The table below summarizes stock option activity for the nine months ended September 30, 2010:

	Stock Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (in millions)
Outstanding as of December 31, 2009	2,178,211	$ 18.97	8.79	$ 20
Granted	855,403	32.36		

Exercised	(241,719)	20.38		
Forfeited or expired	(102,920)	18.86		
Outstanding as of September 30, 2010	2,688,975	23.11	8.46	33
Exercisable as of September 30, 2010	859,517	21.20	7.89	12

As of September 30, 2010, there was $8 million of unrecognized compensation cost related to the nonvested stock options granted under the DPS Stock Plans that is expected to be recognized over a weighted average period of 2.17 years.

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The table below summarizes RSU activity for the nine months ended September 30, 2010:

	RSUs	Weighted Average Grant Date Fair Value	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (in millions)
Outstanding as of December 31, 2009	2,688,551	$ 17.43	1.91	$ 76
Granted	983,222	31.95		
Vested	(53,072)	20.55		
Forfeited	(135,273)	19.65		
Outstanding as of September 30, 2010	3,483,428	21.40	1.55	124

Under the terms of the Company s RSU agreements, individual RSU holders are entitled to dividend equivalent units in the event of a dividend declaration. Under the agreements, unvested RSU awards, as well as the associated dividend equivalents, are forfeitable. As of September 30, 2010, there were 54,409 dividend equivalent units outstanding, which will vest at the time that the underlying RSU vests.

As of September 30, 2010, there was $42 million of unrecognized compensation cost related to the nonvested RSUs granted under the DPS Stock Plans that is expected to be recognized over a weighted average period of 2.06 years.

12. Earnings Per Share

Basic earnings per share (EPS) is computed by dividing net income by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the assumed conversion of all dilutive securities. The following table sets forth the computation of basic EPS utilizing the net income for the respective period and the Company s basic shares outstanding and presents the computation of diluted EPS (in millions, except per share data):

	For the Three Months Ended September 30, 2010	For the Three Months Ended September 30, 2009	For the Nine Months Ended September 30, 2010	For the Nine Months Ended September 30, 2009
Basic EPS:				
Net income	$ 144	$ 151	$ 416	$ 441
Weighted average common shares outstanding	238.0	254.2	245.1	254.2
Earnings per common share basic	$ 0.61	$ 0.59	$ 1.70	$ 1.73
Diluted EPS:				
Net income	$ 144	$ 151	$ 416	$ 441
Weighted average common shares outstanding	238.0	254.2	245.1	254.2
Effect of dilutive securities:				
Stock options, RSUs, and dividend equivalent units	2.4	1.3	2.2	0.8
Weighted average common shares outstanding and common stock equivalents	240.4	255.5	247.3	255.0

Earnings per common share diluted	$	0.60	$	0.59	$	1.68	$	1.73

Stock options, RSUs and dividend equivalent units totaling 0.2 million shares were excluded from the diluted weighted average shares outstanding for the three months ended September 30, 2010, and 0.6 million shares were excluded from the diluted weighted average shares outstanding for the nine months ended September 30, 2010, as they were not dilutive. Weighted average options and RSUs totaling 1.1 million shares were excluded from the diluted weighted average shares outstanding for the three and nine months ended September 30, 2009, as they were not dilutive. Under the terms of our RSU agreements, unvested RSU awards contain forfeitable rights to dividends and dividend equivalent units. Because the dividend equivalent units are forfeitable, they are defined as non-participating securities.

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On February 24, 2010, the Board authorized an increase in the total aggregate share repurchase authorization from $200 million up to $1 billion. Subsequent to this approval, the Company repurchased and retired 9.6 million shares of common stock valued at approximately $353 million and 25.2 million shares of common stock valued at approximately $910 million in the three and nine months ended September 30, 2010, respectively. These amounts were recorded as a reduction of equity, primarily additional paid-in capital.

On July 12, 2010, the Board authorized the repurchase of an additional $1 billion of our outstanding common stock over the next three years, which additional authorization may be used to repurchase shares of the Company s common stock after the funds authorized on February 24, 2010 have been utilized.

13. Commitments and Contingencies

Legal Matters

The Company is occasionally subject to litigation or other legal proceedings as set forth below. The Company does not believe that the outcome of these, or any other, pending legal matters, individually or collectively, will have a material adverse effect on the business or financial condition of the Company, although such matters may have a material adverse effect on the Company s results of operations or cash flows in a particular period.

Snapple Litigation Labeling Claims

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

In 2007, Snapple Beverage Corp. was sued by Stacy Holk in the United States District Court, District of New Jersey. Snapple filed a motion to dismiss the Holk case on a variety of grounds. In June 2008, the District Court granted Snapple s motion to dismiss. The plaintiff appealed and in August 2009, the appellate court reversed the judgment and remanded to the District Court for further proceedings. Discovery and class certification proceedings are complete. In August 2010, the District Court stayed the case for six months pending a referral to the U.S. Food and Drug Administration (FDA) by the District Court in a similar, but unrelated, case pending in New Jersey federal court. In September 2010, the FDA declined the referral in the unrelated New Jersey case. Snapple has moved to re-open the case and decide class certification.

In 2007, the attorneys in the Holk case also filed an action in the United States District Court, Southern District of New York on behalf of plaintiffs, Evan Weiner and Timothy McCausland. Discovery and class certification proceedings are complete. This District Court did not stay this case pending the referral to the FDA in the unrelated New Jersey case. In August 2010, the District Court denied the plaintiffs motion to certify the case as a class action. The plaintiffs time to appeal the denial of class certification has expired. Snapple has filed a motion for summary judgment on the plaintiffs remaining individual claims.

In 2009, Snapple Beverage Corp. was sued by Frances Von Koenig in the United States District Court, Eastern District of California. A similar suit filed by Guy Caldwell in 2009 against DPS in the United States District Court, Eastern District of California, was consolidated with the Van Koenig case. In May 2010, Snapple s motion to dismiss was denied in part and granted in part with leave to amend. Plaintiffs filed an amended complaint. Snapple has filed a further motion to dismiss. In August 2010, the District Court stayed the case for six months pending a referral to the FDA by the District Court in a similar, but unrelated, case pending in New Jersey federal court. In September 2010, the FDA declined the referral in the unrelated New Jersey case. Either party can now move to re-open the case for the court to decide the motion to dismiss.

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

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

California Wage Audit

In 2007, one of the Company s subsidiaries, Seven Up/RC Bottling Company Inc., was sued by Robert Jones in the Superior Court in the State of California (Orange County), alleging that its subsidiary failed to provide meal and rest periods and itemized wage statements in accordance with applicable California wage and hour law. The case was filed as a class action. The parties have reached a tentative settlement in the case, pursuant to which the Company would pay $4.25 million, which amount was accrued as of June 30, 2010. The settlement is subject to the satisfaction of the following conditions: (i) court approval and (ii) execution of an acceptable settlement agreement.

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

Environmental, Health and Safety Matters

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

The federal Comprehensive Environmental Response, Compensation and Liability Act of 1980 (CERCLA), also known as the Superfund law, as well as similar state laws, generally impose joint and several liability for cleanup and enforcement costs on current and former owners and operators of a site without regard to fault of the legality of the original conduct. In October 2008, DPS was notified by the Environmental Protection Agency that it is a potentially responsible party for study and cleanup costs at a Superfund site in New Jersey. Investigation and remediation costs are yet to be determined, but the Company has reasonably estimated that DPS allocation of costs related to the study for this site is approximately $350,000.

14. Comprehensive Income

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

	For the Three Months Ended September 30, 2010	For the Three Months Ended September 30, 2009	For the Nine Months Ended September 30, 2010	For the Nine Months Ended September 30, 2009
Consolidated net income	$ 144	$ 151	$ 416	$ 441
Other comprehensive income:				
Net foreign currency translation	9	1	11	13
Net change in pension liability	9		6	2
Net change in cash flow hedges	(2)	2	2	8
Total comprehensive income	$ 160	$ 154	$ 435	$ 464

DR PEPPER SNAPPLE GROUP, INC.
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(Unaudited)

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

	Foreign Currency Translation	Change in Pension Liability	Cash Flow Hedges	Accumulated Other Comprehensive Loss
Balance at December 31, 2008	$ (34)	$ (52)	$ (20)	$ (106)
Changes in fair value	22	7	(20)	9
Reclassification to earnings			38	38
Balance at December 31, 2009	$ (12)	$ (45)	$ (2)	$ (59)
Changes in fair value	11	6	(1)	16
Reclassification to earnings			3	3
Balance at September 30, 2010	$ (1)	$ (39)	$	$ (40)

15. Investments in Unconsolidated Subsidiaries

The Company maintains certain investments accounted for under the cost method of accounting that have a zero cost basis in companies that it does not control and for which it does not have the ability to exercise significant influence over operating and financial policies. During the third quarter of 2010, the Company contributed $650,000 to one of those investments, Hydrive Energy, LLC, whose co-founder and significant equity holder sits on the Company s Board. As a result of this contribution, the Company increased its interest from 13.4% as of December 31, 2009 to 20.4%, thereby causing the investment to be accounted for under the equity method of accounting. There was no retroactive impact to retained earnings as a result of the change in the method of accounting.

16. Segments

As of September 30, 2010, the Company s operating structure consisted of the following three operating segments:

The Beverage Concentrates segment reflects sales of the Company s branded concentrates and syrup to third party bottlers primarily in the United States and Canada. Most of the brands in this segment are carbonated soft drink (CSD) brands.

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

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

Segment results are based on management reports. Net sales and SOP are the significant financial measures used to assess the operating performance of the Company s operating segments.

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

	For the Three Months Ended September 30, 2010	For the Three Months Ended September 30, 2009	For the Nine Months Ended September 30, 2010	For the Nine Months Ended September 30, 2009
Segment Results Net Sales				
Beverage Concentrates	$ 278	$ 260	$ 837	$ 784
Packaged Beverages	1,082	1,077	3,102	3,126
Latin America Beverages	97	97	285	265
Net sales	$ 1,457	$ 1,434	$ 4,224	$ 4,175

	For the Three Months Ended September 30, 2010	For the Three Months Ended September 30, 2009	For the Nine Months Ended September 30, 2010	For the Nine Months Ended September 30, 2009
Segment Results SOP				
Beverage Concentrates	$ 182	$ 158	$ 535	$ 492
Packaged Beverages	136	168	413	445
Latin America Beverages	6	18	31	41
Total SOP	324	344	979	978
Unallocated corporate costs	63	65	221	189
Other operating expense (income), net	1	7	1	(45)
Income from operations	260	272	757	834
Interest expense, net	31	50	92	155
Other income, net	(2)	(20)	(7)	(25)
Income before provision for income taxes and equity in earnings of unconsolidated subsidiaries	$ 231	$ 242	$ 672	$ 704

17. Agreement with PepsiCo, Inc.

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

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

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

Under the new agreements, DPS received a one-time nonrefundable cash payment of $900 million. The new agreements have an initial period of 20 years with automatic 20-year renewal periods, and require PepsiCo to meet certain performance conditions. The payment was recorded as deferred revenue, which will be recognized as net sales ratably over the estimated 25-year life of the customer relationship.

18. Agreement with The Coca-Cola Company

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

Under the new licensing agreements, Coke will distribute Dr Pepper and Canada Dry in the U.S. territories where these brands are currently distributed by CCE. The same will apply to Canada Dry and C Plus in Canada. As part of the U.S. licensing agreement, Coke has agreed to offer Dr Pepper and Diet Dr Pepper in its local fountain accounts. The new agreements will have an initial period of 20 years with automatic 20-year renewal periods, and will require Coke to meet certain performance conditions.

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

Under a separate agreement, Coke has agreed to include Dr Pepper and Diet Dr Pepper brands in its Freestyle fountain program. The Freestyle fountain program agreement will have a period of twenty years.

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

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

On October 4, 2010, the Company received the cash payment of $715 million, completed the licensing of those brands to Coke following Coke s acquisition of CCE s North American Bottling Business and executed separate agreements pursuant to which Coke will offer Dr Pepper and Diet Dr Pepper in local fountain accounts and the Freestyle fountain program.

19. Guarantor and Non-Guarantor Financial Information

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

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

Condensed Consolidating Statements of Operations
For the Three Months Ended September 30, 2010

	Parent	Guarantors	Non-Guarantors	Eliminations	Total
			(in millions)		
Net sales	$	$ 1,326	$ 136	$ (5)	$ 1,457
Cost of sales		543	62	(5)	600
Gross profit		783	74		857
Selling, general and administrative expenses		506	58		564
Depreciation and amortization		30	2		32
Other operating expense (income), net		2	(1)		(1)
Income from operations		245	15		260
Interest expense	31	20		(20)	31
Interest income	(19)		(1)	20	
Other income, net	(3)		1		(2)
(Loss) Income before provision for income taxes and equity in earnings of subsidiaries	(9)	225	15		231

Provision for income taxes		(4)		89		2				87
(Loss) Income before equity in earnings of subsidiaries		(5)		136		13				144
Equity in earnings of consolidated subsidiaries		149		13				(162)		
Equity in earnings of unconsolidated subsidiaries, net of tax										
Net income	$	144	$	149	$	13	$	(162)	$	144

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

Condensed Consolidating Statements of Operations
For the Three Months Ended September 30, 2009

	Parent	Guarantors	Non-Guarantors	Eliminations	Total
			(in millions)		
Net sales	$	$ 1,298	$ 136	$	$ 1,434
Cost of sales		524	55		579
Gross profit		774	81		855
Selling, general and administrative expenses		500	47		547
Depreciation and amortization		28	1		29
Other operating expense (income), net		3	4		7
Income from operations		243	29		272
Interest expense	54	22		(25)	51
Interest income	(25)		(1)	25	(1)
Other income, net	(19)	(19)	18		(20)
Income before provision for income taxes and equity in earnings of subsidiaries	(10)	240	12		242
Provision for income taxes	(11)	100	3		92
Income before equity in earnings of subsidiaries	1	140	9		150
Equity in earnings of consolidated subsidiaries	150	10		(160)	
Equity in earnings of unconsolidated subsidiaries, net of tax			1		1
Net income	$ 151	$ 150	$ 10	$ (160)	$ 151

Condensed Consolidating Statements of Operations
For the Nine Months Ended September 30, 2010

	Parent	Guarantors	Non-Guarantors	Eliminations	Total
			(in millions)		
Net sales	$	$ 3,848	$ 398	$ (22)	$ 4,224
Cost of sales		1,526	185	(22)	1,689
Gross profit		2,322	213		2,535
Selling, general and administrative expenses		1,525	157		1,682
Depreciation and amortization		91	4		95
Other operating expense (income), net		1			1

Income from operations		705	52		757
Interest expense	94	59		(59)	94
Interest income	(57)	(1)	(3)	59	(2)
Other income, net	(8)	(1)	2		(7)
(Loss) Income before provision for income taxes and equity in earnings of subsidiaries	(29)	648	53		672
Provision for income taxes	(14)	252	19		257
(Loss) Income before equity in earnings of subsidiaries	(15)	396	34		415
Equity in earnings of consolidated subsidiaries	431	35		(466)	
Equity in earnings of unconsolidated subsidiaries, net of tax			1		1
Net income	$ 416	$ 431	$ 35	$ (466)	$ 416

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Condensed Consolidating Statements of Operations
For the Nine Months Ended September 30, 2009

	Parent	Guarantors	Non-Guarantors	Eliminations	Total
			(in millions)		
Net sales	$	$ 3,811	$ 364	$	$ 4,175
Cost of sales		1,553	153		1,706
Gross profit		2,258	211		2,469
Selling, general and administrative expenses		1,463	133		1,596
Depreciation and amortization		81	3		84
Other operating expense (income), net		(43)	(2)		(45)
Income from operations		757	77		834
Interest expense	161	92		(95)	158
Interest income	(95)		(3)	95	(3)
Other income, net	(25)	(19)	19		(25)
Income before provision for income taxes and equity in earnings of subsidiaries	(41)	684	61		704
Provision for income taxes	(25)	279	11		265
Income before equity in earnings of subsidiaries	(16)	405	50		439
Equity in earnings of consolidated subsidiaries	457	52		(509)	
Equity in earnings of unconsolidated subsidiaries, net of tax			2		2
Net income	$ 441	$ 457	$ 52	$ (509)	$ 441

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DR PEPPER SNAPPLE GROUP, INC.
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(Unaudited)

	Condensed Consolidating Balance Sheets As of September 30, 2010				
	Parent	**Guarantors**	**Non-Guarantors**	**Eliminations**	**Total**
			(in millions)		
Current assets:					
Cash and cash equivalents	$	$ 166	$ 58	$	$ 224
Accounts receivable:					
Trade, net		469	58		527
Other	2	17	12		31
Related party receivable	12	7		(19)	
Inventories		254	29		283
Deferred tax assets		52	6		58
Prepaid expenses and other current assets	93	55	28		176
Total current assets	107	1,020	191	(19)	1,299
Property, plant and equipment, net		1,050	73		1,123
Investments in consolidated subsidiaries	3,566	485		(4,051)	
Investments in unconsolidated subsidiaries	1		10		11
Goodwill		2,961	23		2,984
Other intangible assets, net		2,612	81		2,693
Long-term receivable, related parties	2,824	1,552	111	(4,487)	
Other non-current assets	430	103	8		541
Non-current deferred tax assets			139		139
Total assets	$ 6,928	$ 9,783	$ 636	$ (8,557)	$ 8,790
Current liabilities:					
Accounts payable and accrued expenses	$ 120	$ 758	$ 69	$	$ 947
Related party payable		12	7	(19)	
Deferred revenue		34	2		36
Income taxes payable			1		1
Total current liabilities	120	804	79	(19)	984
Long-term obligations to third parties	2,560	11			2,571
Long-term obligations to related parties	1,552	2,934	1	(4,487)	
Non-current deferred tax liabilities		1,066	17		1,083
Non-current deferred revenue		804	39		843
Other non-current liabilities	111	598	15		724
Total liabilities	4,343	6,217	151	(4,506)	6,205
Total equity	2,585	3,566	485	(4,051)	2,585

Total liabilities and stockholders equity	$	6,928	$	9,783	$	636	$	(8,557)	$	8,790

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DR PEPPER SNAPPLE GROUP, INC.
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Condensed Consolidating Balance Sheets
As of December 31, 2009

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

Total liabilities and stockholders equity	$	6,774	$	8,641	$	578	$	(7,217)	$	8,776

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

	Condensed Consolidating Statements of Cash Flows For the Nine Months Ended September 30, 2010				
	Parent	**Guarantors**	**Non-Guarantors**	**Eliminations**	**Total**
	(in millions)				
Operating activities:					
Net cash provided by operating activities	$ (75)	$ 1,561	$ 53	$	$ 1,539
Investing activities:					
Purchases of property, plant and equipment		(154)	(16)		(170)
Investments in unconsolidated subsidiaries	(1)				(1)
Proceeds from disposals of property, plant and equipment		16			16
Return of capital		38	(38)		
Issuance of related party notes receivable		(1,118)	(15)	1,133	
Proceeds from repayment of related party notes receivable	405			(405)	
Other, net		4			4
Net cash used in investing activities	404	(1,214)	(69)	728	(151)
Financing activities:					
Proceeds from related party long-term debt	1,118	15		(1,133)	
Proceeds from repayment of related party long-term debt		20		(20)	
Repayment of related party long-term debt		(405)	(20)	425	
Repayment of senior unsecured credit facility	(405)				(405)
Repurchase of shares of common stock	(910)				(910)
Dividends paid	(136)				(136)
Other, net	4				4
Net cash used in financing activities	(329)	(370)	(20)	(728)	(1,447)
Cash and cash equivalents net change from:					
Operating, investing and financing activities		(23)	(36)		59
Currency translation		(2)	5		3
Cash and cash equivalents at beginning of period		191	89		280
Cash and cash equivalents at end of period	$	$ 166	$ 58	$	$ 224

DR PEPPER SNAPPLE GROUP, INC.
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	Condensed Consolidating Statements of Cash Flows For the Nine Months Ended September 30, 2009				
	Parent	**Guarantors**	**Non-Guarantors**	**Eliminations**	**Total**
	(in millions)				
Operating activities:					
Net cash (used in) provided by operating activities	$ (133)	$ 790	$ 44	$	$ 701
Investing activities:					
Purchases of property, plant and equipment		(214)	(9)		(223)
Purchases of intangible assets		(7)			(7)
Proceeds from disposals of property, plant and equipment		5			5
Proceeds from disposals of investments and other assets		63	5		68
Issuance of notes receivable		(288)		288	
Proceeds from repayment of notes receivable	325			(325)	
Net cash (used in) provided by investing activities	325	(441)	(4)	(37)	(157)
Financing activities:					
Proceeds from issuance of long-term debt related to guarantor/non-guarantor	288			(288)	
Repayment of related party long-term debt		(325)		325	
Repayment of senior unsecured credit facility	(480)				(480)
Other, net		(3)			(3)
Net cash provided by (used in) financing activities	(192)	(328)		37	(483)
Cash and cash equivalents net change from:					
Operating, investing and financing activities		21	40		61
Currency translation			7		7
Cash and cash equivalents at beginning of period		145	69		214
Cash and cash equivalents at end of period	$	$ 166	$ 116	$	$ 282

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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, 2009.

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act), including, in particular, statements about future events, future financial performance, plans, strategies, expectations, prospects, competitive environment, regulation, labor matters and availability of raw materials. Forward-looking statements include all statements that are not historical facts and can be identified by the use of forward-looking terminology such as the words may, will, expect, anticipate, believe, estimate, plan, negative of these terms or similar expressions in this Quarterly Report on Form 10-Q. We have based these forward-looking statements on our current views with respect to future events and financial performance. Our actual financial performance could differ materially from those projected in the forward-looking statements due to the inherent uncertainty of estimates, forecasts and projections, and our financial performance may be better or worse than anticipated. Given these uncertainties, you should not put undue reliance on any forward-looking statements. All of the forward-looking statements are qualified in their entirety by reference to the factors discussed under Risk Factors in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2009. Forward-looking statements represent our estimates and assumptions only as of the date that they were made. We do not undertake any duty to update the forward-looking statements, and the estimates and assumptions associated with them, after the date of this Quarterly Report on Form 10-Q, except to the extent required by applicable securities laws.

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

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

Overview

We are a leading integrated brand owner, manufacturer and distributor of non-alcoholic beverages in the United States, Canada and Mexico, with a diverse portfolio of flavored carbonated soft drinks (CSDs) and non-carbonated beverages (NCBs), including ready-to-drink teas, juices, juice drinks and mixers. Our brand portfolio includes popular CSD brands such as Dr Pepper, 7UP, Sunkist soda, A&W, Canada Dry, Crush, Squirt, Peñafiel, Schweppes and Venom Energy, and NCB brands such as Snapple, Mott s, Hawaiian Punch, Clamato, Rose s and Mr & Mrs T mixers. Our largest brand, Dr Pepper, is a leading flavored CSD in the United States according to The Nielsen Company. We have some of the most recognized beverage brands in North America, with significant consumer awareness levels and long histories that evoke strong emotional connections with consumers.

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

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

Beverage Concentrates

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

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

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

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

Packaged Beverages

Our Packaged Beverages segment is principally a brand ownership, manufacturing and distribution business. In this segment, we primarily manufacture and distribute packaged beverages and other products, including our brands, third party owned brands and certain private label beverages, in the United States and Canada. Key NCB brands in this segment include Snapple, Mott s, Hawaiian Punch, Clamato, Yoo-Hoo, Mistic, Country Time, Nantucket Nectars, ReaLemon, Mr and Mrs T, Rose s and Margaritaville. Key CSD brands in this segment include Dr Pepper, 7UP, Sunkist soda, A&W, Canada Dry, Squirt, RC Cola, Welch s, Vernors, IBC and Venom Energy. Additionally, we distribute third party brands such as FIJI mineral water and AriZona tea and a portion of our sales come from bottling beverages and other products for private label owners or others for a fee. Although the majority of our Packaged Beverages net sales relate to our brands, we also provide a route-to-market for third party brand owners seeking effective distribution for their new and emerging brands. These brands give us exposure in certain markets to fast growing segments of the beverage industry with minimal capital investment.

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

We sell our Packaged Beverages products both through our DSD system, supported by a fleet of more than 5,000 trucks and approximately 12,000 employees, including sales representatives, merchandisers, drivers and warehouse workers, as well as through our WD system, both of which include sales to all major retail channels, including supermarkets, mass merchandisers, club stores, convenience stores, gas stations, small groceries, drug chains and dollar stores.

Latin America Beverages

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

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

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

Volume

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

Beverage Concentrates Sales Volume

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

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

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

Packaged Beverages Sales Volume

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

Volume in Bottler Case Sales

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

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

Company Highlights and Recent Developments

Net sales totaled $1,457 million for the three months ended September 30, 2010, an increase of $23 million, or approximately 2%, from the three months ended September 30, 2009.

Net income for the three months ended September 30, 2010, was $144 million, compared to $151 million for the year ago period, a decrease of $7 million, or approximately 5%.

Diluted earnings per share were $0.60 per share for the three months ended September 30, 2010, compared with $0.59 for the year ago period.

During the third quarter of 2010, our Board of Directors (the Board) declared a dividend of $0.25 per share, payable on October 8, 2010, to shareholders of record on September 20, 2010.

During the three and nine months ended September 30, 2010, respectively, we repurchased 9.6 million and 25.2 million shares of our common stock valued at approximately $353 million and $910 million.

DPS agreed to license certain brands to The Coca-Cola Company (Coke) as a result of Coke s acquisition of Coca-Cola Enterprises (CCE) North American Bottling Business in October 2010. As part of the transaction, DPS received a one-time cash payment of $715 million in October 2010, which will be recorded as deferred revenue and recognized as net sales ratably over the estimated 25-year life of the customer relationship.

Results of Operations

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

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

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

Consolidated Operations

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

	For the Three Months Ended September 30,				
	2010		2009		Percentage
	Dollars	Percent	Dollars	Percent	Change
Net sales	$ 1,457	100.0%	$ 1,434	100.0%	2%
Cost of sales	600	41.2	579	40.4	4
Gross profit	857	58.8	855	59.6	NM
Selling, general and administrative expenses	564	38.7	547	38.2	3
Depreciation and amortization	32	2.2	29	2.0	10
Other operating expense (income), net	1	0.1	7	0.5	(86)
Income from operations	260	17.8	272	18.9	(4)
Interest expense	31	2.1	51	3.6	(39)
Interest income			(1)	(0.1)	NM
Other income, net	(2)	(0.2)	(20)	(1.4)	(90)
Income before provision for income taxes and equity in earnings of unconsolidated subsidiaries	231	15.9	242	16.8	(5)
Provision for income taxes	87	6.0	92	6.4	(5)
Income before equity in earnings of unconsolidated subsidiaries	144	9.9	150	10.4	(4)
Equity in earnings of unconsolidated subsidiaries, net of tax			1	0.1	NM
Net income	$ 144	9.9%	$ 151	10.5%	(5)%
Earnings per common share:					
Basic	$ 0.61	NM	$ 0.59	NM	3%
Diluted	$ 0.60	NM	$ 0.59	NM	2%

Volume. Volume (BCS)

Volume. Volume (BCS) increased 2% for the three months ended September 30, 2010, compared with the three months ended September 30, 2009. In the U.S. and Canada, volume increased 3% and in Mexico and the Caribbean, volume decreased 3% compared with the year ago period. NCB and CSD volume increased 5% and 1%, respectively. In CSDs, Crush increased 18% compared with the year ago period due to expanded distribution and innovation. Dr Pepper volume increased by 2% compared with the year ago period. Our Core 4 brands (7UP, Sunkist soda, A&W and Canada Dry) were down 1% compared to the year ago period as mid single-digit declines in Sunkist soda and 7UP were partially offset by a double-digit increase in Canada Dry. Peñafiel volume decreased 11% due to decreased sales to third party distributors. In NCBs, 10% growth in Snapple was due to the successful restage of the brand, the growth of value offerings and increased marketing. Additionally, a 7% increase in Hawaiian Punch was partially offset by declines in third party NCB brands, such as AriZona.

Although volume (BCS) increased 2% for the three months ended September 30, 2010, compared with the three months ended September 30, 2009, sales volume only increased 1% for the same period as it includes the decline related to contract manufacturing, while volume (BCS) does not.

Net Sales. Net sales increased $23 million, or approximately 2%, for the three months ended September 30, 2010, compared with the three months ended September 30, 2009. The increase was primarily attributable to an increase in our NCB and CSD sales volumes, increases in our concentrate pricing, $9 million in revenue recognized under the PepsiCo license, and the favorable impact of changes in foreign currency. These increases were partially offset by an unfavorable product mix, a $15 million decline in contract manufacturing within our Packaged Beverages segment and higher discounts.

Gross Profit. Gross profit increased $2 million for the three months ended September 30, 2010, compared with the three months ended September 30, 2009. Gross margin of 59% for the three months ended September 30, 2010, was lower than the 60% gross margin for the three months ended September 30, 2009, primarily due to $15 million of higher expenses associated with labor, co-packing, unfavorable yield, and an underabsorption of manufacturing overhead as a result of the strike at our Williamson, New York manufacturing facility as we continued to produce product and service customers during this work stoppage, which ended on September 13, 2010. Other factors included increased commodity costs, partially offset by ongoing supply chain efficiencies.

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Income from Operations. Income from operations decreased $12 million to $260 million for the three months ended September 30, 2010, compared with the year ago period. The decrease was attributable to factors affecting the $2 million increase in gross profit offset by higher selling, general and administrative (SG&A) expenses. SG&A expenses increased by $17 million primarily due to higher transportation costs, an unfavorable comparison of the actuarial adjustments for certain insurance plans and higher marketplace investments.

Interest Expense, Interest Income and Other Income, Net. Interest expense decreased $20 million compared with the year ago period, reflecting the repayment of our senior unsecured Term Loan A facility during December 2009. As a result of indemnity income associated with the Tax Indemnity Agreement with Kraft, other income, net was $2 million for the three months ended September 30, 2010. Other income, net was $20 million for the three months ended September 30, 2009, which includes $3 million related to indemnity income associated with the Tax Indemnity Agreement with Kraft and an additional $16 million of one-time separation related items resulting from an audit settlement during the third quarter of 2009.

Provision for Income Taxes. The effective tax rates for the three months ended September 30, 2010 and 2009 were 37.7% and 38.0%, respectively. The decrease in the effective tax rate for the three months ended September 30, 2010, was primarily driven by separation related costs in the prior period that did not recur.

Results of Operations by Segment

We report our business in three segments: Beverage Concentrates, Packaged Beverages and Latin America Beverages. The key financial measures management uses to assess the performance of our segments are net sales and segment operating profit (SOP). The following tables set forth net sales and SOP for our segments for the three months ended September 30, 2010 and 2009, as well as the other amounts necessary to reconcile our total segment results to our consolidated results presented in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) (in millions):

	For the Three Months Ended September 30, 2010	2009
Segment Results Net sales		
Beverage Concentrates	$ 278	$ 260
Packaged Beverages	1,082	1,077
Latin America Beverages	97	97
Net sales	$ 1,457	$ 1,434
Segment Results SOP		
Beverage Concentrates	$ 182	$ 158
Packaged Beverages	136	168
Latin America Beverages	6	18
Total SOP	324	344
Unallocated corporate costs	63	65
Other operating expense (income), net	1	7
Income from operations	260	272
Interest expense, net	31	50
Other income, net	(2)	(20)
	$ 231	$ 242

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

Beverage Concentrates

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

	For the Three Months Ended September 30, 2010	For the Three Months Ended September 30, 2009	Amount Change
Net sales	$ 278	$ 260	$ 18
SOP	182	158	24

Net sales increased $18 million, or approximately 7%, for the three months ended September 30, 2010, compared with the three months ended September 30, 2009. The increase was primarily due to concentrate price increases, $9 million in revenue recognized under the PepsiCo license and a 3% increase in concentrate case sales. Concentrate price increases, which were effective in January 2010, added an incremental $10 million to net sales during the three months ended September 30, 2010. The increase in net sales was partially offset by a higher discounts.

SOP increased $24 million, or approximately 15%, for the three months ended September 30, 2010, as compared with the year ago period, primarily driven by the increase in net sales, as well as a decrease in marketing spend and lower incentive compensation related costs.

Volume (BCS) increased 1% for the three months ended September 30, 2010, as compared with the year ago period. Dr. Pepper increased 3%, led by an increase in both regular and Diet Dr Pepper, offset by decreases in the Dr Pepper Cherry line compared to the year ago period when it was initially introduced. Crush volume increased by 19%, led by the launch of Cherry Crush in the first quarter of 2010. These increases were partially offset by a double-digit decline in Squirt and Hawaiian Punch and a 5% decline in our Core 4 brands, led by a double-digit decline in Sunkist soda and 7UP, partially offset by a high single-digit increase in Canada Dry and a single-digit increase in A&W. The decreases in Sunkist soda, 7UP, Squirt and Hawaiian Punch were primarily driven by the repatriation of the brands to our Packaged Beverages segment as a result of the PepsiCo licensing agreement.

Packaged Beverages

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

	For the Three Months Ended September 30, 2010	For the Three Months Ended September 30, 2009	Amount Change
Net sales	$ 1,082	$ 1,077	$ 5
SOP	136	168	(32)

Sales volume decreased 1% for the three months ended September 30, 2010, compared with the three months ended September 30, 2009. The decrease was the result of a decline in contract manufacturing, which negatively impacted total volume by 4%. The decline in contract manufacturing was partially offset by volume growth in our NCB category and increased CSD volumes. Repatriation of brands associated with the PepsiCo transaction increased total volume by 2%.

Total CSD volume increased 2%. Volume from the repatriation of the Vernors and Squirt brands associated with the PepsiCo transaction increased our CSD volume 2%. Volume for our Core 4 brands increased 2%, due to a mid single-digit increase in Sunkist soda as a result of the repatriation of brands associated with the PepsiCo transaction and a double-digit increase in Canada Dry due to targeted marketing programs. These increases were partially offset by a mid single-digit decline in 7UP. Dr Pepper volumes declined 2%.

Total NCB volume increased 9% as a result of a 14% increase in Snapple due to the successful restage of the brand, growth of value offerings and increased marketing. Hawaiian Punch and Mott s increased 14% and 3%, respectively, as a result of increased promotional activity and distribution gains.

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Net sales increased $5 million for the three months ended September 30, 2010, compared with the three months ended September 30, 2009. Net sales were favorably impacted by NCB and CSD volume increases and changes in foreign currency, offset in part by the $15 million decline in contract manufacturing and unfavorable product mix.

SOP decreased $32 million for the three months ended September 30, 2010, compared with the three months ended September 30, 2009, primarily due to $15 million of higher expenses associated with labor, co-packing, unfavorable yield, and an underabsorption of manufacturing overhead as a result of the strike at our Williamson, New York manufacturing facility as we continued to produce product and service customers during this work stoppage, which ended on September 13, 2010. Other factors negatively affecting this comparison include unfavorable product mix, increased commodity costs, higher negotiated logistic rates, an unfavorable comparison of the actuarial adjustments for certain insurance plans, increased marketing for the launch of Mott s Medleys and a $5 million unfavorable non-cash adjustment to rent expense for certain leases. These items were partially offset by volume growth in our NCB category, increased CSD volumes, ongoing supply chain efficiencies and lower incentive compensation.

Latin America Beverages

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

	For the Three Months Ended September 30, 2010	For the Three Months Ended September 30, 2009	Amount Change
Net sales	$ 97	$ 97	$
SOP	6	18	(12)

Sales volume increased 1% for the three months ended September 30, 2010, as compared with the three months ended September 30, 2009. The increase in volume was driven by a 3% increase in Squirt volume due to higher sales to third party bottlers, a 20% increase in Crush volume with the continued growth from the introduction of new flavors in a 2.3 liter value offering, as well as additional distribution routes added throughout 2009 and 2010. These volume increases were partially offset by an 11% decrease in Peñafiel due to decreased sales to third party distributors as a result of flooding in parts of southern Mexico, which restricted our ability to deliver product during the third quarter.

Net sales remained flat for the three months ended September 30, 2010, compared with three months ended September 30, 2009, primarily due to an unfavorable product mix which was partially offset by the favorable impact of changes in foreign currency.

SOP decreased $12 million for the three months ended September 30, 2010, compared with the three months ended September 30, 2009, primarily due to increased promotional trade spending, higher marketing investments, increased costs associated with route expansion, and IT infrastructure upgrades.

Nine Months Ended September 30, 2010 Compared to Nine Months Ended September 30, 2009

Consolidated Operations

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

	For the Nine Months Ended September 30,				
	2010		2009		Percentage
	Dollars	Percent	Dollars	Percent	Change
Net sales	$ 4,224	100.0%	$ 4,175	100.0%	1%
Cost of sales	1,689	40.0	1,706	40.9	(1)
Gross profit	2,535	60.0	2,469	59.1	3
Selling, general and administrative expenses	1,682	39.8	1,596	38.2	5
Depreciation and amortization	95	2.3	84	2.0	13
Other operating expense (income), net	1		(45)	(1.1)	(102)
Income from operations	757	17.9	834	20.0	(9)
Interest expense	94	2.2	158	3.8	(41)
Interest income	(2)		(3)	(0.1)	33
Other income, net	(7)	(0.2)	(25)	(0.6)	(72)
Income before provision for income taxes and equity in earnings of unconsolidated subsidiaries	672	15.9	704	16.9	(5)
Provision for income taxes	257	6.1	265	6.4	(3)
Income before equity in earnings of unconsolidated subsidiaries	415	9.8	439	10.5	(5)
Equity in earnings of unconsolidated subsidiaries, net of tax	1		2	0.1	NM
Net income	$ 416	9.8%	$ 441	10.6%	(6)%
Earnings per common share:					
Basic	$ 1.70	NM	$ 1.73	NM	(2)%
Diluted	$ 1.68	NM	$ 1.73	NM	(3)%

Volume. Volume (BCS)

Volume. Volume (BCS) increased 3% for the nine months ended September 30, 2010, compared with the nine months ended September 30, 2009. In the U.S. and Canada, volume increased 2% and in Mexico and the Caribbean, volume increased 3% compared with the year ago period. CSD volume increased 2% and NCB volume increased 4%. In CSDs, Crush increased 20% compared with the year ago period due to expanded distribution. Dr Pepper volume increased 3% compared with the year ago period. Our Core 4 brands were down 1% compared to the year ago period as mid single-digit declines in Sunkist soda and 7UP were partially offset by a double-digit increase in Canada Dry. Peñafiel volume decreased 7% due to decreased sales to third party distributors. Squirt volume increased 7%. In NCBs, 11% growth in Snapple was due to the successful restage of the brand, the growth of value offerings and increased marketing. An 7% increase in Mott s was the result of new distribution and strong brand support. Additionally, a 7% increase in Hawaiian Punch was partially offset by declines in third party NCB brands, such as

AriZona.

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

Net Sales. Net sales increased $49 million, or approximately 1%, for the nine months ended September 30, 2010, compared with the nine months ended September 30, 2009. The increase was primarily attributable to volume increases in NCBs, the favorable impact of foreign currency, concentrate price increases, and $21 million in revenue recognized under the PepsiCo license. These increases were partially offset by a $53 million decline in contract manufacturing and an unfavorable product mix.

Gross Profit. Gross profit increased $66 million for the nine months ended September 30, 2010, compared with the nine months ended September 30, 2009. Gross margin of approximately 60% for the nine months ended September 30, 2010, was higher than the approximately 59% gross margin for the nine months ended September 30, 2009, primarily due to the favorable product mix as a result of the decline in contract manufacturing, lower commodity costs and ongoing supply chain efficiencies, partially offset by $19 million of higher expenses associated with labor, co-packing, unfavorable yield, and an underabsorption of manufacturing overhead as a result of the strike at our Williamson, New York manufacturing facility as we continued to produce product and service customers during this work stoppage, which ended on September 13, 2010.

Income from Operations. Income from operations decreased $77 million to $757 million for the nine months ended September 30, 2010, compared with the year ago period. The nine months ended September 30, 2009 included one-time gains of $62 million primarily related to the termination of certain distribution agreements. The remaining $15 million decrease in income from operations resulted from an increase in SG&A expenses partially offset by the factors affecting the $66 million increase in gross profit during the nine months ended September 30, 2010. Significant drivers of the $86 million increase in SG&A expenses include higher benefit costs, unfavorable comparison of the changes in fair value of commodity derivatives used in the distribution process, unfavorable impact of foreign currency, higher productivity office investments, increased stock-based compensation costs, the one-time transaction costs associated with the PepsiCo agreement, and the increase in marketing spend primarily related to targeted marketing programs.

Interest Expense, Interest Income and Other Income, Net. Interest expense decreased $64 million compared with the year ago period, reflecting the repayment of our senior unsecured Term Loan A facility during December 2009. As a result of indemnity income associated with the Tax Indemnity Agreement with Kraft, other income, net was $7 million for the nine months ended September 30, 2010. Other income, net was $25 million for the nine months ended September 30, 2009, which includes $9 million of recurring items related to indemnity income associated with the Tax Indemnity Agreement with Kraft and an additional $16 million of one-time separation related items resulting from an audit settlement during the third quarter of 2009.

Provision for Income Taxes. The effective tax rates for the nine months ended September 30, 2010 and 2009 were 38.2% and 37.6%, respectively. The increase in the effective tax rate for the nine months ended September 30, 2010, was primarily driven by a previous change in the provincial income tax rate for Ontario, Canada. The impact of the change in tax rate increased the provision for income taxes and effective tax rate by $13 million and 1.9%, respectively. The impact of the Canadian provincial tax rate change was partially offset by other items, including separation related costs in the prior period that did not recur. Refer to Note 8 of the Notes to our Unaudited Condensed Consolidated Financial Statements for further information.

Results of Operations by Segment

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

	For the Nine Months Ended September 30,	
	2010	**2009**
Segment Results Net sales		
Beverage Concentrates	$ 837	$ 784
Packaged Beverages	3,102	3,126
Latin America Beverages	285	265
Net sales	$ 4,224	$ 4,175
Segment Results SOP		
Beverage Concentrates	$ 535	$ 492
Packaged Beverages	413	445
Latin America Beverages	31	41
Total SOP	979	978
Unallocated corporate costs	221	189
Other operating expense (income), net	1	(45)

Income from operations		757		834
Interest expense, net		92		155
Other income, net		(7)		(25)
Income before provision for income taxes and equity in earnings of unconsolidated subsidiaries	$	672	$	704

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Beverage Concentrates

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

	For the Nine Months Ended September 30, 2010	For the Nine Months Ended September 30, 2009	Amount Change
Net sales	$ 837	$ 784	$ 53
SOP	535	492	43

Net sales increased $53 million, or approximately 7%, for the nine months ended September 30, 2010, compared with the nine months ended September 30, 2009. The increase was primarily due to concentrate price increases, $21 million in revenue recognized under the PepsiCo license, and the favorable impact of foreign currency. Concentrate price increases, which were effective in January 2010, added an incremental $30 million to net sales during the nine months ended September 30, 2010. The increase in net sales was partially offset by higher discounts.

SOP increased $43 million, or approximately 9%, for the nine months ended September 30, 2010, as compared with the year ago period, primarily driven by the increase in net sales and lower compensation costs. The increase in SOP was partially offset by an increase in marketing spend primarily related to targeted marketing programs for Dr Pepper, Canada Dry, and Sunkist soda.

Volume (BCS) increased 1% for the nine months ended September 30, 2010, as compared with the year ago period, primarily driven by a 3% increase Dr. Pepper, led by regular and Diet Dr Pepper. Crush increased 19%, primarily driven by the launch of Cherry Crush in the first quarter of 2010. These increases were partially offset by a double-digit decline in Hawaiian Punch, Squirt, and Vernors, as well as a 3% decrease in our Core 4 brands, primarily driven by a double-digit decline in 7UP and a high-single digit decline in Sunkist soda which was partially offset by a high single-digit increase in Canada Dry. The decreases in 7UP, Sunkist soda, Hawaiian Punch, Squirt, and Vernors were primarily driven by the repatriation of the brands to our Packaged Beverages segment as a result of the PepsiCo licensing agreement.

Packaged Beverages

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

	For the Nine Months Ended September 30, 2010	For the Nine Months Ended September 30, 2009	Amount Change
Net sales	$ 3,102	$ 3,126	$ (24)
SOP	413	445	(32)

Sales volume decreased 2% for the nine months ended September 30, 2010, compared with the nine months ended September 30, 2009. The decrease was the result of a decline in contract manufacturing, which negatively impacted total volume by 4%. The decline in contract manufacturing was partially offset by volume growth in our NCB category. Repatriation of brands associated with the PepsiCo transaction increased total volume by 1%.

Total CSD volume decreased 1%. Volume for our Core 4 brands decreased 1%, due to a mid single-digit decline in 7UP and a low single-digit decline in Sunkist soda, partially offset by a double-digit increase in Canada Dry due to targeted marketing programs. Dr Pepper volume decreased 2%. Volume from the repatriation of the Vernors and Squirt brands associated with the PepsiCo transaction increased our CSD volume 1%.

Total NCB volume increased 8% as a result of a 13% increase in Snapple due to the successful restage of the brand, growth of value offerings and increased marketing. Hawaiian Punch and Mott s increased 11% and 6%, respectively, as a result of increased promotional activity and distribution gains.

Net sales decreased $24 million for the nine months ended September 30, 2010, compared with the nine months ended September 30, 2009. The decline in contract manufacturing reduced net sales for the nine months ended September 30, 2010, by $53 million. Net sales were favorably impacted by volume increases, primarily in NCBs, and the favorable impact of foreign currency, offset in part by the decrease in CSD volume and unfavorable product mix.

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SOP decreased $32 million for the nine months ended September 30, 2010, compared with the nine months ended September 30, 2009, primarily due to unfavorable product mix and $19 million of higher expenses associated with labor, co-packing, unfavorable yield, and an underabsorption of manufacturing overhead as a result of the strike at our Williamson, New York manufacturing facility as we continued to produce product and service customers during this work stoppage, which ended on September 13, 2010. Other factors negatively affecting this comparison include higher benefit costs, costs and depreciation associated with the startup of our manufacturing facility in Victorville, California, higher inventory adjustments, a $5 million unfavorable adjustment to rent expense for certain leases, and a legal reserve for pending legal matters. These items were partially offset by volume growth in our NCB category and lower costs for packaging materials and other commodity costs.

Latin America Beverages

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

	For the Nine Months Ended September 30, 2010	For the Nine Months Ended September 30, 2009	Amount Change
Net sales	$ 285	$ 265	$ 20
SOP	31	41	(10)

Sales volume increased 7% for the nine months ended September 30, 2010, as compared with the nine months ended September 30, 2009. The increase in volume was driven by a 13% increase in Squirt volume due to higher sales to third party bottlers, a 45% increase in Crush volume with the continued growth from the introduction of new flavors in a 2.3 liter value offering, as well as additional distribution routes added throughout 2009 and 2010. These volume increases were partially offset by a 7% decrease in Peñafiel due to decreased sales to third party distributors due to increased competition and flooding in parts of southern Mexico which restricted our ability to deliver product during the third quarter.

Net sales increased $20 million for the nine months ended September 30, 2010, compared with the year ago period primarily due to a $17 million favorable impact of changes in foreign currency and an increase in sales volume, partially offset by an unfavorable impact related to product mix.

SOP decreased $10 million for the nine months ended September 30, 2010, compared with the nine months ended September 30, 2009, as a result of route expansion costs, IT infrastructure upgrades, and higher marketing investments, partially offset by the favorable impact of changes in foreign currency.

Critical Accounting Estimates

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

- revenue recognition;
- customer marketing programs and incentives;
- goodwill and other indefinite lived intangible assets;
- definite lived intangible assets;

stock-based compensation;

pension and postretirement benefits;

risk management programs; and

income taxes.

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

Liquidity and Capital Resources

Trends and Uncertainties Affecting Liquidity

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

changes in economic factors could impact consumers purchasing power; and

continued capital expenditures to upgrade our existing plants and distribution fleet of trucks, replace and expand our cold drink equipment and make investments in IT systems in order to improve operating efficiencies and lower costs.

on October 4, 2010, the Company received a one-time payment of $715 million for licensing certain brands to Coke as a result of Coke s acquisition of CCE s North American Bottling Business.

2010 Borrowings and Repayments

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

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

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

Senior Unsecured Credit Facility

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

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

the Revolver in an aggregate principal amount of $500 million with a maturity in 2013. The balance of principal borrowings under the Revolver was $0 and $405 million as of September 30, 2010 and December 31, 2009, respectively. Up to $75 million of the Revolver is available for the issuance of letters of credit, of which $14 million and $41 million were utilized as of September 30, 2010, and December 31, 2009, respectively. Balances available for additional borrowings and letters of credit were $486 million and $61 million, respectively, as of September 30, 2010.

Borrowings under the senior unsecured credit facility bear interest at a floating rate per annum based upon the London Interbank Offered Rate (LIBOR) or the Alternate Base Rate (ABR), in each case plus an applicable margin which varies based upon our debt ratings, from 1.00% to 2.50% in the case of LIBOR loans and 0.00% to 1.50% in the case of ABR loans. The ABR means the greater of (a) JPMorgan Chase Bank s prime rate and (b) the federal funds effective rate plus one half of 1%. Interest is payable on the last day of the interest period, but not less than quarterly, in the case of any LIBOR loan and on the last day of March, June, September and December of each year in the case of any ABR loan. There were no borrowings during the three months ended September 30, 2010. The average interest rate was 4.88% for the three months ended September 30, 2009. The average interest rate was 2.25% and 4.84% for the nine months ended September 30, 2010 and 2009, respectively. Interest expense was $2 million and $21 million for the three months ended September 30, 2010 and 2009, respectively. Interest expense was $4 million and $69 million for the nine months ended September 30, 2010 and 2009, respectively. Amortization of deferred financing costs of $1 million and $4 million for the three months ended September 30, 2010 and 2009, respectively, was included in interest expense. For the nine months ended September 30, 2010 and 2009, amortization of deferred financing costs of $2 million and $11 million was included in interest expense, respectively.

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

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

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

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

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

Senior Unsecured Notes

The 2011 and 2012 Notes

In December 2009, we completed the issuance of $850 million aggregate principal amount of senior unsecured notes consisting of the 1.70% senior notes due in 2011 (the 2011 Notes) and 2.35% senior notes due in 2012 (the 2012 Notes). The weighted average interest rate of the 2011 and 2012 Notes was 2.04% for the three and nine months ended September 30, 2010. The net proceeds from the sale of the debentures were used for repayment of existing indebtedness under the Term Loan A. Interest on the 2011 and 2012 Notes is payable semi-annually on June 21 and December 21. Interest expense was $1 million for the nine months ended September 30, 2010. There was no interest expense for the three months ended September 30, 2010. As a result of changes in fair value prior to the termination of the economic hedge in September 2010, we recorded a gain of $2 million and $6 million, which reduced interest expense for the three and nine months ended September 30, 2010, respectively. Interest expense included $1 million of deferred financing costs associated with the 2011 and 2012 Notes for the nine months ended September 30, 2010. For the three months ended September 30, 2010, there was minimal amortization of deferred financing costs.

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

The indenture governing the 2011 and 2012 Notes, among other things, limits our ability to incur indebtedness secured by principal properties, to enter into certain sale and leaseback transactions and to enter into certain mergers or transfers of substantially all of DPS assets. The 2011 and 2012 Notes are guaranteed by substantially all of our existing and future direct and indirect domestic subsidiaries. As of September 30, 2010 and December 31, 2009, we were in compliance with all covenant requirements.

The 2013, 2018 and 2038 Notes

During 2008, we completed the issuance of $1,700 million aggregate principal amount of senior unsecured notes consisting of $250 million aggregate principal amount of 6.12% senior notes due May 1, 2013 (the 2013 Notes), $1,200 million aggregate principal amount of 6.82% senior notes due May 1, 2018 (the 2018 Notes), and $250 million aggregate principal amount of 7.45% senior notes due May 1, 2038 (the 2038 Notes). The weighted average interest rate of the 2013, 2018 and 2038 Notes was 6.81% for each of the three and nine month periods ended September 30, 2010 and 2009. Interest on the senior unsecured notes is payable semi-annually on May 1 and November 1 and is subject to adjustment. Interest expense was $29 million and $30 million for the three months ended September 30, 2010 and 2009, respectively, and $88 million for the nine months ended September 30, 2010 and 2009. Amortization of deferred financing costs of $1 million for the nine months ended September 30, 2010 and 2009 was included in interest expense. For the three months ended September 30, 2010 and 2009, there was minimal amortization of deferred financing costs.

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

Letter of Credit Facility

Effective June 2010, we entered into a Letter of Credit Facility in addition to the portion of the Revolver reserved for issuance of letters of credit. Under the Letter of Credit Facility, $65 million is available for the issuance of letters of credit, of which $35 million was utilized as of September 30, 2010. Balances available for additional letters of credit was $30 million as of September 30, 2010.

Debt Ratings

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

Cash Management

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

Capital Expenditures

Cash paid for capital expenditures was $170 million for the nine months ended September 30, 2010. Additions primarily related to expansion and replacement of existing cold drink equipment, the final development of our new manufacturing and distribution center in Victorville, California, IT investments for system upgrades, and expansion of our distribution fleet. We expect to incur discretionary capital expenditures in an amount equal to approximately $120 million for the remainder of the year, which we expect to fund through cash provided by operating activities.

Acquisitions

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

Liquidity

Based on our current and anticipated level of operations, we believe that our operating cash flows will be sufficient to meet our anticipated obligations for the next twelve months. Excess cash provided by operating activities may be used to fund capital expenditures, pay dividends and repurchase shares of our common stock. To the extent that our operating cash flows are not sufficient to meet our liquidity needs, we may utilize cash on hand or amounts available under our Revolver.

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

	For the Nine Months Ended September 30, 2010	2009
Net cash provided by operating activities	$ 1,539	$ 701
Net cash used in investing activities	(151)	(157)
Net cash used in financing activities	(1,447)	(483)

Net Cash Provided by Operating Activities

Net cash provided by operating activities increased $838 million for the nine months ended September 30, 2010, compared with the year ago period, primarily due to the receipt of a one-time nonrefundable cash payment of $900 million from PepsiCo recorded as deferred revenue.

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Net Cash Used in Investing Activities

The decrease of $6 million in cash used in investing activities for the nine months ended September 30, 2010, compared with the year ago period, was primarily attributable to lower capital expenditures of $53 million and higher proceeds of $11 million from disposal of property, plant and equipment in 2010, partially offset by the absence of the one-time cash receipts in 2009 of $68 million primarily from the termination of certain distribution agreements.

Net Cash Used in Financing Activities

The increase of $964 million in cash used in financing activities for the nine months ended September 30, 2010, compared with the year ago period, was driven by stock repurchases of $910 million, the $405 million repayment of our senior unsecured credit facility, and dividend payments of $136 million.

Cash and Cash Equivalents

As a result of the above items, cash and cash equivalents decreased $56 million since December 31, 2009 to $224 million as of September 30, 2010.

Our cash balances are used to fund working capital requirements, scheduled debt and interest payments, capital expenditures, income tax obligations, dividend payments and repurchases of our common stock. Cash available in our foreign operations may not be immediately available for these purposes. Foreign cash balances constitute approximately 26% of our total cash position as of September 30, 2010.

Dividends

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

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

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

On August 11, 2010, our Board declared a dividend of $0.25 per share on outstanding common stock, which was paid on October 8, 2010, to shareholders of record on September 20, 2010.

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Common Stock Repurchases

On February 24, 2010, the Board approved an increase in the total aggregate share repurchase authorization up to $1 billion. Subsequent to the Board s authorization, we repurchased 25.2 million shares of our common stock valued at approximately $910 million in the nine months ended September 30, 2010. Refer to Part II, Item 2 of this Quarterly Report on Form 10-Q for additional information regarding these repurchases.

On July 12, 2010, the Board authorized the repurchase of an additional $1 billion of our outstanding common stock over the next three years, which additional authorization may be used to repurchase shares of our common stock after the funds authorized on February 24, 2010 have been utilized.

Contractual Commitments and Obligations

We enter into various contractual obligations that impact, or could impact, our liquidity. The following table summarizes our contractual obligations and contingencies as of September 30, 2010. Based on our current and anticipated level of operations, we believe that our proceeds from operating cash flows will be sufficient to meet our anticipated obligations. To the extent that our operating cash flows are not sufficient to meet our liquidity needs, we may utilize cash on hand and amounts available under our Revolver. Refer to Notes 5 and 10 of the Notes to our Unaudited Condensed Consolidated Financial Statements for additional information regarding the items described in this table.

	Payments Due in Year (in millions)						
	Total	**2010**	**2011**	**2012**	**2013**	**2014**	**After 2014**
Revolver	$	$	$	$	$	$	$
Interest payments[(1)]	1,256	65	130	127	109	101	724
Operating leases	382	19	69	59	52	43	140
Purchase obligations[(2)]	628	193	184	113	88	25	25
Total	$ 2,266	$ 277	$ 383	$ 299	$ 249	$ 169	$ 889

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

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

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

Off-Balance Sheet Arrangements

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

Effect of Recent Accounting Pronouncements

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

Item 3. ***Quantitative and Qualitative Disclosures About Market Risk.***

We are exposed to market risks arising from changes in market rates and prices, including movements in foreign currency exchange rates, interest rates, and commodity prices. We do not enter into derivatives or other financial instruments for trading purposes.

Foreign Exchange Risk

The majority of our net sales, expenses, and capital purchases are transacted in United States dollars. However, we have some exposure with respect to foreign exchange rate fluctuations. Our primary exposure to foreign exchange rates is the Canadian dollar and Mexican peso against the U.S. dollar. Exchange rate gains or losses related to foreign currency transactions are recognized as transaction gains or losses in our income statement as incurred. As of September 30, 2010, the impact to net income of a 10% change (up or down) in exchange rates is estimated to be an increase or decrease of approximately $11 million on an annual basis.

We use derivative instruments such as foreign exchange forward contracts to manage our exposure to changes in foreign exchange rates. For the period ending September 30, 2010, we had contracts outstanding with a notional value of $107 million maturing at various dates through December 17, 2012.

Interest Rate Risk

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

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

Interest Rate Swaps

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

In December 2009, we entered into interest rate swaps having an aggregate notional amount of $850 million and durations ranging from two to three years in order to convert fixed-rate, long-term debt to floating rate debt. These swaps were entered into at the inception of the 2011 and 2012 Notes and were originally accounted for as fair value hedges under U.S. GAAP.

Effective March 10, 2010, $225 million notional of the interest rate swap linked to the 2012 Notes was restructured to reflect a change in the variable interest rate to be paid by us. This change triggered the de-designation of the $225 million notional fair value hedge and the corresponding fair value hedging relationship was discontinued. The $225 million notional restructured interest rate swap was subsequently accounted for as an economic hedge and the gain or loss on the instrument is recognized in earnings. Effective September 21, 2010, this financial instrument was terminated.

As a result of the remaining interest rate swap, we pay an average floating rate, which fluctuates semi-annually, based on LIBOR. The average floating rate to be paid by us as of September 30, 2010 was less than 1%. The average fixed rate to be received by us as of September 30, 2010 was 1.70%

Commodity Risks

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

We utilize commodities forward contracts and supplier pricing agreements to hedge the risk of adverse movements in commodity prices for limited time periods for certain commodities. The fair market value of these contracts as of September 30, 2010, was a net asset of $8 million.

As of September 30, 2010, the impact to net income of a 10% change (up or down) in market prices of these commodities is estimated to be an increase or decrease of approximately $3 million on an annual basis.

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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) of the Exchange Act) our management, including our Chief Executive Officer and Chief Financial Officer, has concluded that, as of September 30, 2010, our disclosure controls and procedures are effective to (i) provide reasonable assurance that information required to be disclosed in the Exchange Act filings is recorded, processed, summarized and reported within the time periods specified by the Securities and Exchange Commission s rules and forms, and (ii) ensure that information required to be disclosed by us in the reports we file or submit under the Exchange Act is accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

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

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PART II OTHER INFORMATION

Item 1. *Legal Proceedings.*

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

Item 1A. *Risk Factors.*

There have been no material changes that we are aware of from the risk factors set forth in Part I, Item 1A in our Annual Report on Form 10-K for the year ended December 31, 2009.

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

We repurchased approximately 9.6 million shares of our common stock valued at approximately $353 million in the third quarter of 2010. Our share repurchase activity for each of the three months and the quarter ended September 30, 2010 was as follows (in thousands, except per share data):

Period	Number of Shares Purchased(1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs(2)	Maximum Dollar Value of Shares that May Yet be Purchased Under Publicly Announced Plans or Programs
July 1, 2010 July 31, 2010		$		$ 1,447,741
August 1, 2010 August 31, 2010	62	38.51		1,447,741
September 1 2010 September 30, 2010	9,500	36.84	9,500	1,097,741
For the quarter ended September 30, 2010	9,562	36.85	9,500	

(1) The total number of shares purchased includes: (i) shares purchased in open-market transactions pursuant to our publicly announced repurchase program described in footnote 2 below totaling 9,500 thousand shares for the month of September and (ii) shares that were repurchased pursuant to a previously unannounced odd-lot repurchase program totaling 62 thousand shares for the month of August.

(2) As previously announced, on November 20, 2009, our Board of Directors (the Board) authorized the repurchase of up to $200 million of the Company s outstanding common stock during 2010, 2011 and 2012. On February 24, 2010, the Board approved the repurchase of up to an additional $800 million of the Company s outstanding common stock, bringing the total aggregate share repurchase authorization up to $1 billion. On March 11, 2010, pursuant to authority granted by the Board, the Company s Audit Committee authorized the Company to attempt to effect up to $1 billion in share repurchases during 2010 if prevailing market conditions permit. On July 12, 2010, the Board authorized the repurchase of an additional $1 billion of the Company s outstanding common stock over the next three years, for a total of $2 billion authorized. This column discloses the number of shares purchased pursuant to these programs during the indicated time periods.

Item 6. *Exhibits.*

2.1 Separation and Distribution Agreement between Cadbury Schweppes plc and Dr Pepper Snapple Group, Inc. and, solely for certain provisions set forth therein, Cadbury plc, dated as of May 1, 2008 (filed as Exhibit 2.1 to the Company s Current Report on Form 8-K (filed on May 5, 2008) and incorporated herein by reference).

3.1 Amended and Restated Certificate of Incorporation of Dr Pepper Snapple Group, Inc. (filed as Exhibit 3.1 to the Company s Current Report on Form 8-K (filed on May 12, 2008) and incorporated herein by reference).

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

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

4.2 Form of 6.12% Senior Notes due 2013 (filed as Exhibit 4.2 to the Company s Current Report on Form 8-K (filed on May 1, 2008) and incorporated herein by reference).

4.3 Form of 6.82% Senior Notes due 2013 (filed as Exhibit 4.3 to the Company s Current Report on Form 8-K (filed on May 1, 2008) and incorporated herein by reference).

4.4 Form of 7.45% Senior Notes due 2013 (filed as Exhibit 4.4 to the Company s Current Report on Form 8-K (filed on May 1, 2008) and incorporated herein by reference).

4.5 Registration Rights Agreement, dated April 30, 2008, between Dr Pepper Snapple Group, Inc., J.P. Morgan Securities Inc., Banc of America Securities LLC, Goldman, Sachs & Co., Morgan Stanley & Co. Incorporated, UBS Securities LLC, BNP Paribas Securities Corp., Mitsubishi UFJ Securities International plc, Scotia Capital (USA) Inc., SunTrust Robinson Humphrey, Inc., Wachovia Capital Markets, LLC and TD Securities (USA) LLC (filed as Exhibit 4.5 to the Company s Current Report on Form 8-K (filed on May 1, 2008) and incorporated herein by reference).

4.6 Supplemental Indenture, dated May 7, 2008, among Dr Pepper Snapple Group, Inc., the subsidiary guarantors named therein and Wells Fargo Bank, N.A., as trustee (filed as Exhibit 4.1 to the Company s Current Report on Form 8-K (filed on May 12, 2008) and incorporated herein by reference).

4.7 Second Supplemental Indenture dated March 17, 2009, to be effective as of December 31, 2008, among Splash Transport, Inc., as a subsidiary guarantor, Dr Pepper Snapple Group, Inc., and Wells Fargo Bank, N.A., as trustee (filed as Exhibit 4.8 to the Company s Annual Report on Form 10-K (filed on March 26, 2009) and incorporated herein by reference).

4.8 Registration Rights Agreement Joinder, dated May 7, 2008, by the subsidiary guarantors named therein (filed as Exhibit 4.2 to the Company s Current Report on Form 8-K (filed on May 12, 2008) and incorporated herein by reference).

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

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

2009) and incorporated herein by reference).

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

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

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

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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, 2010, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2010 and 2009, (ii) Condensed Consolidated Balance Sheets as of September 30, 2010 and December 31, 2009, (iii) Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2010 and 2009, and (iv) 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 27, 2010