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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

**Form 10-Q**

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

For the quarterly period ended September 30, 2020

Commission File Number 001-18761

**MONSTER BEVERAGE CORPORATION**

(Exact name of registrant as specified in its charter)

Delaware 47-1809393  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) 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)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock	MNST	Nasdaq Global Select Market

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

Yes  No

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

Yes  No

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

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

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

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

Yes  No

The registrant had 527,916,757 shares of common stock, par value \$0.005 per share, outstanding as of October 30, 2020.

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**MONSTER BEVERAGE CORPORATION AND SUBSIDIARIES**  
**SEPTEMBER 30, 2020**

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**PART I – FINANCIAL INFORMATION**

**ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**MONSTER BEVERAGE CORPORATION AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
**AS OF SEPTEMBER 30, 2020 AND DECEMBER 31, 2019**  
**(In Thousands, Except Par Value) (Unaudited)**

	September 30, 2020	December 31, 2019
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 1,074,730	\$ 797,957
Short-term investments	599,326	533,063
Accounts receivable, net	740,813	540,330
Inventories	318,956	360,731
Prepaid expenses and other current assets	75,958	54,868
Prepaid income taxes	16,064	29,360
Total current assets	<u>2,825,847</u>	<u>2,316,309</u>
INVESTMENTS	20,571	12,905
PROPERTY AND EQUIPMENT, net	304,687	298,640
DEFERRED INCOME TAXES, net	84,777	84,777
GOODWILL	1,331,643	1,331,643
OTHER INTANGIBLE ASSETS, net	1,059,537	1,052,105
OTHER ASSETS	70,621	53,973
<b>Total Assets</b>	<u>\$ 5,697,683</u>	<u>\$ 5,150,352</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 281,522	\$ 274,045
Accrued liabilities	168,398	114,075
Accrued promotional allowances	200,668	166,761
Deferred revenue	45,538	44,237
Accrued compensation	45,555	47,262
Income taxes payable	32,082	14,717
Total current liabilities	<u>773,763</u>	<u>661,097</u>
DEFERRED REVENUE	268,281	287,469
OTHER LIABILITIES	26,318	30,505
<b>COMMITMENTS AND CONTINGENCIES (Note 12)</b>		
<b>STOCKHOLDERS' EQUITY:</b>		
Common stock - \$0.005 par value; 1,250,000 shares authorized; 638,458 shares issued and 527,893 shares outstanding as of September 30, 2020; 636,460 shares issued and 536,698 shares outstanding as of December 31, 2019	3,192	3,182
Additional paid-in capital	4,513,743	4,397,511
Retained earnings	5,960,338	5,022,480
Accumulated other comprehensive loss	(32,529)	(32,387)
Common stock in treasury, at cost; 110,565 shares and 99,762 shares as of September 30, 2020 and December 31, 2019, respectively	(5,815,423)	(5,219,505)
Total stockholders' equity	<u>4,629,321</u>	<u>4,171,281</u>
<b>Total Liabilities and Stockholders' Equity</b>	<u>\$ 5,697,683</u>	<u>\$ 5,150,352</u>

See accompanying notes to condensed consolidated financial statements.

**MONSTER BEVERAGE CORPORATION AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF INCOME**  
**FOR THE THREE- AND NINE-MONTHS ENDED SEPTEMBER 30, 2020 AND 2019**  
**(In Thousands, Except Per Share Amounts) (Unaudited)**

	Three-Months Ended		Nine-Months Ended	
	September 30,		September 30,	
	2020	2019	2020	2019
NET SALES	\$ 1,246,362	\$ 1,133,577	\$ 3,402,355	\$ 3,183,613
COST OF SALES	509,831	460,575	1,369,160	1,275,796
GROSS PROFIT	736,531	673,002	2,033,195	1,907,817
OPERATING EXPENSES	277,930	277,559	802,343	821,923
OPERATING INCOME	458,601	395,443	1,230,852	1,085,894
INTEREST and OTHER (EXPENSE) INCOME, net	(4,568)	3,121	(5,491)	8,835
INCOME BEFORE PROVISION FOR INCOME TAXES	454,033	398,564	1,225,361	1,094,729
PROVISION FOR INCOME TAXES	106,379	99,641	287,503	241,848
NET INCOME	\$ 347,654	\$ 298,923	\$ 937,858	\$ 852,881
NET INCOME PER COMMON SHARE:				
Basic	\$ 0.66	\$ 0.55	\$ 1.77	\$ 1.57
Diluted	\$ 0.65	\$ 0.55	\$ 1.75	\$ 1.56
WEIGHTED AVERAGE NUMBER OF SHARES OF COMMON STOCK AND COMMON STOCK EQUIVALENTS:				
Basic	527,637	544,469	530,194	543,804
Diluted	533,263	548,422	535,011	548,387

See accompanying notes to condensed consolidated financial statements.

**MONSTER BEVERAGE CORPORATION AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**FOR THE THREE- AND NINE-MONTHS ENDED SEPTEMBER 30, 2020 AND 2019**  
**(In Thousands) (Unaudited)**

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	<b>Three-Months Ended</b>		<b>Nine-Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
Net income, as reported	\$ 347,654	\$ 298,923	\$ 937,858	\$ 852,881
Other comprehensive income (loss):				
Change in foreign currency translation adjustment	21,217	(14,359)	(338)	(10,586)
Available-for-sale investments:				
Change in net unrealized gains	(308)	32	196	367
Reclassification adjustment for net gains included in net income	—	—	—	—
Net change in available-for-sale investments	(308)	32	196	367
Other comprehensive income (loss)	20,909	(14,327)	(142)	(10,219)
Comprehensive income	<u>\$ 368,563</u>	<u>\$ 284,596</u>	<u>\$ 937,716</u>	<u>\$ 842,662</u>

See accompanying notes to condensed consolidated financial statements.

**MONSTER BEVERAGE CORPORATION AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
**FOR THE THREE- AND NINE-MONTHS ENDED SEPTEMBER 30, 2020 AND 2019**  
**(In Thousands) (Unaudited)**

	Common stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury stock		Total Stockholders' Equity
	Shares	Amount				Shares	Amount	
<b>Balance, December 31, 2019</b>	636,460	\$ 3,182	\$ 4,397,511	\$ 5,022,480	\$ (32,387)	(99,762)	\$ (5,219,505)	\$ 4,171,281
Stock-based compensation	—	—	17,098	—	—	—	—	17,098
Exercise of stock options	644	4	13,971	—	—	—	—	13,975
Unrealized gain, net on available-for-sale securities	—	—	—	—	304	—	—	304
Repurchase of common stock	—	—	—	—	—	(10,503)	(579,948)	(579,948)
Foreign currency translation	—	—	—	—	(30,599)	—	—	(30,599)
Net income	—	—	—	278,835	—	—	—	278,835
<b>Balance, March 31, 2020</b>	637,104	\$ 3,186	\$ 4,428,580	\$ 5,301,315	\$ (62,682)	(110,265)	\$ (5,799,453)	\$ 3,870,946
Stock-based compensation	—	—	15,936	—	—	—	—	15,936
Exercise of stock options	820	4	29,863	—	—	—	—	29,867
Unrealized gain, net on available-for-sale securities	—	—	—	—	200	—	—	200
Repurchase of common stock	—	—	—	—	—	(298)	(15,822)	(15,822)
Foreign currency translation	—	—	—	—	9,044	—	—	9,044
Net income	—	—	—	311,369	—	—	—	311,369
<b>Balance, June 30, 2020</b>	637,924	\$ 3,190	\$ 4,474,379	\$ 5,612,684	\$ (53,438)	(110,563)	\$ (5,815,275)	\$ 4,221,540
Stock-based compensation	—	—	17,668	—	—	—	—	17,668
Exercise of stock options	534	2	21,696	—	—	—	—	21,698
Unrealized loss, net on available-for-sale securities	—	—	—	—	(308)	—	—	(308)
Repurchase of common stock	—	—	—	—	—	(2)	(148)	(148)
Foreign currency translation	—	—	—	—	21,217	—	—	21,217
Net income	—	—	—	347,654	—	—	—	347,654
<b>Balance, September 30, 2020</b>	638,458	\$ 3,192	\$ 4,513,743	\$ 5,960,338	\$ (32,529)	(110,565)	\$ (5,815,423)	\$ 4,629,321

  

	Common stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury stock		Total Stockholders' Equity
	Shares	Amount				Shares	Amount	
<b>Balance, December 31, 2018</b>	630,970	\$ 3,155	\$ 4,238,170	\$ 3,914,645	\$ (32,864)	(87,294)	\$ (4,512,205)	\$ 3,610,901
Stock-based compensation	—	—	15,324	—	—	—	—	15,324
Exercise of stock options	3,871	19	35,144	—	—	—	—	35,163
Unrealized gain, net on available-for-sale securities	—	—	—	—	120	—	—	120
Repurchase of common stock	—	—	—	—	—	(4,000)	(222,792)	(222,792)
Foreign currency translation	—	—	—	—	(1,381)	—	—	(1,381)
Net income	—	—	—	261,485	—	—	—	261,485
<b>Balance, March 31, 2019</b>	634,841	\$ 3,174	\$ 4,288,638	\$ 4,176,130	\$ (34,125)	(91,294)	\$ (4,734,997)	\$ 3,698,820
Stock-based compensation	—	—	15,575	—	—	—	—	15,575
Exercise of stock options	1,288	6	45,964	—	—	—	—	45,970
Unrealized gain, net on available-for-sale securities	—	—	—	—	215	—	—	215
Repurchase of common stock	—	—	—	—	—	(10)	(621)	(621)
Foreign currency translation	—	—	—	—	5,154	—	—	5,154
Net income	—	—	—	292,473	—	—	—	292,473
<b>Balance, June 30, 2019</b>	636,129	\$ 3,180	\$ 4,350,177	\$ 4,468,603	\$ (28,756)	(91,304)	\$ (4,735,618)	\$ 4,057,586
Stock-based compensation	—	—	15,991	—	—	—	—	15,991
Exercise of stock options	106	1	4,112	—	—	—	—	4,113
Unrealized gain, net on available-for-sale securities	—	—	—	—	32	—	—	32
Repurchase of common stock	—	—	—	—	—	(4,340)	(254,308)	(254,308)
Foreign currency translation	—	—	—	—	(14,359)	—	—	(14,359)
Net income	—	—	—	298,923	—	—	—	298,923
<b>Balance, September 30, 2019</b>	636,235	\$ 3,181	\$ 4,370,280	\$ 4,767,526	\$ (43,083)	(95,644)	\$ (4,989,926)	\$ 4,107,978

See accompanying notes to condensed consolidated financial statements.

**MONSTER BEVERAGE CORPORATION AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE NINE-MONTHS ENDED SEPTEMBER 30, 2020 AND 2019**  
**(In Thousands) (Unaudited)**

	Nine-Months Ended September 30,	
	2020	2019
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 937,858	\$ 852,881
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	45,879	47,843
Gain on disposal of property and equipment	(210)	(7)
Impairment of intangibles	7,000	—
Stock-based compensation	53,042	46,890
Deferred income taxes	—	540
Effect on cash of changes in operating assets and liabilities:		
Accounts receivable	(201,677)	(179,838)
Distributor receivables	341	5,813
Inventories	39,490	(44,947)
Prepaid expenses and other assets	(20,446)	(16,121)
Prepaid income taxes	11,460	6,174
Accounts payable	(9,724)	69,480
Accrued liabilities	53,501	(9,592)
Accrued promotional allowances	31,915	55,799
Accrued distributor terminations	(150)	6
Accrued compensation	(1,214)	(3,901)
Income taxes payable	17,969	10,311
Other liabilities	(562)	(631)
Deferred revenue	(15,236)	(19,631)
Net cash provided by operating activities	<u>949,236</u>	<u>821,069</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Sales of available-for-sale investments	795,858	558,128
Purchases of available-for-sale investments	(849,276)	(835,964)
Purchases of property and equipment	(42,062)	(44,392)
Proceeds from sale of property and equipment	880	810
Additions to intangibles	(19,686)	(5,478)
Increase in other assets	(26,228)	(1,289)
Net cash used in investing activities	<u>(140,514)</u>	<u>(328,185)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Principal payments on debt	(2,500)	(12,841)
Issuance of common stock	65,540	85,245
Purchases of common stock held in treasury	(595,918)	(477,721)
Net cash used in financing activities	<u>(532,878)</u>	<u>(405,317)</u>
Effect of exchange rate changes on cash and cash equivalents	929	(7,463)
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>276,773</b>	<b>80,104</b>
<b>CASH AND CASH EQUIVALENTS, beginning of period</b>	<b>797,957</b>	<b>637,513</b>
<b>CASH AND CASH EQUIVALENTS, end of period</b>	<b>\$ 1,074,730</b>	<b>\$ 717,617</b>
<b>SUPPLEMENTAL INFORMATION:</b>		
Cash paid during the period for:		
Interest	\$ 39	\$ 306
Income taxes	\$ 257,563	\$ 226,883

See accompanying notes to condensed consolidated financial statements.

**MONSTER BEVERAGE CORPORATION AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE NINE-MONTHS ENDED SEPTEMBER 30, 2020 AND 2019**  
**(In Thousands) (Unaudited) (Continued)**

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SUPPLEMENTAL DISCLOSURE OF NON-CASH ITEMS

Included in accrued liabilities as of September 30, 2020 and 2019 were \$14.3 million and \$8.6 million, respectively, related to additions to other intangible assets.

Included in accounts payable as of September 30, 2020 and 2019 were available-for-sale short-term investment purchases of \$20.3 million and \$3.0 million, respectively.

See accompanying notes to condensed consolidated financial statements.

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

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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, 2019 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, 2020 and 2019, respectively, 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 amounts 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.

2. RECENT ACCOUNTING PRONOUNCEMENTS

Recently issued accounting pronouncements not yet adopted

In December 2019, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2019-12, “Simplifying the Accounting for Income Taxes”, as part of its simplification initiative to reduce the cost and complexity in accounting for income taxes. ASU No. 2019-12 removes certain exceptions related to the approach for intra-period tax allocation, the methodology for calculating income taxes in an interim period and the recognition of deferred tax liabilities for outside basis differences. ASU No. 2019-12 also amends other aspects of the guidance to help simplify and promote consistent application of GAAP. The guidance is effective for interim and annual periods beginning after December 15, 2020, with early adoption permitted. The Company is currently evaluating the impact of ASU No. 2019-12 on its financial position, results of operations and liquidity.

Recently adopted accounting pronouncements

In August 2018, the FASB issued ASU No. 2018-15, “Intangibles–Goodwill and Other–Internal–Use Software (Topic 350): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract.” ASU No. 2018-15 aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract, with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. ASU No. 2018-15 was effective for the Company on a prospective or retrospective basis beginning on January 1, 2020. The adoption of ASU No. 2018-15 did not have a material impact on the Company’s financial position, results of operations and liquidity.

In August 2018, the FASB issued ASU No. 2018-14, “Compensation–Retirement Benefits–Defined Benefit Plans–General (Topic 715): Disclosure Framework–Changes to the Disclosure Requirements for Defined Benefit Plans.” ASU No. 2018-14 removes certain disclosures that are not considered cost beneficial, clarifies certain required disclosures and requires certain additional disclosures. ASU No. 2018-14 is effective for the Company on a retrospective basis beginning in the year ending December 31, 2020. The adoption of ASU No. 2018-14 did not have a material impact on the Company’s financial position, results of operations and liquidity.

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

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In August 2018, the FASB issued ASU No. 2018-13, “Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement.” ASU No. 2018-13 removes certain disclosure requirements related to the fair value hierarchy, modifies existing disclosure requirements related to measurement uncertainty and adds new disclosure requirements. ASU No. 2018-13 disclosure requirements include disclosing the changes in unrealized gains and losses for the period included in other comprehensive income for recurring Level 3 fair value measurements held at the end of the reporting period and the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements. ASU No. 2018-13 was effective for the Company beginning on January 1, 2020. Certain disclosures in the new guidance will need to be applied on a retrospective basis and others on a prospective basis. The adoption of ASU No. 2018-13 did not have a material impact on the Company’s financial position, results of operations and liquidity.

In January 2017, the FASB issued ASU No. 2017-04, “Intangibles and Other (Topic 350): Simplifying the Test for Goodwill Impairment”, which eliminates the requirement to calculate the implied fair value of goodwill, but rather requires an entity to record an impairment charge based on the excess of a reporting unit’s carrying value over its fair value. This amendment is effective for annual or interim goodwill impairment tests in fiscal years beginning after December 15, 2019. The adoption of ASU No. 2017-04 did not have a material impact on the Company’s financial position, results of operations and liquidity.

In June 2016, the FASB issued ASU No. 2016-13, “Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.” The accounting standard changes the methodology for measuring credit losses on financial instruments and the timing when such losses are recorded. ASU No. 2016-13 was effective for fiscal years, and interim periods within those years, beginning after December 15, 2019. The adoption of ASU No. 2016-13 did not have a material impact on the Company’s disclosures, financial position, results of operations and liquidity.

3. REVENUE RECOGNITION

The Company has three operating and reportable segments: (i) Monster Energy® Drinks segment (“Monster Energy® Drinks”), which is primarily comprised of the Company’s Monster Energy® drinks and Reign Total Body Fuel® high performance energy drinks (ii) Strategic Brands segment (“Strategic Brands”), which is primarily comprised of the various energy drink brands acquired from The Coca-Cola Company (“TCCC”) in 2015 as well as the Company’s affordable energy brands, and (iii) Other segment (“Other”), which is comprised of certain products sold by American Fruits and Flavors, LLC, a wholly-owned subsidiary of the Company, to independent third-party customers (the “AFF Third-Party Products”).

The Company’s Monster Energy® Drinks segment generates net operating revenues by selling ready-to-drink packaged energy drinks primarily to bottlers and full service beverage bottlers/distributors (“bottlers/distributors”). In some cases, the Company sells directly to retail grocery and specialty chains, wholesalers, club stores, mass merchandisers, convenience chains, drug stores, foodservice customers, value stores, e-commerce retailers and the military.

The Company’s Strategic Brands segment primarily 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, water and other ingredients to produce ready-to-drink packaged energy drinks. The ready-to-drink packaged energy drinks are then sold by such bottlers to other bottlers/distributors and to retail grocery and specialty chains, wholesalers, club stores, mass merchandisers, convenience chains, foodservice customers, drug stores, value stores, e-commerce retailers and the military. To a lesser extent, the Strategic Brands segment generates net operating revenues by selling certain ready-to-drink packaged energy drinks to bottlers/distributors.

The majority of the Company’s revenue is recognized when it satisfies a single performance obligation by transferring control of its products to a customer. Control is generally transferred when the Company’s products are either shipped or delivered based on the terms contained within the underlying contracts or agreements. Certain of the Company’s bottlers/distributors may also perform a separate function as a co-packer on the Company’s behalf. In such cases, control of the Company’s products passes to such bottlers/distributors when they notify the Company that they have taken possession or transferred the relevant portion of the Company’s finished goods. The Company’s general payment terms are short-term in duration. The Company does not have significant financing components or payment terms. The Company did not have any material unsatisfied performance obligations as of September 30, 2020 and December 31, 2019.

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The Company excludes from revenues all taxes assessed by a governmental authority that are imposed on the sale of its products and collected from customers.

Distribution expenses to transport the Company's products, where applicable, and warehousing expense after manufacture are accounted for within operating expenses.

Promotional and other allowances (variable consideration) recorded as a reduction to net sales, primarily include consideration given to the Company's bottlers/distributors or retail customers including, but not limited to the following:

- discounts granted off list prices to support price promotions to end-consumers by retailers;
- reimbursements given to the 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;
- the Company's agreed share of fees given to bottlers/distributors and/or directly to retailers for advertising, in-store marketing and promotional activities;
- the Company's agreed share of slotting, shelf space allowances and other fees given directly to retailers, club stores and/or wholesalers;
- incentives given to the Company's bottlers/distributors and/or retailers for achieving or exceeding certain predetermined sales goals;
- discounted or free products;
- contractual fees given to the Company's bottlers/distributors related to sales made directly by the Company to certain customers that fall within the bottlers'/distributors' sales territories; and
- commissions to TCCC based on the Company's sales to certain wholly-owned subsidiaries of TCCC (the "TCCC Subsidiaries") and/or to certain companies accounted for under the equity method by TCCC (the "TCCC Related Parties").

The Company's promotional allowance programs with its 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, typically ranging from one week to one year. The Company's promotional and other allowances are calculated based on various programs with bottlers/distributors and retail customers, and accruals are established at the time of initial product sale for the Company's anticipated liabilities. These accruals are based on agreed upon terms as well as the Company's historical experience with similar programs and require management's judgment with respect to estimating consumer participation and/or bottler/distributor and retail customer performance levels. Differences between such estimated expenses and actual expenses for promotional and other allowance costs have historically been insignificant and are recognized in earnings in the period such differences are determined.

Amounts received pursuant to new and/or amended distribution agreements entered into with certain bottlers/distributors relating to the costs associated with terminating the Company's prior distributors, are accounted for as revenue ratably over the anticipated life of the respective distribution agreements, generally over 20 years.

The Company also enters into license agreements that generate revenues associated with third-party sales of non-beverage products bearing the Company's trademarks including, but not limited to, clothing, hats, t-shirts, jackets, helmets and automotive wheels.

Management believes that adequate provision has been made for cash discounts, returns and spoilage based on the Company's historical experience.

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*Disaggregation of Revenue*

The following tables disaggregate the Company's revenue by geographical markets and reportable segments:

	Three-Months Ended September 30, 2020				
	U.S. and Canada	EMEA <sup>1</sup>	Asia Pacific	Latin America and Caribbean	Total
Net Sales					
Monster Energy® Drinks	\$ 786,960	\$ 206,947	\$ 120,589	\$ 48,924	\$ 1,163,420
Strategic Brands	46,005	19,192	6,658	2,469	74,324
Other	8,618	—	—	—	8,618
Total Net Sales	<u>\$ 841,583</u>	<u>\$ 226,139</u>	<u>\$ 127,247</u>	<u>\$ 51,393</u>	<u>\$ 1,246,362</u>

	Three-Months Ended September 30, 2019				
	U.S. and Canada	EMEA <sup>1</sup>	Asia Pacific	Latin America and Caribbean	Total
Net Sales					
Monster Energy® Drinks	\$ 737,457	\$ 178,569	\$ 97,153	\$ 48,205	\$ 1,061,384
Strategic Brands	43,205	16,673	6,243	212	66,333
Other	5,860	—	—	—	5,860
Total Net Sales	<u>\$ 786,522</u>	<u>\$ 195,242</u>	<u>\$ 103,396</u>	<u>\$ 48,417</u>	<u>\$ 1,133,577</u>

	Nine-Months Ended September 30, 2020				
	U.S. and Canada	EMEA <sup>1</sup>	Asia Pacific	Latin America and Caribbean	Total
Net Sales					
Monster Energy® Drinks	\$ 2,223,925	\$ 501,639	\$ 319,325	\$ 138,671	\$ 3,183,560
Strategic Brands	125,030	52,333	17,161	3,904	198,428
Other	20,367	—	—	—	20,367
Total Net Sales	<u>\$ 2,369,322</u>	<u>\$ 553,972</u>	<u>\$ 336,486</u>	<u>\$ 142,575</u>	<u>\$ 3,402,355</u>

	Nine-Months Ended September 30, 2019				
	U.S. and Canada	EMEA <sup>1</sup>	Asia Pacific	Latin America and Caribbean	Total
Net Sales					
Monster Energy® Drinks	\$ 2,118,835	\$ 458,655	\$ 242,561	\$ 130,826	\$ 2,950,877
Strategic Brands	132,375	62,374	20,024	990	215,763
Other	16,973	—	—	—	16,973
Total Net Sales	<u>\$ 2,268,183</u>	<u>\$ 521,029</u>	<u>\$ 262,585</u>	<u>\$ 131,816</u>	<u>\$ 3,183,613</u>

<sup>1</sup>Europe, Middle East and Africa ("EMEA")

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Contract Liabilities

Amounts received from certain bottlers/distributors at inception of their distribution contracts or at the inception of certain sales/marketing programs are accounted for as deferred revenue. As of September 30, 2020, the Company had \$313.8 million of deferred revenue, which is included in current and long-term deferred revenue in the Company's condensed consolidated balance sheet. As of December 31, 2019, the Company had \$331.7 million of deferred revenue, which is included in current and long-term deferred revenue in the Company's condensed consolidated balance sheet. During the three-months ended September 30, 2020 and 2019, \$10.5 million and \$10.7 million, respectively, of deferred revenue was recognized in net sales. See Note 11. During the nine-months ended September 30, 2020 and 2019, \$31.6 million and \$35.6 million, respectively, of deferred revenue was recognized in net sales. See Note 11.

4. LEASES

The Company leases identified assets comprising real estate and equipment. Real estate leases consist primarily of office and warehouse space and equipment leases consist of vehicles and warehouse equipment. At the inception of a contract, the Company assesses whether the contract is, or contains, a lease. The Company's assessment is based on: (1) whether the contract involves the use of a distinct identified asset, (2) whether the Company obtains the right to substantially all the economic benefit from the use of the asset throughout the term, and (3) whether the Company has the right to direct the use of the asset. At inception of a lease, the Company allocates the consideration in the contract to each lease and non-lease component based on the component's relative stand-alone price to determine the lease payments. Lease and non-lease components are accounted for separately.

Leases are classified as either finance leases or operating leases based on criteria in Accounting Standards Codification ("ASC") 842. The Company's operating leases are comprised of real estate and warehouse equipment, and the Company's finance leases are comprised of vehicles.

Right-of-use ("ROU") assets and lease liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. As the Company's leases generally do not provide an implicit rate, the Company uses its incremental borrowing rate based on the estimated rate of interest for collateralized borrowing over a similar term of the lease payments at the commencement date. ROU assets also include any lease payments made and exclude lease incentives. Lease terms include options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option.

Certain of the Company's real estate leases contain variable lease payments, including payments based on an index or rate. Variable lease payments based on an index or rate are initially measured using the index or rate in effect at the lease commencement date. Additional payments based on the change in an index or rate, or payments based on a change in the Company's portion of real estate taxes and insurance, are recorded as a period expense when incurred.

Lease expense for operating leases, consisting of lease payments, is recognized on a straight-line basis over the lease term and is included in operating expenses in the condensed consolidated statement of income. Lease expense for finance leases consists of the amortization of the ROU asset on a straight-line basis over the asset's estimated useful life and is included in operating expenses in the condensed consolidated statement of income. Interest expense on finance leases is calculated using the amortized cost basis and is included in interest and other (expense) income, net in the condensed consolidated statement of income.

The Company's leases have remaining lease terms of less than one year to 13 years, some of which include options to extend the leases for up to five years, and some of which include options to terminate the leases within one year. The Company has elected not to recognize ROU assets and lease liabilities for short-term operating leases that have a term of 12 months or less.

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The components of lease cost were comprised of the following:

	Three-Months Ended September 30, 2020	Three-Months Ended September 30, 2019	Nine-Months Ended September 30, 2020	Nine-Months Ended September 30, 2019
Operating lease cost	\$ 1,161	\$ 1,223	\$ 3,499	\$ 3,548
Short-term lease cost	856	993	2,440	2,552
Variable lease cost	242	168	564	503
<b>Finance leases:</b>				
Amortization of ROU assets	177	172	511	346
Interest on lease liabilities	9	13	34	43
Finance lease cost	186	185	545	389
<b>Total lease cost</b>	<b>\$ 2,445</b>	<b>\$ 2,569</b>	<b>\$ 7,048</b>	<b>\$ 6,992</b>

Supplemental cash flow information for the following periods:

	Nine-Months Ended September 30, 2020	Nine-Months Ended September 30, 2019
<b>Cash paid for amounts included in the measurement of lease liabilities:</b>		
Operating cash outflows from operating leases	\$ 3,081	\$ 3,026
Operating cash outflows from finance leases	33	43
Financing cash outflows from finance leases	2,500	1,497
<b>ROU assets obtained in exchange for lease obligations:</b>		
Finance leases	2,231	2,499
Operating leases	2,117	27,965

ROU assets for operating and finance leases recognized in the condensed consolidated balance sheets were comprised of the following at:

	September 30, 2020			Balance Sheet Location
	Real Estate	Equipment	Total	
Operating leases	\$ 22,783	\$ 214	\$ 22,997	Other Assets
Finance leases	—	2,781	2,781	Property and Equipment, net
	December 31, 2019			Balance Sheet Location
	Real Estate	Equipment	Total	
Operating leases	\$ 30,926	\$ 416	\$ 31,342	Other Assets
Finance leases	—	2,632	2,632	Property and Equipment, net

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Operating and finance lease liabilities recognized in the condensed consolidated balance sheets were as follows at:

	September 30, 2020	
	Operating Leases	Finance Leases
Accrued liabilities	\$ 2,982	\$ 1,214
Other liabilities	17,535	—
<b>Total</b>	<b>\$ 20,517</b>	<b>\$ 1,214</b>

  

	December 31, 2019	
	Operating Leases	Finance Leases
Accrued liabilities	\$ 2,812	\$ 1,485
Other liabilities	25,651	—
<b>Total</b>	<b>\$ 28,463</b>	<b>\$ 1,485</b>

The weighted-average remaining lease terms and weighted-average discount rates for operating and finance leases at September 30, 2020 and December 31, 2019 were as follows:

	September 30, 2020	
	Operating Leases	Finance Leases
Weighted-average remaining lease term (years)	9.7	0.6
Weighted-average discount rate	3.6 %	2.1 %

  

	December 31, 2019	
	Operating Leases	Finance Leases
Weighted-average remaining lease term (years)	10.1	0.6
Weighted-average discount rate	3.1 %	2.9 %

The following table reconciles the undiscounted future lease payments for operating and finance leases to the operating and finance leases recorded in the condensed consolidated balance sheet at September 30, 2020:

	Undiscounted Future Lease Payments	
	Operating Leases	Finance Leases
2020 (excluding the nine-months ended September 30, 2020)	\$ 811	\$ 588
2021	3,573	633
2022	2,898	—
2023	2,185	—
2024	1,890	—
2025 and thereafter	13,188	—
<b>Total lease payments</b>	<b>24,545</b>	<b>1,221</b>
Less imputed interest	(4,028)	(7)
<b>Total</b>	<b>\$ 20,517</b>	<b>\$ 1,214</b>

As of September 30, 2020, the Company did not have any significant additional operating or finance leases that have not yet commenced.

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5. INVESTMENTS

The following table summarizes the Company's investments at:

September 30, 2020	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
<b>Available-for-sale</b>						
Short-term:						
Commercial paper	\$ 91,445	\$ —	\$ —	\$ 91,445	\$ —	\$ —
Certificates of deposit	19,959	—	—	19,959	—	—
U.S. government agency securities	66,435	21	3	66,453	3	—
U.S. treasuries	421,093	398	22	421,469	22	—
Long-term:						
U.S. government agency securities	10,205	—	1	10,204	1	—
U.S. treasuries	10,370	—	3	10,367	3	—
Total	<u>\$ 619,507</u>	<u>\$ 419</u>	<u>\$ 29</u>	<u>\$ 619,897</u>	<u>\$ 29</u>	<u>\$ —</u>
December 31, 2019	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
<b>Available-for-sale</b>						
Short-term:						
Commercial paper	\$ 83,478	\$ —	\$ —	\$ 83,478	\$ —	\$ —
Certificates of deposit	28,049	—	—	28,049	—	—
Municipal securities	147,983	145	20	148,108	20	—
U.S. government agency securities	40,620	5	35	40,590	35	—
U.S. treasuries	211,055	134	31	211,158	31	—
Variable rate demand notes	21,680	—	—	21,680	—	—
Long-term:						
Municipal securities	1,562	—	1	1,561	1	—
U.S. government agency securities	5,267	—	1	5,266	1	—
U.S. treasuries	6,077	1	—	6,078	—	—
Total	<u>\$ 545,771</u>	<u>\$ 285</u>	<u>\$ 88</u>	<u>\$ 545,968</u>	<u>\$ 88</u>	<u>\$ —</u>

During the three- and nine-months ended September 30, 2020 and 2019, realized gains or losses recognized on the sale of investments were not significant.

The Company's investments at September 30, 2020 and December 31, 2019 carried investment grade credit ratings.

Variable rate demand notes ("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.

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

	September 30, 2020		December 31, 2019	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Less than 1 year:				
Commercial paper	\$ 91,445	\$ 91,445	\$ 83,478	\$ 83,478
Municipal securities	—	—	147,983	148,108
U.S. government agency securities	66,435	66,453	40,620	40,590
Certificates of deposit	19,959	19,959	28,049	28,049
U.S. treasuries	421,093	421,469	211,055	211,158
Due 1 - 10 years:				
Municipal securities	—	—	1,562	1,561
U.S. treasuries	10,370	10,367	6,077	6,078
U.S. government agency securities	10,205	10,204	5,267	5,266
Variable rate demand notes	—	—	3,905	3,905
Due 11 - 20 years:				
Variable rate demand notes	—	—	8,886	8,886
Due 21 - 30 years:				
Variable rate demand notes	—	—	6,885	6,885
Due 31 - 40 years:				
Variable rate demand notes	—	—	2,004	2,004
Total	<u>\$ 619,507</u>	<u>\$ 619,897</u>	<u>\$ 545,771</u>	<u>\$ 545,968</u>

6. 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 that 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.

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The following tables present 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, 2020	Level 1	Level 2	Level 3	Total
Cash	\$ 719,429	\$ —	\$ —	\$ 719,429
Money market funds	319,984	—	—	319,984
Certificates of deposit	—	19,959	—	19,959
Commercial paper	—	91,445	—	91,445
U.S. government agency securities	—	76,657	—	76,657
U.S. treasuries	—	467,153	—	467,153
Foreign currency derivatives	—	(770)	—	(770)
Total	<u>\$ 1,039,413</u>	<u>\$ 654,444</u>	<u>\$ —</u>	<u>\$ 1,693,857</u>

Amounts included in:

Cash and cash equivalents	\$ 1,039,413	\$ 35,317	\$ —	\$ 1,074,730
Short-term investments	—	599,326	—	599,326
Accounts receivable, net	—	185	—	185
Investments	—	20,571	—	20,571
Accrued liabilities	—	(955)	—	(955)
Total	<u>\$ 1,039,413</u>	<u>\$ 654,444</u>	<u>\$ —</u>	<u>\$ 1,693,857</u>

December 31, 2019	Level 1	Level 2	Level 3	Total
Cash	\$ 518,178	\$ —	\$ —	\$ 518,178
Money market funds	191,131	—	—	191,131
Certificates of deposit	—	28,049	—	28,049
Commercial paper	—	96,867	—	96,867
Variable rate demand notes	—	21,680	—	21,680
Municipal securities	—	167,224	—	167,224
U.S. government agency securities	—	73,634	—	73,634
U.S. treasuries	—	247,162	—	247,162
Foreign currency derivatives	—	(687)	—	(687)
Total	<u>\$ 709,309</u>	<u>\$ 633,929</u>	<u>\$ —</u>	<u>\$ 1,343,238</u>

Amounts included in:

Cash and cash equivalents	\$ 709,309	\$ 88,648	\$ —	\$ 797,957
Short-term investments	—	533,063	—	533,063
Accounts receivable, net	—	329	—	329
Investments	—	12,905	—	12,905
Accrued liabilities	—	(1,016)	—	(1,016)
Total	<u>\$ 709,309</u>	<u>\$ 633,929</u>	<u>\$ —</u>	<u>\$ 1,343,238</u>

All of the Company's short-term and long-term investments are classified within Level 1 or Level 2 of the fair value hierarchy. The Company's valuation of its Level 1 investments is based on quoted market prices in active markets for identical securities. The Company's valuation of its Level 2 investments 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 currency 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, 2020 or during the year-ended December 31, 2019, and there were no changes in the Company's valuation techniques.

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7. 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, 2020 and the year-ended December 31, 2019, 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, 2020 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 and other (expense) income, 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.

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, 2020				
Derivatives not designated as hedging instruments under ASC 815-20	Notional Amount	Fair Value	Balance Sheet Location	
<b>Assets:</b>				
Foreign currency exchange contracts:				
Receive SGD/pay USD	\$ 13,748	\$ 90	Accounts receivable, net	
Receive RSD/pay USD	14,253	63	Accounts receivable, net	
Receive NOK/pay USD	2,579	32	Accounts receivable, net	
<b>Liabilities:</b>				
Foreign currency exchange contracts:				
Receive USD/pay GBP	\$ 51,990	\$ (282)	Accrued liabilities	
Receive USD/pay EUR	35,815	(182)	Accrued liabilities	
Receive USD/pay RUB	9,343	(162)	Accrued liabilities	
Receive USD/pay AUD	9,448	(145)	Accrued liabilities	
Receive USD/pay CNY	11,915	(70)	Accrued liabilities	
Receive USD/pay COP	4,670	(61)	Accrued liabilities	
Receive USD/pay ZAR	1,542	(39)	Accrued liabilities	
Receive USD/pay NZD	1,247	(11)	Accrued liabilities	
Receive USD/pay DKK	1,367	(3)	Accrued liabilities	

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Derivatives not designated as hedging instruments under ASC 815-20	Notional Amount	Fair Value	Balance Sheet Location
<b>Assets:</b>			
Foreign currency exchange contracts:			
Receive EUR/pay USD	\$ 26,731	\$ 246	Accounts receivable, net
Receive RSD/pay USD	9,018	59	Accounts receivable, net
Receive NOK/pay USD	2,122	17	Accounts receivable, net
Receive USD/pay SGD	1,555	7	Accounts receivable, net
<b>Liabilities:</b>			
Foreign currency exchange contracts:			
Receive USD/pay GBP	\$ 38,406	\$ (695)	Accrued liabilities
Receive USD/pay AUD	12,819	(172)	Accrued liabilities
Receive USD/pay RUB	12,777	(55)	Accrued liabilities
Receive USD/pay NZD	3,071	(33)	Accrued liabilities
Receive USD/pay ZAR	3,349	(32)	Accrued liabilities
Receive USD/pay COP	3,793	(18)	Accrued liabilities
Receive USD/pay DKK	1,283	(11)	Accrued liabilities

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

Derivatives not designated as hedging instruments under ASC 815-20	Location of gain recognized in income on derivatives	Amount of gain recognized in income on derivatives	
		Three-months ended	
		September 30, 2020	September 30, 2019
Foreign currency exchange contracts	Interest and other (expense) income, net	\$ 260	\$ 627

Derivatives not designated as hedging instruments under ASC 815-20	Location of gain recognized in income on derivatives	Amount of gain recognized in income on derivatives	
		Nine-months ended	
		September 30, 2020	September 30, 2019
Foreign currency exchange contracts	Interest and other (expense) income, net	\$ 4,318	\$ 475

8. INVENTORIES

Inventories consist of the following at:

	September 30, 2020	December 31, 2019
Raw materials	\$ 150,123	\$ 134,885
Finished goods	168,833	225,846
	<u>\$ 318,956</u>	<u>\$ 360,731</u>

**MONSTER BEVERAGE CORPORATION AND SUBSIDIARIES**  
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9. PROPERTY AND EQUIPMENT, NET

Property and equipment consist of the following at:

	September 30, 2020	December 31, 2019
Land	\$ 85,512	\$ 78,275
Leasehold improvements	12,789	10,417
Furniture and fixtures	8,297	8,426
Office and computer equipment	20,723	22,766
Computer software	5,847	4,450
Equipment	206,151	214,293
Buildings	143,221	126,338
Vehicles	41,575	41,109
	<u>524,115</u>	<u>506,074</u>
Less: accumulated depreciation and amortization	(219,428)	(207,434)
	<u>\$ 304,687</u>	<u>\$ 298,640</u>

Total depreciation and amortization expense recorded was \$11.7 million and \$11.6 million for the three-months ended September 30, 2020 and 2019, respectively. Total depreciation and amortization expense recorded was \$36.4 million and \$36.3 million for the nine-months ended September 30, 2020 and 2019, respectively.

10. GOODWILL AND OTHER INTANGIBLE ASSETS

The following is a roll-forward of goodwill for the nine-months ended September 30, 2020 and September 30, 2019 by reportable segment:

	Monster Energy® Drinks	Strategic Brands	Other	Total
Balance at December 31, 2019	\$ 693,644	\$ 637,999	\$ —	\$ 1,331,643
Acquisitions	—	—	—	—
Balance at September 30, 2020	<u>\$ 693,644</u>	<u>\$ 637,999</u>	<u>\$ —</u>	<u>\$ 1,331,643</u>

  

	Monster Energy® Drinks	Strategic Brands	Other	Total
Balance at December 31, 2018	\$ 693,644	\$ 637,999	\$ —	\$ 1,331,643
Acquisitions	—	—	—	—
Balance at September 30, 2019	<u>\$ 693,644</u>	<u>\$ 637,999</u>	<u>\$ —</u>	<u>\$ 1,331,643</u>

Intangible assets consist of the following at:

	September 30, 2020	December 31, 2019
Amortizing intangibles	\$ 66,953	\$ 66,949
Accumulated amortization	(55,674)	(49,128)
	<u>11,279</u>	<u>17,821</u>
Non-amortizing intangibles	1,048,258	1,034,284
	<u>\$ 1,059,537</u>	<u>\$ 1,052,105</u>

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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 five to seven years. Total amortization expense recorded was \$1.1 million and \$2.9 million for the three-months ended September 30, 2020 and 2019, respectively. Total amortization expense recorded was \$6.5 million and \$8.7 million for the nine-months ended September 30, 2020 and 2019, respectively. The Company recorded impairment charges of \$3.0 million and \$7.0 million on a Strategic Brand trademark during the three- and nine-months ended September 30, 2020, respectively.

The following is the future estimated amortization expense related to amortizing intangibles as of September 30, 2020:

2020 (excluding the nine-months ended September 30, 2020)	\$	1,126
2021		4,429
2022		4,405
2023		1,111
2024		13
2025 and thereafter		195
	\$	<u>11,279</u>

11. DISTRIBUTION AGREEMENTS

In accordance with ASC 420, the Company expenses distributor termination costs in the period in which the written notification of termination occurs. The Company incurred no termination costs for the three-months ended September 30, 2020 and 2019. The Company incurred termination costs of \$0.2 million and \$11.0 million for the nine-months ended September 30, 2020 and 2019, respectively.

In the normal course of business, amounts received pursuant to new and/or amended distribution agreements entered into with certain bottlers/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 \$10.5 million and \$10.7 million for the three-months ended September 30, 2020 and 2019, respectively. Revenue recognized was \$31.6 million and \$35.6 million for the nine-months ended September 30, 2020 and 2019, respectively.

12. COMMITMENTS AND CONTINGENCIES

The Company had purchase commitments aggregating approximately \$62.2 million at September 30, 2020, 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 \$142.2 million at September 30, 2020, which related primarily to sponsorships and other marketing activities.

In February 2018, the working capital line limit for the Company's credit facility with HSBC Bank (China) Company Limited, Shanghai Branch, was increased from \$9.0 million to \$15.0 million. At September 30, 2020, the interest rate on borrowings under the line of credit was 5.5%. As of September 30, 2020, the Company had no amounts outstanding on this line of credit.

*Litigation* — From time to time in the normal course of business, the Company is named in litigation, including labor and employment matters, personal injury matters, consumer class actions, intellectual property matters and claims from prior 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 aggregate will likely not have a material adverse effect on the Company's financial position or results of operations.

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On September 18, 2020, a derivative complaint was filed on purported behalf of the Company in the United States District Court for the Central District of California. The action is styled *Falat v. Sacks, et al.*, 8:20-cv-01782, and asserts claims against certain officers, directors, and employees of the Company, including Rodney C. Sacks, Hilton H. Schlosberg, Guy P. Carling, Thomas J. Kelly, Emelie C. Tirre, Mark J. Hall, Kathleen E. Ciaramello, Gary P. Fayard, Jeanne P. Jackson, Steven G. Pizula, Benjamin M. Polk, Sydney Selati and Mark S. Vidergauz (collectively, the "Individual Defendants"). The Company is named as a nominal defendant.

The derivative complaint alleges, among other things, that the Individual Defendants breached their fiduciary duties to the Company by allowing others to cause, or themselves causing, the Company to hide discrimination and failing to ensure sufficient diversity, including by permitting conduct to occur that was inconsistent with statements made in the Company's policies and disclosures, and failing to ensure the Company's compliance with laws regarding diversity and anti-discrimination. The complaint also asserts claims for abuse of control, unjust enrichment and violation of Section 14(a) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). The complaint seeks from the Individual Defendants an unspecified amount of damages, restitution, punitive damages and costs to be paid to the Company, and seeks to require the Company to adopt corporate governance reforms, and other equitable relief.

The Company believes that the action should be dismissed because the plaintiff failed to make a demand on the Company as required by Federal Rule of Civil Procedure 23.1 or to show that demand would have been futile. The Company also understands that the Individual Defendants intend to file a motion to dismiss the complaint for failure to state a claim, among other reasons. While the Company continues to evaluate these claims, management believes that such litigation 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, 2020, the Company's condensed consolidated balance sheet included accrued loss contingencies of approximately \$16.6 million.

13. ACCUMULATED OTHER COMPREHENSIVE LOSS

Changes in accumulated other comprehensive loss (income) by component, after tax, for the nine-months ended September 30, 2020 and 2019 are as follows:

	Currency Translation Losses	Unrealized (Gains) Losses on Available-for- Sale Securities	Total
Balance at December 31, 2019	\$ 32,581	\$ (194)	\$ 32,387
Other comprehensive loss (income) before reclassifications	338	(196)	142
Amounts reclassified from accumulated other comprehensive loss (income)	—	—	—
Net current-period other comprehensive loss (income)	338	(196)	142
Balance at September 30, 2020	\$ 32,919	\$ (390)	\$ 32,529

	Currency Translation Losses	Unrealized (Gains) Losses on Available-for- Sale Securities	Total
Balance at December 31, 2018	\$ 32,775	\$ 89	\$ 32,864
Other comprehensive loss (income) before reclassifications	10,586	(367)	10,219
Amounts reclassified from accumulated other comprehensive loss (income)	—	—	—
Net current-period other comprehensive loss (income)	10,586	(367)	10,219
Balance at September 30, 2019	\$ 43,361	\$ (278)	\$ 43,083

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14. TREASURY STOCK

On March 13, 2020, the Company's Board of Directors authorized a new share repurchase program for the purchase of up to \$500.0 million of the Company's outstanding common stock (the "March 2020 Repurchase Plan"). During the three- months ended September 30, 2020, no shares were purchased by the Company under the March 2020 Repurchase Plan. As of November 6, 2020, \$441.5 million remained available for repurchase under the March 2020 Repurchase Plan.

During the three- months ended September 30, 2020, 1,779 shares of common stock were purchased from employees in lieu of cash payments for options exercised or withholding taxes due for a total amount of \$0.1 million. While such purchases are considered common stock repurchases, they are not counted as purchases against our authorized share repurchase programs. Such shares are included in common stock in treasury in the accompanying condensed consolidated balance sheet at September 30, 2020.

15. STOCK-BASED COMPENSATION

The Company has two stock-based compensation plans under which shares were available for grant at September 30, 2020: (i) the Monster Beverage Corporation 2020 Omnibus Incentive Plan (the "2020 Omnibus Incentive Plan"), which includes the Monster Beverage Corporation Deferred Compensation Plan as a sub plan thereunder, and (ii) the Monster Beverage Corporation 2017 Compensation Plan for Non-Employee Directors, which includes the Monster Beverage Corporation Deferred Compensation Plan for Non-Employee Directors as a sub plan thereunder. The 2020 Omnibus Incentive Plan was approved by the Board of Directors on April 14, 2020 and approved by the stockholders of the Company at the annual meeting of the Company's stockholders held on June 3, 2020 (the "Effective Date"). The 2020 Omnibus Incentive Plan replaced the Monster Beverage Corporation 2011 Omnibus Incentive Plan (the "2011 Omnibus Incentive Plan").

The 2020 Omnibus Incentive Plan provides for the granting of stock options, stock appreciation rights, restricted stock, restricted stock units, performance awards, and other share-based awards up to an aggregate of 46,169,367 shares of the Company's common stock, comprised of 32,000,000 new shares of common stock reserved under the 2020 Omnibus Incentive Plan and 14,169,367 shares of common stock that were available for grant under the 2011 Omnibus Incentive Plan as of December 31, 2019 and prior to the Effective Date. Shares authorized under the 2020 Omnibus Incentive Plan are reduced by one (1) share for options or stock appreciation rights granted under the 2020 Omnibus Incentive Plan and for any grants after December 31, 2019 under the 2011 Omnibus Incentive Plan, and by 2.6 shares for each share granted or issued with respect to a Full Value Award under either the 2020 Omnibus Incentive Plan or for any shares granted after December 31, 2019 under the 2011 Omnibus Incentive Plan. A "Full Value Award" is an award other than an incentive stock option, a non- qualified stock option, or a stock appreciation right, which is settled by the issuance of shares. Options granted under the 2020 Omnibus Incentive Plan may be incentive stock options under Section 422 of the Internal Revenue Code, as amended, or non-qualified stock options.

Shares previously granted under the 2011 Omnibus Incentive Plan after December 31, 2019 and prior to the Effective Date of the 2020 Omnibus Incentive Plan reduced the number of shares available for grant under the 2020 Omnibus Incentive Plan. As of September 30, 2020, 1,401,750 shares of the Company's common stock have been granted, net of cancellations, and 44,181,623 shares (as adjusted for Full Value Awards) of the Company's common stock remain available for grant under the 2020 Omnibus Incentive Plan.

The Compensation Committee of the Board of Directors (the "Compensation Committee") has sole and exclusive authority to grant stock awards to all employees who are not new hires and to all new hires who are subject to Section 16 of the Exchange Act. Each of the Compensation Committee and the Executive Committee of the Board of Directors (the "Executive Committee") independently has the authority to grant stock awards to new hires and employees receiving a promotion who are not Section 16 employees. Awards granted by the Executive Committee are not subject to approval or ratification by the Board of Directors or the Compensation Committee. Options granted under the 2020 Omnibus Incentive Plan generally vest over a three- to five-year period from the grant date and are generally exercisable up to 10 years after the grant date. Restricted stock units granted under the 2020 Omnibus Incentive Plan generally vest over a three- or five-year period from the grant date. Performance share units will generally vest based on the achievement of performance goals specified for the applicable award.

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The Company recorded \$19.5 million and \$16.0 million of compensation expense relating to outstanding options, restricted stock units, performance share units and other share-based awards during the three- months ended September 30, 2020 and 2019, respectively. The Company recorded \$53.0 million and \$46.9 million of compensation expense relating to outstanding options, restricted stock units, performance share units and other share-based awards during the nine- months ended September 30, 2020 and 2019, respectively.

The tax benefit for tax deductions from non-qualified stock option exercises, disqualifying dispositions of incentive stock options and vesting of restricted stock units and performance share units for the three- months ended September 30, 2020 and 2019 was \$3.5 million and \$0.5 million, respectively. The tax benefit for tax deductions from non-qualified stock option exercises, disqualifying dispositions of incentive stock options and vesting of restricted stock units and performance share units for the nine-months ended September 30, 2020 and 2019 was \$9.2 million and \$26.7 million, respectively.

Stock Options

Under the Company's stock-based compensation plans, all stock options granted as of September 30, 2020 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 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 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,	
	2020*	2019	2020	2019
Dividend yield	—	0.0 %	0.0 %	0.0 %
Expected volatility	—	30.2 %	30.5 %	30.2 %
Risk-free interest rate	—	1.4 %	0.7 %	2.4 %
Expected term	—	5.8 years	5.8 years	6.0 years

\*No options were granted during the three-months ended September 30, 2020.

*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 the 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.

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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, 2020	14,941	\$ 42.88	6.3	\$ 308,884
Granted 01/01/20 - 03/31/20	1,027	\$ 62.45		
Granted 04/01/20 - 06/30/20	—	\$ —		
Granted 07/01/20 - 09/30/20	—	\$ —		
Exercised	(1,711)	\$ 38.30		
Cancelled or forfeited	(53)	\$ 52.91		
Outstanding at September 30, 2020	14,204	\$ 44.81	6.0	\$ 502,732
Vested and expected to vest in the future at September 30, 2020	13,594	\$ 44.23	5.9	\$ 488,969
Exercisable at September 30, 2020	8,174	\$ 36.97	4.7	\$ 353,333

No options were granted during the three-months ended September 30, 2020. The weighted-average grant-date fair value of options granted during the three-months ended September 30, 2019 was \$18.32 per share. The weighted-average grant-date fair value of options granted during the nine-months ended September 30, 2020 and 2019 was \$18.78 per share and \$20.24 per share, respectively.

The total intrinsic value of options exercised during the three-months ended September 30, 2020 and 2019 was \$22.5 million and \$2.4 million, respectively. The total intrinsic value of options exercised during the nine-months ended September 30, 2020 and 2019 was \$58.8 million and \$213.8 million, respectively.

Cash received from option exercises under all plans for the three-months ended September 30, 2020 and 2019 was \$21.7 million and \$4.1 million, respectively. Cash received from option exercises under all plans for the nine-months ended September 30, 2020 and 2019 was \$65.5 million and \$85.2 million, respectively.

At September 30, 2020, there was \$68.6 million of total unrecognized compensation expense related to non-vested options granted to employees under the Company's stock-based compensation plans. That cost is expected to be recognized over a weighted-average period of 2.3 years.

Restricted Stock Units and Performance Share Units

The cost of stock-based compensation for restricted stock units and performance share 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 or performance share unit in cash, the award is classified as a liability and revalued at each balance sheet date.

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

	Number of Shares (in thousands)	Weighted Average Grant-Date Fair Value
Non-vested at January 1, 2020	825	\$ 57.62
Granted 01/01/20 - 03/31/20 <sup>1</sup>	392	\$ 62.39
Granted 04/01/20 - 06/30/20	17	\$ 71.72
Granted 07/01/20 - 09/30/20	1	\$ 71.76
Vested	(287)	\$ 55.65
Forfeited/cancelled	(2)	\$ 59.67
Non-vested at September 30, 2020	<u>946</u>	<u>\$ 60.46</u>

<sup>1</sup>The grant activity for performance share units is recorded based on the target performance level earning 100% of target performance share units. The actual number of performance share units earned could range from 0% to 200% of target dependent on the pre-established performance goals.

The weighted-average grant-date fair value of restricted stock units granted during the three-months ended September 30, 2020 and 2019 was \$71.76 per share and \$66.00 per share, respectively. No performance share units were granted during the three-months ended September 30, 2020 and 2019. The weighted-average grant-date fair value of restricted stock units and performance share units granted during the nine-months ended September 30, 2020 was \$62.79 per share. The weighted-average grant-date fair value of restricted stock units granted during the nine-months ended September 30, 2019 was \$59.79 per share. No performance share units were granted during the nine-months ended September 30, 2019.

As of September 30, 2020, 0.8 million of restricted stock units and performance share units are expected to vest over their respective terms.

At September 30, 2020, total unrecognized compensation expense relating to non-vested restricted stock units and performance share units was \$38.1 million, which is expected to be recognized over a weighted-average period of 2.4 years.

Other Share-Based Awards

The Company has granted other share-based awards to certain employees that are payable in cash. These awards are classified as liabilities and are valued based on the fair value of the award at the grant date and are remeasured at each reporting date until settlement with compensation expense being recognized in proportion to the completed requisite service period up until date of settlement. At September 30, 2020, other share-based awards outstanding included grants that vest over three years payable in the first quarters of 2022 and 2023.

At September 30, 2020, there was \$2.7 million of total unrecognized compensation expense related to nonvested other share-based awards granted to employees under the Company's stock-based compensation plans. That cost is expected to be recognized over a weighted-average period of 1.8 years.

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16. 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, 2020:

	Gross Unrecognized Tax Benefits
Balance at December 31, 2019	\$ 2,993
Additions for tax positions related to the current year	—
Additions for tax positions related to the prior years	—
Decreases related to settlement with taxing authority	—
Balance at September 30, 2020	<u>\$ 2,993</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, 2020, the Company had approximately \$0.5 million in accrued 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 any change in the amount of unrecognized tax benefits within the next 12 months will not be significant.

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

The Company is in various stages of examination with certain states and certain foreign jurisdictions, including the United Kingdom and Ireland. The Company’s 2016 through 2019 U.S. federal income tax returns are subject to examination by the IRS. The Company’s state income tax returns are subject to examination for the 2015 through 2019 tax years.

17. EARNINGS PER SHARE

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

	Three-Months Ended		Nine-Months Ended	
	September 30,		September 30,	
	2020	2019	2020	2019
Weighted-average shares outstanding:				
Basic	527,637	544,469	530,194	543,804
Dilutive	5,626	3,953	4,817	4,583
Diluted	<u>533,263</u>	<u>548,422</u>	<u>535,011</u>	<u>548,387</u>

For the three-months ended September 30, 2020 and 2019, options and awards outstanding totaling 0.6 million shares and 4.7 million shares, respectively, were excluded from the calculations as their effect would have been antidilutive. For the nine-months ended September 30, 2020 and 2019, options and awards outstanding totaling 4.2 million shares and 4.3 million shares, respectively, were excluded from the calculations as their effect would have been antidilutive.

18. SEGMENT INFORMATION

The Company has three operating and reportable segments: (i) Monster Energy® Drinks segment, which is primarily comprised of the Company’s Monster Energy® drinks and Reign Total Body Fuel® high performance energy drinks, (ii) Strategic Brands segment, which is primarily comprised of the various energy drink brands acquired from TCCC in 2015 as well as the Company’s affordable energy brands, and (iii) Other segment, which is comprised of the AFF Third-Party Products.

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The Company's Monster Energy® Drinks segment primarily generates net operating revenues by selling ready-to-drink packaged drinks primarily to bottlers/distributors. In some cases, the Company sells directly to retail grocery and specialty chains, wholesalers, club stores, mass merchandisers, convenience chains, drug stores, foodservice customers, value stores, e-commerce retailers and the military.

The Company's Strategic Brands segment primarily 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, water and other ingredients to produce ready-to-drink packaged energy drinks. The ready-to-drink packaged energy drinks are then sold by such bottlers to other bottlers/distributors and to retail grocery and specialty chains, wholesalers, club stores, mass merchandisers, convenience chains, foodservice customers, drug stores, value stores, e-commerce retailers and the military. To a lesser extent, the Strategic Brands segment generates net operating revenues by selling certain ready-to-drink packaged energy drinks to bottlers/distributors.

Generally, the Monster Energy® Drinks segment generates higher per case net operating revenues, but lower per case gross profit margin percentages than the Strategic Brands 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 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, 2020 and 2019 are as follows:

	Three-Months Ended September 30,		Nine-Months Ended September 30,	
	2020	2019	2020	2019
<b>Net sales:</b>				
Monster Energy® Drinks <sup>(1)</sup>	\$ 1,163,419	\$ 1,061,383	\$ 3,183,559	\$ 2,950,877
Strategic Brands	74,325	66,333	198,429	215,763
Other	8,618	5,861	20,367	16,973
Corporate and unallocated	—	—	—	—
	<u>\$ 1,246,362</u>	<u>\$ 1,133,577</u>	<u>\$ 3,402,355</u>	<u>\$ 3,183,613</u>
	Three-Months Ended September 30,		Nine-Months Ended September 30,	
	2020	2019	2020	2019
<b>Operating Income:</b>				
Monster Energy® Drinks <sup>(1) (2)</sup>	\$ 502,392	\$ 433,848	\$ 1,366,920	\$ 1,187,652
Strategic Brands	43,875	35,107	118,287	130,762
Other	2,368	1,005	4,780	3,026
Corporate and unallocated	(90,034)	(74,517)	(259,135)	(235,546)
	<u>\$ 458,601</u>	<u>\$ 395,443</u>	<u>\$ 1,230,852</u>	<u>\$ 1,085,894</u>

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	Three-Months Ended		Nine-Months Ended	
	September 30,		September 30,	
	2020	2019	2020	2019
<b>Income before tax:</b>				
Monster Energy® Drinks <sup>(1) (2)</sup>	\$ 502,500	\$ 434,003	\$ 1,367,096	\$ 1,187,916
Strategic Brands	43,876	35,106	118,287	130,758
Other	2,368	1,005	4,780	3,031
Corporate and unallocated	(94,711)	(71,550)	(264,802)	(226,976)
	<u>\$ 454,033</u>	<u>\$ 398,564</u>	<u>\$ 1,225,361</u>	<u>\$ 1,094,729</u>

(1) Includes \$10.5 million and \$10.7 million for the three-months ended September 30, 2020 and 2019, respectively, related to the recognition of deferred revenue. Includes \$31.6 million and \$35.6 million for the nine-months ended September 30, 2020 and 2019, respectively, related to the recognition of deferred revenue.

(2) The three-months ended September 30, 2020 and 2019 includes no distributor termination costs. Includes \$0.2 million and \$11.0 million for the nine-months ended September 30, 2020 and 2019, respectively, related to distributor termination costs.

	Three-Months Ended		Nine-Months Ended	
	September 30,		September 30,	
	2020	2019	2020	2019
<b>Depreciation and amortization:</b>				
Monster Energy® Drinks	\$ 8,713	\$ 9,319	\$ 27,687	\$ 29,449
Strategic Brands	227	1,990	3,932	5,925
Other	1,136	1,162	3,495	3,475
Corporate and unallocated	2,741	2,050	7,794	6,172
	<u>\$ 12,817</u>	<u>\$ 14,521</u>	<u>\$ 42,908</u>	<u>\$ 45,021</u>

Corporate and unallocated expenses for the three-months ended September 30, 2020 include \$61.7 million of payroll costs, of which \$19.2 million was attributable to stock-based compensation expenses (see Note 15 "Stock-Based Compensation"), as well as \$16.7 million attributable to professional service expenses, including accounting and legal costs, and \$11.6 million of other operating expenses. Corporate and unallocated expenses for the three-months ended September 30, 2019 include \$50.1 million of payroll costs, of which \$16.0 million was attributable to stock-based compensation expenses (see Note 15 "Stock-Based Compensation"), as well as \$13.3 million attributable to professional service expenses, including accounting and legal costs, and \$11.1 million of other operating expenses.

Corporate and unallocated expenses for the nine-months ended September 30, 2020 include \$173.5 million of payroll costs, of which \$52.7 million was attributable to stock-based compensation expenses (see Note 15 "Stock-Based Compensation"), as well as \$50.1 million attributable to professional service expenses, including accounting and legal costs, and \$35.5 million of other operating expenses. Corporate and unallocated expenses for the nine-months ended September 30, 2019 include \$151.0 million of payroll costs, of which \$46.9 million was attributable to stock-based compensation expenses (see Note 15 "Stock-Based Compensation"), as well as \$49.2 million attributable to professional service expenses, including accounting and legal costs, and \$35.3 million of other operating expenses.

Coca-Cola Consolidated, Inc. accounted for approximately 12% and 13% of the Company's net sales for the three-months ended September 30, 2020 and 2019, respectively. Coca-Cola Consolidated, Inc. accounted for approximately 12% and 13% of the Company's net sales for the nine-months ended September 30, 2020 and 2019, respectively.

Reyes Coca-Cola Bottling, LLC accounted for approximately 11% and 12% of the Company's net sales for the three-months ended September 30, 2020 and 2019, respectively. Reyes Coca-Cola Bottling, LLC accounted for approximately 11% and 12% of the Company's net sales for the nine-months ended September 30, 2020 and 2019, respectively.

Coca-Cola European Partners accounted for approximately 11% and 10% of the Company's net sales for the three-months ended September 30, 2020 and 2019, respectively. Coca-Cola European Partners accounted for approximately 10% of the Company's net sales for both the nine-months ended September 30, 2020 and 2019.

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

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Net sales to customers outside the United States amounted to \$444.5 million and \$379.8 million for the three- months ended September 30, 2020 and 2019, respectively. Such sales were approximately 36% and 34% of net sales for the three- months ended September 30, 2020 and 2019, respectively. Net sales to customers outside the United States amounted to \$1.13 billion and \$1.01 billion for the nine-months ended September 30, 2020 and 2019, respectively. Such sales were approximately 33% and 32% of net sales for the nine-months ended September 30, 2020 and 2019, respectively.

Goodwill and other intangible assets for the Company's reportable segments as of September 30, 2020 and December 31, 2019 are as follows:

	September 30, 2020	December 31, 2019
Goodwill and other intangible assets:		
Monster Energy® Drinks	\$ 1,404,754	\$ 1,384,940
Strategic Brands	975,392	984,393
Other	11,034	14,415
Corporate and unallocated	—	—
	<u>\$ 2,391,180</u>	<u>\$ 2,383,748</u>

19. RELATED PARTY TRANSACTIONS

TCCC controls approximately 19.3% of the voting interests of the Company. The TCCC Subsidiaries, the TCCC Related Parties and certain TCCC independent bottlers/distributors, purchase and distribute the Company's products in domestic and certain international markets. The Company also pays TCCC a commission based on certain sales within the TCCC distribution network.

TCCC commissions, based on sales to the TCCC Subsidiaries and the TCCC Related Parties, were \$15.7 million and \$11.6 million for the three-months ended September 30, 2020 and 2019, respectively, and are included as a reduction to net sales. TCCC commissions, based on sales to the TCCC Subsidiaries and the TCCC Related Parties, were \$37.7 million and \$39.5 million for the nine-months ended September 30, 2020 and 2019, respectively, and are included as a reduction to net sales.

TCCC commissions, based on sales to certain TCCC independent bottlers/distributors, were \$5.5 million and \$4.7 million for the three-months ended September 30, 2020 and 2019, respectively, and are included in operating expenses. TCCC commissions, based on sales to certain TCCC independent bottlers/distributors, were \$15.2 million and \$13.6 million for the nine-months ended September 30, 2020 and 2019, respectively, and are included in operating expenses.

Net sales to the TCCC Subsidiaries for the three-months ended September 30, 2020 and 2019 were \$21.5 million and \$21.0 million, respectively. Net sales to the TCCC Subsidiaries for the nine-months ended September 30, 2020 and 2019 were \$55.2 million and \$59.5 million, respectively.

The Company also purchases concentrates from TCCC which are then sold to certain of the Company's bottlers/distributors. Concentrate purchases from TCCC were \$6.8 million and \$6.3 million for the three-months ended September 30, 2020 and 2019, respectively. Concentrate purchases from TCCC were \$17.6 million and \$20.2 million for the nine-months ended September 30, 2020 and 2019, respectively.

Certain TCCC Subsidiaries also contract manufacture certain of the Company's energy drinks. Such contract manufacturing expenses were \$5.1 million and \$4.2 million for the three- months ended September 30, 2020 and 2019, respectively. Such contract manufacturing expenses were \$11.3 million and \$13.1 million for the nine-months ended September 30, 2020 and 2019, respectively.

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

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Accounts receivable, accounts payable, accrued promotional allowances and accrued liabilities related to the TCCC Subsidiaries are as follows at:

	September 30, 2020	December 31, 2019
Accounts receivable, net	\$ 47,552	\$ 21,670
Accounts payable	\$ (25,832)	\$ (18,217)
Accrued promotional allowances	\$ (4,911)	\$ (5,321)
Accrued liabilities	\$ (32,615)	\$ —

One director of the Company through certain trusts, and a family member of one director, 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 the three-months ended September 30, 2020 and 2019 were \$0.4 million and \$0.5 million, respectively. Expenses incurred with such company in connection with promotional materials purchased during the nine-months ended September 30, 2020 and 2019 were \$1.9 million and \$1.1 million, respectively.

In December 2018, the Company and a director of the Company entered into a 50-50 partnership that purchased land, and real property thereon, in Kona, Hawaii for the purpose of producing coffee products. The Company's initial 50% contribution of \$1.9 million was accounted for as an equity investment. During the three-months ended September 30, 2020, the Company recorded an equity loss of \$0.04 million. During the nine-months ended September 30, 2020, the Company recorded an equity loss of \$0.3 million. As of September 30, 2020, the Company's equity investment is \$1.6 million and is included in other assets (non-current) in the accompanying condensed consolidated balance sheet.

#### 20. SUBSEQUENT EVENTS

In October 2020, the Company completed an intra-entity transfer of intangible assets between certain of the Company's foreign subsidiaries to better align its international structure with its expanding operations. As a result, the Company's fourth quarter 2020 provision for income taxes will be materially impacted. The transfer resulted in a step-up of the tax-deductible basis in the transferred assets, and created a temporary difference between the tax basis and book basis of such intangible assets. The Company will recognize deferred tax assets of approximately \$165.0 million, with a corresponding reduction to the provision for income taxes during the fourth quarter of 2020 in its consolidated financial statements. The tax deductions for the amortization of the deferred tax assets will be recognized in the future and any amortization not deducted for tax purposes will be carried forward indefinitely. The tax impact on the foreign subsidiary transferor was not material.

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

### Our Business

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. Based in Corona, California, Monster Beverage Corporation is a holding company and conducts no operating business except through its consolidated subsidiaries. The Company’s subsidiaries primarily develop and market energy drinks.

### *The COVID – 19 Pandemic*

The current COVID-19 pandemic has presented a substantial public health and economic challenge around the world and is affecting our employees, communities and business operations, as well as the global economy and financial markets. The human and economic consequences of the COVID-19 pandemic as well as the measures taken or that may be taken in the future by governments, and consequently businesses (including the Company and its suppliers, full service beverage bottlers/distributors (“bottlers/distributors”), co-packers and other service providers) and the public at large to limit the COVID-19 pandemic, has directly and indirectly impacted our business. The duration and severity of this impact will depend on future developments that are highly uncertain and cannot be accurately predicted, including new information that may emerge concerning the COVID-19 pandemic, the actions taken to limit its spread and the economic impact on local, regional, national and international markets. See the section entitled “Risk Factors” in Item 1A of this Quarterly Report.

We have been actively addressing the COVID-19 pandemic with a global task force team working to mitigate the potential impacts to our people and business.

### *Health and Safety of our Employees and Business Partners*

From the beginning of the COVID-19 pandemic, our top priority has been the health, safety and well-being of our employees. Early in March 2020, we implemented global travel restrictions and work-from-home policies for employees who are able to work remotely. For those employees who are unable to work remotely, safety precautions have been instituted, which were developed and adopted in line with guidance from public health authorities and professional consultants. Currently, certain of our offices have partially reopened in the U.S. and in certain countries, and generally, our field sales teams are working with our bottler/distributors and retailers subject to certain safety protocols. We are incredibly proud of the teamwork exhibited by our employees, co-packers and bottlers/distributors around the world who are ensuring the integrity of our supply chain.

### *Customer Demand*

Despite the ongoing impact of the COVID-19 pandemic, we achieved record third quarter net sales and the highest quarterly net sales in our history. While the performance in Europe, Middle East and Africa (“EMEA”) was solid in the third quarter, EMEA remained adversely affected by the COVID-19 pandemic.

Since mid-March 2020, we have seen a shift in consumer channel preferences and package configurations, including an increase in at-home consumption and a decrease in food service on-premise consumption. Our sales in the 2020 second quarter were initially adversely affected as a result of a decrease in foot traffic in the convenience and gas channel (which is our largest channel) but improved sequentially from the latter half of the 2020 second quarter and throughout the 2020 third quarter. Our e-commerce, club store, mass merchandiser and grocery and related business continued to increase over the 2020 second and 2020 third quarters, while our food service on-premise business, which is a small channel for the Company, remained challenged. The duration of these trends and the magnitude of such impacts on future periods cannot be precisely estimated at this time, as they are affected by a number of factors (many of which are outside our control).

We have recently seen a resurgence of the COVID-19 pandemic in the Northern Hemisphere. As a result, a number of countries, particularly in EMEA, have reinstated lockdowns and other restrictions, which could further impact customer demand.

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A reduction in demand for our products or changes in consumer purchasing and consumption patterns, as well as continued economic uncertainty as a result of the COVID-19 pandemic, could adversely affect the financial conditions of retailers and consumers, resulting in reduced or canceled orders for our products, purchase returns and closings of retail or wholesale establishments or other locations in which our products are sold.

### Our Distribution and Supply Chain

As of the date of this filing, we do not foresee a material impact on the ability of our co-packers to manufacture and our bottlers/distributors to distribute our products as a result of the COVID-19 pandemic. In addition, we are not experiencing significant raw material or finished product shortages in our supply chain and our supply chain remains intact. We are continually addressing our aluminum can requirements given our volume growth and the current supply constraints in the aluminum can industry. Depending on the duration of any COVID-19 pandemic related issues, we may experience material disruptions in our supply chain as the pandemic continues.

### Liquidity and Capital Resources

As of the date of this filing, we expect to maintain substantial liquidity as we manage through the current environment as described in the “Liquidity and Capital Resources” section below.

## Overview

We develop, market, sell and distribute energy drink beverages and concentrates for energy drink beverages, primarily under the following brand names:

- Monster Energy®
- Monster Energy Ultra®
- Monster Rehab®
- Monster MAXX®
- Java Monster®
- Muscle Monster®
- Espresso Monster®
- Punch Monster®
- Juice Monster®
- Monster Hydro®
- Monster HydroSport Super Fuel®
- Monster Dragon Tea®
- Reign Total Body Fuel®
- Reign Inferno® Thermogenic Fuel
- NOS®
- Full Throttle®
- Burn®
- Mother®
- Nalu®
- Ultra Energy®
- Play® and Power Play® (stylized)
- Relentless®
- BPM®
- BU®
- Gladiator®
- Samurai®
- Live+®
- Predator®
- Fury®

We have three operating and reportable segments, (i) Monster Energy® Drinks segment (“Monster Energy® Drinks”), which is primarily comprised of our Monster Energy® drinks and Reign Total Body Fuel® high performance energy drinks, (ii) Strategic Brands segment (“Strategic Brands”), which is comprised primarily of the various energy drink brands acquired from The Coca-Cola Company (“TCCC”) in 2015 as well as our affordable energy brands, and (iii) Other segment (“Other”), which is comprised of certain products sold by American Fruits and Flavors LLC, a wholly-owned subsidiary, to independent third-party customers (the “AFF Third-Party Products”).

During the three-months ended September 30, 2020, we continued to expand our existing energy drink portfolio by adding additional products to our portfolio in a number of countries and further developed our distribution markets. During the three-months ended September 30, 2020, we sold the following new products to our bottlers/distributors:

- Juice Monster® Khaotic™ Energy + Juice
- Juice Monster® Papillon™ Energy + Juice
- Monster Energy Ultra® Watermelon

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- Reign Total Body Fuel® Lilikoi Lychee
- Ultra Energy® Peach Mango

In the normal course of business, we discontinue certain products and/or product lines. Those products or product lines discontinued in the three-months ended September 30, 2020, 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 \$1.25 billion for the three-months ended September 30, 2020 represented record sales for our third fiscal quarter. Net changes in foreign currency exchange rates had an unfavorable impact on net sales of approximately \$12.5 million for the three-months ended September 30, 2020.

The vast majority of our net sales are derived from our Monster Energy(R) Drinks segment. Net sales of our Monster Energy® Drinks segment were \$1.16 billion for the three-months ended September 30, 2020. Net sales of our Strategic Brands segment were \$74.3 million for the three-months ended September 30, 2020. Our Monster Energy® Drinks segment represented 93.3% and 93.6% of our net sales for the three-months ended September 30, 2020 and 2019, respectively. Our Strategic Brands segment represented 6.0% and 5.9% of our net sales for the three-months ended September 30, 2020 and 2019, respectively. Our Other segment represented 0.7% and 0.5% of our net sales for the three-months ended September 30, 2020 and 2019, respectively.

Our growth strategy includes expanding our international business. Net sales to customers outside the United States were \$444.5 million for the three-months ended September 30, 2020, an increase of approximately \$64.7 million, or 17.0% higher than net sales to customers outside of the United States of \$379.8 million for the three-months ended September 30, 2019. Such sales were approximately 36% and 34% of net sales for the three-months ended September 30, 2020 and 2019, respectively.

Our customers are primarily bottlers/distributors, retail grocery and specialty chains, wholesalers, club stores, mass merchandisers, convenience chains, drug stores, foodservice customers and the military. Percentages of our gross sales to our various customer types for the three- and nine-months ended September 30, 2020 and 2019 are reflected below. Such information includes sales made by us directly to the customer types concerned, which include our bottlers/distributors in the United States. Such 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 bottlers'/distributors' sales to their own customers.

	Three-Months Ended		Nine-Months Ended	
	September 30,		September 30,	
	2020	2019	2020	2019
U.S. full service bottlers/distributors	53 %	56 %	55 %	58 %
International full service bottlers/distributors	37 %	35 %	35 %	33 %
Club stores and mass merchandisers	8 %	7 %	8 %	7 %
Retail grocery, specialty chains and wholesalers	1 %	1 %	1 %	1 %
Other	1 %	1 %	1 %	1 %

Our customers include Coca-Cola Canada Bottling Limited, Coca-Cola Consolidated, Inc., Coca-Cola Bottling Company United, Inc., Reyes Coca-Cola Bottling, LLC, Great Lakes Coca-Cola Distribution, LLC, Coca-Cola Southwest Beverages LLC, The Coca-Cola Bottling Company of Northern New England, Inc., Swire Pacific Holdings, Inc. (USA), Liberty Coca-Cola Beverages, LLC, Coca-Cola European Partners, Coca-Cola Hellenic, Coca-Cola FEMSA, Coca-Cola Amatil, Swire Coca-Cola (China), COFCO Coca-Cola, Coca-Cola Beverages Africa, Coca-Cola İçecek and certain other TCCC network bottlers, Asahi Soft Drinks, Co., Ltd., Wal-Mart, Inc. (including Sam's Club), Costco Wholesale Corporation and Amazon.com, Inc. A decision by any large customer to decrease amounts purchased from us or to cease carrying our products could have a material adverse effect on our financial condition and consolidated results of operations.

Coca-Cola Consolidated, Inc. accounted for approximately 12% and 13% of our net sales for the three-months ended September 30, 2020 and 2019, respectively. Coca-Cola Consolidated, Inc. accounted for approximately 12% and 13% of our net sales for the nine-months ended September 30, 2020 and 2019, respectively.

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Reyes Coca-Cola Bottling, LLC accounted for approximately 11% and 12% of our net sales for the three-months ended September 30, 2020 and 2019, respectively. Reyes Coca-Cola Bottling, LLC accounted for approximately 11% and 12% of our net sales for the nine-months ended September 30, 2020 and 2019, respectively.

Coca-Cola European Partners accounted for approximately 11% and 10% of our net sales for the three-months ended September 30, 2020 and 2019, respectively. Coca-Cola European Partners accounted for approximately 10% of our net sales for both the nine-months ended September 30, 2020 and 2019.

**Results of Operations**

The following table sets forth key statistics for the three- and nine-months ended September 30, 2020 and 2019.

(In thousands, except per share amounts)	Three-Months Ended September 30,		Percentage Change 20 vs. 19	Nine-Months Ended September 30,		Percentage Change 20 vs. 19
	2020	2019		2020	2019	
Net sales <sup>1</sup>	\$ 1,246,362	\$ 1,133,577	9.9 %	\$ 3,402,355	\$ 3,183,613	6.9 %
Cost of sales	509,831	460,575	10.7 %	1,369,160	1,275,796	7.3 %
Gross profit* <sup>1</sup>	736,531	673,002	9.4 %	2,033,195	1,907,817	6.6 %
Gross profit as a percentage of net sales	59.1 %	59.4 %		59.8 %	59.9 %	
Operating expenses <sup>2</sup>	277,930	277,559	0.1 %	802,343	821,923	(2.4)%
Operating expenses as a percentage of net sales	22.3 %	24.5 %		23.6 %	25.8 %	
Operating income <sup>1,2</sup>	458,601	395,443	16.0 %	1,230,852	1,085,894	13.3 %
Operating income as a percentage of net sales	36.8 %	34.9 %		36.2 %	34.1 %	
Interest and other (expense) income, net	(4,568)	3,121	(246.4)%	(5,491)	8,835	(162.2)%
Income before provision for income taxes <sup>1,2</sup>	454,033	398,564	13.9 %	1,225,361	1,094,729	11.9 %
Provision for income taxes	106,379	99,641	6.8 %	287,503	241,848	18.9 %
Income taxes as a percentage of income before taxes	23.4 %	25.0 %		23.5 %	22.1 %	
Net income <sup>1,2</sup>	\$ 347,654	\$ 298,923	16.3 %	\$ 937,858	\$ 852,881	10.0 %
Net income as a percentage of net sales	27.9 %	26.4 %		27.6 %	26.8 %	
Net income per common share:						
Basic	\$ 0.66	\$ 0.55	20.0 %	\$ 1.77	\$ 1.57	12.8 %
Diluted	\$ 0.65	\$ 0.55	19.6 %	\$ 1.75	\$ 1.56	12.7 %
Case sales (in thousands) (in 192-ounce case equivalents)	139,922	121,854	14.8 %	372,481	342,734	8.7 %

<sup>1</sup>Includes \$10.5 million and \$10.7 million for the three-months ended September 30, 2020 and 2019, respectively, related to the recognition of deferred revenue. Includes \$31.6 million and \$35.6 million for the nine-months ended September 30, 2020 and 2019, respectively, related to the recognition of deferred revenue.

<sup>2</sup>The three-months ended September 30, 2020 and 2019 includes no distributor termination costs. Includes \$0.2 million and \$11.0 million for the nine-months ended September 30, 2020 and 2019, respectively, of 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.

**Results of Operations for the Three-Months Ended September 30, 2020 Compared to the Three-Months Ended September 30, 2019.**

*Net Sales.* Net sales were \$1.25 billion for the three-months ended September 30, 2020, an increase of approximately \$112.8 million, or 9.9% higher than net sales of \$1.13 billion for the three-months ended September 30, 2019. We do not believe that the COVID-19 pandemic had a material adverse impact on our net sales for the three-months ended September 30, 2020, other than in EMEA, where an adverse impact was experienced. Net changes in foreign currency exchange rates had an unfavorable impact on net sales of approximately \$12.5 million for the three-months ended September 30, 2020.

Net sales for the Monster Energy® Drinks segment were \$1.16 billion for the three-months ended September 30, 2020, an increase of approximately \$102.0 million, or 9.6% higher than net sales of \$1.06 billion for the three-months ended September 30, 2019. Net sales for the Monster Energy® Drinks segment increased primarily due to increased worldwide sales by volume of our Monster Energy® brand energy drinks and increased sales by volume of our Reign Total Body Fuel® high performance energy drinks, both as a result of increased consumer demand. Net changes in foreign currency exchange rates had an unfavorable impact on net sales for the Monster Energy® Drinks segment of approximately \$11.6 million for the three-months ended September 30, 2020.

Net sales for the Strategic Brands segment were \$74.3 million for the three-months ended September 30, 2020, an increase of approximately \$8.0 million, or 12.0% higher than net sales of \$66.3 million for the three-months ended September 30, 2019. Net sales for the Strategic Brands segment increased primarily due to increased worldwide sales by volume of our NOS®, Burn®, Predator® and Mother® brand energy drinks as a result of increased consumer demand, as well as sales of Fury® energy drinks introduced in certain countries in the 2020 second quarter. Net changes in foreign currency exchange rates had an unfavorable impact on net sales for the Strategic Brands segment of approximately \$0.9 million for the three-months ended September 30, 2020.

Net sales for the Other segment were \$8.6 million for the three-months ended September 30, 2020, an increase of approximately \$2.8 million, or 47.1% higher than net sales of \$5.9 million for the three-months ended September 30, 2019.

Case sales, in 192-ounce case equivalents, were 139.9 million cases for the three-months ended September 30, 2020, an increase of approximately 18.1 million cases or 14.8% higher than case sales of 121.9 million cases for the three-months ended September 30, 2019. The overall average net sales per case (excluding net sales of AFF Third-Party Products of \$8.6 million and \$5.9 million for the three-months ended September 30, 2020 and 2019, respectively, as these sales do not have unit case equivalents) decreased to \$8.85 for the three-months ended September 30, 2020, which was 4.4% lower than the average net sales per case of \$9.25 for the three-months ended September 30, 2019. The decrease in the average net sales per case was primarily the result of geographical sales mix, the increase in net sales of the Strategic Brands segment, which has a lower net sales price per case than the Monster Energy® Drinks segment, and an increase in promotional allowances as a percentage of net sales.

*Gross Profit.* Gross profit was \$736.5 million for the three-months ended September 30, 2020, an increase of approximately \$63.5 million, or 9.4% higher than the gross profit of \$673.0 million for the three-months ended September 30, 2019. The increase in gross profit dollars was primarily the result of the \$112.8 million increase in net sales for the three-months ended September 30, 2020.

Gross profit as a percentage of net sales decreased to 59.1% for the three-months ended September 30, 2020 from 59.4% for the three-months ended September 30, 2019. The decrease for the three-months ended September 30, 2020 was primarily the result of geographical sales mix and higher allowances as a percentage of gross sales, partially offset by favorable aluminum can pricing.

*Operating Expenses.* Total operating expenses were \$277.9 million for the three-months ended September 30, 2020, an increase of approximately \$0.4 million, or 0.1% higher than total operating expenses of \$277.6 million for the three-months ended September 30, 2019. As a percentage of net sales, operating expenses for the three-months ended September 30, 2020 were 22.3% as compared to 24.5% for the three-months ended September 30, 2019, primarily due to decreased expenditures of \$14.1 million for sponsorship and endorsements and decreased expenditures of \$9.3 million for travel and entertainment, each largely as a consequence of the COVID-19 pandemic. The costs for certain postponed or rescheduled events have been, or may be, deferred to future periods. Due to the uncertainty surrounding the COVID-19 pandemic, we are unable to estimate in which future periods, if any, such deferred sponsorship and endorsement costs will be recognized. The decrease in operating expenses as a percentage of net sales was partially offset by increased payroll expenses of \$14.5 million (of which \$3.5 million was related to an increase in stock-based compensation), increased expenditures of \$7.4 million for social media and digital marketing, and increased out-bound freight and warehouse costs of \$6.0 million.

*Operating Income.* Operating income was \$458.6 million for the three-months ended September 30, 2020, an increase of approximately \$63.2 million, or 16.0% higher than operating income of \$395.4 million for the three-months ended September 30, 2019. Operating income as a percentage of net sales increased to 36.8% for the three-months ended September 30, 2020 from 34.9% for the three-months ended September 30, 2019. Operating income was \$96.6 million and \$72.6 million for the three-months ended September 30, 2020 and 2019, respectively, for our operations in EMEA, Asia Pacific and South America.

Operating income for the Monster Energy® Drinks segment, exclusive of corporate and unallocated expenses, was \$502.4 million for the three-months ended September 30, 2020, an increase of approximately \$68.5 million, or 15.8% higher than operating income of \$433.8 million for the three-months ended September 30, 2019. The increase in operating income for the Monster Energy® Drinks segment was primarily the result of the \$102.0 million increase in net sales and the \$12.5 million decrease in operating expenses for the three-months ended September 30, 2020.

Operating income for the Strategic Brands segment, exclusive of corporate and unallocated expenses, was \$43.9 million for the three-months ended September 30, 2020, an increase of approximately \$8.8 million, or 25.0% higher than operating income of \$35.1 million for the three-months ended September 30, 2019. The increase in operating income for the Strategic Brands segment was primarily the result of the \$8.0 million increase in net sales, offset by a decrease of \$2.2 million in advertising costs and a \$1.4 million decrease in sponsorship and endorsement costs.

Operating income for the Other segment, exclusive of corporate and unallocated expenses, was \$2.4 million for the three-months ended September 30, 2020, an increase of approximately \$1.4 million, or 135.5% higher than operating income of \$1.0 million for the three-months ended September 30, 2019.

*Interest and Other (Expense)/Income, net.* Interest and other non-operating (expense)/ income, net, was (\$4.6) million for the three-months ended September 30, 2020, as compared to interest and other non- operating (expense)/ income, net, of \$3.1 million for the three-months ended September 30, 2019. Foreign currency transaction losses were \$4.8 million and \$2.8 million for the three-months ended September 30, 2020 and 2019, respectively. Interest income was \$1.5 million and \$6.1 million for the three-months ended September 30, 2020 and 2019, respectively.

*Provision for Income Taxes.* Provision for income taxes was \$106.4 million for the three-months ended September 30, 2020, an increase of \$6.7 million, or 6.8% higher than the provision for income taxes of \$99.6 million for the three-months ended September 30, 2019. The effective combined federal, state and foreign tax rate decreased to 23.4% from 25.0% for the three-months ended September 30, 2020 and 2019, respectively. The decrease in the effective tax rate was primary attributable to lower income taxes in certain foreign jurisdictions as well as an increase in the equity compensation deduction.

*Net Income.* Net income was \$347.7 million for the three-months ended September 30, 2020, an increase of \$48.7 million, or 16.3% higher than net income of \$298.9 million for the three-months ended September 30, 2019. The increase in net income was primarily due to the \$63.5 million increase in gross profit for the three-months ended September 30, 2020.

***Results of Operations for the Nine-Months Ended September 30, 2020 Compared to the Nine-Months Ended September 30, 2019.***

*Net Sales.* Net sales were \$3.40 billion for the nine-months ended September 30, 2020, an increase of approximately \$218.7 million, or 6.9% higher than net sales of \$3.18 billion for the nine-months ended September 30, 2019. The COVID-19 pandemic had an adverse impact on net sales for the nine-months ended September 30, 2020. Net changes in foreign currency exchange rates had an unfavorable impact on net sales of approximately \$41.1 million for the nine-months ended September 30, 2020.

Net sales for the Monster Energy® Drinks segment were \$3.18 billion for the nine-months ended September 30, 2020, an increase of approximately \$232.7 million, or 7.9% higher than net sales of \$2.95 billion for the nine-months ended September 30, 2019. Net sales for the Monster Energy® Drinks segment increased primarily due to increased worldwide sales by volume of our Monster Energy® brand energy drinks and increased sales by volume for our Reign Total Body Fuel® high performance energy drinks, both as a result of increased consumer demand . The COVID-19 pandemic had an adverse impact on net sales of the Monster Energy® Drinks segment for the nine-months ended September 30, 2020. Net changes in foreign currency exchange rates had an unfavorable impact on net sales for the Monster Energy® Drinks segment of approximately \$38.3 million for the nine-months ended September 30, 2020.

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Net sales for the Strategic Brands segment were \$198.4 million for the nine-months ended September 30, 2020, a decrease of approximately \$17.3 million, or 8.0% lower than net sales of \$215.8 million for the nine-months ended September 30, 2019. The COVID-19 pandemic had a material adverse impact on net sales of the Strategic Brands segment for the nine-months ended September 30, 2020. The COVID-19 pandemic impact was more pronounced in the Strategic Brand segment, particularly in EMEA, as our largest revenue generating countries for this segment experienced extended lockdowns. Net changes in foreign currency exchange rates had an unfavorable impact on net sales for the Strategic Brands segment of approximately \$2.8 million for the nine-months ended September 30, 2020.

Net sales for the Other segment were \$20.4 million for the nine-months ended September 30, 2020, an increase of approximately \$3.4 million, or 20.0% higher than net sales of \$17.0 million for the nine-months ended September 30, 2019.

Case sales, in 192-ounce case equivalents, were 372.5 million cases for the nine-months ended September 30, 2020, an increase of approximately 29.7 million cases or 8.7% higher than case sales of 342.7 million cases for the nine-months ended September 30, 2019. The overall average net sales per case (excluding net sales of AFF Third-Party Products of \$20.4 million and \$17.0 million for the nine-months ended September 30, 2020 and 2019, respectively, as these sales do not have unit case equivalents) decreased to \$9.08 for the nine-months ended September 30, 2020, as compared to net sales per case of \$9.24 for the nine-months ended September 30, 2019.

*Gross Profit.* Gross profit was \$2.03 billion for the nine-months ended September 30, 2020, an increase of approximately \$125.4 million, or 6.6% higher than the gross profit of \$1.91 billion for the nine-months ended September 30, 2019. The increase in gross profit dollars was primarily the result of the \$232.7 million increase in net sales of our Monster Energy® Drinks segment for the nine-months ended September 30, 2020.

Gross profit as a percentage of net sales decreased marginally to 59.8% for the nine-months ended September 30, 2020 from 59.9% for the nine-months ended September 30, 2019.

*Operating Expenses.* Total operating expenses were \$802.3 million for the nine-months ended September 30, 2020, a decrease of approximately \$19.6 million, or 2.4% lower than total operating expenses of \$821.9 million for the nine-months ended September 30, 2019. The decrease in operating expenses was primarily due to decreased expenditures of \$38.3 million for sponsorship and endorsements and decreased expenditures of \$19.6 million for travel and entertainment, each largely as a consequence of the COVID-19 pandemic, as well as decreased expenditures of \$10.7 million related to the costs associated with distributor terminations. The costs for certain postponed or rescheduled events have been, or may be, deferred to future periods. Due to the uncertainty surrounding the COVID-19 pandemic, we are unable to estimate in what future periods, if any, such deferred sponsorship and endorsement costs will be recognized. The decrease in operating expenses was partially offset by increased payroll expenses of \$31.1 million (of which \$6.1 million was related to an increase in stock-based compensation), increased expenditures of \$17.1 million for social media and digital marketing, and increased out-bound freight and warehouse costs of \$10.2 million.

*Operating Income.* Operating income was \$1.23 billion for the nine-months ended September 30, 2020, an increase of approximately \$145.0 million, or 13.3% higher than operating income of \$1.09 billion for the nine-months ended September 30, 2019. Operating income as a percentage of net sales increased to 36.2% for the nine-months ended September 30, 2020 from 34.1% for the nine-months ended September 30, 2019. Operating income was \$229.4 million and \$180.1 million for the nine-months ended September 30, 2020 and 2019, respectively, for our operations in EMEA, Asia Pacific and South America.

Operating income for the Monster Energy® Drinks segment, exclusive of corporate and unallocated expenses, was \$1.37 billion for the nine-months ended September 30, 2020, an increase of approximately \$179.3 million, or 15.1% higher than operating income of \$1.19 billion for the nine-months ended September 30, 2019. The increase in operating income for the Monster Energy® Drinks segment was primarily the result of the \$232.7 million increase in net sales of our Monster Energy® Drinks segment for the nine-months ended September 30, 2020.

Operating income for the Strategic Brands segment, exclusive of corporate and unallocated expenses, was \$118.3 million for the nine-months ended September 30, 2020, a decrease of approximately \$12.5 million, or 9.5% lower than operating income of \$130.8 million for the nine-months ended September 30, 2019. The decrease in operating income for the nine-months ended September 30, 2020 was primarily the result of a decrease in net sales related to the COVID-19 pandemic.

Operating income for the Other segment, exclusive of corporate and unallocated expenses, was \$4.8 million for the nine-months ended September 30, 2020, an increase of approximately \$1.8 million, or 57.9% higher than operating income of \$3.0 million for the nine-months ended September 30, 2019.

*Interest and Other (Expense)/Income, net.* Interest and other non-operating (expense)/income, net, was (\$5.5) million for the nine-months ended September 30, 2020, as compared to interest and other non-operating (expense)/income, net, of \$8.8 million for the nine-months ended September 30, 2019. Foreign currency transaction losses were \$9.2 million and \$3.9 million for the nine-months ended September 30, 2020 and 2019, respectively. Interest income was \$6.9 million and \$13.5 million for the nine-months ended September 30, 2020 and 2019, respectively.

*Provision for Income Taxes.* Provision for income taxes was \$287.5 million for the nine-months ended September 30, 2020, an increase of \$45.7 million, or 18.9% higher than the provision for income taxes of \$241.8 million for the nine-months ended September 30, 2019. The effective combined federal, state and foreign tax rate increased to 23.5% from 22.1% for the nine-months ended September 30, 2020 and 2019, respectively. The increase in the effective tax rate was primarily attributable to a decrease in the equity compensation deduction.

*Net Income.* Net income was \$937.9 million for the nine-months ended September 30, 2020, an increase of \$85.0 million, or 10.0% higher than net income of \$852.9 million for the nine-months ended September 30, 2019. The increase in net income was primarily due to the \$125.4 million increase in gross profit and the \$19.6 million decrease in operating expenses. The increase in net income was partially offset by an increase in the provision for income taxes of \$45.7 million.

## **Non-GAAP Financial Measures**

### ***Three-Months Ended September 30, 2020 Compared to the Three-Months Ended September 30, 2019.***

*Gross Sales\*\*.* Gross sales were \$1.46 billion for the three-months ended September 30, 2020, an increase of approximately \$146.2 million, or 11.1% higher than gross sales of \$1.32 billion for the three-months ended September 30, 2019. We do not believe that the COVID-19 pandemic had a material adverse impact on our gross sales for the three-months ended September 30, 2020, other than in EMEA, where an adverse impact was experienced. Net changes in foreign currency exchange rates had an unfavorable impact on gross sales of approximately \$11.9 million for the three-months ended September 30, 2020.

Gross sales for the Monster Energy® Drinks segment were \$1.37 billion for the three-months ended September 30, 2020, an increase of approximately \$131.9 million, or 10.7% higher than gross sales of \$1.24 billion for the three-months ended September 30, 2019. Gross sales for the Monster Energy® Drinks segment increased primarily due to increased worldwide sales by volume of our Monster Energy® brand energy drinks and increased sales by volume for our Reign Total Body Fuel® high performance energy drinks, both as a result of increased consumer demand. Net changes in foreign currency exchange rates had an unfavorable impact on gross sales for the Monster Energy® Drinks segment of approximately \$10.9 million for the three-months ended September 30, 2020.

Gross sales of our Strategic Brands segment were \$88.2 million for the three-months ended September 30, 2020, an increase of \$11.5 million, or 15.0% higher than gross sales of \$76.7 million for the three-months ended September 30, 2019. Net changes in foreign currency exchange rates had an unfavorable impact on gross sales in the Strategic Brands segment of approximately \$1.0 million for the three-months ended September 30, 2020.

Gross sales of our Other segment were \$8.6 million for the three-months ended September 30, 2020, an increase of \$2.8 million, or 47.1% higher than gross sales of \$5.9 million for the three-months ended September 30, 2019.

Promotional allowances, commissions and other expenses, as described in the footnote below, were \$218.1 million for the three-months ended September 30, 2020, an increase of \$33.4 million, or 18.1% higher than promotional allowances, commissions and other expenses of \$184.7 million for the three-months ended September 30, 2019. Promotional allowances, commissions and other expenses as a percentage of gross sales increased to 14.9% from 14.0% for the three-months ended September 30, 2020 and 2019, respectively.

**Nine-Months Ended September 30, 2020 Compared to the Nine-Months Ended September 30, 2019.**

*Gross Sales*\*\* Gross sales were \$3.97 billion for the nine-months ended September 30, 2020, an increase of approximately \$279.6 million, or 7.6% higher than gross sales of \$3.70 billion for the nine-months ended September 30, 2019. The COVID-19 pandemic had an adverse impact on gross sales for the nine-months ended September 30, 2020. Net changes in foreign currency exchange rates had an unfavorable impact on gross sales of approximately \$44.7 million for the nine-months ended September 30, 2020.

Gross sales for the Monster Energy® Drinks segment were \$3.72 billion for the nine-months ended September 30, 2020, an increase of approximately \$293.5 million, or 8.6% higher than gross sales of \$3.43 billion for the nine-months ended September 30, 2019. Gross sales for the Monster Energy® Drinks segment increased primarily due to increased worldwide sales by volume of our Monster Energy® brand energy drinks as a result of increased consumer demand as well as enhanced distribution and increased consumer demand for our Reign Total Body Fuel® high performance energy drinks. The COVID-19 pandemic had an adverse impact on gross sales of the Monster Energy® Drinks segment for the nine-months ended September 30, 2020. Net changes in foreign currency exchange rates had an unfavorable impact on gross sales for the Monster Energy® Drinks segment of approximately \$41.8 million for the nine-months ended September 30, 2020.

Gross sales of our Strategic Brands segment were \$229.4 million for the nine-months ended September 30, 2020, a decrease of \$17.2 million, or 7.0% lower than gross sales of \$246.6 million for the nine-months ended September 30, 2019. The COVID-19 pandemic had a material adverse impact on gross sales of the Strategic Brands segment for the nine-months ended September 30, 2020. The COVID-19 pandemic impact was more pronounced in the Strategic Brands segment, particularly in EMEA, as our larger revenue generating countries for this segment experienced extended lockdowns. Net changes in foreign currency exchange rates had an unfavorable impact on gross sales in the Strategic Brands segment of approximately \$2.9 million for the nine-months ended September 30, 2020.

Gross sales of our Other segment were \$20.4 million for the nine-months ended September 30, 2020, an increase of \$3.4 million, or 20.0% higher than gross sales of \$17.0 million for the nine-months ended September 30, 2019.

Promotional allowances, commissions and other expenses, as described in the footnote below, were \$572.4 million for the nine-months ended September 30, 2020, an increase of \$60.9 million, or 11.9% higher than promotional allowances, commissions and other expenses of \$511.5 million for the nine-months ended September 30, 2019. Promotional allowances, commissions and other expenses as a percentage of gross sales increased to 14.4% from 13.8% for the nine-months ended September 30, 2020 and 2019, respectively.

*\*\*Gross Sales represents the recognition of deferred revenue and amounts invoiced to customers net of cash discounts and returns. Gross sales are 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, such as the timing of certain promotional programs. We therefore believe that the presentation of gross sales provides a useful measure of our operating performance. The use of 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)	Three-Months Ended		Percentage Change 20 vs. 19	Nine-Months Ended		Percentage Change 20 vs. 19
	2020	2019		2020	2019	
Gross sales, net of discounts and returns	\$ 1,464,426	\$ 1,318,267	11.1 %	\$ 3,974,763	\$ 3,695,128	7.6 %
Less: Promotional allowances, commissions and other expenses***	218,064	184,690	18.1 %	572,408	511,515	11.9 %
Net Sales	\$ 1,246,362	\$ 1,133,577	9.9 %	\$ 3,402,355	\$ 3,183,613	6.9 %

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\*\*\*Although the expenditures described in this line item are determined in accordance with GAAP and meet GAAP requirements, the presentation thereof does not conform to 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 our 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 our 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) our agreed share of fees given to bottlers/distributors and/or directly to retailers for advertising, in-store marketing and promotional activities; (iv) our agreed share of slotting, shelf space allowances and other fees given directly to retailers, club stores and/or wholesalers; (v) incentives given to our bottlers/distributors and/or retailers for achieving or exceeding certain predetermined sales goals; (vi) discounted or free products; (vii) contractual fees given to our bottlers/distributors related to sales made by us direct to certain customers that fall within the bottlers'/distributors' sales territories; and (viii) certain commissions based on sales to our bottlers/distributors. 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. Our promotional allowance programs with our 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-months ended September 30, 2020 and 2019 were (i) to increase sales volume and trial, (ii) to address market conditions, and (iii) to secure shelf and display space at retail.

**Sales**

The table below discloses selected quarterly data regarding sales for the three- and nine-months ended September 30, 2020 and 2019, 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 of traditional beverages. In addition, our continued growth internationally may further reduce the impact of seasonality on our business. 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/distributors, changes in the sales mix of our products and changes in advertising and promotional expenses. The COVID-19 pandemic may also have an impact on consumer behavior and change the seasonal fluctuation of our business.

(In thousands, except average net sales per case)	Three-Months Ended September 30,		Nine-Months Ended September 30,	
	2020	2019	2020	2019
Net sales	\$ 1,246,362	\$ 1,133,577	\$ 3,402,355	\$ 3,183,613
Less: AFF third-party sales	(8,618)	(5,860)	(20,367)	(16,973)
Adjusted net sales <sup>1</sup>	<u>\$ 1,237,744</u>	<u>\$ 1,127,717</u>	<u>\$ 3,381,988</u>	<u>\$ 3,166,640</u>
Case sales by segment:				
Monster Energy® Drinks	117,805	103,987	317,103	286,284
Strategic Brands	22,117	17,867	55,378	56,450
Other	—	—	—	—
Total case sales	<u>139,922</u>	<u>121,854</u>	<u>372,481</u>	<u>342,734</u>
Average net sales per case	<u>\$ 8.85</u>	<u>\$ 9.25</u>	<u>\$ 9.08</u>	<u>\$ 9.24</u>

<sup>1</sup>Excludes Other segment net sales of \$8.6 million and \$5.9 million for the three-months ended September 30, 2020 and 2019, respectively, comprised of net sales of AFF Third-Party Products to independent third-party customers, as these sales do not have unit case equivalents. Excludes Other segment net sales of \$20.4 million and \$17.0 million for the nine-months ended September 30, 2020 and 2019, respectively, comprised of net sales of AFF Third-Party Products to independent third-party customers, as these sales do not have unit case equivalents.

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.

## Liquidity and Capital Resources

*Cash and cash equivalents, short-term and long-term investments.* 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 capital assets, purchases of equipment, purchases of real property and purchases of shares of our common stock, through at least the next 12 months. Our sources and uses of cash were not materially impacted by the COVID-19 pandemic in the nine-months ended September 30, 2020 and, to date, we have not identified any material liquidity deficiencies as a result of the COVID-19 pandemic. Based on the information currently available to us, we do not expect the impact of the COVID-19 pandemic to have a material impact on our liquidity. We will continue to monitor and assess the impact the COVID-19 pandemic may have on our business, financial condition and/or operating results.

At September 30, 2020, we had \$1.07 billion in cash and cash equivalents, \$599.3 million in short-term investments and \$20.6 million in long-term investments. We have historically invested these amounts in U.S. treasuries, U.S. government agency securities, municipal securities, commercial paper, certificates of deposit, variable rate demand notes and money market funds meeting certain criteria. At this time, we no longer invest these amounts in municipal securities. 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.

Based on our current plans, at this time we estimate that capital expenditures (exclusive of common stock repurchases) are likely to be less than \$200.0 million through September 30, 2021. However, future business opportunities may cause a change in this estimate.

*Cash flows provided by operating activities.* Cash provided by operating activities was \$949.2 million for the nine-months ended September 30, 2020, as compared with cash provided by operating activities of \$821.1 million for the nine-months ended September 30, 2019.

For the nine-months ended September 30, 2020, cash provided by operating activities was primarily attributable to net income earned of \$937.9 million and adjustments for certain non-cash expenses, consisting of \$53.0 million of stock-based compensation, \$45.9 million of depreciation and amortization and \$7.0 million of intangible asset impairment. For the nine-months ended September 30, 2020, cash provided by operating activities also increased due to a \$53.5 million increase in accrued liabilities, a \$39.5 million decrease in inventories, a \$31.9 million increase in accrued promotional allowances, an \$18.0 million increase in income taxes payable and an \$11.5 million decrease in prepaid income taxes. For the nine-months ended September 30, 2020, cash used in operating activities was primarily attributable to a \$201.7 million increase in accounts receivable, a \$20.4 million increase in prepaid expenses and other assets, a \$15.2 million decrease in deferred revenue, a \$9.7 million decrease in accounts payable and a \$1.2 million decrease in accrued compensation.

For the nine-months ended September 30, 2019, cash provided by operating activities was primarily attributable to net income earned of \$852.9 million and adjustments for certain non-cash expenses, consisting of \$47.8 million of depreciation and amortization and \$46.9 million of stock-based compensation. For the nine-months ended September 30, 2019, cash provided by operating activities also increased due to a \$69.5 million increase in accounts payable, a \$55.8 million increase in accrued promotional allowances, a \$10.3 million increase in income taxes payable, a \$6.2 million decrease in prepaid income taxes and a \$5.8 million decrease in distributor receivables. For the nine-months ended September 30, 2019, cash used in operating activities was primarily attributable to a \$179.8 million increase in accounts receivable, a \$44.9 million increase in inventories, a \$19.6 million decrease in deferred revenue, a \$16.1 million increase in prepaid expenses and other assets, a \$9.6 million decrease in accrued liabilities and a \$3.9 million decrease in accrued compensation.

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*Cash flows used in investing activities.* Cash used in investing activities was \$140.5 million for the nine-months ended September 30, 2020 as compared to cash used in investing activities of \$328.2 million for the nine-months ended September 30, 2019.

For both the nine-months ended September 30, 2020 and 2019, cash provided by investing activities was primarily attributable to sales of available-for-sale investments. For both the nine-months ended September 30, 2020 and 2019, cash used in investing activities was primarily attributable to purchases of available-for-sale investments. For both the nine-months ended September 30, 2020 and 2019, 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, equipment used for sales and administrative activities, certain leasehold improvements, as well as acquisitions of and/or improvements to real property. 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, 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) to develop our brand in international markets and for other corporate purposes. From time to time, we may also use cash to purchase additional real property related to our beverage business and/or acquire compatible businesses.

*Cash flows used in financing activities.* Cash used in financing activities was \$532.9 million for the nine-months ended September 30, 2020 as compared to cash used in financing activities of \$405.3 million for the three-months ended September 30, 2019. The cash used in financing activities for both the nine-months ended September 30, 2020 and 2019 was primarily the result of the repurchases of our common stock. The cash provided by financing activities for both the nine-months ended September 30, 2020, and 2019 was primarily attributable to the issuance of our common stock under our stock-based compensation plans.

Purchases of inventories, increases in accounts receivable and other assets, acquisition of property and equipment (including real property, personal property and coolers), leasehold improvements, advances for or the purchase of equipment for our bottlers, 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.

Of our \$1.07 billion of cash and cash equivalents held at September 30, 2020, \$595.0 million was held by our foreign subsidiaries. No short-term or long-term investments were held by our foreign subsidiaries at September 30, 2020.

The following represents a summary of the Company's contractual commitments and related scheduled maturities as of September 30, 2020:

Obligations	Payments due by period (in thousands)				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Contractual Obligations <sup>1</sup>	\$ 142,165	\$ 108,430	\$ 32,819	\$ 916	\$ —
Finance Leases	1,221	1,221	—	—	—
Operating Leases	24,545	3,561	5,429	3,592	11,963
Purchase Commitments <sup>2</sup>	62,211	62,211	—	—	—
	<u>\$ 230,142</u>	<u>\$ 175,423</u>	<u>\$ 38,248</u>	<u>\$ 4,508</u>	<u>\$ 11,963</u>

<sup>1</sup>Contractual obligations include our obligations related to sponsorships and other commitments.

<sup>2</sup>Purchase 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 \$3.0 million of unrecognized tax benefits have been recorded as liabilities as of September 30, 2020. It is expected that the amount of unrecognized tax benefits will not significantly change within the next 12 months. As of September 30, 2020, we had \$0.5 million of accrued interest and penalties related to unrecognized tax benefits.

## 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 Annual Report on Form 10-K for the fiscal year ended December 31, 2019 (“Form 10-K”).

### Recent Accounting Pronouncements

The information required by this Item is incorporated herein by reference to the Notes to Condensed Consolidated Financial Statements - Note 2. Recent Accounting Pronouncements, in Part I, Item 1, of this Quarterly Report on Form 10-Q.

## 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 Exchange 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, and 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:

- The human and economic consequences of the COVID-19 pandemic, as well as the measures taken or that may be taken in the future by governments, and consequently, businesses (including the Company and its suppliers, bottlers/ distributors, co-packers and other service providers) and the public at large to limit the COVID-19 pandemic;
- The impact on consumer demand of the resurgence of the COVID-19 pandemic in the Northern Hemisphere, resulting in a number of countries, particularly in EMEA, reinstating lockdowns and other restrictions as well as the impact of possible resurgences in other countries;
- The slowing of growth and/or decline in sales of the domestic and international energy drink categories generally, including the convenience and gas channel (which is our largest channel) and food-service on-premise, and the impact on demand for our products resulting from deteriorating economic conditions and financial uncertainties due to the COVID-19 pandemic;
- The impact of temporary plant closures, production slowdowns and disruptions in operations experienced by our suppliers, bottlers/distributors and/or co-packers as a result of the COVID-19 pandemic, including any material disruptions on the production and distribution of our products;
- The impact of the reduction in our sponsorship and endorsement activities as well as our sampling activities as a result of COVID-19 on our future sales and market share;
- We have extensive commercial arrangements with TCCC and, as a result, our future performance is substantially dependent on the success of our relationship with TCCC;
- The impact of TCCC’s bottlers/distributors distributing Coca-Cola brand energy drinks and possible reductions in the number of our SKUs carried by such bottlers/distributors and/or such bottlers/distributors imposing limitations on distributing new product SKUs;
- Closures of, and continued restrictions on, on-premise retailers and other establishments which sell our products as the result of the COVID-19 pandemic;
- The limitation or reduction by our suppliers, bottlers/distributors and/or co-packers of their activities and/or operations during the COVID-19 pandemic;

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- The impact of the COVID-19 pandemic on our product sampling programs;
- The effect of TCCC being one of our significant shareholders and the potential divergence of TCCC's interests from those of our other shareholders;
- Our ability to maintain relationships with TCCC system bottlers/distributors and manage their ongoing commitment to focus on our products;
- Disruption in distribution channels and/or decline in sales due to the termination and/or insolvency of existing and/or new domestic and/or international bottlers/distributors;
- Lack of anticipated demand for our products in domestic and/or international markets;
- Fluctuations in the inventory levels of our bottlers/distributors, planned or otherwise, and the resultant impact on our revenues;
- Unfavorable regulations, including taxation requirements, age restrictions imposed on the sale, purchase, or consumption of our products, marketing restrictions, product registration requirements, tariffs, trade restrictions, container size limitations and/or ingredient restrictions;
- The effect of inquiries from, and/or actions by, state attorneys general, the Federal Trade Commission (the "FTC"), the Food and Drug Administration (the "FDA"), municipalities, city attorneys, other government agencies, quasi-government agencies, government officials (including members of U.S. Congress) and/or analogous central and local agencies and other authorities in the foreign countries in which our products are manufactured and/or distributed, into the advertising, marketing, promotion, ingredients, sale and/or consumption of our energy drink products, including voluntary and/or required changes to our business practices;
- Our ability to comply with laws, regulations and evolving industry standards regarding consumer privacy and data use and security, including with respect to the General Data Protection Regulation and the California Privacy Act of 2018;
- Our ability to achieve profitability from certain of 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 and potentially higher incidence of fraud or corruption and credit risk of foreign customers and/or bottlers/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 absorb, reduce or pass on to our bottlers/distributors increases in freight costs;
- 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;
- Uncertainties surrounding the United Kingdom's departure from the European Union (or "Brexit");
- Changes in accounting standards may affect our reported profitability;
- Implications of the Organization for Economic Cooperation and Development's base erosion and profit shifting project;
- 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 and/or possibility of future shareholder derivative actions or shareholder securities litigation that may be filed against us and/or against certain of our officers and directors, and the possibility of other private shareholder litigation;
- The outcome of product liability or consumer fraud litigation and/or class action litigation (or its analog in foreign jurisdictions) 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;
- Exposure to significant liabilities due to litigation, legal or regulatory proceedings;
- Intellectual property injunctions;
- Unfavorable resolution of tax matters;
- Uncertainty and volatility in the domestic and global economies, including risk of counterparty default or failure;
- 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 our expansion plans and general operating activities;
- Decreased demand for our products resulting from changes in consumer preferences, including changes in demand for different packages, sizes and configurations, obesity and other perceived health concerns, including concerns relating to certain ingredients in our products or packaging, product safety concerns and/or from decreased consumer discretionary spending power;
- Adverse publicity surrounding obesity and health concerns related to our products, water usage, environmental impact, human rights and labor and workplace laws;

- Changes in demand that are weather related and/or for other reasons, including changes in product category and/or package consumption and changes in cost and availability of certain key ingredients including aluminum cans, as well as disruptions to the supply chain, as a result of climate change and extreme weather conditions;
- The impact of unstable political conditions, civil unrest, large scale terrorist acts, the outbreak or escalation of armed hostilities, major natural disasters and extreme weather conditions, or widespread outbreaks of infectious diseases;
- The impact on our business of 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, including unsubstantiated and/or misleading claims, false advertising claims and tortious interference, as well as competitors selling misbranded products;
- The impact on our business of trademark and trade dress infringement proceedings brought against us relating to our brands, including our Reign Total Body Fuel® high performance energy drinks, which could result in an injunction barring us from selling certain of our products and/or require changes to be made to our current trade dress;
- Our ability to introduce new products and the impact of the COVID-19 pandemic on our innovation activities;
- Our ability to implement and/or maintain price increases;
- An inability to achieve volume growth through product and packaging initiatives;
- Our ability to sustain the current level of sales and/or achieve growth for our Monster Energy® brand energy drinks and/or our other products, including our Strategic Brands;
- 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 restricts the marketing or sale of energy drinks (including prohibiting the sale of energy drinks at certain establishments or pursuant to certain governmental programs), limits caffeine content in beverages, requires certain product labeling disclosures and/or warnings, imposes excise and/or sales taxes, limits product sizes and/or imposes age restrictions for the sale of energy drinks;
- Our ability to comply with and/or resulting lower consumer demand and/or lower profit margins 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, sales and/or other taxes on our products and revised tax law interpretations) and environmental laws, as well as the Federal Food, Drug, and Cosmetic Act and regulations or rules made thereunder or in connection therewith by the FDA, as well as changes in any other food, drug or similar laws in the United States and internationally, especially those changes 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, impose sugar 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 Bureau of Alcohol, Tobacco, Firearms and Explosives and/or the FTC or their foreign counterparts;
- 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, press, articles, comments and/or media attention;
- Changes in the cost, quality and availability of containers, packaging materials, aluminum cans, the Midwest 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;
- Any shortages that may be experienced in the procurement of containers and/or other raw materials including, without limitation, aluminum cans generally, PET containers used for our Monster Hydro® energy drinks and 24-ounce aluminum cap cans;
- The impact on our cost of sales of corporate activity among the limited number of suppliers from whom we purchase certain raw materials;
- Our ability to pass on to our customers all or a portion of any increases in the costs of raw materials, ingredients, 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;

- The effectiveness of sales and/or marketing efforts by us and/or by the bottlers/distributors of our products, most of whom distribute products that may be regarded as competitive with our products;
- Unilateral decisions by bottlers/distributors, buying groups, 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, restrict the range of our products they carry and/or devote less resources to the sale of our products;
- The impact of possible trading disputes between our bottler/distributors and their customers and/or one or more buying groups which may result in the delisting of certain of the Company products, temporarily or otherwise;
- The effects of retailer consolidation on our business and our ability to successfully adapt to the rapidly changing retail landscape.
- The effects of bottler/distributor consolidation on our business;
- The costs and/or effectiveness, now or in the future, of our advertising, marketing and promotional strategies;
- The success of our sports marketing, social media and other general marketing endeavors both domestically and internationally;
- Our ability to successfully adapt to the changing landscape of advertising, marketing, promotional, sponsorship and endorsement opportunities created by the COVID-19 pandemic;
- Unforeseen economic and political changes and local or international catastrophic events;
- Possible recalls of our products and/or defective production;
- Our ability to make suitable arrangements and/or procure sufficient capacity for the co-packing of any of our products both domestically and internationally, the timely replacement of discontinued co-packing arrangements and/or limitations on co-packing availability, including for retort production;
- 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, trade names or designs and/or trade dress in certain countries;
- Volatility of stock prices which may restrict stock sales, stock purchases or other opportunities as well as negatively impact the motivation of equity award grantees;
- 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;
- The failure of our bottlers and/or co-packers to manufacture our products on a timely basis or at all;
- The impact of any reductions in productivity and disruptions to our business routines while most office-based employees of the Company work remotely;
- Any disruption in and/or lack of effectiveness of our information technology systems, including a breach of cyber security, that disrupts our business or negatively impacts customer relationships, as well as cybersecurity incidents involving data shared with third parties; 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 and in Item 1A of this Quarterly Report 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, 2020 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, 2020, 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 12. Commitments and Contingencies: Legal Proceedings in Part I, Item 1, of this Quarterly Report on Form 10-Q.

### ITEM 1A. RISK FACTORS

In addition to the other information set forth in this Quarterly Report on Form 10-Q, including Management’s Discussion and Analysis of Financial Condition and Results of Operations and the condensed consolidated financial statements and related notes, you should carefully consider the risks discussed in “Part I, Item 1A – Risk Factors” in our Form 10-K, as updated and supplemented in “Part II, Item 1A – Risk Factors” in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2020 and in "Part II, Item 1A - Risk Factors" in our Quarterly Report on Form 10-Q for the quarter ended June 30, 2020, and as further updated and supplemented below. If any of these risks actually occur or continue to occur, our business, reputation, financial condition and/or operating results could be materially adversely affected. The risk factors summarized below are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial may also materially adversely affect our business, reputation, financial condition and/or operating results.

*The COVID-19 pandemic has had, and we expect will continue to have, certain negative impacts on our business and operations, and such impacts may have a material adverse effect on our business and results of operations.*

The current COVID-19 pandemic has presented and continues to present a substantial public health and economic challenge around the world and is affecting our employees, communities and business operations, as well as the global economy and financial markets. The human and economic consequences of the COVID-19 pandemic as well as the measures taken or that may be taken in the future by governments, businesses (including the Company and our suppliers, bottlers/distributors, co-packers and other service providers) and the public at large to limit the COVID-19 pandemic, have and will directly and indirectly impact our business and results of operations, including, without limitation, the following:

- We have experienced decreases in sales of our products in many of our markets around the world that have been affected by the COVID-19 pandemic, predominately during the early part of the 2020 second quarter. While some of the restrictions imposed as a result of the initial COVID-19 outbreak have been lifted or eased in many jurisdictions as the rates of COVID-19 infections have decreased or stabilized, resurgence of the COVID-19 pandemic in some markets has slowed or reversed the reopening process, and markets are moving through varying stages of restrictions and re-opening at different times. However, we have recently seen a resurgence of the COVID-19 pandemic in the Northern Hemisphere. As a result, a number of countries, particularly in EMEA, have reinstated lockdowns and other restrictions, which could further impact customer demand. If the COVID-19 pandemic and related unfavorable economic conditions continue to intensify, the negative impact on our sales, including our new product innovation launches, could be prolonged and may become more severe.

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- Deteriorating economic conditions and continued financial uncertainties in many of our major markets due to the COVID-19 pandemic, such as increased and prolonged unemployment, decreases in per capita income and the level of disposable income, declines in consumer confidence, or economic slowdowns or recessions, could affect consumer purchasing power and consumers' ability to purchase our products, thereby reducing demand for our products. In addition, public concern among consumers regarding the risk of contracting COVID-19 may also reduce demand for our products.
- The closures of, and continued restrictions on, on-premise retailers and other establishments that sell our products as a result of the COVID-19 pandemic have adversely impacted and may continue to adversely impact our sales and results of operations.
- Our advertising, marketing, promotional, sponsorship and endorsement activities have been, and will continue to be, disrupted by reduced opportunities for such activities due to measures taken to limit the spread of the COVID-19 pandemic and the cancellations of or reduced capacity at sporting events, concerts and other events may result in decreased demand for our products. Our product sampling programs, which are part of our strategy to develop brand awareness, have been, and will continue to be, disrupted by the COVID-19 pandemic. If we are unable to successfully adapt to the changing landscape of advertising, marketing, promotional, sponsorship and endorsement opportunities created by the COVID-19 pandemic, our sales, market share, volume growth and overall financial results could be negatively affected.
- Our innovation activities, including our ability to introduce new products in certain markets, have been delayed and/or adversely impacted by the COVID-19 pandemic. If such innovation activities are disrupted and we continue to delay the launch of new products and/or we are unable to secure sufficient distribution levels for such new products, our business and results of operations could be adversely affected.
- Some of our suppliers, bottlers/distributors and co-packers may experience plant closures, production slowdowns and disruptions in operations as a result of the impact of the COVID-19 pandemic. This could result in a disruption to our operations.
- We may experience delays in receiving certain raw materials as a result of shipping delays due to, among other things, additional safety requirements imposed by port authorities, closures of or congestion at ports, reduced availability of commercial transportation, border restrictions and capacity constraints.
- Due to increased demand in at home beverage consumption, aluminum cans remain in tight supply, which could impact our operations.
- We rely on relationships with third parties for cloud data storage and other information technology services for certain functions or for services in support of our operations. These third parties are subject to risks and uncertainties related to the COVID-19 pandemic, which may interfere with their ability to fulfill their respective commitments and responsibilities to us in a timely manner and in accordance with the agreed-upon terms.
- As a result of the COVID-19 pandemic, including related governmental measures, restrictions, directives and guidance, we have required most of our office-based employees to work remotely. We may experience reductions in productivity and disruptions to our business routines while our remote work policy remains in place. If our employees working remotely do not maintain appropriate measures to mitigate potential risks to our technology and operations from information technology-related disruptions, we may face cybersecurity threats. Employees of our third-party service providers who are working remotely, with whom we may share data, are subject to similar cybersecurity risks.
- Governmental authorities at the U.S. federal, state and/or municipal level and in certain foreign jurisdictions may increase or impose new income taxes, indirect taxes or other taxes or revise interpretations of existing tax rules and regulations as a means of financing the costs of stimulus or may take other measures to protect populations and economies from the impact of the COVID-19 pandemic. Increases in direct and indirect tax rates could affect our net income, and increases in consumer taxes could affect our products' affordability and reduce our sales.
- We may be required to record significant impairment charges with respect to goodwill or intangible assets whose fair values may be negatively affected by the effects of the COVID-19 pandemic.

- The continued financial impact of the COVID-19 pandemic may cause one or more of the financial institutions we do business with to fail or default in their obligations to us or to become insolvent or file for bankruptcy, which could cause us to incur significant losses and negatively impact our results of operations and financial condition.
- Actions we have taken or may take, or decisions we have made or may make, as a consequence of the COVID-19 pandemic may result in negative publicity and the Company becoming a party to litigation claims and/or legal proceedings, which could consume significant financial and managerial resources, result in decreased demand for our products and injury to our reputation.
- The resumption of normal business operations after the disruptions caused by the COVID-19 pandemic may be delayed or constrained by the COVID-19 pandemic's lingering effects on our suppliers, bottlers/distributors, co-packers, contractors, business partners and/or other service providers.

Any of the negative impacts of the COVID-19 pandemic, including those described above, alone or in combination with others, may have a material adverse effect on our business, reputation, operating results and/or financial condition. Any of these negative impacts, alone or in combination with others, could exacerbate many of the risk factors discussed in "Part I, Item 1A – Risk Factors" in our Form 10-K and "Part II, Item 1A – Risk Factors" in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2020 and "Part II, Item 1A - Risk Factors" in our Quarterly Report on Form 10-Q for the quarter ended June 30, 2020, any of which could materially affect our business, reputation, operating results and/or financial condition. The full extent to which the COVID-19 pandemic will negatively affect our business, reputation, operating results and/or financial condition will depend on future developments that are highly uncertain and cannot be predicted, including the scope and duration of the COVID-19 pandemic, the duration of various shelter-in-place orders and reopening plans across the globe, and actions taken, or that may be taken in the future, by governmental authorities and other third parties in response to the COVID-19 pandemic.

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

During the three-months ended September 30, 2020, 1,779 shares of common stock were purchased from employees in lieu of cash payments for options exercised or withholding taxes due for a total amount of \$0.1 million. While such purchases are considered common stock repurchases, they are not counted as purchases against our authorized share repurchase programs. Such shares are included in common stock in treasury in the accompanying condensed consolidated balance sheet at September 30, 2020.

On March 13, 2020, the Company's Board of Directors authorized a new share repurchase program for the purchase of up to \$500.0 million of the Company's outstanding common stock (the "March 2020 Repurchase Plan"). During the three-months ended September 30, 2020, no shares were purchased by the Company under the March 2020 Repurchase Plan. As of November 6, 2020, \$441.5 million remained available for repurchase under the March 2020 Repurchase Plan.

## **ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

## **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, 2020, formatted in iXBRL (Inline eXtensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets as of September 30, 2020 and December 31, 2019, (ii) Condensed Consolidated Statements of Income for the three- and nine-months ended September 30, 2020 and 2019, (iii) Condensed Consolidated Statements of Comprehensive Income for the three- and nine-months ended September 30, 2020 and 2019, (iv) Condensed Consolidated Statements of Stockholders’ Equity for the three- and nine-months ended September 30, 2020 and 2019, (v) Condensed Consolidated Statements of Cash Flows for the nine- months ended September 30, 2020 and 2019, and (vi) the Notes to Condensed Consolidated Financial Statements.
- 104\* The cover page from Monster Beverage Corporation’s Quarterly Report on Form 10-Q for the quarter ended September 30, 2020, formatted in iXBRL (Inline eXtensible Business Reporting Language) and contained in Exhibit 101.

\* Filed herewith

+ Management contract or compensatory plans or arrangements

**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, 2020

/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 annual 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 06, 2020

/s/Rodney C. Sacks

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

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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 annual 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 06, 2020

/s/ Hilton H. Schlosberg

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

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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 annual report of Monster Beverage Corporation (the "Company") on Form 10-Q for the quarter ended September 30, 2020 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 06, 2020

/s/ Rodney C. Sacks

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

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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 annual report of Monster Beverage Corporation (the "Company") on Form 10-Q for the quarter ended September 30, 2020 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 06, 2020

/s/ Hilton H. Schlosberg

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

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