Coca-Cola
Bottling Co.
CONSOLIDATED

Annual Report 2003

Coca-Cola Bottling Co. Consolidated (CCBCC) is the second largest Coca-Cola bottler in the United States. The Company is a leader in the manufacturing, marketing and distribution of soft drinks. With corporate offices in Charlotte, N.C., the Company does business in 11 states, primarily in the Southeast. The Company has one of the highest per capita soft drink consumption rates in the world and manages bottling territories with a consumer base of 18 million people. Coca-Cola Bottling Co. Consolidated is listed on the NASDAQ National Market System under the symbol COKE.

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Financial Summary

In Thousands (Except Per Share Data)	Fiscal Year* 2003	2002	2001
Net sales	$1,210,765	$1,198,335	$958,859
Gross margin	585,317	579,198	444,501
Income before income taxes	38,060	38,070	11,696
Income taxes	7,357	15,247	2,226
Net income	30,703	22,823	9,470
Basic net income per share	$3.40	$2.58	$1.08
Diluted net income per share	$3.40	$2.56	$1.07

* On January 2, 2002, the Company purchased an additional interest in Piedmont Coca-Cola Bottling Partnership ("Piedmont") from The Coca-Cola Company, increasing the Company's ownership in Piedmont to more than 50 percent. Due to the increase in ownership, the results of operations, financial position and cash flows of Piedmont have been consolidated with those of the Company beginning in the first quarter of 2002. The Company's investment in Piedmont had been accounted for using the equity method for 2001 and prior years.

Coca-Cola Bottling Co. CONSOLIDATED

Letter to Shareholders

Innovative employees *bring to life sales-boosting ideas such as this attention-grabbing 360-degree vending area in Opry Mills Mall in Nashville.*

Despite facing significant obstacles in 2003, Coca-Cola Bottling Co. Consolidated continued to make steady progress toward our long-term goals. While sales for the year were soft, in large measure due to a struggling economy and unprecedented cool and wet weather, the Company produced solid cash flow and finished the year with a strong fourth quarter. Highlights of 2003 include the introduction of several new innovative packages, recognition for our longstanding commitment to quality and the redefining of the Company's Mission Statement.

The Company had net income of $30.7 million or $3.40 per share in 2003 compared to $22.8 million or $2.58 per share in 2002. Our earnings for both 2003 and 2002 include certain significant items, including favorable adjustments for income tax expense of approximately $8.6 million in 2003 and favorable adjustments related to the termination of certain executive benefit plans in 2003 of $.9 million and in 2002 of $2.3 million, net of tax in both years.

Unseasonably cool and wet weather had a significant impact on sales during the spring and summer, our key selling seasons. Sales were also hurt in our important at-work channel due to a struggling economy in the Southeast and the loss of large numbers of manufacturing jobs. In addition, during 2003, several key customers opted for less aggressive promotional activities with soft drinks, which led to lower sales.

However, sales during the fourth quarter rebounded strongly as both the weather and the economy improved, up more than 5 percent for the period. Results for the fourth quarter were significant because with more normal weather, we were able to reverse the spring and summer sales slump while increasing net revenue per case.

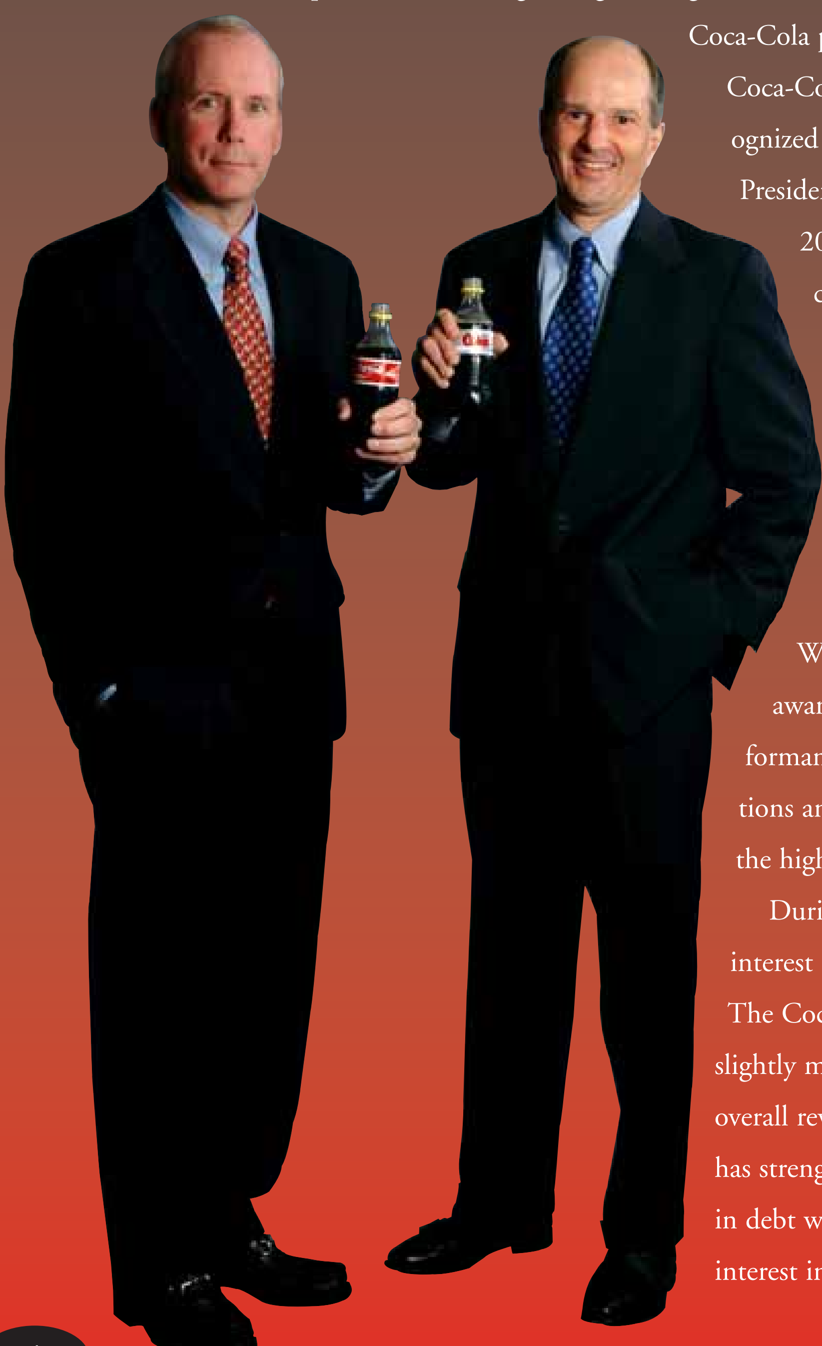
There were fewer product introductions in 2003 than in the previous year. While the introduction of Sprite Remix resulted in jumpstarting the lemon-lime category and led to an increase in overall Sprite sales, last year we didn't have some of the blockbuster product launches — such as Vanilla Coke, diet Vanilla Coke, Minute Maid Lemonade and Fanta flavors — that we had in 2002.

Your Company is gaining a reputation for innovation in the Coca-Cola system. The Fridge Pack™, the innovative new packaging for 12-pack cans, is quickly becoming the industry standard. Coca-Cola Consolidated first introduced this package in late 2001 and followed up in 2003 with the 12-ounce PET bottle Dasani Fridge Pack, which has helped fuel significant growth in the important water category.

Letter to Shareholders

We continued to innovate during 2003, introducing in several markets noteworthy new packages, including the 390-milliliter bottle for convenience store sales, the double Fridge Pack for cans and the 12-ounce PET bottle Fridge Pack for core brand carbonated soft drinks. Customers and consumers are receiving these new packages very favorably, and we expect even more success as we expand these innovations throughout Coca-Cola Consolidated selling territories during 2004.

Our ability to provide new products and packages for our customers is part of our strong relationship with The Coca-Cola Company. Product innovation from The Coca-Cola Company continues to provide our customers with new and exciting beverage choices. We are introducing diet Coke with Lime early in 2004 and anticipate other product introductions later in the year. The introduction of diet Coke with Lime is just the beginning of a stronger emphasis on the fast growing diet segment of the soft drink industry, a category where the Coca-Cola portfolio of diet brands is the clear industry leader.



Coca-Cola Consolidated's commitment to quality was recognized again in 2003 when we were presented with the President's Award for Quality Excellence for our work in 2002. This is the third year in a row a CCBCC sales center has received this prestigious award — and the first time in history that one company's operations have won first, second and third places for quality excellence among all Coca-Cola bottlers. In addition, Coca-Cola Consolidated was named Distributor of the Year by *Beverage Industry* magazine and Vendor of the Quarter by Sam's Warehouse Club, a division of Wal-Mart. These awards were given in recognition of outstanding performance in our manufacturing, selling and delivery functions and reflect our ongoing commitment to providing the highest quality products to our customers.

During 2003, the Company acquired an additional interest in Piedmont Coca-Cola Bottling Partnership from The Coca-Cola Company, increasing our ownership to slightly more than 77 percent. Despite modest growth in overall revenues over the past several years, the Company has strengthened its financial position through a reduction in debt while at the same time acquiring an additional interest in Piedmont Coca-Cola Bottling Partnership.

***Innovative new packaging**, including smaller packages such as the 12-ounce PET bottle Fridge Pack and the 390-milliliter PET bottle, keeps Coca-Cola Consolidated one step ahead of our competitors.*

A Clear and Ambitious Mission

"To make, sell and deliver soft drinks better than anyone else."

We would like to take this opportunity to share with you some of the changes to the Company's Mission Statement. The mission is ambitious and straightforward: **"To make, sell and deliver soft drinks better than anyone else."** We believe that who we are, what we do and how we do it are determined by our values and that our values should honor God. We believe that by adhering to these values, among them accountability, honesty, integrity, respectfulness and supportiveness, we will succeed.

In our Mission Statement we have set forth specific goals for the Company:

- To be a great company with great jobs and great rewards.
- To be a company known for building great relationships.
- To be leaders in the Coca-Cola system.
- To generate long-term growth in shareholder value.

Our mission and our values guide the actions we take each day. A company can only be great if it has great people, and we believe our culture and rewards system create a work environment where we can attract, motivate and retain the highest caliber employees. We believe that building strong relationships with our own employees, customers, The Coca-Cola Company and others with whom we do business makes us a better company.

As we look forward, we are very optimistic. We are establishing a reputation for innovation within the Coca-Cola system, leading the industry in quality, providing great jobs for more than 5,500 outstanding employees and growing long-term shareholder value. We are excited about the momentum we have built over the last several years and look forward to success in 2004 and beyond.

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

William B. Elmore
President and Chief Operating Officer

Our Business

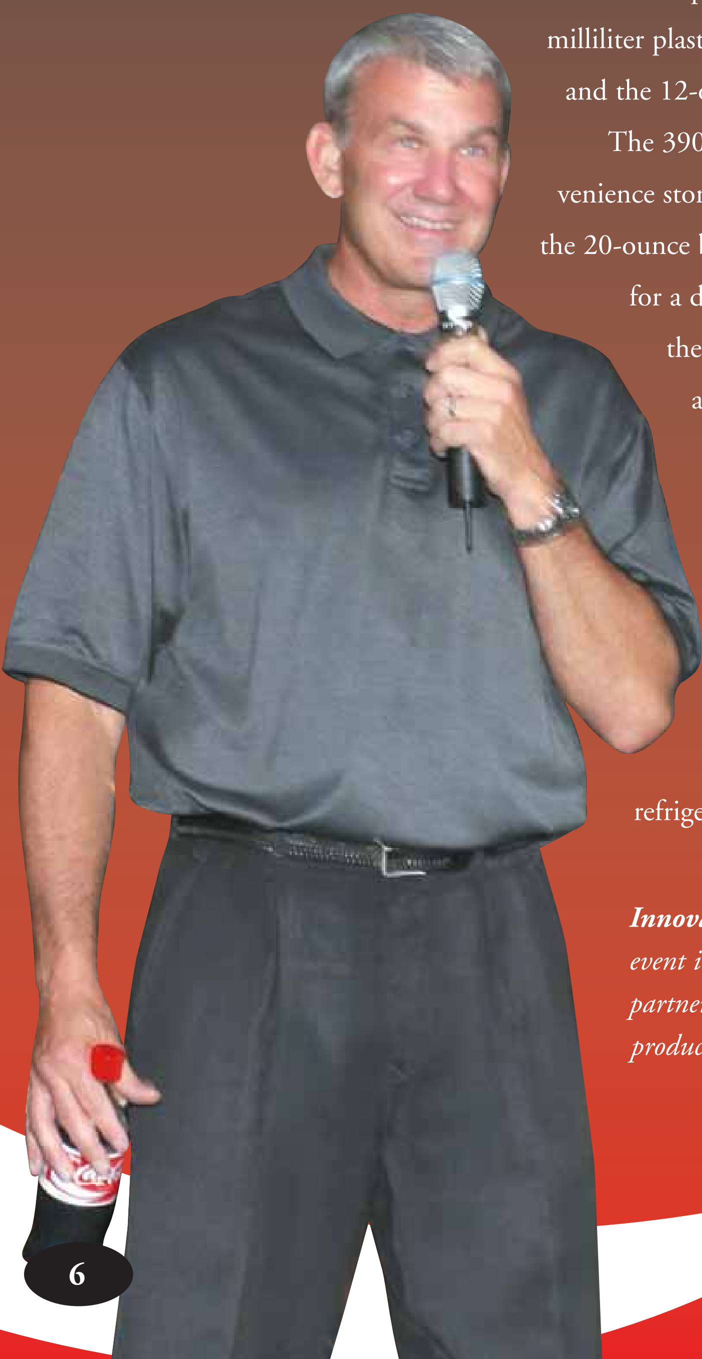
While Coca-Cola Bottling Co. Consolidated faced numerous obstacles in 2003, the year ended on a decidedly optimistic note with strong sales and improved pricing in the fourth quarter. Sales volume was affected by unusually bad weather in 2003, with the spring and summer the coolest and wettest on record for the Southeast. That, coupled with a struggling economy that saw job losses soar throughout our selling territories, led to an environment not conducive to sales growth.

The 'New News' is Still Packaging.

In 2003, The Coca-Cola Company continued to introduce new products, including Sprite Remix, but the 'new news' continued to be packaging. Last year, Coca-Cola Consolidated introduced several new innovative packages in parts of our selling territories, including the 390-milliliter plastic recyclable bottle, the double Fridge Pack in 12-ounce cans and the 12-ounce PET bottle Fridge Pack for carbonated soft drinks.

The 390-milliliter (13.2-ounce) bottle is part of our strategy for convenience stores and gives the purchaser a resealable package alternative to the 20-ounce bottle. This sleek contour bottle meets the consumer's desire for a distinctive Coca-Cola package. This package is being offered in the convenience store channel as an alternative to cans with the added benefits of resealability and better portability, while also offering us an opportunity to improve our profit margins.

Your Company continues to lead the industry in package innovation by being the first to offer the double Fridge Pack and the Fridge Pack for 12-ounce plastic bottles. The double Fridge Pack is being manufactured by robotic machinery designed by the Company. It is a consumer-friendly package that easily breaks apart into two refrigerator-ready Fridge Packs.



***Innovative marketing efforts** – as illustrated by this Speed Street event in Charlotte with Dale Jarrett that leveraged our powerful partnership with NASCAR – generate excitement about our products and encourage customer loyalty.*

The new 12-ounce PET bottle Fridge Pack for carbonated soft drinks gives consumers a resealable alternative to the aluminum can. This distinctive smaller contour bottle is generating significant consumer approval, especially from those looking for smaller packages.

From Conventional to Predictive

The Company is continuing to modify its distribution system. Over the last two years we have converted a large percentage of our sales in small grocery stores, convenience stores and drug stores from the conventional route sales model to a pre-sell or predictive selling method. Under the conventional system, a route salesperson was responsible for determining a customer's needs at each stop and filling that order from inventory on the truck. But, with the pre-sell method, sales personnel either visit or call a customer to determine exactly what the customer needs, so that each order can be custom-built and loaded on the delivery truck. This predictive sales method has been widely used by other bottlers for years, but given the rural nature of much of our selling territories we deemed it inappropriate for our business in the past. However, as our product line expands and the technology to predict sales patterns improves, we believe this will be a more effective method for our business. Over the last several years we have added significant numbers of new product and package combinations. The predictive nature of pre-sell has enabled us to add these new products while also reducing sales center inventories.

We have also made our sales and distribution centers more efficient by consolidating operations. In the last three years, we have reduced the number of distribution centers from 71 to 56, creating a more streamlined and efficient distribution network.

__Innovative brands__ such as Sprite Remix, which has been one of our most successful product launches this year, help drive our success and illustrate the importance of our strong partnership with The Coca-Cola Company.

Key Relationships

Our most important relationship is with our employees. Our newly articulated Mission Statement sets the ambitious goal to make, sell and deliver soft drinks better than anyone else. We could not attempt to achieve that goal without the best employees in the business.

The Company's relationship with The Coca-Cola Company and other Coca-Cola bottlers is critical to our success. Those relationships are strong, with a renewed sense of partnership and cooperation. The Coca-Cola Company has embraced innovation in products and packaging and is taking significant steps to help its bottler system meet new consumer demands.

Over the last several years we have been working more closely with other Coca-Cola bottlers to coordinate production, purchasing and customer management. Last year was the first full year for the Coca-Cola Bottlers' Sales and Services Company (CCBSS), a purchasing cooperative that should enable us to achieve significant savings in the procurement of packaging and raw materials.

Challenges and Opportunities

Several years ago we reached some key conclusions that we believe are fundamental to our future. These include: that dramatic productivity gains were imperative, that capital spending levels needed to be significantly reduced and made more strategic, that we needed to decrease leverage to improve the financial health of the Company and, because we are in the demand fulfillment business, we must focus on making, selling and delivering soft drinks.

Through process change and streamlining our operations, we improved our supply chain productivity by 25 percent. After a period of accelerated growth and accompanying high levels of capital spending, volume growth in the soft drink industry has been relatively flat for the last three years. At the same time, we have added more than 200 product and package combinations, requiring us to make significant productivity gains. By consolidating sales centers and adjusting our selling functions, we have been able to introduce these large numbers of packages and products while reducing sales center

In 2003, for the third year in a row, we were presented with The Coca-Cola Company's President's Award for Quality Excellence in recognition of our commitment to quality during the previous year.

inventories. Our capital expenditures have been reduced by approximately 50 percent from two years ago and we have repaid more than $200 million in debt over the last four years. These strategic steps have prepared us to meet the challenges of an evolving refreshment beverage environment.

While carbonated soft drinks still comprise the largest segment of our business, water, juices, sports drinks and other noncarbonated refreshment beverages are becoming increasingly important categories. Dasani continues to be an important brand for us in the growing water category. However, it is not growing at the skyrocketing levels of the previous two to three years. With strong support from The Coca-Cola Company, POWERade is leading the sports drink category in growth. Minute Maid lemonade and juice drinks continue to show solid growth rates.

The soft drink industry has been unfairly criticized by activist groups and some in the media as a cause of the increasing problem of obesity, with our presence in schools receiving the most attention. Obesity is indeed an issue, but a complex one with many causes, including overeating, increased television viewing, lack of physical activity and a generally sedentary lifestyle. Singling out any one food or beverage for blame is simplistic and defies common sense. To address the school issue, Coca-Cola Consolidated and the

*One of our latest **packaging innovations** is the Double Fridge Pack, just one of the new packages developed since we introduced the hugely successful Fridge Pack.*

entire Coca-Cola system have embraced a set of model guidelines to ensure that schools provide a wide variety of refreshment beverages, including juices and water, in compliance with all state, federal and local laws and regulations.

With this national focus on diet and exercise, we are very optimistic about the diet category. Without question, the Coca-Cola brand portfolio in the diet segment is vastly superior to all competitors. Diet Coke had solid growth in 2003, and we believe the addition of diet Coke with Lime to the already strong brand line-up of diet Cherry Coke, diet Vanilla Coke, Tab, Fresca and diet Sprite will produce solid sales growth in 2004 and beyond.

To make, sell and deliver soft drinks better than anyone else.

Our Values honor God:

- Accountability
- Consistency
- Courage and Conviction
- Discipline
- Honesty and Integrity
- Morality
- Optimism
- Respectfulness
- Supportiveness
- Trustworthiness

Our Actions reflect our Values and support our Mission:

We will …

- Be open and honest in everything we do.
- Do what we say we are going to do.
- Be committed to teamwork.
- Be focused on quality, service and excellence in all we do.
- Have clear objectives, measure results and celebrate success.
- Ensure that fellow employees always receive support, encouragement and respect.
- Be committed to continual development of ourselves and others.
- Compete vigorously and fairly in the marketplace.
- Not tolerate politically motivated behavior.
- Make decisions based on facts in the long-term best interest of the business.
- Strive for win/win solutions in all our dealings with others.
- Have a bias for action.
- Relentlessly focus on timely execution.
- Exhibit a positive attitude.

Our Goals:

We will strive to…

- Be a great company with great jobs and great rewards.
- Be a company known for building great relationships.
- Be leaders in the Coca-Cola system.
- Generate long-term growth in shareholder value.

Coca-Cola Bottling Co. Consolidated

Table of Contents

Management's Discussion and Analysis of Financial Condition and Results of Operations

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

- Our Business—a general description of the Company's business.
- Overview—a summary of key information concerning the financial results for 2003 and changes from 2002.
- Discussion of Critical Accounting Policies—a discussion of accounting policies that are most important to the portrayal of the Company's financial condition and results of operations and require critical judgments and estimates.
- Results of Operations—an analysis of the Company's results of operations for the three years presented in the financial statements.
- Financial Condition—an analysis of the Company's financial condition as of the end of the last two years presented in the financial statements.
- Liquidity and Capital Resources—an analysis of capital resources, sources and uses of cash, investing and 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 currently 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.

Overview

The following overview provides a summary of key information concerning the Company's financial results for fiscal year 2003 and changes from fiscal year 2002.

Net Income

The Company reported net income of $30.7 million or $3.40 per basic share in 2003 compared with net income of $22.8 million or $2.58 per basic share in 2002. Lower interest expense and minority interest expense in 2003 offset a $9.9 million decline in income from operations, resulting in income before income taxes in 2003 of $38.1 million, unchanged from 2002. Significant favorable income tax expense

Management's Discussion and Analysis of Financial Condition and Results of Operations

adjustments in 2003 led to an effective tax rate of 19% in 2003 versus 40% in 2002.

Significant Items Which Impacted Net Income

2003

Net income in 2003 was favorably impacted by $.9 million as a result of changes in certain benefit programs. The Company also recorded several adjustments, primarily resulting from a reduction in the valuation allowance for the Company's deferred tax assets as a result of the completion of a state tax audit and a reorganization of the Company's subsidiaries, which reduced income tax expense by $8.6 million.

2002

Net income in 2002 was favorably impacted by the reversal of an accrual of $2.3 million related to a retirement benefit payable to J. Frank Harrison, Jr., the former Chairman of the Board of Directors of the Company, who passed away in November 2002. As a partial offset, net income was reduced by approximately $1.3 million due to the termination of two interest rate hedging agreements in the fourth quarter.

Operations

Net sales and gross margin increased by approximately 1% in 2003 compared to the prior year. Bottle/can volume decreased by approximately 2% while average revenue per case increased by 2.1%. The decline in bottle/can volume resulted primarily from:

- The introduction of fewer new brands and packages in 2003 than in 2002;
- Certain large customers promoting the Company's products less aggressively;
- Difficult economic conditions in certain portions of the Company's territories; and
- Unusually cool and wet weather during key holiday periods and summer months.

The soft drink industry has seen a rapid increase in the number of brand and package combinations over the past few years as a result of changing consumer tastes combined with slowing industry-wide volume growth rates.

Average revenue per case increased in 2003 as the Company focused on maintaining gross margins while offsetting increases in raw material costs. The Company anticipates further selling price increases in 2004 in order to offset a significant projected increase in the cost of aluminum cans and to maintain its gross margins.

Selling, general and administrative ("S,G&A") expenses increased only 3.8% in 2003 compared to the prior year despite significant increases in pension expense, fuel costs and property and casualty insurance costs. Over the last two years, the Company has converted the majority of its distribution system from a conventional sales method to a pre-sell method in which sales personnel either visit or call a customer to determine the customer's requirements for their order. This pre-sell method has enabled the Company to add a significant number of new product and package combinations and provides the capacity to add additional product offerings in the future. In addition, the Company closed four sales distribution centers in 2003 as part of a multi-year effort to reduce overall costs and improve productivity. The combination of fewer sales distribution centers and

Management's Discussion and Analysis of Financial Condition and Results of Operations

the use of the pre-sell sales method will enable the Company to make its distribution network more efficient over time.

Income from operations in 2003 declined by $9.9 million or 10.6% compared to 2002 as modest increases in net sales and gross margin were not sufficient to offset higher S,G&A expenses.

Interest expense decreased by $7.2 million or 14.7% in 2003 primarily due to lower average interest rates. Minority interest expense declined by $2.7 million in 2003 due to the purchase by the Company of an additional interest in Piedmont Coca-Cola Bottling Partnership ("Piedmont") in March 2003.

Financial Condition

Over the past several years, the Company has been focused on decreasing financial leverage primarily by reducing its outstanding debt and capital lease obligations. During 2003, debt and capital lease obligations declined by $5.5 million despite the purchase of an additional interest in Piedmont in March 2003 for $53.5 million.

Another key performance indicator the Company uses to monitor its financial health is the ratio of income from operations divided by interest expense, which improved from 1.90 in 2002 to 1.99 in 2003. The improvement in this ratio resulted primarily from lower debt balances and a reduction in interest rates. The Company anticipates further reduction in debt and capital lease obligations in 2004.

Basis of Presentation

The statements of operations, statements of cash flows and the consolidated balance sheets for the years ending December 28, 2003 and December 29, 2002 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 last three quarters of 2003, 45.349% for the first quarter of 2003 and all of 2002 and 50% in 2001 and prior years. 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. The Company's investment in Piedmont had been accounted for using the equity method for 2001 and prior years. Generally accepted accounting principles require that results for 2001 be presented on an historical basis with the Company's investment in Piedmont accounted for under the equity method of accounting. Management's discussion and analysis for 2002 compared to 2001 compares actual 2002 results to pro forma 2001 results assuming that Piedmont had been consolidated in 2001.

Significant Events of Prior Years

On June 1, 1994, the Company executed a management agreement with South Atlantic Canners, Inc. ("SAC"), a manufacturing cooperative located in Bishopville, South Carolina. The cooperative consists solely of Coca-Cola bottlers. SAC produces bottle and can product for its members. The Company is a member of the cooperative and receives a fee for managing the day-to-day operations of SAC pursuant to a ten-year management agreement. This management agreement expires in May 2004. The Company anticipates negotiating a new agreement with SAC on terms substantially comparable to the current arrangement.

Management's Discussion and Analysis of Financial Condition and Results of Operations

On July 2, 1993, the Company and The Coca-Cola Company formed 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 business of Piedmont pursuant to a management agreement. The Company and The Coca-Cola Company, through their respective subsidiaries, each beneficially owned a 50% interest in Piedmont at December 30, 2001. As discussed below, the Company has increased its ownership interest in Piedmont since December 30, 2001 to 77.326% and The Coca-Cola Company's ownership in Piedmont has been reduced to 22.674%.

Acquisitions

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%. On March 28, 2003, the Company purchased an additional 22.675% interest in Piedmont from The Coca-Cola Company for $53.5 million. This transaction in 2003 increased the Company's ownership interest in Piedmont to 77.326%. The Company recorded $19.7 million of franchise rights and $5.2 million related to customer relationships in connection with these acquisitions of additional interests in Piedmont.

As of December 28, 2003, The Coca-Cola Company owned 27.4% of the Company's outstanding Common Stock and Class B Common Stock on a combined basis and had a 22.674% interest in Piedmont.

New Accounting Pronouncements

In November 2002, the Emerging Issues Task Force ("EITF") reached a consensus on Issue No. 02-16, "Accounting by a Customer (Including a Reseller) for Certain Consideration Received from a Vendor" ("EITF 02-16"), addressing the recognition and income statement classification of various considerations given by a vendor to a customer. Among its requirements, the consensus requires that certain cash consideration received by a customer from a vendor is presumed to be a reduction of the price of the vendor's products, and therefore should be characterized as a reduction of cost of sales when recognized in the customer's income statement, unless certain criteria are met. EITF 02-16 was effective for the first quarter of 2003. Previously, the Company classified marketing funding support received from The Coca-Cola Company and other beverage companies as an adjustment to net sales. In accordance with EITF 02-16, the Company began classifying marketing funding support as a reduction of cost of sales in the first quarter 2003. The application of EITF 02-16 did not have a significant impact on results of operations. Prior year amounts have been reclassified to conform to the current year presentation.

In January 2003, the Financial Accounting Standards Board ("FASB") issued Financial Interpretation No. 46 (revised December 2003), "Consolidation of Variable Interest Entities" ("FIN 46"). This interpretation addresses consolidation by business enterprises of variable interest entities with certain defined characteristics. Application of FIN 46 is required in the Company's financial statements for interests in variable interest entities that are considered to be special-purpose entities for the year ended December 28, 2003. The

Management's Discussion and Analysis of Financial Condition and Results of Operations

Company has determined that it does not have any arrangements or relationships with special-purpose entities. Application of FIN 46 for all other types of variable interest entities is required for the Company effective March 28, 2004. The Company anticipates that application of FIN 46 will not have a significant impact on its financial statements at this time.

In December 2003, the FASB issued Statement No. 132 (revised 2003), "Employers' Disclosures About Pensions and Other Postretirement Benefits," that requires additional financial statement disclosures for defined benefit plans. This revised statement replaces existing FASB disclosure requirements for defined benefit plans. The revised standard requires more disclosure about plan assets, benefit obligations, cash flows, benefit costs and other relevant information. The Company has adopted these disclosure provisions beginning with its 2003 year-end financial reporting.

Discussion of Critical Accounting Policies

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

The Company has not made changes in any critical accounting policies during 2003. The Company changed its estimate relating to the realizability of certain income tax assets during the second quarter and third quarter of 2003 as discussed below. Any significant changes in critical accounting policies and estimates are discussed with the Audit Committee of the Board of Directors of the Company during the quarter in which a change is contemplated and prior to making any change.

Allowance for Doubtful Accounts

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

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

Management's Discussion and Analysis of Financial Condition and Results of Operations

Property, Plant and Equipment

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

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

Franchise Rights

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

Impairment Testing of Franchise Rights and Goodwill

The only intangible assets the Company classifies as indefinite lived are franchise rights and goodwill. SFAS No. 142 requires testing of intangible assets with indefinite lives and goodwill for impairment at least annually. The Company completed its annual impairment test for 2003 in the third quarter.

For the annual impairment analysis of franchise rights, the fair value for the Company's acquired franchise rights is estimated using a multi-period excess earnings approach. This approach involves projecting future earnings, discounting those estimated earnings using an appropriate discount rate and subtracting a contributory charge for net working capital, property, plant and equipment, assembled workforce and customer relationships to arrive at excess earnings attributable to franchise rights. The present value of the excess earnings attributable to franchise rights is their estimated fair value and is compared to the carrying value on an aggregate basis. Based on this analysis, there was no impairment of our recorded franchise rights in 2003. The projection of earnings includes a number of assumptions such as projected net sales, cost of sales, operating expenses and income taxes. Changes in the assumptions required to estimate the present value of the excess earnings attributable to franchise rights could materially impact the fair value estimate.

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

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

The estimated fair value of the enterprise is then compared to the Company's carrying amount including goodwill. If the estimated fair value of the Company exceeds its carrying amount, goodwill will be considered not impaired and the second step of the SFAS No. 142 impairment test will not be necessary. If the carrying amount including goodwill exceeds its estimated fair value, the second step of the impairment test will be performed to measure the amount of the impairment, if any. Based on this analysis, there was no impairment of our recorded goodwill in 2003. The discounted cash flow analysis includes a number of assumptions such as projected sales volume, net sales, cost of sales and operating expenses. Changes in these assumptions could materially impact the fair value estimate of the enterprise.

Deferred Tax Assets

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

The Company's valuation allowance of $16.8 million at December 28, 2003 relates principally to state net operating loss carryforwards. During the second and third quarters of 2003, the Company adjusted its valuation allowance related to certain deferred tax assets. During the second quarter of 2003, the Company reduced its valuation allowance upon the completion of a state income tax audit which resulted in a favorable adjustment to income tax expense of $3.1 million. During the third quarter of 2003, in conjunction with a reorganization of certain of the Company's subsidiaries and corresponding assessment of the Company's ability to utilize certain state net operating loss carryforwards, the Company reduced its valuation allowance related to such carryforwards. This reduction in the valuation allowance reduced income tax expense by $6.5 million in the third quarter.

Pension and Postretirement Benefits Obligations

The Company sponsors pension plans covering substantially all full-time nonunion employees who meet eligibility requirements. Several statistical and other factors, which attempt to anticipate future events, are used in calculating the expense and liability related to the plans. These factors include assumptions about the discount rate, expected return on plan assets, employee turnover, age at retirement and rate of future compensation increases as determined by the Company, within certain guidelines. In addition, the Company's actuarial consultants also use subjective factors such as withdrawal and mortality rates to estimate the projected benefit obligation. The actuarial assumptions used by the Company may differ materially from actual results due to changing market and economic conditions, higher or lower withdrawal rates or longer or shorter life spans of participants. These differences may result in a significant impact to the amount of net periodic pension cost recorded by the Company in future periods. In 2003, the discount rate used in determining the actuarial present value of the projected benefit obligation for the Company's nonunion pension plans decreased to 6.25% from 7.00% in 2002 due to declining interest rates for long-term corporate bonds, which serve as the benchmark for determination of the discount rate. The discount rate assumption is generally the estimate which can have the most significant impact on net periodic pension cost and the projected benefit obligation for these nonunion pension plans. The Company determines an appropriate discount rate annually based on the annual yield on long-term corporate bonds as of the measurement date.

A .25% increase or decrease in the discount rate assumption at the beginning of 2003 would have impacted the projected benefit obligation and net periodic pension cost as follows:

In Thousands

Impact on	.25% Increase	.25% Decrease
Projected benefit obligation at December 28, 2003	$(6,371)	$6,797
Net periodic pension cost in 2003	(930)	989

The weighted average expected long-term rate of return of plan assets was reduced from 9.0% for 2002 to 8.0% for determination of 2003 pension expense. This rate reflects an estimate of long-term future returns for the pension plan assets. This estimate is primarily a function of the asset classes (equities versus fixed income) in which the pension plan assets are invested and the analysis of past performance of these asset classes over a long period of time. This analysis includes expected long-term inflation and the risk premiums associated with equity and fixed income investments.

The Company sponsors a postretirement health care plan for employees meeting specified qualifying criteria. Several statistical and other factors, which attempt to anticipate future events, are used in calculating the net periodic postretirement benefit cost and postretirement benefit obligation for this plan. These factors include assumptions about the discount rate and the expected growth rate for the cost of health care benefits. In addition, the Company's actuarial consultants also use subjective factors such as withdrawal and mortality rates to estimate the projected liability under this plan. The actuarial assumptions used by the Company may differ materially from actual results due to changing market and economic conditions, higher or lower withdrawal rates or longer or shorter life spans of participants. In 2003, the discount rate used in the actuarial estimates for the Company's postretirement health care plan decreased to 6.00% from 6.75% in 2002 due to declining interest rates for long-term corporate bonds.

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

A .25% increase or decrease in the discount rate assumption at the beginning of 2003 would have impacted the projected benefit obligation and net periodic postretirement benefit cost as follows:

In Thousands

Impact on	.25% Increase	.25% Decrease
Postretirement benefit obligation at December 28, 2003	$(1,246)	$1,306
Net periodic postretirement benefit cost in 2003	(113)	119

A 1% increase or decrease in the annual health care cost trend for 2003 would have impacted the postretirement benefit obligation and net periodic postretirement benefit cost as follows:

In Thousands

Impact on	1% Increase	1% Decrease
Postretirement benefit obligation at December 28, 2003	$5,857	$(5,122)
Net periodic postretirement benefit cost in 2003	523	(456)

On December 8, 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the "Act") was enacted. The Act introduces a prescription drug benefit under Medicare as well as a federal subsidy to sponsors of retiree health care benefit plans. The postretirement benefit obligation as of December 28, 2003 and the net periodic postretirement benefit cost in 2003 do not reflect the effects of the Act since enactment occurred after the Company's postretirement plan measurement date of September 30, 2003. The Company has not determined what, if any, impact the Act will have on the Company's costs for future postretirement benefits.

Results of Operations

2003 COMPARED TO 2002

Net Income

The Company reported net income of $30.7 million or $3.40 per basic share for fiscal year 2003 compared with net income of $22.8 million or $2.58 per basic share for fiscal year 2002. Significant items which impacted net income during 2003 and 2002 are discussed in the "Overview" section.

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Net Sales and Gross Margin

The Company's net sales increased approximately 1% in 2003 compared to 2002. This increase in net sales reflected growth in average revenue per case and contract sales, which more than offset an approximate 2% decline in bottle/can volume. For 2003, average revenue per case increased by 2.1% compared to 2002. Some of the factors contributing to the decline in bottle/can volume in 2003 are discussed below:

- While 2002 saw the introduction of numerous new brands and packages, there were not as many new product introductions during 2003. Brand and package introductions during 2003 included Sprite Remix, 12-ounce PET bottles in Fridge Pack™ for future consumption channels and a 390 ml PET bottle package for immediate consumption channels. New brands and packages in 2002 included Vanilla Coke, diet Vanilla Coke, diet Cherry Coke, Fanta flavors, the Dasani Fridge Pack™, Minute Maid Lemonade, Minute Maid Pink Lemonade and the full rollout of Fridge Pack™ cans in all of the Company's territories. New brands and packages usually stimulate consumer demand resulting in increased sales. The short-term increase in sales from new brands and packages generally exceeds sustained growth as evidenced during 2003.
- Some of the Company's largest customers are chain grocery stores. During 2003, certain chain grocery store customers were less aggressive in their promotion of the Company's products resulting in volume declines for those customers. The Company believes that some of the volume declines in these chains are offset by higher volume in other retail outlets that more aggressively promoted the Company's products.
- General economic conditions also impacted the Company's results during 2003. Higher unemployment levels, particularly in certain areas of North Carolina, negatively impacted the Company's sales channel that includes manufacturing plants, where volume for the year declined.
- Operating results for 2003 were also adversely affected by unusually cool and wet weather throughout much of the Company's territory during the key Memorial Day holiday period, the early weeks of June and most of July and August.
- Noncarbonated beverages, which include bottled water, juices and isotonics, grew at a much slower rate in 2003 than in the past several years and comprised 10.5% of the Company's total sales volume in 2003 compared to 10.0% in 2002.

Contract sales to other Coca-Cola bottlers, which totaled $69.2 million in 2003, increased by 13% during 2003 compared to 2002. Sales to other bottlers allowed the Company to achieve a higher utilization of its production facilities, thus improving overall efficiency of operations.

As previously discussed, the Company adopted the provisions of EITF 02-16 at the beginning of 2003. As a result, the Company has recorded marketing funding support from The Coca-Cola Company and other beverage companies as a reduction in cost of sales. Prior year marketing funding support was reclassified from net sales to cost of sales to conform to the current year presentation.

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The Company's products are sold and distributed directly by its employees to retail stores and other outlets. During 2003 and 2002, approximately 70% and 69%, respectively, of the Company's physical case volume was sold for future consumption. The remaining 30% and 31% in 2003 and 2002, respectively, of the Company's volume was sold for immediate consumption through various cold drink outlets. The Company's largest customer (Wal-Mart Stores, Inc.) accounted for approximately 11% of the Company's total sales volume in 2003.

Gross margin increased by 1% in 2003 compared to 2002 as the increase in average revenue per case more than offset both a 2% decline in bottle/can volume and a modest 1% increase in cost of sales on a per unit basis. Gross margin on contract sales to other Coca-Cola bottlers was flat compared to the prior year. The Company's gross margin percentage of 48.3% in 2003 was unchanged compared to 2002. 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,G&A expenses.

Cost of Sales and Operating Expenses

Cost of sales on a per unit basis increased 1% for 2003 compared to 2002. The increase in cost of sales on a per unit basis resulted primarily from modest increases in raw material costs. 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.

The Company anticipates that the cost of aluminum cans will increase significantly in 2004 as compared to prior years. As a result, the Company is focused on managing its selling prices in 2004 in order to offset higher raw material costs and to maintain its gross margins.

During 2003, the Company and all other Coca-Cola bottlers in the U.S. formed Coca-Cola Bottling Sales and Services Company ("CCBSS") for the purpose of facilitating various procurement functions and distributing certain specified beverage products of The Coca-Cola Company. CCBSS is responsible for negotiating contracts for most of the significant raw materials (other than concentrates and syrups) purchased by the Company. The Company anticipates that in future years CCBSS will increase purchasing efficiency for Coca-Cola bottlers and help reduce future increases in cost of sales.

The Company relies extensively on advertising and sales promotion in the marketing of its products. The Coca-Cola Company and other beverage companies that supply concentrates, syrups and finished products to the Company make substantial marketing and advertising expenditures to promote sales in the local territories served by the Company. The Company also benefits from national advertising programs conducted by The Coca-Cola Company and other beverage companies. Certain of the marketing expenditures by The Coca-Cola Company and other beverage companies are made pursuant to annual arrangements. Although The Coca-Cola Company has advised the Company that it intends to provide marketing funding support in 2004, it is not obligated to do so under the Company's Bottle Contracts. Significant decreases in marketing funding support from The Coca-Cola Company or other beverage companies could adversely impact operating results of the Company. Total marketing funding support from The Coca-Cola Company and other beverage companies, which includes direct payments to the Company, payments to customers for marketing programs and the Strategic Growth Initiative ("SGI") payments, was $60.8 million in 2003 versus $64.1 million in 2002 and was recorded as a reduction in cost of sales. In 2003 and 2002, The Coca-Cola Company offered through SGI an opportunity for the Company to receive marketing funding support, subject to the Company's achievement of certain volume performance requirements. The Company recorded $3.2 million and $2.3 million as a reduction in cost of sales related to SGI during 2003 and 2002, respectively. In 2002, the Company could have received a total of $6.3 million in cash in incremental marketing funding support under SGI as a result of its volume performance. Instead, the Company requested The Coca-Cola Company reinvest $4.0 million of this funding in additional local media and the balance of the funding, or $2.3 million, was received by the Company in cash.

S,G&A expenses for 2003 increased by 3.8% compared to the prior year. The increase was attributable primarily to increases in employee compensation and employee benefit plans (including costs related to the Company's pension plans), property and casualty insurance costs and fuel costs. Based on the performance of the Company's pension plan investments prior to 2003 and a lower discount rate, pension expense increased from $6.2 million in 2002 to $9.7 million in 2003. Based upon interest rates at the measurement date on November 30, 2003, the Company anticipates that pension expense will further increase by approximately $1 million in 2004. Property and casualty insurance costs increased by $3.0 million or 20.7% during 2003 compared to 2002. Management believes that while its property and casualty insurance costs will increase in 2004, it will be at a lower rate than the Company experienced in 2002 and 2003. Fuel costs increased by $1.5 million or 16.1% during 2003 over 2002 partially due to an increase in vehicles related to a change in the Company's distribution system and also due to higher rates for fuel. Costs related to the restricted stock award for the Company's Chairman of the Board of Directors were $1.8 million in 2003 compared to $2.3 million in 2002. Changes in certain benefit programs for officers of the Company reduced expenses by $1.4 million in 2003.

The Company closed four sales distribution centers during 2003 in addition to the eight centers closed in 2002. 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 customers locations are included in S,G&A expenses and totaled $168.1 million and $165.8 million in 2003 and 2002, respectively. Customers do not pay the Company separately for shipping and handling costs.

The S,G&A expense line item includes the following: sales management labor costs, costs of distribution from sales distribution centers to customer locations, sales distribution center

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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 costs.

Depreciation Expense

Depreciation expense increased $.4 million or less than 1% for 2003 compared to 2002. Capital expenditures during 2003 amounted to $57.8 million compared to $57.3 million in 2002. The Company is in the process of implementing an upgrade of its Enterprise Resource Planning (ERP) computer software systems, which is anticipated to take several years to complete. In 2003, the Company capitalized $6.5 million related to the new ERP software. The Company anticipates using a portion of the new ERP software beginning in 2004.

Income from Operations

Income from operations for 2003 declined by $9.9 million from 2002. The decrease in income from operations was primarily attributable to higher operating expenses and relatively flat net sales.

Interest Expense

Interest expense for 2003 of $41.9 million decreased by $7.2 million or 14.7% from $49.1 million in 2002. The decrease in interest expense was primarily attributable to lower average interest rates on the Company's outstanding debt. Interest expense during the fourth quarter of 2002 included $2.2 million due to the termination of interest rate swap agreements related to the Company's long-term debt that was retired early. The Company's overall weighted average interest rate decreased from an average of 5.6% during 2002 to an average of 4.9% during 2003.

Debt and capital lease obligations decreased from $853.8 million at December 29, 2002 to $848.3 million at December 28, 2003. Debt and capital lease obligations at December 28, 2003 and December 29, 2002 included $45.6 million and $46.0 million, respectively, attributable to capital leases. Cash flow was sufficient to allow the Company to purchase the additional interest in Piedmont for $53.5 million and repay $5.5 million in debt and capital lease obligations.

Minority Interest

The Company recorded minority interest expense of $3.3 million in 2003 compared to $6.0 million in 2002 related to the portion of Piedmont owned by The Coca-Cola Company. The decreased amount in 2003 was primarily due to the purchase by the Company of an additional interest in Piedmont as previously discussed.

Income Taxes

The Company's effective income tax rates for 2003 and 2002 were approximately 19% and 40%, respectively.

During 2003, the Company recorded several adjustments to income tax expense. During the second quarter of 2003, the Company reduced its valuation allowance upon the completion of a state income tax audit which resulted in a favorable adjustment to income tax expense of $3.1 million. During the third quarter of 2003, in conjunction with a reorganization of certain of the Company's subsidiaries and a corresponding assessment of the Company's ability to utilize certain state net operating loss carryforwards, the Company reduced its valuation allowance related to such carryforwards. This reduction in the valuation allowance reduced

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income tax expense by $6.5 million in the third quarter. An income tax benefit of approximately $1.6 million was recorded in the fourth quarter related to the return of certain insurance premiums primarily in conjunction with the elimination of a split-dollar life insurance program for officers of the Company. As a partial offset to these favorable adjustments, the Company decided to terminate certain Company-owned life insurance policies and recorded additional income tax expense of $2.6 million in the third and fourth quarters of 2003 related to the taxable value of these policies.

2002 COMPARED TO PRO FORMA 2001

Net Income

The Company reported net income of $22.8 million or $2.58 per basic share for fiscal year 2002 compared with net income of $9.0 million or $1.03 per basic share for fiscal year 2001. Net income for 2002 was favorably impacted by a $21.0 million pre-tax reduction in amortization expense associated with the adoption of SFAS No. 142 and the reversal of an accrual of $2.3 million, net of tax, related to a retirement benefit payable to J. Frank Harrison, Jr., the former Chairman of the Company, who passed away in November 2002. Net income for 2002 was reduced during the fourth quarter by a $1.3 million expense, net of tax, related to the termination of two interest rate hedging agreements. Net income for 2001 was favorably impacted by an income tax benefit of $2.9 million, which resulted from the settlement of certain income tax matters with the Internal Revenue Service.

Net Sales and Gross Margin

The Company's net sales for 2002 were $1.2 billion, an increase of 4.3% compared to 2001. The increase in net sales was due to an increase in physical case volume of 3.4%, higher sales to other Coca-Cola bottlers and an increase of slightly less than 1% in average revenue per case compared to 2001. Sales volume of carbonated beverages increased by 2.1% for 2002 over 2001. In addition, the Company continued to experience strong volume growth for its bottled water, Dasani. New packaging, including the Dasani Fridge Pack™, and increased availability in retail outlets contributed to an increase in volume of more than 40% for Dasani during 2002. The Company introduced Vanilla Coke during the second quarter of 2002 and introduced diet Vanilla Coke and diet Cherry Coke during the fourth quarter of 2002. The introduction of these additional options in the cola category led to an increase in total cola volume of approximately 1% in 2002 compared to approximately 3% in 2001. Fanta flavors and Minute Maid Lemonade, introduced in 2002, favorably impacted volume growth. The Company introduced Minute Maid Pink Lemonade during the third quarter of 2002. POWERade continued to show solid growth with volume increasing by approximately 22% over 2001. Noncarbonated beverages, which include bottled water, juices and isotonics, comprised approximately 10% of the Company's total sales volume in 2002 compared to approximately 8% in 2001.

Gross margin increased by 5.7% for 2002. Gross margin as a percentage of net sales increased from 47.7% in 2001 to 48.3% in 2002. The improvement in gross margin as a percentage of net sales reflected modest increases in selling prices in future consumption packages offset by planned decreases in selling prices in immediate consumption packages in certain channels. These changes in selling prices resulted in growth in average revenue per case of slightly less than 1% for the year and have led to favorable shifts in channel mix, which

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combined with lower cost of sales on a per unit basis, have driven the increase in gross margin.

During 2002 and 2001, approximately 69% of the Company's physical case volume was sold for future consumption. The remaining 31% of the Company's volume was sold for immediate consumption in 2002 and 2001.

Cost of Sales and Operating Expenses

Cost of sales on a per unit basis decreased by less than 1% in 2002 compared to 2001. Packaging costs decreased slightly compared to the prior year. Increases in other raw material costs have been offset largely by productivity improvements.

Total marketing funding support from The Coca-Cola Company and other beverage companies, which included direct payments to the Company (including SGI discussed below) combined with payments to customers for marketing programs were $64.1 million in 2002 versus $65.3 million in 2001. In 2002, The Coca-Cola Company offered through its SGI an opportunity for the Company to receive additional marketing funding support subject to meeting certain volume performance requirements. Under this program, the Company could have received a total of $6.3 million in cash in incremental marketing funding support in 2002 as a result of its volume performance. Instead, the Company requested The Coca-Cola Company reinvest $4.0 million of this funding in additional local media and the balance of the funding, or $2.3 million, was received by the Company in cash.

S,G&A expenses for 2002 increased 6.4% from 2001. The increase in S,G&A expenses was primarily attributable to increases in employee compensation and employee benefit plans (including costs related to the Company's pension plans), increases in insurance costs, increases in marketing expenses and certain expenses related to the closing of sales distribution facilities. Property and casualty insurance costs increased by $4.0 million or 37% during 2002. Costs related to the restricted stock award for the Company's Chairman of the Board of Directors increased from $1.4 million in 2001 to $2.3 million in 2002, due to the increased market price of the Company's stock during 2002. Shipping and handling costs related to the movement of finished goods from sales distribution centers to customer locations are included in S,G&A expenses and totaled $165.8 million and $150.7 million in 2002 and 2001, respectively. The Company reversed an accrual of $3.8 million related to a retirement benefit payable to J. Frank Harrison, Jr., the former Chairman of the Company, who passed away in November 2002.

Based on the performance of the overall equity markets in 2001 and a lower discount rate, pension expense increased from $2.0 million in 2001 to $6.2 million in 2002. Claim costs related to the Company's health care insurance program increased by $3.1 million or 14.1% during 2002.

Depreciation Expense

Depreciation expense in 2002 increased $4.5 million or 6.3% from 2001. The increase was due to the amortization of a capital lease for the Company's Charlotte, North Carolina production/distribution center and the purchase during the second quarter of 2001 of approximately $49 million of cold drink equipment that had previously been leased. The production/distribution center lease obligation was capitalized at the end of the first quarter of 2002 as the Company received a renewal option to extend the term of the lease, which it expects to exercise. The production/distribution lease was previously

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accounted for as an operating lease. Capital expenditures during 2002 amounted to $57.3 million compared to $101.6 million in 2001. Capital expenditures during 2001 included the purchase of approximately $49 million of leased equipment as previously discussed.

Provision for Impairment of Property, Plant and Equipment

The Company recorded a provision for impairment of certain real estate of $.9 million in the fourth quarter of 2001. The impairment charge reflected an adjustment to estimated net realizable value of real estate which was no longer required for the Company's ongoing operations.

Interest Expense

Interest expense for 2002 of $49.1 million decreased by $8.7 million or 15.0% from 2001. The decrease in interest expense was primarily attributable to lower average interest rates on the Company's outstanding debt and lower debt balances. Interest expense during the fourth quarter of 2002 included $2.2 million due to the termination of interest rate hedging agreements related to the Company's long-term debt that was retired early. The Company's overall weighted average interest rate decreased from an average of 6.5% during 2001 to an average of 5.6% during 2002. Debt and capital lease obligations decreased from $878.4 million at December 30, 2001 to $853.8 million at December 29, 2002. Debt and capital lease obligations at December 29, 2002 included $41.6 million attributable to a lease that was capitalized during the first quarter of 2002.

Minority Interest

The Company recorded minority interest expense of $6.0 million in 2002 compared to $.4 million in 2001 related to the portion of Piedmont owned by The Coca-Cola Company. The increased amount in 2002 was due to improved operating results at Piedmont. Piedmont's operating results were favorably impacted by the reduction in amortization expense associated with the adoption of SFAS No. 142. Amortization expense decreased at Piedmont by $8.4 million in 2002 compared to 2001.

Income Taxes

The effective tax rate for federal and state income taxes was approximately 40% in 2002 versus approximately 18% in 2001. The Company's income tax rate for 2001 was favorably impacted by the $2.9 million settlement of certain income tax issues with the Internal Revenue Service.

Financial Condition

Total assets decreased slightly from $1.354 billion at December 29, 2002 to $1.350 billion at December 28, 2003.

Net working capital, defined as current assets less current liabilities, increased by $40.2 million to $66.4 million at December 28, 2003 from $26.2 million at December 29, 2002.

The most significant change in net working capital resulted from the reclassification of cash surrender value on certain Company-owned life insurance policies of $27.8 million from other noncurrent assets resulting from the Company's decision to terminate certain life insurance policies. The Company anticipates it will receive the proceeds from the surrender of these policies during 2004.

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The proceeds will be used to fund contributions to the Company's nonunion pension plans and repay debt. Other changes in net working capital include a decline in accounts receivable, other of $6.3 million, an increase in accounts receivable from The Coca-Cola Company of $5.1 million and a decrease in accounts payable to The Coca-Cola Company of $9.7 million. The decline in accounts receivable, other was primarily due to the receipt of life insurance proceeds of $6.8 million. The life insurance proceeds related to certain policies covering J. Frank Harrison, Jr., the former Chairman of the Board of Directors of the Company, who passed away in November 2002. The receipt of these proceeds had no impact on the results of operations for 2003. The increase in accounts receivable from The Coca-Cola Company was due to the timing of customer marketing reimbursements to the Company. The decrease in accounts payable to The Coca-Cola Company was due to the timing of payments by the Company.

Debt and capital lease obligations decreased from $853.8 million at December 29, 2002 to $848.3 million at December 28, 2003. The balance at December 28, 2003 includes $53.5 million of debt incurred to purchase an additional interest in Piedmont.

The Company had recorded a minimum pension liability adjustment of $20.6 million, net of tax, as of December 29, 2002 to reflect the difference between the fair market value of the Company's nonunion pension plan assets and the accumulated benefit obligation of the plans. The Company recorded an additional minimum pension liability adjustment of $3.2 million, net of tax, as of December 28, 2003. Contributions to the Company's pension plans were $12.4 million in 2003 and $13.5 million in 2002. The Company anticipates the contribution to its nonunion plans in 2004 will approximate $23 million to $24 million. The majority of the funds for the contributions in 2004 will be provided from the proceeds related to the termination and surrender of certain Company-owned life insurance policies. Due to the significant contributions made to the pension plans during 2002 and 2003 and the projected contribution to be made in 2004, the Company anticipates that contributions in the three years after 2004 will be lower than those during 2002 through 2004. The expectation of lower contributions in future years is contingent on certain plan variables including actual investment returns and the plan discount rate. Unfavorable trends in plan investment returns or the discount rate could result in higher than expected contributions to the pension plans in years after 2004.

The Company's pension expense and pension liability are affected by certain valuation assumptions including the expected rate of return on plan assets, the discount rate used to measure plan liabilities, participant service and wage rates, mortality and actual investment returns. Management of the Company, in conjunction with its consultants, evaluates all of these variables on an annual basis. Based upon its review of overall financial market conditions and anticipated future returns on pension plan investments, the Company reduced its expected long-term rate of return on plan assets from 9% in 2002 to 8% in 2003. The discount rate used to determine pension plan liabilities is a market based rate at the measurement date for the pension plan which is November 30 of each year. The discount rates as of November 30, 2003 and 2002 were 6.25% and 7.0%, respectively. The reductions in the expected rate of return on plan investments and the lower discount rate combined with lower than expected returns on plan investments during 2002 were responsible for the significant increase in pension expense as previously discussed.

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 December 28, 2003, 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 existing 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 financing from public markets. As of December 28, 2003, $700 million of the Company's total outstanding balance of debt and capital lease obligations of $848.3 million was financed through publicly offered debentures. 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 those institutions. The Company enters into credit arrangements only with institutions with investment grade credit ratings. The Company 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.

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.

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A summary of activity for 2003 and 2002 follows:

In Millions	**2003**	**2002**
Cash sources		
Cash provided by operating activities	$121.3	$132.0
Proceeds from the issuance of long-term debt	100.0	150.0
Other	6.0	15.9
Total cash sources	$227.3	$297.9
Cash uses		
Capital expenditures	$ 57.8	$ 57.3
Repayment of debt maturities and capital lease obligations	106.4	215.9
Acquisitions (net of cash acquired)	52.6	8.7
Dividends	9.0	8.9
Other	1.6	5.8
Total cash uses	$227.4	$296.6

Due primarily to net operating loss carryforwards, contributions to its pension plan and accelerated depreciation, the Company did not have any cash income tax payments during 2003. Based on current projections, the Company anticipates that beginning in 2005, the cash requirements for income taxes will increase significantly.

Investing Activities

Additions to property, plant and equipment during 2003 were $57.8 million compared to $57.3 million in 2002. Capital expenditures during 2003 were funded with cash flows from operations and from borrowings under the Company's available lines of credit. Leasing is used for certain capital additions when considered cost effective relative to other sources of capital. The Company currently leases two production facilities and several sales distribution and administrative facilities.

At the end of 2003, the Company had no material commitments for the purchase of capital assets other than those related to normal replacement of equipment. The Company considers the acquisition of bottling territories on an ongoing basis. 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 lines of credit. The Company is in the process of implementing an upgrade of its Enterprise Resource Planning (ERP) computer software systems, which is anticipated to take several years to complete. During 2003, the Company capitalized $6.5 million related to the new ERP software. The Company anticipates using a portion of the new ERP software beginning in 2004.

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 December 28, 2003, there were no amounts outstanding under this facility.

Management's Discussion and Analysis of Financial Condition and Results of Operations

In January 1999, the Company filed a shelf registration relating to up to $800 million of debt and equity securities. The Company has 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.

In November 2002, the Company issued $150 million of ten-year senior notes at a coupon rate of 5.00%. The proceeds from this issuance were used to repay borrowings under the Company's revolving credit facility and lines of credit, and to loan amounts to Piedmont to enable it to repay a $97.5 million term loan. In March 2003, the Company issued $100 million of twelve-year senior notes at a coupon rate of 5.30%. The proceeds from this issuance were used to purchase an additional interest in Piedmont for $53.5 million and repay a portion of the Company's $170 million term loan.

The Company also borrows periodically under its available lines of credit. These lines of credit, in the aggregate amount of $60.0 million at December 28, 2003, 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 $17.6 million under its lines of credit as of December 28, 2003. The lines of credit as of December 28, 2003 bore an interest rate of 1.52%. To the extent that these borrowings do not exceed the amount available under the Company's $125 million revolving credit facility, they are classified as noncurrent liabilities.

During 2002, Piedmont refinanced a $195 million term loan using the proceeds from a loan from the Company. The Company's source of funds for this loan to Piedmont included the issuance of $150 million of senior notes, its lines of credit, its revolving credit facility and available cash flow. Piedmont pays the Company interest on the loan at the Company's average cost of funds plus .50%. The loan matures on December 31, 2005. The Company plans to provide for Piedmont's future financing requirements under these terms.

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 $85 million term loan, the Company must maintain its public debt ratings at investment grade as determined by both Moody's and Standard and 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 December 28, 2003, the Company's debt ratings were as follows:

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

Management's Discussion and Analysis of Financial Condition and Results of Operations

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 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.

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 fiscal year 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.

During 2002, two of the Company's directors, J. Frank Harrison, Jr., Chairman Emeritus, and J. Frank Harrison, III, Chairman of the Board of Directors and Chief Executive Officer, entered into plans providing for sales of up to an aggregate total of 250,000 shares of the Company's Common Stock in accordance with Securities and Exchange Commission Rule 10b5-1. Shares sold under the plans were issuable to Mr. Harrison, Jr. and Mr. Harrison, III under stock option agreements that were granted in 1989 as long-term incentives. All 250,000 shares of Common Stock exercisable under the options were sold under the plans and the Company received proceeds of $7.2 million.

Off-Balance Sheet Arrangements

See Note 13 to the consolidated financial statements for details of the Company's off-balance sheet arrangements, including its operating lease commitments, debt guarantees, standby letters of credit and long-term contractual arrangements for certain prestige properties, athletic venues and other locations.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Aggregate Contractual Obligations

The following table summarizes the Company's contractual obligations and commercial commitments as of December 28, 2003:

	Payments Due by Period				
In Thousands	**Total**	**2004**	**2005-2006**	**2007-2008**	**2009 and Thereafter**
Contractual obligations:					
Long-term debt	$ 802,717	$ 78	$102,639	$100,000	$600,000
Capital lease obligations (1)	45,563	1,337	2,049	1,603	40,574
Purchase obligations (1)	40,000	40,000			
Other long-term liabilities (2)	58,584	3,487	6,829	6,769	41,499
Operating leases (1)	31,671	6,639	11,807	9,414	3,811
Long-term contractual arrangements (1)	26,348	5,342	9,073	6,814	5,119
Total contractual obligations	$1,004,883	$56,883	$132,397	$124,600	$691,003

(1) See Note 13 to the consolidated financial statements for additional information.

(2) Includes obligations under executive benefit plans and non-compete liabilities.

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.

During November 2002, the Company entered into three interest rate swap agreements in conjunction with the issuance of $150 million of senior notes and the refinancing of other Company debt as previously discussed. These interest rate swap agreements effectively converted $150 million of the Company's debt from a fixed rate to a floating rate and are accounted for as fair value hedges.

During the fourth quarter of 2002, the Company terminated two interest rate swap agreements classified as cash flow hedges. These two interest rate swaps hedged the cash flows on part of a variable rate term loan agreement the Company had outstanding. In conjunction with the issuance of $150 million of senior notes in November 2002, the variable rate term loan was repaid early. The term loan had a maturity of May 2003. Upon the repayment of the term loan, the cash flow hedges no longer qualified as hedges due to the fact that the variability of cash flows being hedged was eliminated with the repayment of the variable rate term loan, and thus the forecasted schedule of payments did not occur. Accordingly, the interest rate swap agreements were terminated and the resulting interest expense of $2.2 million was reflected in the 2002 statement of operations.

The Company has four forward interest rate agreements with twelve-month terms which fix short-term rates on certain components of the Company's floating rate debt. One of these forward interest rate agreements has been accounted for as a cash flow hedge. The other three forward interest rate agreements do not meet the criteria set forth in Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended, for hedge accounting and have been accounted for on a mark-to-market basis. The mark-to-market adjustment for these three forward interest rate agreements was an increase to interest expense of $0.1 million during 2003.

In conjunction with the issuance of $100 million of twelve-year senior notes in March 2003, the Company entered into two forward interest rate agreements to hedge the issuance price. These forward interest rate agreements were 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 will be amortized as a reduction of interest expense over the life of the related senior notes.

In July 2003, the Company entered into three interest rate swap agreements in conjunction with the $100 million of twelve-year senior notes previously mentioned. These interest rate swap agreements effectively converted $100 million of the Company's debt from a fixed rate to a floating rate and are accounted for as fair value hedges.

During 2003, 2002 and 2001, interest expense was reduced by $2.1 million, $1.9 million and $1.2 million, respectively, due to amortization of the deferred gains on previously terminated interest rate swap agreements and forward interest rate agreements. Interest expense will be reduced by the amortization of these deferred gains in 2004 through 2009 as follows: $1.9 million, $1.7 million, $1.7 million, $1.7 million, $1.7 million and $.9 million, respectively.

The weighted average interest rate of the Company's debt and capital lease obligations after taking into account the interest rate hedging activities was 4.9% as of December 28, 2003 compared to 5.0% at the end of 2002. The Company's overall weighted average interest rate on its debt and capital lease obligations in 2003 decreased to 4.9% from 5.6% in 2002. Before giving effect to forward rate agreements discussed below, approximately 46% of the Company's debt and capital lease obligations of $848.3 million as of December 28, 2003 was maintained on a floating rate basis and was subject to changes in short-term interest rates. The Company currently has three forward interest rate agreements that fix the interest rate through April 2004 on $150 million of floating rate debt. After giving effect to the forward interest rate agreements, approximately 29% of the Company's debt and capital lease obligations is subject to changes in short-term interest rates through April 2004.

If average interest rates for the floating rate component of the Company's debt and capital lease obligations increased by 1.0%, annual interest expense for the year ended December 28, 2003 would have increased by $2.5 million. This amount is determined by calculating the effect of a hypothetical interest rate change on our floating rate debt, including the effects of our interest rate swap agreements.

Cautionary Information Regarding Forward-Looking Statements

This Annual Report to Stockholders, 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, several 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;
- anticipated costs associated with property and casualty insurance;
- 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 regarding future income tax payments;
- 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 option 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 belief that FIN 46 will not have any significant impact on the Company's financial statements at this time;

- the Company's ability to issue $300 million of securities under acceptable terms under its shelf registration statement;
- the Company's belief that CCBSS will increase future purchasing efficiencies;
- the Company's belief that certain franchise rights are perpetual or will be renewed upon expiration;
- the Company's ability to extend its management agreement with SAC on terms comparable to the current agreement;
- the Company's ability to offset increases in raw material costs with selling price increases to maintain gross margins in 2004;
- the Company's intention to provide for Piedmont's future financing requirements; and
- management's belief that a trigger event will not occur under the Company's $85 million term loan.

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 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;
- changes in financial markets; and
- an inability to meet projections in acquired bottling territories.

Report of Management

The management of Coca-Cola Bottling Co. Consolidated (the "Company") is responsible for the preparation and integrity of the consolidated financial statements of the Company. The financial statements and notes have been prepared by the Company in accordance with generally accepted accounting principles and, in the judgment of management, present fairly the Company's financial position and results of operations. The financial information contained elsewhere in this annual report is consistent with that in the financial statements. The financial statements and other financial information in this annual report include amounts that are based on management's best estimates and judgments and give due consideration to materiality.

The Company maintains a system of internal accounting controls to provide reasonable assurance that assets are safeguarded and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

The Internal Audit Department of the Company reviews, evaluates, monitors and makes recommendations on both administrative and accounting controls, and acts as an integral, but independent, part of the system of internal controls.

The Company's independent auditors were engaged to perform an audit of the consolidated financial statements. This audit provides an objective outside review of management's responsibility to report operating results and financial condition. Working with the Company's internal auditors, the independent auditors perform tests, as appropriate, of the data included in the financial statements.

The Board of Directors discharges its responsibility for the Company's financial statements primarily through its Audit Committee. The Audit Committee meets periodically with the independent auditors, internal auditors and management. Both the independent auditors and internal auditors have direct access to the Audit Committee to discuss the scope and results of their work, the adequacy of internal accounting controls and the quality of financial reporting.

William B. Elmore
President and Chief Operating Officer

David V. Singer
Executive Vice President and Chief Financial Officer

Report of Independent Auditors

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

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, of cash flows and of changes in stockholders' equity present fairly, in all material respects, the financial position of Coca-Cola Bottling Co. Consolidated and its subsidiaries (the "Company") at December 28, 2003 and December 29, 2002, and the results of their operations and their cash flows for each of the three years in the period ended December 28, 2003 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 6 to the consolidated financial statements, the Company changed its accounting for goodwill and other intangible assets in 2002.

PricewaterhouseCoopers LLP

Charlotte, North Carolina
February 18, 2004

Consolidated Statements of Operations

	Fiscal Year		
In Thousands (Except Per Share Data)	**2003**	**2002**	**2001**
Net sales (includes sales to Piedmont of $71,170 in 2001)	**$1,210,765**	$1,198,335	$958,859
Cost of sales, excluding depreciation expense shown below (includes $53,033 in 2001 related to sales to Piedmont)	**625,448**	619,137	514,358
Gross margin	**585,317**	579,198	444,501
Selling, general and administrative expenses, excluding depreciation expense shown below	**422,456**	407,145	306,106
Depreciation expense	**76,485**	76,075	66,134
Provision for impairment of property, plant and equipment			947
Amortization of intangibles	**3,105**	2,796	15,296
Income from operations	**83,271**	93,182	56,018
Interest expense	**41,914**	49,120	44,322
Minority interest	**3,297**	5,992	
Income before income taxes	**38,060**	38,070	11,696
Income taxes	**7,357**	15,247	2,226
Net income	**$ 30,703**	$ 22,823	$ 9,470
Basic net income per share	**$ 3.40**	$ 2.58	$ 1.08
Diluted net income per share	**$ 3.40**	$ 2.56	$ 1.07
Weighted average number of common shares outstanding	**9,043**	8,861	8,753
Weighted average number of common shares outstanding—assuming dilution	**9,043**	8,921	8,821

See Accompanying Notes to Consolidated Financial Statements.

Consolidated Balance Sheets

In Thousands (Except Share Data) ASSETS	Dec. 28, 2003	Dec. 29, 2002
Current assets:		
Cash	**$ 18,044**	$ 18,193
Accounts receivable, trade, less allowance for doubtful accounts of $1,723 and $1,676	**82,222**	79,548
Accounts receivable from The Coca-Cola Company	**18,112**	12,992
Accounts receivable, other	**10,663**	17,001
Inventories	**36,891**	38,648
Cash surrender value of life insurance, net	**27,765**	
Prepaid expenses and other current assets	**6,981**	4,588
Total current assets	**200,678**	170,970
Property, plant and equipment, net	**446,708**	466,840
Leased property under capital leases, net	**43,109**	44,623
Other assets	**27,653**	58,167
Franchise rights, net	**520,672**	504,374
Goodwill, net	**102,049**	101,754
Other identifiable intangible assets, net	**9,051**	6,797
Total	**$1,349,920**	$1,353,525

See Accompanying Notes to Consolidated Financial Statements.

Coca-Cola Bottling Co. CONSOLIDATED

LIABILITIES AND STOCKHOLDERS' EQUITY	Dec. 28, 2003	Dec. 29, 2002
Current liabilities:		
Portion of long-term debt payable within one year	**$ 78**	$ 31
Current portion of obligations under capital leases	**1,337**	1,120
Accounts payable, trade	**39,493**	38,303
Accounts payable to The Coca-Cola Company	**10,996**	20,649
Other accrued liabilities	**52,492**	53,536
Accrued compensation	**18,999**	20,462
Accrued interest payable	**10,924**	10,649
Total current liabilities	**134,319**	144,750
Deferred income taxes	**156,094**	148,297
Pension and postretirement benefit obligations	**50,842**	47,040
Other liabilities	**74,457**	64,400
Obligations under capital leases	**44,226**	44,906
Long-term debt	**802,639**	807,725
Total liabilities	**1,262,577**	1,257,118
Commitments and Contingencies (Note 13)		
Minority interest	**34,871**	63,540
Stockholders' Equity:		
Convertible Preferred Stock, $100.00 par value:		
Authorized—50,000 shares; Issued—None		
Nonconvertible Preferred Stock, $100.00 par value:		
Authorized—50,000 shares; Issued—None		
Preferred Stock, $.01 par value:		
Authorized—20,000,000 shares; Issued—None		
Common Stock, $1.00 par value:		
Authorized—30,000,000 shares; Issued—9,704,951 and 9,704,851 shares	**9,704**	9,704
Class B Common Stock, $1.00 par value:		
Authorized—10,000,000 shares; Issued—3,028,866 and 3,008,966 shares	**3,029**	3,009
Class C Common Stock, $1.00 par value:		
Authorized—20,000,000 shares; Issued—None		
Capital in excess of par value	**97,220**	95,986
Retained earnings	**27,703**	6,043
Accumulated other comprehensive loss	**(23,930)**	(20,621)
	113,726	94,121
Less-Treasury stock, at cost:		
Common—3,062,374 shares	**60,845**	60,845
Class B Common—628,114 shares	**409**	409
Total stockholders' equity	**52,472**	32,867
Total	**$1,349,920**	$1,353,525

See Accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

	Fiscal Year		
In Thousands	**2003**	**2002**	**2001**
Cash Flows from Operating Activities			
Net income	**$ 30,703**	$ 22,823	$ 9,470
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation expense	**76,485**	76,075	66,134
Amortization of intangibles	**3,105**	2,796	15,296
Deferred income taxes	**7,357**	14,953	888
Provision for impairment of property, plant and equipment			947
Losses on sale of property, plant and equipment	**1,182**	3,381	1,297
Amortization of debt costs	**1,082**	809	830
Amortization of deferred gains related to terminated interest rate agreements	**(2,082)**	(1,927)	(1,183)
Undistributed earnings of Piedmont			(417)
Minority interest	**3,297**	5,992	
(Increase) decrease in current assets less current liabilities	**(41,519)**	(15,645)	44,418
(Increase) decrease in other noncurrent assets	**29,221**	12,700	(9,809)
Increase (decrease) in other noncurrent liabilities	**12,685**	10,358	(6,010)
Other	**(182)**	(357)	82
Total adjustments	**90,631**	109,135	112,473
Net cash provided by operating activities	**121,334**	131,958	121,943
Cash Flows from Financing Activities			
Proceeds from the issuance of long-term debt	**100,000**	150,000	
Payment of long-term debt	**(50,000)**		
Repayment of current portion of long-term debt	**(35,039)**	(251,708)	(2,385)
Proceeds from (repayment of) lines of credit, net	**(20,000)**	37,600	(12,900)
Cash dividends paid	**(9,043)**	(8,861)	(8,753)
Principal payments on capital lease obligations	**(1,340)**	(1,748)	(2,868)
Termination of interest rate swap agreements		(2,229)	6,704
Proceeds from settlement of forward interest rate agreements	**3,135**		
Debt issuance costs paid	**(1,039)**	(3,617)	
Proceeds from exercise of stock options		7,162	
Other	**(644)**	1,214	(230)
Net cash used in financing activities	**(13,970)**	(72,187)	(20,432)
Cash Flows from Investing Activities			
Additions to property, plant and equipment	**(57,795)**	(57,317)	(96,684)
Proceeds from the sale of property, plant and equipment	**2,845**	7,506	3,660
Acquisitions of companies, net of cash acquired	**(52,563)**	(8,679)	
Net cash used in investing activities	**(107,513)**	(58,490)	(93,024)
Net increase (decrease) in cash	**(149)**	1,281	8,487
Cash at beginning of year	**18,193**	16,912	8,425
Cash at end of year	**$ 18,044**	$ 18,193	$ 16,912
Significant non-cash investing and financing activities			
Capital lease obligations incurred	**$ 877**	$ 42,180	$ 456
Issuance of Class B Common Stock in connection with stock award	**1,254**	768	757

See Accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Changes in Stockholders’ Equity

In Thousands	Common Stock	Class B Common Stock	Capital in Excess of Par Value	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Loss	Treasury Stock	Total
Balance on December 31, 2000	$9,454	$2,969	$99,020	$(21,777)	$ —	$(61,254)	$28,412
Comprehensive income (loss):							
Net income				9,470			9,470
Net gain (loss) on derivatives, net of tax					(1,821)		(1,821)
Net change in minimum pension liability adjustment, net of tax					(10,984)		(10,984)
Total comprehensive income (loss)							(3,335)
Cash dividends paid							
Common ($1.00 per share)			(6,392)				(6,392)
Class B Common ($1.00 per share)			(2,361)				(2,361)
Issuance of Class B Common Stock		20	737				757
Balance on December 30, 2001	$9,454	$2,989	$91,004	$(12,307)	$(12,805)	$(61,254)	$17,081
Comprehensive income (loss):							
Net income				22,823			22,823
Net gain (loss) on derivatives, net of tax					1,821		1,821
Net change in minimum pension liability adjustment, net of tax					(9,637)		(9,637)
Total comprehensive income (loss)							15,007
Cash dividends paid							
Common ($1.00 per share)			(3,197)	(3,282)			(6,479)
Class B Common ($1.00 per share)			(1,191)	(1,191)			(2,382)
Issuance of Class B Common Stock		20	748				768
Exercise of stock options	250		6,912				7,162
Tax adjustment related to stock options			1,710				1,710
Balance on December 29, 2002	$9,704	$3,009	$95,986	$ 6,043	$(20,621)	$(61,254)	$32,867
Comprehensive income (loss):							
Net income				30,703			30,703
Net gain (loss) on derivatives, net of tax					(62)		(62)
Net change in minimum pension liability adjustment, net of tax					(3,247)		(3,247)
Total comprehensive income (loss)							27,394
Cash dividends paid							
Common ($1.00 per share)				(6,642)			(6,642)
Class B Common ($1.00 per share)				(2,401)			(2,401)
Issuance of Class B Common Stock		20	1,234				1,254
Balance on December 28, 2003	**$9,704**	**$3,029**	**$97,220**	**$ 27,703**	**$(23,930)**	**$(61,254)**	**$52,472**

See Accompanying Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

1. SIGNIFICANT ACCOUNTING POLICIES

Coca-Cola Bottling Co. Consolidated (the "Company") is engaged in the production, marketing and distribution of carbonated and noncarbonated beverages, primarily products of The Coca-Cola Company. The Company operates in portions of 11 states, principally in the southeastern region of the United States.

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

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 fiscal years presented are the 52-week periods ended December 28, 2003, December 29, 2002 and December 30, 2001. The Company's fiscal year ends on the Sunday closest to December 31.

On January 2, 2002, the Company purchased an additional interest in Piedmont Coca-Cola Bottling Partnership ("Piedmont") from The Coca-Cola Company, increasing the Company's ownership in Piedmont to more than 50%. Due to the increase in ownership, the results of operations, financial position and cash flows of Piedmont have been consolidated with those of the Company beginning in the first quarter of 2002. The Company's investment in Piedmont had been accounted for using the equity method for 2001 and prior years.

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

The Company's significant accounting policies are as follows:

Cash and Cash Equivalents

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

Credit Risk of Trade Accounts Receivable

The Company sells its products to large retail chain stores and other customers and extends credit, generally without requiring collateral, based on an ongoing evaluation of the customer's business prospects and financial condition. The Company monitors its exposure to losses on trade accounts receivable and maintains an allowance for potential losses or adjustments. The Company's trade accounts receivable are typically collected within approximately 30 days from the date of sale.

Inventories

Inventories are stated at the lower of cost, determined on the first-in, first-out method, or market.

Notes to Consolidated Financial Statements

Property, Plant and Equipment

Property, plant and equipment are recorded at cost and depreciated using the straight-line method over the estimated useful lives of the assets. Additions and major replacements or betterments are added to the assets at cost. Maintenance and repair costs and minor replacements are charged to expense when incurred. When assets are replaced or otherwise disposed of, the cost and accumulated depreciation are removed from the accounts and the gains or losses, if any, are reflected in the statement of operations. Gains or losses on the disposal of manufacturing equipment and manufacturing facilities are included in cost of sales. Gains or losses on the disposal of all other property, plant and equipment are included in selling, general and administrative ("S,G&A") expenses. Disposals of property, plant and equipment generally occur when it is not cost effective to repair an asset.

Impairment of Long-lived Assets

The Company evaluates long-lived assets and certain identifiable intangibles for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. When undiscounted future cash flows will not be sufficient to recover an asset's carrying amount, the asset is written down to its fair value. Long-lived assets to be disposed of other than by sale are classified as held and used until they are disposed of. Long-lived assets to be disposed of by sale are classified as held for sale and are reported at the lower of carrying amount or fair value less cost to sell, and depreciation is ceased.

Software

Certain costs incurred in the development of internal-use software are capitalized. Software is amortized using the straight-line method over its estimated useful life.

Piedmont Coca-Cola Bottling Partnership

Prior to January 2, 2002, the Company beneficially owned a 50% interest in Piedmont. The Company accounted for its interest in Piedmont using the equity method of accounting. With respect to Piedmont, sales of soft drink products at cost, management fee revenue and the Company's share of Piedmont's results from operations were included in "Net sales" for 2001. See Note 2 and Note 18 to the consolidated financial statements for additional information.

On January 2, 2002, the Company purchased an additional 4.651% interest in Piedmont from The Coca-Cola Company, increasing the Company's ownership to 54.651%. As a result of the increase in ownership, the results of operations, financial position and cash flows of Piedmont are consolidated with those of the Company beginning in the first quarter of 2002. See Note 2 to the consolidated financial statements for additional information.

Franchise Rights and Goodwill

The Company adopted the provisions of Statement of Financial Accounting Standards No. 141, "Business Combinations," and Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible

Assets," ("SFAS No. 142") at the beginning of 2002. These standards require that all business combinations be accounted for using the purchase method and that goodwill and intangible assets with indefinite useful lives not be amortized but instead be tested for impairment annually, or more frequently if facts and circumstances indicate they may be impaired. The only intangible assets the Company classifies as indefinite lived are franchise rights and goodwill. SFAS No. 142 requires testing of intangible assets with indefinite lives and goodwill for impairment at least annually. The Company performs its annual impairment test in the third quarter of each year.

For the annual impairment analysis of franchise rights, the fair value for the Company's acquired franchise rights is estimated using a multi-period excess earnings approach. This approach involves a projection of future earnings, discounting those estimated earnings using an appropriate discount rate, and subtracting a contributory charge for net working capital, property, plant and equipment, assembled workforce and customer relationships to arrive at excess earnings attributable to franchise rights. The present value of the excess earnings attributable to franchise rights is their estimated fair value and is compared to the carrying value.

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

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

The estimated fair value of the enterprise is then compared to the Company's carrying amount including goodwill. If the estimated fair value of the Company exceeds its carrying amount, goodwill will be considered not impaired, and the second step of the impairment test will not be necessary. If the carrying amount including goodwill exceeds its estimated fair value, the second step of the impairment test will be performed to measure the amount of the impairment, if any.

Other Identifiable Intangible Assets

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

Pension and Postretirement Benefit Plans

The Company has a noncontributory pension plan covering substantially all nonunion employees and one noncontributory pension plan covering certain union employees. Costs of the plans are charged to current operations and consist of several components of net periodic pension cost based on various actuarial assumptions regarding future experience of the plans. In addition, certain other union employees are covered by plans provided by their respective union organizations. The Company expenses amounts as paid in

Notes to Consolidated Financial Statements

accordance with union agreements. The Company recognizes the cost of postretirement benefits, which consist principally of medical benefits, during employees' periods of active service.

Amounts recorded for benefit plans reflect estimates related to future interest rates, investment returns, employee turnover, wage increases and health care costs. The Company reviews all assumptions and estimates on an ongoing basis.

The Company records an additional minimum pension liability adjustment, when necessary, for the amount of underfunded accumulated pension obligations in excess of accrued pension costs.

Income Taxes

The Company provides deferred income taxes for the tax effects of temporary differences between the financial reporting and income tax bases of the Company's assets and liabilities. The Company records a valuation allowance to reduce the carrying value of its deferred tax assets to an amount that is more likely than not to be realized.

Revenue Recognition

Revenues are recognized when finished products are delivered to customers and both title and the risks and benefits of ownership are transferred. Appropriate provision is made for uncollectible accounts.

The Company also recognized as revenue the management fees earned in 2001 and prior years from Piedmont. Beginning in 2002, these management fees were eliminated in consolidation.

Marketing Programs and Sales Incentives

Payments to customers for cooperative marketing programs and sales incentives are classified as a reduction of net sales. Price discounts, rebates and free products to customers and coupons are also classified as a reduction of net sales.

Marketing Funding Support

The Company receives marketing funding support payments in cash from The Coca-Cola Company and other franchisers. Payments to the Company for marketing programs to promote the sale of bottle/can volume and fountain syrup volume are recognized in earnings primarily on a per unit basis over the year as product is sold. Payments for periodic programs are recognized in the periods for which they are earned.

Under the provisions of EITF 02-16 "Accounting by a Customer (Including a Reseller) for Certain Consideration Received from a Vendor," cash consideration received by a customer from a vendor is presumed to be a reduction of the prices of the vendor's products or services and are, therefore, to be accounted for as a reduction of cost of sales in the statements of operations unless those payments are specific reimbursements of costs or payments for services. Payments the Company receives from The Coca-Cola Company and other franchisers for marketing funding support are classified as reductions of cost of sales.

Notes to Consolidated Financial Statements

Derivative Financial Instruments

The Company records all derivative instruments in the financial statements at fair value.

The Company uses derivative financial instruments to manage its exposure to movements in interest rates. The use of these financial instruments modifies the exposure of these risks with the intent to reduce the risk to the Company. The Company does not use financial instruments for trading purposes, nor does it use leveraged financial instruments. Credit risk related to the derivative financial instruments is considered minimal and is managed by requiring high credit standards for its counterparties and periodic settlements.

The Company periodically enters into interest rate agreements. The Company has standardized procedures for evaluating the accounting for financial instruments. These procedures include:

- Identifying and matching of the hedging instrument and the hedged item to ensure that significant features, such as maturity dates and interest reset dates, coincide;
- Identifying the nature of the risk being hedged and the Company's intent for undertaking the hedge;
- Assessing the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or variability to cash flows attributable to the hedged risk;
- Assessing evidence that, at the hedge's inception and on an ongoing basis, it is expected that the hedging relationship will be highly effective in achieving an offsetting change in the fair value or cash flows that are attributable to the hedged risk; and
- Maintaining a process for assessment of ongoing hedge effectiveness.

To the extent the interest rate agreements meet the specified criteria, they are accounted for as either fair value or cash flow hedges. Changes in the fair values of designated and qualifying fair value hedges are recognized in earnings as offsets to changes in the fair value of the related hedged liabilities. Changes in the fair value of cash flow hedging instruments are recognized in accumulated other comprehensive income and are then subsequently reclassified to earnings as an adjustment to interest expense in the same periods the forecasted payments affect earnings. Ineffectiveness of cash flow hedges, defined as the amount by which the change in the value of the hedge does not exactly offset the change in the value of the hedged item, is reflected in current results of operations.

The Company evaluates its mix of fixed and floating rate debt on an ongoing basis. Periodically, the Company may terminate an interest rate derivative when the underlying debt remains outstanding in order to achieve its desired mix of fixed and floating rate debt. Upon termination of an interest rate derivative accounted for as a cash flow hedge, amounts reflected in other comprehensive income are reclassified to earnings consistent with the variability of the cash flows previously hedged, which is generally over the life of the related debt that was hedged. Upon termination of an interest rate derivative accounted for as a fair value hedge, the value of the hedge as recorded on the Company's balance sheet is eliminated against either the cash received or cash paid for settlement and the fair value adjustment of the related debt is amortized to earnings over the remaining life of the debt instrument as an adjustment to interest expense.

Interest rate derivatives designated as cash flow hedges are used to hedge the variability of cash flows related to a specific component of the Company's long-term debt. Interest rate derivatives designated as fair value hedges are used to hedge the fair value of a specific component of the Company's long-term debt. If the hedged component of long-term debt is repaid or refinanced, the Company generally terminates the related hedge due to the fact that the forecasted schedule of payments will not occur or the changes in fair value of the hedged debt will not occur and the derivative will no longer qualify as a hedge. Any gain or loss on the termination of an interest rate derivative related to the repayment or refinancing of long-term debt is recognized currently in the Company's statement of operations as an adjustment to interest expense. In the event that a derivative previously accounted for as a hedge was retained and did not qualify for hedge accounting, changes in the fair value would be recognized in income currently as an adjustment to interest expense.

Insurance Programs

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

Cost of Sales

The following expenses are included in cost of sales: raw material costs, manufacturing labor, manufacturing overhead, inbound freight charges related to raw material costs, receiving costs, inspection costs, manufacturing warehousing costs and freight charges related to the movement of finished goods from manufacturing locations to sales distribution centers.

Selling, General and Administrative Expenses

The following expenses are included in the S,G&A expenses line item: 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 costs.

The Company receives fees from The Coca-Cola Company related to the delivery of fountain syrup products to The Coca-Cola Company's national or regional fountain customers. In addition, the Company receives fees from The Coca-Cola Company related to the repair of fountain equipment owned by The Coca-Cola Company. The fees received from The Coca-Cola Company for the delivery of fountain syrup products to their customers and the repair of their fountain equipment represent a reimbursement of costs incurred by the Company to provide these services. Accordingly, these fees are classified as reductions of S,G&A expenses.

Notes to Consolidated Financial Statements

Shipping and Handling Costs

Shipping and handling costs related to the movement of finished goods from manufacturing locations to sales distribution centers are included in cost of sales. Shipping and handling costs related to the movement of finished goods from sales distribution centers to customer locations are included in S,G&A expenses and were $168.1 million, $165.8 million and $112.7 million in 2003, 2002 and 2001, respectively.

Customers do not pay the Company separately for shipping and handling costs.

Compensation Cost for Unvested/Restricted Stock with Contingent Vesting

The Company has a restricted stock plan for the Company's Chairman of the Board of Directors and Chief Executive Officer. The plan initially included 200,000 shares of the Company's Class B Common Stock, which are issued in the amount of 20,000 shares per year, contingent upon the achievement of 80% of the overall goal achievement factor in the Annual Bonus Plan.

The Company recognizes compensation expense for this plan during a fiscal year based on the quoted market price of the Company's Common Stock at each measurement date multiplied by the number of shares which would vest if the performance requirements are met, unless the achievement of the performance requirements for that fiscal year are considered unlikely.

Net Income Per Share

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

2. PIEDMONT COCA-COLA BOTTLING PARTNERSHIP

On July 2, 1993, the Company and The Coca-Cola Company formed Piedmont to distribute and market carbonated and noncarbonated beverages primarily in certain portions of North Carolina and South Carolina. Prior to January 2, 2002, the Company and The Coca-Cola Company, through their respective subsidiaries, each beneficially owned a 50% interest in Piedmont. 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.

On January 2, 2002, the Company purchased, for $10.0 million, an additional 4.651% interest in Piedmont from The Coca-Cola Company, increasing the Company's ownership in Piedmont to 54.651%. Due to the increase in ownership, the results of operations, financial position and cash flows of Piedmont have been consolidated with those of the Company beginning in the first quarter of 2002. The Company recorded $3.4 million of franchise rights and $.9 million related to customer relationships in connection with its 2002 acquisition of a controlling interest in Piedmont. The Company's investment in Piedmont had been accounted for using the equity method in 2001 and prior years.

Notes to Consolidated Financial Statements

The Company paid $53.5 million in March 2003 for an additional 22.675% interest in Piedmont. The Company recorded $16.3 million of franchise rights and $4.3 million related to customer relationships in connection with this acquisition. This additional acquisition was recorded using purchase accounting.

Minority interest as of December 28, 2003 and December 29, 2002 represents the portion of Piedmont which is owned by The Coca-Cola Company.

Summarized financial information for Piedmont was as follows:

	Fiscal Year		
In Thousands	**2003**	**2002**	**2001**
Net sales	**$291,753**	$288,902	$272,722
Cost of sales	**147,010**	143,813	139,764
Gross margin	**144,743**	145,089	132,958
Amortization of intangibles			8,410
Income from operations	**23,008**	23,805	13,150
Net income	**$ 14,286**	$ 13,214	$ 834
Company's equity in net income			$ 417

Coca-Cola Bottling Co. CONSOLIDATED

Notes to Consolidated Financial Statements

2. PIEDMONT COCA-COLA BOTTLING PARTNERSHIP (continued)

The following financial information includes the 2003 and 2002 results of operations of the Company and includes the comparable 2001 results of operations. The comparable 2001 financial information reflects the consolidation of Piedmont's financial position and results of operations with those of the Company as if the purchase of the additional 4.651% interest in Piedmont in January 2002 had occurred at the beginning of 2001.

CONSOLIDATED STATEMENTS OF OPERATIONS

In Thousands (Except Per Share Data)	Fiscal Year 2003	Fiscal Year 2002	Unaudited Pro forma 2001
Net sales	$1,210,765	$1,198,335	$1,149,013
Cost of sales, excluding depreciation expense shown below	625,448	619,137	600,930
Gross margin	585,317	579,198	548,083
Selling, general and administrative expenses, excluding depreciation expense shown below	422,456	407,145	382,623
Depreciation expense	76,485	76,075	71,542
Provision for impairment of property, plant and equipment			947
Amortization of intangibles	3,105	2,796	23,810
Income from operations	83,271	93,182	69,161
Interest expense	41,914	49,120	57,802
Minority interest	3,297	5,992	378
Income before income taxes	38,060	38,070	10,981
Income taxes	7,357	15,247	1,947
Net income	$ 30,703	$ 22,823	$ 9,034
Basic net income per share	$ 3.40	$ 2.58	$ 1.03
Diluted net income per share	$ 3.40	$ 2.56	$ 1.02
Weighted average number of common shares outstanding	9,043	8,861	8,753
Weighted average number of common shares outstanding-assuming dilution	9,043	8,921	8,821

Coca-Cola Bottling Co. Consolidated

Notes to Consolidated Financial Statements

3. INVENTORIES

Inventories were summarized as follows:

In Thousands	Dec. 28, 2003	Dec. 29, 2002
Finished products	**$25,669**	$23,207
Manufacturing materials	**6,637**	10,609
Plastic pallets and other	**4,585**	4,832
Total inventories	**$36,891**	$38,648

4. PROPERTY, PLANT AND EQUIPMENT

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

In Thousands	Dec. 28, 2003	Dec. 29, 2002	Estimated Useful Lives
Land	**$ 12,857**	$ 12,670	
Buildings	**113,820**	113,234	10-50 years
Machinery and equipment	**97,933**	96,080	5-20 years
Transportation equipment	**150,421**	143,932	4-13 years
Furniture and fixtures	**38,683**	39,222	4-10 years
Vending equipment	**366,266**	362,689	6-13 years
Leasehold and land improvements	**53,425**	47,312	5-20 years
Software for internal use	**26,780**	24,439	3-7 years
Construction in progress	**7,057**	3,416	
Total property, plant and equipment, at cost	**867,242**	842,994	
Less: Accumulated depreciation and amortization	**420,534**	376,154	
Property, plant and equipment, net	**$446,708**	$466,840	

5. LEASED PROPERTY UNDER CAPITAL LEASES

In Thousands	Dec. 28, 2003	Dec. 29, 2002	Estimated Useful Lives
Leased property under capital leases	**$48,497**	$47,618	1-29 years
Less: Accumulated amortization	**5,388**	2,995	
Leased property under capital leases, net	**$43,109**	$44,623	

The Company recorded a capital lease of $41.6 million at the end of the first quarter of 2002 related to its production/distribution center located in Charlotte, North Carolina. As disclosed in Note 18 to the consolidated financial statements, this facility is leased from a related party. The lease obligation was capitalized as the Company received a renewal option to extend the term of the lease, which it expects to exercise.

The majority of the leased property under capital leases is real estate.

Coca-Cola Bottling Co. CONSOLIDATED

Notes to Consolidated Financial Statements

6. FRANCHISE RIGHTS AND GOODWILL

In Thousands	Dec. 28, 2003	Dec. 29, 2002
Franchise rights	**$677,769**	$661,471
Goodwill	**155,487**	155,192
Franchise rights and goodwill	**833,256**	816,663
Less: Accumulated amortization	**210,535**	210,535
Franchise rights and goodwill, net	**$622,721**	$606,128

The Company adopted the provisions of SFAS No. 142 at the beginning of 2002, which resulted in goodwill and intangible assets with indefinite useful lives no longer being amortized. If SFAS No. 142 had been in effect at the beginning of 2001, pro forma net income, pro forma basic earnings per share and pro forma diluted earnings per share for the fiscal year ended December 30, 2001 would have been as follows:

In Thousands (except Per Share Data)	For the fiscal year ended Dec. 28, 2003	For the fiscal year ended Dec. 29, 2002	Pro forma For the fiscal year ended Dec. 30, 2001
Reported net income	**$30,703**	$22,823	$ 9,470
Add: goodwill amortization, net of tax	**—**	—	1,596
Add: franchise rights amortization, net of tax	**—**	—	4,939
Adjusted net income	**$30,703**	$22,823	$16,005
Basic earning per share:			
Reported net income	**$ 3.40**	$ 2.58	$ 1.08
Goodwill amortization, net of tax	**—**	—	.18
Franchise rights amortization, net of tax	**—**	—	.56
Adjusted basic net income per share	**$ 3.40**	$ 2.58	$ 1.82
Diluted earnings per share:			
Reported net income	**$ 3.40**	$ 2.56	$ 1.07
Goodwill amortization, net of tax	**—**	—	.18
Franchise rights amortization, net of tax	**—**	—	.56
Adjusted diluted net income per share	**$ 3.40**	$ 2.56	$ 1.81

In January 2002, the Company's ownership interest in Piedmont increased from 50% to 54.651%. As a result of acquiring a controlling interest in Piedmont, the Company consolidated the results of operations, financial position and cash flows of Piedmont beginning in the first quarter of 2002. The Company's investment in Piedmont had been accounted for using the equity method in 2001 and prior years. The Company's interest in Piedmont increased from 54.651% in 2002 to 77.326% in 2003.

Notes to Consolidated Financial Statements

The Company recorded $16.3 million of franchise rights and $4.3 million related to customer relationships in connection with its 2003 acquisition of an additional interest in Piedmont. The Company recorded $3.4 million of franchise rights and $.9 million related to customer relationships in connection with its 2002 acquisition of a controlling interest in Piedmont.

A rollforward of activity for franchise rights, net and goodwill, net from December 30, 2001 to December 28, 2003 follows:

In Thousands	Franchise Rights, net	Goodwill, net
Balance on December 30, 2001	$ 260,969	$ 74,693
Consolidation of Piedmont	239,908	25,019
Acquisitions	3,497	2,042
Balance on December 29, 2002	$ 504,374	$ 101,754
Acquisitions	16,298	295
Balance on December 28, 2003	**$520,672**	**$102,049**

7. OTHER IDENTIFIABLE INTANGIBLE ASSETS

Other identifiable intangible assets were summarized as follows:

In Thousands	Dec. 28, 2003	Dec. 29, 2002	Estimated Useful Lives
Other identifiable intangible assets	**$61,102**	$55,743	3-20 years
Less: Accumulated amortization	**52,051**	48,946	
Other identifiable intangible assets, net	**$ 9,051**	$ 6,797	

Amortization expense related to other identifiable intangible assets was $3.1 million, $2.8 million and $3.0 million in 2003, 2002 and 2001, respectively. Amortization expense of other identifiable intangible assets in future years based upon recorded amounts as of December 28, 2003 will be $3.1 million, $.9 million, $.5 million, $.4 million and $.4 million for 2004 through 2008, respectively. Other identifiable intangible assets primarily represents customer relationships.

Notes to Consolidated Financial Statements

8. OTHER ACCRUED LIABILITIES

Other accrued liabilities were summarized as follows:

In Thousands	Dec. 28, 2003	Dec. 29, 2002
Accrued marketing costs	**$ 8,753**	$ 7,146
Accrued insurance costs	**11,351**	9,424
Accrued taxes (other than income taxes)	**1,738**	7,518
Employee benefit plan accruals	**9,084**	7,307
All other accrued expenses	**21,566**	22,141
Total	**$52,492**	$53,536

9. LONG-TERM DEBT

Long-term debt was summarized as follows:

In Thousands	Maturity	Interest Rate	Interest Paid	Dec. 28, 2003	Dec. 29, 2002
Term Loan	2004		Varies		$ 85,000
Lines of Credit	2005	1.52%	Varies	**$ 17,600**	37,600
Term Loan	2005	1.70%	Varies	**85,000**	85,000
Debentures	2007	6.85%	Semi-annually	**100,000**	100,000
Debentures	2009	7.20%	Semi-annually	**100,000**	100,000
Debentures	2009	6.38%	Semi-annually	**250,000**	250,000
Senior Notes	2012	5.00%	Semi-annually	**150,000**	150,000
Senior Notes	2015	5.30%	Semi-annually	**100,000**	
Other notes payable	2004-2006	5.75%	Quarterly	**117**	156
				802,717	807,756
Less: Portion of long-term debt payable within one year				**78**	31
Long-term debt				**$802,639**	$807,725

The principal maturities of long-term debt outstanding on December 28, 2003 were as follows:

In Thousands	
2004	$ 78
2005	102,600
2006	39
2007	100,000
2008	—
Thereafter	600,000
Total long-term debt	$802,717

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Company has obtained the majority of its long-term financing from public markets. As of December 28, 2003, $700 million of the Company's total outstanding balance of debt and capital leases of $848.3 million was financed through publicly offered debentures. 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 those institutions. The Company enters into credit arrangements only with institutions with investment grade credit ratings. The Company 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 $60.0 million at December 28, 2003, 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 intends to renew such borrowings as they mature. To the extent these borrowings and borrowings under the revolving credit facility do not exceed the amount available under the Company's $125 million revolving credit facility, they are classified as noncurrent liabilities. On December 28, 2003, $17.6 million was outstanding under these lines of credit. The Company intends to either refinance short-term debt maturities with currently available lines of credit or repay them with cash flow from operations.

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 December 28, 2003, there were no amounts outstanding under this facility.

On November 21, 2002, the Company issued $150 million of senior notes maturing November 15, 2012 at a coupon rate of 5.00%. The Company used the proceeds from this issuance to repay borrowings outstanding under its lines of credit and the Company's $170 million revolving credit facility, as well as to repay a $97.5 million term loan on behalf of Piedmont.

On March 27, 2003, the Company issued $100 million of senior notes maturing on April 1, 2015 at a coupon rate of 5.30%. The Company used the proceeds from this issuance to purchase an additional interest in Piedmont from The Coca-Cola Company for $53.5 million and to repay a portion of the Company's $170 million term loan.

During 2002, Piedmont refinanced a $195 million term loan using the proceeds from a loan from the Company. The Company's source of funds for this loan to Piedmont included the issuance of $150 million of senior notes, its lines of credit, the revolving credit facility and available cash flow. Piedmont pays the Company interest on the loan at the Company's average cost of funds plus 0.50%. The loan matures on December 31, 2005. The Company plans to provide for Piedmont's future financing requirements under these terms.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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, as previously discussed. 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.

After taking into account all of the interest rate hedging activities, the Company had a weighted average interest rate of 4.9% for its debt and capital lease obligations as of December 28, 2003 compared to 5.0% at December 29, 2002. The Company's overall weighted average interest rate on its debt and capital lease obligations was 4.9%, 5.6% and 6.5% for 2003, 2002 and 2001, respectively.

As of December 28, 2003, before giving effect to forward interest rate agreements, approximately 46% of its debt and capital lease obligations was subject to changes in short-term interest rates. As a result of the forward interest rate agreements discussed in Note 10 to the consolidated financial statements, the Company's exposure to interest rate movements has been significantly reduced through April 2004. The forward interest rate agreements expire in May 2004. 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.

If average interest rates for the floating rate component of the Company's debt and capital lease obligations increased by 1%, annual interest expense for the year ended December 28, 2003 would have increased by approximately $2.5 million and net income would have been reduced by approximately $1.5 million.

With regard to the Company's $85 million term loan, the Company must maintain its public debt ratings at investment grade as determined by both Moody's and 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 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 if 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 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.

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.

Notes to Consolidated Financial Statements

10. DERIVATIVE FINANCIAL INSTRUMENTS

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. All of the Company's outstanding interest rate swap agreements and forward rate agreements are LIBOR-based.

Derivative financial instruments were summarized as follows:

	December 28, 2003		December 29, 2002	
In Thousands	**Notional Amount**	**Remaining Term**	**Notional Amount**	**Remaining Term**
Interest rate swap agreement—floating	**$25,000**	**3.92 years**		
Interest rate swap agreement—floating	**25,000**	**3.92 years**		
Interest rate swap agreement—floating	**50,000**	**5.42 years**		
Interest rate swap agreement—floating	**50,000**	**3.92 years**	$50,000	4.92 years
Interest rate swap agreement—floating	**50,000**	**5.58 years**	50,000	6.58 years
Interest rate swap agreement—floating	**50,000**	**8.92 years**	50,000	9.92 years

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

In November 2002, the Company entered into three interest rate swap agreements in conjunction with the issuance of $150 million of senior notes and the refinancing of other Company debt as previously discussed. These interest rate swap agreements effectively converted $150 million of the Company's debt from a fixed rate to a floating rate and are accounted for as fair value hedges.

In December 2002, the Company entered into three one-year forward interest rate agreements that fixed short-term rates on certain components of the Company's floating rate debt for periods of twelve months. These forward interest rate agreements did not meet the criteria set forth in Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended, for hedge accounting and were accounted for on a mark-to-market basis. The mark-to-market adjustment for these forward interest rate agreements was an increase to interest expense of $0.1 million in 2003.

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During the fourth quarter of 2002, the Company terminated two interest rate swap agreements classified as cash flow hedges. These two interest rate swap agreements hedged the cash flows on part of a variable rate term loan the Company had outstanding. In conjunction with the issuance of $150 million of senior notes in November 2002, the variable rate term loan was repaid early. The term loan had a maturity of May 2003. Upon the repayment of the term loan, the cash flow hedges no longer qualified as hedges due to the fact that the variability of cash flows being hedged was eliminated with the repayment of the variable rate term loan, and thus the forecasted schedule of payments did not occur. Accordingly, the interest rate swap agreements were terminated and the resulting expense of $2.2 million was reflected in the 2002 statement of operations.

In January 2003, the Company entered into an additional $50 million, one-year forward interest rate agreement. This agreement was accounted for as a cash flow hedge.

In March 2003, the Company entered into two forward interest rate agreements in conjunction with the issuance of $100 million of twelve-year senior notes. These forward interest rate agreements were accounted for as cash flow hedges. The hedges were terminated at the time the senior notes were priced, with the Company receiving proceeds of $3.1 million. The proceeds were recorded in other liabilities and are being amortized as a reduction of interest expense over the life of the related senior notes.

In July 2003, the Company entered into three interest rate swap agreements in conjunction with the $100 million of senior notes previously mentioned. These interest rate swap agreements effectively converted $100 million of the Company's debt from a fixed rate to a floating rate and are accounted for as fair value hedges.

During 2003, 2002 and 2001, the Company amortized deferred gains related to previously terminated interest rate swap agreements and forward interest rate agreements which reduced interest expense by $2.1 million, $1.9 million and $1.2 million, respectively. Interest expense will be reduced by the amortization of these deferred gains in 2004 through 2009 as follows: $1.9 million, $1.7 million, $1.7 million, $1.7 million, $1.7 million, and $.9 million, respectively.

The counterparties to these contractual arrangements are major financial institutions with which the Company also 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.

Notes to Consolidated Financial Statements

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.

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

	December 28, 2003		December 29, 2002	
In Thousands	**Carrying Amount**	**Fair Value**	**Carrying Amount**	**Fair Value**
Public debt	**$700,000**	**$747,359**	$600,000	$634,150
Non-public variable rate long-term debt	**102,600**	**102,600**	207,600	207,600
Non-public fixed rate long-term debt	**117**	**120**	156	156
Interest rate swap agreements and forward interest rate agreements	**1,613**	**1,613**	(2,023)	(2,023)
Letters of credit	**—**	**11,888**	—	8,910

The fair values of the interest rate swap agreements and forward interest rate agreements at December 28, 2003 represent the estimated amounts the Company would have paid upon termination of these agreements. The fair values of the interest rate swap agreements and forward interest rate agreements at December 29, 2002 represent the estimated amount the Company would have received upon termination of these agreements.

12. OTHER LIABILITIES

Other liabilities were summarized as follows:

In Thousands	**Dec. 28, 2003**	**Dec. 29, 2002**
Accruals for executive benefit plans	**$52,645**	$46,274
Deferred gains on terminated interest rate agreements	**9,490**	8,141
Other	**12,322**	9,985
Total	**$74,457**	$64,400

Notes to Consolidated Financial Statements

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 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 $31.3 million and $29.0 million as of December 28, 2003 and December 29, 2002, 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 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 $19.1 million and $17.2 million as of December 28, 2003 and December 29, 2002, 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 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 was $2.3 million under this plan as of December 28, 2003.

13. COMMITMENTS AND CONTINGENCIES

Rental expenses incurred for operating leases during 2003, 2002 and 2001 were as follows:

In Thousands	2003	2002	2001
Minimum rentals	**$6,307**	$7,438	$11,889
Contingent rentals	**—**	—	480
Total	**$6,307**	$7,438	$12,369

Contingent rentals are based on factors other than the passage of time, principally inflation factors and interest rate factors.

The Company leases office and warehouse space, machinery and other equipment under operating lease agreements which expire at various dates through 2016. These leases generally contain scheduled rent increases or escalation clauses, renewal options or, in some cases, purchase options. The Company leases certain warehouse space and other equipment under capital lease agreements which expire at various dates through 2030. These leases contain scheduled rent increases or escalation clauses. Amortization of assets recorded under capital leases is included in depreciation expense.

Leasing is used for certain capital additions when considered cost effective relative to other sources of capital.

The following is a summary of future minimum lease payments for all capital leases and operating leases as of December 28, 2003.

In Thousands	Capital Leases	Operating Leases	Total
2004	$ 5,664	$ 6,639	$ 12,303
2005	5,457	6,061	11,518
2006	5,325	5,746	11,071
2007	5,200	4,783	9,983
2008	5,352	4,631	9,983
Thereafter	146,279	3,811	150,090
Total minimum lease payments	$173,277	$31,671	$204,948
Less: Amounts representing interest	127,714		
Present value of minimum lease payments	45,563		
Less: Current portion of obligations under capital leases	1,337		
Long-term portion of obligations under capital leases	$ 44,226		

The Company is a member of South Atlantic Canners, Inc. ("SAC"), a manufacturing cooperative from which it is obligated to purchase a specified number of cases of finished product on an annual basis. The contractual minimum annual purchases required from SAC are approximately $40 million. See Note 18 to the consolidated financial statements for additional information concerning SAC.

The Company is also a member of Southeastern Container ("SEC"), a plastic bottle manufacturing cooperative, from which it is obligated to purchase at least 80% of its requirements of plastic bottles for certain designated territories. See Note 18 to the consolidated financial statements for additional information concerning SEC.

The Company guarantees a portion of SAC's and SEC's debt and lease obligations. On December 28, 2003, these debt and lease guarantees were $39.4 million. The Company has not recorded any liability associated with these guarantees. The guarantees relate to debt and lease obligations, resulting 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 December 28, 2003 would have been $58.9 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.

Notes to Consolidated Financial Statements

The Company has standby letters of credit, primarily related to its property and casualty insurance program. On December 28, 2003, these letters of credit totaled $11.9 million.

The Company participates in long-term contractual arrangements with certain prestige properties, athletic venues and other locations. The future payments related to these contractual arrangements as of December 28, 2003 amount to $26.3 million and expire at various dates through 2016.

The Company is involved in various claims and legal proceedings which have arisen in the ordinary course of its business. The Company believes that the ultimate disposition of its claims and legal proceedings will not have a material adverse effect on the financial condition, cash flows or results of operations of the Company. No material amount of loss in excess of recorded amounts is believed to be reasonably possible at this time.

14. INCOME TAXES

The provision for income taxes consisted of the following:

	Fiscal Year		
In Thousands	**2003**	**2002**	**2001**
Current:			
Federal	**$ —**	$ 294	$1,338
State	**—**	—	—
Total current provision	**—**	294	1,338
Deferred:			
Federal	**19,443**	13,829	(447)
State	**(12,086)**	1,124	1,335
Total deferred provision	**7,357**	14,953	888
Income tax expense	**$ 7,357**	$15,247	$2,226

Notes to Consolidated Financial Statements

Current tax expense for 2002 and 2001 represents alternative minimum tax ("AMT"). Deferred income taxes are recorded based upon differences between the financial statement and tax bases of assets and liabilities and available net operating loss and tax credit carryforwards. Temporary differences and carryforwards that comprised deferred income tax assets and liabilities were as follows:

In Thousands	Dec. 28, 2003	Dec. 29, 2002
Intangible assets	**$ 97,965**	$103,877
Depreciation	**100,960**	100,030
Investment in Piedmont	**40,995**	25,006
Pension	**11,886**	3,440
Gross deferred income tax liabilities	**251,806**	232,353
Net operating loss carryforwards	**(41,275)**	(39,209)
AMT credits	**(12,565)**	(15,844)
Deferred compensation	**(21,715)**	(18,550)
Postretirement benefits	**(12,929)**	(12,171)
Termination of interest rate agreements	**(4,290)**	(3,884)
Other	**(3,004)**	(5,126)
Gross deferred income tax assets	**(95,778)**	(94,784)
Valuation allowance for deferred tax assets	**16,770**	25,964
Net current deferred income tax liability	**918**	1,528
Net deferred income tax liability	**171,880**	162,005
Accumulated other comprehensive income adjustments	**(15,786)**	(13,708)
Net deferred income tax liability	**$156,094**	$148,297

Except for amounts for which a valuation allowance has been provided, the Company believes the deferred tax assets will be realized primarily through the reversal of existing temporary differences. The reduction in the valuation allowance from December 29, 2002 to December 28, 2003 relates to the completion of a state income tax audit, a reorganization of certain of the Company's subsidiaries and a corresponding assessment of the Company's ability to utilize certain state net operating loss carryforwards. The valuation allowance of $16.8 million and $26.0 million as of December 28, 2003 and December 29, 2002, respectively, relates primarily to state net operating loss carryforwards which expire in varying amounts through 2023.

Notes to Consolidated Financial Statements

14. INCOME TAXES (continued)

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

	Fiscal Year		
In Thousands	**2003**	**2002**	**2001**
Statutory expense	**$13,321**	$13,300	$ 4,094
State income taxes, net of federal benefit	**1,338**	735	307
Valuation allowance change	**(9,194)**	3,522	(522)
Amortization of franchise rights and goodwill			486
Favorable tax settlement			(2,850)
Officers' life insurance premiums		992	1,135
Cash surrender value		(1,102)	(1,195)
Termination of certain company-owned life insurance policies	**2,589**		
Termination of split-dollar life insurance program	**(1,676)**		
Other	**979**	(2,200)	771
Income tax expense	**$ 7,357**	$15,247	$ 2,226

On December 28, 2003, the Company had $16.0 million of federal net operating losses and $12.6 million of AMT credit carryforwards available to reduce future income taxes. The federal net operating loss carryforwards expire in varying amounts through 2022 while the AMT credit carryforwards have no expiration date.

Notes to Consolidated Financial Statements

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 at December 31, 2000	$ —	$ —	$ —
Change in fair market value of cash flow hedges, net of tax	4		4
Change in proportionate share of Piedmont's accumulated other comprehensive loss, net of tax	(1,825)		(1,825)
Additional minimum pension liability adjustment, net of tax		(10,984)	(10,984)
Balance as of December 30, 2001	$(1,821)	$(10,984)	$(12,805)
Change in fair market value of cash flow hedges, net of tax	(408)		(408)
Termination of cash flow hedges, reclassified into earnings	2,229		2,229
Additional minimum pension liability adjustment, net of tax		(9,637)	(9,637)
Balance as of December 29, 2002	$ —	$(20,621)	$(20,621)
Change in fair market value of cash flow hedges, net of tax	**(62)**		**(62)**
Additional minimum pension liability adjustment, net of tax		**(3,247)**	**(3,247)**
Balance as of December 28, 2003	**$ (62)**	**$(23,868)**	**$(23,930)**

Notes to Consolidated Financial Statements

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
2003			
Change in fair market value of cash flow hedges	$ (101)	$ 39	$ (62)
Minimum pension liability adjustment	(39,615)	15,747	(23,868)
Other comprehensive income (loss)	$(39,716)	$15,786	$(23,930)
2002			
Minimum pension liability adjustment	$(34,329)	$13,708	$(20,621)
Other comprehensive income (loss)	$(34,329)	$13,708	$(20,621)
2001			
Change in fair market value of cash flow hedges	$ 7	$ (3)	$ 4
Change in proportionate share of Piedmont's accumulated other comprehensive loss	(2,944)	1,119	(1,825)
Minimum pension liability adjustment	(17,717)	6,733	(10,984)
Other comprehensive income (loss)	$(20,654)	$ 7,849	$(12,805)

16. CAPITAL TRANSACTIONS

During 2002, two of the Company's directors, J. Frank Harrison, Jr., Chairman Emeritus, and J. Frank Harrison, III, Chairman of the Board of Directors and Chief Executive Officer, entered into plans providing for sales of up to an aggregate total of 250,000 shares of the Company's Common Stock in accordance with Securities and Exchange Commission Rule 10b5-1. Shares sold under the plans were issuable to Mr. Harrison, Jr. and Mr. Harrison, III under stock option agreements that were granted in 1989 as long-term incentives. During 2002, all 250,000 shares of Common Stock exercisable under the options were sold under the plans. Total proceeds to the Company from the exercise of the stock options under the plans were $7.2 million.

Pursuant to a Stock Rights and Restriction Agreement dated January 27, 1989, between the Company and The Coca-Cola Company, in the event that the Company issues new shares of Class B Common Stock upon the exchange or exercise of any security, warrant or option of the Company which results in The Coca-Cola Company owning less than 20% of the outstanding shares of Class B Common Stock and less than 20% of the total votes of all outstanding shares of all classes of the Company, The Coca-Cola Company has the right to exchange shares of Common Stock for shares of Class B Common Stock in order to maintain its ownership of 20% of the outstanding shares of Class B Common Stock and 20% of the total votes of all outstanding shares of all classes of the Company. Under the Stock Rights and Restrictions Agreement, The Coca-Cola Company also has a preemptive right to purchase a percentage of any newly issued shares of any class as necessary to allow it to maintain ownership of both 29.67% of the outstanding shares of Common Stock of all classes and 22.59% of the total votes of all outstanding shares of all classes.

Notes to Consolidated Financial Statements

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. The Company achieved more than 80% of the overall goal achievement factor in 2003, 2002 and 2001, resulting in compensation expense of $1.8 million, $2.3 million and $1.4 million, respectively. As of December 28, 2003, the fair market value of the potentially issuable shares (120,000 shares) in the future under this award approximated $6.3 million.

Shares of Class B Common Stock are convertible on a share-for-share basis into shares of Common Stock. There is no trading market for the Company's Class B Common Stock.

17. BENEFIT PLANS

Retirement benefits under the Company's principal pension plan 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 plan are based on the projected unit credit actuarial funding method and are limited to the amounts that are currently deductible for income tax purposes.

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

Changes in Projected Benefit Obligation

	Fiscal Year	
In Thousands	**2003**	**2002**
Projected benefit obligation at beginning of year	**$117,841**	$102,327
Service cost	**4,363**	4,006
Interest cost	**8,129**	7,305
Actuarial loss	**20,306**	7,485
Benefits paid	**(3,837)**	(3,282)
Projected benefit obligation at end of year	**$146,802**	$117,841

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Notes to Consolidated Financial Statements

Change in Plan Assets

In Thousands	Fiscal Year 2003	Fiscal Year 2002
Fair value of plan assets at beginning of year	**$ 84,086**	$80,572
Actual return on plan assets	**13,244**	(6,697)
Employer contributions	**7,800**	13,493
Benefits paid	**(3,837)**	(3,282)
Fair value of plan assets at end of year	**$101,293**	$84,086

Funded Status

In Thousands	Dec. 28, 2003	Dec. 29, 2002
Funded status of the plans	**$(45,509)**	$(33,755)
Unrecognized prior service cost	**90**	109
Unrecognized net loss	**58,236**	48,339
Contributions from measurement date to fiscal year-end	**4,600**	
Net amount recognized	**$ 17,417**	$ 14,693

Amounts Recognized in the Balance Sheet

In Thousands	Dec. 28, 2003	Dec. 29, 2002
Accrued benefit liability	**$(26,888)**	$(19,745)
Intangible asset	**90**	109
Accumulated other comprehensive income	**39,615**	34,329
Contributions from measurement date to fiscal year-end	**4,600**	
Net amount recognized	**$ 17,417**	$ 14,693

Net Periodic Pension Cost

In Thousands	Fiscal Year 2003	Fiscal Year 2002	Fiscal Year 2001
Service cost	**$ 4,363**	$ 4,006	$ 3,290
Interest cost	**8,129**	7,305	6,578
Expected return on plan assets	**(6,898)**	(7,139)	(7,763)
Amortization of prior service cost	**21**	(88)	(135)
Recognized net actuarial loss	**4,062**	2,098	15
Net periodic pension cost	**$ 9,677**	$ 6,182	$ 1,985

Notes to Consolidated Financial Statements

Significant Assumptions Used

	2003	2002	2001
Weighted average discount rate used in determining net periodic pension cost	**7.00%**	7.25%	7.75%
Weighted average discount rate used in determining the actuarial present value of the projected benefit obligation	**6.25%**	7.00%	7.25%
Weighted average expected long-term rate of return on plan assets	**8.00%**	9.00%	9.00%
Weighted average rate of compensation increase	**4.00%**	4.00%	4.00%
Measurement date	**Nov. 30**	Nov. 30	Nov. 30

A .25% increase or decrease in the discount rate assumption at the beginning of 2003 would have impacted the projected benefit obligation and net periodic pension cost as follows:

In Thousands

Impact on	**.25% Increase**	**.25% Decrease**
Projected benefit obligation at December 28, 2003	$(6,371)	$6,797
Net periodic pension cost in 2003	(930)	989

Cash Flows

In Thousands

Expected employer contributions for 2004	$23,400

Anticipated future benefit payments reflecting expected future service for the fiscal years:

2004	$ 3,611
2005	4,011
2006	4,325
2007	4,706
2008	5,035
2009–2013	32,964

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Plan Assets

The Company's pension plan allocation at December 28, 2003 and December 29, 2002, the target allocation for 2004 and the expected weighted average long-term rate of return by asset category were as follows:

	Target Allocation 2004	Percentage of Plan Assets at Fiscal Year End 12/28/03	Percentage of Plan Assets at Fiscal Year End 12/29/02	Weighted Average Expected Long-Term Rate of Return—2003
U.S. large capitalization equity securities	40%	40%	39%	3.4%
U.S. small/mid capitalization equity securities	10%	11%	11%	1.0%
International equity securities	15%	15%	15%	1.6%
Debt securities	35%	34%	35%	2.0%
Total	100%	100%	100%	8.0%

The investments in the Company's pension plan include U.S. equities, international equities and fixed income instruments. All of the plan assets are invested in institutional investment funds managed by professional investment advisors. The objective of the Company's investment philosophy is to earn the plan's targeted rate of return over longer periods without assuming excess investment risk. The general guidelines for plan investments include 30%–45% in large capitalization U.S. equities, 0%–20% in small and mid-capitalization U.S. equities, 0%–20% in non-U.S. equities and 10%–50% in fixed income instruments. The Company currently has 66% of its plan investments in equities and 34% in fixed income instruments.

U.S. large capitalization equities include domestic based companies that are generally included in common market indices such as the S&P 500™ and the Russell 1000™. Small and mid-capitalization equity securities include small domestic equities as represented by the Russell 2000™ index. International equity securities include companies from developed markets outside of the U.S. Debt securities at December 28, 2003 are comprised of investments in two institutional bond funds with a weighted average duration of approximately 3 years.

The weighted average expected long-term rate of return of plan assets was reduced from 9.0% in 2002 to 8.0% for determination of 2003 net periodic pension cost. This rate reflects an estimate of long-term future returns for the pension plan assets. This estimate is primarily a function of the asset classes (equities versus fixed income) in which the pension plan assets are invested and the analysis of past performance of these asset classes over a long period of time. This analysis includes expected long-term inflation and the risk premiums associated with equity investments and fixed income investments.

The Company also participates in various multi-employer pension plans covering certain employees who are part of collective bargaining agreements. Total pension expense for multi-employer plans was $1.3 million, $1.3 million and $1.2 million in 2003, 2002 and 2001, respectively.

Notes to Consolidated Financial Statements

The Company provides a 401(k) Savings Plan for substantially all of its employees who are not part of collective bargaining agreements. Under provisions of the Savings Plan, an employee is vested with respect to Company contributions upon the completion of two years of service with the Company. The total cost for this benefit in 2003, 2002 and 2001 was $4.0 million, $3.8 million and $2.8 million, respectively.

The Company currently provides employee leasing and management services to SAC. SAC employees participate in the Company's employee benefit plans.

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

On December 8, 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the "Act") was enacted. The Act introduces a prescription drug benefit under Medicare as well as a federal subsidy to sponsors of retiree health care benefit plans. The postretirement benefit obligation as of December 28, 2003 and the net periodic postretirement benefit cost in 2003 do not reflect the effects of the Act since enactment occurred after the Company's postretirement plan measurement date of September 30, 2003.

Notes to Consolidated Financial Statements

The following tables set forth a reconciliation of the beginning and ending balances of the benefit obligation, a reconciliation of the beginning and ending balances of the fair value of plan assets and funded status of the Company's postretirement plan:

In Thousands	Fiscal Year 2003	Fiscal Year 2002
Benefit obligation at beginning of year	**$48,271**	$46,060
Service cost	**512**	403
Interest cost	**3,159**	3,238
Plan participants' contributions	**674**	575
Actuarial loss (gain)	**(2,826)**	779
Benefits paid	**(2,916)**	(2,784)
Benefit obligation at end of year	**$46,874**	$48,271
Fair value of plan assets at beginning of year	**$ —**	$ —
Employer contributions	**2,242**	2,209
Plan participants' contributions	**674**	575
Benefits paid	**(2,916)**	(2,784)
Fair value of plan assets at end of year	**$ —**	$ —

In Thousands	Dec. 28, 2003	Dec. 29, 2002
Funded status of the plan	**$(46,874)**	$(48,271)
Unrecognized net loss	**16,427**	20,183
Unrecognized prior service cost	**(2,370)**	(2,666)
Contributions between measurement date and fiscal year-end	**814**	663
Accrued liability	**$(32,003)**	$(30,091)

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

In Thousands	Fiscal Year 2003	2002	2001
Service cost	**$ 512**	$ 403	$ 331
Interest cost	**3,159**	3,238	3,253
Amortization of unrecognized transitional assets	**(25)**	(25)	(25)
Recognized net actuarial loss	**931**	1,155	1,106
Amortization of prior service cost	**(272)**	(271)	(271)
Net periodic postretirement benefit cost	**$4,305**	$4,500	$4,394

The weighted average discount rate used to estimate the postretirement benefit obligation was 6.00%, 6.75% and 7.25% as of December 28, 2003, December 29, 2002 and December 30, 2001, respectively. The measurement dates were September 30 of each year 2003, 2002 and 2001, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The weighted average health care cost trend used in measuring the postretirement benefit expense in 2003 was 10% graded down 1% per year to an ultimate rate of 5%. The weighted average health care cost trend used in measuring the postretirement benefit expense in 2002 was 11% graded down 1% per year to an ultimate rate of 5%. The weighted average health care cost trend used in measuring the postretirement benefit expense in 2001 was 12% graded down 1% per year to an ultimate rate of 5%.

A 1% increase or decrease in this annual health care cost trend for 2003 would have impacted the postretirement benefit obligation and net periodic postretirement benefit cost as follows:

In Thousands

Impact on	**1% Increase**	**1% Decrease**
Postretirement benefit obligation at December 28, 2003	$5,857	$(5,122)
Net periodic postretirement benefit cost in 2003	523	(456)

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 December 28, 2003, 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.

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

In Millions	**2003**	**2002**	**2001**
Payments by the Company for concentrate, syrup, sweetener and other miscellaneous purchases	**$284.3**	$287.5	$241.1
Payments by the Company for customer marketing programs	**50.5**	50.2	22.8
Payments by the Company for cold drink equipment parts	**4.4**	4.6	4.8
Payments by the Company for local media	**.2**	—	4.4
Marketing funding support payments to the Company	**53.4**	56.0	22.3
Fountain delivery and equipment repair fees paid to the Company	**7.2**	6.6	5.0
Local media and presence marketing support provided by The Coca-Cola Company on the Company's behalf	**13.0**	17.7	6.9

The significant changes in payments to and from The Coca-Cola Company relate primarily to the consolidation of Piedmont in 2002 and changes in the administration of customer marketing programs, local media and marketing funding support by The Coca-Cola Company at the beginning of 2002.

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 $24.5 million, $23.6 million and $21.0 million in 2003, 2002 and 2001, respectively. Purchases from CCE under this arrangement were

Notes to Consolidated Financial Statements

$20.9 million, $20.3 million and $21.0 million in 2003, 2002 and 2001, respectively. The Coca-Cola Company has significant equity interests in the Company and CCE. As of December 28, 2003, 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.

Along with all other Coca-Cola bottlers, the Company has become a member in Coca-Cola Bottlers' Sales & Services Company LLC, ("CCBSS"), which was formed in 2003 for the purposes of facilitating various procurement functions and distributing certain specified beverage products of The Coca-Cola Company with the intention of enhancing the efficiency and competitiveness of the Coca-Cola bottling system in the United States. The Company paid $.2 million in 2003 to CCBSS for its share of CCBSS' administrative costs. CCE is also a member of CCBSS.

The Company entered into an agreement for consulting services with J. Frank Harrison, Jr., the former Chairman of the Board of Directors of the Company, beginning in 1997. Payments related to the consulting services agreement totaled $183,333 and $200,000 in 2002 and 2001, respectively. Mr. Harrison, Jr. passed away in November 2002. An accrual of $3.8 million related to a retirement benefit payable to Mr. Harrison, Jr. was reversed in the fourth quarter of 2002.

On July 2, 1993, the Company and The Coca-Cola Company formed Piedmont. Prior to January 2, 2002, the Company and The Coca-Cola Company, through their respective subsidiaries, each beneficially owned a 50% interest in Piedmont. On January 2, 2002, the Company purchased for $10.0 million an additional 4.651% interest in Piedmont from The Coca-Cola Company, increasing the Company's ownership in Piedmont to 54.651%. In March 2003, the Company purchased an additional 22.675% interest in Piedmont from The Coca-Cola Company for $53.5 million, increasing its ownership interest in Piedmont 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 2003, 2002 and 2001 totaling $67.6 million, $55.4 million and $53.0 million, respectively. The Company received $17.6 million, $17.9 million and $17.8 million for management services pursuant to its management agreement with Piedmont for 2003, 2002 and 2001, respectively. Beginning in 2002, sales of product at cost to Piedmont and management fees earned pursuant to its management agreement were eliminated in consolidation.

During 2002, Piedmont refinanced a $195 million term loan using the proceeds from a loan from the Company. The Company's source of funds for this loan to Piedmont included the issuance of $150 million of senior notes, its lines of credit, the revolving credit facility and available cash flow. Piedmont pays the Company interest on the loan at the Company's average cost of funds plus 0.50%. As of December 28, 2003, the Company had loaned $140.2 million to Piedmont. All amounts outstanding under this loan will become due and payable on December 31, 2005. The Company plans to provide for Piedmont's future financing requirements under these terms.

Notes to Consolidated Financial Statements

The Company also subleases various fleet and vending equipment to Piedmont at cost. These sublease rentals amounted to $8.4 million, $8.7 million and $11.2 million in 2003, 2002 and 2001, respectively. In addition, Piedmont subleases various fleet and vending equipment to the Company at cost. These sublease rentals amounted to $.2 million each year for all periods presented.

On November 30, 1992, the Company and the previous owner of the Company's Snyder Production Center ("SPC") in Charlotte, North Carolina, who was unaffiliated with the Company, agreed to the early termination of the SPC lease. Harrison Limited Partnership One ("HLP") purchased the property contemporaneously with the termination of the lease, and the Company leased SPC from HLP pursuant to a ten-year lease that was to expire on November 30, 2002. 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 and Chief Executive Officer of the Company, and Reid M. Henson, a former Director of the Company, are co-trustees. On August 9, 2000, a Special Committee of the Board of Directors approved the sale by the Company of property and improvements adjacent to SPC to HLP and a new lease of both the conveyed property and SPC from HLP, which expires on December 31, 2010. The sale closed on December 15, 2000 at a price of $10.5 million. The annual base rent the Company was obligated to pay for its lease of this property is subject to adjustment for an inflation factor and for increases or decreases in interest rates, using LIBOR as the measurement device. Rental payments for these properties totaled $2.7 million, $2.9 million and $3.3 million in 2003, 2002 and 2001, respectively.

As disclosed in Note 5 to the consolidated financial statements, the Company recorded a capital lease of $41.6 million at the end of the first quarter of 2002 related to this lease as the Company received a renewal option to extend the term of the lease, which it expects to exercise. The minimum rentals and contingent rentals that relate to these properties were as follows:

In Millions	**2003**	**2002**	**2001**
Minimum rentals	**$ 4.2**	$ 4.1	$ 4.0
Contingent rentals	**(1.5)**	(1.2)	(0.7)
Total rental payments	**$ 2.7**	$ 2.9	$ 3.3

The contingent rentals in 2003, 2002 and 2001 reduce the minimum rentals as a result of decreases in interest rates, using LIBOR as the measurement device. Increases or decreases in lease payments that result from changes in the inflation factor or changes in the interest rate factor are recorded as adjustments to interest expense.

In May 2000, the Company entered into a five-year consulting agreement with Reid M. Henson. Mr. Henson served as a Vice Chairman of the Board of Directors from 1983 to May 2000. Payments in 2003, 2002 and 2001 related to the consulting agreement totaled $350,000 in each year.

On June 1, 1993, the Company entered into a lease agreement with Beacon Investment Corporation related to the Company's headquarters office building. Beacon Investment Corporation's sole shareholder is J. Frank Harrison, III. On January 5, 1999, the Company entered into a new ten-year lease agreement with Beacon

Notes to Consolidated Financial Statements

Investment Corporation which includes the Company's headquarters office building and an adjacent office facility. The annual base rent the Company is obligated to pay under this lease is subject to adjustment for increases in the Consumer Price Index and for increases or decreases in interest rates using the Adjusted Eurodollar Rate as the measurement device. Rental payments under this lease totaled $2.8 million, $2.8 million and $3.3 million in 2003, 2002 and 2001, respectively.

The following table summarizes the minimum rentals and contingent rentals associated with this lease:

In Millions	2003	2002	2001
Minimum rentals	**$2.8**	$2.8	$2.8
Contingent rentals	**—**	—	.5
Total rental expense	**$2.8**	$2.8	$3.3

Increases or decreases in lease payments that result from changes in the Consumer Price Index or changes in the interest rate factor are recorded as adjustments to rent expense in S,G&A expenses.

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 $51.1 million, $45.6 million and $49.7 million in 2003, 2002 and 2001, 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 $18.8 million as of December 28, 2003.

The Company is a member of 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 $105 million, $110 million and $110 million in 2003, 2002 and 2001, respectively. The Company also manages the operations of SAC pursuant to a management agreement. Management fees earned from SAC were $1.3 million, $1.3 million and $1.2 million in 2003, 2002 and 2001, respectively. Also, the Company has guaranteed a portion of debt for SAC. Such guarantee was $20.6 million as of December 28, 2003.

Notes to Consolidated Financial Statements

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)	Fiscal Year 2003	2002	2001
Numerator:			
Numerator for basic net income and diluted net income per share	**$30,703**	$22,823	$9,470
Denominator:			
Denominator for basic net income per share—weighted average common shares	**9,043**	8,861	8,753
Effect of dilutive securities	**—**	60	68
Denominator for diluted net income per share—adjusted weighted average common shares	**9,043**	8,921	8,821
Basic net income per share	**$ 3.40**	$ 2.58	$ 1.08
Diluted net income per share	**$ 3.40**	$ 2.56	$ 1.07

20. RISKS AND UNCERTAINTIES

Approximately 91% of the Company's sales are products of The Coca-Cola Company, which is the sole supplier of the concentrates or syrups required to manufacture these products. The remaining 9% of the Company's sales are products of other beverage companies. The Company has bottling contracts under which it has various requirements to meet. Failure to meet the requirements of these bottling contracts could result in the loss of distribution rights for the respective product.

The Company currently obtains all of its aluminum cans from one domestic supplier. The Company currently obtains all of its PET bottles from two domestic cooperatives. The inability of either of these aluminum can or PET bottle suppliers to meet the Company's requirement for containers could result in short-term shortages until alternative sources of supply could be located. The Company attempts to mitigate these risks by working closely with key suppliers and by purchasing business interruption insurance where appropriate. In addition, the cost of aluminum cans and PET bottle containers are subject to change. Material increases in the cost of these containers may result in a reduction in earnings to the extent the Company is not able to increase its selling prices to offset an increase in container costs.

The Company's products are sold and distributed directly by its employees to retail stores and other outlets. During 2003, approximately 70% of the Company's physical case volume was sold for future consumption. The remaining 30% of the Company's volume was sold for immediate consumption through various cold drink channels. The Company's largest customer (Wal-Mart Stores, Inc.) accounted for approximately 11% of the Company's total sales volume during 2003.

Notes to Consolidated Financial Statements

The Company makes significant expenditures each year on fuel for product delivery. Material increases in the cost of fuel may result in a reduction in earnings to the extent the Company is not able to increase its selling prices to offset an increase in fuel costs.

Certain liabilities of the Company are subject to risk of changes in both long-term and short-term interest rates. These liabilities include floating rate debt, leases with payments determined on floating interest rates, postretirement benefit obligations and the Company's nonunion pension liability.

Less than 10% of the Company's labor force is currently covered by collective bargaining agreements. Two collective bargaining contracts covering less than 1% of the Company's employees expire during 2004.

Material changes in the performance requirements or decreases in levels of marketing funding support historically provided under marketing programs with The Coca-Cola Company and other franchisers, or the Company's inability to meet the performance requirements for the anticipated levels of such marketing funding support payments, would adversely affect future earnings. The Coca-Cola Company is under no obligation to continue marketing funding support at past levels.

Changes in the market value of assets in the Company's pension plan as well as changes in the discount rate may result in significant changes in net periodic pension cost and the Company contributions to the plan.

Changes in the health care cost trend as well as changes in the discount rate may result in significant changes in postretirement benefit cost.

Changes in the insurance markets may significantly impact insurance premiums or, in certain situations, may impact the Company's ability to secure insurance coverages.

Notes to Consolidated Financial Statements

21. SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

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

	Fiscal Year		
In Thousands	**2003**	**2002**	**2001**
Accounts receivable, trade, net	**$ (2,674)**	$ 4,836	$ (1,313)
Accounts receivable from The Coca-Cola Company	**(5,120)**	(7,988)	1,445
Accounts receivable, other	**6,338**	(9,398)	2,994
Inventories	**1,757**	7,164	586
Prepaid expenses and other assets	**(28,978)**	(1,377)	10,958
Accounts payable, trade	**1,190**	4,089	6,893
Accounts payable to The Coca-Cola Company	**(9,653)**	6,483	5,058
Other accrued liabilities	**(4,445)**	(20,987)	4,250
Accrued compensation	**(209)**	3,880	3,906
Accrued interest payable	**275**	(2,347)	1,395
Due to Piedmont			8,246
(Increase) decrease in current assets less current liabilities	**$(41,519)**	$(15,645)	$44,418

Cash payments for interest and income taxes were as follows:

	Fiscal Year		
In Thousands	**2003**	**2002**	**2001**
Interest	**$42,722**	$52,572	$42,084
Income taxes (net of refunds)	**(7,172)**	3,138	2,673

22. NEW ACCOUNTING PRONOUNCEMENTS

In November 2002, the Emerging Issues Task Force ("EITF") reached a consensus on Issue No. 02-16, "Accounting by a Customer (Including a Reseller) for Certain Consideration Received from a Vendor" ("EITF 02-16"), addressing the recognition and income statement classification of various considerations given by a vendor to a customer. Among its requirements, the consensus requires that certain cash consideration received by a customer from a vendor is presumed to be a reduction of the price of the vendor's products, and therefore should be characterized as a reduction of cost of sales when recognized in the customer's income statement, unless certain criteria are met. EITF 02-16 was effective for the first quarter of 2003. Previously, the Company classified marketing funding support received from The Coca-Cola Company and other beverage companies as an adjustment to net sales. In accordance with EITF 02-16, the Company classified marketing funding support as a reduction of cost of sales beginning the first quarter of 2003. The application of EITF 02-16 did not have a significant impact on results of operations. Prior year amounts have been reclassified to conform to the current year presentation.

In January 2003, the Financial Accounting Standards Board ("FASB") issued Financial Interpretation No. 46, "Consolidation of Variable Interest Entities" ("FIN 46"). This interpretation addresses consolidation by business enterprises of variable interest entities with certain defined characteristics. Application of FIN 46 is required in the Company's financial statements for interests in variable interest entities that are considered to be special-purpose entities for the year ended December 28, 2003. The Company has determined that it does not have any arrangements or relationships with special-purpose entities. Application of FIN 46 for all other types of variable interest entities is required for the Company effective March 28, 2004. The Company anticipates that application of FIN 46 will not have a significant impact on its financial statements at this time.

In December 2003, the FASB issued Statement No. 132 (revised 2003), "Employers' Disclosures About Pensions and Other Postretirement Benefits," that requires additional financial statement disclosures for defined benefit plans. This revised standard requires more disclosure about plan assets, benefit obligations, cash flows, benefit costs and other relevant information. The Company has adopted these disclosure provisions beginning with its 2003 year-end financial reporting.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

23. QUARTERLY FINANCIAL DATA (UNAUDITED)

Set forth below are unaudited quarterly financial data for the fiscal years ended December 28, 2003 and December 29, 2002.

In Thousands (Except Per Share Data)	**Quarter**			
Year Ended December 28, 2003	**1**	**2**	**3**	**4**
Net sales	**$275,200**	**$318,165**	**$325,637**	**$291,763**
Gross margin	**134,869**	**153,656**	**156,759**	**140,033**
Net income	**1,407**	**11,900**	**13,846**	**3,550**
Basic net income per share	**.16**	**1.32**	**1.53**	**.39**
Diluted net income per share	**.16**	**1.32**	**1.53**	**.39**

In Thousands (Except Per Share Data)	**Quarter**			
Year Ended December 29, 2002	**1**	**2**	**3**	**4**
Net sales	$ 271,618	$ 329,512	$ 319,725	$ 277,480
Gross margin	134,407	159,380	153,823	131,588
Net income (loss)	3,378	10,783	9,539	(877)
Basic net income (loss) per share	.39	1.23	1.08	(.10)
Diluted net income (loss) per share	.38	1.21	1.07	(.10)

Coca-Cola Bottling Co. CONSOLIDATED

Selected Financial Data *

In Thousands (Except Per Share Data)	Fiscal Year 2003	2002**	2001	2000***	1999
Summary of Operations					
Net sales	**$1,210,765**	$1,198,335	$ 958,859	$ 938,684	$ 916,544
Cost of sales	**625,448**	619,137	514,358	489,524	505,889
Selling, general and administrative expenses	**422,456**	407,145	306,106	312,279	278,555
Depreciation expense	**76,485**	76,075	66,134	64,751	60,567
Provision for impairment of property, plant and equipment			947	3,066	
Amortization of intangibles	**3,105**	2,796	15,296	14,712	13,734
Restructuring expense					2,232
Total costs and expenses	**1,127,494**	1,105,153	902,841	884,332	860,977
Income from operations	**83,271**	93,182	56,018	54,352	55,567
Interest expense	**41,914**	49,120	44,322	53,346	50,581
Gain on sale of bottling territory				8,829	
Minority interest	**3,297**	5,992			
Income before income taxes	**38,060**	38,070	11,696	9,835	4,986
Income taxes	**7,357**	15,247	2,226	3,541	1,745
Net income	**$ 30,703**	$ 22,823	$ 9,470	$ 6,294	$ 3,241
Basic net income per share	**$ 3.40**	$ 2.58	$ 1.08	$ .72	$ .38
Diluted net income per share	**$ 3.40**	$ 2.56	$ 1.07	$ .71	$ .37
Cash dividends per share:					
Common	**$ 1.00**	$ 1.00	$ 1.00	$ 1.00	$ 1.00
Class B Common	**$ 1.00**	$ 1.00	$ 1.00	$ 1.00	$ 1.00
Other Information					
Weighted average number of common shares outstanding	**9,043**	8,861	8,753	8,733	8,588
Weighted average number of common shares outstanding—assuming dilution	**9,043**	8,921	8,821	8,822	8,708
Year-End Financial Position					
Total assets	**$1,349,920**	$1,353,525	$1,064,459	$1,062,097	$1,108,392
Portion of long-term debt payable within one year	**78**	31	56,708	9,904	28,635
Current portion of obligations under capital leases	**1,337**	1,120	1,364	3,325	4,483
Obligations under capital leases	**44,226**	44,906	1,060	1,774	4,468
Long-term debt	**802,639**	807,725	620,156	682,246	723,964
Stockholders' equity	**52,472**	32,867	17,081	28,412	30,851

* See Management's Discussion and Analysis and accompanying notes to consolidated financial statements for additional information.

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

*** In September 2000, the Company sold a bottling territory which represented approximately 3% of the Company's 2000 sales volume.

Summary of Quarterly Stock Prices

	Fiscal Year					
	2003 Sales Price			2002 Sales Price		
	High	Low	Period End	High	Low	Period End
First quarter	$70.45	$46.80	$51.88	$50.10	$37.24	$49.00
Second quarter	66.80	48.55	55.50	52.09	42.30	43.00
Third quarter	58.92	49.25	51.11	52.05	41.30	47.50
Fourth quarter	55.85	49.75	52.72	63.06	46.02	62.71

The Company's Common Stock trades on the Nasdaq National Market tier of The Nasdaq Stock Market® under the symbol COKE. The table above sets forth for the periods indicated the high, low and period end reported sales prices per share of Common Stock. There is no trading market for the Company's Class B Common Stock. Shares of Class B Common Stock are convertible on a share-for-share basis into shares of Common Stock.

The quarterly dividend rate of $.25 per share on both Common Stock and Class B Common Stock shares was maintained throughout 2003, 2002 and 2001.

The amount and frequency of future dividends will be determined by the Company's Board of Directors in light of the earnings and financial condition of the Company at such time, and no assurance can be given that dividends will be declared in the future.

The number of stockholders of record of Common Stock and Class B Common Stock, as of March 3, 2004, was 3,573 and 12, respectively.

Board of Directors

J. Frank Harrison, III
Chairman of the Board of Directors and
Chief Executive Officer
Coca-Cola Bottling Co. Consolidated

H. W. McKay Belk
President and Chief Merchandising Officer
Belk, Inc.

Sharon A. Decker
President
The Tanner Companies

William B. Elmore
President and Chief Operating Officer
Coca-Cola Bottling Co. Consolidated

James E. Harris
Executive Vice President and
Chief Financial Officer
MedCath Corporation

Deborah S. Harrison
Affiliate Broker
Fletcher Bright Companies

Ned R. McWherter
Former Director of Piedmont Natural Gas Co., Inc.,
Volunteer Distributing Co., Inc. and
Former Governor of the State of Tennessee

John W. Murrey, III
Private Attorney

Carl Ware
Retired Executive Vice President
Public Affairs and Administration
The Coca-Cola Company

Dennis A. Wicker
Partner
Helms Mulliss and Wicker, PLLC
Attorneys at Law
Former Lieutenant Governor of the
State of North Carolina

Executive Officers

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

William B. Elmore
President and Chief Operating Officer

Robert D. Pettus, Jr.
Executive Vice President and Assistant to
the Chairman

David V. Singer
Executive Vice President and Chief Financial Officer

Norman C. George
Senior Vice President, Chief Marketing and
Customer Officer

C. Ray Mayhall, Jr.
Senior Vice President, Sales

Clifford M. Deal, III
Vice President, Treasurer

Ronald J. Hammond
Vice President, Supply Chain

Kevin A. Henry
Vice President, Human Resources

Umesh M. Kasbekar
Vice President, Planning and Administration

Lauren C. Steele
Vice President, Corporate Affairs

Steven D. Westphal
Vice President, Controller

Jolanta T. Zwirek
Vice President, Chief Information Officer

Corporate Information

Transfer Agent and Dividend Disbursing Agent

The Company's transfer agent is responsible for stockholder records, issuance of stock certificates and distribution of dividend payments and IRS Form 1099s. The transfer agent also administers plans for dividend reinvestment and direct deposit. Stockholder requests and inquiries concerning these matters are most efficiently answered by corresponding directly with Wachovia Bank, N.A., Attention: Corporate Trust Client Services NC-1153, 1525 West W. T. Harris Blvd. 3C3, Charlotte, North Carolina 28288-1153. Communication may also be made by calling Toll Free (800) 829-8432, Local (704) 590-7375 or Fax (704) 590-7598.

Stock Listing

Nasdaq National Market System
Nasdaq Symbol—COKE

Company Website

www.cokeconsolidated.com

Corporate Office

The corporate office is located at 4100 Coca-Cola Plaza, Charlotte, North Carolina 28211. The mailing address is Coca-Cola Bottling Co. Consolidated, P.O. Box 31487, Charlotte, North Carolina 28231.

Annual Meeting

The Annual Meeting of Stockholders of Coca-Cola Bottling Co. Consolidated will be held at Snyder Production Center, 4901 Chesapeake Drive, Charlotte, North Carolina 28216, on April 28, 2004 at 10:00 a.m. local time.

Form 10-K and Code of Ethics for Senior Financial Officers

A copy of the Company's annual report to the Securities and Exchange Commission (Form 10-K) and its Code of Ethics for Senior Financial Officers is available to stockholders without charge upon written request to David V. Singer, Executive Vice President and Chief Financial Officer, Coca-Cola Bottling Co. Consolidated, P.O. Box 31487, Charlotte, North Carolina 28231. This information may also be obtained from the Company's website.

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Coca-Cola Bottling Co. Consolidated

Make.

Sell.

Deliver.

Coca-Cola
BOTTLING CO.
CONSOLIDATED

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