

COCA COLA BOTTLING CO CONSOLIDATED /DE/  
Form 10-K  
March 14, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended January 1, 2017

Commission file number 0-9286

(Exact name of registrant as specified in its charter)

Delaware	56-0950585
(State or other jurisdiction of	(I.R.S. Employer
incorporation or organization)	Identification Number)

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)

Securities Registered Pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, \$1.00 Par Value	The NASDAQ Global Select Market

Securities Registered Pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes      No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes      No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes      No

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter.

Market Value as of July 1, 2016

Edgar Filing: COCA COLA BOTTLING CO CONSOLIDATED /DE/ - Form 10-K

Common Stock, \$1.00 Par Value	\$674,640,784
Class B Common Stock, \$1.00 Par Value	*

\*No market exists for the Class B Common Stock, which is neither registered under Section 12 of the Act nor subject to Section 15(d) of the Act. The Class B Common Stock is convertible into Common Stock on a share-for-share basis at the option of the holder.

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

Class	Outstanding as of February 26, 2017
Common Stock, \$1.00 Par Value	7,141,447
Class B Common Stock, \$1.00 Par Value	2,171,702

Documents Incorporated by Reference

Portions of the registrant's Proxy Statement to be filed pursuant to Section 14 of the Exchange Act with Part III, Items 10-14 respect to the registrant's 2017 Annual Meeting of Stockholders.

Table of Contents

	Page
<u>Part I</u>	
Item 1. <u>Business</u>	3
Item 1A. <u>Risk Factors</u>	17
Item 1B. <u>Unresolved Staff Comments</u>	23
Item 2. <u>Properties</u>	24
Item 3. <u>Legal Proceedings</u>	25
Item 4. <u>Mine Safety Disclosures</u>	25
<u>Executive Officers of the Company</u>	26
<u>Part II</u>	
<u>Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity</u>	
Item 5. <u>Securities</u>	28
Item 6. <u>Selected Financial Data</u>	30
Item 7. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	31
Item 7A. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	61
Item 8. <u>Financial Statements and Supplementary Data</u>	63
Item 9. <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	119
Item 9A. <u>Controls and Procedures</u>	119
Item 9B. <u>Other Information</u>	119
<u>Part III</u>	
Item 10. <u>Directors, Executive Officers and Corporate Governance</u>	120
Item 11. <u>Executive Compensation</u>	120
Item 12. <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	120
Item 13. <u>Certain Relationships and Related Transactions, and Director Independence</u>	120
Item 14. <u>Principal Accountant Fees and Services</u>	120
<u>Part IV</u>	
Item 15. <u>Exhibits and Financial Statement Schedules</u>	121
Item 16. <u>Form 10-K Summary</u>	127
<u>Signatures</u>	129

## PART I

### Item 1. Business

#### Introduction

Coca Cola Bottling Co. Consolidated, a Delaware corporation (together with its majority-owned subsidiaries, the “Company,” “we,” “our” or “us”), produces, markets and distributes nonalcoholic beverages. The Company was incorporated in 1980 and, together with its predecessors, has been in the nonalcoholic beverage manufacturing and distribution business since 1902. We are the largest independent Coca Cola bottler in the United States. More than 85% of our total bottle/can volume to retail customers consist of products of The Coca Cola Company which include some of the most recognized and popular beverage brands in the world. We also distribute products for several other beverage brands including Dr Pepper, Sundrop and Monster Energy. Our purpose is to honor God, serve others, pursue excellence and grow profitably. Our stock is traded on the NASDAQ exchange under the symbol “COKE.”

#### Ownership

As of January 1, 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 combined Common Stock and Class B Common Stock. As long as The Coca Cola Company holds the number of shares of Common Stock that it currently owns, it has the right to have 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 in favor of such designee. The Coca Cola Company does not own any shares of Class B Common Stock of the Company. J. Frank Harrison III, the Chairman of the Board and the Chief Executive Officer of the Company, owns shares of Common Stock and Class B Common Stock representing approximately 86% of the total voting power of the Company’s combined Common Stock and Class B Common Stock.

#### Beverage Products

We offer a range of flavors designed to meet the demands of our consumers. Our product offerings include both sparkling and still beverages. Sparkling beverages are carbonated beverages and the Company’s principal sparkling beverage is Coca Cola. Still beverages include energy products and noncarbonated beverages such as bottled water, tea, ready to drink coffee, enhanced water, juices and sports drinks.

There are two main categories of sales, which include bottle/can sales and other sales. Bottle/can sales include products packaged in plastic bottles and aluminum cans. Other sales include sales to other Coca Cola bottlers and “post-mix” products. Post-mix products are dispensed through equipment that mixes the fountain syrup with carbonated or still water, enabling fountain retailers to sell finished products to consumers in cups or glasses.

Bottle/can sales represented approximately 84%, 82% and 80% of total net sales for fiscal 2016 (“2016”), fiscal 2015 (“2015”) and fiscal 2014 (“2014”), respectively. The sparkling beverage category represented approximately 66%, 70% and 76% of total bottle/can sales during 2016, 2015 and 2014, respectively.

The following table sets forth some of our most important products, including products The Coca Cola Company and other beverage companies have licensed to us.

The Coca-Cola Company Products				Beverage Products Licensed by Other Beverage Companies
Sparkling Beverages		Still Beverages		
Barqs Root Beer	Fanta Flavors	Core Power	Honest Tea	Diet Dr Pepper
Cherry Coke	Fresca		Minute Maid Adult Refreshments	Dr Pepper
Cherry Coke Zero	Mello Yello	Dasani		
Coca-Cola	Minute Maid Sparkling	Dasani Flavors	Minute Maid Juices To Go	Full Throttle
Coca-Cola Life	Pibb Xtra	FUZE	POWERade	Monster Energy products
Coca-Cola Vanilla	Seagrams Ginger Ale	glacéau fruitwater	POWERade Zero	NOS®
Coca-Cola Zero	Sprite	glacéau smartwater	Tum-E Yummies	Peace Tea
Dasani Sparkling	Sprite Zero	glacéau vitaminwater	Yup Milk	Sundrop
Diet Coke	TAB	Gold Peak Tea	ZICO	
Diet Coke Splenda®				

## Territories

We are the largest independent Coca Cola bottler in the United States, distributing products in 16 states. Historically, our operational footprint included markets located in North Carolina, South Carolina, south Alabama, south Georgia, central Tennessee, western Virginia and West Virginia (the “Legacy Territories”).

As part of The Coca Cola Company’s plans to rebrand 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 expansion includes acquisition of the rights to serve additional distribution territories previously served by CCR (the “Expansion Territories”) and of related distribution assets (the “Distribution Territory Expansion Transactions”), as well as the acquisition of regional manufacturing facilities (“Regional Manufacturing Facilities”) and related manufacturing assets previously owned by CCR (the “Manufacturing Facility Expansion Transactions” and, together with the Distribution Territory Expansion Transactions, the “Expansion Transactions”).

The Company’s rights to distribute and market beverage products of The Coca Cola Company in the Expansion Territories are governed by a Comprehensive Beverage Agreement, as defined below, entered into at each closing for Expansion Territories and are different from the rights we hold under agreements with The Coca Cola Company to serve the markets located in the Legacy Territories. The Company is authorized to manufacture beverages bearing trademarks of The Coca Cola Company using cold-fill technology at the Regional Manufacturing Facilities pursuant to a Regional Manufacturing Agreement, as defined below, entered into at each closing of a Manufacturing Facility Expansion Transaction. The Company has acquired the following Expansion Territories and Regional Manufacturing Facilities as of January 1, 2017:

	Acquisition /
Expansion Territories	Exchange Date
Johnson City and Morristown, Tennessee <sup>(1)</sup>	May 23, 2014
Knoxville, Tennessee <sup>(1)</sup>	October 24, 2014
Cleveland and Cookeville, Tennessee <sup>(2)</sup>	January 30, 2015
Louisville, Kentucky and Evansville, Indiana <sup>(2)</sup>	February 27, 2015
Paducah and Pikeville, Kentucky <sup>(2)</sup>	May 1, 2015
Lexington, Kentucky for Jackson, Tennessee Exchange <sup>(2)</sup>	May 1, 2015
Norfolk, Fredericksburg and Staunton, Virginia and Elizabeth City, North Carolina <sup>(2)</sup>	October 30, 2015
Annapolis, Maryland Make-Ready Center <sup>(2)</sup>	October 30, 2015
Easton and Salisbury, Maryland and Richmond and Yorktown, Virginia <sup>(3)</sup>	January 29, 2016
Alexandria, Virginia and Capitol Heights and La Plata, Maryland <sup>(3)</sup>	April 1, 2016
Baltimore, Hagerstown and Cumberland, Maryland <sup>(3)</sup>	April 29, 2016
Cincinnati, Dayton, Lima and Portsmouth, Ohio and Louisa, Kentucky <sup>(3)</sup>	October 28, 2016

Regional Manufacturing Facilities	Acquisition Date
Sandston, Virginia <sup>(3)</sup>	January 29, 2016
Silver Spring and Baltimore, Maryland <sup>(3)</sup>	April 29, 2016
Cincinnati, Ohio <sup>(3)</sup>	October 28, 2016

<sup>(1)</sup> Collectively, the 2014 Expansion Territories.

<sup>(2)</sup> Collectively, the 2015 Expansion Territories.

<sup>(3)</sup> Collectively, the 2016 Expansion Transactions.



## 2016 Letters of Intent for Additional Expansion Transactions

In February 2016, the Company entered into a non-binding letter of intent (the “February 2016 LOI”) with The Coca Cola Company to provide exclusive distribution rights for the Company in the following major markets: Akron, Elyria, Toledo, Willoughby, and Youngstown County in Ohio. Pursuant to the February 2016 LOI, CCR would:

- (i) grant the Company exclusive rights for the distribution, promotion, marketing and sale of The Coca Cola Company-owned and -licensed products in additional territories served by CCR in northern Ohio;
- (ii) sell the Company certain assets that included rights to distribute those cross-licensed brands distributed in the territories by CCR as well as the assets used by CCR in the distribution of the cross-licensed brands and The Coca Cola Company brands; and
- (iii) sell to the Company an additional Regional Manufacturing Facility currently owned by CCR located in Twinsburg, Ohio and related manufacturing assets.

In June 2016, the Company entered into a non-binding letter of intent (the “CCR June 2016 LOI”) with The Coca Cola Company to provide exclusive distribution rights for the Company in the following major markets: Little Rock, West Memphis and southern Arkansas; Memphis, Tennessee; and Louisa, Kentucky. Pursuant to the CCR June 2016 LOI, CCR would:

- (i) grant the Company exclusive rights for the distribution, promotion, marketing and sale of The Coca Cola Company-owned and -licensed products in additional territories in northeastern Kentucky and southwestern West Virginia served by CCR’s distribution center in Louisa, Kentucky;
- (ii) sell the Company certain assets that included rights to distribute those cross-licensed brands distributed in the territories by CCR as well as the assets used by CCR in the distribution of the cross-licensed brands and The Coca Cola Company brands; and
- (iii) transfer exclusive rights and associated distribution assets and working capital for territory in parts of Arkansas, southwestern Tennessee and northwestern Mississippi and two additional Regional Manufacturing Facilities located in Memphis, Tennessee and West Memphis, Arkansas currently owned by CCR in exchange for territory in southern Alabama, southern Mississippi and southern Georgia and a Regional Manufacturing Facility in Mobile, Alabama currently owned by the Company. The exchange includes rights to the distribution, promotion, marketing and sale of The Coca Cola Company-owned and -licensed products and certain cross-licensed brands in each territory and related manufacturing assets.

In June 2016, the Company entered into a non-binding letter of intent with Coca Cola Bottling Company United, Inc. (“United”), an independent bottler that is unrelated to the Company (the “United June 2016 LOI”). Pursuant to this letter of intent, United would transfer exclusive rights and associated distribution assets and working capital in certain territory in and around Spartanburg and Bluffton, South Carolina, currently served by United’s distribution centers located in Spartanburg, South Carolina and Savannah, Georgia, in exchange for certain territory in south-central Tennessee, northwest Alabama and northwest Florida currently served by the Company’s distribution centers located in Florence, Alabama and Panama City, Florida. The exchange includes rights to the distribution, promotion,

marketing and sale of The Coca Cola Company–owned and –licensed products and certain cross-licensed brands in each territory.

The Company is continuing to work towards a definitive agreement or agreements with The Coca Cola Company and CCR for the proposed Expansion Transactions described in the February 2016 LOI and the CCR June 2016 LOI. The Company is also continuing to work towards a definitive agreement or agreements with United for the proposed transactions described in the United June 2016 LOI.

#### National Product Supply Governance Agreement (the “NPSG Governance Agreement”)

The NPSG Governance Agreement was executed in October 2015 by The Coca Cola Company and Regional Producing Bottlers in The Coca Cola Company’s national product supply system. Pursuant to the NPSG Governance Agreement, The Coca Cola Company and the Regional Producing Bottlers (“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 over its North American bottling territories, additional RPBs will be added to the NPSG Board. As of January 2017, the NPSG Board consisted of the Company, The Coca Cola Company and five 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 the ongoing operations of the NPSG. The Company is obligated to pay a

certain portion of the costs of operating the NPSG. 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 RPB will make investments in their respective manufacturing assets and will implement Coca Cola system strategic investment opportunities that are 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. 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”).

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%.

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 its comprehensive beverage agreements 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.

#### Beverage Agreements for Legacy Territories

We hold numerous contracts with The Coca Cola Company which entitle us to produce, market and distribute The Coca Cola Company's nonalcoholic beverages in bottles, cans and five gallon pressurized pre-mix containers in the Legacy Territories. We have similar arrangements with Dr Pepper Snapple Group, Inc., and other beverage companies for the Legacy Territories.

We purchase concentrates from The Coca Cola Company to produce, market and distribute its principal sparkling beverages in the Legacy Territories under two basic forms of beverage agreements with The Coca Cola Company:

- (i) beverage agreements for sparkling beverages bearing the trademark "Coca Cola" or "Coke" (the "Coca Cola Trademark Beverages" and "Cola Beverage Agreements"), and
- (ii) beverage agreements for other sparkling beverages of The Coca Cola Company (the "Allied Beverages" and "Allied Beverage Agreements" or collectively referred to as the "Cola and Allied Beverage Agreements").

The Company is subject to Cola Beverage Agreements and Allied Beverage Agreements for various specified Legacy Territories.

We also purchase finished goods and distribute certain still beverages, such as sports drinks and juice drinks, from The Coca Cola Company or its designees or joint ventures, and produce, market and distribute Dasani water products, pursuant to the terms of marketing and distribution agreements applicable to the Legacy Territories (the "Still Beverage Agreements").

## Cola Beverage Agreements with The Coca-Cola Company

The Cola Beverage Agreements for the Legacy Territories provide that we will purchase our entire requirements of concentrates or syrups for Coca-Cola Trademark Beverages from The Coca-Cola Company at prices, terms of payment, and other terms and conditions of supply determined from time-to-time by The Coca-Cola Company at its sole discretion and prohibit us from producing, distributing, or handling cola products other than those of The Coca-Cola Company. We have the exclusive right to manufacture and distribute Coca-Cola Trademark Beverages for sale in authorized containers in the Legacy Territories. The Coca-Cola Company may determine, at its sole discretion, what types of containers are authorized for use with its products. The Company may not sell Coca-Cola Trademark Beverages outside the Legacy Territories except by agreement with The Coca-Cola Company.

Pursuant to the Cola Beverage Agreements, we are obligated, among other things, to:

- maintain such plant and equipment, staff and distribution and vending facilities capable of manufacturing, packaging and distributing Coca-Cola Trademark Beverages in accordance with the Cola Beverage Agreements and in sufficient quantities to fully satisfy the demand for these beverages in the Legacy Territories;
- undertake quality control measures and maintain sanitation standards prescribed by The Coca-Cola Company;
- develop, stimulate and fully satisfy the demand for Coca-Cola Trademark Beverages in the Legacy Territories, and use all approved means and spend such funds on advertising and other forms of marketing as may be reasonably required to satisfy that objective; and
- maintain such sound financial capacity as may be reasonably necessary to ensure the performance of our obligations to The Coca-Cola Company.

We are required to meet annually with The Coca-Cola Company to present our marketing, management and advertising plans for the Coca-Cola Trademark Beverages for the upcoming year, including financial plans to evidence we have the consolidated financial capacity to perform our duties and obligations to The Coca-Cola Company. The Coca-Cola Company may not unreasonably withhold approval of such plans. If we carry out these plans in all material respects, we will be considered to have satisfied our obligations to develop, stimulate, and fully satisfy the demand for the Coca-Cola Trademark Beverages and to maintain the requisite financial capacity for the period of time covered by the plan.

Failure to carry out such plans in all material respects would constitute an event of default that, if not cured within 120 days of written notice of the failure, would give The Coca-Cola Company the right to terminate the Cola Beverage Agreements. If at any time we fail to carry out a plan in all material respects in any geographic segment of the Legacy Territories, as defined by The Coca-Cola Company, and such failure is not cured within six months of written notice of the failure, The Coca-Cola Company may reduce the territory covered by that Cola Beverage Agreement by eliminating the portion of the territory in which such failure has occurred.

The Coca Cola Company has no obligation under the Cola Beverage Agreements to participate with us in expenditures for advertising and marketing. As it has in the past, The Coca Cola Company may contribute to such expenditures and undertake independent advertising and marketing activities, as well as advertising and sales promotion programs which require our mutual cooperation and financial support. The future levels of marketing funding support and promotional funds provided by The Coca Cola Company may vary materially from the levels provided in prior years.

If we acquire control, directly or indirectly, of any bottler of Coca Cola Trademark Beverages, or any party controlling a bottler of Coca Cola Trademark Beverages, we must cause the acquired bottler to amend its agreement for the Coca Cola Trademark Beverages to conform to the terms of the Cola Beverage Agreements.

The Cola Beverage Agreements are perpetual, subject to termination by The Coca Cola Company upon the occurrence of an event of default by the Company. If any Cola Beverage Agreement is terminated as a result of an event of default, The Coca Cola Company has the right to terminate all other Cola Beverage Agreements to which we are subject. Events of default with respect to each Cola Beverage Agreement include:

- production, sale or ownership in any entity which produces or sells any cola product not authorized by The Coca Cola Company or any cola product that may be confused with or is an imitation of the trade dress, trademark, tradename or authorized container of a cola product of The Coca Cola Company;
- insolvency, bankruptcy, dissolution, receivership, or the like;
- any disposition by the Company of any voting securities of any bottling company subsidiary without the consent of The Coca Cola Company; and
- any material breach of any of our obligations under such Cola Beverage Agreement remaining unresolved for 120 days after written notice by The Coca Cola Company.

We are prohibited from assigning, transferring or pledging our Cola Beverage Agreements or any interest therein, whether voluntarily or by operation of law, without the prior consent of The Coca-Cola Company.

#### Allied Beverage Agreements with The Coca-Cola Company

The Allied Beverage Agreements contain provisions similar to those of the Cola Beverage Agreements with respect to the sale of beverages outside the Legacy Territories, authorized containers, planning, quality control, transfer restrictions and related matters, but have certain significant differences from the Cola Beverage Agreements. Pursuant to the Allied Beverage Agreements, we have exclusive rights to distribute the Allied Beverages in authorized containers in specified Legacy Territories. Similar to the Cola Beverage Agreements, we have advertising, marketing, and promotional obligations. However, under the Allied Beverage Agreements, there is no restriction for most brands as to the marketing of products with similar flavors, as long as there is no manufacturing or handling of other products imitating, infringing upon, or causing confusion with, the products of The Coca-Cola Company.

The Coca-Cola Company has the right to discontinue any or all Allied Beverages, and the Company has a right, but not an obligation, under the Allied Beverage Agreements to elect to market any new beverage introduced by The Coca-Cola Company under the trademarks covered by the respective Allied Beverage Agreements.

Allied Beverage Agreements have a term of 10 years and are renewable at our option for an additional 10 years at the end of each term. We intend to renew substantially all of the Allied Beverage Agreements as they expire. The Allied Beverage Agreements are subject to termination in the event of default by the Company. The Coca-Cola Company may terminate an Allied Beverage Agreement in the event of:

- insolvency, bankruptcy, dissolution, receivership, or the like;
- termination of a Cola Beverage Agreement by either party for any reason; or
- any material breach of any of our obligations under such Allied Beverage Agreement remaining unresolved for 120 days after required prior written notice by The Coca-Cola Company.

#### Supplementary Agreement Relating to Cola and Allied Beverage Agreements

The Company and The Coca-Cola Company are parties to a Letter Agreement (the “Supplementary Agreement”) that supplements or modifies some provisions of the Cola and Allied Beverage Agreements. The Supplementary Agreement provides that The Coca-Cola Company will:

- exercise good faith and fair dealing in its relationship with us under the Cola and Allied Beverage Agreements;

- offer marketing funding support and exercise its rights under the Cola and Allied Beverage Agreements in a manner consistent with its dealings with comparable bottlers;
- offer to us any written amendment to the Cola and Allied Beverage Agreements, except amendments dealing with transfer of ownership, which it enters into with any other bottler in the United States subject to contracts substantially similar to the Cola and Allied Beverage Agreements; and
- subject to certain limited exceptions, sell syrups and concentrates to us at prices no greater than those charged to other bottlers subject to contracts substantially similar to the Cola and Allied Beverage Agreements.

The Supplementary Agreement also permits transfers of our capital stock otherwise limited by the Cola and Allied Beverage Agreements.

#### Impact of Territory Conversion Agreement on Cola and Allied Beverage Agreements

Nearly all of our Cola and Allied Beverage Agreements are subject to being amended, restated and converted into a Final CBA (as described below) pursuant to the Territory Conversion Agreement described below, as disclosed in the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission (the "SEC") on September 28, 2015.

#### Pricing of Coca Cola Trademark Beverages and Allied Beverages

In accordance with the Cola and Allied Beverage Agreements, except as provided in the Supplementary Agreement and in incidence-based pricing agreements, The Coca Cola Company establishes the prices charged to the Company for concentrates of Coca Cola Trademark Beverages and Allied Beverages. The Coca Cola Company has no rights under the beverage agreements to establish the resale prices at which we sell its products.



Purchases of concentrate for all sparkling beverages from The Coca-Cola Company are governed by incidence-based pricing arrangements, which are generally entered into for one- or two-year terms. Under the incidence-based pricing model, the concentrate price charged to us by The Coca-Cola Company is impacted by a number of factors, including the incidence rate in effect, our pricing and sales of finished products, the channels in which the finished products are sold and package mix.

During the one-year term of our incidence-based pricing agreement that ended on December 31, 2016, the pricing of such concentrate was governed by the incidence-based pricing model rather than the Cola and Allied Beverage Agreements for the Legacy Territories. Beginning January 1, 2017, incidence-based pricing is governed by the Expanding Participating Bottler Revenue Incidence Agreement entered into with The Coca-Cola Company on September 23, 2015, as disclosed in the Company's Current Report on Form 8-K filed with the SEC on September 28, 2015.

#### Still Beverage Agreements with The Coca-Cola Company

The Still Beverage Agreements for the Legacy Territories contain provisions that are similar to the Cola and Allied Beverage Agreements with respect to authorized containers, planning, quality control, transfer restrictions and related matters, but have certain material differences. Unlike the Cola and Allied Beverage Agreements, which grant us exclusivity in the distribution of the covered beverages in the Legacy Territories, the Still Beverage Agreements grant exclusivity but permit The Coca-Cola Company to test-market the still beverage products in the Legacy Territories, subject to our right of first refusal, and to sell the still beverages to commissaries for delivery to retail outlets in the Legacy Territories where still beverages are consumed on-premises, such as restaurants. The Coca-Cola Company must pay us certain fees for lost volume, delivery, and taxes in the event of such commissary sales.

Approved alternative route to market projects undertaken by the Company, The Coca-Cola Company, and other bottlers of Coca-Cola products would, in some instances, permit delivery of certain products of The Coca-Cola Company into the territories of almost all bottlers, in exchange for compensation in most circumstances, despite the terms of the beverage agreements making such territories exclusive. Also, under the Still Beverage Agreements for the Legacy Territories, we may not sell other beverages in the same product category.

The Coca-Cola Company, at its sole discretion, establishes the prices we must pay for the still beverages purchased as finished goods or, in the case of Dasani, the concentrate or finished goods, but has agreed, under certain circumstances for some products, to give the benefit of more favorable pricing if such pricing is offered to other bottlers of Coca-Cola products.

Each Still Beverage Agreement for the Legacy Territories has a term of 10 or 15 years and is renewable at our option for an additional 10 years at the end of each term. We intend to renew substantially all of the Still Beverage

Agreements as they expire.

Nearly all of our Still Beverage Agreements are subject to amendment, restatement and conversion into a Final CBA pursuant to the Territory Conversion Agreement, as discussed below.

#### Other Beverage Agreements with The Coca Cola Company

We have entered into a distribution agreement with Energy Brands, Inc. (“Energy Brands”), a wholly-owned subsidiary of The Coca Cola Company. Energy Brands, also known as glacéau, is a producer and distributor of branded enhanced water products including vitaminwater and smartwater, which are still beverage products. The agreement has a term of 10 years and automatically renews for succeeding 10-year terms, subject to a 12-month non-renewal notification by the Company. The agreement covers most of the Legacy Territories, requires us to distribute Energy Brands enhanced water products exclusively, and permits Energy Brands to distribute the products in some channels within the Legacy Territories. Nearly all of our agreements with Energy Brands are subject to amendment, restatement and conversion into a Final CBA pursuant to the Territory Conversion Agreement, as discussed below.

In June 2016, we entered into an agreement with The Coca Cola Company and CCR which authorizes us 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, beginning on January 1, 2017. This authorization shall remain valid and effective as long as the Company’s authorization to distribute such products in any other portions of its Legacy Territories remains in full force and effect under applicable bottling agreements. Pursuant to the agreement, the Company made a payment to The Coca Cola Company of \$15.6 million on February 16, 2017, 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.

We also sell Coca Cola and other post-mix products of The Coca Cola Company on a non-exclusive basis. The Coca Cola Company establishes the prices charged to us for its post-mix products. In addition, we produce some products for sale to other Coca Cola bottlers and CCR. These sales have lower margins but allow us to achieve higher utilization of our production equipment and facilities.

#### Beverage Agreements with Other Licensors

We have beverage agreements for the Legacy Territories with Dr Pepper Snapple Group, Inc. for Dr Pepper and Sundrop brands, which are similar to the Cola and Allied Beverage Agreements for the Legacy Territories. These beverage agreements are perpetual in nature but may be terminated by us upon 90 days' notice. The price for syrup or concentrate is set by the beverage companies from time to time. These beverage agreements also contain similar restrictions on the use of trademarks, approved bottles, cans and labels and sale of imitations or substitutes, as well as termination for cause provisions. We also sell post-mix products of Dr Pepper Snapple Group, Inc.

We have a distribution agreement with Monster Energy Company which grants us the rights to distribute energy drink products offered, packaged and/or marketed by Monster Energy Company under the primary brand name "Monster" in the same geographic territory the Company services for the distribution of beverage products of The Coca Cola Company.

The territories covered by beverage agreements with other licensors for the Legacy Territories are not always aligned with the Legacy Territories covered by the Cola and Allied Beverage Agreements but are generally within those territory boundaries. Sales of beverages by the Company under these other agreements in the Legacy Territories represented approximately 12%, 13% and 13% of our bottle/can volume to retail customers for each of 2016, 2015 and 2014, respectively.

#### Beverage Agreements for Expansion Territories

For the Expansion Territories, the Company has rights to market and distribute The Coca Cola Company's nonalcoholic beverages under Comprehensive Beverage Agreements, which do not include the right to produce such beverages. The beverage agreements pertaining to the Expansion Territories are described below under the headings "Beverage Agreements with The Coca Cola Company for the Expansion Territories" and "Beverage Agreements with Other Licensors for the Expansion Territories."

As part of these Expansion Transactions, we have agreed, subject to certain limited exceptions, to refrain until January 1, 2020 from acquiring or developing any line of business inside or outside of our territories governed by a

Comprehensive Beverage Agreement or similar agreement without the consent of The Coca-Cola Company, which consent may not be unreasonably withheld.

#### Beverage Agreements with The Coca-Cola Company for the Expansion Territories

Each principal asset purchase agreement we entered into for Distribution Territory Expansion Transactions provides for us to:

- (a) purchase from CCR (i) certain rights relating to the distribution, promotion, marketing and sale of certain beverage brands not owned or licensed by The Coca-Cola Company (“cross-licensed brands”) but then distributed by CCR in the applicable portion of the Expansion Territories and (ii) certain assets related to the distribution, promotion, marketing and sale of both The Coca-Cola Company brands and cross-licensed brands then distributed by CCR in the applicable portion of the Expansion Territories, and
- (b) assume certain liabilities and obligations of CCR relating to the business acquired.

At each of the closings for the Distribution Territory Expansion Transactions, the Company, CCR and The Coca-Cola Company have entered into a comprehensive beverage agreement (“Initial CBA”) pursuant to which CCR granted us certain exclusive rights to distribute, promote, market and sell the Covered Beverages and Related Products distinguished by the Trademarks, as those terms are defined in the Initial CBAs, in the applicable portion of the Expansion Territories in exchange for us agreeing to make a quarterly sub-bottling payment to CCR on a continuing basis.

As of January 1, 2017, we had recorded a liability of \$253.4 million to reflect the estimated fair value of the contingent consideration related to future sub-bottling payments. Each quarter, the liability to reflect the estimated fair value of the contingent consideration related to future sub-bottling payments is adjusted to fair value. See Note 3 and Note 12 to the consolidated financial statements for additional information.

Other than the brands of The Coca-Cola Company and related products and expressly permitted existing cross-licensed brands sold in an Expansion Territory, each Initial CBA provides that we will not be permitted to produce, manufacture, prepare, package, distribute, sell, deal in or otherwise use or handle any beverages, beverage components or other beverage products in the Expansion Territory unless otherwise consented to by The Coca-Cola Company.

Under the Initial CBAs, we are obligated, among other things, to:

- make capital expenditures in our business in the Expansion Territories;
- buy exclusively from The Coca-Cola Company (directly or through CCR or another affiliate) or an authorized supplier, all beverage and related products we are authorized to distribute;
- expend funds for marketing and promoting the beverage and related products we are authorized to distribute; and
- maintain certain financial capacity in order to be financially able to perform our obligations under the Initial CBAs.

Each Initial CBA has a term of ten years and is automatically renewed for successive additional terms of ten years each unless we give notice to terminate at least one year prior to the expiration of a ten year term. The Initial CBA is subject to customary termination provisions by The Coca-Cola Company, including the Company's insolvency, bankruptcy or similar proceedings and cross-default with other beverage agreements.

Pursuant to a territory conversion agreement entered into with CCR and The Coca-Cola Company in September 2015 (the "Territory Conversion Agreement"), we have agreed, subject to limited exceptions, to amend, restate and convert all of our Cola and Allied Beverage Agreements, Still Beverage Agreements, Initial CBAs and other bottling agreements with The Coca-Cola Company or CCR that authorize us to produce and/or distribute certain covered beverages defined in the Initial CBAs (excluding any bottling agreements with respect to the greater Lexington, Kentucky territory we received pursuant to the Asset Exchange Transaction) to a new and final form comprehensive beverage agreement (the "Final CBA" and, together with the Initial CBAs, referred to as the "CBAs" or the "Comprehensive Beverage Agreements") in the future.

The Final CBA is similar to the Initial CBA in many respects, but will include certain modifications and several new business, operational, governance and sale process provisions, including the need to obtain The Coca-Cola Company's prior approval of a potential purchase of the Company or our aggregate businesses directly and primarily related to the marketing, promotion, distribution and sale of certain beverages of The Coca-Cola Company. The Coca-Cola Company will also have the right to terminate the Final CBA in the event of an uncured default by us.

At the time of the conversion of the bottling agreements for the Legacy Territories to the Final CBA, CCR will pay to us a fee in an amount equivalent to 0.5 times the EBITDA we generate from sales in the Legacy Territories of Beverages (as defined in the Final CBA) either (i) owned by The Coca-Cola Company or licensed to The Coca-Cola Company and sublicensed to us, or (ii) owned by or licensed to Monster Energy Company on which we

pay, and The Coca Cola Company receives, a facilitation fee.

#### Beverage Agreements with Other Licensors for the Expansion Territories

We have a regional master license agreement for the Expansion Territories with Dr Pepper Snapple Group, Inc., for Dr Pepper brands. This agreement is generally similar to our beverage agreements with Dr Pepper Snapple Group, Inc. for the Legacy Territories, except it has a term of ten years, renewable at our option for an additional ten-year term. In addition, we also have the right under our distribution agreement with Monster Energy Company to distribute energy drink products offered, packaged and/or marketed by Monster Energy Company under the primary brand name “Monster” within the Expansion Territories.

#### Product Supply Arrangements

We have historically had a production arrangement with CCR to buy and sell finished products at cost. In the Distribution Territory Expansion Transactions, we continue to have, with certain exceptions, an agreement to purchase finished beverage products from CCR’s manufacturing facilities servicing customers in certain Expansion Territories at a cost-based price, subject to adjustment in accordance with our current incidence-based pricing agreement with The Coca Cola Company described above, as applicable to the Expansion Territory. Under certain exceptions, we may produce finished goods for our own distribution in an Expansion Territory.

#### Regional Manufacturing Agreements with The Coca Cola Company for the Expansion Territories

In 2016, the Company acquired Regional Manufacturing Facilities in Sandston, Virginia and Baltimore and Silver Spring, Maryland pursuant to the October 2015 APA. We are now authorized to manufacture beverages bearing trademarks of The Coca Cola Company using cold-fill technology at these Regional Manufacturing Facilities pursuant to an Initial Regional Manufacturing Agreement (“Initial RMA”). The Initial RMA refers to those beverages as “Authorized Covered Beverages.”

Subject to the right of The Coca Cola Company to terminate the Initial RMA in the event of an uncured default by the Company, the Initial RMA has a term that continues for the duration of the term of our CBAs with The Coca Cola Company and CCR. Other than Authorized Covered Beverages, certain cross-licensed brands we are permitted to distribute under our CBAs, and certain other expressly permitted existing cross-licensed brands, the Initial RMA prohibits us from manufacturing any Beverages, Beverage Components (as such terms are defined in the form of the Initial RMA) or other beverage products at the Regional Manufacturing Facilities unless otherwise consented to by The Coca Cola Company.

Pursuant to its terms, each Initial RMA will be amended, restated and converted into a final form of regional manufacturing agreement ("Final RMA") concurrent with the conversion of our bottling agreements to the Final CBA under the Territory Conversion Agreement. Under the Final RMA, our aggregate business directly and primarily related to the manufacture of Authorized Covered Beverages, permitted third party beverage products and other beverages and beverage products of The Coca Cola Company will be subject to the same agreed upon sale process provisions included in the Final CBA, including the need to obtain The Coca Cola Company's prior approval of a potential purchaser of such manufacturing business. The Coca Cola Company will have the right to terminate the Final RMA in the event of an uncured default by us. The Final RMA also will be subject to termination by The Coca Cola Company in the event of an uncured default by us under the Final CBA or under the NPSG Governance Agreement.

## Markets Served and Production and Distribution Facilities

As of January 1, 2017, we currently hold bottling rights in the Legacy Territories and Expansion Territories from The Coca Cola Company covering 10 principal geographic markets and a total population of approximately 41.1 million. Certain information regarding each of these markets follows:

Geographic		Approximate Regional Population	Production / Distribution Facility in Region	Number of Sales Distribution Facilities in Region
Region	Region Includes	Population	in Region	Region
North Carolina	The majority of North Carolina, including Charlotte, Raleigh, Greensboro, Winston-Salem, High Point, Hickory, Asheville, Fayetteville, Wilmington, Elizabeth City and the surrounding areas.	10.0 million	Charlotte, NC	12
South Carolina	The majority of South Carolina, including Charleston, Columbia, Greenville, Myrtle Beach and the surrounding areas.	4.0 million	None	6
Southern Alabama / Mississippi	A portion of southwestern Alabama, including Mobile and surrounding areas, and a portion of southeastern Mississippi.	1.0 million	Mobile, AL	4
Georgia / Florida / Eastern Alabama	A small portion of eastern Alabama, a portion of southwestern Georgia, including Columbus and surrounding areas, and a portion of the Florida Panhandle.	1.2 million	None	4
Tennessee / Northwest Alabama	A significant portion of central and eastern Tennessee, including Nashville, Johnson City, Morristown, Knoxville, Cleveland, Cookeville and surrounding areas and a small portion of northwest Alabama.	4.4 million	Nashville, TN	7
Virginia	Most of the state of Virginia, including Roanoke, Norfolk, Staunton, Alexandria, Richmond, Yorktown, Fredericksburg and surrounding areas.	8.2 million	Roanoke, VA and Sandston, VA	9
Maryland / District of Columbia / Delaware	The entire state of Maryland, including Easton, Salisbury, Capitol Heights, La Plata, Baltimore, Hagerstown, Cumberland and surrounding areas and most of the state of Delaware.	2.3 million	Baltimore, MD and Silver Spring, MD	7
West Virginia / Pennsylvania	Most of the state of West Virginia and a portion of southwestern Pennsylvania.	1.4 million	None	8
Kentucky / Indiana / Illinois	A significant portion of Kentucky, including Lexington, Louisville, Paducah, Pikeville, Louisa and surrounding areas, a portion of southern	5.0 million	None	5



	Indiana, including Evansville, and a portion of southeastern Illinois.			
Ohio	A significant portion of Ohio, including Cincinnati, Dayton, Lima, Portsmouth and surrounding areas.	3.6 million	Cincinnati, OH	4
Total		41.1 million	8	66

During 2016, the Company entered into two non-binding letters of intent with The Coca Cola Company, the February 2016 LOI and the CCR June 2016 LOI, to provide exclusive distribution rights for the Company in the following major markets: Akron, Elyria, Toledo, Willoughby, and Youngstown County, Ohio; Little Rock, West Memphis and southern Arkansas Memphis, Tennessee, and Louisville, Kentucky.

The Company has entered into a non-binding letter of intent with United, the United June 2016 LOI, through which United would transfer exclusive rights and associated distribution assets and working capital in certain territory in and around Spartanburg and

Bluffton, South Carolina, currently served by United's distribution centers located in Spartanburg, South Carolina and Savannah, Georgia, in exchange for certain territory in south-central Tennessee, northwest Alabama and northwest Florida currently served by the Company's distribution centers located in Florence, Alabama and Panama City, Florida.

The Company is also a shareholder in South Atlantic Cannery, Inc. ("SAC"), a manufacturing cooperative from which it is obligated to purchase 17.5 million cases of finished product on an annual basis through June 2024. SAC is located in Bishopville, South Carolina, and the Company utilizes a portion of the production capacity from the Bishopville production facility.

#### Raw Materials

In addition to concentrates purchased from The Coca-Cola Company and other beverage companies for use in our beverage manufacturing, we also purchase sweetener, carbon dioxide, plastic bottles, cans, closures and other packaging materials, as well as equipment for the production, distribution and marketing of nonalcoholic beverages.

We purchase substantially all of our plastic bottles, including the 12-ounce, 16-ounce, 20-ounce, 24-ounce, half-liter, 1-liter, 1.25-liter, 2-liter, 253 ml and 300 ml sizes, from manufacturing plants owned and operated by Southeastern Container and Western Container, two entities owned by various Coca-Cola bottlers, including the Company. We currently obtain all of our aluminum cans, including the 7.5-ounce, 12-ounce and 16-ounce sizes, from two domestic suppliers. None of the materials or supplies we use are currently in short supply.

Along with all other Coca-Cola bottlers in the United States, we are a member in Coca-Cola Bottlers' Sales and Services Company, LLC ("CCBSS"), which was formed in 2003 to facilitate various procurement functions and the distribution of beverage products of The Coca-Cola Company with the intent of enhancing the efficiency and competitiveness of the Coca-Cola bottling system in the United States. CCBSS negotiates the procurement for the majority of our raw materials, excluding concentrate.

We are exposed to price risk on commodities such as aluminum, corn, PET resin (a petroleum-based product), and fuel which affects the cost of raw materials used in the production of finished products. Examples of the raw materials affected are aluminum cans and plastic bottles used for packaging and high fructose corn syrup used as a product ingredient. Further, we are exposed to commodity price risk on oil, which impacts our cost of fuel used in the movement and delivery of our products. We participate in commodity hedging and risk mitigation programs administered both by CCBSS and by the Company. In addition, no limit is placed on the price The Coca Cola Company and other beverage companies can charge for concentrate.

## Customers and Marketing

The Company's products are sold and distributed through various channels, which include selling directly to retail stores and other outlets such as food markets, institutional accounts and vending machine outlets. During 2016, approximately 66% of the Company's bottle/can volume to retail customers was sold for future consumption, while the remaining bottle/can volume to retail customers was sold for immediate consumption. All the Company's beverage sales were to customers in the United States. The Company records delivery fees in net sales, which are used to offset a portion of the Company's delivery and handling costs.

The following table summarizes the percentage of our total bottle/can volume and the percentage of our total net sales, which are all included in the Nonalcoholic Beverages operating segment, attributed to our largest customers:

Customer	Fiscal Year			
	2016	2015		
<b>Wal-Mart Stores, Inc.</b>				
Approximate percent of the Company's total Bottle/can volume	20%	22	%	
Approximate percent of the Company's total Net sales	14%	15	%	
<b>Food Lion, LLC</b>				
Approximate percent of the Company's total Bottle/can volume	8	%	7	%
Approximate percent of the Company's total Net sales	5	%	5	%
<b>The Kroger Company</b>				
Approximate percent of the Company's total Bottle/can volume	6	%	6	%
Approximate percent of the Company's total Net sales	5	%	5	%

The loss of Wal-Mart Stores, Inc., Food Lion, LLC or The Kroger Company as a customer could have a material adverse effect on the operating and financial results of the Company.

New product introductions, packaging changes and sales promotions are the primary sales and marketing practices in the nonalcoholic beverage industry and have required and are expected to continue to require substantial expenditures. Recent product introductions from the Company and The Coca Cola Company include new flavor varieties within certain brands such as Fanta Sparkling Fruit, Minute Maid Refreshment, Monster, Dasani Drops, NOS, and Dasani Sparkling. New packaging introductions over the last several years include the 253 ml bottle, the 1.25-liter bottle, the 7.5-ounce sleek can, the 2-liter contour bottle for Coca Cola products, and the 16-ounce bottle/24-ounce bottle package.

We sell our products primarily in non-refillable bottles and cans, in varying proportions from market to market. For example, there may be as many as 29 different packages for Diet Coke within a single geographic area. Bottle/can volume to retail customers during 2016 was approximately 64% bottles and 36% cans.

Advertising in various media outlets, primarily television and radio, is relied upon extensively in the marketing of our products. The Coca Cola Company, Monster Energy Company and Dr Pepper Snapple Group, Inc. (collectively, the “Beverage Companies”) make substantial expenditures on advertising programs in the Legacy Territories and Expansion Territories from which we have benefited. Although the Beverage Companies have provided us with marketing funding support in the past, our bottling agreements generally do not obligate the Beverages Companies to do so. Any significant curtailment of marketing funding support provided by the Beverage Companies for marketing programs which benefit us could have a material adverse effect on our operating and financial results.

In addition, we expend substantial funds on our own behalf for extensive local sales promotions of our products. Historically, these expenses have been partially offset by marketing funding support provided to us by the Beverage Companies in support of a variety of marketing programs, such as point-of-sale displays and merchandising programs. The funds we expend for marketing and merchandising programs are considered necessary to maintain or increase revenue.

In addition to our marketing and merchandising programs, we believe a sustained and planned charitable giving program to support communities is an essential component to the success of our brand. In 2016, the Company made cash donations of approximately \$8.4 million to various charities and donor-advised funds in light of the Company’s financial performance, expanded distribution territory footprint and future business prospects. The Company intends to continue its charitable contributions in future years subject to the Company’s financial performance and other business factors.

#### Seasonality

Business seasonality results primarily from higher unit sales of the Company's products in the second and third quarters of the fiscal year. Sales volume can also be impacted by weather conditions. Fixed costs, such as depreciation expense, are not significantly impacted by business seasonality. We have, and believe CCR and other bottlers from whom we purchase finished goods have, adequate production capacity to meet sales demand for sparkling and still beverages during these peak periods. See "Item 2. Properties" for information relating to utilization of our production facilities.

## Competition

The nonalcoholic beverage market is highly competitive. Competitive products include nonalcoholic sparkling beverages and still beverages, which are noncarbonated beverages such as bottled water, energy drinks, tea, ready to drink coffee, enhanced water, juices and sports drinks. Our competitors include bottlers and distributors of nationally and regionally advertised and marketed products, as well as bottlers and distributors of private label beverages. Our principal competitors include local bottlers of Pepsi-Cola and, in some regions, local bottlers of Dr Pepper, Royal Crown and/or 7 Up products.

The principal methods of competition in the nonalcoholic beverage industry are point-of-sale merchandising, new product introductions, new vending and dispensing equipment, packaging changes, pricing, price promotions, product quality, retail space management, customer service, frequency of distribution and advertising. We believe we are competitive in our territories with respect to these methods of competition.

## Government Regulation

Our businesses, including the production, storage, distribution, sale, display, advertising, marketing, labeling, content, quality and safety of our products, occupational health and safety practices, transportation and use of many of our products, are subject to various laws and regulations administered by federal, state and local governmental agencies of the United States.

As a manufacturer, distributor and seller of beverage products of The Coca Cola Company and other soft drink manufacturers in exclusive territories, we are subject to antitrust laws of general applicability. However, pursuant to the United States Soft Drink Interbrand Competition Act, soft drink bottlers, such as us, may have an exclusive right to manufacture, distribute and sell a soft drink product in a defined geographic territory if that soft drink product is in substantial and effective competition with other products of the same general class in the market. We believe such competition exists in each of the exclusive geographic territories in the United States in which we operate.

We are required to comply with a variety of U.S. laws and regulations, including but not limited to: the Federal Food, Drug and Cosmetic Act and various state laws governing food safety; the Food Safety Modernization Act; the Occupational Safety and Health Act; the Clean Air Act; the Clean Water Act; the Resource Conservation and Recovery Act; the Comprehensive Environmental Response, Compensation and Liability Act; the Federal Motor Carrier Safety Act; the Lanham Act; various federal and state laws and regulations governing competition and trade practices; various federal and state laws and regulations governing our employment practices, including those related to equal employment opportunity, such as the Equal Employment Opportunity Act and the National Labor Relations Act; and laws regulating the sale of certain of our products in schools.

In response to the growing health, nutrition and obesity concerns of today's youth, a number of states have regulations restricting the sale of soft drinks and other foods in schools, particularly elementary, middle and high schools. Many of these restrictions have existed for several years in connection with subsidized meal programs in schools. Restrictive legislation, if widely enacted, could have an adverse impact on our products, image and reputation.

Most beverage products sold by the Company are classified as food or food products and are therefore eligible for purchase using supplemental nutrition assistance ("SNAP") benefits by consumers purchasing them for home consumption. Energy drinks with a Nutrition Facts label are classified as food and are eligible for purchase for home consumption using SNAP benefits, whereas energy drinks classified as a supplement by the United States Food and Drug Administration are not. Regulators may restrict the use of benefit programs, including SNAP, to purchase certain beverages and foods.

Certain jurisdictions in which our products are sold have either imposed, or are considering imposing, taxes, labeling requirements or other limitations on, or regulations pertaining to, the sale of certain of our products, ingredients or substances contained in, or attributes of, our products or commodities used in the production of our products, including certain of our products that contain added sugars or sodium, exceed a specified caloric content, or include specified ingredients such as caffeine. We cannot predict whether any such legislation will be enacted.

Legislation has been proposed in Congress and by certain state and local governments which would prohibit the sale of soft drink products in non-refillable bottles and cans or require a mandatory deposit as a means of encouraging the return of such containers in an attempt to reduce solid waste and litter. It is possible that similar or more restrictive

legal requirements may be proposed or enacted in the future. We are currently not impacted by this type of proposed legislation.

We are also subject to national and local environmental laws, including laws related to water consumption and treatment, wastewater discharge and air emissions. Our facilities must comply with the Clean Air Act, the Clean Water Act, the Comprehensive Environmental Response, Compensation and Liability Act, the Resource Conservation and Recovery Act and other federal and state laws regarding handling, storage, release and disposal of wastes generated on-site and sent to third-party owned and operated off-site licensed facilities.

#### Environmental Remediation

We do not currently have any material capital expenditure commitments for environmental compliance or environmental remediation for any of our properties. We do not believe compliance with enacted or adopted federal, state and local provisions pertaining to the discharge of materials into the environment, or otherwise relating to the protection of the environment, will have a material impact on our consolidated financial statements or our competitive position.

#### Employees

As of January 1, 2017, we had approximately 13,200 employees, of which approximately 11,300 were full-time and 1,900 were part-time. Approximately 9% of our labor force is covered by collective bargaining agreements.

## Exchange Act Reports

The Company makes available free of charge through our website, [www.cokeconsolidated.com](http://www.cokeconsolidated.com), our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, proxy statement and all amendments to these reports. These reports are available on our website as soon as reasonably practicable after such materials are electronically filed with, or furnished to, the SEC. The information provided on our website is not part of this report and is not incorporated herein by reference.

The SEC also maintains a website, [www.sec.gov](http://www.sec.gov), which contains reports, proxy and information statements and other information filed electronically with the SEC. Any materials that we file with the SEC may also be read and copied at the SEC's Public Reference Room, 100 F Street, N.E., Room 1580, Washington, DC 20549. Information on the operations of the Public Reference Room is available by calling the SEC at 1-800-SEC-0330.

## Item 1A. Risk Factors

In addition to other information in this Form 10-K, the following risk factors should be considered carefully in evaluating the Company's business. The Company's business, financial condition or results of operations could be materially and adversely affected by any of these risks.

The inability of the Company to successfully integrate the operations and employees acquired in the Expansion Transactions and in any future Expansion Transactions into existing operations could adversely affect the Company's business, culture or results of operations.

The Company is engaged in a multi-year series of transactions through which it is acquiring distribution territories and manufacturing facilities from Coca Cola Refreshments USA, Inc. ("CCR"), a wholly-owned subsidiary of The Coca Cola Company. Through these acquisitions and additional resources needed to support the Company's growth, the number of employees has grown to more than 13,100 as of January 1, 2017 from 6,500 as of February 1, 2013.

There are many risks faced by the Company as it continues to acquire new workforces in new geographic areas. The Company must comply with local laws, including employment laws, for the new geographic areas in which it is expanding its business. The Company must ensure it has proper staffing with the availability and knowledge to support the volume of acquired employees and transactions. Also, the Company must devote resources to communicate its culture and to integrate new employees from previous employers' culture to the Company's culture. The inability to support the volume of employees and the inability to successfully integrate employees to one common culture could have an adverse impact on the Company's business.



The Company faces additional risk in its ability to successfully combine the Company's existing business with the acquired distribution territories and manufacturing facilities. It must integrate production, distribution, sales and administrative support activities and information technology systems between the Legacy Territories and the Expansion Territories. It must also conform standards, controls, including internal controls over financial reporting, environmental compliance and health and safety compliance, procedures and policies between the Legacy Territories and the Expansion Territories.

The completed Expansion Transactions and any future expansion transactions involve certain other financial and business risks. The Company may not realize a satisfactory return, including economic benefit and productivity levels, on the Company's investment. The Company's assumptions for potential growth, synergies or cost savings at the time of the Expansion Transactions may prove to be incorrect. Also, the Expansion Transactions could divert the attention of key members of the Company's management and other available resources from its existing business in the Legacy Territories and previously acquired Expansion Territories.

Sustained increases in the costs of labor and employment matters, for current, future and retired employees, could have an adverse effect on the Company's profitability.

The Company uses various insurance structures to manage costs related to workers' compensation, auto liability, medical and other insurable risks. These structures consist of retentions, deductibles, limits and a diverse group of insurers that serve to strategically transfer and mitigate the financial impact of losses. The Company uses commercial insurance as a risk reduction strategy to minimize catastrophic losses from claims. Losses are accrued using assumptions and procedures followed in the insurance industry, then adjusted for company-specific history and expectations. Although the Company has actively sought to control increases in these costs, there can be no assurance the Company will succeed in limiting future cost increases, which could reduce the profitability of the Company's operations.

The Company's profitability is substantially affected by the cost of pension retirement benefits, postretirement medical benefits and current employees' medical benefits. Macro-economic factors beyond the Company's control, including increases in health care costs,

declines in investment returns on pension assets and changes in discount rates used to calculate pension and related liabilities could result in significant increases in these costs for the Company. Also, the acquisition of Expansion Territories and employees, including integrating programs in the Expansion Territories, requires additional costs and resources. Although the Company has actively sought to control increases in these costs, there can be no assurance the Company will succeed in limiting future cost increases, which could reduce the profitability of the Company's operations.

As the Company's workforce grows, it faces additional risk for employment-related claims and assessments. In addition, workplace safety programs must be expanded to cover a larger workforce.

Miscalculation of the Company's need for infrastructure investment could impact the Company's financial results in both the Company's Legacy and Expansion Territories and any future expansion territories.

Significant changes from the Company's expected returns on cold drink equipment, fleet, technology and supply chain infrastructure investments could adversely affect the Company's consolidated financial results. Projected requirements of the Company's infrastructure investments in the Company's Legacy Territories, Expansion Territories and any future expansion territories may differ from actual levels if the Company's volume growth is not as the Company anticipates. The Company's infrastructure investments are generally long-term in nature; therefore, it is possible the investments made today may not generate the returns expected by the Company as a result of future changes in the marketplace.

Technology failures or cyberattacks on the Company's systems could disrupt the Company's operations and negatively impact the Company's business.

The Company depends heavily upon the efficient operation of technological resources. A failure in information technology systems or controls could negatively impact operations. In addition, the Company continuously upgrades and updates current technology or installs new technology. The inability to implement upgrades, updates, or installations in a timely manner, to train employees effectively in the use of technology, or to obtain the anticipated benefits of the Company's technology could adversely impact results of operations or profitability.

The Company is a member of CONA Services LLC ("CONA") and party to a Master Services Agreement with CONA, pursuant to which the Company is an authorized user of the Coke One North America system (the "CONA System"), which is a uniform information technology system developed to promote operational efficiency and uniformity among all North American Coca Cola bottlers. The Company is in process of transitioning Legacy Territories and Expansion Territories to the CONA System. The Company believes it has taken the necessary steps to mitigate risk associated with a phased cut-over to the CONA System, including a comprehensive review of internal controls, extensive employee training, and additional verifications and testing to ensure data integrity. There is additional risk involved with the CONA System as the Company relies on The Coca Cola Company to resolve technology issues and is limited

in its authority and ability to resolve errors or make changes to the software.

The Company increasingly relies on information technology systems to process, transmit and store electronic information. For example, the Company's production and distribution facilities, inventory management and driver handheld devices all utilize information technology to maximize efficiencies and minimize costs. Furthermore, a significant portion of the communication between personnel, customers and suppliers depends on information technology. Like most companies, the Company's information technology systems may be vulnerable to interruption due to a variety of events beyond the Company's control, including, but not limited to, natural disasters, terrorist attacks, telecommunications failures, computer viruses, hackers and other security issues. The Company may also experience difficulties integrating systems from Expansion Territories with those in its Legacy Territories. The Company has technology security initiatives and disaster recovery plans in place to mitigate the Company's risk to these vulnerabilities, however these measures may not be adequate or implemented properly to ensure that the Company's operations are not disrupted.

Changes in public and consumer preferences related to nonalcoholic beverages, including concerns related to obesity and health concerns, as well as perception of artificial ingredients, could reduce demand for the Company's products and reduce profitability.

The Company's business depends substantially on consumer tastes and preferences that change in often unpredictable ways. The success of the Company's business depends in large measure on working with the Beverage Companies, and the Company is reliant upon The Coca Cola Company and other beverage companies' product innovations to meet the changing preferences of the broad consumer market. Failure to satisfy changing consumer preferences could adversely affect the profitability of the Company's business.

The Company's success also depends in large part on its ability to maintain consumer confidence in the safety and quality of all its products. The Company has rigorous product safety and quality standards. However, if beverage products taken to market are or

become contaminated or adulterated, the Company may be required to conduct costly product recalls and may become subject to product liability claims and negative publicity, which would cause its business to suffer.

Health and wellness trends over the past several years have resulted in a shift from sugar sparkling beverages to diet sparkling beverages, tea, sports drinks, enhanced water and bottled water. Consumers, public health officials, public health advocates and government officials are becoming increasingly concerned about the public health consequences associated with obesity, particularly among young people. The production and marketing of beverages are subject to the rules and regulations of the United States Food and Drug Administration (“FDA”) and other federal, state and local health agencies.

In addition, regulatory actions, activities by nongovernmental organizations and public debate and concerns about perceived negative safety and quality consequences of certain ingredients in the Company’s products, such as non-nutritive sweeteners, may erode consumers’ confidence in the safety and quality of the Company’s products, whether or not justified, and could result in additional governmental regulations concerning the production, marketing, labeling or availability of the Company’s products, possible new taxes or negative publicity resulting from actual or threatened legal actions against the Company or other companies in the same industry, all of which could damage the reputation of the Company’s products and may reduce demand for the Company’s products, which could adversely affect the Company’s profitability.

Changes in the Company’s top customer relationships and marketing strategies could impact volume and revenues.

The Company faces concentration risks related to a few customers comprising a large portion of the Company’s annual sales volume and net revenue. The Company’s results of operations could be adversely affected if revenue from one or more of these significant customers is significantly reduced or if the cost of complying with the customers’ demands is significant. Additionally, if receivables from one or more of these significant customers become uncollectible, the Company’s results of operations may be adversely impacted.

The Company’s largest customers, Wal-Mart Stores, Inc., Food Lion, LLC and The Kroger Company accounted for approximately 34% of the Company’s 2016 bottle/can volume to retail customers and approximately 24% of the Company’s 2016 total net sales. These customers typically make purchase decisions based on a combination of price, product quality, consumer demand and customer service performance and generally do not enter into long-term contracts. The Company faces risks to maintain the volume demanded on a short-term basis from these customers, which can also divert resources away from other customers. The loss of Wal-Mart Stores, Inc., Food Lion, LLC or The Kroger Company as a customer could have a material adverse effect on the operating and financial results of the Company.

The Company's revenue is affected by promotion of the Company's products by significant customers, such as the customers creating in-store displays or promoting the Company's products in their weekly circulars. If the Company's significant customers change the manner in which they market or promote the Company's products, or if the marketing efforts by significant customers become ineffective, the Company's volume and revenue could be adversely impacted.

The Company may not be able to respond successfully to changes in the marketplace.

The Company operates in the highly competitive nonalcoholic beverage industry and faces strong competition from other general and specialty beverage companies. The Company's response to continued and increased customer and competitor consolidations and marketplace competition may result in lower than expected net pricing of the Company's products. The Company's ability to gain or maintain the Company's share of sales or gross margins may be limited by the actions of the Company's competitors, which may have advantages in setting prices due to lower raw material costs. Competitive pressures in the markets in which the Company operates may cause channel and product mix to shift away from more profitable channels and packages. If the Company is unable to maintain or increase volume in higher-margin products and in packages sold through higher-margin channels such as immediate consumption, pricing and gross margins could be adversely affected. The Company's efforts to improve pricing may result in lower than expected sales volume.

The Company's financial condition can be impacted by the stability of the general economy.

Unfavorable changes in general economic conditions, such as a recession or economic slowdown in the geographic markets in which the Company does business, may have the temporary effect of reducing the demand for certain of the Company's products. For example, economic forces may cause consumers to shift away from purchasing higher-margin products and packages sold through immediate consumption and other highly profitable channels. Adverse economic conditions could also increase the likelihood of customer delinquencies and bankruptcies, which would increase the risk of uncollectibility of certain accounts. Each of these factors could adversely affect the Company's overall financial condition and operating results.

The Company's capital structure, including its cash positions and debt borrowing capacity with banks or other financial institutions, exposes it to the risk of default by or failure of counterparty financial institutions. The risk of counterparty default or failure may be heightened during economic downturns and periods of uncertainty in the financial markets. If one of the Company's counterparties were to become insolvent or file for bankruptcy, the Company's ability to recover losses incurred as a result of default or to retrieve assets that are deposited or held in accounts with such counterparty may be limited by the counterparty's liquidity or the applicable laws governing the insolvency or bankruptcy proceedings. The Company's results of operations and financial condition could be negatively impacted by an event of default by or failure of one or more of its counterparties.

The Company's business and results of operations may be adversely affected by increased costs, disruption of supply or shortages of raw materials and other supplies.

In recent years, there has been consolidation among suppliers of certain of the Company's raw materials, which could have an adverse effect on the Company's ability to negotiate the lowest costs and, in light of the Company's relatively small in-plant raw material inventory levels, has the potential for causing interruptions in the Company's supply of raw materials.

The Company currently obtains all aluminum cans from two domestic suppliers and all plastic bottles from two domestic cooperatives. The inability of these aluminum can or plastic bottle suppliers to meet the Company's requirements for containers could result in the Company not being able to fulfill customer orders and production demand until alternative sources of supply are located. The Company attempts to mitigate these risks by working closely with key suppliers and by purchasing business interruption insurance where appropriate. Failure of the aluminum can or plastic bottle suppliers to meet the Company's purchase requirements could negatively impact inventory levels, customer confidence and results of operations, including sales levels and profitability.

Raw material costs, including the costs for plastic bottles, aluminum cans and high fructose corn syrup, have historically been subject to significant price volatility and may continue to be in the future. In addition, there are no limits on the prices The Coca Cola Company and other beverage companies can charge for concentrate. If the Company cannot offset higher raw material costs with higher selling prices, effective commodity price hedging, increased sales volume or reductions in other costs, the Company's profitability could be adversely affected.

The reliance on purchased finished goods from external sources could have an adverse impact on the Company's profitability.

The Company does not manufacture and does not plan to manufacture all products it distributes and, therefore, remains reliant on purchased finished goods from external sources. As a result, the Company is subject to incremental risk including, but not limited to, product quality and availability, price variability and production capacity shortfalls

for externally purchased finished goods, which could have an impact on the Company's profitability.

The decisions made by the National Product Supply Group (the "NPSG") may be different than decisions that would have been made by the Company individually.

The NPSG was created in October 2015, and consists of The Coca-Cola Company, the Company and other RPBs in The Coca-Cola Company's national product supply system. The Coca-Cola Company and each member RPB has a representative on the governing board (the "NPSG Board"). As of January 2017, the NPSG Board consisted of The Coca-Cola Company, the Company and five other RPBs, including CCR. Pursuant to the NPSG Governance Agreement, the Company has agreed to abide by decisions made by the NPSG Board, which include decisions regarding strategic investment and divestment, optimal national product supply sourcing and new product or packaging infrastructure planning. Even though the Company has a representative on the NPSG Board, the Company will not exercise sole decision-making authority relating to the decisions of the NPSG Board, and the interests of other members of the NPSG Board may diverge from those of the Company and may require the Company to make investments in its manufacturing assets consistent with the NPSG Governance Agreement.

Decreases from historic levels of marketing funding provided to the Company from The Coca-Cola Company and other beverage companies could reduce the Company's profitability.

The Coca-Cola Company and other beverage companies have historically provided financial support to the Company through marketing funding. In 2016, the Company received \$99.4 million in marketing funding. While the Company does not believe there will be significant changes to the amount of marketing funding support by the beverage companies, there can be no assurance the historic levels will continue. Material changes in the marketing funding programs' performance requirements, decreases in the level of marketing funding provided or the Company's inability to meet the performance requirements for marketing funding could adversely affect the Company's profitability.

Changes in The Coca-Cola Company's and other beverage companies' levels of external advertising, marketing spending and product innovation could reduce the Company's sales volume.

The Coca-Cola Company and other beverage companies have their own external advertising campaigns, marketing spending and product innovation programs, which directly impact the Company's operations. Decreases in marketing, advertising and product innovation spending by the Beverage Companies, or Beverage Company campaigns that are negatively perceived by the public, could adversely impact the volume growth and profitability of the Company. While the Company does not believe there will be significant changes in the level of external advertising and marketing spending by the Beverage Companies, there can be no assurance historic levels will continue. The Company's volume growth is also dependent on product innovation by the Beverage Companies, especially The Coca-Cola Company.

The Company's inability to meet requirements under its beverage agreements could result in the loss of distribution rights.

Approximately 90% of the Company's bottle/can volume to retail customers in 2016 consisted of products of The Coca-Cola Company, which is the sole supplier of these products or the concentrates and syrups required to manufacture these products. The Company enters into CBAs and other beverage agreements with The Coca-Cola Company, which authorize the Company to produce and/or distribute the covered beverages defined in these beverage agreements. The Company must satisfy various requirements under its beverage agreements and failure to satisfy these requirements could result in the loss of distribution rights for the respective products under one or more of these beverage agreements. The occurrence of other events defined in these agreements could also result in the termination of one or more beverage agreements.

Changes in the Company's level of debt, borrowing costs and credit ratings could impact access to capital and credit markets, restrict the Company's operating flexibility and limit the Company's ability to obtain additional financing to fund future needs.

As of January 1, 2017, the Company had \$956.0 million of debt and capital lease obligations. The Company's level of debt requires a substantial portion of future cash flows from operations to be dedicated to the payment of principal and interest, which reduces funds available for other purposes. The Company's debt level can negatively impact the Company's operations by:

- Limiting the Company's ability and/or increasing the cost to obtain funding for working capital, capital expenditures and other general corporate purposes, including funding the cash purchase price of future territory expansions;
- Increasing the Company's vulnerability to economic downturns and adverse industry conditions by limiting the Company's ability to react to changing economic and business conditions; and



Exposing the Company to a risk that a significant decrease in cash flows from operations could make it difficult for the Company to meet its debt service requirements and to comply with financial covenants in its debt agreements.

The Company's Revolving Credit Facility, Term Loan Facility and pension and postretirement medical benefits are subject to changes in interest rates. If interest rates increase in the future, the Company's borrowing cost could increase, which could result in a reduction of the Company's overall profitability and limit the Company's ability to spend in other areas. A decline in interest rates used to discount the Company's pension and postretirement medical liabilities could increase the cost of these benefits and increase the overall liability.

The Company's credit rating could be significantly impacted by changes in the methodologies used by rating agencies to assess the Company's credit rating and by changes in the credit ratings of The Coca Cola Company. A lower credit rating could significantly increase the Company's interest costs or could have an adverse effect on the Company's ability to obtain additional financing at acceptable interest rates or to refinance existing debt.

Changes in the inputs used to calculate the Company's acquisition related contingent consideration liability could have a material adverse impact on the Company's financial results.

The acquisition related contingent consideration liability, which was \$253.4 million as of January 1, 2017, consists of the estimated amounts due to The Coca Cola Company under the CBAs over the remaining useful life of the related distribution rights. Changes in business conditions or other events could materially change both the projection of future cash flows and the discount rate used in the calculation of the fair value of contingent consideration under the CBAs. These changes could materially impact the fair value of the related contingent consideration and could materially impact the amount of noncash expense (or income) recorded each reporting period.

Changes in tax laws, disagreements with tax authorities or additional tax liabilities could have a material adverse impact on the Company's financial results.

The Company is subject to income taxes within the United States. The Company's annual income tax rate is based upon the Company's income and the federal tax laws and the various state and local tax laws within the jurisdictions in which the Company operates. Increases in federal, state or local income tax rates and changes in federal, state or local tax laws could have a material adverse impact on the Company's financial results.

Excise or other taxes imposed on the sale of certain of the Company's products by the federal government and certain state and local governments, particularly if the taxes were incorporated into shelf prices and passed along to consumers, could cause consumers to shift away from purchasing products of the Company, which could materially affect the Company's business and financial results.

In addition, an assessment of additional taxes resulting from audits of the Company's tax filings could have an adverse impact on the Company's profitability, cash flows and financial condition.

Issues surrounding labor relations could adversely impact the Company's future profitability and/or its operating efficiency.

Approximately 9% of the Company's employees are covered by collective bargaining agreements. The inability to renegotiate subsequent agreements on satisfactory terms and conditions could result in work interruptions or stoppages, which could have a material impact on the profitability of the Company. Also, the terms and conditions of existing or renegotiated agreements could increase costs or otherwise affect the Company's ability to fully implement operational changes to improve overall efficiency.

In addition, as the Company has acquired the Expansion Territories, it has become engaged with new and different labor unions than those with which it has historically interacted. Terms and conditions of the new labor union agreements could result in delays of closings for new Expansion Territories and also increases the Company's exposure to work interruptions or stoppages, as an increased percentage of its workforce is covered by collective bargaining agreements.

Natural disasters, changing weather patterns and unfavorable weather could negatively impact the Company's future profitability.

Natural disasters or unfavorable weather conditions in the geographic regions in which the Company operates could have an adverse impact on the Company's revenue and profitability. For instance, unusually cold or rainy weather during the summer months may have a temporary effect on the demand for the Company's products and contribute to lower sales, which could adversely affect the Company's profitability for such periods. Prolonged drought conditions could lead to restrictions on water use, which could adversely affect the Company's cost and ability to manufacture and distribute products.

Changing weather patterns, along with the increased frequency or duration of extreme weather and climate events could impact some of the Company's facilities or the availability and cost of key raw materials used by the Company in production. In addition, legislative and regulatory initiatives proposed by the United States Environmental Protection Agency could directly or indirectly affect the Company's production, distribution and packaging, the cost of raw materials, fuel, ingredients and water, which would impact the Company's profitability.

Increases in fuel prices or the inability of the Company to secure adequate supplies of fuel could have an adverse impact on the Company's profitability.

The Company uses significant amounts of fuel for its delivery fleet and other vehicles used in the distribution of its products. International or domestic geopolitical or other events could impact the supply and cost of fuel and could impact the timely delivery of the Company's products to its customers. Although the Company strives to reduce fuel consumption and uses commodity hedges to manage the Company's fuel costs, there can be no assurance the Company will succeed in limiting the impact of fuel price volatility on the Company's business or future cost increases, which could reduce the profitability of the Company's operations.

Significant additional labeling or warning requirements may inhibit sales of affected products.

The FDA occasionally proposes major changes to the nutrition labels required on all packaged foods and beverages, including those for most of the Company's products. If the proposed changes are adopted, the Company and its competitors will be required to overhaul nutrition labels, including updating serving sizes, information about total calories in a beverage product container and information about any added sugars or nutrients. Pervasive nutrition label changes could increase the Company's costs and could inhibit sales of one or more of the Company's major products.

Provisions in the Final CBA and the Final RMA with The Coca Cola Company could delay or prevent a change in control of the Company.

Provisions in the Final CBA and the Final RMA require the Company to obtain The Coca Cola Company's prior approval of a potential buyer of the Company's Coca Cola distribution or manufacturing related businesses, which could delay or prevent a change in control of the Company or the ability of the Company to sell such businesses. The Company can obtain a list of approved third-party buyers from The Coca Cola Company annually. In addition, the Company can seek buyer-specific approval from The Coca Cola Company upon receipt of a third party offer to purchase the Company or its Coca Cola related business.

The concentration of the Company's capital stock ownership with the Harrison family limits other stockholders' ability to influence corporate matters.

Members of the Harrison family, including the Company's Chairman and Chief Executive Officer, J. Frank Harrison, III, beneficially own shares of Common Stock and Class B Common Stock representing approximately 86% of the total voting power of the Company's outstanding capital stock. In addition, three members of the Harrison family, including Mr. Harrison, serve on the Board of Directors of the Company.

As a result, members of the Harrison family have the ability to exert substantial influence or actual control over the Company's management and affairs and over substantially all matters requiring action by the Company's stockholders. This concentration of ownership may have the effect of delaying or preventing a change in control otherwise favored by the Company's other stockholders and could depress the stock price and limits other stockholders' ability to influence corporate matters, which could result in the Company making decisions that stockholders outside the Harrison family may not view as beneficial.

#### Item 1B. Unresolved Staff Comments

None.

## Item 2. Properties

As of February 26, 2017, the principal properties of the Company include its corporate headquarters, 8 production/distribution facilities and 71 sales distribution centers. The Company owns 6 production/distribution facilities and 59 sales distribution centers, and leases its corporate headquarters, 2 production/distribution facilities, 12 sales distribution centers and 5 additional storage warehouses.

Facility Type	Location	Square Feet	Lease/ Own	Lease Expiration	2016 Rent (in millions)
Corporate headquarters <sup>(1)(3)</sup>	Charlotte, NC	175,000	Lease	2021	\$ 4.3
Customer Center	Charlotte, NC	71,000	Lease	2030	\$ 0.3
Distribution Center	Greenville, SC	57,000	Lease	2018	\$ 0.8
Distribution Center	Baltimore, MD	290,000	Lease	2025	\$ 1.3
Distribution Center	La Vergne, TN	220,000	Lease	2026	\$ 0.7
Distribution Center	Clayton, NC	233,000	Lease	2026	\$ 1.1
Distribution Center	Charleston, SC	50,000	Lease	2027	\$ 0.3
Distribution Center	Louisville, KY	300,000	Lease	2029	\$ 1.3
Distribution Center	Cleveland, TN	75,000	Lease	2030	\$ 0.2
Distribution Center	Columbus, GA	132,000	Own	N/A	N/A
Distribution Center	Knoxville, TN	153,000	Own	N/A	N/A
Distribution Center	Norfolk, VA	158,000	Own	N/A	N/A
Distribution Center	Lexington, KY	171,000	Own	N/A	N/A
Production Center	Baltimore, MD	158,000	Own	N/A	N/A
Production Center	Silver Spring, MD	104,000	Own	N/A	N/A
Production Center	Mobile, AL	271,000	Own	N/A	N/A
Production Center	Roanoke, VA	316,000	Own	N/A	N/A
Production/ Distribution Combination Center <sup>(2)(3)</sup>	Charlotte, NC	647,000	Lease	2020	\$ 4.0
Production/ Distribution Combination Center	Nashville, TN	330,000	Lease	2024	\$ 0.5
Production/ Distribution Combination Center	Sandston, VA	319,000	Own	N/A	N/A
Production/ Distribution Combination Center	Cincinnati, OH	368,000	Own	N/A	N/A
Warehouse	Charlotte, NC	367,000	Lease	2022	\$ 0.9
Warehouse	Roanoke, VA	111,000	Lease	2025	\$ 0.8
Warehouse	Bishopville, SC	100,000	Lease	2026	\$ 0.2

<sup>(1)</sup>Includes two adjacent buildings totaling 175,000 square feet.

<sup>(2)</sup>Includes a 542,000 square foot production center and adjacent 105,000 square foot distribution center.

<sup>(3)</sup>The leases under these facilities are with a related party.

The Company currently has sufficient production capacity to meet its operational requirements. The approximate percentage utilization of the Company's production facilities, which fluctuates with the seasonality of the business, as of January 1, 2017, is indicated below:

Location	Utilization*	
Silver Spring, Maryland	78	%
Charlotte, North Carolina	77	%
Nashville, Tennessee	77	%
Roanoke, Virginia	73	%
Cincinnati, Ohio	71	%
Mobile, Alabama	64	%
Sandston, Virginia	64	%
Baltimore, Maryland	54	%

\*NOTE: Estimated 2017 production divided by capacity, based on operations of 6 days per week and 20 hours per day.

In addition to the production facilities noted above, the Company utilizes a portion of the production capacity at SAC, a cooperative located in Bishopville, South Carolina, that owns a 261,000 square foot production facility.

The Company's products are generally transported to sales distribution facilities for storage pending sale. The number of sales distribution facilities by market area as of February 26, 2017, was as follows:

Location	Number of Facilities
North Carolina	12
South Carolina	6
Southern Alabama / Mississippi	4
Georgia / Florida / Eastern Alabama	4
Tennessee / Northwest Alabama	7
Virginia	9
Maryland / District of Columbia / Delaware	7
West Virginia / Pennsylvania	8
Kentucky / Indiana / Illinois	5
Ohio	4
Indiana <sup>(1)</sup>	5
Total number of sales distribution facilities	71

<sup>(1)</sup>Includes distribution facilities acquired by the Company on January 27, 2017 and located in Anderson, Fort Wayne, Lafayette, South Bend and Terre Haute, Indiana.

The Company's facilities are all in good condition and are adequate for the Company's operations as presently conducted.

As of February 26, 2017, the Company owned and operated approximately 3,500 vehicles in the sale and distribution of the Company's beverage products, of which approximately 2,400 were route delivery trucks. In addition, the Company owned approximately 426,000 beverage dispensing and vending machines for the sale of the Company's products in the Company's bottling territories as of February 26, 2017.

### Item 3. Legal Proceedings

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 that 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.

Item 4. Mine Safety Disclosures

Not applicable.



## Executive Officers of the Company

The following information is provided with respect to each of the executive officers of the Company as of February 26, 2017.

Name	Position and Office	Age
J. Frank Harrison, III	Chairman of the Board of Directors and Chief Executive Officer	62
Henry W. Flint	President and Chief Operating Officer	62
William J. Billiard	Vice President, Chief Accounting Officer	50
Robert G. Chambless	Executive Vice President, Franchise Strategy and Operations	51
Clifford M. Deal, III	Senior Vice President and Chief Financial Officer	55
Morgan H. Everett	Vice President	35
E. Beauregarde Fisher III	Executive Vice President, General Counsel	48
James E. Harris	Executive Vice President, Business Transformation	54
Umesh M. Kasbekar	Vice Chairman of the Board of Directors and Secretary	59
David M. Katz	Executive Vice President, Human Resources, Product Supply and Culture & Stewardship	48
Kimberly A. Kuo	Senior Vice President, Public Affairs, Communications and Communities	46

Mr. J. Frank Harrison, III, was appointed Chairman of the Board of Directors in December 1996. Mr. Harrison, III served as Vice Chairman from November 1987 through December 1996 and was appointed as the Company's Chief Executive Officer in May 1994. He was first employed by the Company in 1977 and has also served as a Division Sales Manager and as a Vice President.

Mr. Henry W. Flint was appointed President and Chief Operating Officer in August 2012. He has served as a Director of the Company since April 2007. Previously, he was Vice Chairman of the Board of Directors of the Company, a position he held since April 2007. Previously, he was Executive Vice President and Assistant to the Chairman of the Company, a position to which he was appointed in July 2004. Prior to that, he was a Managing Partner at the law firm of Kennedy Covington Lobdell & Hickman, L.L.P., with which he was associated from 1980 to 2004.

Mr. William J. Billiard was appointed Chief Accounting Officer in February 2006. In addition to his role as Chief Accounting Officer, he has also served as Vice President, Controller from February 2006 to November 2010, Vice President, Operations Finance from November 2010 to June 2013 and Vice President, Corporate Controller from June 2013 to November 2014. Before joining the Company, he was Senior Vice President, Interim Chief Financial Officer and Corporate Controller of Portrait Corporation of America, Inc., a portrait photography studio company, from September 2005 to January 2006 and Senior Vice President, Corporate Controller from August 2001 to September 2005. Prior to that, he served as Vice President, Chief Financial Officer of Tailored Management, a long-term staffing company, from August 2000 to August 2001.

Mr. Robert G. Chambless was appointed Executive Vice President, Franchise Strategy and Operations in April 2016. Prior to this, he served in various positions within the Company, including Senior Vice President, Sales, Field Operations and Marketing (from August 2010 to March 2016), Senior Vice President, Sales (from June 2008 to July 2010), Vice President - Franchise Sales (from 2003 to 2008), Region Sales Manager for the Company's Southern Division (from 2000 to 2003) and Sales Manager in the Company's Columbia, South Carolina branch (from 1997 to 2000). He has served the Company in several other positions prior to 1997 and was first employed by the Company in 1986.

Mr. Clifford M. Deal, III, was appointed Senior Vice President and Chief Financial Officer in April 2016. Prior to this, he served in various positions within the Company including Vice President and Treasurer (from June 1999 to March 2016), Director of Compensation and Benefits (from October 1997 to May 1999), Corporate Benefits Manager (from December 1995 to September 1997) and Manager of Tax Accounting (November 1993 to November 1995). He worked for PricewaterhouseCoopers LLP prior to joining the Company in 1993.

Ms. Morgan H. Everett was appointed Vice President in January 2016. Prior to that, she was the Community Relations Director of the Company, a position she held from January 2009 to December 2015. She has been an employee of the Company since October 2004.

Mr. E. Beauregarde Fisher III, joined the Company and was appointed Executive Vice President, General Counsel in February 2017. Before joining the Company, he was a partner with the law firm of Moore & Van Allen, PLLC where he served on the firm's management committee and chaired its business law practice group. He was associated with the firm from 1998 to 2017 and concentrated his practice on mergers and acquisitions, corporate governance and general corporate matters. From 2011 to 2017, he served as the Company's outside corporate counsel.

Mr. James E. Harris was appointed Executive Vice President, Business Transformation in April 2016 after serving as Senior Vice President, Shared Services and Chief Financial Officer since January 2008. He served as a Director of the Company from August 2003 until January 2008 and was a member of the Audit Committee and the Finance Committee. He served as Executive Vice President and Chief Financial Officer of MedCath Corporation, an operator of cardiovascular hospitals, from December 1999 to January 2008. From 1998 to 1999, he was Chief Financial Officer of Fresh Foods, Inc., a manufacturer of fully cooked food products. From 1987 to 1998, he served in several different officer positions with The Shelton Companies, Inc. He also served two years with Ernst & Young LLP as a senior accountant.

Mr. Umesh M. Kasbekar was appointed Vice Chairman of the Board of Directors in January 2016 and is Secretary of the Company, a position he has held since August 2012. Previously he was Senior Vice President, Planning and Administration, a position he held since June 2005. Prior to that, he was Vice President, Planning, a position he was appointed to in December 1988.

Mr. David M. Katz was appointed Executive Vice President, Human Resources, Product Supply and Culture & Stewardship in April 2016. Previously, he served as Senior Vice President for the Company from January 2013 to March 2016. He held the position of Senior Vice President Midwest Region for Coca-Cola Refreshments (“CCR”) from November 2010 to December 2012. Prior to the formation of CCR, he was Vice President, Sales Operations for Coca Cola Enterprises Inc.’s (“CCE”) East Business Unit. From 2008 to 2010, he served as President and Chief Executive Officer of Coca Cola Bottlers’ Sales and Services Company, LLC. He began his Coca Cola career in 1993 with CCE as a Logistics Consultant.

Ms. Kimberly A. Kuo was appointed Senior Vice President of Public Affairs, Communications and Communities in January 2016. Before joining the Company, she operated her own communications and marketing consulting firm, Sterling Strategies, from January 2014 to December 2015. Prior to that, she served as Chief Marketing Officer at Baker and Taylor, a book and entertainment distributor from February 2009 to July 2013. Prior to her experience at Baker and Taylor, she served in various communications and government affairs roles on Capitol Hill, in political campaigns, trade associations, and corporations.

## PART II

## Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

The Company has two classes of common stock outstanding, Common Stock and Class B Common Stock. The Common Stock is traded on the NASDAQ Global Select Market under the symbol COKE. The table below sets forth for the periods indicated the high and low reported sales prices per share of Common Stock. There is no established public trading market for the Class B Common Stock. Shares of Class B Common Stock are convertible on a share-for-share basis into shares of Common Stock.

	2016		2015	
	High	Low	High	Low
First quarter	\$184.20	\$150.26	\$112.00	\$86.90
Second quarter	167.94	119.80	149.40	111.07
Third quarter	161.44	138.81	194.43	126.31
Fourth quarter	182.26	125.00	220.93	170.01

A quarterly dividend rate of \$0.25 per share on both Common Stock and Class B Common Stock was maintained throughout 2016 and 2015. Pursuant to the Company's certificate of incorporation, no cash dividend or dividend of property or stock other than stock of the Company, as specifically described in the certificate of incorporation, may be declared and paid on the Class B Common Stock unless an equal or greater dividend is declared and paid on the Common Stock. Shares of Common Stock and Class B Common Stock have participated equally in dividends since 1994.

The amount and frequency of future dividends will be determined by the Company's Board of Directors in light of the earnings and financial condition of the Company at such time, and no assurance can be given that dividends will be declared or paid in the future.

The number of stockholders of record of the Common Stock and Class B Common Stock, as of February 26, 2017, was 2,697 and 10, respectively.

On March 8, 2016, the Compensation Committee determined that 40,000 shares of restricted Class B Common Stock, \$1.00 par value, should be issued (pursuant to a Performance Unit Award Agreement approved in 2008) to J. Frank Harrison, III, in connection with his services in 2015 as Chairman of the Board of Directors and Chief Executive Officer of the Company. As permitted under the terms of the Performance Unit Award Agreement, 19,080 of such shares were settled in cash to satisfy tax withholding obligations in connection with the vesting of the performance

units. The shares issued to Mr. Harrison, III were issued without registration under the Securities Act of 1933 (the “Securities Act”) in reliance on Section 4(a)(2) of the Securities Act.

#### Stock Performance Graph

Presented below is a line graph comparing the yearly percentage change in the cumulative total return on the Company’s Common Stock to the cumulative total return of the Standard & Poor’s 500 Index and a peer group for the period commencing January 1, 2012 and ending January 1, 2017. The peer group is comprised of Dr Pepper Snapple Group, Inc., National Beverage Corp., The Coca Cola Company, Cott Corporation and PepsiCo, Inc.

The graph assumes \$100 was invested in the Company’s Common Stock, the Standard & Poor’s 500 Index and the peer group on January 1, 2012 and all dividends were reinvested on a quarterly basis. Returns for the companies included in the peer group have been weighted on the basis of the total market capitalization for each company.

\*\$100 invested on 1/1/12 in stock or 12/31/11 in index, including reinvestment of dividends. Index calculated on month-end basis.

## Item 6. Selected Financial Data

The following table sets forth certain selected financial data concerning the Company for the five fiscal years ended January 1, 2017. The data is derived from audited consolidated financial statements of the Company. See Management's Discussion and Analysis of Financial Condition and Results of Operations and the accompanying notes to consolidated financial statements for additional information.

	Fiscal Year				
(in thousands, except per share data and number of facilities)	2016 <sup>(1)</sup>	2015 <sup>(1)(2)</sup>	2014 <sup>(1)</sup>	2013	2012
Net sales	\$3,156,428	\$2,306,458	\$1,746,369	\$1,641,331	\$1,614,433
Cost of sales	1,940,706	1,405,426	1,041,130	982,691	960,124
Gross profit	1,215,722	901,032	705,239	658,640	654,309
Selling, delivery and administrative expenses	1,087,863	802,888	619,272	584,993	565,623
Income from operations	127,859	98,144	85,967	73,647	88,686
Interest expense, net	36,325	28,915	29,272	29,403	35,338
Other income (expense), net	1,870	(3,576 )	(1,077 )	-	-
Gain on exchange of franchise territory	(692 )	8,807	-	-	-
Gain on sale of business	-	22,651	-	-	-
Bargain purchase gain, net of tax of \$1,265	-	2,011	-	-	-
Income before taxes	92,712	99,122	55,618	44,244	53,348
Income tax expense	36,049	34,078	19,536	12,142	21,889
Net income	56,663	65,044	36,082	32,102	31,459
Less: Net income attributable to noncontrolling interest	6,517	6,042	4,728	4,427	4,242
Net income attributable to Coca-Cola Bottling Co. Consolidated	\$50,146	\$59,002	\$31,354	\$27,675	\$27,217
Basic net income per share based on net income attributable to Coca-Cola Bottling Co. Consolidated:					
Common Stock	\$5.39	\$6.35	\$3.38	\$2.99	\$2.95
Class B Common Stock	\$5.39	\$6.35	\$3.38	\$2.99	\$2.95
Diluted net income per share based on net income attributable to Coca-Cola Bottling Co. Consolidated:					
Common Stock	\$5.36	\$6.33	\$3.37	\$2.98	\$2.94
Class B Common Stock	\$5.35	\$6.31	\$3.35	\$2.97	\$2.92
Cash dividends per share - Common Stock	\$1.00	\$1.00	\$1.00	\$1.00	\$1.00
Cash dividends per share - Class B Common Stock	\$1.00	\$1.00	\$1.00	\$1.00	\$1.00
Net cash provided by operating activities	\$161,995	\$108,290	\$91,903	\$96,374	\$83,172
Net cash used in investing activities	(452,026 )	(217,343 )	(124,251 )	(55,296 )	(49,570 )
Net cash provided by (used in) financing activities	256,383	155,456	29,682	(39,716 )	(113,961 )
Total assets <sup>(4)</sup>	2,449,484	1,846,565	1,430,641	1,272,361	1,278,208

Edgar Filing: COCA COLA BOTTLING CO CONSOLIDATED /DE/ - Form 10-K

Working capital <sup>(4)</sup>	135,904	108,366	58,177	28,919	23,471					
Acquisition related contingent consideration	253,437	136,570	46,850	-	-					
Current portion of obligations under capital leases	7,527	7,063	6,446	5,939	5,230					
Obligations under capital leases	41,194	48,721	52,604	59,050	64,351					
Current portion of debt	-	-	-	20,000	20,000					
Long-term debt <sup>(4)</sup>	907,254	619,628	442,324	374,771	398,120					
Total equity of Coca-Cola Bottling Co. Consolidated	277,131	243,056	183,609	191,320	135,259					
Equivalent unit case volume (percentage change) <sup>(3)</sup> :	36.4	%	28.9	%	6.1	%	0.3	%	0.9	%
Sparkling beverages	32.5	%	24.1	%	3.6	%	-2.0	%	-1.7	%
Still beverages	47.3	%	44.4	%	15.0	%	11.1	%	10.7	%
Number of production facilities	8									