

COCA COLA CO
Form 10-Q
July 24, 2008

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

FORM 10-Q

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

For the quarterly period ended June 27, 2008

OR

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

For the transition period from _____ to _____

Commission File No. 1-2217

(Exact name of Registrant as specified in its Charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

58-0628465
(IRS Employer
Identification No.)

One Coca-Cola Plaza
Atlanta, Georgia
(Address of principal executive offices)

30313
(Zip Code)

Registrant's telephone number, including area code (404) 676-2121

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 a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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Large accelerated filer
Non-accelerated filer

Accelerated filer
Smaller reporting company

(Do not check if a smaller reporting company)

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

Yes No

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

Class of Common Stock
\$0.25 Par Value

Outstanding at July 21, 2008
2,311,497,962 Shares

THE COCA-COLA COMPANY AND SUBSIDIARIES

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FORWARD-LOOKING STATEMENTS

This report contains information that may constitute "forward-looking statements." Generally, the words "believe," "expect," "intend," "estimate," "anticipate," "project," "will" and similar expressions identify forward-looking statements, which generally are not historical in nature. All statements that address operating performance, events or developments that we expect or anticipate will occur in the future including statements relating to volume growth, share of sales and earnings per share growth, and statements expressing general views about future operating results are forward-looking statements. Management believes that these forward-looking statements are reasonable as and when made. However, caution should be taken not to place undue reliance on any such forward-looking statements because such statements speak only as of the date when made. Our Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law. In addition, forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from our Company's historical experience and our present expectations or projections. These risks and uncertainties include, but are not limited to, those described in Part II, "Item 1A. Risk Factors" and elsewhere in this report and in our Annual Report on Form 10-K for the year ended December 31, 2007, and those described from time to time in our future reports filed with the Securities and Exchange Commission.

Part I. Financial Information

Item 1. Financial Statements (Unaudited)

THE COCA-COLA COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(UNAUDITED)

(In millions except per share data)

	Three Months Ended		Six Months Ended	
	June 27,	June 29,	June 27,	June 29,
	2008	2007	2008	2007
NET OPERATING REVENUES	\$ 9,046	\$ 7,733	\$ 16,425	\$ 13,836
Cost of goods sold	3,162	2,736	5,786	4,881
GROSS PROFIT	5,884	4,997	10,639	8,955
Selling, general and administrative expenses	3,108	2,685	5,911	5,010
Other operating charges	97	42	175	48
OPERATING INCOME	2,679	2,270	4,553	3,897
Interest income	69	54	134	91
Interest expense	89	102	206	173
Equity income net	(843)	190	(706)	210
Other income (loss) net	80	(4)	69	112
INCOME BEFORE INCOME TAXES	1,896	2,408	3,844	4,137
Income taxes	474	557	922	1,024
NET INCOME	\$ 1,422	\$ 1,851	\$ 2,922	\$ 3,113
BASIC NET INCOME PER SHARE	\$ 0.61	\$ 0.80	\$ 1.26	\$ 1.35
DILUTED NET INCOME PER SHARE	\$ 0.61	\$ 0.80	\$ 1.24	\$ 1.34
DIVIDENDS PER SHARE	\$ 0.38	\$ 0.34	\$ 0.76	\$ 0.68
AVERAGE SHARES OUTSTANDING	2,316	2,312	2,319	2,313
Effect of dilutive securities	27	14	30	11
AVERAGE SHARES OUTSTANDING ASSUMING DILUTION	2,343	2,326	2,349	2,324

Refer to Notes to Condensed Consolidated Financial Statements.

THE COCA-COLA COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

(In millions except par value)

	June 27, 2008	December 31, 2007
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 6,571	\$ 4,093
Marketable securities	286	215
Trade accounts receivable, less allowances of \$77 and \$56, respectively	4,073	3,317
Inventories	2,531	2,220
Prepaid expenses and other assets	2,628	2,260
TOTAL CURRENT ASSETS	16,089	12,105
INVESTMENTS		
Equity method investments:		
Coca-Cola Hellenic Bottling Company S.A.	1,699	1,549
Coca-Cola FEMSA, S.A.B. de C.V.	1,095	996
Coca-Cola Amatil Limited	887	806
Coca-Cola Enterprises Inc.	623	1,637
Other, principally bottling companies and joint ventures	2,511	2,301
Cost method investments, principally bottling companies	552	488
TOTAL INVESTMENTS	7,367	7,777
OTHER ASSETS	2,634	2,675
PROPERTY, PLANT AND EQUIPMENT , less accumulated depreciation of \$6,412 and \$5,951, respectively	8,712	8,493
TRADEMARKS WITH INDEFINITE LIVES	6,025	5,153
GOODWILL	4,062	4,256
OTHER INTANGIBLE ASSETS	2,842	2,810
TOTAL ASSETS	\$ 47,731	\$ 43,269
LIABILITIES AND SHAREOWNERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 7,978	\$ 6,915
Loans and notes payable	7,752	5,919
Current maturities of long-term debt	531	133
Accrued income taxes	359	258
TOTAL CURRENT LIABILITIES	16,620	13,225
LONG-TERM DEBT	2,874	3,277
OTHER LIABILITIES	3,267	3,133
DEFERRED INCOME TAXES	1,788	1,890
SHAREOWNERS' EQUITY		
Common stock, \$0.25 par value; Authorized 5,600 shares; Issued 3,519 and 3,519 shares, respectively	880	880
Capital surplus	7,805	7,378
Reinvested earnings	37,386	36,235

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Accumulated other comprehensive income	1,352	626
Treasury stock, at cost 1,209 and 1,201 shares, respectively	(24,241)	(23,375)
TOTAL SHAREOWNERS' EQUITY	23,182	21,744
TOTAL LIABILITIES AND SHAREOWNERS' EQUITY	\$ 47,731	\$ 43,269

Refer to Notes to Condensed Consolidated Financial Statements.

THE COCA-COLA COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

(In millions)

	Six Months Ended	
	June 27, 2008	June 29, 2007
OPERATING ACTIVITIES		
Net income	\$ 2,922	\$ 3,113
Depreciation and amortization	637	515
Stock-based compensation expense	152	155
Deferred income taxes	(222)	(44)
Equity income or loss, net of dividends	856	(82)
Foreign currency adjustments	(43)	(25)
Gains on sales of assets, including bottling interests	(111)	(139)
Other operating charges	159	48
Other items	34	49
Net change in operating assets and liabilities	(1,166)	(295)
Net cash provided by operating activities	3,218	3,295
INVESTING ACTIVITIES		
Acquisitions and investments, principally beverage and bottling companies and trademarks	(621)	(3,649)
Purchases of other investments	(140)	(41)
Proceeds from disposals of other investments	387	258
Purchases of property, plant and equipment	(896)	(770)
Proceeds from disposals of property, plant and equipment	46	151
Other investing activities	(10)	5
Net cash used in investing activities	(1,234)	(4,046)
FINANCING ACTIVITIES		
Issuances of debt	4,317	5,762
Payments of debt	(2,478)	(2,080)
Issuances of stock	459	643
Purchases of stock for treasury	(1,031)	(958)
Dividends	(884)	(787)
Net cash provided by financing activities	383	2,580
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		
	111	95
CASH AND CASH EQUIVALENTS		
Net increase during the period	2,478	1,924
Balance at beginning of period	4,093	2,440
Balance at end of period	\$ 6,571	\$ 4,364

Refer to Notes to Condensed Consolidated Financial Statements.

THE COCA-COLA COMPANY AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Note A Basis of Presentation

The accompanying unaudited Condensed Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. They do not include all information and notes required by generally accepted accounting principles for complete financial statements. However, except as disclosed herein, there has been no material change in the information disclosed in the notes to consolidated financial statements included in the Annual Report on Form 10-K of The Coca-Cola Company for the year ended December 31, 2007.

We use the equity method to account for our investments for which we have the ability to exercise significant influence over the operating and financial policies of the investee. Consolidated net income includes our Company's proportionate share of the net income or loss of these companies. Such amounts are classified as "equity income net" in our consolidated statements of income.

When used in these notes, the terms "Company," "we," "us" or "our" mean The Coca-Cola Company and all entities included in our consolidated financial statements. In the opinion of management, all adjustments (including normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and six month periods ended June 27, 2008, are not necessarily indicative of the results that may be expected for the year ending December 31, 2008. Sales of our ready-to-drink nonalcoholic beverages are somewhat seasonal, with the second and third calendar quarters accounting for the highest sales volumes. The volume of sales in the beverages business may be affected by weather conditions.

Our reporting period ends on the Friday closest to the last day of the quarterly calendar period. The second quarter of 2008 and 2007 ended on June 27, 2008 and June 29, 2007, respectively. Our fiscal year ends on December 31 regardless of the day of the week on which December 31 falls.

Note B Recent Accounting Standards and Pronouncements

In February 2007, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115." SFAS No. 159 permits entities to elect to measure many financial instruments and certain other items at fair value. Unrealized gains and losses on items for which the fair value option has been elected will be recognized in earnings at each subsequent reporting date. SFAS No. 159 was effective for our Company on January 1, 2008. The adoption of SFAS No. 159 did not have a material impact on our consolidated financial statements. Refer to Note F.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements." SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands disclosure requirements about fair value measurements. SFAS No. 157 was effective for our Company on January 1, 2008. However, in February 2008, the FASB released FASB Staff Position (FSP FAS 157-2 Effective Date of FASB Statement No. 157), which delayed the effective date of SFAS No. 157 for all nonfinancial assets and liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The adoption of SFAS No. 157 for our financial assets and liabilities did not have a material impact on our consolidated financial statements. We do not believe the adoption of SFAS No. 157 for our nonfinancial assets and liabilities,

effective January 1, 2009, will have a material impact on our consolidated financial statements. Refer to Note F.

Note C Inventories

Inventories consisted of the following (in millions):

	June 27, 2008	December 31, 2007
Raw materials and packaging	\$ 1,477	\$ 1,199
Finished goods	826	789
Other	228	232
Inventories	\$ 2,531	\$ 2,220

Note D Commitments and Contingencies

As of June 27, 2008, we were contingently liable for guarantees of indebtedness owed by third parties in the amount of approximately \$224 million. These guarantees are primarily related to third-party customers, bottlers and vendors and have arisen through the normal course of business. These guarantees have various terms, and none of these guarantees is individually significant. The amount represents the maximum potential future payments that we could be required to make under the guarantees; however, we do not consider it probable that we will be required to satisfy these guarantees.

We believe our exposure to concentrations of credit risk is limited due to the diverse geographic areas covered by our operations.

The Company is involved in various legal proceedings. We establish reserves for specific legal proceedings when we determine that the likelihood of an unfavorable outcome is probable and the amount of loss can be reasonably estimated. Management has also identified certain other legal matters where we believe an unfavorable outcome is reasonably possible and/or for which no estimate of possible losses can be made. Management believes that any liability to the Company that may arise as a result of currently pending legal proceedings, including those discussed below, will not have a material adverse effect on the financial condition of the Company taken as a whole.

On May 26, 2008, the Company and the other defendants reached an agreement, subject to Court approval, with the plaintiffs in a class action lawsuit (Carpenters Health & Welfare Fund of Philadelphia & Vicinity v. The Coca-Cola Company, et al.) to settle for approximately \$138 million, without admitting any wrongdoing. The settlement amount is covered by insurance and, therefore, the settlement had no impact on our condensed consolidated statements of income. As of June 27, 2008, the Company has recorded a liability for approximately \$138 million and a corresponding receivable from the insurers for the same amount.

At the time we acquire or divest our interest in an entity, we sometimes agree to indemnify the seller or buyer for specific contingent liabilities. Management believes that any liability to the Company that may arise as a result of any such indemnification agreements will not have a material adverse effect on the financial condition of the Company taken as a whole.

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The Company is involved in various tax matters, with respect to some of which the outcome is uncertain. We establish reserves to remove some or all of the tax benefit of any of our tax positions at the time we determine that it becomes uncertain based upon one of the following conditions: (1) the tax position is not "more likely than not" to be sustained; (2) the tax position is "more likely than not" to be sustained, but for a lesser amount; or (3) the tax position is "more likely than not" to be sustained, but not in the financial period in which the tax position was originally taken. For purposes of evaluating whether a tax position is uncertain, (1) we presume the tax position will be examined by the relevant taxing authority that has full knowledge of all relevant information; (2) the technical merits of a tax position are derived from authorities such as legislation and statutes, legislative intent, regulations, rulings and case law and their applicability to the facts and circumstances of the tax position; and (3) each tax position is evaluated without consideration of the possibility of offset or aggregation with other tax positions taken. A number of years may elapse before a particular uncertain tax position is audited and finally resolved or when a tax assessment is raised. The number of years subject to tax assessments varies depending on the tax jurisdiction. The tax benefit that has been previously reserved because of a failure to meet the "more likely than not" recognition threshold would be recognized in our income tax expense in the first interim period when the uncertainty disappears under any one of the following conditions: (1) the tax position is "more likely than not" to be sustained; (2) the tax position