November 11, 2014

To our Clients and Friends –

CASH MATTERS: WHY COKE'S EQUITY PLAN IS STILL BAD FOR SHAREHOLDERS

When the Coca-Cola Company on October 1, 2014 announced the adoption of Equity Stewardship Guidelines for the company's existing 2014 Equity Compensation Plan, we were cautiously optimistic that Coca-Cola's Board of Directors had made changes to the Plan to address the concerns expressed by Wintergreen Advisers and certain Coca-Cola shareholders.

But after looking closely at the Guidelines and studying Coca-Cola's public statements, we've concluded that there has been no significant change. In fact, we believe the Guidelines could actually make the Plan worse for Coca-Cola shareholders. Under the Guidelines, certain top Coca-Cola managers will be paid in cash instead of stock which could potentially put the company's dividend at risk.

Still a Wildly Excessive Plan

When Coca-Cola announced the adoption of the Guidelines, the head of Coca-Cola's Compensation Committee said that "we are not changing or reducing eligibility for long-term awards." The Guidelines simply call for top management to receive fewer stock options and much more cash and full-value equity awards than they might otherwise have received under the Plan as originally conceived. ***Coca-Cola's Guidelines do not reduce by one cent the amount that will be paid out of shareholders' pockets to the top 5% of management who are eligible for the Plan.***

When it was up for shareholder approval, the Plan was criticized for being excessive and oversized, and the Guidelines have done nothing to rein in its excessiveness or reduce its size. Management remains eligible for "bonus shares" that can be awarded without criteria. There still is no cap on total stock awards to any individual. We believe the Plan remains wildly excessive.

Coca-Cola's Board of Directors seems to be attempting to distract shareholders by issuing Guidelines that appear to address the problems with the Plan, but which in reality do nothing at all. Coca-Cola is simply reshuffling the deck and shareholders are still getting a bad deal.

Creating New Problems for Shareholders

In our view, the Guidelines not only fail to address the original problems with the Plan, but they raise problems of their own. To meet the Guidelines, Coca-Cola will massively increase the amount of cash compensation handed out to top management over the next 10 years in addition to shares and options issued under the Plan. The result for Coca-Cola shareholders will be both dilution (from the shares and

333 Route 46 West | Suite 204 | Mountain Lakes, NJ 07046 | 973.263.4500

options issued) and reduced earnings (from the increased cash compensation expense). ***We believe the excessive Plan and the appalling Guidelines are a lose-lose situation for all Coca-Cola shareholders.***

By our estimate, it appears that the cash compensation required to meet the Guidelines will cost shareholders between $1 billion and $3 billion per year in excessive management compensation. That is cash that comes directly out of shareholders' pockets and reduces Coca-Cola's earnings by a proportionate amount. After taxes, that $1 billion to $3 billion per year is worth between $0.17 and $0.51 in annual per share net income, assuming a 25% corporate tax rate. ***At Coca-Cola's current valuation of 20x earnings, that excessive cash compensation costs shareholders between $3.40 and $10.20 of per share value.***

Putting the Dividend at Risk

Coca-Cola recently lowered its earnings outlook and Chairman and CEO Muhtar Kent acknowledged that it "will take time to implement and deliver improvement in our results." But any improvement in Coca-Cola's performance will be impeded by the negative effect of what we view as the excessive dilution and massive cash payouts that will be made to management, both of which impact Coca-Cola's ability to grow earnings per share. ***If Coca-Cola is unable to grow earnings per share, the dividend growth that shareholders have come to expect after 50 consecutive years of increases will be put at risk.***

Coca-Cola's dividend coverage ratio currently stands at only 1.6x, before considering the negative impact of increased cash compensation to the top 5% of management. We believe it is incredibly imprudent behavior by the Board of Directors to put shareholders' dividends at risk in order to increase compensation to what we view as an already overpaid management team.

It is the fiduciary responsibility of all Board members to put the shareholders' interests ahead of those of management. It is becoming apparent to us that the current Board is not meeting that responsibility. If this Board cannot take steps to restore trust and revitalize the company, it should be replaced.

Sincerely,

David J. Winters, CFA
CEO
Wintergreen Advisers, LLC