COCA COLA BOTTLING CO CONSOLIDATED /DE/
Form 10-Q
November 06, 2009

Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 27, 2009
Commission File Number 0-9286
COCA-COLA BOTTLING CO. CONSOLIDATED

(Exact name of registrant as specified in its charter)

Delaware	**56-0950585**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

4100 Coca-Cola Plaza, Charlotte, North Carolina 28211

(Address of principal executive offices) (Zip Code)
(704) 557-4400

(Registrant s telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

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

Large accelerated filer o	Accelerated filer þ	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

Class	Outstanding at October 30, 2009
Common Stock, $1.00 Par Value	7,141,447
Class B Common Stock, $1.00 Par Value	2,021,882

COCA-COLA BOTTLING CO. CONSOLIDATED
QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 27, 2009
INDEX

		Page
	PART I FINANCIAL INFORMATION	
Item 1.	Financial Statements (Unaudited)	
	Consolidated Statements of Operations	3
	Consolidated Balance Sheets	4
	Consolidated Statements of Changes in Equity	6
	Consolidated Statements of Cash Flows	7
	Notes to Consolidated Financial Statements	8
Item 2.	Management s Discussion and Analysis of Financial Condition and Results of Operations	38
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	63
Item 4.	Controls and Procedures	64
	PART II OTHER INFORMATION	
Item 1A.	Risk Factors	65
Item 6.	Exhibits	66
	Signatures	67

EX-12
EX-31.1
EX-31.2
EX-32

Table of Contents

PART I FINANCIAL INFORMATION

Item 1. Financial Statements.

Coca-Cola Bottling Co. Consolidated

CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

In Thousands (Except Per Share Data)

	Third Quarter		First Nine Months	
	2009	2008	2009	2008
Net sales	$ 374,556	$ 381,563	$ 1,088,566	$ 1,115,240
Cost of sales	217,236	225,736	623,990	647,615
Gross margin	157,320	155,827	464,576	467,625
Selling, delivery and administrative expenses	131,024	149,384	386,461	421,300
Income from operations	26,296	6,443	78,115	46,325
Interest expense	8,866	9,406	28,059	29,789
Income (loss) before income taxes	17,430	(2,963)	50,056	16,536
Income tax provision (benefit)	1,043	(523)	11,928	7,135
Net income (loss)	16,387	(2,440)	38,128	9,401
Less: Net income attributable to the noncontrolling interest	959	705	1,982	1,726
Net income (loss) attributable to Coca-Cola Bottling Co. Consolidated	$ 15,428	$ (3,145)	$ 36,146	$ 7,675
Basic net income (loss) per share based on net income attributable to Coca-Cola Bottling Co. Consolidated:				
Common Stock	$ 1.68	$ (.34)	$ 3.94	$ .84
Weighted average number of Common Stock shares outstanding	7,141	6,644	7,047	6,644
Class B Common Stock	$ 1.68	$ (.34)	$ 3.94	$ .84
Weighted average number of Class B Common Stock shares outstanding	2,022	2,500	2,117	2,500
Diluted net income (loss) per share based on net income attributable to Coca-Cola Bottling Co. Consolidated:				
Common Stock	$ 1.68	$ (.34)	$ 3.93	$ .84
Weighted average number of Common Stock shares outstanding assuming dilution	9,203	9,144	9,194	9,159

Class B Common Stock	$	1.67	$	(.34)	$	3.92	$	.83
Weighted average number of Class B Common Stock shares outstanding assuming dilution		2,062		2,500		2,147		2,515
Cash dividends per share:								
Common Stock	$	.25	$	.25	$	.75	$	.75
Class B Common Stock	$	.25	$	.25	$	.75	$	.75

See Accompanying Notes to Consolidated Financial Statements

3

Table of Contents

Coca-Cola Bottling Co. Consolidated
CONSOLIDATED BALANCE SHEETS
In Thousands (Except Share Data)

	Unaudited Sept. 27, 2009	Dec. 28, 2008	Unaudited Sept. 28, 2008
ASSETS			
Current Assets:			
Cash and cash equivalents	$ 25,062	$ 45,407	$ 20,583
Restricted cash	4,512		
Accounts receivable, trade, less allowance for doubtful accounts of $1,971, $1,188 and $1,043, respectively	96,263	99,849	105,580
Accounts receivable from The Coca-Cola Company	17,460	3,454	12,661
Accounts receivable, other	17,015	12,990	11,539
Inventories	67,762	65,497	65,595
Prepaid expenses and other current assets	25,398	21,121	19,334
Total current assets	253,472	248,318	235,292
Property, plant and equipment, net	319,456	338,156	351,575
Leased property under capital leases, net	52,727	66,730	67,763
Other assets	46,001	33,937	36,365
Franchise rights, net	520,672	520,672	520,672
Goodwill, net	102,049	102,049	102,049
Other identifiable intangible assets, net	5,489	5,910	3,973
Total	$ 1,299,866	$ 1,315,772	$ 1,317,689

See Accompanying Notes to Consolidated Financial Statements

Table of Contents

Coca-Cola Bottling Co. Consolidated
CONSOLIDATED BALANCE SHEETS
In Thousands (Except Share Data)

	Unaudited Sept. 27, 2009	Dec. 28, 2008	Unaudited Sept. 28, 2008
LIABILITIES AND EQUITY			
Current Liabilities:			
Current portion of debt	$	$ 176,693	$ 176,693
Current portion of obligations under capital leases	3,759	2,781	2,735
Accounts payable, trade	32,597	42,383	37,071
Accounts payable to The Coca-Cola Company	43,601	35,311	38,346
Other accrued liabilities	64,208	57,504	61,654
Accrued compensation	23,195	23,285	17,563
Accrued interest payable	12,487	8,139	15,060
Total current liabilities	179,847	346,096	349,122
Deferred income taxes	142,239	139,338	163,403
Pension and postretirement benefit obligations	99,066	107,005	34,560
Other liabilities	103,788	107,037	109,720
Obligations under capital leases	60,247	74,833	75,545
Long-term debt	552,882	414,757	414,757
Total liabilities	1,138,069	1,189,066	1,147,107
Commitments and Contingencies (Note 14)			
Equity:			
Common Stock, $1.00 par value:			
Authorized 30,000,000 shares;			
Issued 10,203,821, 9,706,051 and 9,706,051 shares, respectively	10,204	9,706	9,706
Class B Common Stock, $1.00 par value:			
Authorized 10,000,000 shares;			
Issued 2,649,996, 3,127,766 and 3,127,766 shares, respectively	2,649	3,127	3,127
Capital in excess of par value	103,562	103,582	102,449
Retained earnings	108,295	79,021	79,891
Accumulated other comprehensive loss	(54,038)	(57,873)	(13,068)
	170,672	137,563	182,105
Less-Treasury stock, at cost:			
Common 3,062,374 shares	60,845	60,845	60,845
Class B Common 628,114 shares	409	409	409
Total equity of Coca-Cola Bottling Co. Consolidated	109,418	76,309	120,851
Noncontrolling interest	52,379	50,397	49,731

Total equity	161,797	126,706	170,582
Total	$ 1,299,866	$ 1,315,772	$ 1,317,689

See Accompanying Notes to Consolidated Financial Statements

Table of Contents

Coca-Cola Bottling Co. Consolidated
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (UNAUDITED)
In Thousands

	Common Stock	Class B Common Stock	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total Equity of CCBCC	Noncontrolling Interest	Total Equity
Balance on Dec. 30, 2007	$ 9,706	$ 3,107	$ 102,469	$ 79,227	$ (12,751)	$ (61,254)	$ 120,504	$ 48,005	$ 168,509
Comprehensive income:									
Net income				7,675			7,675	1,726	9,401
Foreign currency translation adjustments, net of tax					(3)		(3)		(3)
Pension and postretirement benefit adjustments, net of tax					(200)		(200)		(200)
Total comprehensive income							7,472	1,726	9,198
Adjustment to change measurement date for pension and postretirement remeaurement adjustment, net of tax				(153)	(114)		(267)		(267)
Cash dividends paid									
Common ($.75 per share)				(4,983)			(4,983)		(4,983)
Class B Common ($.75 per share)				(1,875)			(1,875)		(1,875)
Issuance of 20,000 shares of Class B Common Stock		20	(20)						

Balance on Sept. 28, 2008	$ 9,706	$ 3,127	$ 102,449	$ 79,891	$ (13,068)	$ (61,254)	$ 120,851	$ 49,731	$ 170,582
Balance on Dec. 28, 2008	$ 9,706	$ 3,127	$ 103,582	$ 79,021	$ (57,873)	$ (61,254)	$ 76,309	$ 50,397	$ 126,706
Comprehensive income:									
Net income				36,146			36,146	1,982	38,128
Foreign currency translation adjustments, net of tax					1		1		1
Pension and postretirement benefit adjustments, net of tax					3,834		3,834		3,834
Total comprehensive income							39,981	1,982	41,963
Cash dividends paid									
Common ($.75 per share)				(5,232)			(5,232)		(5,232)
Class B Common ($.75 per share)				(1,640)			(1,640)		(1,640)
Issuance of 20,000 shares of Class B Common Stock		20	(20)						
Conversion of Class B Common Stock into Common Stock	498	(498)							
Balance on Sept. 27, 2009	$ 10,204	$ 2,649	$ 103,562	$ 108,295	$ (54,038)	$ (61,254)	$ 109,418	$ 52,379	$ 161,797

See Accompanying Notes to Consolidated Financial Statements

Coca-Cola Bottling Co. Consolidated
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
In Thousands

	First Nine Months	
	2009	2008
Cash Flows from Operating Activities		
Net income	$ 38,128	$ 9,401
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation expense	45,526	50,386
Amortization of intangibles	421	329
Deferred income taxes	6,470	1,044
Losses on sale of property, plant and equipment	767	1,117
Amortization of debt costs	1,811	1,834
Amortization of deferred gain related to terminated interest rate agreements	(1,770)	(1,311)
Provision for liabilities to exit from multi-employer pension plan		13,812
Stock compensation expense	1,464	
Increase in current assets less current liabilities	(7,605)	(2,828)
Increase in other noncurrent assets	(12,606)	(1,341)
Decrease in other noncurrent liabilities	(14,271)	(9,423)
Other	1	(170)
Total adjustments	20,208	53,449
Net cash provided by operating activities	58,336	62,850
Cash Flows from Investing Activities		
Additions to property, plant and equipment	(29,776)	(41,175)
Proceeds from the sale of property, plant and equipment	4,942	1,126
Investment in a plastic bottle manufacturing cooperative		(968)
Investment in restricted cash	(4,512)	
Net cash used in investing activities	(29,346)	(41,017)
Cash Flows from Financing Activities		
Proceeds from the issuance of long-term debt, net	108,062	
Borrowing under revolving credit facility	30,000	
Payment of current portion of long-term debt	(176,693)	
Payment of lines of credit		(7,400)
Cash dividends paid	(6,872)	(6,858)
Principal payments on capital lease obligations	(2,364)	(1,935)
Proceeds from the termination of interest rate swap agreements		5,142
Payments for the termination of interest rate lock agreements	(340)	
Debt issuance costs paid	(1,042)	
Other	(86)	(70)
Net cash used in financing activities	(49,335)	(11,121)

Net increase (decrease) in cash	(20,345)	10,712
Cash at beginning of period	45,407	9,871
Cash at end of period	$ 25,062	$ 20,583
Significant non-cash investing and financing activities:		
Issuance of Class B Common Stock in connection with stock award	$ 1,130	$ 1,171
Capital lease obligations incurred	660	

See Accompanying Notes to Consolidated Financial Statements

7

Table of Contents

Coca-Cola Bottling Co. Consolidated

Notes to Consolidated Financial Statements (Unaudited)

1. Significant Accounting Policies

The consolidated financial statements include the accounts of Coca-Cola Bottling Co. Consolidated and its majority owned subsidiaries (the Company). All significant intercompany accounts and transactions have been eliminated.

The consolidated financial statements reflect all adjustments which, in the opinion of management, are necessary for a fair statement of the results for the interim periods presented. All such adjustments are of a normal, recurring nature.

The consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles (GAAP) for interim financial reporting and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all information and footnotes required by GAAP. The preparation of consolidated financial statements 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 period. Actual results could differ from those estimates.

The accounting policies followed in the presentation of interim financial results are consistent with those followed on an annual basis. These policies are presented in Note 1 to the consolidated financial statements included in the Company s Annual Report on Form 10-K for the year ended December 28, 2008 filed with the United States Securities and Exchange Commission.

In December 2007, the Financial Accounting Standards Board (FASB) issued new guidance on accounting for the noncontrolling interest in the consolidated financial statements. The Company implemented the new guidance effective December 29, 2008, the beginning of the first quarter of 2009. The new guidance changes the accounting and reporting standards for the noncontrolling interest in a subsidiary (commonly referred to previously as minority interest). Piedmont Coca-Cola Bottling Partnership (Piedmont) is the Company s only subsidiary that has a noncontrolling interest. Noncontrolling interest income of $1.0 million in the third quarter of 2009 (Q3 2009), $2.0 million in the first nine months of 2009 (YTD 2009), $.7 million in the third quarter of 2008 (Q3 2008) and $1.7 million in the first nine months of 2008 (YTD 2008) have been reclassified to be included in net income on the Company s consolidated statements of operations. In addition, the amount of consolidated net income attributable to both the Company and the noncontrolling interest are shown on the Company s consolidated statements of operations. Noncontrolling interest related to Piedmont totaled $52.4 million, $50.4 million and $49.7 million at September 27, 2009, December 28, 2008 and September 28, 2008, respectively. These amounts have been reclassified as noncontrolling interest in the equity section of the Company s consolidated balance sheets.

Management evaluated all activity of the Company through November 6, 2009 (the issue date of the Company s consolidated financial statements) and concluded that no subsequent events have occurred that would require recognition in the consolidated financial statements.

Table of Contents

Coca-Cola Bottling Co. Consolidated

Notes to Consolidated Financial Statements (Unaudited)

1. Significant Accounting Policies

During the second quarter of 2009, the Company s provider of property and casualty insurance requested the Company increase the face amount of the letters of credit the Company is required to provide for the property and casualty insurance programs. Simultaneously with the required increase in the letters of credit, the Company was required to maintain $4.5 million in a separate bank account as collateral for these letters of credit which was recorded as restricted cash.

2. Seasonality of Business

Historically, operating results for the third quarter and first nine months of the fiscal year have not been representative of results for the entire fiscal year. Business seasonality results primarily from higher unit sales of the Company s products in the second and third quarters versus the first and fourth quarters of the fiscal year. Fixed costs, such as depreciation expense, are not significantly impacted by business seasonality.

3. Piedmont Coca-Cola Bottling Partnership

On July 2, 1993, the Company and The Coca-Cola Company formed Piedmont to distribute and market nonalcoholic beverages primarily in portions of North Carolina and South Carolina. The Company provides a portion of the nonalcoholic beverage products to Piedmont at cost and receives a fee for managing the operations of Piedmont pursuant to a management agreement. These intercompany transactions are eliminated in the consolidated financial statements.

Noncontrolling interest as of September 27, 2009, December 28, 2008 and September 28, 2008 represents the portion of Piedmont owned by The Coca-Cola Company. The Coca-Cola Company s interest in Piedmont was 22.7% for all periods presented.

4. Inventories

Inventories were summarized as follows:

In Thousands	Sept. 27, 2009	Dec. 28, 2008	Sept. 28, 2008
Finished products	$40,576	$36,418	$40,250
Manufacturing materials	7,968	12,620	7,261
Plastic shells, plastic pallets and other inventories	19,218	16,459	18,084
Total inventories	$67,762	$65,497	$65,595

Coca-Cola Bottling Co. Consolidated
Notes to Consolidated Financial Statements (Unaudited)
5. Property, Plant and Equipment
The principal categories and estimated useful lives of property, plant and equipment were as follows:

In Thousands	Sept. 27, 2009	Dec. 28, 2008	Sept. 28, 2008	Estimated Useful Lives
Land	$ 12,167	$ 12,167	$ 12,212	
Buildings	110,059	109,384	110,708	10-50 years
Machinery and equipment	124,410	118,934	118,154	5-20 years
Transportation equipment	165,867	176,084	179,787	4-17 years
Furniture and fixtures	37,363	38,254	38,877	4-10 years
Cold drink dispensing equipment	309,727	319,188	327,054	6-15 years
Leasehold and land improvements	61,937	60,142	60,979	5-20 years
Software for internal use	65,022	59,786	58,611	3-10 years
Construction in progress	2,426	4,891	4,082	
Total property, plant and equipment, at cost	888,978	898,830	910,464	
Less: Accumulated depreciation and amortization	569,522	560,674	558,889	
Property, plant and equipment, net	$319,456	$338,156	$351,575	

Depreciation and amortization expense was $15.1 million and $16.7 million in Q3 2009 and Q3 2008, respectively. Depreciation and amortization expense was $45.5 million and $50.4 million in YTD 2009 and YTD 2008, respectively. These amounts included amortization expense for leased property under capital leases.
The Company changed the useful lives of certain cold drink dispensing equipment from thirteen to fifteen years in the first quarter of 2009 (Q1 2009) to better reflect actual useful lives. The change in useful lives reduced depreciation expense in Q3 2009 and YTD 2009 by $.9 million and $2.9 million, respectively.
6. Leased Property Under Capital Leases
Leased property under capital leases was summarized as follows:

In Thousands	Sept. 27, 2009	Dec. 28, 2008	Sept. 28, 2008	Estimated Useful Lives
Leased property under capital leases	$76,877	$88,619	$88,619	3-20 years
Less: Accumulated amortization	24,150	21,889	20,856	
Leased property under capital leases, net	$52,727	$66,730	$67,763	

As of September 27, 2009, real estate represented $52.1 million of the leased property under capital leases and $50.5 million of this real estate is leased from related parties as described in Note 19 to the consolidated financial statements.

The Company modified a related party lease and terminated a second lease in Q1 2009. See Note 19 to the consolidated financial statements for additional information on the lease modification.

Table of Contents

Coca-Cola Bottling Co. Consolidated
Notes to Consolidated Financial Statements (Unaudited)

7. Franchise Rights and Goodwill

There was no change in the carrying amounts of franchise rights and goodwill in the periods presented. The Company performs its annual impairment test of franchise rights and goodwill as of the first day of the fourth quarter. During YTD 2009, the Company believes it has not experienced any events or changes in circumstances that indicate the carrying amounts of the Company s franchise rights or goodwill exceeded fair values. As such, the Company has not performed an interim impairment test during YTD 2009 and has not recognized any impairments of franchise rights or goodwill.

8. Other Identifiable Intangible Assets

Other identifiable intangible assets were summarized as follows:

In Thousands	Sept. 27, 2009	Dec. 28, 2008	Sept. 28, 2008	Estimated Useful Lives
Other identifiable intangible assets	$8,665	$8,909	$6,599	1-20 years
Less: Accumulated amortization	3,176	2,999	2,626	
Other identifiable intangible assets, net	$5,489	$5,910	$3,973	

Other identifiable intangible assets primarily represent customer relationships and distribution rights.

9. Other Accrued Liabilities

Other accrued liabilities were summarized as follows:

In Thousands	Sept. 27, 2009	Dec. 28, 2008	Sept. 28, 2008
Accrued marketing costs	$ 9,987	$ 9,001	$ 9,121
Accrued insurance costs	17,940	17,132	16,558
Accrued taxes (other than income taxes)	2,480	374	2,517
Accrued income taxes	3,000		3,840
Employee benefit plan accruals	12,126	8,626	11,010
Checks and transfers yet to be presented for payment from zero balance cash account	11,950	11,074	10,235
All other accrued liabilities	6,725	11,297	8,373
Total other accrued liabilities	$64,208	$57,504	$61,654

Table of Contents

Coca-Cola Bottling Co. Consolidated
Notes to Consolidated Financial Statements (Unaudited)
10. Debt
Debt was summarized as follows:

In Thousands	Maturity	Interest Rate	Interest Paid	Sept. 27, 2009	Dec. 28, 2008	Sept. 28, 2008
Revolving Credit Facility	2012	.66%	Varies	$ 30,000	$	$
Debentures	2009	7.20%	Semi-annually		57,440	57,440
Debentures	2009	6.375%	Semi-annually		119,253	119,253
Senior Notes	2012	5.00%	Semi-annually	150,000	150,000	150,000
Senior Notes	2015	5.30%	Semi-annually	100,000	100,000	100,000
Senior Notes	2016	5.00%	Semi-annually	164,757	164,757	164,757
Senior Notes	2019	7.00%	Semi-annually	110,000		
Unamortized discount on Senior Notes	2019			(1,875)		
				552,882	591,450	591,450
Less: Current portion of debt					176,693	176,693
Long-term debt				$552,882	$414,757	$414,757

On March 8, 2007, the Company entered into a $200 million revolving credit facility ($200 million facility), replacing its $100 million facility. The $200 million facility matures in March 2012 and includes an option to extend the term for an additional year at the discretion of the participating banks. The $200 million facility bears interest at a floating base rate or a floating rate of LIBOR plus an interest rate spread of .35%, dependent on the length of the term of the borrowing. In addition, the Company must pay an annual facility fee of .10% of the lenders aggregate commitments under the facility. Both the interest rate spread and the facility fee are determined from a commonly-used pricing grid based on the Company s long-term senior unsecured debt rating. The $200 million facility contains two financial covenants: a fixed charges coverage ratio and a debt to operating cash flow ratio, each as defined in the credit agreement. The fixed charges coverage ratio requires the Company to maintain a consolidated cash flow to fixed charges ratio of 1.5 to 1 or higher. The operating cash flow ratio requires the Company to maintain a debt to operating cash flow ratio of 6.0 to 1 or lower. On August 25, 2008, the Company entered into an amendment to the $200 million facility. The amendment clarified that charges incurred by the Company resulting from the Company s withdrawal from the Central States, Southeast and Southwest Areas Pension Fund (Central States) would be excluded from the calculations of the financial covenants to the extent they were incurred on or before March 31, 2009 and did not exceed $15 million. See Note 18 to the consolidated financial statements for additional details on the withdrawal from Central States. The Company is currently in compliance with these covenants as amended by the amendment to the $200 million facility and has been throughout 2009. These covenants do not currently, and the Company does not anticipate they will,

Table of Contents

Coca-Cola Bottling Co. Consolidated
Notes to Consolidated Financial Statements (Unaudited)
10. Debt
restrict its liquidity or capital resources. On September 27, 2009, the Company had $30.0 million outstanding under the $200 million facility. On December 28, 2008 and September 28, 2008, the Company had no outstanding borrowings under the $200 million facility.

On July 1, 2009 the Company borrowed $55.0 million under the $200 million facility and used the proceeds, along with $2.4 million of cash on hand, to repay at maturity the Company s $57.4 million outstanding 7.20% Debentures due 2009. As of September 27, 2009, the Company has repaid $25.0 million of the $55.0 million borrowed on July 1, 2009 under the $200 million facility.

In April 2009, the Company issued $110 million of unsecured 7% Senior Notes due 2019. The proceeds plus cash on hand were used on May 1, 2009 to repay at maturity the $119.3 million outstanding 6.375% Debentures due 2009.

After taking into account all of its interest rate hedging activities, the Company had a weighted average interest rate of 5.5%, 5.9% and 5.9% for its debt and capital lease obligations as of September 27, 2009, December 28, 2008 and September 28, 2008, respectively. The Company s overall weighted average interest rate on its debt and capital lease obligations was 5.7% for both YTD 2009 and YTD 2008. As of September 27, 2009, approximately 9.6% of the Company s debt and capital lease obligations of $616.9 million was subject to changes in short-term interest rates.

The Company s public debt is not subject to financial covenants but does limit the incurrence of certain liens and encumbrances as well as the incurrence of indebtedness by the Company s subsidiaries in excess of certain amounts.

All of the outstanding long-term debt has been issued by the Company with none being issued by any of the Company s subsidiaries. There are no guarantees of the Company s debt.

11. Derivative Financial Instruments

Interest

The Company periodically uses interest rate hedging products to modify risk from interest rate fluctuations. The Company has historically altered its fixed/floating rate mix based upon anticipated cash flows from operations relative to the Company s debt level and the potential impact of changes in interest rates on the Company s overall financial condition. Sensitivity analyses are performed to review the impact on the Company s financial position and coverage of various interest rate movements. The Company does not use derivative financial instruments for trading purposes nor does it use leveraged financial instruments.

On September 18, 2008, the Company terminated six outstanding interest rate swap agreements with a notional amount of $225 million receiving $6.2 million in cash proceeds including $1.1 million for previously accrued

Coca-Cola Bottling Co. Consolidated
Notes to Consolidated Financial Statements (Unaudited)
11. Derivative Financial Instruments

interest receivable. After accounting for previously accrued interest receivable, the Company is amortizing the gain of $5.1 million over the remaining term of the underlying debt. During YTD 2009, $1.0 million of the gain has been amortized. The remaining amount to be amortized is $3.7 million. All of the Company s interest rate swap agreements were LIBOR-based.

The Company had no interest rate swap agreements at September 27, 2009, December 28, 2008 and September 28, 2008.

The Company uses several different financial institutions for interest rate derivative agreements and commodity derivative instruments, described below, to minimize the concentration of credit risk. While the Company is exposed to credit loss in the event of nonperformance by these counterparties, the Company does not anticipate nonperformance by these parties. The Company has master agreements with the counterparties to its derivative financial agreements that provided for net settlement of the derivative transactions.

Commodities

The Company is subject to the risk of loss arising from adverse changes in commodity prices. In the normal course of business, the Company manages these risks through a variety of strategies, including the use of derivative instruments. The Company does not use derivative instruments for trading or speculative purposes. All derivative instruments are recorded at fair value as either assets or liabilities in the Company s consolidated balance sheets. These derivative instruments are not designated as hedging instruments under generally accepted accounting principles and are used as economic hedges to manage certain commodity risk. Currently the Company has derivative instruments to hedge its projected diesel fuel and aluminum purchase requirements. These derivative instruments are marked to market on a periodic basis and recognized in earnings consistent with the expense classification of the underlying hedged item. Settlements of derivative agreements are included in cash flows from operating activities on the Company s consolidated statements of cash flows.

The Company is using derivative instruments to hedge all of its projected diesel fuel purchases for 2009 and 2010. These derivative instruments relate to diesel fuel used by the Company s delivery fleet. At the end of Q1 2009, the Company began using derivative instruments to hedge approximately 75% of the Company s projected 2010 aluminum purchase requirements. During the second quarter of 2009, the Company entered into derivative agreements to hedge approximately 75% of the Company s projected 2011 aluminum purchase requirements.

The following summarizes Q3 2009 net gains and Q3 2008 net losses on the Company s fuel and aluminum derivative financial instruments and the classification of such net gain/loss in the consolidated statements of operations:

		Third Quarter	
In Thousands	Classification of Gain (Loss)	2009	2008
Fuel Hedges	Selling, delivery and administrative expenses	$ (635)	$(583)
Aluminum Hedges	Cost of sales	1,440	
Total Net Gain (Loss)		$ 805	$(583)

Table of Contents

Coca-Cola Bottling Co. Consolidated
Notes to Consolidated Financial Statements (Unaudited)
11. Derivative Financial Instruments
The following summarizes YTD 2009 and YTD 2008 net gains on the Company s fuel and aluminum derivative financial instruments and the classification of such net gains in the consolidated statements of operations:

In Thousands	Classification of Gain	First Nine Months 2009	First Nine Months 2008
Fuel Hedges	Selling, delivery and administrative expenses	$1,974	$1,206
Aluminum Hedges	Cost of sales	5,326	
Total Net Gains		$7,300	$1,206

The following summarizes the fair values and classification in the consolidated balance sheets of derivative instruments held by the Company as of September 27, 2009:

In Thousands	Classification of Derivative Instruments	Sept. 27, 2009
Assets		
Fuel hedges at fair market value	Prepaid and other assets	$ 584
Aluminum hedges at fair market value	Prepaid and other assets	968
Unamortized cost of fuel hedging agreements	Prepaid and other assets	859
Unamortized cost of aluminum hedging agreements	Prepaid and other assets	716
Fuel hedges at fair market value	Other assets	353
Aluminum hedges at fair market value	Other assets	4,358
Unamortized cost of fuel hedging agreements	Other assets	246
Unamortized cost of aluminum hedging agreements	Other assets	2,935

The following table summarizes the Company s outstanding derivative agreements as of September 27, 2009:

In Thousands	Notional Amount	Latest Maturity
Fuel hedging agreements	$16,831	December 2010
Aluminum hedging agreements	53,253	December 2011

12. Fair Values of Financial Instruments
The following methods and assumptions were used by the Company in estimating the fair values of its financial instruments:

Cash and Cash Equivalents, Restricted Cash, Accounts Receivable and Accounts Payable

The fair values of cash and cash equivalents, restricted cash, accounts receivable and accounts payable approximate carrying values due to the short maturity of these items.

Public Debt Securities

The fair values of the Company s public debt securities are based on estimated current market prices.

15

Coca-Cola Bottling Co. Consolidated
Notes to Consolidated Financial Statements (Unaudited)
12. Fair Values of Financial Instruments

Non-Public Variable Rate Debt

The carrying amounts of the Company s variable rate borrowings approximate their fair values.

Deferred Compensation Plan Assets/Liabilities

The fair values of deferred compensation plan assets and liabilities, which are held in mutual funds, are based upon the quoted market value of the securities held within the mutual funds.

Derivative Financial Instruments

The fair values for the Company s interest rate swap, fuel hedging and aluminum hedging agreements are based on current settlement values. Credit risk related to the derivative financial instruments is managed by requiring high standards for its counterparties and periodic settlements. The Company considers nonperformance risk in determining the fair values of derivative financial instruments.

Letters of Credit

The fair values of the Company s letters of credit obtained from financial institutions are based on the notional amounts of the instruments. These letters of credit primarily relate to the Company s property and casualty insurance programs.

The carrying amounts and fair values of the Company s debt, deferred compensation plan, derivative financial instruments and letters of credit were as follows:

	Sept. 27, 2009		Dec. 28, 2008		Sept. 28, 2008	
In Thousands	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Public debt securities	$522,882	$559,627	$591,450	$559,963	$591,450	$550,420
Non-public variable rate debt	30,000	30,000				
Deferred compensation plan assets/liabilities	7,996	7,996	5,446	5,446	6,444	6,444
Fuel hedging agreements	(937)	(937)	1,985	1,985		
Aluminum hedging agreements	(5,326)	(5,326)				
Letters of credit		25,645		19,274		19,332

The fair value of the fuel hedging agreements at September 27, 2009 represented the estimated amount the Company would have received upon termination of these agreements. The fair value of the fuel hedging agreements at December 28, 2008 represented the estimated amount the Company would have paid upon termination of these agreements. At September 28, 2008, the Company did not have any fuel hedging agreements outstanding.

The fair value of the aluminum hedging agreements at September 27, 2009 represented the estimated amount the Company would have received upon termination of these agreements.

Table of Contents

Coca-Cola Bottling Co. Consolidated

Notes to Consolidated Financial Statements (Unaudited)

12. Fair Values of Financial Instruments

In September 2006, FASB issued new guidance on fair value measurements. The Company adopted the new guidance on fair value measurements as of December 31, 2007, the beginning of the first quarter of 2008, and there was no material impact to the consolidated financial statements. In the first quarter of 2008, FASB issued additional guidance that delayed the effective date of the fair value measurements new guidance for all nonfinancial assets and liabilities until Q1 2009 except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis. There was no material impact on the consolidated financial statements of the new guidance for nonfinancial assets and liabilities in Q1 2009, but such adoption could have a material effect in the future. The new guidance requires disclosure that establishes a framework for measuring fair value in GAAP and expands disclosure about fair value measurements. The new guidance is intended to enable the readers of financial statements to assess the inputs used to develop those measurements by establishing a hierarchy for ranking the quality and reliability of the information used to determine fair values. The new guidance requires that assets and liabilities carried at fair value be classified and disclosed in one of the following categories:

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

Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs that are not corroborated by market data.

The following table summarizes, by assets and liabilities, the valuation of the Company s deferred compensation plan, aluminum hedging agreements and fuel hedging agreements for the categories above:

	Sept. 27, 2009		Dec. 28, 2008		Sept. 28, 2008	
In Thousands	Level 1	Level 2	Level 1	Level 2	Level 1	Level 2
Assets						
Deferred compensation plan assets	$7,996		$5,446		$6,444	
Aluminum hedging agreements		$5,326				
Fuel hedging agreements		937				
Liabilities						
Deferred compensation plan liabilities	7,996		5,446		6,444	
Fuel hedging agreements				$1,985		

The Company maintains a non-qualified deferred compensation plan for certain executives and other highly compensated employees. The investment assets are held in mutual funds. The fair value of the mutual funds is based on the quoted market value of the securities held within the funds (Level 1). The related deferred compensation liability represents the fair value of the investment assets.

The Company s fuel hedging agreements are based upon NYMEX rates that are observable and quoted periodically over the full term of the agreements and are considered Level 2 items.

The Company s aluminum hedging agreements are based upon LME rates that are observable and quoted periodically over the full term of the agreements and are considered Level 2 items.

Coca-Cola Bottling Co. Consolidated
Notes to Consolidated Financial Statements (Unaudited)

12. Fair Values of Financial Instruments

The Company does not have Level 3 assets or liabilities.

13. Other Liabilities

Other liabilities were summarized as follows:

In Thousands	Sept. 27, 2009	Dec. 28, 2008	Sept. 28, 2008
Accruals for executive benefit plans	$ 83,825	$ 77,299	$ 77,601
Other	19,963	29,738	32,119
Total other liabilities	$103,788	$107,037	$109,720

14. Commitments and Contingencies

The Company is a member of South Atlantic Canners, Inc. (SAC), a manufacturing cooperative from which it is obligated to purchase 17.5 million cases of finished product on an annual basis through May 2014. The Company is also a member of Southeastern Container (Southeastern), a plastic bottle manufacturing cooperative from which it is obligated to purchase at least 80% of its requirements of plastic bottles for certain designated territories. See Note 19 to the consolidated financial statements for additional information concerning SAC and Southeastern.

The Company guarantees a portion of SAC s and Southeastern s debt and lease obligations. The amounts guaranteed were $38.4 million, $39.9 million and $42.1 million as of September 27, 2009, December 28, 2008 and September 28, 2008, respectively. The Company has not recorded any liability associated with these guarantees and holds no assets as collateral against these guarantees. The guarantees relate to the debt and lease obligations of SAC and Southeastern, which resulted primarily from the purchase of production equipment and facilities. These guarantees expire at various dates through 2021. The members of both cooperatives consist solely of Coca-Cola bottlers. The Company does not anticipate either of these cooperatives will fail to fulfill their commitments. The Company further believes each of these cooperatives has sufficient assets, including production equipment, facilities and working capital, and the ability to adjust selling prices of their products which adequately mitigate the risk of material loss from the Company s guarantees.

In the event either of these cooperatives fails to fulfill its commitments under the related debt and lease obligations, the Company would be responsible for payments to the lenders up to the level of the guarantees. If these cooperatives had borrowed up to their borrowing capacity, the Company s maximum exposure under these guarantees on September 27, 2009 would have been $25.2 million for both SAC and Southeastern and the Company s maximum total exposure, including its equity investments, would have been $30.8 million for SAC and $38.5 million for Southeastern.

The Company has been purchasing plastic bottles from Southeastern and finished products from SAC for more than ten years and has never had to pay against these guarantees.

Coca-Cola Bottling Co. Consolidated
Notes to Consolidated Financial Statements (Unaudited)
14. Commitments and Contingencies

The Company has an equity ownership interest in each of the entities in addition to the guarantees of certain indebtedness and records its investment in each under the equity method. As of September 27, 2009, SAC had total assets of approximately $41 million and total debt of approximately $20 million. SAC had total revenues for YTD 2009 of approximately $128 million. As of September 27, 2009, Southeastern had total assets of approximately $397 million and total debt of approximately $224 million. Southeastern had total revenue for YTD 2009 of approximately $434 million.

The Company has standby letters of credit, primarily related to its property and casualty insurance programs. On September 27, 2009, these letters of credit totaled $25.6 million. The Company was required to maintain $4.5 million of restricted cash for letters of credit beginning in the second quarter of 2009.

The Company participates in long-term marketing contractual arrangements with certain prestige properties, athletic venues and other locations. The future payments related to these contractual arrangements as of September 27, 2009 amounted to $22.5 million and expire at various dates through 2017.

The Company is involved in various claims and legal proceedings which have arisen in the ordinary course of its business. Although it is difficult to predict the ultimate outcome of these claims and legal proceedings, management believes the ultimate disposition of these matters will not have a material adverse effect on the financial condition, cash flows or results of operations of the Company. No material amount of loss in excess of recorded amounts is believed to be reasonably possible as a result of these claims and legal proceedings.

The Company is subject to audit by tax authorities in jurisdictions where it conducts business. These audits may result in assessments that are subsequently resolved with the tax authorities or potentially through the courts. Management believes the Company has adequately provided for any assessments that are likely to result from these audits; however, final assessments, if any, could be different than the amounts recorded in the consolidated financial statements.

15. Income Taxes

The Company s effective income tax rate for YTD 2009 and YTD 2008 was 24.8% and 48.2%, respectively. The following table provides a reconciliation of the income tax expense at the statutory federal rate to actual income tax expense.

	First Nine Months	
In Thousands	2009	2008
Statutory expense	$16,826	$5,184
State income taxes, net of federal effect	2,094	645
Manufacturing deduction benefit	(1,197)	(487)
Meals and entertainment	754	507
Adjustment for uncertain tax positions	(7,070)	1,277
Other, net	521	9
Income tax expense	$11,928	$7,135

Coca-Cola Bottling Co. Consolidated
Notes to Consolidated Financial Statements (Unaudited)

15. Income Taxes

The Company had $10.5 million of unrecognized tax benefits, including accrued interest as of December 28, 2008, of which $9.4 million would affect the Company s effective tax rate if recognized. As of September 27, 2009, the Company had $3.0 million of unrecognized tax benefits, including accrued interest, of which all would affect the Company s effective rate if recognized. It is expected that the amount of unrecognized tax benefits may change in the next 12 months; however, the Company does not expect the change to have a significant impact on the consolidated financial statements.

The Company recognizes potential interest and penalties related to uncertain tax positions in income tax expense. As of December 28, 2008, the Company had approximately $2.5 million of accrued interest related to uncertain tax positions. As of September 27, 2009, the Company had approximately $.8 million of accrued interest related to uncertain tax positions. Income tax expense included an interest credit of approximately $1.7 million in YTD 2009 and interest expense of approximately $.4 million in YTD 2008.

In Q1 2009, the Company reached an agreement with a taxing authority to settle prior tax positions for which the Company had previously provided reserves due to uncertainty of resolution. As a result, the Company reduced the liability for uncertain tax positions by $1.7 million. The net effect of the adjustment was a decrease to income tax expense of approximately $1.7 million.

In Q3 2009, the Company reduced its liability for uncertain tax positions by $5.4 million. The net effect of the adjustment was a decrease to income tax expense of approximately $5.4 million. The reduction of the liability for uncertain tax positions was due mainly to the lapse of applicable statutes of limitations.

Various tax years from 1991 remain open to examination by taxing jurisdictions to which the Company is subject due to loss carryforwards.

The Company s income tax assets and liabilities are subject to adjustment in future periods based on the Company s ongoing evaluations of such assets and liabilities and new information that becomes available to the Company.

16. Accumulated Other Comprehensive Loss

Accumulated other comprehensive loss is comprised of adjustments relative to the Company s pension and postretirement medical benefit plans and foreign currency translation adjustments required for a subsidiary of the Company that performs data analysis and provides consulting services outside the United States.

Table of Contents

Coca-Cola Bottling Co. Consolidated
Notes to Consolidated Financial Statements (Unaudited)
16. Accumulated Other Comprehensive Loss
A summary of accumulated other comprehensive loss for Q3 2009 and Q3 2008 follows:

In Thousands	June 28, 2009	Pre-tax Activity	Tax Effect	Sept. 27, 2009
Net pension activity:				
Actuarial loss	$(53,880)	$2,339	$(921)	$(52,462)
Prior service costs	(40)	4	(2)	(38)
Net postretirement benefits activity:				
Actuarial loss	(9,361)	218	(86)	(9,229)
Prior service costs	7,917	(446)	176	7,647
Transition asset	33	(6)	2	29
Foreign currency translation adjustment	12	4	(1)	15
Total	$(55,319)	$2,113	$(832)	$(54,038)

In Thousands	June 29, 2008	Pre-tax Activity	Tax Effect	Sept. 28, 2008
Net pension activity:				
Actuarial loss	$(12,525)	$ 111	$ (42)	$(12,456)
Prior service costs	(49)	4	(2)	(47)
Net postretirement benefits activity:				
Actuarial loss	(9,505)	229	(88)	(9,364)
Prior service costs	9,009	(446)	171	8,734
Transition asset	49	(6)	2	45
Foreign currency translation adjustment	30	(17)	7	20
Total	$(12,991)	$(125)	$ 48	$(13,068)

A summary of accumulated other comprehensive loss for YTD 2009 and YTD 2008 follows:

In Thousands	Dec. 28, 2008	Pre-tax Activity	Tax Effect	Sept. 27, 2009
Net pension activity:				
Actuarial loss	$(56,717)	$7,017	$(2,762)	$(52,462)
Prior service costs	(45)	12	(5)	(38)
Net postretirement benefits activity:				
Actuarial loss	(9,625)	653	(257)	(9,229)
Prior service costs				