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 June 30, 2022
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 July 26, 2022, there were 1,416,070,252 shares of the registrant's common stock, par value $0.01 per share, outstanding.

KEURIG DR PEPPER INC.
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KEURIG DR PEPPER INC.
MASTER GLOSSARY

Term	Definition
2019 KDP Term Loan	$2 billion aggregate principal amount, with the ability to make voluntary and mandatory prepayments, which was originally due on February 8, 2023 and was fully repaid in 2021
2021 364-Day Credit Agreement	The Company's $1,500 million credit agreement, which was entered into on March 26, 2021 and was terminated on February 23, 2022
2022 Revolving Credit Agreement	KDP's $4 billion revolving credit agreement, which was executed in February 2022 and replaced the 2021 364-Day Credit Agreement and the KDP Revolver
2022 Strategic Refinancing	A series of transactions in April 2022, whereby KDP issued the 2029 Notes, the 2032 Notes, and the 2052 Notes, and voluntarily prepaid and retired the remaining 2023 Merger Notes and tendered portions of the 2025 Merger Notes, the 2028 Merger Notes, the 2038 Merger Notes and the 2048 Merger Notes
A Shoc	A Shoc Beverage LLC, an equity method investment of KDP, or Adrenaline Shoc energy drinks
ABC	The American Bottling Company, a wholly-owned subsidiary of KDP
ABI	Anheuser-Busch InBev SA/NV, the majority owner of Bedford with a 70% interest
Annual Report	Annual Report on Form 10-K for the year ended December 31, 2021
AOCI	Accumulated other comprehensive income or loss
Bedford	Bedford Systems, LLC, an equity method investment of KDP and the maker of Drinkworks
Board	The Board of Directors of KDP
BodyArmor	BA Sports Nutrition, LLC, a former equity method investment of KDP
bps	basis points
CARES Act	U.S. Coronavirus Aid, Relief and Economic Security Act
CSD	Carbonated soft drink
DIO	Days inventory outstanding
DPO	Days of payables outstanding
DPS	Dr Pepper Snapple Group, Inc.
DPS Merger	The combination of the business operations of Keurig and DPS that was consummated on July 9, 2018 through a reverse merger transaction, whereby a wholly-owned special purpose merger subsidiary of DPS merged with and into the direct parent of Keurig
DSD	Direct Store Delivery, the operating segment whereby finished beverages are delivered directly to retailers
DSO	Days sales outstanding
EPS	Earnings per share
Exchange Act	Securities Exchange Act of 1934, as amended
FFS	Fountain Foodservice, an operating segment of KDP which serves the fountain channel, such as restaurants
FASB	Financial Accounting Standards Board
FX	Foreign exchange
IRI	Information Resources, Inc.
KDP	Keurig Dr Pepper Inc.
KDP Revolver	The Company's $2,400 million revolving credit facility, which was entered into on February 28, 2018 and terminated on February 23, 2022.
Keurig	Keurig Green Mountain, Inc., a wholly-owned subsidiary of KDP, and the brand of our brewers
LIBOR	London Interbank Offered Rate
NCB	Non-carbonated beverage
Notes	Collectively, the Company's senior unsecured notes
PET	Polyethylene terephthalate, which is used to make the Company's plastic bottles
Proposition 65	The State of California's Safe Drinking Water and Toxic Enforcement Act of 1986
RSU	Restricted share unit
RVG	Residual value guarantee
Tractor	Tractor Beverages, Inc., an equity method investment of KDP
SEC	Securities and Exchange Commission
SG&A	Selling, general and administrative
SOFR	Secured Overnight Financing Rate
U.S. GAAP	Accounting principles generally accepted in the U.S.
Veyron SPEs	Special purpose entities with the same sponsor, Veyron Global
VIE	Variable interest entity
Vita Coco	The Vita Coco Company, Inc.
WD	Warehouse Direct, the operating segment whereby finished beverages are shipped to retailer warehouses, and then delivered by the retailer through its own delivery system to its stores

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

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

(in millions, except per share data)	Second Quarter 2022	Second Quarter 2021	First Six Months 2022	First Six Months 2021
Net sales	**$ 3,554**	$ 3,140	**$ 6,632**	$ 6,042
Cost of sales	**1,778**	1,370	**3,206**	2,672
Gross profit	**1,776**	1,770	**3,426**	3,370
Selling, general and administrative expenses	**1,204**	1,039	**2,222**	2,000
Gain on litigation settlement	**—**	—	**(299)**	—
Other operating income, net	**—**	(3)	**(35)**	(4)
Income from operations	**572**	734	**1,538**	1,374
Interest expense	**175**	125	**363**	265
Loss on early extinguishment of debt	**169**	—	**217**	105
Gain on sale of equity method investment	**—**	—	**(50)**	—
Impairment of investments and note receivable	**6**	—	**12**	—
Other expense (income), net	**9**	(4)	**18**	(7)
Income before provision for income taxes	**213**	613	**978**	1,011
(Benefit) provision for income taxes	**(5)**	165	**175**	238
Net income including non-controlling interest	**218**	448	**803**	773
Less: Net loss attributable to non-controlling interest	**—**	—	**—**	—
Net income attributable to KDP	**$ 218**	**$ 448**	**$ 803**	$ 773
Earnings per common share:				
Basic	**$ 0.15**	$ 0.32	**$ 0.57**	$ 0.55
Diluted	**0.15**	0.31	**0.56**	0.54
Weighted average common shares outstanding:				
Basic	**1,417.5**	1,417.4	**1,417.8**	1,413.4
Diluted	**1,428.6**	1,428.1	**1,429.2**	1,426.9

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*)

(in millions)	Second Quarter 2022		Second Quarter 2021		First Six Months 2022		First Six Months 2021	
Net income including non-controlling interest	**$**	**218**	$	448	**$**	**803**	$	773
Other comprehensive income								
Foreign currency translation adjustments		**(133)**		112		**(34)**		128
Net change in pension and post-retirement liability, net of tax of $—, $—, $— and $—, respectively		**(3)**		—		**(3)**		—
Net change in cash flow hedges, net of tax of $38, $(48), $86 and $(26), respectively		**126**		(148)		**268**		(77)
Total other comprehensive income (loss)		**(10)**		(36)		**231**		51
Comprehensive income including non-controlling interest		**208**		412		**1,034**		824
Less: Comprehensive income attributable to non-controlling interest		**—**		—		**—**		—
Comprehensive income attributable to KDP	**$**	**208**	$	412	**$**	**1,034**	$	824

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)	June 30, 2022	December 31, 2021
Assets		
Current assets:		
Cash and cash equivalents	**$ 552**	$ 567
Restricted cash and cash equivalents	**2**	1
Trade accounts receivable, net	**1,326**	1,148
Inventories	**1,239**	894
Prepaid expenses and other current assets	**652**	447
Total current assets	**3,771**	3,057
Property, plant and equipment, net	**2,446**	2,494
Investments in unconsolidated affiliates	**78**	30
Goodwill	**20,163**	20,182
Other intangible assets, net	**23,774**	23,856
Other non-current assets	**1,159**	937
Deferred tax assets	**37**	42
Total assets	**$ 51,428**	$ 50,598
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	**$ 4,950**	$ 4,316
Accrued expenses	**1,106**	1,110
Structured payables	**145**	142
Short-term borrowings and current portion of long-term obligations	**—**	304
Other current liabilities	**560**	613
Total current liabilities	**6,761**	6,485
Long-term obligations	**11,555**	11,578
Deferred tax liabilities	**6,007**	5,986
Other non-current liabilities	**1,714**	1,577
Total liabilities	**26,037**	25,626
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $0.01 par value, 15,000,000 shares authorized, no shares issued	**—**	—
Common stock, $0.01 par value, 2,000,000,000 shares authorized, 1,416,072,925 and 1,418,119,197 shares issued and outstanding as of June 30, 2022 and December 31, 2021, respectively	**14**	14
Additional paid-in capital	**21,701**	21,785
Retained earnings	**3,471**	3,199
Accumulated other comprehensive income (loss)	**205**	(26)
Total stockholders' equity	**25,391**	24,972
Non-controlling interest	**—**	—
Total equity	**25,391**	24,972
Total liabilities and equity	**$ 51,428**	$ 50,598

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

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

(in millions)	First Six Months 2022	First Six Months 2021
Operating activities:		
Net income attributable to KDP	**$ 803**	$ 773
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation expense	**205**	206
Amortization of intangibles	**67**	67
Other amortization expense	**86**	80
Provision for sales returns	**25**	32
Deferred income taxes	**(52)**	(12)
Employee stock-based compensation expense	**12**	48
Loss on early extinguishment of debt	**217**	105
Gain on sale of equity method investment	**(50)**	—
Gain on disposal of property, plant and equipment	**(33)**	(4)
Unrealized loss (gain) on foreign currency	**2**	(15)
Unrealized loss (gain) on derivatives	**187**	(72)
Settlements of interest rate contracts	**125**	—
Equity in loss of unconsolidated affiliates	**5**	1
Impairment on investments and note receivable of unconsolidated affiliate	**12**	—
Other, net	**22**	3
Changes in assets and liabilities:		
Trade accounts receivable	**(206)**	(41)
Inventories	**(346)**	(131)
Income taxes receivable and payables, net	**(245)**	(65)
Other current and non-current assets	**(340)**	(131)
Accounts payable and accrued expenses	**680**	293
Other current and non-current liabilities	**163**	2
Net change in operating assets and liabilities	**(294)**	(73)
Net cash provided by operating activities	**1,339**	1,139
Investing activities:		
Proceeds from sale of investment in unconsolidated affiliates	**50**	—
Purchases of property, plant and equipment	**(186)**	(204)
Proceeds from sales of property, plant and equipment	**78**	15
Purchases of intangibles	**(10)**	(12)
Issuance of related party note receivable	**(18)**	(2)
Investments in unconsolidated affiliates	**(48)**	—
Other, net	**3**	3
Net cash used in investing activities	**$ (131)**	$ (200)

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

KEURIG DR PEPPER INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(*UNAUDITED, CONTINUED)*

(in millions)	First Six Months 2022	First Six Months 2021
Financing activities:		
Proceeds from issuance of Notes	**$ 3,000**	$ 2,150
Repayments of Notes	**(3,365)**	(3,595)
Proceeds from issuance of commercial paper	**500**	2,776
Repayments of commercial paper	**(649)**	(1,453)
Repayments of 2019 KDP Term Loan	**—**	(425)
Proceeds from structured payables	**79**	73
Repayments of structured payables	**(75)**	(81)
Cash dividends paid	**(531)**	(424)
Repurchases of common stock	**(88)**	—
Proceeds from issuance of common stock	**—**	140
Tax withholdings related to net share settlements	**(8)**	(125)
Payments on finance leases	**(41)**	(27)
Other, net	**(43)**	(37)
Net cash used in financing activities	**(1,221)**	(1,028)
Cash, cash equivalents, and restricted cash and cash equivalents:		
Net change from operating, investing and financing activities	**(13)**	(89)
Effect of exchange rate changes	**(1)**	4
Beginning balance	**568**	255
Ending balance	**$ 554**	$ 170
Supplemental cash flow disclosures of non-cash investing activities:		
Capital expenditures included in accounts payable and accrued expenses	**$ 138**	$ 213
Non-cash conversion of note receivable to investment in unconsolidated affiliate	**6**	—
Supplemental cash flow disclosures of non-cash financing activities:		
Dividends declared but not yet paid	**265**	265
Supplemental cash flow disclosures:		
Cash paid for interest	**208**	259
Cash paid for income taxes	**462**	305

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

KEURIG DR PEPPER INC.
CONDENSED CONSOLIDATED STATEMENTS 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 Income (Loss)	Total Stockholders' Equity	Non-controlling Interest	Total Equity
Balance as of January 1, 2022	1,418.1	$ 14	$ 21,785	$ 3,199	$ (26)	$ 24,972	$ —	$ 24,972
Net income	—	—	—	585	—	585	—	585
Other comprehensive income	—	—	—	—	241	241	—	241
Dividends declared, $0.1875 per share	—	—	—	(266)	—	(266)	—	(266)
Shares issued under employee stock-based compensation plans and other	0.4	—	—	—	—	—	—	—
Tax withholdings related to net share settlements	—	—	(5)	—	—	(5)	—	(5)
Stock-based compensation and stock options exercised	—	—	(16)	—	—	(16)	—	(16)
Balance as of March 31, 2022	1,418.5	14	21,764	3,518	215	25,511	—	25,511
Net income	—	—	—	218	—	218	—	218
Other comprehensive income	—	—	—	—	(10)	(10)	—	(10)
Dividends declared, $0.1875 per share	—	—	—	(265)	—	(265)	—	(265)
Repurchases of common stock	(2.5)	—	(88)	—	—	(88)	—	(88)
Shares issued under employee stock-based compensation plans and other	0.1	—	—	—	—	—	—	—
Tax withholdings related to net share settlements	—	—	(3)	—	—	(3)	—	(3)
Stock-based compensation and stock options exercised	—	—	28	—	—	28	—	28
Balance as of June 30, 2022	1,416.1	$ 14	$ 21,701	$ 3,471	$ 205	$ 25,391	$ —	$ 25,391

KEURIG DR PEPPER INC.
CONDENSED CONSOLIDATED STATEMENTS 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	Non-controlling Interest	Total Equity
Balance as of January 1, 2021	1,407.3	$ 14	$ 21,677	$ 2,061	$ 77	$ 23,829	$ 1	$ 23,830
Net income	—	—	—	325	—	325	—	325
Other comprehensive loss	—	—	—	—	87	87	—	87
Dividends declared, $0.15 per share	—	—	—	(212)	—	(212)	—	(212)
Issuance of common stock	4.3	—	140	—	—	140	—	140
Shares issued under stock-based compensation plans and other	5.7	—	—	—	—	—	—	—
Tax withholdings related to net share settlements	—	—	(125)	—	—	(125)	—	(125)
Stock-based compensation and stock options exercised	—	—	26	—	—	26	—	26
Balance as of March 31, 2021	1,417.3	14	21,718	2,174	164	24,070	1	24,071
Net income	—	—	—	448	—	448	—	448
Other comprehensive income	—	—	—	—	(36)	(36)	—	(36)
Dividends declared, $0.1875 per share	—	—	—	(265)	—	(265)	—	(265)
Shares issued under employee stock-based compensation plans and other	0.1	—	—	—	—	—	—	—
Stock-based compensation and stock options exercised	—	—	25	—	—	25	—	25
Balance as of June 30, 2021	1,417.4	$ 14	$ 21,743	$ 2,357	$ 128	$ 24,242	$ 1	$ 24,243

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.

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.

References to the "second quarter" indicate the Company's quarterly periods ended June 30, 2022 and 2021.

KDP's significant subsidiary, Maple Parent Holdings Corp., has a fiscal year end of the last Saturday in December, and its interim fiscal quarters end every thirteenth Saturday. The fiscal year for Maple Parent Holdings Corp. includes 53 weeks in 2022 and 52 weeks in 2021. KDP does not adjust for the difference in fiscal year when applicable, as the difference is within the range permitted by the Exchange Act.

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 reported amounts. 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.

SIGNIFICANT ACCOUNTING POLICY CHANGES

Stock-Based Compensation Expense

Prior to January 1, 2022, the Company recorded forfeitures as incurred. Effective January 1, 2022, the Company changed its accounting policy election to record expense only for awards expected to vest. Estimated forfeiture rates are based on historical data and are periodically reassessed. The cumulative effect of this change in accounting policy was recorded effective January 1, 2022. The impact of forfeitures on stock-based compensation has historically been insignificant to the Company.

Repurchases of Common Stock

In 2021, our Board authorized a four-year share repurchase program of up to $4 billion of our outstanding common stock. For shares repurchased and retired under the program, the excess purchase price over the par value is recorded to additional paid-in capital.

UNALLOCATED CORPORATE COST ALIGNMENT

Effective January 1, 2022, the Company updated its presentation of certain of KDP's unallocated corporate costs, primarily related to IT, to be aligned among the Company's segments and to more consistently reflect controllable costs at the segment level. Refer to Note 6 for current year presentation. The following table summarizes the revised and prior presentations of income from operations at the segment level:

(in millions)	Second Quarter 2021		First Six Months 2021	
Segment Results – Income from operations	**Current Presentation**	**Prior Presentation**	**Current Presentation**	**Prior Presentation**
Coffee Systems	$ 355	$ 322	$ 723	$ 658
Packaged Beverages	261	258	440	433
Beverage Concentrates	255	254	493	492
Latin America Beverages	36	36	58	58
Unallocated corporate costs	(173)	(136)	(340)	(267)
Income from operations	$ 734	$ 734	$ 1,374	$ 1,374

2. Long-term Obligations and Borrowing Arrangements

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

(in millions)	June 30, 2022	December 31, 2021
Notes	**$ 11,555**	$ 11,733
Less: current portion of long-term obligations	**—**	(155)
Long-term obligations	**$ 11,555**	$ 11,578

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

(in millions)	June 30, 2022	December 31, 2021
Commercial paper notes	**$ —**	$ 149
Current portion of long-term obligations	**—**	155
Short-term borrowings and current portion of long-term obligations	**$ —**	$ 304

SENIOR UNSECURED NOTES

The Company's Notes consisted of the following:

(in millions, except %)

Issuance	Maturity Date	Rate	June 30, 2022	December 31, 2021
2023 Merger Notes	May 25, 2023	4.057%	**$ —**	$ 1,000
2023 Notes	December 15, 2023	3.130%	**500**	500
2024 Notes	March 15, 2024	0.750%	**1,150**	1,150
2025 Merger Notes	May 25, 2025	4.417%	**529**	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%	**1,112**	2,000
2029 Notes	April 15, 2029	3.950%	**1,000**	—
2030 Notes	May 1, 2030	3.200%	**750**	750
2031 Notes	March 15, 2031	2.250%	**500**	500
2032 Notes	April 15, 2032	4.050%	**850**	—
2038 Notes	May 1, 2038	7.450%	**—**	125
2038 Merger Notes	May 25, 2038	4.985%	**211**	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%	**391**	750
2050 Notes	May 1, 2050	3.800%	**750**	750
2051 Notes	March 15, 2051	3.350%	**500**	500
2052 Notes	April 15, 2052	4.500%	**1,150**	—
Principal amount			**11,743**	11,875
Adjustment from principal amount to carrying amount(1)			**(188)**	(142)
Carrying amount			**$ 11,555**	$ 11,733

(1) The carrying amount includes unamortized discounts, debt issuance costs and fair value adjustments related to the DPS Merger.

On January 24, 2022, KDP redeemed and retired the remainder of its 2038 Notes. The loss on early extinguishment of the 2038 Notes was approximately $45 million, comprised of the make-whole premium and the write-off of the associated unamortized fair value adjustment related to the DPS Merger.

On April 22, 2022, the Company undertook the 2022 Strategic Refinancing and completed the issuance of the 2029 Notes, the 2032 Notes, and the 2052 Notes. The discount associated with these notes was approximately $16 million, and the Company incurred $23 million in debt issuance costs. The proceeds from the issuance were used to voluntarily prepay and retire the remaining 2023 Merger Notes and to tender portions of the 2025 Merger Notes, the 2028 Merger Notes, the 2038 Merger Notes, and the 2048 Merger Notes. The Company recorded approximately $169 million of loss on early extinguishment of debt, comprised of the tender and make-whole premiums, the write-off of debt issuance costs, and the impact of terminating reverse treasury lock contracts.

VARIABLE-RATE BORROWING ARRANGEMENTS

Revolving Credit Agreement

On February 23, 2022, KDP terminated the 2021 364-Day Credit Agreement and the KDP Revolver. The loss on early extinguishment of these instruments was approximately $3 million, comprised of termination fees and the write-off of the associated deferred financing fees. There were no amounts drawn upon the 2021 364-Day Credit Agreement or the KDP Revolver prior to termination.

Also on February 23, 2022, KDP entered into the 2022 Revolving Credit Agreement among KDP, as borrower, the lenders from time to time party thereto and JPMorgan Chase, Bank, N.A., as administrative agent. The Company incurred approximately $4 million in deferred financing fees related to the issuance.

The following table summarizes information about the 2022 Revolving Credit Agreement:

(in millions)		June 30, 2022		December 31, 2021
Issuance	**Maturity Date**	**Capacity**	**Carrying Value**	**Carrying Value**
2022 Revolving Credit Agreement[1]	February 23, 2027	**$ 4,000**	**$ —**	$ —

(1) The 2022 Revolving Credit Agreement has $200 million letters of credit available, none of which were utilized as of June 30, 2022.

The 2022 Revolving Credit Agreement replaced the KDP Revolver and the 2021 364-Day Credit Agreement and the proceeds of the credit facility are intended to be used for working capital and for other general corporate purposes of KDP.

Borrowings under the 2022 Revolving Credit Agreement will bear interest at a rate per annum equal to, at KDP's option, an adjusted SOFR rate plus a margin of 0.875% to 1.500% or a base rate plus a margin of 0.000% to 0.500%, in each case, depending on the rating of certain index debt of KDP. The 2022 Revolving Credit Agreement contains customary representations and warranties for investment grade financings. The 2022 Revolving Credit Agreement also contains (i) certain customary affirmative covenants, including those that impose certain reporting and/or performance obligations on KDP and its subsidiaries, (ii) certain customary negative covenants that generally limit, subject to various exceptions, KDP and its subsidiaries from taking certain actions, including, without limitation, incurring liens, consummating certain fundamental changes and entering into transactions with affiliates, (iii) a financial covenant in the form of a minimum interest coverage ratio (as defined therein) of 3.25 to 1.00 and (iv) customary events of default (including a change of control) for financings of this type.

As of June 30, 2022, KDP was in compliance with its minimum interest coverage ratio relating to the 2022 Revolving Credit Agreement.

Commercial Paper Program

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

	Second Quarter		First Six Months	
(in millions, except %)	**2022**	**2021**	**2022**	**2021**
Weighted average commercial paper borrowings	**$ 40**	$ 907	**$ 42**	$ 467
Weighted average borrowing rates	**0.90 %**	0.26 %	**0.59 %**	0.26 %

Letter of Credit Facility

In addition to the portion of the 2022 Revolving Credit Agreement reserved for issuance of letters of credit, KDP has an incremental letter of credit facility. Under this facility, $150 million is available for the issuance of letters of credit, $96 million of which was utilized as of June 30, 2022 and $54 million of which remains available for use.

FAIR VALUE DISCLOSURES

The fair value of KDP's commercial paper approximates the carrying value and are considered Level 2 within the fair value hierarchy.

The fair values of KDP's Notes are based on current market rates available to KDP 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 KDP's Notes was $10,844 million and $13,078 million as of June 30, 2022 and December 31, 2021, 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, 2022	$ 9,800	$ 5,319	$ 4,539	$ 524	$ 20,182
Foreign currency translation	**(8)**	**(12)**	**(8)**	**9**	**(19)**
Balance as of June 30, 2022	**$ 9,792**	**$ 5,307**	**$ 4,531**	**$ 533**	**$ 20,163**

INTANGIBLE ASSETS OTHER THAN GOODWILL

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

(in millions)	June 30, 2022	December 31, 2021
Brands[(1)]	**$ 19,840**	$ 19,865
Trade names	**2,480**	2,480
Contractual arrangements	**123**	123
Distribution rights[(2)]	**95**	85
Total	**$ 22,538**	$ 22,553

(1) The decrease in brands with indefinite lives was driven by foreign currency translation of $25 million during the first six months of 2022.
(2) The Company executed three agreements to acquire distribution rights during the first six months of 2022, which resulted in an increase of approximately $10 million.

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

	June 30, 2022			December 31, 2021		
(in millions)	Gross Amount	Accumulated Amortization	Net Amount	Gross Amount	Accumulated Amortization	Net Amount
Acquired technology	**$ 1,146**	**$ (437)**	**$ 709**	$ 1,146	$ (401)	$ 745
Customer relationships	**638**	**(186)**	**452**	638	(169)	469
Trade names	**128**	**(93)**	**35**	128	(86)	42
Contractual arrangements	**23**	**(8)**	**15**	24	(8)	16
Brands	**21**	**(11)**	**10**	21	(8)	13
Distribution rights	**29**	**(14)**	**15**	29	(11)	18
Total	**$ 1,985**	**$ (749)**	**$ 1,236**	$ 1,986	$ (683)	$ 1,303

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

	Second Quarter		First Six Months	
(in millions)	2022	2021	2022	2021
Amortization expense	**$ 33**	$ 34	**$ 67**	$ 67

Amortization expense of these intangible assets over the remainder of 2022 and the next five years is expected to be as follows:

		For the Years Ending December 31,				
(in millions)	Remainder of 2022	2023	2024	2025	2026	2027
Expected amortization expense	**$ 67**	**$ 132**	**$ 124**	**$ 110**	**$ 105**	**$ 91**

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 performed an analysis as of June 30, 2022 to ensure that there were no triggering events which occurred during the quarter. As a result of this analysis, management did not identify any indications that the carrying amount of any goodwill or any intangible assets may not be recoverable.

4. 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 and interest rate 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

KDP is exposed to interest rate risk related to its borrowing arrangements and obligations. The Company enters into interest rate contracts to provide predictability in the Company's overall cost structure and to manage the balance of fixed-rate and variable-rate debt. KDP primarily enters into receive-fixed, pay-variable and receive-variable, pay-fixed swaps and swaption contracts. 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 June 30, 2022, economic interest rate derivative instruments have maturities ranging from January 2027 to April 2032.

Additionally, during the quarter ended June 30, 2022, KDP entered into reverse treasury lock contracts in order to manage the interest rate risk related to changes in value of the tender offers in the 2022 Strategic Refinancing prior to the pricing date. These contracts terminated during the quarter ended June 30, 2022, and the realized losses associated with these contracts are reported in loss on early extinguishment of debt in the unaudited Condensed Consolidated Statements of Income.

Cash Flow Hedges

In order to hedge the variability in cash flows from interest rate changes associated with the Company's planned future issuances of long-term debt, during the first quarter of 2021, the Company entered into forward starting swaps and designated them as cash flow hedges.

In April 2022, concurrently with the 2022 Strategic Refinancing, KDP terminated $1.5 billion of notional amount of the forward starting swaps. Upon termination, KDP received $125 million to settle the contracts with the counterparties, which will be amortized to interest expense over the respective terms of the issued Notes. As of June 30, 2022, the remaining forward starting swaps have a mandatory termination date in May 2025.

FOREIGN EXCHANGE

KDP is exposed to foreign exchange risk in its international subsidiaries, which may transact in currencies that are different from the functional currencies of those subsidiaries. The balance sheets of each of these businesses are also subject to exposure from movements in exchange rates.

Economic Hedges

KDP holds 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. As of June 30, 2022, these FX contracts have maturities ranging from July 2022 to September 2024.

Cash Flow Hedges

KDP designates certain FX forward contracts related to forecasted 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. As of June 30, 2022, these FX contracts have maturities ranging from July 2022 to October 2023.

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 Company generally holds some combination of future, swap and option contracts that economically hedge 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 or as an offset to certain costs of production. 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. As of June 30, 2022, these commodity contracts have maturities ranging from July 2022 to February 2024.

NOTIONAL AMOUNTS OF DERIVATIVE INSTRUMENTS

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

(in millions)	June 30, 2022	December 31, 2021
Interest rate contracts		
Forward starting swaps, designated as cash flow hedges	**$ 1,000**	$ 2,500
Receive-fixed, pay-variable interest rate swaps, not designated as hedging instruments	**1,900**	400
FX contracts		
Forward contracts, not designated as hedging instruments	**501**	463
Forward contracts, designated as cash flow hedges	**493**	385
Commodity contracts, not designated as hedging instruments	**486**	529

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 or SOFR 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 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. All such instruments are considered level 2 within the fair value hierarchy.

(in millions)	Balance Sheet Location	June 30, 2022	December 31, 2021
Assets:			
Interest rate contracts	Prepaid expenses and other current assets	**$ —**	$ 2
FX contracts	Prepaid expenses and other current assets	**3**	3
Commodity contracts	Prepaid expenses and other current assets	**105**	133
Commodity contracts	Other non-current assets	**1**	2
Liabilities:			
Interest rate contracts	Other current liabilities	**$ 17**	$ —
FX contracts	Other current liabilities	**—**	2
Commodity contracts	Other current liabilities	**52**	28
Interest rate contracts	Other non-current liabilities	**120**	5
FX contracts	Other non-current liabilities	**10**	9
Commodity contracts	Other non-current liabilities	**1**	1

Designated as Hedging Instruments

The following table summarizes 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. All such instruments are designated level 2 within the fair value hierarchy.

(in millions)	Balance Sheet Location	June 30, 2022	December 31, 2021
Assets:			
FX contracts	Prepaid expenses and other current assets	**$ 8**	$ 6
FX contracts	Other non-current assets	**3**	1
Interest rate contracts	Other non-current assets	**88**	—
Liabilities:			
FX contracts	Other current liabilities	**$ 4**	$ 1
Interest rate contracts	Other current liabilities	**—**	8
Interest rate contracts	Other non-current liabilities	**—**	128

IMPACT OF DERIVATIVE INSTRUMENTS NOT DESIGNATED AS HEDGING INSTRUMENTS

The following table presents the amount of (gains) losses, net, 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.

		Second Quarter		First Six Months	
(in millions)	Income Statement Location	2022	2021	2022	2021
Interest rate contracts	Interest expense	**$ 56**	$ (5)	**$ 123**	$ (13)
Interest rate contracts	Loss on early extinguishment of debt	**31**	—	**31**	—
FX contracts	Cost of sales	**(7)**	5	**(2)**	9
FX contracts	Other expense (income), net	**(7)**	6	**1**	11
Commodity contracts	Cost of sales	**101**	(39)	**4**	(56)
Commodity contracts	SG&A expenses	**(26)**	(27)	**(63)**	(56)

IMPACT OF CASH FLOW HEDGES

The following table presents the amount of losses, net, reclassified from AOCI into the unaudited Condensed Consolidated Statements of Income related to derivative instruments designated as cash flow hedging instruments during the periods presented:

		Second Quarter		First Six Months	
(in millions)	**Income Statement Location**	**2022**	**2021**	**2022**	**2021**
Interest rate contracts	Interest expense	**$ (2)**	$ —	**$ (2)**	$ —
FX contracts	Cost of sales	**2**	4	**5**	9

KDP expects to reclassify approximately $5 million of pre-tax net gains from AOCI into net income during the next twelve months related to its FX contracts. KDP expects to reclassify $8 million of pre-tax net gains from AOCI into net income during the next twelve months related to its interest rate contracts.

5. Leases

The following table presents the components of lease cost:

	Second Quarter		First Six Months	
(in millions)	**2022**	**2021**	**2022**	**2021**
Operating lease cost	**$ 35**	$ 33	**$ 67**	$ 63
Finance lease cost				
Amortization of right-of-use assets	**20**	17	**38**	30
Interest on lease liabilities	**5**	4	**11**	7
Variable lease cost(1)	**8**	7	**17**	15
Sublease income	**—**	(1)	**—**	(1)
Total lease cost	**$ 68**	$ 60	**$ 133**	$ 114

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

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

	First Six Months	
(in millions)	**2022**	**2021**
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	**$ 60**	$ 56
Operating cash flows from finance leases	**11**	7
Financing cash flows from finance leases	**41**	27
Right-of-use assets obtained in exchange for lease obligations:		
Operating leases	**214**	222
Finance leases	**66**	167

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

	June 30, 2022	December 31, 2021
Weighted average discount rate		
Operating leases	**4.3 %**	4.3 %
Finance leases	**3.5 %**	3.6 %
Weighted average remaining lease term		
Operating leases	**11 years**	12 years
Finance leases	**10 years**	10 years

Future minimum lease payments for non-cancellable leases that have commenced and are reflected on the unaudited Condensed Consolidated Balance Sheets as of June 30, 2022 were as follows:

(in millions)	Operating Leases	Finance Leases
Remainder of 2022	$ 52	$ 59
2023	123	115
2024	116	108
2025	108	104
2026	99	139
2027	79	56
Thereafter	485	276
Total future minimum lease payments	1,062	857
Less: imputed interest	(217)	(133)
Present value of minimum lease payments	$ 845	$ 724

SIGNIFICANT LEASES THAT HAVE NOT YET COMMENCED

As of June 30, 2022, the Company has entered into leases that have not yet commenced with estimated aggregated future lease payments of approximately $180 million. These leases are expected to commence in 2022 and 2023, with initial lease terms ranging from 4 years to 7 years.

ASSET SALE-LEASEBACK TRANSACTION

The Company entered into a sale-leaseback transaction with the Veyron SPEs during the first six months of 2022. The following table presents details of the transaction. The gain on the sale-leaseback is recorded in Other operating (income) expense, net, and the leaseback is accounted for as an operating lease.

(in millions)	Sale Proceeds	Carrying Value	Gain on Sale
March 31, 2022[1]	$ 77	$ 39	$ 38

(1) The sale-leaseback transaction included one manufacturing property and one distribution property.

The initial term of the leaseback is 15 years, with 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 on the Company remaining investment grade and no change-in-control as of the end of the lease term. The leaseback has a RVG. Refer to Note 16 for additional information about the RVG associated with the asset sale-leaseback transaction.

6. Segments

The Company's reportable segments consist of the following:

- 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 single-serve brewers, K-Cup pods and other coffee products.
- 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 and WD systems. DSD and WD have both been identified as operating segments that the Company aggregated into Packaged Beverages due to similar economic characteristics and similarities in the nature of finished goods sales and route-to-markets.
- 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. Our FFS operating segment is aggregated with our Branded Concentrates operating segment into our Beverage Concentrates reportable segment due to similar economic characteristics and similarities in the nature of the product sold.
- 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.

Effective January 1, 2022, the Company updated its presentation of certain of KDP's corporate costs, primarily related to IT, to be aligned among the Company's segments and to more consistently reflect controllable costs at the segment level. The prior period segment disclosures reflect the revised presentation.

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

	Second Quarter		First Six Months	
(in millions)	**2022**	**2021**	**2022**	**2021**
Segment Results – Net sales				
Coffee Systems	**$ 1,195**	$ 1,101	**$ 2,288**	$ 2,243
Packaged Beverages	**1,689**	1,498	**3,169**	2,805
Beverage Concentrates	**460**	375	**819**	703
Latin America Beverages	**210**	166	**356**	291
Net sales	**$ 3,554**	$ 3,140	**$ 6,632**	$ 6,042
Segment Results – Income from operations				
Coffee Systems	**$ 315**	$ 355	**$ 583**	$ 723
Packaged Beverages	**232**	261	**718**	440
Beverage Concentrates	**324**	255	**568**	493
Latin America Beverages	**50**	36	**75**	58
Unallocated corporate costs	**(349)**	(173)	**(406)**	(340)
Income from operations	**$ 572**	$ 734	**$ 1,538**	$ 1,374

7. Earnings Per Share

The following table presents the Company's basic and diluted EPS and shares outstanding. Anti-dilutive stock-based awards excluded from the calculations of diluted EPS were immaterial during the periods presented.

	Second Quarter		First Six Months	
(in millions, except per share data)	2022	2021	2022	2021
Net income attributable to KDP	**$ 218**	$ 448	**$ 803**	$ 773
Weighted average common shares outstanding	**1,417.5**	1,417.4	**1,417.8**	1,413.4
Dilutive effect of stock-based awards	**11.1**	10.7	**11.4**	13.5
Weighted average common shares outstanding and common stock equivalents	**1,428.6**	1,428.1	**1,429.2**	1,426.9
Basic EPS	**$ 0.15**	$ 0.32	**$ 0.57**	$ 0.55
Diluted EPS	**0.15**	0.31	**0.56**	0.54

8. Stock-Based Compensation

The components of stock-based compensation expense are presented below:

	Second Quarter		First Six Months	
(in millions)	2022	2021	2022	2021
Total stock-based compensation expense[1]	**$ 27**	$ 23	**$ 12**	$ 48
Income tax expense (benefit)	**(5)**	(4)	**(1)**	(8)
Stock-based compensation expense, net of tax	**$ 22**	$ 19	**$ 11**	$ 40

(1) Effective January 1, 2022, the Company changed its accounting policy for stock-based compensation expense with respect to forfeitures. The cumulative effect of this change resulted in a one-time reduction in stock-based compensation expense of $40 million recognized in the first quarter of 2022. Refer to Note 1 for additional information.

RESTRICTED SHARE 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, 2021	18,808,491	$ 25.74	2.2	$ 693
Granted	**2,905,424**	**35.85**		
Vested and released	**(779,844)**	**23.26**		**29**
Forfeited	**(851,855)**	**27.00**		
Outstanding as of June 30, 2022	**20,082,216**	**$ 27.24**	**2.0**	**$ 711**

As of June 30, 2022, there was $232 million of unrecognized compensation cost related to unvested RSUs that is expected to be recognized over a weighted average period of 3.3 years.

9. 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 primarily recorded within SG&A expenses on the income statement and are held primarily within unallocated corporate costs.

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. Although the program was initially expected to be completed in 2021, as a result of delays due to COVID-19, KDP will continue to recognize expenditures for certain initiatives which began during the integration period and are expected to be completed in 2022. The restructuring and integration program resulted in cumulative pre-tax charges of approximately $848 million, primarily consisting of professional fees related to the integration and transformation and costs associated with severance and employee terminations, through June 30, 2022. Restructuring and integration charges on the DPS Integration Program were as follows:

	Second Quarter		First Six Months	
(in millions)	**2022**	**2021**	**2022**	**2021**
Restructuring and integration charges	**$ 22**	$ 49	**$ 58**	$ 92

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 for the DPS Integration Program, all of which were workforce reduction costs, were as follows for the period presented:

(in millions)	**Restructuring Liabilities**
Balance as of January 1, 2022	**$ 19**
Charges to expense	**7**
Cash payments	**(15)**
Balance as of June 30, 2022	**$ 11**

10. Revenue Recognition

KDP recognizes revenue when obligations under the terms of a contract with the customer are satisfied. Branded product sales, which include CSDs, NCBs, K-Cup pods and appliances, occur once control is transferred upon delivery to the customer. Revenue is measured as the amount of consideration that KDP expects to receive in exchange for transferring goods. The amount of consideration KDP receives and revenue KDP recognizes varies with changes in customer incentives that KDP 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 KDP's revenue by portfolio:

(in millions)	Coffee Systems	Packaged Beverages	Beverage Concentrates	Latin America Beverages	Total
For the second quarter of 2022:					
CSD[1]	**$ —**	**$ 790**	**$ 454**	**$ 153**	**$ 1,397**
NCB[1]	**—**	**790**	**4**	**57**	**851**
K-Cup pods[2]	**907**	**—**	**—**	**—**	**907**
Appliances	**217**	**—**	**—**	**—**	**217**
Other	**71**	**109**	**2**	**—**	**182**
Net sales	**$ 1,195**	**$ 1,689**	**$ 460**	**$ 210**	**$ 3,554**
For the second quarter of 2021:					
CSD[1]	$ —	$ 711	$ 368	$ 122	$ 1,201
NCB[1]	—	673	4	44	721
K-Cup pods[2]	831	—	—	—	831
Appliances	210	—	—	—	210
Other	60	114	3	—	177
Net sales	$ 1,101	$ 1,498	$ 375	$ 166	$ 3,140
For the first six months of 2022:					
CSD[1]	**$ —**	**$ 1,494**	**$ 808**	**$ 253**	**$ 2,555**
NCB[1]	**—**	**1,462**	**6**	**103**	**1,571**
K-Cup pods[2]	**1,762**	**—**	**—**	**—**	**1,762**
Appliances	**395**	**—**	**—**	**—**	**395**
Other	**131**	**213**	**5**	**—**	**349**
Net sales	**$ 2,288**	**$ 3,169**	**$ 819**	**$ 356**	**$ 6,632**
For the first six months of 2021:					
CSD[1]	$ —	$ 1,335	$ 691	$ 209	$ 2,235
NCB[1]	—	1,254	7	82	1,343
K-Cup pods[2]	1,734	—	—	—	1,734
Appliances	384	—	—	—	384
Other	125	216	5	—	346
Net sales	$ 2,243	$ 2,805	$ 703	$ 291	$ 6,042

(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.

11. Income Taxes

The Company's effective tax rates were as follows:

	Second Quarter		First Six Months	
(in millions)	2022	2021	2022	2021
Effective tax rate	**(2.3)%**	26.9 %	**17.9 %**	23.5 %

The following is a reconciliation of the provision for income taxes computed at the U.S. federal statutory tax rate to the provision for income taxes reported in the unaudited Condensed Consolidated Statements of Income:

	Second Quarter		First Six Months	
(in millions)	2022	2021	2022	2021
Statutory federal income tax rate	**21.0 %**	21.0 %	**21.0 %**	21.0 %
State income taxes, net	**3.2 %**	3.7 %	**3.5 %**	3.7 %
Impact of non-U.S. operations[(1)]	**(1.9)%**	— %	**(0.8)%**	— %
Tax credits	**(3.0)%**	(1.3)%	**(1.6)%**	(1.4)%
U.S. taxation of foreign earnings	**2.7 %**	0.8 %	**1.6 %**	1.3 %
Deferred rate change[(2)]	**(24.5)%**	0.9 %	**(5.8)%**	0.4 %
Uncertain tax positions	**0.2 %**	— %	**— %**	0.2 %
Excess tax deductions on stock-based compensation[(3)]	**(0.1)%**	— %	**(0.1)%**	(2.7)%
Other	**0.1 %**	1.8 %	**0.1 %**	1.0 %
Total provision for income taxes	**(2.3)%**	26.9 %	**17.9 %**	23.5 %

(1) For the second quarter and first six months of 2022, primarily driven by the Company's incremental income in low tax jurisdictions.
(2) For the second quarter and first six months of 2022, primarily driven by the revaluation of state deferred tax liabilities due to state legislative changes.
(3) For the first six months of 2022, primarily driven by the unfavorable comparison to the excess tax deductions that were generated from the vesting of RSUs during the first six months of 2021.

12. Investments

The following table summarizes investments in unconsolidated affiliates as of June 30, 2022 and December 31, 2021:

(in millions)	Ownership Interest	June 30, 2022	December 31, 2021
Bedford	30.0 %	**$ —**	$ —
Tractor	19.2 %	**50**	—
Dyla LLC	12.4 %	**12**	12
Force Holdings LLC[(1)]	33.3 %	**4**	5
Beverage startup companies[(2)]	(various)	**6**	8
Other	(various)	**6**	5
Investments in unconsolidated affiliates		**$ 78**	$ 30

(1) Force Holdings LLC has a 14.1% ownership interest in Dyla LLC.
(2) Beverage startup companies represent equity method investments in development stage entities and may include entities which are pre-revenue, in test markets, or in early operations.

TRACTOR INVESTMENT

In May 2022, the Company invested $44 million in exchange for equity interests in Tractor. The Company also issued a $6 million convertible note to Tractor with an annual interest rate of LIBOR + 5% and a term of six months. The convertible note was converted into equity interests during the second quarter of 2022, increasing the Company's total ownership in Tractor to 19.2%.

BEDFORD INVESTMENT

In December 2021, Bedford began procedures to wind down the company. As part of the wind down procedures, KDP and ABI agreed to together fund a $ 68 million credit agreement to Bedford. KDP will fund 30% of this loan, in line with the Company's ownership percentage in Bedford. Approximately $14 million of the Company's responsibility under this credit agreement has been funded through June 30, 2022. The Company recorded impairment losses related to this credit agreement of $6 million and $12 million in the second quarter and first six months of 2022, respectively.

BODYARMOR INVESTMENT

In January 2022, KDP agreed to a $350 million payment from BodyArmor for a full settlement of all of the claims under the litigation against BodyArmor and in complete satisfaction of the holdback amount owed to ABC in association with the sale of ABC's equity interest in BodyArmor in 2021. ABC received the settlement payment in January 2022 and the lawsuit was dismissed.

The Company allocated approximately $300 million of the settlement for resolution of the prior litigation, of which $299 million was recorded to Gain on litigation settlement and $1 million was applied against outstanding receivables from BodyArmor. Approximately $ 28 million of the $299 million gain on litigation settlement was held in unallocated corporate costs as a recovery of legal fees incurred during the litigation process, with the remaining $271 million of the $299 million recorded to our Packaged Beverages segment.

Approximately $50 million of the $350 million payment was allocated to the settlement of the holdback liability, which was recorded to Gain on the sale of our equity method investment.

13. Accumulated Other Comprehensive Income (Loss)

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

(in millions)	Foreign Currency Translation Adjustments	Pension and Post-Retirement Benefit Liabilities	Cash Flow Hedges	Accumulated Other Comprehensive Income (Loss)
For the second quarter of 2022:				
Beginning balance	**$ 180**	**$ (4)**	**$ 39**	**$ 215**
Other comprehensive income (loss)	**(133)**	**(3)**	**126**	**(10)**
Amounts reclassified from AOCI	**—**	**—**	**—**	**—**
Total other comprehensive income (loss)	**(133)**	**(3)**	**126**	**(10)**
Balance as of June 30, 2022	**$ 47**	**$ (7)**	**$ 165**	**$ 205**
For the second quarter of 2021:				
Beginning balance	$ 111	$ (4)	$ 57	$ 164
Other comprehensive income (loss)	112	—	(152)	(40)
Amounts reclassified from AOCI	—	—	4	4
Total other comprehensive income (loss)	112	—	(148)	(36)
Balance as of June 30, 2021	$ 223	$ (4)	$ (91)	$ 128
For the first six months of 2022:				
Beginning balance	**$ 81**	**$ (4)**	**$ (103)**	**$ (26)**
Other comprehensive income (loss)	**(34)**	**(3)**	**266**	**229**
Amounts reclassified from AOCI	**—**	**—**	**2**	**2**
Total other comprehensive income (loss)	**(34)**	**(3)**	**268**	**231**
Balance as of June 30, 2022	**$ 47**	**$ (7)**	**$ 165**	**$ 205**
For the first six months of 2021:				
Beginning balance	$ 95	$ (4)	$ (14)	$ 77
Other comprehensive income (loss)	128	—	(84)	44
Amounts reclassified from AOCI	—	—	7	7
Total other comprehensive income (loss)	128	—	(77)	51
Balance as of June 30, 2021	$ 223	$ (4)	$ (91)	$ 128

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

		Second Quarter		First Six Months	
(in millions)	Income Statement Caption	2022	2021	2022	2021
Cash Flow Hedges:					
Interest rate contracts	Interest expense	**$ (2)**	$ —	**$ (2)**	$ —
FX contracts	Cost of sales	**2**	4	**5**	9
Total		**—**	4	**3**	9
Income tax benefit		**—**	—	**(1)**	(2)
Total, net of tax		**$ —**	$ 4	**$ 2**	$ 7

14. Other Financial Information

SELECTED BALANCE SHEET INFORMATION

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

(in millions)	June 30, 2022	December 31, 2021
Inventories:		
Raw materials	$ 395	$ 330
Work-in-progress	5	6
Finished goods	862	577
Total	1,262	913
Allowance for excess and obsolete inventories	(23)	(19)
Total Inventories	$ 1,239	$ 894
Prepaid expenses and other current assets:		
Other receivables	$ 130	$ 112
Prepaid income taxes	123	5
Customer incentive programs	80	21
Derivative instruments	116	144
Prepaid marketing	26	12
Spare parts	80	72
Income tax receivable	15	14
Other	82	67
Total prepaid expenses and other current assets	$ 652	$ 447
Other non-current assets:		
Operating lease right-of-use assets	$ 829	$ 673
Customer incentive programs	53	59
Derivative instruments	92	3
Equity securities(1)	46	58
Equity securities without readily determinable fair values	1	1
Other	138	143
Total other non-current assets	$ 1,159	$ 937

(1) Equity securities are comprised of assets held in a rabbi trust in connection with a non-qualified defined contribution plan, as well as our ownership interest in Vita Coco. Fair values of these equity 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.

(in millions)	June 30, 2022	December 31, 2021
Accrued expenses:		
Accrued customer trade	**$ 372**	$ 446
Accrued compensation	**210**	227
Insurance reserve	**49**	33
Accrued interest	**64**	55
Accrued professional fees	**10**	19
Other accrued expenses	**401**	330
Total accrued expenses	**$ 1,106**	$ 1,110
Other current liabilities:		
Dividends payable	**$ 265**	$ 265
Income taxes payable	**18**	144
Operating lease liability	**93**	76
Finance lease liability	**92**	79
Derivative instruments	**73**	39
Other	**19**	10
Total other current liabilities	**$ 560**	$ 613
Other non-current liabilities:		
Operating lease liability	**$ 752**	$ 608
Finance lease liability	**632**	621
Pension and post-retirement liability	**42**	40
Insurance reserves	**68**	75
Derivative instruments	**131**	143
Deferred compensation liability	**33**	43
Other	**56**	47
Total other non-current liabilities	**$ 1,714**	$ 1,577

ACCOUNTS PAYABLE

KDP has agreements with third party administrators which allow 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 through this program 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 administrators that as of June 30, 2022 and December 31, 2021, $3,698 million and $3,194 million, respectively, of KDP's outstanding payment obligations were voluntarily elected by the supplier and sold to financial institutions.

15. Commitments and Contingencies

KDP is occasionally subject to litigation or other legal proceedings. Reserves are recorded 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. As of June 30, 2022 and December 31, 2021, the Company had litigation reserves of $12 million and $14 million, respectively. KDP has also identified certain other legal matters where we believe an unfavorable outcome is reasonably possible and/or for which no estimate of possible losses can be made. The Company does not believe that the outcome of these, or any other, pending legal matters, individually or collectively, will have a material adverse effect on the results of operations, financial condition or liquidity of KDP.

ANTITRUST LITIGATION

In February 2014, TreeHouse Foods, Inc. and certain affiliated entities filed suit against KDP's wholly-owned subsidiary, Keurig, 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 treble monetary damages, declaratory relief, injunctive relief and attorneys' fees. In March 2014, JBR, Inc. filed suit against Keurig 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 2014, a number of putative class actions asserting similar claims and seeking similar relief to the matters described above were filed on behalf of purported direct purchasers of Keurig's products in various federal district courts. In June 2014, these various actions, including the TreeHouse and JBR suits, were transferred to a single judicial district for coordinated pre-trial proceedings (the "Multidistrict Antitrust Litigation"). A consolidated putative class action complaint by direct purchaser plaintiffs was filed in July 2014. In January 2019, McLane Company, Inc. filed suit against Keurig (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 concluded in 2021, with plaintiffs collectively claiming more than $5 billion of monetary damages. Keurig strongly disputes the merits of the claims and the calculation of damages. As a result, Keurig has fully briefed a summary judgment motion that, if successful, would end the cases entirely. Keurig has also fully briefed other significant motions, including challenges to the validity of plaintiffs' damages calculations. Keurig is also pursuing its opposition to direct purchaser plaintiffs' motion for class certification.

In July 2021, BJ's Wholesale Club, Inc. filed suit against Keurig (BJ's Wholesale Club, Inc. v. Keurig Green Mountain, Inc.) in the U.S. District Court for the Eastern District of New York ("EDNY") asserting similar claims and also was transferred into the Multidistrict Antitrust Litigation. In August 2021, Winn-Dixie Stores, Inc. and Bi-Lo Holding LLC filed suit against Keurig (Winn-Dixie Stores, Inc. et al. v. Keurig Green Mountain, Inc. et al.) in the EDNY asserting similar claims and was also transferred into the Multidistrict Antitrust Litigation. These cases remain in the early stages of discovery.

A number of putative class actions asserting similar claims and seeking similar relief were previously filed on behalf of purported indirect purchasers of Keurig's products. In July 2020, Keurig reached an agreement with the putative indirect purchaser class plaintiffs in the Multidistrict Antitrust Litigation to settle the claims asserted for $31 million. The settlement class consists of individuals and entities in the United States that purchased, from persons other than Keurig and not for purposes of resale, Keurig manufactured or licensed single serve beverage portion packs during the applicable class period (beginning in September 2010 for most states). The court granted preliminary approval of the settlement in December 2020, and the Company paid the settlement amount in January 2021. In June 2021, the Court granted final approval of the settlement, entered final judgment, and dismissed the indirect purchasers' claims.

Separate from the U.S. actions described above, a statement of claim was filed in September 2014 against Keurig and Keurig Canada Inc. in Ontario, Canada, by Club Coffee L.P., a Canadian manufacturer of single serve beverage pods, asserting a breach of competition law and false and misleading statements by Keurig. To date, this plaintiff has not taken substantive action to prosecute its claims.

KDP intends to vigorously defend the remaining lawsuits described above. 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. Accordingly, the Company has not accrued for a loss contingency. Additionally, as the timelines in these cases may be beyond our control, we cannot assure you if or when there will be material developments in these matters.

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 Keurig, and certain other defendants who manufacture, package, distribute or sell coffee, failed to warn persons in California that Keurig's coffee products expose persons to the chemical acrylamide in violation of Proposition 65.

Keurig, 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. CERT has filed its appeal brief, and the Company intends to continue vigorously defending itself in this action. However, the Company believes that the likelihood that it will incur a material loss in connection with the CERT litigation is remote and accordingly, no loss contingency has been recorded.

16. Transactions with Variable Interest Entities

The Company has a number of leasing arrangements and one licensing arrangement with special purpose entities associated with the same sponsor, which are referred to as the Veyron SPEs. The Veyron SPEs are VIEs for which KDP is not the primary beneficiary.

LEASING ARRANGEMENTS

As of June 30, 2022, the Company has entered into twelve lease transactions with the Veyron SPEs, eleven of which were associated with asset sale-leaseback transactions. Refer to Note 5 for additional information about the current period asset sale-leaseback transactions. Each lease has a RVG based on a percentage of Veyron SPEs's purchase price; however, the Company concluded it was not probable that the Company will owe an amount at the end of each individual lease term, as the fair values of the properties are not expected to fall below the RVGs at the end of each individual lease term. As such, the Company recorded each lease obligation excluding the associated RVG. The aggregate maximum undiscounted RVG associated with the leasing arrangements as of June 30, 2022 and December 31, 2021 were $602 million and $549 million, respectively. This aggregate maximum value assumes that the fair value of each property at the end of either the original lease term or renewal term is equal to zero, which the Company has concluded is not probable.

The following table provides the carrying amounts of the right-to-use assets and lease obligations recorded on the Company's Consolidated Balance Sheets associated with these leasing arrangements related to the VIEs as of June 30, 2022 and December 31, 2021.

(in millions)	**June 30, 2022[(1)]**	**December 31, 2021[(2)]**
Current assets	**$ 21**	$ 19
Non-current assets	**352**	312
Current liabilities	**20**	13
Non-current liabilities	**364**	323

(1) The leasing agreements included as of June 30, 2022 include eight manufacturing sites, three distribution centers and our Frisco, Texas headquarters.

(2) The leasing agreements included as of December 31, 2021 include seven manufacturing sites, two distribution centers and our Frisco, Texas headquarters.

LICENSING ARRANGEMENT

ABC, a wholly-owned subsidiary of KDP, has provided a guarantee in connection with its distribution agreement with the Veyron SPEs to be paid only in the event the Veyron SPEs sell specific distribution rights and the value of those distribution rights does not exceed $142 million, which is the maximum undiscounted amount that KDP could pay under the guarantee. All obligations with respect to the guarantee will cease upon termination of the distribution agreement, which would occur upon notice by ABC not to renew the distribution agreement, KDP no longer being investment grade at the end of the term, or the sale of the distribution rights by the Veyron SPEs. As of June 30, 2022, KDP has not recorded a liability as it is not probable that the Company will have to make any payments required under the residual value guarantee, as the fair value of the distribution rights is not expected to fall below $142 million over the term of the agreement.

As of June 30, 2022, KDP had $104 million in fixed service fee commitments related to the 15-year distribution agreement which was effective on December 28, 2020, with Veyron SPEs. These commitments were used to assist the Veyron SPEs in obtaining financing. Such fixed service fee payments began on January 1, 2021.

Fixed service fees over the next five years are expected to be as follows:

		For the Years Ending December 31,				
(in millions)	**Remainder of 2022**	**2023**	**2024**	**2025**	**2026**	**2027**
Fixed service fees	**$ 4**	**$ 8**	**$ 8**	**$ 8**	**$ 8**	**$ 8**

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.

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 the impact of the global COVID-19 pandemic, inflation, future events, future financial performance, plans, strategies, expectations, prospects, competitive environment, regulation, labor matters, supply chain issues 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, 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, our key brands include Keurig, Dr Pepper, Canada Dry, Snapple, Bai, Mott's, Core, Green Mountain and The Original Donut Shop. We have some of the most recognized beverage brands in North America, with significant consumer awareness levels and long histories that evoke strong emotional connections with consumers. We offer 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, which are 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 and our WD systems. KDP markets and sells its products to retailers, including supermarkets, mass merchandisers, club stores, e-commerce retailers, office superstores, vending machines, grocery and drug stores, and convenience stores; 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.

Our reportable segments consist of the following:

- The Coffee Systems segment reflects sales in the U.S. and Canada of the manufacture and distribution of finished goods relating to our single-serve brewers, K-Cup pods and other coffee products.
- 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 our own brands and third-party brands, through both the DSD and WD systems.
- The Beverage Concentrates segment reflects sales primarily in the U.S. and Canada of our branded concentrates to third-party bottlers and our syrup to fountain foodservice customers. 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.

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 and the impact of foreign currency. See *Non-GAAP Financial Measures* for further information.

EXECUTIVE SUMMARY

Financial Overview - Second Quarter of 2022 as compared to Second Quarter of 2021

As Reported, in millions (except EPS)

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As Adjusted, in millions (except EPS)

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Key Events During the Second Quarter of 2022

In April 2022, we announced a succession plan where Robert J. Gamgort will transition from his position as President and Chief Executive Officer, remaining as our Executive Chairman of our Board. Our Board appointed Ozan Dokmecioglu, currently Chief Financial Officer & President of International, as the Company's next President and Chief Executive Officer, effective July 29, 2022.

In connection with this leadership transition, George Lagoudakis, currently our Senior Vice President of Finance for Cold Beverages, was appointed to serve as our interim Chief Financial Officer, effective July 29, 2022, while we continue our external search for our permanent Chief Financial Officer.

In April 2022, we chose to undertake a strategic refinancing initiative, reducing our weighted average coupon rate on our Notes from 3.671% at March 31, 2022 to 3.595% after the refinancing. Refer to Note 2 of the Notes to our Unaudited Condensed Consolidated Financial Statements for further information.

During the second quarter of 2022, we repurchased and retired $88 million of common stock.

We were added to the S&P 500 Index, effective prior to the open of trading on June 21, 2022.

During the second quarter, we acquired equity interests in Tractor Beverage and entered into an exclusive sales agreement, which leverages the strength of our fountain foodservice business and expands our FFS portfolio. We also announced an agreement to acquire the global rights to the non-alcoholic, ready-to-drink cocktail brand Atypique, which is expected to close during the second half of 2022.

Uncertainties and Trends Affecting Our Business

We believe the North American beverage market is influenced by certain key trends and uncertainties. Refer to Item 1A, "Risk Factors", of our Annual Report, for more information about risks and uncertainties facing us.

Some of these items, such as the ongoing COVID-19 pandemic and the invasion of Ukraine by Russia, and the resulting impacts on the global economy, including supply chain constraints and labor shortages, have led to inflation in input costs, logistics, manufacturing and labor costs. During the first six months of 2022, we have experienced supply chain disruptions and a significant inflationary impact compared to the prior year period. These impacts have created headwinds for our products that we expect to continue through the remainder of 2022.

As a result of these inflationary pressures, we have increased the pricing on a number of our products across our portfolio. Consequently, we may incur a reduction of volume or net sales, which, combined with the inflationary pressures, could impact our margins and operating results.

Refer to Note 4 of the Notes to our Unaudited Condensed Consolidated Financial Statements for our discussion of how we manage our exposure to commodity risk.

Impact of COVID-19 on our Financial Statements

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 are 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)	Total
For the second quarter of 2022:				
Coffee Systems	**$ —**	**$ 1**	**$ —**	**$ 1**
Packaged Beverages	**1**	**1**	**—**	**2**
Beverage Concentrates	**—**	**—**	**—**	**—**
Latin America Beverages	**—**	**1**	**—**	**1**
Total	**$ 1**	**$ 3**	**$ —**	**$ 4**
For the second quarter of 2021:				
Coffee Systems	$ 1	$ 4	$ (2)	$ 3
Packaged Beverages	3	3	(8)	(2)
Beverage Concentrates	—	—	(3)	(3)
Latin America Beverages	—	—	—	—
Total	$ 4	$ 7	$ (13)	$ (2)
For the first six months of 2022:				
Coffee Systems	**$ 1**	**$ 3**	**$ —**	**$ 4**
Packaged Beverages	**2**	**2**	**—**	**4**
Beverage Concentrates	**—**	**—**	**—**	**—**
Latin America Beverages	**—**	**1**	**—**	**1**
Total	**$ 3**	**$ 6**	**$ —**	**$ 9**
For the first six months of 2021:				
Coffee Systems	$ 2	$ 13	$ (2)	$ 13
Packaged Beverages	6	5	(8)	3
Beverage Concentrates	—	—	(3)	(3)
Latin America Beverages	—	1	—	1
Total	$ 8	$ 19	$ (13)	$ 14

(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) Amounts include pay for temporary employees, including the associated taxes, as well as incremental benefits provided to frontline workers such as extended sick leave, in order to maintain essential operations during the COVID-19 pandemic.
(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) Reflects reversal of allowances initially recorded in 2020 specifically related to the COVID-19 pandemic, driven by improving economic conditions during 2021.

RESULTS OF OPERATIONS

We eliminate from our financial results all applicable 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".

Second Quarter of 2022 Compared to Second Quarter of 2021

Consolidated Operations

The following table sets forth our unaudited condensed consolidated results of operations for the second quarter of 2022 and 2021:

	Second Quarter		Dollar	Percentage
($ in millions, except per share amounts)	**2022**	2021	Change	Change
Net sales	**$ 3,554**	$ 3,140	$ 414	13.2 %
Cost of sales	**1,778**	1,370	408	29.8
Gross profit	**1,776**	1,770	6	0.3
Selling, general and administrative expenses	**1,204**	1,039	165	15.9
Other operating income, net	**—**	(3)	3	NM
Income from operations	**572**	734	(162)	(22.1)
Interest expense	**175**	125	50	40.0
Loss on early extinguishment of debt	**169**	—	169	NM
Impairment of investments and note receivable	**6**	—	6	NM
Other expense (income), net	**9**	(4)	13	NM
Income before provision for income taxes	**213**	613	(400)	(65.3)
(Benefit) provision for income taxes	**(5)**	165	(170)	NM
Net income including non-controlling interest	**218**	448	(230)	(51.3)
Less: Net loss attributable to non-controlling interest	**—**	—	—	NM
Net income attributable to KDP	**$ 218**	$ 448	(230)	(51.3)
Earnings per common share:				
Basic	**$ 0.15**	$ 0.32	$ (0.17)	(53.1) %
Diluted	**0.15**	0.31	(0.16)	(51.6)
Gross margin	**50.0 %**	56.4 %		(640) bps
Operating margin	**16.1 %**	23.4 %		(730) bps
Effective tax rate	**(2.3)%**	26.9 %		NM

Sales Volume. The following table provides the percentage change in sales volumes for the second quarter of 2022 compared to the prior year period:

	Percentage Change
K-Cup pod volume	4.7
Brewer volume	(4.2)
CSD sales volume	2.8
NCB sales volume	3.7

Net Sales. Net sales increased $414 million, or 13.2%, to $3,554 million for the second quarter of 2022 compared to $3,140 million in the prior year period. This performance reflected favorable net price realization of 10.4%, across all segments, and favorable volume/mix of 3.1%, slightly offset by unfavorable FX translation of 0.3%.

Gross Profit. Gross profit increased $6 million, or 0.3%, to $1,776 million for the second quarter of 2022 compared to $1,770 million in the prior year period. This performance primarily reflected strong growth in net sales, the benefit of productivity, and reduced costs associated with COVID-19. These benefits were partially offset by higher costs driven significantly by broad-based inflation, an unfavorable change in unrealized commodity mark-to-market impacts, and increased costs associated with productivity projects. Gross margin decreased 640 bps versus the year ago period to 50.0%.

Selling, General and Administrative Expenses. SG&A expenses increased $165 million, or 15.9%, to $1,204 million for the second quarter of 2022 compared to $1,039 million in the prior year period. The increase was driven by higher logistics costs, driven by both inflation and product mix, and an unfavorable change in unrealized commodity mark-to-market impacts.

Income from Operations. Income from operations decreased $162 million, or 22.1%, to $572 million for the second quarter of 2022 compared to $734 million in the prior year period, primarily driven by increased SG&A expenses. Operating margin decreased 730 bps versus the year ago period to 16.1%.

Interest Expense. Interest expense increased $50 million, or 40.0%, to $175 million for the second quarter of 2022 compared with $125 million in the prior year period. This change was primarily driven by unfavorable unrealized mark-to-market losses of $62 million on interest rate contracts and the unfavorable comparison to realized gains on certain interest rate contracts in the prior year period, which was partially offset by reduced interest expense on our senior unsecured notes as a result of deleveraging and our strategic refinancing initiatives.

Loss on Early Extinguishment of Debt. Loss on early extinguishment of debt reflected a loss of $169 million during the second quarter of 2022 related to our 2022 Strategic Refinancing. There was no loss on early extinguishment of debt during the prior year period.

Impairment of Investments and Note Receivable. Impairment of investments and note receivable reflected an impairment charge of $6 million in the second quarter of 2022 associated with the wind-down of Bedford. Refer to Note 12 of the Notes to our Unaudited Condensed Consolidated Financial Statements for further information.

Effective Tax Rate. The effective tax rate was (2.3)% for the second quarter of 2022, compared to 26.9% in the prior year period, primarily driven by the revaluation of state deferred tax liabilities due to state legislative changes.

Net Income Attributable to KDP. Net income decreased $230 million, or 51.3%, to $218 million for the second quarter of 2022 as compared to $448 million in the prior year period, driven by the loss on early extinguishment of debt, lower income from operations and increased interest expense, partially offset by the decrease in our effective tax rate.

Diluted EPS. Diluted EPS decreased 51.6% to $0.15 per diluted share for the second quarter of 2022 as compared to $0.31 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 second quarter of 2022 and 2021, as well as other amounts necessary to reconcile our segment results to our consolidated results presented in accordance with U.S. GAAP.

Effective January 1, 2022, the Company updated its presentation of certain of KDP's corporate costs, primarily related to IT, to be aligned among the Company's segments and to more consistently reflect controllable costs at the segment level. The prior period segment disclosures reflect the revised presentation.

	Second Quarter	
(in millions)	**2022**	**2021**
Segment Results — Net sales		
Coffee Systems	**$ 1,195**	$ 1,101
Packaged Beverages	**1,689**	1,498
Beverage Concentrates	**460**	375
Latin America Beverages	**210**	166
Net sales	**$ 3,554**	$ 3,140

	Second Quarter	
(in millions)	**2022**	**2021**
Segment Results — Income from operations		
Coffee Systems	**$ 315**	$ 355
Packaged Beverages	**232**	261
Beverage Concentrates	**324**	255
Latin America Beverages	**50**	36
Unallocated corporate costs	**(349)**	(173)
Income from operations	**$ 572**	$ 734

COFFEE SYSTEMS

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

	Second Quarter		Dollar	Percent
(in millions)	**2022**	**2021**	**Change**	**Change**
Net sales	**$ 1,195**	$ 1,101	$ 94	8.5 %
Income from operations	**315**	355	(40)	(11.3)
Operating margin	**26.4 %**	32.2 %		(580) bps

Sales Volume. K-Cup pod volume grew 4.7% in the second quarter of 2022 compared to 0.2% in the year ago period, driven by the early completion of our coffee recovery program, which enabled us to rebuild retailer and partner inventories and restore customer service levels. Brewer volume decreased 4.2% in the quarter, driven by the unfavorable comparison to significant brewer shipment growth of 29.0% in the year ago period.

Net Sales. Net sales increased 8.5% to $1,195 million for the second quarter of 2022 compared to net sales of $1,101 million in the prior year period, reflecting favorable net price realization of 5.8% and volume/mix growth of 3.3%, driving growth in net sales for both K-cup pods and brewers. These benefits were slightly offset by unfavorable FX translation of 0.6%.

Income from Operations. Income from operations decreased $40 million, or 11.3%, to $315 million for the second quarter of 2022, compared to $355 million for the prior year period, as a result of broad-based inflation, investments to accelerate coffee recovery, increases in other operating costs, and increased expenses associated with productivity projects, partially offset by the benefits of pricing actions and the benefit of productivity. Operating margin declined 580 bps versus the year ago period to 26.4%.

PACKAGED BEVERAGES

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

	Second Quarter		Dollar	Percent
(in millions)	**2022**	**2021**	**Change**	**Change**
Net sales	**$ 1,689**	$ 1,498	$ 191	12.8 %
Income from operations	**232**	261	(29)	(11.1)
Operating margin	**13.7 %**	17.4 %		(370) bps

Sales Volume. Sales volume for the second quarter of 2022 increased 1.0% compared to the prior year period, due primarily to strength in CSDs, Core, Motts, Hawaiian Punch, and Polar, which was partially offset by reductions in contract manufacturing and Bai.

Net Sales. Net sales increased 12.8% to $1,689 million for the second quarter of 2022, compared to $1,498 million in the prior year period, driven by favorable net price realization of 11.0%, primarily driven by price increases, and volume/mix growth of 1.9%, slightly offset by unfavorable FX translation of 0.1%.

Income from Operations. Income from operations decreased $29 million, or 11.1%, to $232 million for the second quarter of 2022, compared to $261 million for the prior year period, driven by broad-based inflation, higher costs associated with increased volume and increases in other operating costs, partially offset by the impact of net sales growth and productivity. Operating margin declined 370 bps versus the year ago period to 13.7%.

BEVERAGE CONCENTRATES

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

	Second Quarter		Dollar	Percent
(in millions)	**2022**	**2021**	**Change**	**Change**
Net sales	**$ 460**	$ 375	$ 85	22.7 %
Income from operations	**324**	255	69	27.1
Operating margin	**70.4 %**	68.0 %		240 bps

Sales volume. Sales volume for the second quarter of 2022 increased 3.5% compared to the prior year period, driven primarily by Canada Dry and Dr Pepper, partially offset by Schweppes.

Net Sales. Net sales increased 22.7% to $460 million in the second quarter of 2022, compared to $375 million for the prior year period, reflecting higher net price realization of 19.2%, largely driven by the favorable comparison to our prior year customer trade accrual, as well as price increases, and volume/mix growth of 3.7%. These benefits were slightly offset by unfavorable FX translation impacts of 0.2%.

Income from Operations. Income from operations increased $69 million, or 27.1%, to $324 million for the second quarter of 2022 compared to $255 million in the prior year period. This performance reflected the impact of net sales growth, partially offset by the impacts of broad-based inflation. Operating margin increased 240 bps versus the year ago period to 70.4% primarily due to the favorable comparison to our prior year customer trade accrual.

LATIN AMERICA BEVERAGES

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

	Second Quarter		Dollar	Percent
(in millions)	**2022**	**2021**	**Change**	**Change**
Net sales	**$ 210**	$ 166	$ 44	26.5 %
Income from operations	**50**	36	14	38.9
Operating margin	**23.8 %**	21.7 %		210 bps

Sales Volume. Sales volume for the second quarter of 2022 as compared to the prior year period increased 7.5%, led by Peñafiel, Squirt and Clamato, driven by strong in-market execution and improvements in consumer mobility.

Net Sales. Net sales grew 26.5% to $210 million for the second quarter of 2022, compared to $166 million in the prior year period, reflecting favorable net price realization of 14.5% and volume/mix growth of 12.0%.

Income from Operations. Income from operations increased $14 million, or 38.9%, to $50 million for the second quarter of 2022 compared to $36 million in the prior year period, reflecting the benefit of net sales growth and productivity, partially offset by the impacts of broad-based inflation and higher costs associated with increased volumes. Operating margin increased 210 bps versus the year ago period to 23.8% despite inflationary headwinds.

First Six Months of 2022 Compared to First Six Months of 2021

Consolidated Operations

The following table sets forth our unaudited condensed consolidated results of operations for the first six months of 2022 and 2021:

($ in millions, except per share amounts)	**First Six Months 2022**	**First Six Months 2021**	**Dollar Change**	**Percentage Change**
Net sales	**$ 6,632**	$ 6,042	$ 590	9.8 %
Cost of sales	**3,206**	2,672	534	20.0
Gross profit	**3,426**	3,370	56	1.7
Selling, general and administrative expenses	**2,222**	2,000	222	11.1
Gain on litigation settlement	**(299)**	—	(299)	NM
Other operating income, net	**(35)**	(4)	(31)	NM
Income from operations	**1,538**	1,374	164	11.9
Interest expense	**363**	265	98	37.0
Loss on early extinguishment of debt	**217**	105	112	NM
Gain on sale of equity method investment	**(50)**	—	(50)	NM
Impairment of investments and note receivable	**12**	—	12	NM
Other expense (income), net	**18**	(7)	25	NM
Income before provision for income taxes	**978**	1,011	(33)	(3.3)
Provision for income taxes	**175**	238	(63)	(26.5)
Net income including non-controlling interest	**803**	773	30	3.9
Less: Net loss attributable to non-controlling interest	**—**	—	—	NM
Net income attributable to KDP	**$ 803**	$ 773	30	3.9
Earnings per common share:				
Basic	**$ 0.57**	$ 0.55	$ 0.02	3.6 %
Diluted	**0.56**	0.54	0.02	3.7
Gross margin	**51.7 %**	55.8 %		(410) bps
Operating margin	**23.2 %**	22.7 %		50 bps
Effective tax rate	**17.9 %**	23.5 %		(560) bps

Sales Volume. The following table provides the percentage change in sales volumes compared to the prior year period:

	Percentage Change
K-Cup pods	(0.4) %
Brewers	(4.6)
CSDs	3.3
NCBs	1.9

Net Sales. Net sales increased $590 million, or 9.8%, to $6,632 million for the first six months of 2022 compared to $6,042 million in the prior year period. This performance reflected favorable net price realization of 8.4% across all segments and volume/mix growth of 1.5%, as expected reductions in our Coffee Systems segment during the first quarter of 2022 moderated volume gains in our other segments. These benefits were slightly offset by unfavorable FX translation of 0.1%.

Gross Profit. Gross profit increased $56 million, or 1.7%, to $3,426 million for the first six months of 2022 compared to $3,370 million in the prior year period. This performance primarily reflected strong growth in net sales, partially offset by higher costs significantly driven by broad-based inflation and an unfavorable change in unrealized commodity mark-to-market impacts. Gross margin decreased 410 bps versus the year ago period to 51.7%.

Selling, General and Administrative Expenses. SG&A expenses increased $222 million, or 11.1%, to $2,222 million for the first six months of 2022 compared to $2,000 million in the prior year period. The increase was driven by higher logistics costs, driven by both inflation and product mix, and increases in other operating costs. These drivers were partially offset by the impact of a change in our accounting policy related to the recognition of forfeitures for our stock awards of $40 million during the first quarter of 2022.

Gain on litigation settlement. Gain on litigation settlement reflects the portion of the settlement payment from BodyArmor which was allocated to the gain on the full settlement of the existing claims against BodyArmor. Refer to Note 12 of the Notes to our Unaudited Condensed Consolidated Financial Statements for further information.

Other Operating Income, net. Other operating income, net increased $31 million for the first six months of 2022 compared to the prior year period, primarily driven by a $38 million gain on an asset sale-leaseback transaction related to our strategic asset investment program in the current period.

Income from Operations. Income from operations increased $164 million, or 11.9%, to $1,538 million for the first six months of 2022 compared to $1,374 million in the prior year period, primarily driven by the gain on the litigation settlement, increased gross profit and the gain related to our strategic asset investment program, partially offset by increased SG&A expenses. Operating margin increased 50 bps versus the year ago period to 23.2%.

Interest Expense. Interest expense increased $98 million, or 37.0%, to $363 million for the first six months of 2022 compared to $265 million for the prior year period. This change was primarily driven by unfavorable unrealized mark-to-market losses of $141 million on interest rate contracts, which was partially offset by reduced interest expense on our senior unsecured notes as a result of deleveraging and our strategic refinancing initiatives.

Loss on Early Extinguishment of Debt. Loss on early extinguishment of debt reflected an unfavorable change of $112 million, with a loss of $217 million during the first six months of 2022 related to our 2022 Strategic Refinancing and our early retirement of our 2038 Notes, the 2021 364-Day Credit Agreement and the KDP Revolver, as compared to a loss of $105 million in the prior year period associated with our 2021 strategic refinancing.

Gain on sale of equity method investment. Gain on sale of equity method investment reflects the portion of the settlement payment from BodyArmor which was allocated to the satisfaction of the holdback amount owed to us in association with the sale of our equity interest in BodyArmor in 2021. Refer to Note 12 of the Notes to our Unaudited Condensed Consolidated Financial Statements for further information.

Impairment of Investments and Note Receivable. Impairment on investments and note receivable reflected an impairment charge of $12 million in the first six months of 2022 associated with the wind-down of Bedford. Refer to Note 12 of the Notes to our Unaudited Condensed Consolidated Financial Statements for further information.

Effective Tax Rate. The effective tax rate decreased 560 bps to 17.9% for the first six months of 2022, compared to 23.5% in the prior year period, primarily driven by the revaluation of state deferred tax liabilities due to state legislative changes and the favorable mix of the Company's incremental income in low tax jurisdictions in the current period, partially offset by the unfavorable comparison to the excess tax deductions that were generated from the vesting of RSUs during the first six months of 2021.

Net Income Attributable to KDP. Net income attributable to KDP increased $30 million, or 3.9%, to $803 million for the first six months of 2022 as compared to $773 million in the prior year period, driven by higher income from operations, the decrease in our effective tax rate in the first six months of 2022 and the gain on the sale of our investment in BodyArmor, partially offset by the unfavorable comparison to the loss on early extinguishment of debt, increased interest expense and the impairment on the investments and note receivable associated with the wind-down of Bedford.

Diluted EPS. Diluted EPS increased 3.7% to $0.56 per diluted share as compared to $0.54 in the prior year period.

Results of Operations by Segment

The following tables provide net sales and income from operations for our reportable segments for the first six months of 2022 and 2021, as well as the other amounts necessary to reconcile our total segment results to our consolidated results presented in accordance with U.S. GAAP.

Effective January 1, 2022, the Company updated its presentation of certain of KDP's corporate costs, primarily related to IT, to be aligned among the Company's segments and to more consistently reflect controllable costs at the segment level. The prior period segment disclosures reflect the revised presentation.

(in millions)	First Six Months	
Net sales	**2022**	**2021**
Coffee Systems	**$ 2,288**	$ 2,243
Packaged Beverages	**3,169**	2,805
Beverage Concentrates	**819**	703
Latin America Beverages	**356**	291
Total net sales	**$ 6,632**	$ 6,042
Income from operations		
Coffee Systems	**$ 583**	$ 723
Packaged Beverages	**718**	440
Beverage Concentrates	**568**	493
Latin America Beverages	**75**	58
Unallocated corporate costs	**(406)**	(340)
Total income from operations	**$ 1,538**	$ 1,374

COFFEE SYSTEMS

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

	First Six Months		Dollar	Percent
(in millions)	**2022**	**2021**	**Change**	**Change**
Net sales	**$ 2,288**	$ 2,243	$ 45	2.0 %
Income from operations	**583**	723	(140)	(19.4)
Operating margin	**25.5 %**	32.2 %		(670) bps

Sales Volume. K-Cup pod volume was relatively flat for the first six months of 2022 compared to the prior year period, as gains in volume during the second quarter of 2022 offset negative volume comparisons in the first quarter of 2021, reflecting the early completion of our coffee recovery program, which enabled us to rebuild retailer and partner inventories and restore customer service levels through the first half of the year. Brewer volume decreased 4.6% in the first six months of 2022, driven by the unfavorable comparison to significant brewer shipment growth of 41.3% in the prior year period.

Net Sales. Net sales increased 2.0% to $2,288 million for the first six months of 2022 compared to $2,243 million in the prior year period, driven by favorable net price realization of 4.5%, partially offset by volume/mix declines of 2.2% and unfavorable FX translation effects of 0.3%.

Income from Operations. Income from operations decreased $140 million, or 19.4%, to $583 million for the first six months of 2022, compared to $723 million in the prior year period, as a result of broad-based inflation and lower volume/mix. These decreases were partially offset by the benefits of pricing actions, productivity, and reduced costs related to COVID-19. Operating margin declined 670 bps versus the year ago period to 25.5% due to these inflationary and volume headwinds.

PACKAGED BEVERAGES

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

	First Six Months		Dollar	Percent
(in millions)	**2022**	**2021**	**Change**	**Change**
Net sales	**$ 3,169**	$ 2,805	$ 364	13.0 %
Income from operations	**718**	440	278	63.2
Operating margin	**22.7 %**	15.7 %		NM

Sales Volume. Sales volume for the first six months of 2022 increased 2.0% compared to the prior year period, due primarily to strength in CSDs, Motts, Core, Polar and Hawaiian Punch, which were partially offset by reductions in contract manufacturing and Bai.

Net Sales. Net sales increased 13.0% to $3,169 million in the first six months of 2022, compared to $2,805 million in the prior year period, driven by favorable net price realization of 9.7% and volume/mix growth of 3.3%.

Income from Operations. Income from operations increased $278 million, or 63.2%, to $718 million for the first six months of 2022 compared to $440 million for the prior year period, driven by the benefits of net sales growth, the gain on the settlement of litigation with BodyArmor of $271 million, asset sale-leaseback activity in the first six months of 2022 relating to our strategic asset initiative, and productivity. These increases were partially offset by the increased costs due to the impacts of broad-based inflation and higher costs associated with higher volumes.

BEVERAGE CONCENTRATES

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

	First Six Months		Dollar	Percent
(in millions)	**2022**	**2021**	**Change**	**Change**
Net sales	**$ 819**	$ 703	$ 116	16.5 %
Income from operations	**568**	493	75	15.2
Operating margin	**69.4 %**	70.1 %		(70) bps

Sales Volume. Sales volume for the first six months of 2022 increased 2.8% compared to the prior year period, primarily driven by Dr Pepper and Canada Dry, partially offset by Crush and Schweppes.

Net Sales. Net sales increased 16.5% to $819 million in the first six months of 2022, compared to $703 million in the prior year period, reflecting higher net price realization of 13.8%, driven by price increases, as well as the favorable comparison to our prior year customer trade accrual, and volume/mix growth of 2.8%, slightly offset by unfavorable FX translation effects of 0.1%.

Income from Operations. Income from operations increased $75 million, or 15.2%, to $568 million for the first six months of 2022 compared to $493 million in the prior year period. This performance reflected the impact of net sales growth, partially offset by the impacts of broad-based inflation and costs associated with productivity initiatives. Operating margin decreased 70 bps versus the year ago period to 69.4%.

LATIN AMERICA BEVERAGES

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

	First Six Months		Dollar	Percent
(in millions)	**2022**	**2021**	**Change**	**Change**
Net sales	**$ 356**	$ 291	$ 65	22.3 %
Income from operations	**75**	58	17	29.3
Operating margin	**21.1 %**	19.9 %		120 bps

Sales Volume. Sales volume for the first six months of 2022 as compared to the prior year period increased 6.6%, led by Squirt and Peñafiel, driven by strong in-market execution and improvements in consumer mobility.

Net Sales. Net sales grew 22.3% to $356 million for the first six months of 2022, compared to $291 million in the prior year period, reflecting favorable net price realization of 12.4% and volume/mix growth of 10.3%, slightly offset by unfavorable FX translation of 0.4%.

Income from Operations. Income from operations increased $17 million, or 29.3%, to $75 million for the first six months of 2022 compared to $58 million in the prior year period, driven by the benefit of net sales growth, partially offset by the impacts of broad-based inflation, higher costs associated with higher volumes and higher marketing expense. Operating margin increased 120 bps versus the year ago period to 21.1% despite inflationary headwinds.

NON-GAAP FINANCIAL MEASURES

To supplement the consolidated financial statements presented in accordance with U.S. GAAP, we have presented for certain constant currency adjusted or adjusted financial measures for the second quarter and first six months of 2022 and 2021, 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 non-GAAP financial 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. We use these non-GAAP financial measures, in addition to U.S. GAAP financial measures, to evaluate our operating and financial performance and to compare such performance to that of prior periods and to the performance of our competitors. Additionally, we use these non-GAAP financial measures in making operational and financial decisions and in our budgeting and planning process. We believe that providing these non-GAAP financial measures to investors helps investors evaluate our operating performance, profitability and business trends in a way that is consistent with how management evaluates such performance and consistent with guidance previously provided by us. The non-GAAP measures are defined as follows:

Adjusted: Defined as certain financial statement captions and metrics adjusted for certain items affecting comparability.

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 that 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; (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 and the associated windfall tax benefit attributable to the matching awards made to employees who made an initial investment in KDP; (vi) non-cash changes in deferred tax liabilities related to goodwill and other intangible assets as a result of tax rate or apportionment changes; and (vii) other certain items that are excluded for comparison purposes to prior year periods.

For the second quarter and first six months of 2022, 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 non-routine legal matters; (iv) the loss on early extinguishment of debt related to the redemption of debt; (v) incremental costs to our operations related to risks associated with the COVID-19 pandemic; (vi) the gain on the sale of our investment in BodyArmor as a result of the settlement of the associated holdback liability; (vii) the gain on the settlement of our prior litigation with BodyArmor, excluding recoveries of previously incurred litigation expenses which were included in our adjusted results; (viii) losses recognized with respect to our equity method investment in Bedford as a result of funding our share of their wind-down costs; (ix) transaction costs for significant business combinations (completed or abandoned) excluding the DPS Merger; and (x) foundational projects, which are transformative and non-recurring in nature.

For the second quarter and first six months of 2021, 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 non-routine legal matters; (iv) the loss on early extinguishment of debt related to the redemption of debt; (v) incremental costs to our operations related to risks associated with the COVID-19 pandemic; and (vi) gains from insurance recoveries related to the February 2019 organized malware attack on our business operation networks in the Coffee Systems segment.

Costs related to significant non-routine legal matters relate to the antitrust litigation. 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.

Constant currency adjusted: Defined as certain financial statement captions and metrics adjusted for certain items affecting comparability, calculated on a constant currency basis by converting our current period local currency financial results using the prior period foreign currency exchange rates.

For the second quarter and first six months of 2022 and 2021, the supplemental financial data set forth below includes reconciliations of adjusted and constant currency adjusted financial measures to the applicable financial measure presented in the unaudited condensed consolidated financial statements for the same period.

KEURIG DR PEPPER INC.
RECONCILIATION OF CERTAIN REPORTED ITEMS TO CERTAIN NON-GAAP ADJUSTED ITEMS
(Unaudited, in millions, except per share and percentages)

	Cost of sales	Gross profit	Gross margin	Selling, general and administrative expenses	Other operating income, net	Income from operations	Operating margin
For the Second Quarter of 2022							
Reported	$ 1,778	$ 1,776	50.0 %	$ 1,204	$ —	$ 572	16.1 %
Items Affecting Comparability:							
Mark to market	(138)	138		—	—	138	
Amortization of intangibles	—	—		(33)	—	33	
Stock compensation	—	—		(5)	—	5	
Restructuring and integration costs	—	—		(23)	1	22	
Productivity	(28)	28		(24)	—	52	
Non-routine legal matters	—	—		(3)	—	3	
COVID-19	(3)	3		(1)	—	4	
Transaction costs	—	—		(1)	—	1	
Foundational projects	—	—		(2)	—	2	
Adjusted	$ 1,609	$ 1,945	54.7 %	$ 1,112	$ 1	$ 832	23.4 %
Impact of foreign currency			— %				— %
Constant currency adjusted			54.7 %				23.4 %
For the Second Quarter of 2021							
Reported	$ 1,370	$ 1,770	56.4 %	$ 1,039	$ (3)	$ 734	23.4 %
Items Affecting Comparability:							
Mark to market	17	(17)		21	—	(38)	
Amortization of intangibles	—	—		(34)	—	34	
Stock compensation	—	—		(5)	—	5	
Restructuring and integration costs	—	—		(49)	—	49	
Productivity	(14)	14		(24)	—	38	
Non-routine legal matters	—	—		(6)	—	6	
COVID-19	(7)	7		(4)	—	11	
Adjusted	$ 1,366	$ 1,774	56.5 %	$ 938	$ (3)	$ 839	26.7 %

Refer to page 43 for reconciliations of reported net sales to constant currency net sales and adjusted income from operations to constant currency adjusted income from operations.

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KEURIG DR PEPPER INC.
RECONCILIATION OF CERTAIN REPORTED ITEMS TO CERTAIN NON-GAAP ADJUSTED ITEMS
(Unaudited, in millions, except per share and percentages)

	Interest expense	Loss on early extinguishment of debt	Impairment of investments and note receivable	Other expense (income), net	Income before provision for income taxes	(Benefit) provision for income taxes	Effective tax rate	Net income attributable to KDP	Diluted earnings per share
For the Second Quarter of 2022									
Reported	$ 175	$ 169	$ 6	$ 9	$ 213	$ (5)	(2.3) %	$ 218	$ 0.15
Items Affecting Comparability:									
Mark to market	(63)	—	—	1	200	49		151	0.11
Amortization of intangibles	—	—	—	—	33	8		25	0.02
Amortization of deferred financing costs	(1)	—	—	—	1	—		1	—
Amortization of fair value debt adjustment	(4)	—	—	—	4	1		3	—
Stock compensation	—	—	—	—	5	(2)		7	—
Restructuring and integration costs	—	—	—	—	22	5		17	0.01
Productivity	—	—	—	—	52	10		42	0.03
Impairment of investment	—	—	(6)	—	6	—		6	—
Loss on early extinguishment of debt	—	(169)	—	—	169	43		126	0.09
Non-routine legal matters	—	—	—	—	3	1		2	—
COVID-19	—	—	—	—	4	1		3	—
Transaction costs	—	—	—	—	1	—		1	—
Foundational projects	—	—	—	—	2	—		2	—
Change in deferred tax liabilities related to goodwill and other intangible assets	—	—	—	—	—	50		(50)	(0.03)
Adjusted	$ 107	$ —	$ —	$ 10	$ 715	$ 161	22.5 %	$ 554	$ 0.39
Impact of foreign currency							0.1 %		
Constant currency adjusted							22.6 %		
For the Second Quarter of 2021									
Reported	$ 125	$ —	$ —	$ (4)	$ 613	$ 165	26.9 %	$ 448	$ 0.31
Items Affecting Comparability:									
Mark to market	(1)	—	—	—	(37)	(9)		(28)	(0.02)
Amortization of intangibles	—	—	—	—	34	9		25	0.02
Amortization of deferred financing costs	(1)	—	—	—	1	—		1	—
Amortization of fair value of debt adjustment	(4)	—	—	—	4	—		4	—
Stock compensation	—	—	—	—	5	2		3	—
Restructuring and integration costs	—	—	—	—	49	11		38	0.03
Productivity	—	—	—	—	38	10		28	0.02
Non-routine legal matters	—	—	—	—	6	1		5	—
COVID-19	—	—	—	—	11	3		8	0.01
Change in deferred tax liabilities related to goodwill and other intangible assets	—	—	—	—	—	(6)		6	—
Adjusted	$ 119	$ —	$ —	$ (4)	$ 724	$ 186	25.7 %	$ 538	$ 0.38
Change - adjusted	(10.1) %							3.0 %	2.6 %
Impact of foreign currency	— %							0.3 %	— %
Change - constant currency adjusted	(10.1) %							3.3 %	2.6 %

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

KEURIG DR PEPPER INC.
RECONCILIATION OF CERTAIN REPORTED SEGMENT MEASURES
TO CERTAIN NON-GAAP ADJUSTED AND CURRENCY NEUTRAL ADJUSTED SEGMENT MEASURES
(Unaudited)

(in millions)	Reported	Items Affecting Comparability	Adjusted
For the second quarter of 2022:			
Income from operations			
Coffee Systems	**$ 315**	**$ 54**	**$ 369**
Packaged Beverages	**232**	**15**	**247**
Beverage Concentrates	**324**	**3**	**327**
Latin America Beverages	**50**	**—**	**50**
Unallocated corporate costs	**(349)**	**188**	**(161)**
Total income from operations	**$ 572**	**$ 260**	**$ 832**
For the second quarter of 2021:			
Income from operations			
Coffee Systems	$ 355	$ 49	$ 404
Packaged Beverages	261	28	289
Beverage Concentrates	255	2	257
Latin America Beverages	36	1	37
Unallocated corporate costs	(173)	25	(148)
Total income from operations	$ 734	$ 105	$ 839

	Reported	Impact of Foreign Currency	Constant Currency
For the second quarter of 2022:			
Net sales			
Coffee Systems	8.5 %	0.6 %	9.1 %
Packaged Beverages	12.8	0.1	12.9
Beverage Concentrates	22.7	0.2	22.9
Latin America Beverages	26.5	—	26.5
Total net sales	13.2	0.3	13.5

	Adjusted	Impact of Foreign Currency	Constant Currency Adjusted
For the second quarter of 2022:			
Income from operations			
Coffee Systems	(8.7) %	0.3 %	(8.4) %
Packaged Beverages	(14.5)	—	(14.5)
Beverage Concentrates	27.2	0.4	27.6
Latin America Beverages	35.1	—	35.1
Total income from operations	(0.8)	0.2	(0.6)

	Reported	Items Affecting Comparability	Adjusted	Impact of Foreign Currency	Constant Currency Adjusted
For the second quarter of 2022:					
Operating margin					
Coffee Systems	26.4 %	4.5 %	30.9 %	(0.1) %	30.8 %
Packaged Beverages	13.7	0.9	14.6	—	14.6
Beverage Concentrates	70.4	0.7	71.1	—	71.1
Latin America Beverages	23.8	—	23.8	—	23.8
Total operating margin	16.1	7.3	23.4	—	23.4

CONSTANT CURRENCY ADJUSTED RESULTS OF OPERATIONS

Second Quarter of 2022 Compared to Second Quarter of 2021

The following discussion of our results for the second quarter of 2022 is presented on a constant currency adjusted basis. These adjusted financial results are calculated on a constant currency basis by converting our current-period local currency financial results using the prior-period foreign currency exchange rates.

Consolidated Operations

Constant Currency Net Sales. Constant currency net sales increased 13.5% in the second quarter of 2022 compared to the prior year period, driven by favorable net price realization of 10.4% and volume/mix growth of 3.1%.

Constant Currency Adjusted Income from Operations. Constant currency adjusted income from operations decreased 0.6% compared to the prior year period, primarily driven by the impact of broad-based inflation, higher costs due to higher volumes, and increases in other operating costs, partially offset by the strong growth in net sales and the benefit of productivity.

Constant Currency Adjusted Interest Expense. Constant currency adjusted interest expense decreased 10.1% compared to the prior year period, driven by reduced interest expense on our senior unsecured notes as a result of deleveraging and our strategic refinancing initiatives, partially offset by the unfavorable comparison to realized gains on certain interest rate contracts in the prior year period.

Constant Currency Adjusted Effective Tax Rate. The constant currency adjusted effective tax rate was 22.6% for the second quarter of 2022 compared to 25.7% for the prior year period, primarily driven by our incremental income in low tax jurisdictions and the revaluation of state deferred tax liabilities due to state legislative changes.

Constant Currency Adjusted Net Income Attributable to KDP. Constant currency adjusted net income attributable to KDP increased 3.3% compared to the prior year period, as the impacts of lower interest expense and our reduced effective tax rate were slightly offset by the decline in income from operations.

Constant Currency Adjusted Diluted EPS. Constant currency adjusted diluted EPS increased 2.6% in the current period.

Results of Operations by Segment

COFFEE SYSTEMS

Constant Currency Net Sales. Constant currency net sales increased 9.1%, reflecting higher net price realization of 5.8% and volume/mix growth of 3.3%, driving growth in net sales for both K-cup pods and brewers.

Constant Currency Adjusted Income from Operations. Constant currency adjusted income from operations for the second quarter of 2022 decreased 8.4% compared to the prior year period, driven by increased costs due to the impacts of broad-based inflation, investments to accelerate coffee recovery and increases in other operating costs. These decreases were partially offset by the benefit of pricing actions and the benefit of productivity.

PACKAGED BEVERAGES

Constant Currency Net Sales. Constant currency net sales increased 12.9%, reflecting favorable net price realization of 11.0%, primarily driven by price increases, and volume/mix growth of 1.9%.

Constant Currency Adjusted Income from Operations. Constant currency adjusted income from operations for the second quarter of 2022 decreased 14.5% compared to the prior year period, driven primarily by broad-based inflation, higher costs associated with increased volume and increases in other operating costs, partially offset by the impact of net sales growth and productivity.

BEVERAGE CONCENTRATES

Constant Currency Net Sales. Constant currency net sales increased 22.9%, reflecting higher net price realization of 19.2%, predominantly driven by the favorable comparison to our prior year customer trade accrual, as well as price increases, and volume/mix growth of 3.7%.

Constant Currency Adjusted Income from Operations. Constant currency adjusted income from operations for the second quarter of 2022 increased 27.6% compared to the prior year period. This performance reflected the impact of net sales growth, partially offset by the impacts of broad-based inflation.

LATIN AMERICA BEVERAGES

Constant Currency Net Sales. Constant currency net sales increased 26.5%, driven by favorable net price realization of 14.5% and volume/mix growth of 12.0%.

Constant Currency Adjusted Income from Operations. Constant currency adjusted income from operations for the second quarter of 2022 increased 35.1% compared to the prior year period, reflecting the benefit of net sales growth and productivity, partially offset by the impacts of broad-based inflation and higher costs associated with increased volumes.

KEURIG DR PEPPER INC.
RECONCILIATION OF CERTAIN REPORTED ITEMS TO CERTAIN NON-GAAP ADJUSTED ITEMS
(Unaudited, in millions, except per share and percentages)

	Cost of sales	Gross profit	Gross margin	Selling, general and administrative expenses	Gain on litigation settlement	Other operating income, net	Income from operations	Operating margin
For the First Six Months of 2022								
Reported	$ 3,206	$ 3,426	51.7 %	$ 2,222	$ (299)	$ (35)	$ 1,538	23.2 %
Items Affecting Comparability:								
Mark to market	(79)	79		26	—	—	53	
Amortization of intangibles	—	—		(67)	—	—	67	
Stock compensation	—	—		2	—	—	(2)	
Restructuring and integration costs	—	—		(56)	—	(2)	58	
Productivity	(56)	56		(46)	—	—	102	
Non-routine legal matters	—	—		(7)	—	—	7	
COVID-19	(7)	7		(2)	—	—	9	
Gain on litigation	—	—		—	271	—	(271)	
Transaction costs	—	—		(1)	—	—	1	
Foundational projects	—	—		(2)	—	—	2	
Adjusted	$ 3,064	$ 3,568	53.8 %	$ 2,069	$ (28)	$ (37)	$ 1,564	23.6 %
Impact of foreign currency			(1.1)%					0.2 %
Constant currency adjusted			52.7 %					23.8 %
For the First Six Months of 2021								
Reported	$ 2,672	$ 3,370	55.8 %	$ 2,000	$ —	$ (4)	$ 1,374	22.7 %
Items Affecting Comparability:								
Mark to market	26	(26)		50	—	—	(76)	
Amortization of intangibles	—	—		(67)	—	—	67	
Stock compensation	—	—		(11)	—	—	11	
Restructuring and integration costs	—	—		(92)	—	—	92	
Productivity	(22)	22		(49)	—	—	71	
Non-routine legal matters	—	—		(16)	—	—	16	
COVID-19	(19)	19		(8)	—	—	27	
Malware incident	—	—		2	—	—	(2)	
Adjusted	$ 2,657	$ 3,385	56.0 %	$ 1,809	$ —	$ (4)	$ 1,580	26.2 %

Refer to page 49 for reconciliations of reported net sales to constant currency net sales and adjusted income from operations to constant currency adjusted income from operations.

KEURIG DR PEPPER INC.
RECONCILIATION OF CERTAIN REPORTED ITEMS TO CERTAIN NON-GAAP ADJUSTED ITEMS
(Unaudited, in millions, except per share and percentages)

For the First Six Months of 2022	Interest expense	Loss on early extinguishment of debt	Gain on sale of equity method investment	Impairment of investments and note receivable	Other expense (income), net	Income before provision for income taxes	(Benefit) provision for income taxes	Effective tax rate	Net income attributable to KDP	Diluted earnings per share
Reported	$ 363	$ 217	$ (50)	$ 12	$ 18	$ 978	$ 175	17.9 %	$ 803	$ 0.56
Items Affecting Comparability:										
Mark to market	(134)	—	—	—	(2)	189	47		142	0.10
Amortization of intangibles	—	—	—	—	—	67	17		50	0.04
Amortization of deferred financing costs	(2)	—	—	—	—	2	—		2	—
Amortization of fair value debt adjustment	(9)	—	—	—	—	9	2		7	—
Stock compensation	—	—	—	—	—	(2)	(3)		1	—
Restructuring and integration costs	—	—	—	—	—	58	14		44	0.03
Productivity	—	—	—	—	—	102	22		80	0.06
Impairment of investment	—	—	—	(12)		12	—		12	—
Loss on early extinguishment of debt	—	(217)	—	—	—	217	54		163	0.12
Non-routine legal matters	—	—	—	—	—	7	2		5	—
COVID-19	—	—	—	—	—	9	2		7	—
Gain on litigation	—	—	—	—	—	(271)	(68)		(203)	(0.14)
Gain on sale of equity-method investment	—	—	50	—	—	(50)	(12)		(38)	(0.03)
Transaction costs	—	—	—	—	—	1	—		1	—
Foundational projects	—	—	—	—	—	2	—		2	—
Change in deferred tax liabilities related to goodwill and other intangible assets	—	—	—	—	—	—	50		(50)	(0.03)
Adjusted	$ 218	$ —	$ —	$ —	$ 16	$ 1,330	$ 302	22.7 %	$ 1,028	$ 0.72
Impact of foreign currency								— %		
Constant currency adjusted								22.7 %		

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

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KEURIG DR PEPPER INC.
RECONCILIATION OF CERTAIN REPORTED ITEMS TO CERTAIN NON-GAAP ADJUSTED ITEMS
(Unaudited, in millions, except per share and percentages)

For the First Six Months of 2021	Interest expense	Loss on early extinguishment of debt	Gain on sale of equity method investment	Impairment of investments and note receivable	Other expense (income), net	Income before provision for income taxes	(Benefit) provision for income taxes	Effective tax rate	Net income attributable to KDP	Diluted earnings per share
Reported	$ 265	$ 105	$ —	$ —	$ (7)	$ 1,011	$ 238	23.5 %	$ 773	$ 0.54
Items Affecting Comparability:										
Mark to market	7	—	—	—	—	(83)	(20)		(63)	(0.04)
Amortization of intangibles	—	—	—	—	—	67	17		50	0.04
Amortization of deferred financing costs	(4)	—	—	—	—	4	—		4	—
Amortization of fair value of debt adjustment	(10)	—	—	—	—	10	2		8	—
Stock compensation	—	—	—	—	—	11	14		(3)	—
Restructuring and integration costs	—	—	—	—	—	92	22		70	0.05
Productivity	—	—	—	—	—	71	18		53	0.04
Loss on early extinguishment of debt	—	(105)	—	—	—	105	25		80	0.06
Non-routine legal matters	—	—	—	—	—	16	3		13	0.01
COVID-19	—	—	—	—	—	27	7		20	0.01
Malware incident	—	—	—	—	—	(2)	—		(2)	—
Change in deferred tax liabilities related to goodwill and other intangible assets	—	—	—	—	—	—	(6)		6	—
Adjusted	$ 258	$ —	$ —	$ —	$ (7)	$ 1,329	$ 320	24.1 %	$ 1,009	$ 0.71
Change - adjusted	(15.5)%								1.9 %	1.4 %
Impact of foreign currency	— %								0.3 %	— %
Change - constant currency adjusted	(15.5)%								2.2 %	1.4 %

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

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KEURIG DR PEPPER INC.
RECONCILIATION OF CERTAIN REPORTED SEGMENT MEASURES
TO CERTAIN NON-GAAP ADJUSTED AND CURRENCY NEUTRAL ADJUSTED SEGMENT MEASURES
(Unaudited)

(in millions)	Reported	Items Affecting Comparability	Adjusted
For the first six months of 2022:			
Income from operations			
Coffee Systems	**$ 583**	**$ 105**	**$ 688**
Packaged Beverages	**718**	**(236)**	**482**
Beverage Concentrates	**568**	**6**	**574**
Latin America Beverages	**75**	**1**	**76**
Unallocated corporate costs	**(406)**	**150**	**(256)**
Total income from operations	**$ 1,538**	**$ 26**	**$ 1,564**
For the first six months of 2021:			
Income from operations			
Coffee Systems	$ 723	$ 102	$ 825
Packaged Beverages	440	50	490
Beverage Concentrates	493	3	496
Latin America Beverages	58	2	60
Unallocated corporate costs	(340)	49	(291)
Total income from operations	$ 1,374	$ 206	$ 1,580

	Reported	Impact of Foreign Currency	Constant Currency
For the first six months of 2022:			
Net sales			
Coffee Systems	2.0 %	0.3 %	2.3 %
Packaged Beverages	13.0	—	13.0
Beverage Concentrates	16.5	0.1	16.6
Latin America Beverages	22.3	0.4	22.7
Total net sales	9.8	0.1	9.9

	Adjusted	Impact of Foreign Currency	Constant Currency Adjusted
For the first six months of 2022:			
Income from operations			
Coffee Systems	(16.6) %	0.1 %	(16.5) %
Packaged Beverages	(1.6)	—	(1.6)
Beverage Concentrates	15.7	0.2	15.9
Latin America Beverages	26.7	—	26.7
Total income from operations	(1.0)	0.1	(0.9)

	Reported	Items Affecting Comparability	Adjusted	Impact of Foreign Currency	Constant Currency Adjusted
For the first six months of 2022:					
Operating margin					
Coffee Systems	25.5 %	4.6 %	30.1 %	(0.1) %	30.0 %
Packaged Beverages	22.7	(7.5)	15.2	—	15.2
Beverage Concentrates	69.4	0.7	70.1	—	70.1
Latin America Beverages	21.1	0.2	21.3	—	21.3
Total operating margin	23.2	0.4	23.6	—	23.6

CONSTANT CURRENCY ADJUSTED RESULTS OF OPERATIONS

First Six Months of 2022 Compared to First Six Months of 2021

The following discussion of our results for the first six months of 2022 is presented on a constant currency adjusted basis. These adjusted financial results are calculated on a constant currency basis by converting our current-period local currency financial results using the prior-period foreign currency exchange rates

Consolidated Operations

Constant Currency Net Sales. Constant currency net sales increased 9.9% in the first six months of 2022 compared to the prior year period, driven by favorable net price realization of 8.4% and volume/mix growth of 1.5%.

Constant Currency Adjusted Income from Operations. Constant currency adjusted income from operations decreased 0.9% compared to the prior year period, primarily driven by the impact of broad-based inflation and increases in other operating costs, partially offset by the strong growth in net sales. Other drivers of the change included the benefit of productivity and a $38 million gain on an asset sale-leaseback transaction related to our strategic asset investment program.

Constant Currency Adjusted Interest Expense. Constant currency adjusted interest expense decreased 15.5% compared to the prior year period, driven by reduced interest expense on our senior unsecured notes as a result of our strategic refinancing initiatives and continued deleveraging.

Constant Currency Adjusted Effective Tax Rate. The constant currency adjusted effective tax rate was 22.7% for the first six months of 2022 compared to 24.1% for the prior year period, primarily driven by our incremental income in low tax jurisdictions during the first six months of 2022.

Constant Currency Adjusted Net Income Attributable to KDP. Constant currency adjusted net income attributable to KDP increased 2.2% compared to the prior year period, as the impacts of lower interest expense and the decrease in our effective tax rate were partially offset by the decline in income from operations.

Constant Currency Adjusted Diluted EPS. Constant currency adjusted diluted EPS increased approximately 1.4% over the prior year period.

Results of Operations by Segment

COFFEE SYSTEMS

Constant Currency Net Sales. Constant currency net sales increased 2.3%, driven by higher net price realization of 4.5%, partially offset by unfavorable volume/mix of 2.2%.

Constant Currency Adjusted Income from Operations. Constant currency adjusted income from operations for the first six months of 2022 decreased 16.5% compared to the prior year period, as a result of broad-based inflation and lower volume/mix. These decreases were partially offset by the benefits of pricing actions and increased productivity.

PACKAGED BEVERAGES

Constant Currency Net Sales. Constant currency net sales increased 13.0%, reflecting favorable net price realization of 9.7% and volume/mix growth of 3.3%.

Constant Currency Adjusted Income from Operations. Constant currency adjusted income from operations for the first six months of 2022 decreased 1.6% compared to the prior year period, driven by increased costs due to the impacts of broad-based inflation, higher costs associated with higher volumes and increases in other operating costs. These declines were partially offset by the benefits of net sales growth, asset sale-leaseback activity in the first six months of 2022 relating to our strategic asset initiative, and increased productivity.

BEVERAGE CONCENTRATES

Constant Currency Net Sales. Constant currency net sales increased 16.6%, reflecting higher net price realization of 13.8%, driven by price increases, as well as the favorable comparison to our prior year customer trade accrual, and volume/mix growth of 2.8%.

Constant Currency Adjusted Income from Operations. Constant currency adjusted income from operations for the first six months of 2022 increased 15.9% compared to the prior year period. This performance reflected the impact of net sales growth, partially offset by the impacts of broad-based inflation.

LATIN AMERICA BEVERAGES

Constant Currency Net Sales. Constant currency net sales increased 22.7%, driven by favorable net price realization of 12.4% and volume/mix growth of 10.3%.

Constant Currency Adjusted Income from Operations. Constant currency adjusted income from operations for the first six months of 2022 increased 26.7% compared to the prior year period, driven by higher net price realization and favorable volume/mix, partially offset by broad-based inflation, higher costs associated with higher volumes, and higher marketing expense.

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 Part II, Item 7 of our Annual Report.

As of the date of our annual impairment test, performed as of October 1, 2021, certain brands were considered at risk of future impairment in the event of significant unfavorable changes in assumptions including forecasted cash flows along with macro-economic risks such as the continued prolonged weakening of economic conditions and cost inflation or significant unfavorable changes in long-term growth rates and discount rates utilized in the discounted cash flows analyses. Cost inflation for certain inputs could put pressure on achieving cash flow projections and rising interest rates could cause unfavorable changes in the discount rates utilized in the discounted cash flow analyses. As of June 30, 2022, we did not identify any indications that the carrying amount of any goodwill or any intangible assets may not be recoverable.

LIQUIDITY AND CAPITAL RESOURCES

Overview

We believe our financial condition and liquidity remain strong. 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 through our integration and productivity initiatives, and developing new opportunities for growth such as innovation and agreements with partners to distribute brands that are accretive to our portfolio.

The following summarizes our cash activity for the first six months of 2022 and 2021:

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Cash, cash equivalents, restricted cash and restricted cash equivalents decreased $14 million from December 31, 2021 to June 30, 2022 primarily as a result of deleveraging, offset by proceeds from the cash settlement with BodyArmor.

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 $255 million and $216 million as of June 30, 2022 and December 31, 2021, respectively.

Additionally, in April 2022, we chose to undertake a strategic refinancing initiative, issuing approximately $3 billion of senior unsecured notes and using the net proceeds to voluntarily prepay and retire several tranches of existing senior unsecured notes with higher interest rates, which reduced our overall interest payments and our annual cash requirements. As part of this transaction, we additionally unwound approximately $1.5 billion of notional amount of our outstanding designated forward starting swaps and received cash proceeds of approximately $125 million. Refer to Note 2 of the Notes to our Unaudited Condensed Consolidated Financial Statements for further information about the 2022 strategic refinancing initiative.

Principal Sources of Capital Resources

Our principal sources of liquidity are our existing cash and cash equivalents, cash generated from our operations and borrowing capacity currently available under our 2022 Revolving Credit Agreement. Additionally, we have an uncommitted commercial paper program where we can issue unsecured commercial paper notes on a private placement basis. 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.

Sources of Liquidity - Operations

Net cash provided by operating activities increased $200 million for the first six months of 2022, as compared to the first six months of 2021, driven by the increase in net income adjusted for non-cash items, led by the $349 million gain from BodyArmor, partially offset by a decline in working capital.

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

The following table summarizes our cash conversion cycle:

	June 30,	
	2022	**2021**
DIO	**61**	57
DSO	**36**	32
DPO	**170**	156
Cash conversion cycle	**(73)**	(67)

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 agreements with third party administrators 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 through this program 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 administrators that as of June 30, 2022 and December 31, 2021, $3,698 million and $3,194 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 $1,808 million and $1,572 million for the first six months of 2022 and 2021, respectively.

Impact of the CARES Act

Beginning in the second quarter of 2020, we deferred payments of employer-related payroll taxes as allowed under the CARES Act. Payment of at least 50% of the deferred amount was due on January 3, 2022, with the remainder due by January 3, 2023. We deferred a total of $59 million in such payments since the CARES Act was implemented, and we timely paid approximately $30 million as of January 3, 2022.

Sources of Liquidity - Financing

In February 2022, we terminated our 2021 364-Day Credit Agreement and our KDP Revolver and replaced them with the 2022 Revolving Credit Agreement, which provides for a $4 billion revolving credit facility.

In April 2022, we undertook a strategic refinancing and issued a $3 billion aggregate face value of Notes, consisting of the 2029 Notes, the 2032 Notes, and the 2052 Notes. The proceeds from the issuance were used to voluntarily prepay and retire the remaining 2023 Merger Notes and to tender portions of the 2025 Merger Notes, the 2028 Merger Notes, the 2038 Merger Notes, and the 2048 Merger Notes.

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Refer to Note 2 of the Notes to our Unaudited Condensed Consolidated Financial Statements for management's discussion of our financing arrangements.

We also have an active shelf registration statement, filed with the SEC on August 27, 2019, which allows us to issue an indeterminate number or amount of common stock, preferred stock, debt securities and warrants from time to time in one or more offerings at the direction of our Board.

Sources of Liquidity - Asset Sale-Leaseback Transactions

We have leveraged our strategic asset investment program to create value from certain assets to enable reinvestment in KDP. These transactions are accounted for as sale-leaseback transactions. Proceeds from sales of property, plant and equipment were $78 million and $15 million for the first six months of 2022 and 2021, respectively.

Principal Uses of Capital Resources

Over the past several years, our principal uses of our capital resources were deleveraging, providing shareholder return to our investors through regular quarterly dividends, and investing in KDP to capture market share and drive growth through innovation and routes to market.

Now that we have met our post-merger goals, we plan to invest in inorganic value creation through M&A, including portfolio expansion, distribution scale, geographic expansion, and new capabilities. In addition to M&A, we may consider special dividends to our investors and have repurchased shares of our outstanding common stock, as described below.

Deleveraging and Other Debt Repayments

During the first six months of 2022, we made net debt repayments of $514 million, which includes the redemption and retirement of the remainder of our 2023 Merger Notes and 2038 Notes, as well as the tender of portions of the 2025 Merger Notes, the 2028 Merger Notes, the 2038 Merger Notes, and the 2048 Merger Notes.

Regular Quarterly Dividends

For the first six months of 2022, we have declared total dividends of $0.375 per share.

Repurchases of Common Stock

Our Board authorized a four-year share repurchase program of up to $4 billion of our outstanding common stock potentially enabling us to return value to shareholders. We repurchased and retired $88 million of common stock during the first six months of 2022.

Capital Expenditures

We are investing in state-of-the-art manufacturing and warehousing facilities, including expansive investments in facilities in Newbridge, Ireland; Spartanburg, South Carolina; and Allentown, Pennsylvania, in 2022 and 2021, in order to optimize our supply chain network through integration and productivity projects and to mitigate risk of business interruption.

Purchases of property, plant and equipment were $186 million and $204 million for the first six months of 2022 and 2021, respectively.

Capital expenditures, which includes both purchases of property, plant and equipment and amounts included in accounts payable and accrued expenses, for the first six months of 2022 and 2021 primarily related to the manufacturing and warehousing facilities discussed above. Capital expenditures included in accounts payable and accrued expenses were $138 million and $213 million for the first six months of 2022 and 2021, respectively, which primarily related to these investments.

Investments in Unconsolidated Affiliates

From time to time, we expect to acquire businesses or brands, invest in emerging companies, or enter into various licensing and distribution agreements to expand our product portfolio. Our investments in emerging companies generally involve acquiring a minority interest in equity securities of a company with a protected path to ownership at our future option. In the second quarter of 2022, we invested $50 million in Tractor for a 19.2% equity interest.

Purchases of Intangible Assets

We have invested in the expansion of our DSD network through transactions with strategic independent bottlers to ensure competitive distribution scale for our brands. These transactions are generally accounted for as an asset acquisition, as the majority of the transaction price represents the acquisition of an intangible asset. Purchases of intangible assets were $10 million and $12 million for the first six months of 2022 and 2021, respectively.

Uncertainties and Trends Affecting Liquidity

Disruptions in global financial and credit markets, including those caused by the ongoing COVID-19 pandemic and Russia’s invasion of Ukraine, 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 the risk factors discussed under "Risk Factors" in Part 1, Item 1A of our Annual Report, as well as subsequent filings with the SEC, that could have a material effect on production, delivery and consumption of our products, which could result in a reduction in our sales volume.

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 Parent Holdings Corp. 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 Keurig Dr Pepper Inc. (the “Parent”) and the Guarantors on a combined basis after intercompany eliminations; the Parent and the Guarantors' amounts due from and amounts due to 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 Six Months of 2022
Net sales	**$ 3,947**
Income from operations	**871**
Net income attributable to KDP	**803**

(in millions)	June 30, 2022	December 31, 2021
Current assets	**$ 1,975**	$ 1,594
Non-current assets	**44,556**	43,972
Total assets(1)	**$ 46,531**	$ 45,566
Current liabilities	**$ 3,682**	$ 3,470
Non-current liabilities	**17,458**	17,125
Total liabilities(2)	**$ 21,140**	$ 20,595

(1) Includes $2 million and $209 million of intercompany receivables due to the Parent and Guarantors from the Non-Guarantors as of June 30, 2022 and December 31, 2021, respectively.
(2) Includes $62 million and $40 million of intercompany payables due to the Non-Guarantors from the Parent and Guarantors as of June 30, 2022 and December 31, 2021, respectively.

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes to the disclosures on market risk made in our Annual Report.

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 June 30, 2022, 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 June 30, 2022 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 15 of the Notes to our Unaudited Condensed Consolidated Financial Statements for more information related to commitments and contingencies, which is incorporated herein by reference.

ITEM 1A. Risk Factors

There have been no material changes from the risk factors set forth in Part I, Item 1A in our Annual Report.

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

On October 1, 2021, our Board authorized a share repurchase program of up to $4 billion of our outstanding common stock, enabling us to opportunistically return value to shareholders. The $4 billion authorization is effective for four years, beginning on January 1, 2022 and expiring on December 31, 2025, and does not require the purchase of any minimum number of shares.

The following table summarizes shares repurchased by the Company under this program during the second quarter of 2022:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Maximum Amount of Dollars that May Yet be Used to Purchase Shares Under the Program (in millions)
April 1 to April 30	—	$ —	—	$ 4,000
May 1 to May 31	2,538,904	34.51	2,538,904	3,912
June 1 to June 30	—	—	—	3,912
Total	2,538,904	$ 34.51	2,538,904	$ 3,912

ITEM 5. Other Information

COMPENSATORY ARRANGEMENTS WITH MR. DOKMECIOGLU

In connection with Ozan Dokmecioglu's promotion to the role of President and Chief Executive Officer of the Company, effective as of July 29, 2022, the Company has entered into a letter agreement with Mr. Dokmecioglu, dated as of July 25, 2022 (the "Letter Agreement"). The Letter Agreement reflects the compensatory arrangements with Mr. Dokmecioglu described in the Company's Current Report on Form 8-K filed on April 5, 2022, and is incorporated herein by reference. The Letter Agreement provides that Mr. Dokmecioglu will continue to participate in the Company's long-term incentive program, with a recommended award with a grant date value of $4,000,000 for 2023, and will be eligible to participate in the Company's benefit plans for salaried employees (including participation in the Severance Plan, as described below). On or around July 29, 2022, Mr. Dokmecioglu will receive an award of RSUs with a grant date value of $14,000,000, which will vest in one-third installments on each of the third, fourth and fifth anniversaries of the date of grant, subject to his continued employment with the Company and a requirement that he hold $25,000,000 in Company shares (as measured on the grant date) through the final vesting date.

APPOINTMENT OF MR. DOKMECIOGLU TO THE BOARD

On July 25, 2022, the Board appointed Mr. Dokmecioglu as a member of the Board, effective July 29, 2022. Mr. Dokmecioglu will serve for an initial term to expire concurrently with the terms of the other members of the Board at the Company's 2023 Annual Meeting of Stockholders, or until his earlier death, resignation or removal. There are no arrangements or understandings between Mr. Dokmecioglu and any other persons pursuant to which Mr. Dokmecioglu was appointed as a director, and Mr. Dokmecioglu is not a party to any transaction with the Company reportable under Item 404(a) of Regulation S-K under the Securities Act.

ADOPTION OF THE EXECUTIVE SEVERANCE PLAN

On July 25, 2022, the Board adopted the Keurig Dr Pepper Inc. Executive Severance Plan (the "Severance Plan"), to be effective July 29, 2022. The Severance Plan provides severance benefits to the Executive Chairman, Chief Executive Officer, members of the Executive Leadership Team (which includes our named executive officers), Senior Vice Presidents and Vice Presidents of the Company, in the event such individual's employment is terminated in either a Qualifying Termination or a CIC Qualifying Termination, in each case as described below.

Qualifying Termination

For the Executive Chairman and Chief Executive Officer, a Qualifying Termination means a termination of employment by the Company without "Cause" (as defined in the Severance Plan) or by the participant for "Good Reason" (as defined in the Severance Plan).

For members of the Executive Leadership Team, a Qualifying Termination means a termination of employment by the Company without Cause or by the participant's declining an offer for a position that is not a "Comparable Position" (as defined in the Severance Plan).

CIC Qualifying Termination

A "CIC Qualifying Termination" means a termination of the participant's employment with the Company by the Company without Cause or by the participant for Good Reason (as defined in the Severance Plan), in each case, during the period commencing six months prior to the date on which a "Change in Control" (as defined in the Severance Plan) is consummated and ending on the date that is two years following a Change in Control.

Severance Benefits

If a participant experiences a Qualifying Termination, he or she will receive an amount equal to two times for the Executive Chairman and Chief Executive Officer and 1.5 times for members of the Executive Leadership Team the sum of the participant's annual base salary and annual target bonus, payable in substantially equal installments over 24 months for the Executive Chairman and Chief Executive Officer and 18 months for members of the Executive Leadership Team.

If a participant experiences a CIC Qualifying Termination, he or she will receive an amount equal to three times for the Executive Chairman and Chief Executive Officer and 2.25 times for members of the Executive Leadership Team the sum of the participant's annual base salary and annual target bonus, payable in a lump sum within 60 days following the date the release executed by the participant becomes effective and irrevocable.

If any of the payments and benefits to be paid or provided to a participant under the terms of the Severance Plan would be subject to the "golden parachute" excise taxes under the Internal Revenue Code, then such payments and benefits will be reduced to the extent necessary to avoid those excise taxes, but only if such a reduction of pay or benefits would result in a greater after-tax benefit to the eligible employee.

The foregoing descriptions of the Letter Agreement and the Severance Plan do not purport to be complete and are qualified in their entirety by reference to the respective form of such documents attached hereto as Exhibit 10.3 and Exhibit 10.4.

ITEM 6. Exhibits

4.1	Twelfth Supplemental Indenture, dated as of April 22, 2022, among Keurig Dr Pepper Inc., the guarantors party thereto and Computershare Trust Company, N.A., as trustee (filed as Exhibit 4.1 to the Company's Current Report on Form 8-K (filed on April 22, 2022) and incorporated herein by reference).
4.2	Form of 3.950% Senior Note due 2029 (included in Exhibit 4.1 to the Company's Current Report on Form 8-K (filed on April 22, 2022) and incorporated herein by reference).
4.3	Form of 4.050% Senior Note due 2032 (included in Exhibit 4.1 to the Company's Current Report on Form 8-K (filed on April 22, 2022) and incorporated herein by reference).
4.4	Form of 4.500% Senior Note due 2052 (included in Exhibit 4.1 to the Company's Current Report on Form 8-K (filed on April 22, 2022) and incorporated herein by reference).
10.1	Letter Agreement by and between the Company and Robert J. Gamgort dated April 5, 2022 (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K (filed on April 5, 2022) and incorporated herein by reference). ++
10.2	Letter Agreement by and between the Company and Mauricio Leyva dated July 15, 2022 (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K (filed on July 19, 2022) and incorporated herein by reference). ++
10.3*	Letter Agreement by and between the Company and Ozan Dokmecioglu dated July 25, 2022.++
10.4*	Keurig Dr Pepper Inc. Executive Severance Plan, effective as of July 29, 2022.++
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 June 30, 2022, formatted in Inline XBRL: (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 & President, International (Principal Financial Officer)
Date: July 28, 2022		