

COCA COLA BOTTLING CO CONSOLIDATED /DE/  
Form 10-Q  
August 07, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 28, 2015

Commission File Number 0-9286

COCA-COLA BOTTLING CO. CONSOLIDATED

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization) 56-0950585  
(I.R.S. Employer  
Identification No.)  
4100 Coca-Cola Plaza,  
Charlotte, North Carolina 28211

(Address of principal executive offices) (Zip Code)

(704) 557-4400

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90

days. Yes  No

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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  (Do not check if a smaller reporting company) 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

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

Class	Outstanding at July 31, 2015
Common Stock, \$1.00 Par Value	7,141,447
Class B Common Stock, \$1.00 Par Value	2,150,782

COCA-COLA BOTTLING CO. CONSOLIDATED

QUARTERLY REPORT ON FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED JUNE 28, 2015

INDEX

	Page
<u>PART I – FINANCIAL INFORMATION</u>	
Item 1. <u>Financial Statements (Unaudited)</u>	
<u>Consolidated Statements of Operations</u>	2
<u>Consolidated Statements of Comprehensive Income</u>	3
<u>Consolidated Balance Sheets</u>	4
<u>Consolidated Statements of Changes in Equity</u>	6
<u>Consolidated Statements of Cash Flows</u>	7
<u>Notes to Consolidated Financial Statements</u>	8
Item 2. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	30
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	49
Item 4. <u>Controls and Procedures</u>	50
<u>PART II – OTHER INFORMATION</u>	
Item 1A. <u>Risk Factors</u>	51
Item 6. <u>Exhibits</u>	51
<u>Signatures</u>	52

## PART I - FINANCIAL INFORMATION

## Item 1. Financial Statements.

## Coca-Cola Bottling Co. Consolidated

## CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

In Thousands (Except Per Share Data)

	Second Quarter		First Half	
	2015	2014	2015	2014
Net sales	\$614,683	\$459,473	\$1,067,936	\$848,055
Cost of sales	377,366	273,953	646,246	506,202
Gross margin	237,317	185,520	421,690	341,853
Selling, delivery and administrative expenses	199,001	154,256	366,472	298,473
Income from operations	38,316	31,264	55,218	43,380
Interest expense, net	6,718	7,343	14,065	14,566
Other income (expense)	6,078	0	989	0
Gain on exchange of franchise territory	8,807	0	8,807	0
Income before income taxes	46,483	23,921	50,949	28,814
Income tax expense	17,562	8,589	19,075	10,381
Net income	28,921	15,332	31,874	18,433
Less: Net income attributable to noncontrolling interest	1,987	1,549	2,716	2,201
Net income attributable to Coca-Cola Bottling Co. Consolidated	\$26,934	\$13,783	\$29,158	\$16,232
Basic net income per share based on net income				
attributable to Coca-Cola Bottling Co. Consolidated:				
Common Stock	\$2.90	\$1.49	\$3.14	\$1.75
Weighted average number of Common Stock shares				
outstanding	7,141	7,141	7,141	7,141
Class B Common Stock				
Weighted average number of Class B Common Stock	\$2.90	\$1.49	\$3.14	\$1.75
shares outstanding	2,151	2,130	2,143	2,123
Diluted net income per share based on net income				
attributable to Coca-Cola Bottling Co. Consolidated:				
Common Stock	\$2.89	\$1.48	\$3.13	\$1.74
Weighted average number of Common Stock shares				
outstanding – assuming dilution	9,332	9,311	9,324	9,304

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

Class B Common Stock	\$2.88	\$1.48	\$3.12	\$1.74
Weighted average number of Class B Common Stock				
shares outstanding – assuming dilution	2,191	2,170	2,183	2,163
Cash dividends per share:				
Common Stock	\$.25	\$.25	\$.50	\$.50
Class B Common Stock	\$.25	\$.25	\$.50	\$.50

See Accompanying Notes to Consolidated Financial Statements.

Coca-Cola Bottling Co. Consolidated

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

In Thousands

	Second Quarter		First Half	
	2015	2014	2015	2014
Net income	\$28,921	\$15,332	\$31,874	\$18,433
Other comprehensive income, net of tax:				
Foreign currency translation adjustment	0	0	(4 )	0
Defined benefit plans reclassification included in pension costs:				
Actuarial loss	488	259	977	518
Prior service costs	6	6	11	11
Postretirement benefits reclassification included in benefits costs:				
Actuarial loss	441	345	881	691
Prior service costs	(516 )	(233 )	(1,032 )	(465 )
Other comprehensive income, net of tax	419	377	833	755
Comprehensive income	29,340	15,709	32,707	19,188
Less: Comprehensive income attributable to noncontrolling interest	1,987	1,549	2,716	2,201
Comprehensive income attributable to Coca-Cola Bottling Co.				
Consolidated	\$27,353	\$14,160	\$29,991	\$16,987

See Accompanying Notes to Consolidated Financial Statements.





Coca-Cola Bottling Co. Consolidated

## CONSOLIDATED BALANCE SHEETS (UNAUDITED)

In Thousands (Except Share Data)

	June 28, 2015	Dec. 28, 2014	June 29, 2014
<b>ASSETS</b>			
<b>Current Assets:</b>			
Cash and cash equivalents	\$43,801	\$9,095	\$22,874
Accounts receivable, trade, less allowance for doubtful accounts of \$1,517, \$1,330 and \$1,550, respectively	192,600	125,726	133,509
Accounts receivable from The Coca-Cola Company	41,324	22,741	30,755
Accounts receivable, other	19,467	14,531	13,873
Inventories	99,641	70,740	83,313
Prepaid expenses and other current assets	41,084	44,168	30,316
Total current assets	437,917	287,001	314,640
Property, plant and equipment, net	419,263	358,232	316,978
Leased property under capital leases, net	43,257	42,971	45,969
Other assets	64,605	60,832	60,344
Franchise rights	527,540	520,672	520,672
Goodwill	111,591	106,220	103,294
Other identifiable intangible assets, net	105,818	57,148	17,283
<b>Total assets</b>	<b>\$1,709,991</b>	<b>\$1,433,076</b>	<b>\$1,379,180</b>

See Accompanying Notes to Consolidated Financial Statements.

Coca-Cola Bottling Co. Consolidated

## CONSOLIDATED BALANCE SHEETS (UNAUDITED)

In Thousands (Except Share Data)

	June 28, 2015	Dec. 28, 2014	June 29, 2014
<b>LIABILITIES AND EQUITY</b>			
<b>Current Liabilities:</b>			
Current portion of debt	\$0	\$0	\$20,000
Current portion of obligations under capital leases	6,859	6,446	6,190
Accounts payable, trade	79,327	58,640	54,281
Accounts payable to The Coca-Cola Company	92,004	51,227	55,316
Other accrued liabilities	97,268	68,775	73,088
Accrued compensation	32,724	38,677	24,544
Accrued interest payable	2,269	3,655	3,942
<b>Total current liabilities</b>	<b>310,451</b>	<b>227,420</b>	<b>237,361</b>
Deferred income taxes	137,402	140,000	146,777
Pension and postretirement benefit obligations	133,548	134,100	89,160
Other liabilities	225,202	177,250	139,926
Obligations under capital leases	52,294	52,604	55,873
Long-term debt	563,860	444,759	433,661
<b>Total liabilities</b>	<b>1,422,757</b>	<b>1,176,133</b>	<b>1,102,758</b>
<b>Commitments and Contingencies (Note 12)</b>			
<b>Equity:</b>			
<b>Common Stock, \$1.00 par value:</b>			
Authorized – 30,000,000 shares;			
Issued – 10,203,821 shares	10,204	10,204	10,204
<b>Class B Common Stock, \$1.00 par value:</b>			
Authorized – 10,000,000 shares;			
Issued – 2,778,896, 2,757,976 and 2,757,976 shares, respectively	2,777	2,756	2,756
Capital in excess of par value	113,064	110,860	110,860
Retained earnings	235,474	210,957	200,470
Accumulated other comprehensive loss	(89,081 )	(89,914 )	(57,421 )
	272,438	244,863	266,869
<b>Less-Treasury stock, at cost:</b>			
Common – 3,062,374 shares	60,845	60,845	60,845
Class B Common – 628,114 shares	409	409	409
<b>Total equity of Coca-Cola Bottling Co. Consolidated</b>	<b>211,184</b>	<b>183,609</b>	<b>205,615</b>
Noncontrolling interest	76,050	73,334	70,807
<b>Total equity</b>	<b>287,234</b>	<b>256,943</b>	<b>276,422</b>

Total liabilities and equity	\$1,709,991	\$1,433,076	\$1,379,180
------------------------------	-------------	-------------	-------------

See Accompanying Notes to Consolidated Financial Statements.

Coca-Cola Bottling Co. Consolidated

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (UNAUDITED)

In Thousands (Except Share Data)

	Common Stock	Class B Common Stock	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total Equity of CCBCC	Noncontrolling Interest	Total Equity
Balance on Dec. 29, 2013	\$ 10,204	\$ 2,735	\$ 108,942	\$ 188,869	\$ (58,176 )	\$ (61,254)	\$ 191,320	\$ 68,606	\$ 259,926
Net income				16,232			16,232	2,201	18,433
Other comprehensive income, net of tax					755		755		755
Cash dividends paid									
Common (\$ .50 per share)				(3,571 )			(3,571 )		(3,571 )
Class B Common (\$ .50 per share)				(1,060 )			(1,060 )		(1,060 )
Stock compensation adjustments			176				176		176
Issuance of 20,900 shares of Class B Common Stock		21	1,742				1,763		1,763
Balance on June 29, 2014	\$ 10,204	\$ 2,756	\$ 110,860	\$ 200,470	\$ (57,421 )	\$ (61,254)	\$ 205,615	\$ 70,807	\$ 276,422
Balance on Dec. 28, 2014	\$ 10,204	\$ 2,756	\$ 110,860	\$ 210,957	\$ (89,914 )	\$ (61,254)	\$ 183,609	\$ 73,334	\$ 256,943
Net income				29,158			29,158	2,716	31,874

Other  
comprehensive  
income,

net of tax					833		833		833
Cash dividends paid									
Common (\$0.50 per share)					(3,571 )		(3,571 )		(3,571 )
Class B Common (\$0.50 per share)					(1,070 )		(1,070 )		(1,070 )
Issuance of 20,920 shares of Class B Common Stock	21	2,204					2,225		2,225
Balance on June 28, 2015	\$10,204	\$2,777	\$113,064	\$235,474	\$(89,081 )	\$(61,254)	\$211,184	\$76,050	\$287,234

See Accompanying Notes to Consolidated Financial Statements.

6

---

Coca-Cola Bottling Co. Consolidated

## CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

In Thousands

	First Half	
	2015	2014
<b>Cash Flows from Operating Activities</b>		
Net income	\$31,874	\$18,433
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation expense	35,994	29,245
Amortization of intangibles	1,380	198
Deferred income taxes	(1,454 )	505
(Gain)/loss on sale of property, plant and equipment	449	(38 )
Impairment of property, plant and equipment	148	0
Gain on exchange of franchise territory	(8,807 )	0
Amortization of debt costs	996	958
Amortization of deferred gain related to terminated interest rate agreements	(133 )	(279 )
Stock compensation expense	2,980	1,491
Fair value adjustment of acquisition-related contingent consideration	(989 )	0
Increase in current assets less current liabilities (exclusive of acquisition)	(29,538 )	(30,876)
Increase in other noncurrent assets (exclusive of acquisition)	(4,106 )	(2,744 )
Increase (decrease) in other noncurrent liabilities (exclusive of acquisition)	4,183	(5,135 )
Other	(9 )	(1 )
Total adjustments	1,094	(6,676 )
Net cash provided by operating activities	32,968	11,757
<b>Cash Flows from Investing Activities</b>		
Additions to property, plant and equipment (exclusive of acquisition)	(57,140 )	(37,034)
Proceeds from the sale of property, plant and equipment	144	1,061
Acquisition of new territories, net of cash acquired	(51,276 )	(12,163)
Net cash used in investing activities	(108,272)	(48,136)
<b>Cash Flows from Financing Activities</b>		
Borrowings under revolving credit facility	239,000	75,000
Payment on revolving credit facility	(20,000 )	(20,000)
Payment of debt	(100,000)	0
Cash dividends paid	(4,641 )	(4,631 )
Excess tax expense from stock-based compensation	0	176
Payment on acquisition related contingent consideration	(789 )	0
Principal payments on capital lease obligations	(3,258 )	(2,925 )
Debt issuance costs (revolving credit facility)	(214 )	0
Other	(88 )	(128 )
Net cash provided by financing activities	110,010	47,492
Net increase in cash	34,706	11,113



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

Cash at beginning of period	9,095	11,761
Cash at end of period	\$43,801	\$22,874
<b>Significant noncash investing and financing activities:</b>		
Issuance of Class B Common Stock in connection with stock award	\$2,225	\$1,763
Capital lease obligations incurred	3,361	0
Additions to property, plant and equipment accrued and recorded in accounts payable, trade	6,997	2,882

See Accompanying Notes to Consolidated Financial Statements.

Coca-Cola Bottling Co. Consolidated

Notes to Consolidated Financial Statements (Unaudited)

## 1. Significant Accounting Policies

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

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

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

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

## 2. Acquisitions

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

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

2014 Expansion Territories

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

## Coca-Cola Bottling Co. Consolidated

## Notes to Consolidated Financial Statements (Unaudited)

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

In Thousands	Johnson	
	City/ Morristown Territory	Knoxville Territory
Cash	\$ 46	\$ 108
Inventories	1,150	2,105
Prepaid expenses and other current assets	697	1,780
Property, plant and equipment	8,495	17,152
Other assets	55	1,122
Goodwill	942	3,138
Other identifiable intangible assets	13,800	40,400
Total acquired assets	\$ 25,185	\$ 65,805
Current liabilities (acquisition related contingent consideration)	\$ 1,005	\$ 2,426
Current liabilities	31	2,241
Accounts payable to The Coca-Cola Company	0	242
Other liabilities (including deferred taxes)	0	589
Other liabilities (acquisition related contingent consideration)	11,995	30,774
Total assumed liabilities	\$ 13,031	\$ 36,272

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

In Thousands	Johnson		Estimated Useful Lives
	City/ Morristown Territory	Knoxville Territory	
Distribution agreements	\$ 13,200	\$ 39,400	40 years
Customer lists	600	1,000	12 years
Total	\$ 13,800	\$ 40,400	

The goodwill of \$0.9 million and \$3.1 million for the Johnson City/Morristown and Knoxville Territories, respectively, is primarily attributed to the workforce. Goodwill of \$0.2 million and \$2.6 million for the Johnson City/Morristown and Knoxville Territories, respectively, is expected to be deductible for tax purposes.

## 2015 Expansion Territories

During YTD 2015, the Company closed on the expansion of the following franchise territories: Cleveland and Cookeville, Tennessee; Louisville, Kentucky and Evansville, Indiana; and Paducah and Pikeville, Kentucky. The details of the transactions are included below.

#### Cleveland and Cookeville, Tennessee Territory Acquisitions

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

#### Louisville, Kentucky and Evansville, Indiana Territory Acquisitions

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

## Coca-Cola Bottling Co. Consolidated

## Notes to Consolidated Financial Statements (Unaudited)

## Paducah and Pikeville, Kentucky Territory Acquisitions

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

The fair values of acquired assets and assumed liabilities of the January, February and May Expansion Territories are summarized as follows:

	January	February	May
	Expansion	Expansion	Expansion
In Thousands	Territory	Territory	Territory
Cash	\$ 59	\$ 105	\$ 45
Inventories	1,237	1,269	1,045
Prepaid expenses and other current assets	1,000	1,724	339
Property, plant and equipment	6,717	16,574	6,611
Other assets (including deferred taxes)	435	933	438
Goodwill	1,134	3,492	797
Other identifiable intangible assets	17,750	29,600	1,700
Total acquired assets	\$ 28,332	\$ 53,697	\$ 10,975
Current liabilities (acquisition related contingent consideration)	\$ 843	\$ 1,659	\$ 281
Other current liabilities	0	370	395
Other liabilities	0	832	0
Other liabilities (acquisition related contingent consideration)	13,729	31,052	2,748
Total assumed liabilities	\$ 14,572	\$ 33,913	\$ 3,424

The fair value of the acquired identifiable intangible assets as of the January, February and May Expansion Territories are as follows:

In Thousands	January	February	May	Estimated
	Expansion	Expansion	Expansion	Useful Lives

	Territory	Territory	Territory	
Distribution agreements	\$ 17,200	\$ 28,400	\$ 1,500	40 years
Customer lists	550	1,200	200	12 years
Total	\$ 17,750	\$ 29,600	\$ 1,700	

The goodwill of \$1.1 million, \$3.5 million and \$0.8 million for the January, February, and May Expansion Territories, respectively, is primarily attributed to the workforce. Goodwill of \$0.1 million and \$1.6 million is expected to be deductible for tax purposes for the January and February Expansion Territories, respectively. No goodwill is expected to be deductible for tax purposes for the May Expansion Territory.

The Company has preliminarily allocated the purchase price of the 2014 and 2015 Expansion Territories to the individual acquired assets and assumed liabilities. The valuations are subject to adjustment as additional information is obtained, but any adjustments are not expected to be material. The fair values of identifiable intangible assets and acquisition related contingent consideration are final.

The financial results of the January, February and May Expansion Territories have been included in the Company's consolidated financial statements from their respective acquisition dates. These territories contributed \$72.5 million in net sales and \$2.7 million in operating income during the second quarter of 2015 ("Q2 2015"). These territories contributed \$90.5 million in net sales and \$4.4 million in operating income during the first half of 2015 ("YTD 2015").

The anticipated range of amounts the Company could pay annually under the acquisition related contingent consideration arrangements for the 2014 Expansion Territories and the 2015 Expansion Territories is between \$6 million and \$11 million. As of

## Coca-Cola Bottling Co. Consolidated

## Notes to Consolidated Financial Statements (Unaudited)

June 28, 2015, the Company has recorded a liability of \$94.1 million to reflect the estimated fair value of the contingent consideration related to the future sub-bottling payments. The contingent consideration was valued using a probability weighted discounted cash flow model based on internal forecasts and the weighted average cost of capital derived from market data. The contingent consideration is reassessed and adjusted to fair value each quarter through other income (expense). During YTD 2015, the Company recorded a favorable fair value adjustment to the contingent consideration liability of \$1.0 million primarily due to a change in the risk-free interest discount rate.

## 2015 Asset Exchange Agreement

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

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

In Thousands	Lexington Expansion Territory
Cash	\$ 56
Inventories	2,715
Prepaid expenses and other current assets	447
Property, plant and equipment	12,717
Other assets	26
Franchise rights	18,200
Goodwill	2,259
Other identifiable intangible assets	1,000
<b>Total acquired assets</b>	<b>\$ 37,420</b>
<b>Current liabilities</b>	<b>\$ 669</b>
<b>Total assumed liabilities</b>	<b>\$ 669</b>

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



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

The goodwill related to the Lexington Expansion Territories is primarily attributed to the workforce of the territories. Goodwill of \$2.2 million is expected to be deductible for tax purposes.

The Company has preliminarily allocated the purchase price of the Lexington Expansion Territory to the individual acquired assets and assumed liabilities. The valuations are subject to adjustment as additional information is obtained, but any adjustments are not expected to be material. The fair values of identifiable intangible assets and acquisition related contingent consideration are final.

## Coca-Cola Bottling Co. Consolidated

## Notes to Consolidated Financial Statements (Unaudited)

The carrying value of assets exchanged related to the Jackson territory was \$17.5 million, resulting in a gain on the exchange of \$8.8 million. This gain was recorded in the Consolidated Statements of Operations in the line item titled "Gain on exchange of franchise territory".

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

## 3. Inventories

In Thousands	June 28, 2015	Dec. 28, 2014	June 29, 2014
Finished products	\$67,936	\$42,526	\$55,027
Manufacturing materials	11,024	10,133	10,162
Plastic shells, plastic pallets and other inventories	20,681	18,081	18,124
Total inventories	\$99,641	\$70,740	\$83,313

The growth in the inventory balance at June 28, 2015 as compared to December 28, 2014 and June 29, 2014 is primarily due to inventory acquired through the acquisitions of the Expansion Territories.

## 4. Property, Plant and Equipment

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

In Thousands	June 28, 2015	Dec. 28, 2014	June 29, 2014	Estimated Useful Lives
Land	\$17,317	\$14,762	\$14,247	
Buildings	124,426	120,533	115,721	8-50 years
Machinery and equipment	159,713	154,897	151,872	5-20 years
Transportation equipment	204,768	190,216	169,063	4-20 years
Furniture and fixtures	50,815	45,623	44,987	3-10 years
Cold drink dispensing equipment	375,650	345,391	329,063	5-17 years

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

Leasehold and land improvements	81,660	75,104	73,889	5-20 years
Software for internal use	92,916	91,156	84,147	3-10 years
Construction in progress	13,411	6,528	4,949	
Total property, plant and equipment, at cost	1,120,676	1,044,210	987,938	
Less: Accumulated depreciation and amortization	701,413	685,978	670,960	
Property, plant and equipment, net	\$419,263	\$358,232	\$316,978	

Depreciation and amortization expense was \$18.9 million and \$14.7 million in Q2 2015 and in the second quarter of 2014 (“Q2 2014”), respectively. Depreciation and amortization expense was \$36.0 million and \$29.2 million in YTD 2015 and the first half of 2014 (“YTD 2014”), respectively. These amounts included amortization expense for leased property under capital leases.

#### 5. Franchise Rights and Goodwill

In Thousands	June 28, 2015	Dec. 28, 2014	June 29, 2014
Franchise rights	\$527,540	\$520,672	\$520,672
Goodwill	111,591	106,220	103,294
Total franchise rights and goodwill	\$639,131	\$626,892	\$623,966

During YTD 2015 and YTD 2014, the Company acquired \$5.4 million and \$1.2 million of goodwill related to the 2015 Expansion Territories and 2014 Expansion Territories, respectively. In addition, as a part of the Lexington-for-Jackson exchange, during YTD 2015 the Company added \$2.3 million of goodwill related to the Lexington territory and reduced goodwill by \$2.2 million related to the Jackson territory.

## Coca-Cola Bottling Co. Consolidated

## Notes to Consolidated Financial Statements (Unaudited)

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

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

## 6. Other Identifiable Intangible Assets

In Thousands	June 28, 2015	Dec. 28, 2014	June 29, 2014	Estimated Useful Lives
Distribution agreements	\$102,209	\$54,909	\$15,509	20-40 years
Customer lists and other identifiable intangible assets	10,188	7,438	6,838	12-20 years
Total other identifiable intangible assets	112,397	62,347	22,347	
Less: Accumulated amortization	6,579	5,199	5,064	
Other identifiable intangible assets, net	\$105,818	\$57,148	\$17,283	

During YTD 2015, the Company acquired \$47.1 million of distribution agreement intangible assets and \$2.0 million of customer lists intangible assets related to the 2015 Expansion Territories. In addition, as a result of the Lexington-for-Jackson exchange, during YTD 2015 the Company acquired distribution agreement intangible assets of \$0.2 million and customer lists intangible assets of \$0.8 million related to the Lexington Expansion Territory.

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

## 7. Other Accrued Liabilities

In Thousands	June 28, 2015	Dec. 28, 2014	June 29, 2014
--------------	------------------	------------------	------------------

Accrued marketing costs	\$20,147	\$16,141	\$12,944
Accrued insurance costs	22,877	21,055	21,503
Accrued taxes (other than income taxes)	6,470	2,430	3,362
Employee benefit plan accruals	13,314	12,517	11,165
Checks and transfers yet to be presented for payment from			
zero balance cash accounts	14,335	2,324	12,134
All other accrued liabilities	20,125	14,308	11,980
Total other accrued liabilities	\$97,268	\$68,775	\$73,088

## 8. Debt

The Company has historically obtained its long-term debt financing, other than capital leases, from various sources including banks and the public markets. As of June 28, 2015, the Company's total outstanding balance of debt and capital lease obligations was \$623.0 million of which \$273.9 million was financed through publicly offered debt. The Company had capital lease obligations of \$59.2 million as of June 28, 2015. The Company mitigates its financing risk by using multiple financial institutions and enters into credit arrangements only with institutions with investment grade credit ratings. The Company monitors counterparty credit ratings on an ongoing basis.

On October 16, 2014, the Company entered into a \$350 million five-year unsecured revolving credit facility (the "Revolving Credit Facility") which amended and restated the Company's existing \$200 million five-year unsecured revolving credit agreement. On April 27, 2015, the Company exercised the accordion feature of the Revolving Credit Facility, thereby increasing the aggregate availability by \$100 million to \$450 million. The Revolving Credit Facility has a scheduled maturity date of October 16, 2019 and up to \$50 million is available for the issuance of letters of credit. Borrowings under the Revolving Credit Facility bear interest at a floating base

Coca-Cola Bottling Co. Consolidated

Notes to Consolidated Financial Statements (Unaudited)

rate or a floating Eurodollar rate plus an applicable margin, dependent on the Company's credit rating at the time of borrowing. At the Company's current credit ratings, the Company must pay an annual facility fee of .15% of the lenders' aggregate commitments under the Revolving Credit Facility. The Revolving Credit Facility includes two financial covenants: a cash flow/fixed charges ratio ("fixed charges coverage ratio") and funded indebtedness/cash flow ratio ("operating cash flow ratio"), each as defined in the agreement. The Company was in compliance with these covenants at June 28, 2015. These covenants do not currently, and the Company does not anticipate they will, restrict its liquidity or capital resources.

On June 28, 2015, the Company had \$290.0 million of outstanding borrowings on the Revolving Credit Facility and had \$160.0 million available to meet its cash requirements. On December 28, 2014, the Company had \$71.0 million of outstanding borrowings on the Revolving Credit Facility. On June 29, 2014, the Company had \$60.0 million of outstanding borrowings on the Company's prior revolving credit facility.

On June 29, 2014, the Company had \$20.0 million outstanding on an uncommitted line of credit at a weighted average interest rate of 0.90%. On October 31, 2014, the Company terminated this uncommitted line of credit and refinanced the outstanding balance with additional borrowings under the Revolving Credit Facility.

The Company refinanced its \$100 million of senior notes, which matured in April 2015, with borrowings under the Company's Revolving Credit Facility.

The Company has \$164.8 million of senior notes which mature in June 2016. The Company currently expects to refinance these senior notes and, accordingly, has classified all the \$164.8 million senior notes due June 2016 as long-term debt at June 28, 2015.

As of June 28, 2015, December 28, 2014 and June 29, 2014, the Company had a weighted average interest rate of 4.3%, 5.8% and 5.7%, respectively, for its outstanding debt and capital lease obligations. The Company's overall weighted average interest rate on its debt and capital lease obligations was 4.3% and 5.7% for Q2 2015 and Q2 2014, respectively. The Company's overall weighted average interest rate on its debt and capital lease obligations was 4.8% and 5.8% for YTD 2015 and YTD 2014, respectively. As of June 28, 2015, \$290.0 million of the Company's debt and capital lease obligations of \$623.0 million were subject to changes in short-term interest rates.

## 9. Derivative Financial Instruments

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

of cash flows.

The Company uses several different financial institutions for commodity derivative instruments to minimize the concentration of credit risk. While the Company is exposed to credit loss in the event of nonperformance by these counterparties, the Company does not anticipate nonperformance by these parties.

The following summarizes Q2 2015 and Q2 2014 pre-tax changes in the fair value of the Company's commodity derivative financial instruments and the classification of such changes in the consolidated statements of operations.

In Thousands	Classification of Gain (Loss)	Second Quarter	
		2015	2014
Commodity hedges	Cost of sales	\$(893)	\$ 91
Commodity hedges	Selling, delivery and administrative expenses	144	0
<b>Total</b>		<b>\$(749)</b>	<b>\$ 91</b>

## Coca-Cola Bottling Co. Consolidated

## Notes to Consolidated Financial Statements (Unaudited)

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

In Thousands	Classification of Gain (Loss)	First Half	
		2015	2014
Commodity hedges	Cost of sales	\$(681)	\$871
Commodity hedges	Selling, delivery and administrative expenses	575	0
Total		\$(106)	\$871

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

In Thousands	Balance Sheet Classification	June 28, 2015	Dec. 28, 2014	June 29, 2014
<b>Assets:</b>				
Commodity hedges at fair market value	Prepaid expenses and other current assets	\$428	\$ 0	\$871
Commodity hedges at fair market value	Other assets	147	0	0
Total assets		\$575	\$ 0	\$871
<b>Liabilities:</b>				
Commodity hedges at fair market value	Other accrued liabilities	\$569	\$ 0	\$0
Commodity hedges at fair market value	Other liabilities	112	0	0
Total liabilities		\$681	\$ 0	\$0

The Company has master agreements with the counterparties to its derivative financial agreements that provide for net settlement of derivative transactions. Accordingly, the net amounts of derivative assets are recognized in either prepaid expenses and other current assets or other assets in the consolidated balance sheet at June 28, 2015 and the net amounts of derivative liabilities are recognized in either other accrued liabilities or other liabilities in the consolidated balance sheet at June 28, 2015. The Company had gross derivative assets of \$1.8 million and gross derivative liabilities of \$1.9 million as of June 28, 2015. The Company did not have any outstanding derivative transactions at December 28, 2014. The Company did not have any offsetting derivative transactions with its counterparties on June 29, 2014, and, accordingly, the gross amounts of derivative assets are recognized in prepaid expenses and other current assets in the consolidated balance sheet at June 29, 2014.

The Company's outstanding commodity derivative agreements as of June 28, 2015 had a notional amount of \$85.6 million and a latest maturity date of December 2016.





Coca-Cola Bottling Co. Consolidated

Notes to Consolidated Financial Statements (Unaudited)

## 10. Fair Value of Financial Instruments

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

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

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

In Thousands	June 28, 2015		Dec. 28, 2014		June 29, 2014	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Public debt securities	\$(273,860)	\$(297,700)	\$(373,759)	\$(404,400)	\$(373,661)	\$(405,600)
Non-public variable rate debt	(290,000)	(290,000)	(71,000 )	(71,000 )	(80,000 )	(80,000 )
Deferred compensation plan assets	20,466	20,466	18,580	18,580	17,990	17,990
Deferred compensation plan liabilities	(20,466 )	(20,466 )	(18,580 )	(18,580 )	(17,990 )	(17,990 )
Commodity hedging agreements-assets	575	575	0	0	871	871
Commodity hedging agreements-liabilities	(681 )	(681 )	0	0	0	0
Acquisition related contingent consideration	(94,068 )	(94,068 )	(46,850 )	(46,850 )	(13,000 )	(13,000 )

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

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

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

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

## Coca-Cola Bottling Co. Consolidated

## Notes to Consolidated Financial Statements (Unaudited)

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

In Thousands	June 28, 2015			Dec. 28, 2014			June 29, 2014		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
<b>Assets</b>									
Deferred compensation plan assets	\$20,466			\$18,580			\$17,990		
Commodity hedging agreements		\$575		\$0			\$871		
<b>Liabilities</b>									
Deferred compensation plan liabilities	20,466			18,580			17,990		
Commodity hedging agreements		\$681		\$0			\$0		
Acquisition related contingent consideration			\$94,068			\$46,850			\$13,000

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

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

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

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

period.

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

In Thousands	Second Quarter		First Half	
	2015	2014	2015	2014
Opening balance	\$98,505	\$0	\$46,850	\$0
Increase due to Johnson City and Morristown purchase	0	13,000	0	13,000
Increase due to the Cleveland and Cookeville purchase	0	0	14,572	0
Increase due to the Louisville and Evansville purchase	0	0	32,711	0
Increase due to the Paducah and Pikeville purchase	3,029	0	3,029	0
Payments/accruals	(1,388 )	0	(2,105 )	0
Fair value adjustment - (income) expense	(6,078 )	0	(989 )	0
Ending balance	\$94,068	\$13,000	\$94,068	\$13,000

The favorable fair value adjustment of the acquisition related contingent consideration for both Q2 2015 and YTD 2015, which was primarily due to a change in the risk-free interest rate, is recorded in other income (expense) on the Company's consolidated statements of operations.

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

Coca-Cola Bottling Co. Consolidated

Notes to Consolidated Financial Statements (Unaudited)

## 11. Other Liabilities

	June 28,	Dec. 28,	June 29,
In Thousands	2015	2014	2014
Accruals for executive benefit plans	\$ 120,181	\$ 117,965	\$ 111,869
Acquisition related contingent consideration	88,362	43,850	11,995
Other	16,659	15,435	16,062
Total other liabilities	\$ 225,202	\$ 177,250	\$ 139,926

## 12. Commitments and Contingencies

The Company is a member of 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. The Company is also a member of Southeastern Container (“Southeastern”), a plastic bottle manufacturing cooperative from which it is obligated to purchase at least 80% of its requirements of plastic bottles for certain designated territories. The Company has an equity ownership in each of the entities.

The Company also guarantees a portion of SAC’s and Southeastern’s debt. The amounts guaranteed were \$33.7 million, \$30.9 million and \$35.0 million as of June 28, 2015, December 28, 2014 and June 29, 2014, respectively. The Company holds no assets as collateral against these guarantees, the fair value of which is immaterial. The guarantees relate to the debt of SAC and Southeastern, which resulted primarily from the purchase of production equipment and facilities. These guarantees expire at various dates through 2023. The members of both cooperatives consist solely of Coca-Cola bottlers. The Company does not anticipate either of these cooperatives will fail to fulfill its commitments. The Company further believes each of these cooperatives has sufficient assets, including production equipment, facilities and working capital, and the ability to adjust selling prices of its products to adequately mitigate the risk of material loss from the Company’s guarantees. In the event either of these cooperatives fail to fulfill its commitments under the related debt, the Company would be responsible for payments to the lenders up to the level of the guarantees. If these cooperatives had borrowed up to their aggregate borrowing capacity, the Company’s maximum exposure under these guarantees on June 28, 2015 would have been \$23.9 million for SAC and \$25.3 million for Southeastern. The Company’s maximum total exposure, including its equity investment, would have been \$28.0 million for SAC and \$43.6 million for Southeastern.

The Company has standby letters of credit, primarily related to its property and casualty insurance programs. On June 28, 2015, these letters of credit totaled \$26.4 million.

The Company participates in long-term marketing contractual arrangements with certain prestige properties, athletic venues and other locations. The future payments related to these contractual arrangements as of June 28, 2015 amounted to \$44.0 million and expire at various dates through 2026.

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

### 13. Income Taxes

The Company's effective tax rate, as calculated by dividing income tax expense by income before income taxes, for YTD 2015 and YTD 2014 was 37.4% and 36.0%, respectively. The Company's effective tax rate, as calculated by dividing income tax expense by income before income taxes minus net income attributable to noncontrolling interest, for YTD 2015 and YTD 2014 was 39.5% and 39.0%, respectively.

## Coca-Cola Bottling Co. Consolidated

## Notes to Consolidated Financial Statements (Unaudited)

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

In Thousands	First Half	
	2015	2014
Statutory expense	\$ 17,832	\$ 10,085
State income taxes, net of federal benefit	1,823	1,105
Valuation allowance change	(10 )	104
Noncontrolling interest – Piedmont	(1,038 )	(862 )
Manufacturing deduction benefit	(851 )	(1,273 )
Meals and entertainment	664	567
Adjustment for uncertain tax positions	296	316
Other, net	359	339
Income tax expense	\$ 19,075	\$ 10,381

As of June 28, 2015, December 28, 2014 and June 29, 2014 the Company had \$3.2 million, \$2.9 million and \$3.2 million, respectively, of uncertain tax positions, including accrued interest, all of which would affect the Company's effective tax rate if recognized. Total accrued interest related to uncertain tax positions is immaterial in all periods presented. While it is expected that the amount of uncertain tax positions may change in the next 12 months, the Company does not expect any change to have a material impact on the consolidated financial statements.

Prior tax years beginning in year 2011 remain open to examination by the Internal Revenue Service, and various tax years beginning in year 1997 remain open to examination by certain state tax jurisdictions due to loss carryforwards.

#### 14. Accumulated Other Comprehensive Loss

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

A summary of accumulated other comprehensive loss for Q2 2015 and Q2 2014 is as follows:

In Thousands	Mar. 29,	Pre-tax	Tax	June 28,
	2015	Activity	Effect	2015
Net pension activity:				



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

Actuarial loss	\$ (74,378)	\$ 795	\$ (307)	\$ (73,890)
Prior service costs	(94 )	9	(3 )	(88 )
Net postretirement benefits activity:				
Actuarial loss	(22,319)	718	(277)	(21,878)
Prior service costs	7,296	(840 )	324	6,780
Foreign currency translation adjustment	(5 )	1	(1 )	(5 )
Total	\$ (89,500)	\$ 683	\$ (264)	\$ (89,081)

	Mar. 30,	Pre-tax	Tax	June 29,
In Thousands	2014	Activity	Effect	2014
Net pension activity:				
Actuarial loss	\$ (42,769)	\$ 422	\$ (163)	\$ (42,510)
Prior service costs	(116 )	9	(3 )	(110 )
Net postretirement benefits activity:				
Actuarial loss	(18,095)	563	(218)	(17,750)
Prior service costs	3,178	(378 )	145	2,945
Foreign currency translation adjustment	4	0	0	4
Total	\$ (57,798)	\$ 616	\$ (239)	\$ (57,421)

## Coca-Cola Bottling Co. Consolidated

## Notes to Consolidated Financial Statements (Unaudited)

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

	Dec. 28,	Pre-tax	Tax	June 28,
In Thousands	2014	Activity	Effect	2015
<b>Net pension activity:</b>				
Actuarial loss	\$(74,867)	\$ 1,591	\$(614)	\$(73,890)
Prior service costs	(99 )	18	(7 )	(88 )
<b>Net postretirement benefits activity:</b>				
Actuarial loss	(22,759)	1,435	(554)	(21,878)
Prior service costs	7,812	(1,680)	648	6,780
Foreign currency translation adjustment	(1 )	(6 )	2	(5 )
Total	\$(89,914)	\$ 1,358	\$(525)	\$(89,081)

	Dec. 29,	Pre-tax	Tax	June 29,
In Thousands	2013	Activity	Effect	2014
<b>Net pension activity:</b>				
Actuarial loss	\$(43,028)	\$ 844	\$(326)	\$(42,510)
Prior service costs	(121 )	18	(7 )	(110 )
<b>Net postretirement benefits activity:</b>				
Actuarial loss	(18,441)	1,126	(435)	(17,750)
Prior service costs	3,410	(756 )	291	2,945
Foreign currency translation adjustment	4	0	0	4
Total	\$(58,176)	\$ 1,232	\$(477)	\$(57,421)

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

	Net			
	Pension	Net Postretirement		
In Thousands	Activity	Benefits Activity	Total	
<b>Q2 2015</b>				
Cost of sales	\$ 88	\$ (17 )		\$ 71
Selling, delivery & administrative expenses	716	(105 )		611
Subtotal pre-tax	804	(122 )		682
Income tax expense	310	(47 )		263
Total after tax effect	\$ 494	\$ (75 )		\$ 419

Q2 2014

Cost of sales	\$ 82	\$ 24	\$106
Selling, delivery & administrative expenses	349	161	510
Subtotal pre-tax	431	185	616
Income tax expense	166	73	239
Total after tax effect	\$ 265	\$ 112	\$377

YTD 2015

Cost of sales	\$ 177	\$ (34	) \$143
Selling, delivery & administrative expenses	1,432	(211	) 1,221
Subtotal pre-tax	1,609	(245	) 1,364
Income tax expense	621	(94	) 527
Total after tax effect	\$ 988	\$ (151	) \$837

Coca-Cola Bottling Co. Consolidated

Notes to Consolidated Financial Statements (Unaudited)

In Thousands	Net		Total
	Pension Activity	Net Postretirement Benefits Activity	
YTD 2014			
Cost of sales	\$ 155	\$ 48	\$203
Selling, delivery & administrative expenses	707	322	1,029
Subtotal pre-tax	862	370	1,232
Income tax expense	333	144	477
Total after tax effect	\$ 529	\$ 226	\$755

## 15. Capital Transactions

Compensation expense for the Performance Unit Award Agreement recognized in YTD 2015 was \$3.0 million, which was based upon a common stock share price of \$148.98 on June 26, 2015. Compensation expense for the Performance Unit Award Agreement recognized in YTD 2014 was \$1.5 million, which was based upon a common stock share price of \$74.56 on June 27, 2014.

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

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

## 16. Benefit Plans

### Pension Plans

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

accordance with negotiated formulas for the respective participants. Contributions to the plans are based on actuarial determined amounts and are limited to the amounts currently deductible for income tax purposes.

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

In Thousands	Second Quarter		First Half	
	2015	2014	2015	2014
Service cost	\$35	\$29	\$70	\$58
Interest cost	2,973	2,896	5,947	5,792
Expected return on plan assets	(3,386)	(3,456)	(6,774)	(6,913)
Amortization of prior service cost	9	9	18	18
Recognized net actuarial loss	795	422	1,591	844
Net periodic pension cost (benefit)	\$426	\$(100 )	\$852	\$(201 )

The Company did not make contributions to the Company-sponsored pension plans during YTD 2015. Anticipated contributions for the two Company-sponsored pension plans will be in the range of \$7 million to \$10 million during the remainder of 2015.

#### Postretirement Benefits

The Company provides postretirement benefits for a portion of its current employees. The Company recognizes the cost of postretirement benefits, which consist principally of medical benefits, during employees' periods of active service. The Company does not pre-fund these benefits and has the right to modify or terminate certain of these benefits in the future.

Coca-Cola Bottling Co. Consolidated

Notes to Consolidated Financial Statements (Unaudited)

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

In Thousands	Second Quarter		First Half	
	2015	2014	2015	2014
Service cost	\$325	\$383	\$650	\$766
Interest cost	707	825	1,415	1,650
Recognized net actuarial loss	718	563	1,435	1,126
Amortization of prior service cost	(840)	(378 )	(1,680)	(756 )
Net periodic postretirement benefit cost	\$910	\$1,393	\$1,820	\$2,786

#### Multi-Employer Benefits

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

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

#### 17. Related Party Transactions

The Company’s business consists primarily of the production, marketing and distribution of nonalcoholic beverages of The Coca-Cola Company, which is the sole owner of the secret formulas under which the primary components (either concentrate or syrup) of its soft drink products are manufactured. As of June 28, 2015, The Coca-Cola Company had a 34.8% interest in the Company’s total outstanding Common Stock, representing 5.0% of the total voting power of the Company’s Common Stock and Class B Common Stock voting together as a single class. As long as The Coca-Cola Company holds the number of shares of Common Stock that it currently owns, it has the right to have its designee proposed by the Company for the nomination to the Company’s Board of Directors, and J. Frank Harrison III, the Chairman of the Board and the Chief Executive Officer of the Company, and trustees of certain trusts established for the benefit of certain relatives of J. Frank Harrison, Jr., have agreed to vote their shares of the Company’s Class B Common Stock which they control in favor of such designee. The Coca-Cola Company does not own any shares of Class B Common Stock of the Company.

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

In Millions	First Half	
	2015	2014
Payments by the Company for concentrate, syrup, sweetener and other purchases	\$231.8	\$211.2
Marketing funding support payments to the Company	25.7	22.5
Payments by the Company net of marketing funding support	\$206.1	\$188.7
Payments by the Company for customer marketing programs	\$21.7	\$29.3
Payments by the Company for cold drink equipment parts	6.9	4.9
Fountain delivery and equipment repair fees paid to the Company	7.9	6.4
Presence marketing funding support provided by The Coca-Cola Company on the Company's behalf	0.6	2.9
Payments to the Company to facilitate the distribution of certain brands and packages to other Coca-Cola bottlers	2.1	1.8

Coca-Cola Bottling Co. Consolidated

Notes to Consolidated Financial Statements (Unaudited)

The Company has a production arrangement with CCR to buy and sell finished products at cost. Sales to CCR under this arrangement were \$17.3 million and \$29.5 million in YTD 2015 and YTD 2014, respectively. Purchases from CCR under this arrangement were \$94.1 million and \$27.7 million in YTD 2015 and YTD 2014, respectively. CCR distributes one of the Company's own brands (Tum-E Yummies). Total sales to CCR for this brand were \$11.1 million and \$11.8 million in YTD 2015 and YTD 2014, respectively. In addition, the Company transports product for CCR to the Company's and other Coca-Cola bottler's locations. Total sales to CCR for transporting CCR's product were \$6.7 million and \$0.9 million in YTD 2015 and YTD 2014, respectively.

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

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

As part of the asset purchase agreements, the Company signed CBAs which have terms of ten years and are renewable by the Company indefinitely for successive additional terms of ten years each unless earlier terminated as provided therein. Under the CBAs, the Company will make a quarterly sub-bottling payment to CCR on a continuing basis for the grant of exclusive rights to distribute, promote, market and sell the authorized brands of The Coca-Cola Company and related products in the Expansion Territories. The quarterly sub-bottling payment will be based on sales of certain beverages and beverage products that are sold under the same trademarks that identify a covered beverage, beverage product or certain cross-licensed brands. As of June 28, 2015, the Company had recorded a liability of \$94.1 million to reflect the estimated fair value of the contingent consideration related to the future sub-bottling payments. Payments to CCR under the CBAs were \$0.8 million during YTD 2015. There were no payments to CCR under the CBAs during YTD 2014.

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

Along with all other Coca-Cola bottlers in the United States, the Company is a member in Coca-Cola Bottlers' Sales and Services Company, LLC ("CCBSS"), which was formed in 2003 for the purposes of facilitating various procurement functions and distributing certain specified beverage products of The Coca-Cola Company with the intention of enhancing the efficiency and competitiveness of the Coca-Cola bottling system in the United States. CCBSS negotiates the procurement for the majority of the Company's raw materials (excluding concentrate). The Company pays an administrative fee to CCBSS for its services. Administrative fees to CCBSS for its services were \$0.2 million in both YTD 2015 and YTD 2014. Amounts due from CCBSS for rebates on raw materials were \$4.9 million, \$4.5 million and \$5.1 million as of June 28, 2015, December 28, 2014 and June 29, 2014,



respectively. CCR is also a member of CCBSS.

The Company is a member of SAC, a manufacturing cooperative. SAC sells finished products to the Company at cost. Purchases from SAC by the Company for finished products were \$68.7 million and \$66.5 million in YTD 2015 and YTD 2014, respectively. In addition, the Company transports product for SAC to the Company's and other Coca-Cola bottlers' locations. Total sales to SAC for transporting SAC's product were \$3.9 million and \$3.9 million in YTD 2015 and YTD 2014, respectively. The Company also manages the operations of SAC pursuant to a management agreement. Management fees earned from SAC were \$0.9 million and \$1.0 million in YTD 2015 and YTD 2014, respectively. The Company has also guaranteed a portion of debt for SAC. Such guarantee amounted to \$23.9 million as of June 28, 2015. The Company's equity investment in SAC was \$4.1 million as of June 28, 2015, December 28, 2014 and June 29, 2014 and was recorded in other assets on the Company's consolidated balance sheets.

The Company is a shareholder in two entities from which it purchases substantially all of its requirements for plastic bottles. Net purchases from these entities were \$37.8 million in YTD 2015 and \$39.8 million in YTD 2014. In conjunction with the Company's participation in one of these entities, Southeastern, the Company has guaranteed a portion of the entity's debt. Such guarantee amounted to \$9.8 million as of June 28, 2015. The Company's equity investment in Southeastern was \$18.3 million, \$18.4 million and \$18.4 million as of June 28, 2015, December 28, 2014, June 29, 2014, respectively, and was recorded in other assets on the Company's consolidated balance sheets.

Coca-Cola Bottling Co. Consolidated

Notes to Consolidated Financial Statements (Unaudited)

The Company holds no assets as collateral against the SAC or Southeastern guarantees, the fair value of which is immaterial to the Company's consolidated financial statements. The Company monitors its investments in SAC and Southeastern and would be required to write down its investment if an impairment is identified and the Company determined it to be other than temporary. No impairment of the Company's investments in SAC or Southeastern has been identified as of June 28, 2015 nor was there any impairment in 2014.

The Company leases from Harrison Limited Partnership One ("HLP") the Snyder Production Center ("SPC") and an adjacent sales facility, which are located in Charlotte, North Carolina. HLP is directly and indirectly owned by trusts of which J. Frank Harrison, III, Chairman of the Board of Directors and Chief Executive Officer of the Company, and Deborah H. Everhart, a director of the Company, are trustees and beneficiaries. Morgan H. Everett, a director of the Company, is a permissible, discretionary beneficiary of the trusts that directly or indirectly own HLP. The lease expires on December 31, 2020. The principal balance outstanding under this capital lease as of June 28, 2015 was \$18.8 million. Rental payments related to this lease were \$1.9 million in both YTD 2015 and YTD 2014.

The Company leases from Beacon Investment Corporation ("Beacon") the Company's headquarters office facility and an adjacent office facility. The lease expires on December 31, 2021. Beacon's majority shareholder is J. Frank Harrison, III and Morgan H. Everett is a minority shareholder. The principal balance outstanding under this capital lease as of June 28, 2015 was \$19.4 million. Rental payments related to this lease were \$2.1 million in both YTD 2015 and YTD 2014.

## Coca-Cola Bottling Co. Consolidated

## Notes to Consolidated Financial Statements (Unaudited)

## 18. Net Income Per Share

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

In Thousands (Except Per Share Data)	Second Quarter		First Half	
	2015	2014	2015	2014
Numerator for basic and diluted net income per				
Common Stock and Class B Common Stock share:				
Net income attributable to Coca-Cola Bottling Co.				
Consolidated	\$26,934	\$13,783	\$29,158	\$16,232
Less dividends:				
Common Stock	1,786	1,786	3,571	3,571
Class B Common Stock	538	533	1,070	1,060
Total undistributed earnings	\$24,610	\$11,464	\$24,517	\$11,601
Common Stock undistributed earnings – basic	\$18,913	\$8,830	\$18,858	\$8,942
Class B Common Stock undistributed earnings – basic	5,697	2,634	5,659	2,659
Total undistributed earnings – basic	\$24,610	\$11,464	\$24,517	\$11,601
Common Stock undistributed earnings – diluted	\$18,832	\$8,792	\$18,777	\$8,904
Class B Common Stock undistributed earnings – diluted	5,778	2,672	5,740	2,697
Total undistributed earnings – diluted	\$24,610	\$11,464	\$24,517	\$11,601
Numerator for basic net income per Common Stock				
share:				
Dividends on Common Stock	\$1,786	\$1,786	\$3,571	\$3,571
Common Stock undistributed earnings – basic	18,913	8,830	18,858	8,942
Numerator for basic net income per Common				
Stock share	\$20,699	\$10,616	\$22,429	\$12,513
Numerator for basic net income per Class B Common				
Stock share:				
Dividends on Class B Common Stock	\$538	\$533	\$1,070	\$1,060
Class B Common Stock undistributed earnings – basic	5,697	2,634	5,659	2,659
Numerator for basic net income per Class B	\$6,235	\$3,167	\$6,729	\$3,719

Common Stock share

25

---

## Coca-Cola Bottling Co. Consolidated

## Notes to Consolidated Financial Statements (Unaudited)

In Thousands (Except Per Share Data)	Second Quarter		First Half	
	2015	2014	2015	2014
Numerator for diluted net income per Common Stock				
share:				
Dividends on Common Stock	\$1,786	\$1,786	\$3,571	\$3,571
Dividends on Class B Common Stock assumed				
converted to Common Stock	538	533	1,070	1,060
Common Stock undistributed earnings – diluted	24,610	11,464	24,517	11,601
Numerator for diluted net income per Common Stock				
share	\$26,934	\$13,783	\$29,158	\$16,232
Numerator for diluted net income per Class B Common				
Stock share:				
Dividends on Class B Common Stock	\$538	\$533	\$1,070	\$1,060
Class B Common Stock undistributed earnings – diluted	5,778	2,672	5,740	2,697
Numerator for diluted net income per Class B				
Common Stock share	\$6,316	\$3,205	\$6,810	\$3,757
Denominator for basic net income per Common Stock				
and Class B Common Stock share:				
Common Stock weighted average shares				
outstanding – basic	7,141	7,141	7,141	7,141
Class B Common Stock weighted average shares				
outstanding – basic	2,151	2,130	2,143	2,123
Denominator for diluted net income per Common Stock				
and Class B Common Stock share:				
Common Stock weighted average shares outstanding –				
diluted (assumes conversion of Class B Common				
Stock to Common Stock)	9,332	9,311	9,324	9,304
Class B Common Stock weighted average shares	2,191	2,170	2,183	2,163

outstanding – diluted

Basic net income per share:				
Common Stock	\$2.90	\$1.49	\$3.14	\$1.75
Class B Common Stock	\$2.90	\$1.49	\$3.14	\$1.75
Diluted net income per share:				
Common Stock	\$2.89	\$1.48	\$3.13	\$1.74
Class B Common Stock	\$2.88	\$1.48	\$3.12	\$1.74

NOTES TO TABLE

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

Coca-Cola Bottling Co. Consolidated

Notes to Consolidated Financial Statements (Unaudited)

## 19. Supplemental Disclosures of Cash Flow Information

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

In Thousands	First Half	
	2015	2014
Accounts receivable, trade, net	\$(66,874)	\$(27,899)
Accounts receivable from The Coca-Cola Company	(18,583)	(12,906)
Accounts receivable, other	(4,936 )	1,263
Inventories	(23,681)	(19,965)
Prepaid expenses and other current assets	6,532	(3,142 )
Accounts payable, trade	23,105	14,995
Accounts payable to The Coca-Cola Company	40,777	29,447
Other accrued liabilities	22,215	(5,620 )
Accrued compensation	(6,707 )	(6,937 )
Accrued interest payable	(1,386 )	(112 )
Increase in current assets less current liabilities (exclusive of acquisition)	\$(29,538)	\$(30,876)

## 20. Segments

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

## Coca-Cola Bottling Co. Consolidated

## Notes to Consolidated Financial Statements (Unaudited)

The Company's segment results are as follows:

In Thousands	Second Quarter		First Half	
	2015	2014	2015	2014
<b>Net Sales:</b>				
Nonalcoholic Beverages	\$599,607	\$450,505	\$1,041,290	\$831,759
All Other	40,693	31,886	74,508	59,108
Eliminations*	(25,617 )	(22,918 )	(47,862 )	(42,812 )
Consolidated	\$614,683	\$459,473	\$1,067,936	\$848,055
<b>Operating Income:</b>				
Nonalcoholic Beverages	\$37,061	\$29,990	\$52,392	\$41,580
All Other	1,255	1,274	2,826	1,800
Consolidated	\$38,316	\$31,264	\$55,218	\$43,380
<b>Depreciation and Amortization:</b>				
Nonalcoholic Beverages	\$18,638	\$14,175	\$35,342	\$28,088
All Other	1,079	699	2,032	1,355
Consolidated	\$19,717	\$14,874	\$37,374	\$29,443
<b>Capital Expenditures:</b>				
Nonalcoholic Beverages	\$26,226	\$12,526	\$45,478	\$26,216
All Other	2,334	3,382	9,474	6,525
Consolidated	\$28,560	\$15,908	\$54,952	\$32,741
	June 28,	Dec. 28,	June 29,	
	2015	2014	2014	
<b>Total Assets:</b>				
Nonalcoholic Beverages	\$1,658,706	\$1,399,057	\$1,347,240	
All Other	58,535	44,629	40,830	
Eliminations	(7,250 )	(10,610 )	(8,890 )	
Consolidated	\$1,709,991	\$1,433,076	\$1,379,180	

\*NOTE: The entire net sales elimination for each year presented represent net sales from the All Other segment to the Nonalcoholic Beverages segment. Sales between these segments are either recognized at fair market value or cost depending on the nature of the transaction.

Net sales by product category were as follows:

Second Quarter      First Half



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

In Thousands	2015	2014	2015	2014
<b>Bottle/can sales:</b>				
Sparkling beverages (including energy products)	\$396,492	\$287,821	\$694,311	\$542,792
Still beverages	111,467	79,188	182,055	136,338
Total bottle/can sales	507,959	367,009	876,366	679,130
<b>Other sales:</b>				
Sales to other Coca-Cola bottlers	48,560	45,268	86,406	82,389
Post-mix and other	58,164	47,196	105,164	86,536
Total other sales	106,724	92,464	191,570	168,925
<b>Total net sales</b>	<b>\$614,683</b>	<b>\$459,473</b>	<b>\$1,067,936</b>	<b>\$848,055</b>

Sparkling beverages are carbonated beverages and energy products while still beverages are noncarbonated beverages.

Coca-Cola Bottling Co. Consolidated

Notes to Consolidated Financial Statements (Unaudited)

## 21. New Accounting Pronouncements

### Recently Adopted Pronouncements

In April 2014, the FASB issued new guidance which changes the criteria for determining which disposals can be presented as discontinued operations and modifies related disclosure requirements. The new guidance was effective for annual and interim periods beginning after December 15, 2014. The adoption of this guidance did not have a significant impact on the Company's consolidated financial statements.

### Recently Issued Pronouncements

In May 2014, the FASB issued new guidance on accounting for revenue from contracts with customers. The new guidance was to be effective for annual and interim periods beginning after December 15, 2016. In July 2015, the FASB deferred the effective date to annual and interim periods beginning after December 15, 2017. The Company is in the process of evaluating the impact of the new guidance on the Company's consolidated financial statements.

In February 2015, the FASB issued new guidance which changes the analysis that a reporting entity must perform to determine whether it should consolidate certain types of legal entities. The new guidance is effective for annual and interim periods beginning after December 15, 2015. The Company is in the process of evaluating the impact of the new guidance on the Company's consolidated financial statements.

In April 2015, the FASB issued new guidance on accounting for debt issuance costs. The new guidance requires that all cost incurred to issue debt be presented in the balance sheet as a direct reduction from the carrying value of the debt. The new guidance is effective for annual and interim periods beginning after December 15, 2015. The Company does not expect the new guidance to have a material impact on the Company's consolidated financial statements.

In April 2015, the FASB issued new guidance on whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, the arrangement should be accounted for consistent with the acquisition of other software licenses, otherwise, the arrangement should be accounted for consistent with other service contracts. The new guidance is effective for annual and interim periods beginning after December 15, 2015. The Company is in the process of evaluating the impact of the new guidance on the Company's consolidated financial statements.

In July 2015, the FASB issued new guidance on accounting for inventory. The new guidance requires entities to measure most inventory "at lower of cost and net realizable value" thereby simplifying the current guidance under which an entity must measure inventory at the lower of cost or market. The new guidance is effective for annual and interim periods beginning after December 15, 2016. The Company is in the process of evaluating the impact of the new guidance on the Company's consolidated financial statements.

## 22. Subsequent Event

On July 22, 2015, the Company, BYB Brands, Inc., a wholly-owned subsidiary of the Company (“BYB”) and The Coca-Cola Company entered into a stock purchase agreement, pursuant to which the Company has agreed to sell to The Coca-Cola Company all of the issued and outstanding stock of BYB. The parties have agreed on a purchase price of approximately \$25 million. The transaction is expected to close in August 2015, during the Company’s third quarter.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

## Introduction

The following Management's Discussion and Analysis of Financial Condition and Results of Operations of Coca-Cola Bottling Co. Consolidated (the "Company") should be read in conjunction with the Company's consolidated financial statements and the accompanying notes to the consolidated financial statements.

The consolidated financial statements include the consolidated operations of the Company and its majority-owned subsidiaries including Piedmont Coca-Cola Bottling Partnership ("Piedmont"). The noncontrolling interest primarily consists of The Coca-Cola Company's interest in Piedmont, which was 22.7% for all periods presented.

## Expansion of Company's Franchise Territory

During 2015, the Company completed its acquisitions of franchise territory announced as part of the April 2013 letter of intent signed with The Coca-Cola Company. The expansion of franchise territory completed includes distribution rights in parts of Tennessee, Kentucky and Indiana previously served by Coca-Cola Refreshments USA, Inc. ("CCR"), a wholly owned subsidiary of The Coca-Cola Company. A summary of this territory expansion completed as of June 28, 2015 is as follows:

Territory	Acquisition Date	Cash Purchase Price (In Millions)
Johnson City and Morristown, Tennessee	May 23, 2014	\$ 12.2
Knoxville, Tennessee	October 24, 2014	29.5
Cleveland and Cookeville, Tennessee	January 30, 2015	13.8
Louisville, Kentucky and Evansville, Indiana	February 27, 2015	19.8
Paducah and Pikeville, Kentucky	May 1, 2015	7.5

In addition, on May 1, 2015, the Company acquired certain assets of CCR relating to the marketing, promotion, distribution and sale of Coca-Cola and other beverage products in the territory currently served by CCR's facilities and equipment located in Lexington, Kentucky (including the rights to produce such beverages in the Lexington, Kentucky territory) in exchange for certain assets of the Company relating to the marketing, promotion, distribution and sale of Coca-Cola and other beverage products in the territory currently served by the Company's facilities and equipment located in Jackson, Tennessee (including the rights to produce such beverages in the Jackson, Tennessee territory). The net assets received by the Company in the Lexington-for-Jackson exchange transaction, after deducting the value of certain retained assets and retained liabilities, was approximately \$10.3 million, which was paid in cash at closing.

The financial results for the expansion territories and the exchange territory have been included in the Company's consolidated financial statements from their acquisition dates. These territories contributed \$114.0 million and \$4.3

million in net sales and \$3.6 million and \$0.3 million in operating income in the second quarter of 2015 (“Q2 2015”) and the second quarter of 2014 (“Q2 2014”), respectively. These territories contributed \$167.3 million and \$4.3 million in net sales and \$6.4 million and \$0.3 million in operating income in the first half of 2015 (“YTD 2015”) and the half of 2014 (“YTD 2014”), respectively.

#### Further Expansion of Company’s Franchise Territory

On May 12, 2015, the Company and The Coca-Cola Company entered into a non-binding letter of intent (the “2015 LOI”) pursuant to which CCR will grant the Company in two phases certain exclusive rights for the distribution, promotion, marketing and sale of The Coca-Cola Company-owned and -licensed products in certain territories currently served by CCR. The first phase of additional distribution territory expansion includes eastern and northern Virginia, most of Delaware, the entire State of Maryland, Washington, DC, and parts of North Carolina, Pennsylvania and West Virginia. The second phase of additional distribution territory expansion includes central and southern Ohio, northern Kentucky and parts of Indiana and Illinois. The major markets that will be served as part of this expansion include: Baltimore, MD; Alexandria, Norfolk and Richmond, VA; Washington, DC; Cincinnati, Columbus and Dayton, OH; and Indianapolis, IN. The Company is continuing to work towards a definitive agreement with The Coca-Cola Company for the proposed franchise territory expansion described in the 2015 LOI. There is no assurance that the Company and The Coca-Cola Company will reach a definitive agreement for the proposed franchise territory expansion contemplated in the 2015 LOI.

## Monster Distribution Agreement

Prior to April 6, 2015, the Company distributed energy drink products packaged and/or marketed by MEC Energy Company (“MEC”) under the primary brand name “Monster” (“MEC Products”) in certain portions of the Company’s territories. On March 26, 2015, the Company and MEC entered into a new distribution agreement granting the Company rights to distribute MEC Products throughout all of the geographic territory the Company currently services for the distribution of Coca-Cola products commencing April 6, 2015.

## Our Business and the Nonalcoholic Beverage Industry

The Company produces, markets and distributes nonalcoholic beverages, primarily products of The Coca-Cola Company, which include some of the most recognized and popular beverage brands in the world. The Company is the largest independent bottler of products of The Coca-Cola Company in the United States, distributing these products in thirteen states primarily in the Southeast. The Company also distributes several other beverage brands. These product offerings include both sparkling and still beverages. Sparkling beverages are carbonated beverages, including energy products. Still beverages are noncarbonated beverages such as bottled water, tea, ready to drink coffee, enhanced water, juices and sports drinks.

The nonalcoholic beverage market is highly competitive. The Company’s competitors include bottlers and distributors of nationally and regionally advertised and marketed products and private label products. In each region in which the Company operates, between 85% and 95% of sparkling beverage sales in bottles, cans and other containers are accounted for by the Company and its principal competitors, which in each region includes the local bottler of Pepsi-Cola and, in some regions, the local bottler of Dr Pepper, Royal Crown and/or 7-Up products. The sparkling beverage category (including energy products) represents approximately 79% of the Company’s YTD 2015 bottle/can net sales to retail customers.

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. The Company believes it is competitive in its territories with respect to each of these methods.

Historically, operating results for the second 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.

Net sales by product category were as follows:

In Thousands	Second Quarter		First Half	
	2015	2014	2015	2014
<b>Bottle/can sales:</b>				
Sparkling beverages (including energy products)	\$396,492	\$287,821	\$694,311	\$542,792
Still beverages	111,467	79,188	182,055	136,338
<b>Total bottle/can sales</b>	<b>507,959</b>	<b>367,009</b>	<b>876,366</b>	<b>679,130</b>
<b>Other sales:</b>				
Sales to other Coca-Cola bottlers	48,560	45,268	86,406	82,389
Post-mix and other	58,164	47,196	105,164	86,536
<b>Total other sales</b>	<b>106,724</b>	<b>92,464</b>	<b>191,570</b>	<b>168,925</b>

Total net sales	\$614,683	\$459,473	\$1,067,936	\$848,055
-----------------	-----------	-----------	-------------	-----------

Areas of Emphasis

In addition to expansion of the Company's franchise territories and of the distribution of MEC products throughout all of our territory, key priorities for the Company include revenue management, product innovation and beverage portfolio expansion, distribution cost management and productivity.

### Revenue Management

Revenue management requires a strategy which reflects consideration for pricing of brands and packages within product categories and channels, highly effective working relationships with customers and disciplined fact-based decision-making. Revenue management has been and continues to be a key performance driver which has significant impact on the Company's results of operations.

### Product Innovation and Beverage Portfolio Expansion

Innovation of both new brands and packages has been and is expected to continue to be important to the Company's overall revenue. New products and packaging introductions over the last several years include Coca-Cola Life, the 1.25-liter bottle, the 7.5-ounce sleek can, 253 ml and 300 ml bottles and the 2-liter contour bottle for Coca-Cola products.

### Distribution Cost Management

Distribution costs represent the costs of transporting finished goods from Company locations to customer outlets. Total distribution costs amounted to \$103.2 million and \$102.1 million in YTD 2015 and YTD 2014, respectively. Over the past several years, the Company has focused on converting its distribution system from a conventional routing system to a predictive system. This conversion to a predictive system has allowed the Company to more efficiently handle an increasing number of products. In addition, the Company has focused on reducing fixed warehouse-related costs by consolidating warehouse space throughout the Company's territory.

The Company has three primary delivery systems for its current business:

- bulk delivery for large supermarkets, mass merchandisers and club stores;
- advanced sales delivery for convenience stores, drug stores, small supermarkets and certain on-premise accounts; and
- full service delivery for its full service vending customers.

Distribution cost management will continue to be a key area of emphasis for the Company.

### Productivity

A key driver in the Company's selling, delivery and administrative ("S,D&A") expense management relates to ongoing improvements in labor productivity and asset productivity.



## Results of Operations

Q2 2015 Compared to Q2 2014.

The following overview provides a summary of key information concerning the Company's financial results for Q2 2015 compared to Q2 2014.

In Thousands (Except Per Share Data)	Second Quarter			%
	2015	2014	Change	Change
Net sales	\$614,683	\$459,473	\$155,210	33.8
Cost of sales	377,366	273,953	103,413	37.7
Gross margin	237,317	185,520	51,797	27.9
S,D&A expenses	199,001	154,256	44,745	29.0
Income from operations	38,316	31,264	7,052	22.6
Interest expense, net	6,718	7,343	(625 )	(8.5 )
Other income (expense)	6,078	0	6,078	N/M
Gain on exchange of franchise territory	8,807	0	8,807	N/M
Income before taxes	46,483	23,921	22,562	94.3
Income tax expense	17,562	8,589	8,973	104.5
Net income	28,921	15,332	13,589	88.6
Net income attributable to the Company	26,934	13,783	13,151	95.4
Basic net income per share:				
Common Stock	\$2.90	\$1.49	\$1.41	94.6
Class B Common Stock	\$2.90	\$1.49	\$1.41	94.6
Diluted net income per share:				
Common Stock	\$2.89	\$1.48	\$1.41	95.3
Class B Common Stock	\$2.88	\$1.48	\$1.40	94.6

## Items Impacting Operations and Financial Condition

The following items affect the comparability of the Q2 2015 and Q2 2014 financial results:

## Q2 2015

\$114.0 million in net sales and \$3.6 million of operating income related to Expansion Territories acquired during 2014 and 2015,

\$8.8 million gain on the exchange of certain franchise territories and related assets and liabilities,

\$6.1 million recorded in other income as a result of a favorable fair value adjustment to the Company's contingent consideration liability related to the expansion territories acquired during 2014 and 2015, and

\$4.3 million of expenses related to acquiring and transitioning new distribution territories.

## Q2 2014

\$3.1 million of expenses related to acquiring and transitioning new distribution territories,

\$5.1 million in net sales and \$1.0 million of operating income related to legacy franchise territories exchanged in 2015, and

\$4.3 million in net sales and \$0.3 million of operating income related to Expansion Territories acquired during 2014.

## Net Sales

Net sales increased \$155.2 million, or 33.8%, to \$614.7 million in Q2 2015 compared to \$459.5 million in Q2 2014. The increase in net sales for Q2 2015 compared to Q2 2014 was principally attributable to the following:

Q2 2015 Attributable to:

(In Millions)	
\$ 105.4	Net sales increase related to newly acquired expansion territories in 2014 and 2015, reduced by the 2014 comparable sales of the legacy territory exchanged for expansion territories in 2015
21.1	5.6% increase in bottle/can sales price per unit to retail customers in the Company's legacy territories, primarily due to an increase in energy beverage volume, including MEC Products (which has a higher sales price per unit), and an increase in all beverage categories sales price per unit, except the water beverage category
19.1	5.4% increase in bottle/can sales volume to retail customers in the Company's legacy territories, primarily due to an increase in energy beverages, including MEC Products, and still beverages
6.5	Increase in external transportation revenue
2.3	5.2% increase in sales volume to other Coca-Cola bottlers, primarily due to a volume increase in all beverage categories
1.0	2.0% increase in sales price per unit of sales to other Coca-Cola bottlers, primarily due to a higher percentage of energy products, including MEC Products, and still beverages (which have higher sales price per unit than non-energy sparkling beverages)
(0.2)	Other
\$ 155.2	Total increase in net sales

In Q2 2015, the Company's bottle/can sales to retail customers accounted for 82.6% of the Company's total net sales. Bottle/can net pricing is based on the invoice price charged to customers reduced by promotional allowances. Bottle/can net pricing per unit is impacted by the price charged per package, the volume generated in each package and the channels in which those packages are sold.

Product category sales volume in Q2 2015 and Q2 2014 as a percentage of total bottle/can sales volume to retail customers and the percentage change by product category was as follows:

Product Category	Bottle/Can Sales Volume		Bottle/Can Sales Volume % Increase
	Q2 2015	Q2 2014	
Sparkling beverages (including energy products)	77.4 %	77.7 %	29.9
Still beverages	22.6 %	22.3 %	32.2
Total bottle/can sales volume	100.0 %	100.0 %	30.4

Bottle/can volume to retail customers (excluding Expansion Territories acquired in 2014 and 2015 and the Jackson territory exchange) increased 5.4%, which represented a 4.2% increase in sparkling beverages and a 9.4% increase in still beverages in Q2 2015 compared to Q2 2014. The increase in sparkling beverages was primarily due to increases in energy beverages, which was primarily due to the Company's expanding its territories where the Company distributes Monster. The growth trajectory and driving factors of sparkling and still beverages are different. Sparkling beverages (other than energy beverages) are in a mature state and have a lower growth trajectory, while still beverages and energy beverages have a higher growth trajectory primarily driven by changing customer preferences.

Cost of Sales

Cost of sales includes the following: raw material costs, manufacturing labor, manufacturing overhead including depreciation expense, manufacturing warehousing costs, shipping and handling costs related to the movement of finished goods from manufacturing locations to sales distribution centers and purchase of finished goods.

Cost of sales increased 37.7%, or \$103.4 million, to \$377.4 million in Q2 2015 compared to \$274.0 million in Q2 2014. The increase in cost of sales for Q2 2015 compared to Q2 2014 was principally attributable to the following:

Q2 2015 Attributable to:

(In Millions)	
\$ 68.9	Net increase in cost of sales related to newly acquired expansion territories in 2014 and 2015, reduced by the 2014 comparable cost of sales of the legacy territory exchanged for expansion territories in 2015
14.5	Increase in raw material costs and increased purchases of finished products
11.1	5.4% increase in bottle/can sales volume to retail customers in the Company's legacy territories, primarily due to an increase in energy beverages, including MEC Products, and still beverages
5.8	Increase in external transportation costs of sales
2.2	5.2% increase in sales volume to other Coca-Cola bottlers, primarily due to a volume increase in all beverage categories
(1.7)	) Increase in marketing funding support received for the legacy territories, primarily from The Coca-Cola Company
0.9	Increase in cost due to the Company's commodity hedging program
1.7	Other
\$ 103.4	Total increase in cost of sales

Sweeteners, packaging materials (including plastic bottles and aluminum cans), and finished products purchased from other vendors represent a substantial portion of the Company's total cost of sales.

The Company purchases concentrate from The Coca-Cola Company under an incidence-based pricing arrangement. Under the incidence-based pricing model, the concentrate price The Coca-Cola Company charges is impacted by a number of factors, including the incidence rate in effect, the Company's pricing and sales of finished products, the channels in which the finished products are sold, and package mix.

The Company relies extensively on advertising and sales promotion in the marketing of its products. The Coca-Cola Company and other beverage companies that supply concentrates, syrups and finished products to the Company make substantial marketing and advertising expenditures to promote sales in the local territories served by the Company. The Company also benefits from national advertising programs conducted by The Coca-Cola Company and other beverage companies. Certain marketing expenditures by The Coca-Cola Company and other beverage companies are made pursuant to annual arrangements. Although The Coca-Cola Company has advised the Company that it intends to continue to provide marketing funding support, it is not obligated to do so under the Company's Beverage Agreements. Significant decreases in marketing funding support from The Coca-Cola Company or other beverage companies could adversely impact operating results of the Company in the future.

Total marketing funding support from The Coca-Cola Company and other beverage companies, which includes direct payments to the Company and payments to customers for marketing programs, was \$18.4 million for Q2 2015 compared to \$14.4 million for Q2 2014. The increase related primarily to marketing fund support in the Expansion Territories.

#### Gross Margin

Gross margin dollars increased 27.9%, or \$51.8 million, to \$237.3 million in Q2 2015 compared to \$185.5 million in Q2 2014. Gross margin as a percentage of net sales decreased to 38.6% for Q2 2015 from 40.4% for Q2 2014. The increase in gross margin dollars for Q2 2015 compared to Q2 2014 was principally attributable to the following:



Q2 2015 Attributable to:

(In Millions)	
\$ 36.5	Net increase in gross margin related to newly acquired expansion territories in 2014 and 2015, reduced by the 2014 comparable gross margin of the legacy territory exchanged for expansion territories in 2015
21.1	5.6% increase in bottle/can sales price per unit to retail customers in the Company's legacy territories, primarily due to an increase in energy beverage volume, including MEC Products (which has a higher sales price per unit), and an increase in all beverage categories sales price per unit except the water beverage category
(14.5 )	Increase in raw material costs and increased purchases of finished products
8.0	5.4% increase in bottle/can sales volume to retail customers in the Company's legacy territories, primarily due to an increase in energy beverages, including MEC Products, and still beverages
1.7	Increase in marketing funding support received for the legacy territories, primarily from The Coca-Cola Company
1.0	2.0% increase in sales price per unit of sales to other Coca-Cola bottlers, primarily due to a higher percentage of energy products, including MEC Products, and still beverages (which have higher sales price per unit than non-energy sparkling beverages)
(0.9 )	Increase in cost due to the Company's commodity hedging program
0.7	Increase in external transportation gross margin
(1.8 )	Other
\$ 51.8	Total increase in gross margin

The Company's gross margins may not be comparable to other peer companies, since some of them include all costs related to their distribution network in cost of sales and the Company does not. The Company includes a portion of these costs in S,D&A expenses.

#### S,D&A Expenses

S,D&A expenses include the following: sales management labor costs, distribution costs from sales distribution centers to customer locations, sales distribution center warehouse costs, depreciation expense related to sales centers, delivery vehicles and cold drink equipment, point-of-sale expenses, advertising expenses, cold drink equipment repair costs, amortization of intangibles and administrative support labor and operating costs such as treasury, legal, information services, accounting, internal control services, human resources and executive management costs.

S,D&A expenses increased by \$44.8 million, or 29.0%, to \$199.0 million in Q2 2015 from \$154.2 million in Q2 2014. S,D&A expenses as a percentage of net sales decreased to 32.4% in Q2 2015 from 33.6% in Q2 2014. The increase in S,D&A expenses for Q2 2015 compared to Q2 2014 was principally attributable to the following:

Q2 2015 Attributable to:

(In  
Millions)

\$ 19.5	Increase in employee salaries excluding, incentive compensation, due to normal salary increases and additional personnel added from territory expansion
3.6	Increase in depreciation and amortization of property, plant and equipment primarily due to depreciation for vending equipment in the expansion territories
3.4	Increase in employee benefit costs primarily due to additional medical expense (for employees from territory expansion) and pension expense offset by reduced retiree medical benefit costs for legacy employees
2.2	Increase in incentive compensation expense due to the Company's financial performance
2.0	Increase in marketing expense primarily due to increased spending for promotional items and media and cold drink sponsorships in new territories
1.3	Increase in vending and fountain parts expense due to the addition of new territories
1.2	Increase in software expenses primarily due to investment in technology for new territories
1.2	Increase in professional fees primarily due to additional compliance and technology expenses
1.2	Increase in employee travel expense due to new territories and technology support
1.1	Increase in employer payroll taxes primarily due to expansion territories payroll
1.1	Increase in expenses related to the Company's franchise territory expansion, primarily professional fees and travel expenses related to due diligence
0.9	Increase in temporary labor related to new territories and warehouse labor
0.7	Increase in property and casualty insurance expense primarily due to an increase in workers' compensation insurance claims
5.4	Other
\$ 44.8	Total increase in S,D&A expenses

## Interest Expense

Net interest expense decreased by \$0.6 million or 8.5% in Q2 2015 compared to Q2 2014. The decrease in Q2 2015, as compared to Q2 2014, was primarily due to the refinancing in April 2015 of \$100 million in senior notes with borrowings under the Company's Revolving Credit Facility which has a lower interest rate, partially offset by additional borrowings to finance the territory expansion. The Company's overall weighted average interest rate on its debt and capital lease obligations was 4.3% and 5.7% during Q2 2015 and Q2 2014, respectively.

## Other Income (Expense)

Other income in Q2 2015 included a noncash benefit of \$6.1 million as a result of a favorable fair value adjustment of the Company's contingent consideration liability related to the expansion territories acquired during 2014 and 2015. The adjustment was primarily driven by an increase in the risk-free interest rate during Q2 2015.

Each reporting period, the Company adjusts its contingent consideration liability related to the territory expansion to fair value. The fair value is determined by discounting future expected sub-bottler payments required under the CBAs using the Company's estimated weighted average cost of capital ("WACC"), which is impacted by many factors, including the risk-free interest rate. These future expected sub-bottler payments extend through the life of the related distribution asset acquired in each expansion territory, which is generally 40 years. In addition, the Company is required quarterly to pay the current portion of the sub-bottling fee. As a result, the fair value of the acquisition related contingent consideration liability is impacted by the Company's WACC, the Company's best estimate of the amounts that will be paid in the future under the CBAs, and current sub-bottling payments. Changes in any of these factors,



particularly the underlying risk-free interest rate, could materially impact the amount of noncash expense (or income) recorded each reporting period.

#### Income Taxes

The Company's effective tax rate, as calculated by dividing income tax expense by income before income taxes, for Q2 2015 and Q2 2014 was 37.8% and 35.9%, respectively. The Company's effective tax rate, as calculated by dividing income tax expense by income before income taxes minus net income attributable to noncontrolling interest, for Q2 2015 and Q2 2014 was 39.5% and 38.4%, respectively. The increase is primarily due to the reduction in the manufacturing deduction in Q2 2015, as compared to Q2 2014 driven by a lower proportion of net income being generated from territories where manufacturing rights exist.

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.

#### Noncontrolling Interest

The Company recorded net income attributable to noncontrolling interest of \$2.0 million and \$1.5 million in Q2 2015 and Q2 2014 respectively, related to the portion of Piedmont owned by The Coca-Cola Company.

#### Other Comprehensive Income

Other comprehensive income, net of tax, was \$0.4 million in both Q2 2015 and Q2 2014.

YTD 2015 compared to YTD 2014.

The following overview provides a summary of key information concerning the Company's financial results for YTD 2015 compared to YTD 2014.

In Thousands (Except Per Share Data)	First Half		Change	%
	2015	2014		
Net sales	\$1,067,936	\$848,055	\$219,881	25.9
Cost of sales	646,246	506,202	140,044	27.7
Gross margin	421,690	341,853	79,837	23.4
S,D&A expenses	366,472	298,473	67,999	22.8
Income from operations	55,218	43,380	11,838	27.3
Interest expense, net	14,065	14,566	(501)	(3.4)
Other income (expense)	989	0	989	N/M
Gain on exchange of franchise territory	8,807	0	8,807	N/M
Income before taxes	50,949	28,814	22,135	76.8
Income tax expense	19,075	10,381	8,694	83.7
Net income	31,874	18,433	13,441	72.9
Net income attributable to the Company	29,158	16,232	12,926	79.6
Basic net income per share:				
Common Stock	\$3.14	\$1.75	\$1.39	79.4
Class B Common Stock	\$3.14	\$1.75	\$1.39	79.4
Diluted net income per share:				
Common Stock	\$3.13	\$1.74	\$1.39	79.9
Class B Common Stock	\$3.12	\$1.74	\$1.38	79.3

Items Impacting Operations and Financial Condition

The following items affect the comparability of the YTD 2015 and YTD 2014 financial results:

YTD 2015

\$167.3 million in net sales and \$6.4 million of operating income related to Expansion Territories acquired during 2014 and 2015,  
 \$8.8 million gain on the exchange of certain franchise territories and related assets and liabilities,  
 \$7.2 million of expenses related to acquiring and transitioning new distribution territories, and  
 \$1.0 million of other income as a result of a favorable fair value adjustment of the Company's acquisition contingent consideration liability related to the expansion territories acquired during 2014 and 2015.

YTD 2014

\$5.1 million of expenses related to acquiring and transitioning new distribution territories,  
 \$5.1 million in net sales and \$1.0 million of operating income related to legacy franchise territories exchanged in 2015, and  
 \$4.3 million in net sales and \$0.3 million of operating income related to Expansion Territories acquired during 2014.  
 Net Sales

Net sales increased \$219.9 million, or 25.9%, to \$1.07 billion in YTD 2015 compared to \$848.0 million in YTD 2014. The increase in net sales for YTD 2015 compared to YTD 2014 was principally attributable to the following:

YTD 2015 (In Millions)	Attributable to:
\$ 158.5	Net sales increase related to newly acquired expansion territories in 2014 and 2015, reduced by the 2014 comparable sales of the legacy territory exchanged for expansion territories in 2015
27.6	4.1% increase in bottle/can sales price per unit to retail customers in the Company's legacy territories, primarily due to an increase in energy beverage volume, including MEC Products (which has a higher sales price per unit), and an increase in all beverage categories sales price per unit except the water beverage category
18.2	2.7% increase in bottle/can sales volume to retail customers in the Company's legacy territories, primarily due to an increase in energy beverages, including MEC Products, and still beverages
11.2	Increase in external transportation revenue
2.1	2.6% increase in sales volume to other Coca-Cola bottlers, primarily due to a volume increase in all beverage categories
1.9	2.2% increase in sales price per unit of sales to other Coca-Cola bottlers, primarily due to a higher percentage of energy products, including MEC Products, and still beverages (which have higher sales price per unit than non-energy sparkling beverages)
1.3	3.0% increase in post-mix sales price per unit
(0.9	) Other
\$ 219.9	Total increase in net sales

In YTD 2015, the Company's bottle/can sales to retail customers accounted for 82.1% of the Company's total net sales. Product category sales volume in YTD 2015 and YTD 2014 as a percentage of total bottle/can sales volume to retail customers and the percentage change by product category was as follows:

Product Category	Bottle/Can Sales Volume		% Increase
	YTD 2015	YTD 2014	
Sparkling beverages (including energy products)	78.9 %	79.6 %	22.2
Still beverages	21.1 %	20.4 %	27.6
Total bottle/can sales volume	100.0 %	100.0 %	23.3

Bottle/can volume for retail customers (excluding Expansion Territories acquired in 2014 and YTD 2015 and the Jackson territory exchange) increased 2.7% which represented a 1.2% increase in sparkling beverages and an 8.9% increase in still beverages in YTD 2015 compared to YTD 2014. The volume increase in sparkling beverages was primarily due to increases in energy beverages which was primarily due to the Company's expanding its territories where the Company distributes MEC Products. The growth trajectory

and driving factors of sparkling and still beverages are different. Sparkling beverages (other than energy beverages) are in a mature state and have a lower growth trajectory, while still beverages and energy beverages have a higher growth trajectory primarily driven by changing customer preferences.

The Company's products are sold and distributed through various channels. They include selling directly to retail stores and other outlets such as food markets, institutional accounts and vending machine outlets. During both YTD 2015 and YTD 2014, approximately 68% of the Company's bottle/can volume to retail customers was sold for future consumption, while the remaining bottle/can volume to retail customers of approximately 32% was sold for immediate consumption. The Company's largest customer, Wal-Mart Stores, Inc., accounted for approximately 22% of the Company's total bottle/can volume to retail customers during both YTD 2015 and YTD 2014. The Company's second largest customer, Food Lion, LLC, accounted for approximately 8% and 9% of the Company's total bottle/can volume to retail customers during YTD 2015 and YTD 2014, respectively. Wal-Mart Stores, Inc. accounted for approximately 15% of the Company's net sales during both YTD 2015 and YTD 2014. No other customer represented greater than 10% of the Company's total net sales in YTD 2015 or YTD 2014. All of the Company's beverage sales are to customers in the United States.

#### Cost of Sales

Cost of sales increased \$140.0 million, or 27.7%, to \$646.2 million in YTD 2015 compared to \$506.2 million in YTD 2014. The increase in cost of sales for YTD 2015 compared to YTD 2014 was principally attributable to the following:

YTD 2015 (In Millions)	Attributable to:
\$ 101.3	Net increase in cost of sales related to newly acquired expansion territories in 2014 and 2015, reduced by the 2014 comparable cost of sales of the legacy territory exchanged for expansion territories in 2015
15.1	Increase in raw material costs and increased purchases of finished products
10.6	2.7% increase in bottle/can sales volume to retail customers in the Company's legacy territories, primarily due to an increase in energy beverages, including MEC Products, and still beverages
9.3	Increase in external transportation cost of sales
(2.1)	) Increase in marketing funding support received for the legacy territories, primarily from The Coca-Cola Company
2.0	2.6% increase in sales volume to other Coca-Cola bottlers, primarily due to a volume increase in all beverage categories
1.4	Increase in cost due to the Company's commodity hedging program
2.4	Other
140.0	Total increase in cost of sales

Total marketing funding support from The Coca-Cola Company and other beverage companies, which includes direct payments to the Company and payments to customers for marketing programs, was \$32.4 million for YTD 2015 compared to \$26.8 million for YTD 2014. The increase related primarily to marketing funding support received in the expansion territories.

#### Gross Margin

Gross margin dollars increased 23.4%, or \$79.8 million, to \$421.7 million in YTD 2015 compared to \$341.9 million in YTD 2014. Gross margin as a percentage of net sales decreased to 39.5% for YTD 2015 from 40.3% in YTD 2014. The increase in gross margin dollars for YTD 2015 compared to YTD 2014 was principally attributable to the following:

40

---

YTD	
2015	Attributable to:
(In	
Millions)	
\$ 57.2	Net increase in gross margin related to newly acquired expansion territories in 2014 and 2015, reduced by the 2014 comparable gross margin of the legacy territory exchanged for expansion territories in 2015
27.6	4.1% increase in bottle/can sales price per unit to retail customers in the Company's legacy territories, primarily due to an increase in energy beverage volume, including MEC Products (which has a higher sales price per unit), and an increase in all beverage categories sales price per unit except the water beverage category
(15.1 )	Increase in raw material costs and increased purchases of finished products
7.6	2.7% increase in bottle/can sales volume to retail customers in the Company's legacy territories, primarily due to an increase in energy beverages, including MEC Products, and still beverages
2.1	Increase in marketing funding support received for the legacy territories, primarily from The Coca-Cola Company
1.9	Increase in external transportation gross margin
1.9	2.2% increase in sales price per unit of sales to other Coca-Cola bottlers, primarily due to a higher percentage of energy products, including MEC Products, and still beverages (which have higher sales price per unit than non-energy sparkling beverages)
(1.4 )	Increase in cost due to the Company's commodity hedging program
1.3	3.0% increase in post-mix sales price per unit
(3.3 )	Other
\$ 79.8	Total increase in gross margin

The Company's gross margins may not be comparable to other peer companies, since some of them include all costs related to their distribution network in cost of sales and the Company does not. The Company includes a portion of these costs in S,D&A expenses.

#### S,D&A Expenses

S,D,&A expenses increased by \$68.0 million, or 22.8% to \$366.5 million in YTD 2015 from \$298.5 million in YTD 2014. S,D,&A expenses as a percentage of net sales decreased to 34.3% in YTD 2015 from 35.2% in YTD 2014. The increase in S,D&A expenses for YTD 2015 compared to YTD 2014 was principally attributable to the following:

YTD	
2015	Attributable to:
(In	
Millions)	
\$ 30.8	Increase in employee salaries, excluding incentive compensation, due to normal salary increases and additional personnel added from territory expansion
5.8	Increase in depreciation and amortization of property, plant and equipment primarily due to depreciation for vending equipment in the expansion territories
4.9	Increase in incentive compensation expense due to the Company's financial performance
4.7	Increase in employee benefit costs primarily due to additional medical expense (for employees from territory expansion) and pension expense offset by reduced retiree medical benefit costs for legacy employees
3.3	Increase in marketing expense primarily due to increased spending for promotional items and media and cold drink sponsorships in new territories
2.1	Increase in vending and fountain parts expense due to the addition of new territories
1.9	Increase in software expenses primarily due to investment in technology for new territories
1.9	Increase in professional fees primarily due to additional compliance and technology expenses
1.9	Increase in expenses related to the Company's franchise territory expansion, primarily professional fees and travel expenses related to due diligence
(1.7)	) Decrease in fuel costs related to the movement of finished goods from sales distribution centers to customer locations primarily due to reduced fuel pricing and hedging activities
1.5	Increase in employer payroll taxes primarily due to expansion territories payroll
1.4	Increase in employee travel expense due to new territories and technology support
1.2	Increase in temporary labor related to new territories and warehouse labor
0.8	Increase in property and casualty insurance expense primarily due to an increase in workers' compensation insurance claims
7.5	Other
\$ 68.0	Total increase in S,D&A expenses

Shipping and handling costs related to the movement of finished goods from manufacturing locations to sales distribution centers are included in cost of sales. Shipping and handling costs related to the movement of finished goods from sales distribution centers to customer locations are included in S,D&A expenses and totaled \$103.2 million and \$102.1 million in YTD 2015 and YTD 2014, respectively.

#### Interest Expense

Net interest expense decreased by \$0.5 million or 3.4% in YTD 2015 compared to YTD 2014. The decrease in YTD 2015, as compared to YTD 2014 was primarily due to the refinancing in April 2015 of \$100 million in senior notes with borrowings under the Company's Revolving Credit Facility which has a lower interest rate, partially offset by additional borrowings to finance the territory expansion. The Company's overall weighted average interest rate on its debt and capital lease obligations was 4.8% and 5.8% during YTD 2015 and YTD 2014.

#### Other Income (Expense)

Other income in YTD 2015 included a noncash benefit of \$1.0 million as a result of a favorable fair value adjustment of the Company's contingent consideration liability related to the expansion territories acquired during 2014 and 2015,



which was primarily driven by an increase in the risk-free interest rate.

Each reporting period, the Company adjusts its contingent consideration liability related to the territory expansion to fair value. The fair value is determined by discounting future expected sub-bottler payments required under the CBAs using the Company's estimated weighted average cost of capital ("WACC"), which is impacted by many factors, including the risk-free interest rate. These future expected sub-bottler payments extend through the life of the related distribution asset acquired in each expansion territory, which is generally 40 years. In addition, the Company is required quarterly to pay the current portion of the sub-bottling fee. As a result, the fair value of the acquisition related contingent consideration liability is impacted by the Company's WACC, the Company's best estimate of the amounts that will be paid in the future under the CBAs, and current sub-bottling payments. Changes in any of these factors, particularly the underlying risk-free interest rate, could materially impact the amount of noncash expense (or income) recorded each reporting period.

## Income Taxes

The Company's effective tax rate, as calculated by dividing income tax expense by income before income taxes, for YTD 2015 and YTD 2014 was 37.4% and 36.0%, respectively. The Company's effective tax rate, as calculated by dividing income tax expense by income before income taxes minus net income attributable to noncontrolling interest, for YTD 2015 and YTD 2014 was 39.5% and 39.0%, respectively. The increase is primarily due to the reduction in the manufacturing deduction in YTD 2015, as compared to YTD 2014 driven by a lower proportion of net income being generated from territories where manufacturing rights exist.

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.

## Noncontrolling Interest

The Company recorded net income attributable to noncontrolling interest of \$2.7 million and \$2.2 million in YTD 2015 and YTD 2014 respectively, related to the portion of Piedmont owned by The Coca-Cola Company.

## Other Comprehensive Income

Other comprehensive income, net of tax, was \$0.8 million in both YTD 2015 and YTD 2014.

## Segment Operating Results

The Company operates its business under five operating segments. Two of these operating segments have been aggregated due to their similar economic characteristics as well as the similarity of products, production processes, types of customers, methods of distribution, and nature of the regulatory environment. The combined reportable segment, Nonalcoholic Beverages, represents the vast majority of the Company's net sales and operating income for all periods presented. None of the remaining three operating segments individually meet the quantitative thresholds in ASC 280 for separate reporting. As a result, the discussion of the Company's operations is focused on the consolidated results. Below is a breakdown of the Company's net sales and operating income by reportable segment.

In Thousands	Second Quarter		First Half	
	2015	2014	2015	2014
<b>Net Sales:</b>				
Nonalcoholic Beverages	\$599,607	\$450,505	\$1,041,290	\$831,759
All Other	40,693	31,886	74,508	59,108
Eliminations	(25,617)	(22,918)	(47,862)	(42,812)
<b>Consolidated</b>	<b>\$614,683</b>	<b>\$459,473</b>	<b>\$1,067,936</b>	<b>\$848,055</b>
<b>Operating Income:</b>				
Nonalcoholic Beverages	\$37,061	\$29,990	\$52,392	\$41,580
All Other	1,255	1,274	2,826	1,800
<b>Consolidated</b>	<b>\$38,316</b>	<b>\$31,264</b>	<b>\$55,218</b>	<b>\$43,380</b>

## Financial Condition

Total assets increased to \$1.71 billion at June 28, 2015, from \$1.43 billion at December 28, 2014 and \$1.38 billion at June 29, 2014 primarily due to assets acquired in the expansion territories. Net working capital, defined as current assets less current liabilities, increased by \$67.9 million to \$127.5 million at June 28, 2015 from December 28, 2014 and increased by \$50.2 million at June 28, 2015 from June 29, 2014.

Significant changes in net working capital from December 28, 2014 were as follows:

- An increase in cash and cash equivalents of \$34.7 million primarily due to cash flows generated from operations.
- An increase in accounts receivable, trade of \$66.9 million primarily due to normal seasonal sales increases and accounts receivable from territories acquired in 2015.
- A net increase in accounts payable to The Coca-Cola Company of \$22.2 million primarily due to activity from territories acquired and the timing of payments and receipts.

- An increase in inventories of \$28.9 million primarily due to a normal seasonal increase and inventories from territories acquired in 2015.
  - An increase in accounts payable, trade of \$20.7 million primarily due to a normal seasonal increase in purchases and purchases from territories acquired in 2015.
  - An increase in other accrued liabilities of \$28.5 million primarily due to timing of payments and an increase in the current portion of acquisition related contingent consideration.
  - A decrease in accrued compensation of \$6.0 million primarily due to payment of 2014 bonuses in March 2015.
- Significant changes in net working capital from June 29, 2014 were as follows:

- An increase in cash and cash equivalents of \$20.9 million primarily due to cash flows generated from operations.
- An increase in accounts receivable, trade of \$59.1 million primarily due to accounts receivable sales from territories acquired in 2014 and 2015.
- A net increase in accounts payable to The Coca-Cola Company of \$26.1 million primarily due to the timing of payments and territories acquired in 2014 and 2015.
- An increase in inventories of \$16.3 million primarily due to inventories from the territories acquired in 2014 and 2015 and inventory required for the execution of future marketing strategies.
- An increase in prepaid expenses and other current assets of \$10.8 million primarily due to overpayment of federal and state income taxes in 2014.
- A decrease in the current portion of debt of \$20.0 million due to repayment of an uncommitted line of credit with borrowings from the Company's revolving credit facility.
- An increase in accounts payable, trade of \$25.0 million primarily due to accounts payable from territories acquired in 2014 and 2015.
- An increase in other accrued liabilities of \$24.2 million primarily due to the timing of payments and an increase in the current portion of acquisition related contingent consideration.
- An increase in accrued compensation of \$8.2 million primarily due to increased incentive compensation accruals due to the Company's financial performance.

Debt and capital lease obligations were \$623.0 million as of June 28, 2015 compared to \$503.8 million as of December 28, 2014 and \$515.7 million as of June 29, 2014. Debt and capital lease obligations as of June 28, 2015 included \$59.2 million of capital lease obligations related primarily to Company facilities.

## Liquidity and Capital Resources

### Capital Resources

The Company's sources of capital include cash flows from operations, available credit facility balances and the net proceeds from the issuance of additional debt and equity securities. Management believes the Company has sufficient resources available to finance its business plan, meet its working capital requirements and maintain an appropriate level of capital spending for at least the next 12 months. 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 in the future.

On October 16, 2014, the Company entered into a \$350 million five-year unsecured revolving credit facility (the "Revolving Credit Facility") which amended and restated the Company's existing \$200 million five-year unsecured revolving credit agreement. The Revolving Credit Facility has a scheduled maturity date of October 16, 2019 and up to \$50 million is available for the issuance of letters of credit. On April 27, 2015, the Company exercised the accordion feature of the Revolving Credit Facility thereby increasing the aggregate availability by \$100 million to \$450 million. Borrowings under the Revolving Credit Facility bear interest at a floating base rate or a floating Eurodollar rate plus an applicable margin, dependent on the Company's credit rating at the time of borrowing. At the Company's current credit ratings, the Company must pay an annual facility fee of .15% of the lenders' aggregate

commitments. The Revolving Credit Facility includes two financial covenants: a cash flow/fixed charges ratio (“fixed charges coverage ratio”) and a funded indebtedness/cash flow ratio (“operating cash flow ratio”), each as defined in the respective credit agreements. The Company

was in compliance with these covenants as of June 28, 2015. These covenants do not currently, and the Company does not anticipate they will, restrict its liquidity or capital resources.

The Company currently believes that all of the banks participating in the Company's Revolving Credit Facility have the ability to and will meet any funding requests from the Company. On June 28, 2015 and December 28, 2014, the Company had \$290.0 million and \$71.0 million, respectively, of outstanding borrowings under the Revolving Credit Facility. On June 29, 2014, the Company had \$60.0 million of outstanding borrowings on the Company's prior revolving credit facility.

The Company had \$100 million of senior notes which matured in April 2015. The Company used borrowings under the Revolving Credit Facility to refinance the notes.

On October 31, 2014, the Company terminated an uncommitted line of credit under which the Company could borrow up to a total of \$20 million for periods of 7 days, 30 days, 60 days or 90 days at the discretion of the participating bank and refinanced the outstanding balance with additional borrowings under the Revolving Credit Facility. On June 29, 2014, the Company had \$20.0 million outstanding under the uncommitted line of credit.

The Company historically has obtained the majority of its long-term financing, other than capital leases, from public markets. As of June 28, 2015, \$273.9 million of the Company's total outstanding balance of debt and capital lease obligations of \$623.0 million was financed through publicly offered debt. The Company had capital lease obligations of \$59.2 million as of June 28, 2015.

The Company has \$164.8 million of senior notes which mature in June 2016. The Company currently expects to refinance these senior notes and, accordingly, has classified all the \$164.8 million senior notes due June 2016 as long-term debt at June 28, 2015.

As of June 28, 2015, December 28, 2014 and June 29, 2014, the weighted average interest rate of the Company's debt and capital lease obligations was 4.3%, 5.8% and 5.7%, respectively, for its outstanding debt and capital lease obligations. The Company's overall weighted average interest rate on its debt and capital lease obligations was 4.8% and 5.8% in YTD 2015 and YTD 2014 respectively. As of June 28, 2015, \$290.0 million of the Company's debt and capital lease obligations of \$623.0 million were subject to changes in short-term interest rates.

All of the outstanding debt on the Company's balance sheet has been issued by the Company with none having been issued by any of the Company's subsidiaries. There are no guarantees of the Company's debt.

At June 28, 2015, the Company's credit ratings were as follows:

	Long-Term Debt
Standard & Poor's	BBB
Moody's	Baa2

The Company's credit ratings, which the Company is disclosing to enhance understanding of the Company's sources of liquidity and the effect of the Company's rating on the Company's cost of funds, are reviewed periodically by the respective rating agencies. Changes in the Company's operating results or financial position could result in changes in the Company's credit ratings. Lower credit ratings could result in higher borrowing costs for the Company or reduced access to capital markets, which could have a material impact on the Company's financial position or results of operations. There were no changes in these credit ratings from the prior year and the credit ratings are currently stable. Changes in the credit ratings of The Coca-Cola Company could adversely affect the Company's credit ratings as

well.

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

Net debt and capital lease obligations were summarized as follows:

In Thousands	June 28, 2015	Dec. 28, 2014	June 29, 2014
Debt	\$563,860	\$444,759	\$453,661
Capital lease obligations	59,153	59,050	62,063
Total debt and capital lease obligations	623,013	503,809	515,724
Less: Cash and cash equivalents	43,801	9,095	22,874
Total net debt and capital lease obligations <sup>(1)</sup>	\$579,212	\$494,714	\$492,850

<sup>(1)</sup> The non-GAAP measure “Total net debt and capital lease obligations” is used to provide investors with additional information which management believes is helpful in the evaluation of the Company’s capital structure and financial leverage. This non-GAAP financial information is not presented elsewhere in this report and may not be comparable to the similarly titled measures used by other companies. Additionally, this information should not be considered in isolation or as a substitute for performance measures calculated in accordance with GAAP.

The Company’s only Level 3 asset or liability is the contingent consideration liability incurred as a result of the territory expansion transactions completed in 2015 and 2014. The June 28, 2015 balance of \$94.1 million included a \$6.1 million and a \$1.0 million noncash fair value adjustment to decrease the liability in Q2 2015 and YTD 2015, respectively. There were no transfers from Level 1 or Level 2. The \$6.1 million and \$1.0 million noncash fair value adjustments in Q2 2015 and YTD 2015, respectively, did not impact the Company’s liquidity or capital resources.

#### Cash Sources and Uses

The primary sources of cash for the Company in YTD 2015 and YTD 2014 were cash flows from operating activities and borrowings under credit facilities. The primary uses of cash in YTD 2015 and YTD 2014 were payments of long-term debt, capital expenditures, territory acquisitions and exchanges, income tax payments, dividend payments, and payment of capital lease obligations.

A summary of activity for YTD 2015 and YTD 2014 follows:

In Millions	First Half	
	2015	2014
<b>Cash Sources</b>		
Cash provided by operating activities (excluding income tax)	\$41.7	\$31.3
Proceeds from Revolving Credit Facility	239.0	75.0
Proceeds from the sale of property, plant and equipment	0.1	1.1
<b>Total cash sources</b>	<b>\$280.8</b>	<b>\$107.4</b>
<b>Cash Uses</b>		
Payment of \$100 million Senior Notes	\$100.0	\$-
Capital expenditures	57.1	37.0
Acquisition of expansion territories	51.3	12.2
Payment of acquisition contingent consideration	0.8	-
Payment on Revolving Credit Facility /Line of Credit	20.0	20.0
Payment on capital lease obligations	3.3	2.9
Dividends	4.6	4.6
Income tax payments	8.7	19.5
Payment for debt issuance costs	0.2	-
Other	0.1	0.1
<b>Total cash uses</b>	<b>\$246.1</b>	<b>\$96.3</b>
<b>Increase in cash</b>	<b>\$34.7</b>	<b>\$11.1</b>

Based on current projections, which include a number of assumptions such as the Company’s pre-tax earnings, the Company anticipates its cash requirements for income taxes will be between \$15 million and \$25 million for the remainder of 2015. This projection does not include any anticipated cash income tax requirements from additional expansion territory transactions.



### Operating Activities

During YTD 2015, cash provided by operating activities increased \$21.2 million, as compared to YTD 2014. The increase in cash provided by operating activities was primarily due to an increase in net income of \$13.4 million and an increase in depreciation and amortization expense of \$7.9 million. Included in net income is an \$8.8 million gain on the exchange of franchise territory and a non-cash favorable fair value adjustment to acquisition related contingent consideration.

### Investing Activities

During YTD 2015, the Company acquired the 2015 Expansion Territories and completed the Lexington-for-Jackson exchange. The total cash used to acquire these expansion and exchange territories was \$51.3 million. During YTD 2014, the Company acquired franchise territories in Johnson City and Morristown, Tennessee for \$12.2 million in cash.

Additions to property, plant and equipment during YTD 2015 were \$57.1 million, of which \$7.0 million were accrued in accounts payable, trade as unpaid. This amount excludes \$39.7 million in property, plant and equipment acquired in the territory expansion and exchange transactions completed in YTD 2015. This compared to \$32.7 million in additions to property, plant and equipment during YTD 2014, of which \$2.9 million were accrued in accounts payable, trade as unpaid. The YTD 2014 additions exclude \$8.5 million in property, plant and equipment acquired in the territory expansion in YTD 2014. Capital expenditures during YTD 2015 were funded with cash flows from operations and available credit facilities. The Company anticipates that additions to property, plant and equipment in 2015 will be in the range of \$130 million to \$160 million.

#### Financing Activities

During YTD 2015, the Company's net borrowings under the Revolving Credit Facility increased \$219.0 million primarily to refinance \$100 million of senior notes in April 2015, to fund acquisition of new territories, and to fund working capital requirements and capital expenditures. During YTD 2014, the Company's net borrowings under the Company's prior revolving credit facility increased \$55.0 million primarily to fund seasonal working capital requirements, capital expenditures and acquisition of new territories.

#### Off-Balance Sheet Arrangements

The Company is a member of two manufacturing cooperatives and has guaranteed \$33.7 million of debt for these entities as of June 28, 2015. In addition, the Company has an equity ownership in each of the entities. 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 to adequately mitigate the risk of material loss from the Company's guarantees. As of June 28, 2015, the Company's maximum exposure, if the entities borrowed up to their borrowing capacity, would have been \$71.6 million including the Company's equity interests. See Note 12 and Note 17 to the consolidated financial statements for additional information about these entities.

#### Hedging Activities

The Company entered into derivative instruments to hedge certain commodity purchases for 2016, 2015 and 2014. Fees paid by the Company for derivative instruments are amortized over the corresponding period of the instrument. The Company accounts for its commodity hedges on a mark-to-market basis with any expense or income reflected as an adjustment of cost of sales or S,D&A expenses.

The Company uses several different financial institutions for commodity derivative instruments to minimize the concentration of credit risk. The Company has master agreements with the counterparties to its derivative financial agreements that provide for net settlement of derivative transactions.

The net impact of the commodity hedges was to increase the cost of sales by \$0.7 million in YTD 2015 and to decrease cost of sales by \$0.7 million in YTD 2014, and to decrease S,D&A expenses by \$0.6 million in YTD 2015. Commodity hedges did not impact S,D&A expenses in YTD 2014.

#### Discussion of Critical Accounting Policies, Estimates and New Accounting Pronouncements

##### Critical Accounting Policies and Estimates

In the ordinary course of business, the Company has made a number of estimates and assumptions relating to the reporting of results of operations and financial position in the preparation of its consolidated financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ significantly from those estimates under different assumptions and conditions. The Company included in its Annual Report on Form 10-K for the year ended December 28, 2014 a discussion of the Company's most critical accounting policies, which are those most important to the portrayal of the Company's financial condition and results of operations and require management's most difficult, subjective and complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain.

The Company did not make changes in any critical accounting policies during YTD 2015. Any changes in critical accounting policies and estimates are discussed with the Audit Committee of the Board of Directors of the Company during the quarter in which a change is made.

#### New Accounting Pronouncements

#### Recently Adopted Pronouncements

In April 2014, the Financial Accounting Standards Board (“FASB”) issued new guidance which changes the criteria for determining which disposals can be presented as discontinued operations and modifies related disclosure requirements. The new guidance was effective for annual and interim periods beginning after December 15, 2014. The impact on the Company of adopting the new guidance did not have a significant impact on the Company’s consolidated financial statements.

#### Recently Issued Pronouncements

In May 2014, the FASB issued new guidance on accounting for revenue from contracts with customers. The new guidance was to be effective for annual and interim periods beginning after December 15, 2016. In July 2015, the FASB deferred the effective date to annual and interim periods beginning after December 15, 2017. The Company is in the process of evaluating the impact of the new guidance on the Company’s consolidated financial statements.

In February 2015, the FASB issued new guidance which changes the analysis that a reporting entity must perform to determine whether it should consolidate certain types of legal entities. The new guidance is effective for annual and interim periods beginning after December 15, 2015. The Company is in the process of evaluating the impact of the new guidance on the Company’s consolidated financial statements.

In April 2015, the FASB issued new guidance on accounting for debt issuance costs. The new guidance requires that all costs incurred to issue debt be presented in the balance sheet as a direct reduction from the carrying value of the debt. The new guidance is effective for annual and interim periods beginning after December 15, 2015. The Company does not expect the new guidance to have a material impact on the Company’s consolidated financial statements.

In April 2015, the FASB issued new guidance on whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, the arrangement should be accounted for consistent with the acquisition of other software licenses, otherwise, the arrangement should be accounted for consistent with other service contracts. The new guidance is effective for annual and interim periods beginning after December 15, 2015. The Company is in process of evaluating the impact of the new guidance on the Company’s consolidated financial statements.

In July 2015, the FASB issued new guidance on accounting for inventory. The new guidance requires entities to measure most inventory “at lower of cost and net realizable value” thereby simplifying the current guidance under which an entity must measure inventory at the lower of cost or market. The new guidance is effective for annual and interim periods beginning after December 15, 2016. The Company is in the process of evaluating the impact of the new guidance on the Company’s consolidated financial statements.

#### Cautionary Information Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q, as well as information included in future filings by the Company with the Securities and Exchange Commission and information contained in written material, news releases and oral statements issued by or on behalf of the Company, contains, or may contain, forward-looking management comments and other statements that reflect management’s current outlook for future periods. The words “believe”, “expect”, “project”, “will”, “should”, “could” and similar expressions are intended to identify forward-looking statements. These statements include, among others, statements relating to:

- the Company's belief that the undiscounted amounts to be paid under the acquisition related contingent consideration arrangement will be between \$6 million and \$11 million per year;
- the Company's belief that the covenants on the Company's Revolving Credit Facility will not restrict its liquidity or capital resources;
- the Company's belief that other parties to certain contractual arrangements will perform their obligations;
- the Company's potential marketing funding support from The Coca-Cola Company and other beverage companies;
- the Company's belief that disposition of certain claims and legal proceedings will not have a material adverse effect on its financial condition, cash flows or results of operations and that no material amount of loss in excess of recorded amounts is reasonably possible as a result of these claims and legal proceedings;
- the Company's belief that the Company has adequately provided for any ultimate amounts that are likely to result from tax audits;

- the Company's belief that the Company has sufficient resources available to finance its business plan, meet its working capital requirements and maintain an appropriate level of capital spending;
- the Company's belief that the cooperatives whose debt the Company guarantees have sufficient assets and the ability to adjust selling prices of their products to adequately mitigate the risk of material loss and that the cooperatives will perform their obligations under their debt commitments;
- the Company's key priorities which are territory expansion, revenue management, product innovation and beverage portfolio expansion, distribution cost management and productivity;
- the Company's belief that cash contributions to the two Company-sponsored pension plans will be in the range of \$7 million to \$10 million for the remainder of 2015;
- the Company's belief that cash requirements for income taxes will be in the range of \$15 million to \$25 million for the remainder of 2015;
- the Company's expectation that additions to property, plant and equipment in 2015 will be in the range of \$130 million to \$160 million;
- the Company's belief that compliance with environmental laws will not have a material adverse effect on its capital expenditures, earnings or competitive position;
- the Company's belief that the majority of its deferred tax assets will be realized;
- the Company's beliefs and estimates regarding the impact of the adoption of certain new accounting pronouncements;
- the Company's belief that all of the banks participating in the Company's Revolving Credit Facility have the ability to and will meet any funding requests from the Company;
- the Company's belief that it is competitive in its territories with respect to the principal methods of competition in the nonalcoholic beverage industry;
- the Company's estimate that a 10% increase in the market price of certain commodities over the current market prices would cumulatively increase costs during the next 12 months by approximately \$26 million assuming no change in volume;
- the Company's belief that innovation of new brands and packages will continue to be important to the Company's overall revenue;
- the Company's expectation that uncertain tax positions may change over the next 12 months but will not have a significant impact on the consolidated financial statements;
- the Company's belief that the risk of loss with respect to funds deposited with banks is minimal;
- the Company's hypothetical calculation of the impact of a 1% increase in interest rates on outstanding floating rate debt and capital lease obligations for the next twelve months as of June 28, 2015.

These statements and expectations are based on currently available competitive, financial and economic data along with the Company's operating plans, and are subject to future events and uncertainties that could cause anticipated events not to occur or actual results to differ materially from historical or anticipated results. Factors that could impact those statements and expectations or adversely affect future periods include, but are not limited to, the factors set forth in Part I. Item 1A. Risk Factors of the Company's Annual Report on Form 10-K for the year ended December 28, 2014.

Caution should be taken not to place undue reliance on the Company's forward-looking statements, which reflect the expectations of management of the Company only as of the time such statements are made. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

### Item 3. Quantitative and Qualitative Disclosures About Market Risk.

The Company is exposed to certain market risks that arise in the ordinary course of business. The Company may enter into derivative financial instrument transactions to manage or reduce market risk. The Company does not enter into derivative financial instrument transactions for trading purposes. A discussion of the Company's primary market risk exposure and interest rate risk is presented below.



#### Debt and Derivative Financial Instruments

The Company is subject to interest rate risk on its fixed and floating rate debt. As of June 28, 2015, \$290.0 million of the Company's debt and capital lease obligations of \$623.0 million were subject to changes in short-term interest rates.

As it relates to the Company's variable rate debt, assuming no changes in the Company's financial structure, if market interest rates average 1% more over the next twelve months than the interest rates as of June 28, 2015, interest expense for the next twelve months would increase by approximately \$2.9 million. This amount was determined by calculating the effect of the hypothetical interest rate on the Company's variable rate debt. This calculated, hypothetical increase in interest expense for the following twelve months may be different from the actual increase in interest expense from a 1% increase in interest rates due to varying interest rate reset dates on the Company's floating debt.

The Company's acquisition related contingent consideration, which is adjusted to fair value at each reporting period, is also impacted by changes in interest rates. The risk free interest rate is a component of the discount rate used to calculate the present value of future cash flows due under the CBAs related to the Expansion Territories. As a result, any changes in the underlying interest rates will impact the fair value of the acquisition related contingent consideration.

#### Raw Material and Commodity Price Risk

The Company is also subject to commodity price risk arising from price movements for certain commodities included as part of its raw materials. The Company manages this commodity price risk in some cases by entering into contracts with adjustable prices. The Company periodically uses derivative commodity instruments in the management of this risk. The Company estimates that a 10% increase in the market prices of these commodities over the current market prices would cumulatively increase costs during the next 12 months by approximately \$26 million assuming no change in volume.

In YTD 2015 and YTD 2014, the Company entered into agreements to hedge a portion of the Company's 2016, 2015 and 2014 commodity purchases.

Fees paid by the Company for agreements to hedge commodity purchases are amortized over the corresponding period of the instruments. The Company accounts for commodity hedges on a mark-to-market basis with any expense or income being reflected as an adjustment to cost of sales or S,D&A expenses.

#### Effects of Changing Prices

The annual rate of inflation in the United States, as measured by year-over-year changes in the consumer price index, was .8% in 2014 compared to 1.5% in 2013 and 1.7% in 2012. Inflation in the prices of those commodities important to the Company's business is reflected in changes in the consumer price index, but commodity prices are volatile and in recent years have moved at a faster rate of change than the consumer price index.

The principal effect of inflation in both commodity and consumer prices on the Company's operating results is to increase costs, both of goods sold and S,D&A. Although the Company can offset these cost increases by increasing selling prices for its products, consumers may not have the buying power to cover these increased costs and may reduce their volume of purchases of those products. In that event, selling price increases may not be sufficient to offset completely the Company's cost increases.

#### Item 4. Controls and Procedures.



As of the end of the period covered by this report, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's "disclosure controls and procedures" (as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934 (the "Exchange Act")), pursuant to Rule 13a-15(b) of the Exchange Act. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of June 28, 2015.

There has been no change in the Company's internal control over financial reporting during the quarter ended June 28, 2015 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1A. Risk Factors.

There have been no material changes to the factors disclosed in Part I. Item 1A. Risk Factors in the Company's Annual Report on Form 10-K for the year ended December 28, 2014.

Item 6. Exhibits.

Exhibit

Number Description

- 4.1 The registrant, by signing this report, agrees to furnish the Securities and Exchange Commission, upon its request, a copy of any instrument which defines the rights of holders of long-term debt of the registrant and its consolidated subsidiaries which authorizes a total amount of securities not in excess of 10 percent of the total assets of the registrant and its subsidiaries on a consolidated basis.
- 10.1 Amendment to the Comprehensive Beverage Agreement for the Johnson City/Morristown territory, dated as of June 1, 2015, by and between the Company, The Coca-Cola Company and Coca-Cola Refreshments, USA, Inc. (filed herewith).\*
- 12 Ratio of earnings to fixed charges (filed herewith).
- 31.1 Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
- 31.2 Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
- 32 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished (and not filed) herewith pursuant to Item 601(b)(32)(ii) of Regulation S-K).
- 101 Financial statements from the quarterly report on Form 10-Q of Coca-Cola Bottling Co. Consolidated for the quarter ended June 28, 2015, filed on August 7, 2015, formatted in XBRL (Extensible Business Reporting Language): (i) the Consolidated Statements of Operations; (ii) the Consolidated Statements of Comprehensive Income; (iii) the Consolidated Balance Sheets; (iv) the Consolidated Statements of Changes in Equity; (v) the Consolidated Statements of Cash Flows and (vi) the Notes to the Consolidated Financial Statements.

\* Certain portions of this exhibit have been omitted pursuant to a request for confidential treatment filed with the Securities and Exchange Commission.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

COCA-COLA BOTTLING CO. CONSOLIDATED  
(REGISTRANT)

Date: August 7, 2015 By: /s/ James E. Harris  
James E. Harris  
Principal Financial Officer of the Registrant  
and  
Senior Vice President, Shared Services  
and  
Chief Financial Officer

Date: August 7, 2015 By: /s/ William J. Billiard  
William J. Billiard  
Principal Accounting Officer of the Registrant  
and  
Chief Accounting Officer