

COCA COLA BOTTLING CO CONSOLIDATED /DE/
Form 10-Q
August 16, 2006
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended July 2, 2006

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

56-0950585
(I.R.S. Employer

incorporation or organization)

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

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to such filing requirements for the past 90 days. Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer

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, 2006
Common Stock, \$1.00 Par Value	6,643,177
Class B Common Stock, \$1.00 Par Value	2,460,152

Table of Contents

COCA-COLA BOTTLING CO. CONSOLIDATED
QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED JULY 2, 2006

INDEX

	Page
<u>PART I FINANCIAL INFORMATION</u>	
Item 1. <u>Financial Statements (Unaudited)</u>	
<u>Consolidated Statements of Operations</u>	3
<u>Consolidated Balance Sheets</u>	4
<u>Consolidated Statements of Changes in Stockholders' 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>	51
Item 4. <u>Controls and Procedures</u>	51
<u>PART II OTHER INFORMATION</u>	
Item 1. <u>Legal Proceedings</u>	52
Item 1A. <u>Risk Factors</u>	52
Item 4. <u>Submission of Matters to a Vote of Security Holders</u>	53
Item 6. <u>Exhibits</u>	54

Table of Contents

PART I - FINANCIAL INFORMATION

Item I. Financial Statements.

Coca-Cola Bottling Co. Consolidated

CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

In Thousands (Except Per Share Data)

	Second Quarter		First Half	
	2006	2005	2006	2005
Net sales	\$ 386,624	\$ 361,224	\$ 719,803	\$ 670,409
Cost of sales	218,935	194,859	406,088	364,510
Gross margin	167,689	166,365	313,715	305,899
Selling, delivery and administrative expenses	138,310	132,025	270,038	257,924
Amortization of intangibles	142	157	290	566
Income from operations	29,237	34,183	43,387	47,409
Interest expense	12,843	12,893	25,063	24,391
Minority interest	1,149	1,441	1,705	1,961
Income before income taxes	15,245	19,849	16,619	21,057
Income taxes	6,358	8,330	6,917	8,819
Net income	\$ 8,887	\$ 11,519	\$ 9,702	\$ 12,238
Basic net income per share	\$.98	\$ 1.27	\$ 1.07	\$ 1.35
Diluted net income per share	\$.97	\$ 1.27	\$ 1.06	\$ 1.35
Weighted average number of common shares outstanding	9,103	9,083	9,103	9,083
Weighted average number of common shares outstanding assuming dilution	9,123	9,083	9,118	9,083
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

Table of Contents

Coca-Cola Bottling Co. Consolidated

CONSOLIDATED BALANCE SHEETS

In Thousands (Except Share Data)

	Unaudited July 2, 2006	Jan. 1, 2006	Unaudited July 3, 2005
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 30,971	\$ 39,608	\$ 10,155
Accounts receivable, trade, less allowance for doubtful accounts of \$1,490, \$1,318 and \$1,262, respectively	106,740	94,576	100,640
Accounts receivable from The Coca-Cola Company	10,709	2,719	5,326
Accounts receivable, other	10,485	8,388	6,890
Inventories	63,932	58,233	55,324
Prepaid expenses and other current assets	15,848	8,862	12,806
Total current assets	238,685	212,386	191,141
Property, plant and equipment, net	385,813	389,199	398,368
Leased property under capital leases, net	71,511	73,244	75,051
Other assets	38,892	39,235	40,239
Franchise rights	520,672	520,672	520,672
Goodwill	102,049	102,049	102,049
Other identifiable intangible assets, net	4,986	5,054	5,369
Total	\$ 1,362,608	\$ 1,341,839	\$ 1,332,889

See Accompanying Notes to Consolidated Financial Statements

Table of Contents

Coca-Cola Bottling Co. Consolidated

CONSOLIDATED BALANCE SHEETS

In Thousands (Except Share Data)

	Unaudited		Unaudited
	July 2,	Jan. 1,	July 3,
	2006	2006	2005
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>			
<u>Current Liabilities:</u>			
Current portion of debt		\$ 6,539	\$ 2,939
Current portion of obligations under capital leases	\$ 1,594	1,709	1,794
Accounts payable, trade	40,890	35,333	35,068
Accounts payable to The Coca-Cola Company	34,695	15,516	29,285
Other accrued liabilities	51,973	60,079	61,010
Accrued compensation	13,073	18,969	14,346
Accrued interest payable	9,747	9,670	6,787
Total current liabilities	151,972	147,815	151,229
Deferred income taxes	163,650	167,131	168,433
Pension and postretirement benefit obligations	65,227	54,844	42,031
Other liabilities	89,458	85,188	78,935
Obligations under capital leases	76,728	77,493	78,336
Long-term debt	691,450	691,450	700,000
Total liabilities	1,238,485	1,223,921	1,218,964
<u>Commitments and Contingencies (Note 14)</u>			
Minority interest	44,489	42,784	40,648
<u>Stockholders' Equity:</u>			
Common Stock, \$1.00 par value:			
Authorized 30,000,000 shares; Issued 9,705,451, 9,705,451 and 9,704,951 shares, respectively	9,705	9,705	9,704
Class B Common Stock, \$1.00 par value:			
Authorized 10,000,000 shares; Issued 3,088,366, 3,068,366 and 3,068,866 shares, respectively	3,088	3,068	3,069
Capital in excess of par value	100,681	99,376	99,376
Retained earnings	59,505	54,355	48,185
Accumulated other comprehensive loss	(32,091)	(30,116)	(25,803)
	140,888	136,388	134,531
Less: Treasury stock, at cost			
Common 3,062,374 shares	60,845	60,845	60,845
Class B Common 628,114 shares	409	409	409
Total stockholders' equity	79,634	75,134	73,277
Total	\$ 1,362,608	\$ 1,341,839	\$ 1,332,889

See Accompanying Notes to Consolidated Financial Statements

Table of Contents

Coca-Cola Bottling Co. Consolidated

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (UNAUDITED)

In Thousands

	Capital		Accumulated				
	in		Other				
	Common	Class B	Excess of	Retained	Comprehensive	Treasury	Total
	Stock	Common	Par Value	Earnings	Loss	Stock	Total
Balance on January 2, 2005	\$ 9,704	\$ 3,049	\$ 98,255	\$ 40,488	\$ (25,803)	\$ (61,254)	\$ 64,439
Comprehensive income:							
Net income				12,238			12,238
Total comprehensive income							12,238
Cash dividends paid							
Common (\$.50 per share)				(3,321)			(3,321)
Class B Common (\$.50 per share)				(1,220)			(1,220)
Issuance of 20,000 shares of Class B Common Stock		20	1,121				1,141
Balance on July 3, 2005	\$ 9,704	\$ 3,069	\$ 99,376	\$ 48,185	\$ (25,803)	\$ (61,254)	\$ 73,277
Balance on January 1, 2006	\$ 9,705	\$ 3,068	\$ 99,376	\$ 54,355	\$ (30,116)	\$ (61,254)	\$ 75,134
Comprehensive income:							
Net income				9,702			9,702
Net change in minimum pension liability adjustment, net of tax					(1,975)		(1,975)
Total comprehensive income							7,727
Cash dividends paid							
Common (\$.50 per share)				(3,322)			(3,322)
Class B Common (\$.50 per share)				(1,230)			(1,230)
Issuance of 20,000 shares of Class B Common Stock		20	840				860
Stock compensation expense			465				465
Balance on July 2, 2006	\$ 9,705	\$ 3,088	\$ 100,681	\$ 59,505	\$ (32,091)	\$ (61,254)	\$ 79,634

See Accompanying Notes to Consolidated Financial Statements

Table of Contents

Coca-Cola Bottling Co. Consolidated

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

In Thousands

	First Half	
	2006	2005
Cash Flows from Operating Activities		
Net income	\$ 9,702	\$ 12,238
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation expense	33,572	34,166
Amortization of intangibles	290	566
Deferred income taxes	1,040	4,664
Losses on sale of property, plant and equipment	543	36
Amortization of debt costs	1,328	616
Amortization of deferred gain related to terminated interest rate agreements	(843)	(839)
Stock compensation expense	465	490
Minority interest	1,705	1,961
Increase in current assets less current liabilities	(17,984)	(5,382)
Increase in other noncurrent assets	(902)	(1,377)
Increase (decrease) in other noncurrent liabilities	3,123	(8,451)
Total adjustments	22,337	26,450
Net cash provided by operating activities	32,039	38,688
Cash Flows from Investing Activities		
Additions to property, plant and equipment	(29,833)	(14,881)
Proceeds from the sale of property, plant and equipment	837	2,970
Other	(222)	
Net cash used in investing activities	(29,218)	(11,911)
Cash Flows from Financing Activities		
Payment of current portion of long-term debt	(39)	
Payment of lines of credit, net	(6,500)	(5,100)
Cash dividends paid	(4,552)	(4,541)
Principal payments on capital lease obligations	(880)	(897)
Premium on exchange of long-term debt		(15,554)
Other	513	585
Net cash used in financing activities	(11,458)	(25,507)
Net increase (decrease) in cash	(8,637)	1,270
Cash at beginning of period	39,608	8,885
Cash at end of period	\$ 30,971	\$ 10,155
Significant non-cash investing and financing activities:		
Issuance of Class B Common Stock in connection with stock award	\$ 860	\$ 1,141

Exchange of long-term debt

164,757

See Accompanying Notes to Consolidated Financial Statements

Table of Contents

Coca-Cola Bottling Co. Consolidated

Notes to Consolidated Financial Statements (Unaudited)

1. Significant Accounting Policies

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

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

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

The accounting policies followed in the presentation of interim financial results are consistent with those followed on an annual basis. These policies are presented in Note 1 to the consolidated financial statements included in the Company s Annual Report on

Form 10-K for the year ended January 1, 2006 filed with the United States Securities and Exchange Commission (SEC).

Certain prior year amounts reported in the Company s consolidated statements of operations have been conformed to current year classifications. In prior periods, the Company reported depreciation expense separately in the consolidated statements of operations. The Company began reporting depreciation expense in cost of sales and selling, delivery and administrative (S,D&A) expenses in the first quarter of 2006 (Q1 2006). The Company s results of operations for the second quarter of 2005 (Q2 2005) and the first half of 2005 (YTD 2005) have been conformed to the second quarter of 2006 (Q2 2006) and the first half of 2006 (YTD 2006) presentation. Depreciation expense in cost of sales and S,D&A expenses in Q2 2006 was \$2.3 million and \$14.6 million, respectively. Depreciation expense in cost of sales and S,D&A expenses in YTD 2006 was \$4.6 million and \$29.0 million, respectively. Depreciation expense in cost of sales and S,D&A expenses in Q2 2005 was \$2.2 million and \$14.8 million, respectively. Depreciation expense in cost of sales and S,D&A expenses in YTD 2005 was \$4.5 million and \$29.7 million, respectively.

2. Seasonality of Business

Operating results for Q2 2006 and YTD 2006 are not indicative of results that may be expected for the fiscal year ending December 31, 2006 because of business seasonality. Business seasonality results primarily from higher 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 and interest expense, are not significantly impacted by business seasonality.

Table of Contents

Coca-Cola Bottling Co. Consolidated

Notes to Consolidated Financial Statements (Unaudited)

3. Piedmont Coca-Cola Bottling Partnership

On July 2, 1993, the Company and The Coca-Cola Company formed Piedmont Coca-Cola Bottling Partnership (Piedmont) to distribute and market nonalcoholic beverages primarily in portions of North Carolina and South Carolina. The Company provides a portion of the finished products to Piedmont at cost and receives a fee for managing the business of Piedmont pursuant to a management agreement. These intercompany transactions are eliminated in the consolidated financial statements.

Minority interest as of July 2, 2006, January 1, 2006 and July 3, 2005 represents the portion of Piedmont owned by The Coca-Cola Company, which was 22.7% for all periods presented.

4. Inventories

Inventories were summarized as follows:

In Thousands	July 2, 2006	Jan. 1, 2006	July 3, 2005
Finished products	\$ 38,216	\$ 34,181	\$ 31,314
Manufacturing materials	9,073	9,222	10,074
Plastic shells, pallets and other inventories	16,643	14,830	13,936
Total inventories	\$ 63,932	\$ 58,233	\$ 55,324

5. Property, Plant and Equipment

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

In Thousands	July 2, 2006	Jan. 1, 2006	July 3, 2005	Estimated Useful Lives
Land	\$ 12,605	\$ 12,605	\$ 12,767	
Buildings	110,854	110,208	111,644	10-50 years
Machinery and equipment	99,519	96,495	92,837	5-20 years
Transportation equipment	174,903	167,762	164,909	4-13 years
Furniture and fixtures	39,291	44,364	41,849	4-10 years
Cold drink dispensing equipment	340,836	339,330	347,576	6-13 years
Leasehold and land improvements	57,726	56,788	55,584	5-20 years
Software for internal use	33,876	32,258	29,841	3-10 years
Construction in progress	8,660	6,627	7,229	
Total property, plant and equipment, at cost	878,270	866,437	864,236	
Less: Accumulated depreciation and amortization	492,457	477,238	465,868	
Property, plant and equipment, net	\$ 385,813	\$ 389,199	\$ 398,368	

Table of Contents

Coca-Cola Bottling Co. Consolidated

Notes to Consolidated Financial Statements (Unaudited)

6. Leased Property Under Capital Leases

Leased property under capital leases was summarized as follows:

In Thousands	July 2, 2006	Jan. 1, 2006	July 3, 2005	Estimated Useful Lives
Leased property under capital leases	\$ 84,035	\$ 84,035	\$ 84,035	3-29 years
Less: Accumulated amortization	12,524	10,791	8,984	
Leased property under capital leases, net	\$ 71,511	\$ 73,244	\$ 75,051	

As of July 2, 2006, real estate represented \$71.4 million of net leased property under capital leases, of which \$64.8 million were with related parties as described in Note 19 to the consolidated financial statements.

7. Franchise Rights and Goodwill

There was no change in franchise rights and goodwill in the periods presented.

8. Other Identifiable Intangible Assets

Other identifiable intangible assets were summarized as follows:

In Thousands	July 2, 2006	Jan. 1, 2006	July 3, 2005	Estimated Useful Lives
Other identifiable intangible assets	\$ 8,703	\$ 9,877	\$ 9,877	1-18 years
Less: Accumulated amortization	3,717	4,823	4,508	
Other identifiable intangible assets, net	\$ 4,986	\$ 5,054	\$ 5,369	

Other identifiable intangible assets primarily represent customer relationships.

Table of Contents

Coca-Cola Bottling Co. Consolidated

Notes to Consolidated Financial Statements (Unaudited)

9. Other Accrued Liabilities

Other accrued liabilities were summarized as follows:

In Thousands	July 2, 2006	Jan. 1, 2006	July 3, 2005
Accrued marketing costs	\$ 7,263	\$ 5,578	\$ 4,735
Accrued insurance costs	11,886	10,463	11,608
Accrued taxes (other than income taxes)	3,357	729	3,861
Employee benefit plan accruals	7,999	8,945	10,481
Checks and transfers yet to be presented for payment from zero balance cash account	9,117	20,530	13,248
All other accrued liabilities	12,351	13,834	17,077
Total other accrued liabilities	\$ 51,973	\$ 60,079	\$ 61,010

10. Debt

Debt was summarized as follows:

In Thousands	Maturity	Interest Rate	Interest Paid	July 2, 2006	Jan. 1, 2006	July 3, 2005
Lines of Credit	2006		Varies		\$ 6,500	\$ 2,900
Debentures	2007	6.85%	Semi-annually	\$ 100,000	100,000	100,000
Debentures	2009	7.20%	Semi-annually	57,440	57,440	57,440
Debentures	2009	6.375%	Semi-annually	119,253	119,253	127,803
Senior Notes	2012	5.00%	Semi-annually	150,000	150,000	150,000
Senior Notes	2015	5.30%	Semi-annually	100,000	100,000	100,000
Senior Notes	2016	5.00%	Semi-annually	164,757	164,757	164,757
Other notes payable	2006		Quarterly		39	39
				691,450	697,989	702,939
Less: Current portion of debt					6,539	2,939
Long-term debt				\$ 691,450	\$ 691,450	\$ 700,000

Table of Contents

Coca-Cola Bottling Co. Consolidated

Notes to Consolidated Financial Statements (Unaudited)

10. Debt

On April 7, 2005, the Company entered into a five-year \$100 million revolving credit facility (\$100 million facility) replacing a \$125 million revolving credit facility scheduled to expire in December 2005. On July 2, 2006, there were no amounts outstanding under this \$100 million facility. The \$100 million facility matures in April 2010 and includes an option to extend the term for an additional year at the discretion of the participating banks and bears interest at a floating base rate or a floating rate of LIBOR plus an interest rate spread of .375%. In addition, there is a facility fee of .125% required for this \$100 million facility. Both the interest rate spread and the facility fee are determined from a commonly-used pricing grid based on the Company s long-term senior unsecured debt rating. The Company s \$100 million facility contains two financial covenants related to ratio requirements for interest coverage and long-term debt to cash flow, each as defined in the credit agreement. These covenants do not currently, and the Company does not anticipate they will, restrict its liquidity or capital resources.

The Company borrows periodically under its available lines of credit. These lines of credit, in the aggregate amount of \$60 million at July 2, 2006, are made available at the discretion of two participating banks at rates negotiated at the time of borrowing and may be withdrawn at any time by such banks. On July 2, 2006, there were no amounts outstanding under the lines of credit.

After taking into account all of its interest rate hedging activities, the Company had weighted average interest rates of 6.7%, 6.2% and 5.8% for its debt and capital lease obligations as of July 2, 2006, January 1, 2006 and July 3, 2005, respectively. Excluding the impact of the \$1.3 million financing transaction costs related to the exchange of \$164.8 million of the Company s debentures during Q2 2005, the Company s overall weighted average interest rate on its debt and capital lease obligations was 6.6% for YTD 2006 compared to 5.9% for YTD 2005. Including the impact of the \$1.3 million financing transaction costs, the Company s overall weighted average interest rate for YTD 2005 was 6.2%. As of July 2, 2006, approximately 42% of the Company s debt and capital lease obligations of \$769.8 million was subject to changes in short-term interest rates. The Company considers all floating rate debt and fixed rate debt with a maturity of less than one year to be subject to changes in short-term interest rates.

The Company s public debt is not subject to financial covenants but does limit the incurrence of certain liens and encumbrances as well as the incurrence of indebtedness by the Company s subsidiaries in excess of certain amounts.

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

Table of Contents

Coca-Cola Bottling Co. Consolidated

Notes to Consolidated Financial Statements (Unaudited)

11. Derivative Financial Instruments

The Company periodically uses interest rate hedging products to mitigate risk from interest rate fluctuations. The Company has historically altered its fixed/floating rate mix based upon anticipated cash flows from operations relative to the Company's debt level and the potential impact of changes in interest rates on the Company's overall financial condition. Sensitivity analyses are performed to review the impact on the Company's financial position and coverage of various interest rate movements. The Company does not use derivative financial instruments for trading purposes nor does it use leveraged financial instruments. All of the Company's outstanding interest rate swap agreements are LIBOR-based.

Derivative financial instruments were summarized as follows:

In Thousands	July 2, 2006		January 1, 2006		July 3, 2005	
	Notional Amount	Remaining Term	Notional Amount	Remaining Term	Notional Amount	Remaining Term
Interest rate swap agreement - floating	\$ 25,000	1.42 years	\$ 25,000	1.92 years	\$ 25,000	2.42 years
Interest rate swap agreement - floating	25,000	1.42 years	25,000	1.92 years	25,000	2.42 years
Interest rate swap agreement - floating	50,000	2.92 years	50,000	3.42 years	50,000	3.92 years
Interest rate swap agreement - floating	50,000	1.42 years	50,000	1.92 years	50,000	2.42 years
Interest rate swap agreement - floating	50,000	3.08 years	50,000			