

MIDSOUTH BANCORP INC  
Form 10-Q  
August 09, 2010

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2010

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

COMMISSION FILE NUMBER 1-11826

MIDSOUTH BANCORP, INC.

(Exact name of registrant as specified in its charter)

Louisiana

(State of other jurisdiction of incorporation or  
organization)

72-1020809

(I.R.S. Employer Identification No.)

102 Versailles Boulevard, Lafayette, Louisiana 70501

(Address of principal executive offices, including zip code)

(337) 237-8343

(Registrant's telephone number, including area code)

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

YES  NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

YES  NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a small reporting company.

Large accelerated filer

Accelerated filer

Non-accelerated filer  Small reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.)

YES  NO

As of August 6, 2010, there were 9,725,252 shares of the registrant's Common Stock, par value \$0.10 per share, outstanding.

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## Part I – Financial Information

Item 1. Financial Statements.  
 MidSouth Bancorp, Inc. and Subsidiaries  
 Consolidated Statements of Condition  
 (dollars in thousands, except share data)

	June 30, 2010 (unaudited)	December 31, 2009* (audited)
Assets		
Cash and due from banks, including required reserves of \$3,624 and \$3,460, respectively	\$ 23,571	\$ 22,842
Interest-bearing deposits in banks	7,820	509
Federal funds sold	4,900	-
Time deposits held in banks	10,060	26,122
Securities available-for-sale, at fair value (cost of \$270,663 at June 30, 2010 and \$265,892 at December 31, 2009)	277,707	271,808
Securities held-to-maturity (fair value of \$1,623 at June 30, 2010 and \$3,121 at December 31, 2009)	1,588	3,043
Other investments	5,068	4,902
Loans	586,062	585,042
Allowance for loan losses	(8,471 )	(7,995 )
Loans, net	577,591	577,047
Bank premises and equipment, net	37,213	38,737
Accrued interest receivable	4,510	4,808
Goodwill and intangibles	9,431	9,483
Cash surrender value of life insurance	4,620	4,540
Other assets	7,702	8,301
Total assets	\$ 971,781	\$ 972,142
Liabilities and Stockholders' Equity		
Liabilities:		
Deposits:		
Non-interest-bearing	\$ 177,840	\$ 175,173
Interest bearing	592,067	598,112
Total deposits	769,907	773,285
Securities sold under agreements to repurchase	44,668	47,059
Federal funds purchased	-	1,700
Junior subordinated debentures	15,465	15,465
Other liabilities	6,018	5,356
Total liabilities	836,058	842,865
Stockholders' Equity:		
Preferred stock, no par value; 5,000,000 shares authorized, 20,000 shares issued and outstanding at June 30, 2010 and at December 31, 2009	19,310	19,211
Common stock, \$0.10 par value; 30,000,000 shares authorized, 9,875,729 issued and 9,725,252 outstanding at June 30, 2010 and 9,488,933 issued and	988	949

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9,318,268 outstanding at December 31, 2009		
Additional paid-in capital	89,786	85,263
Unearned ESOP shares	(162 )	(217 )
Accumulated other comprehensive income	4,649	3,904
Treasury stock – 150,477 shares at June 30, 2010 and 170,665 shares at December 31, 2009, at cost	(3,286 )	(3,544 )
Retained earnings	24,438	23,711
Total stockholders' equity	135,723	129,277
Total liabilities and stockholders' equity	\$ 971,781	\$ 972,142

See notes to unaudited consolidated financial statements.

\* Derived from audited financial statements.

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MidSouth Bancorp, Inc. and Subsidiaries  
Consolidated Statements of Earnings (unaudited)  
(in thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Interest income:				
Loans, including fees	\$9,929	\$10,294	\$19,728	\$20,693
Securities and other investments:				
Taxable	891	1,001	1,891	2,148
Nontaxable	998	1,097	2,023	2,237
Federal funds sold	1	18	1	19
Time deposits in other banks	62	56	136	131
Other investments and interest bearing deposits	48	30	89	62
Total interest income	11,929	12,496	23,868	25,290
Interest expense:				
Deposits	1,424	2,040	2,991	4,214
Securities sold under agreements to repurchase	238	272	464	472
Federal funds purchased	-	-	2	5
Other borrowed money	-	-	3	23
Junior subordinated debentures	243	262	484	528
Total interest expense	1,905	2,574	3,944	5,242
Net interest income	10,024	9,922	19,924	20,048
Provision for loan losses	1,500	2,100	2,650	3,100
Net interest income after provision for loan losses	8,524	7,822	17,274	16,948
Non-interest income:				
Service charges on deposits	2,610	2,577	5,058	4,965
ATM and debit card income	844	785	1,630	1,540
Other charges and fees	570	496	977	883
Total non-interest income	4,024	3,858	7,665	7,388
Non-interest expenses:				
Salaries and employee benefits	4,938	5,272	10,188	10,752
Occupancy expense	2,284	2,295	4,532	4,629
FDIC insurance	337	752	652	1,053
Other	3,610	2,813	6,531	5,964
Total non-interest expenses	11,169	11,132	21,903	22,398
Income before income taxes	1,379	548	3,036	1,938
Provision for income taxes	129	(197 )	351	(40 )
Net earnings	1,250	745	2,685	1,978
Dividends on preferred stock and accretion of warrants	299	299	598	576
Net earnings available to common shareholders	\$951	\$446	\$2,087	\$1,402

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Earnings per share:

Basic	\$0.10	\$0.07	\$0.22	\$0.21
Diluted	\$0.10	\$0.07	\$0.22	\$0.21

See notes to unaudited consolidated financial statements.

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MidSouth Bancorp, Inc. and Subsidiaries  
Consolidated Statement of Stockholders' Equity (unaudited)  
For the Six Months Ended June 30, 2010  
(in thousands, except share and per share data)

	Preferred Stock		Common Stock		Additional Paid-in Capital	ESOP Shares	Accumulated Unearned Other Comprehensive Income	Treasury Stock	Retained Earnings	Total
	Shares	Amount	Shares	Amount						
Balance- January 1, 2010	20,000	\$19,211	9,488,933	\$949	\$85,263	\$(217)	\$3,904	\$(3,544)	\$23,711	\$129,277
Net earnings	-	-	-	-	-	-	-	-	2,685	2,685
Net change in unrealized gains on securities available-for-sale, net of taxes	-	-	-	-	-	-	745	-	-	745
Comprehensive income	-	-	-	-	-	-	-	-	-	3,430
Issuance of common and treasury stock due to overallotment, net of discount and offering expenses	-	-	384,811	39	4,472	-	-	258	-	4,769
Dividends on preferred stock and accretion of common stock warrants	-	99	-	-	-	-	-	-	(598 )	(499 )
Dividends on common stock, \$0.14 per share	-	-	-	-	-	-	-	-	(1,360 )	(1,360 )
Exercise of stock options	-	-	1,985	-	17	-	-	-	-	17
ESOP compensation expense	-	-	-	-	31	55	-	-	-	86
Stock option expense	-	-	-	-	3	-	-	-	-	3
Balance- June 30, 2010	20,000	\$19,310	9,875,729	\$988	\$89,786	\$(162)	\$4,649	\$(3,286)	\$24,438	\$135,723

See notes to unaudited consolidated financial statements.





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MidSouth Bancorp, Inc. and Subsidiaries  
 Consolidated Statements of Cash Flows (unaudited)  
 (in thousands)

	For the Six Months Ended June 30,	
	2010	2009
Cash flows from operating activities:		
Net earnings	\$ 2,685	\$ 1,978
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	1,785	1,867
Provision for loan losses	2,650	3,100
Provision for deferred tax benefit	(466 )	(229 )
Amortization of premiums on securities, net	591	361
Stock option expense	3	16
Net loss on sale of other real estate owned	141	-
Net loss on sale of premises and equipment	64	4
Change in accrued interest receivable	298	354
Change in accrued interest payable	(124 )	(388 )
Other, net	1,439	2,818
Net cash provided by operating activities	9,066	9,881
Cash flows from investing activities:		
Net decrease (increase) in time deposits in other banks	16,062	(12,000 )
Proceeds from maturities and calls of securities available-for-sale	20,752	52,884
Proceeds from maturities and calls of securities held-to-maturity	1,456	2,825
Purchases of securities available-for-sale	(26,107 )	(31,524 )
Purchases of other investments	(172 )	(124 )
Net change in loans	(3,474 )	9,426
Purchase of premises and equipment	(274 )	(809 )
Proceeds from sale of premises and equipment	-	1
Proceeds from sales of other real estate owned	409	14
Purchase of other real estate owned	(450 )	-
Net cash provided by investing activities	8,202	20,693
Cash flows from financing activities:		
Change in deposits	(3,378 )	(4,052 )
Change in repurchase agreements	(2,391 )	20,835
Change in federal funds purchased	(1,700 )	(14,900 )
Change in Federal Reserve Discount Window borrowings	-	(36,000 )
Net proceeds from the issuance of preferred stock	-	19,954
Issuance of common stock and treasury stock, net of offering expenses	4,769	-
Payment of dividends on preferred stock	(499 )	(350 )

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Payment of dividends on common stock	(1,146 )	(1,191 )
Proceeds from exercise of stock options	17	-
Excess tax benefit from stock option exercises, net adjustment	-	(3 )
Net cash used in financing activities	(4,328 )	(15,707 )
Net increase in cash and cash equivalents	12,940	14,867
Cash and cash equivalents, beginning of period	23,351	24,786
Cash and cash equivalents, end of period	\$ 36,291	\$ 39,653
Supplemental information- Noncash items		
Accrued preferred stock dividends	\$ 128	\$ 128
Accretion of warrants	99	99
Transfer of loans to other real estate owned	(336 )	(514 )
Net change in loan to ESOP	55	(254 )

See notes to unaudited consolidated financial statements.

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MidSouth Bancorp, Inc. and Subsidiaries  
Notes to Interim Consolidated Financial Statements  
June 30, 2010  
(Unaudited)

1. Basis of Presentation

The accompanying unaudited consolidated financial statements and notes thereto contain all adjustments, consisting only of normal recurring adjustments, necessary to present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Company and its subsidiaries as of June 30, 2010 and the results of their operations and their cash flows for the periods presented. The interim financial information should be read in conjunction with the annual consolidated financial statements and the notes thereto included in the Company's 2009 Annual Report on Form 10-K.

The results of operations for the six month period ended June 30, 2010 are not necessarily indicative of the results to be expected for the entire year.

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

Summary of Significant Accounting Policies — The accounting and reporting policies of the Company conform with accounting principles generally accepted in the United States of America and general practices within the banking industry. There have been no material changes or developments in the application of accounting principles or in our evaluation of the accounting estimates and the underlying assumptions or methodologies that we believe to be Critical Accounting Policies and Estimates as disclosed in our 2009 Annual Report on Form 10-K.

Recent Accounting Pronouncements— In July 2010 FASB issued Accounting Standards Update No. 2010-20, Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses (ASU 2010-20), which is intended to improve transparency in financial reporting by public and nonpublic companies that hold financing receivables, which include loans, lease receivables, and other long-term receivables by requiring companies to provide more information in disclosures about the credit quality of financing receivables and the credit reserves held against receivables. Under this statement, allowance for credit losses and fair value are to be disclosed by portfolio segment, while credit quality information, impaired financing receivables and nonaccrual status are to be presented by class of financing receivable. Disclosure of the nature and extent, the financial impact and segment information of troubled debt restructurings will also be required. The disclosures are to be presented at the level of disaggregation that management uses when assessing and monitoring the portfolio's risk and performance. For public companies, the amendments that require disclosure as of the end of a reporting period are effective for periods ending on or after December 15, 2010. The amendments that require disclosures about activity that occurs during a reporting period are effective for periods beginning on or after December 15, 2010. As ASU 2010-20 amends only the disclosure requirements for loans and leases and the allowance for credit losses, the adoption will have no impact on our consolidated financial statements.

ASU 2010-09, Subsequent Events (Topic 855) – Amendments to Certain Recognition and Disclosure Requirements, removes the requirement for SEC filers to disclose the date through which subsequent events have been evaluated in order to remedy potential conflicts with the SEC’s requirements. In addition, the ASU revises and clarifies the evaluation and disclosure requirements for all entities. The ASU was effective upon issuance, February 24, 2010. The adoption of ASU 2010-09 did not have a material impact on our consolidated financial statements.

ASU No. 2010-06, Improving Disclosures About Fair Value Measurements (“ASU 2010-06”). ASU 2010-06 amends FASB Accounting Standards Codification topic 820-10-50, Fair Value Measurements and Disclosures, to require additional information to be disclosed principally regarding Level 3 measurements and transfers to and from Level 1 and Level 2. In addition, enhanced disclosure is required concerning inputs and valuation techniques used to determine Level 2 and Level 3 measurements. This guidance is generally effective for interim and annual reporting periods beginning after December 15, 2009; however requirements to disclose separately purchases, sales, issuances and settlements in the Level 3 reconciliation are effective for fiscal years beginning after December 15, 2010 (and for interim periods within such

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years). The adoption of ASU 2010-06 did not have a material impact on our consolidated financial statements for the quarter ended June 30, 2010.

ASU 2010 -01, Equity (Topic 505) – Accounting for Distributions to Shareholders with Components of Stock and Cash – a consensus of the FASB Emerging Task Force, clarifies that entities that allow shareholders to elect to take a shareholder distribution (where the total distribution is fixed) in stock or cash subject to a potential limitation on the aggregate amount

of the cash portion of the distribution should recognize the stock portion of the distribution as a share issuance. The provisions of Topic 505 are effective retrospectively for interim and annual periods ending on or after December 15, 2009. Adoption of this standard had no impact on our consolidated financial statements.

Reclassifications—Certain reclassifications have been made to the prior years’ financial statements in order to conform to the classifications adopted for reporting in 2010. The reclassifications had no impact on stockholders’ equity or net income.

## 2. Investment Securities

The portfolio of securities consisted of the following (in thousands):

	June 30, 2010			
	Amortized	Gross	Gross	Fair Value
	Cost	Unrealized	Unrealized	
		Gains	Losses	
Available-for-sale:				
U.S. Government agencies	\$116,898	\$1,210	\$-	\$118,108
Obligations of state and political subdivisions	110,618	4,370	51	114,937
GSE mortgage-backed securities	12,237	885	-	13,122
Collateralized mortgage obligations	30,838	692	66	31,464
Financial institution equity security	72	4	-	76
	\$270,663	\$7,161	\$117	\$277,707

	December 31, 2009			
	Amortized	Gross	Gross	Fair Value
	Cost	Unrealized	Unrealized	
		Gains	Losses	
Available-for-sale:				
U.S. Government agencies	\$102,249	\$459	\$185	\$102,523
Obligations of state and political subdivisions	113,232	4,180	111	117,301
GSE mortgage-backed securities	14,888	746	-	15,634
Collateralized mortgage obligations	35,451	870	43	36,278
Financial institution equity security	72	-	-	72
	\$265,892	\$6,255	\$339	\$271,808

	June 30, 2010			
	Amortized	Gross	Gross	Fair Value
	Cost	Unrealized	Unrealized	
		Gains	Losses	

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Held-to-maturity:

Obligations of state and political subdivisions	\$1,588	\$35	\$-	\$1,623
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	Amortized Cost	December 31, 2009		Fair Value
		Gross Unrealized Gains	Gross Unrealized Losses	
Held-to-maturity:				
Obligations of state and political subdivisions	\$3,043	\$78	\$-	\$3,121

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With the exception of two private-label collateralized mortgage obligations (“CMOs”) with a combined balance remaining of \$130,000 at June 30, 2010, all of the Company’s CMOs are government-sponsored enterprise securities.

The amortized cost and fair value of debt securities at June 30, 2010 by contractual maturity are shown in the following table (in thousands). Except for mortgage-backed securities, expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
Available-for-sale:		
Due in one year or less	\$21,623	\$21,950
Due after one year through five years	147,347	150,532
Due after five years through ten years	42,059	43,736
Due after ten years	16,487	16,827
Mortgage-backed securities and collateralized mortgage obligations	43,075	44,586
Equity securities with readily determinable market values	72	76
	\$270,663	\$277,707
	Amortized Cost	Fair Value
Held-to-maturity:		
Due in one year or less	\$900	\$911
Due after one year through five years	688	712
	\$1,588	\$1,623

Details concerning investment securities with unrealized losses as of June 30, 2010 are as follows (in thousands):

	Securities with losses under 12 months		Securities with losses over 12 months		Total	
	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss
Available-for-sale:						
Obligations of state and political subdivisions	\$3,787	\$51	\$-	\$-	\$3,787	\$51
Collateralized mortgage obligations	12,498	49	247	17	12,745	66
	\$16,285	\$100	\$247	\$17	\$16,532	\$117

Management evaluates each quarter whether unrealized losses on securities represent impairment that is other than temporary. For debt securities, the Company considers its intent to sell the securities or if it is more likely than not the Company will be required to sell the securities. If such impairment is identified, based upon the intent to sell or the more likely than not threshold, the carrying amount of the security is reduced to fair value with a charge to earnings. Upon the result of the aforementioned review, management then reviews for potential other than temporary impairment based upon other qualitative factors. In making this evaluation, management considers changes in market rates relative to those available when the security was acquired, changes in market expectations about the timing of cash flows from securities that can be prepaid, performance of the debt security, and changes in the market’s



perception of the issuer's financial health and the security's credit quality. If determined that a debt security has incurred other than temporary impairment, then the amount of the credit related impairment is determined. If a credit loss is evident, the amount of the credit loss is charged to earnings and the non-credit related impairment is recognized through other comprehensive income.

The unrealized losses on debt securities at June 30, 2010 resulted from changing market interest rates over the yields available at the time the underlying securities were purchased. Management identified no impairment related to credit quality. At June 30, 2010, management had no intent to sell the securities and determined it was more likely than not that the Company would not have to sell the securities and no other than temporary impairment was evident. No other than temporary impairment losses were recognized during the six months ended June 30, 2010.

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Each quarter management evaluates whether the unrealized losses on its equity security represents impairment that is other than temporary. Management assesses the likelihood of recovery in fair value and the length of time over which a recovery would occur. Management also considers whether there is both the ability and intent to hold the impaired security until an anticipated recovery, in which case the impairment would be considered temporary. The equity security is an investment in a portfolio of common stocks of community bank holding companies. The Company did not recognize any impairment on the equity security for the six months ended June 30, 2010.

Of the U.S. Government agency securities, none of the 14 contained unrealized losses at June 30, 2010. Of the 186 securities issued by state and political subdivisions, 6 contained unrealized losses. Of the mortgage-backed securities, none of the 45 contained unrealized losses. Of the collateralized mortgage obligations, 7 out of 18 contained unrealized losses. The only equity security held by the Company at June 30, 2010 contained an unrealized gain.

During the six months ended June 30, 2010 and year ended December 31, 2009, respectively, the Company did not sell any securities. Securities with an aggregate carrying value of approximately \$140,284,000 and \$108,505,000 at June 30, 2010 and December 31, 2009, respectively, were pledged to secure public funds on deposit and for other purposes required or permitted by law.

### 3. Other Investments

The Company is required to own stock in the Federal Reserve Bank of Atlanta (“FRB-Atlanta”) and as a member of the Federal Home Loan Bank system, owns stock in the Federal Home Loan Bank of Dallas (“FHLB-Dallas”). The Company accounts for FRB-Atlanta and FHLB-Dallas stock as other investments along with stock ownership in two correspondent banks and a Community Reinvestment Act (“CRA”) investment in a Senior Housing Crime Prevention program in Louisiana. The CRA investment consisted of three government-sponsored agency mortgage-backed securities purchased by the Company and held by the Senior Housing Crime Prevention program. The majority of the interest earned on the securities provides income to the program.

For impairment analysis, the Company reviews financial statements and regulatory capital ratios for each of the banks in which the Company owns stock to verify financial stability and regulatory compliance with capital requirements. As of June 30, 2010 and December 31, 2009, based upon quarterly reviews, management determined that there was no impairment in the bank stocks held as other investments.

The aggregate carrying amount of other investments consisted of the following (in thousands):

	June 30, 2010	December 31, 2009
FRB-Atlanta	\$ 1,624	\$ 1,473
FHLB-Dallas	583	562
Other bank stocks	713	713
CRA investment	2,148	2,154
	\$ 5,068	\$ 4,902

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## 4. Allowance for Loan Losses

A summary of the activity in the allowance for loan losses is as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Balance, beginning of period	\$7,917	\$7,801	\$7,995	\$7,586
Provision for loan losses	1,500	2,100	2,650	3,100
Recoveries	99	60	151	131
Loans charged-off	(1,045 )	(1,923 )	(2,325 )	(2,779 )
Reclassifications	-	-	-	-
Balance, end of period	\$8,471	\$8,038	\$8,471	\$8,038

The Company's loans individually evaluated for impairment were approximately \$27.5 million at June 30, 2010 and \$23.2 million at December 31, 2009. Specific reserves totaling \$2.0 million were established for \$12.1 million of impaired loans reported at June 30, 2010. At December 31, 2009, specific reserves totaling \$2.3 million were established for \$12.3 million of impaired loans reported for the fourth quarter 2009. Interest recognized on impaired loans totaled \$66,000 at June 30, 2010. One commercial loan totaling \$1.2 million was classified as a troubled debt restructuring during the second quarter of 2010 due to a reduction in monthly payments granted to the borrower. The loan was subsequently paid off in the first week of August 2010.

## 5. Earnings Per Common Share

Following is a summary of the information used in the computation of earnings per common share (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Net earnings available to common shareholders	\$951	\$446	\$2,087	\$1,402
Weighted average number of common shares outstanding used in computation of basic earnings per common share	9,707	6,589	9,692	6,598
Effect of dilutive securities:				
Stock options and warrants	22	18	23	15
Weighted average number of common shares outstanding plus effect of dilutive securities – used in computation of diluted earnings per share	9,729	6,607	9,715	6,613

Options on 23,786 shares and 22,047 shares of restricted stock were not included in computed diluted earnings for the quarter and six months ended June 30, 2010 because the effect of these shares was anti-dilutive. As a result of the completion of a qualified equity offering in December 2009, warrants issued to the U. S. Department of the Treasury (the "Treasury") to purchase 208,768 shares of our common stock were reduced to 104,384 shares. The 104,384 shares subject to the warrants are included in the computation of diluted earnings per share.

6. Declaration of Dividends

A first quarter dividend of \$0.07 per share for holders of common stock of record on March 17, 2010 was declared on January 27, 2010 and was paid on April 1, 2010. On April 21, 2010, the Company declared a second quarter dividend of \$0.07 per share for holders of common stock of record on June 16, 2010, paid on July 1, 2010. A third quarter dividend was declared on July 14, 2010 in the amount of \$0.07 per share for holders of common stock of record on September 16, 2010, payable on October 1, 2010.

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The Company's ability to declare and pay dividends on its common stock is subject to first having paid all accrued cumulative preferred dividends that are due. For three years following the issuance of the Fixed Rate Cumulative Perpetual Preferred Stock, Series A ("Series A Preferred Stock") to the Treasury on January 9, 2009, the Company may not increase its per share common stock dividend rate above \$0.28 without the Treasury's consent, unless the Treasury has transferred all the Series A Preferred Stock to third parties.

7. Employee Stock Plans

On June 30, 2010, the Personnel Committee of the Board of Directors of MidSouth Bancorp, Inc. (the "Company") made grants of 22,047 shares of restricted stock under the Company's 2007 Omnibus Incentive Compensation Plan to certain officers and employees of the Company. The restricted shares of stock, which are subject to the terms of a Restricted Stock Grant Agreement between the Company and each recipient, will fully vest on the third anniversary of the grant date. Prior to vesting, the recipient will be entitled to vote the shares and receive dividends, if any, declared by the Company with respect to its common stock. The restricted shares had a market value of \$12.77 per share or \$281,540 on the date of issuance. The compensation expense of \$281,540 will be recognized on a quarterly basis over the three year vesting period.

8. Fair Value Measurement

The Company groups assets and liabilities at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

Level 1 – Valuation is based upon quoted prices for identical instruments traded in active markets.

Level 2 – Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.

Level 3 – Valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include use of option pricing models, discounted cash flow models and similar techniques.

Following is a description of valuation methodologies used for assets and liabilities which are either recorded or disclosed at fair value.

Cash and cash equivalents—The carrying value of cash and cash equivalents is a reasonable estimate of fair value.

Time Deposits in Other Banks—The carrying value of time deposits in other banks is a reasonable estimate of fair value.

Securities Available-for-Sale—Securities available-for-sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions and other factors such as credit loss assumptions. Level 1 securities include those traded on an active exchange, such as the New York Stock Exchange

and U.S. Treasury securities that are traded by dealers or brokers in active over-the-counter market funds. Securities are classified as Level 2 within the valuation hierarchy when the Company obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information, and the bond's terms and conditions, among other things. Level 2 inputs are used to value U.S. Agency securities, mortgage-backed securities, municipal securities, single issue trust preferred securities, certain pooled trust preferred securities, and certain equity securities that are not actively traded.

Other investments—The carrying value of other investments is a reasonable estimate of fair value.

Loans—For disclosure purposes, the fair value of fixed rate loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings. For variable rate loans, the carrying amount is a reasonable estimate of fair value. The Company does not record loans at fair value on a recurring basis. No adjustment to fair value is taken related to illiquidity discounts. However, from time to time, a loan is

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considered impaired and an allowance for loan losses is established. Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement are considered impaired. Once a loan is identified as individually impaired, management measures impairment using one of three methods, including collateral value, market value of similar debt, and discounted cash flows. Those impaired loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceed the recorded investments in such loans. Impaired loans where an allowance is established based on the fair value of collateral require classification in the fair value hierarchy. When the fair value of the collateral is based on an observable market price or a current appraised value, the Company records the impaired loan as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and adjusts the appraisal value by taking an additional discount for market conditions and there is no observable market price, the Company records the impaired loan as nonrecurring Level 3.

Other Real Estate—Other real estate properties are adjusted to fair value upon transfer of the loans to other real estate. Subsequently, other real estate assets are carried at the lower of carrying value or fair value. Fair value is based upon independent market prices, appraised values of the collateral or management's estimation of the value of the collateral. When the fair value of the collateral is based on an observable market price or a current appraised value, the Company records the other real estate as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and adjusts the appraisal value by taking an additional discount for market conditions and there is no observable market prices, the Company records the other real estate asset as nonrecurring Level 3.

Cash Surrender Value of Life Insurance Policies—Fair value for life insurance cash surrender value is based on cash surrender values indicated by the insurance companies.

Deposits—The fair value of demand deposits, savings accounts, NOW accounts, and money market deposits is the amount payable on demand at the reporting date. The fair value of fixed maturity certificates of deposit is estimated by discounting the future cash flows using the rates currently offered for deposits of similar remaining maturities. The estimated fair value does not include customer related intangibles.

Borrowings—The fair value approximates the carrying value of repurchase agreements, federal funds purchased, Federal Home Loan Bank advances, and Federal Reserve Discount Window borrowings due to their short-term nature.

Junior Subordinated Debentures—For junior subordinated debentures that bear interest on a floating basis, the carrying amount approximates fair value. For junior subordinated debentures that bear interest on a fixed rate basis, the fair value is estimated using a discounted cash flow analysis that applies interest rates currently being offered on similar types of borrowings.

Commitments to Extend Credit, Standby Letters of Credit and Credit Card Guarantees—Because commitments to extend credit and standby letters of credit are generally short-term and made using variable rates, the carrying value and estimated fair value associated with these instruments are immaterial.

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## Assets Recorded at Fair Value

Below is a table that presents information about certain assets and liabilities measured at fair value on a recurring basis (in thousands):

Description	Assets / Liabilities Measured at Fair Value at June 30, 2010	Fair Value Measurements at June 30, 2010 using:		
		Level 1	Level 2	Level 3
Available-for-sale securities:				
U.S. Government agencies	\$ 118,108	\$ -	\$ 118,108	\$ -
Obligations of state and political subdivisions	114,937	-	114,937	-
GSE mortgage-backed securities	13,122	-	13,122	-
Collateralized mortgage obligations	31,464	-	31,464	-
Financial institution equity security	76	76	-	-

Certain assets and liabilities are measured at fair value on a nonrecurring basis and are included in the table below (in thousands). Impaired loans are level 2 assets at fair value less costs to sell measured using appraisals of the collateral from external parties. Other real estate owned are also level 2 assets at fair value less costs to sell measured using appraisals from external parties.

Description	Assets / Liabilities Measured at Fair Value at June 30, 2010	Fair Value Measurements at June 30, 2010 using:		
		Level 1	Level 2	Level 3
Impaired loans	\$ 10,050	\$ -	\$ 10,050	\$ -
Other real estate owned	1,002	-	1,002	-

## Limitations

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Company's entire holdings of a particular financial instrument. Because no market exists for a significant portion of the Company's financial instruments, fair value estimates are based on many judgments. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Fair value estimates are based on existing on and off-balance sheet financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. Significant assets and liabilities that are not considered financial instruments include deferred income taxes and premises and equipment. In addition, the tax ramifications related to the realization of the unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in the estimates.



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The estimated fair values of the Company's financial instruments are as follows at June 30, 2010 and December 31, 2009 (in thousands):

	June 30, 2010		December 31, 2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents	\$36,291	\$36,291	\$23,351	\$23,351
Time deposits held in banks	10,060	10,060	26,122	26,122
Securities available-for-sale	277,707	277,707	271,808	271,808
Securities held-to-maturity	1,588	1,623	3,043	3,121
Loans, net	577,591	584,809	577,047	583,142
Other investments	5,068	5,068	4,902	4,902
Cash surrender value of life insurance policies	4,620	4,620	4,540	4,540
Financial liabilities:				
Non-interest-bearing deposits	177,840	177,840	175,173	175,173
Interest-bearing deposits	592,067	593,026	598,112	598,932
Borrowings	44,668	44,668	48,759	48,759
Junior subordinated debentures	15,465	16,297	15,465	15,771

## 9. Subsequent Events

The Company has evaluated all subsequent events and transactions that occurred after June 30, 2010 up through the date of filing this Quarterly Report on Form 10-Q. No events or changes in circumstances were identified that would have an adverse impact on the financial statements.

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

MidSouth Bancorp, Inc. (the "Company") is a bank holding company headquartered in Lafayette, Louisiana that conducts substantially all of its business through its wholly-owned subsidiary bank MidSouth Bank, N.A. (the "Bank"). We offer complete banking services to commercial and retail customers in south Louisiana and southeast Texas with 35 locations and more than 50 ATMs. We are community oriented and focus primarily on offering commercial and consumer loan and deposit services to individuals, small businesses, and middle market businesses.

The following discussion and analysis identifies significant factors that have affected our financial position and operating results during the periods included in the financial statements accompanying or incorporated by reference in this report. We encourage you to read this discussion in conjunction with our consolidated financial statements and the notes thereto presented herein and with the financial statements, the notes thereto, and related Management's Discussion and Analysis of Financial Condition and Results of Operation in the Company's Annual Report on Form 10-K for the year ended December 31, 2009.

Forward-Looking Statements

Certain statements contained herein are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 and subject to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, which involve risks and uncertainties. The words "anticipate," "believe," "estimate," "expect," "intend," "may," "plan," "could," "would," "should," "potential," "fore" expressions are typically used to identify forward-looking statements. These statements include, among others, statements regarding future results, changes in the local and national economy including the oil spill in the Gulf of Mexico and the six month moratorium on deepwater drilling, the work-out of nonaccrual loans and potential acquisitions. Actual results may differ materially from the results anticipated in these forward-looking statements. Factors that might cause such a difference include, among other matters, changes in interest rates and market prices that could affect the net interest margin, asset valuation, and expense levels; changes in local economic and business conditions, including, without limitation, changes related to the oil and gas industries, that could adversely affect customers and their ability to repay borrowings under agreed upon terms, adversely affect the value of the underlying collateral related to their borrowings, and reduce demand for loans; the timing and ability to reach any agreement to restructure nonaccrual loans; increased competition for deposits and loans which could affect compositions, rates and terms; the timing and impact of future acquisitions, the success or failure of integrating operations, and the ability to capitalize on growth opportunities upon entering new markets; loss of critical personnel and the challenge of hiring qualified personnel at reasonable compensation levels; legislative and regulatory changes, including the impact of regulations under the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Dodd-Frank Act") and other changes in banking, securities and tax laws and regulations and their application by our regulators, changes in the scope and cost of FDIC insurance and other coverages, and changes in the U.S. Treasury's Capital Purchase Program ("CPP"); and other factors discussed under the heading "Risk Factors" in this Quarterly Report, MidSouth's Annual Report on Form 10-K for the year ended December 31, 2009 filed with the SEC on March 16, 2010 and in its other filings with the SEC.

We can give no assurance that any of the events anticipated by the forward-looking statements will occur or, if any of them does, what impact they will have on our results of operations and financial condition. We disclaim any intent or obligation to publicly update or revise any forward-looking statements, regardless of whether new information becomes available, future developments occur or otherwise.

Critical Accounting Policies

Certain critical accounting policies affect the more significant judgments and estimates used in the preparation of the consolidated financial statements. Our significant accounting policies are described in the notes to the consolidated financial statements included in this report. The accounting principles we follow and the methods of applying these principles conform with accounting principles generally accepted in the United States of America (“GAAP”) and general banking practices. Our most critical accounting policy relates to the allowance for loan losses, which reflects the estimated losses resulting from the inability of its borrowers to make loan payments. If the financial condition of our

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borrowers were to deteriorate, resulting in an impairment of their ability to make payments, the estimates would be updated and additional provisions for loan losses may be required. See Asset Quality.

Another of our critical accounting policies relates to goodwill and intangible assets. Goodwill represents the excess of the purchase price over the fair value of net assets acquired. Goodwill is not amortized, but is evaluated for impairment annually or more frequently if deemed necessary. If the fair value of an asset exceeds the carrying amount of the asset, no charge to goodwill is made. If the carrying amount exceeds the fair value of the asset, goodwill will be adjusted through a charge to earnings.

Given the continued instability of the economic environment, it is reasonably possible that the methodology of the assessment of potential loan losses, goodwill impairment, and other fair value measurements could change in the near-term or could result in impairment going forward.

## Results of Operations

### Earnings Analysis

We reported net earnings available to common shareholders of \$951,000 for the second quarter of 2010, an increase of 113% compared to net earnings available to common shareholders of \$446,000 reported for the second quarter of 2009. Diluted earnings for the second quarter of 2010 were \$0.10 per common share, an increase of 42.9% from \$0.07 per common share reported for the second quarter of 2009.

Second quarter net earnings available to common shareholders compared to the same period for the prior year were positively impacted by a \$600,000 decrease in the provision for loan losses, which offset a \$326,000 increase in tax expense. Quarterly revenues, defined as net interest income and non-interest income, increased \$268,000 in quarterly comparison. Net interest income increased \$102,000 as a decrease in interest expense on deposits and borrowings exceeded the decrease in interest income from earning assets. Non-interest income increased \$166,000, primarily due to increases of \$66,000 in letters of credit income, \$59,000 in ATM/debit card income and \$34,000 in service charges on deposit accounts. Non-interest expense increased \$37,000 in quarterly comparison as increases primarily consisting of \$259,000 in marketing costs, \$180,000 in expenses on other real estate owned ("OREO"), \$101,000 in data processing costs, \$92,000 in ATM and debit card expenses, and \$87,000 in professional and consulting fees were offset by decreases of \$334,000 in salaries and benefit costs and \$415,000 in FDIC assessments. The significant decrease in FDIC premiums is due to the one-time assessment recorded in the second quarter of 2009. The decrease in salaries and benefit costs resulted primarily from a \$313,000 decrease in group health insurance expense as MidSouth's partially self-funded group health insurance plan experienced a lower amount of insurance claims for the first six months of 2010 compared to the first six months of 2009.

In year-to-date comparison, a \$495,000 reduction in non-interest expenses, a \$450,000 decrease in the provision for loan losses and a \$277,000 increase in non-interest income had a positive impact on earnings. A \$124,000 decrease in net interest income and a \$391,000 increase in tax expense lowered the impact to a net \$685,000 increase in net income available to common shareholders for the six months ended June 30, 2010 compared to the six months ended June 30, 2009. The \$495,000 reduction in non-interest expenses was primarily driven by a \$401,000 decrease in FDIC premiums related to the one-time assessment recorded in the second quarter of 2009. Increases in marketing, professional and consulting fees, and OREO expenses were offset by reductions in several non-interest expense categories. The \$277,000 improvement in non-interest income was primarily driven by increases in service charges on deposit accounts and ATM and debit card income.

### Net Interest Income

Our primary source of earnings is net interest income, which is the difference between interest earned on loans and investments and interest paid on deposits and other interest-bearing liabilities. Changes in the volume and mix of earning assets and interest-bearing liabilities combined with changes in market rates of interest greatly affect net interest income. Our net interest margin on a taxable equivalent basis, which is net interest income as a percentage of average earning assets, was 4.73% and 4.92% for the three months ended June 30, 2010 and 2009, respectively. Tables 1 and 3 and tables 2 and 4 below analyze the changes in net interest income in the three months ended June 30, 2010 and 2009 and the six

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months ended June 30, 2010 and 2009, respectively.

Fully taxable-equivalent (“FTE”) net interest income totaled \$10.43 million for the second quarter of 2010, an increase of 0.5%, or \$56,000, from the \$10.38 million reported for the second quarter of 2009. The increase in FTE net interest income resulted primarily from a 45 basis point reduction in the average rate paid on interest-bearing liabilities, from 1.63% at June 30, 2009 to 1.18% at June 30, 2010. The \$669,000 reduction in interest expense offset a \$613,000 decrease in interest income on earning assets for the period. Interest income on loans declined due to a \$14.4 million decrease in the average volume and an 8 basis point decrease in the average yield on loans in quarterly comparison. Interest income on investments decreased as the impact of the 150 basis point decline in the average yield on investments offset a \$67.5 million increase in the average volume. Investments yields declined throughout 2009 as cash flows from maturing and called securities earning higher yields were reinvested primarily in lower-yielding shorter-term agency bonds. Investment yields were further impacted by an increase in cash held overnight earning interest at a rate of 25 basis points or less. The \$67.5 million increase in the average volume of investments resulted primarily from the temporary investment of capital proceeds from our common stock offering in December 2009.

A 45 basis point reduction in the average rate paid on interest-bearing deposits lowered interest expense in prior year quarterly comparison and significantly reduced the impact of the decrease in interest income on earning assets. The average volume of interest-bearing deposits increased \$12.0 million, from \$575.1 million at June 30, 2009 to \$587.1 million at June 30, 2010. A \$30.3 million increase in the volume of NOW, money market and savings deposits, primarily in consumer and commercial Platinum money market accounts, offset an \$18.3 million decrease in the average volume of time deposits. We offer competitive market rates of interest on our Platinum money market accounts, and in the current rate environment those rates are comparable to rates earned on time deposits. The average volume of retail repurchase agreements, included in securities sold under agreements to repurchase, increased \$2.2 million in quarterly comparison, despite a 41 basis point reduction in rates.

The average rate paid on the Company’s junior subordinated debentures decreased 48 basis points from second quarter of 2009 to second quarter of 2010 due to the rate change on the \$8.2 million of variable rate debentures. The debentures carry a floating rate equal to the 3-month LIBOR plus 2.50%, adjustable and payable quarterly. The rate at June 30, 2010 was 3.04%. The debentures mature on September 20, 2034 but may be repaid sooner, under certain circumstances. The Company also has outstanding \$7.2 million of junior subordinated debentures due 2031 that carry a fixed interest rate of 10.20%. The Company is currently evaluating what impact, if any, the Dodd-Frank Act will have on its outstanding debentures.

As a result of the yield and balance sheet changes described above, the FTE net interest margin decreased 19 basis points, from 4.92% for the second quarter of 2009 to 4.73% for the second quarter of 2010.

In year-to-date comparison, FTE net interest income decreased \$221,000 as interest income from loans and investments decreased \$1.5 million, partially offset by a \$1.3 million reduction in interest expense. The decrease in interest income on average earning assets resulted primarily from a 64 basis point decline in the average yield earned on interest earning assets, from 6.28% at June 30, 2009 to 5.64% at June 30, 2010, driven by lower investment yields. An average volume increase of \$42.3 million in average earning assets partially offset the impact of lower yields. Interest expense decreased primarily due to a 45 basis point reduction in the average rate paid on interest-bearing liabilities, from 1.67% at June 30, 2009 to 1.22% at June 30, 2010, driven by a decrease in the average rate paid on interest-bearing deposits. As a result, the taxable-equivalent net interest margin declined 29 basis points, from 5.03% for the six months ended June 30, 2009 to 4.74% for the six months ended June 30, 2010.

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Table 1  
Consolidated Average Balances, Interest and Rates  
(in thousands)

	Average Volume	Three Months Ended June 30,					
		2010 Interest	Average Yield/Rate	Average Volume	2009 Interest	Average Yield/Rate	
<b>Assets</b>							
<b>Investment securities<sup>1</sup></b>							
Taxable	\$ 143,652	\$ 891	2.48 %	\$ 93,010	\$ 1,001	4.30 %	
Tax exempt <sup>2</sup>	109,549	1,408	5.14 %	115,933	1,553	5.36 %	
Other investments	27,670	48	0.69 %	4,404	30	2.72 %	
Total investments	280,871	2,347	3.34 %	213,347	2,584	4.84 %	
<b>Time deposits in other banks</b>							
Federal funds	19,425	62	1.28 %	10,144	56	2.21 %	
	2,152	1	0.18 %	25,826	18	0.28 %	
<b>Loans</b>							
<b>Commercial and real estate</b>							
Installment	486,175	7,930	6.54 %	486,222	7,936	6.55 %	
Total loans <sup>3</sup>	95,390	1,999	8.41 %	109,733	2,358	8.62 %	
	581,565	9,929	6.85 %	595,955	10,294	6.93 %	
Total earning assets	884,013	12,339	5.60 %	845,272	12,952	6.15 %	
<b>Allowance for loan losses</b>							
Nonearning assets	(7,769 )			(7,593 )			
	91,625			89,199			
Total assets	\$ 967,869			\$ 926,878			
<b>Liabilities and stockholders' equity</b>							
<b>NOW, money market, and savings</b>							
Time deposits	\$ 466,002	\$ 954	0.82 %	\$ 435,659	\$ 1,163	1.07 %	
	121,138	470	1.56 %	139,444	877	2.52 %	
Total interest bearing deposits	587,140	1,424	0.97 %	575,103	2,040	1.42 %	
<b>Securities sold under repurchase agreements</b>							
Federal funds purchased	46,292	238	2.06 %	44,092	272	2.47 %	
	-	-	0.00 %	1	-	0.00 %	
Junior subordinated debentures	15,465	243	6.22 %	15,465	262	6.70 %	
Total interest bearing liabilities	648,897	1,905	1.18 %	634,661	2,574	1.63 %	
Demand deposits	177,525			190,097			
Other liabilities	6,024			7,428			

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Stockholders' equity	135,423			94,692		
Total liabilities and stockholders' equity	\$ 967,869			\$ 926,878		
Net interest income and net interest spread		\$ 10,434	4.42 %		\$ 10,378	4.52 %
Net yield on interest earning assets			4.73 %			4.92 %

1 Securities classified as available-for-sale are included in average balances. Interest income figures reflect interest earned on such securities.

2 Interest income of \$410,000 for 2010 and \$456,000 for 2009 is added to interest earned on tax-exempt obligations to reflect tax equivalent yields using a 34% tax rate.

3 Interest income includes loan fees of \$791,000 for 2010 and \$744,000 for 2009. Nonaccrual loans are included in average balances and income on such loans is recognized on a cash basis.



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Table 2  
Consolidated Average Balances, Interest and Rates  
(in thousands)

	2010		Six Months Ended June 30,				2009	
	Average Volume	Interest	Average Yield/Rate		Average Volume	Interest	Average Yield/Rate	
<b>Assets</b>								
<b>Investment securities<sup>1</sup></b>								
Taxable	\$147,910	\$1,891	2.56	%	\$97,369	\$2,148	4.41	%
Tax exempt <sup>2</sup>	110,642	2,855	5.16	%	117,868	3,166	5.37	%
Other investments	20,587	89	0.86	%	4,357	62	2.85	%
Total investments	279,139	4,835	3.46	%	219,594	5,376	4.90	%
Time deposits in other banks	22,752	136	1.21	%	9,610	131	2.75	%
Federal funds	1,211	1	0.16	%	13,774	19	0.27	%
<b>Loans</b>								
Commercial and real estate	481,296	15,718	6.59	%	487,253	15,974	6.61	%
Installment	99,223	4,010	8.15	%	111,101	4,719	8.57	%
Total loans <sup>3</sup>	580,519	19,728	6.85	%	598,354	20,693	6.97	%
Total earning assets	883,621	24,700	5.64	%	841,332	26,219	6.28	%
Allowance for loan losses	(7,800 )				(7,505 )			
Nonearning assets	92,737				90,662			
Total assets	\$968,558				\$924,489			
<b>Liabilities and stockholders' equity</b>								
<b>NOW, money market, and savings</b>								
Time deposits	\$466,856	\$1,962	0.85	%	\$428,838	\$2,267	1.07	%
Total interest bearing deposits	124,497	1,029	1.67	%	141,741	1,947	2.77	%
	591,353	2,991	1.02	%	570,579	4,214	1.49	%
<b>Securities sold under repurchase agreements</b>								
Federal funds purchased	45,153	464	2.07	%	36,371	472	2.62	%
Other borrowings	491	2	0.81	%	1,162	5	0.86	%
Junior subordinated debentures	1,376	3	0.44	%	9,326	23	0.50	%
Total interest bearing liabilities	15,465	484	6.22	%	15,465	528	6.79	%
	653,838	3,944	1.22	%	632,903	5,242	1.67	%
Demand deposits	173,783				191,203			
Other liabilities	5,929				6,786			
Stockholders' equity	135,008				93,597			
Total liabilities and stockholders' equity	\$968,558				\$924,489			
<b>Net interest income and net interest spread</b>								
		\$20,756	4.42	%		\$20,977	4.61	%
<b>Net yield on interest earning assets</b>								
			4.74	%			5.03	%

1 Securities classified as available-for-sale are included in average balances. Interest income figures reflect interest earned on such securities.

2 Interest income of \$832,000 for 2010 and \$929,000 for 2009 is added to interest earned on tax-exempt obligations to reflect tax equivalent yields using a 34% tax rate.

3 Interest income includes loan fees of \$1,513,000 for 2010 and \$1,542,000 for 2009. Nonaccrual loans are included in average balances and income on such loans is recognized on a cash basis.

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Table 3  
Changes in Taxable-Equivalent Net Interest Income  
(in thousands)

	Three Months Ended June 30, 2010 compared to June 30, 2009		
	Total Increase (Decrease)	Change Attributable To Volume	Rates
Taxable-equivalent earned on:			
Investment securities			
Taxable	\$(110 )	\$416	\$(526 )
Tax exempt	(145 )	(84 )	(61 )
Other investments	18	54	(36 )
Federal funds sold	(17 )	(13 )	(4 )
Time deposits in other banks	6	37	(31 )
Loans, including fees	(365 )	(247 )	(118 )
Total	(613 )	163	(776 )
Interest paid on:			
Interest bearing deposits			
	(616 )	42	(658 )
Securities sold under repurchase agreements	(34 )	13	(47 )
Junior subordinated debentures	(19 )	-	(19 )
Total	(669 )	55	(724 )
Taxable-equivalent net interest income	\$56	\$108	\$(52 )

Note: In Table 3, changes due to both volume and rate have generally been allocated to volume and rate changes in proportion to the relationship of the absolute dollar amounts to the changes in each.

Table 4  
Changes in Taxable-Equivalent Net Interest Income  
(in thousands)

	Six Months Ended June 30, 2010 compared to June 30, 2009		
	Total Increase (Decrease)	Change Attributable To Volume	Rates
Taxable-equivalent earned on:			
Investment securities			
Taxable	\$(257 )	\$857	\$(1,114 )
Tax exempt	(311 )	(189 )	(122 )
Other investments	27	96	(69 )
Federal funds sold	(18 )	(12 )	(6 )

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Time deposits in other banks	5	108	(103 )
Loans, including fees	(965 )	(610 )	(355 )
Total	(1,519 )	250	(1,769 )
Interest paid on:			
Interest bearing deposits	(1,223 )	148	(1,371 )
Securities sold under repurchase agreements	(8 )	101	(109 )
Federal funds purchased	(3 )	(3 )	-
Other borrowings	(20 )	(17 )	(3 )
Junior subordinated debentures	(44 )	-	(44 )
Total	(1,298 )	229	(1,527 )
Taxable-equivalent net interest income	\$(221 )	\$21	\$(242 )

Note: In Table 4, changes due to both volume and rate have generally been allocated to volume and rate changes in proportion to the relationship of the absolute dollar amounts to the changes in each.

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## Non-interest Income

Non-interest income for the second quarter of 2010 totaled \$4.0 million, or 5.3% above the \$3.8 million earned in the second quarter of 2009. For the six months ended June 30, 2010, non-interest income totaled \$7.7 million or \$277,000 more than the \$7.4 million reported for the six months ended June 30, 2009. In prior-year quarterly comparison, non-interest income was positively impacted by increases of \$66,000 in letters of credit income, \$59,000 in ATM/debit card income, and \$33,000 in service charges on deposit accounts. In year-to-date comparison, non-interest income increased primarily due to a \$93,000 increase in service charges on deposit accounts and a \$90,000 increase in ATM/debit card income. Additionally, income from letters of credit increased \$70,000. The increases in ATM/debit card income and service charges on deposit accounts in both quarterly and year-to-date comparisons resulted from a higher volume of transactions processed. No changes have been made to processing fees during the periods reviewed.

During the second quarter of 2010, we began addressing changes in Regulation E that will become effective on August 15, 2010. Regulation E is the federal regulation governing banks in the treatment of electronic funds transfers and the ability to collect fees for overdrafts involving ATM and point of sale debit transactions. Amendments to Regulation E require that banks give their customers the option to continue to receive approval on and payment of point-of-sale transactions by accessing a form of overdraft protection. We have 20,661 customers affected by the change in Regulation E. As of the end of July 2010, we have contacted 18,450 customers, with 16,407, or 88.9%, opting to continue to access a form of overdraft protection for approval on and payment of point-of-sale transactions. While the impact of the changes in Regulation E on our earnings is still unknown at this time, the overdraft fees earned on electronic transactions represent a significant portion of our non-interest income.

## Non-interest Expenses

Non-interest expense increased \$37,000, or 0.3%, from \$11.13 million at June 30, 2009 to \$11.17 million at June 30, 2010. Non-interest expense increases primarily consisting of \$259,000 in marketing costs, \$180,000 in expenses on OREO, \$101,000 in data processing costs, \$92,000 in ATM and debit card expenses, and \$87,000 in professional and consulting fees were offset by decreases of \$334,000 in salaries and benefit costs and \$415,000 in FDIC assessments. Salaries and benefits decreased primarily due to a decrease in group health insurance costs as a result of a lower volume of claims. Additionally, the number of full-time equivalent employees declined in quarterly comparison, from 423 at June 30, 2009 to 389 at June 30, 2010, due primarily to attrition. FDIC premiums decreased due to the one-time assessment recorded in the second quarter of 2009.

Non-interest expense decreased \$0.5 million in year-over-year comparison, from \$22.4 million at June 30, 2009 to \$21.9 million at June 30, 2010. A \$564,000 reduction in salaries and benefit costs and a \$401,000 decrease in FDIC fees were partially offset by increases in marketing costs, OREO expenses, and professional and consulting fees. Marketing costs increased primarily as a result of regional marketing campaigns. OREO expenses increased due to losses on sales of foreclosed properties. The increase in professional and consulting fees are primarily related to third party services contracted to enhance customer relationship management and promote franchise growth.

## Analysis of Statement of Condition

We ended the second quarter of 2010 with total assets of \$971.8 million, a 0.03% decrease over the \$972.1 million in total assets recorded at December 31, 2009. Deposits decreased \$3.4 million, totaling \$769.9 million as of June 30, 2010, compared to \$773.3 million on December 31, 2009. Total loans were \$586.1 million, an increase of \$1.1 million, or 0.2%, over the \$585.0 million reported as of December 31, 2009.

In the deposit portfolio, interest-bearing deposits decreased \$6.1 million in the first six months of 2010, offsetting a \$2.7 million increase in non-interest-bearing deposits, to net a \$3.4 million decline in deposits at June 30, 2010. The decrease in interest-bearing deposits was primarily driven by a decrease of \$11.5 million in time deposits, partially offset by a \$6.2 million increase in money market deposits.

Securities available-for-sale totaled \$277.7 million at June 30, 2010, up \$5.9 million from \$271.8 million at December 31, 2009, as \$26.1 million in investment purchases offset maturities and calls within the available-for-sale portfolio.

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Securities held-to-maturity decreased \$1.4 million, from \$3.0 million at December 31, 2009 to \$1.6 million at June 30, 2010.

The composition of the Company's loan portfolio is reflected in Table 3 below.

Table 5  
Composition of Loans  
(in thousands)

	June 30, 2010	December 31, 2009
Commercial, financial, and agricultural	\$ 196,024	\$ 192,347
Lease financing receivable	5,956	7,589
Real estate – mortgage	271,339	265,175
Real estate – construction	43,289	39,544
Installment loans to individuals	68,283	79,476
Other	1,171	911
Total loans	\$ 586,062	\$ 585,042

Loans increased in all primary categories, with the exception of a \$1.6 million decrease in the lease financing receivable category and an \$11.2 million decrease in the installment loans to individuals category for the quarter ended June 30, 2010. Of the \$11.2 million decrease in installment loans, \$6.8 million, or 60.7%, represented a decline in the indirect auto financing portfolio. Within the \$271.3 million real estate mortgage portfolio, \$177.8 million represented loans secured primarily by commercial real estate, 72.6% of which was owner-occupied. Real estate mortgage loans secured by 1-4 family residential properties totaled \$74.7 million, 81.7% of which represented loans secured by first liens. Within the \$43.3 million real estate construction portfolio, 85.6% represented commercial construction and land development and 14.4% represented residential construction and consumer property. We believe our risk within the real estate and construction portfolios is diversified throughout our markets and that current exposure within the two portfolios is sufficiently provided for within the ALLL at June 30, 2010.

#### Off-Balance Sheet Arrangements

In the normal course of operations, the Company engages in a variety of financial transactions that, in accordance with U.S. generally accepted accounting principles, are not recorded in the financial statements. These transactions involve, to varying degrees, elements of credit, interest rate, and liquidity risk. Such transactions are used primarily to manage customers' requests for funding and take the form of loan commitments, letters of credit and lines of credit.

For the period ended June 30, 2010, we did not engage in any off-balance sheet transactions reasonably likely to have a material impact on our financial condition, results of operations or cash flows.

#### Bank Liquidity

Liquidity is the availability of funds to meet maturing contractual obligations and to fund operations. The Bank's primary liquidity needs involve its ability to accommodate customers' demands for deposit withdrawals as well as customers' requests for credit. Liquidity is deemed adequate when sufficient cash to meet these needs can be promptly raised at a reasonable cost to the Bank.

Liquidity is provided primarily by three sources: a stable base of funding sources, an adequate level of assets that can be readily converted into cash, and borrowing lines with correspondent banks. Our core deposits are our most stable

and important source of funding. Cash deposits at other banks, federal funds sold, and principal payments received on loans and mortgage-backed securities provide additional primary sources of liquidity. Approximately \$16.6 million in projected cash flows from securities repayments for the remainder of 2010 provides an additional source of liquidity.

The Bank also has significant borrowing capacity with the FRB-Atlanta and with the FHLB-Dallas. As of June 30, 2010, we had no borrowings with the FRB-Atlanta or the FHLB-Dallas. The Company has \$21.9 million in borrowing capacity at the FRB Discount Window and has the ability to post additional collateral of approximately \$139.0 million if necessary



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to meet liquidity needs. Additionally, \$22.3 million in loan collateral is pledged under a Borrower-in-Custody line with the FRB-Atlanta. Under existing agreements with the FHLB-Dallas, our borrowing capacity totaled \$144.8 million at June 30, 2010. Additional unsecured borrowing lines totaling \$35.0 million are available through correspondent banks. We utilize these contingency funding alternatives to meet deposit volatility, which is more likely in the current environment, given unusual competitive offerings within our markets.

### Company Liquidity

On December 22, 2009, we closed an underwritten public offering of 2.7 million shares of our common stock at a price of \$12.75 per share. On January 7, 2010, the underwriters of the public offering exercised in full their overallotment option for 405,000 additional shares of our common stock. Net proceeds from the offering and the exercise of the overallotment option totaled \$37.3 million after deducting underwriting discounts and offering expenses. We plan to use the net proceeds for general corporate purposes including ongoing and anticipated growth, which may include potential acquisition opportunities.

On January 9, 2009, our participation in the CPP of the Treasury offered under the Emergency Economic Stabilization Act of 2008 added \$20.0 million in liquidity and capital. We distributed the majority of the proceeds to the Bank for the purpose of funding loans. Some of the proceeds were retained at the Company to meet the 5% dividend requirement on the Series A Preferred Stock issued to the Treasury under the CPP.

As part of the CPP transaction, we issued the Treasury warrants to purchase 208,768 shares of our common stock at an exercise price of \$14.37 per share. However, as a result of the completion of our public offering in December 2009, the number of shares subject to the warrants held by the Treasury was reduced to 104,384 shares.

At the Company level, cash is needed primarily to meet interest payments on the junior subordinated debentures, dividend payments on the Series A Preferred Stock, issued in the CPP transaction, and dividends on the common stock. We issued \$8,248,000 in unsecured junior subordinated debentures in September 2004 and \$7,217,000 in February 2001, the terms of which are described in the notes to the consolidated financial statements. Dividends from the Bank totaling \$1,750,000 provided additional liquidity for the Company in 2009. Although no dividends have been paid to the Company in the current year, as of June 30, 2010, the Bank had the ability to pay dividends to the Company of approximately \$10.9 million without prior approval from its primary regulator. At June 30, 2010, the parent company had approximately \$33.8 million in cash available for general corporate purposes, including injecting capital into the Bank. As a publicly traded company, the Company also has the ability, subject to market conditions, to issue additional shares of common stock and other securities to provide funds as needed for operations and future growth of the Company. At the annual shareholders' meeting held on May 26, 2010, shareholders approved an increase in the number of authorized shares of our common stock from 10,000,000 shares to 30,000,000 shares. The additional shares of common stock provide additional flexibility to use our common stock for future business and financial purposes.

### Capital

The Company and the Bank are required to maintain certain minimum capital levels. Risk-based capital requirements are intended to make regulatory capital more sensitive to the risk profile of an institution's assets. At June 30, 2010, the Company and the Bank were in compliance with statutory minimum capital requirements and was classified as "well capitalized." Minimum capital requirements include a total risk-based capital ratio of 8.0%, with Tier 1 capital not less than 4.0%, and a leverage ratio (Tier 1 to total average adjusted assets) of 4.0% based upon the regulators latest composite rating of the institution. As of June 30, 2010, the Company's leverage ratio was 14.35%, Tier 1 capital to risk-weighted assets was 20.51% and total capital to risk-weighted assets was 21.76%. The Bank had a leverage capital ratio of 10.79% at June 30, 2010.

Asset Quality

Credit Risk Management

We manage credit risk primarily by observing written, board approved policies that govern all credit underwriting and approval activities. The risk management program requires that each individual loan officer review his or her portfolio on a quarterly basis and assign recommended credit ratings on each loan. These efforts are supplemented by independent reviews performed by the loan review officer and other validations performed by the internal audit department. The results of the reviews are reported directly to the Audit Committee of the Board of Directors. Additionally, Bank

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concentrations are monitored and reported quarterly whereby individual customer and aggregate industry leverage, profitability, risk rating distributions, and liquidity are evaluated for each major standard industry classification segment. At June 30, 2010, one industry segment concentration, the oil and gas industry, aggregates more than 10% of our loan portfolio. Our exposure in the oil and gas industry, including related service and manufacturing industries, totaled approximately \$114.3 million, or 19.5% of total loans. Additionally, we monitor our exposure to loans secured by commercial real estate. At June 30, 2010, loans secured by commercial real estate totaled approximately \$177.8 million, 72.6% of which is owner-occupied real estate. Of the loans secured by commercial real estate, \$0.5 million or 0.3% are nonaccrual and none are 90 days past due and still accruing.

## Nonperforming Assets and Allowance for Loan Losses

Table 6 summarizes the Company's nonperforming assets for the quarters ending June 30, 2010 and 2009, and December 31, 2009.

Table 6  
Nonperforming Assets and Loans Past Due 90 Days or More and Still Accruing  
(in thousands)

	June 30, 2010	December 31, 2009	June 30, 2009		
Nonaccrual loans	\$19,772	\$16,183	\$15,664		
Loans past due 90 days and over and still accruing	1,459	378	791		
Total nonperforming loans	21,231	16,561	16,455		
Other real estate owned	1,002	792	829		
Other foreclosed assets	65	51	203		
Total nonperforming assets	\$22,298	\$17,404	\$17,487		
Troubled debt restructurings	\$1,198	\$-	\$-		
Nonperforming assets to total assets	2.29	% 1.79	% 1.89	%	%
Nonperforming assets to total loans + OREO + other foreclosed assets	3.80	% 2.97	% 2.93	%	%
ALLL to nonperforming loans	39.90	% 48.28	% 48.85	%	%
ALLL to total loans	1.45	% 1.37	% 1.35	%	%
YTD charge-offs	\$2,325	\$5,268	\$2,779		
YTD recoveries	(151)	(227)	(132)	)	)
YTD net charge-offs	\$2,174	\$5,041	\$2,647		
Annualized net charge-offs to total loans	0.75	% 0.86	% 0.90	%	%

Nonaccrual loans totaled \$19.8 million as of June 30, 2010, compared to \$15.7 million at June 30, 2009 and \$16.2 million as of December 31, 2009. The increase in nonaccruals year-over-year and year-end comparisons resulted primarily from the addition of a \$4.1 million commercial loan in the first quarter of 2010. The loan is well collateralized and secured primarily by a marine vessel. Of the remaining \$15.7 million in nonaccrual loans, \$11.3 million, or 72.0%, represented two large commercial real estate loan relationships in the Baton Rouge market. Loans past due 90 days or more and still accruing totaled \$1.5 million at June 30, 2010, an increase of \$0.7 million over June 30, 2009 and an increase of \$1.1 million over December 31, 2009. Total nonperforming assets to total assets were 2.29% at June 30, 2010, compared to 1.89% at June 30, 2009 and 1.79% at December 31, 2009. One commercial loan totaling \$1.2 million was classified as a troubled debt restructuring during the second quarter of 2010 due to a

reduction in monthly payments granted to the borrower. The loan was subsequently paid off in the first week of August 2010 and therefore is not included in the calculation of our credit and quality ratios. Additional information regarding impaired loans is included in Note 4 – Allowance for Loan Losses in the notes to the interim consolidated financial statements.

Allowance coverage for nonperforming loans was 39.90% at June 30, 2010, compared to 48.85% at June 30, 2009 and

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48.28% at December 31, 2009. Annualized net charge-offs were 0.75% of total loans for the second quarter of 2010 compared to 0.90% for the second quarter of 2009 and 0.86% for the fourth quarter of 2009. The ALLL/total loans ratio was 1.45% for the quarter ended June 30, 2010 compared to 1.35% at June 30, 2009 and 1.37% at December 31, 2009.

Quarterly evaluations of the allowance for loan losses are performed in accordance with GAAP and regulatory guidelines. The allowance is comprised of specific reserves assigned to each impaired loan for which a probable loss has been identified as well as general reserves to maintain the allowance at an acceptable level for other loans in the portfolio where historical loss experience is available that indicates certain probable losses may exist. Factors considered in determining provisions include estimated losses in significant credits; known deterioration in concentrations of credit; historical loss experience; trends in nonperforming assets; volume, maturity and composition of the loan portfolio; off-balance sheet credit risk; lending policies and control systems; national and local economic conditions; the experience, ability and depth of lending management; and the results of examinations of the loan portfolio by regulatory agencies and others. The processes by which we determine the appropriate level of the allowance, and the corresponding provision for probable credit losses, involves considerable judgment; therefore, no assurance can be given that future losses will not vary from current estimates. We believe the \$8.5 million in the allowance as of June 30, 2010 is sufficient to cover probable losses in the loan portfolio.

Impact of Inflation and Changing Prices

The consolidated financial statements of and notes thereto, presented herein, have been prepared in accordance with accounting principles generally accepted in the United States of America, which require the measurement of financial position and operating results in terms of historical dollars without considering the change in the relative purchasing power of money over time due to inflation. The impact of inflation is reflected in the increased cost of the Company's operations. Unlike most industrial companies, nearly all the assets and liabilities of the Company are financial. As a result, interest rates have a greater impact on the Company's performance than do the effects of general levels of inflation. Interest rates do not necessarily move in the same direction or to the same extent as the prices of goods and services.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

There have been no significant changes from the information regarding market risk disclosed under the heading "Funding Sources - Interest Rate Sensitivity" in the Company's Annual Report on Form 10-K for the year ended December 31, 2009.

Item 4T. Controls and Procedures.

The Company's Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). As of the end of the period covered by this Quarterly Report on Form 10-Q, the Chief Executive Officer and Chief Financial Officer have concluded that such disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in reports that it submits under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission rules and forms.

During the second quarter of 2010, there was no change in the Company's internal controls over financial reporting that has materially affected, or is reasonably likely to affect, the Company's internal control over financial reporting.



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Part II – Other Information

Item 1. Legal Proceedings.

The Bank has been named as a defendant in various legal actions arising from normal business activities in which damages of various amounts are claimed. While the amount, if any, of ultimate liability with respect to such matters cannot be currently determined, management believes, after consulting with legal counsel, that any such liability will not have a material adverse effect on the Company's consolidated financial position, results of operations, or cash flows.

Item 1A. Risk Factors.

The impact of the oil spill in the Gulf of Mexico and the corresponding moratorium on deepwater drilling are still unclear. The Company continues to monitor any new developments related to the oil spill.

The Dodd-Frank Act may affect our business activities, financial position and profitability by increasing our regulatory compliance burden and associated costs, placing restrictions on certain products and services, and limiting our future capital raising strategies.

On July 21, 2010, the President signed into law the Dodd-Frank Act, which implements significant changes in the financial regulatory landscape and will impact all financial institutions, including the Company. The Dodd-Frank Act is likely to increase our regulatory compliance burden. However, it is too early for us to fully assess the full impact of the Dodd-Frank Act on our business, financial condition or results of operations in part because many of the Dodd-Frank Act's provisions require subsequent regulatory rulemaking.

Among the Dodd-Frank Act's significant regulatory changes, it creates a new financial consumer protection agency, known as the Bureau of Consumer Financial Protection (the "Bureau"), that is empowered to promulgate new consumer protection regulations and revise existing regulations in many areas of consumer compliance, which will increase our regulatory compliance burden and costs and may restrict the financial products and services we offer to our customers. Moreover, the Dodd-Frank Act permits states to adopt stricter consumer protection laws and state attorney generals may enforce consumer protection rules issued by the Bureau. The Dodd-Frank Act also imposes more stringent capital requirements on bank holding companies by, among other things, imposing leverage ratios on bank holding companies and prohibiting new trust preferred issuances from counting as Tier 1 capital. These restrictions may limit our future capital strategies. The Dodd-Frank Act also increases regulation of derivatives and hedging transactions, which could limit our ability to enter into, or increase the costs associated with, interest rate and other hedging transactions.

Although certain provisions of the Dodd-Frank Act, such as direct supervision by the Bureau, will not apply to banking organizations with less than \$10.0 billion of assets, such as the Company, the changes resulting from the legislation will impact our business. These changes will require us to invest significant management attention and resources to evaluate and make necessary changes.

Except as noted above, there have been no other material changes from the risk factors previously disclosed in our Form 10-K for the year ended December 31, 2009.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

The Company did not repurchase any equity securities during the quarter ended June 30, 2010.

The Company is currently prohibited from repurchasing its common shares due to its participation in the Capital Purchase Plan with the Treasury.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Removed and Reserved.

None.

Item 5. Other Information.

None.

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Item 6. Exhibits.

Exhibit Number	Document Description
3.1	Articles of Amendment to the Amended Restated Articles of Incorporation of MidSouth Bancorp, Inc. (as incorporated herein by reference to the Company's Form 8-K filed on June 2, 2010)
31.1	Certification pursuant to Exchange Act Rules 13(a) – 14(a) *
31.2	Certification pursuant to Exchange Act Rules 13(a) – 14(a) *
32.1	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 **
32.2	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 **

\* Filed herewith.

\*\* Furnished herewith.

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Signatures

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

MidSouth Bancorp, Inc.  
(Registrant)

Date: August 9, 2010

/s/ C. R. Cloutier  
C. R. Cloutier, President /CEO  
(Principal Executive Officer)

/s/ James R. McLemore  
James R. McLemore, CFO  
(Principal Financial Officer)

/s/ Teri S. Stelly  
Teri S. Stelly, Controller  
(Principal Accounting Officer)

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0.75pt #000000; border-bottom:solid 0.75pt #000000;white-space:nowrap;">

\$

3,156,428

\$

2,306,458

\$

1,746,369

\*NOTE: During the second quarter of 2016, energy products were moved from the category of sparkling beverages to still beverages, which has been reflected in all periods presented. Total bottle/can sales remain unchanged in prior periods.

#### Areas of Emphasis

Key priorities for the Company include territory and manufacturing expansion, revenue management, product innovation and beverage portfolio expansion, distribution cost management, and productivity.

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

**Product Innovation and Beverage Portfolio Expansion:** Innovation of both new brands and packages has been and is expected to continue to be important to the Company's overall revenue. Recent product introductions from the Company and The Coca Cola Company include new flavor varieties within certain brands such as Fanta Sparkling Fruit, Minute Maid Refreshment, Monster, Dasani Drops, NOS, and Dasani Sparkling. New packaging introductions over the last several years include the 253 ml bottle, the 1.25-liter bottle, the 7.5-ounce sleek can, the 2-liter contour bottle for Coca Cola products, and the 16-ounce bottle/24-ounce bottle package.

**Distribution Cost Management:** Distribution costs represent the costs of transporting finished goods from Company locations to customer outlets. Total distribution costs amounted to \$314.3 million, \$222.9 million and \$211.6 million in 2016, 2015 and 2014, respectively. Management of these costs will continue to be a key area of emphasis for the Company.

The Company has three primary delivery systems:

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

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

#### Items Impacting Operations and Financial Condition

The comparison of operating results for 2015 to the operating results for 2016 and 2014 are affected by the impact of one additional selling week in 2015 due to the Company's fiscal year ending on the Sunday closest to December 31<sup>st</sup>. The estimated net sales, gross profit and S,D&A expenses for the additional selling week in 2015 of approximately \$39 million, \$14 million and \$10 million, respectively, are included in reported results in 2015.

The following items also affect the comparability of the financial results presented below:

2016

\$1.06 billion in net sales and \$24.3 million of operating income related to the Expansion Territories and Regional Manufacturing Facilities;  
\$32.3 million of expenses related to acquiring and transitioning Expansion Territories and Regional Manufacturing Facilities;  
\$4.7 million pretax favorable mark-to-market adjustments related to our commodity hedging program  
\$4.0 million of additional expense related to increased charitable contributions; and  
\$1.9 million recorded in other expense as a result of a favorable fair value adjustment to the Company's contingent consideration liability related to the Expansion Territories

2015

\$437.0 million in net sales and \$6.9 million of operating income related to Expansion Territories;  
\$22.7 million gain on the sale of BYB;  
\$20.0 million of expenses related to acquiring and transitioning Expansion Territories;  
• \$8.8 million gain on the exchange of certain Expansion Territories and related assets and liabilities;  
\$3.6 million recorded in other expense as a result of an unfavorable fair value adjustment to the Company's contingent consideration liability related to the Expansion Territories;  
\$3.4 million pre-tax unfavorable mark-to-market adjustments related to our commodity hedging program;

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2014

\$45.1 million in net sales and \$3.4 million of operating income related to Expansion Territories;  
 \$12.9 million of expenses related to acquiring and transitioning Expansion Territories; and  
 \$1.1 million recorded in other expense as a result of an unfavorable fair value adjustment to the Company's contingent consideration liability related to the Expansion Territories.

## Results of Operations

## 2016 Compared to 2015

A summary of the Company's financial results for 2016 and 2015:

(in thousands)	Fiscal Year			%
	2016	2015	Change	Change
Net sales	\$3,156,428	\$2,306,458	\$849,970	36.9%
Cost of sales	1,940,706	1,405,426	535,280	38.1
Gross profit	1,215,722	901,032	314,690	34.9
S,D&A expenses	1,087,863	802,888	284,975	35.5
Income from operations	127,859	98,144	29,715	30.3
Interest expense, net	36,325	28,915	7,410	25.6
Other income (expense), net	1,870	(3,576 )	5,446	(152.3 )
Gain (loss) on exchange of franchise territory	(692 )	8,807	(9,499 )	(107.9 )
Gain on sale of business	-	22,651	(22,651 )	(100.0 )
Bargain purchase gain, net of tax of \$1,265	-	2,011	(2,011 )	(100.0 )
Income before taxes	92,712	99,122	(6,410 )	(6.5 )
Income tax expense	36,049	34,078	1,971	5.8
Net income	56,663	65,044	(8,381 )	(12.9 )
Less: Net income attributable to noncontrolling interest	6,517	6,042	475	7.9
Net income attributable to Coca-Cola Bottling Co. Consolidated	\$50,146	\$59,002	\$(8,856 )	(15.0)%

## Net Sales

Net sales increased \$850.0 million, or 36.9%, to \$3.16 billion in 2016, as compared to \$2.31 billion in 2015. The increase in net sales was principally attributable to the following (in millions):

2016	Attributable to:
\$773.6	Net sales increase related to the 2016 Expansion Territories, partially offset by the 2015 comparable sales of Legacy Territories exchanged for Expansion Territories in 2015
54.4	3.3% increase in bottle/can sales volume to retail customers in the Legacy Territories, primarily due to an increase in still beverages
22.6	Increase in external transportation revenue
(21.8)	Decrease in sales of the Company's own brand products, primarily due to the sale of BYB in the third quarter of 2015
15.3	0.9% increase in bottle/can sales price per unit to retail customers in the Company's Legacy Territories, primarily due to an increase in energy beverage volume, including Monster products, which have a higher sales price per unit, and an increase in all beverage categories sales price per unit except the water beverage category
5.9	Other
\$850.0	Total increase in net sales

The Company's bottle/can sales to retail customers accounted for approximately 84% of the Company's total net sales in 2016, as compared to approximately 82% in 2015. Bottle/can net pricing is based on the invoice price charged to customers reduced by promotional allowances. Bottle/can net pricing per unit is impacted by the price charged per package, the volume generated in each package and the channels in which those packages are sold.

Product category sales volume in 2016 and 2015 as a percentage of total bottle/can sales volume and the percentage change by product category were as follows:

Product Category	Bottle/Can Sales Volume		Bottle/Can Sales Volume		Increase	
	2016	2015	2016	2015	2016	2015
Sparkling beverages	71.2	73.4	32.5	32.5	0.8	0.8
Still beverages (including energy products)	28.8	26.6	47.3	47.3	10.3	10.3
Total bottle/can sales volume	100.0	100.0	36.4	36.4	0.0	0.0

Bottle/can volume to retail customers, excluding Expansion Territories, increased 3.3%, which represented a 0.8% increase in sparkling beverages and a 10.3% increase in still beverages in 2016, as compared to 2015. The increase in still beverages was primarily due to increases in energy beverages, which was primarily due to the Company expanding the territories in which it distributes Monster products.

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 2016, approximately 66% of the Company's bottle/can volume to retail customers was sold for future consumption, while the remaining bottle/can volume to retail customers was sold for immediate consumption. All the Company's beverage sales were to customers in the United States. The Company recorded delivery fees in net sales of \$6.0 million in 2016 and \$6.3 million in 2015. These fees are used to offset a portion of the Company's delivery and handling costs.

The following table summarizes the percentage of the Company's total bottle/can volume and the percentage of the Company's total net sales, which are all included in the Nonalcoholic Beverages operating segment, attributed to its largest customers:

Customer	Fiscal Year	
	2016	2015
<b>Wal-Mart Stores, Inc.</b>		
Approximate percent of the Company's total Bottle/can volume	20%	22%
Approximate percent of the Company's total Net sales	14%	15%
<b>Food Lion, LLC</b>		
Approximate percent of the Company's total Bottle/can volume	8%	7%
Approximate percent of the Company's total Net sales	5%	5%
<b>The Kroger Company</b>		
Approximate percent of the Company's total Bottle/can volume	6%	6%
Approximate percent of the Company's total Net sales	5%	5%



Cost of Sales

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

Cost of sales increased \$535.3 million, or 38.1%, to \$1.94 billion in 2016, as compared to \$1.41 billion in 2015. The increase in cost of sales was principally attributable to the following (in millions):

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2016	Attributable to:
\$493.9	Net sales increase related to the 2016 Expansion Territories, partially offset by the 2015 comparable sales of Legacy Territories exchanged for Expansion Territories in 2015
30.7	3.3% increase in bottle/can sales volume to retail customers in the Legacy Territories, primarily due to an increase in still beverages
19.3	Increase in raw material costs and increased purchases of finished products
18.0	Increase in external transportation cost of sales
(13.2)	Increase in marketing funding support received for the Legacy Territories, primarily from The Coca-Cola Company
(11.6)	Decrease in cost of sales of the Company's own brand products, primarily due to the sale of BYB in the third quarter of 2015
(5.3)	Increase in cost due to the Company's commodity hedging program
3.5	Other
\$535.3	Total increase in cost of sales

The following inputs represent a substantial portion of the Company's total cost of sales: (i) sweeteners, (ii) packaging materials, including plastic bottles and aluminum cans, and (iii) finished products purchased from other vendors.

The Company relies extensively on advertising and sales promotion in the marketing of its products. The Coca Cola Company and other beverage companies that supply concentrates, syrups and finished products to the Company make substantial marketing and advertising expenditures to promote sales in the local territories served by the Company. The Company also benefits from national advertising programs conducted by The Coca Cola Company and other beverage companies. Certain of the marketing expenditures by The Coca Cola Company and other beverage companies are made pursuant to annual arrangements. Total marketing funding support from The Coca Cola Company and other beverage companies, which includes direct payments to the Company and payments to customers for marketing programs, was \$99.4 million in 2016, as compared to \$72.2 million in 2015.

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

#### S,D&A Expenses

S,D&A expenses include the following: sales management labor costs, distribution costs from sales distribution centers to customer locations, sales distribution center warehouse costs, depreciation expense related to sales centers, delivery vehicles and cold drink equipment, point-of-sale expenses, advertising expenses, cold drink equipment repair costs, amortization of intangibles and administrative support labor and operating costs.



S,D&A expenses increased by \$285.0 million, or 35.5%, to \$1.09 billion in 2016, as compared to \$802.9 million in 2015. S,D&A expenses as a percentage of sales decreased to 34.5% in 2016 from 34.8% in 2015. The increase in S,D&A expenses was principally attributable to the following (in millions):

2016 Attributable to:

\$141.1	Increase in employee salaries including bonus and incentives due to additional personnel added from the Expansion Territories and normal salary increases
23.9	Increase in depreciation and amortization of property, plant and equipment primarily due to depreciation for fleet and vending equipment in the Expansion Territories
18.1	Increase in employee benefit costs primarily due to additional medical expense and increased 401(k) employer matching contributions for employees in the Expansion Territories
12.3	Increase in expenses related to the Expansion Territories, primarily professional fees related to due diligence
11.7	Increase in marketing expense primarily due to increased spending for promotional items and media and cold drink sponsorships
11.0	Increase in employer payroll taxes primarily due to payroll in the Expansion Territories
7.2	Increase in property and casualty insurance expense primarily due to an increase in insurance premiums and insurance claims from the addition of the Expansion Territories
6.6	Increase in vending and fountain parts expense due to the addition of the Expansion Territories
6.1	Increase in software expenses primarily due to investment in technology for the Expansion Territories
5.7	Increase in property, vehicle and other taxes due to the addition of the Expansion Territories
4.6	Increase in rental expense due primarily to additional equipment and facilities rent expense for the Expansion Territories
4.2	Increase in facilities non-rent expenses related to new facilities added in the Expansion Territories
4.0	Increase in charitable contributions made during the first quarter of 2016
19.9	Other individually immaterial expense increases primarily related to the Expansion Territories
8.6	Other individually immaterial increases
\$285.0	Total increase in S,D&A expenses

Shipping and handling costs related to the movement of finished goods from manufacturing locations to sales distribution centers are included in cost of sales. Shipping and handling costs related to the movement of finished goods from sales distribution centers to customer locations are included in S,D&A expenses and totaled \$314.3 million in 2016 and \$222.9 million in 2015.

#### Interest Expense, Net

Interest expense, net, increased \$7.4 million, or 25.6%, to \$36.3 million in 2016, as compared to \$28.9 million in 2015. The increase was primarily a result of additional borrowings to finance the territory expansion.

#### Other Income (Expense), Net

Other income (expense), net, included noncash income of \$1.9 million in 2016 and a noncash expense of \$3.6 million in 2015 as a result of fair value adjustments of the Company's contingent consideration liability related to the Expansion Territories. The adjustment was primarily a result of a change in the risk-free interest rates. As the contingent consideration is calculated using 40 years of discounted cash flows, any reductions in contingent consideration due to current payments of the liability are effectively marked to market at the next reporting period, assuming interest rates and future projections remain constant.

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

#### Gain (Loss) on Exchange of Franchise Territory

During 2015, the Company and CCR completed a like-kind exchange transaction where CCR agreed to exchange certain assets of CCR relating to the marketing, promotion, distribution and sale of Coca-Cola and other beverage products in the territory served by CCR's facilities and equipment located in Lexington, Kentucky in exchange for certain assets of the Company relating to the marketing, promotion, distribution and sale of Coca-Cola and other beverage products in the territory served by the Company's facilities and equipment located in Jackson, Tennessee. The fair value in 2015 of the Lexington net assets acquired totaled \$36.8 million and the Company paid cash of approximately \$10.5 million. The carrying value of the Jackson net assets was \$17.5 million, resulting in a net gain of \$8.8 million. The balances of net assets acquired and cash paid were subsequently adjusted in 2016 as a result of final post-closing adjustments. See Note 3 to the consolidated financial statements for additional information.

#### Gain on Sale of Business

During 2015, the Company sold BYB, a wholly-owned subsidiary of the Company, to The Coca Cola Company. The Company received cash proceeds of \$26.4 million. The net assets of BYB at closing totaled \$3.7 million, which resulted in a gain of \$22.7 million in 2015.

#### Bargain Purchase Gain, Net of Tax

In addition to the acquired Expansion Territories, the Company also acquired a "make-ready center" in Annapolis, Maryland from CCR for approximately \$5.3 million in 2015. The cash paid was subsequently adjusted in 2016 as a result of final post-closing adjustments. See Note 3 to the consolidated financial statements for additional information. The fair value of the net assets acquired totaled \$7.3 million, which resulted in a bargain purchase gain of approximately \$2.0 million, net of tax of approximately \$1.3 million, recorded in 2015.

#### Income Tax Expense

The Company's effective tax rate, calculated by dividing income tax expense by income before income taxes, was 38.9% for 2016 and 34.4% for 2015. The increase in the effective tax rate was driven primarily by a decrease to the favorable manufacturing deduction, as a percentage of pre-tax income, less of a decrease to the valuation allowance in 2016 as compared to 2015, and an increase in non-deductible travel expense. The Company's effective tax rate, calculated by dividing income tax expense by income before income taxes minus net income attributable to noncontrolling interest, was 41.8% for 2016 and 36.6% for 2015.

#### Noncontrolling Interest

The Company recorded net income attributable to noncontrolling interest of \$6.5 million in 2016 and \$6.0 million in 2015 related to the portion of Piedmont owned by The Coca Cola Company.

#### Other Comprehensive Income (Loss), Net of Tax

Other comprehensive loss, net of tax, was \$10.5 million in 2016 and was primarily a result of actuarial losses on the Company's pension and postretirement benefit plans.

2015 Compared to 2014

A summary of the Company's financial results for 2015 and 2014 follows:

(in thousands)	Fiscal Year			% Change
	2015	2014	Change	
Net sales	\$2,306,458	\$1,746,369	\$560,089	32.1%
Cost of sales	1,405,426	1,041,130	364,296	35.0
Gross profit	901,032	705,239	195,793	27.8
S,D&A expenses	802,888	619,272	183,616	29.7
Income from operations	98,144	85,967	12,177	14.2
Interest expense, net	28,915	29,272	(357 )	(1.2 )
Other income (expense), net	(3,576 )	(1,077 )	(2,499 )	232.0
Gain on exchange of franchise territory	8,807	-	8,807	-
Gain on sale of business	22,651	-	22,651	-
Bargain purchase gain, net of tax of \$1,265	2,011	-	2,011	-
Income before taxes	99,122	55,618	43,504	78.2
Income tax expense	34,078	19,536	14,542	74.4
Net income	65,044	36,082	28,962	80.3
Less: Net income attributable to noncontrolling interest	6,042	4,728	1,314	27.8
Net income attributable to Coca-Cola Bottling Co. Consolidated	\$59,002	\$31,354	\$27,648	88.2%

## Net Sales

Net sales increased \$560.1 million, or 32.1%, to \$2.31 billion in 2015, as compared to \$1.75 billion in 2014. The increase in net sales was primarily attributable to the following (in millions):

2015	Attributable to:
\$373.4	Net sales increase related to the 2015 Expansion Territories, partially offset by the 2014 comparable sales of Legacy Territories exchanged for Expansion Territories in 2015
80.3	6.0% increase in bottle/can sales volume to retail customers in the Legacy Territories, primarily due to an increase in still beverages
69.3	4.9% increase in bottle/can sales price per unit to retail customers in the Legacy Territories, primarily due to an increase in energy beverage volume which have a higher sales price per unit, and an increase in all beverage categories sales price per unit except the water beverage category
25.8	Increase in external transportation revenue
12.4	7.6% increase in sales volume to other Coca-Cola bottlers, primarily due to a volume increase in all beverage categories
(9.1 )	



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Decrease in sales of the Company's own brand products, primarily due to the sale of BYB in the third quarter of 2015

4.0	2.3% increase in sales price per unit of sales to other Coca-Cola bottlers primarily due to a higher percentage of still beverages, which have a higher sales price per unit than non-energy sparkling beverages
3.0	3.4% increase in post-mix sales price per unit
1.0	Other
\$560.1	Total increase in net sales

The Company's bottle/can sales to retail customers accounted for approximately 82% of the Company's total net sales in 2015, as compared to approximately 80% in 2014. Product category sales volume in 2015 and 2014 as a percentage of total bottle/can sales volume and the percentage change by product category were as follows:

Product Category	Bottle/Can Sales Volume		Bottle/Can Sales Volume		Increase	
	2015	2014	2015	2014	2015	2014
Sparkling beverages	73.4	76.2	%	%	24.1	%
Still beverages (including energy products)	26.6	23.8	%	%	44.4	%
Total bottle/can sales volume	100.0	100.0	%	%	28.9	%

Bottle/can volume to retail customers, excluding Expansion Territories, increased 6.0%, which represented a 2.1% increase in sparkling beverages and a 19.9% increase in still beverages in 2015, as compared to 2014.

During 2015, approximately 68% of the Company's bottle/can volume to retail customers was sold for future consumption, while the remaining bottle/can volume to retail customers was sold for immediate consumption. All the Company's beverage sales were to customers in the United States. The Company recorded delivery fees in net sales of \$6.3 million in 2015 and \$6.2 million in 2014.

The following table summarizes the percentage of the Company's total bottle/can volume and the percentage of the Company's total net sales, which are all included in the Nonalcoholic Beverages operating segment, attributed to its largest customers:

Customer	Fiscal Year	
	2015	2014
<b>Wal-Mart Stores, Inc.</b>		
Approximate percent of the Company's total Bottle/can volume	22%	22%
Approximate percent of the Company's total Net sales	15%	15%
<b>Food Lion, LLC</b>		
Approximate percent of the Company's total Bottle/can volume	7%	9%
Approximate percent of the Company's total Net sales	5%	6%
<b>The Kroger Company</b>		
Approximate percent of the Company's total Bottle/can volume	6%	5%
Approximate percent of the Company's total Net sales	5%	4%

#### Cost of Sales

Cost of sales increased \$364.3 million, or 35.0%, to \$1.41 billion in 2015, as compared to \$1.04 billion in 2014. The increase in cost of sales was principally attributable to the following (in millions):

2015	Attributable to:
\$239.2	Net sales increase related to the 2015 Expansion Territories, partially offset by the 2014 comparable sales of Legacy Territories exchanged for Expansion Territories in 2015
47.1	Increase in raw material costs and increased purchases of finished products
46.6	6.0% increase in bottle/can sales volume to retail customers in the Legacy Territories, primarily due to an increase in still beverages
20.9	Increase in external transportation cost of sales

11.9	7.6% increase in sales volume to other Coca-Cola bottlers, primarily due to a volume increase in all beverage categories
(8.6)	) Increase in marketing funding support received for the Legacy Territories, primarily from The Coca-Cola Company
6.4	Increase in manufacturing cost (primarily labor expense)
(5.1)	) Decrease in cost of sales of the Company's own brand products, primarily due to the sale of BYB in the third quarter of 2015
4.1	Increase in cost due to the Company's commodity hedging program
1.8	Other
\$364.3	Total increase in cost of sales

Total marketing funding support from The Coca Cola Company and other beverage companies, which includes direct payments to the Company and payments to customers for marketing programs, was \$72.2 million in 2015, as compared to \$55.4 million in 2014.

## S,D&amp;A Expenses

S,D&A expenses increased by \$183.6 million, or 29.7%, to \$802.9 million in 2015, as compared to \$619.3 million in 2014. S,D&A expenses as a percentage of sales decreased to 34.8% in 2015 from 35.5% in 2014. The increase in S,D&A expenses was principally attributable to the following (in millions):

2015	Attributable to:
\$90.7	Increase in employee salaries including bonus and incentive compensation as a result of normal salary increases and additional personnel added from the Expansion Territories
15.4	Increase in depreciation and amortization of property, plant and equipment primarily due to depreciation for fleet and vending equipment in the Expansion Territories
13.3	Increase in employee benefit costs primarily due to additional medical expense (for employees from the Expansion Territories), increased pension expense and increased 401(k) employer matching contributions offset by decreased retiree medical benefits for legacy employees
7.1	Increase in professional fees expense primarily resulting from due diligence related to the Expansion Territories
6.1	Increase in marketing expense primarily due to increased spending for promotional items and media and cold drink sponsorship in the Expansion Territories
5.9	Increase in employer payroll taxes primarily due to payroll in the Expansion Territories
5.9	Increase in vending and fountain parts expense due to the addition of the Expansion Territories
18.3	Other individually immaterial expense increases primarily related to the Expansion Territories
20.9	Other individually immaterial increases
\$183.6	Total increase in S,D&A expenses

Shipping and handling costs related to the movement of finished goods from sales distribution centers to customer locations totaled \$222.9 million in 2015 and \$211.6 million in 2014.

S,D&A expense of \$1.6 million in 2015 and \$0.2 million in 2014 was recorded for the two Company-sponsored pension plans.

During 2015 and 2014, the Company matched the maximum 5% of participants' contributions on its 401(k) Savings Plan, for a total expense of \$9.4 million and \$7.7 million, respectively.

Certain employees of the Company participate in a multi-employer pension plan, the Employers-Teamsters Local Union Nos. 175 and 505 Pension Fund (the "Teamsters Plan"), to which the Company makes monthly contributions on behalf of such employees. In 2015, the Company increased the contribution rates to the Teamsters Plan, with additional increases occurring annually, as part of a rehabilitation plan. This is a result of the Teamsters Plan being certified by its actuary as being in "critical" status for the plan year beginning January 1, 2013, 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.

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.

#### Interest Expense, Net

Interest expense, net, decreased \$0.4 million, or 1.2%, to \$28.9 million in 2015, as compared to \$29.3 million in 2014. The decrease was primarily related to a decrease in the Company's overall weighted average interest rate on its debt and capital lease obligations to 4.7% during 2015 from 5.7% during 2014.

#### Other Income (Expense), Net

Other income (expense), net, included a noncash expense of \$3.6 million in 2015 and a noncash expense of \$1.1 million in 2014 as a result of an unfavorable fair value adjustment of the Company's contingent consideration liability related to the Expansion Territories. The adjustment was primarily driven by current payments of sub-bottler fees in 2015. As the contingent consideration is calculated using 40 years of discounted cash flows, any reductions in contingent consideration due to current payments of the liability are effectively marked to market at the next reporting period, assuming interest rates and future projections remain constant.

#### Gain (Loss) on Exchange of Franchise Territory

During 2015, the Company and CCR completed a like-kind exchange transaction where CCR agreed to exchange certain assets of CCR relating to the marketing, promotion, distribution and sale of Coca-Cola and other beverage products in the territory served by CCR's facilities and equipment located in Lexington, Kentucky in exchange for certain assets of the Company relating to the marketing, promotion, distribution and sale of Coca-Cola and other beverage products in the territory served by the Company's facilities and equipment located in Jackson, Tennessee. The fair value in 2015 of the Lexington net assets acquired totaled \$36.8 million and the Company paid cash of approximately \$10.5 million. The carrying value of the Jackson net assets was \$17.5 million, resulting in a net gain of \$8.8 million. The balances of net assets acquired and cash paid were subsequently adjusted in 2016 as a result of final post-closing adjustments. See Note 3 to the consolidated financial statements for additional information.

#### Gain on Sale of Business

During 2015, the Company sold BYB, a wholly-owned subsidiary of the Company, to The Coca Cola Company. The Company received cash proceeds of \$26.4 million. The net assets of BYB at closing totaled \$3.7 million, which resulted in a gain of \$22.7 million in 2015.

#### Bargain Purchase Gain, Net of Tax

In addition to the acquired Expansion Territories, the Company also acquired a "make-ready center" in Annapolis, Maryland from CCR for approximately \$5.3 million in 2015. The cash paid was subsequently adjusted in 2016 as a result of final post-closing adjustments. See Note 3 to the consolidated financial statements for additional information. The fair value of the net assets acquired totaled \$7.3 million, which resulted in a bargain purchase gain of approximately \$2.0 million, net of tax of approximately \$1.3 million, recorded in 2015.

#### Income Tax Expense

The Company's effective tax rate, calculated by dividing income tax expense by income before income taxes, was 34.4% for 2015 and 35.1% for 2014. The decrease in the effective tax rate resulted primarily from a state tax legislation target that was met that caused a reduction to the corporate tax rate in 2015 and reductions to the valuation allowance due to the Company's assessment of the Company's ability to use certain loss carryforwards primarily related to the sale of BYB. The Company's effective tax rate, as calculated by dividing income tax expense by income before income taxes less net income attributable to noncontrolling interest, was 36.6% for 2015 and 38.4% for 2014.

The Company decreased its valuation allowance by \$1.3 million for 2015 and increased its valuation allowance by \$1.2 million for 2014. The effect for both years was primarily due to the Company's assessment of its ability to use certain loss carryforwards. See Note 15 to the consolidated financial statements for additional information.

#### Noncontrolling Interest

The Company recorded net income attributable to noncontrolling interest of \$6.0 million in 2015 and \$4.7 million in 2014 related to the portion of Piedmont owned by The Coca-Cola Company.

#### Other Comprehensive Income, Net of Tax

Other comprehensive income, net of tax, was \$7.5 million in 2015 and was primarily a result of actuarial gains on the Company's pension and postretirement benefit plans.

#### Segment Operating Results

The Company evaluates segment reporting in accordance with the Financial Accounting Standards Board ("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.

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

Prior to the sale of BYB in the third quarter of fiscal 2015, the Company believed five operating segments existed. Subsequent to this sale, two operating segments, Franchised Nonalcoholic Beverages and Internally-Developed Nonalcoholic Beverages (made up entirely of BYB), were aggregated due to their similar economic characteristics as well as the similarity of products, production processes, types of customers, methods of distribution, and nature of the regulatory environment. This combined segment is Nonalcoholic Beverages.

The Company's results for its two reportable segments are as follows:

(in thousands)	Fiscal Year		
	2016	2015	2014
<b>Net Sales:</b>			
Nonalcoholic Beverages	\$3,060,937	\$2,245,836	\$1,710,040
All Other	234,732	160,191	123,194
Eliminations*	(139,241 )	(99,569 )	(86,865 )
Consolidated net sales	\$3,156,428	\$2,306,458	\$1,746,369
<b>Operating Income:</b>			
Nonalcoholic Beverages	\$123,230	\$92,921	\$82,297
All Other	4,629	5,223	3,670
Consolidated operating income	\$127,859	\$98,144	\$85,967

#### Comparable / Adjusted Results

The Company reports its financial results in accordance with U.S. generally accepted accounting principles ("GAAP"). However, management believes certain non-GAAP financial measures provide users with additional meaningful financial information that should be considered when assessing the Company's ongoing performance. Management also uses these non-GAAP financial measures in making financial, operating and planning decisions and in evaluating the Company's performance. Non-GAAP financial measures should be viewed in addition to, and not as an alternative for, the Company's reported results prepared in accordance with GAAP. The Company's non-GAAP financial information does not represent a comprehensive basis of accounting.

The following tables reconcile reported GAAP results to comparable results (non-GAAP) for 2016 and 2015:

(in thousands, except per share data)	2016				
	Net	Income from	Income	Net	Basic net



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	sales	operations	before taxes	income	income per share
Reported results (GAAP)	\$3,156,428	\$ 127,859	\$92,712	\$56,663	\$ 5.39
Fair value adjustments for commodity hedges	-	(4,728 )	(4,728 )	(2,908 )	(0.31 )
2016 & 2015 acquisitions impact	(1,061,769)	(24,280 )	(24,280)	(14,932)	(1.60 )
Territory expansion expenses	-	32,274	32,274	19,849	2.13
Special charitable contribution	-	4,000	4,000	2,460	0.26
Exchange of franchise territories	-	-	692	426	0.05
Fair value adjustment of acquisition related contingent consideration	-	-	(1,910 )	(1,175 )	(0.13 )
Total reconciling items	(1,061,769)	7,266	6,048	3,720	0.40
Comparable results (non-GAAP)	\$2,094,659	\$ 135,125	\$98,760	\$60,383	\$ 5.79

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	2015				Basic net income per share
	Net sales	Income from operations	Income before taxes	Net income	
(in thousands, except per share data)					
Reported results (GAAP)	\$2,306,458	\$98,144	\$99,122	\$65,044	\$6.35
Fair value adjustments for commodity hedges	-	3,439	3,439	2,112	0.22
2015 acquisitions impact	(278,612 )	(3,365 )	(3,365 )	(2,066 )	(0.22 )
2015 divestitures impact	(31,375 )	(3,222 )	(3,222 )	(1,979 )	(0.21 )
Territory expansion expenses	-	19,982	19,982	12,269	1.32
Exchange of franchise territories	-	-	(8,807 )	(5,407 )	(0.58 )
Gain on sale of business	-	-	(22,651)	(13,908)	(1.49 )
Bargain purchase gain			(3,276 )	(2,011 )	(0.22 )
Fair value adjustment of acquisition related contingent consideration	-	-	3,576	2,196	0.24
Results of extra week in fiscal year	(38,587 )	(4,022 )	(4,022 )	(2,416 )	(0.26 )
Total reconciling items	(348,574 )	12,812	(18,346)	(11,210)	(1.20 )
Comparable results (non-GAAP)	\$1,957,884	\$110,956	\$80,776	\$53,834	\$5.15

## Financial Condition

Total assets increased \$602.9 million to \$2.45 billion at January 1, 2017, as compared to \$1.85 billion at January 3, 2016. The increase in total assets was primarily attributable to the acquisition of the Expansion Territories in 2016, contributing to an increase in total assets of \$418.7 million as of January 1, 2017. In addition, the Company had additions to property, plant and equipment of \$172.6 million during 2016, which excludes \$227.1 million in property, plant and equipment acquired in the Expansion Transactions completed in 2016.

Net working capital, defined as current assets less current liabilities, increased \$27.5 million to \$135.9 million at January 1, 2017, from \$108.4 million at January 3, 2016.

Significant changes in net working capital on January 1, 2017 from January 3, 2016 were as follows:

- A decrease in cash and cash equivalents of \$33.6 million primarily due to acquisitions of Expansion Territories and Regional Manufacturing Facilities.
- An increase in accounts receivables, trade of \$85.5 million primarily due to accounts receivables from sales in newly acquired territories in 2016.

- An increase in accounts receivable from The Coca Cola Company of \$39.0 million and an increase in accounts payable to The Coca Cola Company of \$56.1 million, primarily as a result of activity from newly acquired territories in 2016 and the timing of payments.
- An increase in inventories of \$54.1 million primarily as a result of inventories acquired from the Expansion Transactions in 2016.
- An increase in accounts payable, trade of \$33.9 million primarily as a result of the Expansion Transactions in 2016.
- An increase in other accrued liabilities of \$29.7 million primarily as a result of the timing of payments and an increase in the current portion of acquisition related contingent consideration.
- An increase in accrued compensation of \$11.0 million primarily as a result of increased incentive compensations accruals resulting from the Company's financial performance.

## Liquidity and Capital Resources

### Capital Resources

The Company's sources of capital include cash flows from operations, available credit facilities and the issuance of debt and equity securities. The Company has obtained the majority of its long-term debt, other than capital leases, from public markets and bank facilities. Management believes the Company has sufficient sources of capital available to refinance its maturing debt, finance its business plan, including the proposed acquisition of previously announced additional Expansion Territories and Regional Manufacturing Facilities, meet its working capital requirements and maintain an appropriate level of capital spending for at least the next 12 months. The amount and frequency of future dividends will be determined by the Company's Board of Directors in light of the earnings and financial condition of the Company at such time, and no assurance can be given that dividends will be declared or paid in the future.

In October 2014, the Company entered into a five-year unsecured revolving credit facility (the “Revolving Credit Facility”), and in April 2015, the Company exercised an accordion feature which established a \$450 million aggregate maximum borrowing capacity on the Revolving Credit Facility. The \$450 million borrowing capacity includes up to \$50 million available for the issuance of letters of credit. Borrowings under the Revolving Credit Facility bear interest at a floating base rate or a floating Eurodollar rate plus an applicable margin, dependent on the Company’s credit rating at the time of borrowing. At the Company’s current credit ratings, the Company must pay an annual facility fee of 0.15% of the lenders’ aggregate commitments under the Revolving Credit Facility. The Revolving Credit Facility has a scheduled maturity date of October 16, 2019.

The Company currently believes all of the banks participating in the Company’s Revolving Credit Facility have the ability to and will meet any funding requests from the Company. On January 1, 2017, the Company had \$152.0 million of outstanding borrowings on the Revolving Credit Facility. On January 3, 2016, the Company had no outstanding borrowings on the Revolving Credit Facility.

In June 2016, the Company entered into a five-year term loan agreement for a senior unsecured term loan facility (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, dependent on the Company’s credit rating, at the Company’s option. The Company used \$210 million of the proceeds from the Term Loan Facility to repay outstanding indebtedness under the Revolving Credit Facility. The Company then used the remaining proceeds, as well as borrowings under the Revolving Credit Facility, to repay the \$164.8 million of Senior Notes that matured on June 15, 2016.

Both the Revolving Credit 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 January 1, 2017. These covenants do not currently, and the Company does not anticipate they will, restrict its liquidity or capital resources.

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.

The Company’s credit ratings are reviewed periodically by the respective rating agencies. Changes in the Company’s operating results or financial position could result in changes in the Company’s credit ratings. Lower credit ratings could result in higher borrowing costs for the Company or reduced access to capital markets, which could have a material impact on the Company’s financial position or results of operations. There were no changes in these credit ratings from the prior year and the credit ratings are currently stable. As of January 1, 2017, the Company’s credit

ratings were as follows:

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

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

Net debt and capital lease obligations were summarized as follows:

(in thousands)	January 1, 2017	January 3, 2016
Debt	\$907,254	\$619,628
Capital lease obligations	48,721	55,784
Total debt and capital lease obligations	955,975	675,412
Less: Cash and cash equivalents	21,850	55,498
Total net debt and capital lease obligations <sup>(1)</sup>	\$934,125	\$619,914

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

The Company is subject to interest rate risk on its floating rate debt, including the Company's \$450 million Revolving Credit Facility and its \$300 million Term Loan Facility. Assuming no changes in the Company's financial structure, if market interest rates average 1% more over the next twelve months than the interest rates as of January 1, 2017, interest expense for the next twelve months would increase by approximately \$4.5 million. Refer to Item 7A for additional information.

The Company's only Level 3 asset or liability is the contingent consideration liability incurred as a result of the Expansion Transactions. There were no transfers from Level 1 or Level 2. Fair value adjustments were noncash, and therefore did not impact the Company's liquidity or capital resources. Following is a summary of the Level 3 activity:

(in thousands)	Fiscal Year	
	2016	2015
Opening balance	\$136,570	\$46,850
Increase due to acquisitions	133,857	109,784
Decrease due to measurement period adjustments	-	(18,396)
Payment/current payables	(15,080)	(5,244)
Fair value adjustment - (income) expense	(1,910)	3,576
Ending balance	\$253,437	\$136,570

Subsequent to year-end, on February 27, 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, PGIM, Inc. and the other parties thereto. 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 expects to use the proceeds for general corporate purposes. As of the date of this filing, the Company may request that Prudential consider the purchase of additional senior unsecured notes of the Company under the facility in an aggregate principal amount of up to \$175 million.

## Cash Sources and Uses

The primary sources of cash for the Company in 2016 and 2015 were debt financings and cash flows from operating activities. The primary uses of cash in 2016 and 2015 were debt repayments, acquisitions of Expansion Territories and Regional Manufacturing Facilities and additions to property, plant and equipment. A summary of cash-based activity is as follows:

(in thousands)	Fiscal Year		
	2016	2015	2014
<b>Cash Sources:</b>			
Borrowings under Revolving Credit Facility	\$410,000	\$334,000	\$191,624
Borrowings under Term Loan Facility	300,000	-	-
Cash provided by operating activities (excluding income tax and pension payments)	165,979	150,572	132,912
Refund of income tax payments	7,111	-	-
Borrowings under Senior Notes, net of discount	-	349,913	-
Proceeds from sale of business	-	26,360	-
Proceeds from the sale of property, plant and equipment	-	1,891	1,701
Other	1,097	-	-
<b>Total cash sources</b>	<b>\$884,187</b>	<b>\$862,736</b>	<b>\$326,237</b>
<b>Cash Uses:</b>			
Acquisition of Expansion Territories and Regional Manufacturing Facilities, net of cash acquired	\$272,637	\$81,707	\$41,588
Payment of Revolving Credit Facility	258,000	405,000	125,624
Additions to property, plant and equipment (exclusive of acquisition)	172,586	163,887	84,364
Payment of Senior Notes	164,757	100,000	-
Payment of acquisition related contingent consideration	13,550	4,039	212
Contributions to pension plans	11,120	10,500	10,000
Cash dividends paid	9,307	9,287	9,266
Investment in CONA Services LLC	7,875	-	-
Principal payments on capital lease obligations	7,063	6,555	5,939
Payment on Uncommitted Line of Credit	-	-	20,000
Income tax payments	-	31,782	31,009
Other	940	3,576	901
<b>Total cash uses</b>	<b>\$917,835</b>	<b>\$816,333</b>	<b>\$328,903</b>
<b>Increase (decrease) in cash</b>	<b>\$(33,648 )</b>	<b>\$46,403</b>	<b>\$(2,666 )</b>

Based on current projections, which include a number of assumptions such as the Company's pre-tax earnings, the Company anticipates its cash payments for income taxes will be between \$5 million and \$15 million in fiscal 2017. This projection does not include any anticipated cash income tax requirements resulting from additional completed Expansion Territory transactions or the Territory Conversion Agreement.

### Cash Flows From Operating Activities

During 2016, cash provided by operating activities was \$162.0 million, which was an increase of \$53.7 million, as compared to 2015. During 2015, cash provided by operating activities was \$108.3 million, which was an increase of \$16.4 million, as compared to 2014. The increase in both periods was driven primarily by growth in comparable income from operations and cash generated from acquired Expansion Territories.

### Cash Flows From Investing Activities

During 2016, cash used in investing activities was \$452.0 million, which was an increase of \$234.7 million, as compared to 2015. The increase was driven primarily by \$272.6 million in cash used to acquire Expansion Transactions.

Additions to property, plant and equipment during 2016 were \$172.6 million, of which \$15.7 million were accrued in accounts payable, trade. The 2016 additions exclude \$227.1 million in property, plant and equipment acquired in the Expansion Transactions completed in 2016.



Capital expenditures during 2016 were funded with cash flows from operations and available credit facilities. The Company anticipates additions to property, plant and equipment in 2017 will be in the range of \$200 million to \$250 million, excluding any additional Expansion Transactions expected to close in 2017.

During 2015, cash used in investing activities was \$217.3 million, which was an increase of \$93.1 million, as compared to 2014. The increase was driven by Expansion Transactions and higher levels of property, plant and equipment additions, which was partially offset by cash proceeds from the sale of BYB. Additions to property, plant and equipment during 2015 were \$168.7 million of which \$14.0 million were accrued in accounts payable, trade. The 2015 additions exclude \$77.1 million in property, plant and equipment acquired in the Expansion Transactions completed in 2015.

During 2015, the Company acquired the 2015 Expansion Territories and completed the Lexington-for-Jackson exchange. The total cash used to acquire these expansion and exchange territories was \$81.7 million. Also during 2015, the Company sold BYB to The Coca-Cola Company for a cash purchase price of \$26.4 million.

#### Cash Flows From Financing Activities

During 2016, cash provided by financing activities was \$256.4 million, which was an increase of \$100.9 million compared to 2015. The increase was driven primarily a result of providing funding for the acquisitions of Expansion Territories and associated capital expenditures. During 2016, the Company entered into a term loan agreement for a senior unsecured term loan facility in the aggregate principal amount of \$300 million and had net borrowings on revolving credit facilities of \$152.0 million. These increases in debt were partially offset by the repayment of \$164.8 million of Senior Notes due 2016.

In addition, during 2016 the Company had cash payments of \$13.6 million for acquisition related contingent consideration. The anticipated range of amounts the Company could pay annually under the acquisition related contingent consideration arrangements for the Expansion Transactions is between \$14 million and \$25 million.

During 2015, cash provided by financing activities was \$155.5 million, which was an increase of \$125.8 million compared to 2014. The increase was driven primarily a result of providing funding for the acquisitions of Expansion Territories and Regional Manufacturing Facilities and associated capital expenditures. During 2015, the Company's net borrowings under the Revolving Credit Facility decreased \$71.0 million primarily due to the issuance of the 2025 Senior Notes.

#### Off-Balance Sheet Arrangements

The Company is a member of two manufacturing cooperatives and has guaranteed \$32.6 million of debt for these entities as of January 1, 2017. In addition, the Company has an equity ownership in each of the entities. The members of both cooperatives consist solely of Coca Cola bottlers. The Company does not anticipate either of these cooperatives will fail to fulfill their commitments. The Company further believes each of these cooperatives has sufficient assets, including production equipment, facilities and working capital, and the ability to adjust selling prices of their products to adequately mitigate the risk of material loss from the Company's guarantees. As of January 1, 2017, the Company's maximum exposure, if both of these cooperatives borrowed up to their aggregate borrowing capacity, would have been \$70.8 million including the Company's equity interests. See Note 14 to the consolidated financial statements for additional information.

## Aggregate Contractual Obligations

The following table summarizes the Company's contractual obligations and commercial commitments as of January 1, 2017:

(in thousands)	Contractual Obligation Payments Due During						
	Total	Fiscal 2017	Fiscal 2018	Fiscal 2019	Fiscal 2020	Fiscal 2021	Thereafter
Total debt, net of interest	\$912,000	\$-	\$15,000	\$292,000	\$37,500	\$217,500	\$350,000
Estimated interest on debt obligations <sup>(1)</sup>	166,174	29,247	29,212	22,645	17,853	15,125	52,092
Capital lease obligations, net of interest	48,721	7,527	8,006	8,395	9,135	5,195	10,463
Estimated interest capital lease obligations <sup>(1)</sup>	11,453	3,735	2,415	1,754	1,194	738	1,617
Purchase obligations <sup>(2)</sup>	673,013	89,735	89,735	89,735	89,735	89,735	224,338
Other long-term liabilities <sup>(3)</sup>	406,431	32,905	28,141	25,055	22,011	20,829	277,490
Operating leases	78,034	11,141	9,211	8,371	8,432	8,074	32,805
Long-term contractual arrangements <sup>(4)</sup>	81,744	22,696	17,184	13,869	11,456	7,303	9,236
Postretirement obligations <sup>(5)</sup>	85,255	3,468	3,878	4,252	4,495	4,708	64,454
Purchase orders <sup>(6)</sup>	70,521	70,521	-	-	-	-	-
Total contractual obligations	\$2,533,346	\$270,975	\$202,782	\$466,076	\$201,811	\$369,207	\$1,022,495

<sup>(1)</sup>Includes interest payments based on contractual terms.

<sup>(2)</sup>Represents an estimate of the Company's obligation to purchase 17.5 million cases of finished product on an annual basis through June 2024 from South Atlantic Cannery, a manufacturing cooperative.

<sup>(3)</sup>Includes obligations under acquisition related contingent consideration, executive benefit plans, the liability to exit from a multi-employer pension plan and other long-term liabilities.

<sup>(4)</sup>Includes contractual arrangements with certain prestige properties, athletic venues and other locations, and other long-term marketing commitments.

<sup>(5)</sup>Includes the liability for postretirement benefit obligations only. The unfunded portion of the Company's pension plan is excluded as the timing and/or amount of any cash payment is uncertain.

<sup>(6)</sup>Purchase orders include commitments in which a written purchase order has been issued to a vendor, but the goods have not been received or the services performed.

The Company has \$2.9 million of uncertain tax positions including accrued interest, as of January 1, 2017 all of which would affect the Company's effective tax rate if recognized. The balance is excluded from other long-term liabilities in the table above as the Company is uncertain if or when such amounts will be 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 financial statements. See Note 15 to the consolidated financial statements for additional information.

The Company is a member 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. This obligation is not included in the Company’s table of contractual obligations and commercial commitments as there are no minimum purchase requirements. See Note 14 and Note 19 to the consolidated financial statements for additional information related to Southeastern.

As of January 1, 2017, the Company had \$29.7 million of standby letters of credit, primarily related to its property and casualty insurance programs. See Note 14 to the consolidated financial statements for additional information related to commercial commitments, guarantees, legal and tax matters.

The Company contributed \$11.1 million to its two Company-sponsored pension plans in 2016. Based on information currently available, the Company estimates it will be required to make cash contributions in the range of \$10 million to \$12 million to those two plans in 2017.

Postretirement medical care payments are expected to be approximately \$3.5 million in 2017. See Note 18 to the consolidated financial statements for additional information related to pension and postretirement obligations.

## Hedging Activities

The Company entered into derivative instruments to hedge certain commodity purchases for 2017, 2016, 2015 and 2014. Fees paid by the Company for derivative instruments are amortized over the corresponding period of the instrument. The Company accounts for its commodity hedges on a mark-to-market basis with any expense or income reflected as an adjustment of cost of sales or S,D&A expenses.

The Company uses several different financial institutions for commodity derivative instruments to minimize the concentration of credit risk. The Company has master agreements with the counterparties to its derivative financial agreements that provide for net settlement of derivative transactions. The net impact of the commodity hedges on cost of sales was a decrease of \$1.3 million in 2016 and an increase of \$3.5 million in 2015. The net impact of the commodity hedges on SD&A expenses was a decrease of \$0.5 million in 2016 and an increase of \$1.4 million in 2015.

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

### Critical Accounting Policies and Estimates

In the ordinary course of business, the Company has made a number of estimates and assumptions relating to the reporting of results of operations and financial position in the preparation of its consolidated financial statements in conformity with GAAP. Actual results could differ significantly from those estimates under different assumptions and conditions. The Company believes the following discussion addresses the Company's most critical accounting policies, which are those most important to the portrayal of the Company's financial condition and results of operations and require management's most difficult, subjective and complex judgments, often as a result of the need to make estimates about the effect of inherently uncertain matters.

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.

### Allowance for Doubtful Accounts

The Company evaluates the collectability of its trade accounts receivable based on a number of factors. When the Company becomes aware of a customer's inability to meet its financial obligations to the Company, a specific reserve

for bad debts is estimated and recorded to reduce the recognized receivable to the estimated amount the Company believes will ultimately be collected. In addition to specific customer identification of potential bad debts, an allowance for doubtful accounts is recorded based on the Company's recent past loss history and an overall assessment of past due trade accounts receivable outstanding.

#### Property, Plant and Equipment

Property, plant and equipment are recorded at cost, less accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets. Leasehold improvements on operating leases are depreciated over the shorter of the estimated useful lives or the term of the lease, including renewal options the Company determines are reasonably assured. Additions and major replacements or betterments are added to the assets at cost. Maintenance and repair costs and minor replacements are charged to expense when incurred. When assets are replaced or otherwise disposed, the cost and accumulated depreciation are removed from the accounts and the gains or losses, if any, are reflected in the statement of operations. Gains or losses on the disposal of manufacturing equipment and manufacturing facilities are included in cost of sales. Gains or losses on the disposal of all other property, plant and equipment are included in selling, delivery and administrative ("S,D&A") expenses.

The Company evaluates the recoverability of the carrying amount of its property, plant and equipment when events or circumstances indicate the carrying amount of an asset or asset group may not be recoverable. These evaluations are performed at a level where independent cash flows may be attributed to either an asset or an asset group. If the Company determines the carrying amount of an asset or asset group is not recoverable based upon the expected undiscounted future cash flows of the asset or asset group, an impairment loss is recorded equal to the excess of the carrying amounts over the estimated fair value of the long-lived assets.

During 2016, 2015 and 2014, the Company performed periodic reviews of property, plant and equipment and determined no material impairment existed.

#### Franchise Rights

The Company considers franchise rights with The Coca Cola Company and other beverage companies to be indefinite lived because the agreements are perpetual or, when not perpetual, the Company anticipates the agreements will continue to be renewed upon

expiration. The cost of renewals is minimal, and the Company has not had any renewals denied. The Company considers franchise rights as indefinite lived intangible assets and, therefore, does not amortize the value of such assets. Instead, franchise rights are tested at least annually for impairment.

#### Impairment Testing of Franchise Rights and Goodwill

GAAP requires testing of intangible assets with indefinite lives and goodwill for impairment at least annually. The Company conducts its annual impairment test as of the first day of the fourth quarter of each fiscal year. The Company also reviews intangible assets with indefinite lives and goodwill for impairment if there are significant changes in business conditions that could result in impairment. For both franchise rights and goodwill, when appropriate, the Company performs a qualitative assessment to determine whether it is more likely than not the fair value of the franchise rights or goodwill is below its carrying value.

When a quantitative analysis is considered necessary for the annual impairment analysis of franchise rights, the Company utilizes the Greenfield Method to estimate the fair value. The Greenfield Method assumes the Company is new, owning only franchise rights, and making investments required to build an operation comparable to the Company's current operations. The Company estimates the cash flows required to build a comparable operation and the available future cash flows from these operations. The cash flows are then discounted using an appropriate discount rate. The estimated fair value based upon the discounted cash flows is compared to the carrying value on an aggregated basis to determine whether an impairment is needed.

In 2016 and 2015, the Company completed its qualitative assessment and determined a quantitative assessment was not necessary. In 2014 the Company did complete a quantitative analysis. In all years, the Company determined no impairment of the Company's franchise rights existed.

The Company has determined it has one reporting unit, within the Nonalcoholic Beverages reportable segment, for the purpose of assessing goodwill for potential impairment. The Company uses its overall market capitalization as part of its estimate of fair value of the reporting unit and in assessing the reasonableness of the Company's internal estimates of fair value.

When a quantitative analysis is considered necessary for the annual impairment analysis of goodwill, the Company develops an estimated fair value for the reporting unit considering three different approaches:

- market value, using the Company's stock price plus outstanding debt;
- discounted cash flow analysis; and

multiple of earnings before interest, taxes, depreciation and amortization based upon relevant industry data.

The estimated fair value of the reporting unit is then compared to its carrying amount, including goodwill. If the estimated fair value exceeds the carrying amount, goodwill is not considered impaired, and the second step of the impairment test is not necessary. If the carrying amount, including goodwill, exceeds its estimated fair value, the second step of the impairment test is performed to measure the amount of the impairment, if any. In the second step, a comparison is made between the book value of goodwill and the implied fair value of goodwill. Implied fair value of goodwill is determined by comparing the fair value of the reporting unit to the book value of its net identifiable assets, excluding goodwill. To estimate the implied fair value of goodwill for a reporting unit, the Company assigns the fair value of the assets and liabilities associated with the reporting unit as if the reporting unit had been acquired in a business combination. Any excess of the carrying value of goodwill of the reporting unit over its implied fair value is recorded as an impairment.

To the extent actual and projected cash flows decline in the future, or if market conditions deteriorate significantly, the Company may be required to perform an interim impairment analysis that could result in an impairment of franchise rights and goodwill. The Company has determined there has not been an interim impairment trigger since the first day of the fourth quarter of 2016 annual test date.

#### Income Tax Estimates

The Company records a valuation allowance to reduce the carrying value of its deferred tax assets if, based on the weight of available evidence, it is determined that it is more likely than not that such assets will not ultimately be realized. The Company considers future taxable income and prudent and feasible tax planning strategies in assessing the need for a valuation allowance. However, in the event the Company determines it will not be able to realize all or part of its net deferred tax assets in the future, an adjustment to the valuation allowance is charged to income in the period in which such a determination is made. A reduction in the valuation allowance and corresponding adjustment to income may be required if the likelihood of realizing existing deferred tax assets increases to a more likely than not level. The Company evaluates the realizability of deferred tax assets annually and when significant changes occur in the Company's business that could impact the realizability assessment.



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

#### Acquisition Related Contingent Consideration Liability

The Company's acquisition related contingent consideration liability is subject to risk resulting from changes in the Company's probability weighted discounted cash flow model, which is based on internal forecasts and changes in the Company's weighted average cost of capital derived from market data.

At each reporting period, the Company evaluates future cash flows associated with its acquired territories as well as the associated discount rate used to calculate the fair value of its contingent consideration. These cash flows represent the Company's best estimate of the future projections of the relevant territories over the same period as the related intangible asset, which is typically 40 years. The discount rate represents the Company's weighted average cost of capital at the reporting date for which the fair value calculation is being performed. Changes in business conditions or other events could materially change both the projections of future cash flows and the discount rate used in the calculation of the fair value of contingent consideration. These changes could materially impact the fair value of the related contingent consideration. Changes in the fair value of the acquisition related contingent consideration are included in "Other income (expense)" on the Consolidated Statements of Operations. The Company will adjust the fair value of the acquisition related contingent consideration over a period of time consistent with the life of the related distribution rights asset subsequent to acquisition.

#### Revenue Recognition

Revenues are recognized when finished products are delivered to customers and both title and the risks and benefits of ownership are transferred, price is fixed and determinable, collection is reasonably assured and, in the case of full service vending, when cash is collected from the vending machines. An appropriate provision is made for uncollectible accounts.

The Company receives service fees from The Coca Cola Company related to the delivery of fountain syrup products to The Coca Cola Company's fountain customers. In addition, the Company receives service fees from The Coca Cola Company related to the repair of fountain equipment owned by The Coca Cola Company. The fees received from The Coca Cola Company for the delivery of fountain syrup products to their customers and the repair of

their fountain equipment are recognized as revenue when the respective services are completed. Service revenue represents approximately one percent of net sales.

The Company performs freight hauling and brokerage for third parties, in addition to delivering its own products. The freight charges are recognized as revenues when the delivery is complete. Freight revenue from third parties represents approximately two percent of net sales.

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

### Risk Management Programs

The Company uses various insurance structures to manage its workers' compensation, auto liability, medical and other insurable risks. These structures consist of retentions, deductibles, limits and a diverse group of insurers that serve to strategically transfer and mitigate the financial impact of losses. The Company uses commercial insurance for claims as a risk reduction strategy to minimize catastrophic losses. Losses are accrued using assumptions and procedures followed in the insurance industry, adjusted for company-specific history and expectations. The Company has standby letters of credit, primarily related to its property and casualty insurance programs. On January 1, 2017, these letters of credit totaled \$29.7 million.

### Pension and Postretirement Benefit Obligations

There are two Company-sponsored pension plans. The primary Company-sponsored pension plan (the "Primary 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 pension plan for collectively bargained employees are determined in accordance with negotiated formulas for the respective participants. Contributions to the plans are based on actuarial determined amounts and are limited to the amounts currently deductible for income tax purposes.

Several statistical and other factors, which attempt to anticipate future events, are used in calculating the expense and liability related to the plans. These factors include assumptions about the discount rate, expected return on plan assets, employee turnover and age at retirement, as determined by the Company, within certain guidelines. In addition, the Company uses subjective factors such as mortality rates to estimate the projected benefit obligation. The actuarial assumptions used by the Company may differ materially from actual results due to changing market and economic conditions, higher or lower withdrawal rates or longer or shorter life spans of participants. These differences may result in a significant impact to the amount of net periodic pension cost recorded by the Company in future periods.

The discount rate used in determining the actuarial present value of the projected benefit obligation for the Primary Plan and the Bargaining Plan was 4.44% and 4.49%, respectively, in 2016 and 4.72% for both Company-sponsored plans in 2015. The discount rate assumption is generally the estimate which can have the most significant impact on net periodic pension cost and the projected benefit obligation for these pension plans. The Company determines an appropriate discount rate annually based on the annual yield on long-term corporate bonds as of the measurement date and reviews the discount rate assumption at the end of each year.

In 2016, pension costs were \$1.9 million. In 2015, pension costs were \$1.7 million. In 2014, there was a pension benefit of \$0.3 million.

A 0.25% increase or decrease in the discount rate assumption would have impacted the projected benefit obligation and net periodic pension cost of the Company-sponsored pension plans as follows:

(in thousands)	0.25% Increase	0.25% Decrease
Increase (decrease) in:		
Projected benefit obligation at January 1, 2017	\$ (9,642 )	\$ 10,206
Net periodic pension cost in 2016	(146 )	143

The weighted average expected long-term rate of return of plan assets was 6.5% for 2016, 6.5% in 2015 and 7.0% in 2014. This rate reflects an estimate of long-term future returns for the pension plan assets. This estimate is primarily a function of the asset classes (equities versus fixed income) in which the pension plan assets are invested and the analysis of past performance of these asset classes over a long period of time. This analysis includes expected long-term inflation and the risk premiums associated with equity and fixed income investments. See Note 18 to the consolidated financial statements for the details by asset type of the Company's pension plan assets and the weighted average expected long-term rate of return of each asset type. The actual return of pension plan assets were gains of 7.2% in 2016, 0.7% in 2015 and 6.1% in 2014.

The Company sponsors a postretirement health care plan for employees meeting specified qualifying criteria. Several statistical and other factors, which attempt to anticipate future events, are used in calculating the net periodic

postretirement benefit cost and postretirement benefit obligation for this plan. These factors include assumptions about the discount rate and the expected growth rate for the cost of health care benefits. In addition, the Company uses subjective factors such as withdrawal and mortality rates to estimate the projected liability under this plan. The actuarial assumptions used by the Company may differ materially from actual results due to changing market and economic conditions, higher or lower withdrawal rates or longer or shorter life spans of participants. The Company does not pre-fund its postretirement benefits and has the right to modify or terminate certain of these benefits in the future.

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

The discount rate assumptions used to determine the pension and postretirement benefit obligations are based on the annual yield on long-term corporate bonds as of each plan's measurement date. The discount rate used in determining the postretirement benefit obligation was 4.36% in 2016, 4.53% in 2015 and 4.13% in 2014. The discount rate was derived using the Aon/Hewitt AA above median yield curve. Projected benefit payouts for each plan were matched to the Aon/Hewitt AA above median yield curve and an equivalent flat rate was derived.

A 0.25% increase or decrease in the discount rate assumption would have impacted the postretirement benefit obligation and service cost and interest cost of the Company's postretirement benefit plan as follows:

(in thousands)	0.25% Increase	0.25% Decrease
Increase (decrease) in:		
Postretirement benefit obligation at January 1, 2017	\$(2,642 )	\$ 2,787
Service cost and interest cost in 2016	(145 )	152

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

(in thousands)	1% Increase	1% Decrease
Increase (decrease) in:		
Postretirement benefit obligation at January 1, 2017	\$ 10,441	\$ (9,976 )
Service cost and interest cost in 2016	550	(521 )

### Recently Adopted Accounting Pronouncements

In August 2014, the FASB issued ASU 2014-15 "Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern," which specifies the responsibility an entity's management has to evaluate whether there is substantial doubt about the entity's ability to continue as a going concern. The new guidance is effective for annual and interim periods ending after December 15, 2016. The Company adopted this guidance in the fourth quarter of 2016 and there was no impact on the Company's consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15 "Classification of Certain Cash Receipts and Cash Payments," which addresses presentation and classification of certain cash receipts and payments in the statement of cash flows, with the objective to reduce diversity in practice. The amendment applicable to the Company addresses contingent consideration payments made after a business combination and states (i) cash payments made soon after an acquisition's consummation date should be classified as cash outflows for investing activities; (ii) cash payments made thereafter should be classified as cash outflows for financing activities up to the amount of the original contingent consideration; and (iii) cash payments made in excess of the original contingent consideration liability should be classified as cash outflows for operating activities. The new guidance is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period, however if an entity elects to early adopt one amendment, it must adopt all amendments included in the guidance. The Company adopted the new pronouncements in the third quarter of 2016 and there was no impact on the consolidated financial statements.

In April 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2015-03 "Simplifying the Presentation of Debt Issuance Costs" ("ASU 2015-03"). ASU 2015-03 requires all cost incurred to issue debt be presented in the balance sheet as a direct reduction from the carrying value of the debt. In August 2015, the FASB issued ASU 2015-15 "Presentation And Subsequent Measurement Of Debt Issuance Costs Associated With Line-Of-Credit Arrangements, Amendments To SEC Paragraphs Pursuant To Staff Announcement At June 18, 2015 EITF Meeting." ASU 2015-15 clarified that an entity can present debt issuance costs of a line-of-credit arrangement as an asset regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. The new guidance was effective for annual and interim periods beginning after December 15, 2015. The standard was

retrospectively adopted by the Company on January 4, 2016, and did not have a material impact on the Company's consolidated financial statements. At January 3, 2016, \$3.1 million and \$1.1 million of debt issuance costs were reclassified to long-term debt from other assets and prepaid expenses and other current assets, respectively.

#### Recently Issued Accounting Pronouncements

In January 2017, the FASB issued ASU 2017-04 "Simplifying the Test for Goodwill Impairment," which eliminates the requirement to calculate the implied fair value of goodwill to measure a goodwill impairment charge. The new guidance is effective for the annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. The Company does not anticipate the adoption of this guidance will have a significant impact on its consolidated 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 impact to the Company's consolidated financial statements will depend on the facts and circumstances of any specific future transactions.

In March 2016, the FASB issued ASU 2016-09 "Improvements To Employees Share Based Payment Accounting," which simplifies several aspects of the accounting for employee-share based transactions including the accounting for income taxes, forfeitures and statutory tax withholding requirements, as well as classification in the statement of cash flows. The new guidance is effective for annual and interim reporting periods beginning after December 15, 2016. The Company is in the process of evaluating the impact of the new guidance on the Company's consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02 “Leases.” The new guidance 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, 2019 and interim periods beginning the following year. The Company is in the process of evaluating the impact of the new guidance on the Company’s consolidated financial statements. Additionally, the Company is evaluating the impacts of the standard beyond accounting, including system, data and process changes required to comply with the standard.

In January 2016, the FASB issued ASU 2016-01 “Recognition And Measurement Of Financial Assets And Financial Liabilities.” The new guidance 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 reporting periods beginning after December 31, 2017. The Company is in the process of evaluating the impact of the new guidance on the Company’s consolidated financial statements.

In July 2015, the FASB issued ASU 2015-11 “Simplifying The Measurement of Inventory.” The new guidance requires an entity to measure most inventory “at lower of cost and net realizable value” thereby simplifying the current guidance under which an entity must measure inventory at the lower of cost or market. The new guidance is effective for annual and interim periods beginning after December 15, 2016. The Company is in the process of evaluating the impact of the new guidance on the Company’s consolidated financial statements.

Over the past several years, the FASB has issued several accounting standards for revenue recognition:

- ASU 2014-09 “Revenue from Contracts with Customers” was issued in May 2014, which was originally going to be effective for annual and interim periods beginning after December 15, 2016.
- ASU 2015-14 “Revenue from Contracts with Customers, Deferral of the Effective Date” was issued in July 2015, which deferred the effective date to annual and interim periods beginning after December 15, 2017.
- ASU 2016-08 “Principal Versus Agent Considerations (Reporting Revenue Gross Versus Net)” was issued in March 2016, which amends certain aspects of the May 2014 new guidance.
- ASU 2016-11 “Rescission of SEC Guidance Because of Accounting Standards Updates 2014-09 and 2014-16, Pursuant to Staff Announcements at the March 3, 2016 EITF Meeting” was issued in April 2016, which amends certain aspects of the May 2014 new guidance.
- ASU 2016-12 “Revenue From Contracts With Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients” was issued in May 2016, which amends certain aspects of the May 2014 new guidance.
- ASU 2016-20 “Technical Corrections and Improvements to Topic 606: Revenue From Contracts With Customers” was issued in December 2016 and clarifies the new revenue standard and corrects unintended application of the guidance.

The Company does not plan to early adopt this guidance. The Company has started its evaluation process to assess the impact of the new guidance on the Company’s consolidated financial statements and to determine whether to adopt a full retrospective approach or a modified retrospective approach. The evaluation process includes tasks such as performing an initial scoping analysis to identify key revenue streams, reviewing current revenue-based contracts and evaluating revenue recognition requirements in order to prepare a high-level road map and implementation work plan.

Based on the Company's preliminary review, it does not expect this guidance to have a material impact on net sales. As the Company complete its overall assessment, the Company is also identifying and preparing to implement changes to our accounting policies and practices, business processes, systems and controls to support the new revenue recognition and disclosure requirements.



CAUTIONARY INFORMATION REGARDING FORWARD-LOOKING STATEMENTS

Certain statements contained in this Report, or in other public filings, press releases, or other written or oral communications made by Coca Cola Bottling Co. Consolidated or its representatives, which are not historical facts, are forward-looking statements subject to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements address, among other things, Company plans, activities or events which the Company expects will or may occur in the future and may include express or implied projections of revenue or expenditures statements of plans and objectives for future operations, growth or initiatives statements of future economic performance, including, but not limited to, the state of the economy, capital investment and financing plans, net sales, cost of sales, selling, delivery and administrative (“S,D&A”) expenses, gross profit, income tax rates, earnings per diluted share, dividends, pension plan contributions, estimated sub-bottling liability payments or statements regarding the outcome or impact of certain new accounting pronouncements and pending or threatened litigation.

- the Company’s beliefs and estimates regarding the impact of the adoption of certain new accounting pronouncements
- the Company’s expectation that certain amounts of goodwill will be deductible for tax purposes
- the Company’s belief that the cooperatives whose debt the Company guarantees have sufficient assets and the ability to adjust selling prices of their products to adequately mitigate the risk of material loss from the Company’s guarantees and that the cooperatives will perform their obligations under their debt commitments
- the Company’s belief that the ultimate disposition of various claims and legal proceedings which have arisen in the ordinary course of its business will not have a material adverse effect on its financial condition, cash flows or results of operations and that no material amount of loss in excess of recorded amounts is reasonably possible as a result of these claims and legal proceedings
- the Company’s belief that CCR and other bottlers from whom the Company purchases finished goods have adequate production capacity to meet sales demands for sparkling and still beverages during peak periods;
- the Company’s belief that it is competitive in its territories with respect to the principal methods of competition in the nonalcoholic beverage industry
- the Company’s belief that certain non-GAAP financial measures provide users with additional meaningful financial information that should be considered when assessing the Company’s ongoing performance and that these non-GAAP financial measures allow users to better appreciate the impact of these transactions on the Company’s performance
  - the Company’s belief that it has sufficient sources of capital available to refinance its maturing debt, finance its business plan, including the proposed acquisition of previously announced additional Expansion Territories and Regional Manufacturing Facilities, meet its working capital requirements and maintain an appropriate level of capital spending for at least the next 12 months
- the Company’s belief that all of the banks participating in the Company’s Revolving Credit Facility have the ability to and will meet any funding requests from the Company
- the Company’s estimate of the useful lives of certain acquired intangible assets and property, plant and equipment
- the Company’s estimate that a 10% increase in the market price of certain commodities over the current market prices would cumulatively increase costs during the next 12 months by approximately \$44.1 million assuming no change in volume
- the Company’s expectation that the amount of uncertain tax positions may change over the next 12 months but will not have a significant impact on the consolidated financial statements
- the Company’s belief that it has taken the necessary steps to mitigate risk associated with a phased cut-over to the CONA System
- the Company’s expectation that certain territories of CCR will be sold to bottlers that are neither members of CONA nor users of the CONA System

the Company's belief that innovation of both new brands and packages will continue to be important to the Company's overall revenue

the Company's expectations as to the timing of certain Expansion Transaction closings

the Company's belief that the range of undiscounted amounts it could pay annually under the acquisition related contingent consideration arrangements for the Expansion Transactions will be between \$14 million and \$25 million

the Company's belief that the range of income tax payments, excluding any income tax payments resulting from additional completed Expansion Territory transactions or the Territory Conversion Agreement, will be between \$5 million and \$15 million in 2017;

the Company's belief that the covenants on the Company's Revolving Credit Facility and Term Loan Facility will not restrict its liquidity or capital resources

- the Company's belief that other parties to certain of its contractual arrangements will perform their obligations

the Company's belief that cash contributions to the two Company-sponsored pension plans will be in the range of \$10 million to \$12 million in 2017;

the Company's expectation that postretirement medical care payments will be approximately \$3.5 million in 2017;

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- the Company's expectation that it will not withdraw from its participation in the Employers-Teamsters Local Union Nos. 175 and 505 Pension Fund
- the Company's expectation that additions to property, plant and equipment, excluding additional Expansion Transactions expected to close in 2017, will be in the range of \$200 million to \$250 million in 2017
- the Company's expectations regarding potential changes in the levels of marketing funding support, external advertising and marketing spending from The Coca Cola Company and other beverage companies;
- the Company's belief that the Company has adequately provided for any ultimate amounts that are likely to result from tax audits;
- the Company's belief that certain franchise rights are perpetual or will be renewed upon expiration;
- the Company's expectation that new product introductions, packaging changes and sales promotions will continue to require substantial expenditures;
- the Company's belief that compliance with environmental laws will not have a material adverse effect on its consolidated financial statements or competitive position;
- the Company's belief that the majority of its deferred tax assets will be realized;
- the Company's intention to renew substantially all the Allied Beverage Agreements and Still Beverage Agreements as they expire;
- the Company's belief that key priorities include territory and manufacturing expansion, revenue management, product innovation and beverage portfolio expansion, distribution cost management and productivity and
- the Company's hypothetical calculation that, if market interest rates average 1% more over the next twelve months than the interest rates as of January 1, 2017, interest expense for the next twelve months would increase by approximately \$4.5 million, assuming no changes in the Company's financial structure.

These forward-looking statements may be identified by the use of the words "believe," "plan," "estimate," "expect," "anticipate," "probably," "should," "project," "intend," "continue," and other similar terms and expressions. Various risks, uncertainties and other factors may cause the Company's actual results to differ materially from those expressed or implied in any forward-looking statements. Factors, uncertainties and risks that may result in actual results differing from such forward-looking information include, but are not limited to, those listed in Part I – Item 1A of this Form 10K, as well as other factors discussed throughout this Report, including, without limitation, the factors described under "Critical Accounting Policies and Estimates" in Part I – Item 7, or in other filings or statements made by the Company. All of the forward-looking statements in this Report and other documents or statements are qualified by these and other factors, risks and uncertainties.

Caution should be taken not to place undue reliance on the forward-looking statements included in this Report. The Company assumes no obligation to update any forward-looking statements, even if experience or future changes make it clear that projected results expressed or implied in such statements will not be realized, except as may be required by law. In evaluating forward-looking statements, these risks and uncertainties should be considered, together with the other risks described from time to time in the Company's other reports and documents filed with the Securities and Exchange Commission.

#### Item 7A. Quantitative and Qualitative Disclosures about Market Risk

The Company is exposed to certain market risks that arise in the ordinary course of business. The Company may enter into derivative financial instrument transactions to manage or reduce market risk. The Company does not enter into

derivative financial instrument transactions for trading purposes. A discussion of the Company's primary market risk exposure and interest rate risk is presented below.

#### Debt and Derivative Financial Instruments

The Company is subject to interest rate risk on its floating rate debt, including the Company's \$450 million Revolving Credit Facility and its \$300 million Term Loan Facility. Assuming no changes in the Company's financial structure, if market interest rates average 1% more over the next twelve months than the interest rates as of January 1, 2017, interest expense for the next twelve months would increase by approximately \$4.5 million. This amount was determined by calculating the effect of the hypothetical interest rate on the Company's variable rate debt. This calculated, hypothetical increase in interest expense for the following twelve months may be different from the actual increase in interest expense from a 1% increase in interest rates due to varying interest rate reset dates on the Company's floating debt.

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

the underlying risk-free interest rates will impact the fair value of the acquisition related contingent consideration and could materially impact the amount of noncash expense (or income) recorded each reporting period.

#### Raw Material and Commodity Prices

The Company is also subject to commodity price risk arising from price movements for certain commodities included as part of its raw materials. The Company manages this commodity price risk in some cases by entering into contracts with adjustable prices. The Company periodically uses derivative commodity instruments in the management of this risk. The Company estimates a 10% increase in the market prices of these commodities over the current market prices would cumulatively increase costs during the next 12 months by approximately \$44.1 million assuming no change in volume.

In 2016 and 2015, the Company entered into agreements to hedge a portion of the Company's 2017, 2016 and 2015 commodity purchases.

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

#### Effect of Changing Prices

The annual rate of inflation in the United States, as measured by year-over-year changes in the consumer price index, was 2.1% in 2016 compared to 0.7% in 2015 and 0.8% in 2014. Inflation in the prices of those commodities important to the Company's business is reflected in changes in the consumer price index, but commodity prices are volatile and in recent years have moved at a faster rate of change than the consumer price index.

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



## Item 8. Financial Statements and Supplementary Data

## COCA-COLA BOTTLING CO. CONSOLIDATED

## CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data)	Fiscal Year		
	2016	2015	2014
Net sales	\$3,156,428	\$2,306,458	\$1,746,369
Cost of sales	1,940,706	1,405,426	1,041,130
Gross profit	1,215,722	901,032	705,239
Selling, delivery and administrative expenses	1,087,863	802,888	619,272
Income from operations	127,859	98,144	85,967
Interest expense, net	36,325	28,915	29,272
Other income (expense), net	1,870	(3,576)	(1,077)
Gain (loss) on exchange of franchise territory	(692)	8,807	-
Gain on sale of business	-	22,651	-
Bargain purchase gain, net of tax of \$1,265	-	2,011	-
Income before taxes	92,712	99,122	55,618
Income tax expense	36,049	34,078	19,536
Net income	56,663	65,044	36,082
Less: Net income attributable to noncontrolling interest	6,517	6,042	4,728
Net income attributable to Coca-Cola Bottling Co. Consolidated	\$50,146	\$59,002	\$31,354
Basic net income per share based on net income attributable to Coca-Cola Bottling Co. Consolidated:			
Common Stock	\$5.39	\$6.35	\$3.38
Weighted average number of Common Stock shares outstanding	7,141	7,141	7,141
Class B Common Stock	\$5.39	\$6.35	\$3.38
Weighted average number of Class B Common Stock shares outstanding	2,168	2,147	2,126
Diluted net income per share based on net income attributable to Coca-Cola Bottling Co. Consolidated:			
Common Stock	\$5.36	\$6.33	\$3.37
Weighted average number of Common Stock shares outstanding – assuming dilution	9,349	9,328	9,307
Class B Common Stock	\$5.35	\$6.31	\$3.35
Weighted average number of Class B Common Stock shares outstanding – assuming dilution	2,208	2,187	2,166

See Accompanying Notes to Consolidated Financial Statements.





## COCA-COLA BOTTLING CO. CONSOLIDATED

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)	Fiscal Year		
	2016	2015	2014
Net income	\$56,663	\$65,044	\$36,082
Other comprehensive income (loss), net of tax:			
Defined benefit plans reclassification including pension costs:			
Actuarial gain (loss)	(4,150 )	6,624	(31,839)
Prior service costs	17	21	22
Postretirement benefits reclassification including benefit costs:			
Actuarial gain (loss)	(4,286 )	2,934	(4,318 )
Prior service costs	(2,065 )	(2,068 )	4,402
Foreign currency translation adjustment	(6 )	(4 )	(5 )
Other comprehensive income (loss), net of tax	(10,490)	7,507	(31,738)
Comprehensive income	46,173	72,551	4,344
Less: Comprehensive income attributable to noncontrolling interest	6,517	6,042	4,728
Comprehensive income (loss) attributable to Coca-Cola Bottling Co. Consolidated	\$39,656	\$66,509	\$(384 )

See Accompanying Notes to Consolidated Financial Statements.

## COCA-COLA BOTTLING CO. CONSOLIDATED

## CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)	January 1, 2017	January 3, 2016
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$21,850	\$55,498
Accounts receivable, trade	271,661	186,126
Allowance for doubtful accounts	(4,448 )	(2,117 )
Accounts receivable from The Coca-Cola Company	67,591	28,564
Accounts receivable, other	29,770	24,047
Inventories	143,553	89,464
Prepaid expenses and other current assets	63,834	53,337
Total current assets	593,811	434,919
Property, plant and equipment, net	812,989	525,820
Leased property under capital leases, net	33,552	40,145
Other assets	86,091	63,739
Franchise rights	533,040	527,540
Goodwill	144,586	117,954
Other identifiable intangible assets, net	245,415	136,448
Total assets	\$2,449,484	\$1,846,565
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Current portion of obligations under capital leases	\$7,527	\$7,063
Accounts payable, trade	116,821	82,937
Accounts payable to The Coca-Cola Company	135,155	79,065
Other accrued liabilities	133,885	104,168
Accrued compensation	60,880	49,839
Accrued interest payable	3,639	3,481
Total current liabilities	457,907	326,553
Deferred income taxes	174,854	146,944
Pension and postretirement benefit obligations	126,679	115,197
Other liabilities	378,572	267,090
Obligations under capital leases	41,194	48,721
Long-term debt	907,254	619,628
Total liabilities	2,086,460	1,524,133
Commitments and Contingencies (Note 14)		
Equity:		
Convertible Preferred Stock, \$100.00 par value: authorized - 50,000 shares; issued - none		
Nonconvertible Preferred Stock, \$100.00 par value: authorized - 50,000 shares; issued - none		
Preferred Stock, \$.01 par value: authorized - 20,000,000 shares; issued - none		
Common Stock, \$1.00 par value: authorized - 30,000,000 shares; issued - 10,203,821 shares	10,204	10,204

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Class B Common Stock, \$1.00 par value: authorized - 10,000,000 shares; issued-2,799,816 and 2,778,896 shares, respectively	2,798	2,777
Class C Common Stock, \$1.00 par value: authorized - 20,000,000 shares; issued - none		
Capital in excess of par value	116,769	113,064
Retained earnings	301,511	260,672
Accumulated other comprehensive loss	(92,897 )	(82,407 )
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	277,131	243,056
Noncontrolling interest	85,893	79,376
Total equity	363,024	322,432
Total liabilities and equity	\$2,449,484	\$1,846,565

See Accompanying Notes to Consolidated Financial Statements.

## COCA-COLA BOTTLING CO. CONSOLIDATED

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)	Fiscal Year		
	2016	2015	2014
<b>Cash Flows from Operating Activities:</b>			
Net income	\$56,663	\$65,044	\$36,082
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation expense	111,613	78,096	60,397
Amortization of intangibles	5,010	2,800	733
Deferred income taxes	42,942	10,408	4,220
Loss on sale of property, plant and equipment	2,892	1,268	677
Impairment of property, plant and equipment	382	148	-
Gain (loss) on exchange of franchise territory	692	(8,807 )	-
Gain on sale of business	-	(22,651 )	-
Bargain purchase gain	-	(2,011 )	-
Amortization of debt costs	1,855	2,011	1,938
Stock compensation expense	7,154	7,300	3,542
Fair value adjustment of acquisition related contingent consideration	(1,910 )	3,576	1,077
Change in current assets less current liabilities (exclusive of acquisition)	(39,909 )	(18,262 )	(16,331 )
Change in other noncurrent assets (exclusive of acquisition)	(14,564 )	(4,292 )	(3,195 )
Change in other noncurrent liabilities (exclusive of acquisition)	(10,850 )	(6,214 )	3,333
Other	25	(124 )	(570 )
Total adjustments	105,332	43,246	55,821
Net cash provided by operating activities	161,995	108,290	91,903
<b>Cash Flows from Investing Activities:</b>			
Additions to property, plant and equipment (exclusive of acquisition)	(172,586)	(163,887)	(84,364 )
Proceeds from the sale of property, plant and equipment	1,072	1,891	1,701
Proceeds from the sale of BYB Brands, Inc.	-	26,360	-
Investment in CONA Services LLC	(7,875 )	-	-
Acquisition of Expansion Territories, net of cash acquired	(272,637)	(81,707 )	(41,588 )
Net cash used in investing activities	(452,026)	(217,343)	(124,251)
<b>Cash Flows from Financing Activities:</b>			
Borrowings under Senior Notes, net of discount	-	349,913	-
Borrowings under Term Loan Facility	300,000	-	-
Borrowing under Revolving Credit Facility	410,000	334,000	191,624
Payment of Revolving Credit Facility	(258,000)	(405,000)	(125,624)
Payment of Senior Notes	(164,757)	(100,000)	-
Repayment of Lines of Credit	-	-	(20,000 )
Cash dividends paid	(9,307 )	(9,287 )	(9,266 )
Excess tax expense (benefit) from stock-based compensation	-	-	176
Payment of acquisition related contingent consideration	(13,550 )	(4,039 )	(212 )
Principal payments on capital lease obligations	(7,063 )	(6,555 )	(5,939 )
Other	(940 )	(3,576 )	(1,077 )

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Net cash provided by financing activities	256,383	155,456	29,682
Net increase (decrease) in cash	(33,648 )	46,403	(2,666 )
Cash at beginning of year	55,498	9,095	11,761
Cash at end of year	\$21,850	\$55,498	\$9,095
Significant noncash investing and financing activities:			
Issuance of Class B Common Stock in connection with stock award	\$3,726	\$2,225	\$1,763
Capital lease obligations incurred	-	3,361	-
Additions to property, plant and equipment accrued and recorded in accounts payable, trade	15,704	14,006	9,185

See Accompanying Notes to Consolidated Financial Statements.

## COCA-COLA BOTTLING CO. CONSOLIDATED

## CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(in thousands, except share data)								Total		
	Common Stock	Class B Common Stock	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock - Common	Treasury Stock Class B Common Stock	Equity of Coca-Cola Bottling Co. Consolidated	Noncontrol- ling Interest	Total Equity
Balance on										
Dec. 29, 2013	\$10,204	\$2,735	\$108,942	\$188,869	\$(58,176)	\$(60,845)	\$(409)	\$191,320	\$68,606	\$259,926
Net income	-	-	-	31,354	-	-	-	31,354	4,728	36,082
Other comprehensive income (loss), net of tax	-	-	-	-	(31,738)	-	-	(31,738)	-	(31,738)
Cash dividends paid:										
Common (\$1.00 per share)	-	-	-	(7,141)	-	-	-	(7,141)	-	(7,141)
Class B Common (\$1.00 per share)	-	-	-	(2,125)	-	-	-	(2,125)	-	(2,125)
Issuance of 20,900 shares of Class B Common Stock	-	21	1,742	-	-	-	-	1,763	-	1,763
Stock compensation adjustment	-	-	176	-	-	-	-	176	-	176
Balance on										
Dec. 28, 2014	\$10,204	\$2,756	\$110,860	\$210,957	\$(89,914)	\$(60,845)	\$(409)	\$183,609	\$73,334	\$256,943
Net income	-	-	-	59,002	-	-	-	59,002	6,042	65,044
Other comprehensive income (loss), net of tax	-	-	-	-	7,507	-	-	7,507	-	7,507
Cash dividends paid:										
Common (\$1.00 per	-	-	-	(7,141)	-	-	-	(7,141)	-	(7,141)

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share)										
Class B										
Common										
(\$1.00 per										
share)	-	-	-	(2,146 )	-	-	-	(2,146 )	-	(2,146 )
Issuance of										
20,920 shares										
of Class B										
Common Stock	-	21	2,204	-	-	-	-	2,225	-	2,225
Balance on										
January 3, 2016	\$10,204	\$2,777	\$113,064	\$260,672	\$(82,407)	\$(60,845)	\$(409)	\$243,056	\$79,376	\$322,432
Net income	-	-	-	50,146	-	-	-	50,146	6,517	56,663
Other										
comprehensive										
income (loss),										
net of tax	-	-	-	-	(10,490)	-	-	(10,490)	-	(10,490)
Cash dividends										
paid:										
Common										
(\$1.00 per										
share)	-	-	-	(7,141 )	-	-	-	(7,141 )	-	(7,141 )
Class B										
Common										
(\$1.00 per										
share)	-	-	-	(2,166 )	-	-	-	(2,166 )	-	(2,166 )
Issuance of										
20,920 shares										
of Class B										
Common Stock	-	21	3,705	-	-	-	-	3,726	-	3,726
Balance on										
January 1, 2017	\$10,204	\$2,798	\$116,769	\$301,511	\$(92,897)	\$(60,845)	\$(409)	\$277,131	\$85,893	\$363,024

See Accompanying Notes to Consolidated Financial Statements.

COCA-COLA BOTTLING CO. CONSOLIDATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Description of Business and Summary of Significant Accounting Policies

Description of Business

Coca Cola Bottling Co. Consolidated (the “Company”) produces, markets and distributes nonalcoholic beverages, primarily products of The Coca Cola Company, and is the largest independent Coca Cola bottler in the United States. The Company manages its business on the basis of four operating segments and two reporting segments.

Piedmont Coca-Cola Bottling Partnership (“Piedmont”) is the Company’s only subsidiary with significant noncontrolling interest. Piedmont distributes and markets nonalcoholic beverages in portions of North Carolina and South Carolina. The Company provides a portion of the nonalcoholic beverage products to Piedmont at cost and receives a fee for managing the operations of Piedmont pursuant to a management agreement. Refer to Note 2 for additional information.

As part of The Coca Cola Company’s plans to rebrand its North American bottling territories, the Company is engaged in a multi-year series of transactions with The Coca Cola Company and Coca Cola Refreshments, Inc. (“CCR”), a wholly-owned subsidiary of The Coca Cola Company, to expand its distribution operations significantly through the acquisition both of rights to serve additional distribution territories previously served by CCR and of related distribution assets. Refer to Note 3 for additional information.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its majority owned subsidiaries. All significant intercompany accounts and transactions have been eliminated.

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles (“GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported



amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### Fiscal Year

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

- The 52-week period ended January 1, 2017 ("2016")
- The 53-week period ended January 3, 2016 ("2015"); and
- The 52-week period ended December 28, 2014 ("2014").

#### Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, cash in banks and cash equivalents, which are highly liquid debt instruments with maturities of less than 90 days. The Company maintains cash deposits with major banks, which, from time to time, may exceed federally insured limits. The Company periodically assesses the financial condition of the institutions and believes the risk of any loss is minimal.

#### Accounts Receivable, Trade

The Company sells its products to mass merchandise retailers, supermarkets retailers, convenience stores and other customers and extends credit, generally without requiring collateral, based on an ongoing evaluation of the customer's business prospects and financial condition. The Company's trade accounts receivable are typically collected within 30 days from the date of sale.

#### Allowance for Doubtful Accounts

The Company evaluates the collectibility of its trade accounts receivable based on a number of factors, including the specific industry in which a particular customer operates. When the Company becomes aware of a customer's inability to meet its financial obligations to the Company, a specific reserve for bad debts is estimated and recorded to reduce the recognized receivable to the estimated amount the Company believes will ultimately be collected. In addition to specific customer identification of potential bad debts, an allowance for doubtful accounts is recorded based on the Company's recent past loss history and an overall assessment of past due trade accounts receivable outstanding.

#### Inventories

Inventories are stated at the lower of cost or market. Cost is determined on the first-in, first-out method for finished products and manufacturing materials and on the average cost method for plastic shells, plastic pallets and other inventories.

#### Property, Plant and Equipment

Property, plant and equipment are recorded at cost, less accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets. Leasehold improvements on operating leases are depreciated over the shorter of the estimated useful lives or the term of the lease, including renewal options the Company determines are reasonably assured. Additions and major replacements or betterments are added to the assets at cost. Maintenance and repair costs and minor replacements are charged to expense when incurred. When assets are replaced or otherwise disposed, the cost and accumulated depreciation are removed from the accounts and the gains or losses, if any, are reflected in the statement of operations. Gains or losses on the disposal of manufacturing equipment and manufacturing facilities are included in cost of sales. Gains or losses on the disposal of all other property, plant and equipment are included in selling, delivery and administrative ("S,D&A") expenses.

The Company evaluates the recoverability of the carrying amount of its property, plant and equipment when events or circumstances indicate the carrying amount of an asset or asset group may not be recoverable. These evaluations are performed at a level where independent cash flows may be attributed to either an asset or an asset group. If the Company determines the carrying amount of an asset or asset group is not recoverable based upon the expected undiscounted future cash flows of the asset or asset group, an impairment loss is recorded equal to the excess of the carrying amounts over the estimated fair value of the long-lived assets.

#### Leased Property Under Capital Leases

Leased property under capital leases is depreciated using the straight-line method over the lease term.

#### Internal Use Software

The Company capitalizes costs incurred in the development or acquisition of internal use software. The Company expenses costs incurred in the preliminary project planning stage. Costs, such as maintenance and training, are also expensed as incurred. Capitalized costs are amortized over their estimated useful lives using the straight-line method. Amortization expense, which is included in depreciation expense, for internal-use software was \$10.9 million in 2016, \$9.3 million in 2015 and \$7.6 million in 2014.

#### Franchise Rights and Goodwill

All business combinations are accounted for using the acquisition method. Goodwill and intangible assets with indefinite useful lives are tested for impairment annually, or more frequently if facts and circumstances indicate such assets may be impaired. Franchise rights and goodwill are the only intangible assets the Company classifies as indefinite lived.

The Company performs its annual impairment test as of the first day of the fourth quarter each year. For both franchise rights and goodwill, when appropriate, the Company performs a qualitative assessment to determine whether it is more likely than not that the fair value of the franchise rights or goodwill is below its carrying value.

When a quantitative analysis is considered necessary for the annual impairment analysis of franchise rights, the Company utilizes the Greenfield Method to estimate the fair value. The Greenfield Method assumes the Company is new, owning only franchise rights, and making investments required to build an operation comparable to the Company's current operations. The Company estimates the cash flows required to build a comparable operation and the available future cash flows from these operations. The cash flows are then discounted using an appropriate discount rate. The estimated fair value based upon the discounted cash flows is compared to the carrying value on an aggregated basis to determine whether an impairment is needed.

The Company has determined it has one reporting unit, within the Nonalcoholic Beverages reportable segment, for the purpose of assessing goodwill for potential impairment. The Company uses its overall market capitalization as part of its estimate of fair value of the reporting unit and in assessing the reasonableness of the Company's internal estimates of fair value.

When a quantitative analysis is considered necessary for the annual impairment analysis of goodwill, the Company develops an estimated fair value for the reporting unit considering three different approaches:

- market value, using the Company's stock price plus outstanding debt;
- discounted cash flow analysis; and
- multiple of earnings before interest, taxes, depreciation and amortization based upon relevant industry data.

The estimated fair value of the reporting unit is then compared to its carrying amount, including goodwill. If the estimated fair value exceeds the carrying amount, goodwill is not considered impaired, and the second step of the impairment test is not necessary. If the carrying amount, including goodwill, exceeds its estimated fair value, the second step of the impairment test is performed to measure the amount of the impairment, if any. In the second step, a comparison is made between the book value of goodwill and the implied fair value of goodwill. Implied fair value of goodwill is determined by comparing the fair value of the reporting unit to the book value of its net identifiable assets, excluding goodwill. To estimate the implied fair value of goodwill for a reporting unit, the Company assigns the fair value of the assets and liabilities associated with the reporting unit as if the reporting unit had been acquired in a business combination. Any excess of the carrying value of goodwill of the reporting unit over its implied fair value is recorded as an impairment.

To the extent the actual and projected cash flows decline in the future or if market conditions significantly deteriorate, the Company may be required to perform an interim impairment analysis that could result in an impairment of franchise rights or goodwill.

#### Other Identifiable Intangible Assets

Other identifiable intangible assets primarily represent customer relationships and distribution rights, and are amortized on a straight-line basis over their estimated useful lives.

#### Acquisition Related Contingent Consideration Liability

The acquisition related contingent consideration liability consists of the estimated amounts due to The Coca Cola Company under the Comprehensive Beverage Agreements (“CBAs”) over the remaining useful life of the related distribution rights intangible assets. Under the CBAs, the Company is required to make quarterly sub-bottling payments on a continuing basis for the grant of exclusive rights to distribute, promote, market and sell specified covered beverages and related products, as defined in the agreements, in certain acquired territories. The quarterly sub-bottling payment is based on sales of certain beverages and beverage products sold under the same trademarks that identify a covered beverage, related product or certain cross-licensed brands, as defined in the CBAs.

Each reporting period, the Company evaluates future cash flows associated with its acquired territories and the associated discount rate to determine the fair value of the contingent consideration. These cash flows represent the Company’s best estimate of amounts which will be paid to The Coca Cola Company under the CBAs over the remaining life of certain distribution rights intangible assets. The discount rate represents the Company’s weighted average cost of capital at the reporting date of the fair value calculation. Changes in the fair value of the acquisition related contingent consideration are included in “Other income (expense)” on the Consolidated Statement of Operations.

#### Pension and Postretirement Benefit Plans

The Company has a noncontributory pension plan covering certain nonunion employees and a noncontributory pension plan covering certain union employees. Costs of the plans are charged to current operations and include several components of net periodic pension cost based on actuarial assumptions regarding future expectations of the plans. In addition, certain other union employees are covered by plans provided by their respective union organizations and the Company expenses amounts as paid in accordance with union agreements. The Company recognizes the cost of postretirement benefits, which consist primarily of medical benefits, during employees’ periods of active service.

Amounts recorded for benefit plans reflect estimates related to interest rates, investment returns, employee turnover and health care costs. The discount rate assumptions used to determine the pension and postretirement benefit obligations are based on yield rates available on double-A bonds as of each plan’s measurement date.

## Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to operating losses and tax credit carryforwards, as well as differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

A valuation allowance will be provided against deferred tax assets if the Company determines it is more likely than not such assets will not ultimately be realized.

The Company does not recognize a tax benefit unless it concludes that it is more likely than not that the benefit will be sustained on audit by the taxing authority based solely on the technical merits of the associated tax position. If the recognition threshold is met, the Company recognizes a tax benefit measured at the largest amount of the tax benefit that, in the Company's judgment, is greater than 50 percent likely to be realized. The Company records interest and penalties related to uncertain tax positions in income tax expense.

## Revenue Recognition

Revenues are recognized when finished products are delivered to customers and both the title and the risks and benefits of ownership are transferred, price is fixed and determinable, collection is reasonably assured and, in the event of full service vending, when cash is collected from the vending machines. Appropriate provisions are made for uncollectible accounts.

The Company receives service fees from The Coca Cola Company for the delivery of fountain syrup products to The Coca Cola Company's fountain customers and for the repair of fountain equipment owned by The Coca Cola Company. These service fees are recognized as revenue when the respective services are completed. Service revenue represents approximately one percent of net sales, and is presented within the Nonalcoholic Beverages segment.

In addition to delivering its own products, the Company performs freight hauling and brokerage for third parties. The freight charges are recognized as revenue when the delivery is complete. Freight revenue from third parties represents approximately two percent of net sales, and is presented within the All Other segment.

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

#### Marketing Programs and Sales Incentives

The Company participates in various marketing and sales programs with The Coca Cola Company, other beverage companies and customers to increase the sale of its products. In addition, coupon programs are deployed on a territory-specific basis. The cost of these various marketing programs and sales incentives with The Coca Cola Company and other beverage companies, included as deductions to net sales, totaled \$117.0 million in 2016, \$71.4 million in 2015 and \$61.7 million. Programs negotiated with customers include arrangements under which allowances can be earned for attaining agreed-upon sales levels and/or for participating in specific marketing programs.

#### Marketing Funding Support

The Company receives marketing funding support payments in cash from The Coca Cola Company and other beverage companies. Payments to the Company for marketing programs to promote the sale of bottle/can volume and fountain syrup volume are recognized as a reduction of cost of sales, primarily on a per unit basis, as the product is sold. Payments for periodic programs are recognized in the period during which they are earned.

Cash consideration received by a customer from a vendor is presumed to be a reduction of the price of the vendor's products or services. As such, the cash received is accounted for as a reduction of cost of sales unless it is a specific reimbursement of costs or payments for services. Payments the Company receives from The Coca Cola Company and other beverage companies for marketing funding support are classified as reductions of cost of sales.

### Derivative Financial Instruments

The Company uses derivative financial instruments, with the intent of reducing risk over time, to manage its exposure to movements in interest rates and certain commodity prices. The Company does not use financial instruments for trading purposes, and it does not use leveraged financial instruments. Credit risk related to the derivative financial instruments is managed by requiring high credit standards for its counterparties and periodic settlements. The Company records all derivative instruments in the consolidated financial statements at fair value.

### Commodity Hedges

The Company uses derivative instruments to hedge some or all of its projected purchases of aluminum and of diesel fuel and unleaded gasoline for the Company's delivery fleet and other vehicles. The Company generally pays a fee for these instruments, which is amortized over the corresponding period of the instrument. The Company accounts for its commodity hedges on a mark-to-market basis with any expense or income reflected as an adjustment of related costs which are included in either cost of sales or S,D&A expenses.

### Risk Management Programs

The Company uses various insurance structures to manage its workers' compensation, auto liability, medical and other insurable risks. These structures consist of retentions, deductibles, limits and a diverse group of insurers that serve to strategically transfer and mitigate the financial impact of losses. The Company uses commercial insurance for claims as a risk reduction strategy to minimize catastrophic losses. Losses are accrued using assumptions and procedures followed in the insurance industry, adjusted for company-specific history and expectations.

### Cost of Sales

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

### Selling, Delivery and Administrative Expenses



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

#### Shipping and Handling Costs

Shipping and handling costs related to the movement of finished goods from manufacturing locations to sales distribution centers are included in cost of sales. Shipping and handling costs related to the movement of finished goods from sales distribution centers to customer locations are included in S,D&A expenses and were \$314.3 million in 2016, \$222.9 million in 2015 and \$211.6 million in 2014.

Delivery fees charged by the Company are used to offset a portion of the Company's delivery and handling costs. The fees are recorded net sales and are presented within the Nonalcoholic Beverages segment. There were delivery fees of \$6.0 million in 2016, \$6.3 million in 2015 and \$6.2 million in 2014 recorded to net sales.

#### Stock Compensation with Contingent Vesting

In April 2008, the stockholders of the Company approved a Performance Unit Award Agreement for J. Frank Harrison, III, the Company's Chairman of the Board of Directors and Chief Executive Officer, consisting of 400,000 performance units ("Units"). Each Unit represents the right to receive one share of the Company's Class B Common Stock, subject to certain terms and conditions. The Units are subject to vesting in annual increments over a ten-year period starting in fiscal year 2009. The number of Units that vest each year will be equal the product of 40,000 multiplied by the overall goal achievement factor, not to exceed 100%, under the Company's Annual Bonus Plan.

Each annual 40,000 unit tranche has an independent performance requirement that is not established until the Company's Annual Bonus Plan targets are approved during the first quarter of each year by the Compensation Committee of the Board of Directors. As a result, each 40,000 unit tranche is considered to have its own service inception date, grant-date and requisite service period. The Performance Unit Award Agreement does not entitle Mr. Harrison, to participate in dividends or voting rights until each installment has vested and related shares are issued. Mr. Harrison may satisfy tax withholding requirements in whole or in part by requiring the Company to settle in cash such a number of units otherwise payable in Class B Common Stock to meet the maximum statutory tax withholding requirements. The Company recognizes compensation expense over the requisite service period (one fiscal year) based on the Company's stock price at the end of each accounting period, unless the achievement of the performance requirement for the fiscal year is considered unlikely.

See Note 17 to the consolidated financial statements for additional information on Mr. Harrison's stock compensation program.

#### Net Income Per Share

The Company applies the two-class method for calculating and presenting net income per share. The two-class method is an earnings allocation formula that determines earnings per share for each class of common stock according to dividends declared or accumulated and participation rights in undistributed earnings. Under this method:

- (a) Income from continuing operations ("net income") is reduced by the amount of dividends declared in the current period for each class of stock and by the contractual amount of dividends that must be paid for the current period.
- (b) The remaining earnings ("undistributed earnings") are allocated to Common Stock and Class B Common Stock to the extent each security may share in earnings as if all the earnings for the period had been distributed. The total earnings allocated to each security is determined by adding together the amount allocated for dividends and the amount allocated for a participation feature.
- (c) The total earnings allocated to each security is then divided by the number of outstanding shares of the security to which the earnings are allocated to determine the earnings per share for the security.
- (d) Basic and diluted earnings per share ("EPS") data are presented for each class of common stock.

In applying the two-class method, the Company determined undistributed earnings should be allocated equally on a per share basis between the Common Stock and Class B Common Stock due to the aggregate participation rights of the Class B Common Stock (i.e., the voting and conversion rights) and the Company's history of paying dividends equally on a per share basis on the Common Stock and Class B Common Stock.

Under the Company's certificate of incorporation, the Board of Directors may declare dividends on Common Stock without declaring equal or any dividends on the Class B Common Stock. Notwithstanding this provision, Class B Common Stock has voting and conversion rights that allow the Class B Common Stock to participate equally on a per

share basis with the Common Stock.

The Class B Common Stock is entitled to 20 votes per share and the Common Stock is entitled to one vote per share with respect to each matter to be voted upon by the stockholders of the Company. Except as otherwise required by law, the holders of the Class B Common Stock and Common Stock vote together as a single class on all matters submitted to the Company's stockholders, including the election of the Board of Directors. As a result, the holders of the Class B Common Stock control approximately 86% of the total voting power of the stockholders of the Company and control the election of the Board of Directors. The Board of Directors has declared and the Company has paid dividends on the Class B Common Stock and Common Stock and each class of common stock has participated equally in all dividends declared by the Board of Directors and paid by the Company since 1994.

The Class B Common Stock conversion rights allow the Class B Common Stock to participate in dividends equally with the Common Stock. The Class B Common Stock is convertible into Common Stock on a one-for-one per share basis at any time at the option of the holder. Accordingly, the holders of the Class B Common Stock can participate equally in any dividends declared on the Common Stock by exercising their conversion rights.

Basic EPS excludes potential common shares that were dilutive and is computed by dividing net income available for common stockholders by the weighted average number of Common and Class B Common shares outstanding. Diluted EPS for Common Stock and Class B Common Stock gives effect to all securities representing potential common shares that were dilutive and outstanding during the period.

#### Recently Adopted Accounting Pronouncements

In August 2014, the FASB issued ASU 2014-15 "Disclosure of Uncertainties About An Entity's Ability To Continue As A Going Concern," which specifies the responsibility an entity's management has to evaluate whether there is substantial doubt about the

entity's ability to continue as a going concern. The new guidance is effective for annual and interim periods ending after December 15, 2016. The Company adopted this guidance in the fourth quarter of 2016 and there was no impact on the Company's consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15 "Classification of Certain Cash Receipts and Cash Payments," which addresses presentation and classification of certain cash receipts and payments in the statement of cash flows, with the objective to reduce diversity in practice. The amendment applicable to the Company addresses contingent consideration payments made after a business combination and states (1) cash payments made soon after an acquisition's consummation date should be classified as cash outflows for investing activities; (2) cash payments made thereafter should be classified as cash outflows for financing activities up to the amount of the original contingent consideration; and (3) cash payments made in excess of the original contingent consideration liability should be classified as cash outflows for operating activities. The new guidance is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period, however if an entity elects to early adopt one amendment, it must adopt all amendments included in the guidance. The Company adopted the new pronouncements in the third quarter of 2016 and there was no impact on the consolidated financial statements.

In April 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2015-03 "Simplifying the Presentation of Debt Issuance Costs" ("ASU 2015-03"). ASU 2015-03 requires all cost incurred to issue debt be presented in the balance sheet as a direct reduction from the carrying value of the debt. In August 2015, the FASB issued ASU 2015-15 "Presentation And Subsequent Measurement Of Debt Issuance Costs Associated With Line-Of-Credit Arrangements, Amendments To SEC Paragraphs Pursuant To Staff Announcement At June 18, 2015 EITF Meeting." ASU 2015-15 clarified that an entity can present debt issuance costs of a line-of-credit arrangement as an asset regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. The new guidance was effective for annual and interim periods beginning after December 15, 2015. The standard was retrospectively adopted by the Company on January 4, 2016, and did not have a material impact on the Company's consolidated financial statements. At January 3, 2016, \$3.1 million and \$1.1 million of debt issuance costs were reclassified to long-term debt from other assets and prepaid expenses and other current assets, respectively.

#### Recently Issued Accounting Pronouncements

In January 2017, the FASB issued ASU 2017-04 "Simplifying the Test for Goodwill Impairment," which eliminates the requirement to calculate the implied fair value of goodwill to measure a goodwill impairment charge. The new guidance is effective for the annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. The Company does not anticipate the adoption of this guidance will have a significant impact on its consolidated 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 impact to the Company's consolidated financial statements will depend on the facts and circumstances of any specific future transactions.

In March 2016, the FASB issued ASU 2016-09 "Improvements To Employees Share Based Payment Accounting," which simplifies several aspects of the accounting for employee-share based transactions including the accounting for income taxes, forfeitures and statutory tax withholding requirements, as well as classification in the statement of cash flows. The new guidance is effective for annual and interim reporting periods beginning after December 15, 2016. The Company is in the process of evaluating the impact of the new guidance on the Company's consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02 "Leases." The new guidance 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, 2019 and interim periods beginning the following year. The Company is in the process of evaluating the impact of the new guidance on the Company's consolidated financial statements. Additionally, the Company is evaluating the impacts of the standard beyond accounting, including system, data and process changes required to comply with the standard.

In January 2016, the FASB issued ASU 2016-01 "Recognition And Measurement Of Financial Assets And Financial Liabilities." The new guidance 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 reporting periods beginning after December 31, 2017. The Company is in the process of evaluating the impact of the new guidance on the Company's consolidated financial statements.

In July 2015, the FASB issued ASU 2015-11 “Simplifying The Measurement of Inventory.” The new guidance requires an entity to measure most inventory “at lower of cost and net realizable value” thereby simplifying the current guidance under which an entity must measure inventory at the lower of cost or market. The new guidance is effective for annual and interim periods beginning after December 15, 2016. The Company is in the process of evaluating the impact of the new guidance on the Company’s consolidated financial statements.

Over the past several years, the FASB has issued several accounting standards for revenue recognition:

- ASU 2014-09 “Revenue from Contracts with Customers” was issued in May 2014, which was originally going to be effective for annual and interim periods beginning after December 15, 2016.
- ASU 2015-14 “Revenue from Contracts with Customers, Deferral of the Effective Date” was issued in July 2015, which deferred the effective date to annual and interim periods beginning after December 15, 2017.
- ASU 2016-08 “Principal Versus Agent Considerations (Reporting Revenue Gross Versus Net)” was issued in March 2016, which amends certain aspects of the May 2014 new guidance.
- ASU 2016-11 “Rescission of SEC Guidance Because of Accounting Standards Updates 2014-09 and 2014-16, Pursuant to Staff Announcements at the March 3, 2016 EITF Meeting” was issued in April 2016, which amends certain aspects of the May 2014 new guidance.
- ASU 2016-12 “Revenue From Contracts With Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients” was issued in May 2016, which amends certain aspects of the May 2014 new guidance.
- ASU 2016-20 “Technical Corrections and Improvements to Topic 606: Revenue From Contracts With Customers” was issued in December 2016 and clarifies the new revenue standard and corrects unintended application of the guidance.

The Company does not plan to early adopt this guidance. The Company has started its evaluation process to assess the impact of the new guidance on the Company’s consolidated financial statements and to determine whether to adopt a full retrospective approach or a modified retrospective approach. The evaluation process includes tasks such as performing an initial scoping analysis to identify key revenue streams, reviewing current revenue-based contracts and evaluating revenue recognition requirements in order to prepare a high-level road map and implementation work plan. Based on the Company’s preliminary review, it does not expect this guidance to have a material impact on net sales. As the Company complete its overall assessment, the Company is also identifying and preparing to implement changes to our accounting policies and practices, business processes, systems and controls to support the new revenue recognition and disclosure requirements.

## 2. Piedmont Coca-Cola Bottling Partnership

In 1993, the Company and The Coca-Cola Company formed Piedmont to distribute and market nonalcoholic beverages primarily in portions of North Carolina and South Carolina. The Company provides a portion of the nonalcoholic beverage products to Piedmont at cost and receives a fee for managing the operations of Piedmont pursuant to a management agreement. These intercompany transactions are eliminated in the consolidated financial statements.

The Company currently provides financing to Piedmont under an agreement that expires on December 31, 2017. Piedmont pays the Company interest on its borrowings at the Company's average cost of funds plus 0.50%. There were no amounts outstanding under this agreement at January 1, 2017 or January 3, 2016.

Noncontrolling interest as of January 1, 2017, January 3, 2016 and December 28, 2014 primarily represents the portion of Piedmont owned by The Coca Cola Company. The Coca Cola Company's interest in Piedmont was 22.7% in all periods reported.

Noncontrolling interest income of \$6.5 million in 2016, \$6.0 million in 2015 and \$4.7 million in 2014 is included in net income on the Company's consolidated statements of operations. In addition, the amount of consolidated net income attributable to both the Company and noncontrolling interest are shown on the Company's consolidated statements of operations.

Noncontrolling interest primarily related to Piedmont is shown as noncontrolling interest in the equity section of the Company's consolidated balance sheets and totaled \$85.9 million at January 1, 2017 and \$79.4 million at January 3, 2016.

### 3. Acquisitions and Divestitures

Since April 2013, as a part of The Coca Cola Company's plans to rebrand its North American bottling territories, the Company has engaged in a series of transactions with The Coca Cola Company and Coca Cola Refreshments USA, Inc. ("CCR"), a wholly-owned subsidiary of The Coca Cola Company, to expand the Company's distribution operations significantly through the acquisition of rights to serve additional distribution territories previously served by CCR (the "Expansion Territories") and of related distribution assets (the "Distribution Territory Expansion Transactions"). During 2015, the Company completed the remaining Distribution

Territory Expansion Transactions announced as part of the April 2013 letter of intent signed with The Coca Cola Company. These completed acquisitions include Expansion Territories in parts of Tennessee, Kentucky and Indiana.

On May 12, 2015, the Company and The Coca Cola Company entered into a non-binding letter of intent (the “May 2015 LOI”) pursuant to which CCR would in two phases (i) grant the Company certain exclusive rights for the distribution, promotion, marketing and sale of The Coca Cola Company-owned and -licensed products in additional territories served by CCR and (ii) sell the Company certain assets that included rights to distribute those cross licensed brands distributed in the territories by CCR as well as the assets used by CCR in the distribution of the cross licensed brands and The Coca Cola Company brands. The major markets that would be served by the Company as part of the expansion contemplated by the May 2015 LOI include: Baltimore, Maryland; Alexandria, Norfolk and Richmond, Virginia; the District of Columbia; Cincinnati, Columbus and Dayton, Ohio; and Indianapolis, Indiana.

On September 23, 2015, the Company and CCR entered into an asset purchase agreement (the “September 2015 APA”) for the first phase of the additional distribution territory contemplated by the May 2015 LOI including: (i) eastern and northern Virginia, (ii) the entire state of Maryland, (iii) the District of Columbia, and (iv) parts of Delaware, North Carolina, Pennsylvania and West Virginia. Following is a summary of key closing dates for the transactions covered by the September 2015 APA:

- October 30, 2015 – The first closing under the September 2015 APA occurred for territories served by distribution facilities in Norfolk, Fredericksburg and Staunton, Virginia and Elizabeth City, North Carolina.
- January 29, 2016 – The second closing under the September 2015 APA occurred for territories served by distribution facilities in Easton and Salisbury, Maryland and Richmond and Yorktown, Virginia.
- April 1, 2016 – The third closing under the September 2015 APA occurred for territories served by distribution facilities in Alexandria, Virginia and Capitol Heights and La Plata, Maryland.
- April 29, 2016 – The final closing for under the September 2015 APA occurred for territories served by distribution facilities in Baltimore, Hagerstown and Cumberland, Maryland.

The May 2015 LOI contemplated that The Coca Cola Company would work collaboratively with the Company and certain other expanding participating bottlers in the U.S. to implement a national product supply system. As a result of subsequent discussions with The Coca Cola Company, on September 23, 2015, the Company and The Coca Cola Company entered into a non-binding letter of intent (the “September 2015 LOI”) pursuant to which CCR would sell six manufacturing facilities (“Regional Manufacturing Facilities”) and related manufacturing assets (collectively, “Manufacturing Assets”) to the Company as the Company becomes a regional producing bottler (“Regional Producing Bottler”) in the national product supply system (the “Manufacturing Facility Expansion Transactions” and, together with the Distribution Territory Expansion Transactions, the “Expansion Transactions”). Similar to, and as an integral part of, the Distribution Territory Expansion Transactions described in the May 2015 LOI, the September 2015 LOI contemplated that the sale of the Manufacturing Assets by CCR to the Company would be accomplished in two phases: (i) the first phase would include three Regional Manufacturing Facilities located in Sandston, Virginia; Silver Spring, Maryland; and Baltimore, Maryland that serve certain of the distribution territories acquired by the Company under the September 2015 APA and (ii) the second phase would include three Regional Manufacturing Facilities located in Indianapolis, Indiana; Portland, Indiana; and Cincinnati, Ohio that serve the distribution territories



in central and southern Ohio, northern Kentucky and parts of Indiana and Illinois.

On October 30, 2015, the Company and CCR entered into an asset purchase agreement (the “October 2015 APA”) for the first phase of the Manufacturing Facility Expansion Transactions contemplated by the September 2015 LOI, including Regional Manufacturing Facilities located in Sandston, Virginia Silver Spring, Maryland and Baltimore, Maryland. Following is a summary of key closing dates for the transactions covered by the October 2015 APA:

- January 29, 2016 – The first closing under the October 2015 APA occurred for the Sandston, Virginia facility.
- April 29, 2016 – The interim and final closings under the October 2015 APA occurred for the Silver Spring, Maryland facility and the Baltimore, Maryland facility.

On February 8, 2016, the Company and The Coca Cola Company entered into a non-binding letter of intent (the “February 2016 LOI”) pursuant to which CCR would (i) grant the Company exclusive rights for the distribution, promotion, marketing and sale of The Coca Cola Company-owned and -licensed products in additional territories served by CCR in northern Ohio, (ii) sell the Company certain assets that included rights to distribute those cross-licensed brands distributed in the territories by CCR as well as the assets used by CCR in the distribution of the cross-licensed brands and The Coca Cola Company brands, and (iii) sell to the Company an additional Regional Manufacturing Facility currently owned by CCR located in Twinsburg, Ohio and related Manufacturing Assets. The transactions proposed in the February 2016 LOI would provide exclusive distribution rights for the Company in the following major markets: Akron, Elyria, Toledo, Willoughby, and Youngstown County in Ohio.

On June 14, 2016, the Company and The Coca Cola Company entered into a non-binding letter of intent (the “CCR June 2016 LOI”) pursuant to which CCR would (i) grant the Company exclusive rights for the distribution, promotion, marketing and sale of The Coca Cola Company-owned and –licensed products in additional territories in northeastern Kentucky and southwestern West Virginia served by CCR’s distribution center in Louisa, Kentucky, (ii) sell the Company certain assets that included rights to distribute those cross-licensed brands distributed in the territories by CCR as well as the assets used by CCR in the distribution of the cross-licensed brands and The Coca Cola Company brands and (iii) exchange exclusive rights and associated distribution assets and working capital of CCR relating to the distribution, promotion, marketing and sale of The Coca Cola Company-owned and –licensed products and certain cross-licensed brands in territory in parts of Arkansas, southwestern Tennessee and northwestern Mississippi served by CCR and two additional Regional Manufacturing Facilities currently owned by CCR located in Memphis, Tennessee and West Memphis, Arkansas and related Manufacturing Assets for exclusive rights and associated distribution assets and working capital of the Company relating to the distribution, promotion, marketing and sale of The Coca Cola Company-owned and –licensed products and certain cross-licensed brands in territory in southern Alabama, southern Mississippi and southern Georgia currently served by the Company and a Regional Manufacturing Facility currently owned by the Company in Mobile, Alabama and related Manufacturing Assets. The transactions proposed by the CCR June 2016 LOI would provide exclusive distribution rights for the Company in the following major markets: Little Rock, West Memphis and southern Arkansas; Memphis, Tennessee; and Louisa, Kentucky.

On June 14, 2016, the Company and Coca-Cola Bottling Company United, Inc. (“United”), which is an independent bottler and unrelated to the Company, entered into a non-binding letter of intent pursuant to which the Company would exchange exclusive rights and associated distribution assets and working capital relating to the distribution, promotion, marketing and sale of The Coca Cola Company-owned and –licensed products and certain cross-licensed brands in certain territory in south-central Tennessee, northwest Alabama and northwest Florida currently served by the Company’s distribution centers located in Florence, Alabama and Panama City, Florida, for certain of United’s exclusive rights and associated distribution assets and working capital relating to the distribution, promotion, marketing and sale of The Coca Cola Company-owned and –licensed products and certain cross-licensed brands in certain territory in and around Spartanburg and Bluffton, South Carolina currently served by United’s distribution centers located in Spartanburg, South Carolina and Savannah, Georgia.

On September 1, 2016, the Company and CCR entered into an asset purchase agreement (the “September 2016 Distribution APA”) for the second phase of the additional distribution territory contemplated by the May 2015 LOI and for a portion of the additional distribution territory contemplated by the CCR June 2016 LOI, including territories located in (i) central and southern Ohio, (ii) northern Kentucky, (iii) large portions of Indiana and (iv) parts of Illinois and West Virginia that are currently served by CCR. Following is a summary of key closing dates for the transactions covered by the September 2016 Distribution APA:

- October 28, 2016 – The first closing under the September 2016 Distribution APA occurred for territories served by distribution facilities in Cincinnati, Dayton, Lima and Portsmouth, Ohio.
- January 27, 2017 – Subsequent to the end of 2016, the second closing under the September 2016 Distribution APA occurred for territories served by distribution facilities in Anderson, Fort Wayne, Lafayette, South Bend and Terre Haute, Indiana.

On September 1, 2016, the Company and CCR also entered into an asset purchase agreement (the “September 2016 Manufacturing APA”) for the second phase of the Regional Manufacturing Facility acquisitions contemplated by the September 2015 LOI, including Regional Manufacturing Facilities located in Indianapolis, Indiana Portland, Indiana and Cincinnati, Ohio that serve the distribution territories in central and southern Ohio, northern Kentucky and parts of Indiana and Illinois to be acquired by the Company under the September 2016 Distribution APA. On October 28, 2016, the first closing under the September 2016 Manufacturing APA occurred for the Cincinnati, Ohio facility.

At the closings of each of the Distribution Territory Expansion Transactions (excluding the exchange for the Lexington Expansion Territory, as described below), the Company signed a Comprehensive Beverage Agreement (“CBA”) with The Coca Cola Company and CCR for each of the applicable Expansion Territories which has a term of ten years and is automatically renewed for successive additional terms of ten years unless the Company gives notice to terminate at least one year prior to the expiration of a ten-year term or unless earlier terminated as provided therein.

Under the CBAs, the Company makes a quarterly sub-bottling payment to CCR on a continuing basis for the grant of exclusive rights to distribute, promote, market and sell specified covered beverages and related products, as defined in the agreements. The quarterly sub-bottling payment, which is accounted for as contingent consideration, is based on sales of certain beverages and beverage products that are sold under the same trademarks that identify a covered beverage, related product or certain cross-licensed brands (as defined in the CBAs). The CBAs impose certain obligations on the Company with respect to serving the Expansion Territories and failure to meet these obligations could result in termination of a CBA if the Company fails to take corrective measures within a specified time frame.

#### 2014 Expansion Territories

On May 23, 2014, the Company acquired distribution rights and related assets for the Johnson City and Morristown, Tennessee territory, and on October 24, 2014, the Company acquired distribution rights and related assets for the Knoxville, Tennessee territory from CCR. The cash purchase price for the 2014 Expansion Territories was \$43.1 million, which includes all post-closing adjustments.

#### 2015 Expansion Territories

During 2015, the Company acquired distribution rights and related assets for the following territories: Cleveland and Cookeville, Tennessee; Louisville, Kentucky and Evansville, Indiana; Paducah and Pikeville, Kentucky; Norfolk, Fredericksburg and Staunton, Virginia; and Elizabeth City, North Carolina (the “2015 Expansion Territories”). The Company also acquired a make-ready center in Annapolis, Maryland in 2015. During the fourth quarter of 2015, the Company made certain measurement period adjustments as a result of purchase price changes to reflect the revised opening balance sheets for the Cleveland and Cookeville, Tennessee and Louisville, Kentucky and Evansville, Indiana territories. The details of the transactions are included below.

#### Cleveland and Cookeville, Tennessee Territory Acquisitions

On December 5, 2014, the Company and CCR entered into an asset purchase agreement related to the territory served by CCR through CCR’s facilities and equipment located in Cleveland and Cookeville, Tennessee (the “January 2015 Expansion Territory”). The closing of this transaction occurred on January 30, 2015, for a cash purchase price of \$13.2 million, which includes all post-closing adjustments.

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

On December 17, 2014, the Company and CCR entered into an asset purchase agreement related to the territory served by CCR through CCR’s facilities and equipment located in Louisville, Kentucky and Evansville, Indiana (the “February 2015 Expansion Territory”). The closing of this transaction occurred on February 27, 2015, for a cash purchase price of \$18.0 million, which includes all post-closing adjustments.

#### Paducah and Pikeville, Kentucky Territory Acquisitions

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

#### Norfolk, Fredericksburg and Staunton, Virginia; and Elizabeth City, North Carolina Territory Acquisitions

On September 23, 2015, the Company and CCR entered into the September 2015 APA related, in part, to the territory served by CCR through CCR’s facilities and equipment located in Norfolk, Fredericksburg and Staunton, Virginia, and Elizabeth City, North Carolina (the “October 2015 Expansion Territory”). The closing of this transaction occurred on October 30, 2015, for a cash purchase price of \$26.7 million, which includes all post-closing adjustments.

#### Annapolis, Maryland Make-Ready Center Acquisition

As a part of the Expansion Transactions, on October 30, 2015, the Company acquired from CCR a “make-ready center” in Annapolis, Maryland (the “Annapolis MRC”) for a cash purchase price of \$5.4 million, which includes all post-closing adjustments. The Company recorded a bargain purchase gain of approximately \$2.0 million on this transaction after applying a deferred tax liability of approximately \$1.3 million. The Company uses the make-ready center to deploy and refurbish vending and other sales equipment for use in the marketplace.

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The fair value of acquired assets and assumed liabilities, which for the May 2015 Expansion Territory remains subject to adjustment in accordance with the terms and conditions of the February 2015 APA, of the 2015 Expansion Territories and the Annapolis MRC as of the acquisition dates is summarized as follows:

	January 2015	February 2015	May 2015	October 2015	Total 2015	
	Expansion Territory	Expansion Territory	Expansion Territory	Expansion Territory	Annapolis MRC	Expansion Territories
(in thousands)						
Cash	\$ 59	\$ 105	\$ 45	\$ 160	\$ -	\$ 369
Inventories	1,238	1,268	1,045	2,563	109	6,223
Prepaid expenses and other current assets	714	1,108	224	1,306	-	3,352
Accounts receivable from The Coca-Cola Company	322	740	294	824	-	2,180
Property, plant and equipment	6,291	15,656	6,210	24,832	8,492	61,481
Other assets (including deferred taxes)	336	1,352	494	4,392	-	6,574
Goodwill	1,388	1,520	1,027	6,723	-	10,658
Other identifiable intangible assets	12,950	20,350	1,700	49,100	-	84,100
Total acquired assets	\$ 23,298	\$ 42,099	\$ 11,039	\$ 89,900	\$ 8,601	\$ 174,937
Current liabilities (acquisition related contingent consideration)	\$ 843	\$ 1,659	\$ 281	\$ 547	\$ -	\$ 3,330
Other current liabilities	125	974	494	4,222	-	5,815
Other liabilities	-	823	10	-	1,265	2,098
Other liabilities (acquisition related contingent consideration)	9,131	20,625	2,748	58,925	-	91,429
Total assumed liabilities	\$ 10,099	\$ 24,081	\$ 3,533	\$ 63,694	\$ 1,265	\$ 102,672

The fair value of the acquired identifiable intangible assets of the 2015 Expansion Territories as of the acquisition dates is as follows:

	January 2015	February 2015	May 2015	October 2015	Total 2015	
	Expansion Territory	Expansion Territory	Expansion Territory	Expansion Territory	Expansion Territories	Estimated Useful Lives
(in thousands)						
Distribution agreements	\$ 12,400	\$ 19,200	\$ 1,500	\$ 47,900	\$ 81,000	40 years
Customer lists	550	1,150	200	1,200	3,100	12 years
Total acquired identifiable intangible assets	\$ 12,950	\$ 20,350	\$ 1,700	\$ 49,100	\$ 84,100	

The goodwill of \$1.4 million, \$1.5 million, \$1.0 million and \$6.7 million for the January 2015 Expansion Territory, February 2015 Expansion Territory, May 2015 Expansion Territory and October 2015 Expansion Territory, respectively, is all included in the Nonalcoholic Beverages segment and is primarily attributed to the workforce acquired. Goodwill of \$1.1 million, \$0.2 million and \$0.2 million is expected to be deductible for tax purposes for the January 2015 Expansion Territory, May 2015 Expansion Territory and October 2015 Expansion Territory, respectively. No goodwill is expected to be deductible for tax purposes for the February 2015 Expansion Territory.

#### 2015 Asset Exchange Agreement

On October 17, 2014, the Company and CCR entered into an agreement (the “Asset Exchange Agreement”) pursuant to which CCR agreed to exchange certain assets of CCR relating to the marketing, promotion, distribution and sale of Coca Cola and other beverage products in the territory served by CCR’s facilities and equipment located in Lexington, Kentucky (the “Lexington Expansion Territory”), including the rights to produce such beverages in the Lexington Expansion Territory, in exchange for certain assets of the Company relating to the marketing, promotion, distribution and sale of Coca Cola and other beverage products in the territory served by the Company’s facilities and equipment located in Jackson, Tennessee, including the rights to produce such beverages in that territory (the “Asset Exchange Transaction”). The Company and CCR closed the Asset Exchange Transaction on May 1, 2015. The net assets received by the Company in the exchange, after deducting the value of certain retained assets and retained liabilities, was approximately \$15.3 million.

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

(in thousands)	Lexington Expansion Territory
Cash	\$ 56
Inventories	2,231
Prepaid expenses and other current assets	345
Accounts receivable from The Coca-Cola Company	362
Property, plant and equipment	12,216
Other assets	48
Franchise rights	23,700
Goodwill	1,856
Other identifiable intangible assets	1,100
Total acquired assets	\$ 41,914
Current liabilities	\$ 926

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

(in thousands)	Lexington Expansion Territory	Estimated Useful Lives
Franchise rights	\$ 23,700	Indefinite
Distribution agreements	300	40 years
Customer lists	800	12 years
Total acquired identifiable intangible assets	\$ 24,800	

The goodwill of \$1.9 million related to the Lexington Expansion Territory, which is included in the Nonalcoholic Beverages segment, is primarily attributed to the workforce of the territories and is expected to be deductible for tax purposes.

During the second quarter of 2016, the net assets received in the Asset Exchange Transaction, after deducting the value of certain retained assets and retained liabilities, increased by \$4.2 million as a result of completing the post-closing adjustment under the Asset Exchange Agreement. In addition, the gain on the exchange was reduced by \$0.7 million during the second quarter of 2016.



The carrying value of assets exchanged related to the Jackson, Tennessee territory exchanged in the Asset Exchange Transaction was \$17.5 million, resulting in a gain on the exchange of \$8.8 million in the second quarter of 2015.

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

#### 2016 Expansion Transactions

During 2016, the Company acquired distribution rights and related assets for the following territories: Easton, Salisbury, Capitol Heights, La Plata, Baltimore, Hagerstown and Cumberland, Maryland; Richmond, Yorktown and Alexandria, Virginia; Cincinnati, Dayton, Lima and Portsmouth, Ohio; and Louisa, Kentucky. The Company also acquired the Regional Manufacturing Facilities and related Manufacturing Assets in Sandston, Virginia; Silver Spring and Baltimore, Maryland; and Cincinnati, Ohio during 2016. Collectively, these are the “2016 Expansion Transactions.” The details of the 2016 Expansion Transactions are included below.

#### Easton and Salisbury, Maryland and Richmond and Yorktown, Virginia Territory Acquisitions and Sandston, Virginia Regional Manufacturing Facility Acquisition

The September 2015 APA contemplated, in part, the Company’s acquisition of distribution rights and related assets in the territory served by CCR through CCR’s facilities and equipment located in Easton and Salisbury, Maryland and Richmond and Yorktown, Virginia and the October 2015 APA contemplated, in part, the Company’s acquisition of the Regional Manufacturing Facility and

related Manufacturing Assets in Sandston, Virginia (the “January 2016 Expansion Transactions”). The closing of the January 2016 Expansion Transactions occurred on January 29, 2016, for a cash purchase price of \$65.7 million, which will remain subject to adjustment in accordance with the terms and conditions of the September 2015 APA and October 2015 APA.

#### Alexandria, Virginia and Capitol Heights and La Plata, Maryland Territory Acquisitions

The September 2015 APA also contemplated the Company’s acquisition of distribution rights and related assets in the territory served by CCR through CCR’s facilities and equipment located in Alexandria, Virginia and Capitol Heights and La Plata, Maryland (the “April 1, 2016 Expansion Transaction”). The closing of the April 1, 2016 Expansion Transaction occurred on April 1, 2016, for a cash purchase price of \$35.6 million, which will remain subject to adjustment in accordance with the terms and conditions of the September 2015 APA.

#### Baltimore, Hagerstown and Cumberland, Maryland Territory Acquisitions and Silver Spring and Baltimore, Maryland Regional Manufacturing Facilities Acquisitions

On April 29, 2016, the Company completed the remaining transactions contemplated by (i) the September 2015 APA, by acquiring distribution rights and related assets in Expansion Territories served by CCR through CCR’s facilities and equipment located in Baltimore, Hagerstown and Cumberland, Maryland, and (ii) the October 2015 APA, by acquiring the Regional Manufacturing Facilities and related Manufacturing Assets in Silver Spring and Baltimore, Maryland (the “April 29, 2016 Expansion Transactions”). The closing of the April 29, 2016 Expansion Transactions occurred for a cash purchase price of \$69.0 million, which will remain subject to adjustment in accordance with the terms and conditions of the September 2015 APA and October 2015 APA.

#### Cincinnati, Dayton, Lima and Portsmouth, Ohio and Louisa, Kentucky Territory Acquisitions and Cincinnati, Ohio Regional Manufacturing Facility Acquisition

On October 28, 2016, the Company completed the initial transactions contemplated by (i) the September 2016 Distribution APA, by acquiring distribution rights and related assets in the Expansion Territories served by CCR through CCR’s facilities and equipment located in Cincinnati, Dayton, Lima and Portsmouth, Ohio and Louisa, Kentucky, and (ii) the September 2016 Manufacturing APA, by acquiring the Regional Manufacturing Facility and related manufacturing assets located in Cincinnati, Ohio (the “October 2016 Expansion Transactions”). The closing of the October 2016 Expansion Transactions occurred for a cash purchase price of \$98.2 million, which will remain subject to adjustment in accordance with the terms and conditions of the September 2016 Distribution APA and the September 2016 Manufacturing APA.

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The fair value of acquired assets and assumed liabilities of the 2016 Expansion Transactions as of the acquisition dates is summarized as follows:

	January 2016	April 1, 2016	April 29, 2016	October 2016	Total 2016
	Expansion	Expansion	Expansion	Expansion	Expansion
(in thousands)	Transactions	Transaction	Transactions	Transactions	Transactions
Cash	\$ 179	\$ 219	\$ 161	\$ 150	\$ 709
Inventories	10,159	3,748	13,850	18,513	46,270
Prepaid expenses and other current assets	2,775	1,945	3,774	4,181	12,675
Accounts receivable from The Coca-Cola Company	1,135	1,176	1,140	1,253	4,704
Property, plant and equipment	46,149	54,135	58,679	68,130	227,093
Other assets (including deferred taxes)	2,351	1,536	5,146	666	9,699
Goodwill	9,388	1,956	7,795	7,133	26,272
Other identifiable intangible assets	1,300	-	23,450	66,500	91,250
Total acquired assets	\$ 73,436	\$ 64,715	\$ 113,995	\$ 166,526	\$ 418,672
Current liabilities (acquisition related contingent consideration)	\$ 361	\$ 742	\$ 1,307	\$ 3,318	\$ 5,728
Other current liabilities	591	4,231	5,482	7,165	17,469
Accounts payable to The Coca-Cola Company	650	-	-	-	650
Other liabilities	-	266	2,635	761	3,662
Other liabilities (acquisition related contingent consideration)	6,144	23,924	35,561	57,066	122,695
Total assumed liabilities	\$ 7,746	\$ 29,163	\$ 44,985	\$ 68,310	\$ 150,204

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

	January 2016	April 29, 2016	October 2016	Total 2016	
	Expansion	Expansion	Expansion	Expansion	Estimated
(in thousands)	Transactions	Transactions	Transactions	Transactions	Useful Lives
Distribution agreements	\$ 750	\$ 22,000	\$ 63,900	\$ 86,650	40 years
Customer lists	550	1,450	2,600	4,600	12 years
Total acquired identifiable intangible assets	\$ 1,300	\$ 23,450	\$ 66,500	\$ 91,250	

The goodwill of \$9.4 million, \$2.0 million, \$7.8 million and \$7.1 million for the January 2016 Expansion Transactions, April 1, 2016 Expansion Transaction, April 29, 2016 Expansion Transactions and October 2016 Expansion Transactions, respectively, is all included in the Nonalcoholic Beverages segment and is primarily attributed to operational synergies and the workforce acquired. Goodwill of \$5.9 million and \$13.1 million is expected to be deductible for tax purposes for the January 2016 Expansion Transactions and October 2016 Expansion Transactions, respectively. No goodwill is expected to be deductible for the April 1, 2016 Expansion Transaction or the April 29, 2016 Expansion Transactions.

The Company has preliminarily allocated the purchase price of the May 2015 Expansion Territory and the 2016 Expansion Transactions to the individual acquired assets and assumed liabilities. The valuations are subject to adjustment as additional information is obtained.

The anticipated range of amounts the Company could pay annually under the acquisition related contingent consideration arrangements for the Expansion Transactions is between \$14 million and \$25 million.

#### Expansion Transactions Financial Results

The financial results of the 2016 Expansion Transactions, the 2015 Expansion Territories, the 2015 Asset Exchange and the 2014 Expansion Territories have been included in the Company's consolidated financial statements from their respective acquisition or exchange dates. These territories contributed the following amounts to the Company's consolidated statement of operations:

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(in thousands)	Fiscal Year		
	2016	2015	2014
Net sales from 2014 Expansion Territories	\$ 161,482	\$ 158,393	\$ 45,120
Net sales from 2015 Expansion Territories & 2015 Asset Exchange	469,440	278,691	-
Net sales from 2016 Expansion Transactions	592,329	-	-
Total expansion transactions impact to net sales	\$ 1,223,251	\$ 437,084	\$ 45,120
Operating income from 2014 Expansion Territories	\$ 4,933	\$ 3,553	\$ 3,417
Operating income from 2015 Expansion Territories & 2015 Asset Exchange	1,907	3,364	-
Operating income from 2016 Expansion Transactions	22,373	-	-
Total expansion transactions impact to operating income	\$ 29,213	\$ 6,917	\$ 3,417

The Company incurred \$6.1 million, \$5.8 million and \$5.3 million in transaction related expenses for the Expansion Transactions in 2016, 2015 and 2014, respectively. These expenses are included within Selling, delivery and administrative expenses on the Consolidated Statements of Operations.

#### 2016 Expansion Transactions and 2015 Expansion Territories Pro Forma Financial Information

The purpose of the pro forma is to present the net sales and the income from operations of the combined entity as though the current year acquisitions had occurred as of the beginning of each period presented. 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 each period presented. 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 unaudited pro forma net sales for the Company for the 2016 Expansion Transactions and the 2015 Expansion Territories.

(in thousands)	Fiscal Year	
	2016	2015
Net sales as reported	\$3,156,428	\$2,306,458
Pro forma adjustments (unaudited)	441,642	1,026,245
Net sales pro forma (unaudited)	\$3,598,070	\$3,332,703

The following table represents the unaudited pro forma income from operations for the Company for the 2016 Expansion Transactions. The income from operations for the 2015 Expansion Territories are not presented as these are considered impracticable for disclosure.

(in thousands)	Fiscal Year	
	2016	2015
Income from operations as reported	\$127,859	\$98,144
Pro forma adjustments (unaudited)	27,263	39,178
Income from operations pro forma (unaudited)	\$155,122	\$137,322

#### Glacéau Distribution Termination Agreement

On June 29, 2016, the Company entered into an agreement with The Coca Cola Company and CCR which authorizes the Company 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, beginning on January 1, 2017.

Pursuant to the agreement, the Company made a payment to The Coca Cola Company of \$15.6 million on February 16, 2017, which was recorded in Accounts payable to The Coca Cola Company as of January 1, 2017, and 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. Additionally, the Company recorded a \$5.4 million acquisition related contingent consideration in Other liabilities related to this agreement. The total of \$21.0 million, which represents the Company's rights to market, promote, distribute and sell glacéau products in certain geographic territories, was recorded as a Distribution agreement intangible asset as of January 1, 2017.

#### Sale of BYB Brands, Inc.

On August 24, 2015, the Company sold BYB Brands, Inc. (“BYB”), a wholly owned subsidiary of the Company to The Coca Cola Company. Pursuant to the stock purchase agreement dated July 22, 2015, the Company sold all issued and outstanding shares of capital stock of BYB for a cash purchase price of \$26.4 million. As a result of the sale, the Company recognized a gain of \$22.7 million, which was recorded to Gain on sale of business in the consolidated financial statements in 2015. BYB contributed the following amounts to the Company’s consolidated statement of operations:

(in thousands)	Fiscal Year	
	2015	2014
Net sales	\$23,875	\$34,089
Operating income (loss)	1,809	(357 )

#### 4. Inventories

Inventories consisted of the following:

(in thousands)	January 1, 2017	January 3, 2016
Finished products	\$90,259	\$56,252
Manufacturing materials	23,196	12,277
Plastic shells, plastic pallets and other inventories	30,098	20,935
Total inventories	\$143,553	\$89,464



The growth in the inventory balances at January 1, 2017, as compared to January 3, 2016, is primarily a result of inventory acquired through the acquisitions of the Expansion Territories in 2016.

## 5. Property, Plant and Equipment

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

(in thousands)	January 1, 2017	January 3, 2016	Estimated Useful Lives
Land	\$68,541	\$24,731	
Buildings	201,247	134,496	8-50 years
Machinery and equipment	229,119	165,733	5-20 years
Transportation equipment	316,929	251,712	4-20 years
Furniture and fixtures	78,219	59,500	3-10 years
Cold drink dispensing equipment	484,771	398,867	5-17 years
Leasehold and land improvements	112,393	94,208	5-20 years
Software for internal use	105,405	97,760	3-10 years
Construction in progress	14,818	24,632	
Total property, plant and equipment, at cost	1,611,442	1,251,639	
Less: Accumulated depreciation and amortization	798,453	725,819	
Property, plant and equipment, net	\$812,989	\$525,820	

Depreciation and amortization expense was \$111.6 million, \$78.1 million and \$60.4 million in 2016, 2015, and 2014, respectively. These amounts included amortization expense for leased property under capital leases.

During 2016, 2015, and 2014, the Company performed periodic reviews of property, plant and equipment and determined no material impairment existed.

## 6. Leased Property Under Capital Leases

Leased property under capital leases consisted of the following:

(in thousands)	January 1, 2017	January 3, 2016	Estimated Useful Lives
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Leased property under capital leases	\$94,125	\$98,001	3-20 years
Less: Accumulated amortization	60,573	57,856	
Leased property under capital leases, net	\$33,552	\$40,145	

As of January 1, 2017, real estate represented all of the leased property under capital leases, net and \$19.4 million of this real estate is leased from related parties as discussed in Note 19 to the consolidated financial statements. The Company's outstanding lease obligations for capital leases were \$48.7 million as of January 1, 2017 and \$55.8 million as of January 3, 2016.

## 7. Franchise Rights and Goodwill

A reconciliation of the activity for franchise rights and goodwill for 2016 and 2015 follows:

(in thousands)	Franchise rights	Goodwill	Total
Balance on December 28, 2014	\$520,672	\$106,220	\$626,892
2015 Expansion Territories	-	10,319	10,319
Asset Exchange Transaction	6,868	316	7,184
Measurement period adjustment	-	1,099	1,099
Balance on January 3, 2016	\$527,540	\$117,954	\$645,494
2016 Expansion Transactions	-	26,272	26,272
Asset Exchange Transaction	5,500	(682 )	4,818
Measurement period adjustment	-	1,042	1,042
Balance on January 1, 2017	\$533,040	\$144,586	\$677,626

The Company's goodwill resides entirely within the Nonalcoholic Beverages segment. The Company performed its annual impairment test of franchise rights and goodwill as of the first day of the fourth quarter of 2016, 2015 and 2014 and determined there was no impairment of the carrying value of these assets.

#### 8. Other Identifiable Intangible Assets

Other identifiable intangible assets consisted of the following:

(in thousands)	January 1, 2017			Estimated Useful Lives
	Cost	Accumulated Amortization	Total, net	
Distribution agreements	\$242,486	\$ 7,498	\$234,988	20-40 years
Customer lists and other identifiable intangible assets	15,938	5,511	10,427	12-20 years
<b>Total other identifiable intangible assets</b>	<b>\$258,424</b>	<b>\$ 13,009</b>	<b>\$245,415</b>	

(in thousands)	January 3, 2016			Estimated Useful Lives
	Cost	Accumulated Amortization	Total, net	
Distribution agreements	\$133,109	\$ 3,323	\$129,786	20-40 years
Customer lists and other identifiable intangible assets	11,338	4,676	6,662	12-20 years
<b>Total other identifiable intangible assets</b>	<b>\$144,447</b>	<b>\$ 7,999</b>	<b>\$136,448</b>	

A reconciliation of the activity for other identifiable intangible assets for 2016 and 2015 follows:

(in thousands)	Customer Lists and Other Identifiable		Total Other Identifiable
	Distribution Agreements	Intangible Assets	
Balance on December 28, 2014	\$ 53,841	\$ 3,307	\$ 57,148
2015 Expansion Territories	81,000	3,100	84,100
Asset Exchange Transaction	200	800	1,000
Measurement period adjustment	(3,000 )	-	(3,000 )
Accumulated amortization	(2,255 )	(545 )	(2,800 )

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Balance on January 3, 2016	\$ 129,786	\$ 6,662	\$ 136,448
2016 Expansion Transactions	86,650	4,600	91,250
Glacéau Distribution Agreement	21,032	-	21,032
Measurement period adjustment and other distribution agreements	1,695	-	1,695
Accumulated amortization	(4,175 )	(835 )	(5,010 )
Balance on January 1, 2017	\$ 234,988	\$ 10,427	\$ 245,415

Other identifiable intangible assets are amortized on a straight line basis. Amortization expense related to other identifiable intangible assets was \$5.0 million, \$2.8 million and \$0.7 million for 2016, 2015 and 2014, respectively. Assuming no impairment of these other identifiable intangible assets, amortization expense in future years based upon recorded amounts as of January 1, 2017 will be \$7.2 million each year for 2017 through 2021.

## 9. Other Accrued Liabilities

Other accrued liabilities consisted of the following:

(in thousands)	January 1, 2017	January 3, 2016
Accrued insurance costs	\$28,248	\$24,353
Accrued marketing costs	24,714	24,959
Employee and retiree benefit plan accruals	23,858	19,155
Checks and transfers yet to be presented for payment from zero balance cash accounts	19,326	8,980
Current portion of acquisition related contingent consideration	15,782	7,902
Commodity hedges mark-to-market accrual	-	3,442
Accrued taxes, other than income taxes	2,836	1,721
All other accrued expenses	19,121	13,656
Total other accrued liabilities	\$133,885	\$104,168

## 10. Debt

Following is a summary of the Company's debt:

(in thousands)	Maturity	Interest Rate	Interest Paid	January 1, 2017	January 3, 2016
Revolving credit facility	2019	Variable	Varies	\$152,000	\$-
Senior Notes	2016	5.00%	Semi-annually	-	164,757
Senior Notes	2019	7.00%	Semi-annually	110,000	110,000
Senior Notes	2025	3.80%	Semi-annually	350,000	350,000
Term Loan	2021	Variable	Varies	300,000	-
Unamortized discount on Senior Notes*	2019			(570 )	(792 )
Unamortized discount on Senior Notes*	2025			(78 )	(86 )
Debt issuance costs				(4,098 )	(4,251 )
Total debt				907,254	619,628
Less: Current portion of debt				-	-
Long-term debt				\$907,254	\$619,628

\*NOTE: The Senior Notes due 2019 were issued at 98.238% of par and the Senior Notes due 2025 were issued at 99.975% of par.

The principal maturities of debt outstanding on January 1, 2017 were as follows:

	Debt
(in thousands)	Maturities
2017	\$ -
2018	15,000
2019	292,000
2020	37,500
2021	217,500
Thereafter	350,000
Total debt	\$ 912,000

The Company had capital lease obligations of \$48.7 million as of January 1, 2017 and \$55.8 million as of January 3, 2016. 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.

In October 2014, the Company entered into a five-year unsecured revolving credit facility (the “Revolving Credit Facility”), and in April 2015, the Company exercised an accordion feature which established a \$450 million aggregate maximum borrowing capacity on the Revolving Credit Facility. The \$450 million borrowing capacity includes up to \$50 million available for the issuance of letters of credit. Borrowings under the Revolving Credit Facility bear interest at a floating base rate or a floating Eurodollar rate plus an applicable margin, dependent on the Company’s credit rating at the time of borrowing. At the Company’s current credit ratings, the Company must pay an annual facility fee of 0.15% of the lenders’ aggregate commitments under the Revolving Credit Facility. The Revolving Credit Facility has a scheduled maturity date of October 16, 2019.

In June 2016, the Company entered into a five-year term loan agreement for a senior unsecured term loan facility (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, dependent on the Company’s credit rating, at the Company’s option. The Company used \$210 million of the proceeds from the Term Loan Facility to repay outstanding indebtedness under the Revolving Credit Facility. The Company then used the remaining proceeds, as well as borrowings under the Revolving Credit Facility, to repay the \$164.8 million of Senior Notes that matured on June 15, 2016.

Both the Revolving Credit 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 January 1, 2017. 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 the 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.

## 11. Derivative Financial Instruments

The Company is subject to the risk of increased costs arising from adverse changes in certain commodity prices. In the normal course of business, the Company manages these risks through a variety of strategies, including the use of derivative instruments. The Company does not use derivative instruments for trading or speculative purposes. All derivative instruments are recorded at fair value as either assets or liabilities in the Company’s consolidated balance sheets. These derivative instruments are not designated as hedging instruments under GAAP and are used as “economic hedges” to manage 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 statements of cash flows.

The Company uses several different financial institutions for commodity derivative instruments to minimize the concentration of credit risk. While the Company is exposed to credit loss in the event of nonperformance by these

counterparties, the Company does not anticipate nonperformance by these parties.

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

(in thousands)	Classification of Gain (Loss)	Fiscal Year		
		2016	2015	2014
Commodity hedges	Cost of sales	\$2,896	\$(2,354)	\$ -
Commodity hedges	Selling, delivery and administrative expenses	1,832	(1,085)	-
Total gain (loss)		\$4,728	\$(3,439)	\$ -

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

(in thousands)	Balance Sheet Classification	January	January
		1, 2017	3, 2016
<b>Assets:</b>			
Commodity hedges at fair market value	Prepaid expenses and other current assets	\$ 1,289	\$-
Commodity hedges at fair market value	Other assets	-	3
Total assets		\$ 1,289	\$ 3
<b>Liabilities:</b>			
Commodity hedges at fair market value	Other liabilities	\$-	\$ 3,442
Total liabilities		\$-	\$ 3,442



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 balance sheet and the net amounts of derivative liabilities are recognized in other accrued liabilities or other liabilities in the consolidated balance sheets. The following table summarizes the Company's gross derivative assets and gross derivative liabilities in the consolidated balance sheets:

(in thousands)	January 1, 2017	January 3, 2016
Gross derivative assets	\$ 1,297	\$ 222
Gross derivative liabilities	8	3,661

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

(in thousands)	January 1, 2017	January 3, 2016
Notional amount of outstanding commodity derivative agreements	\$ 13,146	\$ 64,884
Latest maturity date of outstanding commodity derivative agreements	December 2017	December 2017

## 12. 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	Level 1	The fair values of the Company's non-qualified deferred compensation plan for certain executives and other highly compensated employees has associated assets and liabilities,

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 for the Company's commodity hedging agreements are based on current settlement values at each balance sheet date. The fair values of the commodity hedging agreements at each balance sheet date represent the estimated amounts the Company would have received or paid upon termination of these agreements. Credit risk related to the derivative financial instruments is managed by requiring high standards for its counterparties and periodic settlements. The Company considers nonperformance risk in determining the fair value of derivative financial instruments.
Public debt securities	Level 2	The fair values of the Company's public debt securities are based on estimated current market prices.
Non-public variable rate debt	Level 2	The carrying amounts of the Company's variable rate borrowings approximate their fair values due to variable interest rates with short reset periods.
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.

(in thousands)	January 1, 2017				
	Carrying	Total	Fair	Fair	Fair
	Amount	Fair Value	Value	Value	Value
			Level 1	Level 2	Level 3
<b>Assets:</b>					
Deferred compensation plan assets	\$24,903	\$24,903	\$24,903	\$-	\$-
Commodity hedging agreements	1,289	1,289	-	1,289	-
<b>Liabilities:</b>					
Deferred compensation plan liabilities	24,903	24,903	24,903	-	-
Public debt securities	456,032	475,800	-	475,800	-
Non-public variable rate debt	451,222	452,000	-	452,000	-
Acquisition related contingent consideration	253,437	253,437	-	-	253,437

(in thousands)	January 3, 2016				
	Carrying	Total	Fair	Fair	Fair
	Amount	Fair Value	Value	Value	Value
			Level 1	Level 2	Level 3
<b>Assets:</b>					
Deferred compensation plan assets	\$20,755	\$20,755	\$20,755	\$-	\$-
Commodity hedging agreements	3	3	-	3	-
<b>Liabilities:</b>					
Deferred compensation plan liabilities	20,755	20,755	20,755	-	-
Commodity hedging agreements	3,442	3,442	-	3,442	-
Public debt securities	619,628	645,400	-	645,400	-
Acquisition related contingent consideration	136,570	136,570	-	-	136,570

Under the CBAs the Company entered into in 2016, 2015 and 2014, the Company will make a quarterly sub-bottling payment to CCR on a continuing basis for the grant of exclusive rights to distribute, promote, market and sell specified covered beverages and beverage products in the acquired territories. This acquisition related contingent consideration is valued using a probability weighted discounted cash flow model based on internal forecasts and the WACC derived from market data, which are considered Level 3 inputs. Each reporting period, the Company adjusts its contingent consideration liability related to the territory expansion to fair value by discounting future expected sub-bottling payments required under the CBAs using the Company's estimated WACC. These future expected sub-bottling payments extend through the life of the related distribution assets acquired in each expansion territory, which is generally 40 years. As a result, the fair value of the acquisition related contingent consideration liability is impacted by the Company's WACC, management's estimate of the amounts that will be paid in the future under the CBAs, and current sub-bottling payments (all Level 3 inputs). Changes in any of these Level 3 inputs, particularly the underlying risk-free interest rate 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 activity is as follows:

(in thousands)	Fiscal Year	
	2016	2015
Opening balance	\$ 136,570	\$ 46,850
Increase due to acquisitions	133,857	109,784
Decrease due to measurement period adjustments	-	(18,396)
Payment/current payables	(15,080)	(5,244)
Fair value adjustment - (income) expense	(1,910)	3,576
Ending balance	\$ 253,437	\$ 136,570

The Company recorded a favorable fair value adjustment to the contingent consideration liability of \$1.9 million during 2016 and an unfavorable fair value adjustment to the contingent consideration liability of \$3.6 million during 2015. All adjustments to fair value were primarily a result of updated projections and changes in the risk-free interest rate. These adjustments were recorded in other income (expense) on the Company's Consolidated Statements of Operations.

### 13. Other Liabilities

Other liabilities consisted of the following:

(in thousands)	January 1, 2017	January 3, 2016
Non-current portion of acquisition related contingent consideration	\$237,655	\$128,668
Accruals for executive benefit plans	123,078	122,077
Other	17,839	16,345
Total other liabilities	\$378,572	\$267,090

See Note 18 and Note 12 to the consolidated financial statements for additional information on benefit plans and acquisition related contingent consideration, respectively.

### 14. Commitments and Contingencies

#### Leases

The Company leases office and warehouse space, machinery and other equipment under noncancellable operating lease agreements which expire at various dates through 2030. These leases generally contain scheduled rent increases or escalation clauses, renewal options, or in some cases, purchase options. The Company also leases certain warehouse space and other equipment under capital lease agreements which expire at various dates through 2030. These leases contain scheduled rent increases or escalation clauses. Amortization of assets recorded under capital leases is included in depreciation expense.

Rental expense incurred for noncancellable operating leases was \$13.6 million in 2016, \$8.9 million in 2015 and \$7.6 million in 2014. See Note 6 and Note 19 to the consolidated financial statements for additional information on leased property under capital leases.

The following is a summary of future minimum lease payments, including renewal options the Company has determined to be reasonably assured, for all noncancellable operating leases and capital leases as of January 1, 2017:

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(in thousands)	Capital Leases	Operating Leases	Total
2017	\$ 10,495	\$ 11,141	\$21,636
2018	10,421	9,211	19,632
2019	10,149	8,371	18,520
2020	10,328	8,432	18,760
2021	5,933	8,074	14,007
Thereafter	12,081	32,805	44,886
Total minimum lease payments including interest	\$ 59,407	\$ 78,034	\$137,441
Less: Amounts representing interest	10,686		
Present value of minimum lease principal payments	48,721		
Less: Current portion of principal payment obligations under capital leases	7,527		
Long-term portion of principal payment obligations under capital leases	\$ 41,194		

### Manufacturing Cooperatives

The Company is a shareholder of South Atlantic Cannery, Inc. (“SAC”), a manufacturing cooperative in Bishopville, South Carolina from which it is obligated to purchase 17.5 million cases of finished product on an annual basis through June 2024. All eight shareholders of the cooperative are Coca Cola bottlers and each has equal voting rights. The Company receives a fee for managing the day-to-day operations of SAC pursuant to a management agreement. The Company purchased 29.9 million cases, 28.3 million cases and 25.9 million cases of finished product from SAC in 2016, 2015 and 2014, respectively.

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

The Company has an equity ownership in both SAC and Southeastern. Following is a summary of purchases from these manufacturing cooperatives:

(in thousands)	Fiscal Year		
	2016	2015	2014
Purchases from SAC	\$ 149,878	\$ 144,511	\$ 132,635
Purchases from Southeastern	80,123	63,257	67,966
Total purchases from manufacturing cooperatives	\$ 230,001	\$ 207,768	\$ 200,601

The Company guarantees a portion of SAC's and Southeastern's debt, which resulted primarily from the purchase of production equipment and facilities and expires at various dates through 2023. The amounts guaranteed were as follows:

(in thousands)	January	January
	1, 2017	3, 2016
Guaranteed portion of debt - SAC	\$ 23,297	\$ 19,057
Guaranteed portion of debt - Southeastern	9,277	11,467
Total guaranteed portion of debt - manufacturing cooperatives	\$ 32,574	\$ 30,524

In the event either of these cooperatives 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 guarantees. The following table summarizes the Company's maximum exposure under these guarantees if these cooperatives had borrowed up to their aggregate borrowing capacity:

(in thousands)	January 1, 2017		
	South Atlantic Canners, Inc.	Southeastern Container	Total Manufacturing Cooperatives
Maximum guaranteed debt	\$ 23,938	\$ 25,251	\$ 49,189
Equity investments*	4,102	17,501	21,603
Maximum total exposure, including equity investments	\$ 28,040	\$ 42,752	\$ 70,792

\*NOTE: Recorded in other assets on the Company's consolidated balance sheets using the equity method.

The members of both cooperatives consist solely of Coca Cola bottlers. The Company does not anticipate either of these cooperatives will fail to fulfill its commitments. The Company further believes each of these cooperatives has sufficient assets, including production equipment, facilities and working capital, and the ability to adjust selling prices of its products to adequately mitigate the risk of material loss from the Company's guarantees. Following is a summary

of the cooperatives' 2016 financial results:

	South Atlantic Canners, Inc.	Southeastern Container
(in thousands)		
Total assets	\$53,417	\$ 279,830
Total debt	23,109	111,202
Total revenues	204,144	527,609

The Company holds no assets as collateral against the SAC or Southeastern guarantees, the fair value of which is immaterial to the Company's consolidated financial statements. The Company monitors its investments in SAC and Southeastern and would be required to write down its investment if an impairment was identified and the Company determined it to be other than temporary. No impairment of the Company's investments in SAC or Southeastern has been identified as of January 1, 2017, and there was no impairment in 2016, 2015 or 2014.

#### 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 \$29.7 million on January 1, 2017 and \$26.9 million on January 3, 2016.

The Company participates in long-term marketing contractual arrangements with certain prestige properties, athletic venues and other locations. The future payments related to these contractual arrangements as of January 1, 2017 amounted to \$81.7 million and expire at various dates through 2026.



The Company is involved in various claims and legal proceedings which have arisen in the ordinary course of its business. Although it is difficult to predict the ultimate outcome of these claims and legal proceedings, management believes the ultimate disposition of these matters will not have a material adverse effect on the financial condition, cash 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 financial statements.

### 15. Income Taxes

The current income tax provision represents the estimated amount of income taxes paid or payable for the year, as well as changes in estimates from prior years. The deferred income tax provision represents the change in deferred tax liabilities and assets. The following table presents the significant components of the provision for income taxes:

(in thousands)	Fiscal Year		
	2016	2015	2014
<b>Current:</b>			
Federal	\$(6,920 )	\$20,107	\$13,153
State	27	3,563	2,163
<b>Total current provision (benefit)</b>	<b>\$(6,893 )</b>	<b>\$23,670</b>	<b>\$15,316</b>
<b>Deferred:</b>			
Federal	\$39,644	\$10,638	\$3,638
State	3,298	(230 )	582
<b>Total deferred provision (benefit)</b>	<b>\$42,942</b>	<b>\$10,408</b>	<b>\$4,220</b>
<b>Income tax expense</b>	<b>\$36,049</b>	<b>\$34,078</b>	<b>\$19,536</b>

The Company's effective income tax rate, as calculated by dividing income tax expense by income before income taxes, for 2016, 2015 and 2014 was 38.9%, 34.4% and 35.1%, respectively. The following table provides a reconciliation of income tax expense at the statutory federal rate to actual income tax expense.

(in thousands)	Fiscal Year					
	2016		2015		2014	
	Income	%	Income	%	Income	%
		pre-tax		pre-tax		pre-tax

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	tax expense	income	tax expense	income	tax expense	income
Statutory expense	\$32,449	35.0 %	\$34,692	35.0 %	\$19,474	35.0 %
State income taxes, net of federal benefit	3,243	3.5	3,496	3.5	2,133	3.8
Noncontrolling interest – Piedmont	(2,406 )	(2.6 )	(2,261 )	(2.3 )	(1,835 )	(3.3 )
Adjustment for uncertain tax positions	(43 )	-	51	0.1	30	0.1
Adjustment for state tax legislation	(625 )	(0.7 )	(1,145 )	(1.2 )	-	-
Valuation allowance change	(689 )	(0.7 )	(1,332 )	(1.3 )	1,203	2.2
Bargain purchase gain	-	-	(704 )	(0.7 )	-	-
Capital loss carryover	-	-	-	-	(854 )	(1.5 )
Manufacturing deduction benefit	(56 )	(0.1 )	(1,330 )	(1.3 )	(1,470 )	(2.6 )
Meals and entertainment	1,879	2.0	1,666	1.7	1,204	2.2
Other, net	2,297	2.5	945	0.9	(349 )	(0.8 )
Income tax expense	\$36,049	38.9 %	\$34,078	34.4 %	\$19,536	35.1 %

The Company's effective tax rate, as calculated by dividing income tax expense by income before income taxes less net income attributable to noncontrolling interest, for 2016, 2015 and 2014 was 41.8%, 36.6% and 38.4%, respectively.

During 2015, a state legislation target threshold was met that caused a reduction to the corporate tax rate in that state to 4.0% from 5.0%, effective January 1, 2016. This reduction in the state corporate tax rate decreased the Company's income tax expense by approximately \$1.1 million in 2015 due to the impact on the Company's net deferred tax liabilities and valuation allowance.

During 2016, the Company revalued its existing net deferred tax liabilities for the effects on the state corporate tax rate applied to deferred taxes which resulted from the 2016 Expansion Transactions. The net impact of this revaluation was an increase to the recorded income tax expense of \$0.8 million. Also during 2016, a state tax legislation target was met that caused a reduction to the corporate tax rate in that state to 3.0% from 4.0%, effective January 1, 2017. This reduction in the state corporate tax rate resulted in a decrease to the Company's recorded income tax expense of \$0.6 million due to the Company revaluing its net deferred tax liabilities. The impact of these two revaluations was a net increase to the recorded income tax expense of \$0.2 million in 2016.

The gain on the exchange of franchise territory and the sale of BYB did not have a significant impact on the effective income tax rate for 2015.

The Company records liabilities for uncertain tax positions related to certain income tax positions. These liabilities reflect the Company's best estimate of the ultimate income tax liability based on currently known facts and information. Material changes in facts or information, as well as the expiration of statute and/or settlements with individual tax jurisdictions, may result in material adjustments to these estimates in the future.

The Company recognizes potential interest and penalties related to uncertain tax positions in income tax expense. During 2016, 2015 and 2014, the interest and penalties related to uncertain tax positions recognized in income tax expense were not material. In addition, the amount of interest and penalties accrued at January 1, 2017 and January 3, 2016 were not material.

As of January 1, 2017 and January 3, 2016, the Company had \$2.9 million of uncertain tax positions, including accrued interest, 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 financial statements.

The Company reduced its liability for uncertain tax positions in 2016, 2015 and 2014, primarily as a result of the expiration of applicable statutes of limitation. These reductions resulted in corresponding decreases to income tax expense. A reconciliation of uncertain tax positions, excluding accrued interest, is as follows:

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(in thousands)	Fiscal Year		
	2016	2015	2014
Gross uncertain tax positions at the beginning of the year	\$2,633	\$2,620	\$2,630
Increase as a result of tax positions taken during a prior period	-	-	-
Decrease as a result of tax positions taken during a prior period	-	-	-
Increase as a result of tax positions taken in the current period	687	547	498
Reduction as a result of the expiration of the applicable statute of limitations	(641 )	(534 )	(508 )
Gross uncertain tax positions at the end of the year	\$2,679	\$2,633	\$2,620

Deferred income taxes are recorded based upon temporary differences between the financial statement and tax bases of assets and liabilities and available net operating loss and tax credit carryforwards. Temporary differences and carryforwards that comprised deferred income tax assets and liabilities were as follows:

(in thousands)	January 1, 2017	January 3, 2016
Acquisition related contingent consideration	\$97,573	\$52,306
Deferred compensation	44,185	44,402
Postretirement benefits	32,656	27,086
Accrued liabilities	21,666	21,853
Pension (nonunion)	17,381	18,257
Transactional costs	7,155	5,879
Capital lease agreements	5,817	6,105
Charitable contribution carryover	4,409	-
Pension (union)	3,162	3,290
Net operating loss carryforwards	2,148	3,121
Other	111	-
Deferred income tax assets	\$236,263	182,299
Less: Valuation allowance for deferred tax assets	1,618	2,307
Net deferred income tax asset	\$234,645	\$179,992
Intangible assets	\$(204,661)	\$(169,338)
Depreciation	(134,872)	(95,262)
Investment in Piedmont	(45,128)	(43,109)
Inventory	(13,814)	(9,928)
Prepaid expenses	(6,300)	(4,615)
Patronage dividend	(4,724)	(4,046)
Debt exchange premium	-	(204)
Other	-	(434)
Deferred income tax liabilities	\$(409,499)	\$(326,936)
Net deferred income tax liability	\$(174,854)	\$(146,944)

Valuation allowances are recognized on deferred tax assets if the Company believes it is more likely than not that some or all of the deferred tax assets will not be realized. The Company believes the majority of the deferred tax assets will be realized due to the reversal of certain significant temporary differences and anticipated future taxable income from operations.

The valuation allowance of \$1.6 million as of January 1, 2017 and \$2.3 million as of January 3, 2016 was established primarily for certain loss carryforwards which expire in varying amounts through 2035. The reduction in the valuation allowance as of January 1, 2017, was a result of the Company's assessment of its ability to use certain loss carryforwards. The reduction in the valuation allowance as of January 3, 2016, was a result of the Company's assessment of its ability to use certain loss carryforwards primarily related to the sale of BYB.

As of January 1, 2017, the Company had \$1.6 million of federal net operating losses and \$39.8 million of state net operating losses available to reduce future income taxes. The federal net operating losses would expire in varying amounts through 2032. The state net operating losses would expire in varying amounts through 2035.

Prior tax years beginning in year 2002 remain open to examination by the Internal Revenue Service, and various tax years beginning in year 1998 remain open to examination by certain state tax jurisdictions due to loss carryforwards.

The Company's deferred income tax assets and liabilities are subject to adjustment in future periods based on the Company's ongoing evaluations of such deferred assets and liabilities and new information available to the Company.

#### 16. Accumulated Other Comprehensive Income (Loss)

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

A summary of accumulated other comprehensive (loss) (“AOCI(L)”) is as follows:

(in thousands)	January 3, 2016	Gains (Losses) During the Period		Reclassification to Income		January 1, 2017
		Pre-tax Activity	Tax Effect	Pre-tax Activity	Tax Effect	
<b>Net pension activity:</b>						
Actuarial loss	\$(68,243)	\$(9,777 )	\$3,764	\$3,031	\$(1,168)	\$(72,393)
Prior service costs	(78 )	-	-	28	(11 )	(61 )
<b>Net postretirement benefits activity:</b>						
Actuarial loss	(19,825)	(9,152 )	3,523	2,186	(843 )	(24,111)
Prior service costs	5,744	-	-	(3,360)	1,295	3,679
Foreign currency translation adjustment	(5 )	-	-	(11 )	5	(11 )
<b>Total AOCI(L)</b>	<b>\$(82,407)</b>	<b>\$(18,929)</b>	<b>\$7,287</b>	<b>\$1,874</b>	<b>\$(722 )</b>	<b>\$(92,897)</b>

(in thousands)	December 28, 2014	Gains (Losses) During the Period		Reclassification to Income		January 3, 2016
		Pre-tax Activity	Tax Effect	Pre-tax Activity	Tax Effect	
<b>Net pension activity:</b>						
Actuarial loss	\$(74,867 )	\$7,513	\$(2,877)	\$3,230	\$(1,242)	\$(68,243)
Prior service costs	(99 )	-	-	35	(14 )	(78 )
<b>Net postretirement benefits activity:</b>						
Actuarial loss	(22,759 )	1,599	(613 )	3,164	(1,216)	(19,825)
Prior service costs	7,812	-	-	(3,360)	1,292	5,744
Foreign currency translation adjustment	(1 )	-	-	(8 )	4	(5 )
<b>Total AOCI(L)</b>	<b>\$(89,914 )</b>	<b>\$9,112</b>	<b>\$(3,490)</b>	<b>\$3,061</b>	<b>\$(1,176)</b>	<b>\$(82,407)</b>

(in thousands)	December 29, 2013	Gains (Losses) During the Period		Reclassification to Income		December 28, 2014
		Pre-tax Activity	Tax Effect	Pre-tax Activity	Tax Effect	
<b>Net pension activity:</b>						
Actuarial loss	\$(43,028 )	\$(53,597)	\$20,688	\$1,743	\$(673)	\$(74,867 )
Prior service costs	(121 )	-	-	36	(14 )	(99 )
<b>Net postretirement benefits activity:</b>						
Actuarial loss	(18,441 )	(9,324 )	3,598	2,293	(885)	(22,759 )
Prior service costs	3,410	8,682	(3,351)	(1,513)	584	7,812
Foreign currency translation adjustment	4	-	-	(9 )	4	(1 )

Total AOCI(L)	\$ (58,176 )	\$ (54,239)	\$ 20,935	\$ 2,550	\$ (984)	\$ (89,914 )
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A summary of the impact on the income statement line items is as follows:

(in thousands)	Fiscal 2016			Foreign Currency Translation Adjustment	Total
	Net Pension Activity	Net Postretirement Benefits Activity	Activity		
Cost of sales	\$331	\$ (174)	)	\$ -	\$157
S,D&A expenses	2,728	(1,000)	)	(11)	1,717
Subtotal pre-tax	3,059	(1,174)	)	(11)	1,874
Income tax expense	1,179	(452)	)	(5)	722
Total after tax effect	\$1,880	\$ (722)	)	\$ (6)	\$1,152

(in thousands)	Fiscal 2015			Foreign Currency Translation Adjustment	Total
	Net Pension Activity	Net Postretirement Benefits Activity	Activity		
Cost of sales	\$359	\$ (27)	)	\$ -	\$332
S,D&A expenses	2,906	(169)	)	(8)	2,729
Subtotal pre-tax	3,265	(196)	)	(8)	3,061
Income tax expense	1,256	(76)	)	(4)	1,176
Total after tax effect	\$2,009	\$ (120)	)	\$ (4)	\$1,885

(in thousands)	Fiscal 2014			Foreign Currency Translation Adjustment	Total
	Net Pension Activity	Net Postretirement Benefits Activity	Activity		
Cost of sales	\$356	\$ 101	)	\$ -	\$457
S,D&A expenses	1,423	679	)	(9)	2,093
Subtotal pre-tax	1,779	780	)	(9)	2,550
Income tax expense	687	301	)	(4)	984
Total after tax effect	\$1,092	\$ 479	)	\$ (5)	\$1,566

## 17. Capital Transactions

The Company has two classes of common stock outstanding, Common Stock and Class B Common Stock. The Common Stock is traded on the NASDAQ Global Select Market<sup>SM</sup> under the symbol COKE. There is no established public trading market for the Class B Common Stock. Shares of the Class B Common Stock are convertible on a share-for-share basis into shares of Common Stock at any time at the option of the holders of Class B Common Stock.

No cash dividend or dividend of property or stock other than stock of the Company, as specifically described in the Company's certificate of incorporation, may be declared and paid on the Class B Common Stock unless an equal or greater dividend is declared and paid on the Common Stock. During 2016, 2015 and 2014, dividends of \$1.00 per share were declared and paid on both Common Stock and Class B Common Stock. Total cash dividends paid were \$9.3 million per year in 2016, 2015 and 2014.

Each share of Common Stock is entitled to one vote per share and each share of Class B Common Stock is entitled to 20 votes per share at all meetings of shareholders. Except as otherwise required by law, holders of the Common Stock and Class B Common Stock vote together as a single class on all matters brought before the Company's stockholders. In the event of liquidation, there is no preference between the two classes of common stock.

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

(in thousands, except per share data)	Fiscal Year		
	2016	2015	2014
Total compensation expense	\$7,154	\$ 7,300	\$ 3,542
Share price for compensation expense	\$178.85	\$ 182.51	\$ 88.55
Share price date for compensation expense	December 30, 2016	December 31, 2015	December 26, 2014

Each year, the Compensation Committee determined whether any shares of the Company's Class B Common Stock should be issued as a Performance Unit Award Agreement 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. As permitted under the terms of the Performance Unit Award Agreement, a number of shares were settled in cash each year 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 each year is as follows:

	Fiscal Year		
	2016	2015	2014
Date of approval for award	March 8, 2016	March 3, 2015	March 4, 2014
Fiscal year of service covered by award	2015	2014	2013
Shares settled in cash	19,080	19,080	19,100
Increase in Class B Common Stock shares outstanding	20,920	20,920	20,900
Total Class B Common Stock awarded	40,000	40,000	40,000

## 18. Benefit Plans

### Executive Benefit Plans

The Company has four executive benefit plans: the Supplemental Savings Incentive Plan (“Supplemental Savings Plan”), the Long-Term Retention Plan (“LTRP”), the Officer Retention Plan (“Retention Plan”) and the Long-Term Performance Plan (“Performance Plan”).

Pursuant to the Supplemental Savings Plan, as amended, eligible participants may elect to defer a portion of their annual salary and bonus. Participants are immediately vested in all deferred contributions they make and become fully vested in Company contributions upon completion of five years of service, termination of employment due to death, retirement or a change in control. Participant deferrals and Company contributions made in years prior to 2006 are invested in either a fixed benefit option or certain investment funds specified by the Company. Beginning in 2010, the Company may elect at its discretion to match up to 50% of the first 6% of salary, excluding bonuses, deferred by the participant. During 2016, 2015 and 2014, the Company matched up to 50% of the first 6% of salary, excluding bonus, deferred by the participant. The Company may also make discretionary contributions to participants’ accounts. The liability under this plan was as follows:

(in thousands)	January 1, 2017	January 3, 2016
Current liabilities	\$7,339	\$6,425
Noncurrent liabilities	70,709	69,941
Total liability - Supplemental Savings Plan	\$78,048	\$76,366

Under the LTRP, the Company accrues a defined amount each year for an eligible participant based upon an award schedule. Amounts awarded may earn an investment return based on certain investment funds specified by the Company. Benefits under the LTRP are 50% vested until age 50. After age 50, the vesting percentage increases by 5% each year until the benefits are fully vested at age 60. Participants receive payments from the plan upon retirement or in certain instances upon termination of employment. Payments are made in the form of a monthly annuity over a period of ten, fifteen or twenty years. The liability under this plan was as follows:

	January	January
(in thousands)	1, 2017	3, 2016
Current liabilities	\$ 2	\$ 1
Noncurrent liabilities	1,256	535
Total liability - LTRP	\$ 1,258	\$ 536

Under the Retention Plan, as amended effective January 1, 2007, eligible participants may elect to receive an annuity payable in equal monthly installments over a 10, 15 or 20-year period commencing at retirement or, in certain instances, upon termination of employment. The benefits under the Retention Plan increase with each year of participation as set forth in an agreement between the participant and the Company. Benefits under the Retention Plan are 50% vested until age 50. After age 50, the vesting percentage increases by an additional 5% each year until the benefits are fully vested at age 60. The liability under this plan was as follows:

	January	January
(in thousands)	1, 2017	3, 2016
Current liabilities	\$3,359	\$2,395
Noncurrent liabilities	44,480	45,111
Total liability - Retention Plan	\$47,839	\$47,506

Under the Performance Plan, adopted as of January 1, 2007, the Compensation Committee of the Company's Board of Directors establishes dollar amounts to which a participant shall be entitled upon attainment of the applicable performance measures. Bonus awards under the Performance Plan are made based on the relative achievement of performance measures in terms of the Company-sponsored objectives or objectives related to the performance of the individual participants or of the subsidiary, division, department, region or function in which the participant is employed. The liability under this plan was as follows:

(in thousands)	January 1, 2017	January 3, 2016
Current liabilities	\$5,282	\$5,025
Noncurrent liabilities	5,651	5,571
Total liability - Performance Plan	\$10,933	\$10,596

### Pension Plans

There are two Company-sponsored pension plans. The primary Company-sponsored pension plan (the "Primary 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 pension plan for collectively bargained employees are determined in accordance with negotiated formulas for the respective participants. Contributions to the plans are based on actuarial determined amounts and are limited to the amounts currently deductible for income tax purposes.

Each year, the Company updates its mortality assumptions used in the calculation of its pension liability using The Society of Actuaries' latest mortality tables. In 2014, the mortality table reflected increased longevity in the United States, whereas in 2015 and 2016, the mortality table reflected a lower increase in longevity.

The following tables set forth pertinent information for the two Company-sponsored pension plans:

### Changes in Projected Benefit Obligation

(in thousands)	Fiscal Year	
	2016	2015
Projected benefit obligation at beginning of year	\$261,469	\$279,669
Service cost	461	116
Interest cost	12,182	11,875
Actuarial (gain)/loss	8,268	(21,883)

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Benefits paid	(9,232 )	(8,308 )
Projected benefit obligation at end of year	\$273,148	\$261,469

The discount rate for the Primary Plan and the Bargaining Plan decreased to 4.44% and 4.49%, respectively, in 2016 from 4.72% for both Company-sponsored pension plans in 2015, which was the primary driver of the actuarial loss in 2016. The discount rate increased to 4.72% for both Company-sponsored pension plans in 2015 from 4.32% and 4.31% for the Primary Plan and the Bargaining Plan, respectively, in 2014, which was the primary driver in the actuarial gain in 2015. The actuarial gain and losses, net of tax, were recorded in other comprehensive loss.

The projected benefit obligations and accumulated benefit obligations for both the Company's pension plans were in excess of plan assets at January 1, 2017 and January 3, 2016. The accumulated benefit obligation was \$273.1 million as of January 1, 2017 and \$261.5 million as of January 3, 2016.

Change in Plan Assets

(in thousands)	Fiscal Year	
	2016	2015
Fair value of plan assets at beginning of year	\$214,055	\$212,692
Actual return on plan assets	12,313	(829 )
Employer contributions	11,120	10,500
Benefits paid	(9,232 )	(8,308 )
Fair value of plan assets at end of year	\$228,256	\$214,055

## Funded Status

(in thousands)	January 1, 2017	January 3, 2016
Projected benefit obligation	\$(273,148)	\$(261,469)
Plan assets at fair value	228,256	214,055
Net funded status	\$(44,892 )	\$(47,414 )

## Amounts Recognized in the Consolidated Balance Sheets

(in thousands)	January 1, 2017	January 3, 2016
Current liabilities	\$-	\$-
Noncurrent liabilities	(44,892)	(47,414)
Total liability - pension plans	\$(44,892)	\$(47,414)

## Net Periodic Pension Cost (Benefit)

(in thousands)	Fiscal Year		
	2016	2015	2014
Service cost	\$461	\$116	\$109
Interest cost	12,182	11,875	11,603
Expected return on plan assets	(13,822)	(13,541)	(13,775)
Amortization of prior service cost	28	35	36
Recognized net actuarial loss	3,031	3,230	1,743
Net periodic pension cost (benefit)	\$1,880	\$1,715	\$(284 )

## Significant Assumptions

	Fiscal Year		
	2016	2015	2014
Projected benefit obligation at the measurement date:			
Discount rate - Primary Plan	4.44%	4.72%	4.32%
Discount rate - Bargaining Plan	4.49%	4.72%	4.31%
Weighted average rate of compensation increase	N/A	N/A	N/A
Net periodic pension cost for the fiscal year:			
Discount rate	4.72%	4.32%	5.21%
Weighted average expected long-term rate of return on plan assets	6.50%	6.50%	7.00%

Weighted average rate of compensation increase N/A N/A N/A

## Cash Flows

	Anticipated Future Pension Benefit
	Payments for the Fiscal
(in thousands)	Years
2017	\$ 9,950
2018	10,605
2019	11,304
2020	11,980
2021	12,619
2022 – 2026	72,390

Anticipated contributions for the two Company-sponsored pension plans will be in the range of \$10 million to \$12 million in 2017.



## Plan Assets

The Company's pension plans target asset allocation for 2017, actual asset allocation at January 1, 2017 and January 3, 2016, and the expected weighted average long-term rate of return by asset category were as follows:

	Target Allocation 2017	Percentage of Plan Assets at Fiscal Year-End			Weighted Average Expected Long-Term Rate of Return 2016
		2016	2015	2016	
U.S. large capitalization equity securities	40	% 41	% 40	% 3.3	
U.S. small/mid-capitalization equity securities	5	% 5	% 5	% 0.4	
International equity securities	15	% 15	% 15	% 1.3	
Debt securities	40	% 39	% 40	% 1.5	
Total	100	% 100	% 100	% 6.5	

All assets in the Company's pension plans are invested in institutional investment funds managed by professional investment advisors which hold U.S. equities, international equities and debt securities. The objective of the Company's investment philosophy is to earn the plans' targeted rate of return over longer periods without assuming excess investment risk. The general guidelines for plan investments include 30% - 45% in large capitalization equity securities, 0% - 20% in U.S. small and mid-capitalization equity securities, 0% - 10% in international equity securities and 10% - 50% in debt securities. The Company currently has 61% of its plan investments in equity securities and 39% in debt securities.

U.S. large capitalization equity securities include domestic based companies that are generally included in common market indices such as the S&P 500<sup>TM</sup> and the Russell 1000<sup>TM</sup>. U.S. small and mid-capitalization equity securities include small domestic equities as represented by the Russell 2000<sup>TM</sup> index. International equity securities include companies from developed markets outside the United States. Debt securities as of January 1, 2017 are comprised of investments in two institutional bond funds with a weighted average duration of approximately three years.

A weighted average expected long-term rate of return of plan assets of 6.5% was used to determine net periodic pension cost in both 2016 and 2015. The rate reflects an estimate of long-term future returns for the pension plan assets net of expenses. The estimate is primarily a function of the asset classes, equities versus fixed income, in which the pension plan assets are invested and the analysis of past performance of these asset classes over a long period of time. The analysis includes expected long-term inflation and the risk premiums associated with equity investments and fixed income investments.

The following table summarizes the Company's common/collective trust fund pension plan assets. The underlying investments held in common/collective trust funds are actively managed equity securities and fixed income investment vehicles that are valued at the net asset value per share multiplied by the number of shares held as of the measurement date.

(in thousands)	January 1, 2017	January 3, 2016
Common/collective trust funds - equity securities	\$ 139,735	\$ 128,220
Common/collective trust funds - fixed income	87,814	85,158
Total common/collective trust funds	\$ 227,549	\$ 213,378

In addition, the Company had \$0.7 million of other level 1 pension plan assets related to its equity securities in both 2016 and 2015. The level 1 assets had quoted market prices in active markets for identical assets available for fair value measurement.

The Company does not have any unobservable inputs (Level 3) pension plan assets.

#### 401(k) Savings Plan

The Company provides a 401(k) Savings Plan for substantially all its employees who are not part of collective bargaining agreements. The Company's matching contribution is discretionary, with the option to match contributions for eligible participants up to 5% based on the Company's financial results for future years. During 2016, 2015, and 2014, the Company matched the maximum 5% of participants' contributions, for a total expense of \$14.9 million, \$10.7 million and \$8.8 million, respectively.

## Postretirement Benefits

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

The following tables set forth pertinent information for the Company's postretirement benefit plan:

## Reconciliation of Activity

(in thousands)	Fiscal Year	
	2016	2015
Benefit obligation at beginning of year	\$70,361	\$70,121
Service cost	1,567	1,118
Interest cost	3,094	2,878
Acquisition of benefits	3,458	-
Plan participants' contributions	662	594
Actuarial (gain)/loss	9,152	(1,600)
Benefits paid	(3,135)	(2,886)
Medicare Part D subsidy reimbursement	96	136
Benefit obligation at end of year	\$85,255	\$70,361

## Reconciliation of Plan Assets Fair Value

(in thousands)	Fiscal Year	
	2016	2015
Fair value of plan assets at beginning of year	\$-	\$-
Employer contributions	2,377	2,156
Plan participants' contributions	662	594
Benefits paid	(3,135)	(2,886)
Medicare Part D subsidy reimbursement	96	136
Fair value of plan assets at end of year	\$-	\$-

## Funded Status

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	January	January
(in thousands)	1, 2017	3, 2016
Current liabilities	\$3,468	\$3,401
Noncurrent liabilities	81,787	66,960
Total liability - postretirement benefits	\$85,255	\$70,361

Net Periodic Postretirement Benefit Cost

	Fiscal Year		
(in thousands)	2016	2015	2014
Service cost	\$1,567	\$1,118	\$1,445
Interest cost	3,094	2,878	3,255
Recognized net actuarial loss	2,186	3,164	2,293
Amortization of prior service cost	(3,360)	(3,360)	(1,513)
Net periodic postretirement benefit cost	\$3,487	\$3,800	\$5,480

## Significant Assumptions

	Fiscal Year		
	2016	2015	2014
Benefit obligation discount rate at measurement date	4.36%	4.53%	4.13%
Net periodic postretirement benefit cost discount rate for fiscal year	4.53%	4.13%	4.96%
Postretirement benefit expense - Pre-Medicare:			
Weighted average health care cost trend rate	6.2 %	7.5 %	8.0 %
Trend rate graded down to ultimate rate	4.5 %	5.0 %	5.0 %
Ultimate rate year	2024	2021	2021
Postretirement benefit expense - Post-Medicare:			
Weighted average health care cost trend rate	7.5 %	7.0 %	7.5 %
Trend rate graded down to ultimate rate	4.5 %	5.0 %	5.0 %
Ultimate rate year	2024	2021	2021

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

(in thousands)	1% Increase	1% Decrease
Postretirement benefit obligation at January 1, 2017	\$ 10,441	\$ (9,976 )
Service cost and interest cost in 2016	550	(521 )

## Cash Flows

(in thousands)	Anticipated Future Postretirement Benefit  Payments Reflecting Expected Future Service
2017	\$ 3,468
2018	3,878
2019	4,252
2020	4,495
2021	4,708

2022 – 2026 26,507

Anticipated future postretirement benefit payments are shown net of Medicare Part D subsidy reimbursements, which are not material.

A reconciliation of the amounts in accumulated other comprehensive loss not yet recognized as components of net periodic benefit cost is as follows:

(in thousands)	January 3, 2016	Actuarial Gain (Loss)	Reclassification Adjustments	January 1, 2017
<b>Pension Plans:</b>				
Actuarial (loss)	\$(112,898)	\$(9,777 )	\$ 3,031	\$(119,644)
Prior service (cost) credit	(128 )	-	27	(101 )
<b>Postretirement Medical:</b>				
Actuarial (loss)	(33,536 )	(9,152 )	2,186	(40,502 )
Prior service (cost) credit	9,483	-	(3,361 )	6,122
<b>Total within accumulated other comprehensive loss</b>	<b>\$(137,079)</b>	<b>\$(18,929)</b>	<b>\$ 1,883</b>	<b>\$(154,125)</b>

The amounts in accumulated other comprehensive loss expected to be recognized as components of net periodic cost during 2017 are as follows:

(in thousands)	Pension		
	Plans	Postretirement Medical	Total
Actuarial loss	\$ 3,228	\$ 2,591	\$5,819
Prior service cost (credit)	28	(2,982)	(2,954)
Total expected to be recognized during 2017	\$ 3,256	\$ (391)	\$2,865

### Multi-Employer Pension Plans

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 collective bargaining agreements covering the Teamsters Plan will expire on April 29, 2017 and July 26, 2018.

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 the contribution rates to the Teamsters Plan, with additional increases occurring annually, as part of a rehabilitation plan. This is a result of the Teamsters Plan being certified by its actuary as being in “critical” status for the plan year beginning January 1, 2013, 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.

The Company’s participation in the Teamsters Plan is outlined in the table below. A red zone represents less than 80% funding and requires a financial improvement plan (“FIP”) or rehabilitation plan (“RP”).

(in thousands)	Fiscal Year		
	2016	2015	2014
Pension Protection Act Zone Status	Red	Red	Red

FIP or RP pending or implemented	Yes	Yes	Yes
Surcharge imposed	Yes	Yes	Yes
Contribution	\$728	\$692	\$655

According to the Teamsters Plan's Forms 5500, the Company was not listed as providing more than 5% of the total contributions for the plan years ending December 31, 2015 or December 31, 2014. At the date these financial statements were issued, Forms 5500 were not available for the plan year ending December 31, 2016.

The Company has a liability recorded for exiting a multi-employer pension plan in 2008 and is required to make payments of approximately \$1 million to this multi-employer pension plan each year through 2028. As of January 1, 2017, the Company has \$8.1 million remaining on this liability.

#### 19. 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 secret formulas under which the primary components, either concentrate or syrup, of its soft drink products are manufactured.

As of January 1, 2017, The Coca Cola Company owned approximately 35% of the Company's total outstanding Common Stock, 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 the Chief Executive Officer of the Company, and trustees of certain trusts established for the benefit of certain relatives



of J. Frank Harrison, Jr. have agreed to vote the shares of the Company's Class B Common Stock which they control in favor of such designee. The Coca Cola Company does not own any shares of Class B Common Stock of the Company.

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

(in thousands)	Fiscal Year		
	2016	2015	2014
Payments made by the Company to The Coca-Cola Company for:			
Concentrate, syrup, sweetener and other purchases	\$669,783	\$482,673	\$423,983
Customer marketing programs	116,537	70,754	61,106
Cold drink equipment parts	21,558	16,260	7,654
Payments made by The Coca-Cola Company to the Company for:			
Marketing funding support payments	\$73,513	\$56,284	\$46,492
Fountain delivery and equipment repair fees	27,624	17,400	13,530
Presence marketing funding support on the Company's behalf	2,064	2,415	5,848
Facilitating the distribution of certain brands and packages to other Coca-Cola bottlers	7,193	4,670	3,904

Coca Cola Refreshments USA, Inc. ("CCR"), a wholly-owned subsidiary of The Coca Cola Company

The Company has a production arrangement with CCR to buy and sell finished products at cost. In addition, the Company transports product for CCR to the Company's and other Coca-Cola bottlers' locations. The following table summarizes purchases and sales under these arrangements between the Company and CCR:

(in thousands)	Fiscal Year		
	2016	2015	2014
Purchases from CCR	\$269,575	\$229,954	\$68,819
Sales to CCR	72,568	30,500	53,543
Sales to CCR for transporting CCR's product	21,940	16,523	2,917

Prior to the sale of BYB to The Coca Cola Company, CCR distributed one of the Company's brands, Tum-E Yummies. During the third quarter of 2015, the Company sold BYB, the subsidiary that owned and distributed Tum-E Yummies to The Coca Cola Company and recorded a gain of \$22.7 million on the sale. The Company continues to distribute Tum-E Yummies following the sale. Total sales to CCR for Tum-E Yummies were \$14.8 million in 2015 and \$22.0 million in 2014.



As discussed above in Note 3 to the consolidated financial statements, the Company and CCR have entered into, and closed the following asset purchase agreements relating to certain territories previously served by CCR's facilities and equipment located in these territories:

	Definitive	Acquisition /
Expansion Territories	Agreement Date	Exchange Date
Johnson City and Morristown, Tennessee	May 7, 2014	May 23, 2014
Knoxville, Tennessee	August 28, 2014	October 24, 2014
Cleveland and Cookeville, Tennessee	December 5, 2014	January 30, 2015
Louisville, Kentucky and Evansville, Indiana	December 17, 2014	February 27, 2015
Paducah and Pikeville, Kentucky	February 13, 2015	May 1, 2015
Norfolk, Fredericksburg and Staunton, Virginia and Elizabeth City, North Carolina	September 23, 2015	October 30, 2015
Easton and Salisbury, Maryland and Richmond and Yorktown, Virginia	September 23, 2015	January 29, 2016
Alexandria, Virginia and Capitol Heights and La Plata, Maryland	September 23, 2015	April 1, 2016
Baltimore, Hagerstown and Cumberland, Maryland	September 23, 2015	April 29, 2016
Cincinnati, Dayton, Lima and Portsmouth, Ohio and Louisa, Kentucky	September 1, 2016	October 28, 2016
	Definitive	
Regional Manufacturing Facilities	Agreement Date	Acquisition Date
Sandston, Virginia	October 30, 2015	January 29, 2016
Silver Spring and Baltimore, Maryland	October 30, 2015	April 29, 2016
Cincinnati, Ohio	September 1, 2016	October 28, 2016

As part of the distribution territory closings under these asset purchase agreements, the Company signed CBAs which have terms of ten years and are renewable by the Company indefinitely for successive additional terms of ten years each unless earlier terminated as provided therein. Under the CBAs, the Company makes a quarterly sub-bottling payment to CCR on a continuing basis for the grant of exclusive rights to distribute, promote, market and sell the authorized brands of The Coca-Cola Company and related products in the Expansion Territories. The quarterly sub-bottling payment will be based on sales of certain beverages and beverage products that are sold under the same trademarks that identify a covered beverage, beverage product or certain cross-licensed brands. The liability recorded by the Company to reflect the estimated fair value of contingent consideration related to future sub-bottling payments was \$253.4 million as of January 1, 2017, and \$136.6 million as of January 3, 2016. Payments to CCR under the CBAs were \$13.5 million, \$4.0 million and \$0.2 million during 2016, 2015 and 2014, respectively.

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

As part of the Expansion Transactions, on October 30, 2015, the Company acquired from CCR a “make-ready center” in Annapolis, Maryland for \$5.4 million, which includes all post-closing adjustments. The Company recorded a bargain purchase gain of \$2.0 million on this transaction after applying a deferred tax liability of approximately \$1.3 million. The Company uses the make-ready center to deploy and refurbish vending and other sales equipment for use in the marketplace.

Coca Cola Bottlers’ Sales and Services Company, LLC (“CCBSS”)

Along with all other Coca Cola bottlers in the United States, including CCR, the Company is a member of CCBSS. CCBSS was 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. As of January 1, 2017 and January 3, 2016, the Company had rebates due from CCBSS of \$7.4 million and \$5.9 million, respectively.

In addition, the Company pays an administrative fee to CCBSS for its services. In 2016, 2015 and 2014, the Company incurred \$1.3 million, \$0.7 million, and \$0.5 million in administrative fees to CCBSS, respectively.

### National Product Supply Group (“NPSG”)

In October 2015, the Company, The Coca-Cola Company and three other Coca-Cola bottlers, including CCR, who are considered “Regional Producing Bottlers” (“RPBs”) in The Coca-Cola Company’s national product supply system, entered into the NPSG Governance Agreement. Pursuant to the NPSG Governance Agreement, The Coca-Cola Company and the RPBs have formed a national product supply group (the “NPSG”) and agreed to certain binding 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 The Coca-Cola Company continues its multi-year refranchising effort of its North American bottling territories, additional RPBs may be added to the NPSG Board. As of January 2017, the NPSG Board consisted of The Coca-Cola Company, the Company and five other RPBs, including CCR.

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. 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. The Company is obligated to pay a certain portion of the costs of operating the NPSG. 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, the Company and each other Regional Producing Bottler will make investments in their respective manufacturing assets and will implement Coca-Cola system strategic investment opportunities consistent with the NPSG Governance Agreement.

### CONA Services LLC (“CONA”)

The Company is a member of CONA, an entity formed with The Coca-Cola Company and certain Coca-Cola bottlers to provide business process and information technology services to its members. Under the CONA limited liability agreement executed January 27, 2016 (as amended or restated from time to time, the “CONA LLC Agreement”), the Company and other members of CONA are required to make capital contributions to CONA if and when approved by CONA’s board of directors, which is comprised of representatives of the members. The Company currently has the right to designate one of the members of CONA’s board of directors and has a percentage interest in CONA of approximately 19%. During 2016, the Company made \$7.9 million of capital contributions to CONA.

The Company is a party to a Master Services Agreement (the “Master Services Agreement”) with CONA, 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. Pursuant to the Master Services Agreement, CONA agreed to make available, and authorized the Company to use, the CONA System in connection with the distribution, sale, marketing and promotion of non-alcoholic beverages the Company is authorized to distribute under its comprehensive beverage agreements or any other agreement with The Coca-Cola Company (the “Beverages”) in the territories the

Company serves (the “Territories”), 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.

As part of making the CONA System available to the Company, CONA will provide certain business process and information technology services to the Company, including the planning, development, management and operation of the CONA System in connection with the Company’s direct store delivery of products (collectively, the “CONA Services”). In exchange for the Company’s right to use the CONA System and right to receive the CONA Services under the Master Services Agreement, the Company will be charged quarterly service fees by CONA based on the number of physical cases of Beverages distributed by the Company during the applicable period in the Territories where the CONA Services have been implemented (the “Service Fees”). Upon the earlier of (i) all members of CONA beginning to use the CONA System in all territories in which they distribute products of The Coca Cola Company (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 in any portion of the 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 by all of the members of CONA, subject to certain exceptions. The Company is obligated to pay the Service Fees under the Master Services Agreement even if it is not using the CONA System for all or any portion of its operations in the Territories. During 2016, the Company incurred CONA Service Fees of \$7.5 million.

Snyder Production Center (“SPC”)

The Company leases the SPC and an adjacent sales facility, which are located in Charlotte, North Carolina, from Harrison Limited Partnership One (“HLP”). HLP is directly and indirectly owned by trusts of which J. Frank Harrison, III, Chairman of the Board of Directors and Chief Executive Officer of the Company, Sue Anne H. Wells, a director of the Company, and Deborah H. Everhart, a

former director of the Company, are trustees and beneficiaries. Morgan H. Everett, a director of the Company, is a permissible, discretionary beneficiary of the trusts that directly or indirectly own HLP. The SPC lease expires on December 31, 2020. The principal balance outstanding under this capital lease as of January 1, 2017 was \$14.7 million and as of January 3, 2016 was \$17.5 million. The annual base rent the Company is obligated to pay under the lease is subject to an adjustment for an inflation factor. Rental payments related to this lease were \$4.0 million, \$3.8 million and \$3.7 million in 2016, 2015 and 2014, respectively.

#### Company Headquarters

The Company leases its headquarters office facility and an adjacent office facility from Beacon Investment Corporation (“Beacon”). The lease expires on December 31, 2021. J. Frank Harrison, III is Beacon’s majority shareholder and Morgan H. Everett is a minority shareholder. The principal balance outstanding under this capital lease as of January 1, 2017 was \$15.5 million and as of January 3, 2016 was \$18.1 million. The annual base rent the Company is obligated to pay under the lease is subject to adjustment for increases in the Consumer Price Index.

The minimum rentals and contingent rental payments related to this lease were as follows:

(in thousands)	Fiscal Year		
	2016	2015	2014
Minimum rentals	\$3,526	\$3,540	\$3,539
Contingent rentals	767	682	618
Total rental payments	\$4,293	\$4,222	\$4,157

The contingent rentals in 2016, 2015 and 2014 are a result of changes in the Consumer Price Index. Increases or decreases in lease payments that result from changes in the Consumer Price Index were recorded as adjustments to interest expense.

## 20. 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. See Note 1 to the consolidated financial statements for additional information related to net income per share.

(in thousands, except per share data)	Fiscal Year		
	2016	2015	2014
Numerator for basic and diluted net income per Common Stock and Class B Common Stock share:			
Net income attributable to Coca-Cola Bottling Co. Consolidated	\$50,146	\$59,002	\$31,354
Less dividends:			
Common Stock	7,141	7,141	7,141
Class B Common Stock	2,166	2,146	2,125
Total undistributed earnings	\$40,839	\$49,715	\$22,088
Common Stock undistributed earnings – basic			
	\$31,328	\$38,223	\$17,021
Class B Common Stock undistributed earnings – basic			
	9,511	11,492	5,067
Total undistributed earnings	\$40,839	\$49,715	\$22,088
Common Stock undistributed earnings – diluted			
	\$31,194	\$38,059	\$16,948
Class B Common Stock undistributed earnings – diluted			
	9,645	11,656	5,140
Total undistributed earnings – diluted	\$40,839	\$49,715	\$22,088
Numerator for basic net income per Common Stock share:			
Dividends on Common Stock	\$7,141	\$7,141	\$7,141
Common Stock undistributed earnings – basic	31,328	38,223	17,021
Numerator for basic net income per Common Stock share	\$38,469	\$45,364	\$24,162
Numerator for basic net income per Class B Common Stock share:			
Dividends on Class B Common Stock	\$2,166	\$2,146	\$2,125
Class B Common Stock undistributed earnings – basic	9,511	11,492	5,067
Numerator for basic net income per Class B Common Stock share	\$11,677	\$13,638	\$7,192
Numerator for diluted net income per Common Stock share:			
Dividends on Common Stock	\$7,141	\$7,141	\$7,141
Dividends on Class B Common Stock assumed converted to Common Stock	2,166	2,146	2,125
Common Stock undistributed earnings – diluted	40,839	49,715	22,088
Numerator for diluted net income per Common Stock share	\$50,146	\$59,002	\$31,354
Numerator for diluted net income per Class B Common Stock share:			
Dividends on Class B Common Stock	\$2,166	\$2,146	\$2,125
Class B Common Stock undistributed earnings – diluted	9,645	11,656	5,140
Numerator for diluted net income per Class B Common Stock share	\$11,811	\$13,802	\$7,265





(in thousands, except per share data)	Fiscal Year		
	2016	2015	2014
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
Class B Common Stock weighted average shares outstanding – basic	2,168	2,147	2,126
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)	9,349	9,328	9,307
Class B Common Stock weighted average shares outstanding – diluted	2,208	2,187	2,166
Basic net income per share:			
Common Stock	\$5.39	\$6.35	\$3.38
Class B Common Stock	\$5.39	\$6.35	\$3.38
Diluted net income per share:			
Common Stock	\$5.36	\$6.33	\$3.37
Class B Common Stock	\$5.35	\$6.31	\$3.35

## NOTES TO TABLE

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

## 21. Risks and Uncertainties

Approximately 90% of the Company's 2016 bottle/can volume to retail customers consists of products of The Coca Cola Company, which is the sole supplier of these products or of the concentrates or syrups required to manufacture these products. The remaining 10% of the Company's 2016 bottle/can volume to retail customers consists of products of other beverage companies or those owned by the Company. The Company has beverage agreements with The Coca Cola Company and other beverage companies under which it has various requirements. Failure to meet the requirements of these beverage agreements could result in the loss of distribution rights for the respective products.

The Company's products are sold and distributed through various channels in the United States, including selling directly to retail stores and other outlets such as food markets, institutional accounts and vending machine outlets. During 2016, approximately 66% of the Company's bottle/can volume to retail customers was sold for future consumption, while the remainder was sold for immediate consumption. The following table summarizes the percentage of the Company's total bottle/can volume and the percentage of the Company's total net sales, which are all included in the Nonalcoholic Beverages operating segment, attributable to its largest customers. No other customer represented greater than 10% of the Company's total net sales for any years presented.

Customer	Fiscal Year		
	2016	2015	2014
<b>Wal-Mart Stores, Inc.</b>			
Approximate percent of the Company's total Bottle/can volume	20%	22 %	22 %
Approximate percent of the Company's total Net sales	14%	15 %	15 %
<b>Food Lion, LLC</b>			
Approximate percent of the Company's total Bottle/can volume	8 %	7 %	9 %
Approximate percent of the Company's total Net sales	5 %	5 %	6 %
<b>The Kroger Company</b>			
Approximate percent of the Company's total Bottle/can volume	6 %	6 %	5 %
Approximate percent of the Company's total Net sales	5 %	5 %	4 %

The NPSG was executed in October 2015 by The Coca Cola Company, the Company and other RPBs in The Coca Cola Company's national product supply system. The Coca Cola Company and each member RPB has a representative on the governing board (the "NPSG Board"). As of January 2017, the NPSG Board consisted of The Coca Cola Company, the Company and five other RPBs, including CCR. Pursuant to the NPSG Governance Agreement, the Company has agreed to abide by decisions made by the NPSG Board, which include decisions regarding strategic investment and divestment, optimal national product supply sourcing and new product or packaging infrastructure planning. Even though the Company has a representative on the NPSG Board, the Company will not exercise sole decision-making authority relating to the decisions of the NPSG Board, and the interests of other members of the NPSG Board may diverge from those of the Company.

The Company obtains all its aluminum cans from two domestic suppliers. The Company currently obtains all its plastic bottles from two domestic entities. See Note 14 and Note 19 of the consolidated financial statements for additional information.

The Company is exposed to price risk on commodities such as aluminum, corn and resin which affects the cost of raw materials used in the production of finished products. The Company both produces and procures these finished products. Examples of the raw materials affected are aluminum cans and plastic bottles used for packaging and high fructose corn syrup used as a product ingredient. Further, the Company is exposed to commodity price risk on crude oil which impacts the Company's cost of fuel used in the movement and delivery of the Company's products. The Company participates in commodity hedging and risk mitigation programs administered both by CCBSS and by the

Company. In addition, there is no limit on the price The Coca Cola Company and other beverage companies can charge for concentrate.

Certain liabilities of the Company, including floating rate debt, retirement benefit obligations and the Company's pension liability, are subject to risk of changes in both long-term and short-term interest rates.

The Company's contingent consideration liability resulting from the acquisition of the Expansion Territories is subject to risk as a result of changes in the Company's probability weighted discounted cash flow model, which is based on internal forecasts, and changes in the Company's WACC, which is derived from market data.

Approximately 9% of the Company's labor force is covered by collective bargaining agreements. The Company's collective bargaining agreements expire at various dates through 2020. Terms and conditions of the new labor union agreements could result in delays of closings for new Expansion Territories and also increases the Company's exposure to work interruptions or stoppages, as an increased percentage of its workforce is covered by collective bargaining agreements.

## 22. Supplemental Disclosures of Cash Flow Information

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

(in thousands)	Fiscal Year		
	2016	2015	2014
Accounts receivable, trade, net	\$(83,204)	\$(62,542)	\$(20,116)
Accounts receivable from The Coca-Cola Company	(31,231)	(5,258)	(4,892)
Accounts receivable, other	(5,723)	(9,543)	605
Inventories	(8,301)	(13,849)	(5,287)
Prepaid expenses and other current assets	2,277	(6,264)	(15,155)
Accounts payable, trade	32,186	21,728	13,051
Accounts payable to The Coca-Cola Company	39,842	26,769	25,116
Other accrued liabilities	6,474	24,784	(14,399)
Accrued compensation	7,613	6,087	5,145
Accrued interest payable	158	(174)	(399)
Change in current assets less current liabilities (exclusive of acquisition)	\$(39,909)	\$(18,262)	\$(16,331)

The Company had the following cash payments (refunds) during the period for interest and income taxes:

(in thousands)	Fiscal Year		
	2016	2015	2014
Interest	\$34,764	\$27,391	\$28,021
Income Taxes	(7,111)	31,782	31,009

## 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.

The Company believes four operating segments exist. Following the sale of BYB during the third quarter of fiscal 2015, two operating segments, Franchised Nonalcoholic Beverages and Internally-Developed Nonalcoholic Beverages (made up entirely of BYB), were aggregated due to their similar economic characteristics as well as the similarity of products, production processes, types of customers, methods of distribution, and nature of the regulatory environment. This combined segment, Nonalcoholic Beverages, represents the vast majority of the Company’s consolidated revenues, operating income, and assets. The remaining three operating segments do not meet the quantitative thresholds for separate reporting, either individually or in the aggregate. As a result, these three operating segments

have been combined into an “All Other” reportable segment.

The Company's results for its two reportable segments are as follows:

(in thousands)	Fiscal Year		
	2016	2015	2014
<b>Net Sales:</b>			
Nonalcoholic Beverages	\$3,060,937	\$2,245,836	\$1,710,040
All Other	234,732	160,191	123,194
Eliminations*	(139,241 )	(99,569 )	(86,865 )
Consolidated net sales	\$3,156,428	\$2,306,458	\$1,746,369
<b>Operating Income:</b>			
Nonalcoholic Beverages	\$123,230	\$92,921	\$82,297
All Other	4,629	5,223	3,670
Consolidated operating income	\$127,859	\$98,144	\$85,967
<b>Depreciation and Amortization:</b>			
Nonalcoholic Beverages	\$109,716	\$76,127	\$58,103
All Other	6,907	4,769	3,027
Consolidated depreciation and amortization	\$116,623	\$80,896	\$61,130
<b>Capital Expenditures:</b>			
Nonalcoholic Beverages	\$144,462	\$141,080	\$69,635
All Other	29,822	27,627	16,739
Consolidated capital expenditures	\$174,284	\$168,707	\$86,374

(in thousands)	January 1,	January 3,
	2017	2016
<b>Total Assets:</b>		
Nonalcoholic Beverages	\$2,349,284	\$1,804,084
All Other	105,785	75,842
Eliminations*	(5,585 )	(33,361 )
Consolidated total assets	\$2,449,484	\$1,846,565

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

The Company is a shareholder of SAC and Southeastern. See Note 14 to the consolidated financial statements for additional information on the revenues and assets of these entities, which are included in the Nonalcoholic beverages segment results.





Net sales by product category were as follows:

(in thousands)	Fiscal Year		
	2016	2015	2014
<b>Bottle/can sales*:</b>			
Sparkling beverages (carbonated)	\$1,764,558	\$1,323,712	\$1,064,036
Still beverages (noncarbonated, including energy products)	892,125	577,872	339,904
<b>Total bottle/can sales</b>	<b>2,656,683</b>	<b>1,901,584</b>	<b>1,403,940</b>
<b>Other sales:</b>			
Sales to other Coca-Cola bottlers	238,182	178,777	162,346
Post-mix and other	261,563	226,097	180,083
<b>Total other sales</b>	<b>499,745</b>	<b>404,874</b>	<b>342,429</b>
<b>Total net sales</b>	<b>\$3,156,428</b>	<b>\$2,306,458</b>	<b>\$1,746,369</b>

\*NOTE: During the second quarter of 2016, energy products were moved from the category of sparkling beverages to still beverages, which has been reflected in all periods presented. Total bottle/can sales remain unchanged in prior periods.

#### 24. Quarterly Financial Data (Unaudited)

The unaudited quarterly financial data for the fiscal years ended January 1, 2017 and January 3, 2016 is included in the tables shown below. Excluding the impact of Expansion Transactions completed during the fiscal year, sales volume has historically been the highest in the second and third quarter of each fiscal year. Additional meaningful financial information is included in the table following each presented period.

(in thousands, except per share data)	Quarter Ended			
	April 3, 2016	July 3, 2016	October 2, 2016	January 1, 2017
Net sales	\$625,456	\$840,384	\$849,028	\$841,560
Gross profit	243,898	319,707	327,190	324,927
Net income (loss) attributable to Coca-Cola Bottling Co. Consolidated	(10,041 )	15,652	23,142	21,393
Basic net income (loss) per share based on net income attributable to Coca-Cola Bottling Co. Consolidated:				
Common Stock	\$(1.08 )	\$1.68	\$2.48	\$2.31
Class B Common Stock	\$(1.08 )	\$1.68	\$2.48	\$2.31
Diluted net income (loss) per share based on net income attributable to Coca-Cola Bottling Co. Consolidated:				
Common Stock	\$(1.08 )	\$1.67	\$2.47	\$2.30

Class B Common Stock	\$(1.08 )	\$1.67	\$2.47	\$2.29
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Additional Information:	Quarter Ended			
	April 3,	July 3,	October 2,	January 1,
(in thousands, except per share data)	2016	2016	2016	2017
Mark-to-market income/(expense) related to commodity hedging program:				
Pre-tax total income/(expense)	\$ 1,039	\$ 2,770	\$ 388	\$ 531
Income/(expense) net of tax	641	1,701	239	327
Income/(expense) per basic common share	\$0.06	\$0.18	\$0.03	\$0.04
2016 Expansion Transactions, 2015 Expansion Territories and 2015 Asset Exchange impact:				
Net sales impact	\$ 142,467	\$ 287,092	\$ 298,313	\$ 333,897
Pre-tax income impact	1,287	15,974	2,432	4,587
Net income impact	808	9,808	1,495	2,821
Per basic common share impact	\$0.09	\$1.05	\$0.16	\$0.30
Expenses related to Expansion Transactions:				
Pre-tax total expense	\$ 6,423	\$ 7,005	\$ 9,780	\$ 9,066
Expense net of tax	3,957	4,301	6,015	5,576
Expense per basic common share	\$0.43	\$0.46	\$0.64	\$0.60
Expense related to special charitable contribution:				
Pre-tax total expense	\$ 4,000	\$ -	\$ -	\$ -
Expense net of tax	2,460	-	-	-
Expense per basic common share	\$0.26	\$ -	\$ -	\$ -
Reduction of gain related to exchange of franchise territories:				
Pre-tax total adjustment	\$ -	\$ 692	\$ -	\$ -
Adjustment net of tax	-	426	-	-
Adjustment per basic common share	\$ -	\$0.05	\$ -	\$ -
Fair value income/(expense) for acquisition related contingent consideration:				
Pre-tax total income/(expense)	\$ (17,151 )	\$ (16,274 )	\$ 7,365	\$ 27,970
Income/(expense) net of tax	(10,565 )	(9,992 )	4,530	17,202
Income/(expense) per basic common share	\$(1.13 )	\$(1.07 )	\$0.48	\$1.85

	Quarter Ended			
	March 29,	June 28,	September 27,	January 3,
(in thousands, except per share data)	2015	2015	2015	2016
Net sales	\$ 453,253	\$ 614,683	\$ 618,806	\$ 619,716
Gross profit	184,373	237,317	238,536	240,806
Net income attributable to Coca-Cola Bottling Co. Consolidated	2,224	26,934	25,553	4,291
Basic net income per share based on net income attributable to Coca-Cola Bottling Co. Consolidated:				
Common Stock	\$0.24	\$2.90	\$2.75	\$0.46
Class B Common Stock	\$0.24	\$2.90	\$2.75	\$0.46
Diluted net income per share based on net income attributable to Coca-Cola Bottling Co. Consolidated:				

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Common Stock	\$0.24	\$2.89	\$2.74	\$0.46
Class B Common Stock	\$0.23	\$2.88	\$2.73	\$0.46

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Additional Information:	Quarter Ended			
	March 29, 2015	June 28, 2015	September 27, 2015	January 3, 2016
(in thousands, except per share data)	2015	2015	2015	2016
Mark-to-market income/(expense) related to commodity hedging program:				
Pre-tax total income/(expense)	\$643	\$(749 )	\$(2,130 )	\$(1,203 )
Income/(expense) net of tax	395	(460 )	(1,308 )	(739 )
Income/(expense) per basic common share	\$0.05	\$(0.05 )	\$(0.14 )	\$(0.08 )
2015 Expansion Territories and 2015 Asset Exchange impact:				
Net sales impact	\$31,622	\$85,232	\$89,762	\$103,371
Pre-tax income/(loss) impact	2,899	5,067	1,020	(2,399 )
Net income/(loss) impact	1,780	3,112	626	(1,473 )
Per basic common share impact	\$0.18	\$0.34	\$0.07	\$(0.16 )
Expenses related to Expansion Transactions:				
Pre-tax total expense	\$2,994	\$4,252	\$6,947	\$5,789
Expense net of tax	1,839	2,611	4,265	3,554
Expense per basic common share	\$0.20	\$0.28	\$0.46	\$0.38
Gain related to the Asset Exchange Transaction:				
Pre-tax gain	\$-	\$8,807	\$-	\$-
Gain net of tax	-	5,407	-	-
Gain per basic common share	\$-	\$0.58	\$-	\$-
Gain related to the sale of BYB:				
Pre-tax gain	\$-	\$-	\$22,651	\$-
Gain net of tax	-	-	13,908	-
Gain per basic common share	\$-	\$-	\$1.49	\$-
Results of 53rd week in fiscal year:				
Net sales impact	\$-	\$-	\$-	\$38,587
Pre-tax income impact	-	-	-	4,022
Net income impact	-	-	-	2,416
Per basic common share impact	\$-	\$-	\$-	\$0.26
Bargain purchase gain related to the purchase of Annapolis MRC:				
Pre-tax bargain purchase gain	\$-	\$-	\$-	\$3,276
Bargain purchase gain net of tax	-	-	-	2,011
Bargain purchase gain per basic common share	\$-	\$-	\$-	\$0.22
Fair value income/(expense) for acquisition related contingent consideration:				
Pre-tax total income/(expense)	\$(5,089 )	\$6,078	\$(3,992 )	\$(573 )
Income/(expense) net of tax	(3,125 )	3,732	(2,451 )	(352 )
Income/(expense) per basic common share	\$(0.34 )	\$0.40	\$(0.26 )	\$(0.04 )
Favorable pre-tax correction related to the calculation of certain state gross receipts taxes:	\$-	\$-	\$-	\$2,400

## 25. Subsequent Events

On January 27, 2017, the Company completed the second territory expansion transaction contemplated by the September 2016 Distribution APA, through which the Company acquired from CCR distribution assets and working capital related to the distribution territories located in Indiana and Illinois served by distribution facilities located in Anderson, Fort Wayne, Lafayette, South Bend and Terre Haute, Indiana. At closing, the Company paid a cash purchase price of \$31.6 million, which will remain subject to adjustment in accordance with the terms of the September 2016 Distribution APA, and executed an Initial CBA providing the Company with exclusive rights for the distribution, promotion, marketing and sale of products owned and licensed by The Coca Cola Company in such territories.

The Company has not completed the preliminary allocation of the purchase price to the individual acquired assets and assumed liabilities for the transaction described above. The transaction will be accounted for as a business combination under FASB ASC Accounting Standards Codification 805.

On February 27, 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, PGIM, Inc. and the other parties thereto. 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 expects to use the proceeds for general corporate purposes. As of the date of this filing, the Company may request that Prudential consider the purchase of additional senior unsecured notes of the Company under the facility in an aggregate principal amount of up to \$175 million.

Management's Report on Internal Control over Financial Reporting

Management of Coca-Cola Bottling Co. Consolidated (the "Company") is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. The Company's internal control over financial reporting is a process designed under the supervision of the Company's chief executive and chief financial officers to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's consolidated financial statements for external purposes in accordance with the U.S. generally accepted accounting principles. The Company's internal control over financial reporting includes policies and procedures that:

- (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets of the Company;
- (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures are being made only in accordance with authorizations of management and the directors of the Company; and
- (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the Company's financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect all misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate due to changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As of January 1, 2017, management assessed the effectiveness of the Company's internal control over financial reporting based on the framework established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management determined that the Company's internal control over financial reporting as of January 1, 2017 was effective.

The effectiveness of the Company's internal control over financial reporting as of January 1, 2017, has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, which is included in Item 8 of this report.

March 14, 2017





Report of Independent Registered Public Accounting Firm

To Board of Directors and Stockholders of Coca-Cola Bottling Co. Consolidated

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, comprehensive income, cash flows, and stockholders' equity present fairly, in all material respects, the financial position of Coca-Cola Bottling Co. Consolidated and its subsidiaries at January 1, 2017 and January 3, 2016, and the results of their operations and their cash flows for each of the three years in the period ended January 1, 2017 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 15(a)(2) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of January 1, 2017, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on these financial statements, on the financial statement schedule and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Charlotte, North Carolina

March 14, 2017

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The financial statement schedule required by Regulation S-X is set forth in response to Item 15 below.

The supplementary data required by Item 302 of Regulation S-K is set forth in Note 24 to the consolidated financial statements.

#### Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Not applicable.

#### Item 9A. Controls and Procedures

As of the end of the period covered by this report, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's "disclosure controls and procedures" (as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934 (the "Exchange Act")) pursuant to Rule 13a-15(b) of the Exchange Act. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of January 1, 2017.

Management's report on internal control over financial reporting required by Section 404 of the Sarbanes-Oxley Act of 2002 and the report of PricewaterhouseCoopers LLP, an independent registered public accounting firm, on the financial statements, and its opinion on the effectiveness of the Company's internal control over financial reporting as of January 1, 2017 are included in Item 8 of this report.

There has been no change in the Company's internal control over financial reporting during the quarter ended January 1, 2017 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

#### Item 9B. Other Information

Not applicable.

### PART III

#### Item 10. Directors, Executive Officers and Corporate Governance

For information with respect to the executive officers of the Company, see “Executive Officers of the Company” included as a separate item at the end of Part I of this Report. For information with respect to the Directors of the Company, see the “Proposal 1: Election of Directors” section of the Proxy Statement for the 2017 Annual Meeting of Stockholders (the “2017 Proxy Statement”), which is incorporated herein by reference. For information with respect to Section 16 reports, see the “Section 16(a) Beneficial Ownership Reporting Compliance” section of the 2017 Proxy Statement, which is incorporated herein by reference. For information with respect to the Audit Committee of the Board of Directors, see the “Corporate Governance – Board Committees” section of the 2017 Proxy Statement, which is incorporated herein by reference.

The Company has adopted a Code of Ethics for Senior Financial Officers, which is intended to qualify as a “code of ethics” within the meaning of Item 406 of Regulation S-K of the Exchange Act (the “Code of Ethics”). The Code of Ethics applies to the Company’s Chief Executive Officer; Chief Operating Officer; Chief Financial Officer; Chief Accounting Officer; Vice President and Treasurer and any other person performing similar functions. The Code of Ethics is available on the Company’s website at [www.cokeconsolidated.com](http://www.cokeconsolidated.com). The Company intends to disclose any substantive amendments to, or waivers from, its Code of Ethics on its website or in a Current Report on Form 8-K.

#### Item 11. Executive Compensation

For information with respect to executive and director compensation, see the “Executive Compensation Tables,” “Compensation Committee Interlocks and Insider Participation,” “Compensation Committee Report,” “Director Compensation” and “Corporate Governance – The Board’s Role in Risk Oversight” sections of the 2017 Proxy Statement, which are incorporated herein by reference.

#### Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

For information with respect to security ownership of certain beneficial owners and management, see the “Principal Stockholders” and “Security Ownership of Directors and Executive Officers” sections of the 2017 Proxy Statement, which are incorporated herein by reference. For information with respect to securities authorized for issuance under equity compensation plans, see the “Equity Compensation Plan Information” section of the 2017 Proxy Statement, which is incorporated herein by reference.

#### Item 13. Certain Relationships and Related Transactions, and Director Independence

For information with respect to certain relationships and related transactions, see the “Related Person Transactions” section of the 2017 Proxy Statement, which is incorporated herein by reference. For certain information with respect to director independence, see the disclosures in the “Corporate Governance” section of the 2017 Proxy Statement regarding director independence, which are incorporated herein by reference.

Item 14. Principal Accountant Fees and Services

For information with respect to principal accountant fees and services, see “Proposal 2: Ratification of the Appointment of Independent Registered Public Accounting Firm” of the 2017 Proxy Statement, which is incorporated herein by reference.

## PART IV

### Item 15. Exhibits and Financial Statement Schedules

(a) List of documents filed as part of this report.

#### 1. Financial Statements

Consolidated Statements of Operations

Consolidated Statements of Comprehensive Income

Consolidated Balance Sheets

Consolidated Statements of Cash Flows

Consolidated Statements of Changes in Stockholders' Equity

Notes to Consolidated Financial Statements

Management's Report on Internal Control over Financial Reporting

Report of Independent Registered Public Accounting Firm

#### 2. Financial Statement Schedule

Schedule II - Valuation and Qualifying Accounts and Reserves

All other financial statements and schedules not listed have been omitted because the required information is included in the consolidated financial statements or the notes thereto, or is not applicable or required.

#### 3. Listing of Exhibits

The agreements included in the following exhibits to this report are included to provide information regarding their terms and are not intended to provide any other factual or disclosure information about the Company or the other parties to the agreements. Some of the agreements contain representations and warranties by each of the parties to the

applicable agreements. These representations and warranties have been made solely for the benefit of the other parties to the applicable agreements and:

- should not in all instances be treated as categorical statements of fact, but rather as a way of allocating the risk to one of the parties if those statements prove to be inaccurate;
- may have been qualified by disclosures that were made to the other party in connection with the negotiation of the applicable agreement, which disclosures are not necessarily reflected in the agreement;
- may apply standards of materiality in a way that is different from what may be viewed as material to you or other investors; and
- were made only as of the date of the applicable agreement or such other date or dates as may be specified in the agreement and are subject to more recent developments.

Accordingly, these representations and warranties may not describe the actual state of affairs as of the date they were made or at any other time.



## EXHIBIT INDEX

Exhibits incorporated by reference:

Number	Description	Incorporation Reference
2.1+	Asset Exchange Agreement for Lexington, Kentucky Territory Expansion, dated October 17, 2014, by and between Coca-Cola Refreshments USA, Inc., the Company and certain of the Company's wholly-owned subsidiaries identified on the signature pages thereto.	Exhibit 2.1 to the Company's Current Report on Form 8-K filed on October 20, 2014 (File No. 0-9286).
2.2+	Asset Purchase Agreement for Paducah and Pikeville Kentucky Territory Expansion, dated February 13, 2015, by and between Coca-Cola Refreshments USA, Inc. and the Company.	Exhibit 2.1 to the Company's Current Report on Form 8-K filed on February 18, 2015 (File No. 0-9286).
2.3+	Asset Purchase Agreement for Next Phase Territory Expansion, dated September 23, 2015, by and between the Company and Coca-Cola Refreshments USA, Inc.	Exhibit 2.1 to the Company's Current Report on Form 8-K filed on September 28, 2015 (File No. 0-9286).
2.4+	Asset Purchase Agreement for Manufacturing Facility Acquisitions, dated October 30, 2015, by and between the Company and Coca-Cola Refreshments USA, Inc.	Exhibit 2.1 to the Company's Current Report on Form 8-K filed on November 2, 2015 (File No. 0-9286).
2.5+	Stock Purchase Agreement, dated July 22, 2015, by and among the Company, BYB Brands, Inc. and The Coca-Cola Company.	Exhibit 2.1 to the Company's Current Report on Form 8-K filed on July 23, 2015 (File No. 0-9286).
2.6+	Asset Purchase Agreement for Distribution Territory Expansion, dated September 1, 2016, by and between the Company and Coca-Cola Refreshments USA, Inc.	Exhibit 2.1 to the Company's Current Report on Form 8-K filed on September 6, 2016 (File No. 0-9286).
2.7+	Asset Purchase Agreement for Manufacturing Facility Acquisitions, dated September 1, 2016, by and between the Company and Coca-Cola Refreshments USA, Inc.	Exhibit 2.2 to the Company's Current Report on Form 8-K filed on September 6, 2016 (File No. 0-9286).
3.1	Restated Certificate of Incorporation of the Company.	Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 29, 2003 (File No. 0-9286).
3.2	Amended and Restated Bylaws of the Company.	Exhibit 3.1 to the Company's Current Report on Form 8-K filed on August 25, 2016 (File No. 0-9286).
4.1	Specimen of Common Stock Certificate.	Exhibit 4.1 to the Company's Registration Statement on Form S-1 as filed on May 31, 1985 (File No. 2-97822).

4.2	Supplemental Indenture, dated as of March 3, 1995, between the Company and The Bank of New York Mellon Trust Company, N.A., as successor trustee.	Exhibit 4.2 to the Company's Annual Report on Form 10-K for the fiscal year ended December 29, 2002 (File No. 0-9286).
4.3	Second Supplemental Indenture, dated as of November 25, 2015, between the Company and The Bank of New York Mellon Trust Company, N.A., as trustee.	Exhibit 4.1 to the Company's Current Report on Form 8-K filed on November 25, 2015 (File No. 0-9286).
4.4	Officers' Certificate pursuant to Sections 102 and 301 of the Indenture, dated as of July 20, 1994, as supplemented and restated by the Supplemental Indenture, dated as of March 3, 1995, between the Company and The Bank of New York Mellon Trust Company, N.A., as successor trustee, relating to the establishment of the Company's \$110,000,000 aggregate principal amount of 7.00% Senior Notes due 2019.	Exhibit 4.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended July 4, 2010 (File No. 0-9286).
4.5	Resolutions adopted by Executive Committee and the Pricing Committee of the Board of Directors of the Company related to the establishment of the Company's \$110,000,000 aggregate principal amount of 7.00% Senior Notes due 2019.	Exhibit 4.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended July 4, 2010 (File No. 0-9286).
4.6	Form of the Company's 5.30% Senior Notes due 2015.	Exhibit 4.1 to the Company's Current Report on Form 8-K filed on March 27, 2003 (File No. 0-9286).

4.7 Form of the Company's 5.00% Senior Notes due 2016.	Exhibit 4.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended October 2, 2005 (File No. 0-9286).
4.8 Form of the Company's 7.00% Senior Notes due 2019.	Exhibit 4.1 to the Company's Current Report on Form 8-K filed on April 7, 2009 (File No. 0-9286).
4.9 Form of the Company's 3.80% Senior Notes due 2025 (included in Exhibit 4.3 above).	Exhibit 4.1 to the Company's Current Report on Form 8-K filed on November 25, 2015 (File No. 0-9286).
4.10 Fourth Amended and Restated Promissory Note, dated as of December 11, 2015, by and between the Company and Piedmont Coca-Cola Bottling Partnership.	Exhibit 4.10 to the Company's Annual Report on Form 10-K for the fiscal year ended January 3, 2016 (File No. 0-9286).
10.1 Amended and Restated Credit Agreement, dated October 16, 2014, by and among the Company, the lenders named therein, JP Morgan Chase Bank, N.A., as issuing lender and administrative agent, Citibank, N.A. and Wells Fargo Bank, National Association, as co-syndication agents, and Branch Banking and Trust Company, as documentation agent.	Exhibit 10.1 to the Company's Current Report on Form 8-K filed on October 22, 2014 (File No. 0-9286).
10.2 Joinder and Commitment Increase Agreement, dated April 27, 2015, by and among the Company, the lenders named therein and JPMorgan Chase Bank, N.A., as administrative agent.	Exhibit 10.1 to the Company's Current Report on Form 8-K filed on April 29, 2015 (File No. 0-9286).
10.3 Amended and Restated Guaranty Agreement, effective as of July 15, 1993, made by the Company and each of the other guarantor parties thereto in favor of Trust Company Bank and Teachers Insurance and Annuity Association of America.	Exhibit 10.10 to the Company's Annual Report on Form 10-K for the fiscal year ended December 29, 2002 (File No. 0-9286).
10.4 Amended and Restated Guaranty Agreement, dated as of May 18, 2000, made by the Company in favor of Wachovia Bank, N.A.	Exhibit 10.17 to the Company's Annual Report on Form 10-K for the fiscal year ended December 30, 2001 (File No. 0-9286).
10.5 Guaranty Agreement, dated as of December 1, 2001, made by the Company in favor of Wachovia, Bank, N.A.	Exhibit 10.18 to the Company's Annual Report on Form 10-K for the fiscal year ended December 30, 2001 (File No. 0-9286).
10.6 Amended and Restated Stock Rights and Restrictions Agreement, dated February 19, 2009, by and among the Company, The Coca-Cola Company, Carolina Coca-Cola Bottling Investments, Inc. and J. Frank Harrison, III.	Exhibit 10.1 to the Company's Current Report on Form 8-K filed on February 19, 2009 (File No. 0-9286).
10.7 Termination of Irrevocable Proxy and Voting Agreement, dated February 19, 2009, by and between The Coca-Cola Company and J. Frank Harrison, III.	Exhibit 10.2 to the Company's Current Report on Form 8-K filed on February 19, 2009 (File No. 0-9286).
10.8 Form of Master Bottle Contract ("Cola Beverage Agreement"), made and entered into, effective January 27, 1989, between The Coca-Cola Company	Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for

	and the Company, together with Form of Home Market Amendment to Master Bottle Contract, effective as of October 29, 1999.	the quarter ended October 3, 2010 (File No. 0-9286).
10.9	Form of Allied Bottle Contract (“Allied Beverage Agreement”), made and entered into, effective January 11, 1990, between The Coca-Cola Company and the Company (as successor to Coca-Cola Bottling Company of Anderson, S.C.).	Exhibit 10.2 to the Company’s Quarterly Report on Form 10-Q for the quarter ended October 3, 2010 (File No. 0-9286).
10.10	Letter Agreement, dated January 27, 1989, between The Coca-Cola Company and the Company, modifying the Cola Beverage Agreements and Allied Beverage Agreements.	Exhibit 10.3 to the Company’s Quarterly Report on Form 10-Q for the quarter ended October 3, 2010 (File No. 0-9286).
10.11	Form of Marketing and Distribution Agreement (“Still Beverage Agreement”), made and entered into effective October 1, 2000, between The Coca-Cola Company and the Company (as successor to Metrolina Bottling Company), with respect to Dasani.	Exhibit 10.4 to the Company’s Quarterly Report on Form 10-Q for the quarter ended October 3, 2010 (File No. 0-9286).
10.12	Form of Letter Agreement, dated December 10, 2001, between The Coca-Cola Company and the Company, together with Letter Agreement, dated December 14, 1994, modifying the Still Beverage Agreements.	Exhibit 10.5 to the Company’s Quarterly Report on Form 10-Q for the quarter ended October 3, 2010 (File No. 0-9286).

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10.13	2014 Incidence Pricing Letter Agreement, dated December 20, 2013, between the Company and The Coca-Cola Company, by and through its Coca-Cola North America division.	Exhibit 10.1 to the Company's Current Report on Form 8-K filed on December 26, 2013 (File No. 0-9286).
10.14**	Letter Agreement, dated as of March 10, 2008, by and between the Company and The Coca-Cola Company.	Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 30, 2008 (File No. 0-9286).
10.15	Lease, dated as of January 1, 1999, by and between the Company and Ragland Corporation.	Exhibit 10.5 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2000 (File No. 0-9286).
10.16	First Amendment to Lease and First Amendment to Memorandum of Lease, dated as of August 30, 2002, between the Company and Ragland Corporation.	Exhibit 10.33 to the Company's Annual Report on Form 10-K for the fiscal year ended December 29, 2002 (File No. 0-9286).
10.17	Lease Agreement, dated as of March 23, 2009, between the Company and Harrison Limited Partnership One.	Exhibit 10.1 to the Company's Current Report on Form 8-K filed on March 26, 2009 (File No. 0-9286).
10.18	Lease Agreement, dated as of December 18, 2006, between CCBCC Operations, LLC, a wholly-owned subsidiary of the Company, and Beacon Investment Corporation.	Exhibit 10.1 to the Company's Current Report on Form 8-K filed on December 21, 2006 (File No. 0-9286).
10.19	Limited Liability Company Operating Agreement of Coca-Cola Bottlers' Sales & Services Company LLC, made as of January 1, 2003, by and between Coca-Cola Bottlers' Sales & Services Company LLC and Consolidated Beverage Co., a wholly-owned subsidiary of the Company.	Exhibit 10.35 to the Company's Annual Report on Form 10-K for the fiscal year ended December 29, 2002 (File No. 0-9286).
10.20	Partnership Agreement of Piedmont Coca-Cola Bottling Partnership (formerly known as Carolina Coca-Cola Bottling Partnership), dated as of July 2, 1993, by and among Carolina Coca-Cola Bottling Investments, Inc., Coca-Cola Ventures, Inc., Coca-Cola Bottling Co. Affiliated, Inc., Fayetteville Coca-Cola Bottling Company and Palmetto Bottling Company.	Exhibit 10.7 to the Company's Annual Report on Form 10-K for the fiscal year ended December 29, 2002 (File No. 0-9286).
10.21	Master Amendment to Partnership Agreement, Management Agreement and Definition and Adjustment Agreement, dated as of January 2, 2002, by and among Piedmont Coca-Cola Bottling Partnership, CCBC of Wilmington, Inc., The Coca-Cola Company, Piedmont Partnership Holding Company, Coca-Cola Ventures, Inc. and the Company.	Exhibit 10.1 to the Company's Current Report on Form 8-K filed on January 14, 2002 (File No. 0-9286).
10.22	Fourth Amendment to Partnership Agreement, dated as of March 28, 2003, by and among Piedmont Coca-Cola Bottling Partnership, Piedmont Partnership Holding Company and Coca-Cola Ventures, Inc.	Exhibit 4.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 30, 2003 (File No. 0-9286).
10.23	Management Agreement, dated as of July 2, 1993, by and among the Company, Piedmont Coca-Cola Bottling Partnership (formerly known	Exhibit 10.8 to the Company's Annual Report on Form 10-K for

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	as Carolina Coca-Cola Bottling Partnership), CCBC of Wilmington, Inc., Carolina Coca-Cola Bottling Investments, Inc., Coca-Cola Ventures, Inc. and Palmetto Bottling Company.	the fiscal year ended December 29, 2002 (File No. 0-9286).
10.24	First Amendment to Management Agreement (relating to the Management Agreement designated as Exhibit 10.22 of this Exhibit Index) effective as of January 1, 2001.	Exhibit 10.14 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2000 (File No. 0-9286).
10.25	Management Agreement, dated as of March 12, 2014, by and among CCBCC Operations, LLC, a wholly-owned subsidiary of the Company, and South Atlantic Cannery, Inc.	Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 30, 2014 (File No. 0-9286).
10.26	Agreement, dated as of March 1, 1994, between the Company and South Atlantic Cannery, Inc.	Exhibit 10.12 to the Company's Annual Report on Form 10-K for the fiscal year ended December 29, 2002 (File No. 0-9286).
10.27*	Coca-Cola Bottling Co. Consolidated Amended and Restated Annual Bonus Plan, effective January 1, 2012.	Appendix C to the Company's Proxy Statement for the 2012 Annual Meeting of Stockholders (File No. 0-9286).

10.28*	Coca-Cola Bottling Co. Consolidated Amended and Restated Long-Term Performance Plan, effective January 1, 2012.	Appendix D to the Company's Proxy Statement for the 2012 Annual Meeting of Stockholders (File No. 0-9286).
10.29*	Form of Long-Term Performance Plan Bonus Award Agreement.	Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended July 4, 2010 (File No. 0-9286).
10.30*	Performance Unit Award Agreement, dated February 27, 2008.	Appendix A to the Company's Proxy Statement for the 2008 Annual Meeting of Stockholders (File No. 0-9286).
10.31*	Coca-Cola Bottling Co. Consolidated Supplemental Savings Incentive Plan, as amended and restated effective November 1, 2011.	Exhibit 10.31 to the Company's Annual Report on Form 10-K for the fiscal year ended January 1, 2012 (File No. 0-9286).
10.32*	Coca-Cola Bottling Co. Consolidated Director Deferral Plan, effective January 1, 2005.	Exhibit 10.17 to the Company's Annual Report on Form 10-K for the fiscal year ended January 1, 2006 (File No. 0-9286).
10.33*	Coca-Cola Bottling Co. Consolidated Officer Retention Plan, as amended and restated effective January 1, 2007.	Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q for the quarter ended April 1, 2007 (File No. 0-9286).
10.34*	Amendment No. 1 to Coca-Cola Bottling Co. Consolidated Officer Retention Plan, as amended and restated effective January 1, 2009.	Exhibit 10.32 to the Company's Annual Report on Form 10-K for the fiscal year ended December 28, 2008 (File No. 0-9286).
10.35*	Life Insurance Benefit Agreement, effective as of December 28, 2003, by and between the Company and Jan M. Harrison, Trustee under the J. Frank Harrison, III 2003 Irrevocable Trust, John R. Morgan, Trustee under the Harrison Family 2003 Irrevocable Trust, and J. Frank Harrison, III.	Exhibit 10.37 to the Company's Annual Report on Form 10-K for the fiscal year ended December 28, 2003

10.36*	Form of Amended and Restated Split-Dollar and Deferred Compensation Replacement Benefit Agreement, effective as of November 1, 2005, between the Company and eligible employees of the Company.	(File No. 0-9286). Exhibit 10.24 to the Company's Annual Report on Form 10-K for the fiscal year ended January 1, 2006 (File No. 0-9286).
10.37*	Form of Split-Dollar and Deferred Compensation Replacement Benefit Agreement Election Form and Agreement Amendment, effective as of June 20, 2005, between the Company and certain executive officers of the Company.	Exhibit 10.1 to the Company's Current Report on Form 8-K filed on June 24, 2005 (File No. 0-9286).
10.38	Coca-Cola Bottling Co. Consolidated Long Term Retention Plan, adopted effective as of March 5, 2014.	Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 30, 2014 (File No. 0-9286).
10.39**	Comprehensive Beverage Agreement for the Johnson City/Morristown territory, dated as of May 23, 2014, by and among the Company, The Coca-Cola Company and Coca-Cola Refreshments, USA, Inc.	Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 29, 2014 (File No. 0-9286).
10.40**	Amendment to the Comprehensive Beverage Agreement for the Johnson City/Morristown territory, dated as of June 1, 2015, by and between the Company, The Coca-Cola Company and Coca-Cola Refreshments, USA, Inc.	Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 28, 2015 (File No. 0-9286).
10.41**	Finished Goods Supply Agreement for the Johnson City/Morristown territory, dated as of May 23, 2014, by and among the Company, The Coca-Cola Company and Coca-Cola Refreshments, USA, Inc.	Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 29, 2014 (File No. 0-9286).
10.42	Amended and Restated Ancillary Business Letter, dated October 30, 2015, by and between the Company and The Coca-Cola Company.	Exhibit 10.2 to the Company's Current Report on Form 8-K filed on November 2, 2015 (File No. 0-9286).
10.43**	Monster Energy Corporation Products Consent Agreement dated December 17, 2014, by The Coca-Cola Company, acting by and through its Coca-Cola North America Division, and the Company.	Exhibit 10.41 to the Company's Annual Report on Form 10-K for the fiscal year ended December 28, 2014 (File No. 0-9286).
10.44	Amendment to the Monster Energy Corporation Products Consent Agreement, dated April 1, 2015, by The Coca-Cola Company, acting by and through its Coca-Cola North America Division, and the Company.	Exhibit 10.1 to the Company's Current Report on Form 8-K



10.45	Distribution Agreement, dated March 26, 2015, between CCBCC Operations, LLC, a wholly-owned subsidiary of the Company, and Monster Energy Company.	filed on April 1, 2015 (File No. 0-9286). Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q/A for the quarter ended March 29, 2015 (File No. 0-9286).
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10.46**	Territory Conversion Agreement, dated September 23, 2015, by and between the Company, The Coca-Cola Company and Coca-Cola Refreshments USA, Inc.	Exhibit 10.1 to the Company's Current Report on Form 8-K filed on September 28, 2015 (File No. 0-9286).
10.47	First Amendment to the Territory Conversion Agreement, dated February 8, 2016, by and between the Company, The Coca-Cola Company and Coca-Cola Refreshments USA, Inc.	Exhibit 10.47 to the Company's Annual Report on Form 10-K for the fiscal year ended January 3, 2016 (File No. 0-9286).
10.48	Expanding Participating Bottler Revenue Incidence Agreement, dated September 23, 2015, by and between the Company and The Coca-Cola Company.	Exhibit 10.2 to the Company's Current Report on Form 8-K filed on September 28, 2015 (File No. 0-9286).
10.49**	National Product Supply Governance Agreement, dated October 30, 2015, by and between the Company, The Coca-Cola Company, Coca-Cola Bottling Company United, Inc., Coca-Cola Refreshments USA, Inc. and Swire Pacific Holdings Inc. d/b/a Swire Coca-Cola USA.	Exhibit 10.1 to the Company's Current Report on Form 8-K filed on November 2, 2015 (File No. 0-9286).
10.50	2016 Incidence Pricing Letter Agreement, dated April 6, 2016, between the Company and The Coca-Cola Company, by and through its Coca-Cola North America division.	Exhibit 10.1 to the Company's to the Company's Current Report on Form 8-K filed on April 8, 2016 (File No. 0-9286).
10.51**	Initial Regional Manufacturing Agreement, dated January 29, 2016, between the Company and The Coca-Cola Company.	Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended April 3, 2016 (File No. 0-9286).
10.52**	Initial Regional Manufacturing Agreement, dated April 29, 2016, between the Company and The Coca-Cola Company.	Exhibit 10.1 to the Company's Current Report on Form 8-K filed on May 5, 2016 (File No. 0-9286).
10.53**	CCNA Exchange Letter Agreement, dated April 29, 2016, between the Company and The Coca-Cola Company, by and through its Coca-Cola North America division.	Exhibit 10.2 to the Company's Current Report on Form 8-K filed on May 5, 2016 (File No. 0-9286).
10.54	Term Loan Agreement, dated June 7, 2016, by and among the Company, the lenders named therein, JPMorgan Chase Bank, N.A., as administrative agent, and PNC Bank, National Association and Branch Banking and Trust Company as co-syndication agents.	Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended July 3, 2016 (File No. 0-9286).
10.55**	CONA Services LLC Limited Liability Company Agreement, dated January 27, 2016, by and among the Company, The Coca-Cola Company, Coca-Cola Refreshments USA, Inc. and the other bottlers named therein.	Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q/A for the quarter ended July 3, 2016 (File No. 0-9286).
10.56**	Amendment No. 1 to the CONA Services LLC Limited Liability Company Agreement, dated as of April 6, 2016 and effective as of April 2, 2016, by and among the Company, The Coca-Cola Company, Coca-Cola Refreshments USA, Inc. and the other bottlers name therein.	Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q/A for the quarter ended July 3, 2016 (File No. 0-9286).
10.57**	Master Services Agreement, dated as of April 6, 2016 and effective as of April 2, 2016, between the Company and CONA Services LLC.	Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q/A for the quarter ended July 3, 2016 (File No. 0-9286).
10.58		

	Glacéau Agreement, dated June 29, 2016, by and between The Coca-Cola Company, Coca-Cola Refreshments USA, Inc. and Coca-Cola Bottling Co. Consolidated.	Exhibit 10.1 to the Company's Current Report on Form 8-K filed on July 5, 2016 (File No. 0-9286).
10.59	Note Purchase and Private Shelf Agreement, dated June 10, 2016, by and among the Company, PGIM, Inc. and the other parties thereto.	Exhibit 10.1 to the Company's Current Report on Form 8-K filed on January 20, 2017 (File No. 0-9286).
10.60	Amendment to Distribution Agreement, dated September 3, 2015, between CCBCC Operations, LLC, a wholly-owned subsidiary of the Company, and Monster Energy Company.	Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended October 2, 2016 (File No. 0-9286).
10.61	Amendment to Distribution Agreement, effective as of September 19, 2016, between CCBCC Operations, LLC, a wholly-owned subsidiary of the Company, and Monster Energy Company.	Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended October 2, 2016 (File No. 0-9286).

Exhibits filed herewith:

Number Description

4.11	The registrant, by signing this report, agrees to furnish the Securities and Exchange Commission, upon its request, a copy of any instrument which defines the rights of holders of long-term debt of the registrant and its consolidated subsidiaries which authorizes a total amount of securities not in excess of 10 percent of the total assets of the registrant and its subsidiaries on a consolidated basis.
10.62	First Amendment to Limited Liability Company Operating Agreement of Coca-Cola Bottlers' Sales & Services Company LLC dated as of November 5, 2007, by and between Coca-Cola Bottlers' Sales & Services Company LLC and Consolidated Beverage Co., a wholly-owned subsidiary of the Company.
10.63	Second Amendment to Limited Liability Company Operating Agreement of Coca-Cola Bottlers' Sales & Services Company LLC dated as of September 15, 2010, by and between Coca-Cola Bottlers' Sales & Services Company LLC and Consolidated Beverage Co., a wholly-owned subsidiary of the Company.
10.64	Third Amendment to Limited Liability Company Operating Agreement of Coca-Cola Bottlers' Sales & Services Company LLC, dated as of December 16, 2016, by and between Coca-Cola Bottlers' Sales & Services Company LLC and Consolidated Beverage Co., a wholly-owned subsidiary of the Company.
12	Ratio of Earnings to Fixed Charges.
21	List of Subsidiaries.
23	Consent of Independent Registered Public Accounting Firm.
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	Financial statement from the Annual Report on Form 10-K of Coca-Cola Bottling Co. Consolidated for the fiscal year ended January 1, 2017, filed on March 14, 2017, formatted in XBRL (Extensible Business Reporting Language): (i) the Consolidated Statements of Operations; (ii) the Consolidated Statements of Comprehensive Income; (iii) the Consolidated Balance Sheets; (iv) the Consolidated Statements of Cash Flows; (v) the Consolidated Statements of Changes in Stockholders' Equity and (vi) the Notes to Consolidated Financial Statements.

\*Indicates a management contract or compensatory plan or arrangement.

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

+Certain schedules and similar supporting attachments to this agreement have been omitted, and the Company agrees to furnish supplemental copies of any such schedules and similar supporting attachments to the Securities and Exchange Commission upon request.

(b)Exhibits.

See Item 15(a)(3) above.

(c)Financial Statement Schedules.

See Item 15(a)(2) above.

Item 16. Form 10-K Summary

Not applicable.

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## Schedule II

## COCA-COLA BOTTLING CO. CONSOLIDATED

## VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

## Allowance for Doubtful Accounts

(in thousands)	Fiscal Year		
	2016	2015	2014
Balance at beginning of year	\$2,117	\$1,330	\$1,401
Additions charged to costs and expenses	2,534	1,234	550
Deductions	203	447	621
Balance at end of year	\$4,448	\$2,117	\$1,330

## Deferred Income Tax Valuation Allowance

(in thousands)	Fiscal Year		
	2016	2015	2014
Balance at beginning of year	\$2,307	\$3,640	\$3,553
Additions charged to costs and expenses	-	28	1,203
Additions charged to other <sup>(1)</sup>	-	-	7
Deductions credited to expense	689	1,361	-
Deductions not credited to expense	-	-	1,123
Balance at end of year	\$1,618	\$2,307	\$3,640

<sup>(1)</sup>Valuation allowance adjustment for Fast Forward Energy, Inc., which was liquidated during 2014.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

COCA-COLA BOTTLING CO.  
CONSOLIDATED

(REGISTRANT)

Date: March 14, 2017 By: /s/ J. Frank Harrison, III  
J. Frank Harrison, III  
Chairman of the Board of Directors  
and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
By: /s/ J. Frank Harrison, III J. Frank Harrison, III	Chairman of the Board of Directors, Chief Executive Officer and Director (Principal Executive Officer)	March 14, 2017
By: /s/ Clifford M. Deal, III Clifford M. Deal, III	Senior Vice President, Chief Financial Officer (Principal Financial Officer)	March 14, 2017
By: /s/ William J. Billiard William J. Billiard	Vice President, Chief Accounting Officer (Principal Accounting Officer)	March 14, 2017
By: /s/ Alexander B. Cummings, Jr. Alexander B. Cummings, Jr.	Director	March 14, 2017
By: /s/ Sharon A. Decker Sharon A. Decker	Director	March 14, 2017
By: /s/ Morgan H. Everett Morgan H. Everett	Vice President and Director	March 14, 2017
By: /s/ Henry W. Flint Henry W. Flint	President, Chief Operating Officer and Director	March 14, 2017

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By: /s/ James R. Helvey, III James R. Helvey, III	Director	March 14, 2017
By: /s/ William H. Jones William H. Jones	Director	March 14, 2017
By: /s/ Umesh M. Kasbekar Umesh M. Kasbekar	Vice Chairman of the Board of Directors and Secretary	March 14, 2017
By: /s/ James H. Morgan James H. Morgan	Director	March 14, 2017
By: /s/ John W. Murrey, III John W. Murrey, III	Director	March 14, 2017
By: /s/ Sue Anne H. Wells Sue Anne H. Wells	Director	March 14, 2017
By: /s/ Dennis A. Wicker Dennis A. Wicker	Director	March 14, 2017