

COCA COLA CO  
Form 10-Q  
October 29, 2009

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[Table of Contents](#)

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

**FORM 10-Q**

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

**For the quarterly period ended October 2, 2009**

**OR**

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

**For the transition period from to**

**Commission File No. 1-2217**

**(Exact name of Registrant as specified in its Charter)**

**Delaware  
(State or other jurisdiction of  
incorporation or organization)**

**58-0628465  
(IRS Employer  
Identification No.)**

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

**30313  
(Zip Code)**

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

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

Yes ý No o

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

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Yes ☒ No ☐

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

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐

Smaller reporting company ☐

(Do not check if a smaller reporting company)

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

Yes ☐ No ☒

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

Class of Common Stock  
\$0.25 Par Value

Outstanding at October 23, 2009  
2,317,181,472 Shares

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THE COCA-COLA COMPANY AND SUBSIDIARIES

Table of Contents

	<u>Forward-Looking Statements</u>	<u>Page Number</u>
	<u>Part I. Financial Information</u>	<u>3</u>
<u>Item 1.</u>	<u>Financial Statements (Unaudited)</u>	
	<u>Condensed Consolidated Statements of Income</u>	<u>4</u>
	<u>Three and nine months ended October 2, 2009, and September 26, 2008</u>	<u>4</u>
	<u>Condensed Consolidated Balance Sheets</u>	
	<u>October 2, 2009, and December 31, 2008</u>	<u>5</u>
	<u>Condensed Consolidated Statements of Cash Flows</u>	
	<u>Nine months ended October 2, 2009, and September 26, 2008</u>	<u>6</u>
	<u>Notes to Condensed Consolidated Financial Statements</u>	
		<u>7</u>
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>33</u>
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>54</u>
<u>Item 4.</u>	<u>Controls and Procedures</u>	<u>54</u>
	<u>Part II. Other Information</u>	
<u>Item 1.</u>	<u>Legal Proceedings</u>	<u>54</u>
<u>Item 1A.</u>	<u>Risk Factors</u>	<u>54</u>
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>55</u>
<u>Item 6.</u>	<u>Exhibits</u>	<u>55</u>

## FORWARD-LOOKING STATEMENTS

*This report contains information that may constitute "forward-looking statements." Generally, the words "believe," "expect," "intend," "estimate," "anticipate," "project," "will" and similar expressions identify forward-looking statements, which generally are not historical in nature. All statements that address operating performance, events or developments that we expect or anticipate will occur in the future including statements relating to volume growth, share of sales and earnings per share growth, and statements expressing general views about future operating results are forward-looking statements. Management believes that these forward-looking statements are reasonable as and when made. However, caution should be taken not to place undue reliance on any such forward-looking statements because such statements speak only as of the date when made. Our Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law. In addition, forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from our Company's historical experience and our present expectations or projections. These risks and uncertainties include, but are not limited to, those described in Part II, "Item 1A. Risk Factors" and elsewhere in this report and in our Annual Report on Form 10-K for the year ended December 31, 2008, and those described from time to time in our future reports filed with the Securities and Exchange Commission.*

*Part I. Financial Information**Item 1. Financial Statements (Unaudited)*

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

(UNAUDITED)

(In millions except per share data)

	Three Months Ended		Nine Months Ended	
	October 2, 2009	September 26, 2008	October 2, 2009	September 26, 2008
<b>NET OPERATING REVENUES</b>	<b>\$ 8,044</b>	<b>\$ 8,393</b>	<b>\$ 23,480</b>	<b>\$ 24,818</b>
Cost of goods sold	<b>2,934</b>	3,020	<b>8,437</b>	8,806
<b>GROSS PROFIT</b>	<b>5,110</b>	5,373	<b>15,043</b>	16,012
Selling, general and administrative expenses	<b>2,912</b>	3,139	<b>8,380</b>	9,030
Other operating charges	<b>48</b>	47	<b>212</b>	242
<b>OPERATING INCOME</b>	<b>2,150</b>	2,187	<b>6,451</b>	6,740
Interest income	<b>67</b>	105	<b>184</b>	239
Interest expense	<b>89</b>	111	<b>271</b>	317
Equity income (loss) net	<b>282</b>	272	<b>609</b>	(434)
Other income (loss) net	<b>33</b>	17	<b>13</b>	118
<b>INCOME BEFORE INCOME TAXES</b>	<b>2,443</b>	2,470	<b>6,986</b>	6,346
Income taxes	<b>523</b>	555	<b>1,658</b>	1,477
<b>CONSOLIDATED NET INCOME</b>	<b>1,920</b>	1,915	<b>5,328</b>	4,869
Less: Net income attributable to noncontrolling interests	<b>24</b>	25	<b>47</b>	57
<b>NET INCOME ATTRIBUTABLE TO SHAREOWNERS OF THE COCA-COLA COMPANY</b>	<b>\$ 1,896</b>	<b>\$ 1,890</b>	<b>\$ 5,281</b>	<b>\$ 4,812</b>
<b>BASIC NET INCOME PER SHARE<sup>1</sup></b>	<b>\$ 0.82</b>	<b>\$ 0.82</b>	<b>\$ 2.28</b>	<b>\$ 2.08</b>
<b>DILUTED NET INCOME PER SHARE<sup>1</sup></b>	<b>\$ 0.81</b>	<b>\$ 0.81</b>	<b>\$ 2.27</b>	<b>\$ 2.06</b>
<b>DIVIDENDS PER SHARE</b>	<b>\$ 0.41</b>	<b>\$ 0.38</b>	<b>\$ 1.23</b>	<b>\$ 1.14</b>
<b>AVERAGE SHARES OUTSTANDING</b>	<b>2,316</b>	2,311	<b>2,314</b>	2,316
Effect of dilutive securities	<b>16</b>	18	<b>10</b>	25
<b>AVERAGE SHARES OUTSTANDING ASSUMING DILUTION</b>	<b>2,332</b>	2,329	<b>2,324</b>	2,341

<sup>1</sup> Basic net income per share and diluted net income per share are calculated based on net income attributable to shareowners of The Coca-Cola Company.

Refer to Notes to Condensed Consolidated Financial Statements.

**THE COCA-COLA COMPANY AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**

(UNAUDITED)

(In millions except par value)

	October 2, 2009	December 31, 2008
<b>ASSETS</b>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 8,846	\$ 4,701
Marketable securities	279	278
Trade accounts receivable, less allowances of \$57 and \$51, respectively	3,465	3,090
Inventories	2,341	2,187
Prepaid expenses and other assets	2,061	1,920
<b>TOTAL CURRENT ASSETS</b>	<b>16,992</b>	12,176
 EQUITY METHOD INVESTMENTS	 5,985	 5,316
OTHER INVESTMENTS, PRINCIPALLY BOTTLING COMPANIES	496	463
OTHER ASSETS	1,910	1,733
PROPERTY, PLANT AND EQUIPMENT, less accumulated depreciation of \$6,674 and \$6,074, respectively	9,099	8,326
TRADEMARKS WITH INDEFINITE LIVES	6,147	6,059
GOODWILL	4,100	4,029
OTHER INTANGIBLE ASSETS	2,378	2,417
 <b>TOTAL ASSETS</b>	 <b>\$ 47,107</b>	 <b>\$ 40,519</b>
<b>LIABILITIES AND EQUITY</b>		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 6,755	\$ 6,205
Loans and notes payable	6,136	6,066
Current maturities of long-term debt	50	465
Accrued income taxes	469	252
<b>TOTAL CURRENT LIABILITIES</b>	<b>13,410</b>	12,988
 LONG-TERM DEBT	 5,028	 2,781
OTHER LIABILITIES	3,124	3,011
DEFERRED INCOME TAXES	1,123	877
THE COCA-COLA COMPANY SHAREOWNERS' EQUITY		
Common stock, \$0.25 par value; Authorized 5,600 shares; Issued 3,520 and 3,519 shares, respectively	880	880
Capital surplus	8,227	7,966
Reinvested earnings	40,944	38,513
Accumulated other comprehensive income (loss)	(1,753)	(2,674)
Treasury stock, at cost 1,206 and 1,207 shares, respectively	(24,343)	(24,213)

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EQUITY ATTRIBUTABLE TO SHAREOWNERS OF THE COCA-COLA COMPANY	<b>23,955</b>	20,472
EQUITY ATTRIBUTABLE TO NONCONTROLLING INTERESTS	<b>467</b>	390
TOTAL EQUITY	<b>24,422</b>	20,862
TOTAL LIABILITIES AND EQUITY	<b>\$ 47,107</b>	\$ 40,519

*Refer to Notes to Condensed Consolidated Financial Statements.*

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

(UNAUDITED)

(In millions)

	Nine Months Ended	
	October 2, 2009	September 26, 2008
<b>OPERATING ACTIVITIES</b>		
Consolidated net income	\$ 5,328	\$ 4,869
Depreciation and amortization	905	943
Stock-based compensation expense	142	223
Deferred income taxes	26	(221)
Equity income or loss, net of dividends	(428)	638
Foreign currency adjustments	15	(39)
Gains on sales of assets, including bottling interests	(33)	(128)
Other operating charges	134	141
Other items	187	57
Net change in operating assets and liabilities	(6)	(815)
Net cash provided by operating activities	6,270	5,668
<b>INVESTING ACTIVITIES</b>		
Acquisitions and investments, principally beverage and bottling companies and trademarks	(286)	(655)
Purchases of other investments	(20)	(212)
Proceeds from disposals of bottling companies and other investments	102	454
Purchases of property, plant and equipment	(1,399)	(1,370)
Proceeds from disposals of property, plant and equipment	34	46
Other investing activities	9	(57)
Net cash used in investing activities	(1,560)	(1,794)
<b>FINANCING ACTIVITIES</b>		
Issuances of debt	11,149	5,308
Payments of debt	(9,408)	(3,211)
Issuances of stock	231	570
Purchases of stock for treasury	(6)	(1,079)
Dividends	(2,850)	(1,764)
Net cash provided by (used in) financing activities	(884)	(176)
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>	319	6
<b>CASH AND CASH EQUIVALENTS</b>		
Net increase during the period	4,145	3,704
Balance at beginning of period	4,701	4,093
Balance at end of period	\$ 8,846	\$ 7,797

*Refer to Notes to Condensed Consolidated Financial Statements.*





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

**Note A Summary of Significant Accounting Policies**

**Basis of Presentation**

The accompanying unaudited Condensed Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Quarterly Report on Form 10-Q and Rule 10-01 of Regulation S-X. They do not include all information and notes required by generally accepted accounting principles for complete financial statements. However, except as disclosed herein, there has been no material change in the information disclosed in the notes to consolidated financial statements included in the Annual Report on Form 10-K of The Coca-Cola Company for the year ended December 31, 2008.

When used in these notes, the terms "Company," "we," "us" or "our" mean The Coca-Cola Company and all entities included in our consolidated financial statements. In the opinion of management, all adjustments (including normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and nine months ended October 2, 2009, are not necessarily indicative of the results that may be expected for the year ending December 31, 2009. Sales of our ready-to-drink nonalcoholic beverages are somewhat seasonal, with the second and third calendar quarters accounting for the highest sales volumes. The volume of sales in the beverage business may be affected by weather conditions.

Each of our interim reporting periods, other than the fourth interim reporting period, ends on the Friday closest to the last day of the corresponding quarterly calendar period. The first quarter of 2009 had five additional days compared to the first quarter of 2008. However, the second and third quarters of 2009 had the same number of days compared to the second and third quarters of 2008. Consequently, the reporting period for the nine months ended October 2, 2009, had five additional days compared to the nine months ended September 26, 2008. Our fourth interim reporting period and our fiscal year end on December 31 regardless of the day of the week on which December 31 falls.

**Subsequent Events**

The Company evaluated subsequent events through the time of filing this Quarterly Report on Form 10-Q on October 29, 2009. No significant events occurred subsequent to the balance sheet date but prior to the filing of this report that would have a material impact on our Condensed Consolidated Financial Statements.

**Recently Issued Accounting Guidance**

In June 2009, the Financial Accounting Standards Board ("FASB") amended its guidance on accounting for variable interest entities ("VIE"). The new accounting guidance will result in a change in our accounting policy effective January 1, 2010. Among other things, the new guidance requires a qualitative rather than a quantitative analysis to determine the primary beneficiary of a VIE; requires continuous assessments of whether an enterprise is the primary beneficiary of a VIE; enhances disclosures about an enterprise's involvement with a VIE; and amends certain guidance for determining whether an entity is a VIE. Under the new guidance, a VIE must be consolidated if the enterprise has both (a) the power to direct the activities of the VIE that most significantly impact the entity's economic performance, and (b) the obligation to absorb losses or the right to receive benefits from the VIE that could potentially be significant to the VIE. The Company is evaluating the impact that this change in accounting policy will have on our consolidated financial statements. Based on our initial

assessment, we anticipate that certain entities that are consolidated under our current accounting policy may not be consolidated subsequent to the effective date of the new guidance. The Company does not expect this change in accounting policy to have a material impact on our consolidated financial statements.

In May 2009, the FASB issued new accounting and disclosure guidance for recognized and non-recognized subsequent events that occur after the balance sheet date but before financial statements are issued. The new guidance also requires disclosure of the date through which an entity has evaluated subsequent events and the basis for that date. The new accounting guidance was effective for our Company beginning with our Quarterly Report on Form 10-Q for the three and six months ended July 3, 2009, and is being applied prospectively. This change in accounting policy had no impact on our consolidated financial statements.

In March 2008, the FASB amended existing disclosure requirements related to derivative and hedging activities, which became effective for our Company on January 1, 2009, and is being applied prospectively. As a result of the amended disclosure requirements, the Company is required to provide expanded qualitative and quantitative disclosures about derivatives and hedging activities in each interim and annual period. The adoption of the new disclosure requirements had no impact on our consolidated financial statements.

In December 2007, the FASB amended its guidance on accounting for business combinations. The new accounting guidance resulted in a change in our accounting policy effective January 1, 2009, and is being applied prospectively to all business combinations subsequent to the effective date. Among other things, the new guidance amends the principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any noncontrolling interest in the acquiree and the goodwill acquired. It also establishes new disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. The adoption of this new accounting policy did not have a significant impact on our consolidated financial statements, and the impact it will have on our consolidated financial statements in future periods will depend on the nature and size of business combinations completed subsequent to the date of adoption.

In December 2007, the FASB issued new accounting and disclosure guidance related to noncontrolling interests in subsidiaries (previously referred to as minority interests), which resulted in a change in our accounting policy effective January 1, 2009. Among other things, the new guidance requires that a noncontrolling interest in a subsidiary be accounted for as a component of equity separate from the parent's equity, rather than as a liability. The new guidance is being applied prospectively, except for the presentation and disclosure requirements, which have been applied retrospectively. The adoption of this new accounting policy did not have a significant impact on our consolidated financial statements. Refer to Note D and Note E.

In December 2007, the FASB issued new accounting guidance that defines collaborative arrangements and establishes reporting requirements for transactions between participants in a collaborative arrangement and between participants in the arrangement and third parties. It also establishes the appropriate income statement presentation and classification for joint operating activities and payments between participants, as well as the sufficiency of the disclosures related to those arrangements. This new accounting guidance was effective for our Company on January 1, 2009, and its adoption did not have a significant impact on our consolidated financial statements.

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In September 2006, the FASB issued new accounting guidance that defines fair value, establishes a framework for measuring fair value, and expands disclosure requirements about fair value measurements. However, in February 2008, the FASB delayed the effective date of the new accounting guidance for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), until January 1, 2009. The adoption of this new accounting guidance for our nonfinancial assets and nonfinancial liabilities did not have a significant impact on our consolidated financial statements. Refer to Note H.

### Note B Inventories

The following table summarizes our inventory balances (in millions):

	October 2, 2009	December 31, 2008
Raw materials and packaging	\$ 1,323	\$ 1,191
Finished goods	712	706
Other	306	290
Total inventories	\$ 2,341	\$ 2,187

### Note C Commitments and Contingencies

As of October 2, 2009, we were contingently liable for guarantees of indebtedness owed by third parties in the amount of approximately \$217 million. These guarantees primarily are related to third-party customers, bottlers and vendors and have arisen through the normal course of business. These guarantees have various terms, and none of these guarantees was individually significant. The amount represents the maximum potential future payments that we could be required to make under the guarantees; however, we do not consider it probable that we will be required to satisfy these guarantees.

On September 3, 2008, we announced our intention to make cash offers to purchase China Huiyuan Juice Group Limited, a Hong Kong listed company which owns the Huiyuan juice business throughout China ("Huiyuan"). The Company had accepted irrevocable undertakings from three shareholders for acceptance of the offers, in aggregate representing approximately 66 percent of the Huiyuan shares. The making of the offers was subject to preconditions relating to Chinese regulatory approvals. On March 18, 2009, the Chinese Ministry of Commerce declined approval for the Company's proposed purchase of Huiyuan. Consequently, the Company was unable to proceed with the proposed cash offers, and the irrevocable undertakings terminated.

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

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

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During the period from 1970 to 1981, our Company owned Aqua-Chem, Inc., now known as Cleaver-Brooks, Inc. ("Aqua-Chem"). A division of Aqua-Chem manufactured certain boilers that contained gaskets that Aqua-Chem purchased from outside suppliers. Several years after our Company sold this entity, Aqua-Chem received its first lawsuit relating to asbestos, a component of some of the gaskets. In September 2002, Aqua-Chem notified our Company that it believed we were obligated for certain costs and expenses associated with its asbestos litigations. Aqua-Chem demanded that our Company reimburse it for approximately \$10 million for out-of-pocket litigation-related expenses. Aqua-Chem also demanded that the Company acknowledge a continuing obligation to Aqua-Chem for any future liabilities and expenses that are excluded from coverage under the applicable insurance or for which there is no insurance. Our Company disputes Aqua-Chem's claims, and we believe we have no obligation to Aqua-Chem for any of its past, present or future liabilities, costs or expenses. Furthermore, we believe we have substantial legal and factual defenses to Aqua-Chem's claims. The parties entered into litigation in Georgia to resolve this dispute, which was stayed by agreement of the parties pending the outcome of litigation filed in Wisconsin by certain insurers of Aqua-Chem. In that case, five plaintiff insurance companies filed a declaratory judgment action against Aqua-Chem, the Company and 16 defendant insurance companies seeking a determination of the parties' rights and liabilities under policies issued by the insurers and reimbursement for amounts paid by plaintiffs in excess of their obligations. During the course of the Wisconsin coverage litigation, Aqua-Chem and the Company reached settlements with several of the insurers, including plaintiffs, who have or will pay funds into an escrow account for payment of costs arising from the asbestos claims against Aqua-Chem. On July 24, 2007, the Wisconsin trial court entered a final declaratory judgment regarding the rights and obligations of the parties under the insurance policies issued by the remaining defendant insurers, which judgment was not appealed. The judgment directs, among other things, that each insurer whose policy is triggered is jointly and severally liable for 100 percent of Aqua-Chem's losses up to policy limits. The Georgia litigation remains subject to the stay agreement.

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

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

sustained, (2) the tax position, amount, and/or timing is ultimately settled through negotiation or litigation, or (3) the statute of limitations for the tax position has expired. Refer to Note L.

#### Note D Comprehensive Income (Loss)

The following table provides a summary of total comprehensive income (loss), including our proportionate share of equity method investees' other comprehensive income (loss), for the applicable periods (in millions):

	Three Months Ended		Nine Months Ended	
	October 2, 2009	September 26, 2008	October 2, 2009	September 26, 2008
Consolidated net income	\$ 1,920	\$ 1,915	\$ 5,328	\$ 4,869
Other comprehensive income (loss):				
Net foreign currency translation gain (loss)	16	(703)	915	112
Net gain (loss) on derivatives	(38)	125	(17)	34
Net change in unrealized gain on available-for-sale securities	9	(18)	69	(41)
Net change in pension liability	5	3	(8)	28
Total comprehensive income (loss)	\$ 1,912	\$ 1,322	\$ 6,287	\$ 5,002

The following table summarizes the allocation of total comprehensive income (loss), including our proportionate share of equity method investees' other comprehensive income (loss), between shareowners of The Coca-Cola Company and noncontrolling interests (in millions):

	Nine Months Ended October 2, 2009		
	Shareowners of The Coca-Cola Company	Noncontrolling Interests	Total
Consolidated net income	\$ 5,281	\$ 47	\$ 5,328
Other comprehensive income (loss):			
Net foreign currency translation gain (loss)	877	38	915
Net gain (loss) on derivatives	(17)		(17)
Net change in unrealized gain on available-for-sale securities	69		69
Net change in pension liability	(8)		(8)
Total comprehensive income (loss)	\$ 6,202	\$ 85	\$ 6,287

**Note E Changes in Equity**

The following table provides a reconciliation of the beginning and the ending carrying amounts of total equity, equity attributable to shareowners of The Coca-Cola Company and equity attributable to noncontrolling interests (in millions):

	Shareowners of The Coca-Cola Company						Non-
			Accumulated				controlling
	Total	Reinvested	Other	Common	Capital	Treasury	Interests
		Earnings	Income (Loss)	Stock	Surplus	Stock	
December 31, 2008	\$ 20,862	\$ 38,513	\$ (2,674)	\$ 880	\$ 7,966	\$ (24,213)	\$ 390
Comprehensive income (loss) <sup>1</sup>	6,287	5,281	921				85
Dividends paid to shareowners of The Coca-Cola Company	(2,850)	(2,850)					
Dividends paid to noncontrolling interests	(12)						(12)
Contributions by noncontrolling interests	4						4
Purchases of treasury stock	(241)					(241)	
Impact of employee stock option and restricted stock plans	372				261	111	
October 2, 2009	\$ 24,422	\$ 40,944	\$ (1,753)	\$ 880	\$ 8,227	\$ (24,343)	\$ 467

<sup>1</sup> The allocation of the individual components of comprehensive income attributable to shareowners of The Coca-Cola Company and noncontrolling interests is disclosed in Note D.

**Note F Financial Instruments****Certain Debt and Marketable Equity Securities**

Investments in debt and marketable equity securities, other than investments accounted for by the equity method, are categorized as trading, available-for-sale or held-to-maturity. Our marketable equity investments are categorized as trading or available-for-sale with their cost basis determined by the specific identification method. Realized and unrealized gains and losses on trading securities and realized gains and losses on available-for-sale securities are included in net income. Unrealized gains and losses, net of deferred taxes, on available-for-sale securities are included in our consolidated balance sheets as a component of accumulated other comprehensive income (loss) ("AOCI"). Debt securities categorized as held-to-maturity are stated at amortized cost.

As of October 2, 2009, and December 31, 2008, our trading securities had a fair value of approximately \$57 million and \$49 million, respectively. Trading securities are carried at fair value in the line item marketable securities in our consolidated balance sheets. The Company had net unrealized gains on trading securities of approximately \$9 million and \$12 million for the three and nine months ended October 2, 2009, respectively. The Company had net unrealized losses on trading securities of approximately \$14 million and \$23 million for the three and nine months ended September 26, 2008, respectively.

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As of October 2, 2009, available-for-sale and held-to-maturity securities consisted of the following (in millions):

		Gross Unrealized		Estimated
	Cost	Gains	Losses	Fair Value
Available-for-sale securities: <sup>1</sup>				
Equity securities	\$ 306	\$ 280	\$ (12)	\$ 574
Other securities	12		(3)	9
	\$ 318	\$ 280	\$ (15)	\$ 583
Held-to-maturity securities:				
Bank and corporate debt	\$ 215	\$	\$	\$ 215

<sup>1</sup> Refer to Note H for additional information related to the estimated fair value.

As of December 31, 2008, available-for-sale and held-to-maturity securities consisted of the following (in millions):

		Gross Unrealized		Estimated
	Cost	Gains	Losses	Fair Value
Available-for-sale securities: <sup>1</sup>				
Equity securities	\$ 329	\$ 193	\$ (7)	\$ 515
Other securities	12		(5)	7
	\$ 341	\$ 193	\$ (12)	\$ 522
Held-to-maturity securities:				
Bank and corporate debt	\$ 74	\$	\$	\$ 74

<sup>1</sup> Refer to Note H for additional information related to the estimated fair value.

The Company's available-for-sale and held-to-maturity securities were included in the following captions in our consolidated balance sheets (in millions):

	October 2, 2009		December 31, 2008	
	Available-for-Sale Securities	Held-to-Maturity Securities	Available-for-Sale Securities	Held-to-Maturity Securities
Cash and cash equivalents	\$	\$ 214	\$	\$ 73
Marketable securities	221	1	228	1
Other investments, principally bottling companies	353		287	
Other assets	9		7	
	\$ 583	\$ 215	\$ 522	\$ 74



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The contractual maturities of these investments as of October 2, 2009, were as follows (in millions):

	Available-for-Sale Securities		Held-to-Maturity Securities	
	Cost	Fair Value	Amortized Cost	Fair Value
Within 1 year	\$	\$	\$ 215	\$ 215
After 1 year through 5 years				
After 5 years through 10 years	2			
After 10 years	10	9		
Equity securities	306	574		
	\$ 318	\$ 583	\$ 215	\$ 215

Proceeds from the sale of available-for-sale securities were approximately \$35 million during the three and nine months ended October 2, 2009. The Company realized gross gains of approximately \$10 million and no gross losses on the sale of available-for-sale securities during the three and nine months ended October 2, 2009. The Company did not sell any available-for-sale securities during the three and nine months ended September 26, 2008.

### Other Fair Value Disclosures

The carrying amounts of cash and cash equivalents, receivables, accounts payable and accrued expenses, and loans and notes payable approximate their fair values because of the relatively short-term maturity of these instruments.

The following table presents the difference between calculated fair values, based on quoted closing prices of publicly traded shares, and our Company's carrying value in publicly traded bottlers accounted for as equity method investments (in millions):

October 2, 2009	Fair Value	Carrying Value	Difference
Coca-Cola Enterprises Inc. <sup>1</sup>	\$ 3,477	\$	\$ 3,477
Coca-Cola FEMSA, S.A.B. de C.V.	3,027	969	2,058
Coca-Cola Hellenic Bottling Company S.A.	2,188	1,574	614
Coca-Cola Amatil Limited	1,848	754	1,094
Coca-Cola Icecek A.S.	381	140	241
Grupo Continental, S.A.B.	323	155	168
Coca-Cola Embonor S.A.	269	202	67
Coca-Cola Bottling Co. Consolidated	117	71	46
Embotelladoras Coca-Cola Polar S.A.	97	75	22
Total	\$ 11,727	\$ 3,940	\$ 7,787

<sup>1</sup> The carrying value of our investment in Coca-Cola Enterprises Inc. ("CCE") was reduced to zero as of December 31, 2008, primarily as a result of recording our proportionate share of impairment charges and items impacting AOCI recorded by CCE during 2008.

We carry our cost method investments at cost. If a decline in the fair value of a cost method investment is determined to be other than temporary, an impairment charge is recorded and the fair value becomes the new cost basis of the investment. We periodically review all of our cost method investments to determine if impairment indicators are present; however, we are not required to determine the fair value of these investments unless impairment indicators exist. When impairment indicators exist, we generally use discounted cash flow analyses to determine the fair value. We estimate

that the fair values of our cost method investments exceeded or approximated their carrying values as of October 2, 2009, and December 31, 2008. Our cost method investments had a carrying value of approximately \$143 million and \$176 million as of October 2, 2009, and December 31, 2008, respectively. During the first quarter of 2009, the Company recorded a charge of approximately \$27 million in other income (loss) net, as a result of an other-than-temporary decline in the fair value of a cost method investment. Refer to Note K for additional information related to this impairment.

We recognize all derivative instruments as either assets or liabilities at fair value in our consolidated balance sheets, with fair values estimated based on quoted market prices or pricing models using current market rates. Virtually all of our derivatives are straightforward, over-the-counter instruments with liquid markets. For further discussion of our derivatives, including a disclosure of derivative fair values, refer to Note G.

The fair value of our long-term debt is estimated based on quoted prices for those or similar instruments. As of October 2, 2009, the carrying amount and fair value of our long-term debt, including the current portion, were approximately \$5,078 million and \$5,413 million, respectively. As of December 31, 2008, the carrying amount and fair value of our long-term debt, including the current portion, were approximately \$3,246 million and \$3,402 million, respectively. Refer to Note I.

#### **Note G Hedging Transactions and Derivative Financial Instruments**

The Company is directly and indirectly affected by changes in certain market conditions. These changes in market conditions may adversely impact the Company's financial performance and are referred to as market risks. Our Company, when deemed appropriate, uses derivatives as a risk management tool to mitigate the potential impact of certain market risks. The primary market risks managed by the Company through the use of derivative instruments are foreign currency exchange rate risk, commodity price risk and interest rate risk.

The Company uses various types of derivative instruments including, but not limited to, forward contracts, commodity futures contracts, option contracts, collars and swaps. Forward contracts and commodity futures contracts are agreements to buy or sell a quantity of a currency or commodity at a predetermined future date, and at a predetermined rate or price. An option contract is an agreement that conveys the purchaser the right, but not the obligation, to buy or sell a quantity of a currency or commodity at a predetermined rate or price during a period or at a time in the future. A collar is a strategy that uses a combination of options to limit the range of possible positive or negative returns on an underlying asset or liability to a specific range, or to protect expected future cash flows. To do this, an investor simultaneously buys a put option and sells (writes) a call option. A swap agreement is a contract between two parties to exchange cash flows based on specified underlying notional amounts, assets and/or indices. We do not enter into derivative financial instruments for trading purposes.

All derivatives are carried at fair value in the consolidated balance sheets in the line items prepaid expenses and other assets or accounts payable and accrued expenses, as applicable. The carrying values of the derivatives reflect the impact of legally enforceable master netting agreements and cash collateral held or placed with the same counterparties. These master netting agreements allow the Company to net settle positive and negative positions (assets and liabilities) arising from different transactions with the same counterparty.

The accounting for gains and losses that result from changes in the fair values of derivative instruments depends on whether the derivatives have been designated and qualify as hedging instruments and the type of hedging relationships. Derivatives can be designated as fair value hedges, cash flow hedges or hedges of net investments in foreign operations. The Company does not typically designate derivatives as fair value hedges. The changes in fair values of derivatives that have been designated and qualify as cash flow hedges or hedges of net investments in foreign operations are recorded in AOCI and are reclassified into the line item in the consolidated income statement in which the hedged items are recorded in the same period the hedged items affect earnings. Due to the high degree of effectiveness between the hedging instruments and the underlying exposures being hedged, fluctuations in the value of the derivative instruments are generally offset by changes in the fair values or cash flows of the underlying exposures being hedged. The changes in fair values of derivatives that were not designated and/or did not qualify as hedging instruments are immediately recognized into earnings.

For derivatives that will be accounted for as hedging instruments, the Company formally designates and documents, at inception, the financial instrument as a hedge of a specific underlying exposure, the risk management objective and the strategy for undertaking the hedge transaction. In addition, the Company formally assesses, both at the inception and at least quarterly thereafter, whether the financial instruments used in hedging transactions are effective at offsetting changes in either the fair values or cash flows of the related underlying exposures. Any ineffective portion of a financial instrument's change in fair value is immediately recognized into earnings.

The Company estimates the fair values of its derivatives based on quoted market prices or pricing models using current market rates. Refer to Note H. The notional amounts of the derivative financial instruments do not necessarily represent amounts exchanged by the parties and, therefore, are not a direct measure of our exposure to the financial risks described above. The amounts exchanged are calculated by reference to the notional amounts and by other terms of the derivatives, such as interest rates, foreign currency exchange rates or other financial indices. The Company does not view the fair values of its derivatives in isolation, but rather in relation to the fair values or cash flows of the underlying hedged transactions or other exposures. Virtually all of our derivatives are straightforward over-the-counter instruments with liquid markets.

#### **Credit Risk Associated with Derivatives**

We have established strict counterparty credit guidelines and enter into transactions only with financial institutions of investment grade or better. We monitor counterparty exposures regularly and review any downgrade in credit rating immediately. If a downgrade in the credit rating of a counterparty were to occur, we have provisions requiring collateral in the form of U.S. government securities for substantially all of our transactions. To mitigate presettlement risk, minimum credit standards become more stringent as the duration of the derivative financial instrument increases. In addition, the Company's master netting agreements reduce credit risk by permitting the Company to net settle for transactions with the same counterparty. To minimize the concentration of credit risk, we enter into derivative transactions with a portfolio of financial institutions. Based on these factors, we consider the risk of counterparty default to be minimal.

#### **Cash Flow Hedging Strategy**

The Company uses cash flow hedges to minimize the variability in cash flows of assets or liabilities or forecasted transactions caused by fluctuations in foreign currency exchange rates, commodity prices or

interest rates. The changes in the fair values of derivatives designated as cash flow hedges are recorded in AOCI and are reclassified into the line item in the consolidated income statement in which the hedged items are recorded in the same period the hedged items affect earnings. The changes in fair values of hedges that are determined to be ineffective are immediately reclassified from AOCI into earnings. The Company did not discontinue any cash flow hedging relationships during the nine months ended October 2, 2009. The maximum length of time over which the Company hedges its exposure to future cash flows is typically three years.

The Company maintains a foreign currency cash flow hedging program to reduce the risk that our eventual U.S. dollar net cash inflows from sales outside the United States and U.S. dollar net cash outflows from procurement activities will be adversely affected by changes in foreign currency exchange rates. We enter into forward contracts and purchase foreign currency options (principally euros and Japanese yen) and collars to hedge certain portions of forecasted cash flows denominated in foreign currencies. When the dollar strengthens significantly against the foreign currencies, the decline in the present value of future foreign currency cash flows is partially offset by gains in the fair value of the derivative instruments. Conversely, when the dollar weakens, the increase in the present value of future foreign currency cash flows is partially offset by losses in the fair value of the derivative instruments. The total notional value of derivatives that have been designated and qualify for the Company's foreign currency cash flow hedging program as of October 2, 2009, was approximately \$3,422 million.

The Company has entered into commodity futures contracts and other derivative instruments on various commodities to mitigate the price risk associated with forecasted purchases of materials used in our manufacturing process. The derivative instruments have been designated and qualify as part of the Company's commodity cash flow hedging program. The objective of this hedging program is to reduce the variability of cash flows associated with future purchases of certain commodities. The total notional value of derivatives that have been designated and qualify under this program as of October 2, 2009, was approximately \$56 million.

Our Company monitors our mix of short-term debt and long-term debt. From time to time, we manage our risk to interest rate fluctuations through the use of derivative financial instruments. The Company had no outstanding derivative instruments under this hedging program as of October 2, 2009.

#### **Hedges of Net Investments in Foreign Operations Strategy**

The Company uses forward contracts to protect the value of our investments in a number of foreign subsidiaries. For derivative instruments that are designated and qualify as hedges of net investments in foreign operations, the changes in fair values of the derivative instruments are recognized in net foreign currency translation gain (loss), a component of AOCI, to offset the changes in the values of the net investments being hedged. Any ineffective portions of net investment hedges are reclassified from AOCI into earnings during the period of change. The total notional value of derivatives that have been designated and qualify as hedges of net investments in foreign operations as of October 2, 2009, was approximately \$387 million.

#### **Economic Hedging Strategy**

In addition to derivative instruments that are designated and qualify for hedge accounting, the Company also uses certain derivatives as economic hedges. Although these derivatives were not designated and/or did not qualify for hedge accounting, they are effective economic hedges. The Company primarily uses economic hedges to offset the earnings impact that fluctuations in foreign

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currency exchange rates have on certain monetary assets and liabilities denominated in nonfunctional currencies. The changes in fair values of these economic hedges are immediately recognized into earnings in the line item other income (loss) net. The total notional value of derivatives related to our economic hedges of this type as of October 2, 2009, was approximately \$1,325 million. The Company's other economic hedges are not significant to the Company's consolidated financial statements.

The following table presents the fair values of the Company's derivative instruments that were designated and qualified as part of a hedging relationship as of October 2, 2009 (in millions):

Derivatives Designated as Hedging Instruments	Balance Sheet Location <sup>1</sup>	Fair Value <sup>1,2</sup>
<b>Assets</b>		
Foreign currency contracts	Prepaid expenses and other assets	\$ 30
Commodity futures	Prepaid expenses and other assets	1
Total assets		\$ 31
<b>Liabilities</b>		
Foreign currency contracts	Accounts payable and accrued expenses	\$ 55
Commodity futures	Accounts payable and accrued expenses	11
Total liabilities		\$ 66

<sup>1</sup> All of the Company's derivative instruments are carried at fair value in the consolidated balance sheets after considering the impact of legally enforceable master netting agreements and cash collateral held or placed with the same counterparties. However, current disclosure requirements mandate that derivatives must be disclosed without reflecting the impact of master netting agreements and cash collateral. Refer to Note H for the net presentation of the Company's derivative instruments.

<sup>2</sup> Refer to Note H for additional information related to the estimated fair value.

The following table presents the fair values of the Company's derivative instruments that were not designated as hedging instruments as of October 2, 2009 (in millions):

Derivatives Not Designated as Hedging Instruments	Balance Sheet Location <sup>1</sup>	Fair Value <sup>1,2</sup>
<b>Assets</b>		
Foreign currency contracts	Prepaid expenses and other assets	\$ 33
Commodity futures	Prepaid expenses and other assets	3
Other derivative instruments	Prepaid expenses and other assets	10
Total assets		\$ 46
<b>Liabilities</b>		
Foreign currency contracts	Accounts payable and accrued expenses	\$ 35
Total liabilities		\$ 35

<sup>1</sup> All of the Company's derivative instruments are carried at fair value in the consolidated balance sheets after considering the impact of legally enforceable master netting agreements and cash collateral held or placed with the same counterparties.

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However, current disclosure requirements mandate that derivatives must be disclosed without reflecting the impact of master netting agreements and cash collateral. Refer to Note H for the net presentation of the Company's derivative instruments.

<sup>2</sup> Refer to Note H for additional information related to the estimated fair value.

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The following tables present the pretax impact that changes in the fair values of derivatives designated as hedging instruments had on AOCI and earnings during the three months ended October 2, 2009 (in millions):

	Gain (Loss) Recognized in OCI	Location of Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Location of Gain (Loss) Reclassified from AOCI into Income (Ineffective Portion)	Gain (Loss) Reclassified from AOCI into Income (Ineffective Portion)
<b>Cash Flow Hedges</b>					
Foreign currency contracts	\$ (94)	Net operating revenues	\$ (17)	Net operating revenues	\$ 1
Interest rate locks		Interest expense	(3)	Interest expense	
Commodity futures	4	Cost of goods sold	(10)	Cost of goods sold	
Total	\$ (90)		\$ (30)		\$
<b>Net Investment Hedges</b>					
Foreign currency contracts	\$ (41)	Other income (loss) net	\$	Other income (loss) net	\$
Total	\$ (41)		\$		\$

<sup>1</sup> Includes a de minimis amount of ineffectiveness in the hedging relationship.

The following tables present the pretax impact that changes in the fair values of derivatives designated as hedging instruments had on AOCI and earnings during the nine months ended October 2, 2009 (in millions):

	Gain (Loss) Recognized in OCI	Location of Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Location of Gain (Loss) Reclassified from AOCI into Income (Ineffective Portion)	Gain (Loss) Reclassified from AOCI into Income (Ineffective Portion)
<b>Cash Flow Hedges</b>					
Foreign currency contracts	\$ (94)	Net operating revenues	\$ (34)	Net operating revenues	\$ 1
Interest rate locks		Interest expense	(7)	Interest expense	4
Commodity futures	(5)	Cost of goods sold	(40)	Cost of goods sold	
Total	\$ (99)		\$ (81)		\$ 4
<b>Net Investment Hedges</b>					
Foreign currency contracts	\$ (42)	Other income (loss) net	\$	Other income (loss) net	\$
Total	\$ (42)		\$		\$

<sup>1</sup> Includes a de minimis amount of ineffectiveness in the hedging relationship.

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As of October 2, 2009, the Company estimates that it will reclassify into earnings during the next 12 months losses of approximately \$83 million from the pretax amount recorded in AOCI as the anticipated cash flows occur.

The following table presents the pretax impact that changes in the fair values of derivatives not designated as hedging instruments had on earnings during the three and nine months ended October 2, 2009 (in millions):

		Gain (Loss)	
		Recognized in Income	
		Three Months Ended October 2, 2009	Nine Months Ended October 2, 2009
Location of Gain (Loss) Recognized in Income			
Foreign currency contracts	Net operating revenues	\$ (10)	\$ (12)
Foreign currency contracts	Other income (loss) net	8	76
Commodity futures	Cost of goods sold	3	8
Other derivative instruments	Selling, general and administrative expenses	12	16
Total		\$ 13	\$ 88

### Note H Fair Value Measurements

Accounting principles generally accepted in the United States define fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. Additionally, the inputs used to measure fair value are prioritized based on a three-level hierarchy. This hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

Level 1 Quoted prices in active markets for identical assets or liabilities.

Level 2 Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

The Company has certain assets and liabilities that are required to be recorded at fair value on a recurring basis in accordance with accounting principles generally accepted in the United States. For our Company, the only assets and liabilities that are adjusted to fair value on a recurring basis are investments in equity and debt securities classified as trading or available-for-sale and derivative



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instruments. The following tables summarize those assets and liabilities measured at fair value on a recurring basis as of October 2, 2009, and December 31, 2008 (in millions):

	October 2, 2009				Fair Value
	Level 1	Level 2	Level 3	Netting Adjustment <sup>1</sup>	Measurements
<b>Assets</b>					
Trading securities	\$ 49	\$ 5	\$ 3	\$	\$ 57
Available-for-sale securities	577	6			583
Derivatives	7	70		(61)	16
Total assets	\$ 633	\$ 81	\$ 3	\$ (61)	\$ 656
<b>Liabilities</b>					
Derivatives	\$	\$ 91	\$ 10	\$ (64)	\$ 37
Total liabilities	\$	\$ 91	\$ 10	\$ (64)	\$ 37

<sup>1</sup> Amounts represent the impact of legally enforceable master netting agreements that allow the Company to settle positive and negative positions and also cash collateral held or placed with the same counterparties. Refer to Note G.

	December 31, 2008				Fair Value
	Level 1	Level 2	Level 3	Netting Adjustment <sup>1</sup>	Measurements
<b>Assets</b>					
Trading securities	\$ 39	\$ 4	\$ 6	\$	\$ 49
Available-for-sale securities	518	4			522
Derivatives	5	108		(108)	5
Total assets	\$ 562	\$ 116	\$ 6	\$ (108)	\$ 576
<b>Liabilities</b>					
Derivatives	\$ 6	\$ 288	\$ 34	\$ (117)	\$ 211
Total liabilities	\$ 6	\$ 288	\$ 34	\$ (117)	\$ 211

<sup>1</sup> Amounts represent the impact of legally enforceable master netting agreements that allow the Company to settle positive and negative positions and also cash collateral held or placed with the same counterparties. Refer to Note G.

Gross realized and unrealized gains and losses on level 3 assets and liabilities were not significant for the three and nine months ended October 2, 2009, and the three and nine months ended September 26, 2008.

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In addition to assets and liabilities that are recorded at fair value on a recurring basis, the Company is required to record assets and liabilities at fair value on a nonrecurring basis as required by accounting principles generally accepted in the United States. Generally, assets are recorded at fair value on a nonrecurring basis as a result of impairment charges. The Company did not measure any significant assets or liabilities at fair value on a nonrecurring basis during the three months ended October 2, 2009. Assets measured at fair value on a nonrecurring basis during the nine months ended October 2, 2009, are summarized below (in millions):

	Nine Months Ended October 2, 2009				
	Impairment Charge	New Cost Basis <sup>2</sup>	Level Used to Determine		
			New Cost Basis		Level 3
			Level 1	Level 2	
Cost method investment	\$ 27 <sup>1</sup>	\$	\$	\$	\$
Bottler franchise rights	23 <sup>3</sup>	2			2
Buildings and improvements	17 <sup>4</sup>				
<b>Total</b>	<b>\$ 67</b>	<b>\$ 2</b>	<b>\$</b>	<b>\$</b>	<b>\$ 2</b>

<sup>1</sup> The Company recognized an other-than-temporary impairment charge of approximately \$27 million. The carrying value of the Company's investment prior to recognizing the impairment was approximately \$27 million. The Company determined that the fair value of the investment was zero based on level 3 inputs. Refer to Note K for further discussion of the factors leading to the recognition of the impairment.

<sup>2</sup> The new cost basis represents the carrying value of the impaired asset immediately after the date of impairment. Therefore, this balance does not include the effect of translation and/or depreciation or amortization subsequent to the date of impairment, if applicable.

<sup>3</sup> The Company recognized a charge of approximately \$23 million related to the impairment of an indefinite-lived intangible asset. The carrying value of the asset prior to the impairment was approximately \$25 million. At the time of impairment, the estimated fair value of the asset was approximately \$2 million and was estimated based on level 3 inputs. Refer to Note K.

<sup>4</sup> The Company recognized an impairment charge of approximately \$17 million due to a change in disposal strategy related to a building that is no longer occupied. The Company had originally intended to sell the building along with the related land. However, we have determined that the maximum potential sales proceeds would likely be realized through the sale of vacant land. As a result, the building will be removed. Refer to Note K. The carrying value of the asset prior to recognizing the impairment was approximately \$17 million.

### **Note I Long-Term Debt**

In the first quarter of 2009, the Company replaced a certain amount of commercial paper and short-term debt with longer-term debt. The Company issued long-term notes in the principal amounts of \$900 million at a rate of 3.625 percent and \$1,350 million at a rate of 4.875 percent due March 15, 2014, and March 15, 2019, respectively.

**Note J Pension and Other Postretirement Benefit Plans**

Net periodic benefit cost for our pension and other postretirement benefit plans consisted of the following (in millions):

	Pension Benefits		Other Benefits	
	Three Months Ended			
	October 2, 2009	September 26, 2008	October 2, 2009	September 26, 2008
Service cost	\$ 29	\$ 27	\$ 5	\$ 5
Interest cost	57	51	6	6
Expected return on plan assets	(59)	(61)	(2)	(5)
Amortization of prior service cost (credit)	1	2	(15)	(15)
Amortization of net actuarial loss	21	2		
Net periodic benefit cost (credit)	\$ 49	\$ 21	\$ (6)	\$ (9)

	Pension Benefits		Other Benefits	
	Nine Months Ended			
	October 2, 2009	September 26, 2008	October 2, 2009	September 26, 2008
Service cost	\$ 83	\$ 87	\$ 15	\$ 15
Interest cost	164	157	19	19
Expected return on plan assets	(165)	(189)	(6)	(15)
Amortization of prior service cost (credit)	4	7	(45)	(46)
Amortization of net actuarial loss	60	7		
Net periodic benefit cost (credit)	\$ 146	\$ 69	\$ (17)	\$ (27)

The primary U.S. defined benefit pension plan was amended effective December 31, 2008. The plan will now have a two-part formula to determine pension benefits. The first part will retain the current final average pay structure, where service will freeze as of January 1, 2010, with pay escalating for the lesser of 10 years or until termination. The second part of the formula will be a cash balance account which will commence January 1, 2010, under which employees will receive credits based on age, service, pay and interest. The plan was also modified to allow lump sum distributions. These changes, as well as related changes to other U.S. plans, reduced pension obligations as of December 31, 2008, by approximately \$21 million. In addition, the U.S. retiree medical plan was amended to close the plan to new hires effective January 1, 2009.

We contributed approximately \$251 million to our pension plans during the nine months ended October 2, 2009, of which approximately \$175 million was allocated to our primary U.S. plan. We anticipate making additional contributions of approximately \$16 million to our pension plans during the remainder of 2009. We contributed approximately \$37 million to our pension plans during the nine months ended September 26, 2008.

**Note K Significant Operating and Nonoperating Items****Other Operating Charges**

Other operating charges incurred by operating segment were as follows (in millions):

	Three Months Ended		Nine Months Ended	
	October 2, 2009	September 26, 2008	October 2, 2009	September 26, 2008
Eurasia & Africa	\$	\$	\$ 3	\$
Europe	2		3	
Latin America		1		1
North America	2	6	15	12
Pacific	1		1	
Bottling Investments	18	12	109	25
Corporate	25	28	81	204
Total	\$ 48	\$ 47	\$ 212	\$ 242

In the three months ended October 2, 2009, the Company incurred other operating charges of approximately \$48 million, which consisted of \$25 million attributable to the Company's ongoing productivity initiatives and \$23 million related to restructuring charges. Refer to Note M for additional information on our productivity initiatives and restructuring charges.

During the nine months ended October 2, 2009, the Company incurred other operating charges of approximately \$212 million, which consisted of \$114 million related to restructuring charges, \$58 million attributable to the Company's ongoing productivity initiatives and \$40 million due to asset impairments. Refer to Note M for additional information on the restructuring charges and productivity initiatives. The asset impairment charges were the result of a change in the expected useful life of an intangible asset and a change in disposal strategy related to a building that is no longer occupied. Refer to Note H for additional information related to these impairment charges.

In the three months ended September 26, 2008, our Company recorded other operating charges of approximately \$47 million, which consisted of \$35 million related to restructuring charges and \$12 million attributable to the Company's ongoing productivity initiatives. Refer to Note M for additional information on the restructuring charges and productivity initiatives.

During the nine months ended September 26, 2008, the Company incurred other operating charges of approximately \$242 million, which consisted of \$143 million related to restructuring charges, \$44 million related to contract termination costs, \$31 million due to asset impairments and \$24 million attributable to the Company's ongoing productivity initiatives. Refer to Note M for additional information on the restructuring charges and productivity initiatives. The contract termination charge was related to fees paid by the Company to terminate an existing supply agreement. The asset impairment charges were primarily related to the write-down of manufacturing lines that produce product packaging materials to their estimated salvage values.

**Other Nonoperating Items***Equity Income (Loss) Net*

In the third quarter of 2009, the Company recorded charges of approximately \$6 million in equity income (loss) net. These charges primarily represent the Company's proportionate share of

restructuring charges recorded by equity method investees. These charges impacted the Bottling Investments and Corporate operating segments. Refer to Note O for additional information on the impact these charges had on our operating segments.

During the nine months ended October 2, 2009, the Company recorded charges of approximately \$68 million in equity income (loss) net. These charges primarily represent the Company's proportionate share of asset impairments and restructuring charges recorded by equity method investees. These charges impacted the Bottling Investments and Corporate operating segments. Refer to Note O for additional information on the impact these charges had on our operating segments.

In the third quarter of 2008, the Company recognized a net charge to equity income (loss) net of approximately \$3 million, primarily related to our proportionate share of restructuring charges recorded by equity method investees. None of the items was individually significant. The net charge impacted the Bottling Investments operating segment. Refer to Note O for additional information on the impact these charges had on our operating segments.

During the nine months ended September 26, 2008, the Company recognized a net charge to equity income (loss) net of approximately \$1,130 million, primarily due to our proportionate share of a \$5.3 billion pretax (\$3.4 billion after-tax) charge recorded by CCE due to an impairment of CCE's North American franchise rights. The Company's proportionate share of this charge was approximately \$1.1 billion. The decline in the estimated fair value of CCE's North American franchise rights was the result of several factors including, but not limited to, (1) challenging macroeconomic conditions which have contributed to lower than anticipated volume for higher-margin packages and certain higher-margin beverage categories; (2) increases in raw material costs, including significant increases in aluminum, high fructose corn syrup and resin; and (3) increased delivery costs as a result of higher fuel costs. These charges impacted the Bottling Investments operating segment. Refer to Note O for additional information on the impact these charges had on our operating segments.

#### *Other Income (Loss) Net*

During the three months ended October 2, 2009, the Company realized a gain of approximately \$10 million in other income (loss) net on the sale of equity securities that were classified as available-for-sale. In 2008, the Company recognized an other-than-temporary impairment on these same securities, primarily due to the length of time the market value had been less than our cost basis and the lack of intent to retain the investment for a period of time sufficient to allow for any recovery in market value. The gain on the sale of these securities represents the appreciation in market value since the impairment was recognized.

In addition to items that impacted the three months ended October 2, 2009, the Company recorded a charge of approximately \$27 million in other income (loss) net during the nine months ended October 2, 2009. This charge was the result of an other-than-temporary decline in the fair value of a cost method investment. As of December 31, 2008, the estimated fair value of this investment approximated the Company's carrying value in the investment. However, during the first quarter of 2009, the Company was informed by the investee of its intent to reorganize its capital structure in 2009, which would result in the Company's shares in the investee being canceled. As a result, the Company determined that the decline in fair value of this cost method investment was other than temporary. This impairment charge impacted the Corporate operating segment. Refer to Note H.

In the three months ended September 26, 2008, the Company sold approximately 49 percent of our interest in Coca-Cola Beverages Pakistan Ltd. ("Coca-Cola Pakistan") to Coca-Cola Icecek A.S.

("Coca-Cola Icecek"). We recognized a gain of approximately \$16 million in other income (loss) net on this transaction, which impacted the Corporate operating segment. Subsequent to this transaction, the Company owns a noncontrolling interest in Coca-Cola Pakistan and will account for our remaining investment under the equity method.

In addition to items that impacted the three months ended September 26, 2008, the Company recognized gains of approximately \$102 million in other income (loss) net during the nine months ended September 26, 2008. The gains were primarily related to the sale of Refrigerantes Minas Gerais Ltda. ("Remil"), a bottler in Brazil, to Coca-Cola FEMSA, S.A.B. de C.V. ("Coca-Cola FEMSA"). Prior to this sale, our Company owned 100 percent of the outstanding common stock of Remil. Cash proceeds from the sale were approximately \$275 million, net of the cash balance as of the disposal date. The gains on these divestitures impacted the Bottling Investments and Corporate operating segments.

#### **Note L Income Taxes**

Our effective tax rate reflects the tax benefits from having significant operations outside the United States, which are taxed at rates lower than the U.S. statutory rate of 35 percent. The Company's estimated annual effective tax rate reflects, among other items, our best estimates of operating results and foreign currency exchange rates. A change in the mix of pretax income from these various tax jurisdictions can have a significant impact on the Company's effective tax rate. During the first six months of 2009, the Company estimated that our effective tax rate would be approximately 23.5 percent for the full year. However, during the three months ended October 2, 2009, the Company revised its estimate and now anticipates that our effective tax rate will be approximately 23.0 percent for the full year. Consequently, the Company recorded income tax expense for the three months ended October 2, 2009, at a tax rate of approximately 22.0 percent before considering the effect of any discrete items that affected our tax rate, in order to bring the underlying effective tax rate for the nine months ended October 2, 2009, in line with our full year estimate.

Our effective tax rate for the three months ended October 2, 2009, included the impact of an approximate 21 percent combined effective tax rate on productivity initiatives and restructuring costs; an approximate 5 percent combined effective tax rate on our proportionate share of restructuring charges recorded by certain of our equity method investees; a zero percent effective tax rate on realized gains on sales of available-for-sale securities; a tax benefit of approximately \$17 million due to the impact a tax rate change had on certain deferred tax liabilities; and an approximate \$8 million net tax charge related to amounts required to be recorded for changes to our uncertain tax positions, including interest and penalties. The components of the net change in uncertain tax positions were individually insignificant.

Our effective tax rate for the nine months ended October 2, 2009, included the impact of an approximate 14 percent combined effective tax rate on restructuring costs, productivity initiatives and asset impairments; an approximate 22 percent combined effective tax rate on our proportionate share of restructuring and impairment charges recorded by certain of our equity method investees; a zero percent effective tax rate on an other-than-temporary impairment charge; a zero percent effective tax rate on realized gains on sales of available-for-sale securities; a tax charge of approximately \$15 million, primarily related to valuation allowances recorded on deferred tax assets; a tax benefit of approximately \$17 million due to the impact a tax rate change had on certain deferred tax liabilities; and an approximate \$40 million net tax charge related to amounts required to be recorded for changes to our

uncertain tax positions, including interest and penalties. The components of the net change in uncertain tax positions were individually insignificant.

Our effective tax rate for the three months ended September 26, 2008, included the impact of an approximate 28 percent combined effective tax rate on restructuring charges and productivity initiatives; a \$3 million net tax benefit on the sale of Coca-Cola Pakistan; and a net tax charge of approximately \$5 million related to a net change in our uncertain tax positions, including interest and penalties. The components of the net change in uncertain tax positions were individually insignificant.

In addition to the items discussed above, our effective tax rate for the three months ended September 26, 2008, included a net tax charge of approximately \$21 million. This net tax charge was primarily related to a temporary increase in the tax rate used to calculate changes in our deferred tax liability on our investment in CCE, which was a direct result of CCE's impairment of its North American franchise rights during the second quarter of 2008. This additional charge for the three months ended September 26, 2008, represents only the incremental increase in the tax rate used to calculate our deferred tax liability on the change between our book and tax basis difference in our investment that occurred in the third quarter of 2008.

Our effective tax rate for the nine months ended September 26, 2008, included the impact of an approximate 21 percent combined effective tax rate on restructuring charges, contract termination costs, productivity initiatives and asset impairments; an approximate 17 percent combined effective tax rate on our proportionate share of asset impairment and restructuring charges recorded by our equity method investees, primarily related to an impairment charge recorded by CCE; an approximate 25 percent combined effective tax rate on gains from divestitures; and a net tax charge of approximately \$36 million related to a net change in our uncertain tax positions, including interest and penalties. The components of the net change in uncertain tax positions were individually insignificant.

It is expected that the amount of unrecognized tax benefits will change in the next twelve months; however, we do not expect the change to have a significant impact on our consolidated statement of income or consolidated balance sheet. The change may be the result of settlements of ongoing audits, statute of limitations expiring, or final settlements in matters that are the subject of litigation. At this time, an estimate of the range of the reasonably possible outcomes cannot be made.

#### **Note M   Restructuring Costs**

##### **Productivity Initiatives**

During 2008, the Company announced a transformation effort centered on productivity initiatives that will provide additional flexibility to invest for growth. The initiatives are expected to impact a number of areas and include aggressively managing operating expenses supported by lean techniques; redesigning key processes to drive standardization and effectiveness; better leveraging our size and scale; and driving savings in indirect costs through the implementation of a "procure-to-pay" program.

The Company has incurred total pretax expenses of approximately \$113 million related to these productivity initiatives since they commenced in the first quarter of 2008, which were recorded in the line item other operating charges in our consolidated statements of income and impacted the Eurasia and Africa, Europe, Pacific and Corporate operating segments. Other direct costs included both internal and external costs associated with the development, communication, administration and implementation of these initiatives. The Company currently expects the total cost of these initiatives to be approximately \$500 million and anticipates recognizing the remainder of the costs by the end of 2011.

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The table below summarizes the balance of accrued expenses related to productivity initiatives and the changes in the accrued amounts as of and for the three months ended October 2, 2009 (in millions):

	Accrued Balance July 3, 2009	Costs Incurred Three Months Ended October 2, 2009	Payments	Noncash and Exchange	Accrued Balance October 2, 2009
Severance pay and benefits	\$ 6	\$ 13	\$ (15)	\$	\$ 4
Outside services legal, outplacement, consulting	4	9	(6)		7
Other direct costs		3	(3)		
<b>Total</b>	<b>\$ 10</b>	<b>\$ 25</b>	<b>\$ (24)</b>	<b>\$</b>	<b>\$ 11</b>

The table below summarizes the balance of accrued expenses related to productivity initiatives and the changes in the accrued amounts as of and for the nine months ended October 2, 2009 (in millions):

	Accrued Balance December 31, 2008	Costs Incurred Nine Months Ended October 2, 2009	Payments	Noncash and Exchange	Accrued Balance October 2, 2009
Severance pay and benefits	\$ 14	\$ 23	\$ (33)	\$	\$ 4
Outside services legal, outplacement, consulting	3	26	(22)		7
Other direct costs		9	(9)		
<b>Total</b>	<b>\$ 17</b>	<b>\$ 58</b>	<b>\$ (64)</b>	<b>\$</b>	<b>\$ 11</b>

### Streamlining Initiatives

During 2007, the Company took steps to streamline and simplify its operations globally. In North America, the Company reorganized its operations around three main business units: Sparkling Beverages, Still Beverages and Emerging Brands. In Ireland, the Company announced a plan to close its beverage concentrate manufacturing and distribution plant in Drogheda, which was closed during the third quarter of 2008. The plant closure is expected to improve operating productivity and enhance capacity utilization. The costs associated with this plant closure are included in the Corporate operating segment. Selected other operations also took steps to streamline their operations to improve overall efficiency and effectiveness.

Employees separated, or to be separated, from the Company as a result of these streamlining initiatives were offered severance or early retirement packages, as appropriate, that included both financial and nonfinancial components. The expenses recorded in connection with these streamlining activities included costs related to involuntary terminations and other direct costs associated with implementing these initiatives. Other direct costs included expenses to relocate employees; contract termination costs; costs associated with the development, communication and administration of these initiatives; accelerated depreciation; and asset write-offs. The Company has incurred total pretax expenses of approximately \$413 million related to these streamlining initiatives since they commenced in 2007, which were recorded in the line item other operating charges in our consolidated statements of income. The Company does not anticipate significant additional charges, individually or in the aggregate, related to these initiatives.



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The table below summarizes the balance of accrued streamlining expenses and the changes in the accrued amounts as of and for the three months ended October 2, 2009 (in millions):

	Accrued Balance July 3, 2009	Costs Incurred Three Months Ended October 2, 2009 <sup>1</sup>	Payments	Noncash and Exchange <sup>2</sup>	Accrued Balance October 2, 2009
Severance pay and benefits	\$ 6	\$ (1)	\$ (1)	\$ (1)	\$ 3
Outside services legal, outplacement, consulting					
Other direct costs					
<b>Total</b>	<b>\$ 6</b>	<b>\$ (1)</b>	<b>\$ (1)</b>	<b>\$ (1)</b>	<b>\$ 3</b>

<sup>1</sup> The Company reversed a liability of approximately \$1 million that had been recognized as an expense in a prior year.

<sup>2</sup> Amounts primarily represent the impact of fluctuations in foreign currency exchange.

The table below summarizes the balance of accrued streamlining expenses and the changes in the accrued amounts as of and for the nine months ended October 2, 2009 (in millions):

	Accrued Balance December 31, 2008	Costs Incurred Nine Months Ended October 2, 2009 <sup>1</sup>	Payments	Noncash and Exchange <sup>2</sup>	Accrued Balance October 2, 2009
Severance pay and benefits	\$ 21	\$ 1	\$ (15)	\$ (4)	\$ 3
Outside services legal, outplacement, consulting	1		(1)		
Other direct costs	8	2	(8)	(2)	
<b>Total</b>	<b>\$ 30</b>	<b>\$ 3</b>	<b>\$ (24)</b>	<b>\$ (6)</b>	<b>\$ 3</b>

<sup>1</sup> The Company reversed a liability of approximately \$1 million that had been recognized as an expense in a prior year.

<sup>2</sup> Amounts primarily represent the impact of fluctuations in foreign currency exchange.

### Integration Initiatives

During the three and nine months ended October 2, 2009, the Company incurred approximately \$17 million and \$80 million, respectively, of charges related to the integration of the 18 German bottling and distribution operations acquired in 2007. The Company began these integration initiatives in 2008 and has incurred total pretax expenses of approximately \$101 million since they commenced. The expenses recorded in connection with these integration activities have been primarily due to involuntary terminations. These charges were recorded in the line item other operating charges in our consolidated statements of income and impacted the Bottling Investments operating segment. The Company had approximately \$49 million and \$17 million accrued related to these integration costs as of October 2, 2009, and December 31, 2008, respectively. The Company is currently reviewing other integration and restructuring opportunities within the German bottling and distribution operations, which if implemented will result in additional charges in future periods. However, as of October 2, 2009, the Company has not finalized any additional plans.

**Other Restructuring Activities**

During the three and nine months ended October 2, 2009, the Company incurred approximately \$7 million and \$31 million of charges related to other restructuring activities outside the scope of the productivity, streamlining and integration initiatives discussed above. These charges were recorded in the line item other operating charges in our consolidated statements of income.

The following table summarizes the impact that productivity initiatives, streamlining, integration and other restructuring activities had on our operating segments (in millions):

	Three Months Ended		Nine Months Ended	
	October 2, 2009	September 26, 2008	October 2, 2009	September 26, 2008
Eurasia & Africa	\$	\$	\$ 3	\$
Europe	2		3	
Latin America		1		1
North America	2	6	15	12
Pacific	1		1	
Bottling Investments	18	12	86	25
Corporate	25	28	64	129
Total	\$ 48	\$ 47	\$ 172	\$ 167

**Note N Acquisitions and Investments**

During the nine months ended October 2, 2009, our Company's acquisition and investment activities totaled approximately \$286 million. None of the acquisitions or investments was individually significant. Included in these investment activities was the acquisition of a minority interest in Fresh Trading Ltd. Additionally, the Company and the existing shareowners of Fresh Trading Ltd. entered into a series of put and call options for the Company to potentially acquire some or all of the remaining shares not already owned by the Company. The put and call options are exercisable in stages between 2010 and 2014.

During the nine months ended September 26, 2008, our Company's acquisition and investment activities totaled approximately \$655 million. Included in these investment activities was the acquisition of brands and licenses in Denmark and Finland from Carlsberg Group Beverages for approximately \$225 million. None of the other acquisitions was individually significant.

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## Note O Operating Segments

Information about our Company's operations as of and for the three months ended October 2, 2009, and September 26, 2008, by operating segment, is as follows (in millions):

	Eurasia & Africa	Europe	Latin America	North America	Pacific	Bottling Investments	Corporate	Eliminations	Consolidated
<b>2009</b>									
Net operating revenues:									
Third party	\$ 465	\$ 1,137	\$ 960	\$ 2,112	\$ 1,182	\$ 2,176	\$ 12	\$	\$ 8,044
Intersegment	72	243	44	7	87	36		(489)	
Total net revenues	537	1,380	1,004	2,119	1,269	2,212	12	(489)	8,044
Operating income (loss)	184	774 <sub>1</sub>	557	433 <sub>1</sub>	442 <sub>1</sub>	83 <sub>1</sub>	(323) <sup>1</sup>		2,150
Income (loss) before income taxes	182	784 <sub>1</sub>	554	435 <sub>1</sub>	435 <sub>1</sub>	369 <sub>1,2</sub>	(316) <sup>1,2,3</sup>		2,443
Identifiable operating assets	1,088	2,808	2,082	11,114	1,672	8,707	13,155		40,626
Investments	322	221	232	9	85	5,544	68		6,481
<b>2008</b>									
Net operating revenues:									
Third party	\$ 540	\$ 1,249	\$ 989	\$ 2,135	\$ 1,192	\$ 2,254	\$ 34	\$	\$ 8,393
Intersegment	52	280	44	17	84				