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 27, 2004

Commission File Number 0-9286

COCA-COLA BOTTLING CO. CONSOLIDATED
(Exact name of registrant as specified in its charter)

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

4100 Coca-Cola Plaza, Charlotte, North Carolina 28211
(Address of principal executive offices) (Zip Code)

(704) 557-4400
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes ☒ No ☐

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

Class	Outstanding at July 28, 2004
Common Stock, $1.00 Par Value	6,642,577
Class B Common Stock, $1.00 Par Value	2,420,752

PART I - FINANCIAL INFORMATION

Item l. Financial Statements

Coca-Cola Bottling Co. Consolidated
CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)
In Thousands (Except Per Share Data)

	Second Quarter		First Half	
	2004	2003	2004	2003
Net sales	$ 333,711	$ 318,165	$ 616,438	$ 593,365
Cost of sales, excluding depreciation shown below	173,026	165,061	315,236	305,713
Gross margin	160,685	153,104	301,202	287,652
Selling, delivery and administrative expenses, excluding depreciation shown below	111,924	106,479	218,494	208,457
Depreciation expense	17,661	19,282	35,313	38,297
Amortization of intangibles	795	767	1,590	1,465
Income from operations	30,305	26,576	45,805	39,433
Interest expense	10,676	10,916	20,984	21,287
Minority interest	1,651	1,142	2,098	1,258
Income before income taxes	17,978	14,518	22,723	16,888
Income taxes	7,355	2,618	9,305	3,581
Net income	$ 10,623	$ 11,900	$ 13,418	$ 13,307
Basic net income per share	$ 1.17	$ 1.32	$ 1.48	$ 1.47
Diluted net income per share	$ 1.17	$ 1.32	$ 1.48	$ 1.47
Weighted average number of common shares outstanding	9,063	9,043	9,063	9,043
Weighted average number of common shares outstanding-assuming dilution	9,063	9,043	9,063	9,043
Cash dividends per share				
Common Stock	$ .25	$ .25	$ .50	$ .50
Class B Common Stock	$ .25	$ .25	$ .50	$ .50

See Accompanying Notes to Consolidated Financial Statements

Coca-Cola Bottling Co. Consolidated
CONSOLIDATED BALANCE SHEETS
In Thousands (Except Share Data)

	Unaudited June 27, 2004	Dec. 28, 2003	Unaudited June 29, 2003
ASSETS			
Current Assets:			
Cash	$ 9,009	$ 18,044	$ 7,272
Accounts receivable, trade, less allowance for doubtful accounts of $1,978, $1,723 and $1,872	92,487	82,222	84,858
Accounts receivable from The Coca-Cola Company	4,317	18,112	12,586
Accounts receivable, other	8,243	10,663	2,770
Inventories	54,360	36,891	40,114
Cash surrender value of life insurance, net	20,170	27,765	
Prepaid expenses and other current assets	9,686	6,981	8,565
Total current assets	198,272	200,678	156,165
Property, plant and equipment, net	426,385	446,708	461,707
Leased property under capital leases, net	78,731	43,109	44,342
Other assets	26,815	27,653	60,912
Franchise rights, net	520,672	520,672	520,672
Goodwill, net	102,049	102,049	101,754
Other identifiable intangible assets, net	7,461	9,051	9,631
Total	$ 1,360,385	$ 1,349,920	$ 1,355,183

See Accompanying Notes to Consolidated Financial Statements

Coca-Cola Bottling Co. Consolidated
CONSOLIDATED BALANCE SHEETS
In Thousands (Except Share Data)

	Unaudited June 27, 2004	Dec. 28, 2003	Unaudited June 29, 2003
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current Liabilities:			
Portion of long-term debt payable within one year	$ 39	$ 78	$ 39
Current portion of obligations under capital leases	1,845	1,337	1,444
Accounts payable, trade	42,933	39,493	38,083
Accounts payable to The Coca-Cola Company	31,163	10,996	28,595
Accrued compensation	14,570	18,999	12,904
Other accrued liabilities	48,177	52,492	46,303
Accrued interest payable	10,317	10,924	11,962
Total current liabilities	149,044	134,319	139,330
Deferred income taxes	165,212	156,094	152,735
Pension and postretirement benefit obligations	42,449	50,842	49,365
Other liabilities	79,697	74,457	66,387
Obligations under capital leases	80,100	44,226	44,829
Long-term debt	744,439	802,639	825,078
Total liabilities	1,260,941	1,262,577	1,277,724
Commitments and Contingencies (Note 13)			
Minority interest	36,969	34,871	32,832
Stockholders' Equity:			
Common Stock, $1.00 par value: Authorized - 30,000,000 shares; Issued - 9,704,951 shares	9,704	9,704	9,704
Class B Common Stock, $1.00 par value: Authorized - 10,000,000 shares; Issued - 3,048,866, 3,028,866 and 3,028,866 shares	3,049	3,029	3,029
Capital in excess of par value	98,255	97,220	97,220
Retained earnings	36,589	27,703	14,828
Accumulated other comprehensive loss	(23,868)	(23,930)	(18,900)
	123,729	113,726	105,881
Less-Treasury stock, at cost:			
Common - 3,062,374 shares	60,845	60,845	60,845
Class B Common - 628,114 shares	409	409	409
Total stockholders' equity	62,475	52,472	44,627
Total	$1,360,385	$1,349,920	$1,355,183

See Accompanying Notes to Consolidated Financial Statements

Coca-Cola Bottling Co. Consolidated
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (UNAUDITED)
In Thousands

	Common Stock	Class B Common Stock	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total
Balance on December 29, 2002	$ 9,704	$ 3,009	$ 95,986	$ 6,043	$ (20,621)	$ (61,254)	$ 32,867
Comprehensive income:							
Net income				13,307			13,307
Net gain on derivatives, net of tax					1,721		1,721
Total comprehensive income							15,028
Cash dividends paid							
Common ($.50 per share)				(3,321)			(3,321)
Class B Common ($.50 per share)				(1,201)			(1,201)
Issuance of 20,000 shares of Class B Common Stock		20	1,234				1,254
Balance on June 29, 2003	$ 9,704	$ 3,029	$ 97,220	$ 14,828	$ (18,900)	$ (61,254)	$ 44,627
Balance on December 28, 2003	$ 9,704	$ 3,029	$ 97,220	$ 27,703	$ (23,930)	$ (61,254)	$ 52,472
Comprehensive income:							
Net income				13,418			13,418
Net gain on derivatives, net of tax					62		62
Total comprehensive income							13,480
Cash dividends paid							
Common ($.50 per share)				(3,321)			(3,321)
Class B Common ($.50 per share)				(1,211)			(1,211)
Issuance of 20,000 shares of Class B Common Stock		20	1,035				1,055
Balance on June 27, 2004	$ 9,704	$ 3,049	$ 98,255	$ 36,589	$ (23,868)	$ (61,254)	$ 62,475

See Accompanying Notes to Consolidated Financial Statements

Coca-Cola Bottling Co. Consolidated
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
In Thousands

	First Half	
	2004	2003
Cash Flows from Operating Activities		
Net income	$ 13,418	$ 13,307
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation expense	35,313	38,297
Amortization of intangibles	1,590	1,465
Deferred income taxes	9,305	3,581
Losses on sale of property, plant and equipment	472	399
Amortization of debt costs	559	536
Amortization of deferred gain related to terminated interest rate agreements	(1,152)	(964)
Minority interest	2,098	1,258
Decrease in current assets less current liabilities	10,599	1,180
(Increase) decrease in other noncurrent assets	265	(2,307)
Increase in other noncurrent liabilities	6,620	3,380
Other	102	(160)
Total adjustments	65,771	46,665
Net cash provided by operating activities	79,189	59,972
Cash Flows from Financing Activities		
Proceeds from the issuance of long-term debt		100,000
Payment of long-term debt	(45,000)	(50,000)
Payment of current portion of long-term debt	(39)	(39)
Payment of lines of credit	(13,200)	(32,600)
Cash dividends paid	(4,532)	(4,522)
Principal payments on capital lease obligations	(925)	(631)
Debt issuance costs paid		(979)
Proceeds from settlement of forward interest rate agreements		3,135
Other	(252)	(406)
Net cash provided by (used in) financing activities	(63,948)	13,958
Cash Flows from Investing Activities		
Additions to property, plant and equipment	(25,896)	(32,838)
Proceeds from the sale of property, plant and equipment	1,620	533
Acquisition of companies, net		(52,546)
Net cash used in investing activities	(24,276)	(84,851)
Net decrease in cash	(9,035)	(10,921)
Cash at beginning of period	18,044	18,193
Cash at end of period	$ 9,009	$ 7,272
Significant non-cash investing and financing activities:		
Issuance of Class B Common Stock related to stock award	$ 1,055	$ 1,254
Capital lease obligations incurred	37,307	879

See Accompanying Notes to Consolidated Financial Statements

1. Accounting Policies

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

The financial statements reflect all adjustments which, in the opinion of management, are necessary for a fair statement of the results for the interim periods presented. All such adjustments are of a normal, recurring nature except as disclosed in Note 3 and Note 18 to the consolidated financial statements.

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

The accounting policies followed in the presentation of interim financial results are consistent with those followed on an annual basis. These policies are presented in Note 1 to the consolidated financial statements included in the Company’s Annual Report on Form 10-K for the year ended December 28, 2003 filed with the Securities and Exchange Commission.

Certain prior year amounts have been reclassified to conform to current year classifications.

2. Piedmont Coca-Cola Bottling Partnership

On July 2, 1993, the Company and The Coca-Cola Company formed Piedmont Coca-Cola Bottling Partnership (“Piedmont”) to distribute and market carbonated and noncarbonated beverages primarily in portions of North Carolina and South Carolina. The Company provides a portion of the soft drink products to Piedmont at cost and receives a fee for managing the business of Piedmont pursuant to a management agreement.

On March 28, 2003, the Company purchased half of The Coca-Cola Company’s interest in Piedmont for $53.5 million. This transaction increased the Company’s ownership interest in Piedmont from 54.651% to 77.326%. The Company recorded $16.3 million related to franchise rights and $4.3 million related to customer relationships in connection with this acquisition. This acquisition was recorded using purchase accounting.

Minority interest as of June 27, 2004, December 28, 2003 and June 29, 2003 represents the portion of Piedmont owned by The Coca-Cola Company.

2. Piedmont Coca-Cola Bottling Partnership

Summarized financial information for Piedmont was as follows:

In Thousands	Second Quarter 2004	Second Quarter 2003	First Half 2004	First Half 2003
Net sales	$ 83,982	$ 78,052	$ 151,867	$ 142,200
Cost of sales	41,618	39,358	75,123	71,477
Gross margin	42,364	38,694	76,744	70,723
Income from operations	9,460	7,272	13,456	9,607
Net income	$ 7,284	$ 5,038	$ 9,254	$ 5,294

3. Inventories

Inventories were summarized as follows:

In Thousands	June 27, 2004	Dec. 28, 2003	June 29, 2003
Finished products	$ 30,344	$ 25,669	$ 29,038
Manufacturing materials	8,214	6,637	6,159
Plastic pallets and other	15,802	4,585	4,917
Total inventories	$ 54,360	$ 36,891	$ 40,114

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

For purchases of concentrate from The Coca-Cola Company subsequent to May 28, 2004, the majority of the Company’s marketing funding support from The Coca-Cola Company was offset against the price of concentrate. The reduction in concentrate price represents a significant portion of the marketing funding support that otherwise would have been paid to the Company related to the sale of bottle/can products of The Coca-Cola Company. Due to this change in concentrate pricing, the Company’s investment in inventories was reduced resulting in a one-time increase in cost of sales of $1.7 million in the second quarter of 2004.

4. Property, Plant and Equipment

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

In Thousands	June 27, 2004	Dec. 28, 2003	June 29, 2003	Estimated Useful Lives
Land	$ 12,702	$ 12,857	$ 12,871	
Buildings	112,658	113,820	114,314	10-50 years
Machinery and equipment	91,218	90,005	87,025	5-20 years
Transportation equipment	161,069	158,349	158,223	4-13 years
Furniture and fixtures	41,304	38,683	40,011	4-10 years
Vending equipment	347,144	366,266	369,645	6-13 years
Leasehold and land improvements	53,913	53,425	49,626	5-20 years
Software for internal use	34,186	26,780	22,852	3-7 years
Construction in progress	4,997	7,057	12,423	
Total property, plant and equipment, at cost	859,191	867,242	866,990	
Less: Accumulated depreciation and amortization	432,806	420,534	405,283	
Property, plant and equipment, net	$ 426,385	$ 446,708	$ 461,707	

5. Leased Property Under Capital Leases

In Thousands	June 27, 2004	Dec. 28, 2003	June 29, 2003	Estimated Useful Lives
Leased property under capital leases	$85,804	$48,497	$48,497	1-29 years
Less: Accumulated amortization	7,073	5,388	4,155	
Leased property under capital leases, net	$78,731	$43,109	$44,342	

On March 1, 2004, the Company received a renewal option to extend the term of the lease on its corporate headquarters facilities. As disclosed in Note 18 to the consolidated financial statements, these facilities are leased from a related party. As a result of the renewal option and the Company’s intent to exercise the renewal option, the Company capitalized the lease as of March 1, 2004. The amount recorded for the capitalization of this lease was $32.4 million.

At the end of June 2004, the Company recorded a capital lease of $4.9 million related to a new operating facility. This new capital lease did not have any impact on the results of operations during the second quarter or first half of 2004.

The majority of the leased property under capital leases is real estate and is provided by related parties as described in Note 18 to the consolidated financial statements.

6. Franchise Rights and Goodwill

In Thousands	June 27, 2004	Dec. 28, 2003	June 29, 2003
Franchise rights	$ 677,769	$ 677,769	$ 677,769
Goodwill	155,487	155,487	155,192
Franchise rights and goodwill	833,256	833,256	832,961
Less: Accumulated amortization	210,535	210,535	210,535
Franchise rights and goodwill, net	$ 622,721	$ 622,721	$ 622,426

7. Other Identifiable Intangible Assets

In Thousands	June 27, 2004	Dec. 28, 2003	June 29, 2003	Estimated Useful Lives
Customer lists	$61,102	$61,102	$60,042	3-20 years
Less: Accumulated amortization	53,641	52,051	50,411	
Other identifiable intangible assets, net	$ 7,461	$ 9,051	$ 9,631	

8. Other Accrued Liabilities

Other accrued liabilities were summarized as follows:

In Thousands	June 27, 2004	Dec. 28, 2003	June 29, 2003
Accrued marketing costs	$ 7,628	$ 8,753	$ 6,295
Accrued insurance costs	10,243	11,351	12,649
Accrued taxes (other than income taxes)	3,959	1,738	8,071
Employee benefit plan accruals	9,901	9,084	8,072
All other accrued expenses	16,446	21,566	11,216
Total	$48,177	$52,492	$46,303

9. Long-Term Debt

Long-term debt was summarized as follows:

In Thousands	Maturity	Interest Rate	Interest Paid	June 27, 2004	Dec. 28, 2003	June 29, 2003
Lines of Credit	2005	1.54%	Varies	$ 4,400	$ 17,600	$ 5,000
Term Loan	2004		Varies			35,000
Term Loan	2005	1.76%	Varies	40,000	85,000	85,000
Debentures	2007	6.85%	Semi-annually	100,000	100,000	100,000
Debentures	2009	7.20%	Semi-annually	100,000	100,000	100,000
Debentures	2009	6.38%	Semi-annually	250,000	250,000	250,000
Senior Notes	2012	5.00%	Semi-annually	150,000	150,000	150,000
Senior Notes	2015	5.30%	Semi-annually	100,000	100,000	100,000
Other notes payable	2004-2006	5.75%	Varies	78	117	117
				744,478	802,717	825,117
Less: Portion of long-term debt payable within one year				39	78	39
Long-term debt				$ 744,439	$ 802,639	$ 825,078

9. Long-Term Debt

The Company has obtained the majority of its long-term financing from the public markets. As of June 27, 2004, $700 million of the Company's total outstanding balance of debt and capital lease obligations of $826.4 million was financed through publicly offered debentures and senior notes. The remainder of the Company's debt is provided by several financial institutions. The Company mitigates its financing risk by using multiple financial institutions and carefully evaluating the credit worthiness of these institutions. The Company enters into credit arrangements only with institutions with investment grade credit ratings and monitors counterparty credit ratings on an ongoing basis.

The Company borrows periodically under its available lines of credit. These lines of credit, in the aggregate amount of $60 million at June 27, 2004, are made available at the discretion of two participating banks and may be withdrawn at any time by such banks. On June 27, 2004, $4.4 million was outstanding under these lines of credit. The Company intends to refinance short-term maturities with currently available lines of credit.

To the extent that these borrowings under the Company's lines of credit do not exceed the amount available under the Company's $125 million revolving credit facility, they are classified as noncurrent liabilities.

In December 2002, the Company entered into a three-year, $125 million revolving credit facility. This facility includes an option to extend the term for an additional year at the participating banks' discretion. The revolving credit facility bears interest at a floating rate of LIBOR plus an interest rate spread of .60%. In addition, there is a facility fee of .15% required for this revolving credit facility. Both the interest rate spread and the facility fee are determined from a commonly used pricing grid based on the Company's long-term senior unsecured noncredit-enhanced debt rating. The facility contains covenants, which establish ratio requirements related to debt, interest expense and cash flow. On June 27, 2004, there were no amounts outstanding under this facility.

The Company filed an $800 million shelf registration for debt and equity securities in January 1999. The Company used this shelf registration to issue long-term debt of $250 million in 1999, $150 million in 2002 and $100 million in 2003. The Company currently has up to $300 million available for use under this shelf registration which, subject to the Company's ability to consummate a transaction on acceptable terms, could be used for long-term financing or refinancing of long-term debt maturities.

With regards to the Company's $40 million term loan that matures in 2005, the Company must maintain its public debt ratings at investment grade as determined by either Moody's or Standard & Poor's. If the Company's public debt ratings fall below investment grade within 90 days after the public announcement of certain designated events and such ratings stay below investment grade for an additional 40 days, a trigger event resulting in a default occurs. The Company does not anticipate a trigger event will occur in the foreseeable future.

The Company's credit ratings are reviewed by Moody's and Standard & Poor's. Changes in the Company's operating results or financial position could result in a change in the Company's credit ratings. Lower credit ratings could result in higher borrowing costs for the Company or in the event of a reduction below investment grade level, a potential default on one of its credit agreements as discussed above. There were no changes in these debt ratings from the prior year. It is the Company's intent to operate in a manner that will allow it to maintain its investment grade ratings.

9. Long-Term Debt

The Company's revolving credit facility contains two financial covenants related to ratio requirements for interest coverage and long-term debt to cash flow, as defined in the credit agreement. These covenants do not currently, and the Company does not anticipate that they will, restrict its liquidity or capital resources. The Company's public debt is not subject to financial covenants but does limit the incurrence of certain liens and encumbrances as well as the incurrence of indebtedness by the Company's subsidiaries in excess of certain amounts.

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

The Company provides financing for Piedmont at its average cost of funds plus 0.50%. The Company plans to provide for Piedmont's future financing requirements under these terms. All significant intercompany accounts and transactions between the Company and Piedmont have been eliminated.

After taking into account all of the interest rate hedging activities, the Company had a weighted average interest rate of 5.1%, 4.9% and 5.0% for its debt and capital lease obligations at June 27, 2004, December 28, 2003 and June 29, 2003, respectively. The Company's overall weighted average borrowing rate on its debt and capital lease obligations was 5.0% for the first half of 2004 compared to 4.9% for the first half of 2003.

As of June 27, 2004, approximately 44% of the Company's debt and capital lease obligations of $826.4 million was subject to changes in short-term interest rates. The Company considers all floating rate debt and fixed rate debt with a maturity of less than one year to be subject to changes in short-term interest rates.

During the first half of 2004 and 2003, interest expense was lower due to amortization of the deferred gain on previously terminated interest rate agreements by $1.2 million and $1.0 million, respectively in each period.

10. Derivative Financial Instruments

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

10. Derivative Financial Instruments

Derivative financial instruments were summarized as follows:

	June 27, 2004		December 28, 2003		June 29, 2003	
In Thousands	**Notional Amount**	**Remaining Term**	**Notional Amount**	**Remaining Term**	**Notional Amount**	**Remaining Term**
Interest rate swap agreement-floating	$25,000	3.42 years	$25,000	3.92 years		
Interest rate swap agreement-floating	25,000	3.42 years	25,000	3.92 years		
Interest rate swap agreement-floating	50,000	4.92 years	50,000	5.42 years		
Interest rate swap agreement-floating	50,000	3.42 years	50,000	3.92 years	$50,000	4.42 years
Interest rate swap agreement-floating	50,000	5.08 years	50,000	5.58 years	50,000	6.08 years
Interest rate swap agreement-floating	50,000	8.42 years	50,000	8.92 years	50,000	9.42 years

	December 28, 2003			June 29, 2003		
In Thousands	**Notional Amount**	**Start Date**	**Length of Term**	**Notional Amount**	**Start Date**	**Length of Term**
Forward interest rate agreement-fixed	$50,000	1/02/03	1 year	$50,000	1/02/03	1 year
Forward interest rate agreement-fixed	50,000	5/01/03	1 year	50,000	5/01/03	1 year
Forward interest rate agreement-fixed	50,000	5/15/03	1 year	50,000	5/15/03	1 year
Forward interest rate agreement-fixed				50,000	5/30/03	3 months
Forward interest rate agreement-fixed	50,000	5/30/03	1 year	50,000	5/30/03	1 year

The Company entered into four forward interest rate agreements in 2003 which fixed short-term rates on certain components of the Company’s floating rate debt for twelve month periods. All four of the forward interest rate agreements expired in the first half of 2004 and did not have a significant impact on interest expense. There were no outstanding forward interest rate agreements as of June 27, 2004.

In conjunction with the issuance of $100 million of 5.30% Senior Notes in March 2003, the Company entered into certain interest rate swap agreements to hedge the issuance price. These interest rate swap agreements have been accounted for as cash flow hedges. The Company received $3.1 million from these cash flow hedges upon settlement, which has been recorded in other liabilities and is being amortized as a reduction of interest expense over the life of the related senior notes.

The counterparties to these contractual arrangements are major financial institutions with which the Company has other financial relationships. The Company uses several different financial institutions for interest rate derivative contracts 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 Company has master agreements with the counterparties to its derivative financial agreements that provide for net settlement of derivative transactions.

11. Fair Values of Financial Instruments

The following methods and assumptions were used by the Company in estimating the fair values of its financial instruments:

Cash, Accounts Receivable and Accounts Payable

The fair values of cash, accounts receivable and accounts payable approximate carrying values due to the short maturity of these financial instruments.

Public Debt

The fair values of the Company's public debt are based on estimated market prices.

Non-Public Variable Rate Long-Term Debt

The carrying amounts of the Company's variable rate borrowings approximate their fair values.

Non-Public Fixed Rate Long-Term Debt

The fair values of the Company's fixed rate long-term borrowings are estimated using discounted cash flow analyses based on the Company's current incremental borrowing rates for similar types of borrowing arrangements.

Derivative Financial Instruments

Fair values for the Company's interest rate swap agreements and forward interest rate agreements are based on current settlement values.

Letters of Credit

The fair values of the Company's letters of credit are based on the notional amounts of the instruments.

The carrying amounts and fair values of the Company's long-term debt, derivative financial instruments and letters of credit were as follows:

	June 27, 2004		December 28, 2003		June 29, 2003	
In Thousands	**Carrying Amount**	**Fair Value**	**Carrying Amount**	**Fair Value**	**Carrying Amount**	**Fair Value**
Public debt	$ 700,000	$ 724,833	$ 700,000	$ 747,359	$ 700,000	$ 764,198
Non-public variable rate long-term debt	44,400	44,400	102,600	102,600	125,000	125,000
Non-public fixed rate long-term debt	78	80	117	120	117	117
Interest rate swap agreements and forward interest rate agreements	5,289	5,289	1,613	1,613	(5,750)	(5,750)
Letters of credit	—	13,201	—	11,888	—	8,610

11. Fair Values of Financial Instruments

The fair values of the interest rate swap agreements and forward rate agreements at June 27, 2004 and December 28, 2003 represent the estimated amounts the Company would have paid upon termination of these agreements. The fair value of the interest rate swap agreements and forward interest rate agreements at June 29, 2003 represents the estimated amount the Company would have received upon termination of these agreements.

12. Other Liabilities

Other liabilities were summarized as follows:

In Thousands	June 27, 2004	Dec. 28, 2003	June 29, 2003
Accruals for executive benefit plans	$56,482	$52,645	$48,594
Deferred gains on terminated interest rate agreements	8,338	9,490	7,177
Other	14,877	12,322	10,616
Total	$79,697	$74,457	$66,387

The accruals for executive benefit plans relate to three benefit programs for eligible executives of the Company. These benefit programs are the Supplemental Savings Incentive Plan ("Supplemental Savings Plan"), the Officer Retention Plan ("Retention Plan") and a supplemental benefit plan.

Eligible participants in the Supplemental Savings Plan may elect to defer a portion of their annual salary and bonus. The Company matches 30% of the first 6% of salary (excluding bonuses) deferred by the participant. The Company can also make discretionary contributions to participants' accounts. Participants are immediately vested for their contributions and after five years of service the participants are vested for the Company contributions. Participant deferrals and Company contributions are deemed invested in either a fixed benefit option or certain investment funds specified by the Company. Participant balances in the fixed benefit option accrue a return depending upon the participant's age, years of service and other factors. The long-term liability under this plan was $32.6 million, $31.3 million and $30.2 million as of June 27, 2004, December 28, 2003 and June 29, 2003, respectively.

The benefits under the Retention Plan increase with each year of participation as set forth in an agreement between the participant and the Company. Eligible participants receive a 20-year annuity payable in equal monthly installments commencing at retirement or under other certain conditions. Benefits under the Retention Plan are generally reduced by 50% for participants who terminate employment due to severance before age 60 and not due to death or disability. The long-term liability under this plan was $21.4 million, $19.1 million and $18.4 million as of June 27, 2004, December 28, 2003 and June 29, 2003, respectively.

In conjunction with the elimination in 2003 of a split-dollar life insurance benefit for officers of the Company, a replacement benefit plan was established. The replacement benefit plan provides a supplemental benefit to eligible participants that increases with each additional year of service and is comparable to benefits provided to

12. Other Liabilities

eligible participants through certain split-dollar life insurance agreements. Upon separation from the Company, participants receive an annuity payable in up to ten annual installments or a lump sum. The long-term liability for the replacement benefit plan was $2.5 million and $2.3 million as of June 27, 2004 and December 28, 2003, respectively.

13. Commitments and Contingencies

The Company has guaranteed a portion of the debt for two cooperatives in which the Company is a member. The amounts guaranteed were $42.3 million, $39.4 million and $40.6 million as of June 27, 2004, December 28, 2003 and June 29, 2003, respectively. The Company has not recorded any liability associated with these guarantees. The guarantees relate to debt and lease obligations, which resulted primarily from the purchase of production equipment and facilities. Both cooperatives consist solely of Coca-Cola bottlers. In the event either of these cooperatives fail to fulfill their commitments under the related debt and lease obligations, the Company would be responsible for payments to the lenders up to the level of the guarantees. If these cooperatives had borrowed up to their maximum borrowing capacity, the Company’s maximum potential amount of payments under these guarantees on June 27, 2004 would have been $58.2 million. The Company does not anticipate that either of these cooperatives will fail to fulfill their commitments under these agreements. The Company believes that each of these cooperatives has sufficient assets, including production equipment, facilities and working capital, to adequately mitigate the risk of material loss.

The Company is involved in various claims and legal proceedings which have arisen in the ordinary course of business. Although it is difficult to predict the ultimate outcome of these cases, management believes, based on discussions with legal counsel, that the ultimate disposition of these claims will not have a material adverse effect on the financial condition, cash flows or results of operations of the Company.

14. Income Taxes

The provision for income taxes consisted of the following:

In Thousands	**June 27, 2004**	**June 29, 2003**
Current:		
Federal	$ —	$ —
State	—	—
Total current provision	—	—
Deferred:		
Federal	7,978	5,733
State	1,327	(2,152)
Total deferred provision	9,305	3,581
Income tax expense	$ 9,305	$ 3,581

Reported income tax expense is reconciled to the amount computed on the basis of income before income taxes at the statutory rate as follows:

In Thousands	**June 27, 2004**	**June 29, 2003**
Statutory expense	$ 7,953	$ 5,911
State income taxes, net of federal benefit	862	620
Valuation allowance change		(3,106)
Meals and entertainment	256	210
Other	234	(54)
Income tax expense	$ 9,305	$ 3,581

During the second quarter of 2003, the Company recorded a favorable adjustment to its income tax expense of $3.1 million. This adjustment reflects the completion of a state income tax audit.

15. Accumulated Other Comprehensive Income (Loss)

The reconciliation of the components of accumulated other comprehensive income (loss) was as follows:

In Thousands	Derivatives Gain/(Loss)	Minimum Pension Liability Adjustment	Total
Balance as of December 29, 2002	$ —	$ (20,621)	$ (20,621)
Change in fair market value of cash flow hedges, net of tax	1,721	—	1,721
Balance as of June 29, 2003	$ 1,721	$ (20,621)	$ (18,900)
Balance as of December 28, 2003	$ (62)	$ (23,868)	$ (23,930)
Change in fair market value of cash flow hedges, net of tax	62	—	62
Balance as of June 27, 2004	$ —	$ (23,868)	$ (23,868)

A summary of the components of other accumulated comprehensive income (loss) was as follows:

In Thousands	Before-Tax Amount	Income Tax Effect	After-Tax Amount
First half 2004			
Change in fair market value of cash flow hedges	$ —	$ —	$ —
Minimum pension liability adjustment	(39,615)	15,747	(23,868)
Other comprehensive income (loss)	$ (39,615)	$ 15,747	$ (23,868)
First half 2003			
Change in fair market value of cash flow hedges	$ 2,849	$ (1,128)	$ 1,721
Minimum pension liability adjustment	(34,329)	13,708	(20,621)
Other comprehensive income (loss)	$ (31,480)	$ 12,580	$ (18,900)

16. Capital Transactions

On May 12, 1999, the stockholders of the Company approved a restricted stock award for J. Frank Harrison, III, the Company's Chairman of the Board of Directors and Chief Executive Officer, consisting of 200,000 shares of the Company's Class B Common Stock. The fair value of the restricted stock award, when approved, was approximately $11.7 million based on the market price of the Common Stock on the effective date of the award. The award provides that the shares of restricted stock vest at the rate of 20,000 shares per year over a ten-year period. The vesting of each annual installment is contingent upon the Company achieving at least 80% of the overall goal achievement factor in the Company's Annual Bonus Plan. Compensation expense, net of tax, related to the restricted stock award was $.6 million in both the first half of 2004 and the first half of 2003, respectively.

On March 4, 2003, the Compensation Committee of the Board of Directors determined that 20,000 shares of restricted Class B Common Stock, $1.00 par value, vested and should be issued pursuant to the performance-based award discussed above to J. Frank Harrison, III, in connection with his services as Chairman of the Board of Directors and Chief Executive Officer of the Company. On March 3, 2004, the Compensation Committee determined that an additional 20,000 shares of restricted Class B Common Stock, $1.00 par value, vested.

As of June 27, 2004, the fair market value of the potentially issuable shares (100,000 shares) in the future under this award approximated $5.9 million.

17. Benefit Plans

Retirement benefits under the Company's pension plans are based on the employee's length of service, average compensation over the five consecutive years which gives the highest average compensation and the average of the Social Security taxable wage base during the 35-year period before a participant reaches Social Security retirement age. Contributions to the plans are based on the projected unit credit actuarial funding method and are limited to the amounts that are currently deductible for income tax purposes.

Net periodic pension cost for the indicated periods was as follows:

	Second Quarter		First half	
In Thousands	**2004**	**2003**	**2004**	**2003**
Service cost	$ 1,477	$ 1,091	$ 2,954	$ 2,182
Interest cost	2,266	2,032	4,532	4,064
Expected return on plan assets	(2,327)	(1,725)	(4,654)	(3,450)
Amortization of prior service cost	5	5	10	10
Recognized net actuarial loss	1,210	1,016	2,420	2,032
Net periodic pension cost	$ 2,631	$ 2,419	$ 5,262	$ 4,838

17. Benefit Plans

The Company contributed $13.4 million to its pension plans during the first half of 2004. The Company anticipates making total contributions to its pension plans of between $23 million and $24 million in 2004.

The Company provides postretirement benefits for substantially all of its current employees. The Company recognizes the cost of post retirement 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 Company amended certain provisions of this postretirement benefit plan in 2001 and 2002. Under the amended plan, qualifying active employees will be eligible for coverage upon retirement until they become eligible for Medicare (normally age 65), at which time coverage under the plan will cease.

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

	Second Quarter		First half	
In Thousands	**2004**	**2003**	**2004**	**2003**
Service cost	$137	$ 128	$ 274	$ 256
Interest cost	705	790	1,410	1,580
Amortization of unrecognized transitional assets	(6)	(6)	(12)	(12)
Recognized net actuarial loss	207	233	414	466
Amortization of prior service cost	(68)	(68)	(136)	(136)
Net periodic postretirement benefit cost	$975	$1,077	$1,950	$2,154

18. Related Party Transactions

The Company's business consists primarily of the production, marketing and distribution of soft drink products 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 June 27, 2004, The Coca-Cola Company had a 27.4% interest in the Company's total outstanding Common Stock and Class B Common Stock on a combined basis.

18. Related Party Transactions

The following table summarizes the significant transactions between the Company and The Coca-Cola Company:

In Millions	First Half 2004	First Half 2003
Payments by the Company for concentrate, syrup, sweetener and other purchases	$ 147.4	$ 134.5
Payments by the Company for customer marketing programs	20.4	25.7
Payments by the Company for cold drink equipment parts	1.8	2.3
Marketing funding support payments to the Company	22.3	27.9
Fountain delivery and equipment repair fees paid to the Company	3.5	3.5
Local media and presence marketing funding support provided by The Coca-Cola Company on the Company's behalf	5.4	5.4

Marketing funding support in the first half of 2004 included a favorable nonrecurring item of approximately $2 million for certain customer-related marketing programs between the Company and The Coca-Cola Company, which was recorded in the first quarter of 2004.

The Company has a production arrangement with Coca-Cola Enterprises Inc. ("CCE") to buy and sell finished products at cost. Sales to CCE under this agreement were $12.8 million and $12.5 million in the first half of 2004 and the first half of 2003, respectively. Purchases from CCE under this arrangement were $9.3 million and $10.1 million in the first half of 2004 and the first half of 2003, respectively. The Coca-Cola Company has significant equity interests in the Company and CCE. As of June 27, 2004, CCE held 10.5% of the Company's outstanding Common Stock but held no shares of the Company's Class B Common Stock, giving CCE a 7.7% equity interest in the Company's total outstanding Common Stock and Class B Common Stock on a combined basis.

On March 28, 2003, the Company purchased an additional 22.675% interest in Piedmont from The Coca-Cola Company, increasing the Company's ownership to 77.326%. The Company provides a portion of the soft drink products for Piedmont at cost and receives a fee for managing the operations of Piedmont pursuant to a management agreement. The Company sold product at cost to Piedmont during the first half of 2004 and the first half of 2003 totaling $37.9 million and $29.4 million, respectively. The Company received $8.7 million and $8.6 million for management services pursuant to its management agreement with Piedmont for the first half of 2004 and the first half of 2003, respectively. The Company provides financing for Piedmont at the Company's average cost of funds plus 0.50%. As of June 27, 2004, the Company had loaned $133.7 million to Piedmont. The Company plans to provide for Piedmont's future financing requirements under these terms. The Company also subleases various fleet and vending equipment to Piedmont at cost. These sublease rentals amounted to $4.1 million and $4.2 million in the first half of 2004 and the first half of 2003, respectively. In addition, Piedmont subleases various fleet and vending equipment to the Company at cost. These sublease rentals amounted to approximately $100,000 during each of the first half of 2004 and 2003. All significant intercompany accounts and transactions between the Company and Piedmont have been eliminated.

18. Related Party Transactions

The Company is a shareholder in two cooperatives from which it purchases substantially all its requirements for plastic bottles. Net purchases from these entities were $29.9 million and $23.7 million in the first half of 2004 and the first half of 2003, respectively. In connection with its participation in one of these cooperatives, the Company has guaranteed a portion of the cooperative's debt. Such guarantee amounted to $20.2 million as of June 27, 2004.

The Company is a member of South Atlantic Canners, Inc. ("SAC"), a manufacturing cooperative. SAC sells finished products to the Company and Piedmont at cost. Purchases from SAC by the Company and Piedmont for finished products were $53.0 million and $55.8 million in the first half of 2004 and the first half of 2003, respectively. The Company also manages the operations of SAC pursuant to a management agreement. On June 1, 2004, the Company executed a new management agreement with SAC that extends through May 2014. Management fees earned from SAC were $.9 million and $.6 million in the first half of 2004 and the first half of 2003, respectively. The Company has also guaranteed a portion of debt for SAC. Such guarantee was $22.1 million as of June 27, 2004.

On June 1, 1993, the Company entered into a lease agreement with Beacon Investment Corporation ("Beacon") related to the Company's headquarters office facility. Beacon's sole shareholder is J. Frank Harrison, III. On January 5, 1999, the Company entered into a ten-year agreement with Beacon which included the Company's headquarters office facility and an adjacent office facility. On March 1, 2004, the Company recorded a capital lease of $32.4 million related to these facilities. The lease obligation was capitalized because the Company received a renewal option to extend the term of the lease, which it expects to exercise.

On December 15, 2000, the Company entered into a ten-year lease agreement with Harrison Limited Partnership One ("HLP") related to the Company's Snyder Production Center ("SPC") in Charlotte, North Carolina and a sales distribution center adjacent to SPC. HLP's sole general partner is a corporation of which the estate of J. Frank Harrison, Jr. is the sole shareholder. HLP's sole limited partner is a trust of which J. Frank Harrison, III, Chairman of the Board of Directors of the Company and Chief Executive Officer of the Company, and Reid M. Henson, a former Director of the company, are co-trustees. The Company recorded a capital lease of $41.6 million at the end of the first quarter of 2002 related to these facilities, as the Company received a renewal option to extend the term of the lease, which it expects to exercise.

19. Earnings Per Share

The following table sets forth the computation of basic net income per share and diluted net income per share:

In Thousands (Except Per Share Data)	Second Quarter 2004	Second Quarter 2003	First Half 2004	First Half 2003
Numerator:				
Numerator for basic net income per share and diluted net income per share	$ 10,623	$ 11,900	$ 13,418	$ 13,307
Denominator:				
Denominator for basic net income per share and diluted net income per share – weighted average common shares	9,063	9,043	9,063	9,043
Basic net income per share	$ 1.17	$ 1.32	$ 1.48	$ 1.47
Diluted net income per share	$ 1.17	$ 1.32	$ 1.48	$ 1.47

No potentially dilutive shares were outstanding in the periods presented.

20. Supplemental Disclosures of Cash Flow Information

Changes in current assets and current liabilities affecting cash, net of effect of acquisitions, were as follows:

In Thousands	First Half 2004	First Half 2003
Accounts receivable, trade, net	$ (10,265)	$ (5,310)
Accounts receivable, The Coca-Cola Company	13,795	406
Accounts receivable, other	2,420	14,231
Inventories	(7,071)	(1,466)
Prepaid expenses and other current assets	4,890	(3,977)
Accounts payable, trade	3,440	(220)
Accounts payable, The Coca-Cola Company	20,167	7,946
Other accrued liabilities	(12,708)	(5,439)
Accrued compensation	(3,462)	(6,304)
Accrued interest payable	(607)	1,313
Decrease in current assets less current liabilities	$ 10,599	$ 1,180

21. New Accounting Pronouncements

In December 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the “Act”) was signed into law. The Act provides a federal subsidy to sponsors of retiree health care benefit plans that provide a prescription drug benefit that is at least actuarially equivalent to Medicare Part D. In May 2004, the Financial Accounting Standards Board (“FASB”) issued FASB Staff Position No. FAS 106-2, “Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003,” (“FSP FAS 106-2”), which supercedes FASB Staff Position No. FAS 106-1, “Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003” and is effective for interim or annual periods beginning after June 15, 2004. As permitted by FSP FAS 106-2, the Company is currently evaluating the effect of the Act on its postretirement benefits and has not reflected in its net periodic postretirement benefit costs or accumulated postretirement benefit obligation any amount associated with the federal subsidy.

In March 2004, the consensus of Emerging Issues Task Force (“EITF”) Issue No. 03-06, “Participating Securities and the Two-Class Method under FASB Statement 128,” (“EITF 03-06”) was published. EITF 03-06 addresses the computations of earnings per share by companies that have issued securities other than common stock that contractually entitle the holder to participate in dividends and earnings of the company. Further guidance on the application and allocations of the two-class method of calculating earnings per share is also included. The provisions of EITF 03-06 will be effective for reporting periods beginning after March 31, 2004. The adoption of this guidance is not expected to have a significant impact on the Company’s results of operations or financial position.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

Introduction

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

- Our Business – a general description of the Company’s business and the soft drink industry.
- Areas of Emphasis – a summary of the Company’s key priorities for 2004 and the next several years.
- Operations Overview – a summary of key information concerning the financial results for the second quarter and first half of fiscal year 2004 and changes from the second quarter and first half of fiscal year 2003.
- Discussion of Critical Accounting Policies and New Accounting Pronouncements – a discussion of accounting policies that are most important to the portrayal of the Company’s financial condition and results of operations which require critical judgments and estimates and the expected impact of new accounting pronouncements.
- Results of Operations – an analysis of the Company’s results of operations for the second quarter and first half of 2004 compared to the second quarter and first half of 2003.
- Financial Condition – an analysis of the Company’s financial condition as of the end of the second quarter of 2004 compared to fiscal year-end 2003 and the end of the second quarter of 2003.
- Liquidity and Capital Resources – an analysis of capital resources, cash sources and uses, investing activities, financing activities, off-balance sheet arrangements, contractual obligations and interest rate hedging.
- Cautionary Information Regarding Forward-Looking Statements – cautionary information about forward-looking statements and a description of certain risks and uncertainties that could cause the Company’s actual results to differ materially from the Company’s historical results or the Company’s current expectations about future periods.

Our Business

Coca-Cola Bottling Co. Consolidated (the “Company”) produces, markets and distributes carbonated and noncarbonated beverages, primarily products of The Coca-Cola Company, which include some of the most recognized and popular beverage brands in the world. The Company is the second largest bottler of products of The Coca-Cola Company in the United States, operating in eleven states primarily in the Southeast. The Company also distributes several other beverage brands. The Company’s product offerings include carbonated soft drinks, bottled water, teas, juices, isotonics and energy drinks. The Company had net sales of over $1.2 billion in 2003.

On July 2, 1993, the Company and The Coca-Cola Company formed Piedmont Coca-Cola Bottling Partnership (“Piedmont”) to distribute and market soft drink products of The Coca-Cola Company and other third party licensors, primarily in certain portions of North Carolina and South Carolina. The Company provides a portion of the soft drink products to Piedmont and receives a fee for managing the operations of Piedmont pursuant to a management agreement. On January 2, 2002, the Company purchased an additional 4.651% interest in Piedmont from The Coca-Cola Company for $10.0 million, increasing the Company’s ownership in Piedmont to 54.651%. Due to the increase in the Company’s ownership in

Piedmont resulting from the additional interest purchased on January 2, 2002, the results of operations, financial position and cash flows of Piedmont have been consolidated with those of the Company beginning in the first quarter of 2002. On March 28, 2003, the Company purchased an additional 22.675% interest in Piedmont from The Coca-Cola Company for $53.5 million. As of June 27, 2004, the Company's ownership interest in Piedmont was 77.326% and all significant intercompany accounts and transactions between the Company and Piedmont have been eliminated.

The Company is a member of South Atlantic Canners, Inc. ("SAC"), a manufacturing cooperative located in Bishopville, South Carolina, and receives a fee for managing the day-to-day operations of SAC pursuant to a management agreement. On June 1, 2004, the Company executed a new management agreement with SAC that extends through May 2014 at terms comparable to the previous agreement.

The soft drink industry is highly competitive. The Company's competitors include several large soft drink manufacturers engaged in the distribution of nationally advertised products, similar companies which market lesser-known soft drinks in limited geographical areas and manufacturers of private brand soft drinks. In each region in which the company operates, between 75% and 90% of carbonated soft drink sales in bottles, can and pre-mix containers are accounted for by the Company and its principal competitors, which in each region includes the local bottler of Pepsi-Cola and, in some regions, also includes the local bottler of Royal Crown and/or 7-Up products. The Company's products also compete with, among others, noncarbonated beverages and citrus and noncitrus fruit drinks. During the last two years, volume of total carbonated soft drinks in the soft drink industry has been relatively flat with the majority of the volume growth from diet beverages, isotonics and bottled water.

The principal methods of competition in the soft drink industry are point-of-sale merchandising, new product introductions, new vending and dispensing equipment, packaging changes, pricing, price promotions, product quality, retail space management, customer service, frequency of distribution and advertising. The Company believes that it is competitive in its territories with respect to each of these methods of competition.

Areas of Emphasis

Key priorities for the Company in 2004 and over the next several years include the following:

- Revenue management
- Product innovation
- Distribution cost management
- Productivity

Revenue Management

Revenue management, which includes managing the combination of pricing to our customers, package and brand management and channel emphasis, has been and continues to be the key driver to improvements in income from operations. In our business, a 1% change in net pricing is generally equal in impact on gross margin to a 3% change in bottle/can volume.

Product Innovation

As volume growth of carbonated soft drinks in our industry has slowed over the past several years, innovation of both brands and packages has been critical to overall volume growth. The Company successfully introduced diet Coke with Lime, a brand extension of diet Coke in the first quarter of 2004, and introduced Coca-Cola C2, a mid-calorie cola, in June of 2004. The Company, along with other Coca-Cola bottlers in the United States, introduced Coca-Cola C2 cans in an 8-pack Fridge Pack™ configuration. The Company was the first Coca-Cola bottler to use Fridge Pack™ packaging several years ago.

Distribution Cost Management

Distribution cost, which represents the cost of transporting finished goods from Company locations to customer outlets, is the second largest expense category for the Company. Over the past several years, the Company has focused on converting its distribution system from a conventional routing system to a predictive or pre-sell system. This conversion to a pre-sell system has allowed the Company to more efficiently handle an increasing number of brands and packages. In addition, the Company closed a number of smaller sales distribution centers reducing its fixed warehouse-related costs. Distribution cost management will continue to be a key area of emphasis for the next several years.

Productivity

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

Operations Overview

The following overview provides a summary of key information concerning the Company's financial results for the second quarter and first half of 2004 compared to the second quarter and first half of 2003.

	For the Quarter Ended		
In Thousands (Except Per Share Data)	**June 27, 2004**	**June 29, 2003**	**% Change**
Net sales	$ 333,711	$ 318,165	5%
Income from operations [3]	30,305	26,576	14%
Net income [2] [3] [4]	10,623	11,900	(11)%
Basic net income per share [1] [2]	$ 1.17	$ 1.32	(11)%

	For the Six Months Ended		
In Thousands (Except Per Share Data)	**June 27, 2004**	**June 29, 2003**	**% Change**
Net sales	$ 616,438	$ 593,365	4%
Income from operations [4]	45,805	39,433	16%
Net income [2] [3] [4]	13,418	13,307	1%
Basic net income per share [1] [2]	$ 1.48	$ 1.47	1%

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

[2] During the second quarter of 2003, the Company recorded a favorable income tax adjustment of $3.1 million or $.34 per share.

[3] Results for the second quarter of 2004 include a one-time unfavorable non-cash adjustment of $1.7 million on a pre-tax basis related to a change in the pricing of concentrate purchased from The Coca-Cola Company, which is reflected as an increase to cost of sales and is discussed more fully below.

[4] Results for the first half of 2004 include a one-time unfavorable non-cash adjustment of $1.7 million on a pre-tax basis in the second quarter and a favorable adjustment in the first quarter of approximately $2 million on a pre-tax basis for certain customer-related marketing programs between the Company and The Coca-Cola Company. Both of these adjustments were reflected in cost of sales. These items are discussed more fully below.

Net Sales:

Net sales increased by 4.9% and 3.9% during the second quarter and first half of 2004 over the same periods of 2003, respectively. The growth in net sales was primarily driven by increases in the Company’s average revenue per case.

Cost of Sales:

Cost of sales increased by 4.8% and 3.1% during the second quarter and first half of 2004 over the same periods of 2003, respectively. Income from operations for the first half of 2004 included favorable nonrecurring items of approximately $2 million, primarily for certain customer-related marketing programs between the Company and The Coca-Cola Company, which was recorded in the first quarter of 2004 as marketing funding support and was reflected as a reduction of cost of sales.

For purchases of concentrate from The Coca-Cola Company subsequent to May 28, 2004, the majority of the Company’s marketing funding support from The Coca-Cola Company was offset against the price of concentrate. The reduction in concentrate price represents a significant portion of the marketing funding support that otherwise would have been paid to the Company related to the sale of bottle/can products of The Coca-Cola Company. Due to this change in concentrate pricing, the Company’s investment in inventories was reduced, resulting in a one-time increase in cost of sales of $1.7 million in the second quarter of 2004.

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

Operating Expenses:

S,D&A expenses increased by 5.1% in the second quarter and 4.8% in the first half of 2004 compared to the same periods in 2003, respectively. The increase in S,D&A expenses was primarily due to wage increases for the Company's employees, higher employee benefits costs, including increases in pension expense and health care costs, and higher fuel prices. Depreciation expense for the second quarter of 2004 declined by $1.6 million compared to the same period in the prior year. Depreciation expense for the first half of 2004 was $3.0 million lower than the first half of 2003. The decline in depreciation expense was due to lower expense for items reclassified to inventories as previously discussed, and a reduction in depreciation for buildings and vehicles, offset somewhat by depreciation expense related to new capital leases. Depreciation expense related to buildings is lower due to the closing of several sales distribution centers over the past year.

On March 1, 2004, the Company received a renewal option to extend the term of the lease on its corporate headquarters facilities. As a result of the renewal option and the Company's intent to exercise the renewal option, the Company capitalized the lease as of March 1, 2004. The amount recorded for capitalization of this lease was $32.4 million. The lease was previously accounted for as an operating lease. The expense related to this lease was previously recorded as a component of S,D&A expenses. Expense related to this lease was recognized as depreciation and interest during the second quarter of 2004. S,D&A expense related to this lease was $.5 million during the first half of 2004 compared to $1.4 million during the first half of 2003 and $.7 million for the second quarter of 2003. The Company also recorded a capital lease of $4.9 million related to a new operating facility. This new capital lease was recorded at the end of the second quarter and did not have any impact on the results of operations during the second quarter of 2004.

Interest expense for the second quarter and first half of 2004 was relatively unchanged from the comparable periods in 2003 as lower debt balances were offset by slightly higher interest rates.

Financial Condition

Debt and capital lease obligations were summarized as follows:

In Thousands	**June 27, 2004**	**December 28, 2003**	**June 29, 2003**
Debt and capital lease obligations	$ 826,423	$ 848,280	$ 871,390

The Company continues to focus on reducing financial leverage primarily by repaying its debt and capital lease obligations. As discussed above, the Company capitalized its corporate headquarters lease as of the beginning of March 2004 and entered into another capital lease at the end of the second quarter of 2004. The amount recorded for capitalization of these leases was $37.3 million. Excluding the $37.3 million related to the new capital leases during 2004, debt and capital lease obligations as of June 27, 2004 declined by $59.2 million from December 28, 2003 and by $82.3 million from June 29, 2003.

Basis of Presentation

The statement of operations for the quarters and first halves ended June 27, 2004 and June 29, 2003, the statements of cash flows for the first halves ended June 27, 2004 and June 29, 2003 and the consolidated balance sheets as of June 27, 2004, December 28, 2003 and June 29, 2003, include the consolidated operations of the Company and its majority owned subsidiaries including Piedmont. Minority interest consists of The Coca-Cola Company's interest in Piedmont, which was 22.674% for the first half of 2004 and second quarter of 2003 and 45.34% for the first quarter of 2003.

Discussion of Critical Accounting Policies and New Accounting Pronouncements

Critical Accounting Policies

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 financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ significantly from those estimates under different assumptions and conditions. The Company included in its Annual Report on Form 10-K for the year ended December 28, 2003 a discussion of the Company’s most critical accounting policies, which are those that are most important to the portrayal of the Company’s financial condition and results of operations and require management’s most difficult, subjective and complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain.

The Company has not made changes in any critical accounting policies during the first half of 2004. 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 made.

New Accounting Pronouncements

In December 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the “Act”) was signed into law. The Act provides a federal subsidy to sponsors of retiree health care benefit plans that provide a prescription drug benefit that is at least actuarially equivalent to Medicare Part D. In May 2004, the Financial Accounting Standards Board (“FASB”) issued FASB Staff Position No. FAS 106-2, “Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003,” (“FSP FAS 106-2”), which supercedes FASB Staff Position No. FAS 106-1, “Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003” and is effective for interim or annual periods beginning after June 15, 2004. As permitted by FSP FAS 106-2, the Company is currently evaluating the effect of the Act on its postretirement benefits and has not reflected in its net periodic postretirement benefit costs or accumulated postretirement benefit obligation any amount associated with the federal subsidy.

In March 2004, the consensus of Emerging Issues Task Force (“EITF”) Issue No. 03-06, “Participating Securities and the Two-Class Method under FASB Statement 128,” (“EITF 03-06”) was published EITF 03-06 addresses the computations of earnings per share by companies that have issued securities other than common stock that contractually entitle the holder to participate in dividends and earnings of the company. Further guidance on the application and allocations of the two-class method of calculating earnings per share is also included. The provisions of EITF 03-06 will be effective for reporting periods beginning after March 31, 2004. The adoption of this guidance is not expected to have a significant impact on the Company’s results of operations or financial position.

Results of Operations

Second Quarter 2004 Compared to Second Quarter 2003 and First Half 2004 Compared to First Half 2003

Net Sales

Net sales in the second quarter and first half of 2004 increased by approximately 5% and 4%, respectively, primarily due to increases in average revenue per case of approximately 5% and 4.5%, in the second quarter and first half of 2004, respectively. Bottle/can volume was 0.3% lower and 0.6% lower in the second quarter and first half of 2004, respectively. While overall carbonated soft drink volume in the first half of 2004 declined by 1.5%, bottle/can volume of the Company’s diet products increased by approximately 5%.

The Company’s noncarbonated beverage portfolio continues to provide strong growth with Dasani growing at 11% and PowerAde growing at 26% for the first half of 2004. Noncarbonated beverages, which include bottled water, juices and isotonics, comprised 10.8% of the overall bottle/can volume in the first half of 2004. Product innovation during the first half of 2004 also contributed to overall growth in bottle/can volume and net sales. The Company introduced Coca-Cola C2, a new mid-calorie product from The Coca-Cola Company, during June 2004. Early sales indications for Coca-Cola C2 are positive as sales are in line with targets set by the Company prior to its introduction. Bottle/can volume of Coca-Cola C2 and diet Coke with Lime, which was introduced in the first quarter of 2004, represented approximately 3% of the Company’s overall volume in the second quarter of 2004.

The Company’s products are sold and distributed through various channels. The channels include selling directly to retail stores and other outlets, such as food markets, institutional accounts and vending machine outlets. During the first half of 2004, approximately 69% of the Company's physical case volume was sold for future consumption. The remaining volume of approximately 31% was sold for immediate consumption. The Company's largest customer (Wal-Mart) accounted for approximately 12% of the Company's total bottle/can volume and the second largest customer (Food Lion) accounted for approximately 10% of the Company's total bottle/can volume during the first half of 2004. All of the Company's sales are to customers in the United States.

Contract sales to other Coca-Cola bottlers increased by approximately 5.1% during the first half of 2004. Contract sales to other Coca-Cola bottlers were $36.0 million during the first half of 2004 compared to $34.3 million during the first half of 2003. Sales to other bottlers allow the Company to achieve higher utilization of its production facilities, thus improving overall efficiency of operations.

Gross Margin

Gross margin as a percentage of net sales increased from 48.5% in the first half of 2003 to 48.9% in the first half of 2004 primarily as a result of an increase in the Company's average revenue per case. During the second quarter of 2004, gross margin improvements occurred in every major channel. The Company's gross margins may not be comparable to other companies, since some entities include all costs related to their distribution network in cost of sales and the Company excludes a portion of these costs from gross margin, including them instead in S,D&A expenses.

Cost of Sales

Cost of sales on a per unit basis increased approximately 3% in the first half of 2004 compared to the comparable period of 2003. The increase was primarily due to higher raw material costs. The Company's cost for aluminum cans increased by approximately 5% during the second quarter and it is anticipated that the cost of aluminum cans will further increase in the fourth quarter of 2004. Cost of sales includes the following: raw material costs, manufacturing labor, manufacturing overhead, inbound freight charges related to raw materials, receiving costs, inspection costs, manufacturing warehousing costs and freight charges related to the movement of finished goods from manufacturing locations to sales distribution centers. Based upon information currently available, the Company anticipates that its costs for aluminum cans, PET bottles and sweetener will increase by approximately 5% in 2005.

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.

In 2003, The Coca-Cola Company offered through a program called Strategic Growth Initiative ("SGI"), an opportunity for the Company to receive marketing funding support, subject to the Company's achievement of certain volume performance requirements. The Company recorded $3.0 million as a reduction in cost of sales related to SGI during the first half of 2003. The Company does not have a SGI program in 2004. However, The Coca-Cola Company offset the impact of elimination of the SGI program by adjusting the price of concentrate as of January 1, 2004.

For purchases of concentrate from The Coca-Cola Company subsequent to May 28, 2004, the majority of the Company's marketing funding support from The Coca-Cola Company was offset against the price of concentrate. The reduction in concentrate price represents a significant portion of the marketing funding support that otherwise would have been paid to the Company related to the sale of bottle/can products of The Coca-Cola Company. Due to this change in concentrate pricing, the Company's investment in inventories was reduced, resulting in a one-time increase in cost of sales of $1.7 million in the second quarter of 2004. Accordingly, the amounts received in cash from The Coca-Cola Company for marketing funding support will decrease significantly in 2004 as compared to the prior year.

Total marketing funding support from The Coca-Cola Company and other beverage companies, which includes direct payments to the Company and payment to customers for marketing program payments, was $26.1 million for the first half of 2004 versus $31.7 million for the first half of 2003 and was recorded as a reduction in cost of sales.

Operating Expenses

The increase in S,D&A expenses was primarily attributable to increases in employee compensation and employee benefit plans (including costs related to the Company's pension plans) and higher fuel costs. Due to lower interest rates used to discount the Company's pension liability, pension expense will increase by approximately $1 million in 2004. Health care related costs increased by $1.9 million from the first half of 2003. S,D&A expenses for the second quarter of 2004 were also impacted by the capitalization of the Company's corporate headquarters facilities lease as previously discussed. The capitalization of this lease, beginning in March 2004, reduced S,D&A expenses by approximately $.7 million as compared to the second quarter of 2003. Fuel costs for the first half of 2004 increased by 9% or $.4 million over the first half of 2003.

The Company closed three sales distribution centers during 2004 in addition to four sales distribution centers closed in 2003. The Company believes that these sales distribution center closings along with changes in its methods of distribution will reduce overall costs and improve productivity in the future. The Company will continue to evaluate its distribution system in an effort to improve the process of distributing products to customers. 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 $86.2 million and $84.1 million in the first half of 2004 and 2003, respectively. Customers do not pay the Company separately for shipping and handling costs.

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

Depreciation Expense

Depreciation expense of $35.3 million for the first half of 2004 declined by $3.0 million compared to the first half of 2003. The decrease in the first half of 2004 was partially related to the reclassification of certain items from property, plant and equipment to inventories during the first quarter of 2004 and reduced depreciation expense for vehicles and buildings. Ongoing costs related to the items reclassified from property, plant and equipment to inventories are reflected in cost of sales. The reduction in depreciation expense for buildings resulted from the closing of several sales distribution centers over the past year.

The decreases in depreciation expense in the first half of 2004 were offset somewhat by amortization of a capital lease for the Company's Charlotte, North Carolina corporate headquarters buildings as discussed above. The lease obligation was capitalized effective March 1, 2004 as the Company received a renewal option to extend the term of the lease which it expects to exercise. The lease was previously accounted for as an operating lease. The Company anticipates that additions to property, plant and equipment in 2004 will be in the range of $60 million to $70 million and plans to fund such additions through cash flows from operations and its available credit facilities. Additions to property, plant and equipment during 2003 were $57.8 million. The Company is in the process of initiating an upgrade of its Enterprise Resource Planning (ERP) computer software systems, which is anticipated to take four to five years to complete. During the first half of 2004, the Company spent $3.9 million on the new ERP software. The Company began using a portion of the new ERP software and began amortizing the related capitalized software costs during the second quarter of 2004.

Interest Expense

Interest expense for the second quarter of 2004 of $10.7 million was relatively unchanged from the second quarter of 2003. Interest expense for the second quarter of 2004 included $.6 million related to the capitalization of the Company's corporate headquarters facilities lease as previously discussed. The capitalization of this lease will result in total interest expense of $1.9 million during 2004. The Company's overall weighted average interest rate on debt and capital lease obligations was 5.0% during the first half of 2004 compared to 4.9% during the first half of 2003.

Debt and capital lease obligations decreased from $848.3 million at December 28, 2003 to $826.4 million at June 27, 2004. As discussed above, the Company capitalized a lease on its corporate headquarters facilities during the first quarter of 2004 which had previously been accounted for as an operating lease and entered into another capital lease related to a new operating facility at the end of the second quarter of 2004. The capitalization of these leases resulted in additional capital lease obligations of $37.3 million. Debt and capital lease obligations at June 27, 2004, December 28, 2003 and June 29, 2003 included $81.9 million, $45.6 million and $46.3 million, respectively, attributable to capital leases.

Minority Interest

The Company recorded minority interest expense of $2.1 million during the first half of 2004 compared to $1.3 million during the first half of 2003 related to the portion of Piedmont owned by The Coca-Cola Company. The increased amount in 2004 was primarily due to higher earnings during the first half of 2004 for Piedmont as compared to the first quarter of 2003.

Income Taxes

The Company's effective income tax rate for the first half of 2004 was 41.0% compared to 21.2% for the first half of 2003. During the second quarter of 2003, the Company recorded a favorable adjustment to its income tax expense of $3.1 million related to the completion of a state income tax audit. The Company's effective tax rate for the first half of 2003 reflects this adjustment. The Company's first half 2004 effective tax rate reflects expected fiscal year 2004 earnings. The Company's effective income tax rate for the remainder of 2004 is dependent upon operating results and may change if the results for the year are different from current expectations.

Financial Condition

Total assets increased slightly from $1.35 billion at December 28, 2003 to $1.36 billion at June 27, 2004 primarily due to the capitalization of the Company's corporate headquarters facilities lease as discussed above.

Net working capital, defined as current assets less current liabilities, decreased by $17.1 million from December 28, 2003 to June 27, 2004 and increased by $32.4 million from June 29, 2003 to June 27, 2004. Significant changes in net working capital from December 28, 2003 were as follows:

- An increase in accounts receivable, trade of $10.3 million due to higher sales resulting primarily from increased net pricing.
- A decrease in accounts receivable from The Coca-Cola Company of $13.8 million due to the timing of customer marketing reimbursements and marketing funding support payments from The Coca-Cola Company.
- A decrease in accounts receivable, other of $2.4 million due to the receipt of funds from the termination of split-dollar life insurance arrangements. This receipt of funds had no impact on the results of operations for the quarter ended June 27, 2004.
- An increase in inventories of $17.5 million. The majority of this increase relates to the reclassification of certain items from property, plant and equipment to inventories of $10.4 million during the first quarter of 2004 as previously discussed.
- A decrease in cash surrender value of life insurance of $7.6 million due to the receipt of funds from the redemption of certain Company-owned life insurance policies during the first quarter. This receipt of funds had no impact on the results of operations for the quarter ended June 27, 2004.
- An increase of $20.2 million in accounts payable to The Coca-Cola Company primarily due to the timing of payments on various marketing programs.
- A decrease in accrued compensation of $4.4 million due to payments in March 2004 under the Company's 2003 annual incentive plans and the issuance of 20,000 shares of Class B Common Stock.

Significant changes in net working capital from June 29, 2003 were as follows:

- An increase in accounts receivable, trade of $7.6 million due to higher sales resulting primarily from increased net pricing.
- A decrease in accounts receivable from The Coca-Cola Company of $8.3 million due to the timing of customer marketing reimbursements from The Coca-Cola Company.
- An increase in inventories of $14.2 million. The majority of this increase relates to the reclassification of certain items from property, plant and equipment to inventories of $10.4 million during the first quarter of 2004 as discussed above.
- An increase in cash surrender value of life insurance of $20.2 million due to the reclassification of cash surrender value on certain Company-owned life insurance policies from other noncurrent assets that resulted from the Company's decision to terminate certain life insurance policies.

Debt and capital lease obligations were $826.4 million as of June 27, 2004 compared to $848.3 million at December 28, 2003 and $871.4 million at June 29, 2003. Debt and capital lease obligations at June 27, 2004 included $81.9 million of capital lease obligations related to Company facilities as discussed above.

Liquidity and Capital Resources

Capital Resources

Sources of capital for the Company include cash flows from operating activities, bank borrowings, issuance of public or private debt and the issuance of equity securities. Management believes that the Company, through these sources, has sufficient financial resources available to maintain its current operations and provide for its current capital expenditure and working capital requirements, scheduled debt payments, interest and income tax payments and dividends for stockholders. The amount and frequency of future dividends will be determined by the Company's Board of Directors in light of the earnings and financial condition of the Company at such time, and no assurance can be given that dividends will be declared in the future.

The Company primarily uses cash flow from operations and available debt facilities to meet its cash requirements. As of June 27, 2004, the Company had $125 million available under its revolving credit facility to meet its cash requirements. The Company anticipates that cash provided by operating activities and its credit facilities will be sufficient to meet all of its cash requirements, including debt maturities, through 2008.

The Company has obtained the majority of its long-term debt from public markets. As of June 27, 2004, $700 million of the Company's total outstanding balance of debt and capital lease obligations of $826.4 million was financed through publicly offered debentures and senior notes. The remainder of the Company's debt is provided by several financial institutions. The Company mitigates its financing risk by using multiple financial institutions and carefully evaluating the credit worthiness of these institutions. The Company enters into credit arrangements only with institutions with investment grade credit ratings and monitors counterparty credit ratings on an ongoing basis. The Company's interest rate derivative contracts are with several different financial institutions 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 Company has made contributions to its pension plans of $13.4 million in 2004. The Company anticipates making total contributions to its pension plans of between $23 million and $24 million in 2004 as previously disclosed. The majority of the funding for these contributions will be provided upon the redemption of certain Company-owned life insurance policies.

Cash Sources and Uses

The primary sources of cash for the Company are cash provided by operating activities and proceeds from the issuance of long-term debt. The primary uses of cash are for capital expenditures, the repayment of long-term debt maturities, acquisitions and dividends.

A summary of activity for the first six months of 2004 and 2003 follows:

In Millions	For the six months ended June 27, 2004	For the six months ended June 29, 2003
Cash Sources		
Cash provided by operating activities	$ 79.2	$ 60.0
Proceeds from the issuance of long-term debt		100.0
Other	1.6	3.7
Total cash sources	$ 80.8	$ 163.7
Cash Uses		
Capital expenditures	$ 25.9	$ 32.8
Repayment of debt maturities and capital lease obligations	59.2	83.3
Acquisitions (net of cash acquired)		52.6
Dividends	4.5	4.5
Other	.2	1.4
Total cash uses	$ 89.8	$ 174.6

Due primarily to net operating loss carryforwards, contributions to its pension plans and accelerated depreciation, the Company did not have any cash income tax payments during 2003 or the first half of 2004. Based on current projections which include a number of assumptions such as the Company's pre-tax earnings, the Company anticipates its cash requirements for income taxes will increase significantly from approximately $3 million in 2004 to an estimated $10 million to $14 million in 2005.

The Company has decided to terminate certain life insurance policies and anticipates receiving the estimated proceeds of $20.2 million from the surrender of these policies in the third quarter of 2004 and such proceeds will be used to make contributions to the pension plans and to repay debt.

Investing Activities

Capital expenditures in the first half of 2004 were $25.9 million compared to $32.8 million in the first half of 2003. The Company anticipates that additions to property, plant and equipment in 2004 will be in the range of $60 million to $70 million and plans to fund such additions through cash flows from operations and its available credit facilities. Additions to property, plant and equipment during 2003 were $57.8 million.

Financing Activities

In December 2002, the Company entered into a three-year, $125 million revolving credit facility. This facility includes an option to extend the term for an additional year at the discretion of the participating banks. The revolving credit facility bears interest at a floating rate of LIBOR plus an interest rate spread of .60%. In addition, there is a facility fee of .15% required for this revolving credit facility. Both the interest rate spread and the facility fee are determined from a commonly used pricing grid based on the Company's long-term senior unsecured noncredit-enhanced debt rating. The facility contains covenants which establish ratio requirements related to interest coverage, and long-term debt to cash flow. On June 27, 2004, there were no amounts outstanding under this facility.

The Company also borrows periodically under its available lines of credit. These lines of credit, in the aggregate amount of $60 million at June 27, 2004, are made available at the discretion of the two participating banks at rates negotiated at the time of borrowing and may be withdrawn at any time by such banks. The Company can utilize its $125 million revolving credit facility in the event the lines of credit are not available. The Company had borrowed $4.4 million under its lines of credit as of June 27, 2004. The lines of credit as of June 27, 2004 bore an interest rate of 1.54%.

To the extent that these borrowings under the Company's lines of credit do not exceed the amount available under the Company's $125 million revolving credit facility, they are classified as noncurrent liabilities.

The Company currently provides financing for Piedmont under the terms of an agreement that expires on December 31, 2005. Piedmont pays the Company interest on its borrowings from the Company at the Company's average cost of funds plus .50%. The Company plans to provide for Piedmont's future financing requirements under these terms. All significant intercompany accounts and transitions between the Company and Piedmont have been eliminated.

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

With regard to the Company's $40 million term loan, the Company must maintain its public debt ratings at investment grade by either Moody's or Standard & Poor's. If the Company's public debt ratings fall below investment grade within 90 days after the public announcement of certain designated events and such ratings stay below investment grade for an additional 40 days, a trigger event resulting in a default occurs. The Company does not anticipate a trigger event will occur in the foreseeable future.

At June 27, 2004, the Company's debt ratings were as follows:

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

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 in the event of a reduction below investment grade level, a potential default on one of its credit agreements as discussed above. There were no changes in these debt ratings from the prior year. It is the Company's intent to operate in a manner that will allow it to maintain its investment grade ratings.

The Company's revolving credit facility contains two financial covenants related to ratio requirements for interest coverage and long-term debt to cash flow, as defined in the credit agreement. These covenants do not currently, and the Company does not anticipate they will, restrict its liquidity or capital resources. The Company's public debt is not subject to financial covenants but does limit the incurrence of certain liens and encumbrances as well as indebtedness by the Company's subsidiaries in excess of certain amounts.

The Company issued 20,000 shares of Class B Common Stock to J. Frank Harrison, III, Chairman of the Board of Directors and Chief Executive Officer, with respect to 2003, effective January 1, 2004, under a restricted stock award plan that provides for annual awards of such shares subject to the Company meeting certain performance criteria.

Off-Balance Sheet Arrangements

There has been no significant changes in the Company's off-balance sheet arrangements since December 28, 2003 other than items discussed in Note 5 and Note 18 to the consolidated financial statements.

Aggregate Contractual Obligations

The following table summarizes the Company's contractual obligations and commercial commitments as of June 27, 2004:

In Thousands	Payments Due by Period				
	Total	July 2004 - June 2005	July 2005 - June 2007	July 2007 - June 2009	After June 2009
Contractual obligations:					
Long-term debt	$ 744,478	$ 39	$ 44,439	$ 350,000	$ 350,000
Capital lease obligations	81,945	1,845	3,408	3,414	73,278
Purchase obligations (1)	73,500	73,500			
Other long-term liabilities (2)	62,261	3,487	6,834	6,760	45,180
Operating leases	14,151	2,966	4,884	2,490	3,811
Long-term contractual arrangements (3)	26,895	5,544	9,291	6,909	5,151
Total contractual obligations	$ 1,003,230	$ 87,381	$ 68,856	$ 369,573	$ 477,420

(1) Represents the obligation by the Company to purchase finished products from SAC.
(2) Includes obligations under executive benefit plans and non-compete liabilities.
(3) Includes contractual arrangements with certain prestige properties, athletic venues and other locations.

Interest Rate Hedging

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

Interest expense was lower due to amortization of deferred gains on previously terminated interest rate swap agreements and forward interest rate agreements by $1.2 million and $1.0 million during the first half of 2004 and 2003, respectively.

The weighted average interest rate of the Company's debt and capital lease obligations after taking into account all of the interest rate hedging activities was 5.1% as of June 27, 2004 compared to 4.9% as of December 28, 2003 and 5.0% as of June 29, 2003. The Company's overall weighted average interest rate on its debt and capital lease obligations for the first half of 2004 increased to 5.0% from 4.9% in the first half of 2003. Approximately 44% of the Company's debt and capital lease obligations of $826.4 million as of June 27, 2004 was maintained on a floating rate basis and was subject to changes in short-term interest rates.

If average rates for the floating rate component of the Company's debt and capital lease obligations increased by 1% effective June 27, 2004, interest expense for the second half of 2004 would increase by approximately $2 million. This amount is determined by calculating the effect of a hypothetical interest rate increase of 1% on outstanding floating rate debt and capital lease obligations as of June 27, 2004, including the effects of our derivative financial instruments. This calculated, hypothetical increase in interest expense for the second half of 2004 may be different from the actual increase in interest expense from a 1% increase in rates for the second half due to varying interest rate reset dates on the Company's floating rate debt and derivative financial instruments.

CAUTIONARY INFORMATION REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q, as well as information included in future filings by the Company with the Securities and Exchange Commission and information contained in written material, press releases and oral statements issued by or on behalf of the Company, contains, or may contain, forward-looking management comments and other statements that reflect management's current outlook for future periods. These statements include, among others, statements relating to:

- increases in pension expense;
- anticipated return on pension plan investments;
- the Company's belief that the cost of aluminum cans will increase in the fourth quarter of 2004;
- the Company's ability to utilize net operating loss carryforwards;
- the Company's belief that other parties to certain contractual arrangements will perform their obligations;
- potential marketing funding support from The Coca-Cola Company;
- the Company's belief that the risk of loss with respect to funds deposited with banks is minimal;
- anticipated additions to property, plant and equipment;
- expectations and estimates regarding future income tax payments;
- expectations regarding the termination of certain life insurance policies and the use of the estimated proceeds to make contributions to the pension plans and to repay debt;
- the Company's belief that disposition of certain litigation and claims will not have a material adverse effect;
- the Company's expectation of exercising its options to extend certain lease obligations;
- the effects of the closings of sales distribution centers;
- the Company's intention to continue to evaluate its distribution system in an effort to optimize the process of distributing products;
- the effects of the upgrade of ERP systems;
- management's belief that the Company has sufficient financial resources to maintain current operations and provide for its current capital expenditures and working capital requirements, scheduled debt payments, interest and income tax payments and dividends for stockholders;
- the Company's intention to operate in a manner to maintain its investment grade ratings;
- 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 and that the cooperatives will perform their obligations under the agreements;
- the Company's ability to issue $300 million of securities under acceptable terms under its shelf registration statement;
- the Company's belief that certain franchise rights are perpetual or will be renewed upon expiration;
- the Company's ability to offset increases in raw material costs with selling price increases to maintain gross margins during 2004;
- the Company's intention to provide for Piedmont's future financing requirements;
- the Company's key priorities for 2004 and the next several years;
- management's belief that a trigger event will not occur under the Company's $40 million term loan;
- the Company's projection that it will generate additional sales volume by introducing new products in 2004;
- the Company's belief that its liquidity or capital resources will not be restricted by certain financial covenants in the Company's credit agreements;

- the Company’s hypothetical calculation of the impact of a 1% increase in interest rates on outstanding floating rate debt and capital lease obligations for the last six months of 2004 as of June 27, 2004;
- the Company’s belief that its costs for aluminum cans, PET bottles and sweetener will increase by approximately 5% in 2005; and
- anticipated contributions to pension plans of between $23 million and $24 million in 2004.

These statements and expectations are based on the currently available competitive, financial and economic data along with the Company’s operating plans and are subject to future events and uncertainties. Among the events or uncertainties which could adversely affect future periods are:

- lower than expected selling prices resulting from increased marketplace competition;
- an inability to meet performance requirements for expected levels of certain marketing funding support payments from The Coca-Cola Company or other beverage companies;
- changes in how significant customers market or promote our products;
- reduced advertising and marketing spending by The Coca-Cola Company or other beverage companies;
- an inability to meet requirements under bottling contracts;
- the inability of our aluminum can or PET bottle suppliers to meet our sales demand;
- significant changes from expectations in the cost of raw materials;
- higher than expected insurance premiums and fuel costs;
- lower than anticipated returns on pension plan assets;
- higher than anticipated health care costs;
- unfavorable interest rate fluctuations;
- higher than anticipated cash payments for income taxes;
- unfavorable weather conditions;
- inability to increase selling prices to offset higher raw material costs;
- significant changes in debt ratings impacting the Company’s ability to borrow;
- terrorist attacks, war or other civil disturbances; and
- changes in financial markets.

Item 3. Quantitative and Qualitative Disclosure About Market Risk

There has been no significant change in market risks since December 28, 2003.

Item 4. 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 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 are effective in timely alerting them to material information relating to the Company (including its consolidated subsidiaries) required to be included in the Company’s Exchange Act filings.

There has been no change in the Company’s internal control over financial reporting during the quarter ended June 27, 2004 that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting.

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

(a) The Annual Meeting of the Company's stockholders was held on April 28, 2004.

(b) All director nominees were elected.

(c) The meeting was held to consider and vote upon electing ten directors, each for a term of one year or until their successors have been elected and qualified:

The votes with respect to each director are summarized as follows:

Director Name	For	Withheld	Abstentions	Total Votes
J. Frank Harrison, III	53,791,750	687,078	578,789	55,057,617
H. W. McKay Belk	54,454,704	24,124	578,789	55,057,617
Sharon A. Decker	54,436,040	42,788	578,789	55,057,617
William B. Elmore	53,788,695	690,133	578,789	55,057,617
James E. Harris	54,454,348	24,480	578,789	55,057,617
Deborah S. Harrison	54,398,219	80,609	578,789	55,057,617
Ned R. McWherter	54,454,623	24,205	578,789	55,057,617
John W. Murrey, III	54,449,217	29,611	578,789	55,057,617
Carl Ware	53,529,785	949,043	578,789	55,057,617
Dennis A. Wicker	54,436,122	42,706	578,789	55,057,617

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

Exhibit Number	**Description**
4.1	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 subsidiaries for which consolidated financial statements are required to be filed, and which authorizes a total amount of securities not in excess of 10 percent of total assets of the registrant and its subsidiaries on a consolidated basis.
10.1	Management Agreement, dated as of June 1, 2004, by and among CCBCC Operations, LLC, a wholly-owned subsidiary of the Company, and South Atlantic Canners, Inc.
31.1	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Reports on Form 8-K

On April 23, 2004, the Company filed a Current Report on Form 8-K relating to the announcement of the Company's financial results for the quarter ended March 28, 2004.

On May 24, 2004, the Company filed a Current Report on Form 8-K relating to the issuance of its Report to Stockholders for the period ended March 28, 2004.

On July 23, 2004, the Company filed a Current Report on Form 8-K relating to the announcement of the Company's financial results for the period ended June 27, 2004.

SIGNATURES

Pursuant to the requirements 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: August 5, 2004

By: /s/ David V. Singer

David V. Singer
Principal Financial Officer of the Registrant
and
Executive Vice President and Chief Financial Officer

Exhibit 10.1

MANAGEMENT AGREEMENT

This Management Agreement (**"Agreement"**) made and entered into this 1st day of June, 2004, by and among CCBCC Operations, LLC (**"Manager"**), a Delaware limited liability company and a wholly-owned entity of Coca-Cola Bottling Co. Consolidated and South Atlantic Canners, Inc., a South Carolina corporation (**"SAC"**).

W I T N E S S E T H:

Pursuant to a management agreement dated August 1, 1994 (the "**Original Agreement**"), SAC retained the parent of Manager for the purpose of managing its day-to-day operations, as is more fully described in the Original Agreement. SAC's Bylaws allow the SAC Board to assign some or all of the management responsibilities for SAC to a person or organization other than the officers of SAC. The parent of Manager has demonstrated managerial expertise, knowledge of the industry, access to certain raw materials, and other capabilities, which have been beneficial to SAC and its membership.

The Original Agreement expires by its terms on its tenth anniversary. This Agreement serves as an extension of the Original Agreement (with the substitution of Manager for its parent) pursuant to which Manager will supervise day-to-day operations, without material interference from the SAC Board of Directors ("**SAC Board**"), although the SAC Board will generally perform the typical board functions of supervising the performance of management and establishing policy for SAC. The parties recognize, however, that the SAC Board has a legal obligation to SAC and its membership to oversee and direct the operations of SAC, and nothing contained in this Agreement shall remove from the SAC Board its obligations or ability to direct the business and affairs of SAC. It is anticipated that a smooth working relationship will be established through the adoption each year of an annual business plan ("**Annual Business Plan**"), under which Manager can perform its responsibilities as described herein.

The parties believe that the efficiencies to be derived from Manager's supervisory capabilities and the additional purchasing volume Manager (and its subsidiaries and affiliates) bring to SAC in their various capacities (including as a member) will prove to be beneficial to SAC's membership in general.

NOW, THEREFORE, in consideration of the mutual promises, obligations and agreements contained herein, the parties hereto, intending to be legally bound, do hereby agree as follows:

<u>Section 1</u>. <u>Definitions</u>.

1.01 Defined Terms. The following terms shall have the meanings set forth in the Section of this Agreement indicated below:

Defined Term	Section
Agreement	Preamble
Annual Business Plan	Preamble
Claimant	Section 10.03(a)
Claim	Section 10.02.
CPI	Section 6.01
SAC Bank Account	Section 6.03(d)
Disclosing Party	Section 9.04
Effective Date	Section 8.01
Environmental Manager	Section 3.01(c)(4)
Environmental Laws	Section 3.01(c) (4) (i)
Expansion	Section 3.01(c)(3)
Facility	Section 2.01
FICA	Section 3.02
FUTA	Section 3.02
Indemnitee	Section 10.02
Losses	Section 10.02
Manager	Preamble
Manager's Corporate Offices	Section 3.01
Manager Employee (s)	Section 3.01(c)(2)
Management Fee	Section 6-01
Notified Party	Section 10.03(a)
Original Agreement	Preamble
Physical Case	Section 6.01
Proposed Budget	Section 3.01(a)(2)
Receiving Party	Section 9.04
Reimbursable Expenses	Section 6.02
Rules	Section 10.02
SAC	Preamble
SAC Board	Preamble
SAC Business	Section 2.01
SAC Employee(s)	Section 3.01(c)(2)
SAC Executive Committee	Section 3.01(a)(5)
Summary of Major Operational and Business Items	Section 3.01(a)(2)
Term	Section 8.02

<u>Section 2</u>. <u>Appointment of Manager</u>.

2.01 Appointment of and Acceptance by Manager. SAC hereby appoints and retains Manager for the purpose of managing SAC's canning, bottling, and other soft drink packaging operations (the **"SAC Business"**), effective as of the Effective Date, and authorizes Manager to supervise, direct and control the day-to-day operation of the SAC Business at 601 Cousar Street, Bishopville, South Carolina (the **"Facility"**) in accordance with this Agreement. In the appointment of Manager to handle day-to-day operations hereunder, both SAC and Manager understand and agree that the business and affairs of SAC shall be under the direction and control of the SAC Board, and Manager agrees to carry out the policies and directives of the SAC Board. Manager hereby accepts this appointment and agrees to perform its duties in accordance with this Agreement.

2.02 Standards of Performance. In providing services under this Agreement, Manager shall give the care and attention to its responsibilities that a reasonable business manager in its position would be expected to give. Manager agrees to provide and employ a sufficient number of personnel with adequate training and experience to perform such duties competently and in a businesslike manner in such a way as to cause the operations of SAC to be carried on efficiently and in the best interests of SAC. In its capacity as Manager under this Agreement, Manager shall perform its duties in good faith, and shall loyally seek to promote the best interests of SAC. Manager shall perform in a timely and cooperative manner.

2.03 Non-exclusive Service. It is understood and agreed that nothing in this Agreement shall confer upon SAC an exclusive right to Manager's service. Manager may contract with others for the provision of expertise and services similar to those to be provided to SAC as contemplated herein.

2.04 Services to be Performed by SAC's Officers and Others. SAC will continue to have as corporate officers a President, a Secretary and such other officers as may be determined by the SAC Board, who shall perform such functions as the SAC Board may assign to them. Nothing in this Agreement shall prevent SAC from obtaining services from others which are not assigned to Manager under Sections 3 and 4 of this Agreement.

Section 3. Services and Responsibilities of Manager.

3.01 Primary Services and Responsibilities. Within the scope of the authority granted to it under this Agreement and subject to any limitations provided herein, Manager will undertake to manage SAC in a manner such that it may meet its operating requirements. It is agreed by SAC that Manager may perform the services and functions required of it hereunder (in whole or in part) at Manager's corporate offices located at 4115 Coca-Cola Plaza, Charlotte, North Carolina (**"Manager's Corporate Offices"**). Manager is hereby authorized to and shall provide the following services or cause the following services to be performed:

(a) Annual Business Plan. Manager will develop an Annual Business Plan, based on its business judgment, to be adopted by the SAC Board prior to the beginning of each fiscal year, with such changes as the SAC Board deems necessary.

(1) Adoption. Manager will present the proposed plan to the SAC Board no later than thirty (30) days prior to the beginning of SAC's fiscal year that is the subject of such projections.

(2) General Contents. Manager's proposed Annual Business Plan will contain a proposed annual budget (**"Proposed Budget"**), a summary of major operational and financial items (**"Summary of Major Operational and Business Items"**) projected for the year in sufficient detail for the SAC Board to determine the nature and extent of proposed operations, an estimate of the Management Fee and Reimbursable Expenses SAC will be asked to pay to Manager for the year, and such other items as the SAC Board may request.

(3) <u>Projections, Developments, and Anticipated Events</u>. The Proposed Budget will contain (i) annual projections of volumes, (ii) recommended pricing based on an estimated cost-plus margin authorized by the SAC Board, (iii) estimated operating revenues based upon pricing, (iv) required capital expenditures, (v) operating expenses and (vi) cash flow. The presentation of items will show a breakdown of each item for each of SAC's operating allocation units (cans, bottles, etc.). The Summary of Major Operational and Business Items will include (a) a description of proposed activities in areas for which Manager has operational responsibility under Section 3.01(c), (b) a description of significant developments relating to the business and financial, items for which Manager has responsibility under Section 3.01(b), and (c) a description of other major operational and business, items, if any, which Manager reasonably anticipates for the upcoming year.

(4) <u>Effect of Not Adopting Business Plan Prior to the Commencement of the Fiscal Year</u>. If the SAC Board has not adopted an Annual Business Plan prior to the commencement of any fiscal year, Manager shall continue to provide management functions for SAC based upon the most recently adopted Annual Business Plan, until such time as a new Annual Business Plan is adopted and takes effect for such fiscal year; provided, however, that (i) any CPI increases that will be due as part of the Management Fee under Section 6.01 for the new fiscal year and (ii) any previously approved increase in a normal, recurring operating expense (such as, personnel compensation) since the adoption of the most recent Annual Business Plan will take effect with the beginning of such year.

(5) <u>Performance of Services Under the Annual Business Plan and Deviations Therefrom</u>. In performing its services under this Agreement, Manager shall follow the Annual Business Plan adopted for the fiscal year, unless otherwise directed by the SAC Board. If Manager encounters a business situation which will require it to deviate from the Annual Business Plan or it discovers that it or SAC has inadvertently deviated from the plan, it shall immediately consult with the Executive Committee of the SAC Board (**"SAC Executive Committee"**) about the situation and obtain approval for such deviation. If approval is given by the SAC Executive Committee, Manager shall be allowed to continue with such deviation until the next meeting of the SAC Board at which time the SAC Board can consider the matter. If the SAC Executive Committee does not approve of the deviation, the matter will immediately be brought to the attention of the SAC Board. Notwithstanding the foregoing, Manager is authorized to incur expenses beyond those provided in the Annual Business Plan in order to meet the production requests of SAC members; <u>provided</u>, <u>however</u>, that such expenses shall be in line with the budgeted per-case rate.

(b) Business/Finance. Manager will be responsible for accounting, tax, treasury and internal policy auditing services in connection with the financial management of the SAC Business.

(1) <u>Contracts</u>. Manager shall have the right to enter into contracts in the ordinary course of business in accordance with the Annual Business Plan and thereby bind SAC; provided, however, that the SAC Board may set size limitations above which approval of the SAC Board is required. Any approved contracts whose terms extend beyond the current year will be included automatically in future Annual Business Plans.

(2) Treasury Management. Manager will provide necessary treasury management services for SAC including the arrangement and administration of financings (subject to SAC Board approval) and bank transactions and cash management services including receipt of and responsibility for all income realized by SAC and disbursement of funds for satisfaction of the debts, obligations and expenses of SAC and for distributions of patronage dividends as determined by the SAC Board.

(3) Accounting. Manager will maintain accounting systems and records for SAC which shall be sufficiently separate from Manager's other accounts for the SAC Board to have full access to its accounts without raising questions about the confidentiality of Manager's files. Manager shall provide the following functions or prepare the following reports:

(i) Accounts receivable, credit and collections including credit approval, billing, collection and cash application, as necessary.

(ii) Accounts payable functions including check writing and accounting for paid expense and capital items.

(iii) General accounting functions including maintenance of general ledger and monthly financial reporting to the SAC Board.

(iv) Fixed asset record maintenance and accounting.

(v) Annual budgets.

(vi) Monthly reports to the SAC Board (i) comparing actual operating and capital expenditures to those budgeted and set forth in the Annual Business Plan, (ii) detailing significant management actions taken by Manager, and (iii) such other matters as the SAC Board may request.

(4) Taxes. Manager shall handle the federal, state and local tax reporting and filing as well as the implementation of tax planning strategies relating to federal, state and local taxes and user fees. Manager will also handle any required tax audits and maintain all Department of Transportation files and furnish copies of federal income tax returns to the SAC Executive Committee prior to the filing of such returns.

(5) Internal Policy Audit. Manager will provide internal auditing services for monitoring compliance with SAC policies and procedures as Manager deems necessary.

(c) Operations. The major operational responsibilities of Manager shall be in the areas of Manufacturing and Purchasing; Human Resources; Fleet, Transportation and Facility Administration; Environmental Services; Data Processing and Risk Management as follows:

(1) Manufacturing and Purchasing. Manager will oversee the manufacturing of products which meet franchise company specifications and will deliver all products within reasonable age standards as established by the SAC Board. The initial product age and quality standards to be met by Manager are described in **Exhibit A** hereto. Manager will select and negotiate with vendors and purchase or, if in the best interest of SAC, lease on SAC's behalf all capital equipment from such vendors. If Manager selects itself as a vendor or lessor to SAC under this paragraph (or handles procurement through an entity in which Manager or its parent or subsidiaries or affiliates, own an equity interest), this arrangement must be disclosed to and approved by the SAC Board. Manager will, on behalf of SAC, procure all raw materials, supplies, utilities and services which are required for or incidental to, the operations of the SAC Business and may do so through such procurement channels and entities as it deems advisable. Manager will use its best efforts to make such procurement on a basis similar to that which is available to Manager; provided, however, that both Manager and SAC hereby acknowledge that differences may arise with respect to procurement channels, prices of concentrates and syrup or as a result of different specifications, sources of supply and freight costs.

(2) Human Resources.

(i) Manager shall have responsibility for supervising employees of SAC (**"SAC Employees"**) and any employees of Manager (or of Manager's subsidiaries or affiliates performing services hereunder) providing services for SAC (**"Manager Employees"**) under this Agreement. All such management and supervision by Manager for personnel at the Facility shall be within the parameters established in the Annual Business Plan. Manager shall provide overall pay and benefit administration for SAC Employees (if any) and Manager Employees in accordance with the Annual Business Plan. Any necessary labor contract negotiations will be performed by Manager, and Manager will handle the administration of any labor contract (including grievance procedures and arbitration) and any labor relations disputes or other labor matters, and the SAC Board will be advised thereof. Manager will have the authority and responsibility to enter into, amend or terminate any personnel agreements and consulting and agency agreements relating to SAC; provided, however, that the SAC Board shall determine who shall perform professional accounting and legal services for SAC and set the terms for their employment. To the extent permitted by the Annual Business Plan or otherwise approved by the SAC Board, Manager may supplement SAC with additional Manager Employees. For such purpose, Manager may utilize its employees or employees of a wholly owned subsidiary or affiliate of Manager which have adequate training and experience to perform their duties competently and in a businesslike manner. Manager shall have the authority to select, retain and dismiss all personnel performing services for SAC, whether they be SAC Employees or Manager Employees. Manager shall also have the right to substitute personnel for a Manager Employee whenever Manager deems such substitution appropriate. Each Manager Employee and SAC Employee shall be subject to all of Manager's applicable personnel policies and practices (unless otherwise restricted by union contracts), and SAC shall not have the right to subject any Manager Employees or SAC Employees to any additional employment policies or practices or other work related rules or regulations (except rules and regulations reasonably related to the health and safety of such personnel or required under applicable law) absent Manager's express consent to such action which shall not be unreasonably withheld. Manager shall provide substantially the same job-related education and training to Manager Employees and SAC Employees as Manager provides to its other personnel who perform the same or related tasks, and SAC shall reimburse Manager for the cost of the job related education and training provided by third parties to SAC Employees and Manager Employees. Manager shall compensate Manager Employees in accordance with Manager's standard compensation policies and practices for personnel who perform the same or related tasks, subject to regional pay differences. Manager Employees shall be provided with personnel benefits no more favorable as a whole than those provided to Manager's other personnel performing the same or related tasks in addition to workers' compensation, unemployment compensation and all other benefits required to be provided for its personnel under applicable law. Manager will adopt and enforce Manager's Code of Business Conduct at the Facility.

(ii) In the event this Agreement is terminated or expires (without extension), all Manager Employees employed at the Facility at such time shall have the opportunity to be considered for employment by SAC as SAC Employees. SAC shall be entitled to approach all such persons and discuss future employment with SAC, and Manager shall not attempt to retain or continue such persons in its employment until they have first rejected an offer of employment with SAC or otherwise been informed by SAC that they will not be offered employment.

(3) Fleet, Transportation and Facility Administration. Manager will provide overall administration of fleet activities including assessment of required fleet expansion or replacement, acquisition of required equipment and direction of preventative maintenance programs in accordance with the Annual Business Plan. Manager will be responsible for the administration of all transportation activities including the receipt of raw materials by or on behalf of SAC and the delivery of full goods to SAC members. Manager will also provide for the administration of all facility activities including preventive and corrective maintenance and expansion.

(4) Environmental Services. Manager shall provide environmental management services sufficient to determine whether SAC operations at the Facility are in compliance with the requirements of applicable environmental laws, regulations, statutes, ordinances and permit conditions ("**Environmental Laws**"). Any known or suspected exceptions to environmental compliance requirements shall be reported immediately to the SAC Executive Committee, along with a recommendation for a compliance plan.

(5) <u>Data Processing</u>. Manager shall utilize its computer systems to provide computer services required to carry out its responsibilities under this Agreement.

(6) <u>Risk Management</u>. Manager shall contract for the purchase of insurance policies on behalf of SAC at coverage levels and from carriers as determined, from time to time, by the SAC Board, based on recommendations from Manager. Such policies shall name Manager as an additional insured and shall require that Manager be notified at least thirty (30) days prior to any modification or cancellation of any policy. The initial policies and coverage are listed on **<u>Exhibit G</u>** hereto. SAC agrees that it will cause its officers to execute all documents and certificates necessary to implement those policies and coverages and will take any and all actions required to keep the same in full force and effect throughout the Term (amended, from time to time).

3.02 Manager's Personnel. All Manager Employees providing services hereunder shall be exclusively employed by Manager or its subsidiaries or affiliates, and Manager shall have the sole right to determine their conditions of service, working hours, personnel and vacation policies, seniority, promotions and assignments. Manager shall have the exclusive right to retain and remove any such personnel and shall comply with all the laws applicable to such personnel. Subject to the provisions of Section 6 below, Manager shall be solely responsible for the compensation of the personnel and for arranging all withholding taxes, Federal Insurance Contributions Act ("**FICA**") and Federal Unemployment Tax Act ("**FUTA**") taxes, unemployment, insurance, workmen's compensation and any other insurance and fringe benefits with respect to such personnel.

3.03 Accounts, Books and Records.

(1) Manager shall maintain separate accounts, books, and records for SAC with respect to services under Sections 3 and 4 of this Agreement, and these accounts, books and records shall be the property of SAC. Manager shall be responsible for maintaining SAC's accounts, books and records in good order and shall maintain them in a way that is sufficiently separate from Manager's own records so that SAC may have access to such documents during regular business hours upon request without raising an issue of confidentiality with respect to Manager's proprietary information. In the event this Agreement is terminated for any reason or expires, Manager, shall return all of SAC's accounts, books and records in its possession to SAC as provided in Section 8.05.

(2) Manager shall make such of Manager's books and records that relate to the SAC Business, including the pricing of raw materials to the extent such information relates to the SAC Business, available to independent auditors selected by the SAC Board, or such other person or persons who are mutually acceptable to the parties, as is necessary to audit the Management Fee and Expenses charged to SAC and Manager's compliance with its obligations under this Agreement. Such auditors or person(s) shall be bound by a confidentiality agreement not to disclose such information to persons outside SAC or its professional advisors. SAC shall bear the costs of any independent accounting firm engaged by it for the purpose of performing the review described in this paragraph.

3.04 Attendance at Meetings of SAC Board and SAC Executive Committee.

(1) Manager will attend all regularly scheduled meetings of the SAC Board and all special meetings of the SAC Board at which its attendance is requested as long as Manager has been given reasonable notice of the time and place of the special meeting. At regularly scheduled meetings of the SAC Board, Manager will present a detailed report on operations, including any deviations from the Annual Business Plan, and Manager shall advise the SAC Board of deviations from the Annual Business Plan which it reasonably anticipates in the future. At special meetings of the SAC Board, Manager shall provide such information with respect to the management of SAC as may be reasonably requested by the SAC Board.

(2) It is anticipated that the SAC Executive Committee will meet from time to time, as required. If requested by the SAC Executive Committee, Manager shall attend meetings of the SAC Executive Committee and provide a verbal report on operations and such other information as may be requested by the SAC Executive Committee.

Section 4. Additional Services Provided by Manager.

Manager shall also perform other management functions relating to the SAC Business as may be requested from time to time by the SAC Board and agreed to by Manager, provided that the parties can agree upon a price for such services. If additional services are requested under this Section, Manager agrees to offer SAC a price or fees (excluding applicable taxes and transportation costs, which shall be charged to SAC at cost) for such services which is no less favorable than those charged by Manager to other entities of a similar size and location; provided, however, that under no circumstances shall Manager charge SAC an amount which is less than Manager’s actual cost. If SAC and Manager cannot agree on a price for additional services under this Section, SAC shall be free to obtain such services from others.

Section 5. Board Functions. In addition to SAC Board’s general responsibilities of directing the business and affairs of the organization and approving the Annual Business Plan, the responsibilities of the SAC Board will include, but not be limited to, supervising the performance of SAC in accordance with the Annual Business Plan, establishing capital requirements for its members, reviewing and approving long-term business plans, approving major financial undertakings, and supervising the performance of Manager under this Agreement. It will be the SAC Board’s responsibility to assure that all costs are fairly allocated (as determined by the Board) to the various products produced at SAC. Product pricing and rebates will be at the discretion of the SAC Board.

Section 6. SAC Payments.

6.01 Management Fee. In consideration for the services to be provided by Manager pursuant to this Agreement, SAC shall pay to Manager a management services fee equal to $0.1806 per physical case of bottles and cans, and $0.1806 per unit of post mix bag-in-a-box as described in **Exhibit B** hereto (each such case or unit quantity of bottles, cans, or post-mix as described in **Exhibit B** being herein referred to for purposes hereof as **“Physical Case/Unit”**) manufactured by SAC from and after the Effective Date (the **“Management Fee”**). No Management Fee shall be paid on shipments of bulk syrup. Subject to the provisions of Section

8.02, the Management Fee shall be increased effective as of the beginning of each fiscal year hereunder in accordance with the increase in the urban Wage Earners and Clerical Workers-South-ALL Items consumer price index published by the U.S. Department of Labor (**"CPI"**) for the most recent twelve (12) month period for which statistics are available on January 1 of each year; provided, however that the Management Fee shall not exceed 25¢ per Physical Case/Unit during the Term of this Agreement.

6.02 Reimbursable Expenses. With respect to payments made by Manager from Manager's separate funds, SAC shall reimburse Manager for personnel costs incurred at the Facility and other charges for specific materials or service at the Facility as well as third party fees as long as such costs and charges are within the ranges established in the Annual Business Plan, or otherwise approved, by the SAC Board (**"Reimbursable Expenses"**)

(a) No Reimbursable Expense other than those described in the Annual Business Plan shall be payable by SAC unless such expense is (1) less than $25,000, or (2) otherwise approved by the SAC Board or Executive Committee; provided, however, that the parties hereto recognize that ordinary operating expenses of the SAC Business paid by Manager on SAC's behalf that exceed amounts budgeted in the Annual Business Plan as a result of an increase in the sales volume shall be reimbursable to the extent such amounts are reasonably incurred.

(b) Manager shall be responsible for administrative costs it incurs to provide managerial services under this Agreement to the extent such services are not performed at the Facility. All functions that are currently being performed by Manager's personnel based at Manager's Corporate Offices will not be considered to be performed at the Facility and will be covered by the Management Fee. These functions are listed in **Exhibit D**. Manager may not shift functions or personnel to the Facility without approval of the SAC Board. Reimbursable Expenses will be included in the Annual Business Plan and are subject to audit at least annually at the request of SAC as provided in Section 3.03 hereof.

(c) The following expenses are examples of direct expenses of SAC to be paid by SAC as provided in the Annual Business Plan or otherwise approved by the Board of Directors. In the event Manager pays direct expenses of this type on SAC's behalf, such expenses shall be Reimbursable Expenses to Manager, if the expenses are within the Annual Business Plan or are approved by the SAC Board or SAC Executive Committee:

(1) Entity and On Site Expenses. SAC will incur direct expenses related to its form of entity or the SAC Business in the form of fees or taxes to third parties such as federal, state and local governments. In addition, SAC (or Manager on behalf of SAC) will incur certain expenses directly related to the routine operation of the Facility including the cost of On Site Employees of SAC or Manager. "**On Site Employees**" shall include all direct and indirect labor as well as management and administrative personnel based at the Facility whether such personnel are Manager Employees or SAC Employees. Examples of such expenses are set forth on **Exhibit C**.

(2) Miscellaneous Expense. Other reasonable and necessary expenses directly related to SAC's business operations or administration thereof which are set forth on **Exhibit E**.

6.03 Payments and Reimbursement.

(a) Management Fee Payments. Subject to the provisions of Section 8.01 hereof, the Management Fee, as determined from the Annual Business Plan shall be paid to Manager in a timely manner.

(b) Reimbursement of Expenses. SAC shall reimburse the Manager for all Reimbursable Expenses promptly. The Manager will provide SAC monthly with a detailed invoice for all expenses reimbursable under this Section 6.03(b). All such invoices shall be due and payable upon receipt thereof.

(c) SAC Bank Account/Check Signing Authority.

(1) The Manager will administer a separate bank account on behalf of SAC (**"SAC Bank Account"**) into which sales revenue and all other monies of SAC shall be deposited and from which expenses and fees of and distributions from SAC shall be paid. The Manager shall be responsible for maintaining and administering the SAC Bank Account in accordance with this Agreement. With the consent of the SAC Board, Manager may change the financial institution in which the SAC Back Account is held or the branch location of the account.

(2) Within limitations established by the SAC Board, the Manager shall be authorized to sign all checks and drafts and execute all wire transfers for disbursements in satisfaction of all debts, obligations and expenses of SAC and the countersignature of another person shall not be required.

6.04 Management Fee Distinguished from Distributions. All fees and other payments paid by SAC to Manager under this Section 6 shall be treated as expenses of SAC and not part of a patronage distribution paid to Manager by SAC.

Section 7. Obligations of SAC.

7.01 Duties of SAC. To facilitate the performance of manager's services, SAC agrees to provide the following:

(a) to the extent approved by the SAC Board in the Annual Business Plan, provide or cause to be provided at no charge to Manager sufficient secure building space, furniture, facilities and office equipment to enable Manager's on site personnel to carry out their obligations under this Agreement;

(b) assist Manager in obtaining, or cause to be obtained, any permits, applications, authorizations or forms required by or from the federal, state or local governments for the specific services areas;

(c) afford Manager's personnel unlimited and unrestricted access to all areas of the Facility;

(d) cooperate with Manager and direct all SAC personnel (if any) to extend maximum cooperation to Manager in accordance with this Agreement;

(e) use its best efforts to support Manager's requests to SAC members for their estimates of annual volume requirements by brand and package for planning purposes each year and for use in preparing annual budgets;

(f) use its best efforts to support Manager's request to SAC members to provide product orders to Manager in a manner and within time parameters reasonably requested by Manager; and

(g) if approved by the SAC Board, maintain a revolving line of credit or other financing sufficient in the reasonable judgment of SAC to satisfy SAC's working capital needs.

In addition, SAC agrees that it will cause the SAC Board or its designee to consider approval of any capital expenditure requiring approval, not otherwise set forth in the Annual Business Plan, no later than fifteen (15) Business Days after receipt of written request for approval from Manager.

Section 8. Term

8.01 Effective Date. This Agreement shall become effective on June 30, 2004 (the **"Effective Date"**), the Original Agreement having expired by its terms.

8.02 Duration. Unless terminated pursuant to Section 8.03 below, this Agreement shall continue in full force and effect for a term of ten (10) years following the Effective Date (the "**Term**"). The parties anticipate that they will negotiate an extension of this Agreement during the tenth (10th) year of the Term but acknowledge that neither party shall be bound by the provisions of this Agreement beyond the Term.

8.03 Early Termination. This Agreement shall terminate early as follows:

(a) Breach by Manager.

(1) If at any time Manager shall default in the performance of any of its obligations under this Agreement or otherwise fails to comply in all material respects with policies and directives of the SAC Board, and such default or breach shall continue for a period of ninety (90) days after SAC has given notice to Manager specifying such default or breach and requiring it to be remedied, then SAC shall have the right to terminate this Agreement, provided that SAC has determined in its reasonable business judgment that an alternative manager could have met the performance requirements during the period of manager's noncompliance, and further provided that the SAC Board requires similar performance requirements of the management its selects to replace Manager.

(2) During the Term, Manager (or its parent or its subsidiaries or affiliates) will maintain membership in SAC and a purchase agreement relationship with SAC for volume levels outlined on **Exhibit F**. If such membership is discontinued or such membership requirements in SAC are not met, SAC may terminate this Agreement. If such purchase requirements for any year are not met (or if it would be clear to a reasonable business person that the same cannot or will not be met for a particular year), SAC may terminate this Agreement.

(3) If the Agreement is terminated under Section 8.03(a), Manager agrees to continue to provide services pursuant to the terms described herein for a reasonable transition period following termination by SAC, if SAC so requests.

(b) Breach by SAC. If at any time SAC shall default in the performance of any of its material obligations under this Agreement and such default or breach shall continue for a period of ninety (90) days after Manager has given notice to SAC specifying such default or breach and requiring it to be remedied, then Manager shall have the right to terminate this Agreement. If the Agreement is terminated under this paragraph, Manager agrees to continue to provide services pursuant to the terms described herein for a reasonable transition period following termination by Manager, if SAC so requests.

(c) Bankruptcy Decree. If a decree or order of a court having jurisdiction has been entered adjudicating a party bankrupt, insolvent, or approving a petition seeking reorganization of such party under any bankruptcy act or any similar applicable law, and such decree or order has continued undischarged or unstayed for a period of sixty (60) days; or a decree or order of court having jurisdiction for the appointment of a receiver or liquidator or trustee or assignee in bankruptcy or insolvency of such party or all or substantially all of its property, or for the winding up or liquidation of its affiliates, has been entered, and such decree or order has remained in force undischarged or unstayed for a period of sixty (60) days, then the other party shall have the right to terminate this Agreement by giving the first mentioned party notice to that effect within thirty (30) days after the expiration of such sixty-day period.

(d) Institution of Bankruptcy Proceedings. If a party institutes proceedings to be adjudicated voluntarily bankrupt or consents to the filing of bankruptcy proceedings against it, or files a petition for answer or consent seeking reorganization under any bankruptcy act or similar law or consents to the filing of any petition or consents to the appointment of a receiver or liquidator or trustee or assignee in bankruptcy or insolvency of it, or all or substantially all of its property, or makes a general assignment for the benefit of creditors or admits in writing its inability to pay its debts generally as they become due, then the other party shall have the right to terminate this Agreement by giving the first mentioned party notice to that effect within thirty (30) days after the occurrence of such event.

8.04 Effect of Termination. Upon the termination of this Agreement, this Agreement shall be of no further force and effect, except that the provisions Section 8, 9, 10, and 11 shall continue in full force and effect indefinitely. Upon the termination of this Agreement, SAC shall immediately pay Manager the balance of the Management Fee accrued hereunder to the date of termination and all reimbursable expenses payable to Manager hereunder. Upon termination or expiration of this Agreement, Manager, shall immediately return to SAC all of SAC's accounts, books and records in Manager's possession as well as any other property belonging to SAC, and Manager shall remove all Manager Employees from the Facility and leave the Facility in good order, unless Manager has been requested by SAC to continue to provide services during a reasonable transition period under Sections 8.03(a) or 8.03(b) of this Agreement, in which case Manager shall return SAC's property and leave the premises in good order at the, end of the transition period.

Section 9. Confidentiality.

9.01 Confidential Information. The parties acknowledge that each of them may be required to disclose Confidential Information to government agencies or authorities by law, upon the advice of counsel, and each shall endeavor to limit disclosure to that purpose. Each Party will give the other prior written notice of any disclosure pursuant to this paragraph, which notice shall specify the substance of any such disclosure.

9.02 Identification. Each party hereto will take appropriate steps to enable the other party hereto to identify the information that should be protected as Confidential Information. Accordingly, each party shall legend or otherwise designate as proprietary any material furnished to the other party which it believes to be Confidential Information. In addition, any Confidential Information that is imparted orally shall be identified as proprietary. Information that is not so identified shall not be considered Confidential Information. Also, information that is generally known or that has been disclosed to a third party by the party claiming confidentiality shall not be considered Confidential Information for purposes of this Agreement.

9.03 Acknowledgment of Confidential Information. Each party recognizes and acknowledges (a) that Confidential Information of the other party may be commercially valuable proprietary products of such party, the design and development of which may have involved the expenditure of substantial amounts of money and the use of skilled development experts over a long period of time and which afford such party a commercial advantage over its competitors; (b) that the loss of this competitive advantage due to unauthorized disclosure or use of Confidential Information of such party may, cause great injury and harm to such party; (c) that the restrictions imposed upon the parties under this Agreement are necessary to protect the secrecy of Confidential Information and to prevent the occurrence of such injury and harm.

9.04 Nondisclosure. Each party who receives Confidential Information hereunder (the "**Receiving Party**") agrees that it will not, without the prior written consent of the party from whom such Confidential Information was obtained (the "**Disclosing Party**"), disclose, divulge or permit any unauthorized person to obtain any Confidential Information disclosed by the Disclosing Party (whether or not such Confidential Information is in written or tangible form) for as long as the pertinent information or data remain Confidential Information. The Receiving Party hereby agrees to indemnify and hold harmless the Disclosing Party from and against any and all damage, loss, liability and expense (including, without limitation, reasonable expenses of investigation and reasonable attorneys' fees and expenses) arising from any such unauthorized disclosure by the Receiving Party or its personnel. The Receiving Party agrees that it will use any Confidential Information disclosed by the Disclosing Party hereunder (whether or not such Confidential Information is in written or tangible form) only for purposes of the business of SAC, for as long as the pertinent information or data remain Confidential Information. The Receiving Party hereby agrees to indemnify, defend and hold harmless the Disclosing Party from and against any Loss arising from any such unauthorized disclosure by the Receiving Party or its personnel.

9.05 Security. To protect the Confidential Information of the parties, each party shall adopt basic security measures of the kind commonly observed in industries in the United States of America that rely extensively on proprietary information. Security measures, to the extent appropriate, shall include physical security measures, restrictions on access by unauthorized personnel, use of confidentiality agreements with personnel, legending, systematic segregation, and appropriate record retention systems.

Section 10. Manager’s Liability and Indemnification.

10.01 Limitation on Liability. Manager shall not be responsible for any errors in judgment made in good faith in the performance of its duties hereunder; provided, however, that nothing contained herein shall release Manager of any responsibility it may have for claims based on the gross negligence or willful misconduct of Manager.

10.02 Indemnification. To the extent agents of SAC are entitled to indemnification in SAC’s Bylaws, SAC shall indemnify and hold Manager and its parent, subsidiaries, affiliates, directors, officers, employees and agents (each an **“Indemnitee”**) harmless from any and all liabilities, losses, damages, suits, judgments, fines, demands and expenses (**“Losses”**) arising in connection with the SAC Business (a **“Claim”**); provided, however, that any such Losses arising out of Manager’s material breach of this Agreement, gross negligence, fraud or willful misconduct shall be the responsibility of Manager and Manager shall be liable to and indemnify SAC from and against any Losses incurred by SAC as a result thereof.

10.03 Indemnity Procedure for Third Party Claims. The obligations and liabilities of SAC to indemnify an Indemnitee or Manager to indemnify SAC, as applicable, for third party claims (including those by Manager Employees) under this section 10 shall be subject to the following terms and conditions:

(a) The person or entity (i.e., SAC, Manager or Indemnitee) making a claim (**“Claimant”**) will give the party from whom indemnity is sought (**“Notified Party”**) prompt notice of such Claim. The failure to promptly notify a party of any such Claim shall not relieve the party of its obligation hereunder, unless the failure to so notify such party materially prejudices such party’s ability to defend such Claim.

(b) Following notice by the Claimant to the Notified Party of a Claim, the Notified Party shall be entitled at its cost and expense to contest and defend such Claim by all appropriate legal proceedings; provided, however, that notice of the intention so to contest shall be delivered by the Notified Party to the Claimant within thirty (30) days from the date of receipt by the Notified Party of notice from the Claimant of the assertion of such Claim. Any such contest may be conducted in the name and on behalf of the Notified Party or the Claimant, as may be appropriate. Such contest shall be conducted diligently by reputable counsel employed by the Notified Party, but the Notified Party shall keep the Claimant fully informed with respect to such Claim and the contest thereof and the Claimant shall have the right to engage its own counsel at its own expense. If the Claimant joins in any such contest, the Notified Party shall have full authority, in consultation with the Claimant, to determine all action to be taken with respect thereto provided, however, that in no event shall the Notified Party have authority to agree to any relief other than the payment of money damages by the Claimant unless agreed to by the Claimant. Each party shall bear its own expense of such representation. If any Claim is asserted and the Notified Party fails to contest and defend such Claim within a reasonable period of time, the Claimant may take such action in connection therewith as the Claimant deems necessary or desirable, including retention of counsel, and the Claimant shall be entitled to indemnification of the costs incurred in connection with such defense.

(c) If requested by the Notified Party, the Claimant shall cooperate with the Notified Party and its counsel, including permitting reasonable access to books and records, in contesting any Claim which the Notified Party elects to contest or, if appropriate, in making any counterclaim against the person asserting the Claim on behalf of Claimant or Notified Party, or any cross-complaint against any person, and the Notified Party will reimburse the Claimant for reasonable out-of-pocket costs (but not the cost of employee time expended) incurred by the Claimant in so cooperating.

(d) The Claimant agrees to afford the Notified Party and its counsel the opportunity to be present at, and to participate in, conferences with all persons, including governmental authorities, asserting any Claim against the Claimant or conferences with representatives or counsel for such persons. Unless the Notified Party approves in writing the settlement of a Claim, no right to indemnification under Section 9.02 shall be established by such settlement.

10.04 Force Majeure. Delay in performance or non-performance by Manager or SAC shall be excused to the extent such performance is prevented by an Act of God or other event beyond the reasonable control of the nonperforming party.

Section 11. Dispute Resolution.

11.01 Attempts to Resolve. All disputes and differences raised by any party to this Agreement which may arise out of or in connection with or with respect to this Agreement (including but not limited to any rights of indemnification under Section 10 hereof) will be settled as far as possible by means of negotiations between Manager and the SAC Executive Committee. If, any such dispute is not resolved by Manager and the SAC Executive Committee within five (5) business days of commencement of negotiations, then either party may submit the dispute to arbitration in accordance with Section 11.02 of this Agreement for a binding resolution thereof.

11.02 Arbitration. Except as provided in Section 11.05 hereof, any dispute, controversy or claim arising out of or relating to this Agreement or the breach, termination or validity thereof which cannot be resolved by the parties pursuant to Section 11.01 hereof shall be settled by arbitration in accordance with the Arbitration Rules of the American Arbitration Association in effect on the date of this Agreement (the "**Rules**") as modified in this Article. The arbitration shall be held at a site mutually agreeable to the parties.

There shall be three arbitrators of whom each party shall select one within 15 days following respondent's receipt of claimant's notice of arbitration and statement of claim. The two party-appointed arbitrators shall select a third arbitrator to serve as presiding arbitrator within 15 days of the appointment of the second arbitrator. In the event one party fails to appoint an arbitrator within said 15 day period, then the arbitrator that has been selected by the other party shall select a second arbitrator and such arbitrators shall select a third arbitrator to be the presiding arbitrator.

11.03 Claims and Judgments. Within twenty (20) days of the respondent's receipt of the claimant's notice of arbitration and statement of claim, the respondent shall serve the claimant with its statement of defense and any counterclaims. Within twenty (20) days of claimant's receipt of the respondent's statement of defense and counterclaims, the claimant shall serve its statement of defense to any counterclaims or set-offs asserted by the respondent. The tribunal shall permit and facilitate such prehearing discovery and exchange of documents and information to which the parties in writing agree or which it determines is relevant to the dispute between the parties as is appropriate taking into account the needs of the parties and the desirability of making discovery expeditious and cost-effective. All discovery shall be completed within forty-five (45) days from the date on which the respondent communicates its statement of defense and counterclaims, if any, to the claimant. The hearing shall be held no later than ninety (90) days following the selection of the presiding arbitrator. Any arbitration award shall be rendered in U.S. dollars, with appropriate interest as determined by the tribunal. Judgment on any award shall be entered in any court having jurisdiction thereof.

11.04 Submission to Jurisdiction. For purposes of disputes arising under this Agreement, the parties hereto submit themselves to the jurisdiction of the state and federal courts located in North and South Carolina with respect to the enforcement of any arbitration award. Each of the parties hereby consents to the service of process by registered mail at its address set forth below and agrees that its submission to jurisdiction and its consent to service of process by mail is made for the express benefit of the other party. The arbitration shall be governed by the Federal Arbitration Act, 9. U.S.C. SS 116, 201-208.

11.05 Right to Additional Remedies. Notwithstanding anything to the contrary in this Article, in the event any intellectual property (including Confidential Information) is used in violation of the terms of this Agreement, each party shall be entitled, in addition to the remedy of arbitration set forth herein, to apply immediately to any court of competent jurisdiction for immediate injunctive relief. Each party hereby submits itself to the jurisdiction of the state and federal courts located in North and South Carolina for any such relief or for the enforcement of any arbitration award against such party.

Section 12. Press Release.

The parties hereto shall attempt to consult with each other, when possible, before issuing any press release or otherwise making any public statements with respect to this Agreement and the transactions contemplated hereby and shall not issue any such press release or make any public statement prior to such consultation, except as may be required by law.

Section 13. Independent Status of Parties.

Except as specifically provided herein, nothing contained in this Agreement shall be construed to constitute a party as agent for the other party. Except as specifically provided herein, neither party shall have the right to bind the other party, transact any business in the other party's name or on its behalf in any manner or form, or to make any promises or representations on behalf of the other party.

Section 14. Assignment.

Neither SAC nor Manager shall assign or transfer any right or obligation hereunder whether by operation of law, merger (which, for purposes hereof, shall constitute an assignment) or otherwise without the prior written consent of the other. Any such attempted assignment or transfer in violation of this Section 14 shall be void and without legal effect. Notwithstanding the foregoing, Manager may assign all or any of its rights and obligations hereunder to any wholly owned subsidiary (direct or indirect) of Coca-Cola Bottling Co. Consolidated; provided, however, that (a) Manager shall give SAC written notice of such assignment, (ii) any such assignee shall execute an agreement assuming such duties and obligations and deliver the same to SAC, and (iii) Manager shall deliver to SAC a written unconditional guaranty of the performance of the duties and obligations so assigned and assumed and (b) such rights and obligations shall revert back to Manager at such time as the assignee ceases to be a wholly owned subsidiary of Coca-Cola Bottling Co. Consolidated. Subject to the foregoing, this Agreement shall inure to the benefit of and be binding upon, the successors and assigns of the parties hereto.

Section 15. Governing Law.

This agreement shall be governed by and construed in accordance with the laws of the State of North Carolina, regardless of any conflicts of laws or rules which would require, the application of the laws of another jurisdiction.

Section 16. Miscellaneous.

16.01 Notices. Any notice, request, instruction or other document to be given hereunder by any party hereto to any other Person shall be in writing and delivered personally or by mail or any express mail service to the addresses set forth below.

(a) If to Manager:

CCBCC Operations, LLC
4115 Coca-Cola Plaza
Charlotte, NC 28211
Attention: Chief Financial Officer
Telecopy Number: (704) 551-4451

With a copy to:

Kennedy Covington Lobdell & Hickman, L.L.P.
Hearst Tower
214 North Tryon Street, 47^{th} Floor
Charlotte, NC 28202
Attention: Michael S. Hawley
Telecopy Number: (704) 353-3138

(b) If to SAC:

South Atlantic Canners, Inc.
601 Cousar Street
Bishopville, South Carolina 29010
Attention: Chairman, Board of Directors
Telecopy Number: (803) 484-5841

16.02 Nonwaiver of Default. Any failure by either party at any time or from time to time to enforce and require the strict keeping and performance of any of the terms and conditions of this Agreement shall not constitute a waiver of any such terms and conditions at any future time and shall not permit such party from insisting on the strict keeping and performance of such terms and conditions at any later time.

16.03 Interpretation. Should the provisions of this Agreement require judicial or arbitral interpretation, it is agreed that the judicial or arbitral body interpreting or construing the same shall not apply the assumption that the terms hereof shall be more strictly construed against one party by reason of the rule of construction that an instrument is to be construed more strictly against the party which itself or through its agents prepared the same, it being agreed that the agents of both parties have participated in the preparation herein equally.

16.04 Partial Invalidity. If any portion of this Agreement is held invalid, illegal or unenforceable and such invalidity, illegality, or unenforceability shall not have a material adverse effect with respect to the transactions contemplated herein taken as a whole, such determination shall not impair the enforceability of the remaining terms and provisions contained herein. In such event, this Agreement shall be construed and interpreted as if such invalid, illegal or unenforceable terms were limited to the extent whereby such terms would be valid, legal and enforceable. If such limitation is not possible, this Agreement shall be construed and interpreted as if such invalid, illegal or unenforceable terms were severed and not included herein.

16.05 Amendment or Rescission. This Agreement shall not be modified or rescinded except by a written instrument setting forth such modification or rescission and signed by the parties hereto.

16.06 Duplicate Originals. For the convenience of the parties hereto, this Agreement may be executed in two counterparts, and each such counterpart shall be deemed to be an original instrument and together constitute one and the same Agreement.

16.07 Captions. The captions or headings of the Sections and other subdivisions hereof are inserted only as a matter of convenience or for reference and shall have no effect on the meaning of the provisions hereof.

16.08 Entirety of Agreement. This Agreement constitute the entire agreement between the parties hereto with respect to the, subject matter hereof, and there are no agreements, understandings, covenants, conditions or undertaking, oral or written, expressed or implied, concerning such subject matter that are not merged herein.

16.09 Plurals, Etc. As used herein or in any document which incorporates the terms hereof:

(a) the plural form of the noun shall include the singular and the singular shall include the plural, unless the context requires otherwise;

(b) each of the masculine, neuter and feminine forms of any pronoun shall include all forms unless the context otherwise requires; and

(c) words of inclusion shall not be construed as terms of limitation, so that references to included matters shall be regarded as non-exclusive, non-characterizing illustrations.

IN WITNESS WHEREOF, each of the parties has caused this Agreement to be executed on its behalf by its duly authorized representative as the date first written above.

MANAGER;

CCBCC Operations, LLC

By: /s/ David V. Singer

Its: Vice President & CFO

SAC:

South Atlantic Canners, Inc.

By: /s/ Charles R. Ingram

Its: Chairman of the Board

EXHIBIT A

Product Age and Quality Standards

All product provided to members of SAC shall meet quality standards established by The Coca-Cola Company or other franchise company for which products are produced.

Unless otherwise provided by the SAC Board, the following products shall not be shipped later than the time periods shown below:

Sugar products in cans or glass	63 days
Diet product in cans or glass	35 days
Two or three liter product (whether diet or sugar)	35 days
20 oz. PET	28 days

EXHIBIT B

Physical Cases/Units

For purposes of this Agreement, Physical Case/Unit shall consist of the following:

Type of Product	Description of Physical Case/Unit
Can	24 can case
20 oz. PET bottle	24 bottle case
1 liter PET bottle	12 bottle case
2 liter PET bottle	8 bottle case
3 liter PET bottle	6 bottle case
Bulk syrup	per 5,000 gallon tanker truck (no charge)
Post-mix bag-in-a-box	1 Unit = two 5 gallon containers

EXHIBIT C

Entity and On Site Expenses

SAC will incur certain specific expenses directly related to the routine operation of the SAC Business at the Facility. These expenses are as follows:

1. Raw, materials, manufacturing, labor and overhead costs at the Facility.
2. Payroll and benefit costs for all SAC Employees and Manager Employees at the Facility.
3. Insurance - Automobile, workers compensation, general liability, product liability, D&O, crime, property, boiler.
4. Utility costs.
5. Security.
6. Telephone.
7. Manufacturing supplies.
8. Building repairs.
9. Employee travel and entertainment, for employees based at the Facility.
10. Postage.
11. Garbage removal.
12. Janitorial maintenance.
13. Direct rent or lease expense.
14. Federal, state and local taxes related to the SAC Business and payable by SAC.
15. Business licenses and entity licenses and fees (i.e., annual report, foreign qualification, franchise fee, etc.) relating to SAC or the SAC Business.
16. Depository bank service charges.
17. Other Direct Expense line items designated as such in the Annual Business Plan which are not specifically stated herein.

EXHIBIT D

Administrative Services Performed by Manager

The following administrative services shall be performed by Manager and included in the Management Fee:

l. General accounting, billing, collections, accounts payable, payroll, maintenance of fixed asset records, tax accounting and return preparation,

2. Negotiation of and administration of all financings purchasing of raw materials, administration of benefit plans, acquisition of insurance policies, monitoring compliance with all relevant EPA and OSHA regulations, internal audit of policy compliance, and

3. Other services now or hereafter provided by Manager at its headquarters at Manager's Corporate Offices for Manager's manufacturing operations.

EXHIBIT E

Miscellaneous Expenses

The following expenses will constitute miscellaneous expenses under this Agreement to the extent included in the Annual Business Plan or otherwise approved by the SAC Board.

1. Legal fees and external accounting/audit and tax consulting fees and other professional fees related directly to the SAC Business.
2. Environmental remediation expenses, environmental manager's out-of-pocket and other environmental personnel services paid by Manager which benefit the SAC Business.
3. Umbrella insurance paid by Manager, if any, which benefits the SAC Business.
4. External training costs for SAC Employees.
5. Recruiting expense/placement fees paid to third parties for recruitment of SAC Employees to work at the Facility.
6. All financing costs including fees, interest, documentation costs, etc., which relate to the SAC Business.
7. Relocation expenses paid by Manager, if any, which relate to moving employees to the Facility.
8. Reasonable costs for winding up SAC insurance programs.
9. Reasonable costs for winding up employee benefit plans for SAC Employees at the Facility (active/retired/disabled).
10. Any other expense or cost specifically approved by the SAC Board.

EXHIBIT F

Purchase Agreement Volume Levels

Canned Product	8.0 million cases
Bottled Product	8.0 million cases
Water Product	1.5 million cases

EXHIBIT G

Insurance Policies and Coverage

Coverage	Carrier	Amount of Coverage
		Included in CCBCC's program
General Liability	ACE American Insurance Company	$2,000,000 Occurrence $5,000,000 General Aggregate-Per Location $500,000 Deductible
Automobile Liability	ACE American Insurance Company	$2,000,000 Ea. Accident $500,000 Ded.
Workers' Compensation	ACE American Insurance Company	$1,000,000 Bodily Injury by Accident $500,000 Deductible
Umbrella	Lexington Insurance Company	$25,000,000 Aggregate xs $2,000,000 Primary $25,000,000 Each Incident xs $2,000,000 Primary
Excess Liability	Great American	$50,000,000 xs $27,000,000 Lead Umbrella
	Arch	$25,000,000 xs $77,000,000.
	American Guarantee/Zurich	$25,000,000 part of $75,000,000 xs $102,000,000
	Federal Insurance Company	$25,000,000 part of $75,000,000 xs $102,000,000
	XL Insurance	$25,000,000 part of $75,000,000 xs $102,000,000
	Liberty Insurance	$50,000,000 xs $177,000,000
	American Guarantee/Zurich	$23,000,000 xs $227,000,000
Property	FM Global	Blanket Limit $250,000,000 Flood, $25,000,000 Zone A,B, shaded X $100,000 Deductible
		SAC Specific Program
Travel Accident	Hartford Insurance Company	$100,000,000 Per Person AD&D $500,000 Aggregate
Directors & Officers Liability	AIG	$5,000,000 Aggregate $50,000 Deductible

Exhibit 31.1

MANAGEMENT CERTIFICATION

I, J. Frank Harrison, III, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Coca-Cola Bottling Co. Consolidated;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting, which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ J. Frank Harrison, III

Date: August 5, 2004

J. Frank Harrison, III
Chairman of the Board of Directors
and Chief Executive Officer

Exhibit 31.2

MANAGEMENT CERTIFICATION

I, David V. Singer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Coca-Cola Bottling Co. Consolidated;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting, which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ David V. Singer

Date: August 5, 2004

David V. Singer
Executive Vice President and Chief Financial Officer

Exhibit 32

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Coca-Cola Bottling Co. Consolidated (the “Company”) on Form 10-Q for the quarter ending June 27, 2004 as filed with the Securities and Exchange Commission on the date hereof (the “Report”) we, J. Frank Harrison, III, Chairman of the Board of Directors and Chief Executive Officer of the Company, and David V. Singer, Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350 as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly represents, in all material respects, the financial condition and results of operations of the Company.

/s/ J. Frank Harrison, III

J. Frank Harrison, III
Chairman of the Board of Directors and
Chief Executive Officer
August 5, 2004

/s/ David V. Singer

David V. Singer
Executive Vice President and
Chief Financial Officer
August 5, 2004