

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

Form 10-Q

**Quarterly Report Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934**

For the quarterly period ended September 30, 2015

Commission File Number 0-18761

MONSTER BEVERAGE CORPORATION

(Exact name of Registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

39-1679918
(I.R.S. Employer
Identification No.)

1 Monster Way
Corona, California 92879
(Address of principal executive offices) (Zip code)

(951) 739 – 6200
(Registrant's telephone number, including area code)

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

Yes No

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

Yes No

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

Large Accelerated Filer

Accelerated filer

Non-accelerated filer (Do not check if smaller reporting company)

Smaller reporting company

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

Yes No

The Registrant had 202,722,461 shares of common stock, par value \$0.005 per share, outstanding as of October 26, 2015.

INDEX

Part I.	<u>FINANCIAL INFORMATION</u>	Page No.
Item 1.	<u>Condensed Consolidated Financial Statements (Unaudited)</u> <u>Condensed Consolidated Balance Sheets as of September 30, 2015 and December 31, 2014</u> <u>Condensed Consolidated Statements of Income for the Three- and Nine-Months Ended September 30, 2015 and 2014</u> <u>Condensed Consolidated Statements of Comprehensive Income for the Three- and Nine-Months Ended September 30, 2015 and 2014</u> <u>Condensed Consolidated Statements of Cash Flows for the Nine-Months Ended September 30, 2015 and 2014</u> <u>Notes to Condensed Consolidated Financial Statements</u>	3 3 4 5 6 8
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	34
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	54
Item 4.	<u>Controls and Procedures</u>	54
 Part II. <u>OTHER INFORMATION</u>		
Item 1.	<u>Legal Proceedings</u>	54
Item 1A.	<u>Risk Factors</u>	54
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	55
Item 3.	<u>Defaults Upon Senior Securities</u>	55
Item 4.	<u>Mine Safety Disclosures</u>	56
Item 5.	<u>Other Information</u>	56
Item 6.	<u>Exhibits</u> <u>Signatures</u>	56 57

[Table of Contents](#)

PART I – FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

MONSTER BEVERAGE CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
AS OF SEPTEMBER 30, 2015 AND DECEMBER 31, 2014
(In Thousands, Except Par Value) (Unaudited)

<u>ASSETS</u>	<u>September 30,</u> <u>2015</u>	<u>December 31,</u> <u>2014</u>
CURRENT ASSETS:		
Cash and cash equivalents	\$ 1,240,717	\$ 370,323
Short-term investments	1,544,710	781,134
Accounts receivable, net	407,771	280,203
TCCC Transaction receivable	125,000	-
Distributor receivables	714	552
Inventories	159,691	174,573
Prepaid expenses and other current assets	25,742	19,673
Intangibles held-for-sale, net	-	18,079
Prepaid income taxes	90,933	8,617
Deferred income taxes	155,369	40,275

Total current assets	3,750,647	1,693,429
INVESTMENTS	34,355	42,940
PROPERTY AND EQUIPMENT, net	94,727	90,156
DEFERRED INCOME TAXES	-	54,106
GOODWILL	1,287,777	-
OTHER INTANGIBLE ASSETS, net	428,201	50,748
OTHER ASSETS	8,031	7,496
Total Assets	\$ 5,603,738	\$ 1,938,875

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES:		
Accounts payable	\$ 238,106	\$ 127,641
Accrued liabilities	67,933	40,271
Accrued promotional allowances	124,539	114,047
Accrued distributor terminations	7,654	-
Deferred revenue	31,413	49,926
Accrued compensation	20,152	17,983
Income taxes payable	14,809	5,848
Total current liabilities	504,606	355,716
DEFERRED REVENUE	355,128	68,009
DEFERRED INCOME TAXES	89,447	-
COMMITMENTS AND CONTINGENCIES (Note 11)		
STOCKHOLDERS' EQUITY:		
Common stock - \$0.005 par value; 240,000 shares authorized; 206,788 shares issued and 202,731 outstanding as of September 30, 2015; 207,004 shares issued and 167,722 outstanding as of December 31, 2014	1,034	1,035
Additional paid-in capital	3,966,395	426,145
Retained earnings	1,256,121	2,330,510
Accumulated other comprehensive loss	(20,851)	(11,453)
Common stock in treasury, at cost; 4,057 and 39,282 shares as of September 30, 2015 and December 31, 2014, respectively	(548,142)	(1,231,087)
Total stockholders' equity	4,654,557	1,515,150
Total Liabilities and Stockholders' Equity	\$ 5,603,738	\$ 1,938,875

See accompanying notes to condensed consolidated financial statements.

[Table of Contents](#)

**MONSTER BEVERAGE CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
FOR THE THREE- AND NINE-MONTHS ENDED SEPTEMBER 30, 2015 AND 2014
(In Thousands, Except Per Share Amounts) (Unaudited)**

	Three-Months Ended		Nine-Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
NET SALES	\$ 756,619	\$ 635,972	\$ 2,077,131	\$ 1,859,301
COST OF SALES	291,143	294,052	848,191	851,274
GROSS PROFIT	465,476	341,920	1,228,940	1,008,027
OPERATING EXPENSES	174,038	152,013	725,205	453,443
GAIN ON SALE OF MONSTER NON-ENERGY (NOTE 2)	-	-	161,470	-
OPERATING INCOME	291,438	189,907	665,205	554,584
INTEREST INCOME AND OTHER (EXPENSE), net	(3,362)	(1,038)	(3,144)	(707)
INCOME BEFORE PROVISION FOR INCOME TAXES	288,076	188,869	662,061	553,877
PROVISION FOR INCOME TAXES	113,502	67,269	254,070	196,023
NET INCOME	\$ 174,574	\$ 121,600	\$ 407,991	\$ 357,854
NET INCOME PER COMMON SHARE:				
Basic	\$ 0.85	\$ 0.73	\$ 2.22	\$ 2.14

Diluted	<u>\$ 0.84</u>	<u>\$ 0.70</u>	<u>\$ 2.17</u>	<u>\$ 2.06</u>
---------	----------------	----------------	----------------	----------------

WEIGHTED AVERAGE NUMBER OF SHARES OF
COMMON STOCK AND COMMON STOCK
EQUIVALENTS:

Basic	<u>205,051</u>	<u>167,346</u>	<u>184,098</u>	<u>167,116</u>
Diluted	<u>208,094</u>	<u>174,270</u>	<u>188,131</u>	<u>174,016</u>

See accompanying notes to condensed consolidated financial statements.

4

[Table of Contents](#)

MONSTER BEVERAGE CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE THREE- AND NINE-MONTHS ENDED SEPTEMBER 30, 2015 AND 2014
(In Thousands) (Unaudited)

	Three-Months Ended September 30,		Nine-Months Ended September 30,	
	2015	2014	2015	2014
Net income, as reported	\$ 174,574	\$ 121,600	\$ 407,991	\$ 357,854
Other comprehensive income:				
Change in foreign currency translation adjustment	(1,778)	(5,716)	(9,398)	(5,104)
Available-for-sale investments:				
Change in net unrealized gains	-	-	-	-
Reclassification adjustment for net gains included in net income	-	-	-	-
Net change in available-for-sale investments	-	-	-	-
Other comprehensive loss	(1,778)	(5,716)	(9,398)	(5,104)
Comprehensive income	<u>\$ 172,796</u>	<u>\$ 115,884</u>	<u>\$ 398,593</u>	<u>\$ 352,750</u>

See accompanying notes to condensed consolidated financial statements.

5

[Table of Contents](#)

MONSTER BEVERAGE CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE-MONTHS ENDED SEPTEMBER 30, 2015 AND 2014
(In Thousands) (Unaudited)

	Nine-Months Ended	
	September 30, 2015	September 30, 2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 407,991	\$ 357,854
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	21,757	19,124
Gain on disposal of property and equipment	(212)	(379)
Gain on sale of Monster Non-Energy	(161,470)	-
Stock-based compensation	23,689	22,509
Loss on put option	-	771
Gain on investments, net	-	(732)
Deferred income taxes	(115,098)	(7,919)
Excess tax benefit from stock-based compensation	(303,914)	(11,541)
Effect on cash of changes in operating assets and liabilities, net of acquisition and divestiture:		
Accounts receivable	(132,614)	(45,759)
Distributor receivables	393	2,047
Inventories	(9,076)	13,300
Prepaid expenses and other current assets	(6,863)	(4,564)
Prepaid income taxes	(83,276)	(8,723)
Accounts payable	75,142	30,032
Accrued liabilities	29,296	12,387
Accrued promotional allowances	15,196	32,421
Accrued distributor terminations	7,706	(2,338)
Accrued compensation	2,414	(467)
Income taxes payable	312,750	4,909
Deferred revenue	(35,991)	(5,883)
Net cash provided by operating activities	<u>47,820</u>	<u>407,049</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Maturities of held-to-maturity investments	998,762	545,774

Sales of available-for-sale investments	4,001	-
Sales of trading investments	2,625	12,075
Proceeds from transfer of distribution rights to TCCC	179,658	-
Purchases of held-to-maturity investments	(1,760,178)	(761,538)
Purchases of property and equipment	(25,627)	(19,300)
Proceeds from the sale of Monster Non-Energy	198,008	-
Proceeds from sale of property and equipment	484	745
Increase in intangibles	(5,352)	(1,765)
(Increase) decrease in other assets	(1,039)	1,027
Net cash used in investing activities	<u>(408,658)</u>	<u>(222,982)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on debt	(807)	(1,316)
Excess tax benefit from stock-based compensation	303,914	11,541
Issuance of common stock	1,691,051	15,050
Purchases of common stock held in treasury	(758,974)	(8,126)
Net cash provided by financing activities	<u>1,235,184</u>	<u>17,149</u>
Effect of exchange rate changes on cash and cash equivalents	(3,952)	(4,242)
NET INCREASE IN CASH AND CASH EQUIVALENTS	870,394	196,974
CASH AND CASH EQUIVALENTS, beginning of period	370,323	211,349
CASH AND CASH EQUIVALENTS, end of period	<u>\$ 1,240,717</u>	<u>\$ 408,323</u>
SUPPLEMENTAL INFORMATION:		
Cash paid during the period for:		
Interest	\$ 21	\$ 27
Income taxes	<u>\$ 141,184</u>	<u>\$ 210,090</u>

See accompanying notes to condensed consolidated financial statements.

6

[Table of Contents](#)

**MONSTER BEVERAGE CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE-MONTHS ENDED SEPTEMBER 30, 2015 AND 2014
(In Thousands) (Unaudited) (Continued)**

SUPPLEMENTAL DISCLOSURE OF NON-CASH ITEMS

The Company entered into capital leases for the acquisition of promotional vehicles of \$1.1 million and \$0.7 million for the nine-months ended September 30, 2015 and 2014, respectively.

Included in accounts payable as of September 30, 2015 are treasury stock purchases of \$40.7 million.

During the nine-months ended September 30, 2015, the Company issued 11.8 million shares of the Company's common stock in exchange for KO Energy (see Note 2).

During the nine-months ended September 30, 2015, in connection with the TCCC Transaction (as defined in Note 2), \$125.0 million relating to the transfer of certain distribution rights was deposited into escrow pending certain transition milestones (see Note 2).

During the nine-months ended September 30, 2015, the Company cancelled 41.5 million shares of treasury stock (see Note 13). Amounts previously recorded as treasury stock were netted against common stock and retained earnings.

See accompanying notes to condensed consolidated financial statements.

7

[Table of Contents](#)

**MONSTER BEVERAGE CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Tabular Dollars in Thousands, Except Per Share Amounts) (Unaudited)**

1. BASIS OF PRESENTATION

Reference is made to the Notes to Consolidated Financial Statements, in Monster Beverage Corporation and Subsidiaries (the "Company") Annual Report on Form 10-K for the year ended December 31, 2014 ("Form 10-K") for a summary of significant accounting policies utilized by the Company and its consolidated subsidiaries and other disclosures, which should be read in conjunction with this Quarterly Report on Form 10-Q ("Form 10-Q").

The Company's condensed consolidated financial statements included in this Form 10-Q have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") and Securities and Exchange Commission ("SEC")

rules and regulations applicable to interim financial reporting. They do not include all the information and footnote disclosures normally included in annual financial statements prepared in accordance with GAAP. The information set forth in these interim condensed consolidated financial statements for the three- and nine-months ended September 30, 2015 and 2014 is unaudited and reflects all adjustments, which include only normal recurring adjustments and which in the opinion of management are necessary to make the interim condensed consolidated financial statements not misleading. Results of operations for periods covered by this report may not necessarily be indicative of results of operations for the full year.

The preparation of financial statements in conformity with GAAP necessarily requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from these estimates.

In the second quarter of 2015, as a result of the acquisitions and divestitures described in Note 2, the Company revised its reportable segments to reflect management's new view of the business and to align its external financial reporting with its new operating and internal financial reporting model. Historical segment information has been revised to reflect the effect of this change. See Note 17 for additional information about the Company's new reporting segments.

2. ACQUISITIONS AND DIVESTITURES

On June 12, 2015, Monster Beverage 1990 Corporation (formerly Monster Beverage Corporation) ("Old Monster"), now a wholly owned subsidiary of the Company, completed the transactions contemplated by the definitive agreements entered into with The Coca-Cola Company ("TCCC") on August 14, 2014, which provided for a long-term strategic relationship in the global energy drink category (the "TCCC Transaction").

Also, on June 12, 2015, Old Monster effected a holding company reorganization in connection with the TCCC Transaction by merging New Laser Merger Corp., a wholly owned subsidiary of the Company into Old Monster, with Old Monster surviving as a wholly owned subsidiary of the Company (the "Holding Company Reorganization"), and the Company changed its name from New Laser Corporation to "Monster Beverage Corporation."

In the Holding Company Reorganization, each Old Monster common share, par value \$0.005 per share, outstanding immediately prior to the consummation of the Holding Company Reorganization (other than any Old Monster common shares that were owned by Old Monster immediately prior to the closing of the TCCC Transaction, which were cancelled (see Note 13)), was converted automatically into the right to receive one Company common share, par value \$0.005 per share. In addition, upon consummation of the Holding Company Reorganization:

[Table of Contents](#)

MONSTER BEVERAGE CORPORATION AND SUBSIDIARIES NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Tabular Dollars in Thousands, Except Per Share Amounts) (Unaudited)

- each unexercised and unexpired stock option then outstanding under any equity compensation plan of Old Monster, whether or not then exercisable, ceased to represent a right to acquire Old Monster common shares and was converted automatically into a right to acquire the same number of Company common shares, on the same terms and conditions as were applicable under such Old Monster stock option; and
- each share of restricted stock and each restricted stock unit of Old Monster granted under all outstanding equity compensation plans ceased to represent or relate to Old Monster common shares and was converted automatically to represent or relate to Company common shares, on the same terms and conditions as were applicable to such Old Monster restricted stock and restricted stock units (including the vesting or other lapse restrictions (without acceleration thereof by virtue of the Holding Company Reorganization and the TCCC Transaction)).

Promptly following the effective time of the Holding Company Reorganization, Old Monster assigned to the Company all obligations of Old Monster under Old Monster's equity compensation plans and each stock option agreement, restricted stock award agreement, restricted stock unit award agreement and any similar agreement entered into pursuant to such equity compensation plans. In addition, all obligations of Old Monster under any employment agreements and indemnification agreements were assigned to the Company.

Immediately after the effective time of the Holding Company Reorganization, (1) the Company issued to TCCC 34,040,534 newly issued Company common shares representing approximately 16.7% of the total number of outstanding Company common shares (after giving effect to such issuance) (the "New Issuance") and TCCC appointed two individuals to the Company's Board of Directors, (2) TCCC transferred all of its rights in and to TCCC's worldwide energy drink business ("KO Energy") to the Company, (3) Old Monster transferred all of its rights in and to its non-energy drink business ("Monster Non-Energy") to TCCC, (4) the Company and TCCC amended the distribution coordination agreements previously existing between them to govern the transition of third parties' rights to distribute the Company's energy products in most territories in the U.S. to members of TCCC's distribution network, which consists of owned or controlled bottlers/distributors and independent bottling/distribution partners, and (5) TCCC and one of its subsidiaries made an aggregate net cash payment to the Company of \$2.15 billion, \$125.0 million of which is currently held in escrow as described below, pursuant to an escrow agreement (the "Escrow Agreement"), subject to release upon the achievement of milestones relating to the transition of distribution rights to TCCC's distribution network.

Under the terms of the Escrow Agreement and the transition payment agreement entered into in connection therewith, if the distribution rights in the U.S. that are transitioned to TCCC's distribution network represent case sales in excess of the following percentages of a target

case sale amount agreed to by the parties, amounts in the escrow fund in excess of the applicable amounts below will be released to the Company:

<u>Percentage Transitioned</u>	<u>Escrow Release</u>
40%	Amounts in excess of \$375 million
50%	Amounts in excess of \$312.5 million
60%	Amounts in excess of \$250 million
70%	Amounts in excess of \$187.5 million
80%	Amounts in excess of \$125 million
90%	Amounts in excess of \$62.5 million
95%	All remaining amounts

On the one-year anniversary of the closing of the TCCC Transaction, the then-remaining escrow amount, less an amount sufficient to cover any unresolved claims, will be released to TCCC. Any amount described above that becomes payable following the one-year anniversary will be paid directly from TCCC to the Company.

[Table of Contents](#)

MONSTER BEVERAGE CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Tabular Dollars in Thousands, Except Per Share Amounts) (Unaudited)

TCCC is contractually obligated to authorize payment to the Company of the funds in escrow upon achievement of the milestones referred to above. As of November 6, 2015, distribution rights in the U.S. representing approximately 89% of the target case sales have been transitioned to TCCC's distribution network. As a result, \$125 million is currently held in escrow. The Company expects to commence steps to transition sufficient additional distribution rights, which will, in due course, result in the release of all remaining amounts held in escrow. Therefore, the Company believes that achievement of the milestones is probable.

The following table summarizes the TCCC Transaction consideration allocation:

	Identifiable Assets Acquired and Liabilities Assumed	Consideration Transferred
Equity issued to TCCC for cash (22.2 million shares issued)	\$ -	\$ 1,647,333
Equity issued to TCCC for KO Energy (11.8 million shares issued)	-	1,521,802
KO Energy intangibles - trademarks (non-amortizing)	325,500	-
KO Energy intangibles - customer relationships (amortizing)	35,000	-
KO Energy intangibles - other (non-amortizing)	13,700	-
KO Energy inventories	6,144	-
KO Energy accounts payable	(2,758)	-
Goodwill	1,287,777	-
Deferred tax liability	(143,561)	-
New and amended U.S. distribution rights transferred to TCCC's distribution network	-	304,658
Monster Non-Energy business transferred to TCCC	-	198,009
Cash and escrow receivable	2,150,000	-
Total	<u>\$ 3,671,802</u>	<u>\$ 3,671,802</u>

The preliminary book value of the KO Energy inventories, prepaid expenses and other current assets and accounts payable approximate fair value. The fair value analysis has yet to progress to a stage where there is sufficient information for a definitive measurement of the respective fair values. Accordingly, the respective fair value allocation is preliminary and is based on valuations derived from estimated fair value assumptions used by management. The Company expects to complete its fair value analysis at a level of detail necessary to finalize the underlying fair value allocations no later than twelve months from the closing of the TCCC Transaction. Any differences between the final respective fair value allocations and the preliminary management estimates may differ materially and potentially have a material impact on the Company's financial position, results of operations or liquidity.

The Company has determined goodwill in accordance with ASC 805-30-30-1, "Business Combinations," which requires the recognition of goodwill for the excess of the aggregate consideration over the net amounts of identifiable assets acquired and liabilities assumed as of the acquisition date.

The goodwill recorded as part of the TCCC Transaction is not deductible for tax purposes. The goodwill includes access to new geographies, access to new sales channels, including vending and specialty accounts, as well as the opportunity for supply chain optimization.

[Table of Contents](#)

MONSTER BEVERAGE CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Tabular Dollars in Thousands, Except Per Share Amounts) (Unaudited)

The Company determined the estimated fair values of KO Energy trademarks, customer relationships and other intangibles as follows:

1. Trademarks—valued using the relief from royalty method. Royalty rates for the different brands were selected based on brand strength and profitability.
2. Customer relationships—valued using the with- and-without method assuming that the customer relationships could be rebuilt over a one-year period.
3. Other (Trade Secrets/Formulas)—valued using the cost savings method.

The Company determined the estimated fair value of the “new and amended U.S. distribution rights” transferred to TCCC’s distribution network using the discounted cash flow method. The cash flows were defined as the expected cost savings arising from the new distribution agreements.

The Company determined the estimated fair value of the Monster Non-Energy brands sold utilizing the discounted cash flow method and market multiple method. Market multiples for each brand were selected based on profitability, size and expected growth for each brand. The resulting business enterprise value derived under the income and market approaches was then adjusted for working capital and fixed assets that were not transferred to TCCC.

Of the approximately 34.0 million shares of the Company’s common stock issued to TCCC in the TCCC Transaction, approximately 11.8 million shares, or 34.8% of the total shares issued, were allocated to the purchase of KO Energy and approximately 22.2 million shares, or 65.2% of the total shares issued, were issued for cash. The 34.8% allocation was based on the relative fair value of KO Energy to the approximate fair value of the 34.0 million shares of Old Monster’s common stock on August 14, 2014. The remaining shares of the Company’s common stock were deemed to be issued for cash. The \$2.15 billion of cash and escrow receivable was first allocated to the new and amended U.S. distribution rights and the Monster Non-Energy business based on their respective preliminary fair values, and the residual cash of \$1.6 billion was then allocated to the equity issued for cash. On August 14, 2014, the date on which the terms of the TCCC Transaction were agreed to and announced, the closing market price of Old Monster’s common stock was \$71.65 per share. The fair value of KO Energy per ASC 820 is approximately \$880.1 million, which approximates the negotiated price for KO Energy based on the closing market price of Old Monster’s common stock on August 14, 2014. However, per ASC 805, equity securities issued as consideration in a business combination are to be recorded at fair value as of the closing date. Therefore, the value of the Company’s common stock issued to TCCC in exchange for KO Energy was \$128.39 per share, the closing price of the Company’s common stock on June 12, 2015, resulting in a total consideration value transferred for KO Energy of \$1.5 billion.

The Company recognized a gain of \$161.5 million on the disposal of Monster Non-Energy during the second quarter of 2015.

[Table of Contents](#)

MONSTER BEVERAGE CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Tabular Dollars in Thousands, Except Per Share Amounts) (Unaudited)

The following unaudited pro forma condensed combined financial information is presented as if the TCCC Transaction had closed on January 1, 2014:

Three-Months Ended September 30, 2015

	Monster Beverage Corporation as reported ¹	Pro Forma Adjustments			Pro Forma Combined
		KO Energy	Disposal of Monster Non-Energy	Other	
Net sales	\$ 756,619	\$ -	\$ -	\$ -	\$ 756,619
Net income	174,574	-	-	180	174,754

Three-Months Ended September 30, 2014

	Monster Beverage Corporation as reported	Pro Forma Adjustments			Pro Forma Combined
		KO Energy	Disposal of Monster Non-Energy	Other	
Net sales	\$ 635,972	\$ 85,608	\$ (41,624)	\$ 3,840	\$ 683,796
Net income	121,600	54,614 ²	(1,376)	(24,075)	150,763

¹Includes net sales of \$69.9 million and net income of \$27.4 million (tax affected) related to the acquired KO Energy assets for the three-months ended September 30, 2015.

²The \$54.6 million of net income for KO Energy for the three-months ended September 30, 2014 is presented before tax. The associated estimated provision for income taxes is included in the “Other” category.

Nine-Months Ended September 30, 2015

	Monster Beverage Corporation as reported ¹	Pro Forma Adjustments			Pro Forma Combined
		KO Energy ²	Disposal of Monster Non-Energy ³	Other	
Net sales	\$ 2,077,131	\$ 138,127 ⁴	\$ (60,824)	\$ 6,803	\$ 2,161,237
Net income	407,991	100,575 ⁴	(101,881)	(36,487)	370,198

Nine-Months Ended September 30, 2014

	Monster Beverage Corporation as reported	Pro Forma Adjustments			Pro Forma Combined
		KO Energy	Disposal of Monster Non-Energy	Other	
Net sales	\$ 1,859,301	\$ 256,824 ⁴	\$ (119,608)	\$ 11,393	\$ 2,007,910
Net income	357,854	163,842 ⁴	(4,398)	(74,747)	442,551

¹Includes net sales of \$82.9 million and net income of \$32.9 million (tax affected) related to the acquired KO Energy assets since the date of acquisition, June 12, 2015.

²Includes results through June 12, 2015, the date the TCCC Transaction was finalized. Net income for KO Energy includes only net revenues and direct operating expenses, rather than full “carve-out” financial statements, because such financial information would not be meaningful given that it is not possible to provide a meaningful allocation of business unit and corporate costs, interest or tax in respect of KO Energy.

³Includes results through June 12, 2015. Net income includes gain recognized on the sale of Monster Non-Energy of \$161.5 million.

⁴The \$100.6 million of net income for the nine-months ended September 30, 2015 and \$163.8 million of net income for KO Energy for the nine-months ended September 30, 2014 are presented before tax. The associated estimated provision for income taxes is included in the “Other” category.

[Table of Contents](#)

**MONSTER BEVERAGE CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Tabular Dollars in Thousands, Except Per Share Amounts) (Unaudited)**

Pro-Forma Adjustments – Other include the following:

	Three-Months Ended September 30, 2015	Three-Months Ended September 30, 2014	Nine-Months Ended September 30, 2015 ¹	Nine-Months Ended September 30, 2014
Net sales:				
Amortization of deferred revenue	\$ -	\$ 3,840	\$ 6,803	\$ 11,393
Net income:				
Amortization of deferred revenue	\$ -	\$ 3,840	\$ 6,803	\$ 11,393
To record sales commissions	-	(9,588)	(15,470)	(28,764)
To record amortization of definite lived KO Energy intangibles	-	(1,764)	(3,126)	(5,236)
To eliminate TCCC Transaction expenses	292	2,567	15,425	3,635
Estimated provision for income taxes on pro forma adjustments	(112)	1,904	(1,398)	7,304
Estimated provision for income taxes on KO Energy income	-	(21,034)	(38,721)	(63,079)
Total	<u>\$ 180</u>	<u>\$ (24,075)</u>	<u>\$ (36,487)</u>	<u>\$ (74,747)</u>

¹Includes amortization of deferred revenue, sales commissions and amortization of intangibles through June 12, 2015, the date the TCCC Transaction was consummated.

For purposes of the unaudited pro forma financial information, a combined U.S. Federal and state statutory tax rate of 38.5% has been used. This rate does not reflect the Company’s expected effective tax rate, which includes other tax charges and benefits, and does not take into account any historical or possible future tax events that may impact the combined company.

The unaudited pro forma financial information is presented for information purposes only and is not intended to represent or be indicative of the combined results of operations that the Company would have reported had the TCCC Transaction been completed as of the date and for the periods presented, and should not be taken as representative of the Company’s consolidated results of operations following the completion of the TCCC Transaction. In addition, the unaudited pro forma financial information is not intended to project the future financial

results of operations of the combined company. The unaudited pro forma combined financial information does not reflect any cost savings, operational synergies or revenue enhancements that the combined company may achieve as a result of the TCCC Transaction or the costs to combine the operations or costs necessary to achieve cost savings, operating synergies and revenue enhancements.

3. RECENT ACCOUNTING PRONOUNCEMENTS

In July 2015, the FASB issued ASU No. 2015-11, "Inventory (Topic 330): Simplifying the Measurement of Inventory". ASU 2015-11 requires entities to measure inventory at the lower of cost or net realizable value. Net realizable value is defined as the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. ASU 2015-11 is effective for annual periods, and interim periods within those years, beginning after December 15, 2016. Early adoption is permitted. The adoption of ASU 2015-11 is not expected to have a material impact on the Company's financial position, results of operations or liquidity.

13

[Table of Contents](#)

MONSTER BEVERAGE CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Tabular Dollars in Thousands, Except Per Share Amounts) (Unaudited)

In September 2014, the Company elected to early adopt FASB ASU No. 2014-08, "Presentation of Financial Statements and Property, Plant, and Equipment - Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity". ASU 2014-08 provides new guidance related to the definition of a discontinued operation and requires new disclosures of both discontinued operations and certain other disposals that do not meet the definition of a discontinued operation. The adoption of ASU 2014-08 did not have a material impact on the Company's financial position, results of operations or liquidity.

In June 2014, the FASB issued ASU No. 2014-12, "Compensation—Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period (a consensus of the FASB Emerging Issues Task Force)". ASU 2014-12 clarifies that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. A reporting entity should apply existing guidance in Topic 718 as it relates to awards with performance conditions that affect vesting to account for such awards. As such, the performance target should not be reflected in estimating the grant-date fair value of the award. Compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered. ASU 2014-12 is effective for annual periods, and interim periods within those years, beginning after December 15, 2015. Early adoption is permitted. ASU 2014-12 may be applied either (a) prospectively to all awards granted or modified after the effective date or (b) retrospectively to all awards with performance targets that are outstanding as of the beginning of the earliest annual period presented in the financial statements and to all new or modified awards thereafter. The adoption of ASU 2014-12 is not expected to have a material impact on the Company's financial position, results of operations or liquidity.

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers", which supersedes previous revenue recognition guidance. ASU 2014-09 requires that a company recognize revenue at an amount that reflects the consideration to which the company expects to be entitled in exchange for transferring goods or services to a customer. In applying the new guidance, a company will (1) identify the contract(s) with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the contract's performance obligations; and (5) recognize revenue when (or as) the entity satisfies a performance obligation. ASU 2014-09 was to be effective for reporting periods beginning after December 15, 2016. However, on July 9, 2015, the FASB voted to approve a one-year deferral of the effective date. This new guidance is effective for the Company beginning January 1, 2018 and can be adopted using either a full retrospective or modified approach. The Company is currently evaluating the impact of ASU 2014-09 on its financial position, results of operations and liquidity.

14

[Table of Contents](#)

MONSTER BEVERAGE CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Tabular Dollars in Thousands, Except Per Share Amounts) (Unaudited)

4. INVESTMENTS

The following table summarizes the Company's investments at:

September 30, 2015	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value	Continuous Unrealized Loss Position less than 12 Months	Continuous Unrealized Loss Position greater than 12 Months
Held-to-Maturity						
Short-term:						
Commercial paper	\$ 306,858	\$ -	\$ -	\$ 306,858	\$ -	\$ -
U.S. Treasuries	92,994	5	-	92,999	-	-
Certificates of deposit	44,506	-	-	44,506	-	-
Municipal securities	611,370	319	10	611,679	10	-
U.S. government agency securities	487,495	23	4	487,514	4	-

Long-term:						
Municipal securities	29,333	16	4	29,345	4	-
U.S. government agency securities	5,022	-	3	5,019	3	-
Total	<u>\$ 1,577,578</u>	<u>\$ 363</u>	<u>\$ 21</u>	1,577,920	<u>\$ 21</u>	<u>\$ -</u>
Trading						
Short-term:						
Auction rate securities				1,487		
Long-term:						
Auction rate securities				-		
Total				<u>\$ 1,579,407</u>		

December 31, 2014	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value	Continuous Unrealized Loss Position less than 12 Months	Continuous Unrealized Loss Position greater than 12 Months
Held-to-Maturity						
Short-term:						
Commercial paper	\$ 19,482	\$ -	\$ 2	\$ 19,480	\$ -	\$ -
Municipal securities	744,542	105	-	744,647	-	-
U.S. government agency securities	9,199	-	1	9,198	-	-
Long-term:						
Municipal securities	42,940	10	-	42,950	-	-
Available-for-sale						
Variable rate demand notes	4,001	-	-	4,001	-	-
Total	<u>\$ 820,164</u>	<u>\$ 115</u>	<u>\$ 3</u>	820,276	<u>\$ -</u>	<u>\$ -</u>
Trading						
Short-term:						
Auction rate securities				3,910		
Long-term:						
Auction rate securities				-		
Total				<u>\$ 824,186</u>		

During the three- and nine-months ended September 30, 2015 and September 30, 2014, realized gains or losses recognized on the sale of investments were not significant. During the three- and nine-months ended September 30, 2015 and September 30, 2014, the net gains recognized on the Company's trading securities were not significant.

[Table of Contents](#)

MONSTER BEVERAGE CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Tabular Dollars in Thousands, Except Per Share Amounts) (Unaudited)

The Company's investments at September 30, 2015 and December 31, 2014 in commercial paper, U.S. Treasuries, certificates of deposit, municipal securities, U.S. government agency securities and/or variable rate demand notes ("VRDNs") carried investment grade credit ratings. VRDNs are floating rate municipal bonds with embedded put options that allow the bondholder to sell the security at par plus accrued interest. All of the put options are secured by a pledged liquidity source. While they are classified as marketable investment securities, the put option allows the VRDNs to be liquidated at par on a same day, or more generally on a seven day, settlement basis. All of the Company's investments at September 30, 2015 and December 31, 2014 in municipal, educational or other public body securities with an auction reset feature ("auction rate securities") also carried investment grade credit ratings.

The following table summarizes the underlying contractual maturities of the Company's investments at:

	September 30, 2015		December 31, 2014	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Less than 1 year:				
Commercial paper	\$ 306,858	\$ 306,858	\$ 19,482	\$ 19,480
U.S. Treasuries	92,994	92,999	-	-
Certificates of deposit	44,506	44,506	-	-
Municipal securities	611,370	611,679	744,542	744,647
U.S. government agency securities	487,495	487,514	9,199	9,198
Due 1 - 10 years:				
Municipal securities	29,333	29,345	42,940	42,950
U.S. government agency securities	5,022	5,019	-	-
Due 11 - 20 years:				
Auction rate securities	1,487	1,487	3,910	3,910
Due 21 - 30 years:				
Variable rate demand notes	-	-	4,001	4,001
Total	<u>\$ 1,579,065</u>	<u>\$ 1,579,407</u>	<u>\$ 824,074</u>	<u>\$ 824,186</u>

5. FAIR VALUE OF CERTAIN FINANCIAL ASSETS AND LIABILITIES

ASC 820 provides a framework for measuring fair value and requires disclosures regarding fair value measurements. ASC 820 defines fair value as the price that would be received on the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs, where available. The three levels of inputs required by the standard that the Company uses to measure fair value are summarized below.

- **Level 1:** Quoted prices in active markets for identical assets or liabilities.
- **Level 2:** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the related assets or liabilities.
- **Level 3:** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

ASC 820 requires the use of observable market inputs (quoted market prices) when measuring fair value and requires a Level 1 quoted price to be used to measure fair value whenever possible.

[Table of Contents](#)

MONSTER BEVERAGE CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Tabular Dollars in Thousands, Except Per Share Amounts) (Unaudited)

The following tables present the Company's held-to-maturity investments at amortized cost, available-for-sale investments at fair value and the fair value of the Company's financial assets and liabilities that are recorded at fair value on a recurring basis, segregated among the appropriate levels within the fair value hierarchy at:

September 30, 2015	Level 1	Level 2	Level 3	Total
Cash	\$ 194,242	\$ -	\$ -	\$ 194,242
Money market funds	624,007	-	-	624,007
Commercial paper	-	361,833	-	361,833
U.S. Treasuries	-	111,993	-	111,993
Certificates of deposit	-	115,509	-	115,509
Municipal securities	-	670,186	-	670,186
U.S. government agency securities	-	740,525	-	740,525
Variable rate demand notes	-	-	-	-
Auction rate securities	-	-	1,487	1,487
Put option related to auction rate securities	-	-	48	48
Foreign currency derivatives	-	(570)	-	(570)
Total	\$ 818,249	\$ 1,999,476	\$ 1,535	\$ 2,819,260

Amounts included in:

Cash and cash equivalents	\$ 818,249	\$ 422,468	\$ -	\$ 1,240,717
Short-term investments	-	1,543,223	1,487	1,544,710
Accounts receivable, net	-	48	-	48
Investments	-	34,355	-	34,355
Prepaid expenses and other current assets	-	-	48	48
Accrued liabilities	-	(618)	-	(618)
Total	\$ 818,249	\$ 1,999,476	\$ 1,535	\$ 2,819,260

December 31, 2014	Level 1	Level 2	Level 3	Total
Cash	\$ 196,090	\$ -	\$ -	\$ 196,090
Money market funds	106,928	-	-	106,928
Commercial paper	-	19,482	-	19,482
Municipal securities	-	854,787	-	854,787
U.S. government agency securities	-	9,199	-	9,199
Variable rate demand notes	-	4,001	-	4,001
Auction rate securities	-	-	3,910	3,910
Put option related to auction rate securities	-	-	250	250
Foreign currency derivatives	-	(252)	-	(252)
Total	\$ 303,018	\$ 887,217	\$ 4,160	\$ 1,194,395

Amounts included in:

Cash and cash equivalents	\$ 303,018	\$ 67,305	\$ -	\$ 370,323
Short-term investments	-	777,224	3,910	781,134
Accounts receivable, net	-	83	-	83
Investments	-	42,940	-	42,940
Prepaid expenses and other current assets	-	-	250	250
Accrued liabilities	-	(335)	-	(335)
Total	\$ 303,018	\$ 887,217	\$ 4,160	\$ 1,194,395

MONSTER BEVERAGE CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Tabular Dollars in Thousands, Except Per Share Amounts) (Unaudited)

The majority of the Company's short-term investments are classified within Level 1 or Level 2 of the fair value hierarchy. The Company's valuation of its Level 1 investments, which include money market funds, is based on quoted market prices in active markets for identical securities. The Company's valuation of its Level 2 investments, which include commercial paper, U.S. Treasuries, certificates of deposit, municipal securities, U.S. government agency securities and VRDNs, is based on other observable inputs, specifically a market approach which utilizes valuation models, pricing systems, mathematical tools and other relevant information for the same or similar securities. The Company's valuation of its Level 2 foreign exchange contracts is based on quoted market prices of the same or similar instruments, adjusted for counterparty risk. There were no transfers between Level 1 and Level 2 measurements during the nine-months ended September 30, 2015 or the year ended December 31, 2014, and there were no changes in the Company's valuation techniques.

The Company's Level 3 assets are comprised of auction rate securities and put options. The Company's Level 3 valuation utilized a mark-to-model approach which included estimates for interest rates, timing and amount of cash flows, credit and liquidity premiums, as well as expected holding periods for the auction rate securities. These assumptions are typically volatile and subject to change as the underlying data sources and market conditions evolve. A significant change in any single input could have a significant valuation impact; however, no single input has a more significant impact on valuation than another. There were no changes in the Company's valuation techniques of its Level 3 assets during the nine-months ended September 30, 2015.

At September 30, 2015, the Company held auction rate securities with a face value of \$1.54 million (amortized cost basis of \$1.49 million). A Level 3 valuation was performed on the Company's auction rate securities as of September 30, 2015 resulting in a fair value of \$1.49 million for the Company's trading auction rate securities (after a \$0.05 million impairment), which are included in short-term investments.

In June 2011, the Company entered into an agreement (the "2011 ARS Agreement"), related to \$24.5 million of par value auction rate securities (the "2011 ARS Securities"). Under the 2011 ARS Agreement, the Company had the right to sell the 2011 ARS Securities including all accrued but unpaid interest thereon (the "2011 Put Option") as follows: (i) on or after July 1, 2013, up to \$1.0 million aggregate par value; (ii) on or after October 1, 2013, up to an additional \$1.0 million aggregate par value; and (iii) in quarterly installments thereafter based on a formula of the then outstanding 2011 ARS Securities, as adjusted for normal market redemptions, with full sale rights available on or after April 1, 2016. The 2011 ARS Securities continued to accrue interest until redeemed through the 2011 Put Option, or as determined by the auction process, or should the auction process have failed, the terms outlined in the prospectus of the respective 2011 ARS Securities. Under the 2011 ARS Agreement, the Company had the obligation, should it have received written notification from the put issuer, to sell the 2011 ARS Securities at par plus all accrued but unpaid interest. During the nine-months ended September 30, 2015, \$2.6 million of ARS Securities were redeemed (\$13.1 million, \$2.3 million, \$1.3 million and \$3.7 million of par value 2011 ARS Securities were redeemed at par during the years ended December 31, 2014, 2013, 2012 and 2011, respectively). Subsequent to September 30, 2015, the Company's remaining \$1.5 million balance of 2011 ARS Securities were redeemed at par through the exercise of the remaining portion of the 2011 Put Option, which exhausted the Company's rights under the 2011 ARS Agreement. The 2011 Put Option did not meet the definition of derivative instruments under ASC 815. Therefore, the Company elected the fair value option under ASC 825-10 in accounting for the 2011 Put Option. As of September 30, 2015, the Company recorded \$0.05 million as the fair market value of the 2011 Put Option, included in prepaid expenses and other current assets.

MONSTER BEVERAGE CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Tabular Dollars in Thousands, Except Per Share Amounts) (Unaudited)

The following table provides a summary reconciliation of the Company's financial assets that are recorded at fair value on a recurring basis using significant unobservable inputs (Level 3):

	Three-Months Ended September 30, 2015		Three-Months Ended September 30, 2014	
	Auction Rate Securities	Put Options	Auction Rate Securities	Put Options
Opening Balance	\$ 3,246	\$ 189	\$ 12,819	\$ 994
Transfers into Level 3	-	-	-	-
Transfers out of Level 3	-	-	-	-
Total gains (losses) for the period:				
Included in earnings	141	(141)	648	(674)
Included in other comprehensive income	-	-	-	-
Settlements	(1,900)	-	(8,625)	-
Closing Balance	\$ 1,487	\$ 48	\$ 4,842	\$ 320
	Nine-Months Ended September 30, 2015		Nine-Months Ended September 30, 2014	

	Auction Rate Securities	Put Options	Auction Rate Securities	Put Options
Opening Balance	\$ 3,910	\$ 250	\$ 16,184	\$ 1,092
Transfers into Level 3	-	-	-	-
Transfers out of Level 3	-	-	-	-
Total gains (losses) for the period:				
Included in earnings	202	(202)	732	(772)
Included in other comprehensive income	-	-	-	-
Settlements	(2,625)	-	(12,074)	-
Closing Balance	\$ 1,487	\$ 48	\$ 4,842	\$ 320

6. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

The Company is exposed to foreign currency exchange rate risks related primarily to its foreign business operations. During the nine-months ended September 30, 2015 and the year ended December 31, 2014, the Company entered into forward currency exchange contracts with financial institutions to create an economic hedge to specifically manage a portion of the foreign exchange risk exposure associated with certain consolidated subsidiaries' non-functional currency denominated assets and liabilities. All foreign currency exchange contracts of the Company that were outstanding as of September 30, 2015 have terms of one month or less. The Company does not enter into forward currency exchange contracts for speculation or trading purposes.

The Company has not designated its foreign currency exchange contracts as hedge transactions under ASC 815. Therefore, gains and losses on the Company's foreign currency exchange contracts are recognized in interest income and other (expense), net, in the condensed consolidated statements of income, and are largely offset by the changes in the fair value of the underlying economically hedged item.

[Table of Contents](#)

MONSTER BEVERAGE CORPORATION AND SUBSIDIARIES NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Tabular Dollars in Thousands, Except Per Share Amounts) (Unaudited)

The notional amount and fair value of all outstanding foreign currency derivative instruments in the condensed consolidated balance sheets consist of the following at:

September 30, 2015			
Derivatives not designated as hedging instruments under FASB ASC 815-20	Notional Amount	Fair Value	Balance Sheet Location
Assets:			
Foreign currency exchange contracts:			
Receive USD/pay GBP	\$ 9,410	\$ 36	Accounts receivable, net
Receive USD/pay JPY	5,389	12	Accounts receivable, net
Liabilities:			
Foreign currency exchange contracts:			
Receive EUR/pay USD	\$ 26,749	\$ (160)	Accrued liabilities
Receive USD/pay AUD	7,263	(17)	Accrued liabilities
Receive USD/pay ZAR	14,921	(243)	Accrued liabilities
Receive USD/pay MXN	7,442	(72)	Accrued liabilities
Receive USD/pay RUB	1,736	(21)	Accrued liabilities
Receive USD/pay BRL	2,284	(58)	Accrued liabilities
Receive USD/pay CLP	1,631	(29)	Accrued liabilities
Receive USD/pay COP	1,120	(18)	Accrued liabilities
December 31, 2014			
Derivatives not designated as hedging instruments under FASB ASC 815-20	Notional Amount	Fair Value	Balance Sheet Location
Assets:			
Foreign currency exchange contracts:			
Receive CAD/pay USD	\$ 19,940	\$ 83	Accounts receivable, net
Liabilities:			
Foreign currency exchange contracts:			
Receive EUR/pay USD	\$ 13,265	\$ (75)	Accrued liabilities
Receive USD/pay AUD	8,343	(48)	Accrued liabilities
Receive USD/pay JPY	10,620	(84)	Accrued liabilities

Receive USD/pay ZAR	14,760	(105)	Accrued liabilities
Receive USD/pay MXN	4,961	(11)	Accrued liabilities
Receive USD/pay CLP	2,685	(10)	Accrued liabilities
Receive USD/pay COP	2,845	(2)	Accrued liabilities

[Table of Contents](#)

MONSTER BEVERAGE CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Tabular Dollars in Thousands, Except Per Share Amounts) (Unaudited)

The net losses on derivative instruments in the condensed consolidated statements of income were as follows:

Derivatives not designated as hedging instruments under FASB ASC 815-20	Location of gain recognized in income on derivatives	Amount of gain recognized in income on derivatives	
		Three-months ended	
		September 30, 2015	September 30, 2014
Foreign currency exchange contracts	Interest income and other (expense), net	\$ 3,552	\$ 960

Derivatives not designated as hedging instruments under FASB ASC 815-20	Location of gain recognized in income on derivatives	Amount of gain recognized in income on derivatives	
		Nine-months ended	
		September 30, 2015	September 30, 2014
Foreign currency exchange contracts	Interest income and other (expense), net	\$ 1,634	\$ 194

7. INVENTORIES

Inventories consist of the following at:

	September 30, 2015	December 31, 2014
Raw materials	\$ 56,578	\$ 59,938
Finished goods	103,113	114,635
	<u>\$ 159,691</u>	<u>\$ 174,573</u>

8. PROPERTY AND EQUIPMENT, Net

Property and equipment consist of the following at:

	September 30, 2015	December 31, 2014
Land	\$ 6,792	\$ 6,792
Leasehold improvements	2,745	2,796
Furniture and fixtures	3,497	3,371
Office and computer equipment	10,864	10,072
Computer software	2,283	1,317
Equipment	99,874	84,263
Buildings	39,421	37,311
Vehicles	28,391	27,813
	<u>193,867</u>	<u>173,735</u>
Less: accumulated depreciation and amortization	<u>(99,140)</u>	<u>(83,579)</u>
	<u>\$ 94,727</u>	<u>\$ 90,156</u>

MONSTER BEVERAGE CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Tabular Dollars in Thousands, Except Per Share Amounts) (Unaudited)

9. GOODWILL AND OTHER INTANGIBLE ASSETS

The following is a roll-forward of goodwill for the nine-months ended September 30, 2015 by reportable segment:

	Finished Products	Concentrate	Total
Balance at December 31, 2014	\$ -	\$ -	\$ -
Acquisitions	785,277	502,500	1,287,777
Balance at September 30, 2015	<u>\$ 785,277</u>	<u>\$ 502,500</u>	<u>\$ 1,287,777</u>

Intangible assets consist of the following at:

	September 30, 2015	December 31, 2014
Amortizing intangibles	\$ 35,264	\$ 233
Accumulated amortization	<u>(2,148)</u>	<u>(50)</u>
	33,116	183
Non-amortizing intangibles	395,085	50,565
	<u>\$ 428,201</u>	<u>\$ 50,748</u>

Amortizing intangibles primarily consist of customer relationships. All amortizing intangibles have been assigned an estimated finite useful life and such intangibles are amortized on a straight-line basis over the number of years that approximate their respective useful lives, generally 5 years. Total amortization expense recorded was \$1.8 million and \$0.1 million for the three-months ended September 30, 2015 and 2014, respectively. Total amortization expense recorded was \$2.1 million and \$0.4 million for the nine-months ended September 30, 2015 and 2014, respectively. Non-amortizing intangibles primarily consist of indefinite-lived tradenames.

10. DISTRIBUTION AGREEMENTS

As part of the TCCC Transaction, the amended distribution coordination agreements entered into with TCCC provided for the transition of third parties' rights to distribute the Company's products in most territories in the U.S. and Canada to members of TCCC's distribution network, which consists of owned or controlled bottlers/distributors and independent bottling/distribution partners. In February 2015, in accordance with its then existing agreements with certain affected third-party distributors, Old Monster sent notices of termination to the applicable affected third-party distributors in the U.S., providing for the termination of their respective distribution agreements. The associated distribution rights relating to such terminated distribution agreements were transitioned to the TCCC distribution network as of the effective date of termination of the affected third-party distributors' rights in the applicable territories. As of November 6, 2015, distribution rights in the U.S. representing approximately 89% of the target case sales (see Note 2) have been transitioned to TCCC's distribution network.

In accordance with ASC No. 420 "Exit or Disposal Cost Obligations", the Company expenses distributor termination costs in the period in which the written notification of termination occurs. As a result, the Company incurred termination costs of \$2.5 million and \$220.7 million for the three- and nine-months ended September 30, 2015. Such termination costs have been expensed in full and are included in operating expenses for the three- and nine-months ended September 30, 2015.

[Table of Contents](#)

MONSTER BEVERAGE CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Tabular Dollars in Thousands, Except Per Share Amounts) (Unaudited)

In the normal course of business, amounts received pursuant to new and/or amended distribution agreements entered into with certain distributors, relating to the costs associated with terminating agreements with the Company's prior distributors, are accounted for as deferred revenue and are recognized as revenue ratably over the anticipated life of the respective distribution agreement, generally 20 years. Revenue recognized was \$5.5 million and \$1.9 million for the three-months ended September 30, 2015 and 2014, respectively. Revenue recognized was \$45.1 million and \$5.8 million for the nine-months ended September 30, 2015 and 2014, respectively. Included in the \$45.1 million of revenue recognized for the nine-months ended September 30, 2015 was \$39.8 million related to the accelerated amortization of the deferred revenue balances associated with certain of the Company's prior distributors who were sent notices of termination during the first quarter of 2015, as described above.

11. COMMITMENTS AND CONTINGENCIES

The Company had purchase commitments aggregating approximately \$37.5 million at September 30, 2015, which represented commitments made by the Company and its subsidiaries to various suppliers of raw materials for the production of its products. These obligations vary in terms, but are generally satisfied within one year.

The Company had contractual obligations aggregating approximately \$77.6 million at September 30, 2015, which related primarily to sponsorships and other marketing activities.

The Company had operating lease commitments aggregating approximately \$10.6 million at September 30, 2015, which related primarily to warehouse and office space.

Legal Proceedings

The Company has been named a defendant in various personal injury lawsuits, claiming that the death or other serious injury of the plaintiffs was caused by consumption of Monster Energy® drinks. The plaintiffs in these lawsuits allege strict product liability, negligence, fraudulent concealment, breach of implied warranties and wrongful death. The Company believes that each complaint is without merit and plans a vigorous defense. The Company also believes that any damages, if awarded, would not have a material adverse effect on the Company's financial position or results of operations.

State Attorney General Inquiry – In July 2012, the Company received a subpoena from the Attorney General for the State of New York in connection with its investigation concerning the Company's advertising, marketing, promotion, ingredients, usage and sale of its Monster Energy® brand energy drinks. Production of documents pursuant to that subpoena was completed in approximately May 2014.

On August 6, 2014, the Attorney General for the State of New York issued a second subpoena seeking additional documents and the deposition of a Company employee. On September 8, 2014, the Company moved to quash the second subpoena in the Supreme Court, New York County. The motion was fully briefed and was argued on March 17, 2015. No decision has been rendered. It is unknown what, if any, action the state attorney general may take against the Company, the relief which may be sought in the event of any such proceeding or whether such proceeding could have a material adverse effect on the Company's business, financial condition or results of operations.

San Francisco City Attorney Litigation – On October 31, 2012, the Company received a written request for information from the City Attorney for the City and County of San Francisco concerning the Company's advertising and marketing of its Monster Energy® brand energy drinks and specifically concerning the safety of its products for consumption by adolescents. In a letter dated March 29, 2013, the San Francisco

Table of Contents

MONSTER BEVERAGE CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Tabular Dollars in Thousands, Except Per Share Amounts) (Unaudited)

City Attorney threatened to bring suit against the Company if it did not agree to take the following five steps immediately: (i) "Reformulate its products to lower the caffeine content to safe levels" - (ii) "Provide adequate warning labels"; (iii) "Cease promoting over-consumption in marketing"; (iv) "Cease use of alcohol and drug references in marketing"; and (v) "Cease targeting minors."

(i) The Company Action – On April 29, 2013, the Company and its wholly owned subsidiary, Monster Energy Company, filed a complaint for declaratory and injunctive relief against the San Francisco City Attorney (the "Company Action") in United States District Court for the Central District of California (the "Central District Court"), styled *Monster Beverage Corp., et al. v. Dennis Herrera*. The Company sought a declaration from the Central District Court that the San Francisco City Attorney's investigation and demands are impermissible and preempted, subject to the doctrine of primary jurisdiction, are unconstitutional in that they violate the First and Fourteenth Amendments' prohibitions against compelled speech, content-based speech and commercial speech, are impermissibly void-for-vagueness, and/or violate the Commerce Clause. On June 3, 2013, the City Attorney filed a motion to dismiss the Company Action, arguing in part that the complaint should be dismissed in light of the San Francisco Action (described below) filed on May 6, 2013. On August 22, 2013, the Central District Court granted in part and denied in part the City Attorney's motion. On October 17, 2013, the City Attorney filed a renewed motion to dismiss the Company Action and on December 16, 2013, the Central District Court granted the City Attorney's renewed motion, dismissing the Company Action. The Company filed a Notice of Appeal to the Ninth Circuit on December 18, 2013. The appeal is fully briefed but has not yet been set for argument.

(ii) The San Francisco Action – On May 6, 2013, the San Francisco City Attorney filed a complaint for declaratory and injunctive relief, civil penalties and restitution for alleged violation of California's Unfair Competition Law, Business & Professions Code sections 17200, *et seq.*, styled *People Of The State Of California ex rel. Dennis Herrera, San Francisco City Attorney v. Monster Beverage Corporation*, in San Francisco Superior Court (the "San Francisco Action"). The City Attorney alleges that the Company (1) mislabeled its products as a dietary supplement, in violation of California's Sherman Food, Drug and Cosmetic Law, California Health & Safety Code sections 109875 *et. seq.*; (2) is selling an "adulterated" product because caffeine is not generally recognized as safe ("GRAS") due to the alleged lack of scientific consensus concerning the safety of the levels of caffeine in the Company's products; and (3) is engaged in unfair and misleading business practices because its marketing (a) does not disclose the health risks that energy drinks pose for children and teens; (b) fails to warn against and promotes unsafe consumption; (c) implicitly promotes mixing of energy drinks with alcohol or drugs; and (d) is deceptive because it includes unsubstantiated claims about the purported special benefits of its "killer" ingredients and "energy blend." The City Attorney sought a declaration that the Company has engaged in unfair and unlawful business acts and practices in violation of the Unfair Competition Law; an injunction from performing or proposing to perform any acts in violation of the Unfair Competition Law; restitution; and civil penalties.

After a motion to strike filed by the Company was granted in part, on March 20, 2014, the City Attorney filed an amended complaint, adding allegations supporting the theory for relief as to which the Court had granted the motion to strike. On April 18, 2014, the Company filed a renewed motion to strike, as well as a motion asking the Court to bifurcate and/or stay claims relating to the safety of Monster Energy®

drinks, pending resolution of the ongoing FDA investigation of the safety and labeling of food products to which caffeine is added. On May 22, 2014, the Court denied the Company's motion to strike and motion to bifurcate and/or stay claims relating to safety.

On September 5, 2014, the City Attorney filed a second amended complaint, adding Monster Energy Company as a defendant. The Company and Monster Energy Company filed answers to the second amended complaint on October 4, 2014 and November 10, 2014, respectively. Discovery is ongoing.

[Table of Contents](#)

MONSTER BEVERAGE CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Tabular Dollars in Thousands, Except Per Share Amounts) (Unaudited)

The Court has set the case for a two-week bench trial beginning on February 8, 2016.

The Company denies that it has violated the Unfair Competition Law or any other law and believes that the City Attorney's claims and demands are preempted and unconstitutional, as alleged in the action the Company filed in the Central District Court. The Company intends to vigorously defend against this lawsuit. At this time, no evaluation of the likelihood of an unfavorable outcome or range of potential loss can be expressed.

The actions or investigations described above have not progressed to a point where a reasonably possible range of losses associated with their ultimate outcome can be estimated at this time. If the final resolution of any such litigation or proceedings is unfavorable, the Company's financial condition, operating results and cash flows could be materially affected.

In addition to the above matters, the Company has been named as a defendant in various false advertising putative class actions and in a private attorney general action. In these actions, plaintiffs allege that defendants misleadingly labeled and advertised Monster Energy® brand products that allegedly were ineffective for the advertised benefits (including, but not limited to, an allegation that the products do not hydrate as advertised because they contain caffeine). The plaintiffs further allege that the Monster Energy® brand products at issue are unsafe because they contain one or more ingredients that allegedly could result in illness, injury or death. In connection with these product safety allegations, the plaintiffs claim that the product labels did not provide adequate warnings and/or that the Company did not include sufficiently specific statements with respect to contra-indications and/or adverse reactions associated with the consumption of its energy drink products (including, but not limited to, claims that certain ingredients, when consumed individually or in combination with other ingredients, could result in high blood pressure, palpitations, liver damage or other negative health effects and/or that the products themselves are unsafe). Based on these allegations, the plaintiffs assert claims for violation of state consumer protection statutes, including unfair competition and false advertising statutes, and for breach of warranty and unjust enrichment. In their prayers for relief, the plaintiffs seek, inter alia, compensatory and punitive damages, restitution, attorneys' fees, and, in some cases, injunctive relief. The Company regards these cases and allegations as having no merit. Furthermore, the Company is subject to litigation from time to time in the normal course of business, including intellectual property litigation and claims from terminated distributors.

Although it is not possible to predict the ultimate outcome of such litigation, based on the facts known to the Company, management believes that such litigation in the aggregate will likely not have a material adverse effect on the Company's financial position or results of operations.

The Company evaluates, on a quarterly basis, developments in legal proceedings and other matters that could cause an increase or decrease in the amount of the liability that is accrued, if any, or in the amount of any related insurance reimbursements recorded. As of September 30, 2015, the Company's consolidated balance sheet includes accrued loss contingencies of approximately \$2.8 million.

[Table of Contents](#)

MONSTER BEVERAGE CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Tabular Dollars in Thousands, Except Per Share Amounts) (Unaudited)

12. ACCUMULATED OTHER COMPREHENSIVE LOSS

Changes in accumulated other comprehensive loss by component, after tax, for the nine-months ended September 30, 2015 are as follows:

	Currency Translation Losses
Balance at December 31, 2014	\$ 11,453
Other comprehensive loss before reclassifications	-
Amounts reclassified from accumulated other comprehensive loss	-
Net current-period other comprehensive loss	9,398
Balance at September 30, 2015	\$ 20,851

13. TREASURY STOCK

On June 12, 2015, as part of the TCCC Transaction, the Company cancelled 41.5 million shares of treasury stock owned by the Company. The cancelled stock had a carrying value of approximately \$1,482.6 million. The Company's accounting policy upon the formal retirement of treasury stock is to deduct its par value from common stock and to reflect any excess of cost over par as a deduction from retained earnings.

On April 7, 2013, the Company's Board of Directors authorized a new share repurchase program for the repurchase of up to \$200.0 million of the Company's outstanding common stock (the "April 2013 Repurchase Plan"). During the three-months ended September 30, 2015, the Company purchased 1.1 million shares of common stock at an average purchase price of \$134.71 per share, for a total amount of \$145.7 million (excluding broker commissions), which exhausted the availability under the April 2013 Repurchase Plan.

On September 11, 2015, the Company's Board of Directors authorized a new share repurchase program for the repurchase of up to \$500.0 million of the Company's outstanding common stock (the "September 2015 Repurchase Plan"). During the three-months ended September 30, 2015, the Company purchased 1.8 million shares of common stock at an average purchase price of \$134.27 per share, for a total amount of \$241.8 million (excluding broker commissions), under the September 2015 Repurchase Plan.

During the three-months ended September 30, 2015, 75 shares were purchased from employees in lieu of cash payments for options exercised or withholding taxes due for a total amount of \$0.01 million. While such purchases are considered common stock repurchases, they are not counted as purchases against the Company's authorized share repurchase programs, including the September 2015 Repurchase Plan or the April 2013 Repurchase Plan. Such shares are included in common stock in treasury in the accompanying condensed consolidated balance sheet at September 30, 2015.

14. STOCK-BASED COMPENSATION

The Company has two stock-based compensation plans under which shares were available for grant at September 30, 2015: the Monster Beverage Corporation 2011 Omnibus Incentive Plan (the "2011 Omnibus Incentive Plan") and the 2009 Monster Beverage Corporation Stock Incentive Plan for Non-Employee Directors (the "2009 Directors Plan").

[Table of Contents](#)

MONSTER BEVERAGE CORPORATION AND SUBSIDIARIES NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Tabular Dollars in Thousands, Except Per Share Amounts) (Unaudited)

The Company recorded \$8.9 million and \$7.4 million of compensation expense relating to outstanding options, restricted stock awards, stock appreciation rights and restricted stock units during the three-months ended September 30, 2015 and 2014, respectively. The Company recorded \$23.7 million and \$22.5 million of compensation expense relating to outstanding options, restricted stock awards, stock appreciation rights and restricted stock units during the nine-months ended September 30, 2015 and 2014, respectively.

The excess tax benefit realized for tax deductions from non-qualified stock option exercises, disqualifying dispositions of incentive stock options, vesting of restricted stock units and restricted stock awards for the three-months ended September 30, 2015 and 2014 was \$3.6 million and \$8.2 million, respectively. The excess tax benefit realized for tax deductions from non-qualified stock option exercises, disqualifying dispositions of incentive stock options, vesting of restricted stock units and restricted stock awards for the nine-months ended September 30, 2015 and 2014 was \$303.9 million and \$11.5 million, respectively.

Stock Options

Under the Company's stock-based compensation plans, all stock options granted as of September 30, 2015 were granted at prices based on the fair value of the Company's common stock on the date of grant. The Company records compensation expense for employee stock options based on the estimated fair value of the options on the date of grant using the Black-Scholes-Merton option pricing formula with the assumptions included in the table below. The Company records compensation expense for non-employee stock options based on the estimated fair value of the options as of the earlier of (1) the date at which a commitment for performance by the non-employee to earn the stock option is reached or (2) the date at which the non-employee's performance is complete, using the Black-Scholes-Merton option pricing formula with the assumptions included in the table below. The Company uses historical data to determine the exercise behavior, volatility and forfeiture rate of the options.

The following weighted-average assumptions were used to estimate the fair value of options granted during:

	Three-Months Ended September 30,		Nine-Months Ended September 30,	
	2015	2014 ¹	2015	2014
Dividend yield	0.0%	-	0.0%	0.0%
Expected volatility	36.7%	-	37.1%	42.4%
Risk-free interest rate	1.5%	-	1.6%	1.6%
Expected term	6.1 years	-	5.8 years	5.8 years

¹ No options were granted during the three-months ended September 30, 2014.

Expected Volatility: The Company uses historical volatility as it provides a reasonable estimate of the expected volatility. Historical volatility is based on the most recent volatility of the stock price over a period of time equivalent to the expected term of the option.

Risk-Free Interest Rate: The risk-free interest rate is based on the U.S. Treasury zero coupon yield curve in effect at the time of grant for the expected term of the option.

Expected Term: The Company's expected term represents the weighted-average period that the Company's stock options are expected to be outstanding. The expected term is based on expected time to post-vesting exercise of options by employees. The Company uses historical exercise patterns of previously granted options to derive employee behavioral patterns used to forecast expected exercise patterns.

[Table of Contents](#)

MONSTER BEVERAGE CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Tabular Dollars in Thousands, Except Per Share Amounts) (Unaudited)

The following table summarizes the Company's activities with respect to its stock option plans as follows:

Options	Number of Shares (In thousands)	Weighted- Average Exercise Price Per Share	Weighted- Average Remaining Contractual Term (In years)	Aggregate Intrinsic Value
Outstanding at January 1, 2015	13,066	\$ 19.73	3.1	\$ 1,158,412
Granted 01/01/15 - 03/31/15	903	\$ 133.68		
Granted 04/01/15 - 06/30/15	33	\$ 133.43		
Granted 07/01/15 - 09/30/15	56	\$ 135.00		
Exercised	(7,153)	\$ 6.11		
Cancelled or forfeited	(73)	\$ 64.62		
Outstanding at September 30, 2015	6,832	\$ 50.05	5.8	\$ 581,663
Vested and expected to vest in the future at September 30, 2015	6,428	\$ 47.00	5.6	\$ 566,879
Exercisable at September 30, 2015	4,005	\$ 23.74	4.0	\$ 446,159

The weighted-average grant-date fair value of options granted during the three-months ended September 30, 2015 was \$51.14 per share. No options awards were granted during the three-months ended September 30, 2014. The weighted-average grant-date fair value of options granted during the nine-months ended September 30, 2015 and 2014 was \$50.20 per share and \$29.33 per share, respectively. The total intrinsic value of options exercised during the three-months ended September 30, 2015 and 2014 was \$11.9 million and \$25.4 million, respectively. The total intrinsic value of options exercised during the nine-months ended September 30, 2015 and 2014 was \$841.5 million and \$40.4 million, respectively.

Cash received from option exercises under all plans for the three-months ended September 30, 2015 and 2014 was approximately \$1.9 million and \$7.3 million, respectively. Cash received from option exercises under all plans for the nine-months ended September 30, 2015 and 2014 was approximately \$43.6 million and \$15.0 million, respectively.

At September 30, 2015, there was \$76.7 million of total unrecognized compensation expense related to non-vested options granted to employees under the Company's share-based payment plans. That cost is expected to be recognized over a weighted-average period of 2.9 years.

Restricted Stock Awards and Restricted Stock Units

Stock-based compensation cost for restricted stock awards and restricted stock units is measured based on the closing fair market value of the Company's common stock at the date of grant. In the event that the Company has the option and intent to settle a restricted stock unit in cash, the award is classified as a liability and revalued at each balance sheet date.

[Table of Contents](#)

MONSTER BEVERAGE CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Tabular Dollars in Thousands, Except Per Share Amounts) (Unaudited)

The following table summarizes the Company's activities with respect to non-vested restricted stock awards and non-vested restricted stock units as follows:

	Number of Shares (in thousands)	Weighted Average Grant-Date Fair Value
Non-vested at January 1, 2015	149	\$ 61.09
Granted 01/01/15 - 03/31/15	83	\$ 135.48
Granted 04/01/15 - 06/30/15	-	\$ -
Granted 07/01/15 - 09/30/15	8	\$ 147.36
Vested	(43)	\$ 57.57
Forfeited/cancelled	(14)	\$ 63.57
Non-vested at September 30, 2015	<u>183</u>	<u>\$ 98.95</u>

The weighted-average grant-date fair value of restricted stock units and restricted stock awards granted during the three-months ended September 30, 2015 was \$147.36 per share. No restricted stock units or restricted stock awards were granted during the three-months ended September 30, 2014. The weighted-average grant-date fair value of restricted stock units and restricted stock awards granted during the nine-months ended September 30, 2015 and 2014 was \$136.50 and \$69.00 per share, respectively. As of September 30, 2015, 0.2 million of restricted stock units and restricted stock awards are expected to vest over their respective terms.

At September 30, 2015, total unrecognized compensation expense relating to non-vested restricted stock awards and non-vested restricted stock units was \$13.7 million, which is expected to be recognized over a weighted-average period of 2.0 years.

15. INCOME TAXES

The following is a roll-forward of the Company's total gross unrecognized tax benefits, not including interest and penalties, for the nine-months ended September 30, 2015:

	Gross Unrecognized Tax Benefits	
Balance at December 31, 2014	\$	935
Additions for tax positions related to the current year		-
Additions for tax positions related to the prior year		-
Decreases related to settlement with taxing authority		-
Balance at September 30, 2015	<u>\$</u>	<u>935</u>

The Company recognizes accrued interest and penalties related to unrecognized tax benefits in the provision for income taxes in the Company's condensed consolidated financial statements. As of September 30, 2015, the Company had accrued approximately \$0.5 million in interest and penalties related to unrecognized tax benefits. If the Company were to prevail on all uncertain tax positions, the resultant impact on the Company's effective tax rate would not be significant. It is expected that the change in the amount of unrecognized tax benefits within the next 12 months will not be significant.

[Table of Contents](#)

MONSTER BEVERAGE CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Tabular Dollars in Thousands, Except Per Share Amounts) (Unaudited)

The Company is subject to U.S. federal income tax as well as to income tax in multiple state and foreign jurisdictions.

On August 7, 2015, the Internal Revenue Service (the "IRS") began its examination of the Company's U.S. federal income tax returns for the years ended December 31, 2012 and 2013.

The Company is in various stages of examination with certain states and certain foreign jurisdictions. The 2012, 2013 and 2014 U.S. federal income tax returns are subject to examination by the IRS. State income tax returns are subject to examination for the 2011 through 2014 tax years.

16. EARNINGS PER SHARE

A reconciliation of the weighted-average shares used in the basic and diluted earnings per common share computations is presented below:

	Three-Months Ended September 30,		Nine-Months Ended September 30,	
	2015	2014	2015	2014
Weighted-average shares outstanding:				
Basic	205,051	167,346	184,098	167,116
Dilutive securities	3,043	6,924	4,033	6,900

For the three-months ended September 30, 2015 and 2014, options and awards outstanding totaling 1.1 million shares and 0.8 million shares, respectively, were excluded from the calculations as their effect would have been antidilutive. For the nine-months ended September 30, 2015 and 2014, options and awards outstanding totaling 0.9 million shares and 0.8 million shares, respectively, were excluded from the calculations as their effect would have been antidilutive.

17. SEGMENT INFORMATION

In the second quarter of 2015, as a result of the acquisitions and divestitures in connection with the TCCC Transaction, the Company revised its reportable segments to reflect managements' current view of the business and to align its external financial reporting with its new operating and internal financial reporting model. Historical segment information has been revised to reflect the effect of this change.

The Company has three operating and reportable segments, (i) Finished Products, which is comprised of the Company's Monster Energy® drink products (previously comprising the majority of the former Direct Store Delivery segment) ("Finished Products"), (ii) Concentrate, the principal products of which include the various energy drink brands acquired from TCCC as a result of the TCCC Transaction ("Concentrate") and (iii) Other, the principal products of which include the brands disposed of as a result of the TCCC Transaction (previously comprising the majority of the former Warehouse segment and the Peace Tea® brand).

The Company's Finished Product segment generates net operating revenues by selling finished energy drinks to full service beverage distributors, retail grocery and specialty chains, wholesalers, club stores, drug chains, mass merchandisers, convenience chains, health food distributors, food service customers and the military.

[Table of Contents](#)

MONSTER BEVERAGE CORPORATION AND SUBSIDIARIES NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Tabular Dollars in Thousands, Except Per Share Amounts) (Unaudited)

The Company's Concentrate segment generates net operating revenues by selling "concentrates" and/or "beverage bases" to authorized bottling and canning operations. Such bottlers generally combine the concentrates and/or beverage bases with sweeteners and water to produce finished beverages. The finished energy drinks are packaged in authorized containers bearing the Company's respective trademarks, such as cans and bottles, and are then sold to retailers directly or, in some cases, through wholesalers or other bottlers.

Generally, the Finished Products segment generates higher net operating revenues but lower gross profit margins than the Concentrate segment.

Corporate and unallocated amounts that do not relate to a reportable segment have been allocated to "Corporate & Unallocated." No asset information, other than goodwill and other intangible assets, has been provided for in the Company's reportable segments as management does not measure or allocate such assets on a segment basis.

The net revenues derived from the Company's reportable segments and other financial information related thereto for the three- and nine-months ended September 30, 2015 and 2014 are as follows:

	Three-Months Ended September 30,		Nine-Months Ended September 30,	
	2015	2014	2015	2014
Net sales:				
Finished Products ⁽¹⁾	\$ 686,684	\$ 594,348	\$ 1,933,467	\$ 1,739,693
Concentrate	69,935	-	82,913	-
Other	-	41,624	60,751	119,608
Corporate and unallocated	-	-	-	-
	<u>\$ 756,619</u>	<u>\$ 635,972</u>	<u>\$ 2,077,131</u>	<u>\$ 1,859,301</u>

	Three-Months Ended September 30,		Nine-Months Ended September 30,	
	2015	2014	2015	2014
Operating Income:				
Finished Products ^{(1) (2)}	\$ 289,544	\$ 231,032	\$ 596,716	\$ 670,349
Concentrate	45,291	-	54,375	-
Other ⁽³⁾	(283)	2,238	165,377	7,152
Corporate and unallocated	(43,114)	(43,363)	(151,263)	(122,917)
	<u>\$ 291,438</u>	<u>\$ 189,907</u>	<u>\$ 665,205</u>	<u>\$ 554,584</u>

	Three-Months Ended September 30,		Nine-Months Ended September 30,	
	2015	2014	2015	2014
Income before tax:				

Finished Products ^{(1) (2)}	\$ 289,649	\$ 231,263	\$ 597,084	\$ 670,878
Concentrate	45,275	-	54,359	-
Other ⁽³⁾	(284)	2,237	165,376	7,151
Corporate and unallocated	(46,564)	(44,631)	(154,758)	(124,152)
	<u>\$ 288,076</u>	<u>\$ 188,869</u>	<u>\$ 662,061</u>	<u>\$ 553,877</u>

- (1) Includes \$8.2 million and \$3.8 million for the three-months ended September 30, 2015 and 2014, respectively, related to the recognition of deferred revenue. Includes \$54.7 million and \$11.2 million for the nine-months ended September 30, 2015 and 2014, respectively, related to the recognition of deferred revenue.
- (2) Includes \$2.5 million and (\$0.7) million for the three-months ended September 30, 2015 and 2014, respectively, related to distributor termination costs. Includes \$220.7 million and (\$0.2) million for the nine-months ended September 30, 2015 and 2014, respectively, related to distributor termination costs.
- (3) Includes \$161.5 million gain on the sale of Monster Non-Energy for the nine-months ended September 30, 2015.

[Table of Contents](#)

MONSTER BEVERAGE CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Tabular Dollars in Thousands, Except Per Share Amounts) (Unaudited)

	Three-Months Ended September 30,		Nine-Months Ended September 30,	
	2015	2014	2015	2014
Depreciation and amortization				
Finished Products	\$ 5,366	\$ 4,576	\$ 15,514	\$ 14,446
Concentrate	1,759	-	2,103	-
Other	-	135	232	390
Corporate and unallocated	1,382	1,419	3,908	4,288
	<u>\$ 8,507</u>	<u>\$ 6,130</u>	<u>\$ 21,757</u>	<u>\$ 19,124</u>

	September 30,	December 31,
	2015	2014
Goodwill and other intangible assets:		
Finished Products	\$ 841,373	\$ 50,748
Concentrate	874,605	-
Other	-	18,079
Corporate and unallocated	-	-
	<u>\$ 1,715,978</u>	<u>\$ 68,827</u>

Corporate and unallocated expenses for the three-months ended September 30, 2015 include \$27.1 million of payroll costs, of which \$8.9 million was attributable to stock-based compensation expense (see Note 14, "Stock-Based Compensation"), as well as \$10.0 million attributable to professional service expenses, including accounting and legal costs, and \$6.0 million of other operating expenses. Corporate and unallocated expenses for the three-months ended September 30, 2014 include \$21.9 million of payroll costs, of which \$7.4 million was attributable to stock-based compensation expense (see Note 14, "Stock-Based Compensation"), as well as \$10.1 million attributable to professional service expenses, including accounting and legal costs, and \$11.4 million attributable to other operating expenses.

Corporate and unallocated expenses for the nine-months ended September 30, 2015 include \$83.9 million of payroll costs, of which \$23.7 million was attributable to stock-based compensation expense (see Note 14, "Stock-Based Compensation"), as well as \$31.2 million attributable to professional service expenses, including accounting and legal costs, and \$36.2 million attributable to other operating expenses. Corporate and unallocated expenses for the nine-months ended September 30, 2014 include \$64.6 million of payroll costs, of which \$22.5 million was attributable to stock-based compensation expense (see Note 14, "Stock-Based Compensation"), as well as \$30.2 million attributable to professional service expenses, including accounting and legal costs, and \$28.1 million attributable to other operating expenses.

Coca-Cola Refreshments USA Inc. ("CCR") accounted for approximately 41% and 28% of the Company's net sales for the three-months ended September 30, 2015 and 2014, respectively. CCR accounted for approximately 41% and 29% of the Company's net sales for the nine-months ended September 30, 2015 and 2014, respectively.

[Table of Contents](#)

MONSTER BEVERAGE CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Tabular Dollars in Thousands, Except Per Share Amounts) (Unaudited)

Net sales to customers outside the United States amounted to \$170.6 million and \$136.3 million for the three-months ended September 30, 2015 and 2014, respectively. Net sales to customers outside the United States amounted to \$435.1 million and \$400.4 million

for the nine-months ended September 30, 2015 and 2014, respectively.

18. RELATED PARTY TRANSACTIONS

As a result of the TCCC Transaction, TCCC controls more than 10% of the voting interests of the Company. TCCC, through certain wholly-owned subsidiaries (the “TCCC Subsidiaries”) and through certain affiliated companies (the “TCCC Affiliates”) purchases and distributes certain of the Company’s products both domestically and in certain international territories. The Company also pays TCCC a sales commission based on certain sales within the TCCC bottling network. TCCC commissions based on sales to the TCCC Affiliates for the three-months ended September 30, 2015 and 2014 were \$7.7 million and \$0.7 million, respectively. TCCC commissions based on sales to the TCCC Affiliates for the nine-months ended September 30, 2015 and 2014 were \$9.4 million and \$1.6 million, respectively. TCCC commissions based on sales to the TCCC Subsidiaries are accounted for as a reduction to revenue and are reported in net sales to the TCCC Subsidiaries. Net sales to the TCCC Subsidiaries for the three-months ended September 30, 2015 and 2014 were \$313.1 million and \$176.6 million, respectively. Net Sales to the TCCC Subsidiaries for the nine-months ended September 30, 2015 and 2014 were \$842.9 million and \$540.0 million, respectively. Accounts receivable, accounts payable and accrued promotional allowances related to the TCCC Subsidiaries are as follows at:

	September 30, 2015	December 31, 2014
Accounts receivable, net	\$ 167,989	\$ 79,404
Accounts payable	\$ 2,854	\$ 14,353
Accrued promotional allowances	\$ 37,518	\$ 23,776

Two directors and officers of the Company and their families are principal owners of a company that provides promotional materials to the Company. Expenses incurred with such company in connection with promotional materials purchased during both the three-months ended September 30, 2015 and 2014 were \$0.3 million. Expenses incurred with such company in connection with promotional materials purchased during the nine-months ended September 30, 2015 and 2014 were \$1.5 million and \$0.5 million, respectively.

[Table of Contents](#)

ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Our Business

Monster Beverage 1990 Corporation (formerly Monster Beverage Corporation) (“Old Monster”) was incorporated in Delaware on April 25, 1990. As a result of the TCCC Transaction (as defined and described below), Old Monster effected a holding company reorganization on June 12, 2015, pursuant to which it became a wholly owned subsidiary of New Laser Corporation, which then changed its name to “Monster Beverage Corporation”.

Our principal place of business is located at 1 Monster Way, Corona, California 92879 and our telephone number is (951) 739-6200. When this report uses the words “the Company” “we”, “us”, and “our”, these words refer to Monster Beverage Corporation and its subsidiaries, unless the context otherwise requires. We are a holding company and conduct no operating business except through our consolidated subsidiaries.

Acquisitions and Divestitures

On June 12, 2015, Old Monster, now a wholly owned subsidiary of the Company, completed the transactions contemplated by the definitive agreements entered into with The Coca-Cola Company (“TCCC”) on August 14, 2014, which provided for a long-term strategic relationship in the global energy drink category (the “TCCC Transaction”).

Also, on June 12, 2015, Old Monster effected a holding company reorganization in connection with the TCCC Transaction by merging New Laser Merger Corp., a wholly owned subsidiary of the Company into Old Monster, with Old Monster surviving as a wholly owned subsidiary of the Company (the “Holding Company Reorganization”), and the Company changed its name from New Laser Corporation to “Monster Beverage Corporation.”

In the Holding Company Reorganization, each Old Monster common share, par value \$0.005 per share, outstanding immediately prior to consummation of the Holding Company Reorganization (other than any Old Monster common shares owned by Old Monster immediately prior to the closing of the TCCC Transaction, which were cancelled) was converted automatically into the right to receive one Company common share, par value \$0.005 per share. In addition, upon consummation of the Holding Company Reorganization:

- each unexercised and unexpired stock option then outstanding under any equity compensation plan of Old Monster, whether or not then exercisable, ceased to represent a right to acquire Old Monster common shares and was converted automatically into a right to acquire the same number of Company common shares, on the same terms and conditions as were applicable under such Old Monster stock option; and
- each share of restricted stock and each restricted stock unit of Old Monster granted under all outstanding equity compensation plans ceased to represent or relate to Old Monster common shares and was converted automatically to represent or relate to Company common shares, on the same terms and conditions as were applicable to such Old Monster restricted stock and restricted stock units

(including the vesting or other lapse restrictions (without acceleration thereof by virtue of the Holding Company Reorganization and the TCCC Transaction)).

Promptly following the effective time of the Holding Company Reorganization, Old Monster assigned to the Company all obligations of Old Monster under Old Monster's equity compensation plans and each stock option agreement, restricted stock award agreement, restricted stock unit award agreement and any similar agreement entered into pursuant to such equity compensation plans. In addition, all obligations of Old Monster under any employment agreements and indemnification agreements were assigned to the Company.

[Table of Contents](#)

Immediately after the effective time of the Holding Company Reorganization, (1) the Company issued to TCCC 34,040,534 newly issued Company common shares representing approximately 16.7% of the total number of outstanding Company common shares (after giving effect to such issuance) (the "New Issuance") and TCCC appointed two individuals to the Company's Board of Directors, (2) TCCC transferred all of its rights in and to TCCC's worldwide energy drink business ("KO Energy") including NOS®, Full Throttle®, Burn®, Mother®, Play®, Power Play®, Relentless®, Nalu® and other brands (the "Strategic Brands") to the Company, (3) Old Monster transferred all of its rights in and to its non-energy drink business ("Monster Non-Energy") to TCCC, (4) the Company and TCCC amended the distribution coordination agreements previously existing between them to govern the transition of third parties' rights to distribute the Company's energy products in most territories in the U.S. to members of TCCC's distribution network, which consists of owned or controlled bottlers/distributors and independent bottling/distribution partners, and (5) TCCC and one of its subsidiaries made an aggregate net cash payment to the Company of \$2.15 billion, \$125.0 million of which is currently held in escrow as described below pursuant to an escrow agreement (the "Escrow Agreement"), subject to release upon the achievement of milestones relating to the transition of distribution rights to TCCC's distribution network.

Under the terms of the Escrow Agreement and the transition payment agreement entered into in connection therewith, if the distribution rights in the U.S. that are transitioned to TCCC's distribution network represent case sales in excess of the following percentages of a target case sale amount agreed to by the parties, amounts in the escrow fund in excess of the applicable amounts below will be released to the Company:

<u>Percentage Transitioned</u>	<u>Escrow Release</u>
40%	Amounts in excess of \$375 million
50%	Amounts in excess of \$312.5 million
60%	Amounts in excess of \$250 million
70%	Amounts in excess of \$187.5 million
80%	Amounts in excess of \$125 million
90%	Amounts in excess of \$62.5 million
95%	All remaining amounts

On the one-year anniversary of the closing of the TCCC Transaction, the then-remaining escrow amount, less an amount sufficient to cover any unresolved claims, will be released to TCCC. Any amount described above that becomes payable following the one-year anniversary will be paid directly from TCCC to the Company.

TCCC is contractually obligated to authorize payment to the Company of the funds in escrow upon achievement of the milestones referred to above. As of November 6, 2015, distribution rights in the U.S. representing approximately 89% of the target case sales have been transitioned to TCCC's distribution network. As a result, \$125 million is currently held in escrow. The Company expects to commence steps to transition sufficient additional distribution rights, which will, in due course, result in the release of all remaining amounts held in escrow. Therefore, the Company believes that achievement of the milestones is probable.

In accordance with ASC No. 420 "Exit or Disposal Cost Obligations", the Company expenses distributor termination costs in the period in which the written notification of termination occurs. As a result, the Company incurred termination amounts of \$2.5 million and \$220.7 million for the three- and nine-months ended September 30, 2015 related to the distribution rights transferred to TCCC's distribution network. Such termination amounts have been expensed in full and are included in operating expenses for the three- and nine-months ended September 30, 2015. In addition, the Company recognized as income \$39.8 million in the first quarter of 2015, related to the accelerated amortization of the deferred revenue balances associated with certain of the Company's prior distributors who were sent notices of termination during the first quarter of 2015.

[Table of Contents](#)

The following table summarizes the selected items discussed above for the three- and nine-months ended September 30, 2015:

	Three-Months Ended September 30, 2015	Nine-Months Ended September 30, 2015
<u>Income Statement Items (in thousands):</u>		
Included in Net Sales:		
Accelerated recognition of deferred revenue	\$ -	\$ 39,761

Included in Operating Expenses:			
Distributor termination costs	\$	2,471	\$ 220,658
TCCC Transaction expenses	\$	292	\$ 15,426
Gain on sale of Monster Non-Energy	\$	-	\$ 161,470
Net Impact on Operating Income	\$	(2,763)	\$ (34,853)

Overview

We develop, market, sell and distribute “alternative” beverage category beverages primarily under the following brand names:

- Monster Energy®
- Monster Rehab®
- Monster Energy Extra Strength Nitrous Technology®
- Java Monster®
- Muscle Monster®
- Mega Monster Energy®
- Punch Monster®
- Juice Monster®
- M3®
- Übermonster®
- BU®
- Nalu®
- NOS®
- Full Throttle®
- Burn®
- Mother®
- Ultra®
- Play® and Power Play®
- Gladiator®
- Relentless®
- Samurai®
- BPM®

Our Monster Energy® drinks, which represented 90.8% and 93.5% of our net sales for the three-months ended September 30, 2015 and 2014, respectively, include the following:

- Monster Energy®
- Lo-Carb Monster Energy®
- Monster Assault®
- Juice Monster® Khaos®
- Juice Monster® Ripper®
- Juice Monster® Pipeline Punch™
- Monster Energy® Absolutely Zero
- Monster Energy® Import
- Punch Monster® Baller’s Blend® (formerly Dub Edition)
- Punch Monster® Mad Dog (formerly Dub Edition)
- Monster Rehab® Tea + Lemonade + Energy
- Monster Rehab® Raspberry Tea + Energy (formerly Rojo)
- Java Monster® Kona Blend
- Java Monster® Loca Moca®
- Java Monster® Mean Bean®
- Java Monster® Vanilla Light
- Java Monster® Irish Blend®
- Java Monster® Cappuccino
- Mega Monster Energy®
- Monster Energy Extra Strength Nitrous Technology® Super Dry™
- Monster Energy Extra Strength Nitrous Technology® Anti-Gravity®
- Monster Cuba-Lima®

[Table of Contents](#)

- Monster Rehab® Green Tea + Energy
- Monster Rehab® Tea + Orangeade + Energy
- Monster Rehab® Tea + Pink Lemonade + Energy
- Monster Rehab® Peach Tea + Energy
- Muscle Monster® Vanilla
- Muscle Monster® Chocolate
- Muscle Monster® Coffee
- Muscle Monster® Strawberry
- Muscle Monster® Peanut Butter Cup
- Muscle Monster® Banana
- Monster Ghost™ M-100™
- Monster Energy® Zero Ultra
- Monster Energy® Ultra Blue™
- Monster Energy® Ultra Red™
- Monster Energy® Ultra Black™
- Monster Energy® Ultra Sunrise®
- Monster Energy® Ultra Citron™
- Monster Energy® Unleaded™
- Übermonster® Energy Brew™
- M3® Monster Energy® Super Concentrate
- Monster Energy® Valentino Rossi
- Monster Phantom™ M-100™

The Company has three operating and reportable segments, (i) Finished Products, which is comprised of our Monster Energy® drink products (previously comprising the majority of the former Direct Store Delivery segment) (“Finished Products”), (ii) Concentrate, the principal products of which include the Strategic Brands of energy drinks acquired from TCCC (“Concentrate”) and (iii) Other, the principal products of which include the brands disposed of as a result of the TCCC Transaction (previously comprising the majority of the former Warehouse segment and the Peace Tea® brand).

During the nine-months ended September 30, 2015, we continued to expand our existing product lines and flavors and further developed our markets. In particular, we continued to focus on developing and marketing beverages that fall within the category generally described as the “alternative” beverage category. During the nine-months ended September 30, 2015, we introduced the following products (in addition to those acquired as part of the TCCC Transaction):

- Monster Energy® Ultra Citron™, a carbonated energy drink which contains zero calories and zero sugar (January 2015).
- Monster Rehab® Peach Tea + Energy (January 2015).
- Mega Monster Energy® (January 2015).

- Juice Monster® Pipeline Punch™ (July 2015).
- Muscle Monster® Banana (July 2015).
- Monster Ghost™ M-100™, an exclusive limited time listing with a convenience customer (July 2015).
- Monster Phantom™ M-100™, an exclusive limited time listing with certain convenience customers (July 2015).
- Monster Rehab® Raspberry Tea + Energy (August 2015).

In the normal course of business we discontinue certain products and/or product lines. Those products or product lines discontinued during the nine-months ended September 30, 2015 (other than those disposed of as part of the TCCC Transaction), either individually or in aggregate, did not have a material adverse impact on our financial position, results of operations or liquidity.

Our net sales of \$756.6 million for the three-months ended September 30, 2015 represented record sales for our third fiscal quarter. The vast majority of our net sales are derived from our Monster Energy® brand energy drinks. Net sales of our Monster Energy® brand energy drinks were \$686.7 million for the three-months ended September 30, 2015. Net sales of our Strategic Brands acquired as part of the TCCC Transaction were \$69.9 million for the three-months ended September 30, 2015.

Our net sales of \$756.6 million for the three-months ended September 30, 2015 were impacted by advance purchases made by our customers due to a pre-announced price increase that became effective on August 31, 2015 on certain of our Monster Energy® brand energy drinks. We estimate that net sales for the three-months ended September 30, 2015 were increased by approximately \$11.0 million as a result of such advance purchases.

[Table of Contents](#)

Changes in foreign currency exchange rates had an unfavorable impact on net sales in the Finished Products segment of approximately \$23.1 million for the three-months ended September 30, 2015, which was primarily due to a stronger U.S. dollar compared to certain local currencies in which we conduct certain of our international business. Changes in foreign currency exchange rates had an unfavorable impact on net sales in the Concentrate segment of approximately \$5.5 million for the three-months ended September 30, 2015, which was primarily due to a stronger U.S. dollar compared to certain local currencies in which we conduct certain of our international business.

Our Finished Products segment represented 90.8% and 93.5% of our consolidated net sales for the three-months ended September 30, 2015 and 2014, respectively. Our Concentrate segment represented 9.2% of our consolidated net sales for the three-months ended September 30, 2015. There were no net sales for the Concentrate segment for the three-months ended September 30, 2014. Our Other segment represented 6.5% of our consolidated net sales for the three-months ended September 30, 2014. There were no net sales for the Other segment during the three-months ended September 30, 2015.

Our sales and marketing strategy for all our beverages is to focus our efforts on developing brand awareness through image enhancing programs and product sampling. We use our branded vehicles and other promotional vehicles at events where we offer samples of our products to consumers. We utilize “push-pull” methods to enhance shelf and display space exposure in sales outlets (including racks, coolers and barrel coolers), advertising, in-store promotions and in-store placement of point-of-sale materials to encourage demand from consumers for our products. We also support our brands with prize promotions, price promotions, competitions, endorsements from selected public and sports figures, personality endorsements (including from television and other well-known sports personalities), sampling and sponsorship of selected causes, events, athletes and teams. In-store posters, outdoor posters, print, radio and television advertising (directly and through our sponsorships and endorsements) and coupons may also be used to promote our brands. We are currently evaluating our future strategy for the positioning of our Strategic Brands.

We believe that one of the keys to success in the beverage industry is differentiation, making our brands and products visually distinctive from other beverages on the shelves of retailers. We review our products and packaging on an ongoing basis and, where practical, endeavor to make them different, better and unique. The labels and graphics for many of our products are redesigned from time to time to maximize their visibility and identification, wherever they may be placed in stores, which we will continue to reevaluate from time to time.

All of our beverage products are manufactured by various third party bottlers and co-packers situated throughout the United States and abroad, under separate arrangements with each party.

Our growth strategy includes expanding our international business. Gross sales to customers outside the United States amounted to \$207.8 million and \$173.2 million for the three-months ended September 30, 2015 and 2014, respectively. Such sales were approximately 24% of gross sales for both the three-months ended September 30, 2015 and 2014, respectively. Changes in foreign currency exchange rates had an unfavorable impact on gross sales to customers outside the United States of approximately 16% for the three-months ended September 30, 2015, which was primarily due to a stronger U.S. dollar compared to certain local currencies in which we conduct certain of our international business.

[Table of Contents](#)

Our customers are primarily full service beverage bottlers/distributors, retail grocery and specialty chains, wholesalers, club stores, drug chains, mass merchandisers, convenience chains, health food distributors, food service customers and the military. Gross sales to our various customer types for the three- and nine-months ended September 30, 2015 and 2014 are reflected below. Such information includes sales made by us directly to the customer types concerned, which include our full service beverage bottlers/distributors in the United States. Such full service beverage bottlers/distributors in turn sell certain of our products to some of the same customer types listed below. We limit our

description of our customer types to include only our sales to our full service bottlers/distributors without reference to such distributors' sales to their own customers.

	Three-Months Ended September 30,		Nine-Months Ended September 30,	
	2015	2014	2015	2014
Full service bottlers/distributors	65%	62%	65%	62%
Club stores, drug chains & mass merchandisers	9%	10%	9%	9%
Outside the U.S.	24%	24%	23%	23%
Retail grocery, specialty chains and wholesalers	1%	3%	2%	4%
Other	1%	1%	1%	2%

Our customers include Coca-Cola Refreshments USA Inc. ("CCR"), Coca-Cola Enterprises, Coca-Cola Refreshments Canada, Ltd. (formerly known as Coca-Cola Bottling Company), CCBC Operations, LLC, United Bottling Contracts Company, LLC, certain bottlers of the Coca-Cola Hellenic Bottling Company, Swire Coca-Cola, USA, Coca-Cola Amatil, Ltd., and certain other TCCC independent bottlers, Anheuser Busch ("AB"), select independent AB distributors, Asahi, Kalil Bottling Group, Wal-Mart, Inc. (including Sam's Club) and Costco. In February 2015, in accordance with its then existing agreements with the applicable AB Distributors, Old Monster sent notices of termination to the majority of the AB Distributors in the U.S. for the termination of their respective distribution agreements. The associated distribution rights relating to such terminated distribution agreements have been transitioned to TCCC's network of owned or controlled bottlers/distributors and independent bottlers/distributors as of the effective date of termination of the affected AB Distributors' rights in the applicable territories. As of November 6, 2015, distribution rights in the U.S. representing approximately 89% of the target case sales have been transitioned to TCCC's distribution network. A decision by any large customer to decrease amounts purchased from us or to cease carrying our products could have a material negative effect on our financial condition and consolidated results of operations. CCR accounted for approximately 41% and 28% of our net sales for the three-months ended September 30, 2015 and 2014, respectively. CCR accounted for approximately 41% and 29% of our net sales for the nine-months ended September 30, 2015 and 2014, respectively.

[Table of Contents](#)

Results of Operations

The following table sets forth key statistics for the three- and nine-months ended September 30, 2015 and 2014, respectively.

(In thousands, except per share amounts)	Three-Months Ended September 30,		Percentage Change 15 vs. 14	Nine-Months Ended September 30,		Percentage Change 15 vs. 14
	2015	2014		2015	2014	
Net sales ¹	\$ 756,619	\$ 635,972	19.0%	\$ 2,077,131	\$ 1,859,301	11.7%
Cost of sales	291,143	294,052	(1.0%)	848,191	851,274	(0.4%)
Gross profit* ¹	465,476	341,920	36.1%	1,228,940	1,008,027	21.9%
Gross profit as a percentage of net sales ¹	61.5%	53.8%		59.2%	54.2%	
Operating expenses ²	174,038	152,013	14.5%	725,205	453,443	59.9%
Operating expenses as a percentage of net sales	23.0%	23.9%		34.9%	24.4%	
Gain on sale of Monster Non-Energy	-	-		161,470	-	
Operating income ^{1,2}	291,438	189,907	53.5%	665,205	554,584	19.9%
Operating income as a percentage of net sales	38.5%	29.9%		32.0%	29.8%	
Interest income and other (expense), net	(3,362)	(1,038)	223.9%	(3,144)	(707)	344.7%
Income before provision for income taxes ^{1,2}	288,076	188,869	52.5%	662,061	553,877	19.5%
Provision for income taxes	113,502	67,269	68.7%	254,070	196,023	29.6%
Income taxes as a percentage of income before taxes	39.4%	35.6%		38.4%	35.4%	
Net income ^{1,2}	\$ 174,574	\$ 121,600	43.6%	\$ 407,991	\$ 357,854	14.0%
Net income as a percentage of net sales	23.1%	19.1%		19.6%	19.2%	
Net income per common share:						
Basic	\$0.85	\$0.73	17.2%	\$2.22	\$2.14	3.5%
Diluted	\$0.84	\$0.70	20.2%	\$2.17	\$2.06	5.5%

Case sales (in thousands)

¹Includes \$8.2 million and \$3.8 million for the three-months ended September 30, 2015 and 2014, respectively, related to the recognition of deferred revenue. Includes \$54.7 million and \$11.2 million for the nine-months ended September 30, 2015 and 2014, respectively, related to the recognition of deferred revenue. Included in the \$54.7 million recognition of deferred revenue for the nine-months ended September 30, 2015, is \$39.8 million related to the accelerated amortization of the deferred revenue balances associated with certain of the Company's prior distributors who were sent notices of termination during the first quarter of 2015.

²Includes \$2.5 million and (\$0.7) million for the three-months ended September 30, 2015 and 2014, respectively, related to distributor termination costs. Includes \$220.7 million and (\$0.2) million for the nine-months ended September 30, 2015 and 2014, respectively, related to distributor termination costs.

*Gross profit may not be comparable to that of other entities since some entities include all costs associated with their distribution process in cost of sales, whereas others exclude certain costs and instead include such costs within another line item such as operating expenses. We include out-bound freight and warehouse costs in operating expenses rather than in cost of sales.

[Table of Contents](#)

Results of Operations for the Three-Months Ended September 30, 2015 Compared to the Three-Months Ended September 30, 2014.

Net Sales. Net sales were \$756.6 million for the three-months ended September 30, 2015, an increase of approximately \$120.6 million, or 19.0% higher than net sales of \$636.0 million for the three-months ended September 30, 2014. The increase in net sales of our Monster Energy® brand energy drinks represented approximately \$92.3 million of the overall increase in net sales. Net sales of our Monster Energy® brand energy drinks increased partially due to increased sales by volume as a result of increased domestic and international consumer demand. Net sales of our Strategic Brands were \$69.9 million for the three-months ended September 30, 2015. There were no net sales for the Other segment, the principal products of which include the brands disposed of as a result of the TCCC Transaction on June 12, 2015 (previously comprising the majority of the former Warehouse segment and the Peace Tea® brand), which resulted in a decrease in net sales for the Other segment of \$41.6 million for the three-months ended September 30, 2015 from the three-months ended September 30, 2014. Our net sales of \$756.6 million for the three-months ended September 30, 2015 were impacted by advance purchases made by our customers due to a pre-announced price increase that became effective on August 31, 2015 on certain of our Monster Energy® brand energy drinks. We estimate that net sales for the three-months ended September 30, 2015 were increased by approximately \$11.0 million as a result of such advance purchases. Other than for the advance purchases, this price increase did not have a material impact on the overall increase in net sales.

Changes in foreign currency exchange rates had an unfavorable impact on net sales in the Finished Products segment of approximately \$23.1 million for the three-months ended September 30, 2015, which was primarily due to a stronger U.S. dollar compared to certain local currencies in which we conduct certain of our international business. Changes in foreign currency exchange rates had an unfavorable impact on net sales in the Concentrate segment of approximately \$5.5 million for the three-months ended September 30, 2015, which was primarily due to a stronger U.S. dollar compared to certain local currencies in which we conduct certain of our international business.

Case sales, in 192-ounce case equivalents, were 81.3 million cases for the three-months ended September 30, 2015, an increase of approximately 19.1 million cases or 30.7% higher than case sales of 62.2 million cases for the three-months ended September 30, 2014. The overall average net sales per case decreased to \$9.31 for the three-months ended September 30, 2015, which was 8.9% lower than the average net sales per case of \$10.22 for the three-months ended September 30, 2014. The lower net sales per case was primarily attributable to sales of concentrates and/or beverage bases in the Concentrate segment, which generally generate lower net operating revenues than those products within the Finished Products segment.

Net sales for the Finished Products segment were \$686.7 million for the three-months ended September 30, 2015, an increase of approximately \$92.3 million, or 15.5% higher than net sales of \$594.3 million for the three-months ended September 30, 2014. Our net sales for the Finished Products segment of \$686.7 million for the three-months ended September 30, 2015 were impacted by advance purchases made by our customers due to a pre-announced price increase that became effective on August 31, 2015 on certain of our Monster Energy® brand energy drinks. We estimate that net sales of the Finished Products segment for the three-months ended September 30, 2015 were increased by approximately \$11.0 million as a result of such advance purchases. Other than for the advance purchases, this price increase did not have a material impact on the overall increase in net sales for the Finished Products segment.

Net sales for the Concentrate segment were \$69.9 million for the three-months ended September 30, 2015. There were no net sales for the Concentrate segment for the three-months ended September 30, 2014.

[Table of Contents](#)

Gross Profit. Gross profit was \$465.5 million for the three-months ended September 30, 2015, an increase of approximately \$123.6 million, or 36.1% higher than the gross profit of \$341.9 million for the three-months ended September 30, 2014. Gross profit as a percentage of net sales increased to 61.5% for the three-months ended September 30, 2015 from 53.8% for the three-months ended September 30, 2014. The increase in gross profit dollars was primarily the result of the \$92.3 million increase in net sales of our Monster Energy® brand energy drinks as well as the \$69.9 million of net sales for the Concentrate segment. The increase in gross profit as a percentage of net sales was primarily attributable to the Concentrate segment, which generally has higher gross margins than the Finished Products segment, as well as to the disposal of the Other segment, which generally has lower gross margins than the Finished Products segment, lower costs of certain raw materials, the price increase described above and changes in product sales mix.

Operating Expenses. Total operating expenses were \$174.0 million for the three-months ended September 30, 2015, an increase of approximately \$22.0 million, or 14.5% higher than total operating expenses of \$152.0 million for the three-months ended September 30, 2014. The increase in operating expenses was primarily due to increased payroll expenses of \$7.0 million, increased expenditures of \$4.8 million for advertising, increased expenditures of \$3.2 million for sponsorships and endorsements, increased expenditures of \$3.2 million for commissions and increased costs of \$3.1 million associated with terminating certain existing distributors.

Contribution Margin. Contribution margin for the Finished Products segment was \$289.5 million for the three-months ended September 30, 2015, an increase of approximately \$58.5 million, or 25.3% higher than contribution margin of \$231.0 million for the three-months ended September 30, 2014. The increase in contribution margin for the Finished Products segment was primarily the result of the \$92.3 million increase in net sales of our Monster Energy® brand energy drinks. Contribution margin for the Concentrate segment was \$45.3 million for the three-months ended September 30, 2015. There was no contribution margin for the Concentrate segment for the three-months ended September 30, 2014. Contribution margin for the Other segment was (\$0.3) million for the three-months ended September 30, 2015, as compared to \$2.2 million for the three-months ended September 30, 2014.

Operating Income. Operating income was \$291.4 million for the three-months ended September 30, 2015, an increase of approximately \$101.5 million, or 53.5% higher than operating income of \$189.9 million for the three-months ended September 30, 2014. Operating income as a percentage of net sales increased to 38.5% for the three-months ended September 30, 2015 from 29.9% for the three-months ended September 30, 2014. The increase in operating income in dollars was primarily due to the \$123.6 million increase in gross profit. The increase in operating income in dollars was partially offset by an increase of \$22.0 million in operating expenses. Operating income was \$17.3 million and \$9.4 million for the three-months ended September 30, 2015 and 2014, respectively, in relation to our operations in Africa, Asia, Australia, Europe, the Middle East and South America.

Interest Income and Other (Expense), net. Interest income and other (expense), net was (\$3.4) million for the three-months ended September 30, 2015, as compared to interest income and other (expense), net of (\$1.0) million for the three-months ended September 30, 2014. Foreign currency transaction losses were \$4.2 million and \$1.5 million for the three-months ended September 30, 2015 and 2014, respectively. Interest income was \$0.8 million and \$0.3 million for the three-months ended September 30, 2015 and 2014, respectively.

Provision for Income Taxes. Provision for income taxes was \$113.5 million for the three-months ended September 30, 2015, an increase of \$46.2 million or 68.7% higher than the provision for income taxes of \$67.3 million for the three-months ended September 30, 2014. The effective combined federal, state and foreign tax rate increased to 39.4% from 35.6% for the three-months ended September 30, 2015 and 2014, respectively. The increase in the effective tax rate was primarily due to the decrease in tax benefits relating to the domestic production deduction for the three-months ended September 30, 2015. In addition, the profits earned in certain foreign subsidiaries during the three-months ended September 30, 2014 had no related tax expense as a result of the prior establishment of valuation allowances on their deferred tax assets.

[Table of Contents](#)

Net Income. Net income was \$174.6 million for the three-months ended September 30, 2015, an increase of \$53.0 million or 43.6% higher than net income of \$121.6 million for the three-months ended September 30, 2014. The increase in net income was primarily attributable to the increase in gross profit of \$123.6 million. The increase in net income was partially offset by an increase in the provision of income taxes of \$46.2 million and an increase in operating expenses of \$22.0 million.

Results of Operations for the Nine-Months Ended September 30, 2015 Compared to the Nine-Months Ended September 30, 2014.

Net Sales. Net sales were \$2,077.1 million for the nine-months ended September 30, 2015, an increase of approximately \$217.8 million, or 11.7% higher than net sales of \$1,859.3 million for the nine-months ended September 30, 2014. The increase in net sales of our Monster Energy® brand energy drinks represented approximately \$193.8 million of the overall increase in net sales. Net sales of our Monster Energy® brand energy drinks increased partially due to increased sales by volume as a result of increased domestic and international consumer demand. Net sales of our Strategic Brands were \$82.9 million for the nine-months ended September 30, 2015. Net sales for the Other segment, the principal products of which include the brands disposed of as a result of the TCCC Transaction on June 12, 2015 (previously comprising the majority of the former Warehouse segment and the Peace Tea® brand), decreased \$58.9 million for the nine-months ended September 30, 2015. Net sales for the nine-months ended September 30, 2015 included \$39.8 million related to the accelerated amortization of the deferred revenue balances associated with certain of the Company's prior distributors. No other individual product line contributed either a material increase or decrease to net sales for the nine-months ended September 30, 2015.

Changes in foreign currency exchange rates had an unfavorable impact on net sales in the Finished Products segment of approximately \$58.1 million for the nine-months ended September 30, 2015, which was primarily due to a stronger U.S. dollar compared to certain local currencies in which we conduct certain of our international business. Changes in foreign currency exchange rates had an unfavorable impact on net sales in the Concentrate segment of approximately \$6.5 million for the nine-months ended September 30, 2015, which was primarily due to a stronger U.S. dollar compared to certain local currencies in which we conduct certain of our international business.

Case sales, in 192-ounce case equivalents, were 207.1 million cases for the nine-months ended September 30, 2015, an increase of approximately 27.4 million cases or 15.2% higher than case sales of 179.7 million cases for the nine-months ended September 30, 2014. The overall average net sales per case decreased to \$10.03 for the nine-months ended September 30, 2015, which was 3.1% lower than the average net sales per case of \$10.35 for the nine-months ended September 30, 2014. The lower average net sales per case was primarily attributable to sales of concentrates and/or beverage bases in the Concentrate segment, which generally generate lower net operating revenues than those products within the Finished Products segment.

Net sales for the Finished Products segment were \$1,933.5 million for the nine-months ended September 30, 2015, an increase of approximately \$193.8 million, or 11.1% higher than net sales of \$1,739.7 million for the nine-months ended September 30, 2014.

Net sales for the Concentrate segment were \$82.9 million for the nine-months ended September 30, 2015 (effectively from June 13 to September 30). There were no net sales for the Concentrate segment for the nine-months ended September 30, 2014.

Net sales for the Other segment, the principal products of which include the brands disposed of as a result of the TCCC Transaction (previously comprising the majority of the former Warehouse segment and the Peace Tea® brand), were \$60.8 million for the nine-months ended September 30, 2015, a decrease of approximately \$58.9 million, or 49.2% lower than net sales of \$119.6 million for the nine-months ended September 30, 2014.

[Table of Contents](#)

Gross Profit. Gross profit was \$1,228.9 million for the nine-months ended September 30, 2015, an increase of approximately \$220.9 million, or 21.9% higher than the gross profit of \$1,008.0 million for the nine-months ended September 30, 2014. Gross profit as a percentage of net sales increased to 59.2% for the nine-months ended September 30, 2015 from 54.2% for the nine-months ended September 30, 2014. The increase in gross profit dollars was primarily the result of the \$193.8 million increase in net sales of our Monster Energy® brand energy drinks, the \$82.9 million of net sales for the Concentrate segment as well as the \$39.8 million accelerated amortization of the deferred revenue balances associated with certain of the Company's prior distributors. The increase in gross profit as a percentage of net sales was primarily attributable to the Concentrate segment, which generally has higher gross margins than the Finished Products segment, the decrease in the net sales of the Other segment, which generally has lower gross margins than the Finished Products segment, and the \$39.8 million accelerated amortization of the deferred revenue balances associated with certain of the Company's prior distributors, as well as due to changes in product sales mix and lower costs of certain sweeteners and other raw materials.

Operating Expenses. Total operating expenses were \$725.2 million for the nine-months ended September 30, 2015, an increase of approximately \$271.8 million, or 59.9% higher than total operating expenses of \$453.4 million for the nine-months ended September 30, 2014. The increase in operating expenses was primarily due to increased costs of \$220.8 million associated with terminating certain existing distributors. To a lesser extent, the increase in operating expenses was attributable to increased payroll expenses of \$23.9 million (of which \$11.7 million was related to payroll taxes in connection with the exercise of certain stock options), increased expenditures of \$11.8 million for professional service costs and transaction expenses related to the TCCC Transaction and increased expenditures of \$10.5 million for sponsorships and endorsements.

Contribution Margin. Contribution margin for the Finished Products segment was \$596.7 million for the nine-months ended September 30, 2015, a decrease of approximately \$73.6 million, or 11.0% lower than contribution margin of \$670.3 million for the nine-months ended September 30, 2014. The decrease in the contribution margin for the Finished Products segment was primarily the result of the increased expenditures of \$220.8 million relating to the costs associated with terminating certain existing distributors. Contribution margin for the Concentrate segment was \$54.4 million for the nine-months ended September 30, 2015. There was no contribution margin for the Concentrate segment for the nine-months ended September 30, 2014. Contribution margin for the Other segment was \$165.4 million for the nine-months ended September 30, 2015 (effectively from January 1 to June 12), as compared to \$7.2 million for the nine-months ended September 30, 2014. The increase in contribution margin for the Other segment was primarily the result of the \$161.5 million gain on the sale of Monster Non-Energy.

Operating Income. Operating income was \$665.2 million for the nine-months ended September 30, 2015, an increase of approximately \$110.6 million, or 19.9% higher than operating income of \$554.6 million for the nine-months ended September 30, 2014. Operating income as a percentage of net sales increased to 32.0% for the nine-months ended September 30, 2015 from 29.8% for the nine-months ended September 30, 2014, primarily due to the \$220.9 million increase in gross profit as well as the \$161.5 million gain on the sale of Monster Non-Energy. The increase in operating income in dollars was offset by increased costs of \$220.8 million associated with terminating certain existing distributors as well as the increase in other operating expenses. Operating income was \$33.5 million and \$24.0 million for the nine-months ended September 30, 2015 and 2014, respectively, in relation to our operations in Africa, Asia, Australia, Europe, the Middle East and South America.

[Table of Contents](#)

Interest Income and Other (Expense), net. Interest income and other (expense), net was (\$3.1) million for the nine-months ended September 30, 2015, as compared to interest income and other (expense), net of (\$0.7) million for the nine-months ended September 30, 2014. Foreign currency transaction losses were \$5.0 million and \$2.1 million for the nine-months ended September 30, 2015 and 2014, respectively. Interest income was \$1.5 million and \$0.9 million for the nine-months ended September 30, 2015 and 2014, respectively.

Provision for Income Taxes. Provision for income taxes was \$254.1 million for the nine-months ended September 30, 2015, an increase of \$58.0 million or 29.6% higher than the provision for income taxes of \$196.0 million for the nine-months ended September 30, 2014. The effective combined federal, state and foreign tax rate increased to 38.4% from 35.4% for the nine-months ended September 30, 2015 and 2014, respectively. The increase in the effective tax rate was primarily due to the disallowance for tax purposes of certain costs related to the TCCC Transaction as well as the decrease in tax benefits relating to the domestic production deduction. In addition, the profits earned in certain foreign subsidiaries during the three-months ended September 30, 2014 had no related tax expense as a result of the prior establishment of valuation allowances on their deferred tax assets. The increase in the effective tax rate for the nine-months ended September 30, 2015 was partially offset by the release of the valuation allowances against the deferred tax assets of certain foreign jurisdictions.

Net Income. Net income was \$408.0 million for the nine-months ended September 30, 2015, an increase of \$50.1 million or 14.0% higher than net income of \$357.9 million for the nine-months ended September 30, 2014.

Non-GAAP Financial Measures

*Gross Sales***.

Gross sales were \$862.4 million for the three-months ended September 30, 2015, an increase of approximately \$124.2 million, or 16.8% higher than gross sales of \$738.1 million for the three-months ended September 30, 2014. The increase in gross sales of our Monster Energy® brand energy drinks represented approximately \$88.2 million of the overall increase in gross sales. Gross sales of our Monster Energy® brand energy drinks increased partially due to increased sales by volume as a result of increased domestic and international consumer demand. Gross sales of our Strategic Brands were \$77.7 million for the three-months ended September 30, 2015. There were no gross sales for the Other segment, the principal products of which include the brands disposed of as a result of the TCCC Transaction on June 12, 2015 (previously comprising the majority of the former Warehouse segment and the Peace Tea® brand), which resulted in a decrease in gross sales for the Other segment of \$46.8 million for the three-months ended September 30, 2015 from the three-months ended September 30, 2014. Promotional and other allowances, as described in the footnote below, were \$105.7 million for the three-months ended September 30, 2015, an increase of \$3.6 million, or 3.5% higher than promotional and other allowances of \$102.2 million for the three-months ended September 30, 2014. Promotional and other allowances as a percentage of gross sales decreased to 12.3% from 13.8% for the three-months ended September 30, 2015 and 2014, respectively. Our gross sales of \$862.4 million for the three-months ended September 30, 2015 were impacted by advance purchases made by our customers due to a pre-announced price increase that became effective on August 31, 2015 on certain of our Monster Energy® brand energy drinks. We estimate that gross sales for the three-months ended September 30, 2015 were increased by approximately \$12.0 million as a result of such advance purchases. Other than for the advance purchases, this price increase did not have a material impact on the overall increase in gross sales.

Changes in foreign currency exchange rates had an unfavorable impact on gross sales in the Finished Products segment of approximately \$28.7 million for the three-months ended September 30, 2015, which was primarily due to a stronger U.S. dollar compared to certain local currencies in which we conduct certain of our international business. Changes in foreign currency exchange rates had an unfavorable impact on gross sales in the Concentrate segment of approximately \$5.4 million for the three-months ended September 30, 2015, which was primarily due to a stronger U.S. dollar compared to certain local currencies in which we conduct certain of our international business.

[Table of Contents](#)

Gross sales were \$2,362.5 million for the nine-months ended September 30, 2015, an increase of approximately \$231.7 million, or 10.9% higher than gross sales of \$2,130.8 million for the nine-months ended September 30, 2014. The increase in the gross sales of our Monster Energy® brand energy drinks represented approximately \$163.5 million, or 70.6%, of the overall increase in gross sales. Gross sales of our Monster Energy® brand energy drinks increased primarily due to increased sales by volume as a result of increased domestic and international consumer demand. Gross sales of our Strategic Brands were \$90.9 million for the nine-months ended September 30, 2015. Gross sales for the Other segment, the principal products of which include the brands disposed of as a result of the TCCC Transaction on June 12, 2015 (previously comprising the majority of the former Warehouse segment and the Peace Tea® brand), decreased \$64.9 million for the nine-months ended September 30, 2015 from the nine-months ended September 30, 2014. Gross sales for the nine-months ended September 30, 2015 included \$39.8 million related to the accelerated amortization of the deferred revenue balances associated with certain of the Company's prior distributors, which represented 17.2% of our overall increase in gross sales. No other individual product line contributed either a material increase or decrease to gross sales for the nine-months ended September 30, 2015. Promotional and other allowances, as described in the footnote below, were \$285.3 million for the nine-months ended September 30, 2015, an increase of \$13.8 million, or 5.1% higher than promotional and other allowances of \$271.5 million for the nine-months ended September 30, 2014. Promotional and other allowances as a percentage of gross sales decreased to 12.1% from 12.7% for the nine-months ended September 30, 2015 and 2014, respectively.

Changes in foreign currency exchange rates had an unfavorable impact on gross sales in the Finished Products segment of approximately \$72.8 million for the nine-months ended September 30, 2015, which was primarily due to a stronger U.S. dollar compared to certain local currencies in which we conduct certain of our international business. Changes in foreign currency exchange rates had an unfavorable impact on gross sales in the Concentrate segment of approximately \$6.5 million for the nine-months ended September 30, 2015, which was primarily due to a stronger U.S. dollar compared to certain local currencies in which we conduct certain of our international businesses.

***Gross sales is used internally by management as an indicator of and to monitor operating performance, including sales performance of particular products, salesperson performance, product growth or declines and overall Company performance. The use of gross sales allows evaluation of sales performance before the effect of any promotional items, which can mask certain performance issues. We therefore believe that the presentation of gross sales provides a useful measure of our operating performance. Gross sales is not a measure that is recognized under GAAP and should not be considered as an alternative to net sales, which is determined in accordance with GAAP, and should not be used alone as an indicator of operating performance in place of net sales. Additionally, gross sales may not be comparable to similarly titled measures used by other companies, as gross sales has been defined by our internal reporting practices. In addition, gross sales may not be realized in the form of cash receipts as promotional payments and allowances may be deducted from payments received from certain customers.*

The following table reconciles the non-GAAP financial measure of gross sales with the most directly comparable GAAP financial measure of net sales:

(In thousands, except per share amounts)	Three-Months Ended		Percentage Change	Nine-Months Ended		Percentage Change
	September 30,			September 30,		
	2015	2014	15 vs. 14	2015	2014	15 vs. 14
Gross sales, net of discounts and returns	\$ 862,363	\$ 738,123	16.8%	\$ 2,362,478	\$ 2,130,802	10.9%

Less: Promotional and other allowances***	105,744	102,151	3.5%	285,347	271,501	5.1%
Net Sales	<u>\$ 756,619</u>	<u>\$ 635,972</u>	19.0%	<u>\$ 2,077,131</u>	<u>\$ 1,859,301</u>	11.7%

***Although the expenditures described in this line item are determined in accordance with GAAP and meet GAAP requirements, the presentation thereof does not conform with GAAP presentation requirements. Additionally, our definition of promotional and other allowances may not be comparable to similar items presented by other companies. Promotional and other allowances primarily include consideration given to the Company's bottlers/distributors or retail customers including, but not limited to the following: (i) discounts granted off list prices to support price promotions to end-consumers by retailers; (ii) reimbursements given to the

[Table of Contents](#)

Company's bottlers/distributors for agreed portions of their promotional spend with retailers, including slotting, shelf space allowances and other fees for both new and existing products; (iii) the Company's agreed share of fees given to bottlers/distributors and/or directly to retailers for advertising, in-store marketing and promotional activities; (iv) the Company's agreed share of slotting, shelf space allowances and other fees given directly to retailers; (v) incentives given to the Company's bottlers/distributors and/or retailers for achieving or exceeding certain predetermined sales goals; (vi) discounted or free products; (vii) contractual fees given to the Company's bottlers/distributors related to sales made by the Company direct to certain customers that fall within the bottler's/distributors' sales territories; and (viii) commissions paid to our customers. The presentation of promotional and other allowances facilitates an evaluation of their impact on the determination of net sales and the spending levels incurred or correlated with such sales. Promotional and other allowances constitute a material portion of our marketing activities. The Company's promotional allowance programs with its numerous bottlers/distributors and/or retailers are executed through separate agreements in the ordinary course of business. These agreements generally provide for one or more of the arrangements described above and are of varying durations, ranging from one week to one year. The primary drivers of our promotional and other allowance activities for the three- and nine-months ended September 30, 2015 and 2014 were (i) to increase sales volume and trial, (ii) to address market conditions, and (iii) to secure shelf and display space at retail.

Liquidity and Capital Resources

Cash flows provided by operating activities. Cash provided by operating activities was \$47.8 million for the nine-months ended September 30, 2015, as compared with net cash provided by operating activities of \$407.0 million for the nine-months ended September 30, 2014. The decrease of \$359.2 million in cash flows from operations was primarily the result of an increase in the excess tax benefit from stock-based compensation of \$303.9 million.

For the nine-months ended September 30, 2015, cash provided by operating activities was primarily attributable to net income earned of \$408.0 million and adjustments for certain non-cash expenses, consisting of \$23.7 million of stock-based compensation and \$21.8 million of depreciation and other amortization. For the nine-months ended September 30, 2015, cash provided by operating activities also increased due to a \$312.8 million increase in income taxes payable, a \$75.1 million increase in accounts payable, a \$29.3 million increase in accrued liabilities, a \$15.2 million increase in accrued promotional allowances, a \$7.7 million increase in accrued distributor terminations and a \$2.4 million increase in accrued compensation. For the nine-months ended September 30, 2015, cash used in operating activities was due to a \$303.9 million excess tax benefit from stock option exercises, a \$115.1 million change in deferred income taxes, a \$132.6 million increase in accounts receivable, an \$83.3 million increase in prepaid income taxes, a \$36.0 million decrease in deferred revenue, a \$9.1 million increase in inventories, and a \$6.9 million increase in prepaid expenses and other current assets.

For the nine-months ended September 30, 2014, cash provided by operating activities was primarily attributable to net income earned of \$357.9 million and adjustments for certain non-cash expenses, consisting of \$22.5 million of stock-based compensation and \$19.1 million of depreciation and other amortization. For the nine-months ended September 30, 2014, cash provided by operating activities also increased due to a \$32.4 million increase in accrued promotional allowances, a \$30.0 million increase in accounts payable, a \$13.3 million decrease in inventory, a \$12.4 million increase in accrued liabilities, a \$4.9 million increase in income taxes payable and a \$2.0 million decrease in distributor receivables. For the nine-months ended September 30, 2014, cash provided by operating activities was reduced due to a \$45.8 million increase in accounts receivable, an \$11.5 million tax benefit from the exercise of stock options, a \$8.7 million increase in prepaid income taxes, a \$7.9 million increase in deferred income taxes, a \$5.9 million decrease in deferred revenue, a \$4.6 million increase in prepaid expenses and other current assets, and a \$2.3 million decrease in distributor terminations.

Cash flows used in investing activities. We used \$408.7 million of cash from investing activities for the nine-months ended September 30, 2015 as compared to cash used of \$223.0 million for the nine-months ended September 30, 2014.

For the nine-months ended September 30, 2015, cash used in investing activities was primarily attributable to purchases of held-to-maturity investments, purchases of property and equipment, and additions to intangibles. For the nine-months ended September 30, 2014, cash used in investing activities was primarily attributable to purchases of held-to-maturity investments and to purchases of property and equipment. For the

[Table of Contents](#)

nine-months ended September 30, 2015, cash provided by investing activities also included \$198.0 million from the sale of Monster Non-Energy and \$179.7 million from the transfer of distribution rights pursuant to the TCCC Transaction. For both the nine-months ended September 30, 2015 and 2014, cash provided by investing activities was also attributable to maturities of held-to-maturity investments. For both the nine-months ended September 30, 2015 and 2014, cash used in investing activities also included the acquisitions of fixed assets consisting of vans and promotional vehicles, coolers and other equipment to support our marketing and promotional activities, production equipment, furniture and fixtures, office and computer equipment, computer software, and equipment used for sales and administrative activities, as well as certain leasehold improvements. We expect to continue to use a portion of our cash in excess of our requirements for operations for purchasing

short-term and long-term investments, and for other corporate purposes, leasehold improvements, the acquisition of capital equipment, specifically, vans, trucks and promotional vehicles, coolers, other promotional equipment, merchandise displays, warehousing racks as well as items of production equipment required to produce certain of our existing and/or new products and to develop our brand in international markets. From time to time, we may also purchase additional real property related to our beverage business and/or acquire compatible businesses as a use of cash in excess of our requirements for operations.

Cash flows provided by financing activities. We generated \$1,235.2 million of cash in financing activities for the nine-months ended September 30, 2015 as compared to cash provided by financing activities of \$17.1 million for the nine-months ended September 30, 2014. The increase in cash flows provided by financing activities of \$1,218.0 million was primarily the result of the issuance of our common stock to TCCC during the nine-months ended September 30, 2015 in connection with the TCCC Transaction.

Purchases of inventories, increases in accounts receivable and other assets, acquisition of property and equipment (including real property and coolers), leasehold improvements, acquisition and maintenance of trademarks, payments of accounts payable, income taxes payable and purchases of our common stock are expected to remain our principal recurring use of cash.

Cash and cash equivalents, short-term and long-term investments. At September 30, 2015, we had \$1,240.7 million in cash and cash equivalents and \$1,579.1 million in short-term and long-term investments. We have historically invested these amounts in U.S. Treasury bills, U.S. government agency securities and municipal securities (which may have an auction reset feature), commercial paper and money market funds meeting certain criteria. We maintain our investments for cash management purposes and not for purposes of speculation. Our risk management policies emphasize credit quality (primarily based on short-term ratings by nationally recognized statistical organizations) in selecting and maintaining our investments. We regularly assess market risk of our investments and believe our current policies and investment practices adequately limit those risks. However, certain of these investments are subject to general credit, liquidity, market and interest rate risks. These market risks associated with our investment portfolio may have an adverse effect on our future results of operations, liquidity and financial condition.

Of our \$1,240.7 million of cash and cash equivalents held at September 30, 2015, \$142.7 million was held by our foreign subsidiaries. No short-term or long-term investments were held by our foreign subsidiaries at September 30, 2015. We do not intend, nor do we foresee a need, to repatriate undistributed earnings of our foreign subsidiaries other than to repay certain intercompany debt owed to our U.S. operations. Under current tax laws, if funds in excess of intercompany amounts owed were repatriated to our U.S. operations, we would be required to accrue and pay additional income taxes on such excess funds at the tax rates then in effect.

We believe that cash available from operations, including our cash resources and access to credit, will be sufficient for our working capital needs, including purchase commitments for raw materials and inventory, increases in accounts receivable, payments of tax liabilities, expansion and development needs, purchases of shares of our common stock, as well as any purchases of capital assets, equipment and properties, through at least the next 12 months. Based on our current plans, at this time we estimate that capital expenditures are likely to be less than \$120.0 million through September 30, 2016.

[Table of Contents](#)

The following represents a summary of the Company’s contractual commitments and related scheduled maturities as of September 30, 2015:

Obligations	Payments due by period (in thousands)				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Contractual Obligations ¹	\$ 77,595	\$ 51,639	\$ 25,621	\$ 335	\$ -
Capital Leases	694	694	-	-	-
Operating Leases	10,578	5,312	3,498	916	852
Purchase Commitments ²	37,498	37,498	-	-	-
	<u>\$ 126,365</u>	<u>\$ 95,143</u>	<u>\$ 29,119</u>	<u>\$ 1,251</u>	<u>\$ 852</u>

¹Contractual obligations include our obligations related to sponsorships and other commitments.

²Purchase commitments include obligations made by us and our subsidiaries to various suppliers for raw materials used in the production of our products. These obligations vary in terms, but are generally satisfied within one year.

In addition, approximately \$0.9 million of unrecognized tax benefits have been recorded as liabilities as of September 30, 2015. It is expected that the amount of unrecognized tax benefits will not significantly change within the next 12 months. We have also recorded a liability for potential penalties and interest of \$0.5 million as of September 30, 2015.

Sales

The table below discloses selected quarterly data regarding sales for the three- and nine-months ended September 30, 2015 and 2014, respectively. Data from any one or more quarters or periods is not necessarily indicative of annual results or continuing trends.

Sales of beverages are expressed in unit case volume. A “unit case” means a unit of measurement equal to 192 U.S. fluid ounces of finished beverage (24 eight-ounce servings). Unit case volume means the number of unit cases (or unit case equivalents) of finished products,

or concentrates as if converted into finished products, sold by us.

Our quarterly results of operations reflect seasonal trends that are primarily the result of increased demand in the warmer months of the year. It has been our experience that beverage sales tend to be lower during the first and fourth quarters of each calendar year. However, our experience with our energy drink products suggests they may be less seasonal than the seasonality expected from traditional beverages. In addition, our continued growth in countries located in the southern hemisphere may further reduce the impact of seasonality. Quarterly fluctuations may also be affected by other factors including the introduction of new products, the opening of new markets where temperature fluctuations are more pronounced, the addition of new bottlers, customers and distributors, changes in the sales mix of our products and changes in advertising and promotional expenses.

[Table of Contents](#)

(In thousands, except average net sales per case)	Three-Months Ended		Nine-Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
Net sales ¹	\$ 756,619	\$ 635,972	\$ 2,077,131	\$ 1,859,301
Case sales by segment:				
Finished Products	63,564	54,700	175,543	157,825
Concentrate	17,710	-	20,346	-
Other	-	7,504	11,201	21,892
Total case sales	81,274	62,204	207,090	179,717
Average net sales per case	\$ 9.31	\$ 10.22	\$ 10.03	\$ 10.35

¹Includes \$39.8 million for the nine-months ended September 30, 2015, related to the accelerated amortization of the deferred revenue balances associated with certain of the Company's prior distributors who were sent notices of termination during the first quarter of 2015. Excluding the acceleration of deferred revenue, the average net sales price per case decreased to \$9.84 for the nine-months ended September 30, 2015, which was 4.9% lower than the average net sales per case of \$10.35 for the nine-months ended September 30, 2014.

See Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations - Our Business" for additional information related to the increase in sales.

Critical Accounting Policies

There have been no material changes to our critical accounting policies from the information provided in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations", included in our Form 10-K other than those included in Note 2 of our Quarterly Report on Form 10-Q for the period ended June 30, 2015.

Recent Accounting Pronouncements

In July 2015, the FASB issued ASU No. 2015-11, "Inventory (Topic 330): Simplifying the Measurement of Inventory". ASU 2015-11 requires entities to measure inventory at the lower of cost or net realizable value. Net realizable value is defined as the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. ASU 2015-11 is effective for annual periods, and interim periods within those years, beginning after December 15, 2016. Early adoption is permitted. The adoption of ASU 2015-11 is not expected to have a material impact on the Company's financial position, results of operations or liquidity.

In September 2014, the Company elected to early adopt FASB ASU No. 2014-08, "Presentation of Financial Statements and Property, Plant, and Equipment - Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity". ASU 2014-08 provides new guidance related to the definition of a discontinued operation and requires new disclosures of both discontinued operations and certain other disposals that do not meet the definition of a discontinued operation. The adoption of ASU 2014-08 did not have a material impact on the Company's financial position, results of operations or liquidity.

In June 2014, the FASB issued ASU No. 2014-12, "Compensation—Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period (a consensus of the FASB Emerging Issues Task Force)". ASU 2014-12 clarifies that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. A reporting entity should apply existing guidance in Topic 718 as it relates to awards with performance conditions that affect vesting to account for such awards. As such, the performance target should not be reflected in estimating the grant-date fair value of the award. Compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered. ASU 2014-12 is effective for annual periods, and

[Table of Contents](#)

interim periods within those years, beginning after December 15, 2015. Early adoption is permitted. ASU 2014-12 may be applied either (a) prospectively to all awards granted or modified after the effective date or (b) retrospectively to all awards with performance targets that are

outstanding as of the beginning of the earliest annual period presented in the financial statements and to all new or modified awards thereafter. The adoption of ASU 2014-12 is not expected to have a material impact on the Company's financial position, results of operations or liquidity.

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers", which supersedes previous revenue recognition guidance. ASU 2014-09 requires that a company recognize revenue at an amount that reflects the consideration to which the company expects to be entitled in exchange for transferring goods or services to a customer. In applying the new guidance, a company will (1) identify the contract(s) with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the contract's performance obligations; and (5) recognize revenue when (or as) the entity satisfies a performance obligation. ASU 2014-09 was to be effective for reporting periods beginning after December 15, 2016. However, on July 9, 2015, the FASB voted to approve a one-year deferral of the effective date. This new guidance is effective for the Company beginning January 1, 2018 and can be adopted using either a full retrospective or modified approach. The Company is currently evaluating the impact of ASU 2014-09 on its financial position, results of operations and liquidity.

Inflation

We believe inflation did not have a significant impact on our results of operations for the periods presented.

Forward-Looking Statements

Certain statements made in this report may constitute forward-looking statements (within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended) (the "Exchange Act") regarding the expectations of management with respect to revenues, profitability, adequacy of funds from operations and our existing credit facility, among other things. All statements containing a projection of revenues, income (loss), earnings (loss) per share, capital expenditures, dividends, capital structure or other financial items, a statement of management's plans and objectives for future operations, or a statement of future economic performance contained in management's discussion and analysis of financial condition and results of operations, including statements related to new products, volume growth and statements encompassing general optimism about future operating results and non-historical information, are forward-looking statements within the meaning of the Act. Without limiting the foregoing, the words "believes," "thinks," "anticipates," "plans," "expects," and similar expressions are intended to identify forward-looking statements.

Management cautions that these statements are qualified by their terms and/or important factors, many of which are outside our control, involve a number of risks, uncertainties and other factors, that could cause actual results and events to differ materially from the statements made including, but not limited to, the following:

- Our ability to recognize any benefits from the TCCC Transaction;
- The effect of our extensive commercial arrangements with TCCC on our future performance;
- The effect of TCCC becoming one of our significant shareholders and the potential divergence of TCCC's interests from those of our other shareholders;
- Our ability to successfully transfer the distribution of our Monster Energy® brand energy drinks in certain existing international territories to bottlers/distributors within the TCCC distribution system;
- Our ability to successfully enter into new distribution agreements with bottlers/distributors within the TCCC distribution system for new international territories;
- Disruption in distribution or sales and/or decline in sales due to the termination and/or appointment of existing and/or new domestic and/or international distributors;

[Table of Contents](#)

- Lack of anticipated demand for our products in domestic and/or international markets;
- Unfavorable regulations, including taxation requirements, product registration requirements, tariffs and/or trade restrictions;
- The effect of inquiries from and/or actions by state attorneys general, the Federal Trade Commission (the "FTC"), the FDA, municipalities or city attorneys and/or other government agencies and/or quasi-government agencies and/or government officials, including members of Congress, into the advertising, marketing, promotion, ingredients, sale and/or consumption of our energy drink products, including voluntary changes to our business practices;
- Our ability to achieve profitability from our operations outside the United States;
- Our ability to manage legal and regulatory requirements in foreign jurisdictions, potential difficulties in staffing and managing foreign operations, potentially higher incidence of fraud or corruption and credit risk of foreign customers and distributors;
- Our ability to produce our products in international markets in which they are sold, thereby reducing freight costs and/or product damages;
- Our ability to effectively manage our inventories and/or our accounts receivables;
- Our foreign currency exchange rate risk with respect to our sales, expenses, profits, assets and liabilities denominated in currencies other than the U.S. dollar, which will continue to increase as foreign sales increase;
- Changes in accounting standards may affect our reported profitability;
- Any proceedings which may be brought against us by the Securities and Exchange Commission (the "SEC"), the FDA, the FTC or other governmental agencies or bodies;
- The outcome of shareholder securities litigation and/or shareholder derivative actions filed against us and/or against certain of our officers and directors, and the possibility of other private shareholder litigation;
- The possibility of future shareholder derivative actions or shareholder securities litigation filed against us;
- The outcome of product liability litigation and/or class action litigation regarding the safety of our products and/or the ingredients in

and/or claims made in connection with our products and/or alleging false advertising, marketing and/or promotion, and the possibility of future product liability and/or class action lawsuits;

- The current uncertainty and volatility in the national and global economy;
- Our ability to address any significant deficiencies or material weakness in our internal controls over financial reporting;
- Our ability to continue to generate sufficient cash flows to support capital expansion plans and general operating activities;
- Decreased demand for our products resulting from changes in consumer preferences and/or from decreased consumer discretionary spending power and/or from higher gasoline prices;
- Changes in demand that are weather related;
- Competitive products and pricing pressures and our ability to gain or maintain our share of sales in the marketplace as a result of actions by competitors;
- Our ability to introduce new products;
- An inability to achieve volume growth through product and packaging initiatives;
- Our ability to sustain the current level of sales and/or increase the sales of our Monster Energy® brand energy drinks and/or our other products, including the Strategic Brands acquired from TCCC;
- The impact of criticism of our energy drink products and/or the energy drink market generally and/or legislation enacted, whether as a result of such criticism or otherwise, that restrict the sale of energy drinks (including prohibiting the sale of energy drinks at certain establishments or pursuant to certain governmental programs), limit caffeine content in beverages, require certain product labeling disclosures and/or warnings, impose excise and/or sales taxes, limit product sizes or impose age restrictions for the sale of energy drinks;

[Table of Contents](#)

- Our ability to comply with and/or resulting lower consumer demand for energy drinks due to proposed and/or future U.S. federal, state and local laws and regulations and/or proposed or existing laws and regulations in certain foreign jurisdictions and/or any changes therein, including changes in taxation requirements (including tax rate changes, new tax laws, new and/or increased excise and/or sales and/or other taxes on our products and revised tax law interpretations) and environmental laws, as well as the FFD&C Act, including as amended by the Dietary Supplement Health and Education Act, and regulations made thereunder or in connection therewith, as well as changes in any other food, drug or similar laws in the United States and internationally, especially those that may restrict the sale of energy drinks (including prohibiting the sale of energy drinks at certain establishments or pursuant to certain governmental programs), limit caffeine content in beverages, require certain product labeling disclosures and/or warnings, impose excise taxes, limit product sizes, or impose age restrictions for the sale of energy drinks, as well as laws and regulations or rules made or enforced by the FDA, and/or the Bureau of Alcohol, Tobacco and Firearms and Explosives, and/or the Federal Trade Commission;
- Our ability to satisfy all criteria set forth in any model energy drink guidelines, including, without limitation, those adopted by the American Beverage Association, of which the Company is a member, and/or any international beverage association and the impact on the Company of such guidelines;
- Disruptions in the timely import or export of our products and/or ingredients due to port strikes and related labor issues;
- The effect of unfavorable or adverse public relations and/or press and/or articles, comments and/or media attention;
- Changes in the cost, quality and availability of containers, packaging materials, aluminum, the Mid West and other premiums, raw materials and other ingredients and juice concentrates, and our ability to obtain and/or maintain favorable supply arrangements and relationships and procure timely and/or sufficient production of all or any of our products to meet customer demand;
- The impact of corporate activity among the limited number of suppliers from whom we purchase certain raw materials on our cost of sales;
- Our ability to pass on to our customers all or a portion of any increases in the costs of raw materials and/or ingredients and/or commodities and/or other cost inputs affecting our business;
- Our ability to achieve both internal domestic and international forecasts, which may be based on projected volumes and sales of many product types and/or new products, certain of which are more profitable than others; there can be no assurance that we will achieve projected levels of sales as well as forecasted product and/or geographic mixes;
- Our ability to penetrate new domestic and/or international markets and/or gain approval or mitigate the delay in securing approval for the sale of our products in various countries;
- Economic or political instability in one or more of our international markets;
- The effectiveness of sales and/or marketing efforts of distributors of our products, most of which distribute products that are competitive with our products;
- Unilateral decisions by distributors, convenience chains, grocery chains, mass merchandisers, specialty chain stores, club stores and other customers to discontinue carrying all or any of our products that they are carrying at any time and/or restrict the range of our products they carry and/or devote less resources to the sale of our products;
- The costs and/or effectiveness, now or in the future, of our advertising, marketing and promotional strategies;
- Changes in product category consumption;
- Unforeseen economic and political changes;
- Possible recalls of our products and/or defective production;
- Our ability to make suitable arrangements for the co-packing of any of our products both domestically and internationally and/or the timely replacement of discontinued co-packing arrangements;
- Our ability to make suitable arrangements for the timely procurement of non-defective raw materials;
- Our inability to protect and/or the loss of our intellectual property rights and/or our inability to use our trademarks and/or trade names or designs in certain countries;
- Volatility of stock prices which may restrict stock sales, stock purchases or other opportunities;

- Provisions in our organizational documents and/or control by insiders which may prevent changes in control even if such changes would be beneficial to other stockholders;

[Table of Contents](#)

- The failure of our bottlers and contract packers to manufacture our products on a timely basis or at all;
- Exposure to significant liabilities due to litigation, legal or regulatory proceedings;
- Any disruption in and/or lack of effectiveness of our information technology systems, including breaches of cyber security, that disrupts our business or negatively impacts customer relationships; and
- Recruitment and retention of senior management, other key employees and our employee base in general.

The foregoing list of important factors and other risks detailed from time to time in our reports filed with the SEC is not exhaustive. See the section entitled “Risk Factors” in our Form 10-K for a more complete discussion of these risks and uncertainties and for other risks and uncertainties. Those factors and the other risk factors described therein are not necessarily all of the important factors that could cause actual results or developments to differ materially from those expressed in any of our forward-looking statements. Other unknown or unpredictable factors also could harm our results. Consequently, our actual results could be materially different from the results described or anticipated by our forward-looking statements, due to the inherent uncertainty of estimates, forecasts and projections and may be better or worse than anticipated. Given these uncertainties, you should not rely on forward-looking statements. Forward-looking statements represent our estimates and assumptions only as of the date that they were made. We expressly disclaim any duty to provide updates to forward-looking statements, and the estimates and assumptions associated with them, after the date of this report, in order to reflect changes in circumstances or expectations or the occurrence of unanticipated events except to the extent required by applicable securities laws.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes in our market risk during the three-months ended September 30, 2015 compared with the disclosures in Part II, Item 7A of our Form 10-K.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures — Under the supervision and with the participation of the Company’s management, including our Chief Executive Officer and Chief Financial Officer, we have evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13(a)-15(e) and 15(d)-15(e) of the Exchange Act) as of the end of the period covered by this report. Based upon this evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures are adequate and effective to ensure that information we are required to disclose in reports that we file or submit under the Exchange Act is (1) recorded, processed, summarized and reported within the time periods specified in rules and forms of the SEC and (2) accumulated and communicated to our management, including its principal executive and principal financial officers, as appropriate, to allow timely decisions regarding required disclosures.

Changes in Internal Control Over Financial Reporting — There were no changes in the Company’s internal controls over financial reporting during the quarter ended September 30, 2015, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The information required by this Item is incorporated herein by reference to the Notes to Condensed Consolidated Financial Statements —Note 11. Commitments and Contingencies: Legal Proceedings in Part I, Item 1, of this Quarterly Report on Form 10-Q.

ITEM 1A. RISK FACTORS

Our Risk Factors are discussed in our Form 10-K. There have been no material changes with respect to the risk factors disclosed in our Form 10-K other than those disclosed in Item 1A of Part II of our Quarterly Report on Form 10-Q for the period ended June 30, 2015.

[Table of Contents](#)

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

On April 7, 2013, the Company’s Board of Directors authorized a new share repurchase program for the repurchase of up to \$200.0 million of the Company’s outstanding common stock (the “April 2013 Repurchase Plan”).

During the three-months ended September 30, 2015, the Company purchased 1.1 million shares of common stock at an average purchase price of \$134.71 per share, for a total amount of \$145.7 million (excluding broker commissions), which exhausted the availability under the April 2013 Repurchase Plan.

On September 11, 2015, the Company's Board of Directors authorized a new share repurchase program for the repurchase of up to \$500.0 million of the Company's outstanding common stock (the "September 2015 Repurchase Plan").

During the three-months ended September 30, 2015, the Company purchased 1.8 million shares of common stock at an average purchase price of \$134.27 per share, for a total amount of \$241.8 million (excluding broker commissions), under the September 2015 Repurchase Plan.

During the three-months ended September 30, 2015, 75 shares were purchased from employees in lieu of cash payments for options exercised or withholding taxes due for a total amount of \$0.01 million. While such purchases are considered common stock repurchases, they are not counted as purchases against the Company's authorized share repurchase programs, including the April 2013 Repurchase Plan. Such shares are included in common stock in treasury in the accompanying condensed consolidated balance sheet at September 30, 2015.

The following tabular summary reflects the Company's repurchase activity during the quarter ended September 30, 2015.

Period	Total Number of Shares Purchased	Average Price per Share ¹	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs (In thousands) ²
Jul 1 - Jul 31	-	\$ -	-	\$ 145,814
Aug 1 - Aug 31	368,436	\$ 134.82	368,436	\$ 96,133
Sept 1 - Sept 10	712,818	\$ 134.65	1,081,254	\$ -
Sept 11 authorization				\$ 500,000
Sept 11 - Sept 30	1,800,580	\$ 134.27	2,881,834	\$ 258,203
Total	<u>2,881,834</u>			

¹Excluding broker commissions paid.

²Net of broker commissions paid.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

[Table of Contents](#)

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

- 31.1* Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2* Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1* Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 32.2* Certification by Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 101* The following financial information from Monster Beverage Corporation's Quarterly Report on Form 10-Q for the quarter ended September 30, 2015, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets as of September 30, 2015 and December 31, 2014, (ii) Condensed Consolidated Statements of Income for the three- and nine-months ended September 30, 2015 and 2014, (iii) Condensed Consolidated Statements of Comprehensive Income for the three- and nine- months ended September 30, 2015 and 2014, (iv) Condensed Consolidated Statements of Cash Flows for the nine-months ended September 30, 2015 and 2014, and (v) the Notes to Condensed Consolidated Financial Statements.

[Table of Contents](#)

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.

MONSTER BEVERAGE CORPORATION
Registrant

Date: November 6, 2015

/s/ RODNEY C. SACKS

Rodney C. Sacks
Chairman of the Board of Directors
and Chief Executive Officer

CERTIFICATION PURSUANT TO RULE 13A-14(a) OR 15D-14(a) OF THE SECURITIES
EXCHANGE ACT OF 1934, AS ADOPTED PURSUANT TO SECTION 302 OF THE
SARBANES-OXLEY ACT OF 2002

I, Rodney Sacks, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Monster Beverage Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 6, 2015

/s/Rodney C. Sacks

Rodney C. Sacks
Chairman of the Board of Directors
and Chief Executive Officer

CERTIFICATION PURSUANT TO RULE 13A-14(a) OR 15D-14(a) OF THE SECURITIES
EXCHANGE ACT OF 1934, AS ADOPTED PURSUANT TO SECTION 302 OF THE
SARBANES-OXLEY ACT OF 2002

I, Hilton Schlosberg, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Monster Beverage Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 6, 2015

/s/ Hilton H. Schlosberg

Hilton H. Schlosberg
Vice Chairman of the Board of Directors,
President, Chief Operating Officer, Chief
Financial Officer and Secretary

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report of Monster Beverage Corporation (the "Company") on Form 10-Q for the quarter ended September 30, 2015 as filed with the Securities and Exchange Commission (the "Report"), the undersigned, Rodney C. Sacks, Chairman of the Board of Directors and Chief Executive Officer of the Company, certifies, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 6, 2015

/s/ Rodney C. Sacks

Rodney C. Sacks
Chairman of the Board of Directors
and Chief Executive Officer

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report of Monster Beverage Corporation (the "Company") on Form 10-Q for the quarter ended September 30, 2015 as filed with the Securities and Exchange Commission (the "Report"), the undersigned, Hilton H. Schlosberg, Vice Chairman of the Board of Directors, President, Chief Operating Officer, Chief Financial Officer and Secretary of the Company, certifies, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 6, 2015

/s/ Hilton H. Schlosberg

Hilton H. Schlosberg
Vice Chairman of the Board of Directors,
President, Chief Operating Officer, Chief
Financial Officer and Secretary
