COTT CORP /CN/
Form 10-Q
August 02, 2013

United States

Securities and Exchange Commission

Washington, D.C. 20549

FORM 10-Q

x **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended: June 29, 2013

¨ **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the transition period from _________ to _________

Commission File Number: 001-31410

COTT CORPORATION

(Exact name of registrant as specified in its charter)

CANADA	**98-0154711**
(State or Other Jurisdiction of	**(IRS Employer**
Incorporation or Organization)	**Identification No.)**
6525 VISCOUNT ROAD	
MISSISSAUGA, ONTARIO	
5519 WEST IDLEWILD AVE	**L4V 1H6**
TAMPA, FLORIDA	**33634**
(Address of principal executive offices)	**(Zip Code)**

Registrant s telephone number, including area code: (905) 672-1900 and (813) 313-1800

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 x No ¨

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 x 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 x	Accelerated filer ¨
Non-accelerated filer ¨ (do not check if a smaller reporting company)	Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

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

Class	**Outstanding at July 29, 2013**
Common Stock, no par value per share	94,236,098 shares

PART I FINANCIAL INFORMATION		
Item 1.	**Financial Statements (unaudited)**	3
	Consolidated Statements of Operations	3
	Condensed Consolidated Statements of Comprehensive Income	4
	Consolidated Balance Sheets	5
	Consolidated Statements of Cash Flows	6
	Consolidated Statements of Equity	7
	Notes to the Consolidated Financial Statements	8
Item 2.	**Management s Discussion and Analysis of Financial Condition and Results of Operations**	34
Item 3.	**Quantitative and Qualitative Disclosures about Market Risk**	48
Item 4.	**Controls and Procedures**	48
PART II OTHER INFORMATION		49
Item 1.	**Legal Proceedings**	49
Item 1A.	**Risk Factors**	49
Item 2	**Unregistered Sales of Equity Securities and Use of Proceeds**	49
Item 6.	**Exhibits**	50
SIGNATURES		51

PART I FINANCIAL INFORMATION

Item 1. Financial Statements
Cott Corporation

Consolidated Statements of Operations

(in millions of U.S. dollars, except share and per share amounts)

Unaudited

	For the Three Months Ended		For the Six Months Ended	
	June 29, 2013	**June 30, 2012**	**June 29, 2013**	**June 30, 2012**
Revenue, net	**$ 563.8**	$ 625.8	**$ 1,069.2**	$ 1,149.6
Cost of sales	**487.2**	533.5	**936.2**	993.9
Gross profit	**76.6**	92.3	**133.0**	155.7
Selling, general and administrative expenses	**41.7**	48.8	**83.0**	90.6
Loss on disposal of property, plant & equipment	**0.3**	0.3	**0.3**	0.9
Restructuring	**2.0**		**2.0**	
Operating income	**32.6**	43.2	**47.7**	64.2
Other (income) expense, net		(0.5)	**0.3**	(0.7)
Interest expense, net	**12.8**	13.5	**26.1**	27.5
Income before income taxes	**19.8**	30.2	**21.3**	37.4
Income tax expense	**1.7**	3.9	**2.2**	4.3
Net income	**$ 18.1**	$ 26.3	**$ 19.1**	$ 33.1
Less: Net income attributable to non-controlling interests	**1.6**	1.2	**2.6**	2.1
Net income attributed to Cott Corporation	**$ 16.5**	$ 25.1	**$ 16.5**	$ 31.0
Net income per common share attributed to Cott Corporation				
Basic	**$ 0.17**	$ 0.27	**$ 0.17**	$ 0.33
Diluted	**$ 0.17**	$ 0.26	**$ 0.17**	$ 0.32
Weighted average outstanding shares (thousands) attributed to Cott Corporation				
Basic	**95,159**	94,469	**95,265**	94,448
Diluted	**95,981**	95,515	**96,048**	95,479
Dividends declared per share	**$ 0.06**	$	**$ 0.12**	$

The accompanying notes are an integral part of these consolidated financial statements.

Cott Corporation

Condensed Consolidated Statements of Comprehensive Income

(in millions of U.S. dollars)

Unaudited

	For the Three Months Ended		For the Six Months Ended	
	June 29, 2013	**June 30, 2012**	**June 29, 2013**	**June 30, 2012**
Net income	**$ 18.1**	$ 26.3	**$ 19.1**	$ 33.1
Other comprehensive (loss) income:				
Currency translation adjustment	**(4.4)**	(7.2)	**(16.8)**	1.0
Pension benefit plan, net of tax[1]	**0.2**	0.3	**0.4**	(0.2)
Unrealized loss on derivative instruments, net of tax[2]	**(0.1)**			(0.3)
Total other comprehensive (loss) income	**(4.3)**	(6.9)	**(16.4)**	0.5
Comprehensive income	**$ 13.8**	$ 19.4	**$ 2.7**	$ 33.6
Less: Comprehensive income attributable to non-controlling interests	**1.7**	1.2	**2.6**	2.0
Comprehensive income attributed to Cott Corporation	**$ 12.1**	$ 18.2	**$ 0.1**	$ 31.6

1 Net of the effect of $0.1 million and $0.2 million tax expense for the three and six months ended June 29, 2013, respectively, and net of the effect of $0.1 million and $0.1 million tax expense for the three and six months ended June 30, 2012, respectively.

2 Net of the effect of $0.1 million and a nil tax benefit for the three and six months ended June 29, 2013, respectively, and net of the effect of a nil and $0.1 million tax benefit for the three and six months ended June 30, 2012, respectively.

The accompanying notes are an integral part of these consolidated financial statements.

Cott Corporation

Consolidated Balance Sheets

(in millions of U.S. dollars, except share amounts)

Unaudited

	June 29, 2013	December 29, 2012
ASSETS		
Current assets		
Cash & cash equivalents	**$ 66.8**	$ 179.4
Accounts receivable, net of allowance of $ 6.1 ($6.8 as of December 29, 2012)	**266.7**	199.4
Income taxes recoverable	**0.8**	1.2
Inventories	**240.0**	224.8
Prepaid expenses and other assets	**22.7**	20.3
Total current assets	**597.0**	625.1
Property, plant & equipment, net	**492.2**	490.9
Goodwill	**139.4**	130.3
Intangibles and other assets, net	**313.6**	315.4
Deferred income taxes	**2.7**	3.3
Other tax receivable	**1.2**	0.9
Total assets	**$ 1,546.1**	$ 1,565.9
LIABILITIES AND EQUITY		
Current liabilities		
Current maturities of long-term debt	**$ 2.6**	$ 1.9
Accounts payable and accrued liabilities	**264.6**	287.7
Total current liabilities	**267.2**	289.6
Long-term debt	**602.1**	601.8
Deferred income taxes	**44.4**	39.1
Other long-term liabilities	**23.8**	12.5
Total liabilities	**937.5**	943.0
Equity		
Capital stock, no par - 94,773,326 (December 29, 2012 - 95,371,484) shares issued	**394.9**	397.8
Additional paid-in-capital	**42.9**	40.4
Retained earnings	**188.7**	186.0
Accumulated other comprehensive loss	**(28.8)**	(12.4)
Total Cott Corporation equity	**597.7**	611.8
Non-controlling interests	**10.9**	11.1
Total equity	**608.6**	622.9
Total liabilities and equity	**$ 1,546.1**	$ 1,565.9

The accompanying notes are an integral part of these consolidated financial statements.

Cott Corporation

Consolidated Statements of Cash Flows

(in millions of U.S. dollars)

Unaudited

	For the Three Months Ended		For the Six Months Ended	
	June 29, 2013	June 30, 2012	June 29, 2013	June 30, 2012
Operating Activities				
Net income	**$ 18.1**	$ 26.3	**$ 19.1**	$ 33.1
Depreciation & amortization	**24.9**	23.7	**49.6**	47.5
Amortization of financing fees	**0.8**	0.9	**1.5**	2.1
Share-based compensation expense	**1.8**	1.4	**2.5**	2.2
Increase in deferred income taxes	**1.6**	4.0	**1.6**	4.0
Gain on bargain purchase		(0.9)		(0.9)
Loss on disposal of property, plant & equipment	**0.3**	0.3	**0.3**	0.9
Other non-cash items	**(0.1)**	1.0	**0.2**	0.6
Change in operating assets and liabilities, net of acquisition:				
Accounts receivable	**(29.6)**	(31.3)	**(57.8)**	(51.8)
Inventories	**2.4**	(6.5)	**(10.8)**	(23.0)
Prepaid expenses and other assets	**(1.4)**	(4.1)	**(2.0)**	(5.9)
Other assets		(0.1)	**(0.1)**	0.9
Accounts payable and accrued liabilities	**15.2**	22.1	**(28.9)**	(16.3)
Income taxes recoverable	**0.1**	1.3	**0.3**	1.6
Net cash provided by (used in) operating activities	**34.1**	38.1	**(24.5)**	(5.0)
Investing Activities				
Acquisition, net of cash acquired	**(6.5)**		**(6.5)**	(5.0)
Additions to property, plant & equipment	**(14.6)**	(19.7)	**(34.5)**	(37.4)
Additions to intangibles and other assets	**(1.7)**	(1.0)	**(1.9)**	(3.7)
Proceeds from sale of assets held for sale		1.0		1.0
Proceeds from insurance recoveries			**0.4**	
Net cash used in investing activities	**(22.8)**	(19.7)	**(42.5)**	(45.1)
Financing Activities				
Payments of long-term debt	**(19.1)**	(1.4)	**(19.6)**	(2.6)
Borrowings under ABL		17.5		24.5
Payments under ABL		(17.5)		(24.5)
Distributions to non-controlling interests	**(0.7)**	(0.3)	**(2.8)**	(1.4)
Common shares repurchased and cancelled	**(5.5)**	(0.3)	**(8.4)**	(0.3)
Dividends to shareholders	**(11.2)**		**(11.2)**	
Net cash used in financing activities	**(36.5)**	(2.0)	**(42.0)**	(4.3)
Effect of exchange rate changes on cash	**(1.0)**	(0.9)	**(3.6)**	0.6
Net (decrease) increase in cash & cash equivalents	**(26.2)**	15.5	**(112.6)**	(53.8)
Cash & cash equivalents, beginning of period	**93.0**	31.6	**179.4**	100.9

Cash & cash equivalents, end of period	**$**	**66.8**	$	47.1	**$**	**66.8**	$	47.1
Supplemental Disclosures of Cash Flow information:								
Cash paid for interest	**$**	**9.2**	$	9.5	**$**	**25.1**	$	25.5
Cash (received) paid for income taxes, net	**$**	**(0.2)**	$	0.1	**$**	**0.3**	$	0.4
Supplemental Non-cash Investing and Financing Activities:								
Deferred consideration	**$**	**5.1**	$		**$**	**5.1**	$	

The accompanying notes are an integral part of these consolidated financial statements.

6

Cott Corporation

Consolidated Statements of Equity

(in millions of U.S. dollars, except share amounts)

Unaudited

			Cott Corporation Equity						
	Number of Common Shares *(In thousands)*	**Number of Treasury Shares** *(In thousands)*	**Common Shares**	**Treasury Shares**	**Additional Paid-in-Capital**	**Retained Earnings**	**Accumulated Other Comprehensive Loss**	**Non-Controlling Interests**	**Total Equity**
Balance at December 31, 2011	**95,101**	**674**	**$ 395.9**	**$ (2.1)**	**$ 42.6**	**$ 144.1**	**$ (24.7)**	**$ 12.4**	**$ 568.2**
Common shares issued - Directors share award	96				0.7				0.7
Common shares repurchased	(35)		(0.2)			(0.1)			(0.3)
Share-based compensation					1.5				1.5
Distributions to non-controlling interests								(1.4)	(1.4)
Comprehensive income									
Currency translation adjustment							1.1	(0.1)	1.0
Pension benefit plan, net of tax							(0.2)		(0.2)
Unrealized loss on derivative instruments, net of tax							(0.3)		(0.3)
Net income						31.0		2.1	33.1
Balance at June 30, 2012	**95,162**	**674**	**$ 395.7**	**$ (2.1)**	**$ 44.8**	**$ 175.0**	**$ (24.1)**	**$ 13.0**	**$ 602.3**
Balance at December 29, 2012	**95,371**		**$ 397.8**	**$**	**$ 40.4**	**$ 186.0**	**$ (12.4)**	**$ 11.1**	**$ 622.9**
Common shares issued - Directors share award	87				0.8				0.8
Common shares repurchased and cancelled	(692)		(2.9)			(2.6)			(5.5)
Common shares issued - Time-based RSUs	7								
Share-based compensation					1.7				1.7
Dividend payment						(11.2)			(11.2)
Distributions to non-controlling interests								(2.8)	(2.8)
Comprehensive income									
Currency translation adjustment							(16.8)		(16.8)
Pension benefit plan, net of tax							0.4		0.4
Unrealized loss on derivative instruments, net of tax									
Net income						16.5		2.6	19.1
Balance at June 29, 2013	**94,773**		**$ 394.9**	**$**	**$ 42.9**	**$ 188.7**	**$ (28.8)**	**$ 10.9**	**$ 608.6**

The accompanying notes are an integral part of these consolidated financial statements.

7

Cott Corporation

Notes to the Consolidated Financial Statements

Unaudited

Note 1 Business and Recent Accounting Pronouncements

Description of Business

Cott Corporation, together with its consolidated subsidiaries (Cott, the Company, our Company, Cott Corporation, we, us, or our), is o world s largest producers of beverages on behalf of retailers, brand owners and distributors. Our product lines include carbonated soft drinks (CSDs), 100% shelf stable juice and juice-based products, clear, still and sparkling flavored waters, energy products, sports products, new age beverages and ready-to-drink teas, as well as alcoholic beverages for brand owners.

Basis of Presentation

The accompanying interim unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X and in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial reporting. Accordingly, they do not include all information and notes presented in the annual consolidated financial statements in conformity with U.S. GAAP. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair statement of our results of operations for the interim periods reported and of our financial condition as of the date of the interim balance sheet have been included. This Quarterly Report on Form 10-Q should be read in conjunction with the annual audited consolidated financial statements and accompanying notes in our Annual Report on Form 10-K for the year ended December 29, 2012. The accounting policies used in these interim consolidated financial statements are consistent with those used in the annual consolidated financial statements.

The presentation of these interim consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes.

Recent Accounting Pronouncements

Update ASU 2013-02 Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income

In February 2013, the Financial Accounting Standards Board (FASB) amended its guidance regarding the information provided in relation to the amounts reclassified out of accumulated other comprehensive income. The amendments do not change the current requirements for reporting net income or other comprehensive income in financial statements. However, the amendments require an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures required under U.S. GAAP that provide additional detail about those amounts. For public entities, the amendments are effective prospectively for reporting periods beginning after December 15, 2012. We have adopted this guidance, and the required disclosure is set forth in Note 11.

Note 2 Acquisitions

During June 2013, our United Kingdom (U.K.) reporting segment acquired 100 percent of the share capital of Cooke Bros. Holdings Limited, which includes the subsidiary companies Calypso Soft Drinks Limited and Mr. Freeze (Europe) Limited (together, Calypso Soft Drinks). Calypso Soft Drinks is in the business of producing fruit juices, juice drinks, soft drinks, and freeze products using natural spring and mineral waters in the United Kingdom. The aggregate purchase price for the acquisition of Calypso Soft Drinks (the Calypso Soft Drinks Acquisition) was $12.1 million which includes deferred payments for approximately $2.3 million and $3.0 million to be paid on the first and second anniversary of the closing date of the Calypso Soft Drinks Acquisition, respectively, and was funded from available cash.

The total consideration paid by us in the Calypso Soft Drinks Acquisition, subject to final working capital adjustments, is summarized below:

(in millions of U.S. dollars)	
Cash	$ 7.0
Deferred consideration*	5.1
Total consideration	$ 12.1

* Principal amount of $5.3 million discounted to be paid on the first and second anniversary of the completion date.

Our primary reasons for the Calypso Soft Drinks Acquisition were to expand Cott s product portfolio and enhance our customer offering and growth prospects.

The Calypso Soft Drinks Acquisition is being accounted for as a business combination which, among other things, requires that assets acquired and liabilities assumed be measured at their acquisition date fair values. Identified intangible assets, goodwill and property, plant and equipment are recorded at their estimated fair values per preliminary valuations and may change based on the final valuation results including, for example, the process of physically validating fixed assets. The results of operations of Calypso Soft Drinks have been included in our operating results beginning as of the acquisition date. We allocated the purchase price of the Calypso Soft Drinks Acquisition to tangible assets, liabilities and identifiable intangible assets acquired based on their estimated fair values. The excess of the purchase price over the aggregate fair values was recorded as goodwill. The fair value assigned to identifiable intangible assets acquired was based on estimates and assumptions made by management. Intangible assets are amortized using a method that reflects the pattern in which economic benefits of the intangible asset are consumed using a straight-line amortization method.

The following table summarizes the estimated allocation of the purchase price to the fair value of the assets acquired and liabilities assumed in connection with the Calypso Soft Drinks Acquisition. The allocation of the purchase price is based on a preliminary valuation that is expected to be completed in the third quarter of 2013. Any adjustment may affect the total purchase price and goodwill.

(in millions of U.S. dollars)	**Acquired Value**
Cash	$ 0.5
Accounts receivable	15.1
Inventory	7.5
Prepaid expenses and other assets	0.6
Property, plant and equipment	9.7
Goodwill	10.5
Intangibles and other assets	14.8
Accounts payable and accrued liabilities	(14.1)
Shareholder loans	(1.6)
Deferred tax liabilities	(4.7)
Other long-term liabilities	(26.2)
Total	$ 12.1

The Company recognized $1.5 million of acquisition related costs associated with the Calypso Soft Drinks Acquisition that were expensed during the six month period ended June 29, 2013. These costs are included in the selling, general, and administrative expenses of our Consolidated Statements of Operations in accordance with ASC 805, Business Combinations.

Intangible Assets

In our preliminary determination of the fair value of the intangible assets, we considered, among other factors, the best use of acquired assets, analysis of historical financial performance and estimates of future performance of Calypso Soft Drink s products. The estimated fair values of identified intangible assets were calculated considering market participant expectations and using an income approach and estimates and assumptions provided by Calypso Soft Drink s and our management. The following table sets forth the components of identified intangible assets associated with the Calypso Soft Drinks Acquisition and their estimated weighted average useful lives:

(in millions of U.S. dollars)		Estimated Fair Market Value	Estimated Useful Life
Customer relationships	$	10.5	15 years
Trademarks and trade names		3.0	20 years
Non-competition agreements		1.3	5 years
Total	$	14.8	

Customer relationships represent future projected revenue that will be derived from sales to existing customers of Calypso Soft Drinks.

Trademarks and trade names represent the future projected cost savings associated with the premium and brand image obtained as a result of owning the trademark or trade name as opposed to obtaining the benefit of the trademark or trade name through a royalty or rental fee.

In conjunction with the closing of the Calypso Soft Drinks Acquisition, certain key employees of Calypso Soft Drinks executed non-competition agreements, which prevent those employees from competing with us in the specified restricted territories for a period of time from the acquisition date. The value of the Calypso Soft Drinks business could be materially diminished without these noncompetition agreements.

Goodwill

The principal factor that resulted in recognition of goodwill was that the purchase price for the Calypso Soft Drinks Acquisition was based in part on cash flow projections assuming the reduction of administration costs and the integration of acquired customers and products into our operations, which is of greater value than on a standalone basis.

Selected Financial Data

The following unaudited financial information for the three week period ended June 29, 2013 represents the activity of Calypso Soft Drinks that has been combined with our operations as of the date of acquisition.

(in millions of U.S. dollars)	**For the Three Week Period Ended June 29, 2013**
Revenue	$ 4.2
Net income	0.1

In March of 2012, our U.K. reporting segment acquired a beverage and wholesale business based in Scotland for approximately $5.0 million. The business was purchased from a company in administration and is expected to provide a number of benefits to our U.K. reporting segment, including increased product offerings, logistical synergies and access to an additional production line. The acquisition has been accounted for using the purchase method of accounting for business combinations, and related operating results are included in the Consolidated Statements of Operations for the periods subsequent to the acquisition. The identified assets, which included inventory, property, plant and equipment, trade names and customer lists, were recorded at their estimated fair values, which exceeded the fair value of the purchase price of the business. Accordingly, the acquisition has been accounted for as a bargain purchase and, as a result, we recognized a gain of approximately $0.9 million associated with the acquisition during the second quarter of 2012.

On August 17, 2010, we completed the acquisition of substantially all of the assets and liabilities of Cliffstar Corporation (Cliffstar) and its affiliated companies for approximately $503.0 million in cash, $14.0 million in deferred consideration payable in equal installments over three years and contingent consideration of up to $55.0 million (the Cliffstar Acquisition). The first $15.0 million of the contingent consideration was paid upon the achievement of milestones in certain expansion projects in 2010. The remainder of the contingent consideration was to be calculated based on the achievement of certain performance measures during the fiscal year ended January 1, 2011.

In 2011, the seller of Cliffstar raised certain objections to the performance measures used to calculate the contingent consideration, and the parties commenced the dispute resolution mechanism provided for in the asset purchase agreement. During 2011, Cott made interim payments to the seller equal to $29.6 million, which was net of a $4.7 million refund due to

Cott and included $0.9 million in settlement of certain of the seller s objections to the calculation of the contingent consideration. The seller s claims for an additional $12.1 million in contingent consideration were submitted to binding arbitration pursuant to the asset purchase agreement and favorably resolved by payment by Cott in February 2013 of approximately $0.6 million.

Note 3 Restructuring

The Company implements restructuring programs from time to time that are designed to improve operating effectiveness and lower costs. When the Company implements these programs, it incurs various charges, including severance and other employment related costs. During June 2013, the Company implemented one such program (the 2013 Restructuring Plan), which consisted primarily of headcount reductions. For the six months ended June 29, 2013, the Company incurred charges of approximately $2.0 million related primarily to employee redundancy costs.

The following table summarizes restructuring charges for the period ended June 29, 2013:

(in millions of U.S. dollars)	**June 29, 2013**
North America	$ 1.0
United Kingdom	0.7
Mexico	0.3
Total	$ 2.0

Note 4 Share-Based Compensation

The table below summarizes the share-based compensation expense for the three and six months ended June 29, 2013 and June 30, 2012, respectively. This share-based compensation expense was recorded in selling, general, and administrative expenses in our Consolidated Statements of Operations. As used below: (i) Performance-based RSUs mean restricted share units with performance-based vesting granted under the Company s 2010 Equity Incentive Plan (the 2010 Equity Incentive Plan) or Amended and Restated Equity Incentive Plan (as defined below), as the case may be, (ii) Time-based RSUs mean restricted share units with time-based vesting granted under the 2010 Equity Incentive Plan or Amended and Restated Equity Incentive Plan, as the case may be, and (iii) Stock options mean non-qualified stock options granted under the Amended and Restated Equity Incentive Plan, the 2010 Equity Incentive Plan, or the Restated 1986 Common Share Option Plan (the 1986 Option Plan), as the case may be.

	For the Three Months Ended		**For the Six Months Ended**	
(in millions of U.S. dollars)	**June 29, 2013**	**June 30, 2012**	**June 29, 2013**	**June 30, 2012**
Stock options	**$ 0.3**	$ 0.1	**$ 0.4**	$ 0.2
Directors share award	**0.8**	0.7	**0.8**	0.7
Performance-based RSUs	**0.2**	0.2	**0.4**	0.2
Time-based RSUs	**0.5**	0.4	**0.9**	1.1
Total	**$ 1.8**	$ 1.4	**$ 2.5**	$ 2.2

As of June 29, 2013, the unrecognized share-based compensation expense and years we expect to recognize the future compensation expense were as follows:

(in millions of U.S. dollars, except years)	Unrecognized share-based compensation expense as of June 29, 2013	Weighted average years expected to recognize compensation
Stock options	$ 2.2	2.2
Performance-based RSUs	3.3	2.2
Time-based RSUs	4.8	2.1
Total	$ 10.3	

Stock option activity for the six months ended June 29, 2013 was as follows:

	Shares *(in thousands)*	Weighted average exercise price *(Canadian $)*
Balance at December 29, 2012	468	$ 7.28
Awarded	392	9.36
Exercised		
Forfeited or expired		
Outstanding at June 29, 2013	860	$ 8.23
Exercisable at June 29, 2013	125	$ 9.49

During the six months ended June 29, 2013 Performance-based RSU and Time-based RSU activity was as follows:

(in thousands of shares)	Number of Performance-based RSUs	Number of Time-based RSUs
Balance at December 29, 2012	825	529
Awarded	247	382
Issued		(7)
Forfeited	(21)	(22)
Outstanding at June 29, 2013	1,051	882

On February 14, 2013, our board of directors adopted an amendment and restatement of the 2010 Equity Incentive Plan (the Amended and Restated Equity Plan), pursuant to which the 2010 Equity Incentive Plan was amended and restated to, among other things, increase the number of shares that may be issued under the plan to 12,000,000 shares and to provide that the number of shares available for issuance will be reduced 2.0 shares for each share issued pursuant to a full-value award after the effective date of the amendment and restatement (i.e. an award other than an option or stock appreciation right). The Amended and Restated Equity Plan was approved by Cott s shareowners on April 30, 2013.

Certain outstanding stock options were granted under the 1986 Option Plan. Our board of directors terminated the 1986 Option Plan as of February 23, 2011. In connection with the termination of the 1986 Option Plan, outstanding options will continue in accordance with the terms of the 1986 Option Plan until exercised, forfeited or terminated, as applicable. No further awards will be granted under the 1986 Option Plan.

Average Canadian to U.S. Dollar Exchange Rate for the Six Months Ended June 29, 2013

The weighted-average exercise prices for options in this Note 4 are disclosed in Canadian dollars. The table below represents the average Canadian dollar to U.S. dollar exchange rate for the six months ended June 29, 2013:

	For the Six Months Ended June 29, 2013
Average exchange rate	**$ 0.986**

Note 5 Income Taxes

Income tax expense was $2.2 million on pretax income of $21.3 million for the six months ended June 29, 2013, as compared to income tax expense of $4.3 million on pretax income of $37.4 million for the six months ended June 30, 2012. The year to date income tax expense was reduced as a result of lower pretax income relative to the comparable prior year period.

Note 6 Net Income Per Common Share

Basic net income per common share is computed by dividing net income by the weighted-average number of common shares outstanding during the period. Diluted net income per common share is calculated using the weighted-average number of common shares outstanding adjusted to include the effect, if dilutive, of the exercise of in-the-money stock options, Performance-based RSUs and Time-based RSUs.

A reconciliation of the denominators of the basic and diluted net income per common share computations is as follows:

	For the Three Months Ended		For the Six Months Ended	
(in thousands of shares)	**June 29, 2013**	**June 30, 2012**	**June 29, 2013**	**June 30, 2012**
Weighted average number of shares outstanding - basic	**95,159**	94,469	**95,265**	94,448
Dilutive effect of Stock options	**62**	31	**55**	31
Dilutive effect of Performance-based RSUs	**275**	30	**266**	21
Dilutive effect of Time-based RSUs	**485**	985	**462**	979
Adjusted weighted average number of shares outstanding - diluted	**95,981**	**95,515**	**96,048**	**95,479**

At June 29, 2013, we excluded 442,131 (June 30, 2012 183,500) stock options from the computation of diluted net income per share because the options exercise price was greater than the average market price of the common shares. Shares purchased on the open market and held by independent trusts are categorized as treasury shares under applicable accounting rules. We excluded 674,397 treasury shares held in various trusts in the calculation of basic and diluted earnings per share for the six months ended June 30, 2012.

Note 7 Segment Reporting

Our product lines include CSDs, 100% shelf stable juice and juice-based products, clear, still and sparkling flavored waters, energy products, sports products, new age beverages, and ready-to-drink teas, as well as alcoholic beverages for brand owners. Our business operates through five reporting segments: North America (which includes our U.S. operating segment and Canada operating segment), U.K. (which includes our United Kingdom reporting unit and our Continental European reporting unit), Mexico, Royal Crown International (RCI) and All Other. The primary measures used in evaluating our reporting segments are revenues, operating income (loss), and additions to property, plant and equipment, which have been included as part of our segment disclosures listed below.

(in millions of U.S. dollars)	North America	United Kingdom	Mexico	RCI	All Other	Total
For the Three Months Ended June 29, 2013						
External revenue[1]	$ 418.1	$ 127.9	$ 7.7	$ 10.1	$	$ 563.8
Depreciation and amortization	21.1	3.3	0.5			24.9
Operating income (loss)	20.9	9.1	0.3	2.3		32.6
Additions to property, plant & equipment	10.4	3.7	0.5			14.6
For the Six Months Ended June 29, 2013						
External revenue[1]	$ 811.3	$ 225.3	$ 15.1	$ 17.5	$	$ 1,069.2
Depreciation and amortization	42.1	6.5	1.0			49.6
Operating income (loss)	34.7	9.1	(0.4)	4.3		47.7
Additions to property, plant & equipment	24.9	8.3	1.3			34.5
As of June 29, 2013						
Property, plant & equipment	$ 376.8	$ 105.3	$ 10.1	$	$	$ 492.2
Goodwill	124.4	10.5		4.5		139.4
Intangibles and other assets	286.4	26.9	0.3			313.6
Total assets[2]	1,195.8	307.3	26.0	16.2	0.8	1,546.1

1 Intersegment revenue between North America and the other reporting segments was $5.4 million and $9.2 million for the three and six months ended June 29, 2013, respectively.

2 Excludes intersegment receivables, investments and notes receivable.

(in millions of U.S. dollars)	North America	United Kingdom	Mexico	RCI	All Other	Total
For the Three Months Ended June 30, 2012						
External revenue[1]	**$ 475.7**	**$ 131.5**	**$ 10.2**	**$ 8.4**	**$**	**$ 625.8**
Depreciation and amortization	**20.1**	**3.1**	**0.5**			**23.7**
Operating income (loss)	**31.2**	**10.5**	**(0.9)**	**2.4**		**43.2**
Additions to property, plant & equipment	**16.4**	**3.1**	**0.2**			**19.7**
For the Six Months Ended June 30, 2012						
External revenue[1]	**$ 883.8**	**$ 230.7**	**$ 19.3**	**$ 15.8**	**$**	**$ 1,149.6**
Depreciation and amortization	**40.2**	**6.4**	**0.9**			**47.5**
Operating income (loss)	**48.5**	**13.7**	**(2.2)**	**4.2**		**64.2**
Additions to property, plant & equipment	**29.0**	**8.1**	**0.3**			**37.4**
As of June 30, 2012						
Property, plant & equipment	**$ 385.1**	**$ 94.6**	**$ 9.1**	**$**	**$**	**$ 488.8**
Goodwill	**125.1**			**4.5**		**129.6**
Intangibles and other assets	**314.5**	**14.2**	**0.4**			**329.1**
Total assets[2]	**1,236.9**	**248.1**	**29.8**	**13.2**	**0.7**	**1,528.7**

1 Intersegment revenue between North America and the other reporting segments was $4.0 million and $8.1 million for the three and six months ended June 30, 2012, respectively.

2 Excludes intersegment receivables, investments and notes receivable.

For the six months ended June 29, 2013, sales to Walmart accounted for 30.7% of our total revenues (June 30, 2012 31.8%), 36.1% of our North America reporting segment revenues (June 30, 2012 36.8%), 14.8% of our U.K. reporting segment revenues (June 30, 2012 15.5%), and 11.7% of our Mexico reporting segment revenues (June 30, 2012 22.4%).

Credit risk arises from the potential default of a customer in meeting its financial obligations to us. Concentrations of credit exposure may arise with a group of customers that have similar economic characteristics or that are located in the same geographic region. The ability of such customers to meet obligations would be similarly affected by changing economic, political or other conditions. We are not currently aware of any facts that would create a material credit risk.

Revenues are attributed to operating segments based on the location of the customer. Revenues by operating segment were as follows:

	For the Three Months Ended		For the Six Months Ended	
(in millions of U.S. dollars)	June 29, 2013	June 30, 2012	June 29, 2013	June 30, 2012
United States	**$ 367.8**	$ 414.8	**$ 722.6**	$ 781.0
Canada	**62.1**	73.3	**109.6**	127.1
United Kingdom	**127.9**	131.5	**225.3**	230.7
Mexico	**7.7**	10.2	**15.1**	19.3
RCI	**10.1**	8.4	**17.5**	15.8
Elimination[1]	**(11.8)**	(12.4)	**(20.9)**	(24.3)
	$ 563.8	$ 625.8	**$ 1,069.2**	$ 1,149.6

1 Represents intersegment revenue among our operating segments, of which $5.4 million and $9.2 million represents intersegment revenue between the North America reporting segment and our other operating segments for the three and six months ended June 29, 2013, respectively, compared to $4.0 million and $8.1 million for the three and six months ended June 30, 2012, respectively.

Revenues by product were as follows:

For the Three Months Ended June 29, 2013

(in millions of U.S. dollars)	North America	United Kingdom	Mexico	RCI	Total
Revenue					
Carbonated soft drinks	$ 157.1	$ 40.0	$ 3.7	$ 0.1	$ 200.9
Juice	124.4	5.6		0.9	130.9
Concentrate	2.8	0.6		7.3	10.7
All other products	133.8	81.7	4.0	1.8	221.3
Total	$ 418.1	$ 127.9	$ 7.7	$ 10.1	$ 563.8

For the Six Months Ended June 29, 2013

(in millions of U.S. dollars)	North America	United Kingdom	Mexico	RCI	Total
Revenue					
Carbonated soft drinks	$ 308.5	$ 72.7	$ 7.2	$ 0.2	$ 388.6
Juice	259.4	8.7		1.4	269.5
Concentrate	5.9	1.2		14.1	21.2
All other products	237.5	142.7	7.9	1.8	389.9
Total	$ 811.3	$ 225.3	$ 15.1	$ 17.5	$ 1,069.2

For the Three Months Ended June 29, 2013

(in millions of physical cases)	North America	United Kingdom	Mexico	RCI	Total
Volume - 8 oz equivalent cases - Total Beverage (including concentrate)					
Carbonated soft drinks	72.1	20.3	2.2		94.6
Juice	28.7	1.5	0.1	0.1	30.4
Concentrate	18.5	4.4			