

COCA COLA BOTTLING CO CONSOLIDATED /DE/  
Form DEF 14A  
March 27, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the Securities

Exchange Act of 1934 (Amendment No. )

Filed by the Registrant

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Check the appropriate box:

Preliminary Proxy Statement

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Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to Rule 14a-12

COCA-COLA BOTTLING CO. CONSOLIDATED

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(Name of Registrant as Specified in Its Charter)

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(4) Date Filed:

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**COCA-COLA BOTTLING CO. CONSOLIDATED**

**4100 COCA-COLA PLAZA**

**CHARLOTTE, NORTH CAROLINA 28211**

**(704) 557-4400**

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NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

to be held on

April 27, 2007

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**To THE STOCKHOLDERS OF**

**COCA-COLA BOTTLING Co. CONSOLIDATED:**

NOTICE IS HEREBY GIVEN that the Annual Meeting of Stockholders (the Annual Meeting ) of Coca-Cola Bottling Co. Consolidated will be held at our Snyder Production Center, 4901 Chesapeake Drive, Charlotte, North Carolina 28216 on Friday, April 27, 2007, at 10:00 a.m., local time, for the purpose of considering and acting upon the following:

1. The election of eleven directors to serve until the next Annual Meeting and until their successors have been elected and qualified.
2. Approval of the Coca-Cola Bottling Co. Consolidated Amended and Restated Annual Bonus Plan.
3. Approval of the Coca-Cola Bottling Co. Consolidated Long-Term Performance Plan.
4. Approval of an Amendment to our Chief Executive Officer's Restricted Stock Award.
5. Such other business as may properly come before the Annual Meeting or any adjournment thereof.

The Board of Directors has fixed the close of business on March 14, 2007 as the record date for determining the stockholders entitled to notice of and to vote at the Annual Meeting and any adjournment thereof, and only holders of our Common Stock and Class B Common Stock of record on such date will be entitled to notice of or to vote at the Annual Meeting. A list of stockholders will be available for inspection at least ten days prior to the Annual Meeting at our principal executive offices at 4100 Coca-Cola Plaza, Charlotte, North Carolina 28211.

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The Board of Directors will appreciate your prompt vote. Registered holders of our stock may vote by a toll free telephone number, the Internet or by the prompt return of the enclosed proxy card, dated and signed. Instructions regarding all three methods of voting are set forth on the enclosed proxy card. You may revoke your proxy at any time prior to the vote at the Annual Meeting. If you decide to attend the Annual Meeting and wish to change your proxy vote, you may do so automatically by voting in person at the Annual Meeting.

By Order of the Board of Directors

Henry W. Flint

*Secretary*

March 27, 2007

## PROXY STATEMENT

### ANNUAL MEETING OF STOCKHOLDERS OF COCA-COLA BOTTLING CO. CONSOLIDATED

to be held on April 27, 2007

#### INTRODUCTION

This Proxy Statement is being furnished by the Board of Directors of Coca-Cola Bottling Co. Consolidated (Coca-Cola Consolidated) in connection with the solicitation of proxies by the Board of Directors for use at the Annual Meeting of Stockholders (the Annual Meeting) to be held at our Snyder Production Center, 4901 Chesapeake Drive, Charlotte, North Carolina 28216 on Friday, April 27, 2007, at 10:00 a.m., local time, and at any adjournment thereof. On or about March 27, 2007, we will begin mailing to our stockholders this Proxy Statement and the accompanying form of proxy, the 2006 Summary Annual Report to Stockholders and the Annual Report on Form 10-K for the year ended December 31, 2006. Our principal executive offices are located at 4100 Coca-Cola Plaza, Charlotte, North Carolina 28211.

#### RECORD DATE, VOTE REQUIRED AND RELATED MATTERS

The Board of Directors has fixed the close of business on March 14, 2007 as the record date for the determination of stockholders entitled to notice of and to vote at the Annual Meeting. At the close of business on March 14, 2007, we had 6,643,177 shares of Common Stock and 2,480,152 shares of Class B Common Stock issued and outstanding. Each share of Common Stock is entitled to one vote per share and each share of Class B Common Stock is entitled to 20 votes per share (or an aggregate of 56,246,217 votes with respect to the Common Stock and the Class B Common Stock voting together as a single class). Each stockholder may exercise his right to vote either in person or by properly executed proxy. The Common Stock and Class B Common Stock will vote together as a single class on all matters considered at the Annual Meeting.

Any person giving a proxy pursuant to this solicitation may revoke it at any time before it is voted at the Annual Meeting by (1) delivering a written notice of revocation to our Secretary at our principal executive offices, (2) submitting a later-dated proxy relating to the same shares by mail, telephone or the Internet or (3) attending the Annual Meeting and voting in person. If a choice is specified in the proxy, shares represented thereby will be voted in accordance with such choice. If no choice is specified, the proxy will be voted as follows:

1. **FOR** the eleven nominees to the Board of Directors listed herein;
2. **FOR** approval of the Amended and Restated Annual Bonus Plan;
3. **FOR** approval of the Long-Term Performance Plan; and
4. **FOR** approval of the Amendment to our Chief Executive Officer's Restricted Stock Award.



The presence, in person or by proxy, of the holders of a majority of the votes eligible to be cast by the holders of Common Stock and Class B Common Stock voting together as a class is necessary to constitute a quorum at the Annual Meeting. Directors are elected by a plurality of the votes cast at a meeting at which a quorum is present. The affirmative vote of holders of a majority of the total votes of our Common Stock and Class B Common Stock, voting together as a single class, present in person or by proxy and entitled to vote on the subject matter is required for the approval of (1) the Amended and Restated Annual Bonus Plan, (2) the Long-Term Performance Plan and (3) the Amendment to our Chief Executive Officer's Restricted Stock Award. The approval of the Amendment to our Chief Executive Officer's Restricted Stock Award is conditioned upon the approval of the Amended and Restated Annual Bonus Plan.

Abstaining votes and broker non-votes are counted for purposes of establishing a quorum, but are not counted in the election of directors and therefore have no effect on the election. In a vote on the other proposals to be considered at the meeting, an abstaining vote will have the same effect as a vote against the proposal, but a broker non-vote will not be included in the tabulation of the voting results and therefore will not affect the outcome of the vote. A broker non-vote occurs when a nominee holding shares for a beneficial owner does not vote on a particular matter because the nominee does not have discretionary voting power for that particular matter and has not received instructions from the beneficial owner.

The Board of Directors has been informed that J. Frank Harrison, III intends to vote an aggregate of 1,984,495 shares of our Common Stock and 2,479,250 shares of our Class B Common Stock (representing 51,569,495 votes and an aggregate of 91.7% of the total voting power of the Common Stock and Class B Common Stock together as of the record date) **FOR** electing the Board of Directors' nominees for director, **FOR** the approval of the Amended and Restated Annual Bonus Plan, **FOR** the approval of the Long-Term Performance Plan and **FOR** the Amendment of his Restricted Stock Award.

The Board of Directors is not aware of any matters to be brought before the Annual Meeting or any adjournment thereof other than the matters described above and routine matters incidental to the conduct of the Annual Meeting. If, however, other matters are properly presented, it is the intention of the persons named in the accompanying proxy or their substitutes to vote the shares represented by the proxy in accordance with their best judgment on such matters.

## PRINCIPAL STOCKHOLDERS

As of March 14, 2007, the only persons known to us to be beneficial owners of more than 5% of the Common Stock or Class B Common Stock were as follows:

<u>Name and Address</u>	<u>Class</u>	<u>Amount and Nature of Beneficial Ownership</u>	<u>Percentage of Class</u>	<u>Percentage</u>	
				<u>Total Votes(1)</u>	<u>of Total Votes(1)</u>
J. Frank Harrison, III, J. Frank Harrison Family, LLC and three  Harrison Family Limited  Partnerships, as a group 4100 Coca-Cola Plaza Charlotte, NC 28211	Common Stock Class B Common	4,463,745(2)(3) 2,479,250(4)(3)	48.9% 99.96%	51,569,495	91.7%
The Coca-Cola Company One Coca-Cola Plaza Atlanta, GA 30313	Common Stock Class B Common	1,984,495(5)(3) 497,670(3)	29.9% 20.1%	11,937,895	21.2%
Coca-Cola Enterprises Inc. 2500 Windy Ridge Parkway Atlanta, GA 30339	Common Stock	696,100(6)	10.5%	696,100	1.2%

- (1) In calculating the total votes and percentage of total votes, no effect is given to conversion of Class B Common Stock into Common Stock. A total of 6,643,177 shares of Common Stock and 2,480,152 shares of Class B Common Stock was outstanding on March 14, 2007.
- (2) Consists of (a) 2,479,250 shares of Class B Common Stock beneficially owned by such persons as described in note (4) that are convertible into shares of Common Stock and (b) 1,984,495 shares of Common Stock held by The Coca-Cola Company subject to the terms of the Voting Agreement and Irrevocable Proxy (described in note (3) below) as to which Mr. Harrison has shared voting and no investment power.
- (3) J. Frank Harrison, III, J. Frank Harrison Family, LLC and the Harrison Family Limited Partnerships (described in note (4) below) are parties to a Voting Agreement with The Coca-Cola Company. The Coca-Cola Company has also granted an Irrevocable Proxy to Mr. Harrison, the terms of which provide Mr. Harrison an irrevocable proxy for life concerning the shares of Common Stock and Class B Common Stock owned by The Coca-Cola Company. See *Certain Transactions* below.
- (4) Consists of (a) a total of 1,605,534 shares of Class B Common Stock held by the JFH Family Limited Partnership FH1, JFH Family Limited Partnership SW1 and JFH Family Limited Partnership DH1 (collectively, the Harrison Family Limited Partnerships), as to which Mr. Harrison, in his capacity as the Consolidated Stock Manager of J. Frank Harrison Family, LLC (the general partner of each of the Harrison Family Limited Partnerships), has sole voting and investment power, (b) 497,670 shares of Class B Common Stock held by The Coca-Cola Company subject to the terms of the Voting Agreement and Irrevocable Proxy (described in note (3) above) as to which Mr. Harrison has shared voting and no investment power, (c) 235,786 shares of Class B Common Stock held by certain trusts



for the benefit of certain relatives of the late J. Frank Harrison, Jr. as to which Mr. Harrison has sole voting and investment power, and (d) 140,260 shares of Class B Common Stock held by Mr. Harrison as to which he has sole voting and investment power.

- (5) Such information is derived from Amendment No. 26 to Schedule 13D filed by The Coca-Cola Company on April 1, 2003. With respect to the Common Stock ownership information, the amount shown excludes 497,670 shares issuable upon conversion of shares of Class B Common Stock.
- (6) Such information is derived from Amendment No. 4 to Schedule 13G filed by Coca-Cola Enterprises Inc. on February 14, 2002.

**PROPOSAL 1:**

**ELECTION OF DIRECTORS**

The Board of Directors consists of between nine and twelve members as fixed from time to time by our stockholders or the Board of Directors. The Board of Directors currently has eleven members. Vacancies and newly-created directorships may be filled by a majority of the directors then in office, although less than a quorum, or by a sole remaining director. Eleven directors are to be elected at the Annual Meeting to hold office until the next Annual Meeting of Stockholders and until their successors are duly elected and qualified.

It is the intention of the persons named as proxies in the accompanying form of proxy to vote all proxies solicited for the eleven nominees listed below, unless the authority to vote is withheld. Each of the nominees is an incumbent director, except for Henry W. Flint. Robert D. Pettus, Jr., a director of the Company since August 2004, will not stand for reelection at the Annual Meeting. If for any reason any nominee shall not become a candidate for election at the Annual Meeting, an event not now anticipated, the proxies will be voted for the eleven nominees including any substitutes that will be designated by the Board of Directors. The proxies solicited through this Proxy Statement will in no event be voted for more than eleven persons.

**Nominees for Election of Directors**

**J. FRANK HARRISON, III**, age 52, is our Chairman of the Board of Directors and Chief Executive Officer. Mr. Harrison served as Vice Chairman of the Board of Directors from November 1987 through his election as Chairman in December 1996 and was appointed as our Chief Executive Officer in May 1994. He was first employed by us in 1977 and has served as a Division Sales Manager and as a Vice President. Mr. Harrison is a director of Wachovia Bank & Trust, N.A., Southern Region Board. He is Chairman of the Executive Committee and Chairman of the Finance Committee.

**H. W. MCKAY BELK**, age 50, was appointed President and Chief Merchandising Officer of Belk, Inc., an operator of retail department stores, in March 2004. Prior to this appointment, Mr. Belk had served as President, Merchandising and Marketing of Belk, Inc. since May 1998. Mr. Belk served as President and Chief Merchandise Officer of Belk Stores Services, Inc., a provider of services to retail department stores, from March 1997 to April 1998. Mr. Belk served as President, Merchandise and Sales Promotion of Belk Stores Services, Inc. from April 1995 through March 1997. Mr. Belk is also a director of Belk, Inc. He has been a director of Coca-Cola Consolidated since May 1994 and is Chairman of the Audit Committee and a member of the Executive Committee and Compensation Committee.

**SHARON A. DECKER**, age 50, has been the Chief Executive Officer of The Tapestry Group, LLC, a communications and marketing firm, since September 2004. Prior to founding The Tapestry Group, LLC, Ms. Decker served as the President of The Tanner Companies, a direct

seller of women's apparel, from August 2002 to September 2004. From August 1999 to July 2002, she was President of Doncaster, a division of The Tanner Companies. Ms. Decker was President and Chief Executive Officer of the Lynnwood Foundation, which created and manages a conference facility and leadership institute, from 1997 until 1999. From 1980 until 1997, she served Duke Energy Corporation in a number of capacities, including as Corporate Vice President and Executive Director of the Duke Power Foundation. She also serves as a director of Family Dollar Stores, Inc., a discount retailer, and SCANA Corporation, a diversified utility company. Ms. Decker has been a director of Coca-Cola Consolidated since May 2001. Ms. Decker is a member of the Audit Committee and the Retirement Benefits Committee.

**WILLIAM B. ELMORE**, age 51, is our President and Chief Operating Officer, positions he has held since January 2001. He was Vice President, Value Chain from July 1999 to December 2000, Vice President, Business Systems from August 1998 to June 1999, Vice President, Treasurer from June 1996 to July 1998 and Vice President, Regional Manager for the Virginia, West Virginia and Tennessee Divisions from August 1991 to May 1996. Mr. Elmore has been a director of Coca-Cola Consolidated since January 2001. He is Chairman of the Retirement Benefits Committee and a member of the Executive Committee.

**HENRY W. FLINT**, age 52, has been our Executive Vice President and Assistant to the Chairman since July 2004. Mr. Flint was Co-Managing Partner of the law firm of Kennedy Covington Lobdell & Hickman, L.L.P. from January 2000 to July 2004, a firm with which he was associated since 1980. Mr. Flint has also served as our Secretary since 2000.

**JAMES E. HARRIS**, age 44, has been Executive Vice President and Chief Financial Officer of MedCath Corporation, an owner and operator of cardiovascular hospitals, since December 1999. From March 1998 to December 1999, Mr. Harris was Chief Financial Officer for Fresh Foods, Inc., a manufacturer of food products. From 1987 to 1998, Mr. Harris served in several different officer positions with The Shelton Companies, a private investment company. Prior to joining The Shelton Companies, Mr. Harris spent two years with Ernst & Young as a senior accountant. Mr. Harris has been a director of Coca-Cola Consolidated since August 2003. Mr. Harris is a member of the Audit Committee and the Finance Committee.

**DEBORAH S. HARRISON**, age 46, has been an affiliate broker with Fletcher Bright Company, a real estate brokerage firm located in Chattanooga, Tennessee, since February 1997. Ms. Harrison also served as a Trustee of the Girls' Preparatory School in Chattanooga, Tennessee from 1997 to 2004. Ms. Harrison has been a director of Coca-Cola Consolidated since May 2003 and is a member of the Finance Committee.

**NED R. McWHERTER**, age 76, is retired. He served as a Governor of the United States Postal Service from 1995 to 2003 and as Governor of the State of Tennessee from January 1987 to January 1995. Mr. McWherter is also a former director of Volunteer Distributing Company, a beverage distributor, Eagle Distributors, Inc., a snack food distributor, and Piedmont Natural Gas

Company, Inc., an energy and services company. He has been a director of Coca-Cola Consolidated since 1995 and is a member of the Compensation Committee.

**JOHN W. MURREY III**, age 64, has been an Assistant Professor at Appalachian School of Law in Grundy, Virginia since August 2003. Mr. Murrey was of counsel to the law firm of Shumacker Witt Gaither & Whitaker, P.C., in Chattanooga, Tennessee until December 2002, a firm with which he was associated since 1970. Mr. Murrey is a director of The Dixie Group, Inc., a carpet manufacturer, and U.S. XPress Enterprises, Inc., a trucking company. He has been a director of Coca-Cola Consolidated since March 1993 and is a member of the Retirement Benefits Committee.

**CARL WARE**, age 63, retired from The Coca-Cola Company in February 2003. Mr. Ware served as Executive Vice President, Public Affairs and Administration for The Coca-Cola Company, from January 2000 to February 2003. He served as President of the Africa Group of The Coca-Cola Company from January 1993 to January 2000. Mr. Ware has been a director of Coca-Cola Consolidated since February 2000. Mr. Ware is also a director of Chevron Corporation, a petroleum products company, and Cummins Inc., an engine manufacturer and distributor. Mr. Ware is a member of the Finance Committee.

**DENNIS A. WICKER**, age 54, has been a partner in the Raleigh, North Carolina office of the law firm of Helms Mulliss & Wicker, PLLC since 2001. He served as Lt. Governor of the State of North Carolina from 1993 to 2001. Mr. Wicker served as Chairman of North Carolina Community Colleges and as Chairman of North Carolina's Technology Council. Mr. Wicker also serves as a director of First Bancorp, a bank holding company, and Air T, Inc, an air transportation services company. Mr. Wicker has been a director of Coca-Cola Consolidated since May 2001. Mr. Wicker serves as the Lead Independent Director and is the Chairman of the Compensation Committee and a member of the Executive Committee and Audit Committee.

J. Frank Harrison, III and Deborah S. Harrison are brother and sister. In accordance with the operating agreement of J. Frank Harrison Family, LLC and certain trusts for the benefit of certain relatives of the late J. Frank Harrison, Jr., Mr. Harrison, III intends to vote the shares of our stock owned or controlled by such entities for the election of Ms. Harrison to the Board of Directors.

## CORPORATE GOVERNANCE

### The Board of Directors

The Board of Directors held four meetings during the fiscal year ended December 31, 2006. Each director attended all of the meetings of the Board of Directors and the Committees of the Board of Directors on which he or she served during fiscal year 2006. Absent extenuating circumstances, each of the members of the Board of Directors is required to attend in person the Annual Meeting. All of the then current members of the Board of Directors attended the 2006 Annual Meeting.

The full Board of Directors has determined that the following directors and nominees for director are independent directors within the meaning of the applicable listing standards of The NASDAQ Stock Market, LLC ( Nasdaq ): H.W. McKay Belk, Sharon A. Decker, James E. Harris, Ned R. McWherter, John W. Murrey III and Dennis A. Wicker.

### **The Audit Committee**

The Board of Directors has an Audit Committee whose current members are Messrs. Belk (Chairman), Harris and Wicker and Ms. Decker. The primary purpose of the Audit Committee is to act on behalf of the Board of Directors in its oversight of all material aspects of our accounting and financial reporting processes, internal controls and audit functions, including our compliance with Section 404 of the Sarbanes-Oxley Act of 2002. The Audit Committee functions pursuant to a written charter adopted by the Board of Directors, a current copy of which is attached to this Proxy Statement as Appendix A. The Board of Directors has determined that Mr. Harris is an audit committee financial expert within the meaning of the regulations of the Securities and Exchange Commission (the SEC ), and that all of the members of the Audit Committee are independent within the meaning of the applicable Nasdaq listing standards. The Audit Committee met four times in fiscal year 2006. The formal report of the Audit Committee for fiscal year 2006 is set forth below under the caption *Audit Committee Report*.

### **The Compensation Committee**

The Board of Directors has a Compensation Committee whose current members are Messrs. Wicker (Chairman), Belk and McWherter. The Compensation Committee administers our compensation plans, reviews and establishes the compensation of our executive officers and makes recommendations to the Board of Directors concerning such compensation and related matters. The Compensation Committee does not function pursuant to a written charter. The Compensation Committee met two times in fiscal year 2006. The formal report of the Compensation Committee for fiscal year 2006 is set forth below under the caption *Compensation Committee Report*.

In the fourth quarter of each year, the Compensation Committee conducts an annual review of each executive officer's compensation. As part of this review, management submits recommendations to the Committee based on annual performance evaluations and an annual review of executive compensation conducted by management. In conducting its annual compensation review for 2006, management engaged Hewitt Associates to provide it with examples and recommendations regarding the form of the Long-Term Performance Plan, as described below. Following a review of management's recommendations, the Committee approves the recommendations for the executive officers, with such modifications as the Committee deems appropriate. The Committee may also adjust compensation for specific individuals at other times during the year when there are significant changes in responsibilities or under other circumstances that the Committee considers appropriate.

## Nominations of Directors

The Board of Directors does not have a standing Nominating Committee comprised solely of independent directors. The Board of Directors is not required to have such a committee because we qualify as a controlled company within the meaning of Rule 4350(c)(5) of the Nasdaq listing standards. We currently qualify as a controlled company because more than 50% of our voting power is controlled by our Chairman and Chief Executive Officer, J. Frank Harrison, III (the Controlling Stockholder). Rule 4350(c)(5) was adopted by Nasdaq in recognition of the fact that a majority stockholder may control the selection of directors and certain key decisions of a company by virtue of his or her ownership rights.

The Board of Directors has delegated to its Executive Committee the responsibility for identifying, evaluating and recommending director candidates to the Board of Directors, subject to the final approval of the Controlling Stockholder who is also a member of the Executive Committee. The current members of the Executive Committee are Messrs. Harrison (Chairman), Belk, Elmore and Wicker. Messrs. Belk and Wicker are independent directors within the meaning of the applicable Nasdaq rules. Messrs. Harrison and Elmore do not qualify as independent directors. The Executive Committee met one time in fiscal year 2006.

The Executive Committee does not function pursuant to a formal written charter. However, taking into consideration the fact that we are a controlled company and that all director candidates must be acceptable to the Controlling Stockholder, the Board of Directors has approved the following nomination and appointment process for the purpose of providing our constituencies with a voice in the identification of candidates for nomination and appointment.

In identifying potential director candidates, the Executive Committee may seek input from other directors, executive officers, employees, community leaders, business contacts, third-party search firms and any other sources deemed appropriate by the Executive Committee. The Executive Committee will also consider director candidates recommended by stockholders to stand for election at the next Annual Meeting, so long as such recommendations are submitted in accordance with the procedures described below under *Stockholder Recommendations of Director Candidates*.

In evaluating director candidates, the Executive Committee does not set specific, minimum qualifications that must be met by a director candidate. Rather, in evaluating candidates for recommendation to the Board of Directors, the Executive Committee considers the following factors in addition to any other factors deemed appropriate by the Executive Committee:

whether the candidate is of the highest ethical character and shares the values of our company;

whether the candidate's reputation, both personal and professional, is consistent with our image and reputation;

whether the candidate possesses expertise or experience that will benefit us and is desirable given the current make-up of the Board of Directors;

whether the candidate is independent as defined by the applicable Nasdaq listing standards and other applicable laws, rules or regulations regarding independence;

whether the candidate is eligible to serve on the Audit Committee or other Board committees under the applicable Nasdaq listing standards and other applicable laws, rules or regulations;

whether the candidate is eligible by reason of any legal or contractual requirements affecting us or our stockholders;

whether the candidate is free from conflicts of interest that would interfere with the candidate's ability to perform the duties of a director or that would violate any applicable listing standard or other applicable law, rule or regulation;

whether the candidate's service as an executive officer of another company or on the boards of directors of other companies would interfere with the candidate's ability to devote sufficient time to discharge his or her duties as a director; and

if the candidate is an incumbent director, the director's overall service to our company during the director's term, including the number of meetings attended, the level of participation and the overall quality of performance of the director.

All director candidates, including candidates appropriately recommended by stockholders, are evaluated in accordance with the process described above. In all cases, however, the Executive Committee will not recommend any potential director candidate if such candidate is not acceptable to the Controlling Stockholder.

#### **Stockholder Recommendations of Director Candidates**

Stockholders who wish to recommend director candidates for consideration by the Executive Committee may do so by submitting a written recommendation to the Chairman of the Executive Committee c/o our Secretary at 4100 Coca-Cola Plaza, Charlotte, North Carolina 28211. Such recommendation must include sufficient biographical information concerning the director candidate, including a statement regarding the director candidate's qualifications. The Executive Committee may require such further information and obtain such further assurances concerning the director candidate as it deems reasonably necessary to the consideration of the candidate.

Recommendations by stockholders for director candidates to be considered for the 2008 Annual Meeting of Stockholders must be submitted by November 28, 2007. The submission of a recommendation by a stockholder in compliance with these procedures does not guarantee the selection of the stockholder's candidate or the inclusion of the candidate in our proxy statement; however, the Executive Committee will consider any such candidate in accordance with the procedures described above under the caption *Nominations of Directors*.

**Stockholder Communications with the Board of Directors**

Stockholders may, at any time, communicate with any of our directors by sending a written communication to such director c/o our Secretary at 4100 Coca-Cola Plaza, Charlotte, North Carolina 28211. All communications received in accordance with these procedures will be reviewed by the Secretary and forwarded to the appropriate director or directors unless such communications are considered, in the reasonable judgment of the Secretary, to be improper for submission to the intended recipient. Examples of stockholder communications that would be considered improper for submission include communications that:

do not relate to the business or affairs of our company or the functioning or constitution of the Board of Directors or any of its committees;

relate to routine or insignificant matters that do not warrant the attention of the Board of Directors;

are advertisements or other commercial solicitations;

are frivolous or offensive; or

are otherwise not appropriate for delivery to directors.

**COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION**

H.W. McKay Belk, Ned R. McWherter and Dennis A. Wicker served on the Compensation Committee in fiscal year 2006. None of the directors who served on the Compensation Committee in fiscal year 2006 has ever served as one of our officers or employees. During fiscal year 2006, none of our executive officers served as a director or member of the Compensation Committee (or other committee performing similar functions) of any other entity of which an executive officer served on our Board of Directors or Compensation Committee.

**COMPENSATION COMMITTEE REPORT**

The Compensation Committee of the Board of Directors has reviewed and discussed the below section titled *Executive Compensation Compensation Discussion and Analysis* with management, and, based on such review and discussions, recommended to the Board of Directors that the section be included in this Proxy Statement and the Annual Report on Form 10-K for the year ended December 31, 2006.

Submitted by the Compensation Committee of the Board of Directors.

DENNIS A. WICKER, CHAIR

H. W. MCKAY BELK



NED R. McWHERTER

EXECUTIVE COMPENSATION

**Compensation Discussion and Analysis**

The following is a discussion and analysis of the material elements of our compensation program as it relates to our Chief Executive Officer, Chief Financial Officer and other executive officers named in the Summary Compensation Table. See the Summary Compensation Table below. This discussion is intended to provide perspective to the tables and other narrative disclosures that follow it.

**Executive Compensation Objectives.** The objectives of our executive compensation program are to ensure that our total executive officer compensation is:

competitive to attract and retain the best officer talent;

affordable and appropriately aligned with stockholder interests;

fair, equitable and consistent as to each component of compensation;

designed to motivate our executive officers to achieve our annual and long-term strategic goals and to reward performance based on the attainment of those goals;

designed to appropriately take into account risk and reward in the context of our business environment and long-range business plans;

designed to consider individual value and contribution to our success;

reasonably balanced across types and purposes of compensation, particularly with respect to performance-based objectives and retention and retirement objectives;

sensitive to, but not exclusively reliant upon, market benchmarks;

reasonably sensitive to the needs of our executive officers, as those needs change over time; and

flexible with regard to our succession planning objectives.

**Executive Compensation Overview.** We compensate our executive officers through a mix of base salaries, annual performance incentives, long-term deferred compensation and retirement benefits, and other personal benefits and perquisites. We also provide our Chief Executive Officer with restricted stock. In allocating compensation among these elements, we attempt to maintain an appropriate balance between fixed and performance-based compensation, short-term and long-term compensation, and cash and non-cash compensation. The following table presents the approximate mix of total compensation for each of the named executive officers for fiscal year 2006:

	<i>Fixed vs. Performance-Based</i>		<i>Short-Term vs. Long-Term</i>		<i>Cash vs. Non-Cash</i>	
	<i>Fixed Compensation</i>	<i>Performance-Based Compensation</i>	<i>Short-Term Compensation</i>	<i>Long-Term Compensation</i>	<i>Cash Compensation</i>	<i>Non-Cash Compensation</i>
Chairman and Chief Executive Officer	47%	53%	73%	27%	79%	21%
President and Chief Operating Officer	71%	29%	60%	40%	100%	0%
Executive Vice President and Assistant to the Chairman	78%	22%	63%	37%	99%	1%
Senior Vice President and Chief Financial Officer	80%	20%	64%	36%	100%	0%
Senior Vice President and President of ByB Brands, Inc.	76%	24%	66%	34%	100%	0%

Over the past several years, we have undertaken an in-depth review of our executive compensation program in light of our business environment, our annual and long-range business plans, our company's culture and values and applicable legal requirements. As part of this review, we engaged Hewitt Associates, a nationally recognized consulting firm, in 2005 to complete a study of the compensation of our executive officers compared to the compensation of senior management at twenty-nine comparable companies based on revenue size and business industry segment. We also reviewed publicly available information regarding the compensation of senior management at other soft drink bottling companies.

As a result of this review, we noted that the total compensation of our executive officers has been historically weighted in favor of longer-term fixed benefits, such as retirement benefits, and determined that more emphasis should be placed on performance-based compensation that is consistent with the achievement of our annual and long-term business plans and objectives. Based on that determination, we adopted amendments to our Supplemental Savings Incentive Plan, a nonqualified deferred compensation plan, in 2005 and are currently proposing to the stockholders (i) amendments to our Annual Bonus Plan and (ii) a new Long-Term Performance

Plan. We are implementing these changes as part of an ongoing, transitional process to better align the compensation of our executive officers with our annual and long-term strategic interests and financial goals. We expect to continue our review of our executive compensation program in 2007, which may lead to additional changes to our policies and overall approach to executive compensation, particularly with respect to developing further perspective on the appropriate mix of types of compensation.

**Base Salaries.** We provide our executive officers with base salaries to achieve our objectives of attracting and retaining the best officer talent, recognizing individual value and contributions to our success, and providing a reasonable balance between fixed and performance-based compensation. We strive to maintain executive base salaries at a level that will permit us to compete with other major companies for officers with comparable qualifications and abilities.

In setting and adjusting base salaries, we consider a number of factors including each executive officer's position and level of responsibility within our company, individual job performance, contributions to our corporate performance, job tenure and potential. We also review various compensation surveys to assess generally the competitiveness of our salaries and our own internal salary grades and bands for executive officers, but we do not rely exclusively on survey data or attempt to maintain salaries or overall compensation at specific benchmarks or percentiles. Our decisions regarding base salary levels are not objective, but instead are based on our general experience and subjective consideration of the factors described above.

The base salaries earned by our named executive officers in fiscal year 2006 were as follows:

<u>Name and Principal Position</u>	<u>Base Salary</u>
J. Frank Harrison, III Chairman of the Board of Directors and Chief Executive Officer	\$ 758,487
William B. Elmore President and Chief Operating Officer	616,940
Henry W. Flint Executive Vice President and Assistant to the Chairman	412,833
Steven D. Westphal Senior Vice President and Chief Financial Officer	320,833
Norman C. George Senior Vice President, President ByB Brands, Inc.	299,157

For fiscal year 2007, we have increased Mr. Westphal's base salary to \$350,000, or 7.7%, due to increased levels of responsibility in connection with his 2005 promotion to Senior Vice President and Chief Financial Officer, our review of market survey data and Mr. Westphal's individual performance and contributions to our company. Each of the other named executive officers received a 3.5% increase in base salary for 2007.

**Annual Performance Incentives.** We provide our executive officers, including the named executive officers, with the ability to earn significant cash incentive awards through our Annual Bonus Plan based on performance objectives. We provide the Annual Bonus Plan to achieve our objectives of providing compensation that is designed to motivate our executive officers to achieve our annual strategic and financial goals, provide a reasonable balance between fixed and performance-based elements of compensation and attract and retain the best officer talent.

In the first quarter of 2006, the Compensation Committee approved the following target cash incentive awards for our named executive officers for fiscal year 2006:

<u>Name</u>	<u>FY 2006</u> <u>Target Incentive</u> <u>Awards</u>
J. Frank Harrison, III	\$ 912,756
William B. Elmore	742,420
Henry W. Flint	298,080
Steven D. Westphal	195,000
Norman C. George	180,478

Target incentive awards are computed by multiplying each executive officer's base salary by an assigned percentage of base salary and, for each named executive officer, an indexed performance factor of 1.2. Base salary percentages are assigned based on each executive's level of responsibility and the contribution to our corporate performance attributed to the executive's position. In order to satisfy the requirements of Section 162(m) of the Internal Revenue Code that all performance-based compensation be determined in accordance with a pre-determined objective formula, the indexed performance factor is automatically fixed at 1.2 for each of the named executive officers in accordance with the terms of the Annual Bonus Plan.

Although the Annual Bonus Plan enables the Compensation Committee to calculate incentive awards derived from objective factors, the Compensation Committee has absolute discretion to decrease or eliminate awards under the plan, by reducing assigned indexed performance factors or otherwise. After the end of each fiscal year, it is the practice of the Compensation Committee to reduce the indexed performance factor for each named executive officer to 1.0, except where the Committee determines based on subjective considerations that a named executive officer achieved exceptional individual performance during the fiscal year. For fiscal year 2006, the indexed performance factor for each of the named executive officers was reduced to 1.0 by the Compensation Committee, except for Mr. George. Mr. George's indexed

performance factor was maintained at 1.2 in recognition of his exceptional effort and dedication toward the business expansion initiatives of our company.

Incentive award amounts paid under the Annual Bonus Plan are determined by multiplying the target incentive award amount by an overall goal achievement factor. The overall goal achievement factor is based on our achievement of pre-determined performance goals with respect to the following performance measures:

operating cash flow,

free cash flow,

net income,

unit volume,

market share, and

a value measure.

In the first quarter of each year, the Compensation Committee assigns weights to each of the performance measures based on the perceived need to focus more or less on any particular objective in that year. The corporate performance goals and related weights are established after evaluating industry conditions, available information on the performance of other companies in the soft drink bottling industry, and our prior year performance and specific objectives for the current year. See *Summary of Compensation and Grants of Plan-Based Awards Annual Bonus Plan* for the goals and related weights assigned to the performance measures for fiscal year 2006.

The performance measures, as weighted, make up our overall goal achievement factor, which is calculated on the basis of a graduated scale ranging from a goal achievement of between 89% and 110% of each particular performance measure. For fiscal year 2006, target goals were met or exceeded for the performance measures of free cash flow and net income. For operating cash flow, unit volume and market share, actual performance exceeded the payout threshold of 89% but was below the 97.1% target. For the value measure, we did not achieve the payout threshold of 89% in fiscal year 2006. The overall goal achievement factor for 2006 was 93.5%, and each named executive officer received a cash incentive award as set forth below.

<u>Name</u>	<i>FY 2006 Actual Incentive Awards</i>
J. Frank Harrison, III	\$ 711,189
William B. Elmore	578,469
Henry W. Flint	232,254
Steven D. Westphal	151,938
Norman C. George	168,747



For additional information regarding our Annual Bonus Plan for 2006, see the *Non-Equity Incentive Plan Compensation* column of the Summary Compensation Table, the Grants of Plan-Based Awards table, and *Summary of Compensation and Grants of Plan-Based Awards Annual Bonus Plan* below.

In December 2006, the Compensation Committee approved amendments to our Annual Bonus Plan, subject to the approval of our stockholders at the 2007 Annual Meeting of Stockholders. The primary purpose of these amendments is to change the performance measures used under the plan to:

revenue,

earnings before interest and taxes, and

net debt reduction.

We decided to revise the performance measures under our Annual Bonus Plan as a result of our in-depth review of the plan. Based on that review, we believe the proposed measures are better aligned with our annual and long-term strategic objectives. Each of the proposed measures relates to a key annual strategic goal under our current long-range plan. On February 28, 2007, the Compensation Committee assigned the following approved bonus percentage factors for the participants in the Annual Bonus Plan: Mr. Harrison 100%, Mr. Elmore 100%, Mr. Flint 60%, Mr. Westphal 60% and Mr. George 50%.

The amendments to the Annual Bonus Plan also provide that the indexed performance factor will be automatically set at 1.5 for each of the named executive officers (rather than 1.2 as required under the current plan) in order to provide more flexibility for recognizing exceptional individual performance. Payments of any awards under the Annual Bonus Plan, as amended, will be subject to the approval by our stockholders of the material terms of the Annual Bonus Plan to the extent that the deductibility of such payments would be limited by Section 162(m). For additional information regarding the proposed amendments to our Annual Bonus Plan, see *Proposal 2: Approval of Amended and Restated Annual Bonus Plan* below.

**Long-Term Performance Incentives.** In December 2006, the Compensation Committee approved a new Long-Term Performance Plan, subject to the approval of our stockholders at the 2007 Annual Meeting of Stockholders. For a description of the terms of the Long-Term Performance Plan, see *Proposal 3: Approval of Long-Term Performance Plan* below.

We are proposing the Long-Term Performance Plan as a result of our ongoing review of our overall executive compensation program, as described above under *Compensation Discussion and Analysis Executive Compensation Overview*. As described above, Hewitt Associates assisted us with this review and provided examples and recommendations regarding the form of the Long-Term Performance Plan. Based on our review, we noted that the total compensation of our officers has been historically weighted in favor of longer-term fixed



compensation, such as retirement benefits, and underweighted with respect to annual and long-term performance based compensation consistent with our annual and long-term strategic plans and financial goals. As a result, we are in the process of modifying our executive compensation program to make a higher proportion of total compensation dependent on the attainment of our annual and long-term strategic goals. As part of this process, we are now proposing the new Long-Term Performance Plan along with the amendments to our Annual Bonus Plan.

We are proposing the Long-Term Performance Plan because we believe that it is consistent with our executive compensation objectives of ensuring that total officer compensation is:

affordable and appropriately aligned with stockholder interests;

designed to motivate executive officers to achieve our annual and long-term strategic goals and to reward performance based on the attainment of those goals;

designed to appropriately take into account risk and reward in the context of our long-range business plans;

reasonably balanced across types and purposes of compensation, particularly with respect to performance-based objectives and retention and retirement objectives; and

fair, equitable and consistent as to each component of compensation.

Under the Long-Term Performance Plan, participants will be eligible to receive cash incentive awards based on the achievement of long-term corporate or individual performance objectives that are pre-determined by the Compensation Committee. For executive officers who are covered employees under Section 162(m) of the Internal Revenue Code, cash incentive awards will be based on the achievement of performance goals with respect to the following performance measures:

revenue,

earnings per share,

return on total assets, and

net debt/operating cash flow.

We have chosen these measures because they are key, long-term strategic goals within our long-term plan. Historically, we have not used equity as a significant element of compensation (other than with respect to our Chairman and Chief Executive Officer) due to the limited public float and trading volume of our Common Stock. As such, we have elected to make awards under the Long-Term Performance Plan payable in cash, which is consistent with the historical expectations of our officers.

If the Long-Term Performance Plan is approved by the stockholders, we anticipate making initial awards under the plan in December 2007 or February 2008.



**Restricted Stock.** During 1999, Mr. Harrison received a restricted stock award of 200,000 shares of our Class B Common Stock. Under the award, 20,000 shares of restricted stock are subject to vesting each year over a 10-year period. The vesting of each annual installment is contingent upon our attainment of an overall goal achievement factor of at least 80% under the Annual Bonus Plan. The award also includes cash payments by us to Mr. Harrison for the reimbursement of income taxes related to the vesting of restricted stock. See *Compensation Discussion and Analysis Perquisites and Other Benefits* below for a discussion of our policies with respect to the payment of income tax reimbursements.

The restricted stock award is intended to qualify as performance-based compensation under Section 162(m). The primary objective of the award was to make a significant portion of Mr. Harrison's compensation dependent on the achievement of the performance goals under the Annual Bonus Plan. The award was approved by our stockholders at the 1999 Annual Meeting of Stockholders.

In accordance with the terms of the award, 20,000 shares vested, effective January 1, 2007, based on the determination of the Compensation Committee that at least 80% of the overall goal achievement factor had been obtained under the Annual Bonus Plan for fiscal year 2006. The dollar amount realized upon the vesting of the shares was \$1,368,600, based on the closing price of our Common Stock (\$68.43) on December 29, 2006. In addition, Mr. Harrison received \$1,026,570 for the reimbursement of income taxes related to the vesting of the shares. For additional information regarding the restricted stock award, see *Summary of Compensation and Grants of Plan-Based Awards Restricted Stock Award Agreement*, the *Stock Awards* column of the Summary Compensation Table, the Grants of Plan-Based Awards table, the Outstanding Equity Awards at 2006 Fiscal Year-End table and the Option Exercises and Stock Vested table below.

On February 28, 2007, the Compensation Committee approved, subject to stockholder approval, an amendment to Mr. Harrison's Restricted Stock Award Agreement to change the performance measures used for determining the vesting of the remaining two tranches of restricted stock awards under the agreement to measures that are better aligned with our strategic objectives. Under the amended agreement, the remaining two 20,000 share increments of restricted stock will vest based on the achievement of an overall goal achievement factor of at least 80% under the terms of our amended Annual Bonus Plan, as described under *Proposal 2: Approval of Amended and Restated Annual Bonus Plan* below. As such, the vesting of each remaining 20,000 share increment of restricted stock will be based on the achievement of annual performance goals with respect to the following performance measures:

revenue,

earnings before interest and taxes, and

net debt reduction.

We are submitting the amendment to the Restricted Stock Award Agreement for the approval of our stockholders to preserve our ability to deduct for income tax purposes the compensation paid under the amended agreement pursuant to Section 162(m) of the Internal Revenue Code. See *Proposal 4: Approval of Amendment to Chief Executive Officer's Restricted Stock Award* below for additional information.

**Deferred Compensation.** We provide certain key executives, including the named executive officers, with a Supplemental Savings Incentive Plan. The Supplemental Savings Incentive Plan is a nonqualified defined contribution plan under which participants may elect to defer a portion of their annual salary and bonus. We match 50% of the first 6% of salary (excluding bonus) deferred and may also make additional discretionary contributions to the participants' accounts. During 2006, 2007 and 2008, we are also required to make transition contributions as described below.

We provide the Supplemental Savings Incentive Plan to our executive officers in order to achieve our executive compensation objectives of attracting and retaining the best officer talent and to promote a long-term perspective for our key officers. Prior to 2006, participants in the plan could elect to receive a fixed annual return of up to 13% on the balances in their plan accounts, which provided participants with an above market rate of return and resulted in a long-term fixed liability for us that was not contingent on our corporate performance or success. As described above under *Compensation Discussion and Analysis Executive Compensation Overview*, we determined in 2005 that the total compensation of our executive officers was weighted too heavily in favor of longer-term fixed benefits, such as the fixed annual return option in the Supplemental Savings Incentive Plan, and underweighted with respect to long-term performance based compensation consistent with our long-term strategic objectives.

As a result of these determinations, we adopted amendments to our Supplemental Savings Incentive Plan in fiscal year 2005, including amendments that:

eliminated the option to receive a fixed rate of return under the plan for salary deferrals and company contributions made after 2005; and

require us to make transition contributions to participants' accounts during 2006, 2007 and 2008 ranging from 10% to 40% of a participant's annual salary (excluding bonuses), with contributions above the 10% level subject to our overall goal achievement factor under the Annual Bonus Plan (as described above under *Compensation Discussion and Analysis Annual Performance Incentives*).

Balances with respect to transition contributions are deemed invested in investment choices similar to the choices available in our 401(k) Savings Plan.

These changes were made to the Supplemental Savings Incentive Plan as part of a transitional process designed to ensure that our compensation program is better aligned with our strategic annual and long-range business plans and our total officer compensation is:

affordable and appropriately aligned with stockholder interests;

designed to motivate executive officers to achieve our annual and long-term strategic goals and to reward performance based on the attainment of those goals;

designed to appropriately take into account risk and reward in the context of our business environment and long-range business plans;

reasonably balanced across types and purposes of compensation, particularly with respect to performance-based objectives and retention and retirement objectives; and

fair, equitable and consistent as to each component of compensation.

For fiscal year 2006, we made transition contributions to the named executive officers equal to 20% of their salaries, based on an overall goal achievement factor of 93.5%. If the proposed amendments to our Annual Bonus Plan are adopted, transition contributions for 2007 and 2008 will be based on the attainment of an overall goal achievement factor as computed under the amended and restated Annual Bonus Plan.

For fiscal year 2006, our total contributions to, and the aggregate earnings on, the named executive officer's accounts under the Supplemental Savings Incentive Plan were as follows:

<i>Name</i>	<i>Company Contributions in FY 2006</i>	<i>Aggregate Earnings in FY 2006</i>
J. Frank Harrison, III	\$ 120,816	\$ 218,933
William B. Elmore	99,412	413,185
Henry W. Flint	61,625	19,625
Steven D. Westphal	61,116	111,044
Norman C. George	49,653	181,873

For additional information regarding the specific terms and conditions of the plan and the amounts of contributions and earnings under the plan during fiscal year 2006, see *Deferred Compensation* below. For additional information regarding the 2005 amendments to our Supplemental Savings Incentive Plan, see the Proxy Statement for our 2006 Annual Meeting of Stockholders and our Current Report on Form 8-K filed with the Securities and Exchange Commission on November 9, 2005.

**Retirement Plans.** We maintain an Officer Retention Plan, which is a supplemental defined benefit retirement plan, for certain key executive officers including the named executive officers. Under this plan, the participants' benefits increase each year pursuant to a pre-determined schedule that is based on the participants' position and level of responsibility.



within our company, performance, and job tenure. Historically, we have emphasized retention as a key objective of our compensation program, and the Officer Retention Plan was implemented for the purpose of attracting and retaining the best officer talent until retirement and to promote a long-term perspective for our key executives. In addition, the Officer Retention Plan has been provided in recognition of our historical practice of not using equity as a significant component of compensation (other than with respect to our Chairman and Chief Executive Officer).

As of December 31, 2006, the present values of the named executive officers' accumulated benefits under the Officer Retention Plan were as follows:

<u>Name</u>	<u>Present Value of Accumulated Benefits</u>
J. Frank Harrison, III	\$ 6,886,258
William B. Elmore	2,876,317
Henry W. Flint	656,566
Steven D. Westphal	575,000
Norman C. George	926,317

For additional information regarding the terms and conditions of the Officer Retention Plan and the accumulated benefits under the plan, see the *Change in Pension Value and Nonqualified Deferred Compensation Earnings* column of the Summary Compensation Table, *Retirement Plans Officer Retention Plan* and the Pension Benefits for Fiscal Year 2006 table below.

We also maintain a traditional defined benefit pension plan. Effective as of June 30, 2006, no new participants may become eligible to participate in the plan and the benefits under the plan for existing participants, including the named executive officers, were frozen. See

*Retirement Plans Pension Plan* below for additional information regarding the pension plan. In connection with the freeze of the benefits under the pension plan, we amended our 401(k) Savings Plan effective January 1, 2007 to increase our matching contribution under the 401(k) Savings Plan. The amendment to the 401(k) Savings Plan will provide for fully vested matching contributions equal to one hundred percent of a participant's elective deferrals to the 401(k) Savings Plan up to a maximum of 5% of a participant's eligible compensation.

**Severance and Change in Control Arrangements.** Our senior executives, including the named executive officers, do not have employment agreements, but we have agreed to provide them with certain payments in connection with their severance from employment or a change in control of our company. With respect to severance, including termination without cause or voluntary termination or termination resulting from death or total disability, each executive's benefits are limited to the severance benefits payable under our 401(k) plan, frozen benefits under the pension plan, Supplemental Savings Incentive Plan and Officer Retention Plan.

We provide our senior executive officers with change in control benefits because we believe that it is important to provide them with certain assurances in the event of a change in control and we believe these benefits better align their interests with those of our stockholders. In the event of a change in control, our executive officers would face a substantially greater risk of termination than our average salaried employees. In addition, it is our belief that change in control benefits should eliminate or reduce any reluctance by our senior management to pursue potential change in control transactions that may be in the best interests of our stockholders.

For additional information regarding our severance and change in control arrangements, see *Potential Payments Upon Termination or Change in Control* below. The proposed amendments to our Annual Bonus Plan and proposed Long-Term Performance Plan also contain severance and change in control provisions, which are described in more detail below under *Proposal 2: Approval of Amended and Restated Annual Bonus Plan* and *Proposal 3: Approval of Long-Term Performance Plan*.

**Perquisites and Other Benefits.** We provide our executive officers, including the named executive officers, with perquisites and personal benefits that we believe are reasonable, competitive and consistent with the objectives of our compensation program of attracting and retaining the best officer talent. The primary perquisites and personal benefits provided to our named executive officers are personal financial planning and tax services, country club initiation fees and dues, individual and excess group life insurance premiums, income tax reimbursements and personal use of company aircraft.

We provide financial planning and tax services because we believe that good financial planning by experts reduces the amount of time and attention that senior management must spend on that need and maximizes the net financial reward to the employee of the compensation provided by us. We provide country club initiation fees and dues because we want to provide senior management with an appropriate forum for entertaining customers and interacting with the community. We pay life insurance premiums on policies that were purchased to replace certain terminated split-dollar life insurance arrangements. For certain elements of compensation, we provide income tax reimbursements in order to provide the full benefit of the compensation.

For security reasons, our Board of Directors requires Mr. Harrison, our Chairman and Chief Executive Officer, to use our corporate aircraft whenever reasonable or feasible for both business and personal purposes. Upon prior approval of the Chief Executive Officer, the other named executive officers are also permitted to use our corporate aircraft for personal purposes subject to the oversight of the Compensation Committee and Board of Directors.

The executive officers, including the named executive officers, also participate in other benefit plans on the same terms as other employees. These benefits include the 401(k) Savings Plan, medical and dental insurance, vision insurance and long-term disability insurance. As part of



our ongoing review of our executive compensation program, we intend to review our current policies and practices with respect to perquisites and personal benefits.

**Section 162(m) of the Internal Revenue Code.** Under Section 162(m) of the Internal Revenue Code of 1986, as amended, a public company is generally not entitled to deduct non-performance-based compensation paid to its named executive officers for federal income tax purposes to the extent any such individual's compensation in any year exceeds \$1 million. Special rules apply for performance based compensation, including the pre-approval of performance goals applicable to that compensation.

All compensation paid to our named executive officers in 2006 was fully deductible for the purposes of Section 162(m). With respect to non-performance based compensation to be paid to named executive officers in 2007 and future years, in certain instances such compensation may exceed \$1 million. However, in order to maintain flexibility in compensating executive officers in a manner designed to promote varying corporate goals, the Compensation Committee has not adopted a policy that all compensation must be deductible for federal income tax purposes.

**Process for Determining Executive Compensation.** The Compensation Committee of our Board of Directors administers our compensation plans, reviews and approves executive compensation and makes recommendations to the Board concerning executive compensation and related matters. In the fourth quarter of each year, the Committee conducts an annual review of each executive officer's compensation, including each named executive officer's compensation. As part of this review, management submits recommendations to the Committee based on annual performance evaluations and an annual review of executive compensation conducted by management. In conducting its annual compensation review for 2006, management engaged Hewitt Associates to provide it with examples and recommendations regarding the form of the Long-Term Performance Plan. Following a review of management's recommendations, the Committee approves the recommendations for the executive officers, with such modifications as the Committee deems appropriate. In fiscal year 2006, the Committee approved management's recommendations without change. The Committee may also adjust compensation for specific individuals at other times during the year when there are significant changes in responsibilities or under other circumstances that the Committee considers appropriate.

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**Summary of Compensation and Grants of Plan-Based Awards**

The following table sets forth certain compensation information for the fiscal year ended December 31, 2006 concerning our Chief Executive Officer, Chief Financial Officer and our three other most highly compensated executive officers, which we refer to as the named executive officers.

**Summary Compensation Table**

<i>Name and Principal Position</i>	<i>Year</i>	<i>Salary (\$)(1)</i>	<i>Stock Awards (\$)</i>	<i>Non-Equity Incentive Plan Compensation (\$)(2)</i>	<i>Change in Pension Value and Nonqualified Deferred Compensation Earnings (\$)(3)</i>	<i>All Other Compensation (\$)</i>	<i>Total (\$)</i>
J. Frank Harrison, III Chairman of the Board of Directors and Chief Executive Officer (4)	2006	\$ 758,487	\$ 929,000(5)	\$ 711,189	\$ 806,835	\$ 1,806,341(6)	\$ 5,011,852
William B. Elmore President and Chief Operating Officer (4)	2006	616,940		578,469	672,956	131,357(7)	1,999,722
Henry W. Flint Executive Vice President and Assistant to the Chairman (4)	2006	412,833		232,254	311,059	100,755(8)	1,056,901
Steven D. Westphal Senior Vice President and Chief Financial Officer	2006	320,833		151,938	205,554	95,581(9)	773,906
Norman C. George Senior Vice President and President of ByB Brands, Inc.	2006	299,157		168,747	178,798	65,353(10)	712,055

- (1) The amounts shown in this column for fiscal year 2006 include aggregate amounts deferred at the election of the named executive officer under our 401(k) Savings Plan and Supplemental Savings Incentive Plan.

- (2) The amounts shown in this column represent cash incentive awards earned in 2006 under our Annual Bonus Plan. See *Summary of Compensation and Plan-Based Awards Annual Bonus Plan* below.

(3) The amounts shown in this column for fiscal year 2006 are set forth below:

	<i>Mr. Harrison</i>	<i>Mr. Elmore</i>	<i>Mr. Flint</i>	<i>Mr. Westphal</i>	<i>Mr. George</i>
Aggregate change in actuarial present value of accumulated benefit under Pension Plan	\$ 36,355	\$ 26,958	\$ 15,476	\$ 26,900	\$ 29,391
Aggregate change in actuarial present value of accumulated benefit under Officer Retention Plan	731,257	569,298	292,929	158,333	119,298
Portion of interest accrued under the Supplemental Savings Incentive Plan on deferred compensation above 120% of the applicable federal long-term rate	39,223	76,700	2,654	20,321	30,109
<b>Totals</b>	<b>\$ 806,835</b>	<b>\$ 672,956</b>	<b>\$ 311,059</b>	<b>\$ 205,554</b>	<b>\$ 178,798</b>

(4) Mr. Harrison and Mr. Elmore are both members of the Board of Directors but neither receive compensation for their services on the Board. Mr. Flint is a nominee for election to the Board of Directors and, if elected, will not receive compensation for his services on the Board of Directors.

(5) This amount represents the dollar amount recognized by us for financial statement reporting purposes for fiscal year 2006 with respect to Mr. Harrison's restricted stock award. See *Summary of Compensation and Grants of Plan-Based Awards Restricted Stock Award Agreement* below. The amount was computed in accordance with Financial Accounting Standards Board Statement of Financial Accounting Standards No. 123 (revised 2004), *Share Based Payment (FAS 123R)*, except that any estimates of forfeitures in accordance with FAS 123R have been disregarded. For additional information regarding the assumptions made in calculating the amount, see pages 78 to 79 of our Annual Report on Form 10-K for the fiscal year ended December 31, 2006. There were no forfeitures of stock awards for fiscal year 2006.

(6) For Mr. Harrison, this amount includes (a) our contributions to the Supplemental Savings Incentive Plan \$120,816, (b) individual life insurance premiums paid by us \$222,704 and (c) income tax reimbursements \$1,276,950. This amount also includes amounts attributable to the following perquisites and personal benefits: country club initiation fee and dues, personal use of company aircraft and personal financial planning and tax services. The amount attributable to the country club initiation fee and dues is \$39,412, which was calculated based on the actual amount paid by us on behalf of Mr. Harrison. The amount attributable to Mr. Harrison's personal use of company aircraft is \$135,430, which was calculated based on the aggregate incremental cost to our company. The incremental cost of the personal use of company aircraft is calculated based on the average cost of fuel, crew travel, on board catering, trip-related maintenance, landing fees and trip-related hanger and parking costs and other similar variable costs. Fixed costs that do not change based on usage, such as pilot salaries, home hanger expenses and general taxes and insurance are excluded from the incremental cost calculation.

(7) For Mr. Elmore, this amount includes (a) our contributions to the Supplemental Savings Incentive Plan \$99,412 and (b) income tax reimbursements \$14,526.

(8) For Mr. Flint, the amount includes (a) our contributions to the Supplemental Savings Incentive Plan \$61,625 and (b) income tax reimbursements \$14,135. This amount also includes amounts attributable to the following perquisites and personal benefits: country club dues, personal use of company aircraft and personal financial planning and tax services.

(9) For Mr. Westphal, this amount includes our contributions to the Supplemental Savings Incentive Plan of \$61,116.

(10) For Mr. George, this amount includes our contributions to the Supplemental Savings Incentive Plan of \$49,653.

The following table sets forth certain information concerning grants of plan-based awards to our named executive officers in fiscal year 2006.

### Grants of Plan-Based Awards

#### Fiscal Year 2006

Name	Grant Date	Date of Initial Board Action	Estimated Possible Payouts Under Non-Equity Incentive Plan Awards (1)			Estimated Future Payouts Under Equity Incentive Plan Awards(2)			Grant Date Fair Value of Stock and Option Awards (\$)
			Threshold (\$)	Target (\$)	Maximum (\$)	Threshold (#)	Target (#)	Maximum (#)	
J. Frank Harrison, III	2/22/2006	12/2/1998	\$ 730,205	\$ 912,756	\$ 1,095,307	20,000	20,000	20,000	\$ 929,000(3)
William B. Elmore	N/A	N/A	593,936	742,420	890,904				
Henry W. Flint	N/A	N/A	238,464	298,080	357,696				
Steven D. Westphal	N/A	N/A	156,000	195,000	234,000				
Norman C. George	N/A	N/A	144,382	180,478	216,574				

- (1) The amounts shown in these columns reflect the threshold, target and maximum cash incentive awards assigned to the named executive officers under the 2006 Annual Bonus Plan. See *Summary of Compensation and Grants of Plan-Based Awards Annual Bonus Plan* below for additional information.
- (2) These columns reflect information regarding Mr. Harrison's restricted stock award. See *Summary of Compensation and Grants of Plan-Based Awards Restricted Stock Award Agreement* below for additional information.
- (3) This amount represents the grant date fair market value of Mr. Harrison's restricted stock award for fiscal year 2006 computed in accordance with FAS 123R. For additional information regarding the assumptions made in the valuation of this award, see pages 78 to 79 of the Annual Report on Form 10-K for the fiscal year ended December 31, 2006. Also see *Summary of Compensation and Grants of Plan-Based Awards Restricted Stock Award Agreement* below for additional information.

The following is a summary of certain compensation agreements that we have with, and certain plans that we maintain for, our executive officers, including the named executive officers, and other material information necessary to an understanding of the Summary Compensation Table and Grants of Plan-Based Awards table above.

**Annual Bonus Plan.** We maintain an annual non-equity incentive plan for our executive officers, including the named executive officers (the Annual Bonus Plan). The target cash incentive award assigned to each participant in the Annual Bonus Plan is determined by

multiplying each participant's base salary by two factors: (i) the participant's Approved Bonus Percentage Factor and (ii) the participant's Indexed Performance Factor.

The Approved Bonus Percentage Factor is expressed as a percentage of base salary and is determined for each participant based on the participant's position with our company and the relative responsibility and contribution to our performance attributed to such position. The maximum Approved Bonus Percentage Factor for any participant is 100% of base salary. In the first quarter of 2006, the Compensation Committee assigned the following Approved Bonus Percentage Factors to the named executive officers: Mr. Harrison 100%; Mr. Elmore 100%; Mr. Flint 60%; Mr. Westphal 50% and Mr. George 50%.

The Indexed Performance Factor for each participant is determined based on each participant's individual performance during the fiscal year, as evaluated by, and at the discretion of, the Compensation Committee after the conclusion of the fiscal year. In order to satisfy the requirements of Section 162(m) of the Internal Revenue Code that all performance-based compensation be determined in accordance with a pre-determined objective formula, the Indexed Performance Factor is fixed at 1.2 for all participants who are covered employees under Section 162(m). For fiscal year 2006, each of the named executive officers was automatically assigned an Indexed Performance Factor of 1.2 at the beginning of the year.

Based on the Approved Bonus Percentage Factors and Indexed Performance Factors assigned for fiscal year 2006, each of the named executive officers was assigned a target incentive award under the 2006 Annual Bonus Plan equal to the amount reflected in the *Estimated Possible Payouts Under Non-Equity Incentive Plan Awards Target* column of the Grants of Plan-Based Awards table above.

Although the Annual Bonus Plan enables the Compensation Committee to calculate incentive awards derived from objective factors, the Compensation Committee has absolute discretion to decrease or eliminate awards under the plan, by reducing assigned Indexed Performance Factors or otherwise. After the end of each fiscal year, it is the practice of the Compensation Committee to reduce the Indexed Performance Factor for each named executive officer to 1.0, except where the Committee determines based on subjective considerations that a named executive officer achieved exceptional individual performance during the fiscal year. For fiscal year 2006, the Indexed Performance Factor for each of the named executive officers was reduced to 1.0 by the Compensation Committee, except for Mr. George. Mr. George's indexed performance factor was maintained at 1.2 in recognition of his exceptional effort and dedication toward the business expansion initiatives of our company.

The amounts of the cash incentive awards paid under the Annual Bonus Plan are determined by multiplying the target incentive award, as adjusted for discretionary changes to Indexed Performance Factors, by an Overall Goal Achievement Factor. The Overall Goal Achievement Factor is determined for each fiscal year based on our performance in relation to annual goals

established by the Compensation Committee for the following six performance measures: (1) Operating Cash Flow; (2) Free Cash Flow; (3) Net Income; (4) Unit Volume; (5) Market Share and (6) Value Measure. The annual performance goals are determined by the Compensation Committee in the fourth quarter preceding the applicable plan year. The annual performance goal for each measure consists of a performance objective that is weighted (which weights must add to 100%) on the basis of a determination regarding the need to focus more or less on any particular objective in a given year. For fiscal year 2006, the Compensation Committee assigned the following goals and related weights to the performance measures:

<i>Performance Measure</i>	<i>Performance Goal</i>	<i>Assigned Weight</i>
Operating Cash Flow(1)	\$162 million	40%
Free Cash Flow(2)	\$20 million	25%
Net Income	\$21 million	15%
Unit Volume(3)	253.9 million	5%
Market Share(4)	29.5% market share	5%
Value Measure(5)	\$591.7 million	10%

- (1) Operating Cash Flow is defined in the Annual Bonus Plan as income from operations before depreciation and amortization of goodwill and intangibles.
- (2) Free Cash Flow is generally defined as net cash available for debt or lease payments after considering non-cash charges, capital expenditures, taxes and adjustments for changes in assets and liabilities.
- (3) Unit Volume is defined as bottle, can and pre-mix cases converted to 8 oz. equivalent cases.
- (4) The achievement of this performance goal requires positive market share growth from December 31, 2005 to December 31, 2006 for certain carbonated and noncarbonated beverages.
- (5) Value Measure is defined as an amount equal to nine times Operating Cash Flow minus debt.

The following items are excluded from the determination of the Overall Goal Achievement Factor if, and to the extent, such exclusions would increase the level of achievement with respect to any of the performance measures for a fiscal year:

unbudgeted events of more than \$50,000;

the impact of unbudgeted acquisition or joint venture transactions occurring after the commencement of the fiscal year performance period;

adjustments required to implement unbudgeted changes in accounting principles;

unbudgeted changes in depreciation and amortization schedules; and

unbudgeted premiums paid or received due to the retirement or refinancing of debt or hedging vehicles.





The Compensation Committee has the discretion to include any of the above items in the determination of goal achievement levels, but only to the extent that exercising such discretion would reduce (and not increase) the amount of any award otherwise payable under the Annual Bonus Plan.

The Overall Goal Achievement Factor is calculated based on a graduated scale ranging from a minimum of 0.8 (for goal achievement exceeding 89% of target) to 1.0 (for goal achievement between 97.1% and 100% of target) to a maximum of 1.2 (for goal achievement of 110% of target). For fiscal year 2006, target goals were met or exceeded for the performance measures of Free Cash Flow and Net Income. For Operating Cash Flow, Unit Volume and Market Share, actual performance exceeded the payout threshold of 89% but was below the 97.1% target. For the Value Measure, we did not achieve the payout threshold of 89% in fiscal year 2006. The Overall Goal Achievement Factor for 2006 was 93.5%. The amounts paid to each named executive officer under the 2006 Annual Bonus Plan are reflected in the *Non-Equity Incentive Plan Compensation* column of the Summary Compensation Table above.

**Restricted Stock Award Agreement.** On December 2, 1998, the Board of Directors, upon recommendation of the Compensation Committee, approved a restricted stock award for Mr. Harrison consisting of 200,000 shares of our Class B Common Stock. The award was granted pursuant to the terms of a Restricted Stock Award Agreement, which was approved by our stockholders on May 12, 1999. Under the Restricted Stock Award Agreement, 20,000 shares of restricted stock are subject to vesting each year, beginning on the first day of our fiscal year 2000 and ending on the first day of our fiscal year 2009. We are also required to reimburse Mr. Harrison for any federal or state income taxes payable on the award.

The vesting of each 20,000 share increment is conditioned upon (i) Mr. Harrison's continued employment as of each vesting date and (ii) our achievement of at least 80% of the Overall Goal Achievement Factor for each fiscal year, as determined under our Annual Bonus Plan. The Compensation Committee establishes annual goals and weightage factors under the Annual Bonus Plan in February of each year. As such, each annual 20,000 share increment under the Restricted Stock Award Agreement has an independent performance requirement and is considered to have its own service inception date, grant date fair value and requisite service period. For fiscal year 2006, the Annual Bonus Plan targets for 2006 were approved by the Compensation Committee on February 22, 2006.

Any 20,000 share increment that does not vest is deemed forfeited. Prior to the vesting of the restricted shares, Mr. Harrison does not have the right to vote the shares or receive dividends with respect to the shares.

**Outstanding Equity Awards**

The following table sets forth certain information with respect to our outstanding equity awards at December 31, 2006 with respect to the named executive officers.

**Outstanding Equity Awards at 2006 Fiscal Year-End**

<i>Name</i>	<i>Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested</i>	<i>Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested</i>
<u>Name</u>	<u>(#)</u>	<u>(\$)</u>
J. Frank Harrison, III	60,000(1)	\$ 4,105,800(2)

(1) Reflects the unvested portion of Class B Common Stock under Mr. Harrison's restricted stock award. See *Summary of Compensation and Grants of Plan-Based Awards Restricted Stock Award Agreement* for additional information. As of December 31, 2006, a total of 120,000 shares had vested with respect to fiscal year 2000 through fiscal year 2005 and 20,000 shares had failed to vest with respect to fiscal year 1999. As of December 31, 2006, there were 60,000 remaining shares of Class B Common Stock subject to vesting based on our performance during fiscal year 2006 through fiscal year 2008.

On January 1, 2007, an additional 20,000 shares of our Class B Common Stock vested based on our performance in 2006. Accordingly, as of March 14, 2007, there were 40,000 remaining shares of Class B Common Stock subject to vesting under the award based on our performance during fiscal year 2007 through fiscal year 2008.

(2) This amount is based on the closing price of our Common Stock (\$68.43) on December 29, 2006, the last trading day of fiscal year 2006.

**Option Exercises and Stock Vested**

The following table sets forth certain information with respect to stock vested during the fiscal year ended December 31, 2006 with respect to the named executive officers.

**Option Exercises and Stock Vested****Fiscal Year 2006**

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<u>Name</u>	<u>Number of Shares Acquired on Vesting (#)</u>	<u>Value Realized on Vesting (\$)</u>
J. Frank Harrison, III	20,000(1)	\$ 860,000(2)

- (1) This amount reflects the number of shares of Class B Common Stock acquired upon vesting in fiscal year 2006 under Mr. Harrison's restricted stock award. See *Summary of Compensation and Grants of Plan-Based Awards Restricted Stock Award Agreement* for additional information.
- (2) This amount reflects the number of shares acquired upon vesting multiplied by the market value of our Common Stock (\$43.00) on the vesting date of January 2, 2006.

**Retirement Plans**

Until June 30, 2006, we maintained a traditional, tax-qualified pension plan (the Pension Plan ) for the majority of our non-union employees, including the named executive officers. Subsequent to June 30, 2006, no new participants have been added to the plan and the benefits under the plan for existing participants were frozen. We also maintain a supplemental nonqualified retirement plan (the Officer Retention Plan ) for certain key executives, including the named executive officers. The following table sets forth certain information regarding the Pension Plan and Officer Retention Plan for fiscal year 2006.

**Pension Benefits for Fiscal Year 2006**

<u>Name</u>	<u>Plan Name</u>	<i>Number of Years</i>	<i>Present Value of</i>	<i>Payments During</i>
		<i>Credited Service #(1)</i>	<i>Benefit \$(2)</i>	<i>Last Fiscal Year (\$)</i>
J. Frank Harrison, III	Pension Plan	30	\$ 423,358	
	Officer Retention Plan	16	6,886,258	
William B. Elmore	Pension Plan	22	271,453	
	Officer Retention Plan	10	2,876,317	
Henry W. Flint	Pension Plan	3	41,696	
	Officer Retention Plan	3	656,566	
Steven D. Westphal	Pension Plan	20	259,073	
	Officer Retention Plan	6	575,000	
Norman C. George	Pension Plan	24	309,927	
	Officer Retention Plan	10	926,317	

- (1) The amounts presented in this column represent the number of actual years the officer has been a participant in each plan. None of the named executive officers have been given credit under the plans for years of service in addition to their actual years of service.
- (2) The amounts presented in this column reflect the present value of each named executive officer's accumulated benefits under the plans. See pages 80 to 87 of our Annual Report on Form 10-K for the fiscal year ended December 31, 2006 for a description of the valuation method and material assumptions applied in quantifying the actuarial present values of the accrued benefits under the Pension Plan. The present value of each named executive officer's accumulated benefits under the Officer Retention Plan is determined in accordance with the terms of the Officer Retention Plan, as discussed below.

**Pension Plan.** The Pension Plan is a traditional, tax-qualified defined benefit plan. The benefits under the plan were frozen on June 30, 2006, and subsequent to that date no additional employees may become participants in the plan and there will be no further accrual of benefits under the plan. As of June 30, 2006, all employees, including the named executive officers, became fully vested in their accrued benefits under the plan.

Each participant's accrued benefit is determined based on the participant's average compensation, which is defined under the plan as the average annual compensation for the highest five consecutive years between the participant's initial date of employment and December 31, 2005 or, if a participant completed less than five years of service as of December 31, 2005, the participant's average annual compensation prior to December 31, 2005. Because the plan is a tax-qualified pension plan, the maximum amount of average compensation under the terms of the plan was \$220,000 in 2006. As of December 31, 2006, each of the named executive officers has the maximum average compensation of \$220,000 for purposes of the plan and an accrued benefit equal to the amount reflected in the above table under *Present Value of Accumulated Benefit*.

Participants may retire at or after age 65 and receive their full benefit under the plan. Participants may also retire at age 55 with 10 years of service and receive a reduced retirement benefit.

Benefits are payable as a single life annuity or as a 50% joint and survivor annuity over the life of the participant and spouse unless an optional form of payment is elected. Available optional forms of payment are an annuity payable in equal monthly payments for 10 years and thereafter for life, or a 100% joint and survivor annuity over the lives of the participant and spouse or other beneficiary. Benefits of \$5,000 or less may be distributed in a lump sum. If a participant dies before the participant begins to receive retirement benefits, any vested interest in the participant's accrued benefit will be payable to the participant's surviving spouse.

**Officer Retention Plan.** The Internal Revenue Code limits the amounts of compensation that may be considered and the annual benefits that may be provided under the Pension Plan. As such, we maintain the Officer Retention Plan, which is a supplemental nonqualified defined benefit plan, to provide certain of our key executives, including the named executive officers, with retirement benefits in excess of IRS limitations as well as additional supplemental benefits.

Under the Officer Retention Plan, eligible participants, including the named executive officers, are entitled to the full amount of their accrued benefit under the plan upon reaching age 60, the normal retirement age under the plan. The amount of each participant's normal retirement benefit is determined based on the participant's position and level of responsibility, performance, and job tenure, and is specified in the participant's individual agreement under the Officer Retention Plan.

Plan benefits are paid in the form of equal monthly installments over 10, 15 or 20 years, as elected by the participant at the time the participant first becomes eligible to participate in the Officer Retention Plan. If the participant fails to make an election, plan benefits are paid in equal monthly installments over 20 years. The monthly installment payment amount is computed using an 8% discount rate using simple interest compounded monthly.

The plan does not provide an early retirement benefit, but participants are eligible under certain circumstances to receive a benefit based on the vested accrued benefit upon death, total disability or severance. Participants are also eligible under certain circumstances to receive a benefit upon a change in control occurring before age 60. For more information regarding the benefits payable upon death, total disability, severance or a change in control, see *Potential Payments Upon Termination or Change in Control* below.

As of December 31, 2006, the estimated annual retirement benefit payable at age 60 for each of the named executive officers was as follows: Mr. Harrison \$1,624,961 for 15 years; Mr. Elmore \$1,150,617 for 10 years; Mr. Flint \$338,252 for 15 years; Mr. Westphal \$287,654 for 10 years and Mr. George \$287,654 for 10 years.

## Deferred Compensation

**Supplemental Savings Incentive Plan.** We maintain a nonqualified deferred compensation plan (the Supplemental Savings Incentive Plan) for certain of our key executives, including the named executive officers. The following table sets forth information regarding the named executive officers' individual accounts and benefits under the Supplemental Savings Incentive Plan for fiscal year 2006.

### Nonqualified Deferred Compensation for Fiscal Year 2006

<u>Name</u>	<u>Executive Contribution in Fiscal Year 2006 \$(1)</u>	<u>Company Contributions in Fiscal Year 2006 \$(2)</u>	<u>Aggregate Earnings in Fiscal Year 2006 \$(3)</u>	<u>Aggregate Withdrawals/ Distributions (\$)</u>	<u>Aggregate Balance at December 31, 2006 \$(4)</u>
J. Frank Harrison, III	\$ 45,509	\$ 120,816	\$ 218,933		\$ 1,963,499
William B. Elmore	37,016	99,412	413,185		3,653,501
Henry W. Flint	76,130	61,625	19,625		221,997
Steven D. Westphal	36,698	61,116	111,044		1,008,039
Norman C. George		49,653	181,873		1,641,275

- (1) All amounts reflected in this column are also reported in the *Salary* column of the Summary Compensation Table.
- (2) All amounts reflected in this column are also reported in the *All Other Compensation* column of the Summary Compensation Table.
- (3) Of the amounts reported in this column, the following amounts are reported as above-market earnings on deferred compensation in the *Change in Pension Value and Nonqualified Deferred Compensation Earnings* column of the Summary Compensation Table: Mr. Harrison \$39,223, Mr. Elmore \$76,700, Mr. Flint \$2,654, Mr. Westphal \$20,321 and Mr. George \$30,109.
- (4) Of the amounts reported in this column, the following amounts have been reported in the Summary Compensation Tables of our proxy statements for previous years: Mr. Harrison \$802,663, Mr. Elmore \$1,293,690, Mr. Flint \$60,479, Mr. Westphal \$0 and Mr. George \$194,557.

Participants in the Supplemental Savings Incentive Plan may elect to defer up to 50% of their annual salary and 100% of their annual bonus. At the time of deferral, the participant also elects the payment timing and method for such deferrals and any related matching contributions.

Prior to 2006, we matched 30% of the first 6% of salary (excluding bonus) deferred. Beginning in 2006, we are required to match 50% of the first 6% of salary (excluding bonus) deferred. We may also make discretionary contributions to participants' accounts, which may be intended to offset the reductions in maximum benefits payable under the plan or other qualified plans that we sponsor. For 2006, 2007 and 2008, we are also required to make additional contributions, which we refer to as transition contributions, based on our overall level of achievement under the Annual Bonus Plan, as described under *Summary of Compensation and Grants of Plan-Based Awards Annual Bonus Plan* above. Transition contribution amounts are computed as follows:

<i>Overall Goal</i>	<i>Transition Contribution</i>
<i>Achievement Factor Under</i>	<i>Amount</i>
<i>Annual Bonus Plan</i>	<i>(% of Annual Salary)</i>
0 to 79%	10%
80%	20%
107.5%	30%
115%	40%

Participants are immediately vested in all amounts of salary and bonus deferred by them under the plan. Our contributions to participants' accounts, other than transition contributions, vest in 20% annual increments and become fully vested upon the completion of five years of service. Transition contributions vest in 20% annual increments from December 31, 2006 to December 31, 2010. All contributions made by us, including transition contributions, become fully vested upon retirement, death or a change in control.

Amounts deferred by participants and contributions made by us prior to 2006 are deemed invested in either a fixed benefit option account or a pre-2006 supplemental account, at the election of the participant. Balances in the fixed benefit option accounts earn interest at an annual rate of up to 13% (depending on the event requiring distribution and the participant's age, years of service and initial year of participation in the plan). For named executive officers with fixed benefit option accounts, the amounts reported in the above table under *Aggregate Earnings in Fiscal Year 2006* and *Aggregate Balance at December 31, 2006* were calculated assuming the maximum annual return of 13%.

Amounts deferred by participants and contributions made by us (other than transition contributions) after 2005 are deemed invested in a post-2005 supplemental account. Transition contributions are deemed invested in a transition contribution account. Balances in pre-2006 supplemental accounts, post-2005 supplemental accounts and transition contribution accounts

are deemed invested by participants in investment choices that are made available by us, which are similar to the choices available under our 401(k) Savings Plan.

Balances in the fixed benefit option accounts, pre-2006 supplemental accounts and transition accounts become payable, as elected by a participant during the special 2005 election period or, if later, at the time the participant is first eligible to participate in the plan, upon termination of employment or as of a date designated by the participant that may not be before the calendar year in which the participant attains age 55 and not later than the calendar year in which the participant attains age 70. Amounts in the post-2005 supplemental accounts may be distributed, as elected by a participant, upon termination of employment or at a date designated by the participant that is at least 2 years after the year in which the salary deferral or other contribution was made and not later than the calendar year in which the participant attains age 70. A termination of employment occurs upon the later of (1) a participant's severance, retirement or attainment of age 55 while totally disabled and, (2) at the election of the plan administrator, the date when the employee is no longer receiving severance benefits.

Balances in the fixed benefit option accounts, pre-2006 supplemental accounts and transition accounts are payable in equal monthly installments over 10 or 15 years, at the election of the participant. The monthly payment amount with respect to a fixed benefit option account is calculated using a discount rate that is equal to the applicable rate of interest on the account, as described above. The monthly payment amount with respect to a pre-2006 supplemental account or a transition account is calculated by dividing the vested account balance by the number of remaining monthly payments. Balances in the post-2005 supplemental accounts are payable in either a lump sum or in monthly installments over a period of 5, 10 or 15 years, at the election of the participant. The monthly payment with respect to a post-2005 supplemental account is calculated by dividing the vested account balance by the number of remaining monthly payments.

In the event of death or a change in control, all account balances become payable in either a single lump sum or in equal monthly installments over a period of 5, 10 or 15 years, at the election of the participant. In each case, the account balances and monthly payments are generally computed in the same manner as described above, except participants are deemed fully vested in their account balances, and, in the case of a change in control, balances and monthly payments with respect to fixed benefit accounts are computed using the maximum 13% rate of return and 13% discount rate, respectively. In the event of a change in control in a year for which a transition contribution is required, each participant would receive a pro rata transition contribution based on 20% of the participant's annual salary. For additional information regarding the estimated amounts that would be payable to each of the named executive officers upon a termination of employment, death or change in control, see *Potential Payments Upon Termination or Change in Control* below.

A participant may also request to receive a distribution of benefits from the plan on account of an unforeseeable emergency. Any such request must be approved by the plan administrator.



Any distribution is made in a lump sum. An unforeseeable emergency occurs if a participant incurs a severe financial hardship as a result of (i) a sudden and unexpected illness or accident of the participant or dependent, (ii) a loss of property due to casualty, or (iii) other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the participant's control, and the financial hardship cannot be met through reimbursement or compensation by insurance or liquidation of the participant's assets.

#### **Potential Payments Upon Termination or Change in Control**

We have agreed to provide certain of our executive officers, including the named executive officers, with certain payments in connection with their termination of employment or a change in control of our company. The following is a description of those arrangements with respect to the named executive officers.

***Officer Retention Plan.*** The Officer Retention Plan is a supplemental nonqualified retirement plan. Each of the participants, including the named executive officers, is entitled to retirement benefits under the Officer Retention Plan as described above under *Retirement Benefits Officer Retention Plan*. In addition, each of the participants is also entitled to certain payments upon severance, death, total disability or a change in control.

Accrued benefits under the Officer Retention Plan increase with each year of participation as set forth in each participant's individual agreement under the plan, until the normal retirement age of 60. The amounts set forth in the individual agreements are determined based on a participant's position and level of responsibility, performance and job tenure.

In the event of death or total disability, a participant becomes fully vested in the amount of the participant's accrued benefit as of the date of the event. The death benefit is payable in a single lump sum. The total disability benefit is paid in the form of equal monthly installments over 10, 15 or 20 years, as elected by the participant at the time the participant is first eligible to participate in the plan. The amount of the monthly payment is computed using an 8% discount rate using simple interest compounded monthly.

Upon severance for any other reason, except termination for cause, a participant's accrued benefit as of the date of the termination of employment will be 50% vested until age 50, with the vesting percentage increasing by 5% each year thereafter until fully vested at age 60. The severance benefit is paid in the form of equal monthly installments over 10, 15 or 20 years, as elected by the participant at the time the participant is first eligible to participate in the plan. The amount of the monthly payment is computed using an 8% discount rate using simple interest compounded monthly.

All rights to any benefits under the plan are forfeited if a participant is terminated for cause. A termination for cause occurs upon termination for:

- (a) commission of an act of embezzlement, dishonesty, fraud, gross neglect of duties or disloyalty;
- (b) commission of a felony or other crime involving moral turpitude or public scandal;
- (c) alcoholism or drug addiction; or
- (d) improper communication of confidential information.

In the event of a change in control of our company, a participant is entitled to a change in control benefit, which is equal to the accrued retirement benefit the participant would have received as of the participant's normal retirement date of age 60. The change in control benefit is payable in a single lump sum or in equal monthly installments over 10, 15 or 20 years, as elected by the participant when the participant is first eligible to participate in the plan. The participant may elect to have the change in control benefit paid or commence to be paid as of the first of the third month following the change in control or any time thereafter. If a participant elects an installment option, the amount of the monthly installment payment is computed using an 8% discount rate using simple interest compounded monthly. For purposes of the Officer Retention Plan, a change in control occurs in the following circumstances:

- (a) when a person or group other than the Harrison family acquires shares of our capital stock having the voting power to designate a majority of the Board of Directors;
- (b) when a person or group other than the Harrison family acquires or possesses shares of our capital stock having power to cast (i) more than 20% of the votes regarding the election of the Board of Directors and (ii) a greater percentage of the votes regarding the election of the Board of Directors than the shares owned by the Harrison family;
- (c) upon the sale or disposition of all or substantially all of our assets and the assets of our subsidiaries outside the ordinary course of business other than to a person or group controlled by us or the Harrison family; or
- (d) upon a merger or consolidation of our company with another entity where we are not the surviving entity.

The following table sets forth the estimated payments that would have been payable under the Officer Retention Plan to each of the named executive officers, assuming that each of the above covered events occurred on December 29, 2006, the last business day of our fiscal year 2006:

**Estimated Payments under Officer Retention Plan**

<i>Name</i>	<i>Severance, other than for Retirement, Death, Disability, or Termination for Cause</i>	<i>Death</i>	<i>Total Disability</i>	<i>Change in Control</i>
J. Frank Harrison, III	\$38,821 per month for 180 months	A lump sum of \$6,886,258	\$64,703 per month for 180 months	A lump sum of \$14,411,990
William B. Elmore	\$18,961 per month for 120 months	A lump sum of \$2,876,317	\$34,474 per month for 120 months	\$95,885 per month for 120 months
Henry W. Flint	\$3,701 per month for 180 months	A lump sum of \$656,566	\$6,169 per month for 180 months	\$35,957 per month for 120 months
Steven D. Westphal	\$3,790 per month for 120 months	A lump sum of \$575,000	\$6,892 per month for 120 months	\$23,971 per month for 120 months
Norman C. George	\$6,106 per month for 120 months	A lump sum of \$926,317	\$11,102 per month for 120 months	\$23,971 per month for 120 months

Under the Officer Retention Plan, each participant has generally agreed not to compete with us or our subsidiaries while employed by us or for a period of three years after termination from employment for any reason. The non-compete provision does not apply to actions occurring after both a termination of employment and a change in control.

**Supplemental Savings Incentive Plan.** The Supplemental Savings Incentive Plan is a nonqualified deferred compensation plan that we provide for certain of our key executives, including the named executive officers. For a description of the terms and conditions of the plan, see *Deferred Compensation* above.

Under the Supplemental Savings Incentive Plan, the named executive officers are entitled to certain payments upon termination of employment, death or a change in control. A termination of employment generally occurs upon a participant's severance, retirement or attainment of age 55 while totally disabled. The definition of a change in control is the same definition used for the Officer Retention Plan, as described above.

The following table presents the estimated payments that would be payable under the Supplemental Savings Incentive Plan to the named executive officers assuming each covered event occurred on December 29, 2006, the last business day of our fiscal year 2006.

**Estimated Payments under Supplemental Savings Incentive Plan**

<u>Name</u>	<u>Severance(1)</u>	<u>Total Disability or Retirement(2)</u>	<u>Death(3)</u>	<u>Change in Control(3)</u>
J. Frank Harrison, III	\$11,894 per month for 180 months; and  \$751 per month for 120 months		\$22,892 per month for 180 months	\$22,892 per month for 180 months
William B. Elmore	A lump sum of \$59,236; and  \$30,072 per month for 120 months		\$43,688 per month for 180 months	\$53,288 per month for 60 months
Henry W. Flint	\$1,833 per month for 120 months		\$2,703 per month for 120 months	\$2,703 per month for 120 months
Steven D. Westphal	\$6,285 per month for 180 months; and  \$510 per month for 60 months; and  \$57 per month for 120 months		\$11,856 per month for 180 months	\$11,856 per month for 180 months
Norman C. George	\$14,668 per month for 120 months; and  \$366 per month for 60 months		\$22,222 per month for 120 months	\$22,222 per month for 120 months

(1) Earnings and monthly payment amounts with respect to fixed benefit option account balances were calculated at the applicable rate of 8%.

(2) As of December 29, 2006, none of the named executive officers had attained the minimum age required for receiving retirement or total disability benefits.

(3)

Earnings and monthly payment amounts with respect to fixed benefit option account balances were calculated using the maximum 13% rate of return and maximum 13% discount rate, respectively.

**Restricted Stock Award Agreement.** Mr. Harrison has a restricted stock award with respect to 200,000 shares of our Class B Common Stock. See *Summary of Compensation and Grants of Plan Based Awards Restricted Stock Award Agreement* above.

If there is a change in control of our company during the term of his Restricted Stock Award Agreement, Mr. Harrison will become immediately vested in 20,000 shares of restricted stock. We would also be required to reimburse Mr. Harrison for the income taxes related to the vesting of the restricted stock. For purposes of the Restricted Stock Award Agreement, a change in control occurs if the Harrison family does not hold more than 50% of the total voting power of our voting stock.

If a change in control of our company had occurred on December 29, 2006, Mr. Harrison would have become vested in 20,000 shares of restricted stock (valued at \$1,368,600). In addition, he would have received a payment of \$1,026,570 for the reimbursement of income taxes related to the vesting of the shares.

**DIRECTOR COMPENSATION**

The following table sets forth information regarding the compensation of our Board of Directors for fiscal year 2006.

**Director Compensation for Fiscal Year 2006**

<i>Name</i>	<i>Fees Earned</i>		
	<i>or Paid</i>	<i>All Other</i>	<i>Total</i>
	<i>in Cash</i>	<i>Compensation</i>	
	<i>(\$)(1)</i>	<i>(\$)</i>	<i>(\$)</i>
H. W. McKay Belk	\$ 57,250		\$ 57,250
Sharon A. Decker	48,500		48,500
William B. Elmore			
James E. Harris	48,500		48,500
J. Frank Harrison, III			
Deborah S. Harrison			
Ned R. McWherter	38,500		38,500
John W. Murrey III	38,500		38,500
Robert D. Pettus, Jr.		370,927(2)	370,927
Carl Ware	38,500		38,500
Dennis A. Wicker	57,250		57,250

(1) The amounts shown in this column represent the aggregate amounts of all fees earned or paid in cash for services as a director in fiscal year 2006.

(2) This amount reflects consulting fees and other benefits paid under the terms of a consulting agreement, as described below. The amounts paid under the consulting agreement consist of (a) consulting fees \$350,000, (b) income tax reimbursements \$10,651, (c) country club dues \$10,181 and (d) personal use of company aircraft \$95.

The independent members of our Board of Directors and the designee of The Coca-Cola Company (as described below under the caption *Certain Transactions Transactions with*





*The Coca-Cola Company Stock Rights and Restrictions Agreement* ) are paid \$30,000 as an annual retainer, \$1,500 for each meeting of the Board of Directors attended and \$1,250 for each Committee meeting attended. The Chairman of the Audit Committee, the Chairman of the Compensation Committee and the Lead Independent Director receive an additional retainer of \$7,500, \$5,000 and \$2,500 per year, respectively. In 2006, Messrs. Belk, Harris and Wicker and Ms. Decker were also paid \$5,000 each for their services on a Special Committee of the Board of Directors.

Under our Director Deferral Plan, directors who are not also employees of our company may defer payment of all or a portion of their annual retainer and meeting fees until they no longer serve on the Board of Directors. Fees deferred are deemed to be invested in certain investment choices selected by the directors, which are similar to the choices available to our employees generally under our tax-qualified 401(k) Savings Plan. Upon resignation or retirement, a participating director will be entitled to receive a cash payment based upon the amount of fees deferred and the investment return on the selected investment. If a director's service terminates prior to age 65, amounts accrued under his or her account are paid out in a single cash payment. If a director's service terminates at or after age 65, amounts accrued under his or her account are paid out, at the election of the director, either in a single cash payment or in ten equal annual installments (with an imputed 8% return on the deferred installments).

On March 1, 2005, we entered into a consulting agreement with Mr. Pettus, who served as an officer of our company in various capacities from 1984 to 2005 and is currently the Vice Chairman of the Board of Directors. Pursuant to the consulting agreement, Mr. Pettus agreed to assist us with our stewardship programs and the on-going development and fostering of our customer and officer relationships and to assist our management with major projects and the general oversight and guidance of our company. Mr. Pettus received a fee of \$350,000 per year and reimbursement for annual country club dues during the term of the agreement. The agreement did not modify the retiree benefits to which Mr. Pettus is otherwise entitled. The agreement terminated on February 28, 2007 in accordance with its terms.

## BENEFICIAL OWNERSHIP OF MANAGEMENT

The following table presents certain information as of March 14, 2007 regarding the beneficial ownership of our Common Stock and Class B Common Stock by the directors, the nominees for director and the named executive officers in the Summary Compensation Table and by all of the directors, nominees for director and executive officers as a group. Information concerning beneficial ownership of the Common Stock and Class B Common Stock by Mr. Harrison is presented above under the caption *Principal Stockholders* and is not included in the following table.

<u>Name</u>	<u>Class(1)</u>	<i>Amount and</i>	<i>Percentage</i>
		<i>Nature of</i>	
		<i>Beneficial</i>	<i>Of Class</i>
		<u>Ownership</u>	<u>Of Class</u>
H.W. McKay Belk	Common Stock	520(2)	*
Sharon A. Decker	Common Stock	0	
William B. Elmore	Common Stock	1,000(3)	*
Henry W. Flint	Common Stock	0	
James E. Harris	Common Stock	0	
Norman C. George	Common Stock	0	
Deborah S. Harrison	Common Stock	0(4)	
Ned R. McWherter	Common Stock	1,000	*
John W. Murrey III	Common Stock	1,000	*
Robert D. Pettus, Jr.	Common Stock	0	
Steven D. Westphal	Common Stock	0	
Carl Ware	Common Stock	0	
Dennis A. Wicker	Common Stock	0	
Directors, nominees for director and executive officers as a group (excluding Mr. Harrison) (21 persons)	Common Stock	3,525	*

\* Less than 1% of the outstanding shares of such class.

- (1) None of such persons other than Ms. Harrison beneficially owns any shares of Class B Common Stock.
- (2) Includes 300 shares held by Mr. Belk as custodian for certain of his children.
- (3) Held jointly with his wife.
- (4) Excludes 535,178 shares of Class B Common Stock held by the JFH Family Limited Partnership DH1 and 78,595 shares of Class B Common Stock held by a trust for the benefit of Ms. Harrison. Ms. Harrison has no voting or investment power with respect to such shares.

## EQUITY COMPENSATION PLAN INFORMATION

The following table sets forth certain information as of December 31, 2006, concerning our one outstanding equity compensation arrangement.

<i>Plan Category</i>	<i>Number of securities to be issued upon exercise of outstanding options, warrants and rights</i>	<i>Weighted-average exercise price of outstanding options, warrants and rights</i>	<i>Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))</i>
<u>Plan Category</u>	<u>(a)</u>	<u>(b)</u>	<u>(c)</u>
Equity compensation plans approved by security holders(1)	60,000	0	0
Equity compensation plans not approved by security holders			
<b>Total</b>	<b>60,000</b>	<b>0</b>	<b>0</b>

- (1) Relates to the restricted stock agreement with J. Frank Harrison, III that was approved by our stockholders on May 12, 1999. See *Executive Compensation Summary of Compensation and Grants of Plan-Based Awards Restricted Stock Award Agreement* and *Executive Compensation Outstanding Equity Awards* above for additional information.

**PROPOSAL 2:****APPROVAL OF AMENDED AND RESTATED ANNUAL BONUS PLAN****Approval Proposal**

On December 7, 2006, the Compensation Committee of the Board of Directors adopted, subject to stockholder approval, the Coca-Cola Bottling Co. Consolidated Annual Bonus Plan (the Annual Bonus Plan). The Annual Bonus Plan amends and restates our existing Annual Bonus Plan, which is described above under *Executive Compensation Summary of Compensation and Grants of Plan-Based Awards Annual Bonus Plan*.

The Board of Directors is submitting the Annual Bonus Plan, as amended and restated, to our stockholders for approval of the material terms pursuant to which performance based compensation is to be paid under the Annual Bonus Plan. Our stockholders must approve these terms to enable all compensation paid to covered employees pursuant to the Annual Bonus Plan to qualify as performance-based compensation within the meaning of Section 162(m) of the Internal Revenue Code of 1986, as amended (Section 162(m)). Upon approval by the stockholders, such payments will be exempt from the provisions of Section 162(m) that would otherwise deny us a federal income tax deduction for compensation expense to the extent that aggregate compensation payments to any covered employee exceed \$1 million in any fiscal year. Section 162(m) defines the term covered employee to mean our Chief Executive Officer and the four other most highly compensated executive officers for the last completed fiscal year.

The Board is proposing that our stockholders approve the employees eligible to receive bonuses under the Annual Bonus Plan, the business criteria and general formula used to calculate the amount of the bonuses and the maximum amount that may be paid to any individual participant in the Annual Bonus Plan for any single fiscal year.

The primary purpose for amending the Annual Bonus Plan was to change the performance measures used in calculating incentive awards under the plan to measures that are better aligned with our strategic objectives. The amendments to the Annual Bonus Plan also (i) provide that the indexed performance factor will be automatically set at 1.5 for each of the named executive officers (rather than 1.2 as required under the existing bonus plan) in order to provide more flexibility for recognizing exceptional individual performance, (ii) provide for the payment of a prorated incentive award upon death, total disability, retirement or a change in control and (iii) eliminate a provision in the existing bonus plan that made the payment of incentive awards contingent upon our compliance with all material aspects of our bottling contracts with The Coca-Cola Company. The full text of the Annual Bonus Plan, as amended and restated, is attached to this Proxy Statement as Appendix B.

### **Description of the Annual Bonus Plan**

The purpose of the Annual Bonus Plan is to promote the best interests of our company and stockholders by providing key management employees with additional incentives to assist us in meeting and exceeding our business goals. We also believe the Annual Bonus Plan, as amended and restated, will better enable us to meet our objectives of providing compensation that is designed to motivate our executive officers to achieve our annual strategic and financial goals, provide a reasonable balance between fixed and performance-based elements of compensation and attract and retain officers with the skills that we need to be successful.

The Annual Bonus Plan is administered by the Compensation Committee of the Board of Directors or, at the discretion of the Compensation Committee, a subcommittee of the Compensation Committee consisting only of those members of the Compensation Committee who are outside directors for purposes of Section 162(m). The Compensation Committee will select participants (based on management recommendations) to be eligible to receive cash awards under the Annual Bonus Plan. The Compensation Committee is authorized to grant such cash awards to any officer, including officers who are directors, and to other employees who hold key positions. Approximately 22 employees, including each of the named executive officers, are currently participants in the Annual Bonus Plan. Directors who are not employees of our company are not eligible for participation in the Annual Bonus Plan.

The total cash bonus that may be awarded to a participant under the Annual Bonus Plan is determined by multiplying such participant's base salary by three factors: (1) the participant's Approved Bonus Percentage Factor; (2) the participant's Indexed Performance Factor; and (3) an Overall Goal Achievement Factor.

The Approved Bonus Percentage Factor for each participant is determined by the participant's position with our company and is based upon the relative responsibility and contribution to our performance attributed to such position. The maximum Approved Bonus Percentage factor for any participant is 100%.

The Indexed Performance Factor for each participant is determined by such participant's actual performance during the fiscal year, as evaluated by the Compensation Committee at year end. In order to satisfy the requirements of Section 162(m) that all performance-based compensation be determined in accordance with an objective formula, the Annual Bonus Plan provides that the Indexed Performance Factor will be fixed at 1.5 for all participants who are covered employees under Section 162(m).

The Overall Goal Achievement Factor will be determined for each fiscal year by our performance in relation to annual goals established by the Compensation Committee for three selected performance measures. These measures are (1) revenue; (2) earnings before interest and taxes; and (3) net debt reduction. The measures are weighted each year based on the Compensation Committee's determination of the relative importance of a particular measure for a given year. The Overall Goal Achievement Factor will be calculated by multiplying the weightage factor (ranging from 0% to 100% for each performance measure as determined by the Compensation Committee) by the goal achievement percentage for the level of performance achieved with respect to each performance measure.

The level of performance achieved with respect to each performance measure will be determined after taking into account (1) any gains or losses from the sale of assets outside the ordinary course of business; (2) any gains or losses from discontinued operations, (3) any extraordinary gains or losses; (4) the effects of accounting changes; (5) any unusual, nonrecurring, transition, one-time or similar items or charges; (6) the diluted impact of goodwill on acquisitions; and (7) any other items that the Committee determines; provided, however, that for awards intended to qualify as performance-based compensation under Section 162(m), the Committee shall specify the items to be excluded in writing at the time such an award is granted.

If the Compensation Committee determines that a change in our business, operations, corporate structure or capital structure or the manner in which we conduct our business or other events or circumstances render the performance measures unsuitable, the Committee may modify the performance measures or the related minimum acceptable level of achievement under the Annual Bonus Plan unless such action would result in the loss of an otherwise available exemption of the bonus award under Section 162(m).

Although the formula described above permits a precise, objective calculation of the annual bonuses to be paid to each participant, the Compensation Committee has discretion to decrease or eliminate awards under the Annual Bonus Plan. In accordance with Section 162(m), the Compensation Committee's discretionary authority may only be exercised in a manner which

reduces, rather than increases, the amount of any participant's bonus award as calculated in accordance with such formula. In no event will any individual participant receive a bonus under the Annual Bonus Plan for any single fiscal year in excess of \$1 million.

Payment of cash awards under the Annual Bonus Plan with respect to a fiscal year will be made no later than March 15 of the following fiscal year, after the Compensation Committee has determined the level of attainment with respect to the performance goals. In addition, the Compensation Committee may provide for the deferred payment of any bonus award in accordance with procedures established by the Compensation Committee, our Supplemental Savings Incentive Plan or any other plan providing for deferred compensation, and in accordance with Section 409A of the Internal Revenue Code. Except as provided below, participants must be actively employed by us on the last day of the applicable fiscal year in order to receive a bonus payment. The Compensation Committee has discretion to approve a prorated award for any employee who assumes a key position with our company during the fiscal year, provided that any such participant has been employed by us for at least three calendar months during the fiscal year.

In the event of the total disability, retirement or death of any participant during any fiscal year, and in the event of the subsequent attainment of the performance goals applicable to such participant, such participant will be entitled to a pro rata bonus based on the portion of the fiscal year completed by the participant. In the event of a change in control, each participant will be entitled to receive a pro rata portion of the participant's award for the fiscal year, based on the portion of the fiscal year completed, assuming that a Goal Achievement Factor of 100% has been earned as of the date of the change in control.

The term "retirement" is defined in the Annual Bonus Plan as a participant's termination of employment other than on account of death and:

- (a) after attaining age 60;
- (b) after attaining age 55 and completing 20 years of service; or
- (c) as the result of total disability.

For purposes of the Annual Bonus Plan, a "change in control" will occur in the following circumstances:

- (a) when a person or group other than the Harrison family acquires shares of our capital stock having the voting power to designate a majority of the Board of Directors;
- (b) when a person or group other than the Harrison family acquires or possesses shares of our capital stock having power to cast (i) more than 20% of the votes regarding the election of the Board of Directors and (ii) a greater percentage of the votes regarding the election of the Board of Directors than the shares owned by the Harrison family;

- (c) upon the sale or disposition of all or substantially all of our assets and the assets or our subsidiaries outside the ordinary course of business other than to a person or group controlled by us or the Harrison family; or
- (d) upon a merger or consolidation of our company with another entity where we are not the surviving entity.

If a participant's employment is terminated for any reason, other than total disability, retirement, death or a change in control of our company, the participant will forfeit any right to an award under the Annual Bonus Plan. In unusual circumstances, however, the Compensation Committee may waive such forfeiture in its sole discretion.

The Compensation Committee is authorized to amend, modify or terminate the Annual Bonus Plan retroactively at any time, in part or in whole, in any manner that would not cause payments to covered employees under the Annual Bonus Plan to cease to qualify as performance-based compensation under Section 162(m). Any amendment that would cause payments to covered employees under the Annual Bonus Plan to cease to qualify as performance-based compensation under Section 162(m) requires the approval of our full Board of Directors.

On February 28, 2007, the Compensation Committee assigned Approved Bonus Percentage Factors for the participants in the Annual Bonus Plan. The following Approved Bonus Percentage Factors were assigned to the named executive officers: Mr. Harrison 100%, Mr. Elmore 100%, Mr. Flint 60%, Mr. Westphal 60% and Mr. George 50%. The Compensation Committee also assigned the following weights to the performance measures:

<i>Performance Measure</i>	<i>Assigned Weight</i>
Revenue	20%
Earnings Before Interest and Taxes	50%
Net Debt Reduction	30%

For fiscal year 2007, the Compensation Committee set the target performance goal for net debt reduction at \$25 million. The target performance goals for revenue and earnings before interest and taxes were set at aggressive levels designed to award exceptional achievement in relation to our recent historical performance.

In accordance with Section 162(m), payments of any future awards under the Annual Bonus Plan are subject to receipt of approval of the material terms pursuant to which performance-based compensation is to be paid under the Annual Bonus Plan by our stockholders to the extent that the deductibility of such payments would be limited by Section 162(m).

## Required Vote and Recommendation

The affirmative vote of holders of a majority of the total votes of our Common Stock and Class B Common Stock present in person or by proxy and entitled to vote on the proposal at the 2007 Annual Meeting of Stockholders, voting together as a single class, is required to approve the Annual Bonus Plan.

The Board of Directors recommends that the stockholders vote **FOR** the approval of the Annual Bonus Plan.

### PROPOSAL 3:

#### APPROVAL OF LONG-TERM PERFORMANCE PLAN

## Approval Proposal

On December 7, 2006, the Compensation Committee adopted the Coca-Cola Bottling Co. Consolidated Long-Term Performance Plan, effective January 1, 2007 (the Long-Term Performance Plan or the Plan), and directed that the Plan be submitted to our stockholders for approval at the 2007 Annual Meeting of the Stockholders.

Under Section 162(m) of the Internal Revenue Code, our stockholders must approve the material terms of the Long-Term Performance Plan to enable all compensation paid to covered employees pursuant to the Plan to qualify as performance-based compensation within the meaning of Section 162(m) of the Internal Revenue Code. Upon approval by our stockholders, such payments will be exempt from the provisions of Section 162(m) that would otherwise deny us a federal income tax deduction for compensation expense to the extent that aggregate compensation payments to any covered employee exceed \$1 million in any fiscal year. Section 162(m) defines the term covered employee to mean our Chief Executive Officer and the four other most highly compensated executive officers for the last completed fiscal year.

The Board of Directors is submitting the Long-Term Performance Plan to our stockholders for approval. Specifically, the Board is proposing that our stockholders approve the employees eligible to receive bonuses under the Long-Term Performance Plan, the performance measures and general formula used to calculate the amount of the bonuses and the maximum amount that may be paid to any individual participant in the Plan for any bonus award. The full text of the Long-Term Performance Plan is attached to this Proxy Statement as Appendix C.

## Description of the Long-Term Performance Plan

The purposes of the Long-Term Performance Plan are to (1) recognize and reward certain officers and employees for achieving performance goals consistent with our long-term business plans and (2) promote our ability to hire and retain management talent by ensuring that total pay opportunities remain competitive yet affordable. We also believe the Long-Term Performance



Plan will enable us to better meet the objectives of our executive officer compensation program, as described above under *Executive Compensation Compensation Discussion and Analysis Long-Term Performance Incentives*. To accomplish these purposes, the Plan provides for periodic grants of cash awards to be earned over performance periods covering multiple years.

The Long-Term Performance Plan is administered by the Compensation Committee of the Board of Directors or, at the discretion of the Compensation Committee, a subcommittee of the Compensation Committee consisting only of those members of the Compensation Committee who are outside directors for purposes of Section 162(m). The Compensation Committee selects participants to be eligible to receive bonus awards under the Plan. The Compensation Committee is authorized to grant bonus awards to any employee who performs services for us on a substantially full-time basis. Directors who are not employees of our company are not eligible to participate in the Long-Term Performance Plan. The Compensation Committee has not selected the participants for the initial performance period under the Long-Term Performance Plan.

Bonus awards may be granted by the Compensation Committee at any time within 90 days of the beginning of each performance period. With respect to any bonus award, the Compensation Committee will establish dollar amounts to which a participant shall be entitled upon attainment of applicable performance measures. With respect to each performance measure, the Compensation Committee will establish (1) a threshold level of performance under which the participant shall not be entitled to any bonus award payment, (2) a target level of performance at which the participant shall be entitled to the targeted payment under the bonus award, (3) a maximum level of performance at which the participant shall be entitled to the maximum payment under the bonus award, (4) the calculation methods to be used for the performance period and (5) the relative weightings of the performance measures for the performance period. The performance measures established by the Compensation Committee are intended to satisfy the objective compensation formula requirements of Section 162(m). No participant will be eligible to earn a bonus award for any performance period in excess of \$1 million.

Bonus awards made under the Long-Term Performance Plan will be made based on the relative achievement of performance measures as determined by the Compensation Committee. The Compensation Committee may describe performance measures in terms of our company-wide objectives or objectives that are related to the performance of the individual participant or of the subsidiary, division, department, region or function in which the participant is employed. In addition, performance measures may be established relative to the performance of other companies. The performance measures applicable to any bonus award to a covered employee will be based on specific levels of achievement, as determined by the Compensation Committee, with respect to: (1) revenue; (2) earnings per share; (3) return on total assets; and (4) net debt/operating cash flow.

The level of performance achieved with respect to each performance measure will be determined after taking into account (1) any gains or losses from the sale of assets outside the ordinary course of business; (2) any gains or losses from discontinued operations, (3) any extraordinary gains or losses; (4) the effects of accounting changes; (5) any unusual, nonrecurring, transition, one-time or similar items or charges; (6) the diluted impact of goodwill on acquisitions; and (7) any other items that the Committee determines; provided, however, that for bonus awards intended to qualify as performance-based compensation under Section 162(m), the Committee shall specify the items to be excluded in writing at the time such bonus award is granted.

If the Compensation Committee determines that a change in our business, operations, corporate structure or capital structure or the manner in which we conduct our business or other events or circumstances render the performance measures unsuitable, the Committee may modify the performance measures or the related minimum acceptable level of achievement under the Long-Term Performance Plan unless such action would result in the loss of an otherwise available exemption of the bonus award under Section 162(m).

To promote long-term performance, the Committee will establish a multi-year period with which to evaluate performance, which will be at least two fiscal years in duration and commence on the first day of a fiscal year. Additionally, a new performance period may commence each fiscal year. In its discretion, the Compensation Committee may also grant successive bonus awards with overlapping performance periods to any participant.

Bonus award payments will be paid in cash no later than March 15 following the end of the applicable performance period, after the Compensation Committee has determined the level of attainment with respect to the performance goals. In addition, the Compensation Committee may provide for the deferred payment of any bonus award in accordance with procedures established by the Compensation Committee, our Supplemental Savings Incentive Plan or any other plan providing for deferred compensation, and in accordance with Section 409A of the Internal Revenue Code. Except as provided below, participants must be employed by us through the end of a performance period in order to receive a bonus payment.

The Plan further provides that a pro rata portion of the participant's bonus award shall be paid to the participant or his beneficiary in the event of total disability, retirement or death of such participant after completion of the first year of a performance period but prior to the end of such period and in the event of subsequent attainment of the applicable performance measures. In addition, if any change in control occurs prior to the end of a performance period, each participant will be entitled to receive a pro rata portion of the participant's target bonus award, based on the portion of the performance period completed through the date of the change in control.

For purposes of the Plan, the definitions of retirement and change in control are identical to the definitions of those terms in the Annual Bonus Plan, as described above under

*Proposal 2: Approval of Amended and Restated Annual Bonus Plan.* If a participant's employment is terminated for any reason, other than total disability, retirement, death or a change in control of our company, the participant will forfeit any right to an award under the Plan. In unusual circumstances, however, the Compensation Committee may waive such forfeiture in its sole discretion.

The Board of Directors or the Compensation Committee may at any time amend or terminate the Long-Term Performance Plan, in whole or in part, for any reason and without the consent of any participant or beneficiary.

In accordance with Section 162(m), payments of any future awards under the Long-Term Performance Plan are subject to the approval of the material terms of the Plan by our stockholders to the extent that the deductibility of such payments would be limited by Section 162(m). The Long-Term Performance Plan is effective as of January 1, 2007, subject to approval of the Plan by our stockholders. Directors who are not employees of our company are not eligible for any awards as participants under the Long-Term Performance Plan.

If the Long-Term Performance Plan is approved by the stockholders, we anticipate making initial awards under the plan in December 2007 or February 2008.

#### **Required Vote and Recommendation**

The affirmative vote of holders of a majority of the total votes of our Common Stock and Class B Common Stock present in person or by proxy and entitled to vote on the proposal at the 2007 Annual Meeting of Stockholders, voting together as a single class, is required to approve the Long-Term Performance Plan.

The Board of Directors recommends that the stockholders vote **FOR** the approval of the Long-Term Performance Plan.

#### **PROPOSAL 4:**

##### **APPROVAL OF AMENDMENT TO CHIEF EXECUTIVE OFFICER'S**

##### **RESTRICTED STOCK AWARD**

#### **Approval Proposal**

On February 28, 2007, the Compensation Committee of the Board of Directors approved, subject to stockholder approval, an amendment to the Restricted Stock Award Agreement with our Chief Executive Officer (the *Award Amendment*). The Award Amendment amends the Restricted Stock Award Agreement with J. Frank Harrison, III (the *Restricted Stock Agreement*), which was approved by the stockholders at our 1999 Annual Meeting of Stockholders and is described above under *Executive Compensation Summary of Compensation and Grants of Plan-Based Awards Restricted Stock Award Agreement*.



The primary purpose for amending the Restricted Stock Agreement is to change the performance measures used for determining the vesting of the last two 20,000 share installments of the restricted stock award under the agreement to measures that are better aligned with our strategic objectives. The performance measures and targets under the Award Amendment will be the same as the performance measures and targets under the amended Annual Bonus Plan, as described above under *Proposal 2: Approval of Amended and Restated Annual Bonus Plan*. The Award Amendment does not change the number of shares available for vesting or the vesting schedule under the Restricted Stock Agreement.

The Board of Directors is submitting the Award Amendment to our stockholders for approval of the material terms pursuant to which performance-based compensation is to be paid under the Restricted Stock Agreement. Our stockholders must approve these terms to enable all compensation paid pursuant to the Restricted Stock Agreement, as amended, to qualify as performance-based compensation within the meaning of Section 162(m) of the Internal Revenue Code. Upon approval by the stockholders, such payments will be exempt from the provisions of Section 162(m) that would otherwise deny us a federal income tax deduction for compensation expense to the extent that aggregate compensation payments to any covered employee exceed \$1 million in any fiscal year. Section 162(m) defines the term covered employee to mean our Chief Executive Officer and the four other most highly compensated executive officers for the last completed fiscal year. Accordingly, the Award Amendment is being submitted to our stockholders for approval pursuant to the requirements of Section 162(m). The Restricted Stock Agreement and the Award Amendment apply to our Chief Executive Officer and do not apply to any other officer or director.

#### **Description of Restricted Stock Agreement and Award Amendment**

On January 4, 1999, Mr. Harrison received a restricted stock award of 200,000 shares of our Class B Common Stock. Under the Restricted Stock Agreement, 20,000 shares of restricted stock are subject to vesting each year, beginning on the first day of our fiscal year 2000 and ending on the first day of our fiscal year 2009. The vesting of each 20,000 share increment of the award is subject to (i) Mr. Harrison's continued employment on the vesting date and (ii) our achievement of at least 80% of the overall goal achievement factor for the performance measures under our Annual Bonus Plan. If we fail to achieve at least 80% of the overall goal achievement factor for any given year during the vesting period, then 20,000 shares of restricted stock for that year would not vest and that portion of the award would be cancelled. The award also requires cash payments by us to Mr. Harrison for the reimbursement of income taxes related to the vesting of restricted stock.

As of January 1, 2007, a total of 140,000 shares of the restricted stock have vested under the Restricted Stock Agreement with respect to fiscal year 2000 through fiscal year 2006 and 20,000 shares failed to vest and were cancelled with respect to fiscal year 1999. As of January 1, 2007, 40,000 shares of restricted Class B Common Stock remain subject to vesting under the Restricted Stock Agreement with respect to our performance in fiscal year 2007 through fiscal year 2008.

The Award Amendment does not change the number of shares available for vesting or the vesting schedule.

Under the Restricted Stock Agreement, the vesting of each 20,000 share increment is currently subject to our attainment of at least an 80% overall goal achievement factor for the six selected performance measures under our existing Annual Bonus Plan (the Existing Bonus Plan). These performance indicators consist of: (1) operating cash flow; (2) free cash flow; (3) net income; (4) unit volume; (5) market share and (6) value measure. As described above under *Proposal 2: Approval of Amended and Restated Annual Bonus Plan*, we are amending our Annual Bonus Plan (the Amended Bonus Plan), subject to stockholder approval, to change the performance measures used under the plan to measures that are better aligned with our strategic objectives. As such, the Award Amendment provides that Mr. Harrison's remaining 40,000 shares of restricted stock will be subject to vesting, in annual 20,000 share increments, subject to our attainment of at least an 80% overall goal achievement factor for the new performance measures established under the Amended Bonus Plan. Other than changing the performance measures to be consistent with the performance measures under the Amended Bonus Plan, the Award Amendment makes no other changes to Mr. Harrison's Restricted Stock Agreement.

The new performance measures under the Amended Bonus Plan are

- (1) revenue;
- (2) earnings before interest and taxes; and
- (3) net debt reduction.

The measures are weighted each year based on the Compensation Committee's determination of the relative importance of a particular measure for a given year. The Overall Goal Achievement factor is calculated by multiplying the weightage factor (ranging from 0% to 100% for each performance measure as determined by the Compensation Committee) by the goal achievement percentage for the level of performance achieved with respect to each performance measure. The level of performance achieved with respect to each performance measure will be determined after taking into account (1) any gains or losses from the sale of assets outside the ordinary course of business; (2) any gains or losses from discontinued operations; (3) any extraordinary gains or losses; (4) the effects of accounting changes; (5) any unusual, nonrecurring, transition, one-time or similar items or charges; (6) the diluted impact of goodwill on acquisitions; and (7) any other items that the Committee determines; provided, however, that for awards intended to qualify as performance-based compensation under Section 162(m), the Committee shall specify the items to be excluded in writing at the time such an award is granted. For additional information regarding the Amended Bonus Plan, see *Proposal 2: Approval of Amended and Restated Annual Bonus Plan* above.

Mr. Harrison's restricted stock award is administered by the Compensation Committee of the Board of Directors, which is comprised of three members who are disinterested persons within the meaning of Rule 16b-3 under the Securities and Exchange Act of 1934, as amended (the Exchange Act), and outside directors within the meaning of Section 162(m) and the regulations thereunder (including the transition rules of Treasury Regulations Section 1.162-27). The Compensation Committee interprets the provisions of the Restricted Stock Agreement and is responsible for determining whether the vesting conditions have been satisfied for each annual 20,000 share installment.

Unvested shares of the Class B Common Stock awarded under the Restricted Stock Agreement may not be sold, exchanged, transferred, pledged, hypothecated or otherwise disposed of in any manner.

The Restricted Stock Agreement allows restrictions with respect to each annual installment to be removed only upon the written certification of the Compensation Committee that the vesting conditions described above have been satisfied. Unvested portions of the restricted stock award would lapse without vesting if Mr. Harrison were to terminate his employment with us for any reason (including death or disability) prior to expiration of the ten year term.

During the period the restricted shares of Class B Common Stock are subject to forfeiture, Mr. Harrison is not entitled to receive dividends and other distributions on such stock and is not entitled to vote such stock on any matters submitted to stockholders.

The restricted stock award will terminate when all of the Class B Common Stock authorized for award thereunder has been issued and is no longer subject to forfeiture, unless terminated earlier by the Board of Directors or the Compensation Committee. The Board of Directors or the Compensation Committee may amend, suspend or terminate the Restricted Stock Agreement at any time without the approval of stockholders, except for amendments for which stockholder approval would be required to retain the benefits of Rule 16b-3 under the Exchange Act or Section 162(m).

In accordance with Section 162(m), the restricted stock awards under the Restricted Stock Agreement are subject to the approval of the material terms of such agreement by our stockholders to the extent that the deductibility of such payments would be limited by Section 162(m). The Award Amendment is effective as of January 1, 2007, subject to the approval of both the Amended Annual Bonus Plan and the Award Amendment by our stockholders. The full text of the Award Amendment is attached to this Proxy Statement as Appendix D. A copy of the Restricted Stock Agreement, as originally approved by the stockholders, is available as Annex A to our Proxy Statement for the 1999 Annual Meeting of Stockholders.

**Relation to Proposal 2**

If Proposal 2 relating to the approval of the performance measures under the Amended Bonus Plan is not approved, then the Award Amendment will not become effective and the approval of this Proposal 4 relating to the performance measures under the Restricted Stock Agreement would not satisfy the requirements of Section 162(m). Accordingly, the approval of Proposal 4 is conditioned upon the approval of Proposal 2.

**Required Vote and Recommendation**

The affirmative vote of holders of a majority of the total votes of our Common Stock and Class B Common Stock present in person or by proxy and entitled to vote on the proposal at the 2007 Annual Meeting of Stockholders, voting together as a single class, is required to approve the Award Amendment.

The approval of Proposal 4 is conditioned on the approval of Proposal 2. If Proposal 2 is not approved, the Award Amendment will not become effective even if this Proposal 4 is approved.

The Board of Directors recommends that the stockholders vote **FOR** the approval of the Award Amendment.



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**CERTAIN TRANSACTIONS**
**Transactions with The Coca-Cola Company**

**Concentrates and Syrups; Marketing Programs.** Our business consists primarily of the production, marketing and distribution of soft drink products of The Coca-Cola Company, which is the sole owner of the secret formulas under which the primary components (either concentrates or syrups) of its soft drink products are manufactured. Accordingly, we purchase a substantial majority of our requirements of concentrates and syrups from The Coca-Cola Company in the ordinary course of our business. The prices of these concentrates and syrups are generally set by The Coca-Cola Company from time to time at its discretion. The following table summarizes the significant transactions between us and The Coca-Cola Company during fiscal year 2006:

<u>Transactions</u>	<u>Amount (in millions)</u>
Payments by us for concentrate, syrup, sweetener and other purchases	\$341.7
Payments by us for customer marketing programs	46.6
Payments by us for cold drink equipment parts	6.0
Marketing funding support payments to us	22.9
Fountain delivery and equipment repair fees paid to us	8.8
Presence marketing funding support provided by The Coca-Cola Company on our behalf	4.2
Sale of energy products to The Coca-Cola Company	40.9

**Piedmont Coca-Cola Bottling Partnership.** On July 2, 1993, Piedmont Coca-Cola Bottling Partnership (the Partnership) was formed by one of our wholly-owned subsidiaries and a wholly-owned subsidiary of The Coca-Cola Company to distribute and market finished bottle, can and fountain beverage products under trademarks of The Coca-Cola Company and other third party licensors in portions of North Carolina, South Carolina, Virginia and Georgia. Initially, our company and The Coca-Cola Company each beneficially owned a 50% interest in the Partnership. We currently beneficially own a 77.3% interest in the Partnership and The Coca-Cola Company beneficially owns a 22.7% interest in the Partnership. The initial term of the Partnership is through 2018, subject to early termination as a result of certain events. Each partner's interest is subject to certain limitations on transfer, rights of first refusal and other purchase rights upon the occurrence of specified events.

We manufacture and package products and manage the Partnership pursuant to a management agreement. In connection with the management agreement, we receive a fee based on total case sales, reimbursement for its out-of-pocket expenses and reimbursement for sales

branch, divisional and certain other expenses. The term of the management agreement is through 2018, subject to early termination in the event of certain change in control events, a termination of the Partnership or a material default by either party. During fiscal year 2006, we received management fees of \$21.7 million from the Partnership. We sell product at cost to the Partnership. These sales amounted to \$77.1 million in fiscal year 2006. We sublease various fleet and vending equipment to the Partnership at cost. These sublease rentals amounted to \$8.0 million in fiscal year 2006.

During 2002, we agreed to provide up to \$195 million in revolving credit loans to the Partnership. The Partnership pays us interest on the loans at a rate equal to our average cost of funds plus 0.50% (7.74% at December 31, 2006). As of December 31, 2006, the aggregate outstanding principal balance of the loans was \$89.5 million. The loan agreement was amended August 25, 2005 to extend the maturity date from December 31, 2005 to December 31, 2010 on terms comparable to the previous loan agreement.

**Stock Rights and Restrictions Agreement.** Pursuant to a Stock Rights and Restrictions Agreement dated January 27, 1989 (the Rights and Restrictions Agreement ) with The Coca-Cola Company, The Coca-Cola Company agreed (a) not to acquire additional shares of Common Stock or Class B Common Stock except in certain circumstances and (b) not to sell or otherwise dispose of shares of Class B Common Stock without first converting them into Common Stock except in certain circumstances. The Coca-Cola Company granted us a right of first refusal with respect to any proposed disposition of any shares owned by it, and we granted The Coca-Cola Company certain registration rights with respect to such shares. The Coca-Cola Company further agreed that if its equity ownership reaches 30.67% or more of our outstanding common stock of all classes, or its voting interest reaches 23.59% or more of the votes of all outstanding shares of all classes, then it will (i) negotiate in good faith to sell to us the number of shares of Common Stock or Class B Common Stock necessary to reduce its equity ownership to 29.67% of the outstanding common stock of all classes and (ii) convert the number of shares of Class B Common Stock necessary to maintain its ownership of Class B Common Stock to between 20% and 21% of the outstanding shares of Class B Common Stock and to maintain its voting interest at between 22.59% and 23.59% of the votes of all outstanding shares of all classes.

Additionally, if we issue new shares of Class B Common Stock upon the conversion or exercise of any security, warrant or option that results in The Coca-Cola Company owning less than 20% of the outstanding shares of Class B Common Stock and less than 20% of the total votes of all outstanding shares of all classes of our securities, The Coca-Cola Company has the right to exchange shares of Common Stock for shares of Class B Common Stock in order to maintain its ownership of at least 20% of the outstanding shares of Class B Common Stock and at least 20% of the total votes of all outstanding shares of all classes of our common stock. Under the Rights and Restrictions Agreement, The Coca-Cola Company also has a preemptive right to purchase a percentage of any newly issued shares of any class in order for it to maintain ownership of both 29.67% of the outstanding shares of common stock of all classes and 22.59% of the total votes of

all outstanding shares of all classes. Each of the percentages referenced in this paragraph and the preceding paragraph are subject to downward adjustment if The Coca-Cola Company voluntarily disposes of shares of Common Stock or Class B Common Stock or if we exercise our right of redemption referred to below.

Pursuant to the Rights and Restrictions Agreement, The Coca-Cola Company has also granted to us the right, from January 27, 1995 through January 27, 2019, to call for redemption in full or in part the number of shares that would reduce The Coca-Cola Company's ownership of our equity to 20% at a price (which will not be less than \$42.50 per share except with respect to shares acquired pursuant to the rights described in the preceding two paragraphs) and on such terms as set forth in the Rights and Restrictions Agreement. The option will expire prior to the end of its stated term if Mr. Harrison ceases to exercise voting control with respect to our company.

The Coca-Cola Company was also given the right to have its designee proposed by us for nomination to our Board of Directors and to have such person nominated at each subsequent election of our directors, subject to certain conditions. Carl Ware's appointment as a director was made in accordance with the terms of this agreement. Mr. Ware was Executive Vice President, Public Affairs and Administration of The Coca-Cola Company until his retirement in February 2003.

***Voting Agreement and Irrevocable Proxy.*** The Coca-Cola Company and Mr. Harrison are also parties to a Voting Agreement dated January 27, 1989 (the "Voting Agreement"). Pursuant to the Voting Agreement, Mr. Harrison agreed to vote his shares of Common Stock and Class B Common Stock for a nominee of The Coca-Cola Company for election as a director or our Board of Directors. Additionally, The Coca-Cola Company granted an irrevocable proxy (the "Irrevocable Proxy") with respect to all shares of Class B Common Stock and Common Stock owned by The Coca-Cola Company to Mr. Harrison for life. The Irrevocable Proxy covers all matters on which holders of Class B Common Stock or Common Stock are entitled to vote other than certain mergers, consolidations, asset sales and other fundamental corporate transactions.

Pursuant to the terms of the Voting Agreement, Mr. Harrison was granted the option (assignable to us) to purchase the shares of Class B Common Stock held by The Coca-Cola Company for \$38.50 per share plus an amount sufficient to give The Coca-Cola Company a 25% compounded annual rate of return from May 7, 1987 after taking into account dividends and other distributions previously received thereon. This option may be exercised if the disproportionate voting rights of the Class B Common Stock are terminated for certain reasons.

The Voting Agreement and Irrevocable Proxy terminate upon the written agreement of the parties or at such time as The Coca-Cola Company no longer beneficially owns any shares of our Common Stock. The Irrevocable Proxy also terminates at such time as either (a) Mr. Harrison or certain entities controlled by him do not beneficially own 712,796 shares of Class B Common

Stock that are currently part of the holdings of the Harrison Family Limited Partnerships or (b) certain trusts holding shares of Class B Common Stock subject to the Voting Agreement do not beneficially own at least 50% of the Class B Common Stock held by them at the date of the Voting Agreement.

#### **Other Transactions**

We have a production arrangement with Coca-Cola Enterprises Inc. to buy and sell finished products at cost. Sales to Coca-Cola Enterprises Inc. under this agreement were \$56.5 million in fiscal year 2006. Purchases from Coca-Cola Enterprises Inc. under this agreement were \$15.7 million in fiscal year 2006.

Along with all other Coca-Cola bottlers in the United States, we are a member of Coca-Cola Bottlers Sales & Services Company LLC (the Sales and Services Company), which was formed in 2003 for the purposes of facilitating various procurement functions and distributing certain beverage products of The Coca-Cola Company and with the intention of enhancing the efficiency and competitiveness of the Coca-Cola bottling system in the United States. The Sales and Services Company negotiated the procurement for the majority of the Company's raw materials (excluding concentrate) in 2006. We paid \$.3 million in fiscal year 2006 to the Sales and Services Company for our share of the Sales and Services Company's administrative costs. Coca-Cola Enterprises Inc. is also a member of the Sales and Services Company.

We lease the Snyder Production Center and certain adjacent property from Harrison Limited Partnership One (HLP) pursuant to a lease that expires in December 2010. HLP's sole limited partner is a trust of which J. Frank Harrison, III is a trustee and descendants of J. Frank Harrison, Jr. are beneficiaries. Total payments under this lease were \$4.0 million in fiscal year 2006.

We also lease our corporate headquarters and an adjacent office building from Beacon Investment Corporation (Beacon), of which Mr. Harrison is the sole stockholder. Total payments under this lease were \$3.8 million in fiscal year 2006. In fiscal year 2006, a wholly-owned subsidiary of ours entered into a new lease agreement with Beacon for a fifteen-year term beginning January 1, 2007 and extending through December 31, 2021.

#### **Policy for Review of Related Person Transactions**

Our Code of Business Conduct includes a written policy regarding the review and approval of certain related person transactions. Under the Code of Business Conduct, all material transactions or conflicts of interest involving members of our Board of Directors or our executive officers must be reported to and approved by the Audit Committee of our Board of Directors. For purposes of our Code of Business Conduct, any related person transaction that is required to be reported in our proxy statements pursuant to Item 404 of Regulation S-K is deemed to be a material transaction and must be reported to and approved by the Audit Committee.

In addition to our written policy, it is also the practice of our Board of Directors to form Special Committees from time to time for the purpose of approving certain related person transactions. In fiscal year 2006, the new lease agreement with Beacon, as described under *Other Transactions* above, and the transactions contemplated by the lease were approved and recommended to the Board of Directors by a Special Committee of the Board of Directors that was formed to consider purchase, lease and other alternatives available to us in connection with the expiration of the existing lease with Beacon. The new lease agreement was also approved by the Audit Committee of the Board of Directors.

**INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

**General**

PricewaterhouseCoopers LLP audited our consolidated financial statements and internal control over financial reporting for fiscal year 2006. Representatives of PricewaterhouseCoopers LLP are expected to be present at the Annual Meeting with an opportunity to make a statement if they desire to do so, and they are expected to be available to respond to appropriate questions. Consistent with past practice, the selection of an independent registered public accounting firm will be deferred until after the Annual Meeting. The Audit Committee of the Board of Directors will then consider and engage an independent registered public accounting firm to audit our consolidated financial statements and internal control over financial reporting for fiscal year 2007.

**Audit and Non-Audit Fees**

The following table presents fees for professional audit services rendered by PricewaterhouseCoopers LLP for the audit of our consolidated financial statements for the fiscal years ended December 31, 2006 and January 1, 2006 and fees billed for other services rendered by PricewaterhouseCoopers LLP during those periods.

	<u>FY 2006</u>	<u>FY 2005</u>
Audit Fees (1)	\$ 691,998	\$ 670,878
Audit-Related Fees (2)	45,000	65,548
Tax Fees (3)	66,500	108,030
All Other Fees (4)	2,000	5,700
	<u>\$ 805,498</u>	<u>\$ 850,156</u>

- (1) Audit Fees consist of the aggregate fees billed for professional services rendered for the audit of our annual consolidated financial statements and reviews of the consolidated financial statements included in our Quarterly Reports on Form 10-Q and services that are normally provided by the independent registered public accounting firm in connection with statutory and regulatory filings or engagements. For fiscal years 2006 and 2005, these fees include fees billed for professional services rendered for the audit of management's assessment of the effectiveness of internal control over financial reporting.

- (2) Audit-Related Fees consist of the aggregate fees billed for assurance and related services that are reasonably related to the performance of the audit or review of our consolidated financial statements and are not reported under Audit Fees. For fiscal year 2006, these fees included fees billed for evaluation of internal controls in our Enterprise Resource Planning System. For fiscal year 2005, these fees included fees billed for audits of our employee benefit plans and review, general accounting and disclosure consultations and evaluation of internal controls in our new Enterprise Resource Planning System.
- (3) Tax Fees consist of the aggregate fees billed for professional services rendered for tax compliance, tax advice and tax planning. For fiscal year 2006, these fees included fees billed for federal and state tax review and consulting services and other tax consulting services. For fiscal year 2005, these fees included fees billed for federal and state tax review and consulting services, tax audit services and other tax consulting services.
- (4) All Other Fees consist of aggregate fees billed for products and services other than the services reported above. For fiscal years 2006 and 2005, this category included fees billed for personal financial planning services provided to certain officers.

#### **Policy on Audit Committee Pre-Approval of Audit and Non-Audit Services**

The Audit Committee's policy is to pre-approve all audit and non-audit services provided by our independent registered public accounting firm. These services may include audit services, audit-related services, tax services and other services. Pre-approval is generally provided for up to one year, and any pre-approval is detailed as to the particular service or category of services and is generally subject to a specific budget. The Audit Committee has delegated pre-approval authority to its Chairperson when necessary due to timing considerations. Any services approved by the Chairperson must be reported to the full Audit Committee at its next scheduled meeting. The independent registered public accounting firm and management are required to periodically report to the full Audit Committee regarding the extent of services provided by the independent registered public accounting firm in accordance with the pre-approval policies, and the fees for the services performed to date.

#### **AUDIT COMMITTEE REPORT**

The primary purpose of the Audit Committee, currently composed of Messrs. H.W. McKay Belk, James E. Harris and Dennis A. Wicker and Ms. Sharon A. Decker, is to act on behalf of the Board of Directors in its oversight of all material aspects of the accounting and financial reporting processes, internal controls and audit functions of Coca-Cola Consolidated, including its compliance with Section 404 of the Sarbanes-Oxley Act of 2002.

Management has primary responsibility for Coca-Cola Consolidated's consolidated financial statements and reporting processes, including its internal controls and disclosure controls and procedures. Coca-Cola Consolidated's independent registered public accounting firm, PricewaterhouseCoopers LLP, is responsible for performing an independent audit of the consolidated financial statements in accordance with the standards of the Public Company

Accounting Oversight Board and expressing an opinion on the conformity of those audited consolidated financial statements with generally accepted accounting principles.

In fulfilling its oversight responsibilities, the Audit Committee reviewed and discussed with management the audited consolidated financial statements included in the Annual Report on Form 10-K for the fiscal year ended December 31, 2006. This review included a discussion of the quality and acceptability of Coca-Cola Consolidated's financial reporting and internal controls.

During the past fiscal year, the Audit Committee discussed with Coca-Cola Consolidated's independent registered public accounting firm the matters required to be discussed by Statement on Auditing Standards No. 61 (Communication with Audit Committees), as amended. The Audit Committee also received during the past fiscal year the written disclosures and the letter from the independent registered public accounting firm required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees), and has discussed with the independent registered public accounting firm their independence.

Based on the reviews, discussions and disclosures referred to above, the Audit Committee recommended to the Board of Directors that the audited consolidated financial statements of Coca-Cola Consolidated for the fiscal year ended December 31, 2006 be included in its Annual Report on Form 10-K for such fiscal year.

Submitted by the Audit Committee of the Board of Directors.

H. W. MCKAY BELK, CHAIR

SHARON A. DECKER

JAMES E. HARRIS

DENNIS A. WICKER

**SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE**

Section 16(a) of the Securities Exchange Act of 1934, as amended (the Exchange Act ), requires our executive officers, directors and certain persons who beneficially own more than 10% of our Common Stock to file with the SEC initial reports of ownership and reports of changes in ownership of the Common Stock and other equity securities of our company. Executive officers, directors and such greater than 10% stockholders are required to furnish to us copies of all such reports they file. Based solely on our review of the copies of such reports received by us and written representations that no other reports were required for such persons, we believe that, during fiscal year 2006, all filing requirements applicable to our executive officers, directors and greater than 10% stockholders were complied with on a timely basis.

**STOCKHOLDER PROPOSALS**

If any stockholder wishes to present a proposal to the stockholders of the Company at the 2008 Annual Meeting, such proposal must be received by us at our principal executive offices for inclusion in the proxy statement and form of proxy relating to the meeting on or before November 28, 2007. In addition, if we receive notice of stockholder proposals after February 11, 2008, then the persons named as proxies in such proxy statement and form of proxy will have discretionary authority to vote on such stockholder proposals, without discussion of such matters in the proxy statement and without such proposals appearing as a separate item on the proxy card.

**ADDITIONAL INFORMATION**

The entire cost of soliciting proxies will be borne by us. In addition to this proxy statement, proxies may be solicited by our directors, officers and other employees by personal contact, telephone, facsimile and e-mail. Such persons will receive no additional compensation for such services. Georgeson & Co., Inc., Wall Street Plaza, New York, New York 10005 has been retained to assist us in the solicitation of brokers, banks and other similar entities holding shares for other persons. Georgeson & Co., Inc. will receive a payment of \$7,000 (plus out-of-pocket expenses) for these services. All brokers, banks and other similar entities and other custodians, nominees and fiduciaries will be requested to forward solicitation materials to the beneficial owners of the shares of Common Stock held of record by such persons, and we will pay such brokers, banks and other fiduciaries all of their reasonable out-of-pocket expenses incurred in connection therewith.

**SUMMARY ANNUAL REPORT AND ANNUAL REPORT ON FORM 10-K**

**This proxy statement is accompanied by our 2006 Summary Annual Report to Stockholders and Annual Report on Form 10-K for the fiscal year ended December 31, 2006. The Summary Annual Report and the Form 10-K, which contains our consolidated financial statements and other information about us, are not**



incorporated in the proxy statement and are not to be deemed a part of the proxy soliciting material. Additional copies of our Form 10-K for the fiscal year ended December 31, 2006, as filed with the SEC, are also available to stockholders without charge upon written request to Steven D. Westphal, Senior Vice President and Chief Financial Officer, Coca-Cola Bottling Co. Consolidated, P. O. Box 31487, Charlotte, North Carolina 28231.

HENRY W. FLINT

*Secretary*

March 27, 2007

**COCA-COLA BOTTLING CO. CONSOLIDATED**

**AUDIT COMMITTEE CHARTER**

**I. Committee Role**

The Audit Committee's role is to act on behalf of the Board of Directors (the Board) in the oversight of all material aspects of the Company's financial reporting, internal control and audit functions. The Audit Committee's role includes a particular focus on the qualitative aspects of financial reporting to shareholders and on Company processes and procedures for the management of business and financial risk and for compliance with significant regulatory requirements.

**II. Committee Membership**

The membership of the Audit Committee (the Committee) shall comply at all times with applicable requirements of law. Accordingly, the Board shall appoint to the Committee, in the manner prescribed by the Bylaws of the Company, members who meet the following criteria:

1. The Committee shall consist of at least three Board members. Committee members shall meet the independence, financial literacy and expertise and other qualification requirements of the federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission (the SEC) and The Nasdaq Stock Market. The Board shall determine in its business judgment the adequacy of the qualifications of each member of the Committee.
2. Committee appointments, including that of the Chairman, shall be approved by the full Board.

**III. Resources**

1. The Committee shall have access to its own counsel and other advisors at the Committee's sole discretion, and the Company shall provide for appropriate funding, as determined by the Committee, for such counsel and advisors. The Committee may request any officer, employee, investment banker, financial analyst, consultant, or the Company's outside counsel or Independent Registered Public Accounting Firm (the Independent Auditors) to attend any meeting of the Committee or to provide pertinent information as necessary.
2. The Company shall provide such other resources to the Committee as may be required by applicable law, including the rules and regulations of the SEC and The Nasdaq Stock Market.



#### **IV. Primary Committee Responsibilities**

In meeting its responsibilities, the Committee is expected to:

##### **General Responsibilities**

1. Provide an open avenue of communication between the internal auditors, the Independent Auditors, management and the Board.
2. Review, assess the adequacy of and, if necessary, update the Committee's charter annually with approval by the Board. The Company's annual proxy statement will disclose that a charter has been adopted, and a copy of the charter will be included on the Company's website or as an appendix to the annual proxy statement, in each case, in accordance with the rules and regulations of the SEC.
3. Conduct an annual self-assessment of the Committee's performance and effectiveness, including an assessment of the Committee's compliance with this charter, and present such assessment to the Board for its review.
4. As necessary, meet with the director of internal auditing, the Independent Auditors and management in separate executive sessions to discuss any matters that the Committee or these groups believe should be discussed privately with the Committee.
5. Report Committee actions to the Board with such recommendations as the Committee may deem appropriate.
6. Conduct or authorize investigations into any matters within the Committee's scope of responsibilities.
7. Meet at least three times per year or more frequently as circumstances require.
8. Issue a report annually to be included in the Company's annual proxy statement. Such report shall comply in all respects with applicable law, including the rules and regulations of the SEC.
9. Perform such other functions as assigned by the Company's Certificate of Incorporation or Bylaws, the Board or by applicable law, including the rules and regulations of the SEC, the Public Company Accounting Oversight Board ( PCAOB ) and The Nasdaq Stock Market.

**Oversight of the Company's Relationship with the Independent Auditors**

10. Approve in advance all audit and non-audit services (including the fees and terms thereof) to be performed for the Company by its Independent Auditor in accordance with the rules and regulations of the SEC, the PCAOB and The Nasdaq Stock Market, subject to de minimis or other exceptions afforded by applicable law. The Committee may delegate its authority to so approve such services to the extent permitted by applicable law.

The Committee shall have the sole authority for the appointment, compensation, retention and oversight of the work of the Independent Auditors. The Independent Auditors shall report directly to the Committee, and the Committee shall attempt to resolve any disagreements between management and the Independent Auditor regarding financial reporting.

11. Review the experience and qualifications of the primary managers of the independent auditing team (including such managers' experience and qualifications in light of the requirements of the SEC and the PCAOB), review the quality control procedures of the Independent Auditors, review matters of audit quality and consistency, evaluate the performance of the Independent Auditors, and review and approve the compensation of the Independent Auditors.
12. Confirm and take or recommend any appropriate actions to assure the independence of the Independent Auditors. Obtain written disclosures regarding the Independent Auditors' independence as required by the Independence Standards Board and other applicable rules and regulations and discuss with the Independent Auditors all significant relationships to determine the Independent Auditors' independence. Review the hiring by the Company of any employees of the Independent Auditors who were engaged on the Company's account.
13. Obtain and review a report from the Independent Auditors at least annually regarding (a) the Independent Auditor's internal quality-control procedures, (b) any material issues raised by the most recent internal quality-control review, or peer review, of the firm, or by any inquiry or investigation by governmental or professional authorities within the preceding five year period respecting one or more of the independent audits carried out by the firm, (c) any steps taken to deal with any such issues, and (d) all relationships between the Independent Auditor and the Company.
14. Ensure the rotation of the audit partners of the Company's Independent Auditors to the extent required by applicable law.

**Oversight of the Company's Internal Audit Function**

15. Review the appointment, compensation, replacement, reassignment, or dismissal of the director of internal auditing.

16. Confirm and take or recommend any appropriate actions to assure the independence of the director of internal auditing.
17. Consider and review with management and the director of internal auditing:
  - (a) The internal auditing department budget and staffing.
  - (b) The internal auditing department's compliance with Institute of Internal Auditor's Standards of Professional Practice of Internal Auditing.

#### **Oversight of the Company's Audit Process**

18. Review and approve, in consultation with the Independent Auditors and the director of internal auditing, the audit scope and plan of the internal auditors and the Independent Auditors and the proposed staffing with respect thereto.
19. Review with the director of internal auditing and the Independent Auditors the coordination of audit effort to assure completeness of coverage, reduction of redundant efforts and the effective use of audit resources.

#### **Financial Statement and Disclosure Matters and Internal Control Over Financial Reporting**

20. Inquire of and discuss with management, the director of internal auditing and the Independent Auditors the following:
  - (a) The Company's significant risks or exposures and the steps management has taken to monitor and control such risks or exposures.
  - (b) The significant financial reporting issues and judgments and estimates made in the preparation of the Company's financial statements including the appropriateness, comparability and consistency of the Company's financial statements.
  - (c) Any transaction as to which management obtained a letter under Statement of Auditing Standards No. 50.
  - (d) The effect of any material off-balance sheet financing or other similar structure on the Company's financial statements.
  - (e) Major changes to the Company's accounting principles and practices.
  - (f) Any material issue affecting the audit of the Company's financial statements on which the national office of the Independent Auditors was consulted by the Company's independent auditing team.
  - (g) The adequacy and results of management's assessment of the effectiveness of internal control over financial reporting, including antifraud controls.

(h) Matters that the Company's Independent Auditors are required to report to the Committee pursuant to applicable law.

21. Review with management and the Independent Auditors in connection with the annual examination:

- (a) The Company's annual financial statements and related footnotes.
- (b) The Independent Auditors' audits of the financial statements and management's assessment of internal control over financial reporting and the Independent Auditors' reports thereon.
- (c) Any significant changes required in the Independent Auditors' audit plan.
- (d) Any serious difficulties or disputes with management encountered during the course of the audit.
- (e) Other matters related to the conduct of the audit which are to be communicated to the Committee under generally accepted auditing standards including Statement of Auditing Standards No. 61, as amended and superseded.

22. Consider and review with the Independent Auditors and the director of internal auditing:

(a) The adequacy of the Company's internal controls including computerized information system controls and security.

(b) Any related significant findings and recommendations of the Independent Auditors and internal auditors together with management's response to such findings and recommendations.

115,322      117,839      111,772      101,528

Diluted weighted average shares		16,870,404	17,059,546	16,847,305	17,027,216
Earnings per common share:					
Basic EPS	\$	0.00	\$ 0.01	\$ 0.28	\$ 0.09
Diluted EPS	\$	0.00	\$ 0.01	\$ 0.28	\$ 0.09

Earnings per share (EPS) are calculated pursuant to FASB ASC Topic 260, *Earnings Per Share* (ASC Topic 260). Basic EPS excludes potentially dilutive securities and is computed by dividing net income by the weighted average number of common shares outstanding for the period. Diluted EPS is computed assuming the conversion or exercise of all dilutive securities such as employee stock options.

The number of incremental shares from the assumed exercise of stock options is calculated by using the treasury stock method. As of June 30, 2017 and 2016, there were 586,834 and 590,168 options to purchase common stock outstanding, respectively. The average outstanding diluted shares calculation excludes options with an exercise price that exceeds the average market price of shares during the period.

For the three months ended June 30, 2017 and 2016, respectively, 336,834 and 340,586 diluted weighted-average shares outstanding were excluded from the computation of diluted EPS because the effect would be anti-dilutive.

For the nine months ended June 30, 2017 and 2016, respectively, 337,003 and 359,571 diluted weighted-average shares outstanding were excluded from the computation of diluted EPS because the effect would be anti-dilutive.

## 6. Contingencies

On February 23, 2017, IS&S announced a settlement of its previously disclosed lawsuit with Delta Air Lines, Inc. ( Delta ). The lawsuit related to Delta's October 2014 termination of a contract for IS&S to develop, manufacture and install new cockpit displays and upgraded flight management systems with RNP, RTA, and GPS capabilities on Delta's fleet of McDonnell Douglas 88 and 90 aircraft. Under the terms of settlement, Delta paid IS&S \$7.75 million and the parties dismissed their respective claims and counterclaims against each other and exchanged releases, bringing the lawsuit to an end.

The Company reversed the \$3.6 million unbilled receivable reserve in the nine month period ended June 30, 2017. The effect of the reversal is reflected in selling, general and administrative expenses. The Company had \$3.6 million of unbilled receivables and \$0.2 million of inventory on its balance sheet relating to the Delta program at September 30, 2016. The remainder of the amount paid to the Company, approximately \$4.1 million is reflected in other income for the nine month period ended June 30, 2017.



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

**CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS**

*This report contains forward looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). These forward looking statements are based largely on current expectations and projections about future events and trends affecting the business, are not guarantees of future performance, and involve a number of risks, uncertainties and assumptions that are difficult to predict. In this report, the words anticipates, believes, may, will, estimates, continues, anticipates, intends, forecasts, expects, plans, could, should, would, is likely and similar expressions, as they relate to the business or to its management, are intended to identify forward looking statements, but they are not exclusive means of identifying them. Unless the context otherwise requires, all references herein to IS&S, the Registrant, the Company, we, us or our are to Innovative Solutions and Support, Inc. and its consolidated subsidiaries.*

*The forward looking statements in this report are only predictions, and actual events or results may differ materially. In evaluating such statements, a number of risks, uncertainties and other factors could cause actual results, performance, financial condition, cash flows, prospects and opportunities to differ materially from those expressed in, or implied by, the forward looking statements. These risks, uncertainties and other factors include those set forth in Item 1A (Risk Factors) of this Annual Report on Form 10-K and the following factors:*

- *market acceptance of the Company's flat panel display systems, or COCKPIT/IP® or other planned products or product enhancements;*
- *continued market acceptance of the Company's air data systems and products;*
- *the competitive environment and new product offerings from competitors;*
- *difficulties in developing and producing the Company's COCKPIT/IP® Flat Panel Display System or other planned products or product enhancements;*
- *the deferral or termination of programs or contracts for convenience by customers;*
- *the availability of government funding;*
- *the impact of general economic trends on the Company's business;*
- *the ability to gain regulatory approval of products in a timely manner;*
- *delays in receiving components from third party suppliers;*
- *the bankruptcy or insolvency of one or more key customers;*
- *protection of intellectual property rights;*

- *failure to retain/recruit key personnel;*
- *a cyber security incident;*
- *the ability to service the international market;*
- *risks related to our self-insurance program;*
- *potential future acquisitions; and*
- *other factors disclosed from time to time in the Company's filings with the United States Securities and Exchange Commission (the SEC).*

*Except as expressly required by the federal securities laws, the Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise after the date of this report. Results of operations in any past period should not be considered indicative of the results to be expected for future periods. Fluctuations in operating results may result in fluctuations in the price of the Company's common stock.*

*Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this Form 10-Q. The Company does not undertake any obligation to release publicly any revisions to these forward-looking statements to reflect events, circumstances, or changes in expectations after the date of this Form 10-Q, or to reflect the occurrence of unanticipated events. The forward-looking statements in this document are intended to be subject to the safe harbor protection provided by Sections 27A of the Securities Act of 1933, as amended (the Securities Act) and 21E of the Exchange Act.*

*Investors should also be aware that while the Company, from time to time, communicates with securities analysts, it is against its policy to disclose any material non-public information or other confidential commercial information. Accordingly, shareholders should not assume that the Company agrees with any statement or report issued by any analyst irrespective of the content of the statement or report. Furthermore, the Company has a policy against issuing or confirming financial forecasts or projections issued by others. Thus, to the extent that reports issued by securities analysts contain any projections, forecasts or opinions, such reports are **not** the responsibility of the Company.*

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**Company Overview**

Innovative Solutions and Support, Inc. (the Company or IS&S) was incorporated in Pennsylvania on February 12, 1988. The Company operates in one business segment as a systems integrator that designs, develops, manufactures, sells, and services air data equipment, engine display systems, standby equipment, primary flight guidance, and cockpit display systems for retrofit applications and original equipment manufacturers (OEMs). The Company supplies integrated Flight Management Systems (FMS), Flat Panel Display Systems (FPDS), Integrated Standby Units (ISU), advanced Global Positioning System (GPS) receivers that enable reduced carbon footprint navigation and an Autothrottle, which allows a pilot to automatically control the power setting of the engine and is designed to reduce pilot workload and enhance safety.

The Company has continued to position itself as a system integrator, which capability provides the Company with the potential to generate more substantive orders over a broader product base. The strategy, as both a manufacturer and integrator, is designed to leverage the latest technologies developed for the computer and telecommunications industries into advanced and cost-effective solutions for the general aviation, commercial air transport, United States Department of Defense (DoD)/governmental, and foreign military markets. This approach, combined with the Company's industry experience, is designed to enable IS&S to develop high-quality products and systems, to reduce product time to market, and to achieve cost advantages over products offered by its competitors.

For several years the Company has been working with advances in technology to provide pilots with more information to enhance both the safety and efficiency of flying, and has developed its COCKPIT/IP® Cockpit Information Portal (CIP) product line that incorporates proprietary technology, low cost, reduced power consumption, decreased weight, and increased functionality. The Company believes the CIP product line is suited to address market demand that will be driven by regulatory mandates, new technologies, and the high cost of maintaining aging/obsolete equipment on airplanes that have been in service for up to fifty years. The Company has also incorporated Electronic Flight Bag (EFB) functionality, such as charting and mapping systems, in its FPDS product line.

The Company has developed an FMS that combines the savings long associated with in flight fuel optimization in enroute flight management combined with the precision of satellite-based navigation required to comply with the regulatory environments of both domestic and international markets. The Company believes that the FMS coupled with its FPDS product line is well suited to address market demand driven by further regulatory mandates, new technologies, and the high cost of maintaining aging and obsolete equipment on aircraft that will be in service for up to fifty years. The shift in the regulatory and technological environment is illustrated by the dramatic increase in the number of Space Based Augmentation System (SBAS) or Wide Area Augmentation System (WAAS) approach qualified airports, particularly as realized through Localizer Performance with Vertical guidance (LPV) navigation procedures. Aircraft equipped with the Company's FMS and FPDS product line (equipped with a SBAS/WAAS/LPV enabled navigator) will be qualified to land at such airports and to comply with upcoming Federal Aviation Administration (FAA) mandates for Required Navigation Performance (RNP) and Automatic Dependent Surveillance-Broadcast (ADS-B) navigation, a fact which IS&S believes will further increase the demand for the Company's products. The Company's FMS/FPDS product line is designed for new production and retrofit applications into general aviation, commercial air transport and military transport aircraft. In addition, the Company offers an innovative ISU, integrating the full functionality of the primary and navigation displays into a small backup-powered unit. This ISU builds on the Company's legacy air data computer to form a complete next-generation cockpit display and navigation upgrade offering to the commercial and military markets.

More recently, the Company has continued to expand its product portfolio with receipt of a FAA Supplemental Type Certificate (STC) for its Autothrottle (Patent Pending Design). This certified Autothrottle is uniquely applicable to Non-Full Authority Digital Engine Control for retrofit in the Pilatus PC-12 aircraft. In addition, the Company is currently developing the Autothrottle for the King Air 200 and 350 aircraft.

IS&S sells to both the OEM and retrofit market. Customers include various OEMs, commercial air transport carriers and corporate/general aviation companies, DoD and its commercial contractors, aircraft operators, aircraft modification centers and foreign militaries. Occasionally, IS&S sells its products directly to DoD; however, the Company sells its products primarily to commercial customers for end use in DoD programs. Sales to defense contractors are generally made on commercial terms, although some of the government terms are flowed down and are applicable to these contracts.

Customers have been and may continue to be affected by the uncertain economic conditions that currently exist both in the United States and abroad. Such conditions may cause customers to curtail or delay their spending on both new and existing aircraft. Factors that can impact general economic conditions and the level of spending by customers include, but are not limited to, general levels of consumer spending, increases in fuel and energy costs, conditions in the real estate and mortgage markets, labor and healthcare costs, access to credit, consumer confidence, and other macroeconomic factors that affect spending behavior. Furthermore, spending by government agencies may be reduced in the future if tax revenues decline. If customers curtail or delay their spending or are forced to declare bankruptcy or liquidate their operations because of adverse economic conditions, the Company's revenues and results of operations would be affected adversely. However, the Company believes that, in an uncertain economic environment, customers that may have otherwise elected to purchase newly manufactured aircraft may be interested instead in retrofitting existing aircraft as a cost-effective alternative, thereby creating a market opportunity for IS&S.

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Cost of sales related to product sales is comprised of material components and third-party avionics purchased from suppliers, direct labor, and overhead costs. Many of the components are standard, although certain parts are manufactured to meet IS&S specifications. The overhead portion of cost of sales is comprised primarily of salaries and benefits, building occupancy costs, supplies, and outside service costs related to production, purchasing, material control, and quality control. Cost of sales includes warranty costs.

Cost of sales related to engineering development contracts ( EDC ) sales is comprised of engineering labor, consulting services, and other costs associated with specific design and development projects. These costs are incurred pursuant to contractual arrangements and are accounted for typically as contract costs within cost of sales with the reimbursement accounted for as a sale in accordance with the percentage-of-completion method of accounting. Company funded research and development ( R&D ) expenditures relate to internally-funded efforts towards the development of new products and the improvement of existing products. These costs are expensed as incurred and reported as R&D expenses. The Company intends to continue investing in the development of new products that complement current product offerings and to expense associated R&D costs as they are incurred.

Selling, general and administrative expenses consist of sales, marketing, business development, professional services, salaries and benefits for executive and administrative personnel, facility costs, recruiting, legal, accounting, bad debt expense and other general corporate expenses.

**Critical Accounting Policies and Estimates**

The discussion and analysis of financial condition and consolidated results of operations are based upon the Company's condensed consolidated financial statements, which have been prepared in accordance with generally accepted accounting principles in the United States. The preparation of these condensed consolidated financial statements requires estimates and assumptions that affect the reported amounts of assets, liabilities, sales and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, IS&S management evaluates its estimates based upon historical experience and various other assumptions that it believes to be reasonable in the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The Company believes that its critical accounting policies affect its more significant estimates and judgments used in the preparation of its consolidated financial statements. The Annual Report on Form 10-K for the fiscal year ended September 30, 2016 contains a discussion of these critical accounting policies. There have been no significant changes in the Company's critical accounting policies since September 30, 2016. See also Note 1 to the unaudited condensed consolidated financial statements for the three and nine months period ending June 30, 2017 as set forth herein.

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**RESULTS OF OPERATIONS FOR THE THREE AND NINE MONTHS ENDED  
June 30, 2017 AND 2016**

The following table sets forth the statements of operations data expressed as a percentage of total net sales for the periods indicated (some items may not add due to rounding):

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2017	2016	2017	2016
Net sales:				
Product	98.6%	98.0%	95.6%	95.5%
Engineering development contracts	1.4%	2.0%	4.4%	4.5%
Total net sales	100.0%	100.0%	100.0%	100.0%
Cost of sales:				
Product	45.7%	38.3%	47.7%	38.9%
Engineering development contracts	2.0%	2.0%	2.4%	0.9%
Total cost of sales	47.7%	40.3%	50.1%	39.8%
Gross profit	52.3%	59.7%	49.9%	60.2%
Operating expenses:				
Research and development	27.2%	21.6%	27.0%	16.9%
Selling, general and administrative	37.0%	34.5%	16.1%	34.6%
Total operating expenses	64.3%	56.1%	43.1%	51.5%
Operating (loss) income	(11.9)%	3.6%	6.8%	8.7%
Interest income	0.2%	0.1%	0.2%	0.1%
Other income	0.3%	0.2%	33.2%	0.3%
(Loss) income before income taxes	(11.4)%	3.9%	40.2%	9.2%
Income tax (benefit) expense	(11.8)%	0.4%	2.4%	1.9%
Net income	0.4%	3.5%	37.8%	7.3%

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**Three Months Ended June 30, 2017 Compared to the Three Months Ended June 30, 2016**

*Net sales.* Net sales were \$4.5 million for the three months ended June 30, 2017 compared to \$6.5 million for the three months ended June 30, 2016, a decrease of 30.2%. Product sales decreased \$1.9 million in the three months ended June 30, 2017 compared to the three months ended June 30, 2016 primarily due to decreased shipments of displays for retrofit programs to commercial transport customers. EDC sales decreased \$0.1 million from the same period in the prior year the result of less revenue being recognized from EDC projects awarded in prior years as these projects are nearing completion and they have not been replaced by new EDC projects.

*Cost of sales.* Cost of sales decreased \$0.5 million, or 17.4%, to \$2.2 million, or 47.7% of net sales, in the three months ended June 30, 2017, compared to \$2.6 million, or 40.3% of net sales, in the three months ended June 30, 2016. The decrease in cost of sales was primarily the result of a decrease in product sales volume for the three months ended June 30, 2017 compared to the three months ended June 30, 2016. The Company's overall gross margin was 52.3% and 59.7% for the quarters ended June 30, 2017 and 2016, respectively. This decrease in overall gross margin reflects a lower product gross margin primarily the result of reduced coverage of fixed costs due to lower sales volume.

*Research and development.* R&D expense decreased by \$0.2 million to \$1.2 million for the three month periods ended June 30, 2017 versus \$1.4 million for the three months ended June 30, 2016. R&D expense represented 27.2% and 21.6% of net sales in such periods, respectively. The decrease in R&D expense resulted primarily from reduced personnel and consultant costs.

*Selling, general, and administrative.* Selling, general and administrative expense was \$1.7 million in the three months ended June 30, 2017 as compared to an expense of \$2.2 million in the three months ended June 30, 2016. The decrease in selling, general, and administrative expense in the three month period was primarily the result of lower legal fees offset in part by an increase in commissions as compared to the prior year period. As a percentage of net sales, selling, general and administrative expenses were 37.0% of net sales in the three months ended June 30, 2017 from 34.5% of net sales in the three months ended June 30, 2016.

*Interest income.* Interest income decreased to \$8,000 in the three months ended June 30, 2017 from \$9,000 in the three months ended June 30, 2016.

*Other income.* Other income was \$16,000 in the three months ended June 30, 2017 and \$12,000 for the three months ended June 30, 2016. Other income for the three months ended June 30, 2016 is mainly composed of royalties earned during the quarter.

*Income tax expense.* The income tax benefit for the three months ended June 30, 2017 was \$0.5 million as compared to an income tax expense of \$27,000 for the three months ended June 30, 2016. The effective tax rate benefit for the three months ended June 30, 2017 was 103.7%. The effective tax rate benefit for the three months ended June 30, 2017 differs from the statutory tax rate primarily due to the change in the anticipated profitability in the current year partially offset by the reduction in the utilization of certain R&D tax credits in the period resulting in an increase in the valuation allowance of approximately \$0.5 million.

The effective tax rate for the three months ended June 30, 2016 was 10.7%. The effective tax rate for the three months ended June 30, 2016 differs from the statutory rate primarily due to a reduction in the valuation allowance of approximately \$150,000 included in the current year estimated annual effective tax rate that is attributable to the anticipated profitability in the current year.

*Net income.* The Company reported net income for the three months ended June 30, 2017 of \$19,000 compared to net income of \$227,000 for the three months ended June 30, 2016. Net income was significantly impacted by the income tax benefit described above. On a diluted basis, the income per share was \$0.00 for the three months ended June 30, 2017 compared to income per share of \$0.01 for the three months ended June 30, 2016.



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**Nine Months Ended June 30, 2017 Compared to the Nine Months Ended June 30, 2016**

*Net sales.* Net sales were \$12.6 million for the nine months ended June 30, 2017 compared to \$21.7 million for the nine months ended June 30, 2016, a decrease of 42.2%. Product sales decreased \$8.8 million in the nine months ended June 30, 2017 compared to the nine months ended June 30, 2016 primarily due to decreased shipments of displays for retrofit programs to commercial transport customers. EDC sales decreased \$0.4 million from the same period in the prior year primarily the result of less revenue being recognized from EDC projects awarded in prior years as these projects are nearing completion and they have not been replaced by new EDC projects.

*Cost of sales.* Cost of sales decreased \$2.3 million, or 27.2%, to \$6.3 million, or 50.1% of net sales, in the nine months ended June 30, 2017, compared to \$8.6 million, or 39.8% of net sales, in the nine months ended June 30, 2016. The decrease in cost of sales was primarily the result of a decrease in product sales volume for the nine months ended June 30, 2017 compared to the nine months ended June 30, 2016. The Company's overall gross margin was 49.9% and 60.2% for the nine month period ended June 30, 2017 and 2016, respectively. This decrease in overall gross margin reflects a lower product gross margin primarily the result of reduced coverage of fixed costs due to lower sales volume. The EDC gross margin for the nine months ended June 2016 reflects a reversal of a loss accrual in the amount of \$0.5 million as the Company had negotiated changes in January 2016 to its arrangement with a certain customer whereby the Company's obligation with respect to certain product deliverables were cancelled.

*Research and development.* R&D expense decreased by \$0.3 million to \$3.4 million for the nine month period ended June 30, 2017 versus \$3.7 million for the nine months ended June 30, 2016. R&D expense represented 27.0% and 16.9% of net sales in such periods, respectively. The increase in R&D expense as a percentage of net sales resulted primarily from lower sales volume in the nine month period ended June 30, 2017 as compared to the nine month period ended June 30, 2016. The decrease in R&D expense resulted primarily from reduced personnel and consultant costs.

*Selling, general, and administrative.* Selling, general and administrative expense was \$2.0 million in the nine months ended June 30, 2017 as compared to an expense of \$7.5 million in the nine months ended June 30, 2016. The decrease in selling, general, and administrative expense in the nine month period was primarily the result of the reversal of the \$3.6 million reserve of the Delta unbilled receivable due to the February 23, 2017 settlement with Delta and lower legal fees compared to the prior year period. As a percentage of net sales, selling, general and administrative expenses were 16.1% of net sales in the nine months ended June 30, 2017 from 34.6% of net sales in the nine months ended June 30, 2016.

*Interest income.* Interest income increased to \$28,000 in the nine months ended June 30, 2017 from \$24,000 in the nine months ended June 30, 2016, mainly a result of higher average cash balances in the nine months ended June 30, 2017.

*Other income.* Other income was \$4.2 million in the nine months ended June 30, 2017 and \$71,000 for the nine months ended June 30, 2016. The Delta settlement payment to the Company of \$7.75 million is reflected in the financial statements as payment of the \$3.6 million unbilled receivable previously reserved which had been reversed in the period ended March 31, 2017 in selling, general and administrative expenses. The remainder of the settlement payment, approximately \$4.1 million, is reflected as other income. Other income for the nine months ended June 30, 2016 is mainly composed of royalties earned during the nine months then ended.

*Income tax expense.* The income tax expense for the nine months ended June 30, 2017 was \$297,000 as compared to an income tax expense of \$403,000 for the nine months ended June 30, 2016. The effective tax rate for the nine months ended June 30, 2017 was 5.9%. The effective tax rate for the nine months ended June 30, 2017 differs from the statutory rate primarily due to a reduction in the valuation allowance of approximately \$1.4 million included in the current year estimated annual effective tax rate that is attributable to the anticipated profitability in the current year. The majority of this change is a result of the bad debt reserve reversal being deductible for tax purposes and the utilization of certain R&D tax credits in the period.

The effective tax rate for the nine months ended June 30, 2016 was 20.2%. The effective tax rate for the nine months ended June 30, 2016 differs from the statutory rate primarily due to a reduction in the valuation allowance of approximately \$150,000 included in the current year estimated annual effective tax rate that is attributable to the anticipated profitability in the current year.

*Net income.* The Company reported net income for the nine months ended June 30, 2017 of \$4.8 million compared to net income of \$1.6 million for the nine months ended June 30, 2016. Net income per share was \$0.28 on a diluted basis for the nine months ended June 30, 2017 compared to net income of \$0.09 per share for the nine months ended June 30, 2016. The increases in net income and net income per share were primarily a result of the proceeds of the Delta settlement.

Table of Contents**Liquidity and Capital Resources**

The following table highlights key financial measurements of the Company:

	<b>June 30, 2017</b>	<b>September 30, 2016</b>
Cash and cash equivalents	\$ 24,981,341	\$ 18,767,661
Accounts receivable	2,073,268	4,511,091
Current assets	34,190,304	29,369,459
Current liabilities	3,291,305	3,573,264
Deferred revenue	314,702	179,585
Total debt and other non-current liabilities (1)	67,745	67,701
Quick ratio (2)	8.22	6.51
Current ratio (3)	10.39	8.22

	<b>2017</b>	<b>2016</b>
<b>Cash flow activities:</b>		
Net cash provided by operating activities	\$ 6,343,738	\$ 1,680,172
Net cash (used in) investing activities	(130,058)	(262,130)
Net cash (used in) financing activities		(169,871)

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- (1) Excludes deferred revenue
  - (2) The sum of cash and cash equivalents plus accounts receivable, divided by current liabilities
  - (3) Current assets divided by current liabilities

The Company's principal source of liquidity has been from cash flows generated from current year operations and cash accumulated from prior years' operations. Cash is used principally to finance inventory, accounts receivable, unbilled receivables, and payroll, which are all collectively leveraged to execute the Company's growth strategies and to return value to its shareholders.

***Operating activities***

Cash generated for the nine months ended June 30, 2017 resulted primarily from net income of \$4.8 million and the decrease of accounts receivable of \$2.4 million which was partially offset by an increase in inventory of \$0.9 million and a decrease in accounts payable of \$0.5 million.

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Cash generated for the nine months ended June 30, 2016 resulted primarily from net income of \$1.6 million, the decreases of unbilled receivables of \$2.3 million, which principally represent sales recorded under the percentage-of-completion method of accounting that have been billed to customers in accordance with applicable EDC terms, lower inventories of \$0.6 million and an increase in accounts payable of \$0.4 million partially offset by an increase in accounts receivable of \$3.4 million.

### *Investing activities*

Cash used in investing activities was \$0.1 million and \$0.3 million for each of the nine months ended June 30, 2017 and 2016, respectively and consisted primarily of the purchase of production and laboratory test equipment.

### *Financing activities*

Net cash used by financing activities was \$0 and \$0.2 million for each of the nine months ended June 30, 2017 and 2016, respectively. The financing activity in the nine month period ended June 30, 2016 consisted of the repurchase of shares of the Company's common stock under the Company's share repurchase program.

### *Summary*

Future capital requirements depend upon numerous factors, including market acceptance of the Company's products, the timing and

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rate of expansion of business, acquisitions, joint ventures, and other factors. IS&S has experienced increases in expenditures since its inception and anticipates that expenditures will continue in the foreseeable future. The Company believes that its cash and cash equivalents will provide sufficient capital to fund operations for at least the next twelve months. However, IS&S may need to develop and introduce new or enhanced products, respond to competitive pressures, invest in or acquire businesses or technologies, or respond to unanticipated requirements or developments. If insufficient funds are available, the Company may not be able to introduce new products or compete effectively.

**Backlog**

Backlog represents the value of contracts and purchase orders received, less sales recognized to date on those contracts and purchase orders. Backlog activity for the three and nine months ended June 30, 2017 (in thousands):

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>June 30, 2017</b>			
Backlog, beginning of period	\$	5,882	\$	4,569
Bookings, net		2,964		12,853
Recognized in revenue		(4,541)		(13,117)
Backlog, end of period	\$	4,305	\$	4,305

At June 30, 2017 and September 30, 2016, the Company's backlog was \$4.3 million and \$4.6 million, respectively. The \$0.3 million decrease in backlog was the result of \$12.9 million in net new business orders, offset by \$13.1 million of sales recognized for the nine months ended June 30, 2017. At June 30, 2017, approximately 100% of the Company's backlog is expected to be filled within the next twelve months. To the extent new business orders do not continue to equal or exceed sales recognized in the future from the Company's existing backlog, future operating results may be impacted negatively.

**Off-Balance Sheet Arrangements**

IS&S has no relationships with unconsolidated entities or financial partnerships, such as Special Purpose Entities or Variable Interest Entities, established for the purpose of facilitating off-balance sheet arrangements or other limited purposes.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

The Company's operations are exposed to market risks primarily as a result of changes in interest rates. The Company does not use derivative financial instruments for speculative or trading purposes. The Company's exposure to market risk for changes in interest rates relates to its cash equivalents. The Company's cash equivalents consist of funds invested in money market accounts, which bear interest at a variable rate. The Company does not participate in interest rate hedging. Cash balances are maintained with two major banks. Balances on deposit with certain money market accounts and operating accounts may exceed the Federal Deposit Insurance Corporation (FDIC) limits. A change in interest rates earned on the cash equivalents would impact interest income and cash flows, but would not impact the fair market value of the related

underlying instruments. Assuming that the balances during the three and nine months ended June 30, 2017 were to remain constant and the Company did not act to alter the existing interest rate sensitivity, a hypothetical 1% increase in variable interest rates would have affected interest income by approximately \$59,000 and \$176,000 with a resulting impact on cash flows of approximately \$59,000 and \$176,000 for the three and nine months ended June 30, 2017, respectively.

**Item 4. Controls and Procedures**

(a) We carried out an evaluation under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the Exchange Act), as of June 30, 2017. Based on that evaluation, our chief executive officer and chief financial officer concluded that these controls and procedures were effective to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is (i) recorded, processed, summarized, and reported, within the time periods specified in the rules and forms of the Securities and Exchange Commission and (ii) accumulated and communicated to the issuer's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

(b) There were no changes in the Company's internal control over financial reporting identified in connection with the evaluation of such controls that occurred during the Company's most recent fiscal quarter that has materially affected, or is reasonably likely to

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materially affect, the Company's internal control over financial reporting.

**PART II OTHER INFORMATION**

**Item 1. Legal Proceedings**

In the ordinary course of business, IS&S is at times subject to various legal proceedings and claims. Except as set forth below, the Company does not believe any such matters that are currently pending will, individually or in the aggregate, have a material effect on the results of operations or financial position.

**Item 1A. Risk Factors**

There are no material changes to the risk factors described under Item 1A of the Company's Form 10-K for the year ended September 30, 2016.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

None

**Item 3. Defaults upon Senior Securities**

None

**Item 4. Mine Safety Disclosures**

Not applicable

**Item 5. Other Information**

None

**Item 6. Exhibits**

(a) Exhibits

- 31.1 Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) **(2)**
- 31.2 Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) **(2)**
- 32.1 Certification Pursuant to U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 **(2)**
- 101.INS XBRL Instance Document **(1)**
- 101.SCH XBRL Taxonomy Extension Scheme Document **(1)**
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document **(1)**
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document **(1)**
- 101.LAB XBRL Taxonomy Extension Label Linkbase Document **(1)**
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document **(1)**

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(1) Filed herewith

(2) Furnished herewith



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**SIGNATURE**

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.

**INNOVATIVE SOLUTIONS AND SUPPORT, INC.**

Date: August 11, 2017

By:

/s/ RELAND WINAND

RELAND WINAND  
CHIEF FINANCIAL OFFICER