COCA COLA BOTTLING CO CONSOLIDATED /DE/
Form 10-Q
November 08, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2018

Commission File Number 0-9286

COCA COLA BOTTLING CO. CONSOLIDATED

(Exact name of registrant as specified in its charter)

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

4100 Coca Cola Plaza
Charlotte, North Carolina 28211

(Address of principal executive offices) (Zip Code)

(704) 557-4400

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company
	Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

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

Class	Outstanding at October 28, 2018
Common Stock, $1.00 Par Value	7,141,447
Class B Common Stock, $1.00 Par Value	2,213,018

COCA COLA BOTTLING CO. CONSOLIDATED

QUARTERLY REPORT ON FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2018

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.
COCA COLA BOTTLING CO. CONSOLIDATED

CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS

(Unaudited)

	Third Quarter		First Three Quarters	
(in thousands, except per share data)	2018	2017	2018	2017
Net sales	$1,211,661	$1,162,526	$3,510,997	$3,197,519
Cost of sales	791,317	752,202	2,313,728	2,039,996
Gross profit	420,344	410,324	1,197,269	1,157,523
Selling, delivery and administrative expenses	375,940	372,852	1,152,183	1,056,446
Income from operations	44,404	37,472	45,086	101,077
Interest expense, net	12,827	10,697	37,617	30,607
Other income (expense), net	1,696	3,884	(3,612)	(36,595)
Gain on exchange transactions	10,170	-	10,170	-
Income before income taxes	43,443	30,659	14,027	33,875
Income tax expense	16,493	11,748	3,387	11,800
Net income	26,950	18,911	10,640	22,075
Less: Net income attributable to noncontrolling interest	1,786	1,595	3,594	3,462
Net income attributable to Coca-Cola Bottling Co. Consolidated	$25,164	$17,316	$7,046	$18,613
Basic net income per share based on net income attributable to Coca-Cola Bottling Co. Consolidated:				
Common Stock	$2.69	$1.86	$0.75	$2.00
Weighted average number of Common Stock shares outstanding	7,141	7,141	7,141	7,141
Class B Common Stock	$2.69	$1.86	$0.75	$2.00
Weighted average number of Class B Common Stock shares outstanding	2,213	2,193	2,208	2,188
Diluted net income per share based on net income attributable to Coca-Cola Bottling Co. Consolidated:				
Common Stock	$2.69	$1.85	$0.75	$1.99
Weighted average number of Common Stock shares outstanding – assuming dilution	9,405	9,374	9,400	9,369
Class B Common Stock	$2.68	$1.84	$0.74	$1.97
Weighted average number of Class B Common Stock shares outstanding – assuming dilution	2,264	2,233	2,259	2,228
Cash dividends per share:				
Common Stock	$0.25	$0.25	$0.75	$0.75
Class B Common Stock	$0.25	$0.25	$0.75	$0.75

See accompanying notes to consolidated condensed financial statements.

COCA COLA BOTTLING CO. CONSOLIDATED

CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

	Third Quarter		First Three Quarters	
(in thousands)	2018	2017	2018	2017
Net income	$26,950	$18,911	$10,640	$22,075
Other comprehensive income, net of tax:				
Defined benefit plans reclassification including pension costs:				
Actuarial gains	703	496	2,109	1,487
Prior service benefits	4	4	13	13
Postretirement benefits reclassification included in benefits costs:				
Actuarial gains	376	398	1,128	1,194
Prior service costs	(348)	(458)	(1,044)	(1,374)
Foreign currency translation adjustment	(1)	7	(7)	23
Other comprehensive income, net of tax	734	447	2,199	1,343
Comprehensive income	27,684	19,358	12,839	23,418
Less: Comprehensive income attributable to noncontrolling interest	1,786	1,595	3,594	3,462
Comprehensive income attributable to Coca-Cola Bottling Co. Consolidated	$25,898	$17,763	$9,245	$19,956

See accompanying notes to consolidated condensed financial statements.

COCA COLA BOTTLING CO. CONSOLIDATED

CONSOLIDATED CONDENSED BALANCE SHEETS

(Unaudited)

(in thousands, except share data)	September 30, 2018	December 31, 2017
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 9,337	$ 16,902
Accounts receivable, trade	432,384	396,022
Allowance for doubtful accounts	(9,069)	(7,606)
Accounts receivable from The Coca-Cola Company	62,541	65,996
Accounts receivable, other	28,632	38,960
Inventories	229,892	183,618
Prepaid expenses and other current assets	91,514	100,646
Total current assets	845,231	794,538
Property, plant and equipment, net	998,117	1,031,388
Leased property under capital leases, net	25,208	29,837
Other assets	119,193	116,209
Goodwill	165,903	169,316
Distribution agreements, net	901,831	913,352
Customer lists and other identifiable intangible assets, net	16,941	18,320
Total assets	$ 3,072,424	$ 3,072,960
LIABILITIES AND EQUITY		
Current Liabilities:		
Current portion of obligations under capital leases	$ 8,438	$ 8,221
Accounts payable, trade	186,706	197,049
Accounts payable to The Coca-Cola Company	142,849	171,042
Other accrued liabilities	153,609	185,530
Accrued compensation	57,651	72,484
Accrued interest payable	9,363	5,126
Total current liabilities	558,616	639,452
Deferred income taxes	123,248	112,364
Pension and postretirement benefit obligations	98,738	118,392
Other liabilities	600,310	620,579
Obligations under capital leases	28,840	35,248
Long-term debt	1,194,109	1,088,018
Total liabilities	2,603,861	2,614,053
Commitments and Contingencies		
Equity:		
Common Stock, $1.00 par value: 30,000,000 shares authorized; 10,203,821 shares issued	10,204	10,204
Class B Common Stock, $1.00 par value: 10,000,000 shares authorized; 2,841,132 and 2,820,836 shares issued, respectively	2,839	2,819

Capital in excess of par value	124,228	120,417
Retained earnings	388,750	388,718
Accumulated other comprehensive loss	(92,003)	(94,202)
Treasury stock, at cost: Common Stock – 3,062,374 shares	(60,845)	(60,845)
Treasury stock, at cost: Class B Common Stock – 628,114 shares	(409)	(409)
Total equity of Coca-Cola Bottling Co. Consolidated	372,764	366,702
Noncontrolling interest	95,799	92,205
Total equity	468,563	458,907
Total liabilities and equity	$ 3,072,424	$ 3,072,960

See accompanying notes to consolidated condensed financial statements.

COCA COLA BOTTLING CO. CONSOLIDATED

CONSOLIDATED CONDENSED STATEMENTS OF CHANGES IN EQUITY

(Unaudited)

(in thousands, except share data)	Common Stock	Class B Common Stock	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock - Common Stock	Treasury Stock - Class B Common Stock	Total Equity of Coca-Cola Bottling Co. Consolidated	Non-controlling Interest	Total Equity
Balance on December 31, 2017	$10,204	$2,819	$120,417	$388,718	$(94,202)	$(60,845)	$(409)	$366,702	$92,205	$458,907
Net income	-	-	-	7,046	-	-	-	7,046	3,594	10,640
Other comprehensive income, net of tax	-	-	-	-	2,199	-	-	2,199	-	2,199
Cash dividends paid:										
Common Stock ($0.75 per share)	-	-	-	(5,357)	-	-	-	(5,357)	-	(5,357)
Class B Common Stock ($0.75 per share)	-	-	-	(1,657)	-	-	-	(1,657)	-	(1,657)
Issuance of 20,296 shares of Class B Common Stock	-	20	3,811	-	-	-	-	3,831	-	3,831
Balance on September 30, 2018	$10,204	$2,839	$124,228	$388,750	$(92,003)	$(60,845)	$(409)	$372,764	$95,799	$468,563
Balance on January 1, 2017	$10,204	$2,798	$116,769	$301,511	$(92,897)	$(60,845)	$(409)	$277,131	$85,893	$363,024
Net income	-	-	-	18,613	-	-	-	18,613	3,462	22,075
Other comprehensive income, net of	-	-	-	-	1,343	-	-	1,343	-	1,343

tax										
Cash dividends paid:										
Common Stock ($0.75 per share)	-	-	-	(5,356)	-	-	-	(5,356)	-	(5,356)
Class B Common Stock ($0.75 per share)	-	-	-	(1,639)	-	-	-	(1,639)	-	(1,639)
Issuance of 21,020 shares of Class B Common Stock	-	21	3,648	-	-	-	-	3,669	-	3,669
Balance on October 1, 2017	$10,204	$2,819	$120,417	$313,129	$(91,554)	$(60,845)	$(409)	$293,761	$89,355	$383,116

See accompanying notes to consolidated condensed financial statements.

COCA COLA BOTTLING CO. CONSOLIDATED

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

(Unaudited)

	First Three Quarters	
(in thousands)	2018	2017
Cash Flows from Operating Activities:		
Net income	$10,640	$22,075
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation expense	123,542	108,697
Amortization of intangible assets and deferred proceeds, net	16,954	11,596
Deferred income taxes	9,903	(24,741)
Gain on exchange transactions	(10,170)	-
Loss on sale of property, plant and equipment	6,123	3,420
Impairment of property, plant and equipment	299	-
Fair value adjustment of acquisition related contingent consideration	1,584	23,140
Stock compensation expense	4,494	6,473
Amortization of debt costs	1,103	806
Proceeds from Territory Conversion Fee	-	87,066
Change in current assets less current liabilities (exclusive of acquisitions)	(120,421)	(19,036)
Change in other noncurrent assets (exclusive of acquisitions)	724	(13,391)
Change in other noncurrent liabilities (exclusive of acquisitions)	(18,762)	(3,746)
Other	17	66
Total adjustments	15,390	180,350
Net cash provided by operating activities	$26,030	$202,425
Cash Flows from Investing Activities:		
Additions to property, plant and equipment (exclusive of acquisitions)	$(113,104)	$(114,953)
Investment in CONA Services LLC	(2,098)	(1,976)
Acquisition of distribution territories and regional manufacturing facilities, net of cash acquired and purchase price settlements	1,811	(227,769)
Proceeds from cold drink equipment	3,789	8,400
Proceeds from the sale of property, plant and equipment	3,555	493
Glacéau distribution agreement consideration	-	(15,598)
Prepayment of funds for October 2017 Expansion Transactions	-	(56,498)
Net cash used in investing activities	$(106,047)	$(407,901)
Cash Flows from Financing Activities:		
Payments on Revolving Credit Facility	$(322,000)	$(238,000)
Borrowings under Revolving Credit Facility	285,000	333,000
Proceeds from issuance of Senior Notes	150,000	125,000
Payment of acquisition related contingent consideration	(18,312)	(11,650)
Payment on Term Loan Facility	(7,500)	-
Cash dividends paid	(7,014)	(6,995)
Principal payments on capital lease obligations	(6,191)	(5,594)

Debt issuance fees	(1,531)	(213)
Net cash provided by financing activities	$72,452	$195,548
Net decrease in cash	$(7,565)	$(9,928)
Cash at beginning of period	16,902	21,850
Cash at end of period	$9,337	$11,922
Significant noncash investing and financing activities:		
Additions to property, plant and equipment accrued and recorded in accounts payable, trade	$4,081	$13,724
Issuance of Class B Common Stock in connection with stock award	3,831	3,669

See accompanying notes to consolidated condensed financial statements.

COCA COLA BOTTLING CO. CONSOLIDATED

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Unaudited)

1.Significant Accounting Policies and New Accounting Pronouncements

The consolidated condensed financial statements include the accounts of Coca Cola Bottling Co. Consolidated and its majority-owned subsidiaries (the "Company"). All significant intercompany accounts and transactions have been eliminated. The consolidated condensed financial statements reflect all adjustments, including normal, recurring accruals, which, in the opinion of management, are necessary for a fair statement of the results for the interim periods presented:

- The financial position as of September 30, 2018 and December 31, 2017.
- The results of operations and comprehensive income for the 13 week periods ended September 30, 2018 ("third quarter" of fiscal 2018 ("2018")) and October 1, 2017 ("third quarter" of fiscal 2017 ("2017")), and the 39 week periods ended September 30, 2018 ("first three quarters" of 2018) and October 1, 2017 ("first three quarters" of 2017).
- The changes in equity and cash flows for the first three quarters of 2018 and the first three quarters of 2017.

The consolidated condensed financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial reporting and the instructions to Form 10-Q and Article 10 of Regulation S-X. The accounting policies followed in the presentation of interim financial results are consistent with those followed on an annual basis. These policies are presented in Note 1 to the consolidated financial statements included in the Company's Annual Report on Form 10 K for 2017 filed with the Securities and Exchange Commission (the "SEC").

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

Significant Accounting Policies

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 condensed financial statements in conformity with GAAP. Actual results could differ significantly from those estimates under different assumptions and conditions. The Company included in its Annual Report on Form 10 K for 2017 under the caption “Discussion of Critical Accounting Policies, Estimates and New Accounting Pronouncements” in Part II, “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations,” a discussion of the Company’s most critical accounting policies, which are those the Company believes to be the most important to the portrayal of its 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. Any changes in critical accounting policies and estimates are discussed with the Audit Committee of the Board of Directors of the Company during the quarter in which a change is contemplated and prior to making such change.

Recently Adopted Pronouncements

In May 2014, the Financial Accounting Standards Board (the “FASB”) issued Accounting Standards Update (“ASU”) 2014-09 “Revenue from Contracts with Customers,” (the “revenue recognition standard”). Subsequent to the issuance of ASU 2014 09, the FASB issued several additional accounting standards for revenue recognition to update the effective date of the revenue recognition guidance and to provide additional clarification on the updated standard. The new guidance is effective for annual and interim periods beginning after December 15, 2017. The Company adopted the revenue recognition standard in the first quarter of 2018, as discussed in Note 2.

In January 2016, the FASB issued ASU 2016-01 “Recognition and Measurement of Financial Assets and Financial Liabilities,” which revises the classification and measurement of investments in equity securities and the presentation of certain fair value changes in financial liabilities measured at fair value. The new guidance is effective for annual and interim periods beginning after December 31, 2017. The Company adopted this guidance in the first quarter of 2018 and there was no material impact to the Company’s consolidated condensed financial statements.

In January 2017, the FASB issued ASU 2017-01 “Clarifying the Definition of a Business,” which clarifies the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions or disposals of assets or businesses. The new guidance is effective for annual periods beginning after December 15, 2017, including interim periods within those periods. The Company adopted this guidance in the first quarter of 2018 and there was no material impact to the Company's consolidated condensed financial statements.

In January 2017, the FASB issued ASU 2017-04 "Simplifying the Test for Goodwill Impairment," which simplifies how an entity is required to test goodwill for impairment by eliminating step 2 from the goodwill impairment test, which measures a goodwill impairment loss by comparing the implied fair value of a reporting unit's goodwill with the carrying amount. Under the new guidance, entities should instead perform annual or interim goodwill impairment tests by comparing the fair value of a reporting unit with its carrying amount and recognize an impairment charge for the excess of the carrying amount over the fair value of the respective reporting unit. The new guidance is effective for the annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. The Company adopted this guidance in the first quarter of 2018 and there was no material impact to the Company's consolidated condensed financial statements.

In March 2017, the FASB issued ASU 2017 07 "Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost," which requires that the service cost component of the Company's net periodic pension cost and net periodic postretirement benefit cost be included in the same line item as other compensation costs arising from services rendered by employees, with the non-service cost components of net periodic benefit cost being classified outside of a subtotal of income from operations. Of the components of net periodic benefit cost, only the service cost component is eligible for asset capitalization. The new guidance is effective for annual periods beginning after December 31, 2017, including interim periods within those annual periods. The Company adopted this guidance in the first quarter of 2018 using the practical expedient which allows entities to use information previously disclosed in their pension and other postretirement benefit plans note as the estimation basis to apply the retrospective presentation requirements in ASU 2017-07.

With the adoption of this guidance in the first quarter of 2018, the Company recorded the non-service cost component of net periodic benefit cost, which totaled $0.6 million in the third quarter of 2018 and $2.0 million in the first three quarters of 2018, to other income (expense), net in the consolidated condensed statements of operations. The Company reclassified $1.3 million from the third quarter of 2017 and $4.0 million from the first three quarters of 2017 of non-service cost components of net periodic benefit cost and other benefit plan charges from selling, delivery and administrative ("S,D&A") expenses to other income (expense), net in the consolidated condensed statements of operations. The non-service cost component of net periodic benefit cost is included in the Nonalcoholic Beverages segment.

Recently Issued Pronouncements

In February 2018, the FASB issued ASU 2018 02 "Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income," which provides the option to reclassify stranded tax effects resulting from the Tax Cuts and Jobs Act (the "Tax Act") from accumulated other comprehensive income to retained earnings. The new guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, and can be early adopted. The Company is currently evaluating whether it will adopt this guidance.

In February 2016, the FASB issued ASU 2016-02 “Leases,” which requires lessees to recognize a right-to-use asset and a lease liability for virtually all leases (other than leases meeting the definition of a short-term lease). The new guidance is effective for fiscal years beginning after December 15, 2018 and interim periods beginning the following fiscal year. The Company anticipates adopting the new accounting standard on December 31, 2018, the first day of fiscal 2019, using the optional transition method, which was approved by the FASB in March 2018 and allows companies the option to use the effective date as the date of initial application on transition and to not adjust comparative period financial information or make the new required disclosures for periods prior to the effective date.

The Company has formed a project team, which is in the process of reviewing its existing lease portfolio, including certain service contracts for embedded leases, to determine the size of the Company’s lease portfolio in order to evaluate the impact of this new guidance on the Company’s consolidated condensed financial statements. The Company anticipates the impact of adopting this new guidance will be material to its consolidated condensed balance sheets. The impact on the Company’s consolidated condensed statements of operations is still being evaluated. As the impact of the new guidance is non-cash in nature, the Company does not anticipate the impact of adopting this new guidance will be material to its consolidated condensed statements of cash flows. Additionally, the Company is evaluating the impacts of ASU 2016 02 beyond accounting, including system, data and process changes required to comply with this standard. The Company anticipates implementing new controls and utilizing a lease accounting software application with the adoption of this new guidance and on a go-forward basis in order to properly approve, track and account for its entire lease portfolio.

2.Revenue Recognition

The Company adopted the revenue recognition standard, including all relevant amendments and practical expedients, in the first quarter of 2018 using the modified retrospective approach for all contracts not completed at the date of initial adoption, considering materiality and applicability. Upon adoption of this guidance, there was no material impact to the Company's consolidated condensed financial statements.

The Company's contracts are derived from customer orders, including customer sales incentives, generated through an order processing and replenishment model. The Company has defined its performance obligations for its contracts as either at a point in time or over time.

The Company offers a range of nonalcoholic beverage products and flavors designed to meet the demands of its consumers, including both sparkling and still beverages. Sparkling beverages are carbonated beverages and the Company's principal sparkling beverage is Coca Cola. Still beverages include energy products and noncarbonated beverages such as bottled water, tea, ready to drink coffee, enhanced water, juices and sports drinks.

The Company's products are sold and distributed through various channels, which include selling directly to retail stores and other outlets such as food markets, institutional accounts and vending machine outlets. During the first three quarters of 2018, approximately 66% of the Company's bottle/can sales volume to retail customers was sold for future consumption, while the remaining bottle/can sales volume to retail customers was sold for immediate consumption. All the Company's beverage sales were to customers in the United States. The Company typically collects payment from customers within 30 days from the date of sale.

The Company's sales are divided into two main categories: (i) bottle/can sales and (ii) other sales. Bottle/can sales include products packaged primarily in plastic bottles and aluminum cans. Other sales include sales to other Coca Cola bottlers, "post-mix" products, transportation and equipment maintenance revenue. Post-mix products are dispensed through equipment that mixes fountain syrups with carbonated or still water, enabling fountain retailers to sell finished products to consumers in cups or glasses. Net sales by category were as follows:

	Third Quarter		First Three Quarters	
(in thousands)	2018	2017	2018	2017
Bottle/can sales:				
Sparkling beverages (carbonated)	$605,614	$582,710	$1,787,451	$1,670,093
Still beverages (noncarbonated, including energy products)	413,282	384,495	1,142,764	1,009,508
Total bottle/can sales	1,018,896	967,205	2,930,215	2,679,601
Other sales:				

Sales to other Coca-Cola bottlers	92,139	104,619	300,819	274,317
Post-mix and other	100,626	90,702	279,963	243,601
Total other sales	192,765	195,321	580,782	517,918
Total net sales	$1,211,661	$1,162,526	$3,510,997	$3,197,519

Bottle/can sales represented approximately 83% and 84% in the first three quarters of 2018 and the first three quarters of 2017, respectively. The sparkling beverage category represented approximately 61% and 62% of total bottle/can sales during the first three quarters of 2018 and the first three quarters of 2017, respectively.

Bottle/can sales, sales to other Coca Cola bottlers and post-mix sales are recognized when control transfers to a customer, which is generally upon delivery and is considered a single point in time ("point in time"). Point in time sales accounted for approximately 97% of the Company's net sales in both the first three quarters of 2018 and the first three quarters of 2017. Substantially all of the Company's revenue is recognized at a point in time and is included in the Nonalcoholic Beverages segment.

Other sales, which include revenue for service fees related to the repair of cold drink equipment and delivery fees for freight hauling and brokerage services, are recognized over time ("over time"). Revenues related to cold drink equipment repair are recognized as the respective services are completed using a cost-to-cost input method. Repair services are generally completed in less than one day but can extend up to one month. Revenues related to freight hauling and brokerage services are recognized as the delivery occurs using a miles driven output method. Generally, delivery occurs and freight charges are recognized in the same day. Over time sales orders open at the end of a financial period are not considered material to the Company's consolidated condensed financial statements.

The Company participates in various sales programs with The Coca Cola Company, other beverage companies and customers to increase the sale of its products. Programs negotiated with customers include arrangements under which allowances can be earned for attaining agreed-upon sales levels. The cost of these various sales incentives are not considered a separate performance obligation and are included as deductions to net sales.

Revenues do not include sales or other taxes collected from customers.

The majority of the Company’s contracts include multiple performance obligations related to the delivery of specifically identifiable products, which generally have a duration of less than one year. For sales contracts with multiple performance obligations, the Company allocates the contract’s transaction price to each performance obligation using stated contractual price, which represents the standalone selling price of each distinct good sold under the contract. Generally, the Company’s service contracts have a single performance obligation.

The following table represents a disaggregation of revenue from contracts with customers:

	Third Quarter		First Three Quarters	
(in thousands)	2018	2017	2018	2017
Point in time net sales:				
Nonalcoholic - point in time	$1,168,276	$1,132,181	$3,394,253	$3,112,777
Total point in time net sales	$1,168,276	$1,132,181	$3,394,253	$3,112,777
Over time net sales:				
Nonalcoholic - over time	$11,936	$10,057	$33,239	$27,197
Other - over time	31,449	20,288	83,505	57,545
Total over time net sales	$43,385	$30,345	$116,744	$84,742
Total net sales	$1,211,661	$1,162,526	$3,510,997	$3,197,519

The Company sells its products and extends credit, generally without requiring collateral, based on an ongoing evaluation of the customer’s business prospects and financial condition. The Company evaluates the collectability of its trade accounts receivable based on a number of factors, including the Company’s historic collections pattern and changes to a specific customer’s ability to meet its financial obligations. The Company has established an allowance for doubtful accounts to adjust the recorded receivable to the estimated amount the Company believes will ultimately be collected.

The nature of the Company’s contracts gives rise to several types of variable consideration, including prospective and retrospective rebates. The Company accounts for its prospective and retrospective rebates using the expected value method, which estimates the net price to the customer based on the customer’s expected annual sales volume projections.

The Company experiences customer returns primarily as a result of damaged or out-of-date product. At any given time, the Company estimates less than 1% of bottle/can sales and post-mix sales could be at risk for return by customers. The Company's reserve for customer returns was $2.3 million as of September 30, 2018 and was included in the allowance for doubtful accounts in the consolidated condensed balance sheet. Returned product is recognized as a reduction of net sales.

3.Acquisitions and Divestitures

As part of The Coca Cola Company's plans to refranchise its North American bottling territories, the Company and Piedmont Coca Cola Bottling Partnership, a partnership formed by the Company and The Coca Cola Company ("Piedmont"), completed a series of transactions from April 2013 to October 2017 with The Coca Cola Company, Coca Cola Refreshments USA, Inc. ("CCR"), a wholly-owned subsidiary of The Coca Cola Company and Coca Cola Bottling Company United, Inc. ("United"), an independent bottler that is unrelated to the Company, to significantly expand the Company's distribution and manufacturing operations (the "System Transformation"). The System Transformation included the acquisition and exchange of rights to serve distribution territories and related distribution assets, as well as the acquisition and exchange of regional manufacturing facilities and related manufacturing assets.

A summary of the System Transformation transactions (the "System Transformation Transactions") completed by the Company is included in the Company's Annual Report on Form 10 K for 2017. Following is a summary of the System Transformation Transactions for which final post-closing adjustments were completed during the third quarter of 2018 in accordance with the terms and conditions of the applicable asset purchase agreement or asset exchange agreement for such transactions. As of September 30, 2018, the cash purchase prices or settlement amounts for all System Transformation Transactions have been resolved according to the terms of the transaction agreements. The post-closing adjustments made during the third quarter of 2018 resulted in a $10.2 million net adjustment to the gain on exchange transactions in the consolidated condensed statements of operations.

Acquisition of Arkansas Distribution Territories and Memphis, Tennessee and West Memphis, Arkansas Regional Manufacturing Facilities in exchange for the Company's Deep South and Somerset Distribution Territories and Mobile, Alabama Manufacturing Facility (the "CCR Exchange Transaction")

On October 2, 2017, the Company (i) acquired from CCR distribution rights and related assets in territories previously served by CCR through CCR's facilities and equipment located in central and southern Arkansas and two regional manufacturing facilities located in Memphis, Tennessee and West Memphis, Arkansas and related manufacturing assets (collectively, the "CCR Exchange Business") in exchange for which the Company (ii) transferred to CCR distribution rights and related assets in territories previously served by the Company through its facilities and equipment located in portions of southern Alabama, southeastern Mississippi, southwestern Georgia and northwestern Florida and in and around Somerset, Kentucky and a regional manufacturing facility located in Mobile, Alabama and related manufacturing assets (collectively, the "Deep South and Somerset Exchange Business"), pursuant to an asset exchange agreement entered into by the Company, certain of its wholly-owned subsidiaries and CCR on September 29, 2017.

At closing, the Company paid CCR $15.9 million toward the settlement amount for the CCR Exchange Transaction, representing an estimate of the difference between the value of the CCR Exchange Business acquired by the Company and the value of the Deep South and Somerset Exchange Business acquired by CCR. During the fourth quarter of 2017, the Company recorded certain adjustments to this settlement amount as a result of changes in estimated net working capital and other fair value adjustments. The settlement amount was included in accounts payable to The Coca Cola Company in the consolidated condensed balance sheet as of December 31, 2017.

During the third quarter of 2018, all post-closing adjustments were finalized for the CCR Exchange Transaction, resulting in a final settlement amount for the CCR Exchange Transaction of $26.2 million. A net balance of $10.3 million related to the settlement amount for the CCR Exchange Transaction remained payable to CCR by the Company as of September 30, 2018. This balance was paid to CCR during the fourth quarter of 2018.

Acquisition of Memphis, Tennessee Distribution Territories (the "Memphis Transaction")

On October 2, 2017, the Company acquired distribution rights and related assets in territories previously served by CCR through CCR's facilities and equipment located in and around Memphis, Tennessee, including portions of northwestern Mississippi and eastern Arkansas (the “Memphis Territory”), pursuant to an asset purchase agreement entered by the Company and CCR on September 29, 2017 (the “September 2017 APA”). At closing, the Company paid CCR $39.6 million toward the purchase price for the Memphis Transaction. During the second and third quarters of 2018, all post-closing adjustments were finalized for the Memphis Transaction, resulting in a net increase of $2.6 million in the cash purchase price, which was paid to CCR during the third quarter of 2018.

Acquisition of Spartanburg and Bluffton, South Carolina Distribution Territories in exchange for the Company’s Florence and Laurel Territories and Piedmont’s Northeastern Georgia Territories (the “United Exchange Transaction”)

On October 2, 2017, the Company and Piedmont completed exchange transactions in which (i) the Company acquired from United distribution rights and related assets in territories previously served by United through United’s facilities and equipment located in and around Spartanburg, South Carolina and a portion of United’s territory located in and around Bluffton, South Carolina (collectively, the “United Distribution Business”) and Piedmont acquired from United similar rights, assets and liabilities, and working capital in the remainder of United’s Bluffton, South Carolina territory, in exchange for which (ii) the Company transferred to United distribution rights and related assets in territories previously served by the Company through its facilities and equipment located in parts of northwestern Alabama, south-central Tennessee and southeastern Mississippi previously served by the Company’s distribution centers located in Florence, Alabama and Laurel, Mississippi (collectively, the “Florence and Laurel Distribution Business”) and Piedmont transferred to United similar rights, assets and liabilities, and working capital of Piedmont’s in territory located in parts of northeastern Georgia (the “Northeastern Georgia Distribution Business”), pursuant to an asset exchange agreement between the Company, certain of its wholly-owned subsidiaries and United dated September 29, 2017 and an asset exchange agreement between Piedmont and United dated September 29, 2017.

At closing, the Company and Piedmont paid United $3.4 million toward the settlement amount for the United Exchange Transaction, representing an estimate of (i) the difference between the value of the United Distribution Business acquired by the Company and the value of the Florence and Laurel Distribution Business acquired by United, plus (ii) the difference between the value of the portion of the Bluffton, South Carolina territory acquired by Piedmont and the value of the Northeastern Georgia Distribution Business acquired by United. During the third quarter of 2018, all post-closing adjustments were finalized for the United Exchange Transaction, resulting in an increase of $2.8 million in the settlement amount, which was included in accounts payable, trade in the consolidated condensed balance sheet as of September 30, 2018. The Company anticipates this balance will be paid to United during the fourth quarter of 2018.

Collectively, the CCR Exchange Transaction, the Memphis Transaction and the United Exchange Transaction are the "October 2017 Transactions," the CCR Exchange Business, the Memphis Territory and the United Distribution Business are the "October 2017 Acquisitions" and the Deep South and Somerset Exchange Business and the Florence and Laurel Distribution Business are the "October 2017 Divestitures."

In addition to the October 2017 Transactions summarized above, the Company completed three additional System Transformation Transactions with CCR in 2017 for which all post-closing adjustments have been completed: (i) the acquisition from CCR of distribution rights and related assets for territories in Anderson, Fort Wayne, Lafayette, South Bend and Terre Haute, Indiana on January 27, 2017 (the "January 2017 Transaction"), (ii) the acquisition from CCR of distribution rights and related assets for territories in Indianapolis and Bloomington, Indiana and Columbus and Mansfield, Ohio and regional manufacturing facilities and related assets located in Indianapolis and Portland, Indiana on March 31, 2017 (the "March 2017 Transactions"), and (iii) the acquisition from CCR of distribution rights and related assets for territories in Akron, Elyria, Toledo, Willoughby and Youngstown, Ohio and a regional manufacturing facility and related assets located in Twinsburg, Ohio on April 28, 2017 (the "April 2017 Transactions").

Post-closing adjustments for the January 2017 Transaction and the March 2017 Transactions were completed during 2017 and post-closing adjustments for the April 2017 Transactions were completed during the second quarter of 2018. During the fourth quarter of 2017, the cash purchase price for the April 2017 Transactions decreased by $4.7 million as a result of net working capital and other fair value adjustments, which was paid to the Company by The Coca Cola Company during the second quarter of 2018.

The fair value of acquired assets and assumed liabilities of the System Transformation Transactions that closed during 2017 (the "2017 System Transformation Transactions"), as of the acquisition dates, is summarized as follows:

(in thousands)	January 2017 Transaction	March 2017 Transactions	April 2017 Transactions	October 2017 Acquisitions	Total 2017 System Transformation Transactions Acquisitions
Cash	$ 107	$ 211	$ 103	$ 191	$ 612

Inventories	5,953	20,952	14,554	14,850	56,309
Prepaid expenses and other current assets	1,155	5,117	4,068	4,573	14,913
Accounts receivable from The Coca-Cola Company	1,042	1,807	2,552	1,447	6,848
Property, plant and equipment	25,708	81,638	52,263	71,589	231,198
Other assets (including deferred taxes)	1,158	3,227	3,960	1,300	9,645
Goodwill	1,544	2,527	16,941	11,442	32,454
Distribution agreements	22,000	46,750	19,500	129,450	217,700
Customer lists	1,500	1,750	1,000	4,950	9,200
Total acquired assets	$ 60,167	$ 163,979	$ 114,941	$ 239,792	$ 578,879
Current liabilities (acquisition related contingent consideration)	$ 1,350	$ 2,958	$ 1,475	$ 1,501	$ 7,284
Other current liabilities	324	3,760	2,860	8,311	15,255
Other liabilities (acquisition related contingent consideration)	26,377	49,739	25,616	20,676	122,408
Other liabilities	43	2,953	1,792	102	4,890
Total assumed liabilities	$ 28,094	$ 59,410	$ 31,743	$ 30,590	$ 149,837

The fair value of acquired assets and assumed liabilities in the October 2017 Acquisitions as of the acquisition date is summarized as follows:

(in thousands)	CCR Exchange Business	Memphis Territory	United Exchange Business	Total October 2017 Acquisitions
Cash	$ 91	$ 100	$ -	$ 191
Inventories	10,667	3,354	829	14,850
Prepaid expenses and other current assets	3,172	1,087	314	4,573
Accounts receivable from The Coca-Cola Company	674	563	210	1,447
Property, plant and equipment	47,484	21,321	2,784	71,589
Other assets (including deferred taxes)	753	547	-	1,300
Goodwill	3,546	5,199	2,697	11,442
Distribution agreements	80,100	35,400	13,950	129,450
Customer lists	3,200	1,200	550	4,950
Total acquired assets	$ 149,687	$ 68,771	$ 21,334	$ 239,792
Current liabilities (acquisition related contingent consideration)	$ -	$ 1,501	$ -	$ 1,501
Other current liabilities	3,497	4,323	491	8,311
Other liabilities (acquisition related contingent consideration)	-	20,676	-	20,676
Other liabilities	15	87	-	102
Total assumed liabilities	$ 3,512	$ 26,587	$ 491	$ 30,590

The goodwill for the 2017 System Transformation Transactions is included in the Nonalcoholic Beverages segment and is primarily attributed to operational synergies and the workforce acquired. Goodwill of $11.4 million, $3.5 million, $8.6 million and $2.7 million is expected to be deductible for tax purposes for the April 2017 Transactions, the CCR Exchange Business, the Memphis Territory and the United Exchange Business, respectively. No goodwill is expected to be deductible for tax purposes for the January 2017 Transaction or the March 2017 Transactions.

The carrying value of assets and liabilities divested in the October 2017 Divestitures is summarized as follows:

(in thousands)	October 2017 Divestitures
Cash	$ 303
Inventories	13,717
Prepaid expenses and other current assets	1,199
Property, plant and equipment	44,380
Other assets (including deferred taxes)	604

Goodwill	13,073
Distribution agreements	65,043
Total divested assets	$ 138,319
Other current liabilities	$ 5,683
Pension and postretirement benefit obligation	16,855
Total divested liabilities	$ 22,538

The October 2017 Divestitures were recorded in the Company's Nonalcoholic Beverages segment prior to divestiture.

System Transformation Transactions Financial Results

The financial results of the System Transformation Transactions have been included in the Company's consolidated condensed financial statements from their respective acquisition or exchange dates. Net sales and income from operations for certain territories and regional manufacturing facilities acquired and divested by the Company during 2017 are impracticable to separately calculate, as the operations were absorbed into territories and facilities owned by the Company prior to the System Transformation, and therefore have been omitted from the results below. Omission of net sales and income from operations for such territories and facilities is not considered material to the results presented below. The remaining 2017 System Transformation Transactions contributed the following amounts to the Company's consolidated condensed statements of operations:

	Third Quarter		First Three Quarters	
(in thousands)	2018	2017	2018	2017
Impact to net sales - total 2017 System Transformation Transactions acquisitions	$308,825	$221,034	$896,179	$454,174
Impact to net sales - October 2017 Divestitures	-	79,032	-	231,301
Total impact to net sales	$308,825	$300,066	$896,179	$685,475
Impact to income from operations - total 2017 System Transformation Transactions acquisitions	$11,874	$3,176	$14,635	$13,595
Impact to income from operations - October 2017 Divestitures	-	7,689	-	22,973
Total impact to income from operations	$11,874	$10,865	$14,635	$36,568

The Company incurred transaction related expenses for the System Transformation Transactions of $5.6 million in the first three quarters of 2017, which were included within S,D&A expenses on the consolidated condensed statements of operations.

System Transformation Transactions Pro Forma Financial Information

The purpose of the pro forma disclosure is to present the net sales and the income from operations of the combined entity as though the 2017 System Transformation Transactions had occurred as of the beginning of 2017. The pro forma combined net sales and income from operations do not necessarily reflect what the combined Company's net sales and income from operations would have been had the acquisitions occurred at the beginning of 2017. The pro forma financial information also may not be useful in predicting the future financial results of the combined company. The actual results may differ significantly from the pro forma amounts reflected herein due to a variety of factors.

The following table represents the Company's unaudited pro forma net sales and unaudited pro forma income from operations for the 2017 System Transformation Transactions.

	Third Quarter 2017		First Three Quarters 2017	
(in thousands)	Net Sales	Income from Operations	Net Sales	Income from Operations
Balance as reported	$1,162,526	$ 37,472	$3,197,519	$ 101,077
Pro forma adjustments (unaudited)	1,754	55	231,183	4,262

Balance including pro forma adjustments (unaudited)	$1,164,280	$ 37,527	$3,428,702	$ 105,339

The net sales pro forma and the income from operations pro forma reflect adjustments for (i) the inclusion of historic results of operations for the distribution territories and the regional manufacturing facilities acquired in the System Transformation Transactions for the period prior to the Company's acquisition of the applicable territories or facility, for each period presented and (ii) the elimination of historic results of operations for the October 2017 Divestitures.

4.Inventories

Inventories consisted of the following:

(in thousands)	September 30, 2018	December 31, 2017
Finished products	$ 156,669	$ 116,354
Manufacturing materials	35,703	33,073
Plastic shells, plastic pallets and other inventories	37,520	34,191
Total inventories	$ 229,892	$ 183,618

5.Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consisted of the following:

(in thousands)	September 30, 2018	December 31, 2017
Repair parts	$ 29,535	$ 30,530
Current portion of income taxes	22,896	35,930
Prepaid software	5,786	5,855
Prepayments for sponsorship contracts	5,644	6,358
Commodity hedges at fair market value	1,047	4,420
Other prepaid expenses and other current assets	26,606	17,553
Total prepaid expenses and other current assets	$ 91,514	$ 100,646

6.Property, Plant and Equipment, Net

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

(in thousands)	September 30, 2018	December 31, 2017	Estimated Useful Lives
Land	$ 78,478	$ 78,825	
Buildings	216,821	211,308	8-50 years
Machinery and equipment	320,447	315,117	5-20 years
Transportation equipment	373,426	351,479	4-20 years
Furniture and fixtures	92,000	89,559	3-10 years
Cold drink dispensing equipment	497,008	488,208	5-17 years
Leasehold and land improvements	130,257	125,348	5-20 years
Software for internal use	120,767	113,490	3-10 years
Construction in progress	13,524	25,490	
Total property, plant and equipment, at cost	1,842,728	1,798,824	
Less: Accumulated depreciation and amortization	844,611	767,436	
Property, plant and equipment, net	$ 998,117	$ 1,031,388	

Depreciation expense, which includes amortization expense for leased property under capital leases, was $123.5 million in the first three quarters of 2018 and $108.7 million in the first three quarters of 2017.

7.Goodwill

A reconciliation of the activity for goodwill for the first three quarters of 2018 and the first three quarters of 2017 is as follows:

	First Three Quarters	
(in thousands)	2018	2017
Beginning balance - goodwill	$169,316	$144,586
System Transformation Transactions acquisitions	-	19,035
Measurement period adjustments[1]	(3,413)	1,807
Balance held for sale[2]	-	(12,727)
Ending balance - goodwill	$165,903	$152,701

[1] Measurement period adjustments relate to post-closing adjustments made in accordance with the terms and conditions of the applicable asset purchase agreement or asset exchange agreement for each System Transformation Transaction. See Note 3 to the consolidated condensed financial statements for additional information on the System Transformation Transactions.

[2] Goodwill of $12.7 million related to the October 2017 Divestitures was classified as held for sale as of October 1, 2017.

The Company's goodwill resides entirely within the Nonalcoholic Beverages segment. The Company performs its annual impairment test of goodwill as of the first day of the fourth quarter of each fiscal year. During the first three quarters of 2018, the Company did not experience any triggering events or changes in circumstances indicating the carrying amounts of the Company's goodwill exceeded fair values.

8.Distribution Agreements, Net

Distribution agreements, net, which are amortized on a straight line basis and have an estimated useful life of 20 to 40 years, consisted of the following:

(in thousands)	September 30, 2018	December 31, 2017
Distribution agreements at cost	$ 945,895	$ 939,527
Less: Accumulated amortization	(44,064)	(26,175)
Distribution agreements, net	$ 901,831	$ 913,352

A reconciliation of the activity for distribution agreements, net for the first three quarters of 2018 and the first three quarters of 2017 is as follows:

	First Three Quarters	
(in thousands)	2018	2017
Beginning balance - distribution agreements, net	$913,352	$234,988
Conversion to distribution rights from franchise rights[1]	-	533,040
System Transformation Transactions acquisitions	-	36,800
Measurement period adjustment[2]	4,700	-
Other distribution agreements	1,668	44
Additional accumulated amortization	(17,889)	(11,774)
Balance held for sale[3]	-	(63,321)
Ending balance - distribution agreements, net	$901,831	$729,777

(1) In connection with the closing of the March 2017 Transactions, the Company, The Coca-Cola Company and CCR entered into a comprehensive beverage agreement (as amended, the "CBA") on March 31, 2017, and concurrently converted the Company's franchise rights within the territories in which the Company distributed Coca Cola products prior to beginning the System Transformation to distribution agreements, net on the consolidated condensed financial statements. Prior to this conversion, the Company's franchise rights resided entirely within the Nonalcoholic Beverages segment.

(2) Measurement period adjustment relates to post-closing adjustments made in relation to the Memphis Transaction in accordance with the terms and conditions of the September 2017 APA. The adjustment to amortization expense associated with this measurement period adjustment was not material to the consolidated condensed financial statements. See Note 3 to the consolidated condensed financial statements for additional information on the System Transformation Transactions.

(3) Distribution agreements, net of $63.3 million related to the October 2017 Divestitures was classified as held for sale as of October 1, 2017.

9.Customer Lists and Other Identifiable Intangible Assets, Net

Customer lists and other identifiable intangible assets, net, which are amortized on a straight line basis and have an estimated useful life of 12 to 20 years, consisted of the following:

(in thousands)	September 30, 2018	December 31, 2017
Customer lists and other identifiable intangible assets at cost	$ 25,288	$ 25,288
Less: Accumulated amortization	(8,347)	(6,968)
Customer lists and other identifiable intangible assets, net	$ 16,941	$ 18,320

A reconciliation of the activity for customer lists and other identifiable intangible assets, net for the first three quarters of 2018 and the first three quarters of 2017 is as follows:

	First Three Quarters	
(in thousands)	2018	2017
Beginning balance - customer lists and other identifiable intangible assets, net	$18,320	$10,427
System Transformation Transactions acquisitions	-	3,800
Additional accumulated amortization	(1,379)	(965)
Ending balance - customer lists and other identifiable intangible assets, net	$16,941	$13,262

10.Other Accrued Liabilities

Other accrued liabilities consisted of the following:

(in thousands)	September 30, 2018	December 31, 2017
Accrued insurance costs	$ 39,299	$ 35,433
Employee and retiree benefit plan accruals	25,950	27,024
Accrued marketing costs	25,875	33,376
Current portion of acquisition related contingent consideration	25,306	23,339
Checks and transfers yet to be presented for payment from zero balance cash accounts	11,900	37,262
Accrued taxes (other than income taxes)	5,811	6,391
Current deferred proceeds from Territory Conversion Fee[(1)]	2,286	2,286
All other accrued expenses	17,182	20,419
Total other accrued liabilities	$ 153,609	$ 185,530

[(1)] Pursuant to a territory conversion agreement entered into by the Company, The Coca Cola Company and CCR in September 2015 (as amended), upon the conversion of the Company’s then-existing bottling agreements to the CBA on March 31, 2017, the Company received a one-time fee from CCR, which, after final adjustments made during the second quarter of 2017, totaled $91.5 million (the “Territory Conversion Fee”). The Territory Conversion Fee was recorded as a deferred liability and will be amortized as a reduction to cost of sales over a period of 40 years. The portion of the deferred liability that is expected to be amortized in the next twelve months was classified as current.

11.Debt

Following is a summary of the Company’s debt:

(in thousands)	Maturity Date	Interest Rate	Interest Paid	Public / Non-public	September 30, 2018	December 31, 2017
Senior Notes[(1)]	4/15/2019	7.00%	Semi-annually	Public	$ 110,000	$ 110,000
Term Loan Facility[(1)]	6/7/2021	Variable	Varies	Non-public	292,500	300,000
Senior Notes	2/27/2023	3.28%	Semi-annually	Non-public	125,000	125,000
Revolving Credit Facility	6/8/2023	Variable	Varies	Non-public	170,000	207,000
Senior Notes	11/25/2025	3.80%	Semi-annually	Public	350,000	350,000
Senior Notes	3/21/2030	3.96%	Quarterly	Non-public	150,000	-
Unamortized discount on Senior Notes	4/15/2019				(143)	(332)
Unamortized discount on Senior Notes	11/25/2025				(63)	(70)

Debt issuance costs	(3,185)	(3,580)
Total debt	1,194,109	1,088,018
Less: Current portion of debt	-	-
Long-term debt	$1,194,109	$1,088,018

(1) Pursuant to the Company's Term Loan Facility (as defined below) and the indenture under which the senior notes due in 2019 were issued, principal payments will be due in the next twelve months. The Company intends to refinance these amounts and has the capacity to do so under its Revolving Credit Facility (as defined below), which is classified as long-term debt. As such, any amounts due in the next twelve months were classified as non-current.

The Company had capital lease obligations of $37.3 million on September 30, 2018 and $43.5 million on December 31, 2017. The Company mitigates its financing risk by using multiple financial institutions and only entering into credit arrangements with institutions with investment grade credit ratings. The Company monitors counterparty credit ratings on an ongoing basis.

On June 8, 2018, the Company entered into a second amended and restated credit agreement for a five-year unsecured revolving credit facility (as amended, the "Revolving Credit Facility"), which amended and restated its prior credit agreement dated October 16, 2014. The Revolving Credit Facility has an aggregate maximum borrowing capacity of $500 million, which may be increased at the Company's option to $750 million, subject to obtaining commitments from the lenders and satisfying other conditions specified in the credit agreement. Borrowings under the Revolving Credit Facility bear interest at a floating base rate or a floating Eurodollar rate plus an applicable margin, at the Company's option, dependent on the Company's credit ratings at the time of borrowing. At the

Company's current credit ratings, the Company must pay an annual facility fee of 0.15% of the lenders' aggregate commitments under the Revolving Credit Facility. The Revolving Credit Facility has a scheduled maturity date of June 8, 2023.

On March 21, 2018, the Company sold $150 million aggregate principal amount of senior unsecured notes due 2030 to NYL Investors LLC ("NYL") and certain of its affiliates pursuant to the Note Purchase and Private Shelf Agreement dated March 6, 2018 between the Company, NYL and the other parties thereto (as amended, the "NYL Shelf Facility"). These notes bear interest at 3.96%, payable quarterly in arrears on March 21, June 21, September 21 and December 21 of each year, and will mature on March 21, 2030, unless earlier redeemed by the Company.

In February 2017, the Company sold $125 million aggregate principal amount of senior unsecured notes due 2023 to PGIM, Inc. ("Prudential") and certain of its affiliates pursuant to the Note Purchase and Private Shelf Agreement dated June 10, 2016 between the Company, Prudential and the other parties thereto (as amended, the "Prudential Shelf Facility"). These notes bear interest at 3.28%, payable semi-annually in arrears on February 27 and August 27 of each year, and will mature on February 27, 2023 unless earlier redeemed by the Company. The Company may request that Prudential consider the purchase of additional senior unsecured notes of the Company under the Prudential Shelf Facility in an aggregate principal amount of up to $175 million.

In June 2016, the Company entered into a five-year term loan agreement for a senior unsecured term loan facility (as amended, the "Term Loan Facility") in the aggregate principal amount of $300 million, maturing June 7, 2021. The Company may request additional term loans under the agreement, provided the Company's aggregate borrowings under the Term Loan Facility do not exceed $500 million. Borrowings under the Term Loan Facility bear interest at a floating base rate or a floating Eurodollar rate plus an applicable margin, at the Company's option, dependent on the Company's credit ratings.

During the third quarter of 2018, the Company amended each of the Revolving Credit Facility, the NYL Shelf Facility, the Prudential Shelf Facility and the Term Loan Facility to (i) align the calculation of the two financial covenants and certain events of default under each agreement and (ii) with regard to the Term Loan Facility, to revise the calculation of the rates at which borrowings bear interest to conform with the calculation of such rates under the Revolving Credit Facility.

The Revolving Credit Facility, the NYL Shelf Facility, the Prudential Shelf Facility and the Term Loan Facility include two financial covenants: a consolidated cash flow/fixed charges ratio and a consolidated funded indebtedness/cash flow ratio, each as defined in the respective agreements. The Company was in compliance with these covenants as of September 30, 2018. These covenants do not currently, and the Company does not anticipate they will, restrict its liquidity or capital resources.

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

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

12.Derivative Financial Instruments

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

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

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

(in thousands)	Classification of Gain (Loss)	Third Quarter 2018	Third Quarter 2017	First Three Quarters 2018	First Three Quarters 2017
Commodity hedges	Cost of sales	$(260)	$2,042	$(2,776)	$2,066
Commodity hedges	Selling, delivery and administrative expenses	(209)	1,359	(363)	475
Total gain (loss)		$(469)	$3,401	$(3,139)	$2,541

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

(in thousands)	Balance Sheet Classification	September 30, 2018	December 31, 2017
Assets:			
Commodity hedges at fair market value	Prepaid expenses and other current assets	$ 1,047	$ 4,420
Commodity hedges at fair market value	Other assets	234	-
Total assets		$ 1,281	$ 4,420

The Company has master agreements with the counterparties to its derivative financial agreements that provide for net settlement of derivative transactions. Accordingly, the net amounts of derivative assets are recognized in either prepaid expenses and other current assets or other assets in the Company's consolidated condensed balance sheets and the net amounts of derivative liabilities are recognized in other accrued liabilities or other liabilities in the consolidated condensed balance sheets. The following table summarizes the Company's gross derivative assets and gross derivative liabilities in the consolidated condensed balance sheets:

(in thousands)	September 30, 2018	December 31, 2017
Gross derivative assets	$ 15,633	$ 4,481
Gross derivative liabilities	14,352	61

The following table summarizes the Company's outstanding commodity derivative agreements:

(in thousands)	September 30, 2018	December 31, 2017
Notional amount of outstanding commodity derivative agreements	$ 143,282	$ 59,564
Latest maturity date of outstanding commodity derivative agreements		

	December 2019	December 2018

13.Fair Values of Financial Instruments

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

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

The following methods and assumptions were used by the Company in estimating the fair values of its financial instruments. There were no transfers of assets or liabilities between levels in any period presented.

Financial Instrument	Fair Value Level	Method and Assumptions
Deferred compensation plan assets and liabilities	Level 1	The fair value of the Company’s non-qualified deferred compensation plan for certain executives and other highly compensated employees is based on the fair values of associated assets and liabilities, which are held in mutual funds and are based on the quoted market value of the securities held within the mutual funds.
Commodity hedging agreements	Level 2	The fair values of the Company’s commodity hedging agreements are based on current settlement values at each balance sheet date. The fair values of the commodity hedging agreements at each balance sheet date represent the estimated amounts the Company would have received or paid upon termination of these agreements. The Company’s credit risk related to the derivative financial instruments is managed by requiring high standards for its counterparties and periodic settlements. The Company considers nonperformance risk in determining the fair value of derivative financial instruments.
Non-public variable rate debt	Level 2	The carrying amounts of the Company’s non-public variable rate debt approximate their fair values due to variable interest rates with short reset periods.
Non-public fixed rate debt	Level 2	The fair values of the Company’s non-public fixed rate debt are based on estimated current market prices.
Public debt securities	Level 2	The fair values of the Company’s public debt securities are based on estimated current market prices.
Acquisition related contingent consideration	Level 3	The fair values of acquisition related contingent consideration are based on internal forecasts and the weighted average cost of capital (“WACC”) derived from market data.

The following tables summarize, by assets and liabilities, the carrying amounts and fair values by level of the Company’s deferred compensation plan, commodity hedging agreements, debt and acquisition related contingent consideration:

	September 30, 2018				
(in thousands)	Carrying Amount	Total Fair Value	Fair Value Level 1	Fair Value Level 2	Fair Value Level 3
Assets:					
Deferred compensation plan assets	$36,291	$36,291	$36,291	$-	$-
Commodity hedging agreements	1,281	1,281	-	1,281	-
Liabilities:					
Deferred compensation plan liabilities	36,291	36,291	36,291	-	-
Non-public variable rate debt	462,031	462,500	-	462,500	-
Non-public fixed rate debt	274,697	256,200	-	256,200	-

Public debt securities	457,381	457,800	-	457,800	-
Acquisition related contingent consideration	363,836	363,836	-	-	363,836

	December 31, 2017				
(in thousands)	Carrying Amount	Total Fair Value	Fair Value Level 1	Fair Value Level 2	Fair Value Level 3
Assets:					
Deferred compensation plan assets	$33,166	$33,166	$33,166	$-	$-
Commodity hedging agreements	4,420	4,420	-	4,420	-
Liabilities:					
Deferred compensation plan liabilities	33,166	33,166	33,166	-	-
Non-public variable rate debt	506,398	507,000	-	507,000	-
Non-public fixed rate debt	124,829	126,400	-	126,400	-
Public debt securities	456,791	475,100	-	475,100	-
Acquisition related contingent consideration	381,291	381,291	-	-	381,291

Under the CBA, the Company is required to make quarterly sub-bottling payments to CCR on a continuing basis for the grant of exclusive rights to distribute, promote, market and sell specified covered beverages and beverage products in the distribution territories acquired in the System Transformation, excluding territories the Company acquired in an exchange transaction. This acquisition related contingent consideration is valued using a probability weighted discounted cash flow model based on internal forecasts and the WACC derived from market data, which are considered Level 3 inputs. Each reporting period, the Company adjusts its acquisition related contingent consideration liability related to the distribution territories to fair value by discounting future expected sub-bottling payments required under the CBA using the Company's estimated WACC.

These future expected sub-bottling payments extend through the life of the related distribution assets acquired in each distribution territory, which is generally 40 years. As a result, the fair value of the acquisition related contingent consideration liability is impacted by the Company's WACC, management's estimate of the amounts that will be paid in the future under the CBA, and current sub-bottling payments (all Level 3 inputs). Changes in any of these Level 3 inputs, particularly the underlying risk-free interest rate used to estimate the Company's WACC, could result in material changes to the fair value of the acquisition related contingent consideration and could materially impact the amount of noncash expense (or income) recorded each reporting period.

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

	Third Quarter		First Three Quarters	
(in thousands)	2018	2017	2018	2017
Beginning balance - Level 3 liability	$374,537	$319,102	$381,291	$253,437
Increase due to System Transformation Transactions acquisitions	-	-	-	46,086
Measurement period adjustments[1]	(1,279)	-	813	-
Payment of acquisition related contingent consideration	(7,049)	(5,094)	(18,312)	(11,650)
Reclassification to current payables	-	150	(1,540)	(2,080)
(Favorable)/unfavorable fair value adjustment	(2,373)	(5,225)	1,584	23,140
Ending balance - Level 3 liability	$363,836	$308,933	$363,836	$308,933

(1) Measurement period adjustments relate to post-closing adjustments made in relation to the April 2017 Transactions and the October 2017 Transactions in accordance with the terms and conditions of the applicable asset purchase agreement or asset exchange agreement. See Note 3 to the consolidated condensed financial statements for additional information on the System Transformation Transactions.

The fair value adjustments to the acquisition related contingent consideration liability during the first three quarters of 2018 were primarily driven by changes to the risk-free interest rate and the projected future operating results of the distribution territories acquired as part of the System Transformation subject to sub-bottling fees, partially offset by cash payments. The fair value adjustments to the acquisition related contingent consideration liability during the first three quarters of 2017 were primarily driven by a change in the risk-free interest rate. These adjustments were recorded in other income (expense), net in the consolidated condensed statements of operations.

The anticipated amount the Company could pay annually under the acquisition related contingent consideration arrangements for the System Transformation Transactions is expected to be in the range of $25 million to $47 million.

14.Other Liabilities

Other liabilities consisted of the following:

(in thousands)	September 30, 2018	December 31, 2017
Non-current portion of acquisition related contingent consideration	$ 338,530	$ 357,952
Accruals for executive benefit plans	128,079	125,791
Non-current deferred proceeds from Territory Conversion Fee	85,734	87,449
Non-current deferred proceeds from Legacy Facilities Credit[1]	30,568	29,881
Other	17,399	19,506
Total other liabilities	$ 600,310	$ 620,579

[1] In December 2017, The Coca Cola Company agreed to provide the Company a one-time fee, which, after final adjustments made during the third quarter of 2018, totaled $44.3 million (the “Legacy Facilities Credit”). The Legacy Facilities Credit compensated the Company for the net economic impact of changes made by The Coca Cola Company to the authorized pricing on sales of covered beverages produced at the manufacturing facilities owned by Company prior to the System Transformation and sold to The Coca Cola Company and certain U.S. Coca Cola bottlers pursuant to new pricing mechanisms included in the regional

manufacturing agreement entered into by the Company and The Coca Cola Company on March 31, 2017, as amended. The Company immediately recognized the portion of the Legacy Facilities Credit applicable to a regional manufacturing facility in Mobile, Alabama which the Company transferred to CCR as part of the CCR Exchange Transaction. The remaining balance of the Legacy Facilities Credit will be amortized as a reduction to cost of sales over a period of 40 years.

15.Commitments and Contingencies

Manufacturing Cooperatives

The Company is a shareholder of South Atlantic Canners, Inc. (“SAC”), a manufacturing cooperative in Bishopville, South Carolina. All of SAC’s shareholders are Coca Cola bottlers and each has equal voting rights. The Company accounts for SAC as an equity method investment. The Company receives a fee for managing the day-to-day operations of SAC pursuant to a management agreement. Proceeds from management fees received from SAC were $6.8 million in the first three quarters of 2018 and $6.9 million in the first three quarters of 2017.

The Company is obligated to purchase 17.5 million cases of finished product from SAC on an annual basis through June 2024. The Company purchased 22.2 million cases and 22.6 million cases of finished product from SAC in the first three quarters of 2018 and the first three quarters of 2017, respectively.

The Company is also a shareholder of Southeastern Container (“Southeastern”), a plastic bottle manufacturing cooperative from which the Company is obligated to purchase at least 80% of its requirements of plastic bottles for certain designated territories. The Company accounts for Southeastern as an equity method investment.

The following table summarizes the Company’s purchases from these manufacturing cooperatives:

	Third Quarter		First Three Quarters	
(in thousands)	2018	2017	2018	2017
Purchases from SAC	$38,569	$37,267	$117,729	$111,408
Purchases from Southeastern	32,379	29,344	92,613	80,301
Total purchases from manufacturing cooperatives	$70,948	$66,611	$210,342	$191,709

The Company guarantees a portion of SAC’s debt, which expires at various dates through 2021. The amounts guaranteed were $23.9 million as of both September 30, 2018 and December 31, 2017. The Company does not anticipate SAC will fail to fulfill its commitment related to the debt. The Company further believes SAC has sufficient assets, including production equipment, facilities and working capital, and the ability to adjust selling prices of its products to adequately mitigate the risk of material loss from the Company's guarantee.

In the event SAC fails to fulfill its commitments under the related debt, the Company would be responsible for payments to the lenders up to the level of the guarantee. The following table summarizes the Company's maximum exposure under this guarantee if SAC had borrowed up to its aggregate borrowing capacity:

(in thousands)	September 30, 2018
Maximum guaranteed debt	$ 23,938
Equity investments[1]	8,175
Maximum total exposure, including equity investments	$ 32,113

[1] Recorded in other assets on the Company's consolidated condensed balance sheets.

The Company holds no assets as collateral against the SAC guarantee, the fair value of which is immaterial to the Company's consolidated condensed financial statements. The Company monitors its investments in SAC and would be required to write down its investment if an impairment was identified and the Company determined it to be other than temporary. No impairment of the Company's investments in SAC was identified as of September 30, 2018, and there was no impairment identified in 2017.

Other Commitments and Contingencies

The Company has standby letters of credit, primarily related to its property and casualty insurance programs. These letters of credit totaled $35.6 million as of both September 30, 2018 and December 31, 2017.

The Company participates in long-term marketing contractual arrangements with certain prestige properties, athletic venues and other locations. As of September 30, 2018, the future payments related to these contractual arrangements, which expire at various dates through 2033, amounted to $160.0 million.

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

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

16.Income Taxes

The Company’s effective income tax rate, as calculated by dividing income tax expense by income before income taxes, was 24.1% for the first three quarters of 2018 and 34.8% for the first three quarters of 2017. The decrease in the effective tax rate was primarily driven by the corporate rate reduction due to the Tax Act and its impact on prior estimates and lower income before income taxes, which was offset by an increase in certain non-deductible expenses.

The Company’s effective income tax rate, as calculated by dividing income tax expense by income before income taxes minus net income attributable to noncontrolling interest, was 32.5% for the first three quarters of 2018 and 38.8% for the first three quarters of 2017.

Shortly after the Tax Act was enacted, the SEC issued guidance under Staff Accounting Bulletin No. 118, Income Tax Accounting Implications of the Tax Cuts and Jobs Act (“SAB 118”) to address the application of GAAP and direct taxpayers to consider the impact of the Tax Act as “provisional” when a registrant does not have the necessary information available, prepared or analyzed (including computations) in reasonable detail to complete the accounting for the change in tax law. In accordance with SAB 118, the Company recognized a provisional tax benefit related to the re-measurement of its net deferred tax liability of $69.0 million as of December 31, 2017. During the third quarter of 2018, the Company recorded an additional provisional tax benefit of $1.9 million attributable to the re-measurement of its net deferred tax liability in connection with the filing of its 2017 federal income tax return.

The ultimate impact may differ from the provisional amounts, possibly materially, due to, among other things, the significant complexity of the Tax Act, anticipated additional regulatory guidance or related interpretations that may be issued by the Internal Revenue Service (the “IRS”), changes in accounting standards, legislative actions, future actions by states within the U.S. and changes in estimates, analysis, interpretations and assumptions made by the Company.

The Company had uncertain tax positions, including accrued interest, of $3.0 million on September 30, 2018 and $2.4 million on December 31, 2017, all of which would affect the Company’s effective tax rate if recognized. While it is expected the amount of uncertain tax positions may change in the next 12 months, the Company does not expect such change would have a significant impact on the consolidated condensed financial statements.

Prior tax years beginning in year 2002 remain open to examination by the IRS, and various tax years beginning in year 1998 remain open to examination by certain state tax jurisdictions.

17.Accumulated Other Comprehensive Income (Loss)

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

A summary of AOCI(L) for the third quarter of 2018 and the third quarter of 2017 is as follows:

(in thousands)	July 1, 2018	Pre-tax Activity	Tax Effect	September 30, 2018
Net pension activity:				
Actuarial loss	$(77,212)	$ 934	$(231)	$ (76,509)
Prior service costs	(34)	6	(2)	(30)
Net postretirement benefits activity:				
Actuarial loss	(22,767)	499	(123)	(22,391)
Prior service costs	1,048	(462)	114	700
Recognized loss due to October 2017 Divestitures[1]	6,220	-	-	6,220
Foreign currency translation adjustment	8	(2)	1	7
Total	$(92,737)	$ 975	$(241)	$ (92,003)

[1] Recognized loss due to the divestiture of the Deep South and Somerset Exchange Business and the Florence and Laurel Distribution Business during the fourth quarter of 2017.

(in thousands)	July 2, 2017	Pre-tax Activity	Tax Effect	October 1, 2017
Net pension activity:				
Actuarial loss	$(71,402)	$ 807	$(311)	$(70,906)
Prior service costs	(52)	7	(3)	(48)
Net postretirement benefits activity:				
Actuarial loss	(23,315)	648	(250)	(22,917)
Prior service costs	2,763	(745)	287	2,305
Foreign currency translation adjustment	5	11	(4)	12
Total	$(92,001)	$ 728	$(281)	$(91,554)

A summary of AOCI(L) for the first three quarters of 2018 and the first three quarters of 2017 is as follows:

(in thousands)	December 31, 2017	Pre-tax Activity	Tax Effect	September 30, 2018
Net pension activity:				
Actuarial loss	$(78,618)	$2,800	$(691)	$ (76,509)
Prior service costs	(43)	18	(5)	(30)
Net postretirement benefits activity:				
Actuarial loss	(23,519)	1,497	(369)	(22,391)
Prior service costs	1,744	(1,386)	342	700
Recognized loss due to October 2017 Divestitures[1]	6,220	-	-	6,220
Foreign currency translation adjustment	14	(10)	3	7
Total	$(94,202)	$2,919	$(720)	$ (92,003)

(1) Recognized loss due to the divestiture of the Deep South and Somerset Exchange Business and the Florence and Laurel Distribution Business during the fourth quarter of 2017.

(in thousands)	January 1, 2017	Pre-tax Activity	Tax Effect	October 1, 2017
Net pension activity:				
Actuarial loss	$(72,393)	$2,421	$(934)	$(70,906)
Prior service costs	(61)	21	(8)	(48)
Net postretirement benefits activity:				
Actuarial loss	(24,111)	1,944	(750)	(22,917)
Prior service costs	3,679	(2,237)	863	2,305
Foreign currency translation adjustment	(11)	37	(14)	12
Total	$(92,897)	$2,186	$(843)	$(91,554)

A summary of the impact of AOCI(L) on certain statements of operations line items is as follows:

	Third Quarter 2018			
(in thousands)	Net Pension Activity	Net Postretirement Benefits Activity	Foreign Currency Translation Adjustment	Total
Cost of sales	$217	$ 6	$ -	$223
Selling, delivery and administrative expenses	723	31	(2)	752
Subtotal pre-tax	940	37	(2)	975
Income tax expense	233	9	(1)	241
Total after tax effect	$707	$ 28	$ (1)	$734

	Third Quarter 2017			
(in thousands)	Net Pension Activity	Net Postretirement Benefits Activity	Foreign Currency Translation Adjustment	Total
Cost of sales	$171	$ (21)	$ -	$150
Selling, delivery and administrative expenses	643	(76)	11	578
Subtotal pre-tax	814	(97)	11	728
Income tax expense	314	(37)	4	281
Total after tax effect	$500	$ (60)	$ 7	$447

	First Three Quarters 2018			
(in thousands)	Net Pension Activity	Net Postretirement Benefits Activity	Foreign Currency Translation Adjustment	Total
Cost of sales	$648	$ 19	$ -	$667
Selling, delivery and administrative expenses	2,170	92	(10)	2,252
Subtotal pre-tax	2,818	111	(10)	2,919
Income tax expense	696	27	(3)	720
Total after tax effect	$2,122	$ 84	$ (7)	$2,199

	First Three Quarters 2017			
(in thousands)	Net Pension Activity	Net Postretirement Benefits Activity	Foreign Currency Translation Adjustment	Total

Cost of sales	$497	$ (64)	$ -	$433
Selling, delivery and administrative expenses	1,945	(230)	37	1,752
Subtotal pre-tax	2,442	(294)	37	2,185
Income tax expense	942	(114)	14	842
Total after tax effect	$1,500	$ (180)	$ 23	$1,343

18.Capital Transactions

During the first quarter of each year, the Compensation Committee of the Company’s Board of Directors (the “Committee”) determines whether any shares of the Company’s Class B Common Stock should be issued to J. Frank Harrison, III, in connection with his services for the prior year as Chairman of the Board of Directors and Chief Executive Officer of the Company, pursuant to a performance unit award agreement approved in 2008 (the “Performance Unit Award Agreement”). The Performance Unit Award Agreement expires at the end of 2018, with the final potential award to be issued in the first quarter of 2019 in connection with Mr. Harrison’s services during 2018.

As permitted under the terms of the Performance Unit Award Agreement, a number of shares were settled in cash in 2018 and 2017 to satisfy tax withholding obligations in connection with the vesting of the performance units. The remaining number of shares increased the total shares of Class B Common Stock outstanding. A summary of the awards issued in 2018 and 2017 is as follows:

	Fiscal Year	
	2018	2017
Date of approval for award	March 6, 2018	March 7, 2017
Fiscal year of service covered by award	2017	2016
Shares settled in cash to satisfy tax withholding obligations	16,504	18,980
Increase in Class B Common Stock shares outstanding	20,296	21,020
Total Class B Common Stock awarded	36,800	40,000

Compensation expense for the awards issued pursuant to the Performance Unit Award Agreement, recognized on the closing share price of the last trading day prior to the end of the fiscal period, was as follows:

	First Three Quarters	
(in thousands, except share price)	2018	2017
Total compensation expense	$4,494	$ 6,473
Share price for compensation expense	$182.28	$ 215.75
Share price date for compensation expense	September 28, 2018	September 29, 2017

During the second quarter of 2018, the Committee and the Company’s stockholders approved a long-term performance equity plan (the “Long-Term Performance Equity Plan”), which will compensate J. Frank Harrison, III based on the Company’s performance and will succeed the Performance Unit Award Agreement upon its expiration. Awards granted under the Long-Term Performance Equity Plan will be earned based on the Company’s attainment during a performance period of certain performance measures, each as specified by the Committee. These awards may be settled in cash and/or shares of Class B Common Stock, based on the average of the closing prices of shares of Common Stock during the last twenty trading days of the performance period. Compensation expense for the Long-Term Performance Equity Plan, which is included in S,D&A expenses on the consolidated condensed statements of operations, was $1.5 million for the first three quarters of 2018.

19.Pension and Postretirement Benefit Obligations

Pension Plans

There are two Company-sponsored pension plans. The primary Company-sponsored pension plan was frozen as of June 30, 2006 and no benefits accrued to participants after this date. The second Company-sponsored pension plan (the “Bargaining Plan”) is for certain employees under collective bargaining agreements. Benefits under the Bargaining Plan are determined in accordance with negotiated formulas for the respective participants. Contributions to the plans are based on actuarially determined amounts and are limited to the amounts currently deductible for income tax purposes.

The components of net periodic pension cost were as follows:

	Third Quarter		First Three Quarters	
(in thousands)	2018	2017	2018	2017
Service cost	$1,412	$150	$4,237	$450
Interest cost	2,856	2,978	8,568	8,936
Expected return on plan assets	(3,853)	(3,399)	(11,557)	(10,197)
Recognized net actuarial loss	934	807	2,800	2,421
Amortization of prior service cost	6	7	18	21
Net periodic pension cost	$1,355	$543	$4,066	$1,631

The Company contributed $20.0 million to the two Company sponsored pension plans during the third quarter of 2018 and does not anticipate making additional contributions during the fourth quarter of 2018.

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Postretirement Benefits

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

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

	Third Quarter		First Three Quarters	
(in thousands)	2018	2017	2018	2017
Service cost	$502	$572	$1,507	$1,716
Interest cost	696	910	2,088	2,732
Recognized net actuarial loss	499	648	1,497	1,944
Amortization of prior service cost	(462)	(745)	(1,386)	(2,237)
Net periodic postretirement benefit cost	$1,235	$1,385	$3,706	$4,155

Multi-Employer Benefits

Certain employees of the Company whose employment is covered under collective bargaining agreements participate in a multi-employer pension plan, the Employers-Teamsters Local Union Nos. 175 and 505 Pension Fund (the "Teamsters Plan"). The Company makes monthly contributions to the Teamsters Plan on behalf of such employees. The collective bargaining agreements covering the Teamsters Plan expire at various times by April 2020. The Company expects these agreements will be re-negotiated.

The risks of participating in the Teamsters Plan are different from single-employer plans as contributed assets are pooled and may be used to provide benefits to employees of other participating employers. If a participating employer stops contributing to the Teamsters Plan, the unfunded obligations of the Teamsters Plan may be borne by the remaining participating employers. If the Company chooses to stop participating in the Teamsters Plan, the Company could be required to pay the Teamsters Plan a withdrawal liability based on the underfunded status of the Teamsters Plan. The Company does not anticipate withdrawing from the Teamsters Plan.

In 2015, the Company increased its contribution rates to the Teamsters Plan, with additional increases occurring annually, as part of a rehabilitation plan, which was incorporated into the renewal of collective bargaining agreements with the unions effective April 28, 2014 and adopted by the Company as a rehabilitation plan effective January 1,

2015. This was a result of the Teamsters Plan being certified by its actuary as being in “critical” status for the plan year beginning January 1, 2013.

20.Related Party Transactions

The Coca Cola Company

The Company’s business consists primarily of the production, marketing and distribution of nonalcoholic beverages of The Coca Cola Company, which is the sole owner of the formulas under which the primary components of its soft drink products, either concentrate or syrup, are manufactured.

As of September 30, 2018, The Coca Cola Company owned approximately 27% of the Company’s total outstanding Common Stock and Class B Common Stock on a consolidated basis, representing approximately 5% of the total voting power of the Company’s Common Stock and Class B Common Stock voting together. As long as The Coca Cola Company holds the number of shares of Common Stock it currently owns, it has the right to have a designee proposed by the Company for nomination to the Company’s Board of Directors, and J. Frank Harrison, III, the Chairman of the Board and Chief Executive Officer of the Company, and trustees of certain trusts established for the benefit of certain relatives of J. Frank Harrison, Jr. have agreed to vote the shares of the Company’s Class B Common Stock which they control, representing approximately 86% of the total voting power of the Company’s combined Common Stock and Class B Common Stock, in favor of such designee. The Coca Cola Company does not own any shares of the Company’s Class B Common Stock.

The following table and the subsequent descriptions summarize the significant transactions between the Company and The Coca Cola Company:

	Third Quarter		First Three Quarters	
(in thousands)	2018	2017	2018	2017
Payments made by the Company to The Coca-Cola Company for:				
Concentrate, syrup, sweetener and other purchases	$341,949	$317,040	$904,244	$806,256
Customer marketing programs	34,005	27,855	110,062	102,095
Cold drink equipment parts	7,958	6,881	22,188	18,968
Glacéau distribution agreement consideration	-	-	-	15,598
Payments made by The Coca-Cola Company to the Company for:				
Proceeds from Territory Conversion Fee	$-	$-	$-	$87,066
Marketing funding support payments	22,632	22,074	65,325	62,235
Fountain delivery and equipment repair fees	10,199	9,286	29,899	26,138
Facilitating the distribution of certain brands and packages to other Coca-Cola bottlers	1,937	1,773	7,663	6,881
Presence marketing funding support on the Company's behalf	1,108	2,707	6,203	3,844
Cold drink equipment	-	-	3,789	8,400

Coca Cola Refreshments USA, Inc.

The Company previously had a production arrangement with CCR to buy and sell finished products at cost and transported products for CCR to the Company's and other Coca Cola bottlers' locations. Following the completion of the October 2017 Transactions discussed in Note 3, the Company no longer transacts with CCR other than making quarterly sub-bottling payments, as discussed below. The following table summarizes purchases and sales under these arrangements between the Company and CCR prior to the closing of the October 2017 Transactions:

	2017	
(in thousands)	Third Quarter	First Three Quarters
Purchases from CCR	$20,157	$110,451
Gross sales to CCR	11,873	72,930

Pursuant to the CBA, the Company is required to make quarterly sub-bottling payments to CCR on a continuing basis for the grant of exclusive rights to distribute, promote, market and sell the authorized brands of The Coca Cola Company and related products in the territories acquired in the System Transformation, excluding territories the Company acquired in an exchange transaction. These sub-bottling payments are based on gross profit derived from sales of certain beverages and beverage products that are sold under the same trademarks that identify a covered beverage, beverage product or certain cross-licensed brands. Sub-bottling payments to CCR were

$18.3 million during the first three quarters of 2018 and $11.7 million during the first three quarters of 2017. The following table summarizes the liability recorded by the Company to reflect the estimated fair value of contingent consideration related to future sub bottling payments to CCR:

(in thousands)	September 30, 2018	December 31, 2017
Current portion of acquisition related contingent consideration	$ 25,306	$ 23,339
Non-current portion of acquisition related contingent consideration	338,530	357,952
Total acquisition related contingent consideration	$ 363,836	$ 381,291

Glacéau Distribution Termination Agreement

On January 1, 2017, the Company obtained the rights to market, promote, distribute and sell glacéau vitaminwater, glacéau smartwater and glacéau vitaminwater zero drops in certain geographic territories including the District of Columbia and portions of Delaware, Maryland and Virginia, pursuant to an agreement entered into by the Company, The Coca Cola Company and CCR in June 2016. Pursuant to the agreement, the Company made a payment of $15.6 million to The Coca Cola Company during the first quarter of 2017, which represented a portion of the total payment made by The Coca Cola Company to terminate a distribution arrangement with a prior distributor in this territory.

Coca Cola Bottlers' Sales and Services Company, LLC ("CCBSS")

Along with all other Coca Cola bottlers in the United States, the Company is a member of CCBSS, a company formed in 2003 for the purpose of facilitating various procurement functions and distributing certain specified beverage products of The Coca Cola Company with the intention of enhancing the efficiency and competitiveness of the Coca Cola bottling system in the United States.

CCBSS negotiates the procurement for the majority of the Company's raw materials, excluding concentrate, and the Company receives a rebate from CCBSS for the purchase of these raw materials. The Company had rebates due from CCBSS of $13.9 million on September 30, 2018 and $11.2 million on December 31, 2017, which were classified as accounts receivable, other in the consolidated condensed balance sheets.

In addition, the Company pays an administrative fee to CCBSS for its services. The Company incurred administrative fees to CCBSS of $2.2 million in the first three quarters of 2018 and $2.0 million in the first three quarters of 2017, which were classified as S,D&A expenses in the consolidated condensed statements of operations.

National Product Supply Group ("NPSG")

The Company is a member of the NPSG, an organization comprised of The Coca Cola Company and other Coca Cola bottlers who are regional producing bottlers ("RPBs") in The Coca Cola Company's national product supply system, pursuant to a national product supply governance agreement executed in October 2015 with The Coca Cola Company and other RPBs (the "NPSG Governance Agreement"). The stated objectives of the NPSG include, among others, (i) Coca Cola system strategic infrastructure investment and divestment planning (ii) network optimization of all plant to distribution center sourcing and (iii) new product/packaging infrastructure planning.

Under the NPSG Governance Agreement, the NPSG members established certain governance mechanisms, including a governing board (the "NPSG Board") comprised of a representative of (i) the Company, (ii) The Coca Cola Company and (iii) each other RPB. As of September 30, 2018, the NPSG Board consisted of The Coca Cola Company, the Company and seven other RPBs. The NPSG Board makes and/or oversees and directs certain key decisions regarding the NPSG, including decisions regarding the management and staffing of the NPSG and the funding for its ongoing operations.

Pursuant to the decisions of the NPSG Board made from time to time and subject to the terms and conditions of the NPSG Governance Agreement, each RPB is required to make investments in its respective manufacturing assets and implement Coca Cola system strategic investment opportunities consistent with the NPSG Governance Agreement.

The Company is also obligated to pay a certain portion of the costs of operating the NPSG. The Company incurred NPSG operating costs of $0.9 million in the first three quarters of 2018 and $0.8 million in the first three quarters of 2017, which were classified as S,D&A expense in the consolidated condensed statements of operations.

CONA Services LLC (“CONA”)

The Company is a member of CONA, an entity formed with The Coca Cola Company and certain other Coca Cola bottlers pursuant to a limited liability company agreement executed in January 2016 (as amended, the “CONA LLC Agreement”) to provide business process and information technology services to its members.

Under the CONA LLC Agreement, the business and affairs of CONA are managed by a board of directors comprised of representatives of its members (the “CONA Board”). All directors are entitled to one vote, regardless of the percentage interest in CONA held by each member. The Company currently has the right to designate one of the members of the CONA Board and has a percentage interest in CONA of approximately 20%. Most matters to be decided by the CONA Board require approval by a majority of a quorum of the directors, provided that the approval of 80% of the directors is required to, among other things, require members to make additional capital contributions, approve CONA’s annual operating and capital budgets, and approve capital expenditures in excess of certain agreed upon amounts. Each CONA member is required to make capital contributions to CONA if and when approved by the CONA Board.

The Company made capital contributions to CONA of $2.1 million in the first three quarters of 2018 and $2.0 million in the first three quarters of 2017, which were classified as other assets in the consolidated condensed balance sheets. No CONA member may transfer its membership interest (or any portion thereof) except to a purchaser of the member’s bottling business (or any portion thereof) and as permitted under the member’s comprehensive beverage agreement with The Coca Cola Company.

The CONA LLC Agreement further provides that, if CCR grants any major North American Coca Cola bottler other than a CONA member rights to (i) manufacture, produce and package or (ii) market, promote, distribute and sell Coca Cola products, CCR will require the bottler to become a CONA member, to implement the CONA System in the bottler's operations and to enter into a master services agreement with CONA.

The Company is also party to an amended and restated master services agreement with CONA (the "CONA MSA"), pursuant to which CONA agreed to make available, and the Company became authorized to use, the Coke One North America system (the "CONA System"), a uniform information technology system developed to promote operational efficiency and uniformity among North American Coca Cola bottlers. As part of making the CONA System available, CONA provides the Company with certain business process and information technology services, including the planning, development, management and operation of the CONA System in connection with the Company's direct store delivery and manufacture of products (collectively, the "CONA Services").

The Company is also authorized under the CONA MSA to use the CONA System in connection with its distribution, promotion, marketing, sale and manufacture of beverages it is authorized to distribute or manufacture under the CBA, the Company's regional manufacturing agreement or any other agreement with The Coca Cola Company, subject to the provisions of the CONA LLC Agreement and any licenses or other agreements relating to products or services provided by third parties and used in connection with the CONA System.

In exchange for the Company's rights to use the CONA System and receive the CONA Services under the CONA MSA, it is charged service fees by CONA. Currently, the service fees are based on the number of physical cases of beverages the Company distributed or manufactured during the applicable period in the portion of its territories where the CONA Services have then been implemented.

Upon the earlier of (i) all members of CONA beginning to use the CONA System in all territories in which they distribute and manufacture Coca Cola products (excluding certain territories of CCR that are expected to be sold to bottlers that are neither members of CONA nor users of the CONA System), or (ii) December 31, 2018, the service fees will be changed to be an amount per physical case of beverages distributed or manufactured in any portion of the Company's territories equal to the aggregate costs incurred by CONA to maintain and operate the CONA System and provide the CONA Services divided by the total number of cases distributed or manufactured by all of the members of CONA, subject to certain exceptions and provided that the aggregate costs related to CONA's manufacturing functionality will be borne solely amongst the CONA members who have rights to manufacture beverages of The Coca Cola Company.

The Company is obligated to pay the service fees under the CONA MSA even if it is not using the CONA System for all or any portion of its distribution and manufacturing operations. The Company incurred CONA services fees of $15.5 million in the first three quarters of 2018 and $9.2 million in the first three quarters of 2017.

Related Party Leases

The Company leases its headquarters office facility and an adjacent office facility in Charlotte, North Carolina from Beacon Investment Corporation, of which J. Frank Harrison, III is the majority stockholder and Morgan H. Everett is a minority stockholder. The annual base rent the Company is obligated to pay under this lease agreement is subject to adjustment for increases in the Consumer Price Index and the lease expires on December 31, 2021.

The Company leases the Snyder Production Center and an adjacent sales facility in Charlotte, North Carolina from Harrison Limited Partnership One, which is directly and indirectly owned by trusts of which J. Frank Harrison, III, Chairman of the Board of Directors and Chief Executive Officer of the Company, and Sue Anne H. Wells, a director of the Company, are trustees and beneficiaries and of which Morgan H. Everett, Vice President and a director of the Company, is a permissible, discretionary beneficiary. The annual base rent the Company is obligated to pay under this lease agreement is subject to an adjustment for an inflation factor and the lease expires on December 31, 2020.

A summary of the principal balance outstanding under these related party capital leases is as follows:

(in thousands)	September 30, 2018	December 31, 2017
Company headquarters	$ 10,597	$ 12,771
Snyder Production Center	9,033	11,612

A summary of rental payments related to these capital leases is as follows:

(in thousands)	Third Quarter 2018	Third Quarter 2017	First Three Quarters 2018	First Three Quarters 2017
Company headquarters	$1,110	$1,091	$3,346	$3,294
Snyder Production Center	1,049	1,018	3,147	3,055

21.Net Income Per Share

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

(in thousands, except per share data)	Third Quarter 2018	Third Quarter 2017	First Three Quarters 2018	First Three Quarters 2017
Numerator for basic and diluted net income per Common Stock and Class B Common Stock share:				
Net income attributable to Coca-Cola Bottling Co. Consolidated	$25,164	$17,316	$7,046	$18,613
Less dividends:				
Common Stock	1,787	1,785	5,357	5,356
Class B Common Stock	556	548	1,657	1,639
Total undistributed earnings	$22,821	$14,983	$32	$11,618
Common Stock undistributed earnings – basic	$17,422	$11,463	24	$8,893
Class B Common Stock undistributed earnings – basic	5,399	3,520	8	2,725
Total undistributed earnings – basic	$22,821	$14,983	$32	$11,618
Common Stock undistributed earnings – diluted	$17,327	$11,414	24	$8,855
Class B Common Stock undistributed earnings – diluted	5,494	3,569	8	2,763
Total undistributed earnings – diluted	$22,821	$14,983	$32	$11,618
Numerator for basic net income per Common Stock share:				
Dividends on Common Stock	$1,787	$1,785	$5,357	$5,356
Common Stock undistributed earnings – basic	17,422	11,463	24	8,893
Numerator for basic net income per Common Stock share	$19,209	$13,248	$5,381	$14,249
Numerator for basic net income per Class B Common Stock share:				
Dividends on Class B Common Stock	$556	$548	$1,657	$1,639
Class B Common Stock undistributed earnings – basic	5,399	3,520	8	2,725
Numerator for basic net income per Class B Common Stock share	$5,955	$4,068	$1,665	$4,364

Numerator for diluted net income per Common Stock share:				
Dividends on Common Stock	$1,787	$1,785	$5,357	$5,356
Dividends on Class B Common Stock assumed converted to Common Stock	556	548	1,657	1,639
Common Stock undistributed earnings – diluted	22,821	14,983	32	11,618
Numerator for diluted net income per Common Stock share	$25,164	$17,316	$7,046	$18,613
Numerator for diluted net income per Class B Common Stock share:				
Dividends on Class B Common Stock	$556	$548	$1,657	$1,639
Class B Common Stock undistributed earnings – diluted	5,494	3,569	8	2,763
Numerator for diluted net income per Class B Common Stock share	$6,050	$4,117	$1,665	$4,402

(in thousands, except per share data)	Third Quarter 2018	Third Quarter 2017	First Three Quarters 2018	First Three Quarters 2017
Denominator for basic net income per Common Stock and Class B Common Stock share:				
Common Stock weighted average shares outstanding – basic	7,141	7,141	7,141	7,141
Class B Common Stock weighted average shares outstanding – basic	2,213	2,193	2,208	2,188
Denominator for diluted net income per Common Stock and Class B Common Stock share:				
Common Stock weighted average shares outstanding – diluted (assumes conversion of Class B Common Stock to Common Stock)	9,405	9,374	9,400	9,369
Class B Common Stock weighted average shares outstanding – diluted	2,264	2,233	2,259	2,228
Basic net income per share:				
Common Stock	$2.69	$1.86	$0.75	$2.00
Class B Common Stock	$2.69	$1.86	$0.75	$2.00
Diluted net income per share:				
Common Stock	$2.69	$1.85	$0.75	$1.99
Class B Common Stock	$2.68	$1.84	$0.74	$1.97

NOTES TO TABLE

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

22. Supplemental Disclosures of Cash Flow Information

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

(in thousands)	First Three Quarters 2018	First Three Quarters 2017
Accounts receivable, trade, net	$(34,899)	$(109,023)
Accounts receivable from The Coca-Cola Company	(2,083)	1,548
Accounts receivable, other	10,328	(8,308)

Inventories	(46,274)	(19,254)
Prepaid expenses and other current assets	8,951	(281)
Accounts payable, trade	3,749	67,058
Accounts payable to The Coca-Cola Company	(15,222)	45,722
Other accrued liabilities	(33,712)	7,924
Accrued compensation	(15,496)	(10,062)
Accrued interest payable	4,237	5,640
Change in current assets less current liabilities (exclusive of acquisitions)	$(120,421)	$(19,036)

23.Segments

The Company evaluates segment reporting in accordance with the FASB Accounting Standards Codification 280, Segment Reporting, each reporting period, including evaluating the reporting package reviewed by the Chief Operation Decision Maker ("CODM"). The Company has concluded the Chief Executive Officer, Chief Operating Officer and Chief Financial Officer, as a group, represent the CODM. In conjunction with the completion of the System Transformation Transactions in October 2017 and integration of acquired operations, management continues to assess whether changes are necessary to the Company's reportable segments.

The Company believes four operating segments exist. Nonalcoholic Beverages represents the vast majority of the Company's consolidated revenues, income from operations and assets. The additional three operating segments do not meet the quantitative thresholds for separate reporting, either individually or in the aggregate, and therefore have been combined into "All Other."

The Company's segment results are as follows:

	Third Quarter		First Three Quarters	
(in thousands)	2018	2017	2018	2017
Net sales:				
Nonalcoholic Beverages[1]	$1,180,212	$1,142,238	$3,427,492	$3,139,974
All Other[1]	93,493	81,439	273,490	220,734
Eliminations[2]	(62,044)	(61,151)	(189,985)	(163,189)
Consolidated net sales	$1,211,661	$1,162,526	$3,510,997	$3,197,519
Income from operations:				
Nonalcoholic Beverages	$39,361	$33,867	$32,705	$90,254
All Other	5,043	3,605	12,381	10,823
Consolidated income from operations	$44,404	$37,472	$45,086	$101,077
Depreciation and amortization:				
Nonalcoholic Beverages	$44,050	$41,151	$133,095	$114,166
All Other	2,539	2,095	7,401	6,127
Consolidated depreciation and amortization	$46,589	$43,246	$140,496	$120,293

(1) In order to correct an error in the prior year segment presentation, the Company revised net sales by $39.2 million for the third quarter of 2017 and $96.4 million for the first three quarters of 2017 to reflect sales in the Nonalcoholic Beverages segment which were previously attributed to All Other. Total net sales remain unchanged in prior periods and these revisions were not considered material to the prior periods presented.

(2) The entire net sales elimination for each period presented represents net sales from All Other to the Nonalcoholic Beverages segment. Sales between these segments are recognized at either fair market value or cost depending on the nature of the transaction.

Item 2. 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 of Coca Cola Bottling Co. Consolidated (together with its majority-owned subsidiaries, the "Company," "we" or "our") should be read in conjunction with the consolidated condensed financial statements of the Company and the accompanying notes to the consolidated condensed financial statements.

The Company's fiscal year generally ends on the Sunday closest to December 31 of each year. The consolidated condensed financial statements presented are:

- The financial position as of September 30, 2018 and December 31, 2017.
- The results of operations and comprehensive income for the 13 week periods ended September 30, 2018 ("third quarter" of fiscal 2018 ("2018")) and October 1, 2017 ("third quarter" of fiscal 2017 ("2017")), and the 39 week periods ended September 30, 2018 ("first three quarters" of 2018) and October 1, 2017 ("first three quarters" of 2017).
- The changes in equity and cash flows for the first three quarters of 2018 and the first three quarters of 2017.

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

Our Business and the Nonalcoholic Beverage Industry

Coca Cola Bottling Co. Consolidated, a Delaware corporation, distributes, markets and manufactures nonalcoholic beverages in territories spanning 14 states and the District of Columbia. The Company was incorporated in 1980 and, together with its predecessors, has been in the nonalcoholic beverage manufacturing and distribution business since 1902. We are the largest independent Coca Cola bottler in the United States. Approximately 94% of our total bottle/can sales volume to retail customers consists of products of The Coca Cola Company, which include some of the most recognized and popular beverage brands in the world. We also distribute products for several other beverage brands including Dr Pepper, Sundrop and Monster Energy. Our purpose is to honor God, to serve others, to pursue excellence and to grow profitably. Our stock is traded on the NASDAQ Global Select Market under the symbol "COKE."

We offer a range of nonalcoholic beverage products and flavors designed to meet the demands of our consumers, including both sparkling and still beverages. Sparkling beverages are carbonated beverages and the Company's principal sparkling beverage is Coca Cola. Still beverages include energy products and noncarbonated beverages such as bottled water, tea, ready to drink coffee, enhanced water, juices and sports drinks.

Our sales are divided into two main categories: (i) bottle/can sales and (ii) other sales. Bottle/can sales include products packaged primarily in plastic bottles and aluminum cans. Other sales include sales to other Coca Cola bottlers, "post-mix" products, transportation revenue and equipment maintenance revenue. Post-mix products are dispensed through equipment that mixes fountain syrups with carbonated or still water, enabling fountain retailers to sell finished products to consumers in cups or glasses.

Net sales by product category were as follows:

	Third Quarter		First Three Quarters	
(in thousands)	2018	2017	2018	2017
Bottle/can sales:				
Sparkling beverages (carbonated)	$605,614	$582,710	$1,787,451	$1,670,093
Still beverages (noncarbonated, including energy products)	413,282	384,495	1,142,764	1,009,508
Total bottle/can sales	1,018,896	967,205	2,930,215	2,679,601
Other sales:				
Sales to other Coca-Cola bottlers	92,139	104,619	300,819	274,317
Post-mix and other	100,626	90,702	279,963	243,601
Total other sales	192,765	195,321	580,782	517,918
Total net sales	$1,211,661	$1,162,526	$3,510,997	$3,197,519

The nonalcoholic beverage market is highly competitive for both sparkling and still beverages. Our competitors include bottlers and distributors of nationally and regionally advertised and marketed products, as well as bottlers and distributors of private label beverages. Our principal competitors include local bottlers of Pepsi-Cola and, in some regions, local bottlers of Dr Pepper, Royal Crown and/or 7 Up products.

The principal methods of competition in the nonalcoholic beverage industry are point-of-sale merchandising, new product introductions, new vending and dispensing equipment, packaging changes, pricing, price promotions, product quality, retail space management, customer service, frequency of distribution and advertising. We believe we are competitive in our territories with respect to these methods of competition.

Business seasonality results primarily from higher unit sales of the Company's products in the second and third quarters of the fiscal year. We believe that we and other manufacturers from whom we purchase finished goods have adequate production capacity to meet sales demand for sparkling and still beverages during these peak periods. Sales volume can also be impacted by weather conditions. Fixed costs, such as depreciation expense, are not significantly impacted by business seasonality.

Executive Summary

During the third quarter of 2018, our Company made meaningful progress towards the strategic priorities we set during the second quarter of 2018, even in the midst of continued challenges in the commodities and transportation markets. Our pricing actions delivered over 4% revenue growth versus the third quarter of 2017 on relatively flat volume of almost 87 million physical cases. Our performance during the third quarter of 2018 brings our year-to-date volume growth to 5.9% and our year-to-date revenue growth to 9.8%. Our organic case volume decline in the third quarter of 2018 was 0.4% versus the third quarter of 2017, and our year-to-date organic case volume growth was 0.3% versus the prior year period. Beginning in the fourth quarter of 2018, we will have cycled all of the transactions completed during our system transformation initiative, and results should be comparable on a year-over-year basis. As discussed last quarter, the mid-week July 4th holiday resulted in volume being split between the second and third quarters in 2018. Additionally, Hurricane Florence impacted our operations in much of our coastal territory in September, although identified incremental costs due to the storm were immaterial.

Integral to the strategic priorities we set during the second quarter of 2018, we implemented numerous pricing actions throughout our territory in the third quarter of 2018 to address our increased input costs. Gross margin in the third quarter of 2018 was 60 basis points lower than the third quarter of 2017 (34.7% in the third quarter of 2018 versus 35.3% in the third quarter of 2017), which reflects significant and sequential improvement over the gross margin declines we experienced in the first half of 2018. The primary drivers of the year-over-year margin decline remain (in order of significance): (i) rising commodity costs, (ii) the volume shift to lower-margin still products, and (iii) newly acquired territories generally experiencing margins lower than our legacy territories. We continue to refine our pricing strategies and focus on driving operating efficiencies in our supply chain to improve margin performance and address the rising input costs across the consumer products landscape.

Selling, delivery and administrative (“S,D&A”) expenses in the third quarter of 2018 increased approximately $3.0 million, or 0.8%, as compared to the third quarter of 2017. Notably, our S,D&A expenses as a percent of revenue declined to 31.0% in the third quarter of 2018 from 32.1% in the third quarter of 2017. We believe this leveraging of operating expenses was the result of our actions taken during the second quarter of 2018 and our strong revenue performance in the third quarter of 2018. These improvements were partially offset by the expenses associated with our continuing territory integration efforts. While we are pleased with our operating expense performance in the third quarter, we will continue to refine and optimize our operating model across our Company to drive improvements in efficiency and profitability.

Income from operations was $44.4 million in the third quarter of 2018, increasing from $37.5 million in the third quarter of 2017. We have completed our system transformation transactions and are nearing steady state from an IT system perspective. As such, we incurred $2.7 million less in system transformation expenses in the third quarter of 2018, as compared to the third quarter of 2017. We are encouraged with our progress in operating income performance and recognize we have additional improvement opportunities.

During the third quarter of 2018, we spent $10.4 million on system transformation expenses, which primarily related to the implementation of our integrated CONA information systems platform. We anticipate spending between $6 million and $8 million on system transformation expenses in the fourth quarter of 2018 and expect to see these expenses continue to decrease over the next few quarters.

Capital spending for the third quarter was approximately $27.8 million, bringing our year-to-date total capital investments to $113.1 million. We anticipate capital spending in the range of $25 million to $35 million in the fourth quarter of 2018. Diligent capital management processes have been put in place to continue our focus on debt reduction, while investing in the highest impact projects. In addition to our capital spending, the Company contributed $20 million to fund our pension plans during the third quarter of 2018.

We expect to begin distribution of the fast-growing premium sports drink, BodyArmor, in a portion of our territories in the fourth quarter of 2018. We are excited about the addition of BodyArmor to our powerful portfolio of brands, and, while we do not expect the impact on our 2018 results to be material, we do anticipate our BodyArmor distribution rights will provide ongoing benefits and round out our sports drink portfolio.

System Transformation Transactions

As part of The Coca Cola Company's plans to refranchise its North American bottling territories, the Company completed a series of transactions from April 2013 to October 2017 with The Coca Cola Company, Coca Cola Refreshments USA, Inc. ("CCR"), a wholly-owned subsidiary of The Coca Cola Company, and Coca Cola Bottling Company United, Inc. ("United"), an independent bottler that is unrelated to the Company, to significantly expand the Company's distribution and manufacturing operations (the "System Transformation"). The System Transformation included the acquisition and exchange of rights to serve distribution territories and related distribution assets, as well as the acquisition and exchange of regional manufacturing facilities and related manufacturing assets. A summary of the System Transformation transactions (the "System Transformation Transactions") completed by the Company is included in the Company's Annual Report on Form 10-K for 2017. As of September 30, 2018, the cash purchase prices or settlement amounts for all System Transformation Transactions have been resolved according to the terms of the transaction agreements. The post-closing adjustments made during the third quarter of 2018 resulted in a $10.2 million net adjustment to the gain on exchange transactions in the consolidated condensed statements of operations.