COCA COLA BOTTLING CO CONSOLIDATED /DE/
Form 10-Q
November 06, 2015

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 September 27, 2015

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 o

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

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No 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 October 30, 2015
Common Stock, $1.00 Par Value	7,141,447
Class B Common Stock, $1.00 Par Value	2,150,782

COCA-COLA BOTTLING CO. CONSOLIDATED

QUARTERLY REPORT ON FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 27, 2015

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

Coca-Cola Bottling Co. Consolidated

CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

In Thousands (Except Per Share Data)

	Third Quarter		First Nine Months	
	2015	2014	2015	2014
Net sales	$618,806	$457,676	$1,686,742	$1,305,731
Cost of sales	380,270	272,734	1,026,516	778,936
Gross margin	238,536	184,942	660,226	526,795
Selling, delivery and administrative expenses	210,851	156,496	577,323	454,969
Income from operations	27,685	28,446	82,903	71,826
Interest expense, net	6,686	7,333	20,751	21,899
Other income (expense)	(3,992)	0	(3,003)	0
Gain on exchange of franchise territory	0	0	8,807	0
Gain on sale of business	22,651	0	22,651	0
Income before income taxes	39,658	21,113	90,607	49,927
Income tax expense	12,099	7,408	31,174	17,789
Net income	27,559	13,705	59,433	32,138
Less: Net income attributable to noncontrolling interest	2,006	1,573	4,722	3,774
Net income attributable to Coca-Cola Bottling Co. Consolidated	$25,553	$12,132	$54,711	$28,364
Basic net income per share based on net income attributable to Coca-Cola Bottling Co. Consolidated:				
Common Stock	$2.75	$1.31	$5.89	$3.06
Weighted average number of Common Stock shares outstanding	7,141	7,141	7,141	7,141
Class B Common Stock	$2.75	$1.31	$5.89	$3.06
Weighted average number of Class B Common Stock shares outstanding	2,151	2,130	2,146	2,125
Diluted net income per share based on net income attributable to Coca-Cola Bottling Co. Consolidated:				
Common Stock	$2.74	$1.30	$5.87	$3.05
Weighted average number of Common Stock shares outstanding – assuming dilution	9,332	9,311	9,327	9,306

Class B Common Stock	$2.73	$1.30	$5.85	$3.04
Weighted average number of Class B Common Stock				
shares outstanding – assuming dilution	2,191	2,170	2,186	2,165
Cash dividends per share:				
Common Stock	$.25	$.25	$.75	$.75
Class B Common Stock	$.25	$.25	$.75	$.75

See Accompanying Notes to Consolidated Financial Statements.

Coca-Cola Bottling Co. Consolidated

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

In Thousands

	Third Quarter		First Nine Months	
	2015	2014	2015	2014
Net income	$27,559	$13,705	$59,433	$32,138
Other comprehensive income, net of tax:				
Foreign currency translation adjustment	1	(4)	(3)	(4)
Defined benefit plans reclassification included in pension costs:				
Actuarial loss	490	277	1,467	795
Prior service costs	7	5	18	16
Postretirement benefits reclassification included in benefits costs:				
Actuarial loss	442	344	1,323	1,035
Prior service costs	(518)	(231)	(1,550)	(696)
Other comprehensive income, net of tax	422	391	1,255	1,146
Comprehensive income	27,981	14,096	60,688	33,284
Less: Comprehensive income attributable to noncontrolling interest	2,006	1,573	4,722	3,774
Comprehensive income attributable to Coca-Cola Bottling Co. Consolidated	$25,975	$12,523	$55,966	$29,510

See Accompanying Notes to Consolidated Financial Statements.

Coca-Cola Bottling Co. Consolidated

CONSOLIDATED BALANCE SHEETS (UNAUDITED)

In Thousands (Except Share Data)

	Sept. 27, 2015	Dec. 28, 2014	Sept. 28, 2014
ASSETS			
Current Assets:			
Cash and cash equivalents	$40,491	$9,095	$23,067
Accounts receivable, trade, less allowance for doubtful accounts of $1,777, $1,330 and $1,490, respectively	175,930	125,726	121,466
Accounts receivable from The Coca-Cola Company	42,349	22,741	33,074
Accounts receivable, other	22,520	14,531	15,660
Inventories	94,148	70,740	80,123
Prepaid expenses and other current assets	39,972	44,168	30,460
Total current assets	415,410	287,001	303,850
Property, plant and equipment, net	446,783	358,232	327,238
Leased property under capital leases, net	41,682	42,971	44,470
Other assets	63,509	60,832	60,497
Franchise rights	527,540	520,672	520,672
Goodwill	113,835	106,220	103,294
Other identifiable intangible assets, net	102,088	57,148	17,104
Total assets	$1,710,847	$1,433,076	$1,377,125

See Accompanying Notes to Consolidated Financial Statements.

Coca-Cola Bottling Co. Consolidated

CONSOLIDATED BALANCE SHEETS (UNAUDITED)

In Thousands (Except Share Data)

	Sept. 27, 2015	Dec. 28, 2014	Sept. 28, 2014
LIABILITIES AND EQUITY			
Current Liabilities:			
Current portion of debt	$164,757	$0	$0
Current portion of obligations under capital leases	6,945	6,446	6,325
Accounts payable, trade	78,872	58,640	49,477
Accounts payable to The Coca-Cola Company	85,890	51,227	47,093
Other accrued liabilities	93,098	68,775	73,856
Accrued compensation	40,562	38,677	31,953
Accrued interest payable	6,177	3,655	9,107
Total current liabilities	476,301	227,420	217,811
Deferred income taxes	138,288	140,000	150,543
Pension and postretirement benefit obligations	122,778	134,100	80,993
Other liabilities	225,928	177,250	141,625
Obligations under capital leases	50,505	52,604	54,243
Long-term debt	384,155	444,759	443,709
Total liabilities	1,397,955	1,176,133	1,088,924
Commitments and Contingencies (Note 12)			
Equity:			
Common Stock, $1.00 par value:			
Authorized – 30,000,000 shares;			
Issued – 10,203,821 shares	10,204	10,204	10,204
Class B Common Stock, $1.00 par value:			
Authorized – 10,000,000 shares;			
Issued – 2,778,896, 2,757,976 and 2,757,976 shares, respectively	2,777	2,756	2,756
Capital in excess of par value	113,064	110,860	110,860
Retained earnings	258,704	210,957	210,285
Accumulated other comprehensive loss	(88,659)	(89,914)	(57,030)
	296,090	244,863	277,075
Less-Treasury stock, at cost:			
Common – 3,062,374 shares	60,845	60,845	60,845
Class B Common – 628,114 shares	409	409	409
Total equity of Coca-Cola Bottling Co. Consolidated	234,836	183,609	215,821
Noncontrolling interest	78,056	73,334	72,380
Total equity	312,892	256,943	288,201

Total liabilities and equity	$1,710,847	$1,433,076	$1,377,125

See Accompanying Notes to Consolidated Financial Statements.

Coca-Cola Bottling Co. Consolidated

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (UNAUDITED)

In Thousands (Except Share Data)

	Common Stock	Class B Common Stock	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total Equity of CCBCC	Noncontrolling Interest	Total Equity
Balance on Dec. 29, 2013	$10,204	$2,735	$108,942	$188,869	$(58,176)	$(61,254)	$191,320	$68,606	$259,926
Net income				28,364			28,364	3,774	32,138
Other comprehensive income, net of tax					1,146		1,146		1,146
Cash dividends paid									
Common ($.75 per share)				(5,356)			(5,356)		(5,356)
Class B Common ($.75 per share)				(1,592)			(1,592)		(1,592)
Stock compensation adjustments			176				176		176
Issuance of 20,900 shares of Class B Common Stock		21	1,742				1,763		1,763
Balance on Sept. 28, 2014	$10,204	$2,756	$110,860	$210,285	$(57,030)	$(61,254)	$215,821	$72,380	$288,201
Balance on Dec. 28, 2014	$10,204	$2,756	$110,860	$210,957	$(89,914)	$(61,254)	$183,609	$73,334	$256,943
Net income				54,711			54,711	4,722	59,433

Other comprehensive income, net of tax					1,255		1,255		1,255
Cash dividends paid									
Common ($.75 per share)				(5,356)			(5,356)		(5,356)
Class B Common ($.75 per share)				(1,608)			(1,608)		(1,608)
Issuance of 20,920 shares of Class B Common Stock		21	2,204				2,225		2,225
Balance on Sept. 27, 2015	$10,204	$2,777	$113,064	$258,704	$(88,659)	$(61,254)	$234,836	$78,056	$312,892

See Accompanying Notes to Consolidated Financial Statements.

Coca-Cola Bottling Co. Consolidated

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

In Thousands

	First Nine Months	
	2015	2014
Cash Flows from Operating Activities		
Net income	$59,433	$32,138
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation expense	56,299	44,358
Amortization of intangibles	2,110	377
Deferred income taxes	(3,489)	655
Loss on sale of property, plant and equipment	679	231
Impairment of property, plant and equipment	148	0
Gain on exchange of franchise territory	(8,807)	0
Gain on sale of business	(22,651)	0
Amortization of debt costs	1,491	1,438
Amortization of deferred gain related to terminated interest rate agreements	(125)	(420)
Stock compensation expense	5,674	2,272
Fair value adjustment of acquisition-related contingent consideration	3,003	0
Increase in current assets less current liabilities (exclusive of acquisition)	(16,381)	(20,370)
Increase in other noncurrent assets (exclusive of acquisition)	(3,447)	(3,362)
Decrease in other noncurrent liabilities (exclusive of acquisition)	(1,444)	(7,343)
Other	(10)	(6)
Total adjustments	13,050	17,830
Net cash provided by operating activities	72,483	49,968
Cash Flows from Investing Activities		
Additions to property, plant and equipment (exclusive of acquisition)	(104,422)	(61,357)
Proceeds from the sale of property, plant and equipment	274	1,212
Proceeds from the sale of BYB Brands, Inc.	26,360	0
Acquisition of new territories, net of cash acquired	(52,739)	(12,163)
Net cash used in investing activities	(130,527)	(72,308)
Cash Flows from Financing Activities		
Borrowings under revolving credit facilities	269,000	85,000
Payment on revolving credit facilities	(65,000)	(40,000)
Payment of debt	(100,000)	0
Cash dividends paid	(6,964)	(6,948)
Excess tax expense from stock-based compensation	0	176
Payment on acquisition related contingent consideration	(2,405)	0
Principal payments on capital lease obligations	(4,889)	(4,420)
Debt issuance costs (revolving credit facility)	(214)	0
Other	(88)	(162)
Net cash provided by financing activities	89,440	33,646

Net increase in cash	31,396	11,306
Cash at beginning of period	9,095	11,761
Cash at end of period	$40,491	$23,067
Significant noncash investing and financing activities:		
Issuance of Class B Common Stock in connection with stock award	$2,225	$1,763
Capital lease obligations incurred	3,361	0
Additions to property, plant and equipment accrued and recorded in accounts payable, trade	6,430	2,854

See Accompanying Notes to Consolidated Financial Statements.

Coca-Cola Bottling Co. Consolidated

Notes to Consolidated Financial Statements (Unaudited)

1. Significant Accounting Policies

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

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

The consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles (GAAP) for interim financial reporting and the instructions to Form 10-Q and Article 10 of Regulation S-X. The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The accounting policies followed in the presentation of interim financial results are consistent with those followed on an annual basis. These policies are presented in Note 1 to the consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 28, 2014 filed with the United States Securities and Exchange Commission.

2. Acquisitions and Divestitures

During 2015, the Company completed its acquisitions of distribution territories announced as part of the April 2013 letter of intent signed with The Coca-Cola Company. The completed expansion of the Company's distribution territory includes distribution rights in parts of Tennessee, Kentucky and Indiana served by Coca-Cola Refreshments USA, Inc. ("CCR"), a wholly owned subsidiary of The Coca-Cola Company.

At the closings of each of the expansion territories (excluding the Lexington-for-Jackson exchange described below), the Company signed a Comprehensive Beverage Agreement ("CBA") for each of the territories which has a term of ten years and is renewable by the Company indefinitely for successive additional terms of ten years each unless earlier terminated as provided therein. Under the CBAs, the Company will make a quarterly sub-bottling payment to CCR on a continuing basis for the grant of exclusive rights to distribute, promote, market and sell specified covered beverages and related products, as defined in the agreements. The quarterly sub-bottling payment, which is accounted for as contingent consideration, is based on sales of certain beverages and beverage products that are sold under the same trademarks that identify a covered beverage, related product (each as defined in the CBA) or certain cross-licensed brands. The CBA imposes certain obligations on the Company with respect to serving the expansion territories that failure to meet could result in termination of a CBA if the Company fails to take corrective measures within a specified time frame.

2014 Expansion Territories

On May 23, 2014, the Company acquired the Johnson City and Morristown, Tennessee territory, and on October 24, 2014, the Company acquired the Knoxville, Tennessee territory ("2014 Expansion Territories") from CCR.

Coca-Cola Bottling Co. Consolidated

Notes to Consolidated Financial Statements (Unaudited)

The fair values of acquired assets and assumed liabilities as of the acquisition dates are summarized as follows:

In Thousands	Johnson City/ Morristown Territory	Knoxville Territory
Cash	$ 46	$ 108
Inventories	1,150	2,100
Prepaid expenses and other current assets	548	1,905
Accounts receivable from The Coca-Cola Company	496	0
Property, plant and equipment	8,495	17,229
Other assets	142	1,019
Goodwill	557	4,684
Other identifiable intangible assets	13,800	37,400
Total acquired assets	$ 25,234	$ 64,445
Current liabilities (acquisition related contingent consideration)	$ 1,005	$ 2,426
Current liabilities	23	2,351
Accounts payable to The Coca-Cola Company	0	105
Other liabilities (including deferred taxes)	473	796
Other liabilities (acquisition related contingent consideration)	11,564	27,834
Total assumed liabilities	$ 13,065	$ 33,512

The fair value of the acquired identifiable intangible assets is as follows:

In Thousands	Johnson City/ Morristown Territory	Knoxville Territory	Estimated Useful Lives
Distribution agreements	$ 13,200	$ 36,400	40 years
Customer lists	600	1,000	12 years
Total	$ 13,800	$ 37,400	

The goodwill of $0.6 million and $4.7 million for the Johnson City/Morristown and Knoxville, Territories, respectively, is primarily attributed to the workforce. Goodwill of $0.1 million and $4.5 million for the Johnson City/Morristown and Knoxville Territories, respectively, is expected to be deductible for tax purposes. During Q3 2015, the Company made certain measurement period adjustments as a result of purchase price changes to reflect the revised opening balance sheets for the Johnson City/Morristown and Knoxville, Tennessee territories. The effect on the Company’s consolidated financial statements of these measurement period adjustments was immaterial. These adjustments are included in the opening balance sheets presented above.

YTD 2015 Expansion Territories

During the first nine months of 2015 (“YTD 2015”), the Company closed on the acquisitions of the following distribution territories from CCR: Cleveland and Cookeville, Tennessee; Louisville, Kentucky and Evansville, Indiana; and Paducah and Pikeville, Kentucky (“YTD 2015 Expansion Territories”). The details of the transactions are included below.

Cleveland and Cookeville, Tennessee Territory Acquisitions

On December 5, 2014, the Company and CCR entered into an asset purchase agreement (the “December 2014-I Asset Purchase Agreement”) related to the territory served by CCR through CCR’s facilities and equipment located in Cleveland and Cookeville, Tennessee (the “January Expansion Territory”). The closing of this transaction occurred on January 30, 2015 for a cash purchase price of $13.8 million, which will remain subject to adjustment until March 13, 2016 in accordance with the terms and conditions of the December 2014-I Asset Purchase Agreement.

Coca-Cola Bottling Co. Consolidated

Notes to Consolidated Financial Statements (Unaudited)

Louisville, Kentucky and Evansville, Indiana Territory Acquisitions

On December 17, 2014, the Company and CCR entered into an asset purchase agreement (the “December 2014-II Asset Purchase Agreement”) related to the territory served by CCR through CCR’s facilities and equipment located in Louisville, Kentucky and Evansville, Indiana (the “February Expansion Territory”). The closing of this transaction occurred on February 27, 2015, for a cash purchase price of $19.8 million, which will remain subject to adjustment until April 7, 2016 in accordance with the terms and conditions of the December 2014-II Asset Purchase Agreement.

Paducah and Pikeville, Kentucky Territory Acquisitions

On February 13, 2015, the Company and CCR entered into an asset purchase agreement (the “February Asset Purchase Agreement”) related to the territory served by CCR through CCR’s facilities and equipment located in Paducah and Pikeville, Kentucky (the “May Expansion Territory”). The closing of this transaction occurred on May 1, 2015, for a cash purchase price of $7.5 million, which will remain subject to adjustment until June 12, 2016 in accordance with the terms and conditions of the February Asset Purchase Agreement.

The fair values of acquired assets and assumed liabilities of the YTD 2015 Expansion Territories are summarized as follows:

In Thousands	January Expansion Territory	February Expansion Territory	May Expansion Territory
Cash	$ 59	$ 105	$ 45
Inventories	1,238	1,268	1,045
Prepaid expenses and other current assets	1,040	1,748	332
Property, plant and equipment	6,695	16,574	6,584
Other assets (including deferred taxes)	435	965	422
Goodwill	1,238	4,042	952
Other identifiable intangible assets	17,750	29,600	1,700
Total acquired assets	$ 28,455	$ 54,302	$ 11,080
Current liabilities (acquisition related contingent consideration)	$ 843	$ 1,659	$ 281
Other current liabilities	125	806	524
Other liabilities	0	992	10
Other liabilities (acquisition related contingent consideration)	13,729	31,052	2,748
Total assumed liabilities	$ 14,697	$ 34,509	$ 3,563

The fair value of the acquired identifiable intangible assets of the YTD 2015 Expansion Territories are as follows:

In Thousands	January Expansion Territory	February Expansion Territory	May Expansion Territory	Estimated Useful Lives
Distribution agreements	$ 17,200	$ 28,400	$ 1,500	40 years
Customer lists	550	1,200	200	12 years
Total	$ 17,750	$ 29,600	$ 1,700	

The goodwill of $1.2 million, $4.0 million and $1.0 million for the YTD 2015 Expansion Territories, respectively, is primarily attributed to the workforce. Goodwill of $0.2 million, $2.1 million and $0.1 million is expected to be deductible for tax purposes for the January Expansion Territory, February Expansion Territory and May Expansion Territory, respectively.

The Company has preliminarily allocated the purchase price of the 2014 Expansion Territories and YTD 2015 Expansion Territories to the individual acquired assets and assumed liabilities. The valuations are subject to adjustment as additional information is obtained, but any adjustments are not expected to be material.

Coca-Cola Bottling Co. Consolidated

Notes to Consolidated Financial Statements (Unaudited)

The financial results of both the YTD 2015 Expansion Territories and the Lexington-for-Jackson territory (discussed below) have been included in the Company's consolidated financial statements from their respective acquisition dates. These territories contributed $84.7 million in net sales and $1.3 million to operating income during the third quarter of 2015 ("Q3 2015"). These territories contributed $175.2 million in net sales and $5.7 million to operating income during YTD 2015.

The anticipated range of amounts the Company could pay annually under the acquisition related contingent consideration arrangements for the 2014 Expansion Territories and the YTD 2015 Expansion Territories is between $6 million and $11 million. As of September 27, 2015, the Company has recorded a liability of $93.1 million to reflect the estimated fair value of the contingent consideration related to the future sub-bottling payments. The contingent consideration was valued using a probability weighted discounted cash flow model based on internal forecasts and the weighted average cost of capital derived from market data. The contingent consideration is reassessed and adjusted to fair value each quarter through other income (expense). During YTD 2015, the Company recorded an unfavorable fair value adjustment to the contingent consideration liability of $3.0 million primarily due to a change in the risk-free interest rate.

2015 Asset Exchange Agreement

On October 17, 2014, the Company and CCR entered into an agreement (the "Asset Exchange Agreement") pursuant to which CCR agreed to exchange certain assets of CCR relating to the marketing, promotion, distribution and sale of Coca-Cola and other beverage products in the territory served by CCR's facilities and equipment located in Lexington, Kentucky (the "Lexington Expansion Territory"), including the rights to produce such beverages in the Lexington Expansion Territory, in exchange for certain assets of the Company relating to the marketing, promotion, distribution and sale of Coca-Cola and other beverage products in the territory served by the Company's facilities and equipment located in Jackson, Tennessee, including the rights to produce such beverages in that territory. The Company and CCR closed the Asset Exchange Transaction on May 1, 2015. The net assets received in the exchange, after deducting the value of certain retained assets and retained liabilities, was approximately $10.3 million, which was paid at closing. The value of the net assets exchanged remain subject to adjustment until June 12, 2016 in accordance with the terms and conditions of the Asset Exchange Agreement.

The fair value of acquired assets and assumed liabilities related to the Lexington Expansion Territory as of the exchange date is summarized as follows:

In Thousands	Lexington Expansion Territory
Cash	$ 56
Inventories	2,712
Prepaid expenses and other current assets	447
Property, plant and equipment	12,682
Other assets	48
Franchise rights	18,200
Goodwill	2,533

Other identifiable intangible assets	1,000
Total acquired assets	$ 37,678
Current liabilities	$ 926
Total assumed liabilities	$ 926

The fair value of the acquired identifiable intangible assets related to the Lexington Expansion Territory as of the exchange date is as follows:

In Thousands	Lexington Expansion Territory	Estimated Useful Lives
Franchise rights	$ 18,200	Indefinite
Distribution agreements	200	40 years
Customer lists	800	12 years
Total	$ 19,200	

Coca-Cola Bottling Co. Consolidated

Notes to Consolidated Financial Statements (Unaudited)

The goodwill related to the Lexington Expansion Territory is primarily attributed to the workforce of the territories. Goodwill of $2.5 million is expected to be deductible for tax purposes.

The Company has preliminarily allocated the purchase price for the Lexington Expansion Territory to the individual acquired assets and assumed liabilities. The valuations are subject to adjustment as additional information is obtained, but any adjustments are not expected to be material.

The carrying value of assets exchanged related to the Jackson territory was $17.5 million, resulting in a gain on the exchange of $8.8 million. This gain was recorded in the Consolidated Statements of Operations in the line item titled "Gain on exchange of franchise territory". This amount is subject to change upon completion of the final determination value of the net assets exchanged in the transaction.

The amount of goodwill and franchise rights allocated to the Jackson territory was determined using a relative fair value approach comparing the fair value of the Jackson territory to the fair value of the overall Nonalcoholic Beverages reporting unit.

Asset Purchase Agreement for Next Phase Territories

On September 23, 2015, the Company and CCR entered into an asset purchase agreement pursuant to which CCR will grant the Company exclusive rights for the distribution, promotion, marketing and sale of products owned and licensed by The Coca-Cola Company in the following additional territories served by CCR: (i) eastern and northern Virginia, (ii) the entire state of Maryland, (iii) the District of Columbia, and (iv) parts of Delaware, North Carolina, Pennsylvania and West Virginia (the "Next Phase Territories"). The Next Phase Territories are the first phase of the proposed franchise territory expansion contemplated by the non-binding letter of intent entered into by the Company and The Coca-Cola Company on May 12, 2015.

Pursuant to such asset purchase agreement, the Company will (i) purchase from CCR in a series of closings certain rights relating to the distribution, promotion, marketing and sale of cross-licensed brands currently distributed by CCR in the Next Phase Territories and certain assets related to the distribution, promotion, marketing and sale of both The Coca-Cola Company brands and cross-licensed brands currently distributed by CCR in the Next Phase Territories and (ii) assume certain liabilities and obligations of CCR relating to the business currently conducted by CCR in the Next

Phase Territories. It is a condition to each closing that the Company and CCR enter into a CBA with respect to the portion of the Next Phase Territories that is the subject of such closing that is substantially the same as the form of CBA currently in effect in the 2014 Expansion Territories and YTD 2015 Expansion Territories. Concurrent with their execution of the asset purchase agreement for the Next Phase Territories, the Company, CCR and The Coca-Cola Company executed a territory conversion agreement, which provides that each of the CBAs executed by the Company, including the CBAs for each of the Next Phase Territories, as well as certain other bottling agreements would be amended, restated and converted (upon the occurrence of certain events) to a new and final comprehensive beverage agreement.

Sale of BYB Brands, Inc.

On August 24, 2015, the Company sold BYB Brands, Inc. (“BYB”), a wholly owned subsidiary of the Company to The Coca-Cola Company. Pursuant to the stock purchase agreement dated July 22, 2015, the Company sold all of the issued and outstanding shares of capital stock of BYB for a cash purchase price of $26.4 million. As a result of the sale, the Company recognized a gain of $22.7 million in Q3 2015, which was recorded in the Consolidated Statements of Operations in the line item titled “Gain on sale of business.” BYB contributed $21.8 million and $24.5 million in net sales and $1.8 million and $0.3 million in operating income in YTD 2015 and the first nine months of 2014 (“YTD 2014”), respectively.

3. Inventories

In Thousands	Sept. 27, 2015	Dec. 28, 2014	Sept. 28, 2014
Finished products	$65,214	$42,526	$50,732
Manufacturing materials	8,658	10,133	9,796
Plastic shells, plastic pallets and other inventories	20,276	18,081	19,595
Total inventories	$94,148	$70,740	$80,123

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The growth in the inventory balance at September 27, 2015 as compared to December 28, 2014 and September 28, 2014 is primarily due to inventory acquired through the acquisitions of the 2014 Expansion Territories and YTD 2015 Expansion Territories.

4. Property, Plant and Equipment

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

In Thousands	Sept. 27, 2015	Dec. 28, 2014	Sept. 28, 2014	Estimated Useful Lives
Land	$16,664	$14,762	$14,161	
Buildings	125,196	120,533	115,844	8-50 years
Machinery and equipment	161,960	154,897	153,538	5-20 years
Transportation equipment	224,426	190,216	177,759	4-20 years
Furniture and fixtures	52,538	45,623	43,969	3-10 years
Cold drink dispensing equipment	381,009	345,391	333,984	5-17 years
Leasehold and land improvements	84,413	75,104	74,176	5-20 years
Software for internal use	94,609	91,156	86,646	3-10 years
Construction in progress	18,677	6,528	5,686	
Total property, plant and equipment, at cost	1,159,492	1,044,210	1,005,763	
Less: Accumulated depreciation and amortization	712,709	685,978	678,525	
Property, plant and equipment, net	$446,783	$358,232	$327,238	

Depreciation and amortization expense was $20.3 million and $15.1 million in Q3 2015 and in the third quarter of 2014 (“Q3 2014”), respectively. Depreciation and amortization expense was $56.3 million and $44.4 million in YTD 2015 and YTD 2014, respectively. These amounts included amortization expense for leased property under capital leases.

5. Franchise Rights and Goodwill

In Thousands	Sept. 27, 2015	Dec. 28, 2014	Sept. 28, 2014
Franchise rights	$527,540	$520,672	$520,672
Goodwill	113,835	106,220	103,294

Total franchise rights and goodwill	$641,375	$626,892	$623,966

During YTD 2015 and YTD 2014, the Company acquired $6.2 million and $1.2 million of goodwill related to the YTD 2015 Expansion Territories and 2014 Expansion Territories, respectively. In addition to the 2015 goodwill acquired, the Company also recorded measurement period adjustments related to the 2014 Expansion Territories of $1.1 million. In addition, as part of the Lexington-for-Jackson exchange during YTD 2015, the Company added $2.5 million of goodwill related to the Lexington Expansion Territory and reduced goodwill by $2.2 million related to the Jackson territory.

Additionally, as part of the Lexington-for-Jackson exchange, the Company added $18.2 million of franchise rights related to the Lexington Expansion Territory and reduced franchise rights by $11.3 million related to the Jackson territory.

The Company's goodwill and franchise rights reside entirely within the Nonalcoholic Beverage segment. The Company performs its annual impairment test of franchise rights and goodwill as of the first day of the fourth quarter. During YTD 2015, the Company did not experience any triggering events or changes in circumstances that indicated the carrying amounts of the Company's franchise rights or goodwill exceeded fair values.

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6. Other Identifiable Intangible Assets

In Thousands	Sept. 27, 2015	Dec. 28, 2014	Sept. 28, 2014	Estimated Useful Lives
Distribution agreements	$99,209	$54,909	$15,509	20-40 years
Customer lists and other identifiable intangible assets	10,188	7,438	6,838	12-20 years
Total other identifiable intangible assets	109,397	62,347	22,347	
Less: Accumulated amortization	7,309	5,199	5,243	
Other identifiable intangible assets, net	$102,088	$57,148	$17,104	

During YTD 2015, the Company acquired $47.1 million of distribution agreement intangible assets and $2.0 million of customer lists intangible assets related to the YTD 2015 Expansion Territories. Additionally, during Q3 2015 the Company recorded measurement period adjustments reducing distribution agreement intangible assets $3.0 million related to the 2014 Expansion Territories. During YTD 2015, as a result of the Lexington-for-Jackson exchange, the Company also acquired distribution agreement intangible assets of $0.2 million and customer lists intangible assets of $0.8 million related to the Lexington Expansion Territory.

During YTD 2014, the Company acquired $13.2 million of distribution agreement intangible assets and $0.6 million of customer lists intangible assets related to the 2014 Expansion Territories.

7. Other Accrued Liabilities

In Thousands	Sept. 27, 2015	Dec. 28, 2014	Sept. 28, 2014
Accrued marketing costs	$19,359	$16,141	$14,122
Accrued insurance costs	22,795	21,055	21,603
Accrued taxes (other than income taxes)	3,988	2,430	3,228
Employee benefit plan accruals	15,235	12,517	12,991
Checks and transfers yet to be presented for payment from zero balance cash accounts	10,074	2,324	10,472
All other accrued liabilities	21,647	14,308	11,440

Total other accrued liabilities	$93,098	$68,775	$73,856

8. Debt

The Company has historically obtained its debt financing, other than capital leases, from various sources including banks and the public markets. As of September 27, 2015, the Company's total outstanding balance of debt and capital lease obligations was $606.4 million of which $273.9 million was financed through publicly offered debt. The Company had capital lease obligations of $57.5 million as of September 27, 2015. The Company mitigates its financing risk by using multiple financial institutions and enters into credit arrangements only with institutions with investment grade credit ratings. The Company monitors counterparty credit ratings on an ongoing basis.

On October 16, 2014, the Company entered into a $350 million five-year unsecured revolving credit facility (the "Revolving Credit Facility") which amended and restated the Company's existing $200 million five-year unsecured revolving credit agreement. On April 27, 2015, the Company exercised the accordion feature of the Revolving Credit Facility, thereby increasing the aggregate availability by $100 million to $450 million. The Revolving Credit Facility has a scheduled maturity date of October 16, 2019 and up to $50 million is available for the issuance of letters of credit. Borrowings under the Revolving Credit Facility bear interest at a floating base rate or a floating Eurodollar rate plus an applicable margin, dependent on the Company's credit rating at the time of borrowing. At the Company's current credit ratings, the Company must pay an annual facility fee of .15% of the lenders' aggregate commitments under the Revolving Credit Facility. The Revolving Credit Facility includes two financial covenants: a cash flow/fixed charges ratio ("fixed charges coverage ratio") and a funded indebtedness/cash flow ratio ("operating cash flow ratio"), each as defined in the agreement. The Company was in compliance with these covenants at September 27, 2015. These covenants do not currently, and the Company does not anticipate they will, restrict its liquidity or capital resources.

On September 27, 2015, the Company had $275.0 million of outstanding borrowings on the Revolving Credit Facility and had $175.0 million available to meet its cash requirements. On December 28, 2014, the Company had $71.0 million of outstanding borrowings on the Revolving Credit Facility. On September 28, 2014, the Company had $50.0 million of outstanding borrowings on the Company's prior revolving credit facility.

On September 28, 2014, the Company had $20.0 million outstanding on an uncommitted line of credit at a weighted average interest rate of 0.90%. On October 31, 2014, the Company terminated this uncommitted line of credit and refinanced the outstanding balance with additional borrowings under the Revolving Credit Facility.

The Company refinanced its $100 million of senior notes, which matured in April 2015, with borrowings under the Company's Revolving Credit Facility. The Company has $164.8 million of senior notes maturing in June 2016, which the Company intends to refinance.

As of September 27, 2015, December 28, 2014 and September 28, 2014, the Company had a weighted average interest rate of 4.4%, 5.8% and 5.8%, respectively, for its outstanding debt and capital lease obligations. The Company's overall weighted average interest rate on its debt and capital lease obligations was 4.3% and 5.7% for Q3 2015 and Q3 2014, respectively. The Company's overall weighted average interest rate on its debt and capital lease obligations was 4.6% and 5.8% for YTD 2015 and YTD 2014, respectively. As of September 27, 2015, $275.0 million of the Company's debt and capital lease obligations of $606.4 million were subject to changes in short-term interest rates.

9. Derivative Financial Instruments

The Company is subject to the risk of increased costs arising from adverse changes in certain commodity prices. In the normal course of business, the Company manages these risks through a variety of strategies, including the use of derivative instruments. The Company does not use derivative instruments for trading or speculative purposes. All derivative instruments are recorded at fair value as either assets or liabilities in the Company's consolidated balance sheets. These derivative instruments are not designated as hedging instruments under GAAP and are used as "economic hedges" to manage commodity price risk. Derivative instruments are marked to market on a monthly basis and recognized in earnings consistent with the expense classification of the underlying hedged item. Settlements of derivative agreements are included in cash flows from operating activities on the Company's consolidated statements of cash flows.

The Company uses several different financial institutions for commodity derivative instruments 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 following summarizes Q3 2015 and Q3 2014 pre-tax changes in the fair value of the Company's commodity derivative financial instruments and the classification of such changes in the consolidated statements of operations.

In Thousands	Classification of Gain (Loss)	Third Quarter 2015	2014
Commodity hedges	Cost of sales	$(1,438)	$(319)
Commodity hedges	Selling, delivery and administrative expenses	(692)	0
Total		$(2,130)	$(319)

The following summarizes YTD 2015 and YTD 2014 pre-tax changes in the fair value of the Company's commodity derivative financial instruments and the classification of such changes in the consolidated statements of operations.

In Thousands	Classification of Gain (Loss)	First Nine Months 2015	2014
Commodity hedges	Cost of sales	$(2,119)	$552
Commodity hedges	Selling, delivery and administrative expenses	(117)	0
Total		$(2,236)	$552

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The following table summarizes the fair values and classification in the consolidated balance sheets of derivative instruments held by the Company:

In Thousands	Balance Sheet Classification	Sept. 27, 2015	Dec. 28, 2014	Sept. 28, 2014
Assets:				
Commodity hedges at fair market value	Prepaid expenses and other current assets	$0	$ 0	$552
Commodity hedges at fair market value	Other assets	39	0	0
Total assets		$39	$ 0	$552
Liabilities:				
Commodity hedges at fair market value	Other accrued liabilities	$1,918	$ 0	$0
Commodity hedges at fair market value	Other liabilities	357	0	0
Total liabilities		$2,275	$ 0	$0

The Company has master agreements with the counterparties to its derivative financial agreements that provide for net settlement of derivative transactions. Accordingly, the net amounts of derivative assets are recognized in either prepaid expenses and other current assets or other assets in the consolidated balance sheet at September 27, 2015 and the net amounts of derivative liabilities are recognized in either other accrued liabilities or other liabilities in the consolidated balance sheet at September 27, 2015. The Company had gross derivative assets of $0.8 million and gross derivative liabilities of $3.0 million as of September 27, 2015. The Company did not have any outstanding derivative transactions at December 28, 2014. The Company did not have any offsetting derivative transactions with its counterparties on September 28, 2014, and, accordingly, the gross amounts of derivative assets are recognized in prepaid expenses and other current assets in the consolidated balance sheet at September 28, 2014.

The Company’s outstanding commodity derivative agreements as of September 27, 2015 had a notional amount of $75.9 million and a latest maturity date of December 2016.

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10. Fair Value of Financial Instruments

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

Instrument	Method and Assumptions
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 items.
Public Debt Securities	The fair values of the Company’s public debt securities are based on estimated current market prices.
Non-Public Variable Rate Debt	The carrying amounts of the Company’s variable rate borrowings approximate their fair values due to variable interest rates with short reset periods.
Deferred Compensation Plan Assets/Liabilities	The fair values of deferred compensation plan assets and liabilities, which are held in mutual funds, are based upon the quoted market value of the securities held within the mutual funds.
Acquisition Related Contingent Consideration	The fair values of acquisition related contingent consideration are based on internal forecasts and the weighted average cost of capital derived from market data.
Derivative Financial Instruments	The fair values for the Company’s commodity hedging agreements are based on current settlement values at each balance sheet date. The fair values of the commodity hedging agreements at each balance sheet date represent the estimated amounts the Company would have received or paid upon termination of these agreements. Credit risk related to the derivative financial instruments is managed by requiring high standards for its counterparties and periodic settlements. The Company considers nonperformance risk in determining the fair value of derivative financial instruments.

The carrying amounts and fair values of the Company's debt, deferred compensation plan assets and liabilities, acquisition related contingent consideration and derivative financial instruments were as follows:

In Thousands	Sept. 27, 2015 Carrying Amount	Sept. 27, 2015 Fair Value	Dec. 28, 2014 Carrying Amount	Dec. 28, 2014 Fair Value	Sept. 28, 2014 Carrying Amount	Sept. 28, 2014 Fair Value
Public debt securities	$(273,912)	$(294,200)	$(373,759)	$(404,400)	$(373,709)	$(406,800)
Non-public variable rate debt	(275,000)	(275,000)	(71,000)	(71,000)	(70,000)	(70,000)
Deferred compensation plan assets	19,660	19,660	18,580	18,580	18,015	18,015
Deferred compensation plan liabilities	(19,660)	(19,660)	(18,580)	(18,580)	(18,015)	(18,015)
Commodity hedging agreements-assets	39	39	0	0	552	552
Commodity hedging agreements-liabilities	(2,275)	(2,275)	0	0	0	0
Acquisition related contingent consideration	(93,064)	(93,064)	(46,850)	(46,850)	(13,000)	(13,000)

GAAP requires that assets and liabilities carried at fair value be classified and disclosed in one of the following categories:

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

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

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

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The following table summarizes, by assets and liabilities, the valuation of the Company's deferred compensation plan, commodity hedging agreements and acquisition related contingent consideration:

	Sept. 27, 2015			Dec. 28, 2014			Sept. 28, 2014		
In Thousands	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Assets									
Deferred compensation plan assets	$19,660			$18,580			$18,015		
Commodity hedging agreements		$39			$ 0			$552	
Liabilities									
Deferred compensation plan liabilities	19,660			18,580			18,015		
Commodity hedging agreements		2,275			0			0	
Acquisition related contingent consideration			$93,064			$46,850			$13,000

The fair value estimates of the Company's debt are classified as Level 2. Public debt securities are valued using quoted market prices of the debt or debt with similar characteristics.

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

The fair values of the Company's commodity hedging agreements are based upon rates from public commodity exchanges that are observable and quoted periodically over the full term of the agreement and are considered Level 2 items.

As part of the 2015 and 2014 territory acquisitions, the Company will make a quarterly sub-bottling payment to CCR on a continuing basis for the grant of exclusive rights to distribute, promote, market and sell specified covered beverages and beverage products in the acquired territories. This acquisition related contingent consideration is valued using a probability weighted discounted cash flow model based on internal forecasts and the weighted average cost of capital ("WACC") derived from market data, which are considered Level 3 inputs. Each reporting period, the Company adjusts its contingent consideration liability related to the territory expansion to fair value by discounting future expected sub-bottling payments required under the CBAs using the Company's estimated WACC. These future expected sub-bottling payments extend through the life of the related distribution assets acquired in each expansion territory, which is generally 40 years. As a result, the fair value of the acquisition related contingent consideration liability is impacted by the Company's WACC, management's estimate of the amounts that will be paid in the future under the CBAs, and current sub-bottling payments (all Level 3 inputs). Changes in any of these Level 3 inputs, particularly the underlying risk-free interest rate used to estimate the Company's WACC, could result in material changes to the fair value of the acquisition related contingent consideration and could materially impact the amount of noncash expense (or income) recorded each reporting period.

The acquisition related contingent consideration is the Company's only Level 3 asset or liability. A reconciliation of the activity is as follows:

	Third Quarter		First Nine Months	
In Thousands	2015	2014	2015	2014
Opening balance	$94,068	$13,000	$46,850	$0
Increase due to acquisitions	0	0	50,312	13,000
Decrease due to measurement period adjustments	(3,371)	0	(3,371)	0
Payments/accruals	(1,625)	0	(3,730)	0
Fair value adjustment - (income) expense	3,992	0	3,003	0
Ending balance	$93,064	$13,000	$93,064	$13,000

The unfavorable fair value adjustment of the acquisition related contingent consideration for both Q3 2015 and YTD 2015, which was primarily due to a change in the risk-free interest rate used to estimate the Company's WACC, is recorded in other income (expense) on the Company's consolidated statements of operations.

There were no transfers of assets or liabilities between Levels in any period presented.

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11. Other Liabilities

In Thousands	Sept. 27, 2015	Dec. 28, 2014	Sept. 28, 2014
Accruals for executive benefit plans	$121,575	$117,965	$113,839
Acquisition related contingent consideration	87,319	43,850	11,995
Other	17,034	15,435	15,791
Total other liabilities	$225,928	$177,250	$141,625

12. 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 June 2024. 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. The Company has an equity ownership in each of the entities.

The Company also guarantees a portion of SAC’s and Southeastern’s debt. The amounts guaranteed were $32.9 million, $30.9 million and $32.7 million as of September 27, 2015, December 28, 2014 and September 28, 2014, respectively. The Company holds no assets as collateral against these guarantees, the fair value of which is immaterial. The guarantees relate to the debt of SAC and Southeastern, which resulted primarily from the purchase of production equipment and facilities. These guarantees expire at various dates through 2023. The members of both cooperatives consist solely of Coca-Cola bottlers. The Company does not anticipate either of these cooperatives will fail to fulfill its commitments. The Company further believes each of these cooperatives has sufficient assets, including production equipment, facilities and working capital, and the ability to adjust selling prices of its products to adequately mitigate the risk of material loss from the Company’s guarantees. In the event either of these cooperatives fails to fulfill its commitments under the related debt, the Company would be responsible for payments to the lenders up to the level of the guarantees. If these cooperatives had borrowed up to their aggregate borrowing capacity, the Company’s maximum exposure under these guarantees on September 27, 2015 would have been $23.9 million for SAC and $25.3 million for Southeastern. The Company’s maximum total exposure, including its equity investment, would have been $28.0 million for SAC and $43.6 million for Southeastern.

The Company has standby letters of credit, primarily related to its property and casualty insurance programs. On September 27, 2015, these letters of credit totaled $26.4 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 September 27, 2015 amounted to $43.8 million and expire at various dates through 2026.

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

13. Income Taxes

The Company’s effective tax rate, as calculated by dividing income tax expense by income before income taxes, for YTD 2015 and YTD 2014 was 34.4% and 35.6%, respectively. The Company’s effective tax rate, as calculated by dividing income tax expense by income before income taxes minus net income attributable to noncontrolling interest, for YTD 2015 and YTD 2014 was 36.3% and 38.5%, respectively.

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The following table provides a reconciliation of income tax expense at the statutory federal rate to actual income tax expense.

	First Nine Months	
In Thousands	2015	2014
Statutory expense	$31,712	$17,474
State income taxes, net of federal benefit	3,268	1,915
Valuation allowance change	(1,089)	63
Noncontrolling interest – Piedmont	(1,764)	(1,465)
Manufacturing deduction benefit	(1,254)	(1,893)
Meals and entertainment	906	918
Adjustment for uncertain tax positions	(179)	(76)
Adjustment for state tax legislation	(1,169)	0
Other, net	743	853
Income tax expense	$31,174	$17,789

As of September 27, 2015, December 28, 2014 and September 28, 2014 the Company had $2.7 million, $2.9 million and $2.8 million, respectively, of uncertain tax positions, including accrued interest, all of which would affect the Company’s effective tax rate if recognized. Total accrued interest related to uncertain tax positions is immaterial in all periods presented. While it is expected that the amount of uncertain tax positions may change in the next 12 months, the Company does not expect any change to have a material impact on the consolidated financial statements.

In Q3 2015, the Company decreased its valuation allowance by $1.1 million of which all was a decrease to income tax expense. The decrease was due primarily to the Company’s assessment of its ability to use certain net operating loss carryforwards due to the sale of BYB. Also during Q3 2015, a state tax legislation target was met that caused a reduction to the corporate tax rate in that state from 5% to 4%, effective January 1, 2016. This reduction in the state corporate tax rate decreased the Company’s income tax expense by approximately $1.2 million in Q3 2015 due to the impact on the Company’s net deferred tax liabilities.

In Q3 2015, the Company reduced its liability for uncertain tax positions by $0.6 million, of which all was a decrease to income tax expense. This reduction was primarily due to the expiration of the applicable statute of limitations.

The gains on the exchange of franchise territory and sale of BYB did not have a significant impact on the effective income tax rate for either Q3 2015 or YTD 2015.

Prior tax years beginning in year 2012 remain open to examination by the Internal Revenue Service, and various tax years beginning in year 1998 remain open to examination by certain state tax jurisdictions due to loss carryforwards.

14. Accumulated Other Comprehensive Loss

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

A summary of accumulated other comprehensive loss for Q3 2015 and Q3 2014 is as follows:

In Thousands	June 28, 2015	Pre-tax Activity	Tax Effect	Sept. 27, 2015
Net pension activity:				
Actuarial loss	$(73,890)	$ 795	$(305)	$(73,400)
Prior service costs	(88)	9	(2)	(81)
Net postretirement benefits activity:				
Actuarial loss	(21,878)	717	(275)	(21,436)
Prior service costs	6,780	(840)	322	6,262
Foreign currency translation adjustment	(5)	0	1	(4)
Total	$(89,081)	$ 681	$(259)	$(88,659)

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In Thousands	June 29, 2014	Pre-tax Activity	Tax Effect	Sept. 28, 2014
Net pension activity:				
Actuarial loss	$(42,510)	$ 450	$(173)	$(42,233)
Prior service costs	(110)	9	(4)	(105)
Net postretirement benefits activity:				
Actuarial loss	(17,750)	562	(218)	(17,406)
Prior service costs	2,945	(377)	146	2,714
Foreign currency translation adjustment	4	(6)	2	0
Total	$(57,421)	$ 638	$(247)	$(57,030)

A summary of accumulated other comprehensive loss for YTD 2015 and YTD 2014 is as follows:

In Thousands	Dec. 28, 2014	Pre-tax Activity	Tax Effect	Sept. 27, 2015
Net pension activity:				
Actuarial loss	$(74,867)	$2,386	$(919)	$(73,400)
Prior service costs	(99)	27	(9)	(81)
Net postretirement benefits activity:				
Actuarial loss	(22,759)	2,152	(829)	(21,436)
Prior service costs	7,812	(2,520)	970	6,262
Foreign currency translation adjustment	(1)	(6)	3	(4)
Total	$(89,914)	$2,039	$(784)	$(88,659)

In Thousands	Dec. 29, 2013	Pre-tax Activity	Tax Effect	Sept. 28, 2014
Net pension activity:				
Actuarial loss	$(43,028)	$1,294	$(499)	$(42,233)
Prior service costs	(121)	27	(11)	(105)
Net postretirement benefits activity:				
Actuarial loss	(18,441)	1,688	(653)	(17,406)
Prior service costs	3,410	(1,133)	437	2,714
Foreign currency translation adjustment	4	(6)	2	0
Total	$(58,176)	$1,870	$(724)	$(57,030)

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A summary of the impact on the income statement line items is as follows:

In Thousands	Net Pension Activity	Net Postretirement Benefits Activity	Total
Q3 2015			
Cost of sales	$ 88	$ (17)	$ 71
Selling, delivery & administrative expenses	716	(106)	610
Subtotal pre-tax	804	(123)	681
Income tax expense	307	(47)	260
Total after tax effect	$ 497	$ (76)	$ 421
Q3 2014			
Cost of sales	$ 83	$ 24	$ 107
Selling, delivery & administrative expenses	376	161	537
Subtotal pre-tax	459	185	644
Income tax expense	177	72	249
Total after tax effect	$ 282	$ 113	$ 395
YTD 2015			
Cost of sales	$ 265	$ (52)	$ 213
Selling, delivery & administrative expenses	2,148	(316)	1,832
Subtotal pre-tax	2,413	(368)	2,045
Income tax expense	928	(141)	787
Total after tax effect	$ 1,485	$ (227)	$ 1,258
YTD 2014			
Cost of sales	$ 238	$ 72	$ 310
Selling, delivery & administrative expenses	1,083	483	1,566
Subtotal pre-tax	1,321	555	1,876
Income tax expense	510	216	726
Total after tax effect	$ 811	$ 339	$ 1,150

15. Capital Transactions

Compensation expense for the Performance Unit Award Agreement recognized in YTD 2015 was $5.7 million, which was based upon a common stock share price of $189.13 on September 25, 2015. Compensation expense for the Performance Unit Award Agreement recognized in YTD 2014 was $2.3 million, which was based upon a common stock share price of $75.74 on September 26, 2014.

On March 3, 2015 and March 4, 2014, the Compensation Committee determined that 40,000 shares of the Company's Class B Common Stock should be issued in each year pursuant to a Performance Unit Award Agreement to J. Frank Harrison, III, in connection with his services in 2014 and 2013, respectively, as Chairman of the Board of Directors and Chief Executive Officer of the Company. As permitted under the terms of the Performance Unit Award Agreement, 19,080 and 19,100 of such shares were settled in cash in 2015 and 2014, respectively, to satisfy tax withholding obligations in connection with the vesting of the performance units.

The increase in the total number of shares outstanding in YTD 2015 and YTD 2014 was due to the issuance of the 20,920 and 20,900 shares, respectively, of Class B Common Stock related to the Performance Unit Award Agreement in each year.

16. Benefit Plans

Pension Plans

All benefits under the primary Company-sponsored pension plan were frozen in 2006 and no benefits have accrued to participants after this date. The Company also sponsors a pension plan for certain employees under collective bargaining agreements. Benefits

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under the pension plan for collectively bargained employees are determined in accordance with negotiated formulas for the respective participants. Contributions to the plans are based on actuarial determined amounts and are limited to the amounts currently deductible for income tax purposes.

The components of net periodic pension cost (benefit) were as follows:

	Third Quarter		First Nine Months	
In Thousands	2015	2014	2015	2014
Service cost	$35	$26	$105	$84
Interest cost	2,974	2,904	8,921	8,696
Expected return on plan assets	(3,388)	(3,430)	(10,162)	(10,343)
Amortization of prior service cost	9	9	27	27
Recognized net actuarial loss	795	450	2,386	1,294
Net periodic pension cost (benefit)	$425	$(41)	$1,277	$(242)

The Company contributed $10.5 million to the Company-sponsored pension plans during YTD 2015. Anticipated contributions for the two Company-sponsored pension plans will be in the range of $0 to $2 million during the remainder of 2015.

Postretirement Benefits

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.

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

	Third Quarter		First Nine Months	
In Thousands	2015	2014	2015	2014
Service cost	$325	$382	$975	$1,148
Interest cost	708	825	2,123	2,475
Recognized net actuarial loss	717	562	2,152	1,688
Amortization of prior service cost	(840)	(377)	(2,520)	(1,133)
Net periodic postretirement benefit cost	$910	$1,392	$2,730	$4,178

Multi-Employer Benefits

Certain employees of the Company participate in a multi-employer pension plan, the Employers-Teamsters Local Union Nos. 175 and 505 Pension Fund (“the Plan”), to which the Company makes monthly contributions on behalf of such employees. The Plan was certified by the Plan’s actuary as being in “critical” status for the plan year beginning January 1, 2013. As a result, the Plan adopted a “Rehabilitation Plan” effective January 1, 2015. The Company agreed and incorporated such agreement in the renewal of the collective bargaining agreement with the union, effective April 28, 2014, to participate in the Rehabilitation Plan. The Company increased its contribution rates to the Plan effective January 2015 with additional increases occurring annually to support the Rehabilitation Plan.

There would likely be a withdrawal liability in the event the Company withdraws from its participation in the Plan. The Company’s withdrawal liability was reported by the Plan’s actuary as of April 2014 to be approximately $4.5 million. The Company does not currently anticipate withdrawing from the Plan.

17. 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 September 27, 2015, The Coca-Cola Company had a 34.8% interest in the Company’s total outstanding Common Stock, representing 5.0% of the total voting power of the Company’s Common Stock and Class B Common

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Stock voting together as a single class. As long as The Coca-Cola Company holds the number of shares of Common Stock that it currently owns, it has the right to have its designee proposed by the Company for the nomination to the Company's Board of Directors, and J. Frank Harrison III, the Chairman of the Board and the Chief Executive Officer of the Company, and trustees of certain trusts established for the benefit of certain relatives of J. Frank Harrison, Jr., have agreed to vote their shares of the Company's Class B Common Stock which they control in favor of such designee. The Coca-Cola Company does not own any shares of Class B Common Stock of the Company.

The following table and the subsequent descriptions summarize the significant transactions between the Company and The Coca-Cola Company:

	First Nine Months	
In Millions	2015	2014
Payments by the Company for concentrate, syrup, sweetener and other purchases	$360.2	$329.1
Marketing funding support payments to the Company	42.2	35.0
Payments by the Company net of marketing funding support	$318.0	$294.1
Payments by the Company for customer marketing programs	$48.9	$43.2
Payments by the Company for cold drink equipment parts	11.8	7.7
Fountain delivery and equipment repair fees paid to the Company	12.6	9.9
Presence marketing funding support provided by The Coca-Cola Company on the Company's behalf	2.3	4.4
Payments to the Company to facilitate the distribution of certain brands and packages to other Coca-Cola bottlers	3.4	2.8

The Company has a production arrangement with CCR to buy and sell finished products at cost. Sales to CCR under this arrangement were $24.2 million and $45.3 million in YTD 2015 and YTD 2014, respectively. Purchases from CCR under this arrangement were $154.4 million and $44.0 million in YTD 2015 and YTD 2014, respectively. CCR distributes one of the brands developed by the Company (Tum-E Yummies). Total sales to CCR for this brand were $14.8 million and $17.4 million in YTD 2015 and YTD 2014, respectively. During Q3 2015, the Company sold BYB, the subsidiary that owned and distributed the Company's brand (Tum-E Yummies), to The Coca-Cola Company and recorded a gain of $22.7 million on the sale. In addition, the Company transports product for CCR to the Company's and other Coca-Cola bottler's locations. Total sales to CCR for transporting CCR's product were $11.3 million and $1.6 million in YTD 2015 and YTD 2014, respectively.

The Company and CCR have entered into, and closed the following asset purchase agreements relating to certain territories previously served by CCR's facilities and equipment located in these territories:

Territory	Asset Agreement Date	Acquisition Closing Date
Johnson City and Morristown, Tennessee	May 7, 2014	May 23, 2014
Knoxville, Tennessee	August 28, 2014	October 24, 2014
Cleveland and Cookeville, Tennessee	December 5, 2014	January 30, 2015
Louisville, Kentucky and Evansville, Indiana	December 17, 2014	February 27, 2015
Paducah and Pikeville, Kentucky	February 13, 2015	May 1, 2015

As part of the asset purchase agreements, the Company signed CBAs which have terms of ten years and are renewable by the Company indefinitely for successive additional terms of ten years each unless earlier terminated as provided therein. Under the CBAs, the Company will make a quarterly sub-bottling payment to CCR on a continuing basis for the grant of exclusive rights to distribute, promote, market and sell the authorized brands of The Coca-Cola Company and related products in the Expansion Territories. The quarterly sub-bottling payment will be based on sales of certain beverages and beverage products that are sold under the same trademarks that identify a covered beverage, beverage product or certain cross-licensed brands. As of September 27, 2015, the Company had recorded a liability of $93.1 million to reflect the estimated fair value of the contingent consideration related to the future sub-bottling payments. Payments to CCR under the CBAs were $2.4 million during YTD 2015. There were no payments to CCR under the CBAs during YTD 2014.

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On October 17, 2014, the Company entered into an asset exchange agreement with CCR, pursuant to which the Company exchanged its facilities and equipment located in Jackson, Tennessee for territory previously served by CCR's facilities and equipment located in Lexington, Kentucky. This transaction closed on May 1, 2015.

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). The Company pays an administrative fee to CCBSS for its services. Administrative fees to CCBSS for its services were $0.5 million and $0.3 million in YTD 2015 and YTD 2014, respectively. Amounts due from CCBSS for rebates on raw materials were $6.5 million, $4.5 million and $6.3 million as of September 27, 2015, December 28, 2014 and September 28, 2014, respectively. CCR is also a member of CCBSS.

The Company is a member of SAC, a manufacturing cooperative. SAC sells finished products to the Company at cost. Purchases from SAC by the Company for finished products were $107.2 million and $101.4 million in YTD 2015 and YTD 2014, respectively. In addition, the Company transports product for SAC to the Company's and other Coca-Cola bottlers' locations. Total sales to SAC for transporting SAC's product were $6.1 million and $5.8 million in YTD 2015 and YTD 2014, respectively. The Company also manages the operations of SAC pursuant to a management agreement. Management fees earned from SAC were $1.4 million and $1.3 million in YTD 2015 and YTD 2014, respectively. The Company has also guaranteed a portion of debt for SAC. Such guarantee to $22.7 million as of September 27, 2015. The Company's equity investment in SAC was $4.1 million as of September 27, 2015, December 28, 2014 and September 28, 2014 and was recorded in other assets on the Company's consolidated balance sheets.

The Company is a shareholder in two entities from which it purchases substantially all of its requirements for plastic bottles. Net purchases from these entities were $55.3 million in YTD 2015 and $59.9 million in YTD 2014. In conjunction with the Company's participation in one of these entities, Southeastern, the Company has guaranteed a portion of the entity's debt. Such guarantee amounted to $10.2 million as of September 27, 2015. The Company's equity investment in Southeastern was $18.3 million, $18.4 million and $18.4 million as of September 27, 2015, December 28, 2014, September 28, 2014, respectively, and was recorded in other assets on the Company's consolidated balance sheets.

The Company holds no assets as collateral against the SAC or Southeastern guarantees, the fair value of which is immaterial to the Company's consolidated financial statements. The Company monitors its investments in SAC and Southeastern and would be required to write down its investment if an impairment is identified and the Company determined it to be other than temporary. No impairment of the Company's investments in SAC or Southeastern has been identified as of September 27, 2015 nor was there any impairment in 2014.

The Company leases from Harrison Limited Partnership One ("HLP") the Snyder Production Center ("SPC") 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 H. Everhart, a director of the Company, are trustees and beneficiaries. Morgan H. Everett, a director of the Company, is a permissible, discretionary beneficiary of the trusts that directly or indirectly own HLP. The lease expires on December 31, 2020. The principal balance outstanding under this capital lease as of September 27, 2015 was $18.1 million. Rental payments related to this lease were $2.9 million and $2.8 million in YTD 2015 and YTD 2014, respectively.

The Company leases from Beacon Investment Corporation (“Beacon”) the Company’s headquarters office facility and an adjacent office facility. The lease expires on December 31, 2021. Beacon’s majority shareholder is J. Frank Harrison, III and Morgan H. Everett is a minority shareholder. The principal balance outstanding under this capital lease as of September 27, 2015 was $18.8 million. Rental payments related to this lease were $3.2 million and $3.1 million in YTD 2015 and YTD 2014, respectively.

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18. Net Income Per Share

The following table sets forth the computation of basic net income per share and diluted net income per share under the two-class method:

	Third Quarter		First Nine Months	
In Thousands (Except Per Share Data)	2015	2014	2015	2014
Numerator for basic and diluted net income per Common Stock and Class B Common Stock share:				
Net income attributable to Coca-Cola Bottling Co. Consolidated	$25,553	$12,132	$54,711	$28,364
Less dividends:				
Common Stock	1,785	1,785	5,356	5,356
Class B Common Stock	538	532	1,608	1,592
Total undistributed earnings	$23,230	$9,815	$47,747	$21,416
Common Stock undistributed earnings – basic	$17,853	$7,560	$36,714	$16,505
Class B Common Stock undistributed earnings – basic	5,377	2,255	11,033	4,911
Total undistributed earnings – basic	$23,230	$9,815	$47,747	$21,416
Common Stock undistributed earnings – diluted	$17,776	$7,528	$36,556	$16,434
Class B Common Stock undistributed earnings – diluted	5,454	2,287	11,191	4,982
Total undistributed earnings – diluted	$23,230	$9,815	$47,747	$21,416
Numerator for basic net income per Common Stock share:				
Dividends on Common Stock	$1,785	$1,785	$5,356	$5,356
Common Stock undistributed earnings – basic	17,853	7,560	36,714	16,505
Numerator for basic net income per Common Stock share	$19,638	$9,345	$42,070	$21,861
Numerator for basic net income per Class B Common Stock share:				
Dividends on Class B Common Stock	$538	$532	$1,608	$1,592
Class B Common Stock undistributed earnings – basic	5,377	2,255	11,033	4,911
Numerator for basic net income per Class B	$5,915	$2,787	$12,641	$6,503

Common Stock share

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	Third Quarter		First Nine Months	
In Thousands (Except Per Share Data)	2015	2014	2015	2014
Numerator for diluted net income per Common Stock share:				
Dividends on Common Stock	$1,785	$1,785	$5,356	$5,356
Dividends on Class B Common Stock assumed converted to Common Stock	538	532	1,608	1,592
Common Stock undistributed earnings – diluted	23,230	9,815	47,747	21,416
Numerator for diluted net income per Common Stock share	$25,553	$12,132	$54,711	$28,364
Numerator for diluted net income per Class B Common Stock share:				
Dividends on Class B Common Stock	$538	$532	$1,608	$1,592
Class B Common Stock undistributed earnings – diluted	5,454	2,287	11,191	4,982
Numerator for diluted net income per Class B Common Stock share	$5,992	$2,819	$12,799	$6,574

Denominator for basic net income per Common Stock and Class B Common Stock share:				
Common Stock weighted average shares outstanding – basic	7,141	7,141	7,141	7,141
Class B Common Stock weighted average shares outstanding – basic	2,151	2,130	2,146	2,125
Denominator for diluted net income per Common Stock and Class B Common Stock share:				
Common Stock weighted average shares outstanding – diluted (assumes conversion of Class B Common Stock to Common Stock)	9,332	9,311	9,327	9,306
Class B Common Stock weighted average shares	2,191	2,170	2,186	2,165

outstanding – diluted				
Basic net income per share:				
Common Stock	$2.75	$1.31	$5.89	$3.06
Class B Common Stock	$2.75	$1.31	$5.89	$3.06
Diluted net income per share:				
Common Stock	$2.74	$1.30	$5.87	$3.05
Class B Common Stock	$2.73	$1.30	$5.85	$3.04

NOTES TO TABLE

(1) For purposes of the diluted net income per share computation for Common Stock, all shares of Class B Common Stock are assumed to be converted; therefore, 100% of undistributed earnings is allocated to Common Stock.
(2) For purposes of the diluted net income per share computation for Class B Common Stock, weighted average shares of Class B Common Stock are assumed to be outstanding for the entire period and not converted.
(3) Denominator for diluted net income per share for Common Stock and Class B Common Stock includes the dilutive effect of shares relative to the Performance Unit Award.

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19. Supplemental Disclosures of Cash Flow Information

Changes in current assets and current liabilities affecting cash flows were as follows:

In Thousands	First Nine Months 2015	2014
Accounts receivable, trade, net	$(54,463)	$(15,856)
Accounts receivable from The Coca-Cola Company	(19,043)	(15,225)
Accounts receivable, other	(8,016)	(524)
Inventories	(21,097)	(16,775)
Prepaid expenses and other current assets	6,925	(3,325)
Accounts payable, trade	25,239	10,219
Accounts payable to The Coca-Cola Company	33,474	21,224
Other accrued liabilities	19,642	(4,852)
Accrued compensation	(1,564)	(309)
Accrued interest payable	2,522	5,053
Increase in current assets less current liabilities (exclusive of acquisition)	$(16,381)	$(20,370)

20. Segments

The Company evaluates segment reporting in accordance with the Financial Accounting Standards Board (“FASB”) ASC 280, Segment Reporting each reporting period, including evaluating the reporting package reviewed by the Chief Operation Decision Maker (“CODM”). The Company has concluded the Chief Executive Officer, Chief Operating Officer and Chief Financial Officer, as a group, represent the CODM. Prior to the sale of BYB, the Company believed five operating segments existed. Two operating segments, Franchised Nonalcoholic Beverages and Internally-Developed Nonalcoholic Beverages (made up entirely of BYB), have been aggregated due to their similar economic characteristics as well as the similarity of products, production processes, types of customers, methods of distribution, and nature of the regulatory environment. This combined segment, Nonalcoholic Beverages, represents the vast majority of the Company’s consolidated revenues, operating income, and assets. After the sale of BYB, the Company believes four operating segments exist. The remaining three operating segments do not meet the quantitative thresholds for separate reporting, either individually or in the aggregate. As a result, these three operating segments have been combined into an “All Other” reportable segment.

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The Company’s segment results are as follows:

	Third Quarter		First Nine Months	
In Thousands	2015	2014	2015	2014
Net Sales:				
Nonalcoholic Beverages	$603,042	$447,610	$1,644,332	$1,279,369
All Other	41,761	32,716	116,269	91,824
Eliminations*	(25,997)	(22,650)	(73,859)	(65,462)
Consolidated	$618,80			