COCA COLA BOTTLING CO CONSOLIDATED /DE/
Form 10-K
March 16, 2006
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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended January 1, 2006

Commission file number 0-9286

Coca-Cola Bottling Co. Consolidated

(Exact name of registrant as specified in its charter)

Delaware	**56-0950585**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification 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: None

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

Common Stock, $l.00 Par Value

(Title of Class)

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

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 x

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 x 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 the 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 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 x 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 x

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

	Market Value as of July 1, 2005
Common Stock, $l.00 Par Value	$228,139,394
Class B Common Stock, $l.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.

Class	**Outstanding as of February 28, 2006**
Common Stock, $1.00 Par Value	6,643,077
Class B Common Stock, $1.00 Par Value	2,460,252

Documents Incorporated by Reference

Portions of Proxy Statement to be filed pursuant to Section 14 of the Exchange Act with respect to the 2006 Annual Meeting of Stockholders	Part III, Items 10-14

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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. Coca-Cola Bottling Co. Consolidated, which was incorporated in 1980, and its predecessors have been in the soft drink manufacturing and distribution business since 1902.

The Company is the second largest Coca-Cola bottler in the United States. The Company considers opportunities for acquiring additional territories on an ongoing basis. To achieve its goals, further purchases and sales of bottling rights and entities possessing such rights and other related transactions designed to facilitate such purchases and sales may occur. Since 2000, the Company has placed significant emphasis on new product innovation and product line extensions as a strategy to increase overall revenue.

The Coca-Cola Company currently owns 27.3% of the Company s total outstanding Common Stock and Class B Common Stock on a combined basis. J. Frank Harrison, III, the Company s Chairman and Chief Executive Officer, is party to a Voting Agreement and Irrevocable Proxy with The Coca-Cola Company pursuant to which, among other things, Mr. Harrison, III has been granted an Irrevocable Proxy for life concerning the shares of Common Stock and Class B Common Stock owned by The Coca-Cola Company. Mr. Harrison, III currently owns or controls approximately 92% of the combined voting power of the Company s outstanding Common Stock and Class B Common Stock.

General

In its soft drink operations, the Company holds Bottle Contracts and Allied Bottle Contracts under which it produces and markets, in certain regions, carbonated soft drink products of The Coca-Cola Company, including Coca-Cola classic, caffeine free Coca-Cola classic, Coca-Cola Zero, Coca-Cola with lime, diet Coke, diet Coke with lemon, diet Coke with lime, caffeine free diet Coke, Cherry Coke, diet Cherry Coke, Vanilla Coke, diet Vanilla Coke, Black Cherry Vanilla Coca-Cola, diet Black Cherry Vanilla Coca-Cola, Coca-Cola C2, TAB, Sprite, diet Sprite, Sprite Remix, Vault, Vault Zero, Mello Yello, diet Mello Yello, Mr. PiBB, sugar free Mr. PiBB, Barq s Root Beer, diet Barq s Root Beer, Fresca, Fresca flavors, Fanta flavors, Seagrams products, Minute Maid orange and diet Minute Maid orange.

The Company also distributes and markets under Noncarbonated Beverage Contracts products such as POWERade, Dasani and Minute Maid Juices To Go in certain of its markets. The Company produces and markets Dr Pepper in some of its regions. The Company also distributes and markets various other products, including Dasani flavors, Minute Maid Adult Refreshments, Full Throttle, Rockstar and Sundrop, in one or more of the Company s regions under agreements with the companies that manufacture the concentrate for those beverages. In addition, the Company also produces soft drinks for other Coca-Cola bottlers.

The Company s principal soft drink is Coca-Cola classic. In each of the last three fiscal years, sales of products under the Coca-Cola trademark have accounted for more than half of the Company s bottle/can sales volume to retail customers. In total, the products of The Coca-Cola Company accounted for approximately 90%, 90% and 91% of the Company s bottle/can sales volume to retail customers during fiscal years 2005, 2004 and 2003, respectively.

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Beverage Agreements

The Company holds contracts with The Coca-Cola Company which entitle the Company to produce and market The Coca-Cola Company s soft drinks in bottles, cans and five gallon pressurized pre-mix containers. The Company is one of many companies holding such contracts. The Coca-Cola Company is the sole owner of the secret formulas pursuant to which the primary components (either concentrates or syrups) of Coca-Cola trademark beverages and other trademark beverages are manufactured. The concentrates, when mixed with water and sweetener, produce syrup which, when mixed with carbonated water, produces the soft drink known as Coca-Cola classic and other soft drinks of The Coca-Cola Company which are manufactured and marketed by the Company. The Company also purchases sweeteners from The Coca-Cola Company. No royalty or other compensation is paid under the contracts with The Coca-Cola Company for the Company s right to use, in its territories, the tradenames and trademarks, such as Coca-Cola classic and their associated patents, copyrights, designs and labels, which are owned by The Coca-Cola Company. The Coca-Cola Company has no rights under these contracts to establish the resale prices at which the Company sells its products. The Company has similar arrangements with Dr Pepper/Seven Up, Inc. and other beverage companies.

Bottle Contracts. The Company is party to standard bottle contracts with The Coca-Cola Company for each of its bottling territories (the Bottle Contracts) which provide that the Company will purchase its entire requirement of concentrates and syrups for Coca-Cola classic, caffeine free Coca-Cola classic, diet Coke, Coca-Cola Zero, diet Coke with lemon, Coca-Cola with lime, diet Coke with lime, caffeine free diet Coke, Cherry Coke, diet Cherry Coke, Vanilla Coke, diet Vanilla Coke, Black Cherry Vanilla Coca-Cola, diet Black Cherry Vanilla Coca-Cola and Coca-Cola C2 (together, the Coca-Cola Trademark Beverages) from The Coca-Cola Company. The Company has the exclusive right to distribute Coca-Cola Trademark Beverages for sale in its territories in authorized containers of the nature currently used by the Company, which include cans and nonrefillable bottles. The Coca-Cola Company may determine from time to time what containers of this type to authorize for use by the Company. The Company cannot sell Coca-Cola Trademark Beverages outside of its bottling territories.

The prices The Coca-Cola Company charges for concentrate and syrup under the Bottle Contracts are set by The Coca-Cola Company from time to time. Except as provided in the Supplementary Agreement described below, there are no limitations on prices for concentrate or syrup. Consequently, the prices at which the Company purchases concentrate and syrup in the future under the Bottle Contracts may vary materially from the prices it has paid during the periods covered by the financial information included in this report.

Under the Bottle Contracts, the Company is obligated:

- to maintain such plant, equipment, staff and distribution facilities as are required for the manufacture, packaging and distribution of the Coca-Cola Trademark Beverages in authorized containers, and in sufficient quantities to satisfy fully the demand for these beverages in its territories;
- to undertake adequate quality control measures and maintain sanitation standards prescribed by The Coca-Cola Company;
- to develop, stimulate and satisfy fully the demand for Coca-Cola Trademark Beverages and to use all approved means, and to spend such funds on advertising and other forms of marketing, as may be reasonably required to meet that objective; and
- to maintain such sound financial capacity as may be reasonably necessary to assure performance by the Company and its affiliates of their obligations to The Coca-Cola Company.

The Bottle Contracts require the Company to submit to The Coca-Cola Company each year its plans for marketing, management and advertising with respect to the Coca-Cola Trademark Beverages for the ensuing year. Such plans must demonstrate that the Company has the financial capacity to perform its duties and obligations to The Coca-Cola Company under the Bottle Contracts. The Company must obtain The Coca-Cola

Company s approval of those plans, which approval may not be unreasonably withheld, and if the Company carries out its plans in all material respects, it will have satisfied its contractual obligations. Failure to carry out such plans in all material respects would constitute an event of default that, if not cured within 120 days of notice of such failure, would give The Coca-Cola Company the right to terminate the Bottle Contracts. If the Company at any time fails to carry out a plan in all material respects with respect to any geographic segment (as defined by The Coca-Cola Company) of its territory, and if that failure is not cured within six months of notice of such failure, The Coca-Cola Company may reduce the territory covered by the applicable Bottle Contract by eliminating the portion of the territory with respect to which the failure has occurred.

The Coca-Cola Company has no obligation under the Bottle Contracts 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 financial information included in this report.

The Coca-Cola Company has the right to reformulate any of the Coca-Cola Trademark Beverages and to discontinue any of the Coca-Cola Trademark Beverages, subject to certain limitations, so long as all Coca-Cola Trademark Beverages are not discontinued. The Coca-Cola Company may also introduce new beverages under the trademarks Coca-Cola or Coke or any modification thereof, and in that event the Company would be obligated to manufacture, package, distribute and sell the new beverages with the same duties as exist under the Bottle Contracts with respect to Coca-Cola Trademark Beverages.

If the Company acquires the right to manufacture and sell Coca-Cola Trademark Beverages in any additional territory, the Company has agreed that such new territory will be covered by a standard contract in the same form as the Bottle Contracts and that any existing agreement with respect to the acquired territory automatically shall be amended to conform to the terms of the Bottle Contracts. In addition, 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 franchises for the Coca-Cola Trademark Beverages to conform to the terms of the Bottle Contracts.

The Bottle Contracts are perpetual, subject to termination by The Coca-Cola Company in the event of default by the Company. Events of default by the Company include:

1) the Company s insolvency, bankruptcy, dissolution, receivership or similar conditions;

2) the Company s disposition of any interest in the securities of any bottling subsidiary without the consent of The Coca-Cola Company;

3) termination of any agreement regarding the manufacture, packaging, distribution or sale of Coca-Cola Trademark Beverages between The Coca-Cola Company and any person that controls the Company;

4) any material breach of any obligation arising under the Bottle Contracts (including, failure to make timely payment for any concentrate or syrup or of any other debt owing to The Coca-Cola Company, failure to meet sanitary or quality control standards, failure to comply strictly with manufacturing standards and instructions, failure to carry out an approved plan as described above, and failure to cure a violation of the terms regarding imitation products) that remains uncured for 120 days after notice by The Coca-Cola Company;

5) producing, manufacturing, selling or dealing in any product or any concentrate or syrup which might be confused with those of The Coca-Cola Company;

6) selling any product under any trade dress, trademark or tradename or in any container that is an imitation of a trade dress or container in which The Coca-Cola Company claims a proprietary interest; and

7) owning any equity interest in or controlling any entity which performs any of the activities described in (5) or (6) above.

In addition, upon termination of the Bottle Contracts for any reason, The Coca-Cola Company, at its discretion, may also terminate any other agreements with the Company regarding the manufacture, packaging, distribution, sale or promotion of soft drinks, including the Allied Bottle Contracts described below.

The Company is prohibited from assigning, transferring or pledging its Bottle Contracts or any interest therein, whether voluntarily or by operation of law, without the prior consent of The Coca-Cola Company. Moreover, the Company may not enter into any contract or other arrangement to manage or participate in the management of any other Coca-Cola bottler without the prior consent of The Coca-Cola Company.

The Coca-Cola Company may automatically amend the Bottle Contracts if 80% of the domestic bottlers who are parties to agreements with The Coca-Cola Company containing substantially the same terms as the Bottle Contracts, which bottlers purchased for their own account 80% of the syrup and equivalent gallons of concentrate for Coca-Cola Trademark Beverages purchased for the account of all such bottlers, agree that their bottle contracts shall be likewise amended.

Supplementary Agreement. The Company and The Coca-Cola Company are also parties to a Supplementary Agreement (the Supplementary Agreement) that modifies some of the provisions of the Bottle Contracts. The Supplementary Agreement provides that The Coca-Cola Company will:

exercise good faith and fair dealing in its relationship with the Company under the Bottle Contracts;

offer marketing funding support and exercise its rights under the Bottle Contracts in a manner consistent with its dealings with comparable bottlers;

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

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 Bottle Contracts.

The Supplementary Agreement permits transfers of the Company s capital stock that would otherwise be limited by the Bottle Contracts.

Allied Bottle Contracts. The Company is a party to other contracts with The Coca-Cola Company (the Allied Bottle Contracts) which grant similar exclusive rights to the Company with respect to the distribution of TAB, Sprite, diet Sprite, Sprite Remix, Vault, Vault Zero, Mello Yello, diet Mello Yello, Mr. PiBB, sugar free Mr. PiBB, Barq s Root Beer, diet Barq s Root Beer, Fresca, Fresca flavors, Fanta flavors, Seagrams products, Minute Maid orange and diet Minute Maid orange (the Allied Beverages) for sale in authorized containers in its territories. These contracts contain provisions that are similar to those of the Bottle Contracts with respect to pricing, authorized containers, planning, quality control, trademark and transfer restrictions and related matters. Each Allied Bottle Contract has a term of ten years and is renewable by the Company for an additional ten years at the end of each ten-year period, but is subject to termination in the event of (1) the Company s insolvency, bankruptcy, dissolution, receivership or similar condition; (2) termination of the Company s Bottle Contracts covering the same territory by either party for any reason; and (3) any material breach of any obligation of the Company under the Allied Bottle Contracts that remains uncured for 120 days after notice by The Coca-Cola Company.

Noncarbonated Beverage Contracts. The Company purchases and distributes certain noncarbonated beverages such as isotonics, teas, juice drinks and energy drinks in finished form from The Coca-Cola Company, and produces, markets and distributes Dasani water, pursuant to the terms of marketing and distribution agreements (the Noncarbonated Beverage Contracts). The Noncarbonated Beverage Contracts contain provisions that are similar to the Bottle Contracts and Allied Bottle Contracts with respect to authorized containers, planning and related matters, but the Noncarbonated Beverage Contracts also have certain significant differences. Unlike the Bottle Contracts and Allied Bottle Contracts, which grant the Company exclusivity in the distribution of the respective beverages in the territory, the Noncarbonated Beverage Contracts grant exclusivity but permit The Coca-Cola Company to test market the noncarbonated beverage products in the territory, subject to the Company s right of first refusal, and to sell the noncarbonated beverages to commissaries for delivery to retail outlets in the Company s territory where noncarbonated beverages are consumed on-premise, including restaurants. The Coca-Cola Company must pay the Company certain fees in the event of such commissary sales. Also, under the Noncarbonated Beverage Contracts, the Company may not sell other beverages in the same product category. The Coca-Cola Company establishes the pricing the Company must pay for the noncarbonated beverages or, in the case of Dasani, the concentrate. Each of the Noncarbonated Beverage Contracts has a term of ten or fifteen years and is renewable by the Company at the end of each term.

Other Bottling Agreements. The bottling agreements from most other beverage companies are similar to those described above in that they are renewable at the option of the Company and the beverage companies. The price the beverage companies may charge for syrup or concentrate is set by the beverage companies from time to time. These bottling 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. Sales of beverages by the Company under these agreements represented approximately 10%, 10% and 9% of the Company s bottle/can sales volume to retail customers for 2005, 2004 and 2003, respectively. The territories covered by the Allied Bottle Contracts and by bottling agreements for products of beverage companies other than The Coca-Cola Company in most cases correspond with the territories covered by the Bottle Contracts. The variations do not have a material effect on the Company s business.

Post-Mix Rights and Sales to Other Bottlers. The Company also has the non-exclusive right to sell Coca-Cola classic and other fountain syrups (post-mix) of The Coca-Cola Company. In addition, the Company produces some products for sale to other Coca-Cola bottlers. Sales to other bottlers have lower gross margin but allow the Company to achieve higher utilization of its production facilities.

The Company s net sales by category as a percentage of total net sales is as follows:

	Fiscal Year		
	2005	**2004**	**2003**
Bottle/can sales volume under beverage contracts	85%	88%	89%
Post-mix	5%	6%	5%
Sales to other Coca-Cola bottlers	10%	6%	6%
Total	100%	100%	100%

The increase in sales to other Coca-Cola bottlers in 2005 resulted primarily from volume related to shipments of Full Throttle, the new energy product of The Coca-Cola Company. The Company produces Full Throttle for the majority of the Coca-Cola bottlers in the eastern half of the United States and anticipates continuing to produce this product for these Coca-Cola bottlers in 2006.

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,

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Virginia, Pennsylvania, Georgia and Florida. The total population within the Company s bottling territory is approximately 18.6 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 an estimated population of 8.1 million. A production/distribution facility is located in Charlotte and 17 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 an estimated population of 3.3 million. There are seven 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 an estimated population of .9 million. A production/distribution facility is located in Mobile and four 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 an estimated population of 1.1 million. There are five 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 an estimated population of 2.1 million. A production/distribution facility is located in Nashville and three 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 an estimated population of 1.6 million. A production/distribution facility is located in Roanoke and five 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 an estimated population of 1.5 million. There are eight sales distribution facilities located in the region.

The Company is a member of South Atlantic Canners (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. On June 1, 1994, the Company executed a management agreement with SAC. The Company receives a fee for managing the day-to-day operations of SAC pursuant to the management agreement. On June 1, 2004, the Company executed a new management agreement with SAC that extends through May 2014. The terms of the new management agreement are comparable to the prior agreement. Management fees earned from SAC were $1.5 million, $1.6 million and $1.3 million in 2005, 2004 and 2003, 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 product through May

2014. Purchases from SAC by the Company for finished products were $127 million, $108 million and $105 million in 2005, 2004 and 2003, respectively.

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Raw Materials

In addition to concentrates obtained by the Company from The Coca-Cola Company and other beverage companies for use in its soft drink manufacturing, the Company also purchases sweeteners, carbon dioxide, plastic bottles, cans, closures, other containers and other packaging materials as well as equipment for the production, distribution and marketing of soft drinks. Except for sweeteners, cans, carbon dioxide and plastic bottles, the Company purchases its raw materials from multiple suppliers.

The Company purchases substantially all of its plastic bottles (20-ounce, half liter, 390 ml and 2 liter sizes) from manufacturing plants which are owned and operated by two cooperatives of Coca-Cola bottlers, including the Company. The Company currently obtains all of its aluminum cans from one domestic supplier.

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 national emergency conditions.

Along with all the other Coca-Cola bottlers in the United States, the Company has become 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 negotiated the procurement for the majority of the Company s raw materials (excluding concentrate) in 2005 and 2004.

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 2005, approximately 67% of the Company s bottle/can sales volume to retail customers was sold for future consumption. The remaining sales volume of approximately 33% 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 15% of the Company s total bottle/can sales volume to retail customers and the second largest customer, Food Lion, LLC, accounted for approximately 10% of the Company s total bottle/can sales volume to retail customers. Wal-Mart Stores, Inc. accounted for approximately 11% of the Company s total net sales. All of the Company s sales are to customers in the United States.

New product introductions, packaging changes and sales promotions have been the major competitive techniques in the nonalcoholic beverage industry in recent years and have required and are expected to continue to require substantial expenditures. Brand introductions in the last three years include Coca-Cola Zero, Coca-Cola C2, diet Coke with lime, diet Coke with lemon, Vault, Vault Zero, Rockstar, Dasani flavors, Minute Maid Light, Sprite Remix and Full Throttle, an energy product from The Coca-Cola Company. New packaging introductions include Fridge Pack 12-ounce plastic bottles and 390 ml plastic bottles. 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 materials costs.

The Company sells its products primarily in nonrefillable bottles and cans, in varying proportions from market to market. There may be as many as 25 different packages for Coca-Cola classic within a single geographic area. Bottle/can sales volume to retail customers during 2005 was approximately 46% cans, 52% nonrefillable bottles and 2% 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/Seven-Up, Inc. (the Beverage Companies) make substantial expenditures on advertising in the Company s territories. The Company has also benefited from

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

Competition

The carbonated soft drink market and the noncarbonated beverage market are highly competitive. Our competitors in these markets include bottlers and distributors of nationally advertised and marketed products, regionally advertised and marketed products, as well as bottlers and distributors of private label soft drinks in supermarket stores. The carbonated soft drink market comprised 87% of the Company s bottle/can sales volume to retail customers in 2005. In each region in which the Company operates, between 75% and 95% of carbonated soft drink sales in bottles, cans and pre-mix containers are accounted for by the Company and its principal competition, which in each region includes the local bottler of Pepsi-Cola and, in some regions, also includes the local bottler of Dr Pepper, Royal Crown and/or 7-Up products.

The principal methods of competition in the soft drink 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 that 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 regulates the labeling of containers.

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 that there is such substantial and effective competition 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.

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Soft drink and similar-type taxes have been in place in West Virginia and Tennessee for several years.

The Company s tax filings are subject to audit by tax authorities in jurisdictions where it conducts business. These audits may result in assessments of additional taxes that are subsequently resolved with the authorities or potentially through the courts. Management believes the Company has adequately accrued for any ultimate amounts 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.

The Company has experienced public policy challenges regarding the sale of soft drinks in schools, particularly elementary, middle and high schools. At January 1, 2006, 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. The impact of restrictive legislation, if widely enacted, could have an adverse impact on the Company s products, image and reputation.

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 that 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, 2006, the Company had approximately 5,700 full-time employees, of whom approximately 400 were union members. The total number of employees, including part-time employees, was approximately 6,200.

Approximately 7% of the Company s labor force is currently covered by collective bargaining agreements. One collective bargaining agreement covering less than .5% of the Company s employees expires in 2006.

Exchange Act Reports and Code of Ethics for Senior Financial Officers

The Company makes available free of charge through its Internet website, www.cokeconsolidated.com, its 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 material is electronically filed with or furnished to the Securities and Exchange Commission (SEC). The SEC maintains an Internet website (http://www.sec.gov) that contains reports, proxy and information statements, and other information filed electronically with the SEC. Any materials that the Company files with the SEC may be also 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. In addition, the Company makes available on its Internet website its Code of Ethics for Senior Financial Officers. 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. Additional risks and uncertainties, including risks and uncertainties not presently known to the Company, or that the Company currently deems immaterial, may also impair its business and results of operations.

Lower than expected selling prices resulting from increased marketplace competition could adversely affect the Company s profitability.

The carbonated soft drink market and the noncarbonated beverage market are highly competitive. The Company s competitors in these markets include bottlers and distributors of nationally advertised and marketed products, regionally advertised and marketed products and private label soft drinks. Although the Company has placed an emphasis on revenue management, which includes striking the appropriate balance between generating growth in volume, gross margin and market share, there can be no assurance that increased competition will not reduce the Company s profitability.

Changes in how significant customers market or promote the Company s products could reduce sales volume.

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

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 on working with the beverage companies to meet the changing preferences of the broad consumer market. The Company has seen a shift from sugar carbonated beverages to diet carbonated beverages, isotonics, bottled water and energy products over the past several years. Failure to satisfy changing consumer preferences could adversely affect the profitability of the Company s business.

The Company s inability to meet requirements under its bottling contracts could result in the loss of distribution rights.

Approximately 90% of the Company s bottle/can sales volume with retail customers consists of products of The Coca-Cola Company, which is the sole supplier of the concentrates or syrups required to manufacture these products. The remaining 10% of the Company s bottle/can sales volume with retail customers consists of products of other beverage companies. The Company has bottling contracts under which it has various requirements to meet. Failure to meet the requirements of these bottling contracts could result in the loss of distribution rights for the respective product.

Material changes in, or the Company s inability to meet, the performance requirements for marketing funding support, or decreases from historic levels of marketing funding support, would 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, would 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.

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

The Coca-Cola Company s and other beverage companies levels of advertising, marketing spending and brand innovation directly impact the Company s operations. While the Company does not believe that 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. In addition, if the sales volume of sugar carbonated beverages continues to decline, the Company s sales volume growth will continue to be dependent on brand innovation by the beverage companies, especially The Coca-Cola Company. Decreases in beverage company marketing, advertising and product brand innovation 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 may reduce the Company s profitability.

The Company currently obtains all of its aluminum cans from one domestic supplier 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 shortages until alternative sources of supply can be located. The Company attempts to mitigate these risks by working closely with key suppliers and by purchasing business interruption insurance where appropriate. Failure of the aluminum can or plastic bottle suppliers to meet the Company s purchase requirements could reduce the Company s profitability.

The inability of the Company to offset higher raw material costs with higher selling prices, increased bottle/can sales volume or reduced expenses could have an adverse impact on the Company s profitability.

Packaging costs, primarily plastic bottle costs and aluminum can costs increased significantly in 2005 and could continue to increase in the future. If the Company cannot offset higher raw material costs with higher selling prices, increased sales volume or reductions in other costs, the Company s profitability could be adversely affected.

Sustained increases in fuel costs or the inability of the Company to secure adequate supplies of fuel could have an adverse impact on the Company s profitability.

The Company has experienced significant increases in fuel costs as a result primarily of macro-economic factors beyond the Company s control. In addition, the Company uses significant amounts of fuel in the distribution of its products. Events such as natural disasters could impact the supply of fuel and could impact the timely delivery of the Company s products to its customers. While the Company is working to reduce fuel consumption, there can be no assurance that the Company will succeed in limiting future cost increases. Continued upward pressure in these costs could reduce the profitability of the Company s operations.

Sustained increases in workers compensation, employment practices and vehicle accident costs may reduce the Company s profitability.

The Company is generally self-insured for the costs of workers compensation, employment practices and vehicle accident claims. Losses are accrued using assumptions and procedures followed in the insurance industry, adjusted for company-specific history and expectations. Although the Company has actively sought to control increases in these costs, there can be no assurance that the Company will succeed in limiting future cost increases. Continued upward pressure in these costs could reduce the profitability of the Company s operations.

Sustained increases in the cost of employee benefits may reduce the Company s profitability.

With approximately 6,000 employees, the Company s profitability is substantially affected by the cost of pension retirement benefits, post-retirement medical benefits and current employees medical benefits. In recent years, the Company has experienced significant increases in these costs as a result of macro-economic factors beyond the Company s control, including increases in health care costs, declines in investment returns on pension assets and changes in discount rates used to calculate pension and related liabilities. Although the Company has actively sought to control increases in these costs, there can be no assurance the Company will succeed in limiting future cost increases, and continued upward pressure in these costs could reduce the profitability of the Company s operations.

Changes in interest rates could adversely affect the profitability of the Company.

Approximately 43% of the Company s debt and capital lease obligations of $777.2 million as of January 1, 2006 was subject to changes in short-term interest rates. Rising interest rates have increased the Company s interest expense over the past two years. If interest rates increased by 1%, the Company s interest expense would increase by approximately $3 million over the next twelve months. This amount is determined by calculating the effect of a hypothetical interest rate increase of 1% on outstanding floating rate debt and capital lease obligations as of January 1, 2006, including the effects of the Company s derivative financial instruments. 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 rate debt and derivative financial instruments. In addition, the Company s pension and postretirement medical benefits costs are subject to changes in interest rates. There can be no assurance that future increases in interest rates will not reduce the Company s profitability.

The Company s debt rating could be impacted by The Coca-Cola Company.

The Company s debt rating could be significantly impacted by capital management activities of The Coca-Cola Company and/or changes in the debt rating of The Coca-Cola Company. A lower debt rating could significantly increase the Company s interest cost.

Changes in legal contingencies could impact the Company s future profitability.

Changes from expectations for the resolution of outstanding legal claims and assessments could have a material adverse impact on the Company s profitability and financial condition. In addition, the Company s failure to abide by laws, orders or other legal commitments could subject the Company to fines, penalties or other damages.

Additional taxes resulting from tax audits could impact the Company s future profitability.

An assessment of additional taxes resulting from audits of the Company s tax filings could have a material impact on the Company s profitability, cash flows and financial condition.

Natural disasters and unfavorable weather could impact the Company s future profitability.

Natural disasters or unfavorable weather conditions in the geographic regions in which the Company does business could have a material impact on the Company s revenue and profitability.

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

Approximately 7% of the Company s employees are covered by collective bargaining agreements. The inability to renegotiate subsequent agreements on satisfactory terms and conditions could result in work interruptions or stoppages, which could have a material impact on the profitability of the Company. Also, the terms and conditions of existing or renegotiated agreements could increase costs, or otherwise affect the Company s ability to fully implement operational changes to improve overall efficiency.

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Recent bottler litigation could limit the Company s ability to change distribution methods and business practices.

Litigation recently filed by some United States bottlers of Coca-Cola products reflects disagreements in the Coca-Cola bottler system concerning distribution methods and business practices. These disagreements among various Coca-Cola bottlers could adversely affect the Company s ability to fully implement its business plans.

Management s use of estimates and assumptions may have a material effect on reported results.

The Company s consolidated financial statements and accompanying notes to the consolidated financial statements include estimates and assumptions by management that impact reported amounts. Actual results could differ from those estimates.

Item 1B. ***Unresolved Staff Comments***

None.

Item 2. ***Properties***

The principal properties of the Company include its corporate headquarters, its four production/distribution facilities and its 49 sales distribution centers. The Company owns two production/distribution facilities and 45 sales distribution centers, and leases its corporate headquarters, two other production/distribution facilities and four sales distribution centers.

The Company leases its 110,000 square foot corporate headquarters and a 65,000 square foot adjacent office building from a related party for a ten-year term expiring in December 2008. Rental payments for these facilities were $3.3 million in 2005.

The Company leases its 542,000 square foot Snyder Production Center and an adjacent 105,000 square foot distribution center in Charlotte, North Carolina from a related party for a ten-year term expiring in December 2010. Rental payments under this lease totaled $3.4 million in 2005.

The Company leases its 330,000 square foot production/distribution facility in Nashville, Tennessee. The lease requires monthly payments through 2009. Rent expense under this lease totaled $.4 million in 2005.

The Company leases its 50,000 square foot sales distribution center in Charleston, South Carolina. The lease requires monthly payments through 2017. Rental expense under this lease totaled $.4 million in 2005.

The Company leases its 57,000 square foot sales distribution center in Greenville, South Carolina. The lease requires monthly payments through 2018. Rental payments under this lease totaled $.6 million in 2005.

The Company s other real estate leases are not material.

The Company owns and operates a 316,000 square foot production/distribution facility in Roanoke, Virginia and a 271,000 square foot production/distribution facility in Mobile, Alabama.

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The approximate percentage utilization of the Company s production centers as of February 1, 2006 is indicated below:

Production Facilities

Location	Percentage Utilization*
Charlotte, North Carolina	79%
Mobile, Alabama	53%
Nashville, Tennessee	63%
Roanoke, Virginia	62%

* Estimated 2006 production divided by capacity (based on operations of 6 days per week and 20 hours per day).

The Company currently has sufficient production capacity to meet its operational requirements. In addition to the production facilities noted above, the Company utilizes a portion of the production capacity at SAC, a cooperative located in Bishopville, South Carolina, that owns a 261,000 square foot production facility.

The Company s products are generally transported to sales distribution facilities for storage pending sale. The number of sales distribution facilities by market area as of February 1, 2006 was as follows:

Sales Distribution Facilities

Region	Number of Facilities
North Carolina	17
South Carolina	7
South Alabama	4
South Georgia	5
Middle Tennessee	3
Western Virginia	5
West Virginia	8
Total	49

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

The Company also operates approximately 3,900 vehicles in the sale and distribution of its soft drink products, of which approximately 1,500 are route delivery trucks. In addition, the Company owns approximately 216,000 soft drink dispensing and vending machines for the sale of its products in its bottling territories.

Item 3. ***Legal Proceedings***

On February 14, 2006, forty-eight Coca-Cola bottler plaintiffs filed suit in United States District Court for the Western District of Missouri against The Coca-Cola Company and Coca-Cola Enterprises Inc. (CCE). On February 24, 2006, the plaintiffs filed an amended complaint adding twelve bottlers as plaintiffs. In the lawsuit, *Ozarks Coca-Cola/Dr Pepper Bottling Company, et .al. vs. The Coca-Cola Company and Coca-Cola Enterprises Inc.,* Civil Action File No. 06-3056-CV-S, the bottler plaintiffs purport to bring claims for breach of contract and breach of duty and other related claims arising out of CCE s plan to offer warehouse delivery of POWERade to Wal-Mart Stores, Inc. (Wal-Mart) within CCE s territory. The bottler plaintiffs seek preliminary and permanent injunctive relief prohibiting the warehouse delivery of POWERade and unspecified compensatory and punitive damages.

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On March 3, 2006, the Company filed a motion seeking permission to intervene in the lawsuit for the limited purpose of opposing the preliminary and permanent injunctive relief sought by the bottler plaintiffs. The Company seeks permission to intervene because it also plans to offer warehouse delivery of POWERade to Wal-Mart within the Company s territory and therefore opposes the relief requested by the bottler plaintiffs.

The Company is involved in other 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 other claims and legal proceedings, management believes that the ultimate disposition of these claims will not have a material adverse effect on the financial condition, cash flows or results of operations of the Company. No material amount of loss in excess of recorded amounts is believed to be reasonably possible as a result of these other claims and legal proceedings.

Item 4. ***Submission of Matters to a Vote of Security Holders***

There were no matters submitted to a vote of security holders during the fourth quarter of the fiscal year ended January 1, 2006.

EXECUTIVE OFFICERS OF THE COMPANY

The following is a list of names and ages of all the executive officers of the Company indicating all positions and offices with the Company held by each such person. All officers have served in their present capacities for the past five years except as otherwise stated.

J. FRANK HARRISON, III, age 51, is Chairman of the Board of Directors and Chief Executive Officer of the Company. Mr. Harrison, III was appointed Chairman of the Board of Directors in December 1996. Mr. Harrison, III served as Vice Chairman from November 1987 through December 1996 and was appointed as the Company s Chief Executive Officer in May 1994. He was first employed by the Company in 1977 and has served as a Division Sales Manager and as a Vice President of the Company.

WILLIAM B. ELMORE, age 50, is President and Chief Operating Officer and a Director of the Company, positions he has held since January 2001. Previously, he was Vice President, Value Chain from July 1999 and Vice President, Business Systems from August 1998 to June 1999. He was Vice President, Treasurer from June 1996 to July 1998. He was Vice President, Regional Manager for the Virginia Division, West Virginia Division and Tennessee Division from August 1991 to May 1996.

ROBERT D. PETTUS, JR., age 61, is Vice Chairman of the Board of Directors of the Company, a position he has held since August 2004. Mr. Pettus retired from the Company in February 2005. Mr. Pettus was Executive Vice President and Assistant to the Chairman of the Company from 1996 to July 2004 and Vice President of Human Resources from 1984 to 1996. Mr. Pettus has been a director of the Company since August 2004.

HENRY W. FLINT, age 51, is Executive Vice President and Assistant to the Chairman, a position to which he was appointed in July 2004. Prior to that, he was a Managing Partner at the law firm of Kennedy Covington Lobdell & Hickman, L.L.P. with which he was associated from 1980 to 2004.

WILLIAM J. BILLIARD, age 39, is Vice President and Controller, a position to which he was appointed on February 20, 2006. Before joining the Company, he was Senior Vice President, Interim Chief Financial Officer and Corporate Controller of Portrait Corporation of America, a portrait photography studio company, from September 2005 to January 2006 and Senior Vice President, Corporate Controller from August 2001 to September 2005. Prior to that, he served as Vice President, Chief Financial Officer of Tailored Management, a long-term staffing company, from August 2000 to August 2001.

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CLIFFORD M. DEAL, III, age 44, is Vice President, Treasurer, a position he has held since June 1999. Previously, he was Director of Compensation and Benefits from October 1997 to May 1999. He was Corporate Benefits Manager from December 1995 to September 1997 and was Manager of Tax Accounting from November 1993 to November 1995.

NORMAN C. GEORGE, age 50, is Senior Vice President, Chief Marketing and Customer Officer, a position he was appointed to in September 2001. Prior to that, he was Vice President, Marketing and National Sales, a position he was appointed to in December 1999. Prior to that, he was Vice President, Corporate Sales, a position he had held since August 1998. Previously, he was Vice President, Sales for the Carolinas South Region, a position he held beginning in November 1991.

RONALD J. HAMMOND, age 50, is Senior Vice President, Operations, a position he was appointed to in January 2001. Prior to that, he was Vice President, Manufacturing, a position he had held since September 1999. Before joining the Company, he was Vice President, Operations, Asia Pacific at Pepsi-Cola International, where he had been an employee since 1981.

KEVIN A. HENRY, age 38, is Senior Vice President, Human Resources, a position he has held since February 2001. Prior to joining the Company, he was Senior Vice President, Human Resources at Nationwide Credit Inc., where he was an employee since January 1997. Prior to that, he was Director, Human Resources, at Office Depot Inc. beginning in December 1994.

UMESH M. KASBEKAR, age 48, is Senior Vice President, Planning and Administration, a position he has held since January 1995. Prior to that, he was Vice President, Planning, a position he was appointed to in December 1988.

C. RAY MAYHALL, JR., age 58, is Senior Vice President, Sales, a position he was appointed to in September 2001. Prior to that he was Vice President, Distribution and Technical Services, a position he was appointed to in December 1999. Prior to that, he was Regional Vice President, Sales, a position he had held since November 1992.

LAUREN C. STEELE, age 51, is Vice President, Corporate Affairs, a position he has held since May 1989. He is responsible for governmental, media and community relations for the Company.

STEVEN D. WESTPHAL, age 51, is Senior Vice President and Chief Financial Officer, a position to which he was appointed in May 2005. Prior to that, he was Vice President and Controller, a position he had held from November 1987.

JOLANTA T. ZWIREK, age 50, is Senior Vice President and Chief Information Officer, a position she has held since June 1999. Prior to joining the Company, she was Vice President and Chief Technology Officer for Bank One during a portion of 1999. Prior to that, she was a Senior Director in the Information Services organization at McDonald s Corporation, where she was an employee since 1984.

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PART II

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

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

	Fiscal Year			
	2005		2004	
	High	Low	High	Low
First quarter	$ 57.53	$ 51.63	$ 55.55	$ 50.00
Second quarter	52.80	46.00	59.15	51.05
Third quarter	53.93	47.01	59.00	51.25
Fourth quarter	49.00	42.58	57.86	52.00

The quarterly dividend rate of $.25 per share on both Common Stock and Class B Common Stock shares was maintained throughout 2004 and 2005.

Pursuant to the Company s Certificate of Incorporation, no cash dividend or dividend of property or stock other than stock of the Company, as specifically described in the Certificate of Incorporation, may be declared and paid on the Class B Common Stock unless an equal or greater dividend is declared and paid on the Common Stock.

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.

The number of stockholders of record of the Common Stock and Class B Common Stock, as of February 28, 2006, was 3,690 and 13, respectively.

On February 22, 2006, the Compensation Committee determined that 20,000 shares of restricted Class B Common Stock, $1.00 par value, vested and should be issued pursuant to a performance-based award to J. Frank Harrison, III, in connection with his services as Chairman of the Board of Directors and Chief Executive Officer of the Company. This award was approved by the Company s stockholders in 1999. The shares were issued without registration under the Securities Act of 1933 in reliance on Section 4(2) thereof.

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Item 6. ***Selected Financial Data***

The following table sets forth certain selected financial data concerning the Company for the five years ended January 1, 2006. The data for the five years ended January 1, 2006 is derived from audited consolidated financial statements of the Company. This information should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations set forth in Item 7 hereof and is qualified in its entirety by reference to the more detailed consolidated financial statements and notes contained in Item 8 hereof.

Selected Financial Data*

	Fiscal Year**				
In Thousands (Except Per Share Data)	**2005**	**2004**	**2003**	**2002*****	**2001**
Summary of Operations					
Net sales	$ 1,380,172	$ 1,267,227	$ 1,220,403	$ 1,207,173	$ 965,979
Cost of sales, excluding depreciation expense	752,409	659,466	629,080	622,333	516,734
Selling, delivery and administrative expenses, excluding depreciation expense	466,533	449,497	428,462	412,787	310,850
Depreciation expense	68,222	70,798	76,485	76,075	66,134
Provision for impairment of property, plant and equipment					947
Amortization of intangibles	880	3,117	3,105	2,796	15,296
Total costs and expenses	1,288,044	1,182,878	1,137,132	1,113,991	909,961
Income from operations	92,128	84,349	83,271	93,182	56,018
Interest expense	49,279	43,983	41,914	49,120	44,322
Minority interest	4,097	3,816	3,297	5,992	
Income before income taxes	38,752	36,550	38,060	38,070	11,696
Income taxes	15,801	14,702	7,357	15,247	2,226
Net income	$ 22,951	$ 21,848	$ 30,703	$ 22,823	$ 9,470
Basic net income per share	$ 2.53	$ 2.41	$ 3.40	$ 2.58	$ 1.08
Diluted net income per share	$ 2.53	$ 2.41	$ 3.40	$ 2.56	$ 1.07
Cash dividends per share:					
Common	$ 1.00	$ 1.00	$ 1.00	$ 1.00	$ 1.00
Class B Common	$ 1.00	$ 1.00	$ 1.00	$ 1.00	$ 1.00
Other Information					
Weighted average number of common shares outstanding	9,083	9,063	9,043	8,861	8,753
Weighted average number of common shares outstanding assuming dilution	9,083	9,063	9,043	8,921	8,821
Year-End Financial Position					
Total assets	$ 1,341,839	$ 1,314,063	$ 1,349,920	$ 1,353,525	$ 1,064,459

Current portion of debt	6,539	8,000	17,678	37,631	56,708
Current portion of obligations under capital leases	1,709	1,826	1,337	1,120	1,364
Obligations under capital leases	77,493	79,202	44,226	44,906	1,060
Long-term debt	691,450	700,039	785,039	770,125	620,156
Stockholders equity	75,134	64,439	52,472	32,867	17,081

* See Management s Discussion and Analysis of Financial Condition and Results of Operations and the accompanying notes to consolidated financial statements for additional information.

** All years presented are 52-week fiscal years except 2004 which was a 53-week year.

*** On January 2, 2002, the Company purchased an additional interest in Piedmont Coca-Cola Bottling Partnership (Piedmont) from The Coca-Cola Company, increasing the Company s ownership in Piedmont to more than 50%. Due to the increase in ownership, the results of operations, financial position and cash flows of Piedmont have been consolidated with those of the Company beginning in the first quarter of 2002. The Company s investment in Piedmont had been accounted for using the equity method for 2001 and prior years. In addition, the Company adopted the provisions of SFAS No. 142 at the beginning of 2002, which resulted in goodwill and intangible assets with indefinite useful lives no longer being amortized.

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Item 7. ***Management s Discussion and Analysis of Financial Condition and Results of Operations***

The following Management s Discussion and Analysis of Financial Condition and Results of Operations (M,D&A) should be read in conjunction with the Company s consolidated financial statements and the accompanying notes to consolidated financial statements. M,D&A includes the following sections:

Our Business and the Soft Drink Industry a general description of the Company s business and the soft drink industry.

Areas of Emphasis a summary of the Company s key priorities for 2005 and the next several years.

Overview of Operations and Financial Condition a summary of key information and trends concerning the financial results for the three years ended 2005.

Discussion of Critical Accounting Policies, Estimates and New Accounting Pronouncements a discussion of accounting policies that are most important to the portrayal of the Company s financial condition and results of operations that require critical judgments and estimates and the expected impact of new accounting pronouncements.

Results of Operations an analysis of the Company s results of operations for the three years presented in the consolidated financial statements.

Financial Condition an analysis of the Company s financial condition as of the end of the last two years as presented in the consolidated financial statements.

Liquidity and Capital Resources an analysis of capital resources, cash sources and uses, investing activities, financing activities, off-balance sheet arrangements, aggregate contractual obligations and interest rate hedging.

Cautionary Information Regarding Forward-Looking Statements.

The fiscal years presented are the 52-week period ended January 1, 2006, the 53-week period ended January 2, 2005 and the 52-week period ended December 28, 2003. The Company s fiscal year ends on the Sunday closest to December 31 of each year.

The consolidated statements of operations and consolidated statements of cash flows for fiscal years 2005, 2004 and 2003 and the consolidated balance sheets at January 1, 2006 and January 2, 2005 include the consolidated operations of the Company and its majority-owned subsidiaries including Piedmont Coca-Cola Bottling Partnership (Piedmont). Minority interest consists of The Coca-Cola Company s interest in Piedmont, which was 22.7% for all of 2005 and 2004 and the last three quarters of 2003, and 45.3% for the first quarter of 2003.

OUR BUSINESS AND THE SOFT DRINK INDUSTRY

Coca-Cola Bottling Co. Consolidated (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 second largest bottler of products of The Coca-Cola Company in the United States, operating in eleven states primarily in the Southeast. The Company also distributes several other beverage brands. The Company s product offerings include carbonated soft drinks, bottled water, teas, juices, isotonics and energy drinks. The Company had net sales of approximately $1.4 billion in 2005.

The nonalcoholic beverage market is highly competitive. The Company s competitors in these markets include bottlers and distributors of nationally advertised and marketed products, regionally advertised and marketed products and private label soft drinks. In each region in which the Company operates, between 75% and 95% of carbonated soft drink sales in bottles, cans and other containers are accounted for by the Company

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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. During the last three years, volume of sugar carbonated soft drinks in the soft drink industry has declined. The decline in sugar carbonated beverages has generally been offset by volume growth in other nonalcoholic product categories.

The Company s bottle/can sales volume by product category as a percentage of total bottle/can sales volume was as follows:

	Fiscal Year		
Product Category	**2005**	**2004**	**2003**
Sugar carbonated soft drinks	59.4%	61.5%	63.5%
Diet carbonated soft drinks	28.0%	27.6%	25.8%
Total carbonated soft drinks	87.4%	89.1%	89.3%
Bottled water	6.7%	5.6%	5.4%
Isotonics	2.6%	2.1%	1.7%
Other noncarbonated	3.3%	3.2%	3.6%
Total noncarbonated	12.6%	10.9%	10.7%
Total	100.0%	100.0%	100.0%

AREAS OF EMPHASIS

Key priorities for the Company during 2005 and over the next several years include revenue management, product innovation, distribution cost management and overall productivity.

Revenue Management

Revenue management includes striking the appropriate balance between generating growth in volume, gross margin and market share. It requires a strategy which reflects consideration for pricing of brands and packages within channels, as well as highly effective working relationships with customers and disciplined fact-based decision-making. Revenue management has been and continues to be a key driver which has significant impact on the Company s operating income performance.

Product Innovation

Volume growth of carbonated soft drinks has slowed over the past several years. Innovation of both new brands and packages has been and will continue to be critical to the Company s overall volume. During the first quarter of 2005, the Company introduced Coca-Cola with lime and Full Throttle, an energy product from The Coca-Cola Company. During the second quarter of 2005, the Company introduced Coca-Cola Zero, Dasani flavors, and Vault in certain markets. The Company introduced Vault in the Company s remaining markets in the fourth quarter of 2005. The Company introduced diet Coke with lime, Coca-Cola C2 and Rockstar, an energy drink, in 2004. In addition, the Company has also developed specialty packaging for customers in certain channels over the past several years.

Distribution Cost Management

Distribution cost represents the cost of transporting finished goods from Company locations to customer outlets. Total distribution costs amounted to $183.1 million, $176.3 million and $168.1 million in 2005, 2004 and 2003, 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

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the Company to more efficiently handle increasing numbers of brands and packages. In addition, the Company has closed a number of smaller sales distribution centers reducing its fixed warehouse-related costs.

The Company has three primary delivery systems for its current business: bulk delivery for large supermarkets, mass merchandisers and club stores; pre-sell delivery for convenience stores, drug stores, small supermarkets and on-premise accounts; and full service delivery for its full service vending customers. In 2006, the Company will begin changing its delivery method for its pre-sell delivery system. Historically, the Company loaded its trucks at the warehouse with products the route delivery employee would deliver during the day. The delivery employee was responsible for pulling the required products off a side load truck at each stop to fill the customer s order. The Company will begin using a new pre-sell delivery method in 2006 which involves pre-building orders in the warehouse on a small pallet that the delivery employee can roll off a truck directly into the customer s location. This new method involves the use of a rear loading truck rather than the conventional side loading truck. In the initial rollout of this new method, the Company anticipates delivery efficiency will increase by approximately 30% for its pre-sell delivery routes. The Company plans to implement this new delivery method in approximately 13 distribution centers during 2006. These 13 distribution centers accounted for approximately 35% of the Company s total bottle/can sales volume in 2005. This rollout will require additional capital spending for the new type of delivery vehicle. Capital spending is anticipated to increase significantly in 2006 as compared to 2005 as discussed more fully below. The Company anticipates that this change in delivery methodology will result in significant savings in future years; more efficient delivery of a larger number of products; improved employee safety and a reduction in the number of workers compensation claims.

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

Productivity

To achieve improvements in operating performance over the long-term, the Company s gross margin must grow faster than the growth in selling, delivery and administrative (S,D&A) expenses. A key driver in the Company s S,D&A expense management relates to ongoing improvements in labor productivity and asset productivity. The Company continues to focus on its supply chain and distribution functions for opportunities to improve productivity.

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OVERVIEW OF OPERATIONS AND FINANCIAL CONDITION

The following overview provides a summary of key information concerning the Company s financial results for the three years ended 2005.

	Fiscal Year		
	2005(1)(3)	**2004(2)(4)**	**2003(5)**
In Thousands (Except Per Share Data)			
Net sales	$ 1,380,172	$ 1,267,227	$ 1,220,403
Gross margin	627,763	607,761	591,323
Income from operations	92,128	84,349	83,271
Interest expense	49,279	43,983	41,914
Income taxes	15,801	14,702	7,357
Net income	22,951	21,848	30,703
Basic net income per share (6)	$ 2.53	$ 2.41	$ 3.40

(1) Results for 2005 included a favorable adjustment of $7.0 million (pre-tax) related to the settlement of high fructose corn syrup litigation, which was reflected as a reduction in cost of sales.

(2) Results for 2004 included an unfavorable non-cash adjustment of $1.7 million (pre-tax) related to a change in the pricing of concentrate purchased from The Coca-Cola Company, which was reflected as an increase to cost of sales.

(3) Interest expense for 2005 included financing transaction costs of $1.7 million (pre-tax) related to the exchange of $164.8 million of the Company s long-term debt and the redemption of $8.6 million of debentures.

(4) Results for 2004 included a favorable adjustment of approximately $2 million (pre-tax) for certain customer-related marketing programs between the Company and The Coca-Cola Company, which was reflected as a reduction in cost of sales.

(5) Results for 2003 included net favorable adjustments to income tax expense of $8.6 million relating to the favorable settlement of a state income tax audit and the reduction of its valuation allowance for certain deferred income tax assets, offset partially by incremental tax expense associated with the decision to terminate certain Company-owned life insurance policies.

(6) The Company does not currently have any stock options or other common stock equivalents that would result in dilution of earnings per share. Accordingly, for the periods presented, basic and fully diluted earnings per share are equivalent.

The Company s net sales grew approximately 13% from 2003 to 2005. The net sales increase was primarily due to an increase in average revenue per unit of approximately 7%, a 1.5% increase in bottle/can sales volume, and a 95% increase in sales to other Coca-Cola bottlers primarily related to shipments of Full Throttle, the new energy drink of The Coca-Cola Company.

The Company has seen declines in the demand for sugar carbonated soft drinks over the past three years and expects that this trend will continue. The Company anticipates that overall bottle/can sales volume will be primarily dependent upon continued growth in diet products, isotonics, bottled water and energy drinks as well as the introduction of new products.

Gross margin increased approximately 6% in 2005 compared to 2003. The Company s gross margin percentage declined from 48.5% in 2003 to 45.5% in 2005 due to higher raw material costs and an increase in sales to other Coca-Cola bottlers, which have lower margins than the Company s bottle/can franchise sales. Sales to other Coca-Cola bottlers accounted for 2.0% of the 3.0% decrease in gross margin percentage. The Company s raw material packaging costs increased significantly in 2005. The Company increased selling prices to partially offset these increased costs.

Income from operations increased approximately 11% in 2005 compared to 2003. The increase was due to solid growth in gross margin and lower depreciation expense, which more than offset higher S,D&A expenses.

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S,D&A expenses have increased approximately 9% from 2003 to 2005. The increase in S,D&A expenses was primarily attributable to increases in employee compensation of approximately 8%, employee benefit plan costs of approximately 9%, property and casualty insurance costs of approximately 3% and fuel costs of approximately 53%. Depreciation expense decreased approximately 11% from 2003 to 2005. The decrease in depreciation expense from 2003 to 2005 was primarily due to lower levels of capital spending over the past several years.

Interest expense increased approximately 18% from 2003 to 2005. The increase primarily reflected higher interest rates on the Company s floating rate debt. Interest expense for 2005 also included financing transaction costs of $1.7 million related to the exchange of $164.8 million of debentures during the second quarter of 2005 and the early retirement of $8.6 million of the Company s long-term debt during the fourth quarter of 2005. The Company s overall weighted average interest rate, excluding the financing transaction costs related to the exchange of long-term debt during the second quarter of 2005 and the early retirement of long-term debt during the fourth quarter of 2005, increased from an average of 4.9% during 2003 to 6.2% during 2005.

Debt and capital lease obligations are summarized as follows:

	Jan. 1, 2006	Jan. 2, 2005	Dec. 28, 2003
In Thousands			
Debt	$ 697,989	$ 708,039	$ 802,717
Capital lease obligations	79,202	81,028	45,563
Total debt and capital lease obligations	$ 777,191	$ 789,067	$ 848,280

The Company capitalized its corporate headquarters lease as of the beginning of March 2004 and entered into another capital lease at the end of the second quarter of 2004. The amount recorded for capitalization of these leases in 2004 was $37.3 million.

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 believes that the following discussion addresses the Company s most critical accounting policies, which are those that are 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 has not made changes in any critical accounting policies during 2005. Any significant 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 contemplated and prior to making such change.

Allowance for Doubtful Accounts

The Company evaluates the collectibility of its trade accounts receivable based on a number of factors. In circumstances where the Company becomes aware of a specific customer s inability to meet its financial obligations to the Company, a specific reserve for bad debts is estimated and recorded which reduces the recognized receivable to the estimated amount the Company believes will ultimately be collected. In addition to specific customer identification of potential bad debts, bad debt charges are recorded based on the Company s recent past loss history and an overall assessment of past due trade accounts receivable outstanding.

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The Company s review of potential bad debts considers the specific industry in which a particular customer operates, such as supermarket retailers, convenience stores and mass merchandise retailers, and the general economic conditions that currently exist in that specific industry. The Company then considers the effects of concentration of credit risk in a specific industry and for specific customers within that industry.

Property, Plant and Equipment

Property, plant and equipment is recorded at cost and is depreciated on a straight-line basis over the estimated useful lives of such assets. Changes in circumstances such as technological advances, changes to the Company s business model or changes in the Company s capital strategy could result in the actual useful lives differing from the Company s current estimates. Factors such as changes in the planned use of manufacturing equipment, vending equipment, transportation equipment, warehouse facilities or software could also result in shortened useful lives. In those cases where the Company determines that the useful life of property, plant and equipment should be shortened, the Company would depreciate the net book value in excess of the estimated salvage value over its revised remaining useful life.

The Company evaluates long-lived assets and certain identifiable intangibles for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. When undiscounted future cash flows will not be sufficient to recover an asset s carrying amount, the asset is written down to its fair value and the Company recognizes an impairment loss.

Franchise Rights

The Company considers franchise rights with The Coca-Cola Company and other beverage companies to be indefinite lived because the agreements are perpetual or, in situations where agreements are not perpetual, the Company anticipates the agreements will continue to be renewed upon expiration. The cost of renewals is minimal and the Company has not had any renewals denied. The Company considers franchise rights as indefinite lived intangible assets under Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets, (SFAS No. 142) and therefore, does not amortize the value of such assets. Instead, franchise rights are tested at least annually for impairment.

Impairment Testing of Franchise Rights and Goodwill

The only intangible assets the Company classifies as indefinite lived are franchise rights and goodwill. SFAS No. 142 requires testing of intangible assets with indefinite lives and goodwill for impairment at least annually. The Company conducts its annual impairment test in the third quarter of each fiscal year. The Company also reviews intangible assets with indefinite lives and goodwill for impairment if there are significant changes in business conditions.

For the annual impairment analysis of franchise rights, the fair value for the Company s acquired franchise rights is estimated using a multi-period excess earnings approach. This approach involves projecting future earnings, discounting those estimated earnings using an appropriate discount rate and subtracting a contributory charge for net working capital; property, plant and equipment; assembled workforce and customer relationships to arrive at excess earnings attributable to franchise rights. The present value of the excess earnings attributable to franchise rights is their estimated fair value and is compared to the carrying value on an aggregate basis. Based on this analysis, there was no impairment of the Company s recorded franchise rights in 2005. The projection of earnings includes a number of assumptions such as projected net sales, cost of sales, operating expenses and income taxes. Changes in the assumptions required to estimate the present value of the excess earnings attributable to franchise rights could materially impact the fair value estimate.

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For the annual impairment analysis of goodwill, the Company develops an estimated fair value for the enterprise using an average of three different approaches:

- Market value, using the Company s stock price plus outstanding debt and minority interest;
- Discounted cash flow analysis; and
- Multiple of earnings before interest, taxes, depreciation and amortization based upon relevant industry data.

The estimated fair value of the enterprise is then compared to the Company s carrying amount including goodwill. If the estimated fair value of the Company exceeds its carrying amount, goodwill will be considered not to be impaired and the second step of the SFAS No. 142 impairment test will not be necessary. If the carrying amount including goodwill exceeds its estimated fair value, the second step of the impairment test will be performed to measure the amount of the impairment, if any. Based on this analysis, there was no impairment of the Company s recorded goodwill in 2005. The discounted cash flow analysis includes a number of assumptions such as projected sales volume, net sales, cost of sales and operating expenses. Changes in these assumptions could materially impact the fair value estimate of the enterprise.

Income Tax Estimates

The Company records a valuation allowance to reduce the carrying value of its deferred tax assets to an amount that is more likely than not to be realized. While the Company has considered future taxable income and prudent and feasible tax planning strategies in assessing the need for the valuation allowance, should the Company determine that it would not be able to realize all or part of its net deferred tax assets in the future, an adjustment to the valuation allowance would be charged to income in the period in which such determination was made. A reduction in the valuation allowance and corresponding adjustment to income may be required if the likelihood of realizing existing deferred tax assets were to increase to a more likely than not level. The Company regularly reviews the realizability of deferred tax assets and initiates a review when significant changes in the Company s business occur.

In addition to a valuation allowance related to state net operating loss carryforwards, the Company records liabilities for uncertain tax positions as of January 1, 2006 principally related to state income taxes and certain federal income tax attributes. These liabilities reflect the Company s best estimate of the ultimate income tax liability based on currently known facts and information. Material changes in facts or information as well as the expiration of statutes and/or settlements with the individual state or federal jurisdictions could result in material adjustments to these estimates in the future.

Risk Management Programs

In general, the Company is self-insured for the costs of workers compensation, employment practices, vehicle accident claims and medical claims. The Company uses commercial insurance for claims as a risk reduction strategy to minimize catastrophic losses. Losses are provided for using assumptions and procedures followed in the insurance industry, adjusted for company-specific history and expectations.

Pension and Postretirement Benefit Obligations

The Company sponsors pension plans covering substantially all full-time nonunion employees and certain union employees who meet eligibility requirements. Several statistical and other factors, which attempt to anticipate future events, are used in calculating the expense and liability related to the plans. These factors include assumptions about the discount rate, expected return on plan assets, employee turnover, age at retirement and rate of future compensation increases as determined by the Company, within certain guidelines. In addition, the Company s actuarial consultants also use subjective factors such as mortality rates to estimate the projected

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benefit obligation. The actuarial assumptions used by the Company may differ materially from actual results due to changing market and economic conditions, higher or lower withdrawal rates or longer or shorter life spans of participants. These differences may result in a significant impact to the amount of net periodic pension cost recorded by the Company in future periods. In 2005, the discount rate used in determining the actuarial present value of the projected benefit obligation for the Company s pension plans decreased to 5.75% from 6.00% in 2004 due to declining interest rates for long-term corporate bonds, which serve as the benchmark for determining the discount rate. The discount rate assumption is generally the estimate which can have the most significant impact on net periodic pension cost and the projected benefit obligation for these pension plans. The Company determines an appropriate discount rate annually based on the annual yield on long-term corporate bonds as of the measurement date.

A .25% increase or decrease in the discount rate assumption would have impacted the projected benefit obligation and net periodic pension cost as follows:

In Thousands	.25% Increase	.25% Decrease
Impact on:		
Projected benefit obligation at January 1, 2006	$ (8,887)	$ 9,486
Net periodic pension cost in 2005	(1,185)	1,257

The weighted average expected long-term rate of return of plan assets was 8% for 2005, 2004 and 2003. This rate reflects an estimate of long-term future returns for the pension plan assets. This estimate is primarily a function of the asset classes (equities versus fixed income) in which the pension plan assets are invested and the analysis of past performance of these asset classes over a long period of time. This analysis includes expected long-term inflation and the risk premiums associated with equity and fixed income investments. See Note 17 to the consolidated financial statements for the details by asset type of the Company s pension plan assets at January 1, 2006 and January 2, 2005, and the weighted average expected long-term rate of return of each asset type. The actual return of pension plan assets was 8.3% and 9.6% for 2005 and 2004, respectively.

On February 22, 2006, the Board of Directors of the Company approved an amendment to the principal Company-sponsored pension plan to cease further benefit accruals under the plan effective June 30, 2006. The Company anticipates that the annual expense for the pension plans will decrease approximately $3 million in 2006.

The Company sponsors a postretirement health care plan for employees meeting specified qualifying criteria. Several statistical and other factors, which attempt to anticipate future events, are used in calculating the net periodic postretirement benefit cost and postretirement benefit obligation for this plan. These factors include assumptions about the discount rate and the expected growth rate for the cost of health care benefits. In addition, the Company s actuarial consultants also use subjective factors such as withdrawal and mortality rates to estimate the projected liability under this plan. The actuarial assumptions used by the Company may differ materially from actual results due to changing market and economic conditions, higher or lower withdrawal rates or longer or shorter life spans of participants. The Company does not pre-fund its postretirement benefits and has the right to modify or terminate certain of these benefits in the future.

In October 2005, the Company announced changes to its postretirement health care plan. Due to the changes announced, the Company s expense and liability related to its postretirement health care plan will be reduced. Both the expense and liability for postretirement health care benefits are subject to determination by the Company s actuaries and include numerous variables that will affect the impact of the announced changes. The Company anticipates that the annual expense for the postretirement health care plan will decrease from $4.5 million in 2005 to approximately $2 million in 2006. The annual expense for the postretirement health care plan will decrease approximately $2.5 million in 2006.

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The discount rate assumption, the annual health care cost trend and the ultimate trend rate for health care costs are key estimates which can have a significant impact on the net periodic postretirement benefit cost and postretirement obligation in future periods. The Company annually determines the health care cost trend based on recent actual medical trend experience and projected experience for the following years.

The discount rate assumptions used to determine the pension and postretirement benefit obligations are based on yield rates available on double-A bonds as of each plan s measurement date. The discount rates for 2005 were derived using the Citigroup Pension Discount Curve which is a set of yields on hypothetical double-A zero-coupon bonds with maturities up to 30 years. Projected benefit payouts from each plan are matched to the Citigroup Pension Discount Curve and an equivalent flat discount rate is derived and then rounded to the nearest quarter percent.

A .25% increase or decrease in the discount rate assumption would have impacted the projected benefit obligation and service cost and interest cost as follows:

In Thousands	.25% Increase	.25% Decrease
Impact on:		
Postretirement benefit obligation at January 1, 2006	$ (1,228)	$ 1,297
Service cost and interest cost in 2005	(86)	91

A 1% increase or decrease in the annual health care cost trend would have impacted the postretirement benefit obligation and service cost and interest cost as follows:

In Thousands	1% Increase	1% Decrease
Impact on:		
Postretirement benefit obligation at January 1, 2006	$ 4,911	$ (4,372)
Service cost and interest cost in 2005	342	(305)

New Accounting Pronouncements

In November 2004, the Financial Accounting Standard Board (FASB) issued Statement No. 151, Inventory Costs an amendment of ARB No. 43, Chapter 4. This Statement clarifies the accounting for abnormal amounts of idle facility expense, freight, handling costs and wasted material (spoilage) and is effective for fiscal years beginning after June 15, 2005. The adoption of this Statement in the first quarter of 2006 is not anticipated to have a material impact on the Company s consolidated financial statements.

In December 2004, the FASB issued Statement No. 153, Exchanges of Nonmonetary Assets an amendment of APB Opinion No. 29. This Statement eliminates the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges on nonmonetary assets that do not have commercial substance and was effective for fiscal periods beginning after June 15, 2005. The adoption of this Statement did not have an impact on the Company s consolidated financial statements.

In December 2004, the FASB issued Statement No. 123 (revised 2004), Share-Based Payment. This Statement is a revision of FASB Statement No. 123, Accounting for Stock-Based Compensation and is effective for the Company as of the beginning of the first quarter of 2006. The Statement required public companies to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. The Company will adopt the Statement on January 2, 2006 using the modified prospective application method. The adoption of this Statement is not anticipated to have a material impact on the Company s consolidated financial statements.

In March 2005, the FASB issued FASB Interpretation No. 47, Accounting for Conditional Asset Retirement Obligations (FIN 47). FIN 47 clarifies that a conditional asset retirement obligation, as used in

FASB Statement 143, Accounting for Asset Retirement Obligations, refers to a legal obligation to perform an asset retirement activity in which the timing and/or method of the settlement are conditional on a future event that may or may not be within the control of the entity. Accordingly, an entity is required to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value can be reasonably estimated. FIN 47 was effective no later than fiscal years ending after December 15, 2005. The adoption of FIN 47 did not have an impact on the Company s consolidated financial statements.

In May 2005, the FASB issued Statement No. 154, Accounting Changes and Error Corrections a replacement of APB Opinion No. 20 and FASB Statement No. 3. This Statement requires retrospective application to prior period financial statements of a voluntary change in accounting principle unless it is impracticable and is effective for fiscal years beginning after December 15, 2005. Previously, most voluntary changes in accounting principle were recognized by including in net income of the period of the change the cumulative effect of changing to the new accounting principle.

RESULTS OF OPERATIONS

2005 Compared to 2004

The comparison of operating results for 2005 to the operating results for 2004 are affected by the impact of one additional selling week in 2004 due to the Company s fiscal year ending on the Sunday closest to December 31st. The estimated net sales, gross margin and S,D&A expenses for the additional selling week in 2004 of approximately $23.9 million, $11.1 million and $8.1 million, respectively, are included in reported results for 2004.

A summary of key information concerning the Company s financial results for 2005 and 2004 follows:

	Fiscal Year	
	2005(1)(3)	**2004(2)(4)**
In Thousands (Except Per Share Data)		
Net sales	$ 1,380,172	$ 1,267,227
Gross margin	627,763	607,761
Interest expense	49,279	43,983
Net income	22,951	21,848
Basic net income per share (5)	$ 2.53	$ 2.41

(1) Results for 2005 included a favorable adjustment of $7.0 million (pre-tax) related to the settlement of high fructose corn syrup litigation, which was reflected as a reduction in cost of sales.
(2) Results for 2004 included an unfavorable non-cash adjustment of $1.7 million (pre-tax) related to a change in the pricing of concentrate purchased from The Coca-Cola Company, which was reflected as an increase to cost of sales.
(3) Interest expense for 2005 included financing transaction costs of $1.7 million (pre-tax) related to the exchange of $164.8 million of the Company s long-term debt and the redemption of $8.6 million of debentures.
(4) Results for 2004 included a favorable adjustment of approximately $2 million (pre-tax) for certain customer-related marketing programs between the Company and The Coca-Cola Company, which was reflected as a reduction in cost of sales.

(5) The Company does not currently have any stock options or other common stock equivalents that would result in dilution of earnings per share. Accordingly, for the periods presented, basic and fully diluted earnings per share are equivalent.

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Net Sales

Net sales increased by approximately 9% in 2005 compared to 2004. The net sales increase in 2005 was primarily due to an increase in average revenue per case of approximately 3%, an increase in bottle/can sales volume of approximately 4% and an increase in sales to other Coca-Cola bottlers of more than 82%.

In 2005, the Company s bottle/can sales accounted for 85% of the Company s net sales. Bottle/can net pricing is based on the invoice price charged to customers reduced by promotional allowances. Bottle/can net pricing per case is impacted by the price charged per package, the volume generated in each package and the channels in which those packages are sold. To the extent the Company is able to increase volume in higher margin packages that are sold through higher margin channels, bottle/can net pricing per case can increase without an actual increase in wholesale pricing. In 2005, the increase in the Company s bottle/can net price per case was primarily achieved with price increases, but also reflects additional mix benefit associated with new products, including energy drinks, Vault, Dasani flavors and Coca-Cola Zero.

The Company s net sales to other Coca-Cola bottlers and post-mix net sales increased to $134.7 million and $73.1 million in 2005 compared to $73.8 million and $71.5 million in 2004, respectively. The significant increase in sales to other Coca-Cola bottlers resulted from volume related primarily to shipments of Full Throttle, the new energy product of The Coca-Cola Company. The Company produced this product for the majority of the Coca-Cola bottlers in the eastern half of the United States in 2005 and anticipates continuing to produce this product for these customers in 2006.

The percentage increases in bottle/can sales volume by product category in 2005 compared to the comparable period in 2004 were as follows:

Product Category	Bottle/Can Sales Volume % Increase
Sugar carbonated soft drinks	0.2%
Diet carbonated soft drinks	5%
Total carbonated soft drinks	2%
Bottled water	23%
Isotonics	29%
Other noncarbonated beverages (including energy drinks)	7%
Total noncarbonated beverages	19%
Total bottle/can sales volume	4%

The Company s noncarbonated beverage portfolio continues to provide strong volume growth with Dasani growing at 23% and POWERade growing at 29% in 2005. The newly introduced energy drinks, Full Throttle and Rockstar, accounted for .4% of total volume in 2005. Noncarbonated beverages comprised 12.6% of overall bottle/can volume in 2005 compared to 10.9% in 2004. The Company has encountered significant pricing pressure in the supermarket channel for bottled water with average revenue per case declining by approximately 13% in 2005 compared to 2004.

The Company introduced several new products during 2005. During the first quarter of 2005, the Company introduced Full Throttle, an energy product. During the second quarter of 2005, the Company introduced Coca-Cola Zero, Dasani flavors and Vault in certain markets. Vault was introduced to the Company s remaining markets in the fourth quarter of 2005. Product innovation will continue to be an important factor impacting the Company s overall bottle/can sales volume in the future.

The Company s products are sold and distributed through various channels. These channels include selling directly to retail stores and other outlets such as food markets, institutional accounts and vending machine outlets. During 2005, approximately 67% of the Company s bottle/can sales volume was sold for future consumption. The remaining bottle/can sales volume of approximately 33% was sold for immediate consumption. The Company s largest customer, Wal-Mart Stores, Inc., accounted for approximately 15% of the Company s total bottle/can sales volume during 2005. The Company s second largest customer, Food Lion, LLC, accounted for approximately 10% of the Company s total bottle/can sales volume in 2005. All of the Company s sales are to customers in the United States.

Cost of Sales

Cost of sales on a per unit basis for bottle/can sales volume increased approximately 4.5% in 2005 compared to 2004 primarily due to higher raw material costs. The increase in cost of sales was mitigated by the $7.0 million settlement of litigation regarding purchases of high fructose corn syrup. During the second quarter of 2004, The Coca-Cola Company changed its method of concentrate pricing, resulting in a change in the Company s investment in inventories and an increase in cost of sales of $1.7 million. Cost of sales for 2004 included a favorable item of approximately $2 million, primarily for certain customer-related marketing programs between the Company and The Coca-Cola Company, which were recorded in the first quarter of 2004 as marketing funding support and were reflected as a reduction of cost of sales. Packaging costs per unit increased by approximately 11% during 2005 as compared to 2004. The increase in packaging costs in 2005 related to significantly higher plastic bottle costs resulting from cost increases in the underlying components and increased aluminum can costs, and was the primary cause of the increase in cost of sales on a per unit basis in 2005.

At the beginning of 2004, the Company reclassified plastic shells, premix tanks and CO_2 tanks, which totaled $10.4 million, from property, plant and equipment to inventories. These items were reclassified as the Company believes that they are more closely related to the sale of finished product inventories than to a component of property, plant and equipment. This reclassification had no significant impact on the Company s overall financial position or results of operations. Costs associated with these items have been reflected in cost of sales beginning in 2004. Previously, costs associated with these items were recorded as depreciation expense.

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 of the 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 Bottle Contracts. 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 $28.9 million for 2005 versus $39.9 million for 2004 and was recorded as a reduction in cost of sales. Since May 28, 2004, The Coca-Cola Company has provided the majority of the Company s marketing funding support for bottle/can products through a reduction in the price of concentrate. The change in concentrate price represents a significant portion of the marketing funding support that previously would have been paid to the Company in cash related to the sale of bottle/can products of The Coca-Cola Company. Accordingly, the amounts received in cash from The Coca-Cola Company for marketing funding support decreased significantly in 2005 as compared to 2004. However, this change in marketing funding support, after taking into account the related reduction in concentrate price, did not have a significant impact on overall results of operations in 2004 or 2005.

Cost of sales includes the following: raw material costs, manufacturing labor, manufacturing overhead, inbound freight charges related to raw materials, receiving costs, inspection costs, manufacturing warehousing costs and freight charges related to the movement of finished goods from manufacturing locations to sales distribution centers.

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Gross Margin

Gross margins in 2005 and 2004 were impacted by adjustments for items that are not necessarily indicative of the Company s ongoing results. Excluding these adjustments, the Company s gross margins and gross margins as a percentage of net sales would have been as follows:

In Millions	2005	2004
Gross margin as reported	$ 627.8	$ 607.8
Adjustments:		
High fructose corn syrup litigation proceeds	(7.0)	
Change in concentrate pricing		1.7
Customer marketing programs adjustment		(2.0)
Gross margin as adjusted	$ 620.8	$ 607.5

Percentage of Net Sales	2005	2004
Gross margin percentage as reported	45.5%	48.0%
Adjustments:		
High fructose corn syrup litigation proceeds	(.5%)	
Change in concentrate pricing		.1%
Customer marketing programs adjustment		(.2%)
Gross margin percentage as adjusted	45.0%	47.9%

The non-GAAP financial measures Gross margin as adjusted and Gross margin percentage as adjusted are provided to allow investors to more clearly evaluate gross margin trends. These measures exclude the impact of high fructose corn syrup litigation proceeds in 2005 and a change in concentrate pricing and an adjustment of customer marketing programs reimbursements in 2004. The 2.9% decrease in adjusted gross margin as a percentage of net sales from 2004 to 2005 resulted primarily from the impact of higher sales to other Coca-Cola bottlers, which have lower margins (1.9% of the 2.9% decrease). The remainder of the decrease resulted primarily from increases in the Company s packaging costs which were not offset by higher average net pricing.

The Company s gross margins as a percentage of net sales may not be comparable to other companies, since some entities include all costs related to their distribution network in cost of sales and the Company excludes a portion of these costs from gross margin, including them instead in S,D&A expenses.

S,D&A Expenses

S,D&A expenses increased by approximately 4% in 2005 compared to 2004. The increase in S,D&A expenses was primarily due to wage increases for the Company s employees of approximately $9 million, higher employee benefits costs including pension and health care costs of approximately $1 million and higher fuel costs of approximately $4 million. The Company continues to incur increased fuel costs.

Over the last three years, the Company has converted the majority of its distribution system from a conventional sales method to a predictive selling method in which sales personnel either visit or call a customer to determine the customer s requirements for their order. This predictive selling method has enabled the Company to add a significant number of new products and packages and provides the capacity to add additional product offerings in the future. The Company will continue to evaluate its distribution system in an effort to improve the process of distributing products to customers. The Company is in the process of changing its delivery method for certain customers as described more fully above under Areas of Emphasis, Distribution Cost Management. 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

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expenses and totaled $183.1 million and $176.3 million in 2005 and 2004, respectively. Customers generally do not pay the Company separately for shipping and handling costs. For certain low volume on-premise customers, the Company initiated a delivery charge beginning in October 2005 to offset a portion of the increased fuel costs. The delivery charge of $.7 million in the fourth quarter of 2005 was recorded in net sales.

On February 22, 2006, the Board of Directors of the Company approved an amendment to its principal Company-sponsored pension plan to cease further benefit accruals under the plan effective June 30, 2006. The Company anticipates that the annual expense for the pension plans will decrease approximately $3 million in 2006.

In October 2005, the Company announced changes to its postretirement health care plan. Due to the changes announced, the Company believes that its expense and liability related to its postretirement health care plan will be reduced. Both the expense and liability for postretirement health care benefits are subject to determination by the Company s actuaries and include numerous variables that will affect the impact of the announced changes. The Company anticipates that the annual expense for the postretirement health care plan will decrease approximately $2.5 million in 2006.

The S,D&A expense line item includes the following: sales management labor costs, distribution costs from sales distribution centers to customer locations, sales distribution center warehouse costs, point-of-sale expenses, advertising expenses, vending equipment repair costs and administrative support labor and operating costs such as treasury, legal, information services, accounting, internal audit and executive management costs.

Depreciation Expense

Depreciation expense for 2005 declined by $2.6 million compared to 2004. The decline in depreciation expense was primarily due to lower levels of capital spending over the last several years. Capital expenditures in 2005 amounted to $40.0 million compared to $52.9 million in 2004. The Company anticipates that additions to property, plant and equipment in 2006 will be in the range of $60 million to $70 million and plans to fund such additions through cash flows from operations and its available credit facilities. The Company is in the process of implementing an upgrade of its Enterprise Resource Planning (ERP) computer software system. During 2005 and 2004, the Company capitalized $2.9 million and $3.1 million, respectively, related to the implementation of the new ERP software. The Company began using a portion of the new ERP software and began amortizing the related capitalized software costs during the second quarter of 2004. It is anticipated that the upgrade of the Company s ERP system will be a multi-year effort and will require additional capital investment. The Company anticipates that capital expenditures in 2006 related to the ERP system upgrade will be in the range of $5 million to $10 million.

Amortization of Intangibles

Amortization of intangibles expense for 2005 declined by $2.2 million compared to 2004. The decline in amortization expense was due to the impact of certain customer relationships which are now fully amortized.

Interest Expense

Interest expense increased $5.3 million in 2005 compared to 2004. The increase is attributable to financing transaction costs of $1.7 million related to the exchange of $164.8 million of the Company s long-term debentures and the early retirement of $8.6 million of its debentures, and higher interest rates on the Company s floating rate debt, partially offset by interest earned on short-term cash investments of $.5 million. The Company s overall weighted average interest rate, excluding the financing costs related to the debt exchange and the premium related to the early retirement of debentures, increased from an average of 5.4% during 2004 to

6.2% during 2005. See the Liquidity and Capital Resources, Interest Rate Hedging section of M,D&A for additional information.

Minority Interest

The Company recorded minority interest of $4.1 million in 2005 compared to $3.8 million in 2004 related to the portion of Piedmont owned by The Coca-Cola Company. The increased amount in 2005 was due to improvements in operating results at Piedmont.

Income Taxes

The Company s effective income tax rate for 2005 was 40.8% compared to 40.2% in 2004. The deduction for qualified production activities provided within the American Jobs Creation Act of 2004 reduced the Company s effective income tax rate by approximately 1% in 2005.

During the second quarter of 2005, the Company entered into a settlement agreement with a state whereby the Company agreed to reduce certain net operating loss carryforwards and to pay certain additional taxes and interest relating to prior years. The loss of state net operating loss carryforwards, net of federal tax benefit, of $4.4 million did not have an effect on the provision for income taxes due to a valuation allowance previously recorded for such deferred tax assets. Under this settlement, the Company was required to pay $5.7 million in the second quarter of 2005 and is required to pay an additional $5.0 million by no later than April 15, 2006. The amounts paid and remaining to be paid in excess of liabilities previously recorded had the effect of increasing income tax expense by approximately $4.1 million in the second quarter of 2005. Based on an analysis of facts and available information, the Company also made adjustments to liabilities for income tax exposure related to other states in the second quarter of 2005 which had the effect of decreasing income tax expense by $3.8 million.

During the fourth quarter of 2005, the Company, entered into settlement agreements with two other states regarding certain tax years. The effect of these settlements was the reduction of certain state net operating loss carryforwards with a tax effect, net of federal tax benefit, of $.6 million, the payment of $1.1 million in previously accrued tax and the reduction of valuation allowances of $1.2 million net of federal tax benefit, related to net operating loss utilization in these states. The Company recognized in the fourth quarter of 2005 an increase in the average state income tax rate which is used in determining the net deferred income tax liability. This increase in the state income tax rate resulted in additional income tax expense in the fourth quarter of 2005 of $1.6 million.

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

2004 Compared to 2003

The comparison of operating results for 2004 to the operating results for 2003 are affected by the impact of one additional selling week in 2004 due to the Company s fiscal year ending on the Sunday closest to December 31st. The estimated net sales, gross margin and S,D&A expenses for the additional selling week in 2004 of approximately $23.9 million, $11.1 million and $8.1 million, respectively, are included in reported results for 2004.

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A summary of key information concerning the Company s financial results for 2004 and 2003 follows:

	Fiscal Year	
	2004(1)(2)	**2003(3)**
In Thousands (Except Per Share Data)		
Net sales	$ 1,267,227	$ 1,220,403
Gross margin	607,761	591,323
Interest expense	43,983	41,914
Income taxes	14,702	7,357
Net income	21,848	30,703
Basic net income per share (4)	$ 2.41	$ 3.40

(1) Results for 2004 included an unfavorable non-cash adjustment of $1.7 million (pre-tax) related to a change in the pricing of concentrate purchased from The Coca-Cola Company, which was reflected as an increase to cost of sales.
(2) Results for 2004 included a favorable adjustment of approximately $2 million (pre-tax) for certain customer-related marketing programs between the Company and The Coca-Cola Company, which was reflected as a reduction in cost of sales.
(3) Results for 2003 included net favorable adjustments to income tax expense of $8.6 million relating to the favorable settlement of a state income tax audit and the reduction of its valuation allowance for certain deferred income tax assets, offset partially by incremental tax expense associated with the decision to terminate certain Company-owned life insurance policies.
(4) The Company does not currently have any stock options or other common stock equivalents that would result in dilution of earnings per share. Accordingly, for the periods presented, basic and fully diluted earnings per share are equivalent.

Net Income

The Company reported net income of $21.8 million or $2.41 per basic share for 2004 compared with net income of $30.7 million or $3.40 per share for 2003. The most significant difference between 2004 and 2003 was an increase in the Company s effective income tax rate from 19.3% in 2003 to 40.2% in 2004.

Net Sales

The Company s net sales increased approximately 4% in 2004 compared to 2003. This increase in net sales reflected approximately 3% growth in average revenue per case and a 2% decrease in bottle/can sales volume. The Company s net sales to other Coca-Cola bottlers and post-mix net sales increased to $73.8 million and $71.5 million in 2004 compared to $69.2 million and $67.1 million in 2003, respectively.

The percentage increases (decreases) in bottle/can sales volume by product category in 2004 compared to the comparable period in 2003 were as follows:

Product Category	**Bottle/Can Sales Volume % Increase (Decrease)**

Sugar carbonated soft drinks	(6%)
Diet carbonated soft drinks	5%
Total carbonated soft drinks	(2%)
Bottled water	3%
Isotonics	17%
Other noncarbonated beverages (including energy drinks)	(14%)
Total noncarbonated beverages	0.4%
Total bottle/can sales volume	(2%)

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Some of the factors contributing to the overall decrease in bottle/can sales volume in 2004 were as follows:

- Volume of carbonated soft drinks in the nonalcoholic beverage industry declined with volume decreases in sugar carbonated soft drinks offset somewhat by volume growth from diet carbonated soft drinks, isotonics and bottled water.

- Some of the Company s largest customers are chain supermarkets. During 2004, certain chain supermarket customers were less aggressive in their promotion of the Company s products resulting in volume declines for those customers. The Company s volume in the supermarket channel was negatively impacted by less aggressive pricing by certain retailers in this channel in 2004 and 2003.

- Large portions of the Company s bottling territory experienced unseasonably cool weather in August 2004 and several tropical storms during September 2004, which contributed to the decline in sales during the third quarter of 2004. The tropical storms during September 2004 had a significant impact on the bottle/can sales volume in immediate consumption channels.

In 2004, the Company s bottle/can sales accounted for 88% of the Company s net sales. Bottle/can net pricing is based on the invoice price charged to customers reduced by promotional allowances. Bottle/can net pricing per case is impacted by the price charged per package, the volume generated in each package and the channels in which those packages are sold. To the extent the Company is able to increase volume in higher margin packages that are sold through higher margin channels, bottle/can net pricing per case can increase without an actual increase in wholesale pricing. In 2004, the increase in the Company s bottle/can net price per case was primarily achieved with price increases.

While total carbonated bottle/can sales volume in 2004 decreased by 2% compared to 2003, bottle/can sales volume of the Company s carbonated diet products increased by approximately 5%.

For the Company s noncarbonated beverage portfolio, which includes bottled water, juices and isotonics, bottle/can sales volume was flat in 2004. Bottle/can sales volume increases in 2004 for Dasani of approximately 3% and for POWERade of approximately 17% were offset by a decrease in other noncarbonated products. Noncarbonated beverages comprised 10.9% of the overall bottle/can volume in 2004 compared to 10.7% in 2003.

During 2004, approximately 66% of the Company s bottle/can sales volume was sold for future consumption. The remaining bottle/can sales volume of approximately 34% was sold for immediate consumption. The Company s largest customer, Wal-Mart Stores, Inc., accounted for approximately 13% of the Company s total bottle/can sales volume and the second largest customer, Food Lion, LLC, accounted for approximately 10% of the Company s total bottle/can sales volume during 2004. Wal-Mart Stores, Inc. accounted for approximately 10% of the Company s total net sales in 2004.

Cost of Sales

Cost of sales on a per unit basis increased approximately 4% in 2004 compared to 2003. The increase was primarily due to higher raw material costs and higher expense related to the reclassification of certain items from property, plant and equipment to inventories at the beginning of 2004.

In 2003, The Coca-Cola Company offered, through a program called Strategic Growth Initiative (SGI), an opportunity for the Company to receive marketing funding support, subject to the Company s achievement of certain volume performance requirements. The Company recorded $3.2 million as a reduction in cost of sales related to SGI during 2003. The SGI program was eliminated in 2004; however, The Coca-Cola Company offset the impact of the elimination of the SGI program by adjusting the price of concentrate as of January 1, 2004.

On May 28, 2004, The Coca-Cola Company changed its method of delivering marketing funding support to the Company for bottle/can products. Subsequent to May 28, 2004, the majority of the Company s marketing

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funding support for bottle/can products from The Coca-Cola Company was delivered as an offset against the price of concentrate. The reduction in concentrate price represents a significant portion of the marketing funding support that otherwise would have been paid to the Company related to the sale of bottle/can products of The Coca-Cola Company. Due to this change in concentrate pricing, the Company s investment in inventories was reduced, resulting in an increase in cost of sales of $1.7 million in the second quarter of 2004. As a result of this change in pricing, the amounts received in cash from The Coca-Cola Company for marketing funding support decreased significantly in 2004 as compared to the prior year as discussed below. Cost of sales for 2004 included favorable nonrecurring items of approximately $2 million, primarily for certain customer-related marketing programs between the Company and The Coca-Cola Company, which were recorded in the first quarter of 2004 as marketing funding support and were reflected as a reduction of cost of sales.

At the beginning of 2004, the Company reclassified plastic shells, premix tanks and CO_2 tanks, which totaled $10.4 million, from property, plant and equipment to inventories. These items were reclassified as the Company believes that they are more closely related to the sale of finished product inventories than to a component of property, plant and equipment. This reclassification had no significant impact on the Company s overall financial position or results of operations during 2004. Costs associated with these items have been reflected in cost of sales during 2004. Previously, costs associated with these items were recorded as depreciation expense.

During 2003, the Company and all other Coca-Cola bottlers in the United States formed Coca-Cola Bottling Sales and Services Company, LLC (CCBSS) for the purpose of facilitating various procurement functions and distributing certain specified beverage products of The Coca-Cola Company. CCBSS is responsible for negotiating contracts for most of the significant raw materials purchased by the Company other than concentrate.

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 $39.9 million for 2004 versus $60.7 million for 2003 and was recorded as a reduction in cost of sales. As noted above, The Coca-Cola Company changed the method in which the Company receives the majority of its marketing funding support for bottle/can products on May 28, 2004.

Gross Margin

Gross margin as a percentage of net sales decreased from 48.5% in 2003 to 48.0% in 2004 primarily as a result of increases in the Company s cost of sales. The Company s gross margin as a percentage of net sales may not be comparable to other companies, since some entities include all costs related to their distribution network in cost of sales and the Company excludes a portion of these costs from gross margin, including them instead in S,D&A expenses.

S,D&A Expenses

S,D&A expenses increased by approximately 5% in 2004 compared to 2003. The increase in S,D&A expenses was primarily attributable to increases in employee compensation and employee benefit plans (including costs related to the Company s pension and health care plans) and higher fuel costs. Pension expense was higher by approximately $1 million in 2004 as compared to 2003, primarily due to lower interest rates used to discount the Company s pension liability. Employee health care related costs increased by $2.1 million in 2004 over 2003. S,D&A expenses for the last three quarters of 2004 were also impacted by the capitalization of the Company s corporate headquarters facilities lease. The lease obligation was capitalized effective March 1, 2004 as the Company received a renewal option to extend the term of the lease which it expects to exercise. The lease was previously accounted for as an operating lease. The capitalization of this lease, reduced S,D&A expenses by $2.3 million in 2004 as compared to 2003. Fuel costs for 2004 related to the movement of finished goods from sales distribution centers to customer locations increased by approximately 18% or $2.0 million over 2003. Fuel costs increased primarily due to both higher usage and higher rates for fuel.

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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 $176.3 million and $168.1 million in 2004 and 2003, respectively. Customers generally do not pay the Company separately for shipping and handling costs.

Depreciation Expense

Depreciation expense of $70.8 million for 2004 declined by $5.7 million compared to 2003. The reduction in depreciation expense is related to lower capital spending over the past several years, the closing of several sales distribution centers and lower expense related to the reclassification of certain items from property, plant and equipment to inventories at the beginning of 2004, offset partially by amortization expense related to new capital leases. Ongoing costs related to the items reclassified from property, plant and equipment to inventories are reflected in cost of sales. The decrease in depreciation expense in 2004 was offset partially by the amortization of a capital lease for the Company s Charlotte, North Carolina corporate headquarters buildings of $1.1 million in 2004.

Interest Expense

Interest expense for 2004 of $44.0 million increased by $2.1 million or approximately 5% from $41.9 million in 2003 primarily due to new capital lease obligations, higher interest rates on the Company s floating rate debt and a $1.2 million interest accrual during the fourth quarter of 2004 related to the settlement of a state tax audit. The impact of the increase in interest expense was offset partially by lower debt balances. Interest expense for 2004 included $1.9 million related to the capitalization of the Company s corporate headquarters facilities lease as previously discussed. The Company s overall weighted average interest rate increased from an average of 4.9% during 2003 to 5.4% during 2004.

Debt and capital lease obligations decreased from $848.3 million at December 28, 2003 to $789.1 million at January 2, 2005. As discussed above, the Company capitalized a lease on its corporate headquarters facilities during the first quarter of 2004 which had previously been accounted for as an operating lease and entered into another capital lease related to a new operating facility at the end of the second quarter of 2004. The capitalization of these leases resulted in additional capital lease obligations of $37.3 million. Debt and capital lease obligations at January 2, 2005 and December 28, 2003 included $81.0 million and $45.6 million, respectively, attributable to capital leases.

Minority Interest

The Company recorded minority interest of $3.8 million in 2004 compared to $3.3 million in 2003 related to the portion of Piedmont owned by The Coca-Cola Company. The increased amount in 2004 was due to improvements in operating results at Piedmont.

Income Taxes

The Company s effective income tax rates for 2004 and 2003 were approximately 40.2% and 19.3%, respectively. The effective income tax rate of 19.3% in 2003 was due to net favorable adjustments of $8.6 million during the year as follows:

During the second quarter of 2003, the Company reduced its valuation allowance upon the completion of a state income tax audit which resulted in a favorable adjustment to income tax expense of $3.1 million.

During the third quarter of 2003, in conjunction with a reorganization of certain of the Company s subsidiaries and a corresponding assessment of the Company s ability to utilize certain state net operating loss carryforwards, the Company reduced its valuation allowance related to such carryforwards. This reduction in the valuation allowance decreased income tax expense by $6.5 million.

An income tax benefit of approximately $1.6 million was recorded in the fourth quarter of 2003 related to the return of certain insurance premiums primarily in conjunction with the elimination of a split-dollar life insurance program for officers of the Company.

The Company decided to terminate certain Company-owned life insurance policies and recorded additional income tax expense of $2.6 million in the third and fourth quarters of 2003 related to the taxable value of these policies.

FINANCIAL CONDITION

Total assets increased slightly from $1.31 billion at January 2, 2005 to $1.34 billion at January 1, 2006 primarily due to increases in cash, accounts receivable, inventories and other assets, partially offset by a decrease in property, plant and equipment, net. Other assets increased by $14.0 million from January 2, 2005 to January 1, 2006 primarily as a result of the premium paid in conjunction with the exchange of $164.8 million of the Company s long-term debt during 2005. Property, plant and equipment, net decreased primarily due to lower levels of capital spending over the past several years.

Net working capital, defined as current assets less current liabilities, increased by $38.6 million from January 2, 2005 to January 1, 2006.

Significant changes in net working capital from January 2, 2005 to January 1, 2006 were as follows:

An increase in cash of $30.7 million due to cash flows from operating activities.

An increase in accounts receivable, trade of $12.5 million primarily due to growth in franchise bottle/can revenue and a significant increase in sales to other Coca-Cola bottlers.

An increase in inventories of $9.3 million due to the addition of new products.

An increase in accounts payable, trade of $13.5 million primarily due to growth in bottle/can sales volume.

Debt and capital lease obligations were $777.2 million as of January 1, 2006 compared to $789.1 million as of January 2, 2