COCA COLA BOTTLING CO CONSOLIDATED /DE/
Form 10-Q
August 08, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended July 2, 2017

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 No

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 No

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

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

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

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

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 30, 2017
Common Stock, $1.00 Par Value	7,141,447
Class B Common Stock, $1.00 Par Value	2,192,722

COCA COLA BOTTLING CO. CONSOLIDATED

QUARTERLY REPORT ON FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED JULY 2, 2017

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.
COCA COLA BOTTLING CO. CONSOLIDATED

CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS

(Unaudited)

	Second Quarter		First Half	
(in thousands, except per share data)	2017	2016	2017	2016
Net sales	$1,169,291	$840,384	$2,034,993	$1,465,840
Cost of sales	754,113	520,677	1,287,794	902,235
Gross profit	415,178	319,707	747,199	563,605
Selling, delivery and administrative expenses	367,865	264,971	686,278	496,468
Income from operations	47,313	54,736	60,921	67,137
Interest expense, net	10,440	9,808	19,910	19,169
Other expense, net	25,549	16,274	37,795	33,425
Loss on exchange of franchise territory	-	692	-	692
Income before income taxes	11,324	27,962	3,216	13,851
Income tax expense	3,743	10,638	52	5,560
Net income	7,581	17,324	3,164	8,291
Less: Net income attributable to noncontrolling interest	1,233	1,672	1,867	2,680
Net income attributable to Coca-Cola Bottling Co. Consolidated	$6,348	$15,652	$1,297	$5,611
Basic net income per share based on net income attributable to Coca-Cola Bottling Co. Consolidated:				
Common Stock	$0.68	$1.68	$0.14	$0.60
Weighted average number of Common Stock shares outstanding	7,141	7,141	7,141	7,141
Class B Common Stock	$0.68	$1.68	$0.14	$0.60
Weighted average number of Class B Common Stock shares outstanding	2,193	2,172	2,185	2,164
Diluted net income per share based on net income attributable to Coca-Cola Bottling Co. Consolidated:				
Common Stock	$0.68	$1.67	$0.14	$0.59
Weighted average number of Common Stock shares outstanding – assuming dilution	9,374	9,353	9,366	9,345
Class B Common Stock	$0.67	$1.67	$0.13	$0.59
Weighted average number of Class B Common Stock shares outstanding – assuming dilution	2,233	2,212	2,225	2,204
Cash dividends per share:				
Common Stock	$0.25	$0.25	$0.50	$0.50
Class B Common Stock	$0.25	$0.25	$0.50	$0.50

See Accompanying Notes to Consolidated Condensed Financial Statements.

COCA COLA BOTTLING CO. CONSOLIDATED

CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

	Second Quarter		First Half	
(in thousands)	2017	2016	2017	2016
Net income	$7,581	$17,324	$3,164	$8,291
Other comprehensive income, net of tax:				
Defined benefit plans reclassification including pension costs:				
Actuarial gains	495	455	991	910
Prior service benefits	5	5	9	9
Postretirement benefits reclassification included in benefits costs:				
Actuarial gains	398	361	796	721
Prior service costs	(458)	(516)	(916)	(1,032)
Foreign currency translation adjustment	14	(6)	16	4
Other comprehensive income, net of tax	454	299	896	612
Comprehensive income	8,035	17,623	4,060	8,903
Less: Comprehensive income attributable to noncontrolling interest	1,233	1,672	1,867	2,680
Comprehensive income attributable to Coca-Cola Bottling Co. Consolidated	$6,802	$15,951	$2,193	$6,223

See Accompanying Notes to Consolidated Condensed Financial Statements.

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COCA COLA BOTTLING CO. CONSOLIDATED

CONSOLIDATED CONDENSED BALANCE SHEETS

(Unaudited)

(in thousands, except share data)	July 2, 2017	January 1, 2017
ASSETS		
Current Assets:		
Cash and cash equivalents	$43,514	$21,850
Accounts receivable, trade	389,124	271,661
Allowance for doubtful accounts	(5,690)	(4,448)
Accounts receivable from The Coca-Cola Company	87,290	67,591
Accounts receivable, other	29,825	29,770
Inventories	200,441	143,553
Prepaid expenses and other current assets	66,871	63,834
Total current assets	811,375	593,811
Property, plant and equipment, net	977,553	812,989
Leased property under capital leases, net	30,689	33,552
Other assets	99,587	86,091
Franchise rights	-	533,040
Goodwill	160,427	144,586
Distribution agreements, net	798,204	234,988
Customer lists and other identifiable intangible assets, net	13,606	10,427
Total assets	$2,891,441	$2,449,484
LIABILITIES AND EQUITY		
Current Liabilities:		
Current portion of obligations under capital leases	$7,875	$7,527
Accounts payable, trade	164,622	116,821
Accounts payable to The Coca-Cola Company	187,476	135,155
Other accrued liabilities	183,683	133,885
Accrued compensation	53,518	60,880
Accrued interest payable	4,914	3,639
Total current liabilities	602,088	457,907
Deferred income taxes	146,649	174,854
Pension and postretirement benefit obligations	126,314	126,679
Other liabilities	532,570	378,572
Obligations under capital leases	37,151	41,194
Long-term debt	1,080,578	907,254
Total liabilities	2,525,350	2,086,460
Commitments and Contingencies (Note 13)		
Equity:		
Common Stock, $1.00 par value: authorized – 30,000,000 shares; issued – 10,203,821 shares	10,204	10,204
Class B Common Stock, $1.00 par value: authorized – 10,000,000 shares; issued – 2,820,836 and 2,799,816 shares, respectively	2,819	2,798

Capital in excess of par value	120,417	116,769
Retained earnings	298,146	301,511
Accumulated other comprehensive loss	(92,001)	(92,897)
Treasury stock, at cost: Common Stock – 3,062,374 shares	(60,845)	(60,845)
Treasury stock, at cost: Class B Common Stock – 628,114 shares	(409)	(409)
Total equity of Coca-Cola Bottling Co. Consolidated	278,331	277,131
Noncontrolling interest	87,760	85,893
Total equity	366,091	363,024
Total liabilities and equity	$2,891,441	$2,449,484

See Accompanying Notes to Consolidated Condensed Financial Statements.

COCA COLA BOTTLING CO. CONSOLIDATED

CONSOLIDATED CONDENSED 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 - Common Stock	Treasury Stock - Class B Common Stock	Total Equity of Coca-Cola Bottling Co. Consolidated	Non-controlling Interest	Total Equity
Balance on January 1, 2017	$10,204	$2,798	$116,769	$301,511	$(92,897)	$(60,845)	$(409)	$277,131	$85,893	$363,024
Net income	-	-	-	1,297	-	-	-	1,297	1,867	3,164
Other comprehensive income, net of tax	-	-	-	-	896	-	-	896	-	896
Cash dividends paid:										
Common ($0.50 per share)	-	-	-	(3,571)	-	-	-	(3,571)	-	(3,571)
Class B Common ($0.50 per share)	-	-	-	(1,091)	-	-	-	(1,091)	-	(1,091)
Issuance of 21,020 shares of Class B Common Stock	-	21	3,648	-	-	-	-	3,669	-	3,669
Balance on July 2, 2017	$10,204	$2,819	$120,417	$298,146	$(92,001)	$(60,845)	$(409)	$278,331	$87,760	$366,091
Balance on January 3, 2016	$10,204	$2,777	$113,064	$260,672	$(82,407)	$(60,845)	$(409)	$243,056	$79,376	$322,432
Net income	-	-	-	5,611	-	-	-	5,611	2,680	8,291
Other comprehensive income, net of tax	-	-	-	-	612	-	-	612	-	612

Cash dividends paid:										
Common ($0.50 per share)	-	-	-	(3,571)	-	-	-	(3,571)	-	(3,571)
Class B Common ($0.50 per share)	-	-	-	(1,081)	-	-	-	(1,081)	-	(1,081)
Issuance of 20,920 shares of Class B Common Stock	-	21	3,705	-	-	-	-	3,726	-	3,726
Balance on July 3, 2016	$10,204	$2,798	$116,769	$261,631	$(81,795)	$(60,845)	$(409)	$248,353	$82,056	$330,409

See Accompanying Notes to Consolidated Condensed Financial Statements.

COCA COLA BOTTLING CO. CONSOLIDATED

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

(Unaudited)

	First Half	
(in thousands)	2017	2016
Cash Flows from Operating Activities:		
Net income	$3,164	$8,291
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation expense	70,330	49,902
Amortization of intangible assets and deferred proceeds	6,717	2,427
Deferred income taxes	(24,918)	(1,476)
Loss on sale of property, plant and equipment	1,975	1,356
Impairment of property, plant and equipment	-	382
Loss on exchange of franchise territory	-	692
Proceeds from conversion of Legacy Territories bottling agreements	87,066	-
Amortization of debt costs	537	1,166
Stock compensation expense	4,577	2,896
Fair value adjustment of acquisition related contingent consideration	28,365	33,425
Change in current assets less current liabilities (exclusive of acquisition)	10,470	(27,088)
Change in other noncurrent assets (exclusive of acquisition)	(9,984)	(9,014)
Change in other noncurrent liabilities (exclusive of acquisition)	628	(1,788)
Other	44	26
Total adjustments	175,807	52,906
Net cash provided by operating activities	178,971	61,197
Cash Flows from Investing Activities:		
Acquisition of Expansion Territories, net of cash acquired	(227,759)	(174,695)
Additions to property, plant and equipment (exclusive of acquisition)	(79,607)	(79,625)
Glacéau distribution agreement consideration	(15,598)	-
Proceeds from cold drink equipment	8,400	-
Investment in CONA Services LLC	(1,001)	(6,634)
Proceeds from the sale of property, plant and equipment	384	282
Net cash used in investing activities	(315,181)	(260,672)
Cash Flows from Financing Activities:		
Borrowings under Term Loan Facility	-	300,000
Borrowings under Revolving Credit Facility	238,000	310,000
Payment of Revolving Credit Facility	(190,000)	(235,000)
Proceeds from issuance of Senior Notes	125,000	-
Payment of Senior Notes	-	(164,757)
Cash dividends paid	(4,662)	(4,652)
Payment of acquisition related contingent consideration	(6,556)	(7,926)
Principal payments on capital lease obligations	(3,695)	(3,488)
Other	(213)	(877)

Net cash provided by financing activities	157,874	193,300
Net increase (decrease) in cash	21,664	(6,175)
Cash at beginning of period	21,850	55,498
Cash at end of period	$43,514	$49,323
Significant noncash investing and financing activities:		
Issuance of Class B Common Stock in connection with stock award	$3,669	$3,726
Additions to property, plant and equipment accrued and recorded in accounts payable, trade	10,425	9,086

See Accompanying Notes to Consolidated Condensed Financial Statements.

COCA COLA BOTTLING CO. CONSOLIDATED

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Unaudited)

1.Significant Accounting Policies and New Accounting Pronouncements

The consolidated condensed 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 condensed financial statements reflect all adjustments, including normal, recurring accruals, which, in the opinion of management, are necessary for a fair statement of the results for the interim periods presented:

- The financial position as of July 2, 2017 and January 1, 2017.
- The results of operations for the 13 week periods ended July 2, 2017 ("second quarter" of fiscal 2017 ("2017")) and July 3, 2016 ("second quarter" of fiscal 2016 ("2016")), and the 26 week periods ended July 2, 2017 ("first half" of 2017) and July 3, 2016 ("first half" of 2016).
- Comprehensive income for the second quarter and first half of 2017 and the second quarter and first half of 2016.
- Changes in equity for the first half of 2017 and the first half of 2016.
- The cash flows for the first half of 2017 and the first half of 2016.

The consolidated condensed financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial reporting and the instructions to Form 10-Q and Article 10 of Regulation S-X. 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 condensed financial statements included in the Company's Annual Report on Form 10 K for 2016 filed with the Securities and Exchange Commission (the "SEC").

The preparation of consolidated condensed financial statements, in conformity with GAAP, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the 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.

Significant Accounting Policies

In the ordinary course of business, the Company has made a number of estimates and assumptions relating to the reporting of results of operations and financial position in the preparation of its consolidated condensed financial statements in conformity with GAAP. Actual results could differ significantly from those estimates under different assumptions and conditions. The Company included in its Annual Report on Form 10 K for 2016 under the caption "Discussion of Critical Accounting Policies, Estimates and New Accounting Pronouncements" in "Management's Discussion and Analysis of Financial Condition and Results of Operations," set forth in Part II, Item 7, a discussion of the Company's most critical accounting policies, which are those most important to the portrayal of the Company's financial condition and results of operations and require management's most difficult, subjective and complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain.

The Company did not make changes in any significant accounting policies during the second quarter of 2017. Any changes in critical accounting policies and estimates are discussed with the Audit Committee of the Board of Directors of the Company during the quarter in which a change is contemplated and prior to making such change.

Recently Adopted Pronouncements

In March 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-09 "Improvements to Employees Share Based Payment Accounting," which simplifies several aspects of the accounting for employee-share based transactions including the accounting for income taxes, forfeitures and statutory tax withholding requirements, as well as classification in the statement of cash flows. The new guidance is effective for annual and interim reporting periods beginning after December 15, 2016. The Company adopted this guidance in the first quarter of 2017 and there was no impact to the Company's consolidated condensed financial statements.

In July 2015, the FASB issued ASU 2015-11 "Simplifying the Measurement of Inventory." The new guidance requires an entity to measure most inventory "at lower of cost and net realizable value" thereby simplifying the current guidance under which an entity must measure inventory at the lower of cost or market. The new guidance is effective for annual and interim periods beginning after

December 15, 2016. The Company adopted this guidance in the first quarter of 2017 and there was no material impact to the Company's consolidated condensed financial statements.

Recently Issued Pronouncements

In January 2017, the FASB issued ASU 2017-04 "Simplifying the Test for Goodwill Impairment," which eliminates the requirement to calculate the implied fair value of goodwill to measure a goodwill impairment charge. The new guidance is effective for the annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. The Company does not anticipate the adoption of this guidance will have a material impact on its consolidated condensed financial statements.

In January 2017, the FASB issued ASU 2017-01 "Clarifying the Definition of a Business," which clarifies the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions or disposals of assets or businesses. The new guidance is effective for annual periods beginning after December 15, 2017, including interim periods within those periods. The impact to the Company's consolidated condensed financial statements will depend on the facts and circumstances of any specific future transactions.

In February 2016, the FASB issued ASU 2016-02 "Leases." The new guidance requires lessees to recognize a right-to-use asset and a lease liability for virtually all leases (other than leases meeting the definition of a short-term lease). The new guidance is effective for fiscal years beginning after December 15, 2018 and interim periods beginning the following year. The Company is in the process of evaluating the impact of the new guidance on the Company's consolidated condensed financial statements. Additionally, the Company is evaluating the impacts of the standard beyond accounting, including system, data and process changes required to comply with the standard.

In January 2016, the FASB issued ASU 2016-01 "Recognition and Measurement of Financial Assets and Financial Liabilities." The new guidance revises the classification and measurement of investments in equity securities and the presentation of certain fair value changes in financial liabilities measured at fair value. The new guidance is effective for annual and interim reporting periods beginning after December 31, 2017. The Company is in the process of evaluating the impact of the new guidance on the Company's consolidated condensed financial statements.

Over the past several years, the FASB has issued several accounting standards for revenue recognition:

- ASU 2014 09 "Revenue from Contracts with Customers" was issued in May 2014, which was originally going to be effective for annual and interim periods beginning after December 15, 2016.

- ASU 2015-14 “Revenue from Contracts with Customers, Deferral of the Effective Date” was issued in July 2015, which deferred the effective date to annual and interim periods beginning after December 15, 2017.
- ASU 2016-08 “Principal Versus Agent Considerations (Reporting Revenue Gross Versus Net)” was issued in March 2016, which amends certain aspects of the May 2014 new guidance.
- ASU 2016-11 “Rescission of SEC Guidance Because of Accounting Standards Updates 2014-09 and 2014-16, Pursuant to Staff Announcements at the March 3, 2016 EITF Meeting” was issued in April 2016, which amends certain aspects of the May 2014 new guidance.
- ASU 2016-12 “Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients” was issued in May 2016, which amends certain aspects of the May 2014 new guidance.
- ASU 2016-20 “Technical Corrections and Improvements to Topic 606: Revenue from Contracts with Customers” was issued in December 2016 and clarifies the new revenue standard and corrects unintended application of the guidance.

The Company does not plan to early adopt this guidance. The Company has started its evaluation process to assess the impact of the new guidance on the Company’s consolidated condensed financial statements and to determine whether to adopt a full retrospective approach or a modified retrospective approach. The evaluation process includes tasks such as performing an initial scoping analysis to identify key revenue streams, reviewing current revenue-based contracts and evaluating revenue recognition requirements in order to prepare a high-level road map and implementation work plan. Based on the Company’s preliminary review, it does not expect this guidance to have a material impact on net sales. As the Company completes its overall assessment, the Company is also identifying and preparing to implement changes to its accounting policies and practices, business processes, systems and controls to support the new revenue recognition and disclosure requirements.

2.Acquisitions and Divestitures

As part of The Coca Cola Company’s plans to refranchise its North American bottling territories, the Company has engaged in a series of transactions since April 2013 with The Coca Cola Company and Coca Cola Refreshments USA, Inc. (“CCR”), a wholly-owned subsidiary of The Coca Cola Company, to significantly expand the Company’s distribution and manufacturing operations. This

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expansion includes acquisition of the rights to serve additional distribution territories previously served by CCR (the "Expansion Territories") and related distribution assets, as well as the acquisition of regional manufacturing facilities previously owned by CCR (the "Expansion Facilities") and related manufacturing assets (collectively, the "Expansion Transactions").

Year-to-Date 2017 Expansion Transactions

During the first quarter of 2017, the Company acquired distribution rights and related assets for the following Expansion Territories: Anderson, Bloomington, Fort Wayne, Indianapolis, Lafayette, South Bend and Terre Haute, Indiana and Columbus and Mansfield, Ohio. Additionally, during the first quarter of 2017, the Company acquired Expansion Facilities and related manufacturing assets located in Indianapolis and Portland, Indiana.

During the second quarter of 2017, the Company acquired distribution rights and related assets for the following Expansion Territories: Akron, Elyria, Toledo, Willoughby and Youngstown, Ohio. Additionally, during the second quarter of 2017, the Company acquired an Expansion Facility and related manufacturing assets located in Twinsburg, Ohio. Collectively, these Expansion Transactions completed during the first half of 2017 are the "YTD 2017 Expansion Transactions." Details of the YTD 2017 Expansion Transactions are included below.

Anderson, Fort Wayne, Lafayette, South Bend and Terre Haute, Indiana Expansion Territories Acquisitions ("January 2017 Expansion Transaction")

On January 27, 2017, the Company completed a portion of the transactions contemplated by a distribution and asset purchase agreement entered into by the Company and CCR in September 2016 (the "September 2016 Distribution APA") by acquiring distribution rights and related assets in Expansion Territories served by CCR through CCR's facilities and equipment located in Anderson, Fort Wayne, Lafayette, South Bend and Terre Haute, Indiana. The closing of the January 2017 Expansion Transaction occurred for a cash purchase price of $31.6 million, which will remain subject to adjustment in accordance with the terms and conditions of the September 2016 Distribution APA.

Bloomington and Indianapolis, Indiana and Columbus and Mansfield, Ohio Expansion Territories Acquisitions and Indianapolis and Portland, Indiana Expansion Facilities Acquisitions ("March 2017 Expansion Transactions")

On March 31, 2017, the Company completed the final transactions contemplated by (i) the September 2016 Distribution APA, by acquiring distribution rights and related assets in Expansion Territories served by CCR through CCR's facilities and equipment located in Bloomington and Indianapolis, Indiana and Columbus and Mansfield, Ohio, and (ii) a manufacturing asset purchase agreement entered into by the Company and CCR in September 2016 (the

"September 2016 Manufacturing APA"), by acquiring Expansion Facilities and related manufacturing assets located in Indianapolis and Portland, Indiana. The closing of the March 2017 Expansion Transactions occurred for a cash purchase price of $108.7 million, which will remain subject to adjustment in accordance with the terms and conditions of the September 2016 Distribution APA and the September 2016 Manufacturing APA.

Akron, Elyria, Toledo, Willoughby and Youngstown, Ohio Expansion Territories Acquisitions and Twinsburg, Ohio Expansion Facility Acquisition ("April 2017 Expansion Transactions")

On April 28, 2017, the Company completed the transactions contemplated by (i) a distribution asset purchase agreement entered into by the Company and CCR in April 2017 (the "April 2017 Distribution APA"), by acquiring distribution rights and related assets in Expansion Territories served by CCR through CCR's facilities and equipment located in Akron, Elyria, Toledo, Willoughby and Youngstown, Ohio and (ii) a manufacturing asset purchase agreement entered into by the Company and CCR in April 2017 (the "April 2017 Manufacturing APA"), by acquiring an Expansion Facility and related manufacturing assets located in Twinsburg, Ohio. The closing of the April 2017 Expansion Transactions occurred for a cash purchase price of $87.7 million, which remains subject to adjustment in accordance with the terms of the April 2017 Distribution APA and the April 2017 Manufacturing APA.

The fair value of acquired assets and assumed liabilities of the YTD 2017 Expansion Transactions as of the acquisition dates is summarized as follows:

(in thousands)	January 2017 Expansion Transaction	March 2017 Expansion Transactions	April 2017 Expansion Transactions	Total YTD 2017 Expansion Transactions
Cash	$ 107	$ 211	$ 103	$ 421
Inventories	5,953	21,108	14,554	41,615
Prepaid expenses and other current assets	1,089	5,363	4,350	10,802
Accounts receivable from The Coca-Cola Company	1,042	1,807	1,000	3,849
Property, plant and equipment	25,708	81,662	53,818	161,188
Other assets (including deferred taxes)	846	3,841	482	5,169
Goodwill	1,112	4,334	9,630	15,076
Other identifiable intangible assets	10,650	20,400	9,550	40,600
Total acquired assets	$ 46,507	$ 138,726	$ 93,487	$ 278,720
Current liabilities (acquisition related contingent consideration)	$ 727	$ 1,921	$ 227	$ 2,875
Other current liabilities	665	1,827	1,186	3,678
Other liabilities	115	13	626	754
Other liabilities (acquisition related contingent consideration)	13,408	26,260	3,543	43,211
Total assumed liabilities	$ 14,915	$ 30,021	$ 5,582	$ 50,518

The goodwill for the YTD 2017 Expansion Transactions is included in the Nonalcoholic Beverages segment and is primarily attributed to operational synergies and the workforce acquired. Goodwill of $15.0 million is expected to be deductible for tax purposes for the April 2017 Expansion Transactions. No goodwill is expected to be deductible for tax purposes for the January 2017 Expansion Transaction or the March 2017 Expansion Transactions.

The fair value of the identifiable intangible assets acquired in the YTD 2017 Expansion Transactions as of the acquisition dates is summarized as follows:

(in thousands)	January 2017 Expansion Transaction	March 2017 Expansion Transactions	April 2017 Expansion Transactions	Total YTD 2017 Expansion Transactions	Estimated Useful Lives
Distribution agreements	$ 9,300	$ 18,900	$ 8,600	$ 36,800	40 years
Customer lists	1,350	1,500	950	3,800	12 years
Total acquired identifiable intangible assets	$ 10,650	$ 20,400	$ 9,550	$ 40,600	

2016 Expansion Transactions

During 2016, the Company acquired distribution rights and related assets for the following Expansion Territories: Easton, Salisbury, Capitol Heights, La Plata, Baltimore, Hagerstown and Cumberland, Maryland; Richmond, Yorktown and Alexandria, Virginia; Cincinnati, Dayton, Lima and Portsmouth, Ohio; and Louisa, Kentucky. The Company also acquired Expansion Facilities and related manufacturing assets in Sandston, Virginia; Silver Spring and Baltimore, Maryland; and Cincinnati, Ohio during 2016. Collectively, these are the "2016 Expansion Transactions." The details of the 2016 Expansion Transactions are included below.

Easton and Salisbury, Maryland and Richmond and Yorktown, Virginia Expansion Territories Acquisitions and Sandston, Virginia Expansion Facility Acquisition ("January 2016 Expansion Transactions")

An asset purchase agreement entered into by the Company and CCR in September 2015 (the "September 2015 APA") contemplated, in part, the Company's acquisition of distribution rights and related assets in Expansion Territories served by CCR through CCR's facilities and equipment located in Easton and Salisbury, Maryland and Richmond and Yorktown, Virginia. In addition, an asset purchase agreement entered into by the Company and CCR in October 2015 (the "October 2015 APA") contemplated, in part, the Company's acquisition of an Expansion Facility and related manufacturing assets in Sandston, Virginia. The closing of the January 2016 Expansion Transactions occurred on January 29, 2016, for a cash purchase price of $65.7 million. During the second quarter of 2017, the cash purchase price for the January 2016 Expansion Transactions increased by $9.4 million, which remains payable to The Coca Cola Company, as a result of net working capital and other fair value adjustments. As the adjustments were made beyond

one year from the acquisition date, the Company recorded these through its consolidated condensed statements of operations. The cash purchase price for the January 2016 Expansion Transactions will remain subject to adjustment in accordance with the terms and conditions of the September 2015 APA and the October 2015 APA.

Alexandria, Virginia and Capitol Heights and La Plata, Maryland Expansion Territories Acquisitions (“April 1, 2016 Expansion Transaction”)

The September 2015 APA also contemplated the Company’s acquisition of distribution rights and related assets in Expansion Territories served by CCR through CCR’s facilities and equipment located in Alexandria, Virginia and Capitol Heights and La Plata, Maryland. The closing of the April 1, 2016 Expansion Transaction occurred on April 1, 2016, for a cash purchase price of $35.6 million, which will remain subject to adjustment in accordance with the terms and conditions of the September 2015 APA.

Baltimore, Hagerstown and Cumberland, Maryland Expansion Territories Acquisitions and Silver Spring and Baltimore, Maryland Expansion Facilities Acquisitions (“April 29, 2016 Expansion Transactions”)

On April 29, 2016, the Company completed the remaining transactions contemplated by (i) the September 2015 APA, by acquiring distribution rights and related assets in Expansion Territories served by CCR through CCR’s facilities and equipment located in Baltimore, Hagerstown and Cumberland, Maryland, and (ii) the October 2015 APA, by acquiring Expansion Facilities and related manufacturing assets in Silver Spring and Baltimore, Maryland. The closing of the April 29, 2016 Expansion Transactions occurred for a cash purchase price of $69.0 million, which will remain subject to adjustment in accordance with the terms and conditions of the September 2015 APA and the October 2015 APA.

Cincinnati, Dayton, Lima and Portsmouth, Ohio and Louisa, Kentucky Expansion Territories Acquisitions and Cincinnati, Ohio Expansion Facility Acquisition (“October 2016 Expansion Transactions”)

On October 28, 2016, the Company completed the initial transactions contemplated by the September 2016 Distribution APA, by acquiring distribution rights and related assets in Expansion Territories served by CCR through CCR’s facilities and equipment located in Cincinnati, Dayton, Lima and Portsmouth, Ohio and Louisa, Kentucky, and (ii) the September 2016 Manufacturing APA, by acquiring an Expansion Facility and related manufacturing assets located in Cincinnati, Ohio. The closing of the October 2016 Expansion Transactions occurred for a cash purchase price of $98.2 million, which will remain subject to adjustment in accordance with the terms and conditions of the September 2016 Distribution APA and the September 2016 Manufacturing APA.

The fair value of acquired assets and assumed liabilities of the 2016 Expansion Transactions as of the acquisition dates is summarized as follows:

(in thousands)	January 2016 Expansion Transactions	April 1, 2016 Expansion Transaction	April 29, 2016 Expansion Transactions	October 2016 Expansion Transactions	Total 2016 Expansion Transactions
Cash	$ 179	$ 219	$ 161	$ 150	$ 709
Inventories	10,159	3,748	13,850	18,513	46,270
Prepaid expenses and other current assets	2,775	1,945	3,774	4,181	12,675
Accounts receivable from The Coca-Cola Company	1,121	1,162	1,126	1,327	4,736
Property, plant and equipment	46,149	54,135	57,738	67,943	225,965
Other assets (including deferred taxes)	2,351	1,541	5,514	611	10,017
Goodwill	9,396	1,962	8,368	7,302	27,028
Other identifiable intangible assets	1,300	-	23,450	66,500	91,250
Total acquired assets	$ 73,430	$ 64,712	$ 113,981	$ 166,527	$ 418,650
Current liabilities (acquisition related contingent consideration)	$ 361	$ 742	$ 1,307	$ 3,318	$ 5,728
Other current liabilities	591	4,231	5,482	7,165	17,469
Accounts payable to The Coca-Cola Company	650	-	-	-	650
Other liabilities	-	266	2,635	761	3,662
Other liabilities (acquisition related contingent consideration)	6,144	23,924	35,561	57,066	122,695
Total assumed liabilities	$ 7,746	$ 29,163	$ 44,985	$ 68,310	$ 150,204

The goodwill for the 2016 Expansion Transactions is included in the Nonalcoholic Beverages segment and is primarily attributed to operational synergies and the workforce acquired. Goodwill of $15.4 million and $13.3 million is expected to be deductible for tax purposes for the January 2016 Expansion Transactions and the October 2016 Expansion Transactions, respectively. No goodwill is expected to be deductible for the April 1, 2016 Expansion Transaction or the April 29, 2016 Expansion Transactions.

The fair value of the identifiable intangible assets acquired in the 2016 Expansion Transactions as of the acquisition dates is summarized as follows:

(in thousands)	January 2016 Expansion Transactions	April 29, 2016 Expansion Transactions	October 2016 Expansion Transactions	Total 2016 Expansion Transactions	Estimated Useful Lives
Distribution agreements	$ 750	$ 22,000	$ 63,900	$ 86,650	40 years
Customer lists	550	1,450	2,600	4,600	12 years
Total acquired identifiable intangible assets	$ 1,300	$ 23,450	$ 66,500	$ 91,250	

The Company has preliminarily allocated the purchase prices of the YTD 2017 Expansion Transactions and the 2016 Expansion Transactions to the individual acquired assets and assumed liabilities. The valuations are subject to adjustment as additional information is obtained. Any adjustments made beyond one year from each transactions' acquisition date are recorded through the Company's consolidated condensed statements of operations.

The anticipated amount the Company could pay annually under the acquisition related contingent consideration arrangements for the Expansion Transactions is in the range of $20 million to $37 million.

YTD 2017 Expansion Transactions and 2016 Expansion Transactions Financial Results

The financial results of the YTD 2017 Expansion Transactions and the 2016 Expansion Transactions have been included in the Company's consolidated condensed financial statements from their respective acquisition dates. These Expansion Transactions contributed the following amounts to the Company's consolidated condensed statement of operations:

	Second Quarter		First Half	
(in thousands)	2017	2016	2017	2016
Net sales from 2016 Expansion Transactions	$265,755	$162,819	$504,415	$198,130
Net sales from YTD 2017 Expansion Transactions	206,894	-	233,140	-
Total impact to net sales	$472,649	$162,819	$737,555	$198,130
Operating income from 2016 Expansion Transactions	$4,997	$13,502	$9,351	$14,708
Operating income from YTD 2017 Expansion Transactions	10,323	-	10,419	-
Total impact to income from operations	$15,320	$13,502	$19,770	$14,708

The Company incurred transaction related expenses for these Expansion Transactions of $2.1 million in the first half of 2017 and $2.4 million in the first half of 2016. These expenses are included within selling, delivery and administrative expenses on the consolidated condensed statements of operations.

YTD 2017 Expansion Transactions and 2016 Expansion Transactions Pro Forma Financial Information

The purpose of the pro forma is to present the net sales and the income from operations of the combined entity as though the YTD 2017 Expansion Transactions and the 2016 Expansion Transactions had occurred as of the beginning of 2016. The pro forma combined net sales and income from operations do not necessarily reflect what the combined Company’s net sales and income from operations would have been had the acquisitions occurred at the beginning of 2016. The pro forma financial information also may not be useful in predicting the future financial results of the combined company. The actual results may differ significantly from the pro forma amounts reflected herein due to a variety of factors.

The following tables represent the Company's unaudited pro forma net sales and unaudited pro forma income from operations for the YTD 2017 Expansion Transactions and the 2016 Expansion Transactions.

	Second Quarter		First Half	
(in thousands)	2017	2016	2017	2016
Net sales as reported	$1,169,291	$840,384	$2,034,993	$1,465,840
Pro forma adjustments (unaudited)	20,992	324,553	196,182	721,405
Net sales pro forma (unaudited)	$1,190,283	$1,164,937	$2,231,175	$2,187,245

	Second Quarter		First Half	
(in thousands)	2017	2016	2017	2016
Income from operations as reported	$47,313	$54,736	$60,921	$67,137
Pro forma adjustments (unaudited)	912	14,217	9,821	29,227
Income from operations pro forma (unaudited)	$48,225	$68,953	$70,742	$96,364

3.Inventories

Inventories consisted of the following:

(in thousands)	July 2, 2017	January 1, 2017
Finished products	$128,848	$90,259
Manufacturing materials	31,498	23,196
Plastic shells, plastic pallets and other inventories	40,095	30,098
Total inventories	$200,441	$143,553

The growth in the inventory balance at July 2, 2017, as compared to January 1, 2017, is primarily a result of inventory acquired through the completion of the YTD 2017 Expansion Transactions.

4.Property, Plant and Equipment, Net

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

(in thousands)	Estimated Useful Lives

	July 2, 2017	January 1, 2017	
Land	$79,677	$68,541	
Buildings	228,122	201,247	8-50 years
Machinery and equipment	296,085	229,119	5-20 years
Transportation equipment	343,130	316,929	4-20 years
Furniture and fixtures	86,834	78,219	3-10 years
Cold drink dispensing equipment	546,469	484,771	5-17 years
Leasehold and land improvements	116,882	112,393	5-20 years
Software for internal use	109,370	105,405	3-10 years
Construction in progress	22,288	14,818	
Total property, plant and equipment, at cost	1,828,857	1,611,442	
Less: Accumulated depreciation and amortization	851,304	798,453	
Property, plant and equipment, net	$977,553	$812,989	

The growth in the property, plant and equipment balance at July 2, 2017, as compared to January 1, 2017, is primarily a result of property, plant and equipment acquired through the completion of the YTD 2017 Expansion Transactions.

Depreciation and amortization expense, which includes both amortization expense for leased property under capital leases and amortization of the deferred liability associated with the fee received from CCR upon conversion of the Company's bottling agreements to the Final CBA (as defined in Note 5) on March 31, 2017, was $37.3 million in the second quarter of 2017, $26.5 million in the second quarter of 2016, $70.3 million in the first half of 2017 and $49.9 million in the first half of 2016.

5.Franchise Rights

A reconciliation of the activity for franchise rights for the first half of 2017 and the first half of 2016 is as follows:

(in thousands)	Franchise rights
Balance on January 1, 2017	$533,040
Conversion from franchise rights to distribution rights	(533,040)
Balance on July 2, 2017	$-
Balance on January 3, 2016	$527,540
Lexington Expansion Territory adjustment	5,500
Balance on July 3, 2016	$533,040

In connection with the closing of the March 2017 Expansion Transactions, the Company, The Coca-Cola Company and CCR entered into a comprehensive beverage agreement (as amended, the “Final CBA”) on March 31, 2017, and concurrently converted the Company’s franchise rights within the territories in which the Company distributed Coca Cola products prior to beginning the Expansion Transactions (the “Legacy Territories”) to distribution rights within Other identifiable assets, net on the consolidated condensed financial statements. Prior to this conversion, the Company’s franchise rights resided entirely within the Nonalcoholic Beverage segment.

During the second quarter of 2016, the Company recorded $5.5 million in franchise rights for an Expansion Territory previously served by CCR’s facilities and equipment located in Lexington, Kentucky (the “Lexington Expansion Territory”), which the Company acquired in an exchange transaction with CCR on May 1, 2015.

6.Goodwill

A reconciliation of the activity for goodwill for the first half of 2017 and the first half of 2016 is as follows:

(in thousands)	Goodwill
Balance on January 1, 2017	$144,586
YTD 2017 Expansion Transactions	15,076
Measurement period adjustment	765
Balance on July 2, 2017	$160,427
Balance on January 3, 2016	$117,954

Q1 and Q2 2016 Expansion Transactions[1]	20,528
Lexington Expansion Territory adjustment	(682)
Measurement period adjustment	1,956
Balance on July 3, 2016	$139,756

[1] The 2016 Expansion Transactions completed during the first half of 2016 are the "Q1 and Q2 2016 Expansion Transactions."

The Company's goodwill resides entirely within the Nonalcoholic Beverage segment. The Company performs its annual impairment test of goodwill as of the first day of the fourth quarter of each fiscal year. During the first half of 2017, the Company did not experience any triggering events or changes in circumstances indicating the carrying amounts of the Company's goodwill exceeded fair values.

7.Other Identifiable Intangible Assets, Net

Other identifiable intangible assets consisted of the following:

	July 2, 2017			
(in thousands)	Cost	Accumulated Amortization	Total, net	Estimated Useful Lives
Distribution agreements	$812,370	$ 14,166	$798,204	20-40 years
Customer lists and other identifiable intangible assets	19,738	6,132	13,606	12-20 years
Total other identifiable intangible assets	$832,108	$ 20,298	$811,810	

	January 1, 2017			
(in thousands)	Cost	Accumulated Amortization	Total, net	Estimated Useful Lives
Distribution agreements	$242,486	$ 7,498	$234,988	20-40 years
Customer lists and other identifiable intangible assets	15,938	5,511	10,427	12-20 years
Total other identifiable intangible assets	$258,424	$ 13,009	$245,415	

A reconciliation of the activity for other identifiable intangible assets for the first half of 2017 and the first half of 2016 is as follows:

(in thousands)	Distribution Agreements	Customer Lists and Other Identifiable Intangible Assets	Total Other Identifiable Intangible Assets
Balance on January 1, 2017	$ 234,988	$ 10,427	$ 245,415
YTD 2017 Expansion Transactions	36,800	3,800	40,600
Conversion to distribution rights from franchise rights	533,040	-	533,040
Other distribution agreements	44	-	44
Additional accumulated amortization	(6,668)	(621)	(7,289)
Balance on July 2, 2017	$ 798,204	$ 13,606	$ 811,810
Balance on January 3, 2016	$ 129,786	$ 6,662	$ 136,448
Q1 and Q2 2016 Expansion Transactions	22,750	2,000	24,750
Measurement period adjustment and other distribution agreements	1,696	-	1,696
Additional accumulated amortization	(2,050)	(377)	(2,427)
Balance on July 3, 2016	$ 152,182	$ 8,285	$ 160,467

Concurrent with its entrance into the Final CBA, the Company converted its franchise rights for the Legacy Territories to distribution rights, with an estimated useful life of 40 years, during the first quarter of 2017.

8.Other Accrued Liabilities

Other accrued liabilities consisted of the following:

(in thousands)	July 2, 2017	January 1, 2017

Accrued marketing costs	$34,864	$24,714
Checks and transfers yet to be presented for payment from zero balance cash accounts	34,195	19,326
Accrued insurance costs	33,955	28,248
Employee and retiree benefit plan accruals	25,964	23,858
Current portion of acquisition related contingent consideration	19,574	15,782
Accrued taxes (other than income taxes)	7,387	2,836
Current deferred proceeds from conversion of Legacy Territories bottling agreements	2,286	-
All other accrued liabilities	25,458	19,121
Total other accrued liabilities	$183,683	$133,885

9.Debt

Following is a summary of the Company's debt:

(in thousands)	Maturity	Interest Rate	Interest Paid	Public / Non-public	July 2, 2017	January 1, 2017
Revolving Credit Facility	2019	Variable	Varies	Non-public	$200,000	$152,000
Term Loan	2021	Variable	Varies	Non-public	300,000	300,000
Senior Notes	2023	3.28%	Semi-annually	Non-public	125,000	-
Senior Notes	2019	7.00%	Semi-annually	Public	110,000	110,000
Senior Notes	2025	3.80%	Semi-annually	Public	350,000	350,000
Unamortized discount on Senior Notes[1]	2019				(453)	(570)
Unamortized discount on Senior Notes[1]	2025				(74)	(78)
Debt issuance costs					(3,895)	(4,098)
Total debt					1,080,578	907,254
Less: Current portion of debt					-	-
Long-term debt					$1,080,578	$907,254

[1] The Senior Notes due 2019 were issued at 98.238% of par and the Senior Notes due 2025 were issued at 99.975% of par.

The Company had capital lease obligations of $45.0 million on July 2, 2017 and $48.7 million on January 1, 2017. The Company mitigates its financing risk by using multiple financial institutions and only entering into credit arrangements with institutions with investment grade credit ratings. The Company monitors counterparty credit ratings on an ongoing basis.

On February 27, 2017, the Company sold $125 million aggregate principal amount of senior unsecured notes due 2023 to PGIM, Inc. ("Prudential") and certain of its affiliates pursuant to the Note Purchase and Private Shelf Agreement dated June 10, 2016 between the Company, Prudential and the other parties thereto (the "Private Shelf Facility"). These notes bear interest at 3.28%, payable semi-annually in arrears on February 27 and August 27 of each year, and will mature on February 27, 2023 unless earlier redeemed by the Company. The Company may request Prudential to consider the purchase of additional senior unsecured notes of the Company under the facility in an aggregate principal amount of up to $175 million.

In October 2014, the Company entered into a five-year unsecured revolving credit facility (the "Revolving Credit Facility"), and in April 2015, the Company exercised an accordion feature which established a $450 million aggregate maximum borrowing capacity on the Revolving Credit Facility. The $450 million borrowing capacity includes up to $50 million 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 0.15% of the lenders' aggregate commitments under the Revolving Credit Facility. The Revolving Credit Facility has a scheduled maturity date of October 16, 2019.

In June 2016, the Company entered into a five-year term loan agreement for a senior unsecured term loan facility (the "Term Loan Facility") in the aggregate principal amount of $300 million, maturing June 7, 2021. The Company may request additional term loans under the agreement, provided the Company's aggregate borrowings under the Term Loan Facility do not exceed $500 million. Borrowings under the Term Loan 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 Company's option.

The Revolving Credit Facility, the Term Loan Facility and the Private Shelf Facility include two financial covenants: a consolidated cash flow/fixed charges ratio and a consolidated funded indebtedness/cash flow ratio, each as defined in the respective agreements. The Company was in compliance with these covenants as of July 2, 2017.

The indentures under which the Company's public debt was issued do not include financial covenants but do limit the incurrence of certain liens and encumbrances as well as the indebtedness by the Company's subsidiaries in excess of certain amounts.

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

10.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 condensed balance sheets. These derivative instruments are not designated as hedging instruments under GAAP and are used as "economic hedges" to manage certain commodity price risk. Derivative instruments held 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 condensed 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 would be exposed to credit loss in the event of nonperformance by these counterparties, the Company does not anticipate nonperformance by these parties.

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

		Second Quarter		First Half	
(in thousands)	Classification of Gain (Loss)	2017	2016	2017	2016
Commodity hedges	Cost of sales	$(674)	$1,452	$24	$2,294
Commodity hedges	Selling, delivery and administrative expenses	(513)	1,318	(884)	1,516
Total gain (loss)		$(1,187)	$2,770	$(860)	$3,810

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

(in thousands)	Balance Sheet Classification	July 2, 2017	January 1, 2017
Assets:			
Commodity hedges at fair market value	Prepaid expenses and other current assets	$718	$1,289
Total assets		$718	$1,289
Liabilities:			
Commodity hedges at fair market value	Other accrued liabilities	$287	$-
Total liabilities		$287	$-

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 Company's consolidated condensed balance sheets and the net amounts of derivative liabilities are recognized in other accrued liabilities or other liabilities in the consolidated condensed balance sheets. The following table summarizes the Company's gross derivative assets and gross derivative liabilities in the consolidated condensed balance sheets:

(in thousands)	July 2, 2017	January 1, 2017
Gross derivative assets	$ 932	$ 1,297
Gross derivative liabilities	501	8

The following table summarizes the Company's outstanding commodity derivative agreements:

(in thousands)	July 2, 2017	January 1, 2017
Notional amount of outstanding commodity derivative agreements	$ 36,376	$ 13,146
Latest maturity date of outstanding commodity derivative agreements	December 2017	December 2017

Subsequent to the end of the second quarter of 2017, the Company entered into additional agreements to hedge certain commodity costs for 2017. The notional amount of these agreements was $59.6 million.

11.Fair Values of Financial Instruments

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

- Level 1: Quoted market prices in active markets for identical assets or liabilities.
- Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.
- Level 3: Unobservable inputs that are not corroborated by market data.

The following methods and assumptions were used by the Company in estimating the fair values of its financial instruments. There were no transfers of assets or liabilities between Levels in any period presented.

Financial Instrument	Fair Value Level	Method and Assumptions
Deferred compensation plan assets and liabilities	Level 1	The fair values of the Company’s non-qualified deferred compensation plan for certain executives and other highly compensated employees has associated assets and liabilities, which are held in mutual funds and are based on the quoted market value of the securities held within the mutual funds.
Commodity hedging agreements	Level 2	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.
Non-public variable rate debt	Level 2	The carrying amounts of the Company’s variable rate borrowings approximate their fair values due to variable interest rates with short reset periods.
Non-public fixed rate debt	Level 2	The fair values of the Company’s fixed rate non-public debt are based on estimated current market prices.
Public debt securities	Level 2	The fair values of the Company’s public debt securities are based on estimated current market prices.
Acquisition related contingent consideration	Level 3	The fair values of acquisition related contingent consideration are based on internal forecasts and the weighted average cost of capital (“WACC”) derived from market data.

The following tables summarize, by assets and liabilities, the carrying amounts and fair values by level of the Company’s deferred compensation plan, commodity hedging agreements, debt and acquisition related contingent consideration:

	July 2, 2017				
(in thousands)	Carrying Amount	Total Fair Value	Fair Value Level 1	Fair Value Level 2	Fair Value Level 3
Assets:					
Deferred compensation plan assets	$29,019	$29,019	$29,019	$-	$-
Commodity hedging agreements	718	718	-	718	-
Liabilities:					
Deferred compensation plan liabilities	29,019	29,019	29,019	-	-
Commodity hedging agreements	287	287	-	287	-
Non-public variable rate debt	499,310	500,000	-	500,000	-
Non-public fixed rate debt	124,799	125,000	-	125,000	-
Public debt securities	456,469	478,700	-	478,700	-
Acquisition related contingent consideration	319,102	319,102	-	-	319,102

	January 1, 2017				
(in thousands)	Carrying Amount	Total Fair Value	Fair Value Level 1	Fair Value Level 2	Fair Value Level 3
Assets:					
Deferred compensation plan assets	$24,903	$24,903	$24,903	$-	$-
Commodity hedging agreements	1,289	1,289	-	1,289	-
Liabilities:					
Deferred compensation plan liabilities	24,903	24,903	24,903	-	-
Non-public variable rate debt	451,222	452,000	-	452,000	-
Public debt securities	456,032	475,800	-	475,800	-
Acquisition related contingent consideration	253,437	253,437	-	-	253,437

Under the Final CBA, 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 Expansion Territories. This acquisition related contingent consideration is valued using a probability weighted discounted cash flow model based on internal forecasts and the WACC derived from market data, which are considered Level 3 inputs. Each reporting period, the Company adjusts its acquisition related contingent consideration liability related to the Expansion Territories to fair value by discounting future expected sub-bottling payments required under the Final CBA 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 Final CBA, 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 Level 3 activity is as follows:

	Second Quarter		First Half	
(in thousands)	2017	2016	2017	2016
Opening balance - Level 3 liability	$303,952	$177,933	$253,437	$136,570
Increase due to acquisitions	3,770	36,868	46,086	68,039
Payments/current payables	(4,739)	(2,307)	(8,786)	(9,266)
Unfavorable fair value adjustment	16,119	16,274	28,365	33,425
Ending balance - Level 3 liability	$319,102	$228,768	$319,102	$228,768

The fair value adjustment to the contingent consideration liability during the second quarter of 2017 was primarily driven by a change in the risk-free interest rate. The fair value adjustment to the contingent consideration liability during the first half of 2017 was primarily a result of a change in the risk-free interest rate and the final settlement of

territory values for the Paducah and Pikeville, Kentucky Expansion Territory acquisitions and the Norfolk, Fredericksburg and Staunton, Virginia, and Elizabeth City, North Carolina Expansion Territory acquisitions, which closed in May 2015 and October 2015, respectively.

The fair value adjustments to the contingent consideration liability during the second quarter and first half of 2016 were primarily driven by a change in the projected future operating results of the Expansion Territories subject to sub-bottling fees. These adjustments were recorded in other expense, net on the Company's consolidated condensed statements of operations.

12.Other Liabilities

Other liabilities consisted of the following:

(in thousands)	July 2, 2017	January 1, 2017
Non-current portion of acquisition related contingent consideration	$299,528	$237,655
Accruals for executive benefit plans	124,798	123,078
Non-current deferred proceeds from conversion of Legacy Territories bottling agreements	88,592	-
Other	19,652	17,839
Total other liabilities	$532,570	$378,572

Pursuant to a territory conversion agreement entered into by the Company, The Coca Cola Company and CCR in September 2015 (as amended), upon the conversion of the Company's bottling agreements to the Final CBA on March 31, 2017, the Company received a one-time fee from CCR, which was subject to a final adjustment. During the second quarter of 2017, the fee was finalized and increased by $4.4 million, for a total of $91.5 million. The total fee was recorded as a deferred liability and will be amortized as a reduction to cost of sales over a period of 40 years. On July 2, 2017, $2.3 million of this fee was recorded in accrued liabilities, $88.6 million of this fee was recorded to other liabilities and $0.6 million was amortized on the consolidated condensed financial statements.

13.Commitments and Contingencies

Manufacturing Cooperatives

The Company is a shareholder of South Atlantic Canners, Inc. ("SAC"), a manufacturing cooperative in Bishopville, South Carolina. All eight shareholders of SAC are Coca Cola bottlers and each has equal voting rights. The Company receives a fee for managing the day-to-day operations of SAC pursuant to a management agreement. Proceeds from management fees received from SAC were $4.6 million in both the first half of 2017 and the first half of 2016.

The Company is obligated to purchase 17.5 million cases of finished product from SAC on an annual basis through June 2024. The Company purchased 15.0 million cases and 15.1 million cases of finished product from SAC in the first half of 2017 and the first half of 2016, respectively.

The Company is also a shareholder 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 following table summarizes the Company's purchases from these manufacturing cooperatives:

	Second Quarter		First Half	
(in thousands)	2017	2016	2017	2016
Purchases from SAC	$40,507	$42,510	$74,141	$75,732
Purchases from Southeastern	27,621	20,341	50,957	37,309
Total purchases from manufacturing cooperatives	$68,128	$62,851	$125,098	$113,041

The Company guarantees a portion of SAC's and Southeastern's debt, which resulted primarily from the purchase of production equipment and facilities and expires at various dates through 2023. The amounts guaranteed were as follows:

(in thousands)	July 2, 2017	January 1, 2017
Guaranteed portion of debt - SAC	$23,938	$23,297
Guaranteed portion of debt - Southeastern	9,510	9,277
Total guaranteed portion of debt - manufacturing cooperatives	$33,448	$32,574

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. The following table summarizes the Company's maximum exposure under these guarantees if these cooperatives had borrowed up to their aggregate borrowing capacity:

	July 2, 2017		
(in thousands)	South Atlantic Canners, Inc.	Southeastern Container	Total Manufacturing Cooperatives
Maximum guaranteed debt	$23,938	$ 25,251	$ 49,189
Equity investments[1]	7,327	17,768	25,095
Maximum total exposure, including equity investments	$31,265	$ 43,019	$ 74,284

[1] Recorded in other assets on the Company's consolidated condensed balance sheets.

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.

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 condensed financial statements. The Company monitors its investments in SAC and Southeastern and would be required to write down its investment if an impairment was 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 July 2, 2017, and there was no impairment identified in 2016.

Other Commitments and Contingencies

The Company has standby letters of credit, primarily related to its property and casualty insurance programs. These letters of credit totaled $35.6 million on July 2, 2017 and $29.7 million on January 1, 2017.

The Company participates in long-term marketing contractual arrangements with certain prestige properties, athletic venues and other locations. As of July 2, 2017, the future payments related to these contractual arrangements, which expire at various dates through 2030, amounted to $126.3 million.

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

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

14.Income Taxes

The Company's effective tax rate, as calculated by dividing income tax expense by income before income taxes, was 1.6% for the first half of 2017 and 40.1% for the first half of 2016. The decrease in the effective tax rate was primarily driven by lower income before income taxes as compared to the recorded noncontrolling interest and a reduction in the valuation allowance resulting from the Company's assessment of its ability to use certain loss carryforwards.

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, was 3.9% for the first half of 2017 and 49.8% for the first half of 2016.

The Company had uncertain tax positions, including accrued interest, of $3.0 million on July 2, 2017 and $2.9 million on January 1, 2017, all of which would affect the Company's effective tax rate if recognized. While it is expected the amount of uncertain tax positions may change in the next 12 months, the Company does not expect such change would have a significant impact on the consolidated condensed financial statements.

Prior tax years beginning in year 2002 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.

15.Accumulated Other Comprehensive Income (Loss)

Accumulated other comprehensive income (loss) ("AOCI(L)") 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 AOCI(L) for the second quarter of 2017 and the second quarter of 2016 is as follows:

(in thousands)	April 2, 2017	Pre-tax Activity	Tax Effect	July 2, 2017
Net pension activity:				
Actuarial loss	$(71,897)	$ 807	$(312)	$(71,402)
Prior service costs	(57)	7	(2)	(52)
Net postretirement benefits activity:				
Actuarial loss	(23,713)	648	(250)	(23,315)
Prior service costs	3,221	(746)	288	2,763
Foreign currency translation adjustment	(9)	22	(8)	5
Total	$(92,455)	$ 738	$(284)	$(92,001)

(in thousands)	April 3, 2016	Pre-tax Activity	Tax Effect	July 3, 2016
Net pension activity:				
Actuarial loss	$(67,788)	$ 740	$(285)	$(67,333)
Prior service costs	(74)	7	(2)	(69)
Net postretirement benefits activity:				
Actuarial loss	(19,465)	588	(227)	(19,104)
Prior service costs	5,228	(840)	324	4,712
Foreign currency translation adjustment	5	(8)	2	(1)
Total	$(82,094)	$ 487	$(188)	$(81,795)

A summary of AOCI(L) for the first half of 2017 and the first half of 2016 is as follows:

(in thousands)	January 1, 2017	Pre-tax Activity	Tax Effect	July 2, 2017
Net pension activity:				
Actuarial loss	$(72,393)	$ 1,614	$(623)	$(71,402)
Prior service costs	(61)	14	(5)	(52)
Net postretirement benefits activity:				
Actuarial loss	(24,111)	1,296	(500)	(23,315)
Prior service costs	3,679	(1,492)	576	2,763
Foreign currency translation adjustment	(11)	26	(10)	5
Total	$(92,897)	$ 1,458	$(562)	$(92,001)

(in thousands)	January 3, 2016	Pre-tax Activity	Tax Effect	July 3, 2016
Net pension activity:				
Actuarial loss	$(68,243)	$ 1,481	$(571)	$(67,333)
Prior service costs	(78)	14	(5)	(69)
Net postretirement benefits activity:				

Actuarial loss	(19,825)	1,175	(454)	(19,104)
Prior service costs	5,744	(1,680)	648	4,712
Foreign currency translation adjustment	(5)	7	(3)	(1)
Total	$(82,407)	$997	$(385)	$(81,795)

A summary of the impact of AOCI(L) on certain statement of operations line items is as follows:

	Second Quarter 2017			
(in thousands)	Net Pension Activity	Net Postretirement Benefits Activity	Foreign Currency Translation Adjustment	Total
Cost of sales	$171	$ (22)	$ -	$149
Selling, delivery & administrative expenses	643	(76)	22	589
Subtotal pre-tax	814	(98)	22	738
Income tax expense	314	(38)	8	284
Total after tax effect	$500	$ (60)	$ 14	$454

	Second Quarter 2016			
(in thousands)	Net Pension Activity	Net Postretirement Benefits Activity	Foreign Currency Translation Adjustment	Total
Cost of sales	$75	$ (38)	$ -	$37
Selling, delivery & administrative expenses	672	(214)	(8)	450
Subtotal pre-tax	747	(252)	(8)	487
Income tax expense	287	(97)	(2)	188
Total after tax effect	$460	$ (155)	$ (6)	$299

	First Half 2017			
(in thousands)	Net Pension Activity	Net Postretirement Benefits Activity	Foreign Currency Translation Adjustment	Total
Cost of sales	$326	$ (42)	$ -	$284
Selling, delivery & administrative expenses	1,302	(154)	26	1,174
Subtotal pre-tax	1,628	(196)	26	1,458
Income tax expense	628	(76)	10	562
Total after tax effect	$1,000	$ (120)	$ 16	$896

	First Half 2016			
(in thousands)	Net Pension Activity	Net Postretirement Benefits Activity	Foreign Currency Translation Adjustment	Total
Cost of sales	$150	$ (76)	$ -	$74
Selling, delivery & administrative expenses	1,345	(429)	7	923
Subtotal pre-tax	1,495	(505)	7	997
Income tax expense	576	(194)	3	385
Total after tax effect	$919	$ (311)	$ 4	$612

16.Capital Transactions

During the first quarter of each year, the Compensation Committee of the Company’s Board of Directors determines whether any shares of the Company’s Class B Common Stock should be issued to J. Frank Harrison, III, in connection with his services for the prior year as Chairman of the Board of Directors and Chief Executive Officer of the Company, pursuant to a performance unit award agreement approved in 2008 (the “Performance Unit Award Agreement”). As permitted under the terms of the Performance Unit Award Agreement, a number of shares were settled in cash in 2017 and 2016 to satisfy tax withholding obligations in connection with the vesting of the

performance units. The remaining number of shares increased the total shares of Class B Common Stock outstanding. A summary of the awards issued in 2017 and 2016 is as follows:

	Fiscal Year	
	2017	2016
Date of approval for award	March 7, 2017	March 8, 2016
Fiscal year of service covered by award	2016	2015
Shares settled in cash to satisfy tax withholding obligations	18,980	19,080
Increase in Class B Common Stock shares outstanding	21,020	20,920
Total Class B Common Stock awarded	40,000	40,000

Compensation expense for the awards issued pursuant to the Performance Unit Award Agreement, recognized on the share price of the last trading day prior to the end of the fiscal period, was as follows:

	First Half	
(in thousands, except share price)	2017	2016
Total compensation expense	$4,577	$2,896
Share price for compensation expense	$228.87	$144.82
Share price date for compensation expense	June 30, 2017	July 1, 2016

17.Benefit Plans

Pension Plans

There are two Company-sponsored pension plans. The primary Company-sponsored pension plan (the “Primary Plan”) was frozen on June 30, 2006 and no benefits accrued to participants after this date. The second Company-sponsored pension plan (the “Bargaining Plan”) is for certain employees under collective bargaining agreements. Benefits under the Bargaining Plan 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 were as follows:

	Second Quarter		First Half	
(in thousands)	2017	2016	2017	2016
Service cost	$150	$29	$300	$57
Interest cost	2,979	3,031	5,958	6,062
Expected return on plan assets	(3,399)	(3,457)	(6,798)	(6,915)
Recognized net actuarial loss	807	740	1,614	1,481
Amortization of prior service cost	7	7	14	14
Net periodic pension cost	$544	$350	$1,088	$699

The Company did not make any contributions to the Company-sponsored pension plans during the first half of 2017. Anticipated contributions to the two Company-sponsored pension plans will be in the range of $10 to $12 million for the remainder of 2017.

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 covered 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:

(in thousands)	Second Quarter 2017	2016	First Half 2017	2016
Service cost	$572	$350	$1,144	$700
Interest cost	911	777	1,822	1,555
Recognized net actuarial loss	648	588	1,296	1,175
Amortization of prior service cost	(746)	(840)	(1,492)	(1,680)
Net periodic postretirement benefit cost	$1,385	$875	$2,770	$1,750

Multi-Employer Benefits

Certain employees of the Company whose employment is covered under collective bargaining agreements participate in a multi-employer pension plan, the Employers-Teamsters Local Union Nos. 175 and 505 Pension Fund (the “Teamsters Plan”). The Company makes monthly contributions to the Teamsters Plan on behalf of such employees. Certain collective bargaining agreements covering the Teamsters Plan expired on April 29, 2017. These agreements were renewed and will now expire in April 2020. The remainder of these agreements will expire July 26, 2018.

The risks of participating in the Teamsters Plan are different from single-employer plans as contributed assets are pooled and may be used to provide benefits to employees of other participating employers. If a participating employer stops contributing to the Teamsters Plan, the unfunded obligations of the Teamsters Plan may be borne by the remaining participating employers. If the Company chooses to stop participating in the Teamsters Plan, the Company could be required to pay the Teamsters Plan a withdrawal liability based on the underfunded status of the Teamsters Plan. The Company does not anticipate withdrawing from the Teamsters Plan.

In 2015, the Company increased its contribution rates to the Teamsters Plan, with additional increases occurring annually, as part of a rehabilitation plan, which was incorporated into the renewal of collective bargaining agreements with the unions effective April 28,

2014 and adopted by the Company as a rehabilitation plan effective January 1, 2015. This is a result of the Teamsters Plan being certified by its actuary as being in "critical" status for the plan year beginning January 1, 2013.

18.Related Party Transactions

The Coca Cola Company

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 of its soft drink products, either concentrate or syrup, are manufactured.

As of July 2, 2017, The Coca Cola Company owned approximately 35% of the Company's total outstanding Common Stock, representing approximately 5% of the total voting power of the Company's Common Stock and Class B Common Stock voting together. As long as The Coca Cola Company holds the number of shares of Common Stock it currently owns, it has the right to have a designee proposed by the Company for 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 the shares of the Company's Class B Common Stock which they control, representing approximately 86% of the total voting power of the Company's combined Common Stock and Class B Common Stock, in favor of such designee. The Coca Cola Company does not own any shares of the Company's Class B Common Stock.

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

	Second Quarter		First Half	
(in thousands)	2017	2016	2017	2016
Payments made by the Company to The Coca-Cola Company for:				
Concentrate, syrup, sweetener and other purchases	$262,490	$185,038	$489,216	$308,224
Customer marketing programs	16,446	20,283	74,240	49,425
Cold drink equipment parts	6,466	5,830	12,087	10,391
Payments made by The Coca-Cola Company to the Company for:				
Marketing funding support payments	$23,325	$18,724	$40,161	$34,350
Fountain delivery and equipment repair fees	9,002	6,813	16,852	12,456
Cold drink equipment	8,400	-	8,400	-
Facilitating the distribution of certain brands and packages to other Coca-Cola bottlers	3,015	1,835	5,108	3,323

Presence marketing funding support on the Company's behalf	481	1,336	1,137	1,817

Coca Cola Refreshments USA, Inc. ("CCR"), a wholly-owned subsidiary of The Coca Cola Company

The Company has a production arrangement with CCR to buy and sell finished products at cost. In addition, the Company transports product for CCR to the Company's and other Coca-Cola bottlers' locations. The following table summarizes purchases and sales under these arrangements between the Company and CCR:

	Second Quarter		First Half	
(in thousands)	2017	2016	2017	2016
Purchases from CCR	$49,937	$79,033	$90,294	$139,476
Sales to CCR	33,894	19,402	61,057	32,489
Sales to CCR for transporting CCR's product	809	6,490	1,648	11,536

As discussed above in Note 2 to the consolidated condensed financial statements, the Company and CCR have completed a number of Expansion Transactions to acquire Expansion Territories and related distribution assets previously served by CCR and Expansion Facilities and related manufacturing assets previously owned by CCR. The following table summarizes the definitive agreements and closing dates for each of the Expansion Transactions completed by the Company as of July 2, 2017:

Expansion Territories	Definitive Agreement Date	Acquisition / Exchange 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
Lexington, Kentucky for Jackson, Tennessee Exchange	October 17, 2014	May 1, 2015
Norfolk, Fredericksburg and Staunton, Virginia and Elizabeth City, North Carolina	September 23, 2015	October 30, 2015
Easton and Salisbury, Maryland and Richmond and Yorktown, Virginia	September 23, 2015	January 29, 2016
Alexandria, Virginia and Capitol Heights and La Plata, Maryland	September 23, 2015	April 1, 2016
Baltimore, Hagerstown and Cumberland, Maryland	September 23, 2015	April 29, 2016
Cincinnati, Dayton, Lima and Portsmouth, Ohio and Louisa, Kentucky	September 1, 2016 [1]	October 28, 2016
Anderson, Fort Wayne, Lafayette, South Bend and Terre Haute, Indiana	September 1, 2016	January 27, 2017
Indianapolis and Bloomington, Indiana and Columbus and Mansfield, Ohio	September 1, 2016	March 31, 2017
Akron, Elyria, Toledo, Willoughby and Youngstown, Ohio	April 13, 2017	April 28, 2017

(1) As amended by Amendment No. 1, dated January 27, 2017.

Expansion Facilities	Definitive Agreement Date	Acquisition Date
Annapolis, Maryland Make-Ready Center	October 30, 2015	October 30, 2015
Sandston, Virginia	October 30, 2015	January 29, 2016
Silver Spring and Baltimore, Maryland	October 30, 2015	April 29, 2016
Cincinnati, Ohio	September 1, 2016	October 28, 2016
Indianapolis and Portland, Indiana	September 1, 2016	March 31, 2017
Twinsburg, Ohio	April 13, 2017	April 28, 2017

As part of the Expansion Transactions for the Expansion Territories, the Company entered into the Final CBA, as described above in Note 5 to the consolidated condensed financial statements. Under the Final CBA, the Company makes 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 is based on gross profit derived from 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. The liability recorded by the Company to reflect the estimated fair value of contingent consideration related to future sub-bottling payments was $319.1 million on July 2, 2017 and $253.4 million on January 1, 2017. Payments to CCR under the Final CBA, including payments under the Company's initial comprehensive beverage agreements that were converted into the Final CBA as of March 31, 2017, were $6.6 million during the first half of 2017 and $7.9 million during the first half of 2016.

Glacéau Distribution Termination Agreement

On January 1, 2017, the Company obtained the rights to market, promote, distribute and sell glacéau vitaminwater, glacéau smartwater and glacéau vitaminwater zero drops in certain geographic territories including the District of Columbia and portions of Delaware, Maryland and Virginia, pursuant to an agreement entered into by the Company, The Coca Cola Company and CCR in June 2016. Pursuant to the agreement, the Company made a payment of $15.6 million during the first quarter of 2017 to The Coca Cola Company, which represented a portion of the total payment made by The Coca Cola Company to terminate a distribution arrangement with a prior distributor in this territory.

Coca Cola Bottlers' Sales and Services Company, LLC ("CCBSS")

Along with all other Coca Cola bottlers in the United States, including CCR, the Company is a member of CCBSS, a company formed in 2003 for the purpose 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, and the Company receives a rebate from CCBSS for the purchase of these raw materials. The Company had rebates due from CCBSS of $13.3 million on July 2, 2017 and $7.4 million on January 1, 2017.

In addition, the Company pays an administrative fee to CCBSS for its services. The Company incurred administrative fees to CCBSS of $1.1 million in the first half of 2017 and $0.5 million in the first half of 2016.

National Product Supply Group Governance Agreement ("NPSG Governance Agreement")

The NPSG Governance Agreement was executed in October 2015 by The Coca Cola Company and three other Coca Cola bottlers, including CCR, who are Regional Producing Bottlers ("RPBs") in The Coca Cola Company's national product supply system. Pursuant to the NPSG Governance Agreement, The Coca Cola Company and the RPBs have formed a national product supply group (the "NPSG") and agreed to certain binding governance mechanisms, including a governing board (the "NPSG Board") comprised of a representative of (i) the Company, (ii) The Coca Cola Company and (iii) each other RPB. As The Coca Cola Company continues its multi-year refranchising effort of its North American bottling territories, additional RPBs may be added to the NPSG Board. As of July 2, 2017, the NPSG Board consisted of The Coca Cola Company, the Company and six other RPBs, including CCR.

The stated objectives of the NPSG include, among others, (i) Coca Cola system strategic infrastructure investment and divestment planning; (ii) network optimization of all plant to distribution center sourcing; and (iii) new product/packaging infrastructure planning. The NPSG Board makes and/or oversees and directs certain key decisions regarding the NPSG, including decisions regarding the management and staffing of the NPSG and the funding for its ongoing operations.

The Company is obligated to pay a certain portion of the costs of operating the NPSG. The Company incurred NPSG operating costs of $0.5 million in the first half of 2017 and $0.2 million in the first half of 2016. Pursuant to the decisions of the NPSG Board made from time to time and subject to the terms and conditions of the NPSG Governance Agreement, the Company and each other Regional Producing Bottler will make investments in their respective manufacturing assets and will implement Coca Cola system strategic investment opportunities consistent with the NPSG Governance Agreement.

CONA Services LLC ("CONA")

The Company is a member of CONA, an entity formed with The Coca Cola Company and certain Coca Cola bottlers to provide business process and information technology services to its members. Under the CONA limited liability agreement executed January 27, 2016 (as amended or restated from time to time, the "CONA LLC Agreement"), the Company and other members of CONA are required to make capital contributions to CONA if and when approved by CONA's board of directors, which is comprised of representatives of the members. The Company currently has the right to designate one of the members of CONA's board of directors and has a percentage interest in CONA of approximately 19%. The Company made capital contributions to CONA of $1.0 million during the first half of 2017 and $6.6 million during the first half of 2016.

The Company is subject to a Master Services Agreement (the "Master Services Agreement") with CONA, pursuant to which CONA agreed to make available, and the Company became authorized to use, the Coke One North America system (the "CONA System"), a uniform information technology system developed to promote operational efficiency and uniformity among North American Coca Cola bottlers. As part of making the CONA System available to the Company, CONA provides certain business process and information technology services to the Company, including the planning, development, management and operation of the CONA System in connection with the Company's direct store delivery of products (collectively, the "CONA Services").

Pursuant to the Master Services Agreement, CONA agreed to make available, and authorized the Company to use, the CONA System in connection with the distribution, sale, marketing and promotion of nonalcoholic beverages the Company is authorized to distribute under the Final CBA or any other agreement with The Coca Cola Company (the "Beverages") in the territories the Company serves (the "Territories"), subject to the provisions of the CONA LLC Agreement and any licenses or other agreements relating to products or services provided by third-parties and used in connection with the CONA System.

In exchange for the Company's right to use the CONA System and right to receive the CONA Services under the Master Services Agreement, the Company is charged quarterly service fees by CONA based on the number of physical cases of Beverages distributed by the Company during the applicable period in the Territories where the CONA Services have been implemented (the "Service Fees"). Upon the earlier of (i) all members of CONA beginning to use the CONA System in all territories in which they distribute products of The Coca Cola Company (excluding certain territories of CCR that are expected to be sold to bottlers that are neither

members of CONA nor users of the CONA System), or (ii) December 31, 2018, the Service Fees will be changed to be an amount per physical case of Beverages distributed in any portion of the Territories equal to the aggregate costs incurred by CONA to maintain and operate the CONA System and provide the CONA Services divided by the total number of cases distributed by all of the members of CONA, subject to certain exceptions. The Company is obligated to pay the Service Fees under the Master Services Agreement even if it is not using the CONA System for all or any portion of its operations in the Territories. The Company incurred CONA Services Fees of $5.6 million during the first half of 2017 and $3.2 million during the first half of 2016.

Snyder Production Center (“SPC”)

The Company leases the SPC and an adjacent sales facility, which are located in Charlotte, North Carolina, from Harrison Limited Partnership One (“HLP”). 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, Sue Anne H. Wells, a director of the Company, and Deborah H. Everhart, a former director of the Company, are trustees and beneficiaries. Morgan H. Everett, Vice President and a director of the Company, is a permissible, discretionary beneficiary of the trusts that directly or indirectly own HLP. The SPC lease expires on December 31, 2020. The principal balance outstanding under this capital lease was $13.2 million on July 2, 2017 and $14.7 million on January 1, 2017. The annual base rent the Company is obligated to pay under the lease is subject to an adjustment for an inflation factor. Rental payments related to this lease were $2.0 million in both the first half of 2017 and the first half of 2016.

Company Headquarters

The Company leases its headquarters office facility and an adjacent office facility from Beacon Investment Corporation (“Beacon”). The lease expires on December 31, 2021. J. Frank Harrison, III is Beacon’s majority shareholder and Morgan H. Everett is a minority shareholder. The principal balance outstanding under this capital lease was $14.2 million on July 2, 2017 and $15.5 million on January 1, 2017. The annual base rent the Company is obligated to pay under the lease is subject to adjustment for increases in the Consumer Price Index. Rental payments related to this lease were $2.2 million in both the first half of 2017 and the first half of 2016.

19.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:

	Second Quarter		First Half	
(in thousands, except per share data)	2017	2016	2017	2016
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	$6,348	$15,652	$1,297	$5,611
Less dividends:				
Common Stock	1,786	1,786	3,571	3,571
Class B Common Stock	548	543	1,091	1,081
Total undistributed earnings (loss)	$4,014	$13,323	$(3,365)	$959
Common Stock undistributed earnings (loss) – basic	$3,071	$10,216		