COCA COLA BOTTLING CO CONSOLIDATED /DE/
Form 10-Q
May 08, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

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

For the quarterly period ended March 29, 2009
Commission File Number 0-9286
COCA-COLA BOTTLING CO. CONSOLIDATED
(Exact name of registrant as specified in its charter)

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

4100 Coca-Cola Plaza, Charlotte, North Carolina 28211
(Address of principal executive offices) (Zip Code)
(704) 557-4400
(Registrant s telephone number, including area code)

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

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

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

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

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

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

Class	Outstanding at April 30, 2009
Common Stock, $1.00 Par Value	7,141,447
Class B Common Stock, $1.00 Par Value	2,021,882

COCA-COLA BOTTLING CO. CONSOLIDATED
QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED MARCH 29, 2009
INDEX

Table of Contents

PART I FINANCIAL INFORMATION

Item 1. Financial Statements.

Coca-Cola Bottling Co. Consolidated

CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

In Thousands (Except Per Share Data)

	First Quarter	
	2009	2008
Net sales	$ 336,261	$ 337,674
Cost of sales	189,132	197,756
Gross margin	147,129	139,918
Selling, delivery and administrative expenses	125,988	136,243
Income from operations	21,141	3,675
Interest expense	9,258	10,434
Income (loss) before income taxes	11,883	(6,759)
Income tax provision (benefit)	3,060	(2,085)
Net income (loss)	8,823	(4,674)
Less: Net income (loss) attributable to the noncontrolling interest	292	(339)
Net income (loss) attributable to Coca-Cola Bottling Co. Consolidated	$ 8,531	$ (4,335)
Basic net income (loss) per share:		
Common Stock	$ .93	$ (.47)
Weighted average number of Common Stock shares outstanding	6,857	6,644
Class B Common Stock	$ .93	$ (.47)
Weighted average number of Class B Common Stock shares outstanding	2,306	2,500
Diluted net income (loss) per share:		
Common Stock	$ .93	$ (.47)
Weighted average number of Common Stock shares outstanding assuming dilution	9,174	9,144
Class B Common Stock	$ .93	$ (.47)
Weighted average number of Class B Common Stock shares outstanding assuming dilution	2,317	2,500
Cash dividends per share:		
Common Stock	$ .25	$ .25
Class B Common Stock	$ .25	$ .25

See Accompanying Notes to Consolidated Financial Statements

Table of Contents

Coca-Cola Bottling Co. Consolidated
CONSOLIDATED BALANCE SHEETS
In Thousands (Except Share Data)

	Unaudited March 29, 2009	Dec. 28, 2008	Unaudited March 30, 2008
ASSETS			
Current Assets:			
Cash and cash equivalents	$ 37,996	$ 45,407	$ 9,930
Accounts receivable, trade, less allowance for doubtful accounts of $1,820, $1,188 and $858, respectively	97,647	99,849	107,412
Accounts receivable from The Coca-Cola Company	20,857	3,454	14,158
Accounts receivable, other	11,969	12,990	6,655
Inventories	72,924	65,497	65,556
Prepaid expenses and other current assets	23,261	21,121	24,881
Total current assets	264,654	248,318	228,592
Property, plant and equipment, net	329,896	338,156	358,626
Leased property under capital leases, net	55,051	66,730	69,829
Other assets	40,260	33,937	35,662
Franchise rights, net	520,672	520,672	520,672
Goodwill, net	102,049	102,049	102,049
Other identifiable intangible assets, net	5,770	5,910	4,192
Total	$ 1,318,352	$ 1,315,772	$ 1,319,622

See Accompanying Notes to Consolidated Financial Statements

Table of Contents

Coca-Cola Bottling Co. Consolidated
CONSOLIDATED BALANCE SHEETS
In Thousands (Except Share Data)

	Unaudited March 29, 2009	Dec. 28, 2008	Unaudited March 30, 2008
LIABILITIES AND EQUITY			
Current Liabilities:			
Current portion of debt	$ 66,693	$ 176,693	$ 42,100
Current portion of obligations under capital leases	3,557	2,781	2,645
Accounts payable, trade	41,569	42,383	44,887
Accounts payable to The Coca-Cola Company	33,384	35,311	22,610
Other accrued liabilities	71,830	57,504	55,540
Accrued compensation	13,629	23,285	12,935
Accrued interest payable	13,606	8,139	14,337
Total current liabilities	244,268	346,096	195,054
Deferred income taxes	140,932	139,338	165,988
Pension and postretirement benefit obligations	104,898	107,005	33,645
Other liabilities	106,863	107,037	95,045
Obligations under capital leases	62,124	74,833	76,935
Long-term debt	524,757	414,757	591,450
Total liabilities	1,183,842	1,189,066	1,158,117
Commitments and Contingencies (Note 14)			
Equity:			
Common Stock, $1.00 par value:			
Authorized 30,000,000 shares;			
Issued 10,203,821, 9,706,051 and 9,706,051 shares, respectively	10,204	9,706	9,706
Class B Common Stock, $1.00 par value:			
Authorized 10,000,000 shares;			
Issued 2,649,996, 3,127,766 and 3,127,766 shares, respectively	2,649	3,127	3,127
Capital in excess of par value	103,562	103,582	102,732
Retained earnings	85,261	79,021	72,453
Accumulated other comprehensive loss	(56,601)	(57,873)	(12,925)
	145,075	137,563	175,093
Less-Treasury stock, at cost:			
Common 3,062,374 shares	60,845	60,845	60,845
Class B Common 628,114 shares	409	409	409
Total equity of Coca-Cola Bottling Co. Consolidated	83,821	76,309	113,839

Noncontrolling interest	50,689	50,397	47,666
Total equity	134,510	126,706	161,505
Total	$ 1,318,352	$ 1,315,772	$ 1,319,622

See Accompanying Notes to Consolidated Financial Statements

Table of Contents

Coca-Cola Bottling Co. Consolidated
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (UNAUDITED)
In Thousands

	Common Stock	Class B Common Stock	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total Equity of CCBCC	Noncontrolling Interest	Total Equity
lance on December 30, 2007	$ 9,706	$ 3,107	$ 102,469	$ 79,227	$ (12,751)	$ (61,254)	$ 120,504	$ 48,005	$ 168,50
omprehensive income:									
t income				(4,335)			(4,335)	(339)	(4,67
reign currency translation adjustments, t of tax					7		7		
nsion and postretirement benefit justments, net of tax					(67)		(67)		(6
tal comprehensive income							(4,395)	(339)	(4,73
justment to change measurement date SFAS No. 158, net of tax				(153)	(114)		(267)		(26
sh dividends paid									
mmon ($.25 per share)				(1,661)			(1,661)		(1,66
ass B Common ($.25 per share)				(625)			(625)		(62
uance of 20,000 shares of ass B Common Stock		20	(20)						
ock compensation expense			283				283		28
lance on March 30, 2008	$ 9,706	$ 3,127	$ 102,732	$ 72,453	$ (12,925)	$ (61,254)	$ 113,839	$ 47,666	$ 161,50
lance on December 28, 2008	$ 9,706	$ 3,127	$ 103,582	$ 79,021	$ (57,873)	$ (61,254)	$ 76,309	$ 50,397	$ 126,70
omprehensive income:									
t income				8,531			8,531	292	8,82
reign currency translation adjustments, t of tax					(6)		(6)		(
nsion and postretirement benefit justments, net of tax					1,278		1,278		1,27
tal comprehensive income							9,803	292	10,09
sh dividends paid									
mmon ($.25 per share)				(1,661)			(1,661)		(1,66
ass B Common ($.25 per share)				(630)			(630)		(63
uance of 20,000 shares of ass B Common Stock		20	(20)						
nversion of Class B Common Stock o Common Stock	498	(498)							
lance on March 29, 2009	$ 10,204	$ 2,649	$ 103,562	$ 85,261	$ (56,601)	$ (61,254)	$ 83,821	$ 50,689	$ 134,51

See Accompanying Notes to Consolidated Financial Statements

Table of Contents

Coca-Cola Bottling Co. Consolidated
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
In Thousands

	First Quarter 2009	First Quarter 2008
Cash Flows from Operating Activities		
Net income (loss)	$ 8,823	$ (4,674)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation expense	15,060	16,629
Amortization of intangibles	140	110
Deferred income taxes	(747)	(2,085)
(Gain) loss on sale of property, plant and equipment	(250)	369
Amortization of debt costs	603	615
Amortization of deferred gain related to terminated interest rate agreements	(850)	(426)
Stock compensation expense	517	283
Increase in current assets less current liabilities	(13,087)	(28,879)
(Increase) decrease in other noncurrent assets	(6,814)	147
Increase (decrease) in other noncurrent liabilities	(1,616)	1,753
Other	(56)	(152)
Total adjustments	(7,100)	(11,636)
Net cash provided by (used in) operating activities	1,723	(16,310)
Cash Flows from Investing Activities		
Additions to property, plant and equipment	(6,249)	(14,835)
Proceeds from the sale of property, plant and equipment	135	174
Investment in plastic bottle manufacturing cooperative		(729)
Net cash used in investing activities	(6,114)	(15,390)
Cash Flows from Financing Activities		
Proceeds from lines of credit, net		34,700
Cash dividends paid	(2,291)	(2,286)
Principal payments on capital lease obligations	(643)	(635)
Other	(86)	(20)
Net cash provided by (used in) financing activities	(3,020)	31,759
Net increase (decrease) in cash	(7,411)	59
Cash at beginning of period	45,407	9,871
Cash at end of period	$ 37,996	$ 9,930

Significant non-cash investing and financing activities:		
Issuance of Class B Common Stock in connection with stock award	$ 1,130	$ 1,171
Capital lease obligations incurred	660	

See Accompanying Notes to Consolidated Financial Statements

7

Coca-Cola Bottling Co. Consolidated

Notes to Consolidated Financial Statements (Unaudited)

1. Significant Accounting Policies

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

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

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

The accounting policies followed in the presentation of interim financial results are consistent with those followed on an annual basis. These policies are presented in Note 1 to the consolidated financial statements included in the Company s Annual Report on Form 10-K for the year ended December 28, 2008 filed with the United States Securities and Exchange Commission.

Effective December 29, 2008, the beginning of the first quarter of 2009 (Q1 2009), the Company implemented Statement of Financial Accounting Standards (SFAS) No. 160, Noncontrolling Interest in Consolidated Financial Statements an amendment of ARB No. 51. This Statement changes the accounting and reporting standards for the noncontrolling interest in a subsidiary (commonly referred to previously as minority interest). Piedmont Coca-Cola Bottling Partnership (Piedmont) is the Company s only subsidiary that has a noncontrolling interest. Noncontrolling interest income of $.3 million in Q1 2009 and noncontrolling interest loss of $.3 million in the first quarter of 2008 (Q1 2008) have been reclassified to be included in net income on the Company s consolidated statement of operations. In addition, the amount of consolidated net income attributable to both the Company and the noncontrolling interest are shown on the Company s consolidated statement of operations. Noncontrolling interest related to Piedmont totaled $50.7 million, $50.4 million and $47.4 million at March 29, 2009, December 28, 2008 and March 30, 2008, respectively. These amounts have been reclassified as noncontrolling interest in the equity section of the Company s consolidated balance sheets.

2. Seasonality of Business

Historically, operating results for the first quarter of the fiscal year have not been representative of results for the entire fiscal year. Business seasonality results primarily from higher unit sales of the Company s products in the second and third quarters versus the first and fourth quarters of the fiscal year. Fixed costs, such as depreciation expense, are not significantly impacted by business seasonality.

Coca-Cola Bottling Co. Consolidated
Notes to Consolidated Financial Statements (Unaudited)
3. Piedmont Coca-Cola Bottling Partnership
On July 2, 1993, the Company and The Coca-Cola Company formed Piedmont to distribute and market nonalcoholic beverages primarily in portions of North Carolina and South Carolina. The Company provides a portion of the nonalcoholic beverage products to Piedmont at cost and receives a fee for managing the operations of Piedmont pursuant to a management agreement. These intercompany transactions are eliminated in the consolidated financial statements.
Noncontrolling interest as of March 29, 2009, December 28, 2008 and March 30, 2008 represents the portion of Piedmont owned by The Coca-Cola Company. The Coca-Cola Company s interest in Piedmont was 22.7% for all periods presented.
4. Inventories
Inventories were summarized as follows:

In Thousands	March 29, 2009	Dec. 28, 2008	March 30, 2008
Finished products	$45,781	$36,418	$41,822
Manufacturing materials	9,091	12,620	6,923
Plastic shells, plastic pallets and other inventories	18,052	16,459	16,811
Total inventories	$72,924	$65,497	$65,556

5. Property, Plant and Equipment
The principal categories and estimated useful lives of property, plant and equipment were as follows:

In Thousands	March 29, 2009	Dec. 28, 2008	March 30, 2008	Estimated Useful Lives
Land	$ 12,167	$ 12,167	$ 12,280	
Buildings	109,403	109,384	110,721	10-50 years
Machinery and equipment	119,277	118,934	106,575	5-20 years
Transportation equipment	175,984	176,084	174,785	4-17 years
Furniture and fixtures	37,629	38,254	38,587	4-10 years
Cold drink dispensing equipment	316,487	319,188	325,586	6-15 years
Leasehold and land improvements	60,154	60,142	60,047	5-20 years
Software for internal use	63,479	59,786	52,155	3-10 years
Construction in progress	3,672	4,891	13,336	
Total property, plant and equipment, at cost	898,252	898,830	894,072	
Less: Accumulated depreciation and amortization	568,356	560,674	535,446	
Property, plant and equipment, net	$329,896	$338,156	$358,626	

Table of Contents

Coca-Cola Bottling Co. Consolidated
Notes to Consolidated Financial Statements (Unaudited)
5. Property, Plant and Equipment
Depreciation and amortization expense was $15.1 million and $16.6 million in Q1 2009 and Q1 2008, respectively. These amounts included amortization expense for leased property under capital leases.
The Company changed the useful lives of certain cold drink dispensing equipment in Q1 2009 to better reflect actual useful lives. The change in useful lives reduced depreciation expense in Q1 2009 by $1.2 million.
6. Leased Property Under Capital Leases
Leased property under capital leases was summarized as follows:

In Thousands	March 29, 2009	Dec. 28, 2008	March 30, 2008	Estimated Useful Lives
Leased property under capital leases	$76,877	$88,619	$88,619	3-20 years
Less: Accumulated amortization	21,826	21,889	18,790	
Leased property under capital leases, net	$55,051	$66,730	$69,829	

As of March 29, 2009, real estate represented $54.4 million of the leased property under capital leases and $52.7 million of this real estate is leased from related parties as described in Note 19 to the consolidated financial statements.
The Company modified a related party lease and terminated a second lease in Q1 2009. See Note 19 to the consolidated financial statements for additional information on the lease modification.
7. Franchise Rights and Goodwill
There was no change in the carrying amounts of franchise rights and goodwill in the periods presented. The Company performs its annual impairment test of franchise rights and goodwill as of the first day of the fourth quarter. During Q1 2009, the Company believes it did not experience any events or changes in circumstances that indicated the carrying amounts of the Company s franchise rights or goodwill exceeded fair values. As such, the Company did not perform an interim impairment test during Q1 2009 and did not record any impairments of franchise rights or goodwill.

Table of Contents

Coca-Cola Bottling Co. Consolidated
Notes to Consolidated Financial Statements (Unaudited)
8. Other Identifiable Intangible Assets
Other identifiable intangible assets were summarized as follows:

In Thousands	March 29, 2009	Dec. 28, 2008	March 30, 2008	Estimated Useful Lives
Other identifiable intangible assets	$8,665	$8,909	$6,599	1-20 years
Less: Accumulated amortization	2,895	2,999	2,407	
Other identifiable intangible assets, net	$5,770	$5,910	$4,192	

Other identifiable intangible assets primarily represent customer relationships and distribution rights.
9. Other Accrued Liabilities
Other accrued liabilities were summarized as follows:

In Thousands	March 29, 2009	Dec. 28, 2008	March 30, 2008
Accrued marketing costs	$ 7,591	$ 9,001	$ 6,406
Accrued insurance costs	17,540	17,132	15,281
Accrued taxes (other than income taxes)	1,880	374	2,080
Employee benefit plan accruals	11,184	8,626	8,936
Checks and transfers yet to be presented for payment from zero balance cash account	20,339	11,074	13,550
All other accrued liabilities	13,296	11,297	9,287
Total other accrued liabilities	$71,830	$57,504	$55,540

Coca-Cola Bottling Co. Consolidated
Notes to Consolidated Financial Statements (Unaudited)
10. Debt
Debt was summarized as follows:

In Thousands	Maturity	Interest Rate	Interest Paid	March 29, 2009	Dec. 28, 2008	March 30, 2008
Lines of Credit	2008		Varies	$	$	$ 42,100
Debentures	2009	7.20%	Semi-annually	57,440	57,440	57,440
Debentures	2009	6.375%	Semi-annually	119,253	119,253	119,253
Senior Notes	2012	5.00%	Semi-annually	150,000	150,000	150,000
Senior Notes	2015	5.30%	Semi-annually	100,000	100,000	100,000
Senior Notes	2016	5.00%	Semi-annually	164,757	164,757	164,757
				591,450	591,450	633,550
Less: Current portion of debt				66,693	176,693	42,100
Long-term debt				$524,757	$414,757	$591,450

On March 8, 2007, the Company entered into a $200 million revolving credit facility ($200 million facility), replacing its $100 million facility. The $200 million facility matures in March 2012 and includes an option to extend the term for an additional year at the discretion of the participating banks. The $200 million facility bears interest at a floating base rate or a floating rate of LIBOR plus an interest rate spread of .35%, dependent on the length of the term of the borrowing. In addition, the Company must pay an annual facility fee of .10% of the lenders aggregate commitments under the facility. Both the interest rate spread and the facility fee are determined from a commonly-used pricing grid based on the Company s long-term senior unsecured debt rating. The $200 million facility contains two financial covenants: a fixed charges coverage ratio and a debt to operating cash flow ratio, each as defined in the credit agreement. The fixed charges coverage ratio requires the Company to maintain a consolidated cash flow to fixed charges ratio of 1.5 to 1 or higher. The operating cash flow ratio requires the Company to maintain a debt to cash flow ratio of 6.0 to 1 or lower. On August 25, 2008, the Company entered into an amendment to the $200 million facility. The amendment clarified that charges incurred by the Company resulting from the Company s withdrawal from the Central States Pension Fund (Central States) would be excluded from the calculations of the financial covenants to the extent they are recognized before March 29, 2009 and do not exceed $15 million. See Note 18 to the consolidated financial statements for additional details on the withdrawal. The Company is currently in compliance with these covenants and the amendment to the $200 million facility. These covenants do not currently, and the Company does not anticipate they will, restrict its liquidity or capital resources. On March 29, 2009, December 28, 2008 and March 30, 2008, the Company had no outstanding borrowings under the $200 million facility.

Coca-Cola Bottling Co. Consolidated
Notes to Consolidated Financial Statements (Unaudited)
10. Debt
The Company borrows periodically under an uncommitted line of credit provided from a bank participating in the $200 million facility. This uncommitted line of credit made available at the discretion of the participating bank was temporarily terminated in the fourth quarter of 2008. In January 2009, the participating bank reinstated their uncommitted line of credit for $65 million. This uncommitted line of credit was terminated after March 29, 2009.
After taking into account all of its interest rate hedging activities, the Company had a weighted average interest rate of 5.6%, 5.9% and 5.9% for its debt and capital lease obligations as of March 29, 2009, December 28, 2008 and March 30, 2008, respectively. The Company s overall weighted average interest rate on its debt and capital lease obligations was 5.6% for Q1 2009 compared to 5.9% for Q1 2008. As of March 29, 2009, approximately 4.6% of the Company s debt and capital lease obligations of $657.1 million was subject to changes in short-term interest rates.
The Company s public debt is not subject to financial covenants but does limit the incurrence of certain liens and encumbrances as well as the incurrence of indebtedness by the Company s subsidiaries in excess of certain amounts.
All of the outstanding long-term debt has been issued by the Company with none being issued by any of the Company s subsidiaries. There are no guarantees of the Company s debt.
In April 2009, the Company issued $110 million of unsecured 7% Senior Notes due in 2019. The proceeds plus cash on hand were used to repay the $119.3 million debt maturity on May 1, 2009. Current portion of debt reflected the $176.7 million of debt maturing in May and July of 2009 less the $110 million of debt which was repaid from the proceeds of the 7% Senior Notes.
11. Derivative Financial Instruments
Interest
The Company periodically uses interest rate hedging products to modify risk from interest rate fluctuations. The Company has historically altered its fixed/floating rate mix based upon anticipated cash flows from operations relative to the Company s debt level and the potential impact of changes in interest rates on the Company s overall financial condition. Sensitivity analyses are performed to review the impact on the Company s financial position and coverage of various interest rate movements. The Company does not use derivative financial instruments for trading purposes nor does it use leveraged financial instruments.
On September 18, 2008, the Company terminated six outstanding interest rate swap agreements with a notional amount of $225 million receiving $6.2 million in cash proceeds including $1.1 million for previously accrued interest receivable. After accounting for previously accrued interest receivable, the Company will amortize a

Table of Contents

Coca-Cola Bottling Co. Consolidated
Notes to Consolidated Financial Statements (Unaudited)
11. Derivative Financial Instruments

gain of $5.1 million over the remaining term of the underlying debt. During Q1 2009, $.4 million of the gain was amortized. The remaining amount to be amortized is $4.3 million. All of the Company s interest rate swap agreements were LIBOR-based.

Interest rate swap agreements were summarized as follows:

		March 29, 2009		December 28, 2008		March 30, 2008	
In Thousands		Notional Amount	Remaining Term	Notional Amount	Remaining Term	Notional Amount	Remaining Term
Interest rate swap agreement	floating					$50,000	1.2 years
Interest rate swap agreement	floating					50,000	1.3 years
Interest rate swap agreement	floating					50,000	4.7 years
Interest rate swap agreement	floating					25,000	1.1 years
Interest rate swap agreement	floating					25,000	7.0 years
Interest rate swap agreement	floating					25,000	4.7 years

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

Commodities

The Company is subject to the risk of loss arising from adverse changes in commodity prices. In the normal course of business, the Company manages these risks through a variety of strategies, including the use of derivative instruments. The Company does not use derivative instruments for trading or speculative purposes. All derivative instruments are recorded at fair value as either assets or liabilities in the Company s consolidated balance sheets. These derivative instruments are not designated as hedging instruments under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, and are used as economic hedges to manage certain commodity risk. Currently the Company has derivative instruments to hedge its projected diesel fuel and aluminum purchase requirements. These derivative instruments are marked to market on a periodic basis and recognized in earnings consistent with the expense classification of the underlying hedged item.

The Company uses derivative instruments to hedge all of its projected diesel fuel purchases for 2009 and 2010. These derivative instruments relate to diesel fuel used by the Company s delivery fleet. At the end of Q1 2009, the Company began using derivative instruments to hedge 75% of the Company s projected 2010 aluminum purchase requirements. Subsequent to Q1 2009, the Company entered into derivative contracts to hedge 75% of the Company s projected 2011 aluminum purchase requirements.

Table of Contents

Coca-Cola Bottling Co. Consolidated
Notes to Consolidated Financial Statements (Unaudited)
11. Derivative Financial Instruments
The following summarizes the gains and the classification in the consolidated statement of operations of derivative instruments for Q1 2009:

In Thousands	Classification of Gain	Gain Recognized
Fuel hedges	Selling, delivery and administrative expenses	$ 1,451
Aluminum hedges	Cost of sales	663
Total Gain		$ 2,114

The following summarizes the fair values and classification in the consolidated balance sheets of derivative instruments held by the Company as of March 29, 2009:

In Thousands	Balance Sheet Classification	March 29, 2009
Assets		
Aluminum hedges at fair market value	Prepaid and other assets	$ 663
Unamortized cost of fuel hedging contracts	Prepaid and other assets	1,441
Unamortized cost of aluminum hedging contracts	Prepaid and other assets	1,197
Liabilities		
Fuel hedges at fair market value	Other accrued liabilities	215

In addition, the Company paid $2.5 million in April 2009 to enter aluminum hedging contracts relative to the hedging of 75% of the Company s projected 2011 aluminum purchase requirements.
The following table summarizes the Company s outstanding derivative contracts as of March 29, 2009:

In Thousands	Notional Amount	Latest Maturity
Diesel fuel hedging contracts	$ 29,759	December 2010
Aluminum hedging contracts	23,569	December 2010

In addition, the notional amount of the derivative contracts entered into subsequent to Q1 2009 to hedge 75% of the Company s projected 2011 aluminum purchase requirements was $29.6 million.
12. Fair Values of Financial Instruments
The following methods and assumptions were used by the Company in estimating the fair values of its financial instruments:
Cash and Cash Equivalents, Accounts Receivable and Accounts Payable
The fair values of cash and cash equivalents, accounts receivable and accounts payable approximate carrying values due to the short maturity of these items.
Public Debt Securities
The fair values of the Company s public debt securities are based on estimated current market prices.

Table of Contents

Coca-Cola Bottling Co. Consolidated
Notes to Consolidated Financial Statements (Unaudited)
12. Fair Value of Financial Instruments

Non-Public Variable Rate Debt

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

Deferred Compensation Plan Assets

The fair values of deferred compensation plan assets, which are held in mutual funds, are based upon the quoted market value of the securities held within the mutual funds.

Derivative Financial Instruments

The fair values for the Company s interest rate swap, fuel hedging and aluminum hedging agreements are based on current settlement values. Credit risk related to the derivative financial instruments is managed by requiring high standards for it counterparties and periodic settlements. The Company considers nonperformance risk in determining the fair value of derivative financial instruments.

Letters of Credit

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

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

	March 29, 2009		December 28, 2008		March 30, 2008	
In Thousands	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Public debt securities	$591,450	$569,606	$591,450	$559,963	$591,450	$588,616
Non-public variable rate debt					42,100	42,100
Deferred compensation plan assets	5,841	5,841	5,446	5,446	6,810	6,810
Interest rate swap agreements					(8,405)	(8,405)
Fuel hedging agreements	215	215	1,985	1,985	(654)	(654)
Aluminum hedging agreements	(663)	(663)				
Letters of credit		19,200		19,274		21,496

On September 18, 2008, the Company terminated all of its outstanding interest rate swap agreements. The fair value of interest rate swap agreements at March 30, 2008 represented the estimated amount the Company would have received upon termination of these agreements.

The fair values of the fuel hedging agreements at March 29, 2009 and December 28, 2008 represented the estimated amount the Company would have paid upon termination of these agreements. The fair value of the fuel hedging agreements at March 30, 2008 represented the estimated amount the Company would have received upon termination of these agreements.

Coca-Cola Bottling Co. Consolidated
Notes to Consolidated Financial Statements (Unaudited)
12. Fair Values of Financial Instruments

The fair value of the aluminum hedging agreements at March 29, 2009 represented the estimated amount the Company would have received upon termination of these agreements.

The Company adopted Statement of Financial Accounting Standards No. 157, Fair Value Measurement (SFAS No. 157) as of December 31, 2007, the beginning of Q1 2008, and there was no material impact to the consolidated financial statements. SFAS No. 157 currently applies to all financial assets and liabilities and for nonfinancial assets and liabilities recognized or disclosed at fair value on a recurring basis. In February 2008, the Financial Accounting Standards Board (FASB) issued FASB Staff Position SFAS No. 157-2, Effective Date of FASB Statement No. 157, which deferred the application date of the provisions of SFAS No. 157 for all nonfinancial assets and liabilities until Q1 2009 except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis. There was no material impact of the adoption of SFAS No. 157 for nonfinancial assets and liabilities in Q1 2009, but could have a material effect in the future. SFAS No. 157 requires disclosure that establishes a framework for measuring fair value in GAAP, and expands disclosures about fair value measurements. SFAS No. 157 is intended to enable the readers of financial statements to assess the inputs used to develop those measurements by establishing a hierarchy for ranking the quality and reliability of the information used to determine fair values. SFAS No. 157 requires that assets and liabilities carried at fair value be classified and disclosed in one of the following categories:

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

The following table summarizes, by assets and liabilities, the valuation of the Company s deferred compensation plan, aluminum hedging agreements, fuel hedging agreements and interest rate swap agreements for the categories above:

	March 29, 2009		December 28, 2008		March 30, 2008	
In Thousands	Level 1	Level 2	Level 1	Level 2	Level 1	Level 2
Assets						
Deferred compensation plan assets	$5,841		$5,446		$6,810	
Aluminum hedging agreements		$663				
Fuel hedging agreements						$ 654
Interest rate swap agreements						8,405
Liabilities						
Deferred compensation plan liabilities	5,841		5,446		6,810	
Fuel hedging agreements		215		$1,985		

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

Table of Contents

Coca-Cola Bottling Co. Consolidated

Notes to Consolidated Financial Statements (Unaudited)

12. Fair Values of Financial Instruments

The Company s fuel hedging agreements are based upon NYMEX and Weekly US Department of Energy Daily Average rates that are observable and quoted periodically over the full term of the agreement and are considered Level 2 items.

The Company s aluminum hedging agreements are based upon LME rates that are observable and quoted periodically over the full term of the agreement and are considered Level 2 items.

The Company s interest rate swap agreements were fair value hedges, meaning the Company received fixed and paid variable rates based on LIBOR swap rates. LIBOR swap rates are observable and quoted periodically over the full term of the agreements and are considered Level 2 items.

The Company does not have Level 3 assets or liabilities.

13. Other Liabilities

Other liabilities were summarized as follows:

In Thousands	March 29, 2009	Dec. 28, 2008	March 30, 2008
Accruals for executive benefit plans	$ 79,177	$ 77,299	$77,222
Other	27,686	29,738	17,823
Total other liabilities	$106,863	$107,037	$95,045

14. Commitments and Contingencies

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

The Company guarantees a portion of SAC s and Southeastern s debt and lease obligations. The amounts guaranteed were $40.3 million, $39.9 million and $45.4 million as of March 29, 2009, December 28, 2008 and March 30, 2008, respectively. The Company has not recorded any liability associated with these guarantees and holds no assets as collateral against these guarantees. The guarantees relate to the debt and lease obligations of SAC and Southeastern, which resulted primarily from the purchase of production equipment and facilities. These guarantees expire at various dates through 2021. The members of both cooperatives consist solely of Coca-Cola bottlers. The Company does not anticipate either of these cooperatives will fail to fulfill their commitments. The Company further believes each of these cooperatives has sufficient assets, including production equipment, facilities and working capital, and the ability to adjust selling prices of their products which adequately mitigate the risk of material loss from the Company s guarantees.

Coca-Cola Bottling Co. Consolidated
Notes to Consolidated Financial Statements (Unaudited)
14. Commitments and Contingencies

In the event either of these cooperatives fails to fulfill its commitments under the related debt and lease obligations, the Company would be responsible for payments to the lenders up to the level of the guarantees. If these cooperatives had borrowed up to their borrowing capacity, the Company s maximum exposure under these guarantees on March 29, 2009 would have been $25.2 million for SAC and $25.3 million for Southeastern and the Company s maximum total exposure, including its equity investment, would have been $30.8 million for SAC and $38.4 million for Southeastern. The Company has been purchasing plastic bottles from Southeastern and finished products from SAC for more than ten years.

The Company has an equity ownership in each of the entities in addition to the guarantees of certain indebtedness and records its investment in each under the equity method. As of March 29, 2009, SAC had total assets of approximately $42 million and total debt of approximately $21 million. SAC had total revenues for Q1 2009 of approximately $39 million. As of March 29, 2009, Southeastern had total assets of approximately $402 million and total debt of approximately $230 million. Southeastern had total revenue for Q1 2009 of approximately $141 million.

The Company has standby letters of credit, primarily related to its property and casualty insurance programs. On March 29, 2009, these letters of credit totaled $19.2 million.

The Company participates in long-term marketing contractual arrangements with certain prestige properties, athletic venues and other locations. The future payments related to these contractual arrangements as of March 29, 2009 amounted to $25.3 million and expire at various dates through 2017.

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

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

Table of Contents

Coca-Cola Bottling Co. Consolidated
Notes to Consolidated Financial Statements (Unaudited)
15. Income Taxes

The Company s effective income tax rate for Q1 2009 and Q1 2008 was 26.4% and 32.5%, respectively.

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

	First Quarter	
In Thousands	2009	2008
Statutory expense (benefit)	$ 4,057	$ (2,247)
State income taxes (benefits), net of federal effect	505	(279)
Manufacturing deduction benefit	(315)	128
Meals and entertainment	247	(103)
Adjustment for uncertain tax positions	(1,686)	159
Other, net	252	257
Income tax expense (benefit)	$ 3,060	$ (2,085)

As of December 28, 2008, the Company had $10.5 million of unrecognized tax benefits, including accrued interest, of which $9.4 million would affect the Company s effective tax rate if recognized. As of March 29, 2009, the Company had $9.3 million of unrecognized tax benefits, including accrued interest, of which $8.3 million would affect the Company s effective rate if recognized. It is expected that the amount of unrecognized tax benefits may change in the next 12 months. During this period, it is reasonably possible that tax audits could reduce unrecognized tax benefits. The Company cannot reasonably estimate the change in the amount of unrecognized tax benefits until further information is made available during the progress of the audits.

The Company recognizes potential interest and penalties related to uncertain tax positions in income tax expense. As of December 28, 2008, the Company had approximately $2.5 million of accrued interest related to uncertain tax positions. As of March 29, 2009, the Company had approximately $1.8 million of accrued interest related to uncertain tax positions. Income tax expense included interest credit of approximately $.7 million in Q1 2009 and interest expense of approximately $.1 million in Q1 2008.

In Q1 2009, the Company reached an agreement with a state taxing authority to settle prior tax positions for which the Company had previously provided reserves due to uncertainty of resolution. As a result, the Company reduced the liability for uncertain tax positions by $1.7 million. The net effect of the adjustment was a decrease to income tax expense of approximately $1.7 million.

Various tax years from 1990 remain open to examination by taxing jurisdictions to which the Company is subject due to loss carryforwards.

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

Table of Contents

Coca-Cola Bottling Co. Consolidated
Notes to Consolidated Financial Statements (Unaudited)

16. Accumulated Other Comprehensive Loss

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

A summary of accumulated other comprehensive loss is as follows:

In Thousands	Dec. 28, 2008	Pre-tax Activity	Tax Effect	March 29, 2009
Net pension activity:				
Actuarial loss	$(56,717)	$2,339	$(921)	$(55,299)
Prior service costs	(45)	4	(1)	(42)
Net postretirement benefits activity:				
Actuarial loss	(9,625)	217	(86)	(9,494)
Prior service costs	8,459	(446)	176	8,189
Transition asset	41	(6)	2	37
Foreign currency translation adjustment	14	(10)	4	8
Total	$(57,873)	$2,098	$(826)	$(56,601)

In Thousands	Dec. 30, 2007	Application of SFAS No. 158 After tax (1)	Pre-tax Activity	Tax Effect	March 30, 2008
Net pension activity:					
Actuarial loss	$ (12,684)	$ 23	$ 111	$ (43)	$ (12,593)
Prior service costs	(55)	1	4	(2)	(52)
Net postretirement benefits activity:					
Actuarial loss	(9,928)	141	229	(88)	(9,646)
Prior service costs	9,833	(275)	(446)	171	9,283
Transition asset	60	(4)	(6)	3	53
Foreign currency translation adjustment	23		12	(5)	30
Total	$ (12,751)	$ (114)	$ (96)	$ 36	$ (12,925)

(1) See Note 18 of the consolidated financial statements for additional information.

17. Capital Transactions

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[sm] under the symbol COKE. There is no established public trading market for the Class B Common Stock. Shares of the Class B Common Stock are convertible on a share-for-share basis into shares of Common Stock at any time at the option of the holders of Class B Common Stock.

Table of Contents

Coca-Cola Bottling Co. Consolidated
Notes to Consolidated Financial Statements (Unaudited)
17. Capital Transactions

No cash dividend or dividend of property or stock other than stock of the Company, as specifically described in the Company s certificate of incorporation, may be declared and paid on the Class B Common Stock unless an equal or greater dividend is declared and paid on the Common Stock. During Q1 2009 and Q1 2008, dividends of $.25 per share were declared and paid on both Common Stock and Class B Common Stock.

Each share of Common Stock is entitled to one vote per share and each share of Class B Common Stock is entitled to 20 votes per share at all meetings of stockholders. Except as otherwise required by law, holders of the Common Stock and Class B Common Stock vote together as a single class on all matters brought before the Company s stockholders. In the event of liquidation, there is no preference between the two classes of common stock.

On May 12, 1999, the stockholders of the Company approved a restricted stock award for J. Frank Harrison, III, the Company s Chairman of the Board of Directors and Chief Executive Officer, consisting of 200,000 shares of the Company s Class B Common Stock. Under the award, shares of restricted stock were granted at a rate of 20,000 shares per year over a ten-year period. The vesting of each annual installment was contingent upon the Company achieving at least 80% of the overall goal achievement factor in the Company s Annual Bonus Plan. The restricted stock award did not entitle Mr. Harrison, III to participate in dividend or voting rights until each installment had vested and the shares were issued. The restricted stock award expired at the end of fiscal year 2008.

On February 27, 2008, the Compensation Committee of the Board of Directors determined 20,000 shares of restricted Class B Common Stock vested and should be issued to Mr. Harrison, III for the fiscal year ended December 30, 2007. On March 4, 2009, the Compensation Committee determined an additional 20,000 shares of restricted Class B Common Stock vested and should be issued to Mr. Harrison, III for the fiscal year ended December 28, 2008.

Each annual 20,000 share tranche had an independent performance requirement as it was not established until the Company s Annual Bonus Plan targets were approved each year by the Company s Board of Directors. As a result, each 20,000 share tranche was considered to have its own service inception date, grant-date fair value and requisite service period. The Company s Annual Bonus Plan targets, which establish the performance requirement for the restricted stock awards, were approved by the Compensation Committee of the Board of Directors in the first quarter of each year.

A summary of the restricted stock award was as follows:

Year	Shares Awarded	Grant-Date Price	Potential Annual Compensation Expense	First Quarter Compensation Expense
2008	20,000	$56.50	$1,130,000	$282,500

Table of Contents

Coca-Cola Bottling Co. Consolidated
Notes to Consolidated Financial Statements (Unaudited)
17. Capital Transactions

In addition, the Company reimbursed Mr. Harrison, III for income taxes to be paid on the shares if the performance requirement was met and the shares were issued. The Company accrued the estimated cost of the income tax reimbursement over the one-year service period.

On April 29, 2008, the stockholders of the Company approved a Performance Unit Award Agreement for Mr. Harrison, III consisting of 400,000 performance units (Units). Each Unit represents the right to receive one share of the Company s Class B Common Stock, subject to certain terms and conditions. The Units will vest in annual increments over a ten-year period starting in fiscal year 2009. The number of Units that vest each year will equal the product of 40,000 multiplied by the overall goal achievement factor (not to exceed 100%) under the Company s Annual Bonus Plan. The Performance Unit Award Agreement replaced the restricted stock award discussed above.

Each annual 40,000 unit tranche has an independent performance requirement as it is not established until the Company s Annual Bonus Plan targets are approved each year by the Company s Board of Directors. As a result, each 40,000 unit tranche is considered to have its own service inception date and requisite service period. The Company s Annual Bonus Plan targets, which establish the performance requirements for the Performance Unit Award Agreement, are approved by the Compensation Committee of the Board of Directors in the first quarter of each year. The Performance Unit Award Agreement does not entitle Mr. Harrison, III to participate in dividends or voting rights until each installment has vested and the shares are issued.

Compensation expense recognized in Q1 2009 was $.5 million, which was based upon a share price of $51.68 on March 27, 2009.

On February 19, 2009, The Coca-Cola Company converted all of its 497,670 shares of the Company s Class B Common Stock into an equivalent number of shares of the Company s Common Stock.

The increase in the total number of shares outstanding in Q1 2009 was due to the issuance of 20,000 shares of Class B Common Stock related to the restricted stock award.

The increase in the number of shares of Common Stock was due to the conversion by The Coca-Cola Company of 497,670 shares of Class B Common Stock into 497,670 shares of Common Stock plus the conversion of another 100 shares of Class B Common Stock into 100 shares of Common Stock. The decrease in the number of shares of Class B Common Stock was due to the conversion by The Coca-Cola Company of 497,670 shares of Class B Common Stock into 497,670 shares of Common Stock plus the conversion of another 100 shares of Class B Common Stock into 100 shares of Common Stock, offset by the issuance of 20,000 shares of Class B Common Stock related to the restricted stock award.

The increase in the total number of shares outstanding in Q1 2008 was due to the issuance of 20,000 shares of Class B Common Stock related to the restricted stock award.

Table of Contents

Coca-Cola Bottling Co. Consolidated
Notes to Consolidated Financial Statements (Unaudited)
18. Benefit Plans
Recently Adopted Pronouncement
In September 2006, the FASB issued Statement of Financial Accounting Standards No. 158, Employers Accounting for Defined Pension and Other Postretirement Plans (SFAS No. 158), which was effective for the year ending December 31, 2006 except for the requirement that the benefit plan assets and obligations be measured as of the date of the employer s statement of financial position, which was effective for the year ending December 28, 2008. The Company adopted the measurement date provisions of SFAS No. 158 on the first day of Q1 2008 and used the one measurement approach. The incremental effect of applying the measurement date provisions on the balance sheet in Q1 2008 was as follows: