COCA COLA CO
Form 10-Q
April 29, 2010

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended April 2, 2010

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	**58-0628465**
(State or other jurisdiction of incorporation or organization)	**(IRS Employer Identification No.)**
One Coca-Cola Plaza Atlanta, Georgia	**30313**
(Address of principal executive offices)	**(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).

Yes ý No o

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 ý	**Accelerated filer o**
Non-accelerated filer o	**Smaller reporting company o**

(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 o No ý

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	Outstanding at April 26, 2010
$0.25 Par Value	2,307,050,619 Shares

THE COCA-COLA COMPANY AND SUBSIDIARIES

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FORWARD-LOOKING STATEMENTS

This report contains information that may constitute "forward-looking statements." Generally, the words "believe," "expect," "intend," "estimate," "anticipate," "project," "will" and similar expressions identify forward-looking statements, which generally are not historical in nature. All statements that address operating performance, events or developments that we expect or anticipate will occur in the future including statements relating to volume growth, share of sales and earnings per share growth, and statements expressing general views about future operating results are forward-looking statements. Management believes that these forward-looking statements are reasonable as and when made. However, caution should be taken not to place undue reliance on any such forward-looking statements because such statements speak only as of the date when made. Our Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law. In addition, forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from our Company's historical experience and our present expectations or projections. These risks and uncertainties include, but are not limited to, those described in Part II, "Item 1A. Risk Factors" and elsewhere in this report and in our Annual Report on Form 10-K for the year ended December 31, 2009, 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	
	April 2, 2010	April 3, 2009
NET OPERATING REVENUES	**$ 7,525**	$ 7,169
Cost of goods sold	**2,541**	2,590
GROSS PROFIT	**4,984**	4,579
Selling, general and administrative expenses	**2,705**	2,624
Other operating charges	**96**	92
OPERATING INCOME	**2,183**	1,863
Interest income	**60**	60
Interest expense	**85**	85
Equity income (loss) net	**136**	17
Other income (loss) net	**(115)**	(40)
INCOME BEFORE INCOME TAXES	**2,179**	1,815
Income taxes	**553**	456
CONSOLIDATED NET INCOME	**1,626**	1,359
Less: Net income attributable to noncontrolling interests	**12**	11
NET INCOME ATTRIBUTABLE TO SHAREOWNERS OF THE COCA-COLA COMPANY	**$ 1,614**	$ 1,348
BASIC NET INCOME PER SHARE[1]	**$ 0.70**	$ 0.58
DILUTED NET INCOME PER SHARE[1]	**$ 0.69**	$ 0.58
DIVIDENDS PER SHARE	**$ 0.44**	$ 0.41
AVERAGE SHARES OUTSTANDING	**2,304**	2,313
Effect of dilutive securities	**23**	6
AVERAGE SHARES OUTSTANDING ASSUMING DILUTION	**2,327**	2,319

[1] 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)

	April 2, 2010	December 31, 2009
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 5,684	$ 7,021
Short-term investments	3,038	2,130
TOTAL CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS	8,722	9,151
Marketable securities	72	62
Trade accounts receivable, less allowances of $44 and $55, respectively	3,705	3,758
Inventories	2,327	2,354
Prepaid expenses and other assets	2,382	2,226
TOTAL CURRENT ASSETS	17,208	17,551
EQUITY METHOD INVESTMENTS	6,230	6,217
OTHER INVESTMENTS, PRINCIPALLY BOTTLING COMPANIES	519	538
OTHER ASSETS	2,095	1,976
PROPERTY, PLANT AND EQUIPMENT, less accumulated depreciation of $6,752 and $6,906, respectively	9,036	9,561
TRADEMARKS WITH INDEFINITE LIVES	6,261	6,183
GOODWILL	3,905	4,224
OTHER INTANGIBLE ASSETS	2,149	2,421
TOTAL ASSETS	$ 47,403	$ 48,671
LIABILITIES AND EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$ 5,963	$ 6,657
Loans and notes payable	6,670	6,749
Current maturities of long-term debt	546	51
Accrued income taxes	404	264
TOTAL CURRENT LIABILITIES	13,583	13,721
LONG-TERM DEBT	4,419	5,059
OTHER LIABILITIES	2,763	2,965
DEFERRED INCOME TAXES	1,481	1,580
THE COCA-COLA COMPANY SHAREOWNERS' EQUITY		
Common stock, $0.25 par value; Authorized 5,600 shares; Issued 3,520 and 3,520 shares, respectively	880	880
Capital surplus	8,646	8,537
Reinvested earnings	42,136	41,537
Accumulated other comprehensive income (loss)	(1,445)	(757)
Treasury stock, at cost 1,214 and 1,217 shares, respectively	(25,345)	(25,398)
EQUITY ATTRIBUTABLE TO SHAREOWNERS OF THE COCA-COLA COMPANY	24,872	24,799
EQUITY ATTRIBUTABLE TO NONCONTROLLING INTERESTS	285	547
TOTAL EQUITY	25,157	25,346

TOTAL LIABILITIES AND EQUITY	**$ 47,403**	$ 48,671

Refer to Notes to Condensed Consolidated Financial Statements.

THE COCA-COLA COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)
(In millions)

	Three Months Ended	
	April 2, 2010	April 3, 2009
OPERATING ACTIVITIES		
Consolidated net income	**$ 1,626**	$ 1,359
Depreciation and amortization	**295**	283
Stock-based compensation expense	**53**	53
Deferred income taxes	**34**	(20)
Equity income or loss, net of dividends	**(118)**	(3)
Foreign currency adjustments	**93**	42
Gains on sales of assets, including bottling interests	**(14)**	(5)
Other operating charges	**71**	74
Other items	**73**	100
Net change in operating assets and liabilities	**(787)**	(1,010)
Net cash provided by operating activities	**1,326**	873
INVESTING ACTIVITIES		
Acquisitions and investments, principally beverage and bottling companies and trademarks	**(6)**	(179)
Purchases of other investments	**(915)**	(6)
Proceeds from disposals of bottling companies and other investments	**14**	37
Purchases of property, plant and equipment	**(393)**	(467)
Proceeds from disposals of property, plant and equipment	**16**	7
Other investing activities	**(84)**	9
Net cash provided by (used in) investing activities	**(1,368)**	(599)
FINANCING ACTIVITIES		
Issuances of debt	**2,773**	5,758
Payments of debt	**(2,922)**	(3,001)
Issuances of stock	**123**	10
Purchases of stock for treasury	**(2)**	
Dividends	**(1,015)**	(950)
Net cash provided by (used in) financing activities	**(1,043)**	1,817
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**(252)**	24
CASH AND CASH EQUIVALENTS		
Net increase (decrease) during the period	**(1,337)**	2,115
Balance at beginning of period	**7,021**	4,701
Balance at end of period	**$ 5,684**	$ 6,816

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 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, 2009.

When used in these notes, the terms "The Coca-Cola Company," "Company," "we," "us" or "our" mean The Coca-Cola Company and all entities included in our condensed 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 months ended April 2, 2010, are not necessarily indicative of the results that may be expected for the year ending December 31, 2010. 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 2010 and 2009 ended on April 2, 2010, and April 3, 2009, respectively. The first quarter of 2010 had one less day compared to the first quarter of 2009. 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.

Principles of Consolidation

In June 2009, the Financial Accounting Standards Board ("FASB") amended its guidance on accounting for variable interest entities ("VIEs"). The new accounting guidance resulted in a change in our accounting policy effective January 1, 2010. Among other things, the new guidance requires more qualitative than quantitative analyses to determine the primary beneficiary of a VIE, requires continuous assessments of whether an enterprise is the primary beneficiary of 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. This new accounting guidance was effective for our Company on January 1, 2010, and is being applied prospectively.

On January 1, 2010, we deconsolidated certain entities as a result of this change in accounting policy. These entities are primarily bottling operations and had previously been consolidated due to certain loan guarantees or other financial support given by the Company. Although these financial arrangements resulted in us holding a majority of the variable interests in these VIEs, they did not empower us to direct the activities of the VIEs that most significantly impact the VIEs' economic performance. Consequently, subsequent to this change in accounting policy, the Company deconsolidated the majority of our VIEs. The deconsolidation of these entities did not have a material impact on our condensed consolidated financial statements. Creditors of our VIEs do not have recourse against the general credit of the Company, regardless of whether they are accounted for as consolidated entities. The Company's investments, plus any loans and guarantees, related to VIEs were not significant to the Company's condensed consolidated financial statements.

We have accounted for our investments in these deconsolidated entities under the equity method of accounting since January 1, 2010. Although the deconsolidation of these entities did impact individual line items in our condensed consolidated financial statements, the impact on net income attributable to shareowners of The Coca-Cola Company was nominal. The equity method of accounting is intended to be a single line consolidation and, therefore, generally should result in the same net income attributable to the investor as would be the case if the investee had been consolidated. The main impact on our condensed consolidated financial statements was that instead of these entities' results of operations and balance sheets affecting each of our individual consolidated line items, our proportionate share of net income or loss from these entities was reported in equity income (loss) net, in our condensed consolidated income statements, and our investments in these entities were reported as equity method investments in our condensed consolidated balance sheets.

Note B Inventories

Inventories consist primarily of raw materials and packaging (which include ingredients and supplies) and finished goods (which include concentrates and syrups in our concentrate and foodservice operations). Inventories are valued at the lower of cost or market. We determine cost on the basis of the average cost or first-in, first-out methods. The following table summarizes our inventory balances (in millions):

	April 2, 2010	December 31, 2009
Raw materials and packaging	**$ 1,402**	$ 1,366
Finished goods	**643**	697
Other	**282**	291
Total inventories	**$ 2,327**	$ 2,354

Note C Investments

Investments in debt and marketable equity securities, other than investments accounted for under 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 condensed consolidated balance sheets as a component of accumulated other comprehensive income (loss) ("AOCI").

Our investments in debt securities are carried at either amortized cost or fair value. Investments in debt securities that the Company has the positive intent and ability to hold to maturity are carried at amortized cost and classified as held-to-maturity. Investments in debt securities that are not classified as held-to-maturity are carried at fair value and classified as either trading or available-for-sale.

Trading Securities

As of April 2, 2010, and December 31, 2009, our trading securities had a fair value of approximately $71 million and $61 million, respectively, and were included in the line item marketable securities in our condensed consolidated balance sheets. The Company had net unrealized losses on trading securities of approximately $15 million and $16 million as of April 2, 2010, and December 31, 2009, respectively.

Available-for-Sale and Held-to-Maturity Securities