

COCA COLA BOTTLING CO CONSOLIDATED /DE/  
Form 10-K  
March 14, 2013  
Table of Contents

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-K**

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

For the fiscal year ended December 30, 2012

Commission file number 0-9286

*(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 Number)*

**4100 Coca-Cola Plaza, Charlotte, North Carolina 28211**

*(Address of principal executive offices) (Zip Code)*

**(704) 557-4400**

*(Registrant's telephone number, including area code)*

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

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

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

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

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

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

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

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

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

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

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

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

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

	<b>Market Value as of June 29, 2012</b>
Common Stock, \$1.00 Par Value	\$ 299,362,116
Class B Common Stock, \$1.00 Par Value	*

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

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

	<b>Outstanding as of March 1, 2013</b>
Common Stock, \$1.00 Par Value	7,141,447
Class B Common Stock, \$1.00 Par Value	2,088,842

### Documents Incorporated by Reference

Portions of Proxy Statement to be filed pursuant to Section 14 of the Exchange Act with respect to the 2013 Annual Meeting of Stockholders

Part III, Items 10-14

**Table of Contents**

**Table of Contents**

	<b>Page</b>
<b><u>Part I</u></b>	
Item 1. <u>Business</u>	1
Item 1A. <u>Risk Factors</u>	11
Item 1B. <u>Unresolved Staff Comments</u>	18
Item 2. <u>Properties</u>	18
Item 3. <u>Legal Proceedings</u>	20
Item 4. <u>Mine Safety Disclosures</u>	20
<u>Executive Officers of the Company</u>	20
<b><u>Part II</u></b>	
Item 5. <u>Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	22
Item 6. <u>Selected Financial Data</u>	24
Item 7. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	25
Item 7A. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	55
Item 8. <u>Financial Statements and Supplementary Data</u>	56
Item 9. <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	105
Item 9A. <u>Controls and Procedures</u>	105
Item 9B. <u>Other Information</u>	105
<b><u>Part III</u></b>	
Item 10. <u>Directors, Executive Officers and Corporate Governance</u>	106
Item 11. <u>Executive Compensation</u>	106
Item 12. <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	106
Item 13. <u>Certain Relationships and Related Transactions, and Director Independence</u>	106
Item 14. <u>Principal Accountant Fees and Services</u>	106
<b><u>Part IV</u></b>	
Item 15. <u>Exhibits and Financial Statement Schedules</u>	107
<u>Signatures</u>	115

---

**Table of Contents**

**PART I**

**Item 1. *Business***  
**Introduction**

Coca-Cola Bottling Co. Consolidated, a Delaware corporation (together with its majority-owned subsidiaries, the Company), produces, markets and distributes nonalcoholic beverages, primarily products of The Coca-Cola Company, Atlanta, Georgia (The Coca-Cola Company), which include some of the most recognized and popular beverage brands in the world. The Company, which was incorporated in 1980, and its predecessors have been in the nonalcoholic beverage manufacturing and distribution business since 1902. The Company is the largest independent Coca-Cola bottler in the United States.

As of December 30, 2012, The Coca-Cola Company had a 34.8% interest in the Company's outstanding Common Stock, representing 5.1% of the total voting power of the Company's Common Stock and Class B Common Stock voting together as a single class. The Coca-Cola Company does not own any shares of Class B Common Stock of the Company. J. Frank Harrison, III, the Company's Chairman of the Board and Chief Executive Officer, currently owns or controls approximately 85% of the combined voting power of the Company's outstanding Common Stock and Class B Common Stock.

**General**

Nonalcoholic beverage products can be broken down into two categories:

Sparkling beverages – beverages with carbonation, including energy drinks; and

Still beverages – beverages without carbonation, including bottled water, tea, ready-to-drink coffee, enhanced water, juices and sports drinks.

Sales of sparkling beverages were approximately 82%, 83% and 83% of total net sales for fiscal 2012 (2012), fiscal 2011 (2011) and fiscal 2010 (2010), respectively. Sales of still beverages were approximately 18%, 17% and 17% of total net sales for 2012, 2011 and 2010, respectively.

The Company holds Cola Beverage Agreements and Allied Beverage Agreements under which it produces, distributes and markets, in certain regions, sparkling beverages of The Coca-Cola Company. The Company also holds Still Beverage Agreements under which it distributes and markets in certain regions still beverages of The Coca-Cola Company such as POWERade, vitaminwater and Minute Maid Juices To Go and produces, distributes and markets Dasani water products.

The Company holds agreements to produce, distribute and market Dr Pepper in some of its regions. The Company also distributes and markets various other products, including Monster Energy products and Sundrop, in one or more of the Company's regions under agreements with the companies that hold and license the use of their trademarks for these beverages. In addition, the Company produces beverages for other Coca-Cola bottlers. In some instances, the Company distributes beverages without a written agreement.

The Company's principal sparkling beverage is Coca-Cola. In each of the last three fiscal years, sales of products bearing the Coca-Cola or Coke trademark have accounted for more than half of the Company's bottle/can volume to retail customers. In total, products of The Coca-Cola Company accounted for approximately 88% of the Company's bottle/can volume to retail customers during 2012, 2011 and 2010.

The Company offers a range of flavors designed to meet the demands of the Company's consumers. The main packaging materials for the Company's beverages are plastic bottles and aluminum cans. In addition, the Company provides restaurants and other immediate consumption outlets with fountain products (post-mix). Fountain products are dispensed through equipment that mixes the fountain syrup with carbonated or still water, enabling fountain retailers to sell finished products to consumers in cups or glasses.

In recent years, the Company has developed and begun to market and distribute certain products which it owns. These products include Country Breeze tea, Tum-E Yummies, a vitamin-C enhanced flavored drink and Fuel in a Bottle power shots. The Company markets and sells these products nationally.



**Table of Contents**

The Coca-Cola Company acquired Coca-Cola Enterprises Inc. ( CCE ) on October 2, 2010. In connection with the transaction, CCE changed its name to Coca-Cola Refreshments USA, Inc. ( CCR ) and transferred its beverage operations outside of North America to an independent third party. As a result of the transaction, the North American operations of CCE are now included in CCR. CCE began distributing Tum-E Yummies in the first quarter of 2010 and CCR is continuing to do so nationally. Certain other Coca-Cola franchise bottlers are also distributing Tum-E Yummies. References to CCR refer to CCR and CCE as it existed prior to the acquisition by The Coca-Cola Company.

The following table sets forth some of the Company's most important products, including both products that The Coca-Cola Company and other beverage companies have licensed to the Company and products that the Company owns.

<b>Sparkling Beverages (including Energy Products)</b>	<b>The Coca-Cola Company</b>	<b>Still Beverages</b>	<b>Products Licensed by Other Beverage Companies</b>	<b>Company Owned Products</b>
Coca-Cola		glacéau smartwater	Dr Pepper	Tum-E Yummies
Diet Coke		glacéau vitaminwater	Diet Dr Pepper	Country Breeze tea
Coca-Cola Zero		Dasani	Sundrop	Fuel in a Bottle
Sprite		Dasani Flavors	Monster Energy	
Fanta Flavors		Powerade	products	
Sprite Zero		Powerade Zero		
Mello Yello		Minute Maid Adult		
Cherry Coke		Refreshments		
Seagrams Ginger Ale		Minute Maid Juices		
Cherry Coke Zero		To Go		
Diet Coke Splenda®		Nestea		
Fresca		Gold Peak tea		
Pibb Xtra		FUZE		
Barqs Root Beer		V8 juice products		
TAB		from Campbell		
Full Throttle				
NOS®				

**Beverage Agreements**

The Company holds contracts with The Coca-Cola Company which entitle the Company to produce, market and distribute in its exclusive territory The Coca-Cola Company's nonalcoholic beverages in bottles, cans and five gallon pressurized pre-mix containers. The Company has similar arrangements with Dr Pepper Snapple Group, Inc. and other beverage companies.

**Cola and Allied Beverage Agreements with The Coca-Cola Company.**

The Company purchases concentrates from The Coca-Cola Company and produces, markets and distributes its principal sparkling beverages within its territories under two basic forms of beverage agreements with The Coca-Cola Company: (i) beverage agreements that cover sparkling beverages bearing the trademark Coca-Cola or Coke (the Coca-Cola Trademark Beverages and Cola Beverage Agreements), and (ii) beverage agreements that cover other sparkling beverages of The Coca-Cola Company (the Allied Beverages and Allied Beverage Agreements) (referred to collectively in this report as the Cola and Allied Beverage Agreements), although in some instances the Company distributes sparkling beverages without a written agreement. The Company is a party to Cola Beverage Agreements and Allied Beverage Agreements for various specified territories.

**Cola Beverage Agreements with The Coca-Cola Company.**

**Exclusivity.** The Cola Beverage Agreements provide that the Company will purchase its entire requirements of concentrates or syrups for Coca-Cola Trademark Beverages from The Coca-Cola Company at

## **Table of Contents**

prices, terms of payment, and other terms and conditions of supply determined from time-to-time by The Coca-Cola Company at its sole discretion. The Company may not produce, distribute, or handle cola products other than those of The Coca-Cola Company. The Company has the exclusive right to manufacture and distribute Coca-Cola Trademark Beverages for sale in authorized containers within its territories. The Coca-Cola Company may determine, at its sole discretion, what types of containers are authorized for use with products of The Coca-Cola Company. The Company may not sell Coca-Cola Trademark Beverages outside its territories.

***Company Obligations.*** The Company is obligated to:

maintain such plant and equipment, staff and distribution and vending facilities that are capable of manufacturing, packaging, and distributing Coca-Cola Trademark Beverages in accordance with the Cola Beverage Agreements and in sufficient quantities to satisfy fully the demand for these beverages in its territories;

undertake adequate quality control measures and maintain sanitation standards prescribed by The Coca-Cola Company;

develop, stimulate and satisfy fully the demand for Coca-Cola Trademark Beverages in its territories;

use all approved means and spend such funds on advertising and other forms of marketing as may be reasonably required to satisfy that objective; and

maintain such sound financial capacity as may be reasonably necessary to ensure its performance of its obligations to The Coca-Cola Company.

The Company is required to meet annually with The Coca-Cola Company to present its marketing, management, and advertising plans for the Coca-Cola Trademark Beverages for the upcoming year, including financial plans showing that the Company has the consolidated financial capacity to perform its duties and obligations to The Coca-Cola Company. The Coca-Cola Company may not unreasonably withhold approval of such plans. If the Company carries out its plans in all material respects, the Company will be deemed to have satisfied its obligations to develop, stimulate, and satisfy fully the demand for the Coca-Cola Trademark Beverages and to maintain the requisite financial capacity. Failure to carry out such plans in all material respects would constitute an event of default that if not cured within 120 days of written notice of the failure would give The Coca-Cola Company the right to terminate the Cola Beverage Agreements. If the Company, at any time, fails to carry out a plan in all material respects in any geographic segment of its territory, as defined by The Coca-Cola Company, and if such failure is not cured within six months of written notice of the failure, The Coca-Cola Company may reduce the territory covered by that Cola Beverage Agreement by eliminating the portion of the territory in which such failure has occurred.

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

***Acquisition of Other Bottlers.*** If the Company acquires control, directly or indirectly, of any bottler of Coca-Cola Trademark Beverages, or any party controlling a bottler of Coca-Cola Trademark Beverages, the Company must cause the acquired bottler to amend its agreement for the Coca-Cola Trademark Beverages to conform to the terms of the Cola Beverage Agreements.

***Term and Termination.*** The Cola Beverage Agreements are perpetual, but they are subject to termination by The Coca-Cola Company upon the occurrence of an event of default by the Company. Events of default with respect to each Cola Beverage Agreement include:

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

production, sale or ownership in any entity which produces or sells any cola product not authorized by The Coca-Cola Company or a cola product that might be confused with or is an imitation of the trade dress, trademark, tradename or authorized container of a cola product of The Coca-Cola Company;



## **Table of Contents**

insolvency, bankruptcy, dissolution, receivership, or the like;

any disposition by the Company of any voting securities of any bottling company subsidiary without the consent of The Coca-Cola Company; and

any material breach of any of its obligations under that Cola Beverage Agreement that remains unresolved for 120 days after written notice by The Coca-Cola Company.

If any Cola Beverage Agreement is terminated because of an event of default, The Coca-Cola Company has the right to terminate all other Cola Beverage Agreements the Company holds.

**No Assignments.** The Company is prohibited from assigning, transferring or pledging its Cola Beverage Agreements or any interest therein, whether voluntarily or by operation of law, without the prior consent of The Coca-Cola Company.

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

The Allied Beverages are beverages of The Coca-Cola Company or its subsidiaries that are sparkling beverages, but not Coca-Cola Trademark Beverages. The Allied Beverage Agreements contain provisions that are similar to those of the Cola Beverage Agreements with respect to the sale of beverages outside its territories, authorized containers, planning, quality control, transfer restrictions, and related matters but have certain significant differences from the Cola Beverage Agreements.

**Exclusivity.** Under the Allied Beverage Agreements, the Company has exclusive rights to distribute the Allied Beverages in authorized containers in specified territories. Like the Cola Beverage Agreements, the Company has advertising, marketing, and promotional obligations, but without restriction for most brands as to the marketing of products with similar flavors, as long as there is no manufacturing or handling of other products that would imitate, infringe upon, or cause confusion with, the products of The Coca-Cola Company. The Coca-Cola Company has the right to discontinue any or all Allied Beverages, and the Company has a right, but not an obligation, under the Allied Beverage Agreements to elect to market any new beverage introduced by The Coca-Cola Company under the trademarks covered by the respective Allied Beverage Agreements.

**Term and Termination.** Allied Beverage Agreements have a term of 10 years and are renewable by the Company for an additional 10 years at the end of each term. Renewal is at the Company's option. The Company currently intends to renew substantially all of the Allied Beverage Agreements as they expire. The Allied Beverage Agreements are subject to termination in the event of default by the Company. The Coca-Cola Company may terminate an Allied Beverage Agreement in the event of:

insolvency, bankruptcy, dissolution, receivership, or the like;

termination of a Cola Beverage Agreement by either party for any reason; or

any material breach of any of the Company's obligations under that Allied Beverage Agreement that remains unresolved for 120 days after required prior written notice by The Coca-Cola Company.

### ***Supplementary Agreement Relating to Cola and Allied Beverage Agreements with The Coca-Cola Company.***

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

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

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

offer marketing funding support and exercise its rights under the Cola and Allied Beverage Agreements in a manner consistent with its dealings with comparable bottlers;

offer to the Company any written amendment to the Cola and Allied Beverage Agreements (except amendments dealing with transfer of ownership) which it offers to any other bottler in the United States; and

## **Table of Contents**

subject to certain limited exceptions, sell syrups and concentrates to the Company at prices no greater than those charged to other bottlers which are parties to contracts substantially similar to the Cola and Allied Beverage Agreements.

The Supplementary Agreement permits transfers of the Company's capital stock that would otherwise be limited by the Cola and Allied Beverage Agreements.

### ***Pricing of Coca-Cola Trademark Beverages and Allied Beverages.***

Pursuant to the Cola and Allied Beverage Agreements, except as provided in the Supplementary Agreement and the Incidence Pricing Agreement (described below), The Coca-Cola Company establishes the prices charged to the Company for concentrates of Coca-Cola Trademark Beverages and Allied Beverages. The Coca-Cola Company has no rights under the beverage agreements to establish the resale prices at which the Company sells its products.

The Company entered into an agreement (the Incidence Pricing Agreement) with The Coca-Cola Company to test an incidence-based concentrate pricing model for 2008 for all Coca-Cola Trademark Beverages and Allied Beverages for which the Company purchases concentrate from The Coca-Cola Company. During the term of the Incidence Pricing Agreement, the pricing of the concentrates for the Coca-Cola Trademark Beverages and Allied Beverages is governed by the Incidence Pricing Agreement rather than the Cola and Allied Beverage Agreements. The concentrate price The Coca-Cola Company charges under the Incidence Pricing Agreement is impacted by a number of factors including the Company's pricing of finished products, the channels in which the finished products are sold and package mix. The Coca-Cola Company must give the Company at least 90 days written notice before changing the price the Company pays for the concentrate. The Incidence Pricing Agreement has been extended through December 31, 2013 under the same terms that were in effect for 2009 through 2012.

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

The Company purchases and distributes certain still beverages such as sports drinks and juice drinks from The Coca-Cola Company, or its designees or joint ventures, and produces, markets and distributes Dasani water products, pursuant to the terms of marketing and distribution agreements (the Still Beverage Agreements). In some instances the Company distributes certain still beverages without a written agreement. The Still Beverage Agreements contain provisions that are similar to the Cola and Allied Beverage Agreements with respect to authorized containers, planning, quality control, transfer restrictions, and related matters but have certain significant differences from the Cola and Allied Beverage Agreements.

***Exclusivity.*** Unlike the Cola and Allied Beverage Agreements, which grant the Company exclusivity in the distribution of the covered beverages in its territory, the Still Beverage Agreements grant exclusivity but permit The Coca-Cola Company to test-market the still beverage products in its territory, subject to the Company's right of first refusal, and to sell the still beverages to commissaries for delivery to retail outlets in the territory where still beverages are consumed on-premises, such as restaurants. The Coca-Cola Company must pay the Company certain fees for lost volume, delivery, and taxes in the event of such commissary sales. Approved alternative route to market projects undertaken by the Company, The Coca-Cola Company, and other bottlers of Coca-Cola products would, in some instances, permit delivery of certain products of The Coca-Cola Company into the territories of almost all bottlers, in exchange for compensation in most circumstances, despite the terms of the beverage agreements making such territories exclusive. Also, under the Still Beverage Agreements, the Company may not sell other beverages in the same product category.

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

***Term.*** Each of the Still Beverage Agreements has a term of 10 or 15 years and is renewable by the Company for an additional 10 years at the end of each term. The Company currently intends to renew substantially all of the Still Beverage Agreements as they expire.

## **Table of Contents**

### **Other Beverage Agreements with The Coca-Cola Company.**

The Company has entered into a distribution agreement with Energy Brands, Inc. ( Energy Brands ), a wholly owned subsidiary of The Coca-Cola Company. Energy Brands, also known as glacéau, is a producer and distributor of branded enhanced water products including vitaminwater and smartwater. The agreement has a term of 10 years, and will automatically renew for succeeding 10-year terms, subject to a 12-month nonrenewal notification by the Company. The agreement covers most of the Company's territories, requires the Company to distribute Energy Brands enhanced water products exclusively, and permits Energy Brands to distribute the products in some channels within the Company's territories.

The Company is distributing fruit and vegetable juice beverages of the Campbell Soup Company ( Campbell ) under an interim subdistribution agreement with The Coca-Cola Company. The Campbell interim subdistribution agreement may be terminated by either party upon 30 days written notice. The interim agreement covers all of the Company's territories, and permits Campbell and certain other sellers of Campbell beverages to continue distribution in the Company's territories. The Company purchases Campbell beverages from a subsidiary of Campbell under a separate purchase agreement.

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

The Company entered into an agreement with The Coca-Cola Company regarding brand innovation and distribution collaboration. Under the agreement, the Company grants The Coca-Cola Company the option to purchase any nonalcoholic beverage brands owned by the Company. The option is exercisable as to each brand at a formula-based price during the two-year period that begins after that brand has achieved a specified level of net operating revenue or, if earlier, beginning five years after the introduction of that brand into the market with a minimum level of net operating revenue, with the exception that with respect to brands owned at the date of the letter agreement, the five-year period does not begin earlier than the date of the letter agreement.

### **Beverage Agreements with Other Licensors.**

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

The Company is distributing Monster brand energy drinks under a distribution agreement with Hansen Beverage Company, including Monster and Java Monster. The agreement contains provisions that are similar to the Cola and Allied Beverage Agreements with respect to pricing, promotion, planning, territory and trademark restrictions, transfer restrictions, and related matters as well as termination for cause provisions. The agreement has a 20 year term and will renew automatically. The agreement may be terminated without cause by either party. However, any such termination by Hansen Beverage Company requires compensation in the form of severance payments to the Company under the terms of the agreement.

The territories covered by beverage agreements with other licensors are not always aligned with the territories covered by the Cola and Allied Beverage Agreements but are generally within those territory boundaries. Sales of beverages by the Company under these other agreements represented approximately 12% of the Company's bottle/can volume to retail customers for 2012, 2011 and 2010.

## **Table of Contents**

### **Markets and Production and Distribution Facilities**

The Company currently holds bottling rights from The Coca-Cola Company covering the majority of North Carolina, South Carolina and West Virginia, and portions of Alabama, Mississippi, Tennessee, Kentucky, Virginia, Pennsylvania, Georgia and Florida. The total population within the Company's bottling territory is approximately 20 million.

The Company currently operates in seven principal geographic markets. Certain information regarding each of these markets follows:

1. **North Carolina**. This region includes the majority of North Carolina, including Raleigh, Greensboro, Winston-Salem, High Point, Hickory, Asheville, Fayetteville, Wilmington, Charlotte and the surrounding areas. The region has a population of approximately 9 million. A production/distribution facility is located in Charlotte and 12 sales distribution facilities are located in the region.
2. **South Carolina**. This region includes the majority of South Carolina, including Charleston, Columbia, Greenville, Myrtle Beach and the surrounding areas. The region has a population of approximately 4 million. There are 6 sales distribution facilities in the region.
3. **South Alabama**. This region includes a portion of southwestern Alabama, including Mobile and surrounding areas, and a portion of southeastern Mississippi. The region has a population of approximately 1 million. A production/distribution facility is located in Mobile and 4 sales distribution facilities are located in the region.
4. **South Georgia**. This region includes a small portion of eastern Alabama, a portion of southwestern Georgia including Columbus and surrounding areas and a portion of the Florida Panhandle. This region has a population of approximately 1 million. There are 4 sales distribution facilities located in the region.
5. **Middle Tennessee**. This region includes a portion of central Tennessee, including Nashville and surrounding areas, a small portion of southern Kentucky and a small portion of northwest Alabama. The region has a population of approximately 2 million. A production/distribution facility is located in Nashville and 3 sales distribution facilities are located in the region.
6. **Western Virginia**. This region includes most of southwestern Virginia, including Roanoke and surrounding areas, a portion of the southern piedmont of Virginia, a portion of northeastern Tennessee and a portion of southeastern West Virginia. The region has a population of approximately 2 million. A production/distribution facility is located in Roanoke and 4 sales distribution facilities are located in the region.
7. **West Virginia**. This region includes most of the state of West Virginia and a portion of southwestern Pennsylvania. The region has a population of approximately 1 million. There are 8 sales distribution facilities located in the region.

The Company is a member of South Atlantic Canners, Inc. ( SAC ), a manufacturing cooperative located in Bishopville, South Carolina. All eight members of SAC are Coca-Cola bottlers and each member has equal voting rights. The Company receives a fee for managing the day-to-day operations of SAC pursuant to a management agreement. Management fees earned from SAC were \$1.5 million, \$1.6 million and \$1.5 million in 2012, 2011 and 2010, respectively. SAC's bottling lines supply a portion of the Company's volume requirements for finished products. The Company has a commitment with SAC that requires minimum annual purchases of 17.5 million cases of finished products through May 2014. Purchases from SAC by the Company for finished products were \$141 million, \$134 million and \$131 million in 2012, 2011 and 2010, respectively, or 27.5 million cases, 26.2 million cases and 26.1 million cases of finished product, respectively.

### **Raw Materials**

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

## **Table of Contents**

The Company purchases substantially all of its plastic bottles (12-ounce, 16-ounce, 20-ounce, 24-ounce, half-liter, 1-liter, 1.25-liter, 2-liter and 300 ml sizes) from manufacturing plants owned and operated by Southeastern Container and Western Container, two entities owned by various Coca-Cola bottlers including the Company. The Company currently obtains all of its aluminum cans (7.5-ounce, 12-ounce and 16-ounce sizes) from two domestic suppliers.

None of the materials or supplies used by the Company are currently in short supply, although the supply of specific materials (including plastic bottles, which are formulated using petroleum-based products) could be adversely affected by strikes, weather conditions, governmental controls or international or domestic geopolitical or other events affecting or threatening to affect the supply of petroleum.

Along with all the 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 has negotiated the procurement for the majority of the Company's raw materials (excluding concentrate) since 2004.

The Company is exposed to price risk on commodities such as aluminum, corn, PET resin (a petroleum-based product) and fuel which affects the cost of raw materials used in the production of finished products. The Company both produces and procures these finished products. Examples of the raw materials affected are aluminum cans and plastic bottles used for packaging and high fructose corn syrup used as a product ingredient. Further, the Company is exposed to commodity price risk on oil which impacts the Company's cost of fuel used in the movement and delivery of the Company's products. The Company participates in commodity hedging and risk mitigation programs administered both by CCBSS and by the Company itself. In addition, there is no limit on the price The Coca-Cola Company and other beverage companies can charge for concentrate, although, under the Incidence Pricing Agreement, The Coca-Cola Company must give the Company at least 90 days written notice of a pricing change.

## **Customers and Marketing**

The Company's products are sold and distributed directly to retail stores and other outlets, including food markets, institutional accounts and vending machine outlets. During 2012, approximately 68% of the Company's bottle/can volume to retail customers was sold for future consumption. The remaining bottle/can volume to retail customers of approximately 32% was sold for immediate consumption, primarily through dispensing machines owned either by the Company, retail outlets or third party vending companies. The Company's largest customer, Wal-Mart Stores, Inc., accounted for approximately 22% of the Company's total bottle/can volume to retail customers and the second largest customer, Food Lion, LLC, accounted for approximately 8% of the Company's total bottle/can volume to retail customers. Wal-Mart Stores, Inc. and Food Lion, LLC accounted for approximately 15% and 6% of the Company's total net sales, respectively. The loss of either Wal-Mart Stores, Inc. or Food Lion, LLC as customers would have a material adverse effect on the Company. All of the Company's beverage sales are to customers in the United States.

New product introductions, packaging changes and sales promotions have been the primary sales and marketing practices in the nonalcoholic beverage industry in recent years and have required and are expected to continue to require substantial expenditures. Brand introductions from The Coca-Cola Company in recent years include Coca-Cola Zero, Dasani flavors, Full Throttle and Gold Peak tea products. In 2007, the Company began distribution of its own products, Country Breeze tea and Tum-E Yummies. In 2011, the Company began distribution of Fuel in a Bottle Energy Shot and Fuel in a Bottle Protein Shot. In addition, the Company also began distribution of NOS<sup>®</sup> products (energy drinks from FUZE, a subsidiary of The Coca-Cola Company), juice products from FUZE and V8 products from Campbell during 2007. In the fourth quarter of 2007, the Company began distribution of glacial products, a wholly-owned subsidiary of The Coca-Cola Company that produces branded enhanced beverages including vitaminwater and smartwater. The Company entered into a distribution agreement in October 2008 with subsidiaries of Hansen Natural Corporation, the developer, marketer, seller and distributor of Monster Energy drinks, the leading volume brand in the U.S. energy drink category. Under this

## **Table of Contents**

agreement, the Company began distributing Monster Energy drinks in certain of the Company's territories in November 2008. New packaging introductions include the 1.25-liter bottle in 2011, the 7.5-ounce sleek can during 2010, the 2-liter contour bottle for Coca-Cola products during 2009 and the 20-ounce grip bottle during 2007. During 2008, the Company tested the 16-ounce bottle/24-ounce bottle package in select convenience stores and introduced it companywide in 2009. New product and packaging introductions have resulted in increased operating costs for the Company due to special marketing efforts, obsolescence of replaced items and, in some cases, higher raw material costs.

The Company sells its products primarily in nonrefillable bottles and cans, in varying proportions from market to market. For example, there may be as many as 24 different packages for Diet Coke within a single geographic area. Bottle/can volume to retail customers during 2012 was approximately 46% cans, 53% bottles and 1% other containers.

Advertising in various media, primarily television and radio, is relied upon extensively in the marketing of the Company's products. The Coca-Cola Company and Dr Pepper Snapple Group, Inc. (the Beverage Companies) make substantial expenditures on advertising in the Company's territories. The Company has also benefited from national advertising programs conducted by the Beverage Companies. In addition, the Company expends substantial funds on its own behalf for extensive local sales promotions of the Company's products. Historically, these expenses have been partially offset by marketing funding support which the Beverage Companies provide to the Company in support of a variety of marketing programs, such as point-of-sale displays and merchandising programs. However, the Beverage Companies are under no obligation to provide the Company with marketing funding support in the future.

The substantial outlays which the Company makes for marketing and merchandising programs are generally regarded as necessary to maintain or increase revenue, and any significant curtailment of marketing funding support provided by the Beverage Companies for marketing programs which benefit the Company could have a material adverse effect on the operating and financial results of the Company.

## **Seasonality**

Sales of the Company's products are seasonal with the highest sales volume occurring in May, June, July and August. The Company has adequate production capacity to meet sales demand for sparkling and still beverages during these peak periods. See Item 2. Properties for information relating to utilization of the Company's production facilities. Sales volume can be impacted by weather conditions.

## **Competition**

The nonalcoholic beverage market is highly competitive. The Company's competitors include bottlers and distributors of nationally advertised and marketed products, regionally advertised and marketed products, as well as bottlers and distributors of private label beverages in supermarket stores. The sparkling beverage market (including energy products) comprised 83% of the Company's bottle/can volume to retail customers in 2012. 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 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 these methods of competition.

## **Government Regulation**

The production and marketing of beverages are subject to the rules and regulations of the United States Food and Drug Administration (FDA) and other federal, state and local health agencies. The FDA also

## **Table of Contents**

regulates the labeling of containers. In February 2013, health advocates and public health officials from major cities in the United States submitted a petition requesting the FDA to regulate the amount of caloric sweeteners in sparkling and other beverages. The FDA has not responded to the petition.

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

From time to time, legislation has been proposed in Congress and by certain state and local governments which would prohibit the sale of soft drink products in nonrefillable bottles and cans or require a mandatory deposit as a means of encouraging the return of such containers in an attempt to reduce solid waste and litter. The Company is currently not impacted by this type of proposed legislation.

Soft drink and similar-type taxes have been in place in West Virginia and Tennessee for several years. Proposals have been introduced by members of Congress and certain state governments that would impose excise and other special taxes on certain beverages that the Company sells. The Company cannot predict whether any such legislation will be enacted.

Some states and localities have also proposed barring the use of food stamps by recipients in their jurisdictions to purchase some of the products the Company manufactures. The United States Department of Agriculture rejected such a proposal by a major American city as recently as 2011.

The Company has experienced public policy challenges regarding the sale of soft drinks in schools, particularly elementary, middle and high schools. At December 30, 2012, a number of states had regulations restricting the sale of soft drinks and other foods in schools. Many of these restrictions have existed for several years in connection with subsidized meal programs in schools. The focus has more recently turned to the growing health, nutrition and obesity concerns of today's youth. Restrictive legislation, if widely enacted, could have an adverse impact on the Company's products, image and reputation.

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

## **Environmental Remediation**

The Company does not currently have any material capital expenditure commitments for environmental compliance or environmental remediation for any of its properties. The Company does not believe compliance with federal, state and local provisions that have been enacted or adopted regarding the discharge of materials into the environment, or otherwise relating to the protection of the environment, will have a material effect on its capital expenditures, earnings or competitive position.

## **Employees**

As of February 1, 2013, the Company had approximately 5,000 full-time employees, of whom approximately 400 were union members. The total number of employees, including part-time employees, was approximately 6,500. Approximately 7% of the Company's labor force is covered by collective bargaining agreements. One collective bargaining agreement covering approximately .4% of the Company's employees expired during 2012 and the Company entered into a new agreement in 2012. Two collective bargaining agreements covering approximately .7% of the Company's employees will expire during 2013.



## **Table of Contents**

### **Exchange Act Reports**

The Company makes available free of charge through the Company's Internet website, [www.cokeconsolidated.com](http://www.cokeconsolidated.com), the Company's annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports as soon as reasonably practicable after such materials are electronically filed with or furnished to the Securities and Exchange Commission (SEC). The SEC maintains an Internet website, [www.sec.gov](http://www.sec.gov), which contains reports, proxy and information statements, and other information filed electronically with the SEC. Any materials that the Company files with the SEC may also be read and copied at the SEC's Public Reference Room, 100 F Street, N.E., Room 1580, Washington, D. C. 20549.

Information on the operations of the Public Reference Room is available by calling the SEC at 1-800-SEC-0330. The information provided on the Company's website is not part of this report and is not incorporated herein by reference.

### **Item 1A. Risk Factors**

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

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

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

#### ***Acquisitions of bottlers by their franchisors may lead to uncertainty in the Coca-Cola bottler system or adversely impact the Company.***

The Coca-Cola Company acquired the North American operations of Coca-Cola Enterprises Inc. in 2010, and the Company's primary competitors were acquired at approximately the same time by their franchisor. These transactions may cause uncertainty within the Coca-Cola bottler system or adversely impact the Company and its business. At this time, it remains uncertain what the ultimate impact of these transactions will be on the Company's business and financial results.

#### ***Changes in how significant customers market or promote the Company's products could reduce revenue.***

The Company's revenue is affected by how significant customers market or promote the Company's products. Revenue has been negatively impacted by less aggressive price promotion by some retailers in the future consumption channels over the past several years. If the Company's significant customers change the manner in which they market or promote the Company's products, the Company's revenue and profitability could be adversely impacted.

#### ***Changes in the Company's top customer relationships could impact revenues and profitability.***

The Company is exposed to risks resulting from several large customers that account for a significant portion of its bottle/can volume and revenue. The Company's two largest customers accounted for approximately 30% of the Company's 2012 bottle/can volume to retail customers and approximately 21% of the Company's total net sales. The loss of one or both of these customers could adversely affect the Company's results of

## **Table of Contents**

operations. These customers typically make purchase decisions based on a combination of price, product quality, consumer demand and customer service performance and generally do not enter into long-term contracts. In addition, these significant customers may re-evaluate or refine their business practices related to inventories, product displays, logistics or other aspects of the customer-supplier relationship. The Company's results of operations could be adversely affected if revenue from one or more of these customers is significantly reduced or if the cost of complying with these customers' demands is significant. If receivables from one or more of these customers become uncollectible, the Company's results of operations may be adversely impacted. One of these customers has announced store closing in the United States, but the Company has not determined if this could affect the Company's results of operations.

### ***Changes in public and consumer preferences related to nonalcoholic beverages could reduce demand for the Company's products and reduce profitability.***

The Company's business depends substantially on consumer tastes and preferences that change in often unpredictable ways. The success of the Company's business depends in large measure on working with the Beverage Companies to meet the changing preferences of the broad consumer market. Health and wellness trends throughout the marketplace have resulted in a shift from sugar sparkling beverages to diet sparkling beverages, tea, sports drinks, enhanced water and bottled water over the past several years. Failure to satisfy changing consumer preferences could adversely affect the profitability of the Company's business.

### ***The Company's sales can be impacted by the health and stability of the general economy.***

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

### ***Miscalculation of the Company's need for infrastructure investment could impact the Company's financial results.***

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

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

Approximately 88% of the Company's bottle/can volume to retail customers in 2012 consisted of products of The Coca-Cola Company, which is the sole supplier of these products or of the concentrates or syrups required to manufacture these products. The remaining 12% of the Company's bottle/can volume to retail customers in 2012 consisted of products of other beverage companies and the Company's own products. The Company must satisfy various requirements under its beverage agreements. Failure to satisfy these requirements could result in the loss of distribution rights for the respective products.

**Table of Contents**

***Material changes in, or the Company's inability to satisfy, the performance requirements for marketing funding support, or decreases from historic levels of marketing funding support, could reduce the Company's profitability.***

Material changes in the performance requirements, or decreases in the levels of marketing funding support historically provided, under marketing programs with The Coca-Cola Company and other beverage companies, or the Company's inability to meet the performance requirements for the anticipated levels of such marketing funding support payments, could adversely affect the Company's profitability. The Coca-Cola Company and other beverage companies are under no obligation to continue marketing funding support at historic levels.

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

The Coca-Cola Company's and other beverage companies' levels of advertising, marketing spending and product innovation directly impact the Company's operations. While the Company does not believe there will be significant changes in the levels of marketing and advertising by the Beverage Companies, there can be no assurance that historic levels will continue. The Company's volume growth will also continue to be dependent on product innovation by the Beverage Companies, especially The Coca-Cola Company. Decreases in marketing, advertising and product innovation by the Beverage Companies could adversely impact the profitability of the Company.

***The inability of the Company's aluminum can or plastic bottle suppliers to meet the Company's purchase requirements could reduce the Company's profitability.***

The Company currently obtains all of its aluminum cans from two domestic suppliers and all of its plastic bottles from two domestic cooperatives. The inability of these aluminum can or plastic bottle suppliers to meet the Company's requirements for containers could result in short-term short