COCA COLA BOTTLING CO CONSOLIDATED /DE/
Form 10-Q
August 16, 2006
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended July 2, 2006

Commission File Number 0-9286

COCA-COLA BOTTLING CO. CONSOLIDATED

(Exact name of registrant as specified in its charter)

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

4100 Coca-Cola Plaza, Charlotte, North Carolina 28211

(Address of principal executive offices) (Zip Code)

(704) 557-4400

(Registrant s telephone number, including area code)

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ¨ Accelerated filer x Non-accelerated filer ¨

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

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

Class	**Outstanding at July 31, 2006**
Common Stock, $1.00 Par Value	6,643,177
Class B Common Stock, $1.00 Par Value	2,460,152

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COCA-COLA BOTTLING CO. CONSOLIDATED

QUARTERLY REPORT ON FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED JULY 2, 2006

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PART I - FINANCIAL INFORMATION

Item l. Financial Statements.

Coca-Cola Bottling Co. Consolidated

CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

In Thousands (Except Per Share Data)

	Second Quarter		First Half	
	2006	2005	2006	2005
Net sales	$ 386,624	$ 361,224	$ 719,803	$ 670,409
Cost of sales	218,935	194,859	406,088	364,510
Gross margin	167,689	166,365	313,715	305,899
Selling, delivery and administrative expenses	138,310	132,025	270,038	257,924
Amortization of intangibles	142	157	290	566
Income from operations	29,237	34,183	43,387	47,409
Interest expense	12,843	12,893	25,063	24,391
Minority interest	1,149	1,441	1,705	1,961
Income before income taxes	15,245	19,849	16,619	21,057
Income taxes	6,358	8,330	6,917	8,819
Net income	$ 8,887	$ 11,519	$ 9,702	$ 12,238
Basic net income per share	$ .98	$ 1.27	$ 1.07	$ 1.35
Diluted net income per share	$ .97	$ 1.27	$ 1.06	$ 1.35
Weighted average number of common shares outstanding	9,103	9,083	9,103	9,083
Weighted average number of common shares outstanding assuming dilution	9,123	9,083	9,118	9,083
Cash dividends per share				
Common Stock	$ .25	$ .25	$ .50	$ .50
Class B Common Stock	$ .25	$ .25	$ .50	$ .50

See Accompanying Notes to Consolidated Financial Statements

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Coca-Cola Bottling Co. Consolidated

CONSOLIDATED BALANCE SHEETS

In Thousands (Except Share Data)

	Unaudited July 2, 2006	Jan. 1, 2006	Unaudited July 3, 2005
ASSETS			
Current Assets:			
Cash and cash equivalents	$ 30,971	$ 39,608	$ 10,155
Accounts receivable, trade, less allowance for doubtful accounts of $1,490, $1,318 and $1,262, respectively	106,740	94,576	100,640
Accounts receivable from The Coca-Cola Company	10,709	2,719	5,326
Accounts receivable, other	10,485	8,388	6,890
Inventories	63,932	58,233	55,324
Prepaid expenses and other current assets	15,848	8,862	12,806
Total current assets	238,685	212,386	191,141
Property, plant and equipment, net	385,813	389,199	398,368
Leased property under capital leases, net	71,511	73,244	75,051
Other assets	38,892	39,235	40,239
Franchise rights	520,672	520,672	520,672
Goodwill	102,049	102,049	102,049
Other identifiable intangible assets, net	4,986	5,054	5,369
Total	$ 1,362,608	$ 1,341,839	$ 1,332,889

See Accompanying Notes to Consolidated Financial Statements

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Coca-Cola Bottling Co. Consolidated

CONSOLIDATED BALANCE SHEETS

In Thousands (Except Share Data)

	Unaudited July 2, 2006	Jan. 1, 2006	Unaudited July 3, 2005
LIABILITIES AND STOCKHOLDERS EQUITY			
Current Liabilities:			
Current portion of debt		$ 6,539	$ 2,939
Current portion of obligations under capital leases	$ 1,594	1,709	1,794
Accounts payable, trade	40,890	35,333	35,068
Accounts payable to The Coca-Cola Company	34,695	15,516	29,285
Other accrued liabilities	51,973	60,079	61,010
Accrued compensation	13,073	18,969	14,346
Accrued interest payable	9,747	9,670	6,787
Total current liabilities	151,972	147,815	151,229
Deferred income taxes	163,650	167,131	168,433
Pension and postretirement benefit obligations	65,227	54,844	42,031
Other liabilities	89,458	85,188	78,935
Obligations under capital leases	76,728	77,493	78,336
Long-term debt	691,450	691,450	700,000
Total liabilities	1,238,485	1,223,921	1,218,964
Commitments and Contingencies (Note 14)			
Minority interest	44,489	42,784	40,648
Stockholders Equity:			
Common Stock, $1.00 par value:			
Authorized 30,000,000 shares; Issued 9,705,451, 9,705,451 and 9,704,951 shares, respectively	9,705	9,705	9,704
Class B Common Stock, $1.00 par value:			
Authorized 10,000,000 shares; Issued 3,088,366, 3,068,366 and 3,068,866 shares, respectively	3,088	3,068	3,069
Capital in excess of par value	100,681	99,376	99,376
Retained earnings	59,505	54,355	48,185
Accumulated other comprehensive loss	(32,091)	(30,116)	(25,803)
	140,888	136,388	134,531
Less: Treasury stock, at cost			
Common 3,062,374 shares	60,845	60,845	60,845
Class B Common 628,114 shares	409	409	409
Total stockholders equity	79,634	75,134	73,277
Total	$ 1,362,608	$ 1,341,839	$ 1,332,889

See Accompanying Notes to Consolidated Financial Statements

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Coca-Cola Bottling Co. Consolidated

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY (UNAUDITED)

In Thousands

	Common Stock	Class B Common Stock	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total
Balance on January 2, 2005	$ 9,704	$ 3,049	$ 98,255	$ 40,488	$ (25,803)	$ (61,254)	$ 64,439
Comprehensive income:							
Net income				12,238			12,238
Total comprehensive income							12,238
Cash dividends paid							
Common ($.50 per share)				(3,321)			(3,321)
Class B Common ($.50 per share)				(1,220)			(1,220)
Issuance of 20,000 shares of Class B Common Stock		20	1,121				1,141
Balance on July 3, 2005	$ 9,704	$ 3,069	$ 99,376	$ 48,185	$ (25,803)	$ (61,254)	$ 73,277
Balance on January 1, 2006	$ 9,705	$ 3,068	$ 99,376	$ 54,355	$ (30,116)	$ (61,254)	$ 75,134
Comprehensive income:							
Net income				9,702			9,702
Net change in minimum pension liability adjustment, net of tax					(1,975)		(1,975)
Total comprehensive income							7,727
Cash dividends paid							
Common ($.50 per share)				(3,322)			(3,322)
Class B Common ($.50 per share)				(1,230)			(1,230)
Issuance of 20,000 shares of Class B Common Stock		20	840				860
Stock compensation expense			465				465
Balance on July 2, 2006	$ 9,705	$ 3,088	$ 100,681	$ 59,505	$ (32,091)	$ (61,254)	$ 79,634

See Accompanying Notes to Consolidated Financial Statements

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Coca-Cola Bottling Co. Consolidated

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

In Thousands

	First Half 2006	First Half 2005
Cash Flows from Operating Activities		
Net income	$ 9,702	$ 12,238
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation expense	33,572	34,166
Amortization of intangibles	290	566
Deferred income taxes	1,040	4,664
Losses on sale of property, plant and equipment	543	36
Amortization of debt costs	1,328	616
Amortization of deferred gain related to terminated interest rate agreements	(843)	(839)
Stock compensation expense	465	490
Minority interest	1,705	1,961
Increase in current assets less current liabilities	(17,984)	(5,382)
Increase in other noncurrent assets	(902)	(1,377)
Increase (decrease) in other noncurrent liabilities	3,123	(8,451)
Total adjustments	22,337	26,450
Net cash provided by operating activities	32,039	38,688
Cash Flows from Investing Activities		
Additions to property, plant and equipment	(29,833)	(14,881)
Proceeds from the sale of property, plant and equipment	837	2,970
Other	(222)	
Net cash used in investing activities	(29,218)	(11,911)
Cash Flows from Financing Activities		
Payment of current portion of long-term debt	(39)	
Payment of lines of credit, net	(6,500)	(5,100)
Cash dividends paid	(4,552)	(4,541)
Principal payments on capital lease obligations	(880)	(897)
Premium on exchange of long-term debt		(15,554)
Other	513	585
Net cash used in financing activities	(11,458)	(25,507)
Net increase (decrease) in cash	(8,637)	1,270
Cash at beginning of period	39,608	8,885
Cash at end of period	$ 30,971	$ 10,155
Significant non-cash investing and financing activities:		
Issuance of Class B Common Stock in connection with stock award	$ 860	$ 1,141

Exchange of long-term debt	164,757

See Accompanying Notes to Consolidated Financial Statements

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Coca-Cola Bottling Co. Consolidated

Notes to Consolidated Financial Statements (Unaudited)

1. Significant Accounting Policies

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

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

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The accounting policies followed in the presentation of interim financial results are consistent with those followed on an annual basis. These policies are presented in Note 1 to the consolidated financial statements included in the Company s Annual Report on

Form 10-K for the year ended January 1, 2006 filed with the United States Securities and Exchange Commission (SEC).

Certain prior year amounts reported in the Company s consolidated statements of operations have been conformed to current year classifications. In prior periods, the Company reported depreciation expense separately in the consolidated statements of operations. The Company began reporting depreciation expense in cost of sales and selling, delivery and administrative (S,D&A) expenses in the first quarter of 2006 (Q1 2006). The Company s results of operations for the second quarter of 2005 (Q2 2005) and the first half of 2005 (YTD 2005) have been conformed to the second quarter of 2006 (Q2 2006) and the first half of 2006 (YTD 2006) presentation. Depreciation expense in cost of sales and S,D&A expenses in Q2 2006 was $2.3 million and $14.6 million, respectively. Depreciation expense in cost of sales and S,D&A expenses in YTD 2006 was $4.6 million and $29.0 million, respectively. Depreciation expense in cost of sales and S,D&A expenses in Q2 2005 was $2.2 million and $14.8 million, respectively. Depreciation expense in cost of sales and S,D&A expenses in YTD 2005 was $4.5 million and $29.7 million, respectively.

2. Seasonality of Business

Operating results for Q2 2006 and YTD 2006 are not indicative of results that may be expected for the fiscal year ending December 31, 2006 because of business seasonality. Business seasonality results primarily from higher sales of the Company s products in the second and third quarters versus the first and fourth quarters of the fiscal year. Fixed costs, such as depreciation and interest expense, are not significantly impacted by business seasonality.

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Coca-Cola Bottling Co. Consolidated

Notes to Consolidated Financial Statements (Unaudited)

3. Piedmont Coca-Cola Bottling Partnership

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

Minority interest as of July 2, 2006, January 1, 2006 and July 3, 2005 represents the portion of Piedmont owned by The Coca-Cola Company, which was 22.7% for all periods presented.

4. Inventories

Inventories were summarized as follows:

In Thousands	**July 2, 2006**	**Jan. 1, 2006**	**July 3, 2005**
Finished products	$ 38,216	$ 34,181	$ 31,314
Manufacturing materials	9,073	9,222	10,074
Plastic shells, pallets and other inventories	16,643	14,830	13,936
Total inventories	$ 63,932	$ 58,233	$ 55,324

5. Property, Plant and Equipment

The principal categories and estimated useful lives of property, plant and equipment were as follows:

In Thousands	**July 2, 2006**	**Jan. 1, 2006**	**July 3, 2005**	**Estimated Useful Lives**
Land	$ 12,605	$ 12,605	$ 12,767	
Buildings	110,854	110,208	111,644	10-50 years
Machinery and equipment	99,519	96,495	92,837	5-20 years
Transportation equipment	174,903	167,762	164,909	4-13 years
Furniture and fixtures	39,291	44,364	41,849	4-10 years
Cold drink dispensing equipment	340,836	339,330	347,576	6-13 years
Leasehold and land improvements	57,726	56,788	55,584	5-20 years
Software for internal use	33,876	32,258	29,841	3-10 years
Construction in progress	8,660	6,627	7,229	
Total property, plant and equipment, at cost	878,270	866,437	864,236	
Less: Accumulated depreciation and amortization	492,457	477,238	465,868	
Property, plant and equipment, net	$ 385,813	$ 389,199	$ 398,368	

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Coca-Cola Bottling Co. Consolidated

Notes to Consolidated Financial Statements (Unaudited)

6. Leased Property Under Capital Leases

Leased property under capital leases was summarized as follows:

In Thousands	July 2, 2006	Jan. 1, 2006	July 3, 2005	Estimated Useful Lives
Leased property under capital leases	$ 84,035	$ 84,035	$ 84,035	3-29 years
Less: Accumulated amortization	12,524	10,791	8,984	
Leased property under capital leases, net	$ 71,511	$ 73,244	$ 75,051	

As of July 2, 2006, real estate represented $71.4 million of net leased property under capital leases, of which $64.8 million were with related parties as described in Note 19 to the consolidated financial statements.

7. Franchise Rights and Goodwill

There was no change in franchise rights and goodwill in the periods presented.

8. Other Identifiable Intangible Assets

Other identifiable intangible assets were summarized as follows:

In Thousands	July 2, 2006	Jan. 1, 2006	July 3, 2005	Estimated Useful Lives
Other identifiable intangible assets	$ 8,703	$ 9,877	$ 9,877	1-18 years
Less: Accumulated amortization	3,717	4,823	4,508	
Other identifiable intangible assets, net	$ 4,986	$ 5,054	$ 5,369	

Other identifiable intangible assets primarily represent customer relationships.

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Coca-Cola Bottling Co. Consolidated

Notes to Consolidated Financial Statements (Unaudited)

9. Other Accrued Liabilities

Other accrued liabilities were summarized as follows:

In Thousands	July 2, 2006	Jan. 1, 2006	July 3, 2005
Accrued marketing costs	$ 7,263	$ 5,578	$ 4,735
Accrued insurance costs	11,886	10,463	11,608
Accrued taxes (other than income taxes)	3,357	729	3,861
Employee benefit plan accruals	7,999	8,945	10,481
Checks and transfers yet to be presented for payment from zero balance cash account	9,117	20,530	13,248
All other accrued liabilities	12,351	13,834	17,077
Total other accrued liabilities	$ 51,973	$ 60,079	$ 61,010

10. Debt

Debt was summarized as follows:

In Thousands	Maturity	Interest Rate	Interest Paid	July 2, 2006	Jan. 1, 2006	July 3, 2005
Lines of Credit	2006		Varies		$ 6,500	$ 2,900
Debentures	2007	6.85%	Semi-annually	$ 100,000	100,000	100,000
Debentures	2009	7.20%	Semi-annually	57,440	57,440	57,440
Debentures	2009	6.375%	Semi-annually	119,253	119,253	127,803
Senior Notes	2012	5.00%	Semi-annually	150,000	150,000	150,000
Senior Notes	2015	5.30%	Semi-annually	100,000	100,000	100,000
Senior Notes	2016	5.00%	Semi-annually	164,757	164,757	164,757
Other notes payable	2006		Quarterly		39	39
				691,450	697,989	702,939
Less: Current portion of debt					6,539	2,939
Long-term debt				$ 691,450	$ 691,450	$ 700,000

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Coca-Cola Bottling Co. Consolidated

Notes to Consolidated Financial Statements (Unaudited)

10. Debt

On April 7, 2005, the Company entered into a five-year $100 million revolving credit facility ($100 million facility) replacing a $125 million revolving credit facility scheduled to expire in December 2005. On July 2, 2006, there were no amounts outstanding under this $100 million facility. The $100 million facility matures in April 2010 and includes an option to extend the term for an additional year at the discretion of the participating banks and bears interest at a floating base rate or a floating rate of LIBOR plus an interest rate spread of .375%. In addition, there is a facility fee of .125% required for this $100 million facility. Both the interest rate spread and the facility fee are determined from a commonly-used pricing grid based on the Company s long-term senior unsecured debt rating. The Company s $100 million facility contains two financial covenants related to ratio requirements for interest coverage and long-term debt to cash flow, each as defined in the credit agreement. These covenants do not currently, and the Company does not anticipate they will, restrict its liquidity or capital resources.

The Company borrows periodically under its available lines of credit. These lines of credit, in the aggregate amount of $60 million at July 2, 2006, are made available at the discretion of two participating banks at rates negotiated at the time of borrowing and may be withdrawn at any time by such banks. On July 2, 2006, there were no amounts outstanding under the lines of credit.

After taking into account all of its interest rate hedging activities, the Company had weighted average interest rates of 6.7%, 6.2% and 5.8% for its debt and capital lease obligations as of July 2, 2006, January 1, 2006 and July 3, 2005, respectively. Excluding the impact of the $1.3 million financing transaction costs related to the exchange of $164.8 million of the Company s debentures during Q2 2005, the Company s overall weighted average interest rate on its debt and capital lease obligations was 6.6% for YTD 2006 compared to 5.9% for YTD 2005. Including the impact of the $1.3 million financing transaction costs, the Company s overall weighted average interest rate for YTD 2005 was 6.2%. As of July 2, 2006, approximately 42% of the Company s debt and capital lease obligations of $769.8 million was subject to changes in short-term interest rates. The Company considers all floating rate debt and fixed rate debt with a maturity of less than one year to be subject to changes in short-term interest rates.

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

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

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Coca-Cola Bottling Co. Consolidated

Notes to Consolidated Financial Statements (Unaudited)

11. Derivative Financial Instruments

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

Derivative financial instruments were summarized as follows:

	July 2, 2006		**January 1, 2006**		**July 3, 2005**	
In Thousands	**Notional Amount**	**Remaining Term**	**Notional Amount**	**Remaining Term**	**Notional Amount**	**Remaining Term**
Interest rate swap agreement - floating	$ 25,000	1.42 years	$ 25,000	1.92 years	$ 25,000	2.42 years
Interest rate swap agreement - floating	25,000	1.42 years	25,000	1.92 years	25,000	2.42 years
Interest rate swap agreement - floating	50,000	2.92 years	50,000	3.42 years	50,000	3.92 years
Interest rate swap agreement - floating	50,000	1.42 years	50,000	1.92 years	50,000	2.42 years
Interest rate swap agreement - floating	50,000	3.08 years	50,000	3.58 years	50,000	4.08 years
Interest rate swap agreement - floating	50,000	6.42 years	50,000	6.92 years	50,000	7.42 years

The Company had six interest rate swap agreements as of July 2, 2006 with varying terms that effectively converted $250 million of the Company s fixed rate debt to floating rate debt. All of the interest rate swap agreements have been accounted for as fair value hedges.

The counterparties to these contractual arrangements are major financial institutions with which the Company also has other financial relationships. The Company uses several different financial institutions for interest rate derivative contracts to minimize the concentration of credit risk. While the Company is exposed to credit loss in the event of nonperformance by these counterparties, the Company does not anticipate nonperformance by these parties. The Company has master agreements with the counterparties to its derivative financial agreements that provide for net settlement of the derivative transactions.

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Coca-Cola Bottling Co. Consolidated

Notes to Consolidated Financial Statements (Unaudited)

12. Fair Values of Financial Instruments

The following methods and assumptions were used by the Company in estimating the fair values of its financial instruments:

Cash and Cash Equivalents, Accounts Receivable and Accounts Payable

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

Public Debt Securities

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

Non-Public Variable Rate Debt

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

Non-Public Fixed Rate Long-Term Debt

The fair values of the Company s other notes payable are estimated using discounted cash flow analyses based on the Company s current borrowing rates for similar types of borrowing arrangements.

Derivative Financial Instruments

The fair values for the Company s interest rate swap agreements are based on current settlement values.

Letters of Credit

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

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

	July 2, 2006		January 1, 2006		July 3, 2005	
In Thousands	**Carrying Amount**	**Fair Value**	**Carrying Amount**	**Fair Value**	**Carrying Amount**	**Fair Value**
Public debt securities	$ 691,450	$ 664,867	$ 691,450	$ 696,171	$ 700,000	$ 720,137
Non-public variable rate debt			6,500	6,500	2,900	2,900
Non-public fixed rate long-term debt			39	39	39	39
Interest rate swap agreements	11,693	11,693	8,118	8,118	2,855	2,855
Letters of credit		19,786		17,374		18,408

The fair values of the interest rate swap agreements at July 2, 2006, January 1, 2006 and July 3, 2005 represent the estimated amounts the Company would have paid upon termination of these agreements, which were the then current settlement values.

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Coca-Cola Bottling Co. Consolidated

Notes to Consolidated Financial Statements (Unaudited)

13. Other Liabilities

Other liabilities were summarized as follows:

In Thousands	July 2, 2006	Jan. 1, 2006	July 3, 2005
Accruals for executive benefit plans	$ 67,049	$ 61,674	$ 58,887
All other liabilities	22,409	23,514	20,048
Total other liabilities	$ 89,458	$ 85,188	$ 78,935

14. Commitments and Contingencies

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

The Company guarantees a portion of SAC s and Southeastern s debt and lease obligations. The amounts guaranteed were $44.7 million, $41.4 million and $44.4 million as of July 2, 2006, January 1, 2006 and July 3, 2005, respectively. The Company has not recorded any liability associated with these guarantees. The Company holds no assets as collateral against these guarantees and no contractual recourse exists that would enable the Company to recover amounts guaranteed. The guarantees relate to the debt and lease obligations of SAC and Southeastern, which resulted primarily from the purchase of production equipment and facilities. These guarantees expire at various times through 2021. The members of both cooperatives consist solely of Coca-Cola bottlers. The Company does not anticipate either of these cooperatives will fail to fulfill their commitments under these agreements. The Company further believes each of these cooperatives has sufficient assets, including production equipment, facilities and working capital, and the ability to adjust the selling prices of their products to adequately mitigate the risk of material loss.

The Company has identified SAC and Southeastern as variable interest entities and has determined it is not the primary beneficiary of either of the cooperatives. The Company s variable interest in these cooperatives includes an equity ownership in each of the entities and the guarantee of certain indebtedness. As of July 2, 2006, SAC had total assets of approximately $41 million and total debt of approximately $17 million. SAC had total revenue for YTD 2006 of approximately $91 million. As of July 2, 2006, Southeastern had total assets of approximately $379 million and total debt of approximately $285 million. Southeastern had total revenue for YTD 2006 of approximately $287 million. In the event either of these cooperatives fails to fulfill its commitments under the related debt and lease obligations, the Company would be responsible for payments to the lenders up to the level of the guarantees. If these cooperatives had borrowed up to

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their borrowing capacity, the Company s maximum exposure under these guarantees on July 2, 2006 would have been $57.4 million and the Company s maximum total exposure including its equity investment would have been $36.5 million for SAC and $29.7 million for Southeastern. The Company has been purchasing plastic bottles and finished products from these cooperatives for more than ten years.

Effective March 1, 2006, Southeastern requires its members to pay a capital deposit of $3 per thousand bottles purchased. The Company has paid $1.3 million in conjunction with this capital deposit.

The Company has standby letters of credit, primarily related to its property and casualty insurance programs. On July 2, 2006, these letters of credit totaled $19.8 million.

The Company participates in long-term marketing contractual arrangements with certain prestige properties, athletic venues and other locations. The future payments related to these contractual arrangements as of July 2, 2006 amounted to $29.5 million and expire at various dates through 2014.

On February 14, 2006, forty-eight Coca-Cola bottler plaintiffs filed suit in the United States District Court for the Western District of Missouri against The Coca-Cola Company and Coca-Cola Enterprises Inc. (CCE). On February 24, 2006, the plaintiffs filed an amended complaint adding twelve bottlers as plaintiffs. In the lawsuit, *Ozarks Coca-Cola/Dr Pepper Bottling Company, et al. vs. The Coca-Cola Company and Coca-Cola Enterprises Inc.,* the bottler plaintiffs purport to bring claims for breach of contract and breach of duty and other related claims arising out of CCE s plan to offer warehouse delivery of POWERade to Wal-Mart Stores, Inc. (Wal-Mart) within CCE s territory. The bottler plaintiffs seek preliminary and permanent injunctive relief prohibiting the warehouse delivery of POWERade and unspecified compensatory and punitive damages. On March 3, 2006, the Company filed a motion seeking permission to intervene in the lawsuit for the limited purpose of opposing the preliminary and permanent injunctive relief sought by the bottler plaintiffs. The Company seeks permission to intervene because it also plans to offer warehouse delivery of POWERade to Wal-Mart within the Company s territory and therefore opposes the relief requested by the bottler plaintiffs. The plaintiffs have opposed the Company s request to intervene. The Coca-Cola Company and CCE both support the Company s request. On March 17, 2006, the Missouri District Court granted The Coca-Cola Company s and CCE s request for an order transferring the case, for the convenience of the parties, to the United States District Court for the Northern District of Georgia. None of the plaintiffs seek to recover damages from the Company. In April, warehouse delivery of POWERade commenced in the Company s exclusive territories. On April 21, 2006, the plaintiffs requested the Court defer any hearing or further briefing on their motion for preliminary injunctive relief. The parties to the lawsuit are currently engaged in the discovery process. The Court has not ruled on the Company s motion to intervene.

The Company is involved in other claims and legal proceedings which have arisen in the ordinary course of its business. Although it is difficult to predict the ultimate outcome of these claims and legal

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proceedings, management believes the ultimate disposition of these matters will not have a material adverse effect on the financial condition, cash flows or results of operations of the Company. No material amount of loss in excess of recorded amounts is believed to be reasonably possible as a result of these other claims and legal proceedings.

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

15. Income Taxes

The Company s effective income tax rate for YTD 2006 and YTD 2005 was 41.6% and 41.9%, respectively. The following table provides a reconciliation of income tax expense at the statutory federal rate to actual income tax expense.

	First Half	
In Thousands	**2006**	**2005**
Statutory expense	$ 5,816	$ 7,370
State income taxes, net of federal benefit	761	881
Impact of state tax audit and updated assessment of state income tax liability		287
Meals and entertainment	321	350
Other, net	19	(69)
Income tax expense	$ 6,917	$ 8,819

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

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16. Accumulated Other Comprehensive Loss

The reconciliation of the components of accumulated other comprehensive loss was as follows:

In Thousands	Minimum Pension Liability Adjustment	Total
Balance as of January 2, 2005 and July 3, 2005	$ (25,803)	$ (25,803)
Balance as of January 1, 2006	$ (30,116)	$ (30,116)
Additional minimum pension liability adjustment, net of tax	(1,975)	(1,975)
Balance as of July 2, 2006	$ (32,091)	$ (32,091)

A summary of the components of accumulated other comprehensive loss was as follows:

In Thousands	Before-Tax Amount	Income Tax Effect	After-Tax Amount
First Half of 2006			
Net change in minimum pension liability adjustment	$ (3,256)	$ 1,281	$ (1,975)
Other comprehensive loss	$ (3,256)	$ 1,281	$ (1,975)
First Half of 2005			
Other comprehensive loss	$	$	$

On February 22, 2006, the Board of Directors of the Company approved an amendment to the principal Company-sponsored pension plan to cease further benefit accruals under the plan effective June 30, 2006. An actuarial valuation of the principal Company-sponsored pension plan was performed by an independent actuary with a measurement date of February 28, 2006 and an adjustment to other comprehensive loss resulted from this valuation.

17. Capital Transactions

On May 12, 1999, the stockholders of the Company approved a restricted stock award for J. Frank Harrison, III, the Company s Chairman of the Board of Directors and Chief Executive Officer, consisting of 200,000 shares of the Company s Class B Common Stock. The fair value of the restricted stock award, when approved, was approximately $11.7 million based on the market price of the Common Stock on the effective date of the award. The award provides the shares of restricted

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17. Capital Transactions

stock vest at the rate of 20,000 shares per year over a ten-year period. The vesting of each annual installment is contingent upon the Company achieving at least 80% of the overall goal achievement factor in the Company s Annual Bonus Plan. The restricted stock award does not entitle Mr. Harrison, III to participate in dividend or voting rights until each installment has vested and the shares are issued.

On February 23, 2005, the Compensation Committee of the Board of Directors determined 20,000 shares of restricted Class B Common Stock vested and should be issued pursuant to the performance-based award discussed above to Mr. Harrison, III in connection with his services as Chairman of the Board of Directors and Chief Executive Officer of the Company for the fiscal year ended January 2, 2005. On February 22, 2006, the Compensation Committee determined an additional 20,000 shares of restricted Class B Common Stock vested to Mr. Harrison, III in connection with his services for the fiscal year ended January 1, 2006.

The Company adopted Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004), Share-Based Payment, on January 2, 2006. The Company applied the modified prospective transition method and prior periods were not restated. The Company s only share based compensation is the restricted stock award to Mr. Harrison, III as described above. Each annual 20,000 share tranche has an independent performance requirement as it is not established until the Company s Annual Bonus Plan targets are approved each year by the Company s Board of Directors. As a result, each 20,000 share tranche is considered to have its own service inception date, grant-date fair value and requisite service period.

The Company s Annual Bonus Plan targets, which establish the performance requirement for the restricted stock award in 2006, were approved by the Board of Directors in Q1 2006 and the Company recorded the 20,000 share award at the grant-date price of $46.45 per share. Total stock compensation expense will be approximately $929,000 over the one-year service period, of which $465,000 was recognized in YTD 2006. In addition, the Company reimburses Mr. Harrison, III for income taxes to be paid on the shares if the performance requirement is met and the shares are issued. The Company accrues the estimated cost of the income tax reimbursement over the one-year service period.

Prior to the adoption of this statement, the Company accrued compensation cost over the course of the one-year service period with the final cost based upon the end of the period stock price. Total compensation expense, including income tax reimbursements to Mr. Harrison, III, for the restricted stock award, net of tax effect, was $475,000 in YTD 2006 and would have been $542,000, net of tax effect, in YTD 2005 under the new standard. Actual expense recorded in YTD 2005, net of tax effect, was $499,000. Pro forma net income would have been $12.2 million in YTD 2005 which was the net income reported for YTD 2005. Pro forma diluted earnings per share for YTD 2005 was $1.34 compared to actual diluted earnings per share of $1.35.

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17. Capital Transactions

The increase in the number of shares of Class B Common Stock outstanding in YTD 2006 and YTD 2005 was due to the issuance of 20,000 shares of Class B Common Stock related to the restricted stock award in the first quarter of each year.

The Company has two classes of common stock outstanding, Common Stock and Class B Common Stock. The Common Stock is traded on the Nasdaq Global Market^sm tier of The Nasdaq Stock Market, LLC® under the symbol COKE. There is no established public trading market for the Class B Common Stock. Shares of the Class B Common Stock are convertible on a share-for-share basis into shares of Common Stock at any time at the option of the holders of Class B Common Stock.

Pursuant to the Company s Certificate of Incorporation, no cash dividend or dividend of property or stock other than stock of the Company, as specifically described in the Certificate of Incorporation, may be declared and paid on the Class B Common Stock unless an equal or greater dividend is declared and paid on the Common Stock. During both YTD 2006 and YTD 2005, dividends of $.50 per share were declared and paid on both Common Stock and Class B Common Stock.

Each share of Common Stock is entitled to one vote per share at an Annual or Special Meeting of stockholders and each share of Class B Common Stock is entitled to 20 votes per share at such meetings. Except to the extent otherwise required by law, holders of the Common Stock and Class B Common Stock vote together as a single class on all matters brought before the Company s stockholders.

In the event of liquidation, there is no preference between the two classes of common stock.

18. Benefit Plans

Retirement benefits under the two Company-sponsored pension plans are based on the employee s length of service, average compensation over the five consecutive years which gives the highest average compensation and the average of the Social Security taxable wage base during the 35-year period before a participant reaches Social Security retirement age. Contributions to the plans are based on the projected unit credit actuarial funding method and are limited to the amounts currently deductible for income tax purposes.

On February 22, 2006, the Board of Directors of the Company approved an amendment to the principal Company-sponsored pension plan to cease further benefit accruals under the plan effective June 30, 2006. The plan amendment was accounted for as a plan curtailment under SFAS No. 88, Employers Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits (as amended). The curtailment resulted in a reduction of the Company s projected benefit obligation which was offset against the Company s unrecognized net loss.

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18. Benefit Plans

As a result of the curtailment, the impact on net income and the effect on pension expense prior to the effective date of June 30, 2006 was immaterial. Periodic pension expense will be reduced beginning in the third quarter of 2006 as the Company will no longer accrue current service cost.

The components of net periodic pension cost were as follows:

In Thousands	Second Quarter 2006	Second Quarter 2005	First Half 2006	First Half 2005
Service cost	$ 3,304	$ 1,747	$ 5,348	$ 3,494
Interest cost	2,512	2,529	5,354	5,058
Expected return on plan assets	(3,048)	(2,672)	(6,009)	(5,344)
Amortization of prior service cost	6	6	12	12
Recognized net actuarial loss	961	1,335	2,520	2,670
Net periodic pension cost	$ 3,735	$ 2,945	$ 7,225	$ 5,890

The Company did not make cash contributions to its pension plans during YTD 2006.

The Company provides postretirement benefits for a portion of its current employees. The Company recognizes the cost of postretirement benefits, which consist principally of medical benefits, during employees periods of active service. The Company does not pre-fund these benefits and has the right to modify or terminate certain of these benefits in the future. In October 2005, the Company announced changes to certain provisions of its postretirement health care plan that reduced future benefit obligations to eligible participants. Due to the changes announced, the Company s postretirement benefit expense was reduced beginning in Q1 2006.

The components of net periodic postretirement benefit cost were as follows:

In Thousands	Second Quarter 2006	Second Quarter 2005	First Half 2006	First Half 2005
Service cost	$ 83	$ 172	$ 166	$ 344
Interest cost	557	781	1,114	1,562
Amortization of unrecognized transitional assets	(6)	(6)	(12)	(12)
Recognized net actuarial loss	339	252	678	504
Amortization of prior service cost	(446)	(68)	(892)	(136)
Net periodic postretirement benefit cost	$ 527	$ 1,131	$ 1,054	$ 2,262

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18. Benefit Plans

In conjunction with the change to the principal Company-sponsored pension plan discussed above, the Company s Board of Directors also approved an amendment to the 401(k) Savings Plan to increase the Company s matching contribution under the 401(k) Savings Plan effective January 1, 2007. 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.

19. Related Party Transactions

The Company s business consists primarily of the production, marketing and distribution of nonalcoholic beverages of The Coca-Cola Company, which is the sole owner of the secret formulas under which the primary components (either concentrate or syrup) of its soft drink products are manufactured. As of July 2, 2006, The Coca-Cola Company had a 27.3% interest in the Company s total outstanding Common Stock and Class B Common Stock on a combined basis.

The following table summarizes the significant transactions between the Company and The Coca-Cola Company:

	First Half	
In Millions	**2006**	**2005**
Payments by the Company for concentrate, syrup, sweetener and other purchases	$ 173.5	$ 161.2
Marketing funding support payments to the Company	12.0	10.4
Payments net of marketing funding support	$ 161.5	$ 150.8
Payments by the Company for customer marketing programs	$ 24.5	$ 24.5
Payments by the Company for cold drink equipment parts	3.3	2.0
Fountain delivery and equipment repair fees paid to the Company	4.5	3.9
Presence marketing funding support provided by The Coca-Cola Company on the Company s behalf	3.2	3.1
Sales of energy products to The Coca-Cola Company	19.2	12.0

The Company received proceeds in 2005 as a result of a settlement of a class action lawsuit known as *In re: High Fructose Corn Syrup Antitrust Litigation Master File No. 95-1477* in the United States District Court for the Central District of Illinois. The lawsuit related to purchases of high fructose corn syrup by several companies, including The Coca-Cola Company and its subsidiaries, The Coca-Cola Bottlers Association and various Coca-Cola bottlers, during the period from July 1, 1991 to June 30, 1995. The Company recognized $6.4 million of proceeds received in Q2 2005 and $.6 million of proceeds received in the fourth quarter of 2005 as a reduction of cost of sales.

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19. Related Party Transactions

The Company has a production arrangement with CCE to buy and sell finished products at cost. Sales to CCE under this arrangement were $30.7 million and $21.5 million in YTD 2006 and YTD 2005, respectively. Purchases from CCE under this arrangement were $7.6 million and $9.2 million in YTD 2006 and YTD 2005, respectively. The Coca-Cola Company has significant equity interests in the Company and CCE. As of July 2, 2006, CCE held 10.5% of the Company s outstanding Common Stock but held no shares of the Company s Class B Common Stock, giving CCE a 7.6% interest in the Company s total outstanding Common Stock and Class B Common Stock on a combined basis.

Along with all other Coca-Cola bottlers in the United States, the Company is a member in Coca-Cola Bottlers Sales and Services Company, LLC (CCBSS), which was formed in 2003 for the purposes of facilitating various procurement functions and distributing certain specified beverage products of The Coca-Cola Company with the intention of enhancing the efficiency and competitiveness of the Coca-Cola bottling system in the United States. CCBSS negotiates the procurement for the majority of the Company s raw materials (excluding concentrate). CCE is also a member of CCBSS.

The Company provides a portion of the finished products for Piedmont at cost and receives a fee for managing the operations of Piedmont pursuant to a management agreement. The Company sold product at cost to Piedmont during YTD 2006 and YTD 2005 totaling $37.8 million and $33.7 million, respectively. The Company received $10.8 million and $10.3 million for management services pursuant to its management agreement with Piedmont for YTD 2006 and YTD 2005, respectively. The Company provides financing for Piedmont at the Company s average cost of funds plus 0.50%. As of July 2, 2006, the Company had loaned $100.2 million to Piedmont. The loan was amended on August 25, 2005 to extend the maturity date from December 31, 2005 to December 31, 2010 on terms comparable to the previous loan. The Company also subleases various fleet and vending equipment to Piedmont at cost. These sublease rentals were $4.1 million and $4.3 million in YTD 2006 and YTD 2005, respectively. All significant intercompany accounts and transactions between the Company and Piedmont have been eliminated.

The Company is a shareholder in two cooperatives from which it purchases substantially all its requirements for plastic bottles. Net purchases from these cooperatives were $34.6 million and $35.2 million in YTD 2006 and YTD 2005, respectively. In connection with its participation in one of these cooperatives, the Company has guaranteed a portion of the cooperative s debt. Such guarantee was $23.8 million as of July 2, 2006.

The Company is a member of SAC, a manufacturing cooperative. SAC sells finished products to the Company and Piedmont at cost. Purchases from SAC by the Company and Piedmont for finished products were $69.9 million and $59.8 million in YTD 2006 and YTD 2005, respectively. The Company also manages the operations of SAC pursuant to a management agreement. Management fees earned from SAC were $.8 million in both YTD 2006 and YTD 2005. The Company has also guaranteed a portion of debt for SAC. Such guarantee was $20.9 million as of July 2, 2006.

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19. Related Party Transactions

The Company leases from Harrison Limited Partnership One (HLP), the Snyder Production Center and an adjacent sales facility, which are located in Charlotte, North Carolina. HLP is directly and indirectly owned by trusts of which J. Frank Harrison, III, Chairman of the Board of Directors and Chief Executive Officer of the Company, and Deborah S. Harrison, a director of the Company, are trustees and beneficiaries. The principal balance outstanding under this capital lease as of July 2, 2006 was $39.4 million. Rental payments related to this lease were $1.9 million and $1.6 million in YTD 2006 and YTD 2005, respectively.

The Company leases from Beacon Investment Corporation (Beacon), the Company s headquarters office facility. Beacon s sole shareholder is J. Frank Harrison, III. The principal balance outstanding under this capital lease as of July 2, 2006 was $31.0 million. Rental payments related to this lease were $1.9 million and $1.6 million in YTD 2006 and YTD 2005, respectively.

In March 2005, the Company entered into a two-year consulting agreement with Robert D. Pettus, Jr. Mr. Pettus served as an officer and employee of the Company in various capacities from 1984 until his retirement in 2005 and is currently the Vice Chairman of the Board of Directors of the Company. Mr. Pettus receives $350,000 per year plus additional benefits during the term of this consulting agreement.

In June 2005, the Company entered into a two-year consulting agreement with David V. Singer. Mr. Singer served the Company as Executive Vice President and Chief Financial Officer until his resignation on May 11, 2005. Under the consulting agreement, the Company agreed to waive the 50% reduction in Mr. Singer s accrued benefits under the Company s Officer Retention Plan due to the termination of his employment before age 55 and Mr. Singer agreed to certain non-compete restrictions for a five-year period following his resignation.

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20. Net Sales by Product Category

Net sales by product category were as follows:

	Second Quarter		First Half	
In Thousands	**2006**	**2005**	**2006**	**2005**
Product Category				
Bottle/can sales:				
Carbonated soft drinks (including energy drinks)	$ 273,185	$ 261,412	$ 512,399	$ 493,104
Noncarbonated beverages	51,721	45,544	90,639	78,810
Total bottle/can sales	324,906	306,956	603,038	571,914
Other sales:				
Sales to other bottlers	41,719	34,791	79,083	61,946
Post mix	19,999	19,477	37,682	36,549
Total other sales	61,718	54,268	116,765	98,495
Total net sales	$ 386,624	$ 361,224	$ 719,803	$ 670,409

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21. Earnings Per Share/SEC Comment Letter

The following table sets forth the computation of basic net income per share and diluted net income per share:

In Thousands (Except Per Share Data)	Second Quarter 2006	2005	First Half 2006	2005
Numerator:				
Numerator for basic net income per share and diluted net income per share	$ 8,887			