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

FORM 10-Q

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2020
OR
☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE TRANSITION PERIOD FROM TO

Commission file number 001-33829

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Keurig Dr Pepper Inc.
(Exact name of registrant as specified in its charter)

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

53 South Avenue
Burlington, Massachusetts
01803
(Address of principal executive offices)

(781) 418-7000
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol	Name of each exchange on which registered
Common stock	KDP	The Nasdaq Stock Market LLC

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes ☒ No ☐

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

Large Accelerated Filer ☒ Accelerated Filer ☐ Non-Accelerated Filer ☐ Smaller Reporting Company ☐ Emerging Growth Company ☐

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

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

As of October 27, 2020, there were 1,407,253,294 shares of the registrant's common stock, par value $0.01 per share, outstanding.

KEURIG DR PEPPER INC.
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MASTER GLOSSARY

Term	Definition
2009 Incentive Plan	Keurig Dr Pepper Inc. Omnibus Incentive Plan of 2009 (formerly known as the Dr Pepper Snapple Group, Inc. Omnibus Stock Incentive Plan of 2009)
2019 Incentive Plan	Keurig Dr Pepper Inc. Omnibus Incentive Plan of 2019
2019 KDP Term Loan	$2 billion aggregate principal amount, with the ability to make voluntary and mandatory prepayments, due on February 8, 2023
2019 364-Day Credit Agreement	The Company's $750 million credit agreement, which was entered into on May 29, 2019
2020 364-Day Credit Agreement	The Company's $1,500 million credit agreement, which was entered into on April 12, 2020
2030 Notes	$750 million aggregate principal amount of 3.20% senior unsecured notes due May 1, 2030
2050 Notes	$750 million aggregate principal amount of 3.80% senior unsecured notes due May 1, 2050
A Shoc	Adrenaline Shoc
ABC	The American Bottling Company (a wholly-owned subsidiary of Keurig Dr Pepper Inc.)
ABI	Anheuser-Busch InBev SA/NV
Annual Report	Annual Report on Form 10-K for the year ended December 31, 2019
AOCI	Accumulated other comprehensive income or loss
ASU	Accounting Standards Update
ASU 2016-13	*Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*
ASU 2018-13	*Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurements*
ASU 2020-01	*Investments—Equity Securities (Topic 321), Investments—Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815): Clarifying the Interactions between Topic 321, Topic 323, and Topic 815*
ASU 2020-04	*Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*
Bedford	Bedford Systems, LLC
BodyArmor	BA Sports Nutrition, LLC
bps	basis points
CERT	Council for Education and Research on Toxics
Company	Keurig Dr Pepper Inc.
CSD	Carbonated soft drink
DIO	Days inventory outstanding
DPO	Days of payables outstanding
DPS	Dr Pepper Snapple Group, Inc.
DPS Merger	The acquisition of DPS by Maple, whereby Salt Merger Sub, Inc. merged with and into Maple, with Maple surviving the merger as a wholly-owned subsidiary of DPS as of July 9, 2018
DSD	Direct Store Delivery
DSO	Days sales outstanding
Dyla	Dyla LLC
EPS	Earnings per share
Exchange Act	Securities Exchange Act of 1934, as amended
FASB	Financial Accounting Standards Board
Force	Force Holdings LLC
FX	Foreign exchange
Honickman	The Honickman Companies
IRi	Information Resources, Inc.
JAB	JAB Holding Company S.a.r.l.
KDP	Keurig Dr Pepper Inc.

KDP Credit Agreements	Collectively, the KDP Revolver, the 2019 364-Day Credit Agreement, the 2020 364-Day Credit Agreement and the 2019 KDP Term Loan
KDP Revolver	The Company's $2,400 million revolving credit facility, which was entered into on February 28, 2018
KGM	Keurig Green Mountain, Inc.
LIBOR	London Interbank Offered Rate
LifeFuels	LifeFuels, Inc.
Maple	Maple Parent Holdings Corp.
Nasdaq	The Nasdaq Stock Market LLC
NCB	Non-carbonated beverage
Notes	Collectively, the Company's senior unsecured notes
Parent	Keurig Dr Pepper, Inc.
Peet's	Peet's Coffee & Tea, Inc.
PET	Polyethylene terephthalate
Proposition 65	The State of California's Safe Drinking Water and Toxic Enforcement Act of 1986
PRMB	Post-retirement medical benefit
Revive	Revive Brands
RSU	Restricted stock unit
RTD	Ready to drink
S&P	Standard & Poors
SEC	Securities and Exchange Commission
SG&A	Selling, general and administrative
U.S.	United States
U.S. GAAP	Accounting principles generally accepted in the U.S.
WD	Warehouse Direct
WIP	Work-in-process

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

KEURIG DR PEPPER INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	Third Quarter		First Nine Months	
(in millions, except per share data)	**2020**	**2019**	**2020**	**2019**
Net sales	**$ 3,020**	$ 2,870	**$ 8,497**	$ 8,186
Cost of sales	**1,316**	1,245	**3,779**	3,537
Gross profit	**1,704**	1,625	**4,718**	4,649
Selling, general and administrative expenses	**949**	1,012	**2,978**	2,951
Other operating expense (income), net	**2**	33	**(40)**	33
Income from operations	**753**	580	**1,780**	1,665
Interest expense	**148**	158	**458**	497
Loss on early extinguishment of debt	**—**	—	**4**	9
Impairment on investments and note receivable	**16**	—	**102**	—
Other expense, net	**5**	9	**21**	15
Income before provision for income taxes	**584**	413	**1,195**	1,144
Provision for income taxes	**141**	109	**298**	296
Net income	**443**	304	**897**	848
Less: Net income attributable to non-controlling interest	**—**	—	**—**	—
Net income attributable to KDP	**$ 443**	**$ 304**	**$ 897**	**$ 848**
Earnings per common share:				
Basic	**$ 0.31**	$ 0.22	**$ 0.64**	$ 0.60
Diluted	**0.31**	0.21	**0.63**	0.60
Weighted average common shares outstanding:				
Basic	**1,407.3**	1,406.8	**1,407.2**	1,406.6
Diluted	**1,422.9**	1,419.4	**1,421.5**	1,418.8

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

KEURIG DR PEPPER INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

	Third Quarter		First Nine Months	
(in millions)	**2020**	**2019**	**2020**	**2019**
Comprehensive income attributable to KDP	**$ 554**	$ 226	**$ 576**	$ 951

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

KEURIG DR PEPPER INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

(in millions, except share and per share data)	September 30, 2020	December 31, 2019
Assets		
Current assets:		
Cash and cash equivalents	**$ 191**	$ 75
Restricted cash and restricted cash equivalents	**27**	26
Trade accounts receivable, net	**1,051**	1,115
Inventories	**824**	654
Prepaid expenses and other current assets	**323**	403
Total current assets	**2,416**	2,273
Property, plant and equipment, net	**2,092**	2,028
Investments in unconsolidated affiliates	**90**	151
Goodwill	**20,029**	20,172
Other intangible assets, net	**23,834**	24,117
Other non-current assets	**889**	748
Deferred tax assets	**31**	29
Total assets	**$ 49,381**	$ 49,518
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	**$ 3,517**	$ 3,176
Accrued expenses	**1,067**	939
Structured payables	**160**	321
Short-term borrowings and current portion of long-term obligations	**2,182**	1,593
Other current liabilities	**403**	445
Total current liabilities	**7,329**	6,474
Long-term obligations	**11,707**	12,827
Deferred tax liabilities	**5,945**	6,030
Other non-current liabilities	**1,103**	930
Total liabilities	**26,084**	26,261
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $0.01 par value, 15,000,000 shares authorized, no shares issued	**—**	—
Common stock, $0.01 par value, 2,000,000,000 shares authorized, 1,407,253,294 and 1,406,852,305 shares issued and outstanding as of September 30, 2020 and December 31, 2019, respectively	**14**	14
Additional paid-in capital	**21,654**	21,557
Retained earnings	**1,845**	1,582
Accumulated other comprehensive (loss) income	**(217)**	104
Total stockholders' equity	**23,296**	23,257
Non-controlling interest	**1**	—
Total equity	**23,297**	23,257
Total liabilities and equity	**$ 49,381**	$ 49,518

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

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KEURIG DR PEPPER INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(in millions)	First Nine Months 2020	First Nine Months 2019
Operating activities:		
Net income attributable to KDP	**$ 897**	$ 848
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation expense	**272**	271
Amortization of intangibles	**100**	94
Other amortization expense	**118**	135
Provision for sales returns	**36**	25
Deferred income taxes	**(27)**	(5)
Employee stock-based compensation expense	**62**	47
Loss on early extinguishment of debt	**4**	9
(Gain) loss on disposal of property, plant and equipment	**(39)**	11
Unrealized loss (gain) on foreign currency	**14**	(22)
Unrealized loss on derivatives	**47**	60
Equity in loss of unconsolidated affiliates	**19**	38
Impairment on investments and note receivable of unconsolidated affiliate	**102**	—
Other, net	**50**	33
Changes in assets and liabilities:		
Trade accounts receivable	**(1)**	36
Inventories	**(175)**	(124)
Income taxes receivable and payables, net	**(118)**	(9)
Other current and non-current assets	**(387)**	(156)
Accounts payable and accrued expenses	**500**	561
Other current and non-current liabilities	**192**	(49)
Net change in operating assets and liabilities	**11**	259
Net cash provided by operating activities	**1,666**	1,803
Investing activities:		
Acquisitions of businesses	**—**	(8)
Issuance of related party note receivable	**(6)**	(22)
Investments in unconsolidated affiliates	**(4)**	(16)
Purchases of property, plant and equipment	**(356)**	(208)
Proceeds from sales of property, plant and equipment	**203**	19
Purchases of intangibles	**(26)**	(4)
Other, net	**7**	23
Net cash used in investing activities	**(182)**	(216)

KEURIG DR PEPPER INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited, Continued)

(in millions)	First Nine Months 2020	First Nine Months 2019
Financing activities:		
Proceeds from controlling shareholder stock transactions	**29**	—
Proceeds from unsecured credit facility	**1,850**	—
Proceeds from senior unsecured notes	**1,500**	—
Proceeds from term loan	**—**	2,000
Net (payment) issuance of commercial paper	**(911)**	335
Proceeds from structured payables	**128**	246
Payments on structured payables	**(290)**	(432)
Payments on senior unsecured notes	**(250)**	(250)
Payment on unsecured credit facility	**(1,850)**	—
Payments on term loan	**(880)**	(2,873)
Payments on finance leases	**(35)**	(29)
Cash dividends paid	**(635)**	(633)
Other, net	**(22)**	10
Net cash used in financing activities	**(1,366)**	(1,626)
Cash, cash equivalents, restricted cash and restricted cash equivalents — net change from:		
Operating, investing and financing activities	**118**	(39)
Effect of exchange rate changes on cash, cash equivalents, restricted cash and restricted cash equivalents	**(11)**	12
Cash, cash equivalents, restricted cash and restricted cash equivalents at beginning of period	**111**	139
Cash, cash equivalents, restricted cash and restricted cash equivalents at end of period	**$ 218**	$ 112
Supplemental cash flow disclosures of non-cash investing activities:		
Measurement period adjustment of Core Nutrition LLC purchase price	**$ —**	$ (11)
Capital expenditures included in accounts payable and accrued expenses	**255**	236
Non-cash acquisition of controlling interest	**3**	—
Purchases of intangibles	**—**	2
Supplemental cash flow disclosures of non-cash financing activities:		
Dividends declared but not yet paid	**211**	210
Finance lease additions	**30**	49
Supplemental cash flow disclosures:		
Cash paid for interest	**250**	273
Cash paid for income taxes	**448**	313

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

KEURIG DR PEPPER INC.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

(Unaudited)

(in millions, except per share data)	Common Stock Issued Shares	Common Stock Issued Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Total Stockholders' Equity	Non-controlling Interest	Total Equity
Balance as of January 1, 2020	1,406.8	$ 14	$ 21,557	$ 1,582	$ 104	$ 23,257	$ —	$ 23,257
Net income	—	—	—	156	—	156	—	156
Other comprehensive loss	—	—	—	—	(584)	(584)	—	(584)
Dividends declared, $0.15 per share	—	—	—	(211)	—	(211)	—	(211)
Shares issued under employee stock-based compensation plans and other	0.3	—	—	—	—	—	—	—
Stock-based compensation and stock options exercised	—	—	22	—	—	22	—	22
Balance as of March 31, 2020	1,407.1	14	21,579	1,527	(480)	22,640	—	22,640
Net income	—	—	—	298	—	298	—	298
Other comprehensive income	—	—	—	—	152	152	—	152
Dividends declared, $0.15 per share	—	—	—	(212)	—	(212)	—	(212)
Proceeds from controlling shareholder stock transactions	—	—	22	—	—	22	—	22
Shares issued under employee stock-based compensation plans and other	0.1	—	—	—	—	—	—	—
Stock-based compensation and stock options exercised	—	—	23	—	—	23	—	23
Balance as of June 30, 2020	1,407.2	14	21,624	1,613	(328)	22,923	—	22,923
Net income	—	—	—	443	—	443	—	443
Other comprehensive income	—	—	—	—	111	111	—	111
Dividends declared, $0.15 per share	—	—	—	(211)	—	(211)	—	(211)
Proceeds from controlling shareholder stock transactions	—	—	7	—	—	7	—	7
Non-cash acquisition of controlling interest	—	—	3	—	—	3	1	4
Shares issued under employee stock-based compensation plans and other	0.1	—	—	—	—	—	—	—
Stock-based compensation and stock options exercised	—	—	20	—	—	20	—	20
Balance as of September 30, 2020	1,407.3	$ 14	$ 21,654	$ 1,845	$ (217)	$ 23,296	$ 1	$ 23,297

KEURIG DR PEPPER INC.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

(Unaudited, Continued)

(in millions, except per share data)	Common Stock Issued Shares	Common Stock Issued Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance as of January 1, 2019	1,405.9	$ 14	$ 21,471	$ 1,178	$ (130)	$ 22,533
Adoption of new accounting standards	—	—	—	(5)	—	(5)
Net income	—	—	—	230	—	230
Other comprehensive income	—	—	—	—	93	93
Dividends declared, $0.15 per share	—	—	—	(211)	—	(211)
Measurement period adjustment	—	—	11	—	—	11
Shares issued under stock-based compensation plans and other	0.8	—	—	—	—	—
Stock-based compensation and stock options exercised	—	—	23	—	—	23
Balance as of March 31, 2019	1,406.7	14	21,505	1,192	(37)	22,674
Net income	—	—	—	314	—	314
Other comprehensive income	—	—	—	—	88	88
Dividends declared, $0.15 per share	—	—	—	(212)	—	(212)
Stock-based compensation and stock options exercised	—	—	19	—	—	19
Balance as of June 30, 2019	1,406.7	14	21,524	1,294	51	22,883
Net income	—	—	—	304	—	304
Other comprehensive loss	—	—	—	—	(78)	(78)
Dividends declared, $0.15 per share	—	—	—	(210)	—	(210)
Shares issued under employee stock-based compensation plans and other	0.1	—	—	—	—	—
Stock-based compensation and stock options exercised	—	—	15	—	—	15
Balance as of September 30, 2019	1,406.8	$ 14	$ 21,539	$ 1,388	$ (27)	$ 22,914

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

1. General

ORGANIZATION

References in this Quarterly Report on Form 10-Q to "KDP" or "the Company" refer to Keurig Dr Pepper Inc. and all entities included in the unaudited condensed consolidated financial statements. Definitions of terms used in this Quarterly Report on Form 10-Q are included within the Master Glossary.

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

Effective September 18, 2020, at market close, the Company's common stock ceased to be listed on the New York Stock Exchange and on September 21, 2020, the following business day, KDP's common stock began trading on Nasdaq's Global Select Market at market open. The Company's stock ticker remains "KDP".

BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. GAAP for interim financial information and in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete consolidated financial statements. In the opinion of management, all adjustments, consisting principally of normal recurring adjustments, considered necessary for a fair presentation have been included. These unaudited condensed consolidated financial statements should be read in conjunction with KDP's consolidated financial statements and accompanying notes, included in the Company's Annual Report.

Except as otherwise specified, references to the "third quarter" indicate the Company's quarterly periods ended September 30, 2020 and 2019.

PRINCIPLES OF CONSOLIDATION

KDP consolidates all wholly owned subsidiaries.

The Company consolidates investments in companies in which it holds the majority interest. In these cases, the third party equity interest is referred to as non-controlling interest. Non-controlling interests are presented as a separate component within equity in the unaudited Condensed Consolidated Balance Sheets, and net earnings attributable to the non-controlling interests are presented separately in the unaudited Condensed Consolidated Statements of Income.

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

KDP eliminates from its financial results all intercompany transactions between entities included in the unaudited condensed consolidated financial statements.

USE OF ESTIMATES

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

RECLASSIFICATIONS

The Company reclassified the following amounts in the unaudited condensed consolidated Statement of Cash Flows for the first nine months of 2019 in order to conform to current year presentation:

(in millions)	Prior Presentation	Revised Presentation	For the First Nine Months of 2019
Net cash provided by operating activities:			
Amortization of intangibles	Amortization expense	Amortization of intangibles	$ 94
Other amortization expense(1)	Amortization expense	Other amortization expense	135
Loss on disposal of property, plant and equipment	Other, net	(Gain) loss on disposal of property, plant and equipment	11
Amortization of deferred financing fees	Amortization expense	Other, net	10
Amortization of bond fair value	Amortization expense	Other, net	20

(1) Primarily includes amortization of customer rebates and upfront payments.

RECENTLY ISSUED ACCOUNTING STANDARDS

In January 2020, the FASB issued ASU 2020-01. The objective of ASU 2020-01 is to clarify the interaction of the accounting for equity securities, investments accounted for under the equity method of accounting and the accounting for certain forward contracts and purchased options accounted for under different topics in U.S. GAAP. ASU 2020-01 is effective for public companies for annual periods, and interim periods within those annual periods, beginning after December 15, 2020. The Company is currently evaluating the impact of ASU 2020-01 but expects the impact to be immaterial to KDP's consolidated financial statements.

In March 2020, the FASB issued ASU 2020-04. The objective of ASU 2020-04 is to provide optional expedients and exceptions for applying U.S. GAAP to contracts, hedging relationships and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform. ASU 2020-04 is effective and can be elected for all entities from the issuance date of the ASU through December 31, 2022. The Company is currently evaluating the impact of ASU 2020-04 to KDP's consolidated financial statements.

RECENTLY ADOPTED PROVISIONS OF U.S. GAAP

Credit Losses

As of January 1, 2020, the Company adopted ASU 2016-13, which replaced the incurred loss methodology with an expected loss methodology. The objective of ASU 2016-13 was to provide for a new impairment model which requires measurement and recognition of current expected credit losses (CECL) for most financial assets held. The Company adopted ASU 2016-13 using the modified retrospective method for all financial assets measured at amortized cost, which means that results for reporting periods beginning after January 1, 2020 are presented under ASU 2016-13 while prior period amounts continue to be reported in accordance with previously applicable GAAP. The adoption of ASU 2016-13 did not have an impact on the Company's unaudited condensed consolidated financial statements.

Refer to Note 12 for additional information.

Other Accounting Standards

As of January 1, 2020, the Company adopted ASU 2018-13. The objective of ASU 2018-13 is to improve the disclosures related to fair value measurement by removing, modifying, or adding disclosure requirements related to recurring and non-recurring fair value measurements. The adoption of ASU 2018-13 did not have an impact on the Company's unaudited condensed consolidated financial statements.

2. Long-term Obligations and Borrowing Arrangements

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

(in millions)	September 30, 2020	December 31, 2019
Senior unsecured notes	**$ 13,057**	$ 11,802
Term loan	**497**	1,372
Subtotal	**13,554**	13,174
Less - current portion	**(1,847)**	(347)
Long-term obligations	**$ 11,707**	$ 12,827

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

(in millions)	September 30, 2020	December 31, 2019
Commercial paper notes	**$ 335**	$ 1,246
Revolving credit facilities	**—**	—
Current portion of long-term obligations:		
Senior unsecured notes	**1,748**	250
Term loan	**99**	97
Short-term borrowings and current portion of long-term obligations	**$ 2,182**	$ 1,593

SENIOR UNSECURED NOTES

The Company's Notes consisted of the following:

(in millions)

Issuance	Maturity Date	Rate	September 30, 2020	December 31, 2019
2020 Notes[1]	January 15, 2020	2.000%	**$ —**	$ 250
2021 Merger Notes	May 25, 2021	3.551%	**1,750**	1,750
2021-A Notes	November 15, 2021	3.200%	**250**	250
2021-B Notes	November 15, 2021	2.530%	**250**	250
2022 Notes	November 15, 2022	2.700%	**250**	250
2023 Merger Notes	May 25, 2023	4.057%	**2,000**	2,000
2023 Notes	December 15, 2023	3.130%	**500**	500
2025 Merger Notes	May 25, 2025	4.417%	**1,000**	1,000
2025 Notes	November 15, 2025	3.400%	**500**	500
2026 Notes	September 15, 2026	2.550%	**400**	400
2027 Notes	June 15, 2027	3.430%	**500**	500
2028 Merger Notes	May 25, 2028	4.597%	**2,000**	2,000
2030 Notes[2]	May 1, 2030	3.200%	**750**	—
2038 Notes	May 1, 2038	7.450%	**125**	125
2038 Merger Notes	May 25, 2038	4.985%	**500**	500
2045 Notes	November 15, 2045	4.500%	**550**	550
2046 Notes	December 15, 2046	4.420%	**400**	400
2048 Merger Notes	May 25, 2048	5.085%	**750**	750
2050 Notes[2]	May 1, 2050	3.800%	**750**	—
Principal amount			**$ 13,225**	$ 11,975
Adjustment from principal amount to carrying amount[3]			**(168)**	(173)
Carrying amount			**$ 13,057**	$ 11,802

(1) On January 15, 2020, the Company repaid the 2020 Notes at maturity, using commercial paper borrowings.
(2) On April 13, 2020, the Company completed the issuance of $1.5 billion aggregate principal amount of senior unsecured notes consisting of $750 million aggregate principal amount of 3.200% senior unsecured notes due May 1, 2030 and $750 million aggregate principal amount of 3.800% senior unsecured notes due May 1, 2050. The discount associated with the 2030 Notes and the 2050 Notes was approximately $6 million. The net proceeds from the issuance were used to repay outstanding borrowings under the KDP Revolver.
(3) The carrying amount includes unamortized discounts, debt issuance costs and fair value adjustments related to the DPS Merger.

BORROWING ARRANGEMENTS

The KDP Credit Agreements consisted of the following carrying values and estimated fair values that are not required to be measured at fair value in the unaudited Condensed Consolidated Balance Sheets:

(in millions)		September 30, 2020		December 31, 2019
Issuance	Maturity Date	Available Balances	Carrying Value	Carrying Value
2019 KDP Term Loan(1)	February 2023	$ —	**$ 500**	$ 1,380
KDP Revolver(2)	February 2023	**2,400**	**—**	—
2019 364-Day Credit Agreement	May 2020	**—**	**—**	—
2020 364-Day Credit Agreement	April 2021	**1,500**	**—**	—
Principal amount			**$ 500**	$ 1,380
Unamortized discounts and debt issuance costs			**(3)**	(8)
Carrying amount			**$ 497**	$ 1,372

(1) During the first quarter of 2020, the Company borrowed $380 million of commercial paper to voluntarily prepay a portion of its outstanding obligations under the 2019 KDP Term Loan. During the second quarter of 2020, the Company voluntarily prepaid an additional $300 million of its outstanding obligations with cash on hand. During the third quarter 2020, the Company voluntarily prepaid an additional $125 million of its outstanding obligations with commercial paper. As a result of these voluntary prepayments, the Company recorded no loss on early extinguishment during the third quarter of 2020 and $4 million loss on early extinguishment during the first nine months of 2020, respectively.
(2) The KDP Revolver has $200 million letters of credit availability and none utilized as of September 30, 2020.

On April 14, 2020, the Company terminated the 2019 364-Day Credit Agreement and replaced it with the 2020 364-Day Credit Agreement in order to increase the commitment from $750 million to $1.5 billion. The 2020 364-Day Credit Agreement is unsecured, and its proceeds may be used for general corporate purposes. The interest rate applicable to borrowings under the 2020 364-Day Credit Agreement ranges from a rate equal to LIBOR plus a margin of 2.250% to 2.750% or a base rate plus a margin of 1.250% to 1.750%, depending on the rating of certain index debt of the Company. The 2020 364-Day Credit Agreement will mature on April 13, 2021.

As of September 30, 2020, the Company was in compliance with all financial covenant requirements relating to the KDP Credit Agreements.

Commercial Paper Program

The following table provides information about the Company's weighted average borrowings under its commercial paper program:

	Third Quarter		First Nine Months	
(in millions, except %)	2020	2019	2020	2019
Weighted average commercial paper borrowings	**$ 597**	$ 1,726	**$ 919**	$ 1,746
Weighted average borrowing rates	**0.31%**	2.48%	**1.38%**	2.73%

Letter of Credit Facility

In addition to the portion of the KDP Revolver reserved for issuance of letters of credit, the Company has an incremental letter of credit facility. Under this facility, $100 million is available for the issuance of letters of credit, $44 million of which was utilized as of September 30, 2020 and $56 million of which remains available for use.

FAIR VALUE DISCLOSURES

The fair values of each of the Company's commercial paper notes and the 2019 KDP Term Loan approximate the carrying value and are considered Level 2 within the fair value hierarchy.

The fair values of the Company's Notes are based on current market rates available to the Company and are considered Level 2 within the fair value hierarchy. 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 the Notes and related unamortized costs to be incurred at such date. The fair value of the Company's Notes was $15,072 million and $12,898 million as of September 30, 2020 and December 31, 2019, respectively.

3. Goodwill and Other Intangible Assets

GOODWILL

Changes in the carrying amount of goodwill by reportable segment are as follows:

(in millions)	Coffee Systems	Packaged Beverages	Beverage Concentrates	Latin America Beverages	Total
Balance as of January 1, 2020	$ 9,775	$ 5,301	$ 4,526	$ 570	$ 20,172
Foreign currency translation	**(27)**	**(17)**	**(10)**	**(89)**	**(143)**
Balance as of September 30, 2020	**$ 9,748**	**$ 5,284**	**$ 4,516**	**$ 481**	**$ 20,029**

INTANGIBLE ASSETS OTHER THAN GOODWILL

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

(in millions)	September 30, 2020	December 31, 2019
Brands(1)	**$ 19,741**	$ 19,948
Trade names	**2,480**	2,479
Contractual arrangements	**121**	122
Distribution rights	**30**	16
Total	**$ 22,372**	$ 22,565

(1) The decrease of $207 million in brands with indefinite lives was due to foreign currency translation during the first nine months of 2020.

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

	September 30, 2020			December 31, 2019		
(in millions)	Gross Amount	Accumulated Amortization	Net Amount	Gross Amount	Accumulated Amortization	Net Amount
Acquired technology	**$ 1,146**	**$ (310)**	**$ 836**	$ 1,146	$ (255)	$ 891
Customer relationships	**635**	**(126)**	**509**	638	(102)	536
Trade names	**127**	**(66)**	**61**	128	(55)	73
Contractual arrangements	**24**	**(4)**	**20**	24	(3)	21
Brands	**21**	**(4)**	**17**	10	(2)	8
Distribution rights	**24**	**(5)**	**19**	24	(1)	23
Total	**$ 1,977**	**$ (515)**	**$ 1,462**	$ 1,970	$ (418)	$ 1,552

Amortization expense for intangible assets with definite lives was as follows:

	Third Quarter		First Nine Months	
(in millions)	2020	2019	2020	2019
Amortization expense for intangible assets with definite lives	**$ 34**	$ 31	**$ 100**	$ 94

Amortization expense of these intangible assets over the remainder of 2020 and the next five years is expected to be as follows:

		For the Years Ending December 31,				
(in millions)	Remainder of 2020	2021	2022	2023	2024	2025
Expected amortization expense for intangible assets with definite lives	**$ 33**	**$ 133**	**$ 132**	**$ 132**	**$ 123**	**$ 111**

IMPAIRMENT TESTING

KDP conducts impairment tests on goodwill and all indefinite lived intangible assets annually, or more frequently if circumstances indicate that the carrying amount of an asset may not be recoverable. The Company did not identify any circumstances, including the ongoing COVID-19 pandemic, that indicated that the carrying amount of any goodwill or any intangible asset may not be recoverable as of September 30, 2020.

4. Investments

ACQUISITION OF CONTROLLING INTEREST IN REVIVE

On July 31, 2020, the Company closed on a stock purchase agreement to obtain a 66.4% ownership interest in Revive from Peet's for cash consideration of $1, with Peet's retaining a minority ownership interest. Revive is an organic, non-alcoholic kombucha brand, available in both traditional refrigerated and shelf-stable varieties. The transaction is considered a common control transaction due to KDP's relationship with Peet's through certain affiliates of JAB. The investment was accounted for as an acquisition of a controlling interest, and in accordance with the requirements of U.S. GAAP for common control transactions, KDP recognized all of Revive's assets and liabilities at their carrying values as of July 31, 2020, with the $3 million difference between the Company's ownership interest in the net assets and the purchase price recorded to additional paid-in capital. Refer to Note 1 for the Company's accounting policies with respect to consolidation of Revive and accounting for the non-controlling interest.

INVESTMENTS IN UNCONSOLIDATED AFFILIATES

The following table summarizes investments in unconsolidated affiliates as of September 30, 2020 and December 31, 2019:

(in millions)	Ownership Interest	September 30, 2020	December 31, 2019
BodyArmor	12.5%	**$ 51**	$ 52
Bedford	30.0%	**—**	46
Dyla	12.4%	**12**	13
Force	33.3%	**5**	5
Beverage startup companies	(various)	**16**	30
Other	(various)	**6**	5
Investments in unconsolidated affiliates		**$ 90**	$ 151

Impairments of Investments

Bedford Investment and Related Party Note Receivable

The Company and ABI, in conjunction with the creation of Bedford, had executed a line of credit agreement with Bedford on March 3, 2017, which was amended on December 7, 2018 to increase the line of credit. The Company committed and funded the $51 million capacity, which incurs a fixed interest rate of 8.1% per annum. The credit agreement with Bedford matures on March 3, 2024.

In March 2020, the Company reduced its expectation of future operating performance for Bedford based on COVID-19 and a new revised five-year projection from the management of Bedford that projected the possibility of profitability two years later than previously anticipated. As a result of these indicators of impairment, the Company tested the Bedford investment for an other-than-temporary impairment using a discounted cash flow framework with multiple scenarios, including the conversion of the note receivable into equity. The results of its analysis indicated that the note receivable of $55 million was fully impaired and the investment in unconsolidated affiliates was impaired by $31 million, which was recorded on the Impairment on investments and note receivable line in the Condensed Consolidated Statements of Income. As a result of the other-than-temporary impairment, the Company has placed the note receivable in non-accrual status.

Beverage Startup Companies

In September 2020, the Company tested its investment in LifeFuels, which is included in the Beverage startup companies line in the table above, for an other-than-temporary impairment as a result of continued losses, ongoing liquidity concerns and a lack of a buyer for LifeFuels. As a result of this analysis, the Company determined that the investment was fully impaired and recorded an impairment charge of approximately $16 million to the Impairment on investments and note receivable line in the Condensed Consolidated Statements of Income.

5. Restructuring and Integration Costs

The Company implements restructuring programs from time to time and incurs costs that are designed to improve operating effectiveness and lower costs. When the Company implements these programs, the Company incurs expenses, such as employee separations, lease terminations and other direct exit costs, that qualify as exit and disposal costs under U.S. GAAP.

The Company also incurs expenses that are an integral component of, and directly attributable to, its restructuring activities, which do not qualify as exit and disposal costs, such as accelerated depreciation, asset impairments, implementation costs and other incremental costs. These costs are recorded within SG&A expenses on the income statement and are held primarily within unallocated corporate costs.

Restructuring and integration charges incurred on the defined programs were as follows:

	Third Quarter		First Nine Months	
(in millions)	**2020**	**2019**	**2020**	**2019**
Keurig 2.0 exit	**$ —**	$ —	**$ —**	$ 1
DPS integration program	**38**	76	**143**	168
Total restructuring and integration charges	**$ 38**	$ 76	**$ 143**	$ 169

Restructuring liabilities that qualify as exit and disposal costs under U.S. GAAP are included in accounts payable and accrued expenses on the unaudited condensed consolidated financial statements. Restructuring liabilities as of September 30, 2020 along with charges to expense, cash payments and non-cash charges for the period specific to the DPS Integration Program were as follows:

(in millions)	**Workforce Reduction Costs**
Balance as of January 1, 2020	**$ 15**
Charges to expense	**22**
Cash payments	**(22)**
Non-cash adjustment items	**(4)**
Balance as of September 30, 2020	**$ 11**

RESTRUCTURING PROGRAMS

DPS Integration Program

As part of the DPS Merger, the Company developed a program to deliver $600 million in synergies over a three-year period through supply chain optimization, reduction of indirect spend through new economies of scale, elimination of duplicative support functions and advertising and promotion optimization. The Company expects to incur total cash expenditures of $750 million, comprised of both capital expenditures and expense, and expects to complete the program by 2021. The restructuring and integration program resulted in cumulative pre-tax charges of approximately $530 million, primarily consisting of professional fees related to the integration and transformation and costs associated with severance and employee terminations, through September 30, 2020.

6. Income Taxes

Our effective tax rates were as follows:

	Third Quarter		First Nine Months	
(in millions)	**2020**	**2019**	**2020**	**2019**
Effective tax rate	**24.1%**	26.4%	**24.9%**	25.9%

For the third quarter of 2020, the provision for income taxes was lower than the third quarter of 2019 primarily due to a decrease of uncertain tax positions, which was slightly offset by an increase of U.S. taxation of foreign earnings.

For the first nine months of 2020, the provision for income taxes was lower than the first nine months of 2019 primarily due to the tax benefit received in the first nine months of 2020 from the release of uncertain tax positions.

7. Derivatives

KDP is exposed to market risks arising from adverse changes in interest rates, commodity prices, and FX rates. KDP manages these risks through a variety of strategies, including the use of interest rate contracts, FX forward contracts, commodity forward, future, swap and option contracts and supplier pricing agreements. KDP does not hold or issue derivative financial instruments for trading or speculative purposes.

KDP formally designates and accounts for certain foreign exchange forward contracts that meet established accounting criteria under U.S. GAAP as cash flow hedges. For such contracts, the effective portion of the gain or loss on the derivative instruments is recorded, net of applicable taxes, in AOCI. When net income is affected by the variability of the underlying transaction, the applicable offsetting amount of the gain or loss from the derivative instrument deferred in AOCI is reclassified to net income. Cash flows from derivative instruments designated in a qualifying hedging relationship are classified in the same category as the cash flows from the hedged items. If a cash flow hedge were to cease to qualify for hedge accounting, or were terminated, the derivatives would continue to be carried on the balance sheet at fair value until settled and hedge accounting would be discontinued prospectively. If the underlying hedged transaction ceases to exist, any associated amounts reported in AOCI would be reclassified to earnings at that time.

For derivatives that are not designated or for which the designated hedging relationship is discontinued, the gain or loss on the instrument is recognized in earnings in the period of change.

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, the Company has not experienced material credit losses as a result of counterparty nonperformance. The Company selects and periodically reviews counterparties based on credit ratings, limits its exposure to a single counterparty under defined guidelines and monitors the market position of the programs upon execution of a hedging transaction and at least on a quarterly basis.

INTEREST RATES

Economic Hedges

The Company is exposed to interest rate risk related to its borrowing arrangements and obligations. The Company enters into interest rate swaps to provide predictability in the Company's overall cost structure, including both receive-fixed, pay-variable and receive-variable, pay-fixed swaps. A natural hedging relationship exists in which changes in the fair value of the instruments act as an economic offset to changes in the fair value of the underlying items. Changes in the fair value of these instruments are recorded in earnings throughout the term of the derivative instrument and are reported in interest expense in the unaudited Condensed Consolidated Statements of Income. As of September 30, 2020, all interest rate swap contracts will mature in March 2025.

FOREIGN EXCHANGE

The Company's Canadian and Mexican businesses purchase certain inventory through transactions denominated and settled in U.S. dollars, a currency different from the functional currency of those businesses. The Company additionally has a subsidiary in Canada with intercompany notes denominated and settled in U.S. dollars, a currency different from the functional currency of the Canadian business. The accounts payable related to the inventory purchases and the intercompany notes are subject to exposure from movements in exchange rates.

Economic Hedges

During the third quarter and first nine months of 2020 and 2019, the Company held FX forward contracts to economically manage the balance sheet exposures resulting from changes in the FX exchange rates described above. The intent of these FX contracts is to minimize the impact of FX risk associated with balance sheet positions not in local currency. In these cases, a hedging relationship exists in which changes in the fair value of the instruments act as an economic offset to changes in the fair value of the underlying items. Changes in the fair value of these instruments are recorded in earnings throughout the term of the derivative instrument and are reported in the same caption of the unaudited Condensed Consolidated Statements of Income as the associated risk. These FX contracts have maturities ranging from October 2020 to September 2024 as of September 30, 2020.

Cash Flow Hedges

During 2020, the Company began to designate certain FX forward contracts related to inventory purchases of the Canadian and Mexican businesses as cash flow hedges in order to manage the exposures resulting from changes in the FX rates described above. The intent of these FX contracts is to provide predictability in the Company's overall cost structure. These FX contracts, carried at fair value, have maturities ranging from October 2020 to December 2021 as of September 30, 2020.

COMMODITIES

Economic Hedges

KDP centrally manages the exposure to volatility in the prices of certain commodities used in its production process and transportation through various derivative contracts. The intent of these contracts is to provide a certain level of predictability in the Company's overall cost structure. During the third quarter and first nine months of 2020 and 2019, the Company held forward, future, swap and option contracts that economically hedged certain of its risks. In these cases, a hedging relationship exists in which changes in the fair value of the instruments act as an economic offset to changes in the fair value of the underlying items. Changes in the fair value of these instruments are recorded in earnings throughout the term of the derivative instrument and are reported in the same line item of the unaudited Condensed Consolidated Statements of Income as the hedged transaction. Unrealized gains and losses are recognized as a component of unallocated corporate costs until the Company's operating segments are affected by the completion of the underlying transaction, at which time the gain or loss is reflected as a component of the respective segment's income from operations. These commodity contracts have maturities ranging from October 2020 to January 2023 as of September 30, 2020.

NOTIONAL AMOUNTS OF DERIVATIVE INSTRUMENTS

The following table presents the notional amounts of the Company's outstanding derivative instruments by type:

(in millions)	September 30, 2020	December 31, 2019
Interest rate contracts		
Receive-fixed, pay-variable interest rate swaps(1)	**$ —**	$ 50
Receive-variable, pay-fixed interest rate swaps(2)	**450**	575
FX contracts		
Forward contracts, not designated as hedging instruments	**412**	523
Forward contracts, designated as cash flow hedges	**382**	—
Commodity contracts	**497**	150

(1) During the first nine months of 2020, the Company elected to terminate $50 million notional amount of receive-fixed, pay-variable interest rate swaps and received cash of $18 million.
(2) During the first nine months of 2020, the Company elected to terminate $575 million notional amount of receive-variable, pay-fixed interest rate swaps and received cash of $2 million.

FAIR VALUE OF DERIVATIVE INSTRUMENTS

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

Not Designated as Hedging Instruments

The following table summarizes the fair value hierarchy and the location of the fair value of the Company's derivative instruments which are not designated as hedging instruments within the unaudited Condensed Consolidated Balance Sheets:

(in millions)	Fair Value Hierarchy Level	Balance Sheet Location	September 30, 2020	December 31, 2019
Assets:				
Interest rate contracts	2	Prepaid expenses and other current assets	**$ —**	$ 1
FX contracts	2	Prepaid expenses and other current assets	**1**	—
Commodity contracts	2	Prepaid expenses and other current assets	**14**	30
Interest rate contracts	2	Other non-current assets	**—**	18
FX contracts	2	Other non-current assets	**2**	—
Commodity contracts	2	Other non-current assets	**7**	1
Liabilities:				
Interest rate contracts	2	Other current liabilities	**$ 2**	$ —
FX contracts	2	Other current liabilities	**2**	2
Commodity contracts	2	Other current liabilities	**20**	10
Interest rate contracts	2	Other non-current liabilities	**7**	—
FX contracts	2	Other non-current liabilities	**—**	3
Commodity contracts	2	Other non-current liabilities	**7**	1

Designated as Hedging Instruments

The following table summarizes the fair value hierarchy and the location of the fair value of the Company's derivative instruments which are designated as hedging instruments within the unaudited Condensed Consolidated Balance Sheets:

(in millions)	Fair Value Hierarchy Level	Balance Sheet Location	September 30, 2020	December 31, 2019
Assets:				
FX contracts	2	Prepaid expenses and other current assets	**$ 2**	$ —
FX contracts	2	Other non-current assets	**1**	—
Liabilities:				
FX contracts	2	Other current liabilities	**$ 1**	$ —

IMPACT OF DERIVATIVE INSTRUMENTS NOT DESIGNATED AS HEDGING INSTRUMENTS

The following table presents the amount of (gains) losses recognized in the unaudited Condensed Consolidated Statements of Income related to derivative instruments not designated as hedging instruments under U.S. GAAP during the periods presented. Amounts include both realized and unrealized gains and losses.

		Third Quarter		First Nine Months	
(in millions)	Income Statement Location	2020	2019	2020	2019
Interest rate contracts	Interest expense	**$ —**	$ —	**$ 9**	$ 4
FX contracts	Cost of sales	**5**	(2)	**(15)**	1
FX contracts	Other expense, net	**7**	10	**(5)**	16
Commodity contracts	Cost of sales	**(45)**	17	**6**	29
Commodity contracts	SG&A expenses	**5**	3	**41**	(9)
Total		**$ (28)**	$ 28	**$ 36**	$ 41

IMPACT OF CASH FLOW HEDGES

The following table presents the impact of derivative instruments designated as cash flow hedging instruments under U.S. GAAP:

	Third Quarter		First Nine Months	
(in millions)	**2020**	**2019**	**2020**	**2019**
FX contracts designated as hedges:				
Amount of gain recognized in other comprehensive income[(1)]	**$ 1**	$ —	**$ 2**	$ —

(1) KDP expects that amounts reclassified from AOCI into net income during the next twelve months will be insignificant.

There was no hedge ineffectiveness during the periods presented.

8. Leases

The Company leases certain facilities and machinery and equipment, including fleet. These leases expire at various dates through 2044. Some lease agreements contain standard renewal provisions that allow the Company to renew the lease at rates equivalent to fair market value at the end of the lease term. The Company's lease agreements do not contain any material residual value guarantees or restrictive covenants, except for leases of certain manufacturing properties that contain residual value guarantees at the end of the term. KDP has lease agreements with lease and non-lease components, which are generally accounted for as a single lease component.

The following table presents the components of lease cost:

	Third Quarter		First Nine Months	
(in millions)	**2020**	**2019**	**2020**	**2019**
Operating lease cost	**$ 28**	$ 21	**$ 84**	$ 61
Finance lease cost				
Amortization of right-of-use assets	**12**	17	**34**	37
Interest on lease liabilities	**3**	4	**10**	11
Variable lease cost[(1)]	**6**	8	**19**	22
Short-term lease cost	**—**	2	**1**	5
Sublease income	**—**	(1)	**(1)**	(2)
Total lease cost	**$ 49**	$ 51	**$ 147**	$ 134

(1) Variable lease cost primarily consists of common area maintenance costs, property taxes, and adjustments for inflation.

The following table presents supplemental cash flow information about the Company's leases:

	First Nine Months	
(in millions)	**2020**	**2019**
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	**$ 75**	$ 58
Operating cash flows from finance leases	**11**	11
Financing cash flows from finance leases	**35**	29

The following table presents information about the Company's weighted average discount rate and remaining lease term:

	September 30, 2020	**December 31, 2019**
Weighted average discount rate		
Operating leases	**4.4%**	4.6%
Finance leases	**4.9%**	5.1%
Weighted average remaining lease term		
Operating leases	**12 years**	10 years
Finance leases	**11 years**	12 years

Future minimum lease payments for non-cancellable leases that have commenced and are reflected on the unaudited Condensed Consolidated Balance Sheets as of September 30, 2020 were as follows:

(in millions)	Operating Leases	Finance Leases
Remainder of 2020	$ 22	$ 14
2021	93	50
2022	82	45
2023	74	40
2024	72	37
2025	65	33
Thereafter	444	167
Total future minimum lease payments	852	386
Less: imputed interest	(187)	(87)
Present value of minimum lease payments	$ 665	$ 299

SIGNIFICANT LEASES THAT HAVE NOT YET COMMENCED

As of September 30, 2020, the Company has entered into leases that have not yet commenced with estimated aggregated future lease payments of approximately $640 million. These leases are expected to commence between the fourth quarter of 2020 and third quarter of 2021, with initial lease terms ranging from 5 years to 17 years.

ASSET SALE-LEASEBACK TRANSACTIONS

On January 6, 2020, the Company closed an asset sale-leaseback transaction on two manufacturing properties as the buyer obtained control. The Company received proceeds of approximately $150 million, net of selling costs for the properties, which had a carrying value of $131 million, and resulted in an approximately $19 million gain on the sale transaction. The initial term of the leaseback is expected to end during 2034 and has two 10-year renewal options. The renewal options are not reasonably assured as (i) the Company's position that the dynamic environment in which it operates precludes the Company's ability to be reasonably certain of exercising the renewal options in the distant future and (ii) the options are contingent as the Company must remain investment grade and a change-in-control has not occurred as of the end of the lease term. The leaseback has a residual value guarantee; however, the Company concluded it was not probable that the Company will owe an amount at the end of the lease term and will record the lease obligation excluding the residual value guarantee.

On January 10, 2020, the Company closed the asset sale-leaseback transaction on two distribution properties as the buyer obtained control. The Company received proceeds of approximately $50 million, net of selling costs for the properties, which had a carrying value of $27 million, and resulted in an approximately $23 million gain on the sale transaction. The term of the leaseback is expected to end in 2025 and has two three-year renewals.

9. Earnings Per Share

The following table presents the Company's basic and diluted EPS and shares outstanding:

(in millions, except per share data)	Third Quarter 2020	Third Quarter 2019	First Nine Months 2020	First Nine Months 2019
Basic EPS:				
Net income attributable to KDP	**$ 443**	$ 304	**$ 897**	$ 848
Weighted average common shares outstanding	**1,407.3**	1,406.8	**1,407.2**	1,406.6
Earnings per common share — basic	**$ 0.31**	$ 0.22	**$ 0.64**	$ 0.60
Diluted EPS:				
Net income attributable to KDP	**$ 443**	$ 304	**$ 897**	$ 848
Weighted average common shares outstanding	**1,407.3**	1,406.8	**1,407.2**	1,406.6
Effect of dilutive securities:				
Stock options	**0.3**	0.5	**0.3**	0.6
RSUs	**15.3**	12.1	**14.0**	11.6
Weighted average common shares outstanding and common stock equivalents	**1,422.9**	1,419.4	**1,421.5**	1,418.8
Earnings per common share — diluted	**$ 0.31**	$ 0.21	**$ 0.63**	$ 0.60
Anti-dilutive shares excluded from the diluted weighted average shares outstanding calculation	**—**	—	**0.1**	0.2

10. Stock-Based Compensation

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

(in millions)	Third Quarter 2020	Third Quarter 2019	First Nine Months 2020	First Nine Months 2019
Total stock-based compensation expense	**$ 20**	$ 13	**$ 62**	$ 47
Income tax benefit recognized in the Statements of Income	**(3)**	(3)	**(11)**	(10)
Stock-based compensation expense, net of tax	**$ 17**	$ 10	**$ 51**	$ 37

RESTRICTED STOCK UNITS

The table below summarizes RSU activity:

	RSUs	Weighted Average Grant Date Fair Value	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (in millions)
Outstanding as of December 31, 2019	21,492,786	$ 18.14	2.6	$ 622
Granted	**8,027,374**	**24.67**		
Vested and released	**(96,082)**	**16.82**		**3**
Forfeited	**(1,804,187)**	**20.65**		
Outstanding as of September 30, 2020	**27,619,891**	**$ 19.88**	**2.2**	**$ 762**

As of September 30, 2020, there was $350 million of unrecognized compensation cost related to unvested RSUs that is expected to be recognized over a weighted average period of 3.85 years.

11. Accumulated Other Comprehensive (Loss) Income

The following table provides a summary of changes in AOCI, net of taxes:

(in millions)	Foreign Currency Translation Adjustments	Pension and PRMB Liabilities	Cash Flow Hedges	Accumulated Other Comprehensive (Loss) Income
Balance as of July 1, 2020	**$ (328)**	**$ (1)**	**$ 1**	**$ (328)**
Other comprehensive income	**111**	**(1)**	**1**	**111**
Balance as of September 30, 2020	**$ (217)**	**$ (2)**	**$ 2**	**$ (217)**
Balance as of January 1, 2020	**$ 104**	**$ —**	**$ —**	**$ 104**
Other comprehensive income (loss)	**(321)**	**(2)**	**2**	**(321)**
Balance as of September 30, 2020	**$ (217)**	**$ (2)**	**$ 2**	**$ (217)**
Balance as of July 1, 2019	$ 55	$ (4)	$ —	$ 51
Other comprehensive income	(82)	5	—	(77)
Amounts reclassified from AOCI[1]	—	(1)	—	(1)
Balance as of September 30, 2019	$ (27)	$ —	$ —	$ (27)
Balance as of January 1, 2019	$ (126)	$ (4)	$ —	$ (130)
Other comprehensive income	99	5	—	104
Amounts reclassified from AOCI[1]	—	(1)	—	(1)
Balance as of September 30, 2019	$ (27)	$ —	$ —	$ (27)

(1) Amounts reclassified from AOCI during the period represent settlement losses, which are recorded to SG&A expenses within the unaudited Condensed Consolidated Statements of Income.

12. Trade Accounts Receivables, Net

Trade accounts receivable are recorded at the invoiced amount and do not bear interest.

The Company is exposed to potential credit risks associated with its accounts receivable, as it generally does not require collateral on its accounts receivable. The Company determines the required allowance for expected credit losses using information such as its customer credit history and financial condition, industry and market segment information, credit reports, and economic trends and conditions such as the impacts of COVID-19 in the first nine months of 2020. Allowances can be affected by changes in the industry, customer credit issues or customer bankruptcies or expectations of any such events in a future period when reasonable and supportable. Historical information is utilized beyond reasonable and supportable forecast periods. Amounts are charged against the allowance when it is determined that expected credit losses may occur.

Activity in the allowance for expected credit loss accounts during the periods presented was as follows:

(in millions)	Allowance for Expected Credit Loss
Balance as of January 1, 2019	$ 8
Charges to bad debt expense	2
Write-offs and adjustments	(1)
Balance as of December 31, 2019	9
Charges to bad debt expense	**18**
Write-offs and adjustments	**(5)**
Balance as of September 30, 2020	**$ 22**

13. Other Financial Information

The carrying value of cash, cash equivalents, restricted cash and restricted cash equivalents is valued as of the balance sheet date equating fair value and classified as Level 1. The following table provides a reconciliation of cash, cash equivalents, restricted cash and restricted cash equivalents reported with the unaudited Condensed Consolidated Balance Sheets to the total of the same amounts shown in the unaudited Condensed Consolidated Statements of Cash Flows:

(in millions)	September 30, 2020	December 31, 2019
Cash and cash equivalents	**$ 191**	$ 75
Restricted cash and restricted cash equivalents(1)	**27**	26
Non-current restricted cash and restricted cash equivalents included in Other non-current assets	**—**	10
Total cash, cash equivalents, restricted cash and restricted cash equivalents shown in the unaudited Condensed Consolidated Statement of Cash Flows	**$ 218**	$ 111

(1) Restricted cash and cash equivalents primarily represent amounts held in escrow in connection with the acquisitions of Core Nutrition LLC, Bai Brands LLC and Big Red Group Holdings, LLC, which have a corresponding holdback liability recorded in other current liabilities, as shown below.

The tables below provide selected financial information from the unaudited Condensed Consolidated Balance Sheets:

(in millions)	September 30, 2020	December 31, 2019
Inventories:		
Raw materials	**$ 275**	$ 215
WIP	**7**	8
Finished goods	**569**	447
Total	**851**	670
Allowance for excess and obsolete inventories	**(27)**	(16)
Total Inventories	**$ 824**	$ 654
Prepaid expenses and other current assets:		
Other receivables	**$ 60**	$ 65
Customer incentive programs	**64**	12
Derivative instruments	**17**	31
Prepaid marketing	**16**	17
Spare parts	**52**	49
Assets held for sale(1)	**3**	165
Income tax receivable	**7**	4
Other	**104**	60
Total prepaid expenses and other current assets	**$ 323**	$ 403
Other non-current assets:		
Customer incentive programs	**$ 71**	$ 33
Marketable securities - trading(2)	**37**	40
Operating lease right-of-use assets	**659**	497
Derivative instruments	**10**	19
Equity securities without readily determinable fair values	**1**	1
Non-current restricted cash and restricted cash equivalents	**—**	10
Related party notes receivable(3)	**—**	50
Other	**111**	98
Total other non-current assets	**$ 889**	$ 748

(1) The decrease in assets held for sale was due to the assets included in sale-leaseback transactions that closed during the period. Refer to Note 8 for additional information about the transactions. The remaining amounts were comprised of property, plant and equipment expected to be sold within the next twelve months.
(2) Fair values of marketable securities are determined using quoted market prices from daily exchange traded markets, based on the closing price as of the balance sheet date, and are classified as Level 1. The fair value of marketable securities was $37 million and $40 million as of September 30, 2020 and December 31, 2019, respectively.
(3) Refer to Note 4 for additional information.

(in millions)	September 30, 2020		December 31, 2019	
Accrued expenses:				
Customer rebates & incentives	**$**	**341**	$	362
Accrued compensation		**160**		183
Insurance reserve		**46**		39
Accrued interest		**187**		54
Accrued professional fees		**16**		31
Other accrued expenses		**317**		270
Total accrued expenses	**$**	**1,067**	$	939
Other current liabilities:				
Dividends payable	**$**	**211**	$	212
Income taxes payable		**22**		75
Operating lease liability		**73**		69
Finance lease liability		**40**		41
Derivative instruments		**25**		12
Holdback liabilities		**25**		25
Other		**7**		11
Total other current liabilities	**$**	**403**	$	445
Other non-current liabilities:				
Pension and post-retirement liability	**$**	**29**	$	29
Insurance reserves		**71**		66
Operating lease liability		**592**		427
Finance lease liability		**259**		269
Derivative instruments		**14**		4
Deferred compensation liability		**37**		40
Other		**101**		95
Total other non-current liabilities	**$**	**1,103**	$	930

ACCOUNTS PAYABLE

KDP has an agreement with a third party administrator which allows participating suppliers to track payments from KDP, and if voluntarily elected by the supplier, to sell payment obligations from KDP to financial institutions. Suppliers can sell one or more of KDP's payment obligations at their sole discretion and the rights and obligations of KDP to its suppliers are not impacted. KDP has no economic interest in a supplier's decision to enter into these agreements and no direct financial relationship with the financial institutions. KDP's obligations to its suppliers, including amounts due and scheduled payment terms, are not impacted. KDP has been informed by the third party administrator that as of September 30, 2020 and December 31, 2019, $2,442 million and $2,097 million, respectively, of KDP's outstanding payment obligations were voluntarily elected by the supplier and sold to financial institutions.

14. Commitments and Contingencies

LEGAL MATTERS

The Company is involved from time to time in various claims, proceedings, and litigation. The Company establishes reserves for specific legal proceedings when the Company determines that the likelihood of an unfavorable outcome is probable and the amount of loss can be reasonably estimated. The Company has also identified certain other legal matters where the Company believes an unfavorable outcome is reasonably possible and/or for which no estimate of possible losses can be made.

Antitrust Litigation

In February 2014, TreeHouse Foods, Inc. and certain affiliated entities filed suit against KDP's wholly-owned subsidiary, KGM, in the U.S. District Court for the Southern District of New York ("SDNY") (TreeHouse Foods, Inc. et al. v. Green Mountain Coffee Roasters, Inc. et al). The TreeHouse complaint asserted claims under the federal antitrust laws and various state laws, contending that Keurig had monopolized alleged markets for single serve coffee brewers and single serve coffee pods. The TreeHouse complaint sought monetary damages, declaratory relief, injunctive relief and attorneys' fees. In March 2014, JBR, Inc. filed suit against KGM in the U.S. District Court for the Eastern District of California (JBR, Inc. v. Keurig Green Mountain, Inc.). The claims asserted and relief sought in the JBR complaint were substantially similar to the claims asserted and relief sought in the TreeHouse complaint.

Beginning in March 2014, twenty-seven putative class actions asserting similar claims and seeking similar relief were filed on behalf of purported direct and indirect purchasers of KGM's products in various federal district courts. In June 2014, the Judicial Panel on Multidistrict Litigation granted a motion to transfer these various actions, including the TreeHouse and JBR actions, to a single judicial district for coordinated or consolidated pre-trial proceedings (the "Multidistrict Antitrust Litigation"). Consolidated putative class action complaints by direct purchaser and indirect purchaser plaintiffs were filed in July 2014. An additional class action on behalf of indirect purchasers, originally filed in the Circuit Court of Faulkner County, Arkansas (Julie Rainwater et al. v. Keurig Green Mountain, Inc.), was transferred into the Multidistrict Antitrust Litigation in November 2015. In January 2019, McLane Company, Inc. filed suit against KGM (McLane Company, Inc. v. Keurig Green Mountain, Inc.) in the SDNY asserting similar claims and was also transferred into the Multidistrict Antitrust Litigation. These actions are now pending in the SDNY (In re: Keurig Green Mountain Single-Serve Coffee Antitrust Litigation). Discovery in the Multidistrict Antitrust Litigation commenced in December 2017.

Separately, a statement of claim was filed in 2014 against KGM and Keurig Canada Inc. in Ontario, Canada by Club Coffee L.P., a Canadian manufacturer of single serve beverage pods, claiming damages of CDN $600 million and asserting a breach of competition law and false and misleading statements by KGM.

In July 2020, KGM reached an agreement with the putative indirect purchaser class plaintiffs in the Multidistrict Antitrust Litigation to settle the claims asserted in their complaint for $31 million. The settlement class consists of individuals and entities in the United States that purchased, from persons other than KGM and not for purposes of resale, KGM manufactured or licensed single serve beverage portion packs during the applicable class period (beginning in September 2010 for most states). The agreement remains subject to court approval, prior to which putative class members will be given notice and the opportunity to opt out of the settlement.

KDP intends to vigorously defend the remaining pending lawsuits brought by Treehouse, JBR, McLane, the putative direct purchaser class and Club Coffee. At this time, the Company is unable to predict the outcome of these lawsuits, the potential loss or range of loss, if any, associated with the resolution of these lawsuits or any potential effect they may have on the Company or its operations.

Proposition 65 Litigation

In May 2011, CERT filed a lawsuit in the Superior Court of the State of California, County of Los Angeles, (Council for Education and Research on Toxics v. Brad Barry LLC, et al., Case No. BC461182), alleging that KGM, and certain other defendants who manufacture, package, distribute or sell coffee, failed to warn persons in California that KGM's coffee products expose persons to the chemical acrylamide in violation of Proposition 65.

KGM, as part of a joint defense group organized to defend against the lawsuit, disputed CERT's claims and asserted multiple affirmative defenses. The case was scheduled to proceed to a third phase for trial on damages, remedies and attorneys' fees, but such trial did not occur in light of California's Office of Environmental Health Hazard Assessment proposal of a new Proposition 65 regulation clarifying that cancer warnings are not required for chemicals, such as acrylamide, that are present in coffee as a result of roasting coffee beans. After the regulation took effect in October 2019, the litigation continued based on, among other items, CERT's contentions that the regulation is legally invalid and, alternatively, cannot be applied to its pending claims. In August 2020, the court granted the defendants' motion for summary judgment, effectively ending CERT's Proposition 65 litigation at the trial court level, though CERT may still file an appeal. If necessary, the Company intends to continue to vigorously defend itself in this action.

15. Related Parties

IDENTIFICATION OF RELATED PARTIES

Prior to August 19, 2020, KDP was indirectly controlled by JAB, a privately held investor group. Since August 19, 2020, JAB continues to hold a significant but non-controlling interest in KDP. As of September 30, 2020, JAB beneficially owned approximately 44% of KDP's outstanding common stock. JAB and its affiliates also hold investments in a number of other companies that have commercial relationships with the Company, including Peet's, Caribou Coffee Company, Inc., Panera Bread Company, Einstein Bros Bagels, and Krispy Kreme Doughnuts Inc.

- KDP purchases certain raw materials from Peet's and manufactures coffee and tea portion packs under Peet's brands for sale by KDP and Peet's in the U.S. and Canada.
- KDP exclusively manufactures, distributes and sells Peet's RTD beverage products in the U.S. and Canada.
- KDP licenses the Caribou Coffee, Panera Bread and Krispy Kreme trademarks for use in the manufacturing of portion packs for the Keurig brewing system.
- KDP sells various beverage concentrates and packaged beverages to Caribou Coffee Company, Inc., Panera Bread Company, Einstein Bros Bagels, and Krispy Kreme Doughnuts Inc. for resale to retail customers.

KDP holds investments in certain brand ownership companies, and in certain instances, the Company also has rights in specified territories to bottle and/or distribute the brands owned by such companies. KDP purchases inventory from these brand ownership companies and sells finished product to third-party customers primarily in the U.S. Additionally, any transactions with significant partners in these investments, such as ABI, are considered related party transactions. ABI purchases Clamato from KDP and pays the Company a royalty for use of the brand name. Refer to Note 4 for additional information about KDP's investments in brand ownership companies.

16. Segments

For all periods presented, the Company's operating structure consisted of the following four reportable segments:

- The Coffee Systems segment reflects sales in the U.S. and Canada of the manufacture and distribution of finished goods relating to the Company's coffee system, K-Cup pods and brewers.
- The Packaged Beverages segment reflects sales in the U.S. and Canada from the manufacture and distribution of finished beverages and other products, including sales of the Company's own brands and third-party brands, through both the DSD system and the WD system.
- The Beverage Concentrates segment reflects sales of the Company's branded concentrates and syrup to third-party bottlers primarily in the U.S. and Canada. Most of the brands in this segment are carbonated soft drink brands.
- The Latin America Beverages segment reflects sales primarily in Mexico and the Caribbean from the manufacture and distribution of concentrates, syrup and finished beverages.

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

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

	Third Quarter		First Nine Months	
(in millions)	**2020**	**2019**	**2020**	**2019**
Segment Results – Net sales				
Coffee Systems	**$ 1,097**	$ 1,065	**$ 3,113**	$ 3,023
Packaged Beverages	**1,447**	1,307	**4,056**	3,734
Beverage Concentrates	**352**	360	**967**	1,034
Latin America Beverages	**124**	138	**361**	395
Net sales	**$ 3,020**	$ 2,870	**$ 8,497**	$ 8,186

	Third Quarter		First Nine Months	
(in millions)	**2020**	**2019**	**2020**	**2019**
Segment Results – Income from operations				
Coffee Systems	**$ 320**	$ 310	**$ 882**	$ 890
Packaged Beverages	**260**	196	**657**	531
Beverage Concentrates	**262**	245	**679**	690
Latin America Beverages	**25**	25	**73**	62
Unallocated corporate costs	**(114)**	(196)	**(511)**	(508)
Income from operations	**$ 753**	$ 580	**$ 1,780**	$ 1,665

17. Revenue Recognition

The Company recognizes revenue when obligations under the terms of a contract with the customer are satisfied. Branded product sales, which include CSD, NCB, K-Cup pods and appliances, occur once control is transferred upon delivery to the customer. Revenue is measured as the amount of consideration the Company expects to receive in exchange for transferring goods. The amount of consideration the Company receives and revenue the Company recognizes varies with changes in customer incentives the Company offers to its customers and their customers. Sales taxes and other similar taxes are excluded from revenue. Costs associated with shipping and handling activities, such as merchandising, are included in SG&A expenses as revenue is recognized.

The following table disaggregates the Company's revenue by portfolio:

(in millions)	Coffee Systems	Packaged Beverages	Beverage Concentrates	Latin America Beverages	Total
For the third quarter of 2020:					
CSD[1]	$ —	$ 658	$ 345	$ 89	$ 1,092
NCB[1]	—	689	4	35	728
K-Cup pods[2]	812	—	—	—	812
Appliances	230	—	—	—	230
Other	55	100	3	—	158
Net sales	$ 1,097	$ 1,447	$ 352	$ 124	$ 3,020
For the first nine months of 2020:					
CSD[1]	$ —	$ 1,842	$ 951	$ 262	$ 3,055
NCB[1]	—	1,913	8	98	2,019
K-Cup pods[2]	2,433	—	—	—	2,433
Appliances	530	—	—	—	530
Other	150	301	8	1	460
Net sales	$ 3,113	$ 4,056	$ 967	$ 361	$ 8,497
For the third quarter of 2019:					
CSD[1]	$ —	$ 577	$ 352	$ 100	$ 1,029
NCB[1]	—	626	4	37	667
K-Cup pods[2]	824	—	—	—	824
Appliances	187	—	—	—	187
Other	54	104	4	1	163
Net sales	$ 1,065	$ 1,307	$ 360	$ 138	$ 2,870
For the first nine months of 2019:					
CSD[1]	$ —	$ 1,640	$ 1,012	$ 282	$ 2,934
NCB[1]	—	1,789	9	111	1,909
K-Cup pods[2]	2,400	—	—	—	2,400
Appliances	464	—	—	—	464
Other	159	305	13	2	479
Net sales	$ 3,023	$ 3,734	$ 1,034	$ 395	$ 8,186

(1) Represents net sales of owned and partner brands within our portfolio.
(2) Represents net sales from owned brands, partner brands and private label owners. Net sales for partner brands and private label owners are contractual and long term in nature.

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

The following discussion should be read in conjunction with our audited consolidated financial statements and notes thereto in our Annual Report, as filed on February 27, 2020.

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 Exchange Act, including, in particular, statements about anticipated benefits and expenses of the DPS Merger and other transactions, including estimated synergies, deleveraging and associated cash management, and cost savings, the impact of COVID-19, 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 “outlook,” “guidance,” “anticipate,” “expect,” “believe,” “could,” “estimate,” “feel,” “forecast,” “intend,” “may,” “plan,” “potential,” “project,” “should,” “target,” “will,” “would,” and similar words, phrases or expressions and variations or negatives of these words 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 and in Part II, Item 1A of this Quarterly Report on Form 10-Q, as well as our subsequent filings with the SEC. Forward-looking statements represent our estimates and assumptions only as of the date that they were made. We do not undertake any duty to update the forward-looking statements, and the estimates and assumptions associated with them, after the date of this Quarterly Report on Form 10-Q, except to the extent required by applicable securities laws.

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

OVERVIEW

KDP is a leading beverage company in North America, with a diverse portfolio of flavored (non-cola) CSDs, NCBs, including water (enhanced and flavored), ready-to-drink tea and coffee, juice, juice drinks, mixers and specialty coffee, and is a leading producer of innovative single serve brewing systems. With a wide range of hot and cold beverages that meet virtually any consumer need, KDP key brands include Keurig, Dr Pepper, Canada Dry, Snapple, Bai, Mott's, Core, Green Mountain and The Original Donut Shop. KDP has 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. KDP offers more than 125 owned, licensed, and partner brands, including the top ten best-selling coffee brands and Dr Pepper as a leading flavored CSD in the U.S., according to IRi, available nearly everywhere people shop and consume beverages.

KDP operates as an integrated brand owner, manufacturer and distributor. We believe our integrated business model strengthens our route-to-market and provides opportunities for net sales and profit growth through the alignment of the economic interests of our brand ownership and our manufacturing and distribution businesses through both our DSD system and our WD delivery system. KDP markets and sells its products to retailers, including supermarkets, mass merchandisers, club stores, pure-play e-commerce retailers, and office superstores; to restaurants, hotel chains, office product and coffee distributors, and partner brand owners; and directly to consumers through its websites. Our integrated business model enables us to be more flexible and responsive to the changing needs of our large retail customers and allows us to more fully leverage our scale and reduce costs by creating greater geographic manufacturing and distribution coverage.

The beverage market is subject to some seasonal variations. Our cold beverage sales are generally higher during the warmer months, while hot beverage sales are generally higher during the cooler months. Overall beverage sales can be influenced by the timing of holidays and weather fluctuations. Sales of brewing systems and related accessories are generally higher during the second half of the year due to the holiday shopping season.

COFFEE SYSTEMS

Our Coffee Systems segment is primarily a producer of innovative single serve brewing systems and specialty coffee in the U.S. and Canada. Our brewing systems are aimed at changing the way consumers prepare and enjoy coffee and other beverages, both at home and away from home in places such as offices, restaurants, cafeterias, convenience stores and hotels. We develop and sell a variety of Keurig brewers, brewer accessories and other coffee-related equipment. In addition to coffee, we produce and sell a variety of other specialty beverages in K-Cup pods (including hot and iced teas, hot cocoa and other beverages) for use with Keurig brewing systems. We also offer traditional whole bean and ground coffee in other package types, including bags, fractional packages and cans.

Our Coffee Systems segment manufactures over 75% of the pods in the single serve K-Cup pod format in the U.S. We manufacture and sell 100% of the K-Cup pods of our own brands, such as Green Mountain Coffee Roasters, The Original Donut Shop, Laughing Man, REVV, and Van Houtte. We have licensing and manufacturing agreements with our partner brands, including brands such as Starbucks, Dunkin' Donuts, Folgers, Newman's Own Organics, McCafé, Peet's Coffee, Caribou Coffee, Eight O'Clock, Maxwell House, and Tim Hortons, and private label arrangements. Our Coffee Systems segment also has agreements for manufacturing, distributing, and selling K-Cup pods for tea under brands such as Celestial Seasonings, Lipton and Tazo in addition to K-Cup pods of our own brand, Snapple. We also produce and sell K-Cup pods for cocoa, including through a licensing agreement for the Swiss Miss brand, and hot apple cider.

Our Coffee Systems segment manufactures its K-Cup pods in facilities in North America that include specialty designed proprietary high-speed packaging lines using freshly roasted and ground coffee as well as tea, cocoa and other products. We offer high-quality coffee including certified single-origin, organic, flavored, limited edition and proprietary blends. We carefully select our coffee beans and appropriately roast the coffees to optimize their taste and flavor differences. We engineer and design most of our single serve brewing systems, where we then utilize third-party contract manufacturers located in various countries in Asia for brewer appliance manufacturing. We distribute our Coffee Systems products using third-party distributors, retail partners and through e-commerce, including our website at www.keurig.com.

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 of our brands. Additionally, in order to maximize the size and scale of our manufacturing and distribution operations, we also distribute packaged beverages for our partner brands and manufacture packaged beverages for other third parties in the U.S. and Canada.

Our larger NCB brands in this segment include Snapple, Mott's, Bai, Clamato, Hawaiian Punch, Core, Yoo-Hoo, ReaLemon, Vita Coco coconut water, evian water, Mr and Mrs T mixers, and Forto Coffee. Our larger CSD brands in this segment include Dr Pepper, Canada Dry, 7UP, A&W, Sunkist soda, Squirt, Big Red, RC Cola, Vernors and A Shoc.

Approximately 95% of our 2019 Packaged Beverages net sales came from the manufacturing and distribution of our own brands and the contract manufacturing of certain private label and emerging brand beverages. The remaining portion of our 2019 Packaged Beverages net sales came from the distribution of our partner brands such as Vita Coco coconut water, evian water, Neuro drinks, High Brew RTD Coffee, Forto Coffee shots, A Shoc energy drinks, Peet's RTD Coffee and Runa energy drinks. We provide a route-to-market for third party brand owners seeking effective distribution for their new and emerging brands. These brands give us exposure in certain markets to fast growing segments of the beverage industry with minimal capital investment.

Our Packaged Beverages products are manufactured in multiple facilities across the U.S. and are sold or distributed to retailers and their warehouses by our own distribution network or by third party distributors.

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

BEVERAGE CONCENTRATES

Our Beverage Concentrates segment is principally a brand ownership business where we manufacture and sell beverage concentrates in the U.S. and Canada. Most of the brands in this segment are CSD brands. Key brands include Dr Pepper, Canada Dry, Crush, Schweppes, Sun Drop, Sunkist soda, A&W, 7UP, Squirt, Big Red, RC Cola and Hawaiian Punch. Almost all of our beverage concentrates are manufactured at our plant in St. Louis, Missouri.

Beverage concentrates are shipped to third party bottlers, as well as to our own manufacturing systems, who combine them with carbonation, water, sweeteners and other ingredients, package the combined product in aluminum cans, PET containers and glass bottles, 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.

Our Beverage Concentrates brands are sold by our bottlers 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.

LATIN AMERICA BEVERAGES

Our Latin America Beverages segment is a brand ownership, manufacturing and distribution business, with operations in Mexico representing approximately 90% of the segment's 2019 net sales. This segment participates mainly in carbonated mineral water, flavored CSD, bottled water and vegetable juice, with particular strength in carbonated mineral water, vegetable juice categories and grapefruit flavored CSDs. The largest brands include Peñafiel, Squirt, Clamato, Aguafiel and Crush.

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

VOLUME

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

Beverage Concentrates Sales Volume

In our Beverage Concentrates segment, we measure our sales volume as concentrate case sales. The unit of measurement for concentrate case sales equals 288 fluid ounces of finished beverage, the equivalent of 24 twelve ounce servings.

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

Packaged Beverages and Latin America Beverages Sales Volume

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

Coffee Systems K-Cup Pod and Appliance Sales Volume

In our Coffee Systems segments, we measure our sales volume as the number of appliances and the number of individual K-Cup pods sold to our customers.

COMPARABLE RESULTS OF OPERATIONS

Management believes that there are certain non-GAAP financial measures that allow management to evaluate our results, trends and ongoing performance on a comparable basis. In order to derive the adjusted financial information, we adjust certain financial statement captions and metrics prepared under U.S. GAAP for certain items affecting comparability. See *Non-GAAP Financial Measures* for further information on the certain items affecting comparability used in the preparation of the financial information. These items are referred to within this Management's Discussion and Analysis discussion as Adjusted income from operations, Adjusted interest expense, Adjusted provision for income taxes, Adjusted net income and Adjusted diluted EPS.

EXECUTIVE SUMMARY

Impact of COVID-19 on our Financial Statements

The impact of COVID-19 on our third quarter net sales performance presented both headwinds and tailwinds across the business and within the segments, requiring strong portfolio, package and channel mix management to optimize overall performance. The diversity of the Company's broad portfolio and extensive route to market network enabled it to successfully navigate these mix impacts posed by the pandemic to drive overall performance and deliver a strong third quarter compared to the prior year period.

- Coffee Systems experienced growth in K-Cup coffee pods for at-home consumption and strong double-digit growth in brewers, which more than offset the continued significant decline in away-from-home consumption due to weaknesses in the office coffee channel, as elevated work-from-home trends persisted throughout the quarter. Sales in the e-commerce channel were again very strong, as consumers continue to shift purchases to the on-line channel, including at the Keurig.com retail site.

- Packaged Beverages experienced a net benefit from strong in-market execution, driven by net sales and market share growth in the majority of the segment's beverage portfolio. Performance in large-format channels continued to be strong across multi-pack and take-home packages, and performance in the convenience and gas channels improved during the quarter, as consumer mobility increased.

- Beverage Concentrates experienced a decline due to the fountain foodservice component of the business, which services restaurants and hospitality, as a result of the impact of shutdowns and reductions in occupant capacity, which improved throughout the quarter, reflecting a modest reopening of quick-serve and other fast-casual restaurants.

- Latin America Beverages experienced a modest decline in sales volumes driven by limited consumer mobility in Mexico.

The current environment has increased operating costs, requiring us to take deliberate action. In addition to strong portfolio, package and channel mix management to optimize overall net sales performance, we maintained our strong cost discipline, which included the following:

- Reduced marketing expense, given the current COVID-19 landscape which has reduced the effectiveness and return on these marketing investments; and
- Significantly reduced all other discretionary costs, such as travel and entertainment expenses, within the business.

As a result of these items, COVID-19 is impacting our results, both positively and negatively, and should be taken into account when reviewing this *Management's Discussion and Analysis*. Refer to the section *Uncertainties and Trends Affecting our Business - COVID-19 Pandemic Disclosures* below for further information.

The following table sets forth our reconciliation of significant COVID-19-related expenses. Employee compensation expense and employee protection costs, which impact our SG&A expenses and cost of sales, are included as the COVID-19 item affecting comparability and is excluded in our Adjusted financial measures. In addition, reported amounts under U.S. GAAP also include additional costs, not included as the COVID-19 item affecting comparability, as presented in tables below.

	Items Affecting Comparability[1]				
(in millions)	Employee Compensation Expense[2]	Employee Protection Costs[3]	Allowances for Expected Credit Losses[4]	Inventory Write-Downs[5]	Total
For the third quarter of 2020:					
Coffee Systems	$ 7	$ 5	$ —	$ —	$ 12
Packaged Beverages	32	4	—	—	36
Beverage Concentrates	—	—	—	—	—
Latin America Beverages	—	1	—	—	1
Total	$ 39	$ 10	$ —	$ —	$ 49
For the first nine months of 2020:					
Coffee Systems	$ 14	$ 7	$ 2	$ 8	$ 31
Packaged Beverages	73	22	8	—	103
Beverage Concentrates	—	—	4	—	4
Latin America Beverages	—	1	—	—	1
Total	$ 87	$ 30	$ 14	$ 8	$ 139

(1) Employee compensation expense and employee protection costs are both included as the COVID-19 items affecting comparability in the reconciliation of our Adjusted Non-GAAP financial measures.
(2) Reflects temporary incremental frontline incentive pay and the associated taxes in order to maintain essential operations during the COVID-19 pandemic. Impacts both cost of sales and SG&A expenses. Beginning in mid-September 2020, we have discontinued the incremental frontline incentive pay program.
(3) Includes costs associated with personal protective equipment, temperature scans, cleaning and other sanitization services. Impacts both cost of sales and SG&A expenses.
(4) Allowances reflect the expected impact of the economic uncertainty caused by COVID-19, leveraging estimates of credit worthiness, default and recovery rates for certain of our customers. Impacts SG&A expenses.
(5) Inventory write-downs include obsolescence charges of $8 million for the first nine months of 2020. Impacts cost of sales.

Financial Overview

- Net sales increased $150 million, or 5.2%, to $3,020 million for the third quarter of 2020 compared with $2,870 million in the prior year period. This performance reflected higher volume/mix of 6.6%, partially offset by lower net price realization of 0.8% and unfavorable FX translation of 0.6%, primarily in our Latin America Beverages segment.
- Net income increased $139 million to $443 million for the third quarter of 2020 as compared to $304 million in the prior year period, reflecting strong growth in income from operations, driven primarily by the continued benefit of productivity and merger synergies, lower marketing expense and higher volume/mix, partially offset by $49 million of additional pre-tax expenses associated with COVID-19. Other favorable drivers included lower interest expense due to continued deleveraging and the impact of a lower effective tax rate, partially offset by a non-cash impairment on an equity investment.

- Adjusted net income increased $106 million to $557 million for the third quarter of 2020 as compared to Adjusted net income of $451 million in the prior year period, reflecting the continued benefit of productivity and merger synergies, lower marketing expense and volume/mix growth, which were partially offset by lower net price realization and higher manufacturing and operating costs associated with increased consumer retail demand for our products. Other drivers included lower interest expense due to continued deleveraging and the impact of a lower effective tax rate.
- Diluted EPS increased 47.6% to $0.31 per diluted share as compared to $0.21 in the prior year period.
- Adjusted diluted EPS increased 21.9% to $0.39 per diluted share as compared to Adjusted diluted EPS of $0.32 per diluted share in the prior year period.
- During the first nine months of 2020, we made net repayments of $541 million related to our commercial paper notes, KDP Revolver, 2019 KDP Term Loan and our Notes. Additionally, we repaid $290 million and added $128 million of structured payables during the first nine months of 2020.
- In July 2020, we entered into a long-term franchise agreement with Polar Beverages to manufacture and distribute Polar Seltzer sparkling seltzer waters. The manufacture and distribution of Polar Beverages products will launch in early markets in the fourth quarter of 2020 and is anticipated to reach nationwide distribution throughout our DSD network in the first half of 2021.
- Effective September 18, 2020, at market close, our common stock ceased to be listed on the New York Stock Exchange and on September 21, 2020, the following business day, our common stock began trading on Nasdaq's Global Select Market at market open. Our stock ticker remains "KDP".
- Effective October 19, 2020, we were added to the Nasdaq-100 Index.
- On October 28, 2020, we announced an agreement that will allow us to sell and distribute certain KDP brands in 18 counties in New York and New Jersey. Honickman is selling these rights to a third party and we will enter into a simultaneous transaction with the third-party to gain long-term access to these rights in exchange for the payment of an annual fee.

RESULTS OF OPERATIONS

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

References in the financial tables to percentage changes that are not meaningful are denoted by "NM". See *Uncertainties and Trends Affecting our Business - COVID-19 Pandemic Disclosures* for more information about the specific costs related to COVID-19.

Non-GAAP financial measures are provided in addition to U.S. GAAP measures. Such non-GAAP financial measures are excluded from the *Results of Operations by Segment* when there is no difference between the non-GAAP and the corresponding U.S. GAAP measure. See *Non-GAAP Financial Measures* for more information, including reconciliations to the corresponding U.S. GAAP measures.

Third Quarter of 2020 Compared to Third Quarter of 2019

Consolidated Operations

The following table sets forth our unaudited condensed consolidated results of operations for the third quarter of 2020 and 2019:

($ in millions, except per share amounts)	Third Quarter 2020	Third Quarter 2019	Dollar Change	Percentage Change
Net sales	**$ 3,020**	$ 2,870	$ 150	5.2 %
Cost of sales	**1,316**	1,245	71	5.7
Gross profit	**1,704**	1,625	79	4.9
Selling, general and administrative expenses	**949**	1,012	(63)	(6.2)
Other operating expense (income), net	**2**	33	(31)	NM
Income from operations	**753**	580	173	29.8
Interest expense	**148**	158	(10)	(6.3)
Loss on early extinguishment of debt	**—**	—	—	NM
Impairment on investments and note receivable	**16**	—	16	NM
Other expense, net	**5**	9	(4)	NM
Income before provision for income taxes	**584**	413	171	41.4
Provision for income taxes	**141**	109	32	29.4
Net income	**$ 443**	$ 304	139	45.7
Earnings per common share:				
Basic	**$ 0.31**	$ 0.22	$ 0.09	40.9 %
Diluted	**0.31**	0.21	0.10	47.6
Gross margin	**56.4%**	56.6%		(20 bps)
Operating margin	**24.9%**	20.2%		470 bps
Effective tax rate	**24.1%**	26.4%		(230 bps)

Sales Volume. The following table sets forth changes in sales volume for the third quarter of 2020 compared to the prior year period:

	Increase
K-Cup pod volume	2.4%
Brewer volume	33.7
CSD sales volume	1.4
NCB sales volume	0.1

Net Sales. Net sales increased $150 million, or 5.2%, to $3,020 million for the third quarter of 2020 compared with $2,870 million in the prior year period. This performance reflected higher volume/mix of 6.6%, partially offset by lower net price realization of 0.8% and unfavorable FX translation of 0.6%, primarily in our Latin America Beverages segment.

Gross Profit. Gross profit increased $79 million for the third quarter of 2020 compared with the prior year period. This performance primarily reflected the impact of higher volume/mix, the favorable change in commodity mark-to-market impacts and the benefit of productivity and merger synergies. These benefits were partially offset by lower net price realization, $19 million in COVID-19 charges, increases in other manufacturing costs and unfavorable FX translation. Gross margin decreased 20 bps versus the year ago period to 56.4%

Selling, General and Administrative Expenses. SG&A expenses decreased $63 million, or 6.2%, to $949 million for the third quarter of 2020 compared with $1,012 million in the prior year period. The decrease was driven by lower marketing expense, the benefit of productivity and merger synergies and reduced travel and entertainment expenses, which were partially offset by $30 million in COVID-19 charges and higher operating costs, such as logistics and labor, associated with the strong consumer demand for our products.

Other Operating Expense (Income), Net. Other operating expense (income), net had a favorable change of $31 million for the third quarter of 2020 compared with the prior year period, primarily due to integration expenses in the third quarter of 2019 related to unfavorable fair value adjustments on real estate assets.

Income from Operations. Income from operations increased $173 million to $753 million for the third quarter of 2020 compared to $580 million in the prior year period due to the increase in gross profit, lower SG&A expenses and the favorable change in other operating (income) expense, net. Operating margin increased 470 bps versus the year ago period to 24.9%.

Interest Expense. Interest expense decreased $10 million, or 6.3%, to $148 million for the third quarter of 2020 compared with $158 million in the prior year period. This change was primarily the result of the benefit of lower indebtedness due to continued deleveraging.

Impairment on Investments and Note Receivable. Impairment on investments and note receivable reflected a non-cash impairment charge of $16 million for the third quarter of 2020 associated with our LifeFuels investment. Refer to Note 4 for additional information regarding the impairment charge.

Effective Tax Rate. The effective tax rate decreased 230 bps to 24.1% for the third quarter of 2020, compared to 26.4% in the prior year period. This decrease was primarily due to a decrease in our uncertain tax positions as a result of examination settlements, slightly offset by an increase of U.S. taxation of foreign earnings in the current period.

Adjusted Results of Operations

The following table sets forth certain unaudited condensed consolidated adjusted results of operations for the third quarter of 2020 and 2019:

	Third Quarter		Dollar	Percent
(in millions, except per share amounts)	**2020**	**2019**	**Change**	**Change**
Adjusted income from operations	**$ 874**	$ 754	$ 120	15.9 %
Adjusted interest expense	**139**	145	(6)	(4.1)
Adjusted provision for income taxes	**173**	149	24	16.1
Adjusted net income	**557**	451	106	23.5
Adjusted diluted EPS	**0.39**	0.32	0.07	21.9
Adjusted operating margin	**28.9%**	26.3%		260 bps
Adjusted effective tax rate	**23.7%**	24.8%		(110 bps)

Adjusted Income from Operations. Adjusted income from operations increased $120 million, or 15.9%, to $874 million for the third quarter of 2020 as compared to Adjusted income from operations of $754 million in the prior year period. Driving this performance in the quarter were the benefit of productivity and merger synergies, lower marketing expense and volume/mix growth. These increases were partially offset by lower net price realization and higher manufacturing and operating costs associated with increased consumer demand for our products. Adjusted operating margin grew 260 bps versus the year ago period to 28.9%.

Adjusted Interest Expense. Adjusted interest expense decreased $6 million, or 4.1%, to $139 million for the third quarter of 2020 compared to Adjusted interest expense of $145 million in the prior year period. This benefit was primarily the result of lower indebtedness due to continued deleveraging.

Adjusted Effective Tax Rate. The Adjusted effective tax rate decreased 110 bps to 23.7% for the third quarter of 2020, compared to the Adjusted effective tax rate of 24.8% in the prior year period. This decrease was primarily due to a decrease in our uncertain tax positions as a result of examination settlements, slightly offset by an increase of U.S. taxation of foreign earnings in the current period.

Adjusted Net Income. Adjusted net income increased 23.5% to $557 million for the third quarter of 2020 as compared to Adjusted net income of $451 million in the prior year period. This performance was driven by the strong growth in Adjusted income from operations, a lower Adjusted effective tax rate and lower Adjusted interest expense.

Adjusted Diluted EPS. Adjusted diluted EPS increased 21.9% to $0.39 per diluted share for the third quarter of 2020 as compared to Adjusted diluted EPS of $0.32 per diluted share in the prior year period.

Results of Operations by Segment

The following tables set forth net sales and income from operations for our segments for the third quarter of 2020 and 2019, as well as the other amounts necessary to reconcile our total segment results to our consolidated results presented in accordance with U.S. GAAP:

	Third Quarter	
(in millions)	**2020**	**2019**
Segment Results — Net sales		
Coffee Systems	**$ 1,097**	$ 1,065
Packaged Beverages	**1,447**	1,307
Beverage Concentrates	**352**	360
Latin America Beverages	**124**	138
Net sales	**$ 3,020**	$ 2,870

	Third Quarter	
(in millions)	**2020**	**2019**
Segment Results — Income from Operations		
Coffee Systems	**$ 320**	$ 310
Packaged Beverages	**260**	196
Beverage Concentrates	**262**	245
Latin America Beverages	**25**	25
Unallocated corporate costs	**(114)**	(196)
Income from operations	**$ 753**	$ 580

COFFEE SYSTEMS

The following table provides selected information about our Coffee Systems segment's results:

	Third Quarter		Dollar	Percent
(in millions)	**2020**	**2019**	**Change**	**Change**
Net sales	**$ 1,097**	$ 1,065	$ 32	3.0%
Income from operations	**320**	310	10	3.2
Operating margin	**29.2%**	29.1%		10 bps
Adjusted income from operations	**$ 373**	$ 367	$ 6	1.6%
Adjusted operating margin	**34.0%**	34.5%		(50 bps)

Sales Volume. Volume growth for the Coffee Systems segment included K-Cup pod volume growth of 2.4%, reflecting continued strength in at-home consumption, which was significantly offset by ongoing softness in the away-from-home business as return to offices and hospitality remained depressed, despite increased consumer mobility. Brewer volume increased 33.7% in the quarter, as compared to 8.0% in the year ago period, reflecting successful innovation introduced over the past two years and investments to drive household penetration, as well as retailer inventory stocking ahead of the holiday season.

Net Sales. Net sales increased 3.0% to $1,097 million for the third quarter of 2020 compared to net sales of $1,065 million in the prior year period, driven by strong volume/mix growth of 6.0%, which was partially offset by lower net price realization of 2.8%, resulting from strategic price investments. Unfavorable FX translation also impacted the period by 0.2%.

Income from Operations. Income from operations increased $10 million, or 3.2%, to $320 million for the third quarter of 2020, compared to $310 million for the prior year period, driven by the continued benefit of productivity and merger synergies, which impacted both cost of sales and SG&A, an increase in sales volume, a reduction in expenses associated with productivity projects and a decrease in people costs. These impacts were partially offset by unfavorable product mix related to the strong brewer growth, strategic price investments and $12 million in COVID-19 charges. Operating margin increased 10 bps versus the year ago period to 29.2%.

Adjusted Income from Operations. Adjusted income from operations increased $6 million, or 1.6%, to $373 million for the third quarter of 2020, compared with Adjusted income from operations of $367 million for the prior year period, driven by the continued benefit of productivity and merger synergies, which impacted both SG&A and cost of sales, an increase in sales volume and decreases in people costs and marketing expense. These impacts were partially offset by unfavorable product mix related to the strong brewer growth, strategic price investments and higher manufacturing costs. Adjusted operating margin decreased 50 bps versus the year ago period to 34.0%.

PACKAGED BEVERAGES

The following table provides selected information about our Packaged Beverages segment's results:

	Third Quarter				Dollar		Percent
(in millions)	2020		2019		Change		Change
Net sales	**$**	**1,447**	$	1,307	$	140	10.7%
Income from operations		**260**		196		64	32.7
Operating margin		**18.0%**		15.0%			300 bps
Adjusted income from operations	**$**	**304**	$	201	$	103	51.2%
Adjusted operating margin		**21.0%**		15.4%			560 bps

Sales Volume. Sales volume for the third quarter of 2020 increased 8.7% due primarily to strength in CSDs, driven by the broad flavor portfolio and the strength of our DSD system, juice and juice drinks, and apple sauce, which were partially offset by lower volume in enhanced flavored water, driven by Bai, due to continued softness in convenience and gas channels, and reductions in contract manufacturing.

Net Sales. Net sales increased 10.7% to $1,447 million for the third quarter of 2020, compared with net sales of $1,307 million in the prior year period, driven by strong volume/mix growth of 11.4%, partially offset by lower net price realization of 0.7%.

Income from Operations. Income from operations increased $64 million, or 32.7%, to $260 million for the third quarter of 2020, compared with $196 million for the prior year period, reflecting higher volume/mix, the continued benefit of productivity and merger synergies and lower marketing expense. These growth drivers were partially offset by $36 million in COVID-19 charges, higher manufacturing and operating costs associated with the strong consumer demand, lower net price realization, inflation in logistics, and reserves for inventory obsolescence. Operating margin grew 300 bps versus the year ago period to 18.0%.

Adjusted Income from Operations. Adjusted income from operations increased $103 million, or 51.2%, to $304 million for the third quarter of 2020, compared with Adjusted income from operations of $201 million for the prior year period, largely driven by strong volume/mix, the continued benefit of productivity and merger synergies and lower marketing expense. These growth drivers were partially offset by higher manufacturing and operating costs associated with the strong consumer demand, lower net price realization, inflation in logistics, and reserves for inventory obsolescence. Adjusted operating margin grew 560 bps versus the year ago period to 21.0%.

BEVERAGE CONCENTRATES

The following table provides selected information about our Beverage Concentrates segment's results:

	Third Quarter				Dollar		Percent
(in millions)	2020		2019		Change		Change
Net sales	**$**	**352**	$	360	$	(8)	(2.2)%
Income from operations		**262**		245		17	6.9
Operating margin		**74.4%**		68.1%			630 bps
Adjusted income from operations	**$**	**265**	$	244	$	21	8.6 %
Adjusted operating margin		**75.3%**		67.8%			750 bps

Sales volume. Sales volume for the third quarter of 2020 decreased 3.9%, primarily reflecting the decline in our fountain foodservice component of the business, which services restaurants and hospitality, reflecting the impact of shutdowns and reductions in occupant capacity, which improved throughout the quarter.

Net Sales. Net sales decreased 2.2% to $352 million for the third quarter of 2020 compared to $360 million for the prior year period, driven by unfavorable volume/mix of 4.8% partially offset by higher net price realization of 2.6%.

Income from Operations. Income from operations increased $17 million, or 6.9%, to $262 million for the third quarter of 2020 compared to $245 million for the prior year period, driven by lower marketing expense, partially offset by the net sales decline. Operating margin grew 630 bps from versus the year ago period to 74.4%.

Adjusted Income from Operations. Adjusted income from operations increased $21 million, or 8.6%, to $265 million for the third quarter of 2020 compared with Adjusted income from operations of $244 million for the prior year period, driven by lower marketing expense, partially offset by the net sales decline. Adjusted operating margin grew 750 bps versus the year ago period to 75.3%.

LATIN AMERICA BEVERAGES

The following table provides selected information about our Latin America Beverages segment's results:

	Third Quarter		Dollar	Percent
(in millions)	**2020**	**2019**	**Change**	**Change**
Net sales	**$ 124**	$ 138	$ (14)	(10.1)%
Income from operations	**25**	25	—	—%
Operating margin	**20.2%**	18.1%		210 bps

Sales Volume. Sales volume for the third quarter of 2020 decreased 3.9% compared to the prior year period, driven by Penafiel and Aguafiel due to limited consumer mobility in Mexico, partially offset by an increase in Clamato.

Net Sales. Net sales decreased 10.1% to $124 million for the third quarter of 2020 compared to $138 million for the prior year period, driven primarily by unfavorable FX translation of 10.8%. Excluding the unfavorable impact of FX translation, net sales increased as a result of higher net price realization of 5.2% partially offset by unfavorable volume/mix of 4.5%.

Income from Operations. Income from operations remained flat at $25 million for the third quarter of 2020 compared to the prior year period, driven by higher net price realization, continued productivity, lower marketing expense and lower operating costs, completely offset by unfavorable FX effects (FX transaction and translation) and unfavorable volume/mix. Operating margin increased 210 bps versus the year ago period to 20.2%.

First Nine Months of 2020 Compared to First Nine Months of 2019

Consolidated Operations

The following table sets forth our unaudited condensed consolidated results of operations for the first nine months of 2020 and 2019:

	First Nine Months		Dollar	Percentage
($ in millions, except per share amounts)	**2020**	**2019**	**Change**	**Change**
Net sales	**$ 8,497**	$ 8,186	$ 311	3.8 %
Cost of sales	**3,779**	3,537	242	6.8
Gross profit	**4,718**	4,649	69	1.5
Selling, general and administrative expenses	**2,978**	2,951	27	0.9
Other operating expense (income), net	**(40)**	33	(73)	NM
Income from operations	**1,780**	1,665	115	6.9
Interest expense	**458**	497	(39)	(7.8)
Loss on early extinguishment of debt	**4**	9	(5)	(55.6)
Impairment on investments and note receivable	**102**	—	102	NM
Other expense, net	**21**	15	6	NM
Income before provision for income taxes	**1,195**	1,144	51	4.5
Provision for income taxes	**298**	296	2	0.7
Net income	**$ 897**	$ 848	49	5.8
Earnings per common share:				
Basic	**$ 0.64**	$ 0.60	$ 0.04	6.7 %
Diluted	**0.63**	0.60	0.03	5.0
Gross margin	**55.5%**	56.8%		(130 bps)
Operating margin	**20.9%**	20.3%		60 bps
Effective tax rate	**24.9%**	25.9%		(100 bps)

Sales volume. The following table sets forth changes in sales volume for the first nine months of 2020 compared to the prior year period:

	Increase
K-Cup pod volume	5.8%
Brewer volume	17.7
CSD sales volume	—
NCB sales volume	2.1

Net Sales. Net sales increased $311 million, or 3.8%, to $8,497 million for the first nine months of 2020 compared to $8,186 million in the prior year period. This performance reflected higher volume/mix of 5.3%, partially offset by lower net price realization of 0.9% and unfavorable foreign currency translation of 0.6%, primarily in our Latin America Beverages segment.

Gross Profit. Gross profit increased $69 million, or 1.5%, to $4,718 million for the first nine months of 2020 compared to $4,649 million in the prior year period. This performance primarily reflected the impact of higher volume/mix and the benefit of productivity and merger synergies. These benefits were partially offset by unfavorable net price realization, unfavorable FX translation, $46 million in COVID-19 charges and an increase in other manufacturing costs. Gross margin decreased 130 bps versus the year ago period to 55.5%.

Selling, General and Administrative Expenses. SG&A expenses increased $27 million, or 0.9%, to $2,978 million for the first nine months of 2020 compared to $2,951 million in the prior year period. The increase was driven by $93 million in COVID-19 charges, the unfavorable change in commodity mark-to-market impacts, expenses associated with productivity and integration projects, and higher operating costs, such as logistics and labor, associated with the strong consumer demand. These increases were partially offset by lower marketing expenses, the benefit of strong productivity and merger synergies, lower travel and entertainment expense and favorable FX translation.

Other Operating (Income) Expense, net. Other operating income, net had a favorable change of $73 million for the first nine months of 2020 compared to the prior year period, largely driven by the network optimization program gain of $42 million on the asset sale-leaseback of four facilities in the current year and the favorable comparison to integration expenses in the third quarter of 2019 related to unfavorable fair value adjustments on real estate assets.

Income from Operations. Income from operations increased $115 million, or 6.9%, to $1,780 million for the first nine months of 2020 compared to $1,665 million in the prior year period, driven by the favorable change in other operating (income) expense, net and the increase in gross profit, partially offset by the increase in SG&A expenses. Operating margin increased 60 bps versus the year ago period to 20.9%.

Interest Expense. Interest expense decreased $39 million, or 7.8%, to $458 million for the first nine months of 2020 compared to $497 million for the prior year period. This change was primarily the result of the benefit of lower indebtedness due to continued deleveraging.

Impairment on Investments and Note Receivable. Impairment on investments and note receivable reflected a non-cash impairment charge of $102 million for the first nine months of 2020 associated with our Bedford and LifeFuels investments. Refer to Note 4 for additional information regarding the impairment charges.

Effective Tax Rate. The effective tax rate decreased 100 bps to 24.9% for the first nine months of 2020, compared to 25.9% in the prior year period. This decrease primarily related to the tax benefit received in the current period due to a decrease in our uncertain tax positions as a result of examination settlements.

Net Income. Net income increased $49 million, or 5.8%, to $897 million for the first nine months of 2020 as compared to $848 million in the prior year period, driven by improved income from operations and reduced interest expense, which were partially offset by the impairment on investments and note receivable in the first nine months of 2020.

Diluted EPS. Diluted EPS increased 5.0% to $0.63 per diluted share as compared to $0.60 in the prior year period.

Adjusted Results of Operations

The following table sets forth certain unaudited condensed consolidated adjusted results of operations for the first nine months of 2020 and 2019:

	First Nine Months		Dollar	Percent
(in millions, except per share amounts)	**2020**	**2019**	**Change**	**Change**
Adjusted income from operations	**$ 2,333**	$ 2,077	$ 256	12.3
Adjusted interest expense	**404**	407	(3)	(0.7)
Adjusted provision for income taxes	**474**	419	55	13.1
Adjusted net income	**1,434**	1,236	198	16.0
Adjusted diluted EPS	**1.01**	0.87	0.14	16.1
Adjusted operating margin	**27.5%**	25.4%		210 bps
Adjusted effective tax rate	**24.8%**	25.3%		(50 bps)

Adjusted Income from Operations. Adjusted income from operations increased $256 million, or 12.3%, to $2,333 million for the first nine months of 2020 compared to Adjusted income from operations of $2,077 million in the prior year period. Driving this performance in the current period were the benefit of productivity and merger synergies, which impacted both SG&A and cost of sales, higher volume/mix, lower marketing expense, a network optimization program gain of $42 million on the asset-sale leaseback of four facilities and lower travel and entertainment expenses. Partially offsetting these positive drivers were $22 million of additional COVID-19 charges, tariffs and higher manufacturing and operating costs, such as logistics and labor, associated with the strong consumer demand. Adjusted operating margin grew 210 bps versus the year ago period to 27.5%.

Adjusted Interest Expense. Adjusted interest expense decreased $3 million, or 0.7%, to $404 million for the first nine months of 2020 compared to Adjusted interest expense of $407 million in the prior year period. This benefit was primarily driven by lower indebtedness resulting from continued deleveraging, which was partially offset by the unfavorable comparison to realized gains in the first nine months of 2019 resulting from the termination of interest rate swaps and amortization of deferred financing costs incurred since the DPS Merger.

Adjusted Effective Tax Rate. The Adjusted effective tax rate decreased by 50 bps to 24.8% for the first nine months of 2020, compared to 25.3% in the prior year period. This decrease primarily related to the tax benefit received in the current period due to a decrease in our uncertain tax positions as a result of examination settlements.

Adjusted Net Income. Adjusted net income increased 16.0% to $1,434 million for the first nine months of 2020 as compared to Adjusted net income of $1,236 million in the prior year period. This performance was driven primarily by strong growth in Adjusted income from operations.

Adjusted Diluted EPS. Adjusted diluted EPS increased 16.1% to $1.01 per diluted share as compared to Adjusted diluted EPS of $0.87 per diluted share in the prior year period.

Results of Operations by Segment

The following tables set forth net sales and income from operations for our segments for the first nine months of 2020 and 2019, 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)	First Nine Months	
Segment Results — Net sales	**2020**	**2019**
Coffee Systems	**$ 3,113**	$ 3,023
Packaged Beverages	**4,056**	3,734
Beverage Concentrates	**967**	1,034
Latin America Beverages	**361**	395
Net sales	**$ 8,497**	$ 8,186

	First Nine Months	
(in millions)	**2020**	**2019**
Segment Results — Income from Operations		
Coffee Systems	**$ 882**	$ 890
Packaged Beverages	**657**	531
Beverage Concentrates	**679**	690
Latin America Beverages	**73**	62
Unallocated corporate costs	**(511)**	(508)
Income from operations	**$ 1,780**	$ 1,665

COFFEE SYSTEMS

The following table provides selected information about our Coffee Systems segment's results:

	First Nine Months		Dollar	Percent
(in millions)	**2020**	**2019**	**Change**	**Change**
Net sales	**$ 3,113**	$ 3,023	$ 90	3.0 %
Income from operations	**882**	890	(8)	(0.9)
Operating margin	**28.3%**	29.4%		(110 bps)
Adjusted income from operations	**1,083**	1,033	50	4.8
Adjusted operating margin	**34.8%**	34.2%		60 bps

Sales Volume. Sales volume growth in the first nine months of 2020 compared to the prior year period for the Coffee Systems segment included strong K-Cup pod volume growth of 5.8%, reflecting strength in at-home consumption which was significantly offset by softness in the away-from-home business due to the pandemic. Brewer volume increased 17.7% in the first nine months of 2020, as compared to 12.7% growth in the year-ago period, reflecting successful innovation introduced over the past two years and investments to drive household penetration.

Net Sales. Net sales increased $90 million, or 3.0%, to $3,113 million for the first nine months of 2020 compared to $3,023 million for the prior year period due to volume/mix growth of 5.9%, which was partially offset by lower net price realization of 2.8%. Unfavorable FX translation also impacted the period by 0.1%.

Income from Operations. Income from operations decreased $8 million, or 0.9%, to $882 million for the first nine months of 2020, compared to $890 million in the prior year period, driven by strategic pricing, expenses associated with productivity projects, $31 million in COVID-19 charges, an increase in our litigation reserve and tariffs. These impacts were partially offset by the benefit of strong productivity and merger synergies, which impacted both cost of sales and SG&A, strong volume/mix growth, reductions in people costs, a network optimization program gain of $16 million on an asset sale-leaseback of a manufacturing facility and lower travel and entertainment expenses. Operating margin declined 110 bps versus the year ago period to 28.3%.

Adjusted Income from Operations. Adjusted income from operations increased $50 million, or 4.8%, to $1,083 million for the first nine months of 2020, compared to $1,033 million in the prior year period, driven by the continued benefit of productivity and merger synergies, which impacted both cost of sales and SG&A, strong volume/mix, reductions in people costs, a network optimization program gain of $16 million on an asset sale-leaseback of a manufacturing facility and lower travel and entertainment expenses. Partially offsetting these factors was strategic pricing, tariffs and $10 million in COVID-19 charges. Adjusted operating margin grew 60 bps versus the year ago period to 34.8%.

PACKAGED BEVERAGES

The following table provides selected information about our Packaged Beverages segment's results:

	First Nine Months		Dollar	Percent
(in millions)	2020	2019	Change	Change
Net sales	**$ 4,056**	$ 3,734	$ 322	8.6%
Income from operations	**657**	531	126	23.7
Operating margin	**16.2%**	14.2%		200 bps
Adjusted income from operations	**776**	551	225	40.8
Adjusted operating margin	**19.1%**	14.8%		430 bps

Sales Volume. Sales volume for the first nine months of 2020 increased 8.0% compared to the prior year period, reflecting the impact of COVID-19 which displayed strength in CSDs, juice and juice drinks, premium water and apple sauce, driven by heightened consumer demand the first nine months of 2020. These increases were partially offset by lower volume in enhanced flavored water, driven by Bai, due to continued softness in convenience and gas channels during the current period.

Net Sales. Net sales increased $322 million, or 8.6%, to $4,056 million for the first nine months of 2020 compared to $3,734 million for the prior year period, driven by higher volume/mix of 8.9%, partially offset by unfavorable net price realization of 0.2% and foreign currency translation of 0.1%.

Income from Operations. Income from operations increased $126 million, or 23.7%, to $657 million for the first nine months of 2020 compared to $531 million for the prior year period, driven primarily by strong volume/mix, reflecting the impact of COVID-19. Other favorable drivers included the benefit of continued productivity and merger synergies and lower marketing expense. These growth drivers were partially offset by $103 million in COVID-19 charges, higher manufacturing and operating costs, such as logistics and labor, associated with the strong consumer demand and the unfavorable comparison to a $10 million net gain on a renegotiation of a manufacturing contract in the prior year period. Operating margin grew 200 bps versus the year ago period to 16.2%.

Adjusted Income from Operations. Adjusted income from operations increased $225 million, or 40.8%, to $776 million for the first nine months of 2020 compared to $551 million for the prior year period, largely driven by strong volume/mix, reflecting the impact of COVID-19. Other favorable drivers included the benefit of continued productivity and merger synergies and lower marketing expense. These drivers were partially offset by higher manufacturing and operating costs, such as logistics and labor, associated with the strong consumer demand and the unfavorable comparison to a $10 million net gain on a renegotiation of a manufacturing contract in the prior year period. Adjusted operating margin grew 430 bps versus the year ago period to 19.1%.

BEVERAGE CONCENTRATES

The following table provides selected information about our Beverage Concentrates segment's results:

	First Nine Months		Dollar	Percent
(in millions)	2020	2019	Change	Change
Net sales	**$ 967**	$ 1,034	$ (67)	(6.5)%
Income from operations	**679**	690	(11)	(1.6)
Operating margin	**70.2%**	66.7%		350 bps
Adjusted income from operations	**684**	691	(7)	(1.0)
Adjusted operating margin	**70.7%**	66.8%		390 bps

Sales Volume. Sales volume for the first nine months of 2020 as compared to the prior year period declined 5.8%, primarily reflecting the decline in our fountain foodservice component of the business, which services restaurants and hospitality, reflecting the impact of shutdowns and reductions in occupant capacity.

Net Sales. Net sales decreased $67 million, or 6.5%, to $967 million for the first nine months of 2020 compared to $1,034 million in the prior year period, driven by unfavorable volume/mix of 6.3% partially offset by lower net price realization of 0.1% and unfavorable foreign currency translation of 0.1%.

Income from Operations. Income from operations decreased $11 million, or 1.6%, to $679 million for the first nine months of 2020 compared to $690 million in the prior year period. This performance reflected the net sales decline, partially offset by lower marketing expense and lower operating costs. Operating margin increased 350 bps versus the year ago period to 70.2%.

Adjusted Income from Operations. Adjusted income from operations decreased $7 million, or 1.0%, to $684 million for the first nine months of 2020 compared to $691 million in the prior year period. This performance reflected the net sales decline, partially offset by lower marketing expense and lower operating costs. Adjusted operating margin increased 390 bps versus the year ago period to 70.7%.

LATIN AMERICA BEVERAGES

The following table provides selected information about our Latin America Beverages segment's results:

	First Nine Months		Dollar	Percent
(in millions)	**2020**	**2019**	**Change**	**Change**
Net sales	**$ 361**	$ 395	$ (34)	(8.6)%
Income from operations	**73**	62	11	17.7
Operating margin	**20.2%**	15.7%		450 bps
Adjusted income from operations	**75**	57	18	31.6
Adjusted operating margin	**20.8%**	14.4%		640 bps

Sales Volume. Sales volume for the first nine months of 2020 as compared to the prior year period increased 1.1%, driven by Squirt.

Net Sales. Net sales decreased $34 million, or 8.6%, to $361 million for the first nine months of 2020 compared to $395 million in the prior year period, driven primarily by unfavorable FX translation of 10.9%. Excluding the unfavorable impact of FX translation, net sales increased as a result of higher net price realization of 5.7%, partially offset by unfavorable volume/mix of 3.4%.

Income from Operations. Income from operations increased $11 million, or 17.7%, to $73 million for the first nine months of 2020 compared to $62 million in the prior year period, driven by higher net price realization, continued productivity and lower marketing expense, partially offset by unfavorable FX effects (FX translation and transaction), unfavorable volume/mix, and the comparison to a real estate gain in the prior year. Operating margin increased 450 bps versus the year ago period to 20.2%.

Adjusted Income from Operations. Adjusted income from operations increased $18 million, or 31.6%, to $75 million in the first nine months of 2020 compared to $57 million in the prior year period. This performance reflected higher net price realization, continued productivity and lower marketing expense, partially offset by unfavorable FX effects (FX translation and transaction) and unfavorable volume/mix. Adjusted operating margin grew 640 bps versus the year ago period to 20.8%.

UNCERTAINTIES AND TRENDS AFFECTING OUR BUSINESS

We believe the North American beverage market is influenced by certain key trends and uncertainties. Some of these items, such as the ongoing outbreak of COVID-19, increased health consciousness and changes in consumer preferences and economic factors, have previously created and may continue in the future to create category headwinds for a number of our products. Refer to Item 1A, "Risk Factors", of our Annual Report and this Quarterly Report on Form 10-Q, combined with the *Uncertainties and Trends Affecting Liquidity* section below, for more information about risks and uncertainties facing us.

COVID-19 Pandemic Disclosures

Our first priority, always, is to keep our employees safe and healthy. We've taken extraordinary precautions to do this and to provide the support our employees and their families may need during this unprecedented time.

We continue to deliver for our customers and consumers, working hard around the clock to fulfill strong demand. We are finding innovative ways to quickly adapt to changes in shopping behaviors, with more than half of North America impacted by stay-at-home, shelter-in-place and closure of non-essential business orders.

We are also focused on providing for our communities by supporting frontline healthcare workers who are fighting this crisis day in and day out head on. We don't make masks or medical equipment at our Company, but we do make beverages and, through our *Fueling The Frontline* program, we are donating Keurig brewers, coffee and other beverages to hospitals in need, as our way to say thank you for the unwavering commitment and courage of the entire medical community.

As discussed in the *Impact of COVID-19 on our Financial Statements*, the pandemic is having offsetting impacts within our business. For example, we experienced a significant increase in demand and consumption of our products in our at-home business caused in part by changing consumer habits in response to COVID-19, contributing to increases in net sales. At the same time, we experienced declines in our away-from-home business due to office closures and the slowdown of hospitality and fountain foodservice as a result of shelter-in-place guidelines and restaurant capacity limits. In the future, the economic effects of the pandemic, including higher levels of unemployment, lower wages or a recessionary environment, may result in reduced demand for our products. It could also lead to volatility in demand due to government actions, such as shelter-in-place notices, which impact consumers' movements and access to our products.

While we believe that there will continue to be strong long-term demand for our products, the timing and extent of economic recovery, and the uncertainties in short-term demand trends, make it difficult to predict the overall effects of the pandemic on our business. We expect that there will be heightened volatility in net sales during and subsequent to the duration of the pandemic that may impact interim periods.

Our ability to continue to operate without any significant negative impacts will in part depend on our ability to protect our critical frontline employees and our supply chain. As food and agriculture is deemed part of the critical infrastructure by the Department of Homeland Security, our frontline employees have been identified as critical workers in maintaining the U.S. food and beverage supply. As a result, we have strived to follow recommended actions of government and health authorities to protect our employees, with particular measures in place for those working in our manufacturing and distribution facilities, which also includes additional incentive pay programs and benefits. We intend to continue to work with government authorities and implement our employee safety measures; however, disruptions to our supply chain, measures taken to protect employees, increased absenteeism or other local effects of the pandemic have impacted and could continue to impact our operations. For our corporate employees, participating in a remote work environment is familiar to us as we work in a multi-location environment. As such, we do not believe that the remote work environment has had any significant impact on our internal controls over financial reporting. With the health and safety of our employees remaining our top priority, we are diligently working on plans to safely bring our employees back to office locations with enhanced safety and health protocols. We do not believe these plans will impact our near-term liquidity needs.

The pandemic has not materially impacted our liquidity position. We continue to generate operating cash flows to meet our short-term liquidity needs, and we expect to maintain access to the capital markets enabled by our debt ratings. Refer to *Uncertainties and Trends Affecting Liquidity and Capital Resources* for more information.

We do not believe our operating and intangible assets are impaired as a result of COVID-19.

For additional information on risk factors that could impact our results, please refer to *Risk Factors* in Part II, Item 1A of this Form 10-Q.

CRITICAL ACCOUNTING ESTIMATES

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

LIQUIDITY AND CAPITAL RESOURCES

Overview and Our Financing Arrangements

Our financial condition and liquidity remain strong. Net cash provided by operations was $1,666 million for the first nine months of 2020 compared to $1,803 million for the prior year period. Although there is uncertainty related to the anticipated impact of the ongoing COVID-19 pandemic on our future results, we believe we are uniquely positioned, with our broad portfolio and unmatched distribution network, to successfully navigate through this pandemic, and the recent steps we have taken to strengthen our balance sheet leave us well positioned to manage our business as the crisis continues to unfold. We continue to manage all aspects of our business, including, but not limited to, monitoring the financial health of our customers, suppliers and other third-party relationships, implementing gross margin enhancement strategies and developing new opportunities for growth.

Our principal sources of liquidity are our existing cash and cash equivalents, as well as cash generated from operations and borrowing capacity currently available under our existing KDP Revolver and 2020 364-Day Credit Agreement. Additionally, we have an uncommitted commercial paper program where we can issue unsecured commercial paper notes on a private placement basis. Refer to Note 2 of the Notes to our Unaudited Condensed Consolidated Financial Statements for management's discussion of these financing arrangements.

During March 2020, as a result of market stress and a dislocation in the commercial paper market driven by the COVID-19 pandemic, we chose to repay $1,000 million of commercial paper notes with an equivalent amount of borrowings under our KDP Revolver as the costs and ability to issue commercial paper became inefficient versus borrowings under our KDP Revolver. In April 2020, we took steps to further strengthen our balance sheet by increasing excess liquidity in order to better position us to navigate the uncertainty of the COVID-19 pandemic. On April 13, 2020, we issued $1,500 million of senior unsecured notes and used the net proceeds from these senior unsecured notes to repay our KDP Revolver, effectively refinancing short-term borrowings with efficient long-term bonds to free up excess short-term liquidity. On April 14, 2020, we terminated the 2019 364-Day Credit Agreement and replaced it with the new 2020 364-Day Credit Agreement and increased total commitments under the facility from $750 million to $1,500 million. As a result of these two actions, we have increased our liquidity to a level that we believe enables us to more than meet our commitments, even in a prolonged economic downturn, as we continue to exercise financial discipline to ensure our long-term financial health. Refer to Note 2 of the Notes to our Unaudited Condensed Consolidated Financial Statements for management's discussion of these new financing arrangements.

As of September 30, 2020, we were in compliance with all debt covenants and we have no reason to believe that we will be unable to satisfy these covenants.

Cash Flows

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

The following table summarizes our cash activity for the first nine months of 2020 and 2019:

	First Nine Months	
(in millions)	**2020**	**2019**
Net cash provided by operating activities	**$ 1,666**	$ 1,803
Net cash used in investing activities	**(182)**	(216)
Net cash used in financing activities	**(1,366)**	(1,626)

NET CASH PROVIDED BY OPERATING ACTIVITIES

Net cash provided by operating activities decreased $137 million for the first nine months of 2020, as compared to the first nine months of 2019, driven by the decline in working capital and an increase in income tax payments partially offset by the increase in net income adjusted for non-cash items.

As of September 30, 2020, we had no deferred tax payments as compared to $85 million of deferred tax payments as of September 30, 2019.

Additionally, beginning in the second quarter of 2020 and continuing through the rest of the year, we have deferred payments of employer-related payroll taxes as allowed under the U.S. Coronavirus Aid, Relief and Economic Security Act, commonly known as the CARES Act. Payment of at least 50% of the deferred amount is due on December 31, 2021 with the remainder due by December 31, 2022. As of September 30, 2020, we have deferred a total of $41 million in such payments.

Cash Conversion Cycle

Our cash conversion cycle is defined as DIO and DSO less DPO. The calculation of each component of the cash conversion cycle is provided below:

Component	Calculation (on a trailing twelve month basis)
DIO	(Average inventory divided by cost of sales) * Number of days in the period
DSO	(Accounts receivable divided by net sales) * Number of days in the period
DPO	(Accounts payable * Number of days in the period) divided by cost of sales and SG&A expenses

Our cash conversion cycle declined 20 days to approximately (56) days as of September 30, 2020 as compared to (36) days in the prior year period. The change was primarily driven by an increase of 19 days in our DPO as the DPS operations had significantly shorter terms than the legacy KGM business, which have been steadily increasing as we continue to focus on our accounts payable program. DIO and DSO were relatively consistent as compared to the prior year period.

	September 30,	
	2020	2019
DIO	53	52
DSO	34	36
DPO	143	124
Cash conversion cycle	(56)	(36)

In future periods, DPO is expected to continue to have a positive impact on our cash conversion cycle as a result of our supplier terms initiative, which has set our customary terms as we integrate our legacy businesses.

Accounts Payable Program

As part of our ongoing efforts to improve our cash flow and related liquidity, we work with our suppliers to optimize our terms and conditions, which include the extension of payment terms. Excluding our suppliers who require cash at date of purchase or sale, our current payment terms with our suppliers generally range from 10 to 360 days. We also entered into an agreement with a third party administrator to allow participating suppliers to track payment obligations from us, and if voluntarily elected by the supplier, sell payment obligations from us to financial institutions. Suppliers can sell one or more of our payment obligations at their sole discretion and our rights and obligations to our suppliers are not impacted. We have no economic interest in a supplier’s decision to enter into these agreements and no direct financial relationship with the financial institutions. Our obligations to our suppliers, including amounts due and scheduled payment terms, are not impacted. We have been informed by the third party administrator that as of September 30, 2020 and December 31, 2019, $2,442 million and $2,097 million, respectively, of our outstanding payment obligations were voluntarily elected by the supplier and sold to financial institutions. The amounts settled through the program and paid to the financial institutions were $2,022 million and $1,208 million for the first nine months of 2020 and 2019, respectively.

NET CASH USED IN INVESTING ACTIVITIES

Cash used in investing activities for the first nine months of 2020 consisted primarily of purchases of property, plant and equipment of $356 million, mostly offset by proceeds of $203 million from sales of property, plant and equipment, primarily driven by our asset sale-leaseback transactions.

Cash used in investing activities for the first nine months of 2019 consisted primarily of purchases of property, plant and equipment of $208 million.

NET CASH USED IN FINANCING ACTIVITIES

Cash used in financing activities for the first nine months of 2020 consisted primarily of the net repayment of $911 million for commercial paper notes, which was primarily a result of the decision to repay commercial paper notes with an equivalent amount of borrowings under our KDP Revolver as the costs and ability to issue commercial paper became inefficient versus borrowings under our KDP Revolver. The KDP Revolver was subsequently repaid through the issuance of our 2030 Notes and 2050 Notes. Additionally, we made voluntary and mandatory repayments on the term loan facility of $880 million, repayment of the 2020 Notes of $250 million, dividend payments of $635 million and net payments on structured payables of $162 million. We also received $29 million from controlling shareholder stock transactions, which related to the disgorgement of short-swing profits pursuant to Section 16(b) of the Exchange Act.

Net cash used in financing activities for the first nine months of 2019 consisted primarily of the voluntary and mandatory repayments on the term loan facility of $873 million, repayment of the 2019 Notes of $250 million, repayments of structured payables of $432 million and dividend payments of $633 million. These cash outflows from financing activities were partially offset by net issuance of commercial paper notes of $335 million and proceeds from structured payables of $246 million.

Uncertainties and Trends Affecting Liquidity

Disruptions in financial and credit markets, including those caused by the ongoing COVID-19 pandemic, may impact our ability to manage normal commercial relationships with our customers, suppliers and creditors. These disruptions could have a negative impact on the ability of our customers to timely pay their obligations to us, thus reducing our cash flow, or the ability of our vendors to timely supply materials.

Customer and consumer demand for our products may also be impacted by all risk factors discussed under "Risk Factors" in Part 1, Item 1A of our Annual Report and in Part II, Item 1A of this Quarterly Report on Form 10-Q, as well as subsequent filings with the SEC, that could have a material effect on production, delivery and consumption of our products in the U.S., Mexico and the Caribbean or Canada, which could result in a reduction in our sales volume.

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

- Our ability to access our committed financing arrangements, including our KDP Revolver and our 2020 364-Day Credit Agreement, which have availability of $3,900 million as of October 29, 2020;
- Our ability to issue unsecured uncommitted commercial paper notes on a private placement basis up to a maximum aggregate amount outstanding at any time of $2,400 million;
- Our intention to drive significant cash flow generation to enable rapid deleveraging within three years from the DPS Merger;
- A significant downgrade in our credit ratings could limit a financial institution's willingness to participate in our accounts payable program and reduce the attractiveness of the accounts payable program to participating suppliers who may sell payment obligations from us to financial institutions, which could impact our accounts payable program;
- Our continued integration of DPS;
- Our continued capital expenditures;
- Our continued payment of dividends;
- Future mergers or acquisitions of brand ownership companies, regional bottling companies, distributors and/or distribution rights to further extend our geographic coverage;
- Future equity investments;
- Seasonality of our operating cash flows, which could impact short-term liquidity; and
- Fluctuations in our tax obligations.

Debt Ratings

As of September 30, 2020, our credit ratings were as follows:

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

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

Capital Expenditures

Capital expenditures were $356 million and $208 million for the first nine months of 2020 and 2019, respectively.

Capital expenditures for the first nine months of 2020 primarily related to our continued investment in the build-out of our Spartanburg manufacturing facility, the purchase of real estate in Ireland and build out of the facility and build-out of our Allentown manufacturing facility. Capital expenditures included in accounts payable and accrued expenses were $255 million for the first nine months of 2020, which primarily related to these investments.

Capital expenditures for the first nine months of 2019 primarily related to machinery and equipment, our continued investment in the build-out of our Spartanburg facility and information technology infrastructure. Capital expenditures included in accounts payable and accrued expenses was $236 million for the first nine months of 2019, which primarily related to our continued investment in the build-out of our Spartanburg facility.

Cash, Cash Equivalents, Restricted Cash and Restricted Cash Equivalents

Cash, cash equivalents, restricted cash and restricted cash equivalents increased $107 million from December 31, 2019 to September 30, 2020 as cash generated from our operations outpaced our voluntary repayments on our term loan facility and other financing transactions.

Our cash balances are used to fund working capital requirements, scheduled debt and interest payments, capital expenditures, income tax obligations, dividend payments and business combinations. Cash generated by our foreign operations is generally repatriated to the U.S. periodically as working capital funding requirements in those jurisdictions allow. Foreign cash balances were $89 million and $70 million as of September 30, 2020 and December 31, 2019, respectively. We accrue tax costs for repatriation, as applicable, as cash is generated in those foreign jurisdictions.

Contractual Commitments and Obligations

We enter into various contractual obligations that impact, or could impact, our liquidity. Based on our current and anticipated level of operations, we believe that our proceeds from operating cash flows combined with cash on hand and amounts available under our financing arrangements will be sufficient to meet our anticipated obligations. Refer to Note 2 of the Notes to our Unaudited Condensed Consolidated Financial Statements for payments related to our senior unsecured notes and our KDP Credit Agreements. Refer to Note 8 of the Notes to our Unaudited Condensed Consolidated Financial Statements for future minimum rental commitments.

The following table summarizes our contractual obligations and contingencies, as of September 30, 2020, that have significantly changed from the amounts disclosed in our Annual Report:

	Payments Due in Year						
(in millions)	**Total**	**2020**	**2021**	**2022**	**2023**	**2024**	**Thereafter**
Interest payments	$ 5,531	$ 264	$ 504	$ 458	$ 406	$ 349	$ 3,550
Purchase obligations[1]	1,035	372	255	122	103	97	86

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

Through September 30, 2020, 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, 2019.

OFF-BALANCE SHEET ARRANGEMENTS

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

EFFECT OF RECENT ACCOUNTING PRONOUNCEMENTS

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

SUPPLEMENTAL GUARANTOR FINANCIAL INFORMATION

The Notes are fully and unconditionally guaranteed by certain of our direct and indirect subsidiaries (the "Guarantors"), as defined in the indentures governing the Notes. The Guarantors are 100% owned either directly or indirectly by us and jointly and severally guarantee, subject to the release provisions described below, our obligations under the Notes. None of our subsidiaries organized outside of the U.S., immaterial subsidiaries used for charitable purposes, any of the subsidiaries held by Maple prior to the DPS Merger or any of the subsidiaries acquired after the DPS Merger (collectively, the "Non-Guarantors") guarantee the Notes. The subsidiary guarantees with respect to the Notes are subject to release upon the occurrence of certain events, including the sale of all or substantially all of a subsidiary's assets, the release of the subsidiary's guarantee of our other indebtedness, our exercise of the legal defeasance option with respect to the Notes and the discharge of our obligations under the applicable indenture.

The following schedules present the summarized financial information for the Parent and the Guarantors on a combined basis after intercompany eliminations; the Parent and the Guarantors' amounts due from; amounts due to, and transactions with Non-Guarantors are disclosed separately. The consolidating schedules are provided in accordance with the reporting requirements of Rule 13-01 under SEC Regulation S-X for the issuer and guarantor subsidiaries.

The summarized financial information for the Parent and Guarantors were as follows:

(in millions)	For the First Nine Months of 2020	
Net sales	$	4,996
Income from operations		498
Equity in earnings of subsidiaries, net of tax		356
Net income		897

(in millions)	September 30, 2020		December 31, 2019	
Current assets(1)	$	1,752	$	1,404
Non-current assets		43,227		43,501
Current liabilities(2)	$	4,949	$	3,942
Non-current liabilities		16,733		17,707

(1) Includes $306 million and $241 million of current intercompany receivables due to the Parent and Guarantors from the Non-Guarantors as of September 30, 2020 and December 31, 2019, respectively.

(2) Includes $28 million and $20 million of current intercompany payables due to the Non-Guarantors from the Parent and Guarantors as of September 30, 2020 and December 31, 2019, respectively.

NON-GAAP FINANCIAL MEASURES

To supplement the consolidated financial statements presented in accordance with U.S. GAAP, we have presented for the third quarter and first nine months of 2020 and 2019 (i) Adjusted income from operations, (ii) Adjusted net income and (iii) Adjusted diluted EPS, which are considered non-GAAP financial measures. The non-GAAP financial measures provided should be viewed in addition to, and not as an alternative for, results prepared in accordance with U.S. GAAP. The non-GAAP financial measures presented may differ from similarly titled non-GAAP financial measures presented by other companies, and other companies may not define these non-GAAP financial measures in the same way. The adjusted measures are not substitutes for their comparable U.S. GAAP financial measures, such as income from operations, net income, diluted EPS, or other measures prescribed by U.S. GAAP, and there are limitations to using non-GAAP financial measures.

For the third quarter and first nine months of 2020 and 2019, we define our Adjusted non-GAAP financial measures as certain financial statement captions and metrics adjusted for certain items affecting comparability. The items affecting comparability are defined below.

Items affecting comparability: Defined as certain items that are excluded for comparison to prior year periods, adjusted for the tax impact as applicable. Tax impact is determined based upon an approximate rate for each item. For each period, management adjusts for (i) the unrealized mark-to-market impact of derivative instruments not designated as hedges in accordance with U.S. GAAP and do not have an offsetting risk reflected within the financial results; (ii) the amortization associated with definite-lived intangible assets; (iii) the amortization of the deferred financing costs associated with the DPS Merger and the Keurig Acquisition; (iv) the amortization of the fair value adjustment of the senior unsecured notes obtained as a result of the DPS Merger; (v) stock compensation expense attributable to the matching awards made to employees who made an initial investment in the EOP, the 2009 Incentive Plan or the 2019 Incentive Plan; and (vi) other certain items that are excluded for comparison purposes to prior year periods.

For third quarter and first nine months of 2020, the other certain items excluded for comparison purposes include (i) restructuring and integration expenses related to significant business combinations; (ii) productivity expenses; (iii) costs related to significant nonroutine legal matters; (iv) the loss on early extinguishment of debt related to the redemption of debt; (v) incremental temporary costs to our operations related to risks associated with the COVID-19 pandemic; and (vi) impairment recognized on equity method investments with Bedford and LifeFuels.

Incremental costs to our operations related to risks associated with the COVID-19 pandemic include incremental expenses incurred to either maintain the health and safety of our front-line employees or temporarily increase compensation to such employees to ensure essential operations continue during the pandemic. We believe removing these costs reflects how management views our business results on a consistent basis. See *Impact of COVID-19 on our Financial Statements* for further information.

For the third quarter and first nine months of 2019, the other certain items excluded for comparison purposes include (i) restructuring and integration expenses related to significant business combinations; (ii) productivity expenses; (iii) transaction costs for significant business combinations (completed or abandoned) excluding the DPS Merger; (iv) costs related to significant nonroutine legal matters; (v) the impact of the step-up of acquired inventory not associated with the DPS Merger; (vi) the loss on early extinguishment of debt related to the redemption of debt and (vii) the loss related to the February 2019 organized malware attack on our business operation networks in the Coffee Systems segment.

For the third quarter and first nine months of 2020 and 2019, the supplemental financial data set forth below includes reconciliations of Adjusted income from operations, Adjusted net income and Adjusted diluted EPS to the applicable financial measure presented in the unaudited condensed consolidated financial statement for the same period.

KEURIG DR PEPPER INC.
RECONCILIATION OF CERTAIN REPORTED ITEMS TO CERTAIN NON-GAAP ADJUSTED ITEMS
For the Third Quarter of 2020
(Unaudited, in millions, except per share data)

	Cost of sales	Gross profit	Gross margin	Selling, general and administrative expenses	Income from operations	Operating margin
Reported	$ 1,316	$ 1,704	56.4%	$ 949	$ 753	24.9%
Items Affecting Comparability:						
Mark to market	46	(46)		(1)	(45)	
Amortization of intangibles	—	—		(34)	34	
Stock compensation	—	—		(6)	6	
Restructuring and integration costs	—	—		(39)	39	
Productivity	(10)	10		(20)	30	
Nonroutine legal matters	—	—		(8)	8	
COVID-19	(19)	19		(30)	49	
Adjusted GAAP	$ 1,333	$ 1,687	55.9%	$ 811	$ 874	28.9%

	Interest expense	Impairment on investments and note receivable	Income before provision for income taxes	Provision for income taxes	Effective tax rate	Net income	Weighted Average Diluted shares	Diluted earnings per share
Reported	$ 148	$ 16	$ 584	$ 141	24.1%	$ 443	1,422.9	$ 0.31
Items Affecting Comparability:								
Mark to market	(1)	—	(44)	(13)		(31)		(0.02)
Amortization of intangibles	—		34	9		25		0.02
Amortization of deferred financing costs	(2)	—	2	1		1		—
Amortization of fair value debt adjustment	(6)	—	6	1		5		—
Stock compensation	—	—	6	1		5		—
Restructuring and integration costs	—	—	39	8		31		0.02
Productivity	—	—	30	8		22		0.02
Investment Impairment	—	(16)	16	4		12		0.01
Nonroutine legal matters	—	—	8	1		7		—
COVID-19	—	—	49	12		37		0.03
Adjusted GAAP	$ 139	$ —	$ 730	$ 173	23.7%	$ 557	1,422.9	$ 0.39

Diluted earnings per common share may not foot due to rounding.

KEURIG DR PEPPER INC.
RECONCILIATION OF CERTAIN REPORTED ITEMS TO CERTAIN NON-GAAP ADJUSTED ITEMS
For the Third Quarter of 2019
(Unaudited, in millions, except per share data)

	Cost of sales	Gross profit	Gross margin	Selling, general and administrative expenses	Other operating expense (income), net	Income from operations	Operating margin
Reported	$ 1,245	$ 1,625	56.6%	$ 1,012	$ 33	$ 580	20.2%
Items Affecting Comparability:							
Mark to market	(5)	5		(4)	—	9	
Amortization of intangibles	—	—		(31)	—	31	
Stock compensation	—	—		(3)	—	3	
Restructuring and integration costs	1	(1)		(54)	(24)	77	
Productivity	(10)	10		(12)	(13)	35	
Transaction costs	—	—		(7)	—	7	
Nonroutine legal matters	—	—		(12)	—	12	
Adjusted GAAP	$ 1,231	$ 1,639	57.1%	$ 889	$ (4)	$ 754	26.3%

	Interest expense	Income before provision for income taxes	Provision for income taxes	Effective tax rate	Net income	Weighted Average Diluted shares	Diluted earnings per share
Reported	$ 158	$ 413	$ 109	26.4%	$ 304	1,419.4	$ 0.21
Items Affecting Comparability:							
Mark to market	1	8	—		8		0.01
Amortization of intangibles	—	31	9		22		0.02
Amortization of deferred financing costs	(3)	3	1		2		—
Amortization of fair value debt adjustment	(7)	7	3		4		—
Stock compensation	—	3	—		3		—
Restructuring and integration costs	—	77	13		64		0.04
Productivity	—	35	8		27		0.02
Transaction costs	(4)	11	3		8		0.01
Nonroutine legal matters	—	12	3		9		0.01
Adjusted GAAP	$ 145	$ 600	$ 149	24.8%	$ 451	1,419.4	$ 0.32

Diluted earnings per common share may not foot due to rounding.

KEURIG DR PEPPER INC.
RECONCILIATION OF CERTAIN REPORTED ITEMS TO CERTAIN NON-GAAP ADJUSTED ITEMS
For the First Nine Months of 2020
(Unaudited, in millions, except per share data)

	Cost of sales	Gross profit	Gross margin	Selling, general and administrative expenses	Income from operations	Operating margin
Reported	$ 3,779	$ 4,718	55.5%	$ 2,978	$ 1,780	20.9%
Items Affecting Comparability:						
Mark to market	2	(2)		(28)	26	
Amortization of intangibles	—	—		(100)	100	
Stock compensation	—	—		(21)	21	
Restructuring and integration costs	—	—		(143)	143	
Productivity	(28)	28		(75)	103	
Nonroutine legal matters	—	—		(43)	43	
COVID-19	(38)	38		(79)	117	
Adjusted GAAP	$ 3,715	$ 4,782	56.3%	$ 2,489	$ 2,333	27.5%

	Interest expense	Loss on early extinguishment of debt	Impairment on investments and note receivable	Income before provision for income taxes	Provision for income taxes	Effective tax rate	Net income	Weighted Average Diluted shares	Diluted earnings per share
Reported	$ 458	$ 4	$ 102	$ 1,195	$ 298	24.9%	$ 897	1,421.5	$ 0.63
Items Affecting Comparability:									
Mark to market	(28)	—	—	54	13		41		0.03
Amortization of intangibles	—	—	—	100	27		73		0.05
Amortization of deferred financing costs	(8)	—	—	8	2		6		—
Amortization of fair value debt adjustment	(18)	—	—	18	4		14		0.01
Stock compensation	—	—	—	21	4		17		0.01
Restructuring and integration costs	—	—	—	143	34		109		0.08
Productivity	—	—	—	103	27		76		0.05
Loss on early extinguishment of debt	—	(4)	—	4	1		3		—
Investment impairment	—	—	(102)	102	25		77		0.05
Nonroutine legal matters	—	—	—	43	10		33		0.02
COVID-19	—	—	—	117	29		88		0.06
Adjusted GAAP	$ 404	$ —	$ —	$ 1,908	$ 474	24.8%	$ 1,434	1,421.5	$ 1.01

Diluted earnings per common share may not foot due to rounding.

KEURIG DR PEPPER INC.
RECONCILIATION OF CERTAIN REPORTED ITEMS TO CERTAIN NON-GAAP ADJUSTED ITEMS
For the First Nine Months of 2019
(Unaudited, in millions, except per share data)

	Cost of sales	Gross profit	Gross margin	Selling, general and administrative expenses	Other operating expense (income), net	Income from operations	Operating margin
Reported	$ 3,537	$ 4,649	56.8%	$ 2,951	$ 33	$ 1,665	20.3%
Items Affecting Comparability:							
Mark to market	(6)	6		5	—	1	
Amortization of intangibles	—	—		(94)	—	94	
Stock compensation	—	—		(18)	—	18	
Restructuring and integration costs	(1)	1		(151)	(24)	176	
Productivity	(14)	14		(41)	(22)	77	
Transaction costs	—	—		(8)	—	8	
Nonroutine legal matters	—	—		(27)	—	27	
Inventory step-up	(3)	3		—	—	3	
Malware incident	(2)	2		(6)	—	8	
Adjusted GAAP	$ 3,511	$ 4,675	57.1%	$ 2,611	$ (13)	$ 2,077	25.4%

	Interest expense	Loss on early extinguishment of debt	Income before provision for income taxes	Provision for income taxes	Effective tax rate	Net income	Weighted Average Diluted shares	Diluted earnings per share
Reported	$ 497	$ 9	$ 1,144	$ 296	25.9%	$ 848	1,418.8	$ 0.60
Items Affecting Comparability:								
Mark to market	(44)	—	45	11		34		0.02
Amortization of intangibles	—	—	94	26		68		0.05
Amortization of deferred financing costs	(10)	—	10	3		7		0.01
Amortization of fair value debt adjustment	(20)	—	20	5		15		0.01
Stock compensation	—	—	18	4		14		0.01
Restructuring and integration costs	—	—	176	39		137		0.10
Productivity	—	—	77	17		60		0.04
Transaction costs	(16)	—	24	6		18		0.01
Loss on early extinguishment of debt	—	(9)	9	2		7		—
Nonroutine legal matters	—	—	27	7		20		0.01
Inventory step-up	—	—	3	1		2		—
Malware incident	—	—	8	2		6		—
Adjusted GAAP	$ 407	$ —	$ 1,655	$ 419	25.3%	$ 1,236	1,418.8	$ 0.87

Diluted earnings per common share may not foot due to rounding.

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KEURIG DR PEPPER INC.
RECONCILIATION OF SEGMENT ITEMS TO CERTAIN NON-GAAP ADJUSTED SEGMENT ITEMS
(Unaudited)

(in millions)	Reported	Items Affecting Comparability	Adjusted GAAP
For the third quarter of 2020:			
Income from Operations			
Coffee Systems	$ 320	$ 53	$ 373
Packaged Beverages	260	44	304
Beverage Concentrates	262	3	265
Latin America Beverages	25	—	25
Unallocated corporate costs	(114)	21	(93)
Total income from operations	$ 753	$ 121	$ 874
For the third quarter of 2019:			
Income from Operations			
Coffee Systems	$ 310	$ 57	$ 367
Packaged Beverages	196	5	201
Beverage Concentrates	245	(1)	244
Latin America Beverages	25	—	25
Unallocated corporate costs	(196)	113	(83)
Total income from operations	$ 580	$ 174	$ 754

KEURIG DR PEPPER INC.
RECONCILIATION OF SEGMENT ITEMS TO CERTAIN NON-GAAP ADJUSTED SEGMENT ITEMS
(Unaudited)

(in millions)	Reported	Items Affecting Comparability	Adjusted GAAP
For the first nine months of 2020:			
Income from Operations			
Coffee Systems	$ 882	$ 201	$ 1,083
Packaged Beverages	657	119	776
Beverage Concentrates	679	5	684
Latin America Beverages	73	2	75
Unallocated corporate costs	(511)	226	(285)
Total income from operations	$ 1,780	$ 553	$ 2,333
For the first nine months of 2019:			
Income from Operations			
Coffee Systems	$ 890	$ 143	$ 1,033
Packaged Beverages	531	20	551
Beverage Concentrates	690	1	691
Latin America Beverages	62	(5)	57
Unallocated corporate costs	(508)	253	(255)
Total income from operations	$ 1,665	$ 412	$ 2,077

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

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

FOREIGN EXCHANGE RISK

The majority of our net sales, expenses and capital purchases are transacted in U.S. dollars. However, we have exposure with respect to foreign exchange rate fluctuations. Our primary exposure to foreign exchange rates is the Canadian dollar and Mexican peso against the U.S. dollar. Exchange rate gains or losses related to foreign currency transactions are recognized as transaction gains or losses in our income statement as incurred. As of September 30, 2020, the impact to our income from operations of a 10% change (up or down) in exchange rates is estimated to be an increase or decrease of approximately $37 million on an annual basis.

We use derivative instruments such as foreign exchange forward contracts to manage a portion of our exposure to changes in foreign exchange rates. As of September 30, 2020, we had derivative contracts outstanding with a notional value of $794 million maturing at various dates through September 25, 2024.

INTEREST RATE RISK

We centrally manage our debt portfolio through the use of interest rate swaps and monitor our mix of fixed-rate and variable-rate debt. As of September 30, 2020, the carrying value of our fixed-rate debt, excluding lease obligations, was $13,057 million and our variable-rate debt was $832 million, inclusive of commercial paper.

Additionally, as of September 30, 2020, the total notional value of receive-variable, pay-fixed interest rate swaps was $450 million.

The following table is an estimate of the impact to our interest rate expense based upon our variable rate debt and derivative instruments that could result from hypothetical interest rate changes during the term of the financial instruments, based on debt levels as of September 30, 2020:

Hypothetical Change in Interest Rates[(1)]	Annual Impact to Interest Expense
1-percent decrease	$4 million decrease
1-percent increase	$4 million increase

(1) We pay an average floating rate, which fluctuates periodically, based on LIBOR and a credit spread, as a result of variable rate debt instruments. See Notes 2 and 7 of the Notes to our Unaudited Condensed Consolidated Financial Statements for further information.

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, natural gas (for use in processing and packaging), resin, PET, corn (for high fructose corn syrup), pulp, coffee beans, diesel fuel, apple juice concentrate, apples and sucrose.

We utilize commodities derivative instruments and supplier pricing agreements to hedge the risk of adverse movements in commodity prices for limited time periods for certain commodities. As of September 30, 2020, we had derivative contracts outstanding with a notional value of $497 million maturing at various dates through January 1, 2023. The fair market value of these contracts as of September 30, 2020 was a net liability of $6 million.

As of September 30, 2020, the impact of a 10% change (up or down) in market prices for these commodities where the risk of adverse movements has not been hedged is estimated to have a $1 million impact to our income from operations for the remainder of the year ending December 31, 2020.

ITEM 4. Controls and Procedures

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

Based on evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) of the Exchange Act) our management, including our Chief Executive Officer and Chief Financial Officer, has concluded that, as of September 30, 2020, our disclosure controls and procedures are effective to (i) provide reasonable assurance that information required to be disclosed in the Exchange Act filings is recorded, processed, summarized and reported within the time periods specified by the SEC's rules and forms, and (ii) ensure that information required to be disclosed by us in the reports we file or submit under the Exchange Act are accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

No change in our internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) occurred during the quarter ended September 30, 2020 that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1. Legal Proceedings

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

See Note 14 of the Notes to our Unaudited Condensed Consolidated Financial Statements for more information related to commitments and contingencies, which is incorporated herein by reference.

BODYARMOR LITIGATION

In March 2019, ABC, a subsidiary of KDP, filed suit against BodyArmor and Mike Repole in the Superior Court for the State of Delaware. The complaint asserts claims for breach of contract and promissory estoppel against BodyArmor and asserts a claim for tortious interference against Mr. Repole, in each case in connection with BodyArmor's attempted early termination of the distribution contract between BodyArmor and ABC. The complaint seeks monetary damages, attorneys' fees and costs. ABC intends to vigorously prosecute the action. The court has rejected BodyArmor's motion to dismiss our lawsuit. In June 2020, The Coca-Cola Company was added as a defendant to the suit. We are unable to predict the outcome of the lawsuit, the potential recovery, if any, associated with the resolution of the lawsuit or any potential effect it may have on us or our operations.

There have been no other material changes that we are aware of from the legal proceedings set forth in Item 3 of our Annual Report.

ITEM 1A. Risk Factors

We no longer meet the requirements to be a "controlled company" within the meaning of the rules of Nasdaq and the rules of the SEC. However, even though we will no longer be a "controlled company," we will continue to qualify for, and may rely upon, exemptions from certain corporate governance requirements that would otherwise provide protection to stockholders of other companies during a one-year transition period.

On August 19, 2020, Maple Holdings B.V., an affiliate of JAB, completed the sale of 45 million shares of KDP stock in a public secondary offering. On September 8, 2020, JAB distributed an additional 76 million shares of KDP stock to its minority partners. As a result of these transactions, JAB and its affiliates now own 44.1% of KDP's common stock, and we are no longer a "controlled company" as defined in the Nasdaq rules. However, even though we will no longer be a "controlled company," we will continue to qualify for, and may rely on, exemptions from certain corporate governance requirements that would otherwise provide protection to stockholders of other companies during a one-year transition period. The Nasdaq rules require that we:

- have a board of directors that is composed of a majority of "independent directors," as defined under the rules of such exchange, by August 19, 2021;
- have a compensation committee that:
  - includes one independent director on August 19, 2020,
  - consists of a majority of independent directors by November 17, 2020, and
  - consists entirely of independent directors by August 19, 2021; and
- have a nominating committee that:
  - includes one independent director on August 19, 2020,
  - consists of a majority of independent directors by November 17, 2020, and
  - consists entirely of independent directors by August 19, 2021.

During these transition periods, we may continue to utilize the available exemptions from certain corporate governance requirements that would otherwise provide protection to stockholders of other companies, as permitted by the Nasdaq rules. If we fail to meet the above deadlines for these requirements, our common stock could be delisted from Nasdaq, which would negatively impact the trading of our common shares and our business and financial condition.

Widespread health developments and economic uncertainty resulting from the ongoing global COVID-19 pandemic, could materially and adversely affect our business, financial condition and results of operations.

Our business has been, and may continue to be, impacted by the fear of exposure to, or actual effects of the, ongoing COVID-19 pandemic in countries where we operate or our customers and suppliers are located, such as recommendations or mandates from governmental authorities to close businesses, limit travel, avoid large gatherings or to self-quarantine, as well as temporary closures or decreased operations of the facilities of our customers, distributors or suppliers. These impacts include, but are not limited to:

- Significant reductions in demand or significant volatility in demand for one or more of our products, as a result of, among other things: the temporary inability of consumers to purchase our products due to illness, quarantine or other restrictions, store closures, or financial hardship, shifts in demand away from one or more of our higher priced products to lower priced products, or stockpiling or similar activity, reduced options for marketing and promotion of products or other restrictions in connection with the COVID-19 pandemic; if prolonged, such impacts can further increase the difficulty of operating our business, including accurately planning and forecasting;
- Inability to meet our consumers' and customers' needs and achieve cost targets due to disruptions in our manufacturing and supply arrangements caused by the loss or disruption of essential manufacturing and supply elements, such as raw materials or purchased finished goods, logistics, reduction or loss of workforce due to the insufficiency or failure of our safety protocols, or other manufacturing and distribution capability;
- Failure of third parties, including those located in international locations, on which we rely, including our suppliers, bottlers, distributors, contract manufacturers, third-party service providers, contractors, commercial banks and external business partners, to meet their obligations to us or to timely meet those obligations, or significant disruptions in their ability to do so, which may be caused by their own financial or operational difficulties; or
- Significant changes in the conditions in markets in which we manufacture, sell or distribute our products, including quarantines, governmental or regulatory actions, closures or other restrictions that limit or close our operating and manufacturing facilities, restrict our employees' ability to perform necessary business functions, restrict or prevent consumers from having access to our products, or otherwise prevent our third-party bottlers, distributors, partners, suppliers, or customers from sufficiently staffing operations, including operations necessary for the production, distribution, sale, and support of our products.

All of these impacts could place limitations on our ability to execute on our business plan and materially and adversely affect our business, financial condition and results of operations. We continue to monitor the situation, have actively implemented policies and procedures to address the situation, and as the pandemic continues to further unfold, we may adjust our current policies and procedures as regulations are implemented or more information and guidance become available. The impact of COVID-19 may also exacerbate other risks discussed in Item 1A of our Annual Report, any of which could have a material effect on us. This situation is changing rapidly and additional impacts may arise that we are not aware of currently.

There have been no other material changes that we are aware of from the risk factors set forth in Item 1A of our Annual Report.

ITEM 6. Exhibits

2.1	Agreement and Plan of Merger, dated as of November 21, 2016, by and among Bai Brands LLC, Dr Pepper Snapple Group, Inc., Superfruit Merger Sub, LLC and Fortis Advisors LLC, (filed as Exhibit 2.1 to the Company's Current Report on Form 8-K (filed on November 23, 2016) and incorporated herein by reference).
2.2	Amendment No. 1, dated as of January 31, 2017, to the Agreement and Plan of Merger, dated as of November 21, 2016, by and among Bai Brands LLC, Dr Pepper Snapple Group, Inc., Superfruit Merger Sub, LLC and Fortis Advisors LLC, (filed as Exhibit 2.2 to the Company's Current Report on Form 8-K (filed on January 31, 2017) and incorporated herein by reference).
3.1	Amended and Restated Certificate of Incorporation of Dr Pepper Snapple Group, Inc. (filed as Exhibit 3.1 to the Company's Current Report on Form 8-K (filed on May 12, 2008) and incorporated herein by reference).
3.2	Certificate of Amendment to Amended and Restated Certificate of Incorporation of Dr Pepper Snapple Group, Inc. effective as of May 17, 2012 (filed as Exhibit 3.2 to the Company's Quarterly Report on Form 10-Q (filed July 26, 2012) and incorporated herein by reference).
3.3	Certificate of Second Amendment to Amended and Restated Certificate of Incorporation of Dr Pepper Snapple Group, Inc. effective as of May 19, 2016 (filed as Exhibit 3.1 to the Company's Current Report on Form 8-K (filed May 20, 2016) and incorporated herein by reference).
3.4	Certificate of Third Amendment to the Amended and Restated Certificate of Incorporation of Dr Pepper Snapple Group, Inc. effective as of July 9, 2018 (filed as Exhibit 3.1 to the Company's Current Report on Form 8-K (filed July 9, 2018) and incorporate herein by reference).
3.5	Amended and Restated By-Laws of Keurig Dr Pepper Inc. effective as of July 9, 2018 (filed as Exhibit 3.2 to the Company's Current Report on Form 8-K (filed July 9, 2018) and incorporated herein by reference.
4.1	Indenture, dated April 30, 2008, between Dr Pepper Snapple Group, Inc. and Wells Fargo Bank, N.A. (filed as Exhibit 4.1 to the Company's Current Report on Form 8-K (filed on May 1, 2008) and incorporated herein by reference).
4.2	Form of 7.45% Senior Notes due 2038 (filed as Exhibit 4.4 to the Company's Current Report on Form 8-K (filed on May 1, 2008) and incorporated herein by reference).
4.3	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).
4.4	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).
4.5	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).
4.6	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).
4.7	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).
4.8	Fourth Supplemental Indenture, dated as of January 31, 2017, among Bai Brands LLC, a New Jersey limited liability company, 184 Innovations Inc., a Delaware corporation (each as a new subsidiary guarantors under the Indenture dated April 30, 2008 (as referenced in Item 4.1 in this Exhibit Index), Dr Pepper Snapple Group, Inc., each other then-existing Guarantor under the Indenture and Wells Fargo, National Bank, N.A., as trustee (filed as Exhibit 4.1 to the Company's Current Report on Form 8-K (filed February 2, 2017) and incorporated herein by reference).
4.9	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).
4.10	Second Supplemental Indenture, dated as of January 11, 2011, among Dr Pepper Snapple Group, Inc., the guarantors party thereto and Wells Fargo Bank, N.A., as trustee (filed as Exhibit 4.1 to the Company's Current Report on Form 8-K (filed on January 11, 2011) and incorporated herein by reference).
4.11	Third Supplemental Indenture, dated as of November 15, 2011, among Dr Pepper Snapple Group, Inc., the guarantors party thereto and Wells Fargo Bank, N.A., as trustee (filed as Exhibit 4.1 to the Company's Current Report on Form 8-K (filed on November 15, 2011) and incorporated herein by reference).
4.12	3.20% Senior Note due 2021 (in global form), dated November 15, 2011, in the principal amount of $250 million (filed as Exhibit 4.3 to the Company's Current Report on Form 8-K (filed on November 15, 2011) and incorporated herein by reference).
4.13	Fourth Supplemental Indenture, dated as of November 20, 2012, among Dr Pepper Snapple Group, Inc., the guarantors party thereto and Wells Fargo Bank, N.A., as trustee (filed as Exhibit 4.13 to the Company's Quarterly Report on Form 10-Q (filed on July 30, 2020) and incorporated herein by reference).

4.14	2.00% Senior Note due 2020 (in global form), dated November 20, 2012, in the principal amount of $250 million (filed as Exhibit 4.2 to the Company's Current Report on Form 8-K (filed on November 20, 2012) and incorporated herein by reference).
4.15	2.70% Senior Note due 2022 (in global form), dated November 20, 2012, in the principal amount of $250 million (filed as Exhibit 4.3 to the Company's Current Report on Form 8-K (filed on November 20, 2012) and incorporated herein by reference).
4.16	Fifth Supplemental Indenture, dated as of November 9, 2015, among Dr Pepper Snapple Group, Inc., the guarantors party thereto and Wells Fargo Bank, N.A., as trustee (filed as Exhibit 4.1 to the Company's Current Report on Form 8-K (filed on November 10, 2015) and incorporated herein by reference).
4.17	3.40% Senior Note due 2025 (in global form), dated November 9, 2015, in the principal amount of $500,000,000 (filed as Exhibit 4.2 to the Company's Current Report on Form 8-K (filed on November 10, 2015) and incorporated herein by reference).
4.18	4.50% Senior Note due 2045 (in global form), dated November 9, 2015, in the principal amount of $250,000,000 (filed as Exhibit 4.3 to the Company's Current Report on Form 8-K (filed on November 10, 2015) and incorporated herein by reference).
4.19	Sixth Supplemental Indenture, dated as of September 16, 2016, among Dr Pepper Snapple Group, Inc., the guarantors party thereto and Wells Fargo Bank, N.A., as trustee (filed as Exhibit 4.1 to the Company's Current Report on Form 8-K (filed on September 16, 2016) and incorporated herein by reference).
4.20	2.55% Senior Note due 2026 (in global form), dated September 16, 2016, in the principal amount of $400,000,000 (filed as Exhibit 4.2 to the Company's Current Report on Form 8-K (filed on September 16, 2016) and incorporated herein by reference).
4.21	Seventh Supplemental Indenture, dated as of December 14, 2016, among Dr Pepper Snapple Group, Inc., the guarantors party thereto and Wells Fargo Bank, N.A., as trustee (filed as Exhibit 4.1 to the Company's Current Report on Form 8-K (filed on December 14, 2016) and incorporated herein by reference).
4.22	2.53% Senior Note due 2021 (in global form), dated December 14, 2016, in the principal amount of $250,000,000 (filed as Exhibit 4.2 to the Company's Current Report on Form 8-K (filed on December 14, 2016) and incorporated herein by reference).
4.23	3.13% Senior Note due 2023 (in global form), dated December 14, 2016, in the principal amount of $500,000,000 (filed as Exhibit 4.3 to the Company's Current Report on Form 8-K (filed on December 14, 2016) and incorporated herein by reference).
4.24	3.43% Senior Note due 2027 (in global form), dated December 14, 2016, in the principal amount of $400,000,000 (filed as Exhibit 4.4 to the Company's Current Report on Form 8-K (filed on December 14, 2016) and incorporated herein by reference).
4.25	4.42% Senior Note due 2046 (in global form), dated December 14, 2016, in the principal amount of $400,000,000 (filed as Exhibit 4.5 to the Company's Current Report on Form 8-K (filed on December 14, 2016) and incorporated herein by reference).
4.26	Eighth Supplemental Indenture, dated as of January 31, 2017, among Bai Brands LLC, a New Jersey limited liability company, 184 Innovations Inc., a Delaware corporation (each as a new subsidiary guarantor under the Indenture dated April 30, 2008 (as referenced in Item 4.1 in this Exhibit Index), Dr Pepper Snapple Group, Inc., each other then-existing Guarantor under the Indenture) and Wells Fargo, National Bank, N.A., as trustee (filed as Exhibit 4.2 to the Company's Current Report on Form 8-K (filed on February 2, 2017) and incorporated herein by reference).
4.27	Ninth Supplemental Indenture, dated as of June 15, 2017, among Dr Pepper Snapple Group, Inc., the guarantors party thereto, and Wells Fargo Bank, N.A., as trustee (filed as Exhibit 4.1 to the Company's Current Report on Form 8-K (filed on June 15, 2017) and incorporated herein by reference).
4.28	Investor Rights Agreement by and among Keurig Dr Pepper Inc. and The Holders Listed on Schedule A thereto, dated as of July 9, 2018 (filed as Exhibit 4.1 to the Company's Current Report on Form 8-K (filed on July 9, 2018) and incorporated herein by reference).
4.29	Base Indenture, dated as of May 25, 2018 between Maple Escrow Subsidiary 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 July 9, 2018) and incorporated herein by reference).
4.30	First Supplemental Indenture (including the form of note), dated as of May 25, 2018, among Maple Escrow Subsidiary, Inc. and Maple Parent Holdings Corp. as parent guarantor, and Wells Fargo Bank, N.A., as trustee relating to the 2021 Notes (filed as Exhibit 4.2 to the Company's Current Report on Form 8-K (filed on July 9, 2018) and incorporated herein by reference).
4.31	Second Supplemental Indenture (including the form of note), dated as of May 25, 2018, among Maple Escrow Subsidiary, Inc. and Maple Parent Holdings Corp. as parent guarantor, and Wells Fargo Bank, N.A., as trustee relating to the 2023 Notes (filed as Exhibit 4.3 to the Company's Current Report on Form 8-K (filed on July 9, 2018) and incorporated herein by reference).
4.32	Third Supplemental Indenture (including the form of note), dated as of May 25, 2018, among Maple Escrow Subsidiary, Inc. and Maple Parent Holdings Corp. as parent guarantor, and Wells Fargo Bank, N.A., as trustee relating to the 2025 Notes (filed as Exhibit 4.4 to the Company's Current Report on Form 8-K (filed on July 9, 2018) and incorporated herein by reference).
4.33	Fourth Supplemental Indenture (including the form of note), dated as of May 25, 2018, among Maple Escrow Subsidiary, Inc. and Maple Parent Holdings Corp. as parent guarantor, and Wells Fargo Bank, N.A., as trustee relating to the 2028 Notes (filed as Exhibit 4.5 to the Company's Current Report on Form 8-K (filed on July 9, 2018) and incorporated herein by reference).

4.34	Fifth Supplemental Indenture (including the form of note), dated as of May 25, 2018, among Maple Escrow Subsidiary, Inc. and Maple Parent Holdings Corp. as parent guarantor, and Wells Fargo Bank, N.A., as trustee relating to the 2038 Notes (filed as Exhibit 4.6 to the Company's Current Report on Form 8-K (filed on July 9, 2018) and incorporated herein by reference).
4.35	Sixth Supplemental Indenture (including the form of note), dated as of May 25, 2018, among Maple Escrow Subsidiary, Inc. and Maple Parent Holdings Corp. as parent guarantor, and Wells Fargo Bank, N.A., as trustee relating to the 2048 Notes (filed as Exhibit 4.7 to the Company's Current Report on Form 8-K (filed on July 9, 2018) and incorporated herein by reference).
4.36	Seventh Supplemental Indenture, dated as of July 9, 2018, among Keurig Dr Pepper Inc., the subsidiary guarantors thereto, and Wells Fargo Bank, N.A., as trustee (filed as Exhibit 4.8 to the Company's Current Report on Form 8-K (filed on July 9, 2018) and incorporated herein by reference).
4.37	Registration Rights Agreement, dated as of May 25, 2018, among Maple Escrow Subsidiary, Inc. and J.P. Morgan Securities LLC, Merrill Lynch, Pierce, Fenner & Smith Incorporated, Goldman Sachs & Co. LLC and Citigroup Global Markets Inc., as representative of the several purchasers of the Notes (filed as Exhibit 4.9 to the Company's Current Report on Form 8-K (filed on July 9, 2018) and incorporated herein by reference).
4.38	Joinder to the Registration Rights Agreement, dated as of May 25, 2018, among Maple Escrow Subsidiary, Inc. and J.P. Morgan Securities LLC, Merrill Lynch, Pierce, Fenner & Smith Incorporated, Goldman Sachs & Co. LLC and Citigroup Global Markets Inc., as representative of the several purchasers of the Notes (filed as Exhibit 4.10 to the Company's Current Report on Form 8-K (filed on July 9, 2018) and incorporated herein by reference).
4.39	Description of registered securities (filed as Exhibit 4.40 to the Company's Annual Report on Form 10-K (filed on February 27, 2020) and incorporated herein by reference).
4.40	Tenth Supplemental Indenture (including 3.20% Senior Notes Due 2030 and 3.80% Senior Notes Due 2050 (in global form)), dated as of April 13, 2020, among Keurig Dr Pepper Inc., the subsidiary guarantors thereto, and Wells Fargo Bank, N.A., as trustee (filed as Exhibit 4.1 to the Company's Current Report on Form 8-K (filed on April 13, 2020) and incorporated herein by reference).
10.1	Credit Agreement, dated as of February 28, 2018, among Maple Parent Holdings Corp., the banks and issuers of credit party thereto and JPMorgan Chase Bank, N.A., as administrative agent (filed as Exhibit 10.2 to the Company's Current Report on Form 8-K (filed on July 9, 2018) and incorporated herein by reference).
10.2	Term Loan Agreement, dated as of February 8, 2019, among Keurig Dr Pepper Inc., the banks party thereto and JPMorgan Chase, Bank, N.A., as administrative agent (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K (filed on February 11, 2019) and incorporated herein by reference).
10.3	Credit Agreement, dated as of May 29, 2019, among Keurig Dr Pepper Inc., the banks party thereto, and JPMorgan Chase Bank, N.A., as administrative agent (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K (filed on May 29, 2019) and incorporated herein by reference).
10.4	Amended and Restated Employment Agreement, dated as of July 2, 2018, by and between Keurig Green Mountain, Inc. and Robert J. Gamgort (filed as Exhibit 10.5 to the Company's Quarterly Report on Form 10-Q (filed on November 8, 2018) and incorporated herein by reference). ++
10.5	Employment Agreement, dated as of April 12, 2016, by and between Keurig Green Mountain, Inc. and Ozan Dokmecioglu (filed as Exhibit 10.6 to the Company's Quarterly Report on Form 10-Q (filed on November 8, 2018) and incorporated herein by reference). ++
10.6	Restricted Stock Unit Award Terms and Conditions under the Keurig Dr Pepper Omnibus Incentive Plan of 2009 (filed as Exhibit 10.7 to the Company's Quarterly Report on Form 10-Q (filed on November 8, 2018) and incorporated herein by reference). ++
10.7	Matching Restricted Stock Unit Award Terms and Conditions under the Keurig Dr Pepper Omnibus Incentive Plan of 2009 (filed as Exhibit 10.8 to the Company's Quarterly Report on Form 10-Q (filed on November 8, 2018) and incorporated herein by reference). ++
10.8	Directors' Restricted Stock Unit Award Terms and Conditions under the Keurig Dr Pepper Omnibus Incentive Plan of 2009 (filed as Exhibit 10.9 to the Company's Quarterly Report on Form 10-Q (filed on November 8, 2018) and incorporated herein by reference). ++
10.9	Keurig Dr Pepper Inc. Omnibus Stock Incentive Plan of 2019 (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K (filed on June 11, 2019) and incorporated herein by reference).++
10.10	Restricted Stock Unit Award Terms and Conditions under the Keurig Dr Pepper Omnibus Stock Incentive Plan of 2019 (filed as Exhibit 10.13 to the Company's Quarterly Report on Form 10-Q (filed on August 8, 2019) and incorporated herein by reference).++
10.11	Matching Restricted Stock Unit Award Terms and Conditions under the Keurig Dr Pepper Omnibus Stock Incentive Plan of 2019 (filed as Exhibit 10.14 to the Company's Quarterly Report on Form 10-Q (filed on August 8, 2019) and incorporated herein by reference).++
10.12	Keurig Dr Pepper Inc. Severance Pay Plan for Executives, effective as of January 1, 2020 (filed as Exhibit 10.12 to the Company's Annual Report on Form 10-K (filed on February 27, 2020) and incorporated herein by reference).++
10.13	Credit Agreement, dated as of April 14, 2020, among Keurig Dr Pepper Inc., the banks party thereto, and JPMorgan Chase Bank, N.A., as administrative agent (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K (filed on April 15, 2020) and incorporated herein by reference).
10.14*	Restricted Stock Unit Award Terms and Conditions under the Keurig Dr Pepper Omnibus Stock Incentive Plan of 2019 (retention incentive awards for three of the Company's Named Executive Officers).
22.1	List of Guarantor Subsidiaries (filed as Exhibit 22.1 to the Company's Quarterly Report on Form 10-Q (filed on June 30, 2020) and incorporated herein by reference).

31.1*	Certification of Chief Executive Officer of Keurig Dr Pepper Inc. pursuant to Rule 13a-14(a) or 15d-14(a) promulgated under the Exchange Act.
31.2*	Certification of Chief Financial Officer of Keurig Dr Pepper Inc. pursuant to Rule 13a-14(a) or 15d-14(a) promulgated under the Exchange Act.
32.1**	Certification of Chief Executive Officer of Keurig Dr Pepper Inc. pursuant to Rule 13a-14(b) or 15d-14(b) promulgated under the Exchange Act, and Section 1350 of Chapter 63 of Title 18 of the United States Code.
32.2**	Certification of Chief Financial Officer of Keurig Dr Pepper Inc. pursuant to Rule 13a-14(b) or 15d-14(b) promulgated under the Exchange Act, and Section 1350 of Chapter 63 of Title 18 of the United States Code.
101*	The following financial information from Keurig Dr Pepper Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2020, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Statements of Income, (ii) Condensed Consolidated Statements of Comprehensive Income, (iii) Condensed Consolidated Balance Sheets, (iv) Condensed Consolidated Statements of Cash Flows, (v) Condensed Consolidated Statement of Changes in Stockholders' Equity, and (vi) the Notes to Condensed Consolidated Financial Statements. The Instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
104*	The cover page from this Quarterly Report on Form 10-Q, formatted as Inline XBRL.

* Filed herewith.
** Furnished herewith.
++ Indicates a management contract or compensatory plan or arrangement.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Keurig Dr Pepper Inc.

By:	/s/ Ozan Dokmecioglu
Name:	Ozan Dokmecioglu
Title:	Chief Financial Officer of Keurig Dr Pepper Inc.
	(Principal Financial Officer)

Date: October 29, 2020