

COTT CORP /CN/  
Form 10-K  
February 29, 2012  
Table of Contents

**United States**  
**Securities and Exchange Commission**  
Washington, D.C. 20549

**Form 10-K**

X **Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**  
For the fiscal year ended December 31, 2011

.. **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)

Edgar Filing: COTT CORP /CN/ - Form 10-K

<b>CANADA</b> (State or Other Jurisdiction)	<b>98-0154711</b> (IRS Employer Identification No.)
of Incorporation or Organization)	
<b>6525 VISCOUNT ROAD</b>	<b>L4V 1H6</b>
<b>MISSISSAUGA, ONTARIO</b>	
<b>5519 WEST IDLEWILD AVENUE</b>	
<b>TAMPA, FLORIDA, UNITED STATES</b> (Address of principal executive offices)	<b>33634</b> (Zip Code)
<b>Registrant's telephone number, including area code: (905) 672-1900 and (813) 313-1800</b>	

**Securities registered pursuant to Section 12(b) of the Act:**

Title of each class	Name of each exchange on which registered
COMMON SHARES WITHOUT NOMINAL OR PAR VALUE	NEW YORK STOCK EXCHANGE TORONTO STOCK EXCHANGE
<b>Securities registered pursuant to Section 12(g) of the Act: NONE</b>	

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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  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  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or 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. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

(Do not check if a smaller reporting company)

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

## Edgar Filing: COTT CORP /CN/ - Form 10-K

The aggregate market value of the common equity held by non-affiliates of the registrant as of July 2, 2011 (based on the closing sale price of \$8.56 for the registrant's common stock as reported on the New York Stock Exchange on July 2, 2011) was \$795.2 million.

(Reference is made to the last paragraph of Part II, Item 5 for a statement of assumptions upon which the calculation is made).

The number of shares outstanding of the registrant's common stock as of February 21, 2012 was 95,101,230.

### **Documents incorporated by reference**

Portions of our definitive proxy circular for the 2012 Annual Meeting of Shareowners, to be filed within 120 days of December 31, 2011, are incorporated by reference in Part III. Such proxy circular, except for the parts therein which have been specifically incorporated by reference, shall not be deemed filed for the purposes of this Annual Report on Form 10-K.

**Table of Contents****TABLE OF CONTENTS**

<b><u>PART I</u></b>	<b>2</b>
ITEM 1. <b><u>BUSINESS</u></b>	<b>2</b>
ITEM 1A. <b><u>RISK FACTORS</u></b>	<b>10</b>
ITEM 1B. <b><u>UNRESOLVED STAFF COMMENTS</u></b>	<b>21</b>
ITEM 2. <b><u>PROPERTIES</u></b>	<b>21</b>
ITEM 3. <b><u>LEGAL PROCEEDINGS</u></b>	<b>22</b>
ITEM 4. <b><u>MINE SAFETY DISCLOSURES</u></b>	<b>22</b>
<b><u>SUPPLEMENTAL ITEM PART I. EXECUTIVE OFFICERS OF THE REGISTRANT</u></b>	<b>23</b>
<b><u>PART II</u></b>	<b>25</b>
ITEM 5. <b><u>MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED SHAREOWNER MATTERS</u></b>	<b>25</b>
ITEM 6. <b><u>SELECTED FINANCIAL DATA</u></b>	<b>27</b>
ITEM 7. <b><u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u></b>	<b>29</b>
ITEM 7A. <b><u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u></b>	<b>50</b>
ITEM 8. <b><u>FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA</u></b>	<b>51</b>
ITEM 9. <b><u>CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE</u></b>	<b>51</b>
ITEM 9A. <b><u>CONTROLS AND PROCEDURES</u></b>	<b>51</b>
ITEM 9B. <b><u>OTHER INFORMATION</u></b>	<b>53</b>
<b><u>PART III</u></b>	<b>54</b>
ITEM 10. <b><u>DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT</u></b>	<b>54</b>
ITEM 11. <b><u>EXECUTIVE COMPENSATION</u></b>	<b>54</b>
ITEM 12. <b><u>SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED SHAREOWNER MATTERS</u></b>	<b>54</b>
ITEM 13. <b><u>CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE</u></b>	<b>54</b>
ITEM 14. <b><u>PRINCIPAL ACCOUNTANT FEES AND SERVICES</u></b>	<b>54</b>
<b><u>PART IV</u></b>	<b>55</b>
ITEM 15. <b><u>EXHIBITS AND FINANCIAL STATEMENT SCHEDULES</u></b>	<b>55</b>
<b><u>INDEX TO CONSOLIDATED FINANCIAL STATEMENTS</u></b>	<b>F-1</b>
<b><u>SCHEDULE II VALUATION AND QUALIFYING ACCOUNTS</u></b>	<b>F-54</b>

---

**Table of Contents**

Our consolidated financial statements are prepared in accordance with United States ( U.S. ) generally accepted accounting principles ( GAAP ) in U.S. dollars. Unless otherwise indicated, all amounts in this report are in U.S. dollars and U.S. GAAP.

Any reference to 2011, 2010 and 2009 corresponds to our fiscal years ended December 31, 2011, January 1, 2011, and January 2, 2010, respectively.

**Forward-looking statements**

In addition to historical information, this report, and the reports and documents incorporated by reference in this report, may contain statements relating to future events and future results. These statements are forward-looking within the meaning of the Private Securities Litigation Reform Act of 1995 and applicable Canadian securities legislation and involve known and unknown risks, uncertainties, future expectations and other factors that may cause actual results, performance or achievements of Cott Corporation to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such statements include, but are not limited to, statements that relate to projections of sales, earnings, earnings per share, cash flows, capital expenditures or other financial items, discussions of estimated future revenue enhancements and cost savings. These statements also relate to our business strategy, goals and expectations concerning our market position, future operations, margins, profitability, liquidity and capital resources. Generally, words such as anticipate, believe, continue, could, endeavor, estimate, expect, intend, may, will, plan, predict, project, should and similar terms identify forward-looking statements in this report and in the documents incorporated in this report by reference. These forward-looking statements reflect current expectations regarding future events and operating performance and are made only as of the date of this report.

The forward-looking statements are not guarantees of future performance or events and, by their nature, are based on certain estimates and assumptions regarding interest and foreign exchange rates, expected growth, results of operations, performance, business prospects and opportunities and effective income tax rates, which are subject to inherent risks and uncertainties. Material factors or assumptions that were applied in drawing a conclusion or making an estimate set out in forward-looking statements may include, but are not limited to, assumptions regarding management's current plans and estimates, our ability to remain a low cost supplier, and effective management of commodity costs. Although we believe the assumptions underlying these forward-looking statements are reasonable, any of these assumptions could prove to be inaccurate and, as a result, the forward-looking statements based on those assumptions could prove to be incorrect. Our operations involve risks and uncertainties, many of which are outside of our control, and any one or any combination of these risks and uncertainties could also affect whether the forward-looking statements ultimately prove to be correct. These risks and uncertainties include, but are not limited to, those described in Part I, Item 1A. Risk Factors and elsewhere in this report and those described from time to time in our future reports filed with the Securities and Exchange Commission ( SEC ) and Canadian securities regulatory authorities.

We undertake no obligation to update any information contained in this report or to publicly release the results of any revisions to forward-looking statements to reflect events or circumstances of which we may become aware of after the date of this report. Undue reliance should not be placed on forward-looking statements.

All future written and oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the foregoing.

---

**Table of Contents**

**PART I**

**ITEM 1. BUSINESS**

**Our Company**

Cott Corporation, together with its consolidated subsidiaries ( Cott, the Company, our Company, Cott Corporation, we, us, or our ), is one of the world's largest beverage companies focusing on private-label and contract manufacturing. Our product lines include carbonated soft drinks ( CSDs ), clear, still and sparkling flavored waters, energy-related drinks, juice, juice-based products, bottled water and ready-to-drink teas, which we produce through five reporting segments North America (which includes our U.S. operating segment and Canada operating segment), United Kingdom ( U.K. ) (which includes our United Kingdom reporting unit and our Continental European reporting unit), Mexico, Royal Crown International ( RCI ) and All Other (which includes our international corporate expenses).

We incorporated in 1955 and are governed by the Canada Business Corporations Act. Our registered Canadian office is located at 333 Avro Avenue, Pointe-Claire, Quebec, Canada H9R 5W3 and our principal executive offices are located at 5519 W. Idlewild Avenue, Tampa, Florida, United States 33634 and 6525 Viscount Road, Mississauga, Ontario, Canada L4V 1H6.

**Competitive Strengths**

We believe that our competitive strengths will enable us to maintain our position as one of the world's largest beverage companies with a focus on private-label products and contract manufacturing and will allow us to capitalize on future opportunities to drive sustainable and profitable growth.

***Leading Producer of Private-Label Beverages with Diverse Product Portfolio and Contract Manufacturing Capabilities***

We currently have the leading private-label market share in each of the United States, Canada, the United Kingdom and Mexico by annual volume of cases produced. Our product lines include CSDs, clear, still and sparkling flavored waters, energy-related drinks, juice, juice-based products, bottled water and ready-to-drink teas. We believe our proven ability to innovate and develop our product portfolio to meet changing consumer demand will position us well to continue to serve our customers and their consumers. We also manufacture beverages on a contract basis for certain customers. During 2011, we launched more than 100 new product stock keeping units ( SKUs ), including new flavor profiles based on successful new product launches by the national brands, new package types and new product category introductions for our customers.

We market or supply over 500 retailer, licensed and Company-owned brands in our four core geographic segments. We sell CSD concentrates and non-carbonated concentrates in over 50 countries. We believe that our leadership position, our broad portfolio offering and our existing infrastructure will enable us to continue to penetrate the private-label and contract manufacturing markets, whether it is winning new customers, launching new product SKUs with existing customers, or supplying retailers who currently self-manufacture.

***Extensive, Flexible Manufacturing Capabilities***

Our business is supported by our extensive manufacturing network and flexible production capabilities. Our manufacturing footprint encompasses 32 strategically located beverage manufacturing and fruit processing facilities, including 20 in the United States, five in Canada, five in the United Kingdom and one in Mexico, as well as one vertically-integrated global concentrate manufacturing facility in Columbus, Georgia.

We are the only dedicated private-label beverage producer and contract manufacturer with a manufacturing footprint across North America. Manufacturing flexibility is one of our core competencies and is critical to our

## **Table of Contents**

success, as our products will typically feature customized packaging, design and graphics for our key customers. Our ability to produce multiple SKUs and packages on our production lines and manage complexities through quick-line changeover processes differentiates us from our competition.

### ***High Customer Service Level and Strong Customer Integration***

Our business requires a high level of coordination with our customers in areas such as supply chain, product development and customer service. In addition to efficiently managing increased product manufacturing complexity, we have a proven track record of maintaining high service levels across our customer base. We also partner closely with customers on supply chain planning and execution to minimize freight costs, reduce working capital requirements and increase in-store product availability. We work as partners with our customers on new product development and packaging designs. Our role includes providing market expertise as well as knowledge of category trends that may present opportunities for our customers. A high level of customer integration and partnership coupled with a nationwide manufacturing footprint is critical for the development of successful beverage programs for our customers.

### ***Strategic Importance to Our Customers***

We have longstanding partnerships with many of the world's leading retailers in the grocery, mass-merchandise and drug store channels, as well as customers for whom we manufacture beverages on a contract basis, giving our customers access to high-quality, affordable beverages. Our competitive advantages include:

private-label and contract manufacturing expertise;

vertically integrated, low-cost production platform;

one-stop sourcing;

category insights and marketing expertise;

supply chain and high quality consistency in products; and

product innovation and differentiation.

For 2011, our top 10 customers accounted for 55.1% of total revenue. Walmart was the only customer that accounted for more than 10% of our total revenue for the period. We have established long-standing relationships with most of our top 10 customers. As a result of our high product quality and commitment to service, coupled with a national manufacturing footprint, we believe we will continue to play a meaningful role in helping our customers develop strategies to build loyalty with consumers.

## **Business Strategy**

Our primary goal is to maintain long-term profitability and enhance our position as the market leader and preferred supplier of private-label beverages, as well as beverages manufactured on a contract basis, in the markets where we operate. Continued leadership in our core markets will enable us to sustain and grow profitability as we drive for increased penetration and share growth within our core product categories. We believe that the following strategies will help us to achieve our goal.

### ***Maintain Customer Focus***

Customer relationships are important for any business, but at Cott, where many of our products bear our customers' brand names, we must maintain particularly close partnerships with our customers. We will continue to provide our customers with high quality products and great

service at an attractive value that will help them provide quality, value-oriented products to their consumers.



## **Table of Contents**

We will continue to focus on our high customer service levels as well as innovations through the introduction of new packages, flavors and varieties of beverages. We believe our focus on our customers will enable us to leverage our existing relationships and to develop new ones in existing and new markets. As a fast follower of innovative products, our goal is to identify new products that are succeeding in the marketplace and develop similar products of high quality for our customers to offer their consumers at a better value.

### ***Control Operating Costs***

We understand that our long-term success will be closely tied to our ability to remain a low-cost supplier. Effective management of commodity costs is critical to our success, including entering into contract commitments with suppliers of key raw materials such as aluminum sheet metal, high fructose corn syrup ( HFCS ), fruit and fruit concentrates. On an ongoing basis we review our fixed overhead and manufacturing costs for opportunities for further reductions. In 2009, we significantly reduced overhead costs, and in 2010, we implemented more modest cost reductions. In 2011, we transformed the Company's information technology function from a nearly 100% outsourced, single vendor relationship to a combination of in-house resources and multi-vendor strategy, significantly reducing our total information technology spend.

### ***Control Capital Expenditures and Rigorously Manage Working Capital***

Consistent with our status as a low-cost supplier, we leverage our existing manufacturing capacity to maintain an efficient supply chain. We are committed to carefully prioritizing our capital investments that provide the best financial returns for Cott and for our customers, while maintaining safety, efficiency and superior product quality. Our manufacturing facilities operate according to the highest standards of safety and product quality. We perform regular third-party audits of our facilities and are subject to quality audits on behalf of our customers. We will continue to evaluate growth and other opportunities, while remaining mindful of our total capital expenditure targets.

In 2011, our capital expenditures were devoted primarily to maintaining existing beverage production facilities, equipment upgrades in the United States and Canada to meet customer needs, and expanding can and energy-related drink production capability in the United Kingdom.

### ***Cash Flow Management***

We believe that a strong financial position will enable us to capitalize on opportunities in the marketplace. As a result, we continuously review and improve the effectiveness of our cash management processes. We strive to achieve the most optimal working capital level, rationalize our capital expenditures and continuously drive operating cost improvements to enhance cash flow.

### ***Pursue Select Acquisitions***

We believe that opportunities exist for us to enhance our scale, reduce fixed manufacturing costs and broaden our product portfolio. In August 2010, we completed the acquisition of substantially all of the assets and liabilities of Cliffstar Corporation ( Cliffstar ) and its affiliated companies pursuant to an Asset Purchase Agreement dated July 7, 2010 for approximately \$503.0 million in cash, \$14.0 million in deferred consideration to be paid over three years and contingent consideration of up to \$55.0 million (the Cliffstar Acquisition ). The Cliffstar Acquisition provided us with a foothold in the North America private-label juice market. We intend to continue to evaluate and pursue strategic opportunities if we believe they would enhance our industry position, strengthen our business and build value for our shareholders.

### ***Principal Markets and Products***

We estimate that as of the end of 2011, we produced (either directly or through third party manufacturers with whom we have co-packing agreements) a majority of all retailer brand CSDs and juice, sold in the United States, as well as retailer brand CSDs sold in the U.K.

## **Table of Contents**

We have a diversified product portfolio across major beverage categories, including beverages that are on-trend with consumer demand. In 2011, CSDs, juice, concentrate, and all other products represented 40.7%, 25.8%, 1.6% and 31.9%, as a percentage of revenue respectively. We began reporting Juice as a separate product category in 2010 following the Cliffstar Acquisition. In 2010, CSDs, juice, concentrate, and all other products represented 50.4%, 13.1%, 2.2% and 34.3%, as a percentage of revenue, respectively. In 2009, CSDs, concentrate, and all other products represented 60.0%, 1.9%, and 38.1%, as a percentage of revenue, respectively.

We believe that opportunities exist to increase sales of beverages in our core markets by leveraging existing customer relationships, capitalizing on cross-selling and up-selling opportunities across our CSD and juice customers, obtaining new customers, manufacturing beverages on a contract basis for new and existing customers, exploring new channels of distribution and introducing new products.

## **Restructuring Initiatives**

From 2006 through 2007, we implemented our North American Realignment and Cost Reduction Plan (the North American Plan) to consolidate the management of our Canadian and U.S. businesses to a North American basis, rationalize product offerings, eliminate underperforming assets and focus on high potential accounts. We paid the remaining lease termination costs under the North American Plan in 2010. We also implemented plans in 2008 (the Refocus Plan) and 2009 (the 2009 Restructuring Plan) that resulted in a partial reduction of our workforce in those years.

We do not anticipate incurring any additional charges related to the North American Plan, the Refocus Plan or the 2009 Restructuring Plan, nor did we incur any such costs in 2011.

## **Financial Information about Segments**

For financial information about reporting segments and geographic areas, see Note 9 to the consolidated financial statements contained in this Annual Report on Form 10-K.

## **Manufacturing and Distribution Network**

Substantially all of our beverages are manufactured in facilities that we, or third-party manufacturers with whom we have long-term co-packing agreements, either own or lease. We rely on third parties to produce and distribute products in areas or markets where we do not have our own production facilities, such as in continental Europe, or when additional production capacity is required.

Our products are either picked up by our customers at our facilities or delivered by us, a common carrier, or third-party distributors to our customers' distribution centers or to retail locations.

## **Ingredient and Packaging Supplies**

In addition to water, the principal raw materials required to produce our products are aluminum cans and ends, polyethylene terephthalate (PET) bottles, preforms and caps, labels, cartons and trays, sweeteners, fruit concentrates and fruit. The cost of these raw materials can fluctuate substantially over time.

Under many of our supply arrangements for these raw materials, the price we pay fluctuates along with certain changes in underlying commodity costs, such as aluminum in the case of cans and ends, resin in the case of PET bottles, preforms and caps, corn in the case of HFCS, fruit and fruit concentrates. We believe that we will be able to either renegotiate contracts with these suppliers when they expire or find alternative sources for supply. We also believe there is adequate supply of the ingredient and packaging materials used to produce and package our products.

---

## **Table of Contents**

Generally, we bear the risk of increases in the costs of the ingredient and packaging materials used to produce our products, including the underlying costs of the commodities used to manufacture them and, to some extent, the costs of converting those commodities into the materials we purchase.

Aluminum for cans and ends, resin for PET bottles, preforms and caps, corn for HFCS, fruit and fruit concentrates are examples of underlying commodities for which we bear the risk of increases in costs. In addition, the contracts for certain of our ingredient and packaging materials permit our suppliers to increase the costs they charge us based on increases in their cost of converting the underlying commodities into the materials we purchase. In certain cases those increases are subject to negotiated limits. Changes in the prices we pay for ingredient and packaging materials occur at times that vary by product and supplier, and take place, on a monthly, quarterly or annual basis.

Crown Cork & Seal USA, Inc. ( CCS ) supplies us with aluminum cans and ends under a contract entered into in 2010 with a multi-year term. The contract provides that CCS will supply our aluminum cans and ends requirements worldwide, subject to certain exceptions. The contract contains pricing mechanisms for certain materials and representations, warranties, indemnities and termination events (including termination events related to bankruptcy or insolvency of either party) that we believe to be customary. In 2011, we had fixed price commitments for a majority of our forecasted aluminum requirements for 2011 and entered into fixed price commitments for over half of our aluminum requirements for 2012 and a portion of our aluminum requirements for 2013.

PET resin prices have fluctuated significantly in recent years as the price of oil has fluctuated and demand for synthetic fibers has increased. Because PET resin is not a traded commodity, no fixed price mechanism has been implemented, and we expect to pay prevailing market prices for our PET resin needs.

Corn has a history of volatile price changes. We expect that corn market prices will continue to fluctuate as a result of an increase in the demand for corn-related products such as HFCS. In 2011, we had fixed price commitments for all of our HFCS requirements for 2011 and entered into fixed price commitments for all of our HFCS requirements for 2012.

Fruit and fruit concentrate prices have been, and we expect them to continue to be, subject to significant volatility. While fruit is available from numerous independent suppliers, these raw materials are subject to fluctuations in price attributable to, among other things, changes in crop size and federal and state agricultural programs. In 2011, we had fixed price commitments for a majority of our fruit concentrate and fruit requirements for 2011 and entered into fixed price commitments for a portion of our fruit concentrate and fruit requirements for 2012.

### **Trade Secrets, Copyrights, Trademarks and Licenses**

We sell the majority of our beverages under retailer brands to customers who own the trademarks associated with those products. We also own registrations, or applications to register, various trademarks that are important to our worldwide business, including *Cott*<sup>®</sup>, *Red Rain*<sup>®</sup> and *Orient Emporium Tea Co.* in the United States, Canada, the U.K. and the European Union, *Stars & Stripes*<sup>®</sup>, *Vess*<sup>®</sup>, *Vintage*<sup>®</sup>, *So Clear*<sup>®</sup>, *Shanstar*<sup>®</sup>, *Harvest Classic*<sup>®</sup>, *Chadwick Bay*<sup>®</sup> and *Golden Crown*<sup>®</sup> in the United States, *Emerge*<sup>®</sup>, *Red Rooster*<sup>®</sup>, *Carters*<sup>®</sup>, and *Ben Shaws*<sup>®</sup> in the U.K. and the European Union., *Stars & Stripes*<sup>®</sup> in Mexico, and *RC*<sup>®</sup> in more than 100 countries and territories outside of North America. Moreover, we are licensed to use certain trademarks such as *Old Jamaica Ginger Beer* and *Ting* in the U.K. The licenses to which we are a party are of varying terms, including some that are perpetual. Trademark ownership is generally of indefinite duration when marks are properly maintained in commercial use.

Our success depends in part on our intellectual property, which includes trade secrets in the form of concentrate formulas for our beverages and trademarks for the names of the beverages we sell. To protect this

## **Table of Contents**

intellectual property, we rely principally on registration of trademarks, contractual responsibilities and restrictions in agreements (such as indemnification, nondisclosure and confidentiality agreements) with employees, consultants and customers, and on the common law and statutory protections afforded to trademarks, copyrights, trade secrets and proprietary know-how. We also closely monitor the use of our trademarks and vigorously pursue any party that infringes on our trademarks, using all available legal remedies.

### **Seasonality of Sales**

The beverage market is subject to some seasonal variations. Our beverage sales are generally higher during the warmer months and also can be influenced by the timing of holidays and weather fluctuations. This seasonality also causes our working capital needs to fluctuate with inventory being higher in the first half of the year to meet the peak summer demand and accounts receivable declining in the fall as customers pay their higher-than-average outstanding balances from the summer deliveries.

### **Customers**

A significant portion of our revenue is concentrated in a small number of customers. Our customers include many large national and regional grocery, mass-merchandise, drugstore, wholesale and convenience store chains, as well as customers for whom we manufacture beverages on a contract basis. For 2011, sales to Walmart accounted for 31.6% (2010 31.0%, 2009 33.5%) of our total revenue, 35.9% of our North America reporting segment revenue (2010 35.3%, 2009 39.4%), 14.6% of our U.K. reporting segment revenue (2010 16.6%, 2009 17.7%) and 44.7% of our Mexico reporting segment revenue (2010 38.9%, 2009 18.4%). Walmart was the only customer that accounted for more than 10% of our total revenue in those periods. Sales to our top ten customers in 2011, 2010 and 2009 accounted for 55.1%, 55.4% and 60.0%, respectively, of our total revenue. We expect that sales of our products to a limited number of customers will continue to account for a high percentage of revenue for the foreseeable future. The loss of any customers that individually or in the aggregate represent a significant portion of our revenue, or a decline in sales to these customers, would have a material adverse effect on our operating results and cash flow.

We supply Walmart and its affiliated companies, under annual non-exclusive supply agreements, with a variety of products in the United States, Canada, U.K. and Mexico, including CSDs, clear, still and sparkling flavored waters, juice, juice-based products, bottled water, energy drinks and ready-to-drink teas. In 2011 we supplied Walmart with all of its private label CSDs in the United States. In the event Walmart were to utilize additional suppliers to fulfill a portion of its requirements for such products, our operating results could be materially adversely affected.

### **Research and Development**

We engage in a variety of research and development activities. These activities principally involve the development of new products, improvement in the quality of existing products, improvement and modernization of production processes, and the development and implementation of new technologies to enhance the quality and value of both current and proposed product lines. Consumer research is excluded from research and development costs and included in other marketing costs. Research and development costs were \$2.5 million in 2011, \$3.1 million in 2010 and \$3.0 million in 2009 and are included as a component of selling, general and administrative expenses.

### **Competition**

We compete against a wide range of companies that produce, directly and on a contract basis, and sell private-label beverages including CSDs, clear, still and sparkling flavored waters, energy-related drinks, juice, juice-based products, bottled water and ready-to-drink teas. While CSDs and CSD concentrate accounted for 63.1% of our 2011 case volume, they accounted for 42.3% of our 2011 revenue. The non-CSD products generated 36.9% of our 2011 case volume and 57.7% of our 2011 revenue.

## **Table of Contents**

We principally compete in the non-alcoholic beverages category, which is highly competitive in each region in which we operate. Competition for incremental volume is intense. The brands owned by the four major national soft drink companies, Coca-Cola, Pepsi, Nestle Waters North America and Dr. Pepper Snapple (formerly Cadbury Schweppes), control 83% of the aggregate take-home volume of the liquid refreshment beverage category. These companies have significant financial resources and spend heavily on promotional programs. They also have direct store delivery systems in North America, which enable their personnel to visit retailers frequently to promote new items, stock shelves and build displays. We also face competition in the juice category from juice brands such as Welch's, Ocean Spray and Mott's.

In addition, we face competition in North America, the United Kingdom and Mexico from regional beverage manufacturers who sell aggressively-priced brands and, in many cases, also supply retailer brand products. A few larger U.S. retailers also self-manufacture products for their own needs and consistently approach other retailers seeking additional business.

We seek to differentiate ourselves from our competitors by offering our customers efficient distribution methods, high-quality products, category management strategies, packaging and marketing strategies, and superior service.

## **Government Regulation and Environmental Matters**

The production, distribution and sale in the United States of many of our products are subject to the Federal Food, Drug, and Cosmetic Act, the Federal Trade Commission Act, the Lanham Act, state consumer protection laws, federal, state and local workplace health and safety laws, various federal, state and local environmental protection laws and various other federal, state and local statutes and regulations applicable to the production, transportation, sale, safety, advertising, labeling and ingredients of such products. Outside the United States, the production, distribution and sale of our many products and related operations are also subject to numerous similar and other statutes and regulations.

A number of states have passed laws setting forth warning or labeling requirements relating to products made for human consumption. For example, the California law known as Proposition 65 requires that a specific warning appear on any product sold in California containing a substance listed by that state as having been found to cause cancer or reproductive toxicity. This law, and others like it, expose all food and beverage producers to the possibility of having to provide warnings on their products. The detection of even a trace amount of a listed substance can subject an affected product to the requirement of a warning label, although products containing listed substances that occur naturally or that are contributed to such products solely by a municipal water supply are generally exempt from the warning requirement. From time to time over the past several years, certain of our customers have received notices alleging that the labeling requirements of the relevant state regulation would apply to products manufactured by us and sold by them. There can be no assurance that we will not be adversely affected by actions against our customers or us relating to Proposition 65 or similar failure to warn laws.

We currently offer and use non-refillable recyclable containers in the United States and other countries around the world. We also offer and use refillable containers, which are also recyclable. Legal requirements apply in various jurisdictions in the United States and other countries requiring that deposits or certain ecotaxes or fees be charged for the sale, marketing and use of certain non-refillable beverage containers. The precise requirements imposed by these measures vary. Other types of beverage container-related deposit, recycling, ecotax and/or product stewardship statutes and regulations also apply in various jurisdictions in the United States and overseas. We anticipate that additional, similar legal requirements may be proposed or enacted in the future at local, state and federal levels, both in the United States and elsewhere.

All of our beverage production facilities and other operations are subject to various environmental protection statutes and regulations, including those of the U.S. Environmental Protection Agency, which pertain

---

**Table of Contents**

to the use of water resources and the discharge of waste water. Failure to comply with these regulations can have serious consequences, including civil and administrative penalties. Compliance with these provisions has not had, and we do not expect such compliance to have, any material adverse effect on our Company's capital expenditures, net income or competitive position. However, as discussed below, changes in how the Ontario Ministry of the Environment enforces the Ontario Environmental Protection Act could result in our having to make material expenditures for environmental compliance.

Subject to the terms and conditions of the applicable policies, we are insured against product liability claims and product recalls that could result from the injury, illness or death of consumers using our products, contamination of our products, or damage to or mislabeling of our products. We believe that our insurance coverage is adequate.

**The Ontario Environmental Protection Act ( OEPA )**

OEPA regulations provide that a minimum percentage of a bottler's soft drink sales within specified areas in Ontario must be made in refillable containers. The penalty for non-compliance is a fine of \$50,000 per day beginning upon when the first offense occurs and continues until the first conviction, and then increasing to \$100,000 per day for each subsequent conviction. These fines may be increased to equal the amount of monetary benefit acquired by the offender as a result of the commission of the offense.

We, and we believe other industry participants, are currently not in compliance with the requirements of the OEPA. To comply with these requirements we, and we believe many other industry participants, would have to significantly increase sales in refillable containers to a minimum refillable sales ratio of 30%. We do not expect to be in compliance with these regulations in the foreseeable future. Ontario is not enforcing the OEPA at this time, despite the fact that it is still in effect and not amended, but if it chooses to enforce it in the future, we could incur fines for non-compliance and the possible prohibition of sales of soft drinks in non-refillable containers in Ontario. We estimate that approximately 3% of our sales would be affected by the possible limitation of sales of soft drinks in non-refillable containers in Ontario if the Ontario Ministry of the Environment initiated an action to enforce the provisions of the OEPA against us. Moreover, the Ontario Ministry of the Environment released a report in 1997 stating that these OEPA regulations are outdated and unworkable. However, despite the unworkable nature of the OEPA regulations, they have not yet been revoked.

We believe that the magnitude of the potential fines that we could incur if the Ontario Ministry of the Environment chose to enforce these regulations is such that the costs to us of non-compliance could be, although are not contemplated to be, material. However, our management believes that probability of such enforcement is very remote.

**Employees**

As of December 31, 2011, we had 3,945 employees, of whom 2,855 were in the North America reporting segment, 819 were in the U.K. reporting segment, 257 were in the Mexico reporting segment and 14 were in the combined RCI/All Other reporting segments. We have entered into numerous collective bargaining agreements covering 844 employees in the United States, Canada and Mexico that contain terms that we believe are typical in the beverage industry. As these agreements expire, we believe that they can be renegotiated on terms satisfactory to us. We consider our relations with employees to be generally good.

**Availability of Information and Other Matters**

We are required to file annual, quarterly and current reports, proxy statements and other information with the SEC and Canadian securities regulatory authorities. The public may read and copy any materials that we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, D.C. 20549. Information in the Public Reference Room may be obtained by calling the SEC at 1-800-551-8090. In addition, the SEC

---

**Table of Contents**

maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file with the SEC at [www.sec.gov](http://www.sec.gov). Information filed with the Canadian securities regulatory authorities is available at [www.sedar.com](http://www.sedar.com).

Our Annual Report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to reports filed or furnished pursuant to Sections 13(a) and 15(d) of the Securities Exchange Act of 1934, as amended, are also available free of charge on our website at [www.cott.com](http://www.cott.com), as soon as reasonably practicable after such material is electronically filed with, or furnished to, the SEC. The information found on our website is not part of this or any other report that we file with, or furnish to, the SEC or to Canadian securities regulatory authorities.

We are responsible for establishing and maintaining adequate internal control over financial reporting as required by the SEC. See Management's Report on Internal Control over Financial Reporting on page 52.

**ITEM 1A. RISK FACTORS**

In addition to the other information set forth in this report, you should carefully consider the following factors, which could materially affect our business, financial condition or future results. The risks described below are not the only risks that we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition or results of operations.

**We may be unable to compete successfully in the highly competitive beverage category.**

The markets for our products are extremely competitive. In comparison to the major national brand beverage manufacturers, we are a relatively small participant in the industry. We face competition from the national brand beverage manufacturers in all of our markets, both from other retailer brand beverage manufacturers and from other contract beverage manufacturers. If our competitors reduce their selling prices, increase the frequency of their promotional activities in our core market or enter into the production of private-label products or expand their contract manufacturing efforts, if our customers do not allocate adequate shelf space for the beverages we supply, we could experience a decline in our volumes, be forced to reduce pricing, forgo price increases required to offset increased costs of raw materials and fuel, increase capital and other expenditures, or lose market share, any of which could adversely affect our profitability.

**We may not be able to respond successfully to consumer trends related to our products.**

Consumer trends with respect to the products we sell are subject to change. Consumers are seeking increased variety in their beverages, and there is a growing interest among consumers, public health officials and government officials regarding the ingredients in our products, the attributes of those ingredients and health and wellness issues generally. In addition, some researchers, health advocates and dietary guidelines are encouraging consumers to reduce consumption of sugar-sweetened beverages, including those sweetened with HFCS or other nutritive sweeteners. As a result, consumer demand has declined for full-calorie CSDs and consumer demand has increased for products associated with health and wellness, such as reduced-calorie CSDs, water, enhanced water, teas and certain other non-carbonated beverages, including juices. Consumer preferences may change due to a variety of other factors, including the aging of the general population, changes in social trends, the real or perceived impact that the manufacturing of our products has on the environment, changes in consumer demographics, changes in travel, vacation or leisure activity patterns, negative publicity resulting from regulatory action or litigation against companies in the industry, or a downturn in economic conditions. Any of these changes may reduce consumers' demand for our products. There can be no assurance that we can develop or be a fast follower of innovative products that respond to consumer trends. Our failure to develop innovative products could put us at a competitive disadvantage in the marketplace and our business and financial results could be adversely affected.

---

**Table of Contents**

**Because a small number of customers account for a significant percentage of our sales, the loss of or reduction in sales to any significant customer could have a material adverse effect on our results of operations and financial condition.**

A significant portion of our revenue is concentrated in a small number of customers. Our customers include many large national and regional grocery, mass-merchandise, drugstore, wholesale and convenience store chains in our core markets of North America, U.K. and Mexico, as well as customers for whom we manufacture beverages on a contract basis. Sales to Walmart, our top customer in 2011, 2010 and 2009 accounted for 31.6%, 31.0% and 33.5%, respectively, of our total revenue. Sales to our top ten customers in 2011, 2010 and 2009 accounted for 55.1%, 55.4% and 60.0%, respectively, of our total revenue. We expect that sales of our products to a limited number of customers will continue to account for a high percentage of our revenue for the foreseeable future.

On January 27, 2009, we received written notice from Walmart stating that Walmart was exercising its right to terminate, without cause, our Exclusive U.S. Supply Contract, effective on January 28, 2012. Pursuant to the terms of the Exclusive U.S. Supply Contract, we were the exclusive supplier to Walmart of retailer brand CSDs in the United States. The termination provision of the Exclusive U.S. Supply Contract provides for exclusivity to be phased out over a period of three years following notice of termination (the Notice Period). Accordingly, we had the exclusive right to supply at least two-thirds of Walmart's total CSD volume in the United States during the first 12 months of the Notice Period, and we had the exclusive right to supply at least one-third of Walmart's total CSD volume in the U.S. during the second 12 months of the Notice Period. Notwithstanding the termination of the Exclusive U.S. Supply Contract, we continue to supply Walmart and its affiliated companies, under annual non-exclusive supply agreements, with a variety of products in the United States, Canada, U.K. and Mexico, including CSDs, clear, still and sparkling flavored waters, juice, juice-based products, bottled water, energy drinks and ready-to-drink teas.

The loss of Walmart or any significant customer, or customers that in the aggregate represent a significant portion of our revenue, or a material reduction in the amount of business we undertake with any such customer or customers, could have a material adverse effect on our operating results and cash flows. Furthermore, we could be adversely affected if Walmart or any significant customer reacts unfavorably to any pricing of our products or decides to de-emphasize or reduce their product offerings in the categories with which we supply them. At December 31, 2011, we had \$248.4 million of customer relationships recorded as an intangible asset. The permanent loss of any customer included in the intangible asset would result in impairment in the value of the intangible asset or accelerated amortization and could lead to an impairment of fixed assets that were used to service that client.

**Our ingredients, packaging supplies and other costs are subject to price increases and we may be unable to effectively pass rising costs on to our customers.**

We bear the risk of changes in prices on the ingredient and packaging in our products. The majority of our ingredient and packaging supply contracts allow our suppliers to alter the prices they charge us based on changes in the costs of the underlying commodities that are used to produce them. Aluminum for cans and ends, resin for PET bottles, preforms and caps, corn for HFCS, fruit and fruit concentrates are examples of these underlying commodities. In addition, the contracts for certain of our ingredient and packaging materials permit our suppliers to increase the costs they charge us based on increases in their cost of converting those underlying commodities into the materials that we purchase. In certain cases those increases are subject to negotiated limits and, in other cases, they are not. These changes in the prices that we pay for ingredient and packaging materials occur at times that vary by product and supplier, and are principally on a monthly, quarterly or annual basis.

We are at risk with respect to fluctuating aluminum prices. In 2011, we had fixed price commitments for a majority of our forecasted aluminum requirements for 2011, and entered into fixed price commitments for over half of our aluminum requirements for 2012 and a portion of our requirements for 2013. Because PET resin is not a traded commodity, no fixed price mechanism has been implemented, and we are accordingly also at risk with



---

**Table of Contents**

respect to changes in PET prices. Corn, and thus HFCS, has a history of volatile price changes. In 2011, we entered into fixed price commitments for all our HFCS requirements for 2011 and 2012. Fruit and fruit concentrate prices have been, and we expect them to continue to be, subject to significant volatility. While they are available from numerous independent suppliers, these raw materials are subject to fluctuations in price attributable to, among other things, changes in crop size and federal and state agricultural programs. In 2011, we had fixed price commitments for a majority of our fruit concentrate and fruit requirements for 2011 and have entered into fixed price commitments for a portion of our fruit concentrate and fruit requirements for 2012. If the cost of commodities for which we have entered into fixed price commitments decreases, we will not be able to take advantage of such decreased costs.

Accordingly, we bear the risk of fluctuations in the costs of these ingredient and packaging materials, including the underlying costs of the commodities used to manufacture them and, to some extent, the costs of converting those commodities into the materials we purchase. We currently do not use derivatives to manage this risk. If the cost of these ingredients or packaging materials increases, we may be unable to pass these costs along to our customers through adjustments to the prices we charge. If we cannot pass on these increases to our customers on a timely basis, they could have a material adverse effect on our results of operations. If we are able to pass these costs on to our customers through price increases, the impact those increased prices could have on our volumes is uncertain.

Our beverage and concentrate production facilities use a significant amount of electricity, natural gas and other energy sources to operate. Fluctuations in the price of fuel and other energy sources for which we have not locked in long-term pricing commitments or arrangements would affect our operating costs, which could impact our profitability.

**If we fail to manage our operations successfully, our business and financial results may be materially and adversely affected.**

In recent years, we have grown our business and beverage offerings primarily through the acquisition of other companies, development of new product lines and growth with key customers. We believe that opportunities exist to increase sales of beverages in our markets by leveraging existing customer relationships, obtaining new customers, exploring new channels of distribution, introducing new products or identifying appropriate acquisition or strategic alliance candidates. The success of this strategy with respect to acquisitions depends on our ability to manage and integrate acquisitions and alliances into our existing business. Furthermore, the businesses or product lines that we acquire or align with may not be integrated successfully into our business or prove profitable. In addition to the foregoing factors, our ability to expand our business in foreign countries is also dependent on, and may be limited by, our ability to comply with the laws of the various jurisdictions in which we may operate, as well as changes in local government regulations and policies in such jurisdictions. If we fail to manage the geographic allocation of production capacity surrounding customer demand in North America, we may lose certain customer product volume or have to utilize co-packers to fulfill our customer capacity obligations, either of which could negatively impact our financial results.

**Our geographic diversity subjects us to the risk of currency fluctuations.**

We conduct operations in many areas of the world, involving transactions denominated in a variety of currencies. We are subject to currency exchange rate risk to the extent that our costs are denominated in currencies other than those in which we earn revenues. In addition, because our financial statements are denominated in U.S. dollars, changes in currency exchange rates between the U.S. dollar and other currencies have had, and will continue to have, an impact on our results of operations. While we customarily enter into financial transactions to address these risks, there can be no assurance that currency exchange rate fluctuations will not adversely affect our results of operations, financial condition and cash flows. In addition, while the use of currency hedging instruments may provide us with protection from adverse fluctuations in currency exchange rates, by utilizing these instruments we potentially forego the benefits that might result from favorable fluctuations in currency exchange rates.

## **Table of Contents**

### **If we are unable to maintain relationships with our raw material suppliers, we may incur higher supply costs or be unable to deliver products to our customers.**

In addition to water, the principal raw materials required to produce our products are aluminum cans and ends, PET bottles, preforms and caps, labels, cartons and trays, sweeteners, fruit concentrates and fruit. We rely upon our ongoing relationships with our key suppliers to support our operations.

We typically enter into annual or multi-year supply arrangements with our key suppliers, meaning that our suppliers are obligated to continue to supply us with materials for one-year or multi-year periods, at the end of which we must either renegotiate the contracts with those suppliers or find alternative sources for supply. There can be no assurance that we will be able to either renegotiate contracts (with similar or more favorable terms) with these suppliers when they expire or, alternatively, if we are unable to renegotiate contracts with our key suppliers, there can be no assurance that we could replace them. We could also incur higher ingredient and packaging supply costs in renegotiating contracts with existing suppliers or replacing those suppliers, or we could experience temporary disruptions in our ability to deliver products to our customers, either of which could have a material adverse effect on our results of operations.

With respect to some of our key packaging supplies, such as aluminum cans and ends, and some of our key ingredients, such as sweeteners, we have entered into long-term supply agreements, the remaining terms of which range from 12 to 60 months, and therefore we are assured of a supply of those key packaging supplies and ingredients during such terms. CCS supplies aluminum cans and ends under a contract with a multi-year term. The contract provides that CCS will supply our aluminum can and end requirements worldwide, subject to certain exceptions. In addition, the supply of specific ingredient and packaging materials could be adversely affected by many factors, including industry consolidation, energy shortages, governmental controls, labor disputes, natural disasters, transportation interruption, political instability, acts of war or terrorism and other factors.

### **We may not realize the expected benefits of the Cliffstar Acquisition because of integration difficulties and other challenges.**

The ultimate success of the Cliffstar Acquisition will depend, in part, on our ability to realize all or some of the anticipated benefits from integrating Cliffstar's business with our existing businesses. The integration process may be complex, costly and time-consuming. The difficulties of integrating the operations of Cliffstar's business include, among others:

failure to implement our business plan for the combined business;

unanticipated issues in integrating manufacturing, logistics, information, communications and other systems;

resolving inconsistencies in standards, controls, procedures and policies, and compensation structures between Cliffstar's structure and our structure;

failure to retain key customers and suppliers;

unanticipated changes in applicable laws and regulations;

failure to retain key employees;

operating risks inherent in Cliffstar's business and our business; and

## Edgar Filing: COTT CORP /CN/ - Form 10-K

unanticipated issues, expenses and liabilities.

We may not be able to maintain the levels of revenue, earnings or operating efficiency that each of Cott and Cliffstar had achieved or might achieve separately. In addition, we may not accomplish the integration of Cliffstar's business smoothly, successfully or within the anticipated costs or timeframe. If we experience

## **Table of Contents**

difficulties with the integration process, the anticipated benefits of the Cliffstar Acquisition may not be realized fully, or at all, or may take longer to realize than expected.

### **We face risks associated with our Asset Purchase Agreement in connection with the Cliffstar Acquisition.**

As a result of the Cliffstar Acquisition, we assumed substantially all of the liabilities of Cliffstar and its affiliated companies that were not satisfied on or prior to the closing date. Under the Asset Purchase Agreement, the seller provided us with a limited set of representations and warranties. Our sole remedy from the seller for any breach of those representations and warranties is an action for indemnification, which may only be brought in certain circumstances and within certain time periods. Indemnification payments may not exceed \$50.0 million. Damages resulting from a breach of a representation or warranty could have a material and adverse effect on our financial condition and results of operations.

### **We incurred substantial indebtedness in order to finance the Cliffstar Acquisition, which could adversely affect our business and limit our ability to plan for or respond to changes in our business.**

In connection with the Cliffstar Acquisition, we issued \$375.0 million of senior notes that are due on September 1, 2018 (the 2018 Notes ). Additionally, we refinanced our existing asset based lending facility and drew down a substantial amount of indebtedness under that facility in order to fund the Cliffstar Acquisition. As a result, we have substantially more indebtedness than has been the case for us historically.

Our ability to make payments on and to refinance our debt obligations and to fund planned capital expenditures depends on our ability to generate cash from our future operations. This, to a certain extent, is subject to financial, competitive, legislative, regulatory and other factors that are beyond our control. In addition, if we cannot service our indebtedness, we may have to take actions such as selling assets, seeking additional equity or reducing or delaying capital expenditures, strategic acquisitions, investments and alliances, any of which could impede the implementation of our business strategy, prevent us from entering into transactions that would otherwise benefit our business and/or have a material adverse effect on our financial condition and results of operations. We may not be able to refinance our indebtedness or take such other actions, if necessary, on commercially reasonable terms, or at all.

### **We have a significant amount of outstanding debt, which could adversely affect our financial health and future cash flows may not be sufficient to meet our obligations.**

As of December 31, 2011, our total debt was \$608.0 million. Our present debt and any future borrowings could have important adverse consequences to us and our investors, including:

requiring a substantial portion of our cash flow from operations to make interest payments on this debt;

making it more difficult to satisfy debt service and other obligations;

increasing the risk of a future credit ratings downgrade of our debt, which would increase future debt costs;

increasing our vulnerability to general adverse economic and industry conditions;

reducing the cash flow available to fund capital expenditures and other corporate purposes and to grow our business;

limiting our flexibility in planning for, or reacting to, changes in our business and the industry;

Edgar Filing: COTT CORP /CN/ - Form 10-K

placing us at a competitive disadvantage to our competitors that may not be as highly leveraged; and

limiting our ability to borrow additional funds as needed or take advantage of business opportunities, such as acquisitions, as they arise, pay cash dividends or repurchase common stock.

---

**Table of Contents**

To the extent we become more leveraged, the risks described above would increase. In addition, our actual cash requirements in the future may be greater than expected. We cannot assure you that our business will generate sufficient cash flow from operations, or that future borrowings will be available to us in amounts sufficient to enable us to pay our debt or to fund our other liquidity needs.

If we fail to generate sufficient cash flow from future operations to meet our debt service obligations, we may need to refinance all or a portion of our debt on or before maturity. We cannot assure you that we will be able to refinance any of our debt on attractive terms, commercially reasonable terms or at all. Our future operating performance and our ability to service or refinance our debt will be subject to future economic conditions and to financial, business and other factors, many of which are beyond our control.

**Our asset based lending ( ABL ) facility, the indenture governing the 2017 Notes, and the indenture governing the 2018 Notes each contain various covenants limiting the discretion of our management in operating our business, which could prevent us from capitalizing on business opportunities and taking some corporate actions.**

Our ABL facility, the indenture governing the \$215.0 million of senior notes that are due on November 15, 2017 (the 2017 Notes ), and the indenture governing the 2018 Notes each impose significant operating and financial restrictions on us. These restrictions will limit or restrict, among other things, our ability and the ability of our restricted subsidiaries to:

incur additional indebtedness;

make restricted payments (including paying dividends on, redeeming, repurchasing or retiring our capital stock);

make investments;

create liens;

sell assets;

enter into agreements restricting our subsidiaries ability to pay dividends, make loans or transfer assets to us;

engage in transactions with affiliates; and

consolidate, merge or sell all or substantially all of our assets.

These covenants are subject to important exceptions and qualifications. In addition, our ABL facility also requires us, under certain circumstances, to maintain compliance with certain financial covenants as described in the Covenant Compliance section on page 49. Our ability to comply with this covenant may be affected by events beyond our control, including those described in this Risk Factors section. A breach of any of the covenants contained in our ABL facility, including our inability to comply with the financial covenant, could result in an event of default, which would allow the lenders under our ABL facility to declare all borrowings outstanding to be due and payable, which would in turn trigger an event of default under the indenture governing the 2017 Notes and the indenture governing the 2018 Notes and, potentially, our other debt. At maturity or in the event of an acceleration of payment obligations, we would likely be unable to pay our outstanding debt with our cash and cash equivalents then on hand. We would, therefore, be required to seek alternative sources of funding, which may not be available on commercially reasonable terms, terms as favorable as our current agreements or at all, or face bankruptcy. If we are unable to refinance our debt or find alternative means of financing our operations, we may be required to curtail our operations or take other actions that are inconsistent with our current business practices or strategy. For additional information about our ABL facility, see Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources.



## **Table of Contents**

### **A portion of our debt may be variable rate debt, and changes in interest rates could adversely affect us by causing us to incur higher interest costs with respect to such variable rate debt.**

Our ABL facility subjects us to interest rate risk. The rate at which we pay interest on amounts borrowed under such facility fluctuates with changes in interest rates and our debt leverage. Accordingly, with respect to any amounts from time to time outstanding under our ABL facility, we are and will be exposed to changes in interest rates. If we are unable to adequately manage our debt structure in response to changes in the market, our interest expense could increase, which would negatively impact our financial condition and results of operations. As of December 31, 2011 we had no variable rate debt.

### **Our financial results may be negatively impacted by global financial events.**

In recent years, global financial events have resulted in the consolidation, failure or near failure of a number of institutions in the banking, insurance and investment banking industries and have substantially reduced the ability of companies to obtain financing. These events also adversely affected the financial markets. These events could continue to have a number of different effects on our business, including:

a reduction in consumer spending, which could result in a reduction in our sales volume;

a negative impact on the ability of our customers to timely pay their obligations to us or our vendors to timely supply materials, thus reducing our cash flow;

an increase in counterparty risk;

an increased likelihood that one or more members of our banking syndicate may be unable to honor its commitments under our ABL facility; and

restricted access to capital markets that may limit our ability to take advantage of business opportunities, such as acquisitions.

Other events or conditions may arise or persist directly or indirectly from the global financial events that could negatively impact our business.

### **We may not fully realize the expected cost savings and/or operating efficiencies from our restructuring activities.**

During the last six years we have implemented, and may in the future implement, restructuring activities to support the implementation of key strategic initiatives designed to achieve long-term sustainable growth. These activities are intended to maximize our operating effectiveness and efficiency and to reduce our costs. We cannot be assured that we will achieve or sustain the targeted benefits under these programs or that the benefits, even if achieved, will be adequate to meet our long-term growth expectations. In addition, the implementation of key elements of these activities, such as employee job reductions and plant closures, may have an adverse impact on our business, particularly in the near-term.

### **Substantial disruption to production at our beverage concentrates or other beverage production facilities could occur.**

A disruption in production at our beverage concentrates production facility, which manufactures almost all of our concentrates, could have a material adverse effect on our business. In addition, a disruption could occur at any of our other facilities or those of our suppliers, bottlers or distributors. The disruption could occur for many reasons, including fire, natural disasters, weather, manufacturing problems, disease, strikes, transportation interruption, government regulation or terrorism. Alternative facilities with sufficient capacity or capabilities may not be available, may cost substantially more or may take a significant time to start production, each of which could negatively affect our business and financial performance.



---

**Table of Contents**

**Our success depends, in part, on our intellectual property, which we may be unable to protect.**

We possess certain intellectual property that is important to our business. This intellectual property includes trade secrets, in the form of the concentrate formulas for most of the beverages that we produce, and trademarks for the names of the beverages that we sell. While we own certain of the trademarks used to identify our beverages, other trademarks are used through licenses from third parties or by permission from our customers. Our success depends, in part, on our ability to protect our intellectual property.

To protect this intellectual property, we rely principally on registration of trademarks, contractual responsibilities and restrictions in agreements (such as indemnification, nondisclosure and confidentiality agreements) with employees, consultants and customers, and on common law and statutory protections afforded to trademarks, trade secrets and proprietary know-how. In addition, we vigorously protect our intellectual property against infringements using any and all legal remedies available. Notwithstanding our efforts, we may not be successful in protecting our intellectual property for a number of reasons, including:

our competitors may independently develop intellectual property that is similar to or better than ours;

employees, consultants or customers may not abide by their contractual agreements and the cost of enforcing those agreements may be prohibitive, or those agreements may prove to be unenforceable or more limited than anticipated;

foreign intellectual property laws may not adequately protect our intellectual property rights; and

our intellectual property rights may be successfully challenged, invalidated or circumvented.

If we are unable to protect our intellectual property, our competitive position would weaken and we could face significant expense to protect or enforce our intellectual property rights. At December 31, 2011, we had \$45.0 million of rights and \$5.9 million of trademarks recorded as intangible assets.

Occasionally, third parties may assert that we are, or may be, infringing on or misappropriating their intellectual property rights. In these cases, we intend to defend against claims or negotiate licenses when we consider these actions appropriate. Intellectual property cases are uncertain and involve complex legal and factual questions. If we become involved in this type of litigation, it could consume significant resources and divert our attention from business operations.

If we are found to infringe on the intellectual property rights of others, we could incur significant damages, be enjoined from continuing to manufacture, market or use the affected product, or be required to obtain a license to continue manufacturing or using the affected product. A license could be very expensive to obtain or may not be available at all. Similarly, changing products or processes to avoid infringing the rights of others may be costly or impracticable.

**Our products may not meet health and safety standards or could become contaminated and we could be liable for injury, illness or death caused by consumption of our products.**

We have adopted various quality, environmental, health and safety standards. However, our products may still not meet these standards or could otherwise become contaminated. A failure to meet these standards or contamination could occur in our operations or those of our bottlers, distributors or suppliers. This could result in expensive production interruptions, recalls and liability claims. We may be liable to our customers if the consumption of any of our products causes injury, illness or death. Moreover, negative publicity could be generated from false, unfounded or nominal liability claims or limited recalls. Any of these failures or occurrences could have a material adverse effect on our results of operations or cash flows.

**Litigation or legal proceedings could expose us to significant liabilities and damage our reputation.**

We are party to various litigation claims and legal proceedings. We evaluate these claims and proceedings to assess the likelihood of unfavorable outcomes and estimate, if possible, the amount of potential losses. We may establish a reserve as appropriate based upon assessments and estimates in accordance with our accounting



---

**Table of Contents**

policies. We base our assessments, estimates and disclosures on the information available to us at the time and rely on legal and management judgment. Actual outcomes or losses may differ materially from assessments and estimates. Actual settlements, judgments or resolutions of these claims or proceedings may negatively affect our business and financial performance. For more information, see Item 3. Legal Proceedings.

**Changes in the legal and regulatory environment in the jurisdictions in which we operate could increase our costs or reduce our revenues, adversely affect demand for our products or result in litigation.**

As a producer of beverages, we must comply with various federal, state, provincial, local and foreign laws relating to production, packaging, quality, labeling and distribution, including, in the United States, those of the federal Food, Drug and Cosmetic Act, the Fair Packaging and Labeling Act, the Federal Trade Commission Act, the Nutrition Labeling and Education Act and California Proposition 65. We are also subject to various federal, state, provincial, local and foreign environmental laws and workplace regulations. These laws and regulations include, in the United States, the Occupational Safety and Health Act, the Unfair Labor Standards Act, the Clean Air Act, the Clean Water Act, the Comprehensive Environmental Response, Compensation, and Liability Act, the Resource Conservation and Recovery Act, the Federal Motor Carrier Safety Act, laws governing equal employment opportunity, customs and foreign trade laws and regulations, laws relating to the maintenance of fuel storage tanks, laws relating to water consumption and treatment, and various other federal statutes and regulations. These laws and regulations may change as a result of political, economic, or social events. Such regulatory changes may include changes in food and drug laws, laws related to advertising, accounting standards, taxation requirements, competition laws and environmental laws, including laws relating to the regulation of water rights and treatment. Changes in laws, regulations or government policy and related interpretations may alter the environment in which we do business, which may impact our results or increase our costs or liabilities.

A number of states have passed laws setting forth warning or labeling requirements relating to products made for human consumption. For example, the California law known as Proposition 65 requires that a specific warning appear on any product sold in California containing a substance listed by that state as having been found to cause cancer or reproductive toxicity. This law, and others like it, expose all food and beverage producers to the possibility of having to provide warnings on their products. The detection of even a trace amount of a listed substance can subject an affected product to the requirement of a warning label, although products containing listed substances that occur naturally or that are contributed to such products solely by a municipal water supply are generally exempt from the warning requirement. From time to time over the past several years, certain of our customers have received notices alleging that the labeling requirements of the relevant state regulation would apply to products manufactured by us and sold by them. There can be no assurance that we will not be adversely affected by actions against our customers or us relating to Proposition 65 or similar failure to warn laws: were any such claim to be pursued or succeed, we might in some cases be required to indemnify our customers for damages, and our products might be required to bear warning labels in order to be sold in certain states. Any negative media attention, adverse publicity or action arising from allegations of violations could adversely impact consumer perceptions of our products and harm our business.

**Proposed taxes on CSDs and other drinks could have an adverse effect on our business.**

Federal, state, local and foreign governments have considered imposing taxes on soda and other sugary drinks. Any such taxes could negatively impact consumer demand for our products and have an adverse effect on our revenues.

**We are not in compliance with the requirements of the OEPA and, if the Ontario government seeks to enforce those requirements or implements modifications to them, we could be adversely affected.**

Certain regulations under the OEPA provide that a minimum percentage of a bottler's soft drink sales within specified areas in Ontario must be made in refillable containers. The penalty for non-compliance is a fine of \$50,000 per day beginning when the first offense occurs and continuing until the first conviction, and then increasing to \$100,000 per day for each subsequent conviction. These fines may be increased to equal the amount of monetary

## **Table of Contents**

benefit acquired by the offender as a result of the commission of the offense. We, and we believe other industry participants, are currently not in compliance with the requirements of the OEPA. We do not expect to be in compliance with these regulations in the foreseeable future. Ontario is not enforcing the OEPA at this time, but if it chose to enforce the OEPA in the future, we could incur fines for non-compliance and the possible prohibition of sales of soft drinks in non-refillable containers in Ontario. We estimate that approximately 3% of our sales would be affected by the possible limitation on sales of soft drinks in non-refillable containers in Ontario if the Ontario Ministry of the Environment initiated an action to enforce the provisions of the OEPA.

### **Adverse weather conditions could affect our supply chain and reduce the demand for our products.**

Severe weather conditions and natural disasters, such as freezes, frosts, floods, hurricanes, tornados, droughts or earthquakes and crop diseases may affect our facilities and our supply of raw materials such as fruit. If the supply of any of our raw materials is adversely affected by weather conditions, it may result in increased raw material costs and there can be no assurance that we will be able to obtain sufficient supplies from other sources. In addition, the sales of our products are influenced to some extent by weather conditions in the markets in which we operate. Unusually cold or rainy weather during the summer months may reduce the demand for our products and contribute to lower revenues, which could negatively impact our profitability.

### **Global or regional catastrophic events could impact our operations and financial results.**

Our business can be affected by large-scale terrorist acts, especially those directed against the United States or other major industrialized countries in which we do business, major natural disasters, or widespread outbreaks of infectious diseases. Such events could impair our ability to manage our business, could disrupt our supply of raw materials, and could impact production, transportation and delivery of products. In addition, such events could cause disruption of regional or global economic activity, which can affect consumers' purchasing power in the affected areas and, therefore, reduce demand for our products.

### **Our success depends in part upon our ability to recruit, retain and prepare succession plans for our CEO, CFO, senior management and key employees.**

The performance of our CEO, CFO, senior management and other key employees is critical to our success. We plan to continue to invest time and resources in developing our senior management and key employee teams. Our long-term success will depend on our ability to recruit and retain capable senior management and other key employees, and any failure to do so could have a material adverse effect on our future operating results and financial condition. Further, if we fail to adequately plan for the succession of our CEO, CFO, senior management and other key employees, our operating results could be adversely affected.

### **Changes in future business conditions could cause business investments and/or recorded goodwill, indefinite life intangible assets or other intangible assets to become impaired, resulting in substantial losses and writedowns that would negatively impact our results of operations.**

As part of our overall strategy, we will, from time to time, make investments in other businesses. These investments are made upon careful target analysis and due diligence procedures designed to achieve a desired return or strategic objective. These procedures often involve certain assumptions and judgment in determining investment amount or acquisition price. After acquisition or investment, unforeseen issues could arise that adversely affect anticipated returns or that are otherwise not recoverable as an adjustment to the purchase price. Even after careful integration efforts, actual operating results may vary significantly from initial estimates. Goodwill accounted for \$129.6 million of our recorded total assets as of December 31, 2011. We evaluate the recoverability of recorded goodwill amounts annually, or when evidence of potential impairment exists. The annual impairment test is based on several factors requiring judgment and certain underlying assumptions. Our only intangible asset with an indefinite life relates to the 2001 acquisition of intellectual property from Royal Crown Company, Inc. including the right to manufacture our concentrates, with all related inventions, processes,

**Table of Contents**

technologies, technical and manufacturing information, know-how and the use of the Royal Crown brand outside of North America and Mexico (the Rights ). This asset, which has a net book value of \$45.0 million, is more fully described in Note 1 to the Consolidated Financial Statements.

As of December 31, 2011, other intangible assets were \$296.1 million, which consisted principally of \$248.4 million of customer relationships that arose from acquisitions, \$15.7 million of financing costs, \$10.7 million of information technology assets, and trademarks of \$5.9 million. Customer relationships are amortized on a straight-line basis for the period over which we expect to receive economic benefits, which is up to 15 years. We review the estimated useful life of these intangible assets annually, taking into consideration the specific net cash flows related to the intangible asset, unless it is required more frequently due to a triggering event such as the loss of a customer. The permanent loss of any customer included in the intangible asset would result in impairment in the value of the intangible asset or accelerated amortization and could lead to an impairment of fixed assets that were used to service that client. Principally, a decrease in expected reporting segment cash flows, changes in market conditions, loss of key customers and a change in our imputed cost of capital may indicate potential impairment of recorded goodwill or the Rights. For additional information on accounting policies we have in place for goodwill impairment, see our discussion under Critical Accounting Policies and Estimates in Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations of this Annual Report on Form 10-K and Note 1, Summary of Significant Accounting Policies, in the Notes to the Consolidated Financial Statements.

**We may not be able to renew collective bargaining agreements on satisfactory terms, or we could experience strikes.**

As of December 31, 2011, 844 of our employees were covered by collective bargaining agreements in the United States, Canada and Mexico. These agreements typically expire every three to five years at various dates. We may not be able to renew our collective bargaining agreements on satisfactory terms or at all. This could result in strikes or work stoppages, which could impair our ability to manufacture and distribute our products and result in a substantial loss of sales. The terms of existing or renewed agreements could also significantly increase our costs or negatively affect our ability to increase operational efficiency.

**We depend on key information systems and third-party service providers.**

We depend on key information systems to accurately and efficiently transact our business, provide information to management and prepare financial reports. We have typically relied on third-party providers for the majority of our key information systems and business processing services, including hosting our primary data center. In particular, we are in the process of implementing a new SAP software platform to assist us in the management of our business and have also reorganized certain processes within our finance and accounting departments. As a part of the reorganization, we have outsourced certain back office transactional finance processes. Additionally, in connection with the efforts to integrate the Cliffstar business with our operations, we transformed the Company’s information technology function from a nearly 100% outsourced, single vendor relationship to a combination of in-house resources and multi-vendor strategy. If we fail to successfully implement these projects or if the projects do not result in increased operational efficiencies, our operations may be disrupted and our operating expenses could increase, which could adversely affect our financial results.

In addition, these systems and services are vulnerable to interruptions or other failures resulting from, among other things, natural disasters, terrorist attacks, software, equipment or telecommunications failures, processing errors, computer viruses, hackers, other security issues or supplier defaults. Security, backup and disaster recovery measures may not be adequate or implemented properly to avoid such disruptions or failures. Any disruption or failure of these systems or services could cause substantial errors, processing inefficiencies, security breaches, inability to use the systems or process transactions, loss of customers or other business disruptions, all of which could negatively affect our business and financial performance.

**Our stock price may be volatile.**

Our common stock is traded on the New York Stock Exchange (the NYSE ) and Toronto Stock Exchange ( TSX ). The market price of our common stock has fluctuated substantially in the past and could fluctuate

---

## **Table of Contents**

substantially in the future, based on a variety of factors, including future announcements covering us or our key customers or competitors, government regulations, litigation, changes in earnings estimates by analysts, fluctuations in quarterly operating results or general conditions in our industry. Furthermore, stock prices for many companies fluctuate widely for reasons that may be unrelated to their operating results. Those fluctuations and general economic, political and market conditions, such as recessions or international currency fluctuations and demand for our services, may adversely affect the market price of our common stock.

### **Failure to maintain our stock exchange listings would adversely affect the trading price and liquidity of our common shares.**

We have, in the past, received notice of non-compliance with NYSE listing requirements due to our share price trading below \$1.00 for periods of time. While we have cured such deficiencies, if we are not able to maintain compliance with the listing requirements of the NYSE and/or TSX, our shares may be subject to removal from listing on the NYSE and/or TSX. Trading in our common shares after a delisting, if any, would likely be conducted in the over-the-counter markets in the Over-The-Counter Bulletin Board or the pink sheets and could also be subject to additional restrictions. As a consequence of a delisting, our shareholders would find it more difficult to dispose of, or to obtain accurate quotations as to the market value of, our common shares. In addition, a delisting would make our common shares substantially less attractive as collateral for margin and purpose loans, for investment by financial institutions under their internal policies or state investment laws, or as consideration in future capital raising.

### **We also face other risks that could adversely affect our business, results of operations or financial condition, which include:**

any requirement to restate financial results in the event of inappropriate application of accounting principles or otherwise;

any event that could damage our reputation;

failure of our processes to prevent and detect unethical conduct of employees;

a significant failure of internal controls over financial reporting;

failure of our prevention and control systems related to employee compliance with internal policies and regulatory requirements; and

failure of corporate governance policies and procedures.

### **ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

### **ITEM 2. PROPERTIES**

Our business is supported by our extensive manufacturing network and flexible production capabilities. Our manufacturing footprint encompasses 32 strategically located beverage manufacturing and fruit processing facilities, including 20 in the United States, five in Canada, five in the United Kingdom and one in Mexico, as well as one vertically-integrated global concentrate manufacturing facility in Columbus, Georgia.

Total square footage of our beverage production facilities is approximately 3.6 million square feet in the United States; 0.9 million square feet in Canada; 0.9 million square feet in the United Kingdom; and 0.1 million square feet in Mexico. This square footage does not include 29 separate leased warehouses and three owned warehouses that comprise 2.8 million square feet and four leased office spaces that comprise 0.2 million square feet. Lease terms for non-owned beverage production facilities expire between 2012 and 2020.

The beverage production facilities and square footage amounts noted above do not include vacant or underutilized properties.

**Table of Contents**

**ITEM 3. LEGAL PROCEEDINGS**

We are subject to various claims and legal proceedings with respect to matters such as governmental regulations, income taxes, and other actions arising out of the normal course of business. Management believes that the resolution of these matters will not have a material adverse effect on our financial position or results from operations.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not Applicable.



**Table of Contents****SUPPLEMENTAL ITEM PART I. EXECUTIVE OFFICERS OF THE REGISTRANT**

The following is a list of names, ages, offices and backgrounds of all of our executive officers as of February 21, 2012. Our officers do not serve for a set term.

	<b>Office</b>	<b>Age</b>
<b>Jerry Fowden</b>	Chief Executive Officer	55
<b>Neal Cravens</b>	Chief Financial Officer	59
<b>Michael Creamer</b>	Vice President Human Resources	55
<b>Gregory Leiter</b>	Senior Vice President, Chief Accounting Officer and Assistant Secretary	54
<b>William Reis</b>	Senior Vice President, Chief Procurement Officer	56
<b>Marni Morgan Poe</b>	Vice President, General Counsel and Secretary	42
<b>Michael Gibbons</b>	President U.S. Business Unit	53

Jerry Fowden was appointed Chief Executive Officer on February 18, 2009. Prior to this appointment, he served as President of our international operating segments and Interim President, North America from May 2008 to February 2009, and as Interim President of our United Kingdom operating segment from September 2007 to May 2008. He served as Chief Executive Officer of Trader Media Group Ltd., a media company, and as a member of its parent Guardian Media Group plc's Board of Directors from 2005 until 2007. From 2001 until 2004, he served in a variety of roles with AB InBev S.A. Belgium, an alcoholic beverage company, including President, European Zone, Western, Central and Eastern Europe from 2003 to 2004, Global Chief Operating Officer from 2002 to 2003 and Chief Executive Officer of Bass Brewers Ltd., a subsidiary of AB InBev S.A. Belgium, from 2001 to 2002. Mr. Fowden was a director of Chesapeake Corporation (now known as Canal Corporation) when it filed a voluntary Chapter 11 petition in the United States on December 29, 2008. On May 12, 2009, Chesapeake's operating businesses were sold to a group of investors and Mr. Fowden resigned from his position as a director. Mr. Fowden currently serves on the board of directors of Constellation Brands, Inc., a premium wine company. Mr. Fowden has served on our board since March 2009.

Neal Cravens was appointed Chief Financial Officer on August 20, 2009, effective September 8, 2009. Mr. Cravens spent approximately 20 years with Seagram Company, Ltd., the beverage, consumer products, and media entertainment company, where he served as Vice President, Planning, Mergers and Acquisitions, Senior Vice President, Finance and Chief Accounting Officer, and Executive Vice President and Chief Financial Officer at the divisional level. In 2004, Mr. Cravens joined Warner Music Group as Senior Vice President Finance. He then served in the Chief Financial Officer role for Almatris GmbH, a global chemical company, during 2006, and Advantage Sales & Marketing, a consumer products broker, from 2007 to 2008. Immediately prior to joining the Company, Mr. Cravens was a financial consultant to FM Facility Maintenance, a facilities maintenance company formerly known as Integrated Process Technologies. Mr. Cravens has announced his retirement as Chief Financial Officer of Cott, effective March 20, 2012. He will continue with us through 2012 to facilitate a transition to Mr. Jay Wells, who will become Chief Financial Officer of Cott upon Mr. Cravens's retirement.

Michael Creamer was appointed Vice President of Human Resources for International and Tampa, Florida in April 2007 and promoted to Vice President of Human Resources for Cott in August 2008. Mr. Creamer currently serves as our Corporate Human Resources Vice President. Prior to joining Cott, Mr. Creamer was Senior Director of Human Resource Operations and International for Avanade Corporation, a global IT consultancy formed as a joint venture between Accenture and Microsoft Corporation. From 1990 to 2004, Mr. Creamer held several positions within Microsoft, including senior global human resources positions.

Gregory Leiter was appointed Vice President, Corporate Controller and Assistant Secretary of Cott in November 2007, and appointed Senior Vice President and Controller in April 2008. Mr. Leiter took on

**Table of Contents**

the additional role of Chief Accounting Officer in January 2010. Mr. Leiter currently serves as our Senior Vice President, Chief Accounting Officer and Assistant Secretary. Prior to joining Cott, he served from October 2006 to October 2007 as Practice Manager Governance, Risk & Compliance with the international software firm SAP America. From January 2003 to September 2006, he held two positions with Graham Packaging Company, an international manufacturer of custom blow-molded plastic containers. From February 2006 to September 2006, he served as Graham Packaging's Vice President Global Business Process and from January 2003 to February 2006, he served as Director of Internal Audit.

William Reis was appointed Senior Vice President, Chief Procurement Officer in March 2007. Prior to joining Cott, he served from February 2004 to February 2007 as Senior Vice President and Chief Procurement Officer for Revlon. From February 2001 to February 2004, he served as Vice President of Global Procurement for Goldman Sachs.

Marni Morgan Poe was appointed Vice President, General Counsel and Secretary in February 2010. Prior to her appointment, she served as Corporate Counsel of the Company from September 2008 until her appointment. Prior to joining the Company, Ms. Poe was the co-founder and Chief Executive Officer of Let's Eat Dinner, Inc., a franchisor of dinner preparation kitchens, from 2006 to 2008. From 2000 to 2006, she was a partner at the law firm of Holland & Knight LLP and an associate of the law firm from 1995 to 2000.

Mike Gibbons was appointed President of Cott's U.S. business unit in October 2010. Prior to his appointment, Mr. Gibbons held several positions with Cott from 2004 to 2010, including General Manager of Cott's U.S. business unit, Senior Vice President / General Manager of Cott's Canadian business unit, and Vice President of Sales of Cott's Canadian business unit. Prior to joining Cott, he served as Director of Sales for ConAgra.

**Table of Contents****PART II****ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED SHAREOWNER MATTERS**

Our common shares are listed on the TSX under the ticker symbol BCB, and on the NYSE under the ticker symbol COT.

The tables below show the high and low reported per share sales prices of common shares on the TSX (in Canadian dollars) and the NYSE (in U.S. dollars) for the indicated periods for 2011 and 2010.

**Toronto Stock Exchange (C\$)**

	2011		2010	
	High	Low	High	Low
First Quarter	\$ 8.97	\$ 7.49	\$ 8.98	\$ 6.92
Second Quarter	\$ 8.55	\$ 7.55	\$ 8.89	\$ 5.94
Third Quarter	\$ 8.15	\$ 6.96	\$ 8.60	\$ 5.66
Fourth Quarter	\$ 7.68	\$ 6.21	\$ 9.00	\$ 7.46

**New York Stock Exchange (U.S.\$)**

	2011		2010	
	High	Low	High	Low
First Quarter	\$ 9.08	\$ 7.68	\$ 8.65	\$ 6.72
Second Quarter	\$ 9.05	\$ 7.72	\$ 8.88	\$ 5.58
Third Quarter	\$ 8.60	\$ 6.66	\$ 8.42	\$ 5.41
Fourth Quarter	\$ 7.57	\$ 5.94	\$ 9.08	\$ 7.35

As of February 21, 2012, we had 1,091 shareowners of record. This number was determined from records maintained by our transfer agent and it does not include beneficial owners of securities whose securities are held in the names of various dealers or clearing agencies. The closing sale price of our common shares on February 21, 2012 was C\$6.58 on the TSX and \$6.58 on the NYSE.

We have not paid cash dividends since June 1998, and do not intend to change that practice at this time. There are certain restrictions on the payment of dividends under our ABL facility and under the indentures governing the 2017 Notes and 2018 Notes. The ABL facility and the indentures governing the 2017 Notes and 2018 Notes are discussed in Management's Discussion and Analysis of Financial Condition and Results of Operations beginning on page 29.

If we pay dividends to shareowners who are non-residents of Canada, those dividends will generally be subject to Canadian withholding tax. Under current Canadian tax law, dividends paid by a Canadian corporation to a nonresident shareowner are generally subject to Canadian withholding tax at a 25% rate. Under the current tax treaty between Canada and the United States, U.S. residents who are entitled to treaty benefits are generally eligible for a reduction in this withholding tax rate to 15% (and to 5% for a shareowner that is a corporation and is the beneficial owner of at least 10% of our voting stock). Accordingly, under current tax law, our U.S. resident shareowners who are entitled to treaty benefits will generally be subject to a Canadian withholding tax at a 15% rate on dividends paid by us, provided that they have complied with applicable procedural requirements to claim the benefit of the reduced rate under the tax treaty. The fifth protocol to the tax treaty between Canada and the U.S. places additional restrictions on the ability of U.S. residents to claim these reduced rate benefits. U.S. residents generally will be entitled on their U.S. federal income tax returns to claim a foreign tax credit, or a deduction, for Canadian withholding tax that applies to them, subject to certain applicable limitations. U.S. investors should consult their tax advisors with respect to the tax consequences and requirements applicable to them, based on their individual circumstances.

**Table of Contents**

For information on securities authorized for issuance under our equity compensation plans, see Item 12, Security Ownership of Certain Beneficial Owners and Management and Related Shareowner Matters.

During 2009, 2010 and 2011, no equity securities of the Company were sold by the Company that were not registered under the Securities Act of 1933, as amended.

**Calculation of aggregate market value of non-affiliate shares**

For purposes of calculating the aggregate market value of common shares held by non-affiliates as shown on the cover page of this report, it was assumed that all of the outstanding shares were held by non-affiliates except for outstanding shares held or controlled by our directors and executive officers. This should not be deemed to constitute an admission that any of these persons are, in fact, affiliates of us, or that there are not other persons who may be deemed to be affiliates. For further information concerning shareholdings of officers, directors and principal stockholders see Item 12, Security Ownership of Certain Beneficial Owners and Management and Related Shareowner Matters.

**Shareowner return performance graph**

The following graph shows changes over our past five fiscal years in the value of C\$100, assuming reinvestment of dividends, invested in: (i) our common shares; (ii) the Toronto Stock Exchange's S&P/TSX Composite Index; and (iii) a peer group of publicly-traded companies in the bottling industry comprised of Coca-Cola Enterprises Inc., Coca-Cola Bottling Co. Consolidated, National Beverage Corp., Pepsi Bottling Group Inc. and PepsiAmericas Inc. The closing price of Cott's common shares as of December 31, 2011 on the TSX was C\$6.40 and on the NYSE was \$6.26. The following table is in Canadian dollars.

**COMPARISON OF CUMULATIVE TOTAL RETURN**

<b>Company/Market/Peer Group</b>	<b>12/30/2006</b>	<b>12/29/2007</b>	<b>12/27/2008</b>	<b>1/2/2010</b>	<b>1/1/2011</b>	<b>12/31/2011</b>
Cott Corporation	\$ 100.00	\$ 39.51	\$ 8.80	\$ 51.93	\$ 53.72	\$ 38.16
S&P/TSX Composite	\$ 100.00	\$ 109.75	\$ 67.93	\$ 99.37	\$ 116.88	\$ 106.70
Peer Group	\$ 100.00	\$ 106.43	\$ 92.40	\$ 95.54	\$ 100.30	\$ 110.69

**Table of Contents****ITEM 6. SELECTED FINANCIAL DATA**

The following selected financial data reflects the results of operations. This information should be read in conjunction with, and is qualified by reference to Management's Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements and notes thereto included elsewhere in this report. The financial information presented may not be indicative of future performance.

(in millions of U.S. dollars, except per share amounts)	December 31, 2011 (52 weeks)	January 1, 2011 <sup>1</sup> (52 weeks)	January 2, 2010 (53 weeks)	December 27, 2008 (52 weeks)	December 29, 2007 <sup>2</sup> (52 weeks)
<b>Revenue, net</b>	<b>\$ 2,334.6</b>	<b>\$ 1,803.3</b>	<b>\$ 1,596.7</b>	<b>\$ 1,648.1</b>	<b>\$ 1,776.4</b>
Cost of sales	<b>2,058.0</b>	1,537.0	1,346.9	1,467.1	1,578.0
<b>Gross profit</b>	<b>276.6</b>	266.3	249.8	181.0	198.4
Selling, general and administrative expenses	<b>172.7</b>	166.7	146.8	179.8	161.9
Loss on disposal of property, plant & equipment	<b>1.2</b>	1.1	0.5	1.3	0.2
Restructuring, goodwill and asset impairments:					
Restructuring		(0.5)	1.5	6.7	24.3
Goodwill impairments				69.2	55.8
Asset impairments	<b>0.6</b>		3.6	37.0	10.7
Intangible asset impairments	<b>1.4</b>				
<b>Operating income (loss)</b>	<b>100.7</b>	99.0	97.4	(113.0)	(54.5)
Contingent consideration earn-out adjustment	<b>0.9</b>	(20.3)			
Other expense (income), net	<b>2.2</b>	4.0	4.4	(4.7)	(4.7)
Interest expense, net	<b>57.1</b>	36.9	29.7	32.3	32.8
<b>Income (loss) before income taxes</b>	<b>40.5</b>	78.4	63.3	(140.6)	(82.6)
Income tax (benefit) expense	<b>(0.7)</b>	18.6	(22.8)	(19.5)	(13.9)
<b>Net income (loss)</b>	<b>\$ 41.2</b>	\$ 59.8	\$ 86.1	\$ (121.1)	\$ (68.7)
Less: Net income attributable to non-controlling interests	<b>3.6</b>	5.1	4.6	1.7	2.7
<b>Net income (loss) attributed to Cott Corporation</b>	<b>\$ 37.6</b>	\$ 54.7	\$ 81.5	\$ (122.8)	\$ (71.4)
<b>Net income (loss) per common share attributed to Cott Corporation</b>					-
Basic	<b>\$ 0.40</b>	\$ 0.64	\$ 1.10	\$ (1.73)	\$ (0.99)
Diluted	<b>\$ 0.40</b>	\$ 0.63	\$ 1.08	\$ (1.73)	\$ (0.99)
<b>Financial Condition</b>					
Total assets	<b>\$ 1,508.9</b>	\$ 1,529.2	\$ 873.8	\$ 873.1	\$ 1,144.4
Short-term borrowings		7.9	20.2	107.5	137.0
Current maturities of long-term debt	<b>3.4</b>	6.0	17.6	7.6	2.4
Long-term debt	<b>602.1</b>	605.5	233.2	294.4	269.0
Equity	<b>568.2</b>	535.2	401.3	246.5	451.8
Cash dividends paid					

<sup>1</sup> In 2010, we completed the acquisition of substantially all of the assets and liabilities of Cliffstar Corporation and its affiliated companies for approximately \$503.0 million in cash, \$14.0 million in deferred consideration to be paid over three years and contingent consideration of up to \$55.0 million. The first \$15.0 million of the contingent consideration was based upon the achievement of milestones in certain expansion projects in 2010, which were achieved in 2010. The remainder of the contingent consideration was based on the achievement of certain performance measures during the fiscal year ending January 1, 2011. We were notified on May 9, 2011 by the seller of Cliffstar of certain objections to the performance measures used to calculate the contingent consideration, and the seller asserted a claim for amounts in excess of the amounts accrued as contingent consideration at July 2, 2011.



**Table of Contents**

During the third and fourth quarters of 2011, Cott made interim payments to the seller equal to \$21.0 million and \$8.6 million, respectively. The payment of \$21.0 million was net of a \$4.7 million refund due to Cott as a result of the final determination of working capital, and the payment of \$8.6 million included \$0.9 million in settlement of certain of the seller's objections to the calculation of the contingent consideration. The seller's remaining objections to the calculation of the contingent consideration are subject to an ongoing binding arbitration process under the terms of the asset purchase agreement. The seller is seeking up to \$12.1 million in additional contingent consideration. The final resolution of these matters may result in amounts payable to the seller that may vary materially from our current estimated fair value. We are currently unable to predict the ultimate outcome of this action. Also, during the third quarter of 2011, Cott made a payment equal to \$4.7 million to satisfy the first of three annual deferred consideration payments.

- <sup>2</sup> During 2007, we acquired 100% of the business assets of El Riego, a Mexican water bottler, for \$2.2 million. Effective December 31, 2006, we adopted the provisions related to uncertain tax positions in Accounting Standards Codification (ASC) No. 740, Income Taxes, and recorded an \$8.8 million charge to our shareowners equity as of the first day of the year ended December 29, 2007.

---

**Table of Contents**

**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**Overview**

We are one of the world's largest beverage companies focusing on private-label products and contract manufacturing. Our objective of creating sustainable long-term growth in revenue and profitability is predicated on working closely with our retailer partners and our customers for whom we produce beverages on a contract basis, to provide proven profitable products. As a fast follower of innovative products, our goal is to identify which new products are succeeding in the marketplace and develop similar private-label products to provide our retail partners and their consumers with high quality products at a better value. This objective is increasingly relevant in more difficult economic times.

The beverage market is subject to some seasonal variations. Our beverage sales are generally higher during the warmer months and also can be influenced by the timing of holidays and weather fluctuations. This seasonality also causes our working capital needs to fluctuate with inventory being higher in the first half of the year to meet the peak summer demand and accounts receivable declining in the fall as customers pay their higher-than-average outstanding balances from the summer deliveries.

We typically operate at low margins and therefore relatively small changes in cost structures can materially impact results. In 2009, 2010 and 2011, industry carbonated soft drink (CSD) sales continued to decline, and ingredient and packaging costs remained volatile.

Ingredient and packaging costs represent a significant portion of our cost of sales. These costs are subject to global and regional commodity price trends. Our largest commodities are aluminum, polyethylene terephthalate (PET) resin, corn, fruit and fruit concentrates. We attempt to manage our exposure to fluctuations in ingredient and packaging costs of our products by entering into fixed price commitments for a portion of our ingredient and packaging requirements and implementing price increases as needed. In 2011, we had fixed price commitments for a majority of our forecasted aluminum, and fruit concentrate and fruit requirements for 2011 and entered into fixed price commitments for over half of our aluminum requirements and a portion of our fruit concentrate and fruit requirements for 2012, as well as a portion of our aluminum requirements for 2013. In 2011, we had fixed price commitments for all of our high fructose corn syrup (HFCS) requirements for 2011 and entered into fixed price commitments for all of our HFCS requirements for 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 to be paid 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 based upon the achievement of milestones in certain expansion projects in 2010, which were achieved in 2010. The remainder of the contingent consideration was based on the achievement of certain performance measures during the fiscal year ending January 1, 2011. As discussed in the Notes to the Consolidated Financial Statements, the seller of Cliffstar notified us of certain objections to the performance measures used to calculate the contingent consideration and such objections to the calculation of the contingent consideration are subject to an ongoing binding arbitration process under the terms of the asset purchase agreement. The seller is seeking up to \$12.1 million in additional contingent consideration. The final resolution of these matters may result in amounts payable to the seller that vary materially from our current estimated fair value which consists of payments to the seller amounting to \$34.3 million. We are currently unable to predict the ultimate outcome of this action.

The Cliffstar Acquisition was financed through the closing of a private placement offering by Cott Beverages Inc. of \$375.0 million aggregate principal amount of 8.125% senior notes due 2018 (the 2018 Notes), the underwritten public offering of 13.4 million of our common shares (the Equity Offering) and borrowings under our asset based lending (ABL) facility, which we refinanced in connection with the Cliffstar Acquisition, to increase the amount available for borrowings to \$275.0 million.



---

**Table of Contents**

Our financial liquidity, as of December 31, 2011, improved from 2010, due to significant cash outflow related to the Cliffstar Acquisition and the repurchase of our senior subordinated notes due in 2011 (the 2011 Notes ) in 2010.

We supply Walmart and its affiliated companies, under annual non-exclusive supply agreements, with a variety of products in the United States, Canada, U.K. and Mexico, including CSDs, clear, still and sparkling flavored waters, juice, juice-based products, bottled water, energy drinks and ready-to-drink teas. In 2011 we supplied Walmart with all of its private label CSDs in the United States. In the event Walmart were to utilize additional suppliers to fulfill a portion of its requirements for such products, our operating results could be materially adversely affected. Sales to Walmart in 2011, 2010 and 2009, accounted for 31.6%, 31.0% and 33.5% respectively, of total revenue.

In 2011, our capital expenditures were devoted primarily to maintaining existing beverage production facilities, equipment upgrades in the United States and Canada to meet customer needs, and expanding can and energy-related drink production capability in the United Kingdom.

***Summary Financial Results***

Our net income in 2011 was \$37.6 million or \$0.40 per diluted share, compared with net income of \$54.7 million or \$0.63 per diluted share in 2010.

**The following items of significance impacted our 2011 financial results:**

our filled beverage case volume increased 15.3% driven by a 17.6% increase in the North America reporting segment, due primarily to the Cliffstar Acquisition;

our revenue increased 29.5% in 2011 compared to 2010 due primarily to the Cliffstar Acquisition. Excluding the impact of the Cliffstar Acquisition and foreign exchange, revenue increased 6.7%;

the Cliffstar Acquisition contributed \$385.6 million of the increase in revenue, and \$19.6 million of the increase in operating income;

our gross profit as a percentage of revenue declined to 11.8% in 2011 from 14.8% in 2010. Gross profit in 2011 was adversely impacted by higher commodity costs;

our selling, general and administrative ( SG&A ) expenses increased to \$172.7 million from \$166.7 million, due primarily to the full year inclusion of Cliffstar;

our interest expense increased 54.7% due primarily to the issuance of the 2018 Notes in the third quarter of 2010; and

a year-to-date tax benefit of \$0.7 million in 2011 compared to income tax expense of \$18.6 million in 2010 due primarily to lower pre-tax income in the United States, the reorganization of our legal entity structure and refinancing of intercompany debt.

**The following items of significance impacted our 2010 financial results:**

our filled beverage case volume increased 7.3% driven by a 7.7% increase in the North America reporting segment, due primarily to the Cliffstar Acquisition;

Edgar Filing: COTT CORP /CN/ - Form 10-K

our revenue increased 12.9% in 2010 compared to 2009. Absent foreign exchange impact, revenue increased 12.2% in 2010, due primarily to the Cliffstar Acquisition;

the Cliffstar Acquisition contributed \$232.2 million to revenue and \$5.2 million to operating income;

**Table of Contents**

our gross profit as a percentage of revenue declined to 14.8% in 2010 from 15.6% in 2009. Gross profit in 2010 included \$12.0 million of Cliffstar related purchase accounting adjustments, which reduced gross profit as a percentage of revenue by 0.6%. Excluding this amount, gross profit as a percentage of revenue was 15.4%;

the transaction costs related to the Cliffstar Acquisition were \$7.2 million and integration costs were \$6.7 million, which are included in SG&A;

our 2010 results were favorably impacted by the reduction of the contingent consideration earn-out accrual of \$20.3 million related to the Cliffstar Acquisition.

the interest expense increased 24.2% in 2010 compared to 2009 due to the issuance of the 2018 Notes;

the income tax expense changed from a benefit of \$22.8 million in 2009 to an expense of \$18.6 million in 2010 due primarily to the fact that the prior year included the utilization of valuation allowances and the utilization of accruals related to uncertain tax positions; and

The following items of significance impacted our 2009 financial results:

a slight decrease in filled beverage case volume reflecting a 1.2% decrease in our North America reporting segment which was partially offset by a 2.0% increase in our U.K. reporting segment;

our revenue declined 3.1% in 2009 compared to 2008. Excluding foreign exchange impact, revenue increased 2.4% in 2009;

improved gross profit as a percentage of revenue of 15.6% in 2009 from 11.0% in 2008, reflecting the benefit of local currency price increases, improved product mix and lower ingredient and packaging costs;

the consumer shift toward retailer brand products as a result of weak economic conditions;

SG&A cost saving initiatives that resulted in an SG&A decrease of \$33.0 million;

the weakening value in the Canadian dollar, pound sterling and Mexican peso each relative to the U.S. dollar resulted in a \$88.1 million adverse impact on revenues, a \$12.0 million adverse impact on gross profit and a \$8.0 million positive impact on SG&A;

the restructuring, severance and lease termination costs of \$1.5 million in connection with the plan implemented in 2009 that resulted in a reduction of our workforce in 2009 (the 2009 Restructuring Plan ) and asset impairment costs of \$3.6 million relating primarily to the loss of a customer;

a loss on the buyback of our 2011 Notes of \$3.3 million;

## Edgar Filing: COTT CORP /CN/ - Form 10-K

a tax benefit resulting primarily from the reversal of accruals relating to uncertain tax positions, plus interest and penalties, which generated a \$17.5 million benefit and a \$25.0 million income tax benefit resulting from the reversal of U.S. valuation allowances. These valuation allowance reversals were caused by the carryback of net operating losses in the United States due to recent changes in tax law and the utilization in the current year of U.S. deferred tax assets with valuation allowances. These benefits were partially offset by \$19.7 million of income tax expense resulting mostly from current year earnings; and

an extra week in fiscal 2009 that is estimated to have contributed 9.1 million additional beverage cases, \$20.3 million of additional revenue and \$1.3 million of additional operating income.

---

## **Table of Contents**

### **Critical Accounting Policies and Estimates**

Our critical accounting policies require management to make estimates and assumptions that affect the reported amounts in the consolidated financial statements and the accompanying notes. These estimates are based on historical experience, the advice of external experts or on other assumptions management believes to be reasonable. Where actual amounts differ from estimates, revisions are included in the results for the period in which actuals become known. Historically, differences between estimates and actuals have not had a significant impact on our consolidated financial statements.

Critical accounting policies and estimates used to prepare the financial statements are discussed with our Audit Committee as they are implemented and include the following:

#### ***Impairment testing of goodwill***

Goodwill represents the excess purchase price of acquired businesses over the fair value of the net assets acquired. Goodwill is not amortized, but instead is tested at least annually for impairment in the fourth quarter or more frequently if we determine a triggering event has occurred during the year. Any impairment loss is recognized in our results of operations. We evaluate goodwill for impairment on a reporting unit basis. Reporting units are operations for which discrete financial information is available, and are at or one level below our operating segments. For the purpose of testing goodwill for impairment, our reporting units are U.S., Canada and RCI. The evaluation of goodwill for each reporting unit is based upon the following approach. We compare the fair value of a reporting unit to its carrying amount. Where the carrying amount is greater than the fair value, the implied fair value of the reporting unit goodwill is determined by allocating the fair value of the reporting unit to all the assets and liabilities of the reporting unit with any of the remainder being allocated to goodwill. The implied fair value of the reporting unit goodwill is then compared to the carrying amount of that goodwill to determine the impairment loss. Any impairment in value is recognized in net income (loss). We had goodwill of \$129.6 million on our balance sheet at December 31, 2011, which represents amounts for the U.S., Canada and the RCI reporting units.

We measure the fair value of reporting units using a mix of the income approach (which is based on the discounted cash flow of the reporting unit) and the public company approach. We believe using a combination of the two approaches provides a more accurate valuation because it incorporates the actual cash generation of the Company in addition to how a third party market participant would value the reporting unit. Because the business is assumed to continue in perpetuity, the discounted future cash flow includes a terminal value. We used a weighted average terminal growth rate of 1% for our U.S. reporting unit in 2011 and 2% for our Canada and RCI reporting units in 2011 and 2010. The long-term growth assumptions incorporated into the discounted cash flow calculation reflect our long-term view of the market (including a decline in CSD demand), projected changes in the sale of our products, pricing of such products and operating profit margins. The estimated revenue changes in this analysis for the U.S. reporting unit ranged between 2.2% and 3.4% for 2011. The estimated revenue changes in this analysis for the Canada reporting unit ranged between -7.2% and 1.9% for 2011 and between -7.9% and 7.2% for 2010. The estimated revenue changes in this analysis for the RCI reporting unit ranged between 4.5% and 10.6% for 2011 and between -9.0% and 10.1% for 2010.

The discount rate used for the fair value estimates in this analysis ranged from 11% to 12% for 2011 and 10% to 12% for 2010. These rates were based on the weighted average cost of capital a market participant would use if evaluating the reporting unit as an investment. The risk-free rate for 2011 was 2.6% and was based on a 20-year U.S. Treasury Bill as of the valuation date.

Each year during the fourth quarter, we re-evaluate the assumptions used to reflect changes in the business environment, such as revenue growth rates, operating profit margins and discount rate. Based on the evaluation performed this year utilizing the assumptions above, we determined that the fair value of each of our reporting units exceeded their carrying amount and as a result further impairment testing was not required. We analyzed

---

## **Table of Contents**

the sensitivity these assumptions have on our overall impairment assessment and note that as of the December 31, 2011 annual assessment, the fair value for each of these reporting units was substantially in excess of its carrying value.

### ***Impairment testing of intangible assets with an indefinite life***

Our only intangible asset with an indefinite life relates to the 2001 acquisition of intellectual property from Royal Crown Company, Inc. including the right to manufacture our concentrates, with all related inventions, processes, technologies, technical and manufacturing information, know-how and the use of the Royal Crown brand outside of North America and Mexico (the Rights) which has a net book value of \$45.0 million. Prior to 2001, we paid a volume based royalty to the Royal Crown Company for purchase of concentrates. There are no legal, regulatory, contractual, competitive, economic, or other factors that limit the useful life of this intangible.

The life of the Rights is considered to be indefinite and therefore not amortized, but instead is tested at least annually for impairment or more frequently if we determine a triggering event has occurred during the year. For an intangible asset with an indefinite life, we compare the carrying amount of the Rights to their fair value and where the carrying amount is greater than the fair value, we recognize in income an impairment loss. To determine fair value, we use a relief from royalty method which calculates a fair value royalty rate that is applied to a forecast of future volume shipments of concentrate that is used to produce CSDs. The forecast of future volumes is based on the estimated inter-plant shipments and RCI shipments. The relief from royalty method is used since the Rights were purchased in part to avoid making future royalty payments for concentrate to the Royal Crown Company. The resulting cash flows are discounted using a discount rate of 16% and estimated volume changes between 4.6% and 10.6%. No impairment was calculated for the year ended December 31, 2011. Absent any other changes, if our inter-plant concentrate volume declines by 1.0% from our estimated volume, the value of our Rights would decline by approximately \$1.1 million. If our RCI volume declines by 1.0% from our estimated volume, the value of the Rights would decline by approximately \$1.9 million. If our discounted borrowing rate increases by 100 basis points, the value of the Rights would decline by approximately \$3.6 million.

### ***Other intangible assets***

As of December 31, 2011, other intangible assets were \$296.1 million, which consisted principally of \$248.4 million of customer relationships that arose from acquisitions, \$15.7 million of financing costs, \$10.7 million of information technology assets, and trademarks of \$5.9 million. Customer relationships are amortized on a straight-line basis for the period over which we expect to receive economic benefits. We review the estimated useful life of these intangible assets annually, taking into consideration the specific net cash flows related to the intangible asset, unless a review is required more frequently due to a triggering event such as the loss of a customer. The permanent loss or significant decline in sales to any customer included in the intangible asset would result in impairment in the value of the intangible asset or accelerated amortization and could lead to an impairment of fixed assets that were used to service that customer. In 2010, we recorded \$216.9 million of customer relationships acquired in connection with the Cliffstar Acquisition. In 2011, we recorded an asset impairment charge of \$1.4 million related primarily to customer relationships.

### ***Impairment of long-lived assets***

When adverse events occur, we compare the carrying amount of long-lived assets to the estimated undiscounted future cash flows at the lowest level of independent cash flows for the group of long-lived assets and recognize any impairment loss in the Consolidated Statements of Operations, taking into consideration the timing of testing and the asset's remaining useful life. The expected life and value of these long-lived assets is based on an evaluation of the competitive environment, history and future prospects as appropriate. In 2011, we recorded an impairment of long-lived assets of \$0.6 million related to a production plant in Mexico that ceased operations. We did not record any impairments of long-lived assets in 2010 or 2009.

---

## **Table of Contents**

### ***Inventory costs***

Inventories are stated at the lower of cost, determined on the first-in, first-out method, or net realizable value. Finished goods and work-in-process include the cost of raw materials, direct labor and manufacturing overhead costs. As a result, we use an inventory reserve to adjust our costs down to a net realizable value and to reserve for estimated obsolescence of both raw and finished goods. Our accounting policy for the inventory reserve requires us to reserve an amount based on the evaluation of the aging of inventory and a detailed analysis of finished goods for high-risk customers.

### ***Income taxes***

We are subject to income taxes in Canada as well as in numerous foreign jurisdictions. Significant judgments and estimates are required in determining the income tax expense in these jurisdictions. Our income tax expense, deferred tax assets and liabilities and reserves for unrecognized tax benefits reflect management's best assessment of estimated future taxes to be paid in the jurisdictions in which we operate.

Deferred income taxes arise from temporary differences between the tax and financial statement recognition of revenue and expense. In evaluating our ability to recover our deferred tax assets within the jurisdiction from which they arise we consider all available positive and negative evidence, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax planning strategies and recent financial operations. In projecting future taxable income, we begin with historical results adjusted for the results of discontinued operations and changes in accounting policies and incorporate assumptions including the amount of future Canadian and foreign pretax operating income, the reversal of temporary differences, and the implementation of feasible and prudent tax planning strategies. These assumptions require significant judgment about the forecasts of future taxable income and are consistent with the plans and estimates we are using to manage the underlying businesses.

Changes in tax laws and rates could also affect recorded deferred tax assets and liabilities in the future. Management is not aware of any such changes that would have a material effect on our results of operations, cash flows or financial position.

The calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax laws and regulations in a multitude of jurisdictions across our global operations.

FASB ASC Topic 740, *Income Taxes* (ASC 740) provides that a tax benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits. ASC 740 also provides guidance on measurement, derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

We recognize tax liabilities in accordance with ASC 740 and we adjust these liabilities when our judgment changes as a result of the evaluation of new information not previously available. Due to the complexity of some of these uncertainties, the ultimate resolution may result in a payment that is materially different from our current estimate of the tax liabilities. These differences will be reflected as increases or decreases to income tax expense in the period in which they are determined.

### ***Pension plans***

We account for our pension plans in accordance with ASC No. 715-20, *Compensation - Defined Benefit Plans - General* (ASC 715-20). The funded status is the difference between the fair value of plan assets and the benefit obligation. The adjustment to accumulated other comprehensive income represents the net unrecognized actuarial gains or losses and unrecognized prior service costs. Future actuarial gains or losses that are not recognized as net periodic benefits cost in the same periods will be recognized as a component of other comprehensive income.

## **Table of Contents**

We maintain two defined-benefit plans that cover certain employees in the U.K. and certain other employees under a collective bargaining agreement at one plant in the United States. We record annual amounts relating to these plans based on calculations specified by GAAP, which include various actuarial assumptions such as discount rates (4.1% to 4.6%) and assumed rates of return (5.7% to 7.0%) depending on the pension plan. Material changes in pension costs may occur in the future due to changes in these assumptions. Future annual amounts could be impacted by changes in the discount rate, changes in the expected long-term rate of return, changes in the level of contributions to the plans and other factors.

The discount rate is based on a model portfolio of AA rated bonds with a maturity matched to the estimated payouts of future pension benefits. The expected return on plan assets is based on our expectation of the long-term rates of return on each asset class based on the current asset mix of the funds, considering the historical returns earned on the type of assets in the funds, plus an assumption of future inflation. The current investment policy target asset allocation differs between our two plans, but it is between 50.0% to 65.0% for equities and 35.0% to 50.0% for bonds. The current inflation assumption is 3.3%. We review our actuarial assumptions on an annual basis and make modifications to the assumptions based on current rates and trends when appropriate. The effects of the modifications are amortized over future periods.

*Recently issued accounting pronouncements see Note 1 of the Consolidated Financial Statements.*

## **Non-GAAP Measures**

In this report, we supplement our reporting of revenue determined in accordance with GAAP by excluding the impact of foreign exchange to separate the impact of currency exchange rate changes from Cott's results of operations and, in some cases, by excluding the impact of the Cliffstar Acquisition. Additionally, Cott supplements its reporting of SG&A, cost of sales, gross profit, and operating income in accordance with GAAP by excluding the impact of the Cliffstar Acquisition. Cott excludes these items to better understand trends in the business and the impact of the Cliffstar Acquisition. Because Cott uses these adjusted financial results in the management of its business and to understand business performance independent of the Cliffstar Acquisition, management believes this supplemental information is useful to investors for their independent evaluation and understanding of Cott's core business performance and the performance of its management. The non-GAAP financial measures described above are in addition to, and not meant to be considered superior to, or a substitute for, Cott's financial statements prepared in accordance with GAAP. In addition, the non-GAAP financial measures included in this report reflect management's judgment of particular items, and may be different from, and therefore may not be comparable to, similarly titled measures reported by other companies.



**Table of Contents**

The following table summarizes our Consolidated Statements of Operations as a percentage of revenue for 2011, 2010 and 2009:

(in millions of U.S. dollars, except percentage amounts)	2011		2010		2009	
		Percent of Revenue		Percent of Revenue		Percent of Revenue
Revenue	\$ 2,334.6	100.0%	1,803.3	100.0%	1,596.7	100.0%
Cost of sales	2,058.0	88.2%	1,537.0	85.2%	1,346.9	84.4%
Gross profit	276.6	11.8%	266.3	14.8%	249.8	15.6%
Selling, general, and administrative expenses	172.7	7.4%	166.7	9.2%	146.8	9.2%
Loss on disposal of property, plant and equipment	1.2	0.1%	1.1	0.1%	0.5	0.0%
Restructuring		0.0%	(0.5)	0.0%	1.5	0.1%
Asset impairments	0.6	0.0%		0.0%	3.6	0.2%
Intangible asset impairments	1.4	0.1%		0.0%		0.0%
Operating income	100.7	4.3%	99.0	5.5%	97.4	6.1%
Contingent consideration earn-out adjustment	0.9	0.0%	(20.3)	-1.1%		0.0%
Other expense, net	2.2	0.1%	4.0	0.2%	4.4	0.3%
Interest expense, net	57.1	2.4%	36.9	2.0%	29.7	1.9%
Income before income taxes	40.5	1.8%	78.4	4.4%	63.3	3.9%
Income tax (benefit) expense	(0.7)	0.0%	18.6	1.0%	(22.8)	-1.4%
Net income	41.2	1.8%	59.8	3.4%	86.1	5.3%
Less: Net income attributable to non-controlling interests	3.6	0.2%	5.1	0.3%	4.6	0.3%
Net income attributed to Cott Corporation	\$ 37.6	1.6%	54.7	3.1%	81.5	5.0%
Depreciation & amortization	\$ 95.3	4.1%	74.0	4.1%	66.2	4.1%

The following table summarizes revenue, cost of sales, gross profit, SG&A expenses, and operating income for the years ended December 31, 2011 and January 1, 2011, respectively:

	For the Year Ended December 31, 2011	Cliffstar	Adjustments <sup>1</sup>	Cott Excluding Acquisition
Revenue, net	\$ 2,334.6	\$ 617.8	\$	\$ 1,716.8
Cost of sales	2,058.0	560.0		1,498.0
Gross profit	276.6	57.8		218.8
Selling, general and administrative expenses	172.7	32.3	3.8	136.6
Loss on disposal of property, plant & equipment	1.2	0.7		0.5
Restructuring				
Asset impairments	2.0			2.0
Operating income	\$ 100.7	\$ 24.8	\$ (3.8)	\$ 79.7

<sup>1</sup> In 2011, we recorded \$3.8 million of integration costs related to the Cliffstar Acquisition.

**Table of Contents**

	For the Year Ended January 1, 2011	Cliffstar	Adjustments <sup>1</sup>	Cott Excluding Acquisition
<b>Revenue, net</b>	\$ 1,803.3	\$ 232.2	\$	\$ 1,571.1
Cost of sales	1,537.0	211.8		1,325.2
<b>Gross profit</b>	266.3	20.4		245.9
Selling, general and administrative expenses	166.7	15.2	13.9	137.6
Loss on disposal of property, plant & equipment	1.1			1.1
Restructuring	(0.5)			(0.5)
Asset impairments				
<b>Operating income</b>	<b>\$ 99.0</b>	<b>\$ 5.2</b>	<b>\$ (13.9)</b>	<b>\$ 107.7</b>

<sup>1</sup> In 2010, we recorded \$7.2 million of transaction costs and \$6.7 million of integration costs related to the Cliffstar Acquisition. The following table summarizes our revenue and operating income by reporting segment for 2011, 2010 and 2009:

(in millions of U.S. Dollars)	2011	2010	2009
<b><u>Revenue</u></b>			
North America	\$ 1,809.3	\$ 1,357.3	\$ 1,173.9
United Kingdom	447.9	367.1	359.3
Mexico	51.8	50.1	42.7
RCI	25.6	28.8	20.8
Total	\$ 2,334.6	\$ 1,803.3	\$ 1,596.7
<b><u>Operating income (loss)</u></b>			
North America	\$ 70.4	\$ 75.0	\$ 77.6
United Kingdom	27.5	24.5	23.0
Mexico	(4.4)	(7.5)	(7.1)
RCI	7.2	7.0	3.9
Total	\$ 100.7	\$ 99.0	\$ 97.4

The following table summarizes our beverage case volume by reporting segment for 2011, 2010 and 2009:

(in millions of cases)	2011	2010	2009
<b><u>Volume 8 oz. equivalent cases Total Beverage (including concentrate)</u></b>			
North America	808.7	697.0	648.6
United Kingdom	209.0	192.9	189.5
Mexico	37.1	34.9	26.4
RCI	259.4	298.6	220.1
Total	1,314.2	1,223.4	1,084.6
<b><u>Volume 8 oz. equivalent cases Filled Beverage</u></b>			

Edgar Filing: COTT CORP /CN/ - Form 10-K

North America	<b>727.6</b>	618.6	574.2
United Kingdom	<b>194.7</b>	178.2	174.6
Mexico	<b>37.1</b>	34.9	26.4
RCI	<b>0.1</b>	0.1	0.2
Total	<b>959.5</b>	831.8	775.4

**Table of Contents**

Revenues and volumes are attributed to reporting segments based on the location of the plant.

The following tables summarize revenue and beverage case volume by product for 2011, 2010 and 2009:

(in millions of U.S. dollars)	For the Year Ended December 31, 2011				
	North America	United Kingdom	Mexico	RCI	Total
<b><u>Revenue</u></b>					
Carbonated soft drinks	\$ 731.4	\$ 179.2	\$ 39.6	\$	\$ 950.2
Juice	587.7	12.3	2.7		602.7
Concentrate	9.1	2.8		25.6	37.5
All other products	481.1	253.6	9.5		744.2
Total	\$ 1,809.3	\$ 447.9	\$ 51.8	\$ 25.6	\$ 2,334.6

(in millions of cases)	For the Year Ended December 31, 2011				
	North America	United Kingdom	Mexico	RCI	Total
<b><u>Volume 8 oz. equivalent cases - Total Beverage (including concentrate)</u></b>					
Carbonated soft drinks	349.9	97.6	26.7		474.2
Juice	134.4	3.5	2.0		139.9
Concentrate	81.1	14.0		259.4	354.5
All other products	243.3	93.9	8.4		345.6
Total	808.7	209.0	37.1	259.4	1,314.2

(in millions of U.S. dollars)	For the Year Ended January 1, 2011				
	North America	United Kingdom	Mexico	RCI	Total
<b><u>Revenue</u></b>					
Carbonated soft drinks	\$ 705.5	\$ 159.5	\$ 43.4	\$	\$ 908.4
Juice	225.3	10.0	0.8		236.1
Concentrate	7.5	4.1		28.8	40.4
All other products	419.0	193.5	5.9		618.4
Total	\$ 1,357.3	\$ 367.1	\$ 50.1	\$ 28.8	\$ 1,803.3

(in millions of cases)	For the Year Ended January 1, 2011				
	North America	United Kingdom	Mexico	RCI	Total
<b><u>Volume 8 oz. equivalent cases - Total Beverage (including concentrate)</u></b>					
Carbonated soft drinks	343.1	93.5	28.1		464.7
Juice	57.2	3.1	0.6		60.9
Concentrate	78.4	15.7		298.6	392.7
All other products	218.3	80.6	6.2		305.1
Total	697.0	192.9	34.9	298.6	1,223.4

(in millions of U.S. dollars)	For the Year Ended January 2, 2010				
	North America	United Kingdom	Mexico	RCI	Total
<b><u>Revenue</u></b>					

Edgar Filing: COTT CORP /CN/ - Form 10-K

Carbonated soft drinks	\$ 760.0	\$ 161.9	\$ 36.4	\$	\$ 958.3
Juice		10.1	0.4		10.5
Concentrate	6.5	4.6		19.7	30.8
All other products	407.4	182.7	5.9	1.1	597.1
Total	\$ 1,173.9	\$ 359.3	\$ 42.7	\$ 20.8	\$ 1,596.7

**Table of Contents**

(in millions of cases)	For the Year Ended January 2, 2010				
	North America	United Kingdom	Mexico	RCI	Total
<i>Volume 8 oz. equivalent cases - Total Beverage (including concentrate)</i>					
Carbonated soft drinks	359.7	87.9	20.3		467.9
Juice		4.3	0.4		4.7
Concentrate	74.4	14.9		219.9	309.2
All other products	214.5	82.4	5.7	0.2	302.8
Total	648.6	189.5	26.4	220.1	1,084.6

**Results of Operations**

The following table summarizes the change in revenue by reporting segment for 2011:

(in millions of U.S. dollars, except percentage amounts)	For the Year Ended December 31, 2011				
	Cott	North America	United Kingdom	Mexico	RCI
Change in revenue	\$ 531.3	\$ 452.0	\$ 80.8	\$ 1.7	\$ (3.2)
Impact of foreign exchange <sup>1</sup>	(24.1)	(7.5)	(15.4)	(1.2)	
Change excluding foreign exchange	\$ 507.2	\$ 444.5	\$ 65.4	\$ 0.5	\$ (3.2)
Percentage change in revenue	29.5%	33.3%	22.0%	3.4%	-11.1%
Percentage change in revenue excluding foreign exchange	28.1%	32.7%	17.8%	1.0%	-11.1%
Impact of Cliffstar Acquisition	(385.6)	(385.6)			
Change excluding foreign exchange and Cliffstar Acquisition	\$ 121.6	\$ 58.9	\$ 65.4	\$ 0.5	\$ (3.2)
Percentage change in revenue excluding foreign exchange and Cliffstar Acquisition	6.7%	4.3%	17.8%	1.0%	-11.1%

<sup>1</sup> Impact of foreign exchange is the difference between the current year's revenue translated utilizing the current year's average foreign exchange rates less the current year's revenue translated utilizing the prior year's average foreign exchange rates.

The following table summarizes the change in revenue by reporting segment for 2010:

(in millions of U.S. dollars)	For the Year Ended January 1, 2011				
	Cott	North America	United Kingdom	Mexico	RCI
Change in revenue	\$ 206.6	\$ 183.4	\$ 7.8	\$ 7.4	\$ 8.0
Impact of foreign exchange <sup>1</sup>	(11.8)	(17.0)	8.0	(2.8)	
Change excluding foreign exchange	\$ 194.8	\$ 166.4	\$ 15.8	\$ 4.6	\$ 8.0
Percentage change in revenue	12.9%	15.6%	2.2%	17.3%	38.5%
Percentage change in revenue excluding foreign exchange	12.2%	14.2%	4.4%	10.8%	38.5%

Edgar Filing: COTT CORP /CN/ - Form 10-K

Impact of Cliffstar Acquisition	(232.2)	(232.2)			
Change excluding foreign exchange and Cliffstar Acquisition	\$ (37.4)	\$ (65.8)	\$ 15.8	\$ 4.6	\$ 8.0
Percentage change in revenue excluding foreign exchange and Cliffstar Acquisition	-2.3%	-5.6%	4.4%	10.8%	38.5%

<sup>1</sup> Impact of foreign exchange is the difference between the current year's revenue translated utilizing the current year's average foreign exchange rates less the current year's revenue translated utilizing the prior year's average foreign exchange rates.



---

**Table of Contents**

*2011 versus 2010*

Revenue increased \$531.3 million or 29.5% in 2011 from 2010. The Cliffstar Acquisition contributed \$385.6 million to revenue. Excluding the impact of the Cliffstar Acquisition and foreign exchange, revenue increased 6.7% due primarily to improved beverage case volume and higher prices in the U.K. and North America, offset in part by lower beverage case volume in RCI.

*2010 versus 2009*

Revenue increased \$206.6 million or 12.9% in 2010 from 2009. The Cliffstar Acquisition contributed \$232.2 million to revenue. Excluding the impact of the Cliffstar Acquisition and foreign exchange, revenue decreased 2.3% due primarily to lower North America beverage case volume offset in part by improved beverage case volume in the U.K., Mexico and RCI.

**Revenue Results for Reporting Segments**

*2011 versus 2010*

North America revenue increased \$452.0 million or 33.3% in 2011 from 2010. The Cliffstar Acquisition contributed \$385.6 million of the increase in revenue. Excluding the impact of foreign exchange and the Cliffstar Acquisition, revenue increased 4.3%, due to a 4.4% improvement in beverage case volume that resulted primarily from new business wins and the introduction of new products, as well as higher prices. Net selling price per beverage case (which is net revenue divided by beverage case volume) increased 13.7% in 2011 from 2010, due primarily to improved product mix related to juice volume resulting from the Cliffstar Acquisition. Excluding the impact of the Cliffstar Acquisition, net selling price per beverage case remained flat in 2011 from 2010.

U.K. revenue increased \$80.8 million or 22.0% in 2011 from 2010, primarily as a result of a 9.3% increase in beverage case volume and improved product mix (primarily increases in energy and sports isotonic products). Net selling price per beverage case increased 11.7% in 2011 from 2010 due primarily to commodity-driven customer price increases and a favorable product mix. Absent foreign exchange impact, U.K. revenue increased 17.8% in 2011 from 2010.

Mexico revenue increased \$1.7 million or 3.4% in 2011 from 2010, due primarily to a 6.3% increase in beverage case volume offset in part by a 2.8% decrease in net selling price per beverage case in 2011 from 2010. Absent foreign exchange impact, Mexico revenue increased 1.0%.

RCI revenue decreased \$3.2 million or 11.1% in 2011 from 2010, due primarily to the timing of shipments to our largest customer located in Asia and the decreased demand from our customer in Syria as a result of the political deterioration in that region. Net selling price per beverage case remained flat in 2011 from 2010. RCI primarily sells concentrate.

*2010 versus 2009*

North America revenue increased \$183.4 million or 15.6% in 2010 from 2009. The Cliffstar Acquisition contributed \$232.2 million to revenue. Excluding the impact of foreign exchange and the Cliffstar Acquisition, revenue decreased 5.6%, due primarily to a 1.8% decline in beverage case volume that resulted from national brand promotional activity in the first half of 2010. Net selling price per beverage case (which is net revenue divided by beverage case volume) was down slightly for 2010 from 2009.

U.K. revenue increased \$7.8 million or 2.2% in 2010 from 2009, primarily as a result of a 2.1% increase in beverage case volume, and improved product mix (primarily increases in energy and sports isotonic products), offset in part by the weakening of the pound sterling. Net selling price per beverage case remained flat in 2010 from 2009. Absent foreign exchange impact, U.K. revenue increased 4.4% in 2010 from 2009. U.K. total case volume increased 1.8%.

---

## **Table of Contents**

Mexico revenue increased \$7.4 million or 17.3% in 2010 from 2009, due primarily to a 32.2% increase in beverage case volume. Net selling price per beverage case decreased 11.1% in 2010 from 2009. The increase in beverage case volume and decrease in net selling price was due primarily to new business in the retail channel and the commencement of shipments to a new bottled water customer. Absent foreign exchange impact, Mexico revenue increased 10.8% in 2010 from 2009.

RCI revenue increased \$8.0 million or 38.5% in 2010 from 2009, primarily as a result of a 35.7% improvement in total case volume due primarily to expansion of existing customer channels. Net selling price per beverage case remained flat in 2010 from 2009. RCI primarily sells concentrate.

### **Cost of Sales**

#### *2011 versus 2010*

Cost of sales represented 88.2% of revenue in 2011 compared to 85.2% in 2010. Excluding the impact of the Cliffstar Acquisition, cost of sales represented 87.3% of revenue in 2011 compared to 84.3% in 2010. The increase in cost of sales was due primarily to higher commodity costs. Variable costs represented 77.7% of total sales in 2011, up from 74.7% in 2010. Major elements of these variable costs included ingredient and packaging costs, distribution costs and fees paid to third-party manufacturers.

#### *2010 versus 2009*

Cost of sales represented 85.2% of revenue in 2010 compared to 84.4% in 2009. Of the 85.2%, 0.9% was attributable to the Cliffstar Acquisition. Excluding the impact of the Cliffstar Acquisition, cost of sales represented 84.3% of revenue in 2010. The cost of sales as a percent of revenue for Cliffstar was 91.2% in 2010. This percentage was higher than normal due in part to increases in fixed costs resulting from upgrades of some of our production lines, and finished goods on hand being measured at fair value at the closing date for the Cliffstar Acquisition. Variable costs represented 74.7% of total sales in 2010, down from 74.9% in 2009. Major elements of these variable costs included ingredient and packaging costs, distribution costs and fees paid to third-party manufacturers.

### **Gross Profit**

#### *2011 versus 2010*

Gross profit as a percentage of revenue decreased to 11.8% in 2011 from 14.8% in 2010. Excluding the impact of the Cliffstar Acquisition, gross profit as a percentage of revenue decreased to 12.8% in 2011 from 15.7% in 2010. The decline in gross profit was due primarily to higher commodity costs.

#### *2010 versus 2009*

Gross profit as a percentage of revenue decreased to 14.8% in 2010 from 15.6% in 2009. Excluding the impact of the Cliffstar Acquisition, gross profit as a percentage of revenue remained flat at 15.7% in 2010 compared to 2009.

### **Selling, General and Administrative Expenses**

#### *2011 versus 2010*

SG&A in 2011 increased \$6.0 million, or 3.6%, from 2010. The impact of the Cliffstar Acquisition was \$7.0 million, and included additional SG&A expenses of \$17.1 million resulting from the full year inclusion of Cliffstar, offset in part by a reduction of \$2.9 million in integration costs, and transaction costs of \$7.2 million incurred in the prior year period. Excluding the impact of the Cliffstar Acquisition, SG&A decreased \$1.0 million. As a percentage of revenue, SG&A was 7.4% in 2011 and 9.2% in 2010.

#### *2010 versus 2009*

SG&A in 2010 increased \$19.9 million, or 13.6%, from 2009. The Cliffstar Acquisition contributed \$15.2 million of SG&A costs, or 10.4% of the increase, in 2010. Excluding the impact of the Cliffstar Acquisition,



## **Table of Contents**

SG&A decreased \$9.2 million or 6.3% from 2009. The increase in the overall SG&A costs in 2010 was primarily the result of \$7.2 million of transaction costs related to the Cliffstar Acquisition, and \$6.7 million of integration costs, partially offset by a \$3.3 million reduction in technology related costs, lower professional fees of \$2.3 million, and lower compensation of \$2.0 million. As a percentage of revenue, SG&A was 9.2% in 2010 and 2009, respectively.

### **Restructuring, Goodwill and Asset Impairments**

#### *2011 versus 2010*

We did not record any restructuring charges in 2011. In 2010, we recorded a gain of \$0.5 million related to a lease contract termination. In 2011 we recorded an intangible asset impairment of \$1.4 million related to a customer list that was impaired due to the loss of a customer. Also in 2011, we recorded a \$0.6 million impairment of long-lived assets related to a production plant in Mexico that ceased operations.

#### *2010 versus 2009*

Restructuring and asset impairment charges in 2010 decreased \$5.6 million from 2009. In 2010, we recorded a gain of \$0.5 million related to a lease contract termination. In 2009, we recorded restructuring and asset impairments of \$5.1 million, which included \$3.6 million for asset impairments primarily related to customer relationships and severance costs of \$1.5 million related to the organizational restructuring and headcount reductions associated with the 2009 Restructuring Plan.

### **Operating Income**

#### *2011 versus 2010*

Operating income in 2011 was \$100.7 million, compared to operating income of \$99.0 million in 2010. The Cliffstar Acquisition contributed \$19.6 million of the increase in operating income in 2011, and \$5.2 million to operating income in 2010. Excluding the impact of the Cliffstar Acquisition, operating income declined by \$28.0 million or 26.0% from 2010.

#### *2010 versus 2009*

Operating income in 2010 was \$99.0 million, compared to operating income of \$97.4 million in 2009. The Cliffstar Acquisition contributed \$5.2 million of operating income in 2010. Excluding the impact of the Cliffstar Acquisition, operating income increased by \$10.3 million or 10.6%.

### **Other Expense, Net**

#### *2011 versus 2010*

In 2011, we recorded \$2.2 million of foreign exchange losses primarily related to intercompany loans. In 2010, we recorded a \$1.4 million write off of financing fees and \$2.6 million of foreign exchange losses related primarily to intercompany loans.

#### *2010 versus 2009*

In 2010, we recorded a \$1.4 million write off of financing fees and \$2.6 million of foreign exchange losses related primarily to intercompany loans. In 2009, we recorded a \$3.3 million charge on the repayment of the 2011 Notes and \$1.1 million of foreign exchange losses.

### **Interest Expense, Net**

#### *2011 versus 2010*

Net interest expense in 2011 increased 54.7% from 2010 due primarily to a higher average debt balance resulting from the issuance of the 2018 Notes in the third quarter of 2010.



**Table of Contents***2010 versus 2009*

Net interest expense in 2010 increased 24.2% from 2009 due primarily to a higher average debt balance resulting from the issuance of the 2018 Notes.

**Income Taxes***2011 versus 2010*

In 2011, we recorded a tax benefit of \$0.7 million compared to tax expense of \$18.6 million in 2010. The difference between these two amounts was due primarily to lower pre-tax income in the United States, the reorganization of our legal entity structure and refinancing of intercompany debt, offset in part by the reestablishment of a U.S. federal valuation allowance.

*2010 versus 2009*

We recorded income tax expense of \$18.6 million in 2010 compared with an income tax benefit of \$22.8 million in 2009. The tax benefit in 2009 was primarily the result of the utilization of \$17.5 million in accruals related to uncertain tax positions, and \$25.0 million resulting from the reversal in 2009 of U.S. valuation allowances. In 2010, we utilized \$2.2 million of accruals related to uncertain tax positions and \$0.7 million relating to the utilization of U.S. valuation allowances.

**Liquidity and Capital Resources**

The following table summarizes our cash flows for 2011, 2010 and 2009 as reported in our Consolidated Statements of Cash Flows in the accompanying Consolidated Financial Statements:

(in millions of U.S. dollars)	For the Years Ended		
	December 31, 2011	January 1, 2011	January 2, 2010
Net cash provided by operating activities	\$ 163.5	\$ 178.4	\$ 155.1
Net cash used in investing activities	(90.2)	(554.7)	(32.2)
Net cash (used in) provided by financing activities	(20.3)	393.3	(107.5)
Effect of exchange rate changes on cash	(0.3)	0.3	0.8
Net increase in cash & cash equivalents	52.7	17.3	16.2
Cash & cash equivalents, beginning of period	48.2	30.9	14.7
Cash & cash equivalents, end of period	\$ 100.9	\$ 48.2	\$ 30.9

**Operating Activities**

Cash provided by operating activities in 2011 was \$163.5 million compared to \$178.4 million in 2010 and \$155.1 million in 2009. The \$14.9 million decrease in 2011 compared to 2010 was due primarily to the timing of disbursements and the receipt of tax refunds in the prior year, offset in part by a reduction in inventory purchases.

The \$23.3 million increase in 2010 compared to 2009 was due primarily to improved working capital as a result of the receipt of tax refunds, and an increase in interest accruals, partially offset by investment in inventory.

**Investing Activities**

Cash used in investing activities was \$90.2 million in 2011 compared to \$554.7 million in 2010 and \$32.2 million in 2009. The \$464.5 million decrease in 2011 compared to 2010, and the \$522.5 million increase from 2010 to 2009 were due primarily to the purchase price paid in 2010 in connection with the Cliffstar Acquisition.



## **Table of Contents**

The decrease in 2011 compared to 2010 was offset in part by \$34.3 million of payments made in 2011 related to contingent consideration and deferred consideration paid in connection with the Cliffstar Acquisition.

The increase in 2010 compared to 2009 was also impacted by an increase in capital expenditures of \$11.7 million.

## **Financing Activities**

Cash used in financing activities was \$20.3 million in 2011 compared to cash provided of \$393.3 million in 2010 and cash used of \$107.5 million in 2009. During 2011, we made payments of \$6.8 million on our long-term debt. In 2011, we made net payments of \$7.8 million on our ABL facility, which reduced our borrowings to nil.

In 2010, we received proceeds of \$375.0 million from the issuance of the 2018 Notes and \$71.1 million in net proceeds from the Equity Offering, partially offset by \$14.2 million of financing fees, \$12.5 million in net payments under the ABL facility, \$18.7 million in payments of long-term debt, and \$7.4 million of distributions to non-controlling interests.

In 2009, we substantially reduced our ABL facility borrowings, repurchased \$257.8 million of the 2011 Notes offset by the receipt of \$47.5 million in net proceeds from the public offering of 9,435,000 common shares at a price of \$5.30 per share completed on August 11, 2009 and \$211.9 million from the issuance of \$215.0 million of senior notes that are due on November 15, 2017 (the 2017 Notes ).

## ***Financial Liquidity***

As of December 31, 2011, we had \$608.0 million of debt and \$100.9 million of cash and cash equivalents compared to \$622.2 million of debt and \$48.2 million of cash and cash equivalents as of January 1, 2011.

We believe that our level of resources, which includes cash on hand, available borrowings under the ABL facility and funds provided by operations, will be adequate to meet our expenses, capital expenditures, and debt service obligations for the next twelve months. Our ability to generate cash to meet our current expenses and debt service obligations will depend on our future performance. If we do not have enough cash to pay our debt service obligations or if the ABL facility, 2017 Notes, or 2018 Notes were to become currently due, either at maturity or as a result of a breach, we may be required to take actions such as amending our ABL facility or the indentures governing our 2017 Notes and 2018 Notes, refinancing all or part of our existing debt, selling assets, incurring additional indebtedness or raising equity. If we need to seek additional financing, there is no assurance that this additional financing will be available.

Should we desire to consummate significant acquisition opportunities or undertake significant expansion activities, our capital needs would increase and could result in our need to increase available borrowings under our ABL facility or access public or private debt and equity markets.

As of December 31, 2011, our total availability under the ABL facility was \$239.7 million, which was based on our borrowing base (accounts receivables, inventory, and fixed assets). We had no outstanding borrowings under the ABL facility and \$9.7 million in outstanding letters of credit. As a result, our excess availability under the ABL facility was \$230.0 million. Each month's borrowing base is not effective until submitted to the lenders, which usually occurs on the fifteenth day of the following month.

During the third quarter of 2010, we completed the Cliffstar Acquisition. The Cliffstar Acquisition was financed through the issuance of the 2018 Notes (the Note Offering ), the Equity Offering, and borrowings under our ABL facility, which we refinanced in connection with the Cliffstar Acquisition. The ABL facility was refinanced to, among other things, provide for the Cliffstar Acquisition, the Note Offering and the application of net proceeds therefrom, the Equity Offering and the application of net proceeds therefrom and to increase the



---

**Table of Contents**

amount available for borrowings to \$275.0 million. We drew down a portion of indebtedness under that facility in order to fund the Cliffstar Acquisition. We incurred \$5.4 million of financing fees in connection with the refinancing of the ABL facility. Net proceeds from the Equity Offering were \$71.1 million, after deducting expenses, underwriting discounts and commissions.

Net proceeds resulting from the Note Offering were \$366.4 million after issuance costs of \$8.6 million. The 2018 Notes are senior unsecured obligations and rank equally with all other existing and future unsubordinated indebtedness, including indebtedness under our credit facilities. We are subject to covenants and limitations on our and/or our subsidiaries' ability, subject to certain exceptions and qualifications, to (i) pay dividends or make distributions, repurchase equity securities, prepay subordinated debt or make certain investments, (ii) incur additional debt or issue certain disqualified stock or preferred stock, (iii) create or incur liens on assets securing indebtedness, (iv) merge or consolidate with another company (which applies to Cott and Cott Beverages Inc. only) or sell all or substantially all of our assets taken as a whole, (v) enter into transactions with affiliates and (vi) sell assets.

During the fourth quarter of 2009, we repurchased \$237.1 million in aggregate principal amount of the 2011 Notes, pursuant to a public cash tender offer, in which we also paid an early tender premium, accrued interest and associated fees and expenses. We also purchased \$20.7 million of the 2011 Notes in the third quarter of 2009. The extinguishment of these 2011 Notes that were validly tendered resulted in a charge of \$3.3 million which was recorded to Other Expense (Income) in the Consolidated Statements of Operations for the year ended January 2, 2010. On February 1, 2010, we completed the redemption of the remaining \$11.1 million of the 2011 Notes.

During the fourth quarter of 2009, we completed our offering of \$215.0 million in aggregate principal amount of the 2017 Notes resulting in net proceeds of approximately \$206.8 million after a discount of \$3.1 million and issuance costs of \$5.1 million. The 2017 Notes mature on November 15, 2017 and pay interest semiannually on May 15<sup>th</sup> and November 15<sup>th</sup> of each year. The 2017 Notes are senior unsecured obligations and rank equally with all other existing and future unsubordinated indebtedness, including indebtedness under our credit facilities. We are subject to covenants and limitations on our and/or our subsidiaries' ability, subject to certain exceptions and qualifications, to (i) pay dividends or make distributions, repurchase equity securities, prepay subordinated debt or make certain investments, (ii) incur additional debt or issue certain disqualified stock or preferred stock, (iii) create or incur liens on assets, (iv) merge or consolidate with another company (which applies to Cott and Cott Beverages Inc. only) or sell all or substantially all assets taken as a whole, (v) enter into transactions with affiliates and (vi) sell assets.

We may, from time to time, depending on market conditions, including without limitation whether the 2017 Notes or 2018 Notes are then trading at discounts to their respective face amounts, repurchase the 2017 Notes or 2018 Notes for cash and/or in exchange for shares of our common stock, warrants, preferred stock, debt or other consideration, in each case in open market purchases and/or privately negotiated transactions. The amounts involved in any such transactions, individually or in aggregate, may be material. However, the covenants in our ABL facility subject such purchases to certain limitations and conditions.

**Off-Balance Sheet Arrangements**

We have no off-balance sheet arrangements as defined under Item 303(a)(4) of Regulation S-K as of December 31, 2011.

**Table of Contents****Contractual Obligations**

The following table shows the schedule of future payments under certain contracts, including debt agreements and guarantees, as of December 31, 2011:

(in millions of U.S. dollars)	Total	Payments due by period					Thereafter
		2012	2013	2014	2015	2016	
8.375% Senior notes due in 2017	\$ 215.0	\$	\$	\$	\$	\$	\$ 215.0
8.125% Senior notes due in 2018	375.0						375.0
ABL facility <sup>1</sup>							
GE Obligation <sup>2</sup>	6.4	2.6	1.0	1.1	1.2	0.5	
Capital leases	3.8	0.6	0.7	0.7	0.7	0.3	0.8
Other long-term debt	1.5	0.2	0.2	0.3	0.3	0.3	0.2
Interest expense <sup>3</sup>	310.7	49.1	49.0	49.0	49.5	48.6	65.5
Operating leases	90.6	19.1	15.1	14.0	12.2	9.7	20.5
Guarantee purchase equipment	20.5	20.5					
Pension obligations	1.1	1.1					
Purchase obligations <sup>4</sup>	284.3	207.8	24.5	16.8	16.5	13.1	5.6
<b>Total<sup>5</sup></b>	<b>\$ 1,308.9</b>	<b>\$ 301.0</b>	<b>\$ 90.5</b>	<b>\$ 81.9</b>	<b>\$ 80.4</b>	<b>\$ 72.5</b>	<b>\$ 682.6</b>

<sup>1</sup> The ABL facility is considered a current liability. As of December 31, 2011, we had no outstanding borrowings under the ABL facility.

<sup>2</sup> We funded new water bottling equipment through an interim financing agreement signed in January 2008 (the GE Obligation). At the end of the GE Obligation, we may exchange \$6.0 million of deposits for the extinguishment of \$6.0 million in debt.

<sup>3</sup> Interest expense includes fixed interest on the 2018 Notes, the 2017 Notes, the GE Obligation, the ABL facility, capital leases and other long-term liabilities. Actual amounts will differ from estimates provided.

<sup>4</sup> Purchase obligations consist of commitments for the purchase of inventory and energy. These obligations represent the minimum contractual obligations expected under the normal course of business.

<sup>5</sup> The contractual obligations table excludes the Company's ASC 740 uncertain tax positions liability of \$9.0 million because the Company cannot make a reliable estimate as to when such amounts will be settled.

**Table of Contents****Debt**

Our total debt as of December 31, 2011 and January 1, 2011 is as follows:

(in millions of U.S. dollars)	December 31, 2011	January 1, 2011
8.375% senior notes due in 2017 <sup>1</sup>	215.0	215.0
8.125% senior notes due in 2018	375.0	375.0
ABL facility		7.9
GE Obligation	12.4	16.5
Other capital leases	4.1	5.8
Other debt	1.5	2.0
<b>Total debt</b>	<b>608.0</b>	<b>622.2</b>
Less: Short-term borrowings and current debt:		
ABL facility		7.9
<b>Total short-term borrowings</b>		<b>7.9</b>
GE Obligation current maturities	2.6	4.1
Other capital leases current maturities	0.6	1.4
Other debt current maturities	0.2	0.5
<b>Total current debt</b>	<b>3.4</b>	<b>13.9</b>
Long-term debt before discount	604.6	608.3
Less discount on 8.375% notes	(2.5)	(2.8)
<b>Total long-term debt</b>	<b>\$ 602.1</b>	<b>\$ 605.5</b>

<sup>1</sup> Our 8.375% senior notes were issued at a discount of 1.425% on November 13, 2009.

**Asset Based Lending Facility**

On March 31, 2008, we entered into a credit agreement with JPMorgan Chase Bank N.A. as Agent that created an ABL facility to provide financing for our North America, U.K. and Mexico reporting segments. In connection with the Cliffstar Acquisition, we refinanced the ABL facility on August 17, 2010 to, among other things, provide for the Cliffstar Acquisition, the Note Offering and the application of net proceeds therefrom, the Equity Offering and the application of net proceeds therefrom and to increase the amount available for borrowings to \$275.0 million. We drew down a portion of the indebtedness under the ABL facility in order to fund the Cliffstar Acquisition. We incurred \$5.4 million of financing fees in connection with the refinancing of the ABL facility. The financing fees are being amortized using the straight line method over a four-year period, which represents the duration of the ABL facility.

As of December 31, 2011, we had no outstanding borrowings under the ABL facility. The commitment fee was 0.5% per annum of the unused commitment, which was \$265.3 million as of December 31, 2011.

The effective interest rate as of December 31, 2011 on LIBOR and Prime loans is based on average aggregate availability as follows:

**Average Aggregate Availability**

(in millions of U.S. dollars)	ABR Spread	Canadian Prime Spread	Eurodollar Spread	CDOR Spread	LIBOR Spread
Over \$150	1.50%	1.50%	2.50%	2.50%	2.50%

Edgar Filing: COTT CORP /CN/ - Form 10-K

\$75 - 150	1.75%	1.75%	2.75%	2.75%	2.75%
Under \$75	2.00%	2.00%	3.00%	3.00%	3.00%

**Table of Contents**

***8.125% Senior Notes due in 2018***

On August 17, 2010, we issued \$375.0 million of 2018 Notes. The issuer of the 2018 Notes is our wholly-owned subsidiary Cott Beverages Inc., but we and most of our U.S., Canadian and United Kingdom subsidiaries guarantee the 2018 Notes. The interest on the 2018 Notes is payable semi-annually on March 1<sup>st</sup> and September 1<sup>st</sup> of each year.

We incurred \$8.6 million of financing fees in connection with the issuance of the 2018 Notes. The financing fees are being amortized using the effective interest method over an eight-year period, which represents the duration of the 2018 Notes.

***8.375% Senior Notes due in 2017***

On November 13, 2009, we issued \$215.0 million of 2017 Notes. The 2017 Notes were issued at a \$3.1 million discount. The issuer of the 2017 Notes is our wholly-owned subsidiary Cott Beverages Inc., but we and most of our U.S., Canadian and United Kingdom subsidiaries guarantee the 2017 Notes. The interest on the 2017 Notes is payable semi-annually on May 15<sup>th</sup> and November 15<sup>th</sup> of each year.

We incurred \$5.1 million of financing fees in connection with the 2017 Notes. The financing fees are being amortized using the effective interest method over an eight-year period, which represents the duration of the 2017 Notes.

***8% Senior Subordinated Notes due in 2011***

We repurchased the remaining outstanding 2011 Notes on February 1, 2010, and recorded a loss on buyback of \$0.1 million. The 2011 Notes acquired by us have been retired, and we have discontinued the payment of interest.

In 2009, the Company repurchased \$257.8 million in principal amount of the 2011 Notes, and recorded a loss on buyback of \$3.3 million.

***GE Financing Agreement***

We funded \$32.5 million of water bottling equipment purchases through a finance lease arrangement in 2008. The quarterly payments under the lease obligation totaled approximately \$8.8 million per annum for the first two years, \$5.3 million per annum for the subsequent two years, then \$1.7 million per annum for the final four years.

**Credit Ratings and Covenant Compliance**

***Credit Ratings***

Our objective is to maintain credit ratings that provide us with ready access to global capital and credit markets at favorable interest rates.

As of December 31, 2011, the Company's credit ratings were as follows:

	<b>Moody's Rating</b>	<b>Credit Ratings Standard and Poor's Rating</b>
Corporate credit rating	B2	B
2017 Notes	B3	B
2018 Notes	B3	B
Outlook	Stable	Stable

---

## **Table of Contents**

Any downgrade of our credit ratings by either Moody's or S&P could increase our future borrowing costs or impair our ability to access capital markets on terms commercially acceptable to us or at all.

### ***Covenant Compliance***

#### *8.125% Senior Notes due in 2018*

Under the indenture governing the 2018 Notes, we are subject to a number of covenants, including covenants that limit our and certain of our subsidiaries' ability, subject to certain exceptions and qualifications, to (i) pay dividends or make distributions, repurchase equity securities, prepay subordinated debt or make certain investments, (ii) incur additional debt or issue certain disqualified stock or preferred stock, (iii) create or incur liens on assets securing indebtedness, (iv) merge or consolidate with another company or sell all or substantially all of our assets taken as a whole, (v) enter into transactions with affiliates and (vi) sell assets. We have been in compliance with all of the covenants under the 2018 Notes and there have been no amendments to any such covenants since the 2018 Notes were issued.

#### *8.375% Senior Notes due in 2017*

Under the indenture governing the 2017 Notes, we are subject to a number of covenants, including covenants that limit our and certain of our subsidiaries' ability, subject to certain exceptions and qualifications, to (i) pay dividends or make distributions, repurchase equity securities, prepay subordinated debt or make certain investments, (ii) incur additional debt or issue certain disqualified stock or preferred stock, (iii) create or incur liens on assets securing indebtedness, (iv) merge or consolidate with another company or sell all or substantially all of our assets taken as a whole, (v) enter into transactions with affiliates and (vi) sell assets. We have been in compliance with all of the covenants under the 2017 Notes and there have been no amendments to any such covenants since the 2017 Notes were issued.

### ***ABL Facility***

Under the credit agreement governing the ABL facility, we and our restricted subsidiaries are subject to a number of business and financial covenants, including a covenant requiring a minimum fixed charge coverage ratio of at least 1.1 to 1.0 effective when and if excess availability is less than the greater of (a) \$30.0 million and (b) the lesser of (i) 12.5% of the amount of the aggregate borrowing base or (ii) \$37.5 million. Although the covenant was not triggered as of December 31, 2011, our fixed charge coverage ratio as calculated under this covenant was greater than 1.1 to 1.0. If availability is less than \$37.5 million, the lenders will take dominion over the cash and will apply excess cash to reduce amounts owing under the facility. The credit agreement governing the ABL facility requires us to maintain aggregate availability of at least \$15.0 million. We were in compliance with all of the applicable covenants under the ABL facility on December 31, 2011.

### **Capital structure**

Since January 1, 2011, equity has increased by \$33.0 million. The increase was primarily the result of net income of \$37.6 million, \$3.6 million of non-controlling interest income, \$2.9 million of share-based compensation expense, and contributions to non-controlling interests of \$1.8 million offset in part by a \$4.7 million foreign currency translation loss on the net assets of self-sustaining foreign operations, \$6.0 million of distributions to non-controlling interests, and an increase in pension liabilities of \$3.1 million.

### **Dividend payments**

There are certain restrictions on the payment of dividends under our ABL facility and under the indentures governing the 2017 Notes and 2018 Notes. No dividend payments were made in 2011 and we do not expect to pay dividends in the foreseeable future.

---

**Table of Contents**

**ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

We do not trade market risk sensitive instruments.

**Currency Exchange Rate Risk**

We are exposed to changes in foreign currency exchange rates. Operations outside of the United States accounted for 32.5% of 2011 revenue and 34.2% of 2010 revenue, and are concentrated principally in the U.K., Canada and Mexico. We translate the revenues and expenses of our foreign operations using average exchange rates prevailing during the period. The effect of a 10.0% change in foreign currency exchange rates among the U.S. dollar versus the Canadian dollar, pound sterling and Mexican peso as of December 31, 2011, at current levels of foreign debt and operations would result in our revenues in 2011 changing by \$72.1 million and our gross profit in 2011 changing by \$7.7 million. This change would be material to our cash flows and our results of operations.

Our primary exposure to foreign currency exchange rates relates to transactions in which the currency collected from customers is different from the currency utilized to purchase the product sold. In 2011, we entered into foreign currency contracts to hedge some of these currency exposures for which natural hedges do not exist. Natural hedges exist when purchases and sales within a specific country are both denominated in the same currency and, therefore, no exposure exists to hedge with foreign exchange forward, option, or swap contracts (collectively, the foreign exchange contracts ). We do not enter into foreign exchange contracts for trading purposes. The risk of loss on a foreign exchange contract is the risk of non-performance by the counterparties, which we minimize by limiting our counterparties to major financial institutions. The fair values of the foreign exchange contracts, which are \$0.6 million, are estimated using market quotes. As of December 31, 2011, we had outstanding foreign exchange forward contracts with notional amounts of \$14.7 million.

**Debt obligations and interest rates**

We have exposure to interest rate risk from the outstanding principal amounts of our short-term and long-term debt. Our long-term debt is fixed and our short-term debt is variable. Our ABL facility is vulnerable to fluctuations in the U.S. short-term base rate and the LIBOR rate. Since we did not have any ABL borrowings outstanding at year end as of December 31, 2011, a 100 basis point increase in the current per annum interest rate for our ABL facility (excluding the \$9.7 million of outstanding letters of credit) would not result in additional interest expense or be material to our cash flows or our results of operations. The weighted average interest rate of our debt outstanding at December 31, 2011 was 8.1%.

We regularly review the structure of our debt and consider changes to the proportion of variable versus fixed rate debt through refinancing, interest rate swaps or other measures in response to the changing economic environment. Historically, we have not used derivative instruments to manage interest rate risk. If we use and fail to manage these derivative instruments successfully, or if we are unable to refinance our debt or otherwise increase our debt capacity in response to changes in the marketplace, the expense associated with debt service could increase. This would negatively impact our financial condition and profitability.

**Table of Contents**

The information below summarizes our market risks associated with long-term debt obligations as of December 31, 2011. The table presents principal cash flows and related interest rates by year of maturity. Interest rates disclosed represent the actual weighted average rates as of December 31, 2011.

(in millions of U.S. dollars)	Debt Obligations	
	Outstanding debt balance	Weighted average interest rate for debt maturing
<b>Debt maturing in:</b>		
2012	\$ 3.4	7.6%
2013	2.0	7.6%
2014	2.1	7.4%
2015	2.2	7.6%
2016	1.1	8.0%
Thereafter	597.2	8.1%
Total	\$ 608.0 <sup>1</sup>	8.1%

<sup>1</sup> We funded the purchase of new water bottling equipment through the GE Obligation. At the end of the GE Obligation, we may exchange \$6.0 million of deposits for the extinguishment of \$6.0 million in debt or elect to purchase such equipment.

**Commodity Price Risk**

The competitive marketplace in which we operate may limit our ability to recover increased costs through higher prices. As a result, we are subject to market risk with respect to commodity price fluctuations principally related to our purchases of aluminum, PET resin, corn for HFCS, fruit and fruit concentrates. When possible, we manage our exposure to this risk primarily through the use of supplier pricing agreements, which enable us to establish the purchase prices for certain commodities. We estimate that a 10% increase in the market prices of these commodities over the current market prices would cumulatively increase our cost of sales during the next 12 months by approximately \$29.0 million. This change would be material to our cash flows and our results of operations.

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

Financial statements and exhibits filed under this item are listed in the index appearing in Item 15 of this report.

**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

**ITEM 9A. CONTROLS AND PROCEDURES****Disclosure Controls and Procedures**

The Company maintains disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the Exchange Act). The Company's management, under the supervision and with the participation of the Company's Chief Executive Officer and Chief Financial Officer, carried out an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of December 31, 2011 (the Evaluation). Based upon the Evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that, as of December 31, 2011, the Company's disclosure controls and procedures were effective to ensure that



information required to be disclosed by the

---

## **Table of Contents**

Company in reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and accumulated and communicated to the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

### **Management's Report on Internal Control Over Financial Reporting**

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Management, under the supervision and with the participation of the Company's Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the Company's internal control over financial reporting as of December 31, 2011 using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ( COSO ) in *Internal Control - Integrated Framework*. Based on that evaluation, management concluded that the Company's internal control over financial reporting was effective as of December 31, 2011.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2011 has been audited by PricewaterhouseCoopers LLP, the Company's independent registered certified public accounting firm, who also audited the Company's consolidated financial statements included in this Annual Report on Form 10-K, as stated in their report which appears herein.

### **Remediation of Material Weakness**

Management first reported a material weakness in the Company's internal control over financial reporting, related to the communication and evaluation of a certain customer's discount and pricing programs that affected revenue, accounts receivable and accrued expenses, on Form 10-K for the fiscal year ended January 1, 2011, filed on March 15, 2011. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis.

During 2011, with oversight from the Audit Committee of the Company's Board of Directors, the Company's management made the following changes and enhancements to its internal controls over financial reporting to remediate the material weakness previously reported:

1. Starting in the first quarter of 2011 and continuing through the third quarter of 2011, the Company made personnel changes, including the termination and demotion of certain staff that were responsible for the operation of certain internal controls that failed, and the addition of new, more senior and experienced finance staff to oversee the specific customer activities.
2. The Company revised and enhanced the policies, procedures and internal controls surrounding the accounting for customer discounts and pricing to obtain reasonable assurance that the revenue, accounts receivable and accrued expenses reported in its consolidated financial statements are in accordance with U.S. GAAP. These specific revisions and enhancements included the following:

In the first quarter of 2011, the Company expanded and centralized reviews and evaluations of customer accounts receivable aging and promotional activities.

During the fourth quarter of 2011, the Company instituted additional processes for validation of customer order pricing prior to shipment and procedures for timely resolution of pricing discrepancies on customer orders.

During the fourth quarter of 2011, the Company instituted additional procedures for the identification and timely review of customer pricing and discount discrepancies identified after the customer is invoiced, and for applicable adjustments to the financial statements to be made timely.

The Company completed the documentation and testing of the corrective processes described above and, as of December 31, 2011, has concluded that the steps taken have remediated the material weakness related to accounting for revenue, accounts receivable and accrued expenses.



**Table of Contents**

**Changes in Internal Control Over Financial Reporting**

As described above under the heading entitled Remediation of Material Weakness, there were changes in internal control over financial reporting during the quarter ended December 31, 2011 that have materially affected, or are reasonably likely to materially affect the Company's internal control over financial reporting.

**ITEM 9B. OTHER INFORMATION**

Not Applicable.

---

**Table of Contents**

**PART III**

**ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT**

The information required by this item regarding directors is incorporated by reference to, and will be contained in, the Election of Directors section of our definitive proxy circular for the 2012 Annual Meeting of Shareowners, which will be filed within 120 days after December 31, 2011 (the 2012 Proxy Circular ). The information required by this item regarding audit committee financial expert disclosure is incorporated by reference to, and will be contained in, the Corporate Governance section of our 2012 Proxy Circular. The information required by this item regarding executive officers appears as the Supplemental Item in Part I. There have been no material changes to the procedures by which shareholders may recommend nominees to our Board of Directors.

The Audit Committee of our Board of Directors is an audit committee for the purposes of Section 3(a)(58)(A) of the Securities Exchange Act of 1934, as amended. The Audit Committee charter is posted on our website at [www.cott.com](http://www.cott.com). The members of the Audit Committee are Graham Savage (Chairman), George Burnett and Gregory Monahan. As required by the NYSE rules, the board has determined that each member of the Audit Committee is financially literate and that Mr. Savage qualifies as an audit committee financial expert within the meaning of the rules of the U.S. Securities and Exchange Commission.

All of our directors, officers and employees must comply with our Code of Business Conduct and Ethics. In addition, our Chief Executive Officer, Chief Financial Officer and principal accounting officer and certain other employees have a further obligation to comply with our Code of Ethics for Senior Officers. Our Code of Business Conduct and Ethics and our Code of Ethics for Senior Officers are posted on our website, [www.cott.com](http://www.cott.com) and we intend to comply with obligations to disclose any amendment to, or waiver of, provisions of these codes by posting such information on our website.

**Section 16(a) Beneficial ownership reporting compliance**

The information required by this item is incorporated by reference to, and will be contained in, the Section 16(a) Beneficial Ownership Reporting Compliance section of our 2012 Proxy Circular.

**ITEM 11. EXECUTIVE COMPENSATION**

The information required by this item is incorporated by reference to, and will be contained in, the Compensation of Executive Officers section of our 2012 Proxy Circular.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED SHAREOWNER MATTERS**

The information required by this item is incorporated by reference to, and will be contained in, the Principal Shareowners, Security Ownership of Directors and Management and Equity Compensation Plan Information sections of our 2012 Proxy Circular.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

The information required by this item is incorporated by reference to, and will be contained in, the Certain Relationships and Related Transactions section of our 2012 Proxy Circular.

**ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

The information required by this item is incorporated by reference to, and will be contained in, the Independent Registered Certified Public Accounting Firm section of our 2012 Proxy Circular.



**Table of Contents**

**PART IV**

**ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

(a) The documents filed as part of this report are as follows:

1. Financial Statements

The consolidated financial statements and accompanying report of independent registered certified public accounting firm are listed in the Index to Consolidated Financial Statements and are filed as part of this report.

2. Financial Statement Schedules

Schedule II Valuation and Qualifying Accounts

3. Exhibits

Exhibits required by Item 601 of Regulation S-K set forth on the Exhibit Index.

All other schedules called for by the applicable SEC accounting regulations are not required under the related instructions or are inapplicable and, therefore, have been omitted.

**Table of Contents****Signatures**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Cott Corporation

/s/ JERRY FOWDEN  
**Jerry Fowden**  
**Chief Executive Officer**  
**Date: February 29, 2012**

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated:

/s/ JERRY FOWDEN Date: February 29, 2012

**Jerry Fowden**  
**Chief Executive Officer, Director**  
**(Principal Executive Officer)**

/s/ GREGORY MONAHAN Date: February 29, 2012

**Gregory Monahan**  
**Director**

/s/ NEAL CRAVENS Date: February 29, 2012

**Neal Cravens**  
**Chief Financial Officer**  
**(Principal Financial Officer)**

/s/ MARIO PILOZZI Date: February 29, 2012

**Mario Pillozzi**  
**Director**

/s/ GREGORY LEITER Date: February 29, 2012

**Gregory Leiter**  
**Senior Vice President, Chief Accounting**  
**Officer and Assistant Secretary**  
**(Principal Accounting Officer)**

/s/ GEORGE A. BURNETT Date: February 29, 2012

**George A. Burnett**  
**Director**

/s/ DAVID T. GIBBONS Date: February 29, 2012

**David T. Gibbons**  
**Chairman, Director**

/s/ ANDREW PROZES Date: February 29, 2012

**Andrew Prozes**  
**Director**

/s/ MARK BENADIBA Date: February 29, 2012

**Mark Benadiba**  
**Director**

/s/ GRAHAM SAVAGE Date: February 29, 2012

**Graham Savage**  
**Director**

/s/ STEPHEN H. HALPERIN Date: February 29, 2012

**Stephen H. Halperin**  
**Director**

/s/ ERIC ROSENFELD Date: February 29, 2012

**Eric Rosenfeld**  
**Director**

/s/ BETTY JANE HESS Date: February 29, 2012



**Betty Jane Hess**  
**Director**

**Table of Contents**

**COTT CORPORATION**

**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**

	<b>Page(s)</b>
<u>Report of Independent Registered Certified Public Accounting Firm</u>	F 2
<u>Consolidated Statements of Operations</u>	F 3
<u>Consolidated Balance Sheets</u>	F 4
<u>Consolidated Statements of Cash Flows</u>	F 5
<u>Consolidated Statements of Equity</u>	F 6
<u>Consolidated Statements of Comprehensive Income</u>	F 7
<u>Notes to Consolidated Financial Statements</u>	F 8 to F 45

F-1

---

**Table of Contents**

**Report of Independent Registered Certified Public Accounting Firm**

To the Board of Directors and Shareholders of

Cott Corporation:

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Cott Corporation and its subsidiaries at December 31, 2011 and January 1, 2011, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2011 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 15(a)2 presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control Over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements, on the financial statement schedule, and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP  
Tampa, Florida  
February 29, 2012

**Table of Contents****Cott Corporation****Consolidated Statements of Operations**

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

	For the Years Ended		
	December 31, 2011	January 1, 2011	January 2, 2010
<b>Revenue, net</b>	<b>\$ 2,334.6</b>	<b>\$ 1,803.3</b>	<b>\$ 1,596.7</b>
Cost of sales	2,058.0	1,537.0	1,346.9
<b>Gross profit</b>	<b>276.6</b>	<b>266.3</b>	<b>249.8</b>
Selling, general and administrative expenses	172.7	166.7	146.8
Loss on disposal of property, plant & equipment	1.2	1.1	0.5
Restructuring and asset impairments			
Restructuring		(0.5)	1.5
Asset impairments	0.6		3.6
Intangible asset impairments	1.4		
<b>Operating income</b>	<b>100.7</b>	<b>99.0</b>	<b>97.4</b>
Contingent consideration earn-out adjustment	0.9	(20.3)	
Other expense, net	2.2	4.0	4.4
Interest expense, net	57.1	36.9	29.7
<b>Income before income taxes</b>	<b>40.5</b>	<b>78.4</b>	<b>63.3</b>
Income tax (benefit) expense	(0.7)	18.6	(22.8)
<b>Net income</b>	<b>\$ 41.2</b>	<b>\$ 59.8</b>	<b>\$ 86.1</b>
Less: Net income attributable to non-controlling interests	3.6	5.1	4.6
<b>Net income attributed to Cott Corporation</b>	<b>\$ 37.6</b>	<b>\$ 54.7</b>	<b>\$ 81.5</b>
<b>Net income per common share attributed to Cott Corporation</b>			
Basic	\$ 0.40	\$ 0.64	\$ 1.10
Diluted	0.40	0.63	1.08
<b>Weighted average outstanding shares (thousands) attributed to Cott Corporation</b>			
Basic	94,241	85,588	74,207
Diluted	95,001	86,185	75,215

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

**Table of Contents****Cott Corporation****Consolidated Balance Sheets**

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

	December 31, 2011	January 1, 2011
<b>ASSETS</b>		
<i>Current assets</i>		
Cash & cash equivalents	\$ 100.9	\$ 48.2
Accounts receivable, net of allowance of \$5.7 (\$7.0 as of January 1, 2011)	210.8	213.6
Income taxes recoverable	9.9	0.3
Inventories	210.0	215.5
Prepaid expenses and other current assets	19.3	32.7
<b>Total current assets</b>	<b>550.9</b>	510.3
Property, plant & equipment	482.2	503.8
Goodwill	129.6	130.2
Intangibles and other assets	341.1	371.1
Deferred income taxes	4.1	2.5
Other tax receivable	1.0	11.3
<b>Total assets</b>	<b>\$ 1,508.9</b>	\$ 1,529.2
<b>LIABILITIES AND EQUITY</b>		
<i>Current liabilities</i>		
Short-term borrowings	\$	\$ 7.9
Current maturities of long-term debt	3.4	6.0
Contingent consideration earn-out		32.2
Accounts payable and accrued liabilities	281.1	276.6
<b>Total current liabilities</b>	<b>284.5</b>	322.7
Long-term debt	602.1	605.5
Deferred income taxes	34.1	43.6
Other long-term liabilities	20.0	22.2
<b>Total liabilities</b>	<b>940.7</b>	994.0
Commitments and Contingencies Note 17		
<i>Equity</i>		
Capital stock, no par 95,101,230 (January 1, 2011 94,750,120) shares issued	395.9	395.6
Treasury stock	(2.1)	(3.2)
Additional paid-in-capital	42.6	40.8
Retained earnings	144.1	106.5
Accumulated other comprehensive loss	(24.7)	(17.5)
<b>Total Cott Corporation equity</b>	<b>555.8</b>	522.2
Non-controlling interests	12.4	13.0
<b>Total equity</b>	<b>568.2</b>	535.2
<b>Total liabilities and equity</b>	<b>\$ 1,508.9</b>	\$ 1,529.2

Approved by the Board of Directors:

*/s/ Graham Savage*  
Director

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

F-4

**Table of Contents****Cott Corporation****Consolidated Statements of Cash Flows**

(in millions of U.S. dollars)

	December 31, 2011	For the Years Ended January 1, 2011	January 2, 2010
<b>Operating Activities</b>			
Net income	\$ 41.2	\$ 59.8	\$ 86.1
Depreciation & amortization	95.3	74.0	66.2
Amortization of financing fees	3.9	2.7	1.5
Share-based compensation expense	2.9	4.7	1.3
(Decrease) increase in deferred income taxes	(3.7)	17.0	6.2
Write-off of financing fees		1.4	
Loss on disposal of property, plant & equipment	1.2	1.1	0.5
Loss on buyback of Notes		0.1	1.5
Asset impairments	0.6		
Intangible asset impairments	1.4		3.5
Contingent consideration earn-out adjustment		(20.3)	
Contract termination charge		3.6	
Contract termination payments	(3.1)	(5.4)	(3.8)
Other non-cash items	4.9	5.5	2.7
Change in operating assets and liabilities, net of acquisition:			
Accounts receivable	(5.0)	(3.9)	20.8
Inventories	6.5	(28.4)	16.0
Prepaid expenses and other current assets	5.8	2.6	(1.6)
Other assets	(0.7)	(1.6)	(1.2)
Accounts payable and accrued liabilities	11.5	39.8	(6.5)
Income taxes recoverable	0.8	25.7	(38.1)
Net cash provided by operating activities	163.5	178.4	155.1
<b>Investing Activities</b>			
Acquisition	(34.3)	(507.7)	
Additions to property, plant & equipment	(48.8)	(44.0)	(32.3)
Additions to intangibles and other assets	(5.7)	(4.2)	(1.6)
Proceeds from sale of property, plant & equipment	0.4	1.2	1.7
Other investing activities	(1.8)		
Net cash used in investing activities	(90.2)	(554.7)	(32.2)
<b>Financing Activities</b>			
Payments of long-term debt	(6.8)	(18.7)	(265.5)
Issuance of long-term debt		375.0	211.9
Borrowings under ABL	224.1	366.5	768.1
Payments under ABL	(231.9)	(379.0)	(856.6)
Distributions to non-controlling interests	(6.0)	(7.4)	(6.6)
Issuance of common shares, net of offering fees	0.3	71.1	47.5
Financing fees		(14.2)	(6.2)
Other financing activities			(0.1)
Net cash (used in) provided by financing activities	(20.3)	393.3	(107.5)
Effect of exchange rate changes on cash	(0.3)	0.3	0.8
Net increase in cash & cash equivalents	52.7	17.3	16.2
Cash & cash equivalents, beginning of period	48.2	30.9	14.7

Edgar Filing: COTT CORP /CN/ - Form 10-K

<b>Cash &amp; cash equivalents, end of period</b>	<b>\$ 100.9</b>	\$ 48.2	\$ 30.9
<b>Supplemental Non-cash Investing and Financing Activities:</b>			
Capital lease additions	<b>\$ 0.2</b>	\$ 2.4	\$ 0.2
Deferred consideration		13.2	
Contingent consideration earn-out		32.2	
Working capital adjustment		(4.7)	
<b>Supplemental Disclosures of Cash Flow Information:</b>			
Cash paid for interest	<b>\$ 53.8</b>	\$ 22.8	\$ 23.8
Cash paid (received) for income taxes, net	<b>1.3</b>	(24.3)	11.0

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

F-5



**Table of Contents****Cott Corporation****Consolidated Statements of Equity**

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

	Cott Corporation Equity						Accumulated Other Comprehensive Income (Loss)	Non-Controlling Interests	Total Equity
	Number of Common Shares (In thousands)	Number of Treasury Shares (In thousands)	Common Shares	Treasury Shares	Additional Paid-in-Capital	Retained Earnings (Deficit)			
<b>Balance at December 27, 2008</b>	<b>71,871</b>	<b>2,307</b>	<b>\$ 275.0</b>	<b>\$ (6.4)</b>	<b>\$ 38.1</b>	<b>\$ (29.7)</b>	<b>\$ (47.8)</b>	<b>\$ 17.3</b>	<b>\$ 246.5</b>
Common shares issued	9,435		47.5						47.5
Treasury shares issued PSU Plan		(560)		1.4	(1.4)				
Treasury shares issued EISPP		(243)		0.6	(0.6)				
Share-based compensation					1.3				1.3
Options exercised	25								
Distributions to non-controlling interests								(6.6)	(6.6)
Comprehensive income							26.5		26.5
Currency translation adjustment									
Net income						81.5		4.6	86.1
<b>Balance at January 2, 2010</b>	<b>81,331</b>	<b>1,504</b>	<b>\$ 322.5</b>	<b>\$ (4.4)</b>	<b>\$ 37.4</b>	<b>\$ 51.8</b>	<b>\$ (21.3)</b>	<b>\$ 15.3</b>	<b>\$ 401.3</b>
Common shares issued	13,340		71.1						71.1
Common shares issued Directors Share Award	79				0.7				0.7
Tax impact of common shares issuance			2.0						2.0
Treasury shares issued PSU Plan		(437)		1.2	(1.3)				(0.1)
Treasury shares issued EISPP		(16)							
Share-based compensation					4.0				4.0
Distributions to non-controlling interests								(7.4)	(7.4)
Comprehensive income							4.5		4.5
Currency translation adjustment								(0.4)	(0.4)
Pension benefit plan, net of tax								(0.3)	(0.3)
Unrealized loss on derivative instruments, net of tax									
Net income						54.7		5.1	59.8
<b>Balance at January 1, 2011</b>	<b>94,750</b>	<b>1,051</b>	<b>\$ 395.6</b>	<b>\$ (3.2)</b>	<b>\$ 40.8</b>	<b>\$ 106.5</b>	<b>\$ (17.5)</b>	<b>\$ 13.0</b>	<b>\$ 535.2</b>
Common shares issued Directors Share Award	76				0.7				0.7
Treasury shares issued PSU Plan		(181)		0.5	(0.5)				
Treasury shares issued EISPP		(196)		0.6	(0.6)				
Share-based compensation					2.2				2.2
Options exercised	275		0.3						0.3
Contributions to non-controlling interests								1.8	1.8
Distributions to non-controlling interests								(6.0)	(6.0)

Edgar Filing: COTT CORP /CN/ - Form 10-K

Comprehensive income										
Currency translation adjustment							(4.7)		(4.7)	
Pension benefit plan, net of tax							(3.1)		(3.1)	
Unrealized gain on derivative instruments, net of tax							0.6		0.6	
Net income						37.6		3.6	41.2	
<b>Balance at December 31, 2011</b>	<b>95,101</b>	<b>674</b>	<b>\$ 395.9</b>	<b>\$ (2.1)</b>	<b>\$ 42.6</b>	<b>\$ 144.1</b>	<b>\$ (24.7)</b>	<b>\$ 12.4</b>	<b>\$ 568.2</b>	

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

F-6

**Table of Contents****Cott Corporation****Consolidated Statements of Comprehensive Income**

(in millions of U.S. dollars)

	December 31, 2011	For the Years Ended January 1, 2011	January 2, 2010
Net income	\$ 41.2	\$ 59.8	\$ 86.1
Other comprehensive (loss) income:			
Currency translation adjustment	(4.7)	4.5	26.5
Pension benefit plan, net of tax <sup>1</sup>	(3.1)	(0.4)	
Unrealized gain (loss) on derivative instruments, net of tax <sup>2</sup>	0.6	(0.3)	
<b>Total other comprehensive (loss) income</b>	<b>(7.2)</b>	<b>3.8</b>	<b>26.5</b>
<b>Comprehensive income</b>	<b>\$ 34.0</b>	<b>\$ 63.6</b>	<b>\$ 112.6</b>
Less: Net income attributable to non-controlling interests	3.6	5.1	4.6
<b>Comprehensive income attributed to Cott Corporation</b>	<b>\$ 30.4</b>	<b>\$ 58.5</b>	<b>\$ 108.0</b>

<sup>1</sup> Net of a \$0.6 million and \$0.6 million tax benefit effect for the years ended December 31, 2011 and January 1, 2011.

<sup>2</sup> Net of a \$0.3 million tax expense and \$0.1 million tax benefit effect for the years ended December 31, 2011 and January 1, 2011.  
The accompanying notes are an integral part of these consolidated financial statements.

---

**Table of Contents**

**Notes to Consolidated Financial Statements**

**Description of Business**

Cott Corporation, together with its consolidated subsidiaries ( Cott, the Company, our Company, Cott Corporation, we, us, or our ), is one of the world's largest beverage companies focusing on private-label products and contract manufacturing. Our product lines include carbonated soft drinks ( CSDs ), clear, still and sparkling flavored waters, energy-related drinks, juice, juice-based products, bottled water and ready-to-drink teas.

**Note 1 Summary of Significant Accounting Policies**

**Basis of presentation**

These consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ( GAAP ) using the U.S. dollar as the reporting currency, as the majority of our business and the majority of our shareowners are in the United States.

For the years ended December 31, 2011 and January 1, 2011, we had 52 weeks of activity, compared to 53 weeks of activity for the year ended January 2, 2010.

We have five reporting segments North America (which includes our U.S. operating segment and Canada operating segment), United Kingdom ( U.K. ) (which includes our United Kingdom reporting unit and our Continental European reporting unit), Mexico, Royal Crown International ( RCI ) and All Other (which includes our international corporate expenses).

**Basis of consolidation**

The financial statements consolidate our accounts, our wholly-owned and majority-owned subsidiaries and joint ventures which we control. All intercompany transactions and accounts have been eliminated in consolidation.

**Estimates**

The preparation of these consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the amount of revenue and expenses during the reporting period. Actual results could differ from those estimates. The consolidated financial statements include estimates and assumptions which, in the opinion of management, were significant to the underlying amounts representing the future valuation of intangible assets, long-lived assets and goodwill, accounting for share-based compensation, realization of deferred income tax assets and the resolution of tax contingencies. Determining whether impairment has occurred requires various estimates and assumptions including estimates of cash flows that are directly related to the potentially impaired asset, the useful life over which cash flows will occur and their amounts. The measurement of an impairment loss requires an estimate of fair value, which includes estimates of cash flows and the appropriate discount rate.

**Accounting Policies**

**Revenue recognition**

We recognize revenue, net of sales returns, when ownership passes to customers for products manufactured in our own plants and/or by third parties on our behalf, and when prices to our customers are fixed and collection is reasonably assured. This may be upon shipment of goods or upon delivery to the customer, depending on contractual terms. Shipping and handling costs paid by the customer to us are included in revenue. Although we accept returns of products from our customers occasionally, such returns, historically, have not been material.

## **Table of Contents**

### **Sales incentives**

We participate in various incentive programs with our customers, including volume-based incentives, promotional allowances and contractual rebates. Volume incentives are based on our customers achieving volume targets for a period of time. They are deducted from revenue and accrued as the incentives are earned and are based on management's estimate of the total the customer is expected to earn and claim. Contractual rebates are handled similarly. Promotional allowances are accrued at time of shipment and deducted from revenue based on either the volume shipped or the volume sold at the retailer location, depending on the terms of the allowance. We regularly review customer sales forecasts to ensure volume targets will be met and adjust incentive accruals accordingly.

### **Cost of sales**

We record shipping and handling and finished goods inventory costs in cost of sales. Finished goods inventory costs include the cost of direct labor and materials and the applicable share of overhead expense chargeable to production.

### **Selling, general and administrative expenses**

We record all other expenses not charged to production as selling, general and administrative expenses.

### **Share-based compensation**

Share-based compensation expense for all share-based compensation awards granted after January 1, 2006, is based on the grant-date fair value. We recognized these compensation costs net of a forfeiture rate on a straight-line basis over the requisite service period of the award, which is generally the vesting term of three years. No estimated forfeitures were included in the calculation of share-based compensation for the 2011, 2010 and 2009 share-based awards.

Additional paid-in capital is adjusted by the tax impact related to the difference between the amount deducted for tax purposes and the compensation cost for accounting purposes. Where the tax deduction exceeds book compensation cost, an increase in additional paid-in capital is recorded. Where the tax deduction is less than book compensation cost, a reduction in additional paid-in capital is recorded to the extent there is an accumulated balance or charged to income tax expense if a shortfall remains after the accumulated additional paid-in capital is brought to zero.

### **Cash and cash equivalents**

Cash and cash equivalents include all highly liquid investments with original maturities not exceeding three months at the time of purchase. The fair values of our cash and cash equivalents approximate the amounts shown on our Consolidated Balance Sheets due to their short-term nature.

### **Allowance for doubtful accounts**

A portion of our accounts receivable is not expected to be collected due to non-payment, bankruptcies and sales returns and deductions. Our accounting policy for the provision for doubtful accounts requires us to reserve an amount based on the evaluation of the aging of accounts receivable, sales return trend analysis, detailed analysis of high-risk customers' accounts, and the overall market and economic conditions of our customers.

### **Inventories**

Inventories are stated at the lower of cost, determined on the first-in, first-out method, or net realizable value. Returnable bottles are valued at the lower of cost, deposit value or net realizable value. Finished goods and work-in-process include the cost of raw materials, direct labor and manufacturing overhead costs.

**Table of Contents****Property, plant and equipment**

Property, plant and equipment are stated at cost less accumulated depreciation. Depreciation is determined using the straight-line method over the estimated useful lives of the assets as follows:

Buildings	10 to 40 years
Machinery and equipment	7 to 15 years
Furniture and fixtures	3 to 10 years
Plates, films and molds	1 to 10 years
Vending	5 to 10 years
Transportation equipment	3 to 15 years

Leasehold improvements are amortized using the straight-line method over the remaining life of the lease. Maintenance and repairs are charged to operating expense when incurred.

**Goodwill and indefinite life intangible assets:**

The following table summarizes our goodwill on a reporting segment basis as of December 31, 2011 and January 1, 2011:

(in millions of U.S. dollars)	December 31, 2011	January 1, 2011
<b>North America</b>		
Balance at beginning of year	\$ 125.7	\$ 26.1
Goodwill acquired during the year		98.2
Foreign exchange	(0.6)	1.4
<b>Balance at end of year</b>	<b>\$ 125.1</b>	<b>\$ 125.7</b>
<b>RCI</b>		
Balance at beginning of year	\$ 4.5	\$ 4.5
Goodwill acquired during the year		
Foreign exchange		
<b>Balance at end of year</b>	<b>\$ 4.5</b>	<b>\$ 4.5</b>
<b>Total</b>		
Balance at beginning of year	\$ 130.2	\$ 30.6
Goodwill acquired during the year		98.2
Foreign exchange	(0.6)	1.4
<b>Balance at end of year</b>	<b>\$ 129.6</b>	<b>\$ 130.2</b>

Goodwill represents the excess purchase price of acquired businesses over the fair value of the net assets acquired. Goodwill is not amortized, but instead is tested at least annually for impairment in the fourth quarter or more frequently if we determine a triggering event has occurred during the year. Any impairment loss is recognized in our results of operations. We evaluate goodwill for impairment on a reporting unit basis. Reporting units are operations for which discrete financial information is available, and are at or one level below our operating segments. For the purpose of testing goodwill for impairment, our reporting units are U.S., Canada and RCI. The evaluation of goodwill for each reporting unit is based upon the following approach. We compare the fair value of a reporting unit to its carrying amount. Where the carrying amount is greater than the fair value, the implied fair value of the reporting unit goodwill is determined by allocating the fair value of the reporting unit to all the assets and liabilities of the reporting unit with any of the remainder being allocated to goodwill. The implied fair value of the reporting unit goodwill is then compared to the carrying amount of that goodwill to determine the impairment loss. Any impairment in value is recognized in the Consolidated Statements of Operations. The goodwill on our balance sheet at December 31, 2011 represents amounts for the North America reporting segment (which includes our U.S. and Canada reporting units) and RCI reporting unit.



## **Table of Contents**

We measure the fair value of reporting units using a mix of the income approach (which is based on the discounted cash flow of the reporting unit) and the public company approach. We believe using a combination of the two approaches provides a more accurate valuation because it incorporates the actual cash generation of the Company in addition to how a third party market participant would value the reporting unit. Because the business is assumed to continue in perpetuity, the discounted future cash flow includes a terminal value. We used a weighted average terminal growth rate of 1% for our U.S. reporting unit in 2011 and 2% for our Canada and RCI reporting units in 2011 and 2010. The long-term growth assumptions incorporated into the discounted cash flow calculation reflect our long-term view of the market (including a decline in CSD demand), projected changes in the sale of our products, pricing of such products and operating profit margins. The estimated revenue changes in this analysis for the U.S. reporting unit ranged between 2.2% and 3.4% for 2011. The estimated revenue changes in this analysis for the Canada reporting unit ranged between -7.2% and 1.9% for 2011 and between -7.9% and 7.2% for 2010. The estimated revenue changes in this analysis for the RCI reporting unit ranged between 4.5% and 10.6% for 2011 and between -9.0% and 10.1% for 2010.

The discount rate used for the fair value estimates in this analysis ranged from 11% to 12% for 2011 and 10% to 12% for 2010. These rates were based on the weighted average cost of capital a market participant would use if evaluating the reporting unit as an investment. The risk-free rate for 2011 was 2.6% and 2.7% and was based on a 20-year U.S. Treasury Bill as of the valuation date.

Each year during the fourth quarter, we re-evaluate the assumptions used to reflect changes in the business environment, such as revenue growth rates, operating profit margins and discount rate. Based on the evaluation performed this year utilizing the assumptions above, we determined that the fair value of each of our reporting units exceeded their carrying amount and as a result further impairment testing was not required. We analyzed the sensitivity these assumptions have on our overall impairment assessment and note that as of the December 31, 2011 annual assessment, the fair value for each of these reporting units was substantially in excess of its carrying value.

### **Intangible and other assets**

As of December 31, 2011, other intangible assets were \$296.1 million, which consisted principally of \$248.4 million of customer relationships that arose from acquisitions, \$15.7 million of financing costs, \$10.7 million of information technology assets, and trademarks of \$5.9 million. Customer relationships are amortized on a straight-line basis for the period over which we expect to receive economic benefits. We review the estimated useful life of these intangible assets annually, taking into consideration the specific net cash flows related to the intangible asset, unless a review is required more frequently due to a triggering event such as the loss of a customer. The permanent loss or significant decline in sales to any customer included in the intangible asset would result in impairment in the value of the intangible asset or accelerated amortization and could lead to an impairment of fixed assets that were used to service that customer. In 2010, we recorded \$216.9 million of customer relationships acquired in connection with the Cliffstar Acquisition. In 2011, we recorded an asset impairment charge of \$1.4 million related primarily to customer relationships.

Our only intangible asset with an indefinite life relates to the 2001 acquisition of intellectual property from Royal Crown Company, Inc. including the right to manufacture our concentrates, with all related inventions, processes, technologies, technical and manufacturing information, know-how and the use of the Royal Crown brand outside of North America and Mexico (the Rights) which has a net book value of \$45.0 million. Prior to 2001, we paid a volume based royalty to the Royal Crown Company for purchase of concentrates. There are no legal, regulatory, contractual, competitive, economic, or other factors that limit the useful life of this intangible.

The life of the Rights is considered to be indefinite and therefore not amortized, but instead is tested at least annually for impairment or more frequently if we determine a triggering event has occurred during the year. For an intangible asset with an indefinite life, we compare the carrying amount of the Rights to their fair value and where the carrying amount is greater than the fair value, we recognize in income an impairment loss. To



---

## **Table of Contents**

determine fair value, we use a relief from royalty method which calculates a fair value royalty rate that is applied to a forecast of future volume shipments of concentrate that is used to produce CSDs. The forecast of future volumes is based on the estimated inter-plant shipments and RCI shipments. The relief from royalty method is used since the Rights were purchased in part to avoid making future royalty payments for concentrate to the Royal Crown Company. The resulting cash flows are discounted using a discount rate of 16% and estimated volume changes between 4.6% and 10.6%. No impairment was calculated as of January 1, 2011. Absent any other changes, if our inter-plant concentrate volume declines by 1.0% from our estimated volume, the value of our Rights would decline by approximately \$1.1 million. If our RCI volume declines by 1.0% from our estimated volume, the value of the Rights would decline by approximately \$1.9 million. If our discounted borrowing rate increases by 100 basis points, the value of the Rights would decline by approximately \$3.6 million.

### **Impairment of long lived assets**

When adverse events occur, we compare the carrying amount of long-lived assets to the estimated undiscounted future cash flows at the lowest level of independent cash flows for the group of long-lived assets and recognize any impairment loss in the Consolidated Statements of Operations, taking into consideration the timing of testing and the asset's remaining useful life. The expected life and value of these long-lived assets is based on an evaluation of the competitive environment, history and future prospects as appropriate. In 2011, we recorded an impairment of long-lived assets of \$0.6 million related to a production plant in Mexico that ceased operations. We did not record any impairments of long-lived assets in 2010 or 2009.

### **Foreign currency translation**

The assets and liabilities of non-U.S. active operations, all of which are self-sustaining, are translated to U.S. dollars at the exchange rates in effect at the balance sheet dates. Revenues and expenses are translated using average monthly exchange rates prevailing during the period. The resulting gains or losses are recorded in accumulated comprehensive income under shareowners' equity.

### **Taxation**

We account for income taxes under the asset and liability method. Deferred tax assets and liabilities are recognized based on the differences between the accounting values of assets and liabilities and their related tax bases using currently enacted income tax rates. A valuation allowance is established to reduce deferred income tax assets if, on the basis of available evidence, it is not more likely than not that all or a portion of any deferred tax assets will be realized. We classify interest and income tax penalties as income tax expense (benefit).

We account for uncertain tax positions using a two-step process. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, based on the technical merits. The second step requires us to estimate and measure the tax benefit as the largest amount that is more than 50% likely to be realized upon ultimate settlement. It is inherently difficult and subjective to estimate such amounts, as we have to determine the probability of various possible outcomes. We re-evaluate these uncertain tax positions on a quarterly basis. This evaluation is based on factors including, but not limited to, changes in facts or circumstances, changes in tax law, effectively settled issues under audit, and new audit activity. Such a change in recognition or measurement would result in the recognition of a tax benefit or an additional charge to the tax provision.

We recognize interest and penalties related to unrecognized tax benefits within the income tax expense line in the accompanying Consolidated Statements of Operations, and we include accrued interest and penalties within the income tax payable or receivable account in the Consolidated Balance Sheets.

---

**Table of Contents****Pension costs**

We record annual amounts relating to defined benefit pension plans based on calculations, which include various actuarial assumptions such as discount rates and assumed rates of return depending on the pension plan. Material changes in pension costs may occur in the future due to changes in these assumptions. Future annual amounts could be impacted by changes in the discount rate, changes in the expected long-term rate of return, changes in the level of contributions to the plans and other factors. The funded status is the difference between the fair value of plan assets and the benefit obligation. Future actuarial gains or losses that are not recognized as net periodic benefits cost in the same periods will be recognized as a component of other comprehensive income.

**Recently issued accounting pronouncements***ASU 2010-13 Effect of Denominating the Exercise Price of a Share-Based Payment Award in the Currency of the Market in Which the Underlying Equity Security Trades*

In April 2010, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update ( ASU ) 2010-13, Effect of Denominating the Exercise Price of a Share-Based Payment Award in the Currency of the Market in Which the Underlying Equity Security Trades, to address the classification of an employee share-based payment award with an exercise price denominated in the currency of a market in which the underlying equity security trades. This update provides amendments to Topic 718 to clarify that an employee share-based payment award with an exercise price denominated in the currency of a market in which a substantial portion of the entity's equity securities trades should not be considered to contain a condition that is not a market, performance, or service condition. Therefore, an entity would not classify such an award as a liability if it otherwise qualifies as equity. We adopted the provisions of this standard during the first quarter of 2011. This standard does not have an impact on our consolidated financial statements.

*ASU 2011-05 Comprehensive Income: Presentation of Comprehensive Income*

In June 2011, the FASB amended its guidance on the presentation of comprehensive income in financial statements to improve the comparability, consistency and transparency of financial reporting and to increase the prominence of items that are recorded in other comprehensive income. The new accounting guidance requires entities to report components of comprehensive income in either (i) a continuous statement of comprehensive income or (ii) two separate but consecutive statements. The provisions of this new guidance are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. This is a change in presentation only and will not have an impact on our consolidated financial statements.

*ASU 2011-08 Intangibles-Goodwill and Other: Testing Goodwill for Impairment*

In September 2011, the FASB amended its guidance in regards to testing goodwill for impairment to address concern raised about the cost and complexity of performing the first step of the two-step goodwill impairment test required under Accounting Standards Codification ( ASC ) Topic 350 Intangibles-Goodwill and Other. The objective of this update is to simplify how entities, both public and nonpublic, test goodwill for impairment. The amendments in the update permit an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test described in Topic 350. The more-likely-than-not threshold is defined as having a likelihood of more than 50 percent. The amendments are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. We are currently evaluating the impact on our consolidated financial statements of adopting this guidance.

---

**Table of Contents**

**Note 2 Acquisition**

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 to be paid 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 based upon the achievement of milestones in certain expansion projects in 2010, which were achieved in 2010. The remainder of the contingent consideration was based on the achievement of certain performance measures during the fiscal year ending January 1, 2011.

We were notified on May 9, 2011 by the seller of Cliffstar of certain objections to the performance measures used to calculate the contingent consideration, and the seller asserted a claim for amounts in excess of the amounts accrued as contingent consideration at July 2, 2011. During the third and fourth quarters of 2011, Cott made interim payments to the seller equal to \$21.0 million and \$8.6 million, respectively. The payment of \$21.0 million was net of a \$4.7 million refund due to Cott as a result of the final determination of working capital, and the payment of \$8.6 million included \$0.9 million in settlement of certain of the seller's objections to the calculation of the contingent consideration. The seller's remaining objections to the calculation of the contingent consideration are subject to an ongoing binding arbitration process under the terms of the asset purchase agreement. The seller is seeking up to \$12.1 million in additional contingent consideration. The final resolution of these matters may result in amounts payable to the seller that vary materially from our current estimated fair value which consists of payments to the seller as noted above and amounting to \$34.3 million. We are currently unable to predict the ultimate outcome of this action. Any changes in the fair value of contingent consideration will be recorded in our Consolidated Statements of Operations. Also, during the third quarter of 2011, Cott made a payment equal to \$4.7 million to satisfy the first of three annual deferred consideration payments.

The Cliffstar Acquisition was financed through the issuance of \$375.0 million aggregate principal amount of 8.125% senior notes due 2018 (the 2018 Notes ), the underwritten public offering of 13.4 million of our common shares (the Equity Offering ) and borrowings under our credit facility, which we refinanced in connection with the Cliffstar Acquisition, to increase the amount available for borrowings to \$275.0 million.

Our primary reasons for the Cliffstar Acquisition were to expand Cott's product portfolio and manufacturing capabilities, enhance our customer offering and growth prospects, and improve our strategic platform for the future.

The Cliffstar Acquisition is being accounted for under the acquisition method, in accordance with ASC 805, ( Business Combinations ), with the assets and liabilities acquired recorded at their fair values at the date of the Cliffstar Acquisition. Identified intangible assets, goodwill and property, plant and equipment are recorded at their estimated fair values per valuations. The results of operations of the acquired business have been included in our operating results beginning as of the date of the Cliffstar Acquisition. We allocated the purchase price of the Cliffstar 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 the straight-line amortization method.

In addition to the purchase price, we incurred \$7.2 million of acquisition related costs, which were expensed as incurred and recorded in the selling, general, and administrative expenses caption of our Consolidated Statements of Operations for the year ended January 1, 2011, in accordance with ASC 805, Business Combinations .

**Table of Contents**

The following table summarizes the allocation of the purchase price to the fair value of the assets acquired and liabilities assumed in connection with the Cliffstar Acquisition.

(in millions of U.S. dollars)	As reported at January 1, 2011
Accounts receivable	\$ 52.2
Inventories	87.1
Prepaid expenses and other assets	5.7
Property, plant & equipment	167.3
Goodwill	98.2
Intangibles and other assets	224.3
Accounts payable and accrued liabilities	(63.3)
Other long-term liabilities	(2.8)
<b>Total</b>	<b>\$ 568.7</b>

**Intangible Assets**

In our 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 Cliffstar'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 Cliffstar's and our management. The following table sets forth the components of identified intangible assets associated with the Cliffstar Acquisition and their estimated weighted average useful lives:

(in millions of U.S. dollars)	As Reported at January 1, 2011	
	Estimated Fair Market Value	Estimated Useful Life
Customer relationships	\$ 216.9	15 years
Non-competition agreements	6.6	3 years
<b>Total</b>	<b>\$ 223.5</b>	

Customer relationships represent future projected revenue that will be derived from sales to existing customers of the acquired company.

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

**Goodwill**

The principal factor that resulted in recognition of goodwill was that the purchase price for the Cliffstar 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. Goodwill is expected to be deductible for tax purposes.

**Table of Contents****Supplemental Pro Forma Data (unaudited)**

The following unaudited pro forma financial information for the years ended January 1, 2011 and January 2, 2010 represent the combined results of our operations as if the Cliffstar Acquisition had occurred on December 28, 2008. The unaudited pro forma results reflect certain adjustments related to the Cliffstar Acquisition such as increased amortization expense on acquired intangible assets resulting from the preliminary fair valuation of assets acquired. The unaudited pro forma financial information does not necessarily reflect the results of operations that would have occurred had we operated as a single entity during such period.

(in millions of U.S. dollars, except share amounts)	For the Years Ended	
	January 1, 2011	January 2, 2010
Revenue	\$ 2,206.5	\$ 2,268.0
Net income <sup>1</sup>	67.0	87.1
Net income per common share, diluted	\$ 0.78	\$ 0.93

<sup>1</sup> For the year ended January 2, 2010, Cott recorded restructuring charges of \$1.5 million due to the 2009 Restructuring Plan (as defined in Note 3) and \$3.6 million of asset impairments primarily related to the write-off of a customer list. For the year ended January 1, 2011, Cott recorded a restructuring gain of \$0.5 million related to the North American Plan (as defined in Note 3).

Revenues for Cliffstar from the date of the Cliffstar Acquisition through January 1, 2011 were \$232.2 million and operating income was \$5.2 million.

**Note 3 Restructuring and Asset Impairments**

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, contract termination and asset impairments, and other employment related costs. In 2007, the Company implemented one such program, which involved the realignment of the management of our Canadian and U.S. businesses to a North American basis, rationalization of our product offerings, elimination of underperforming assets, an increased focus on high potential accounts, and the closure of several plants and warehouses in North America that resulted in lease contract termination losses and a partial reduction in our workforce (the North American Plan). The Company also implemented a plan in 2009 (the 2009 Restructuring Plan) that resulted in a further reduction of our workforce.

During 2011, the Company had no restructuring activity. During 2010, the Company made \$5.4 million of cash payments related to the North American Plan. These cash payments included \$3.0 million related to the settlement of one of its lease obligations, which resulted in a gain of \$0.4 million. In addition, the Company recorded a \$0.1 million gain related to other non-cash charges for the North American Plan during 2010. In 2009, we recorded restructuring and asset impairments of \$5.1 million, which included \$3.6 million for asset impairments primarily related to customer relationships and severance costs of \$1.5 million related to the organizational restructuring and headcount reductions associated with the 2009 Restructuring Plan.

The following table summarizes restructuring, asset impairment and intangible asset impairment charges (gains) for the years ended December 31, 2011, January 1, 2011 and January 2, 2010:

(in millions of U.S. dollars)	For the Years Ended		
	December 31, 2011	January 1, 2011	January 2, 2010
Restructuring	\$	\$ (0.5)	\$ 1.5
Asset impairments	0.6		3.6
Intangible asset impairments	1.4		
	\$ 2.0	\$ (0.5)	\$ 5.1



**Table of Contents**

As of December 31, 2011, no amounts are owed under our restructuring plans.

The following table is a summary of our restructuring liabilities as of January 1, 2011, along with charges (gains) to costs and expenses and cash payments:

**North American Plan:**

(in millions of U.S. dollars)	Balance at January 2, 2010	Charge to Costs and Expenses	Payments made during the year	Balance at January 1, 2011
Lease contract termination loss	\$ 5.8	\$ (0.4)	\$ (5.4)	
	\$ 5.8	\$ (0.4)	\$ (5.4)	\$

The following table is a summary of our restructuring liabilities as of January 2, 2010, along with charges to costs and expenses and cash payments:

(in millions of U.S. dollars)	Balance at December 27, 2008	Charge to Costs and Expenses	Payments made during the year	Balance at January 2, 2010
Lease contract termination loss	\$ 9.6	\$	\$ (3.8)	\$ 5.8
	\$ 9.6	\$	\$ (3.8)	\$ 5.8

**2009 Restructuring Plan:**

(in millions of U.S. dollars)	Balance at December 27, 2008	Charge (Gain) to Costs and Expenses	Payments made during the year	Balance at January 2, 2010
Severance and termination benefits	\$	\$ 1.5	\$ (1.5)	\$
	\$	\$ 1.5	\$ (1.5)	\$

In 2009, \$3.0 million (December 27, 2008 \$5.8 million) of the lease contract termination loss liability was recorded as other long-term liabilities and \$2.8 million of lease contract termination loss liability (December 27, 2008 \$3.8 million) was classified as accounts payable and accrued liabilities.

**Year ended December 31, 2011**

The following table summarizes our asset impairment charges and intangible asset impairment charges on a reporting segment basis for the year ended December 31, 2011. We did not record any restructuring charges in 2011.

Edgar Filing: COTT CORP /CN/ - Form 10-K

(in millions of U.S. dollars)	North America	Mexico	Total
Asset impairments	\$	\$ 0.6	\$ 0.6
Intangible asset impairments	1.4		1.4
	\$ 1.4	\$ 0.6	\$ 2.0

*Asset impairments* In 2011, we recorded an asset impairment charge of \$1.4 million related primarily to customer relationships. Also in 2011, we recorded a \$0.6 million impairment of long-lived assets related to a production plant in Mexico that ceased operations.

F-17



**Table of Contents****Year ended January 1, 2011**

The following table summarizes our restructuring gain on a reporting segment basis for the year ended January 1, 2011.

(in millions of U.S. dollars)	North America	Total
Restructuring (gain)	\$ (0.5)	\$ (0.5)
	\$ (0.5)	\$ (0.5)

*Restructuring* In 2010, we recorded pre-tax restructuring gains totaling \$0.5 million primarily in connection with a gain on a lease contract termination.

**Year ended January 2, 2010**

The following table summarizes restructuring and asset impairment charges on a reporting segment basis for the year ended January 2, 2010.

(in millions of U.S. dollars)	North America	Total
Restructuring	\$ 1.5	\$ 1.5
Asset impairments	3.6	3.6
	\$ 5.1	\$ 5.1

*Restructuring* In 2009, we recorded pre-tax restructuring charges totaling \$1.5 million in connection with severance costs relating to headcount reductions associated with the 2009 Restructuring Plan.

*Asset impairments* In 2009, we recorded an asset impairment charge of \$3.6 million related primarily to customer relationships. In accordance with ASC 360, it was determined that our customer relationship intangible asset no longer had future cash flows due to the loss of a specific customer. As a result, the customer relationship was determined to have a nil carrying value.

**Note 4 Other Expense, Net**

The following table summarizes other expenses for the years ended December 31, 2011, January 1, 2011 and January 2, 2010:

(in millions of U.S. dollars)	December 31, 2011	For the Years Ended January 1, 2011	January 2, 2010
Foreign exchange loss	\$ 2.2	\$ 2.6	\$ 1.1
Write-off of financing fees		1.4	3.3
<b>Total</b>	<b>\$ 2.2</b>	<b>\$ 4.0</b>	<b>\$ 4.4</b>

**Note 5 Interest Expense**

The following table summarizes interest expense for the years ended December 31, 2011, January 1, 2011 and January 2, 2010:

Edgar Filing: COTT CORP /CN/ - Form 10-K

(in millions of U.S. dollars)	December 31, 2011	For the Years Ended January 1, 2011	January 2, 2010
Interest on long-term debt	\$ 50.1	\$ 31.6	\$ 23.6
Other interest expense	7.0	5.3	6.1
<b>Total</b>	<b>\$ 57.1</b>	<b>\$ 36.9</b>	<b>\$ 29.7</b>

F-18

**Table of Contents****Note 6 Income Tax (Benefit) Expense**

Income before income taxes consisted of the following:

(in millions of U.S. dollars)	December 31, 2011	For the Years Ended January 1, 2011	January 2, 2010
Canada	\$ 20.1	\$ 16.2	\$ 0.8
Outside Canada	20.4	62.2	62.5
<b>Income before income taxes</b>	<b>\$ 40.5</b>	<b>\$ 78.4</b>	<b>\$ 63.3</b>

Income tax (benefit) expense consisted of the following:

(in millions of U.S. dollars)	December 31, 2011	For the Years Ended January 1, 2011	January 2, 2010
<b>Current</b>			
Canada	\$ 2.2	\$ 0.5	\$ (20.2)
Outside Canada	0.5	1.8	(8.8)
	\$ 2.7	\$ 2.3	\$ (29.0)
<b>Deferred</b>			
Canada	\$ 0.8	\$ 4.0	\$ 3.3
Outside Canada	(4.2)	12.3	2.9
	\$ (3.4)	\$ 16.3	\$ 6.2
<b>Income tax (benefit) expense</b>	<b>\$ (0.7)</b>	<b>\$ 18.6</b>	<b>\$ (22.8)</b>

The following table reconciles income taxes calculated at the basic Canadian corporate rates with the income tax provision:

(in millions of U.S. dollars)	December 31, 2011	For the Years Ended January 1, 2011	January 2, 2010
Income tax expense based on Canadian statutory rates	\$ 10.9	\$ 22.7	\$ 19.9
Foreign tax rate differential	(3.0)	4.2	2.7
Tax exempt income	(14.2)	(5.6)	(2.8)
Dividend income	1.0		
Capital loss carry-over	(2.7)		(0.5)
Changes in enacted tax rates	(0.8)	(0.5)	0.8
Increase (decrease) in valuation allowance	10.3	1.0	(22.7)
Decrease to ASC 740 reserve	(0.9)	(1.7)	(18.3)
Non-controlling interests	(1.3)	(1.8)	(1.4)
Other items		0.3	(0.5)
<b>Income tax (benefit) expense</b>	<b>\$ (0.7)</b>	<b>\$ 18.6</b>	<b>\$ (22.8)</b>



**Table of Contents**

Deferred income tax assets and liabilities were recognized on temporary differences between the financial and tax bases of existing assets and liabilities as follows:

(in millions of U.S. dollars)	December 31, 2011	January 1, 2011
<b>Deferred tax assets</b>		
Loss carryforwards	\$ 43.3	\$ 21.5
Leases	5.1	6.8
Property, plant & equipment	3.2	4.8
Liabilities and reserves	11.7	12.2
Intangibles		
Stock options	2.2	2.4
Other	7.4	4.3
	<b>72.9</b>	<b>52.0</b>
<b>Deferred tax liabilities</b>		
Property, plant & equipment	(59.2)	(54.8)
Intangible assets	(10.5)	(6.0)
Other	(0.9)	(1.9)
	<b>(70.6)</b>	<b>(62.7)</b>
Valuation allowance	(22.2)	(12.7)
<b>Net deferred tax liability</b>	<b>\$ (19.9)</b>	<b>\$ (23.4)</b>

The increase in the valuation allowance from January 1, 2011 and December 31, 2011 was primarily the result of the reestablishment of a U.S. federal valuation allowance as the U.S. operating segment moved from a net federal deferred tax liability position to an adjusted net deferred tax asset position.

The deferred tax assets and liabilities have been classified as follows on the Consolidated Balance Sheets:

(in millions of U.S. dollars)	December 31, 2011	January 1, 2011
<b>Deferred tax assets:</b>		
Current	\$ 10.6	\$ 18.2
Long-term	4.1	2.5
<b>Deferred tax liabilities:</b>		
Current	\$ (0.5)	\$ (0.5)
Long-term	(34.1)	(43.6)
<b>Net deferred tax liability</b>	<b>\$ (19.9)</b>	<b>\$ (23.4)</b>

As a result of certain realization requirements of ASC Topic 718, Compensation Stock Compensation ( ASC 718 ), the table of deferred tax assets and liabilities shown above does not include certain deferred tax assets at December 31, 2011 and January 1, 2011 that arose directly from tax deductions related to equity compensation in excess of compensation recognized for financial reporting. As of December 31, 2011, equity will be increased by \$2.0 million if and when such deferred tax assets are ultimately realized.

As of December 31, 2011, we have claimed the indefinite reversal exceptions of ASC 740.

## Edgar Filing: COTT CORP /CN/ - Form 10-K

As of December 31, 2011, we have operating loss carryforwards totaling \$278.7 million, credit carryforwards totaling \$1.4 million and capital loss carryforwards totaling \$2.7 million. The operating loss carryforward amount was attributable to Mexico operating loss carryforwards of \$17.9 million that will expire from 2018 to 2021 and U.S. federal and state operating loss carryforwards of \$68.8 million and \$192.0 million,

F-20

**Table of Contents**

respectively. The U.S. federal operating loss carryforwards will expire from 2027 to 2031, and the state operating loss carryforwards will expire from 2012 to 2031. The credit carryforward amount was attributable to a U.S. federal alternative minimum tax credit carryforward of \$0.6 million with an indefinite life and U.S. state credit carryforwards of \$0.8 million that will expire from 2014 to 2017. The capital loss carryforward is a Canadian capital loss with an indefinite life.

We establish a valuation allowance to reduce deferred tax assets if, based on the weight of the available evidence, both positive and negative, for each respective tax jurisdiction, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Due to uncertainty resulting from the lack of sustained taxable income in recent years in the U.S. and Mexico, we have determined that it is more likely than not that the benefit from net operating loss carryforwards and other net deferred tax assets in these jurisdictions will not be realized in the future. In recognition of this risk, we have provided a valuation allowance of \$12.0 million and \$7.5 million to reduce our deferred tax assets in the U.S. and Mexico, respectively.

Additionally, the Company has determined that it is more likely than not that the benefit from its capital losses in Canada will not be realized in the future due to the uncertainty regarding potential future capital gains in the jurisdiction. In recognition of this risk, we have provided a valuation allowance of \$2.7 million on our Canadian capital losses.

If our assumptions change and we determine we will be able to realize these deferred tax assets, an income tax benefit of \$22.2 million will be realized as a result of the reversal of the valuation allowance at December 31, 2011.

In 2006, the FASB issued guidance regarding provisions of uncertain tax positions in ASC 740, which provides specific guidance on the financial statement recognition, measurement, reporting and disclosure of uncertain tax positions taken or expected to be taken in a tax return. ASC 740 addresses the determination of whether tax benefits, either permanent or temporary, should be recorded in the financial statements.

A reconciliation of the beginning and ending amount of our unrecognized tax benefits is as follows:

(in millions of U.S. dollars)	For the Years Ended		
	December 31, 2011	January 1, 2011	January 2, 2010
Unrecognized tax benefits at beginning of year	\$ 13.3	\$ 14.7	\$ 38.7
Additions based on tax positions taken during a prior period	0.2	0.4	2.2
Reductions based on tax positions taken during a prior period		(2.6)	(29.9)
Settlement on tax positions taken during a prior period	(5.8)	(0.8)	(0.4)
Additions based on tax positions taken during the current period	1.7	1.1	1.7
Foreign exchange	(0.4)	0.5	2.4
<b>Unrecognized tax benefits at end of year</b>	<b>\$ 9.0</b>	<b>\$ 13.3</b>	<b>\$ 14.7</b>

In 2011, the Company settled a multi-jurisdictional uncertain tax position that allowed it to treat \$5.2 million of unrecognized Canadian tax benefits as settled. Also, as a result of the settlement, the Company will recover tax and interest in the amount of \$8.5 million associated with offsetting jurisdictional benefits. This receivable is recorded as a current asset in the Company's financial statements.

As of December 31, 2011, we had \$9.0 million of unrecognized tax benefits, a net decrease of \$4.3 million from \$13.3 million as of January 1, 2011. If the Company recognized its tax positions, approximately \$4.0 million would favorably impact the effective tax rate. We believe it is reasonably possible that our unrecognized tax benefits will decrease or be recognized in the next twelve months by up to \$1.2 million due to the settlement of certain tax positions and lapses in statutes of limitation in various tax jurisdictions.

**Table of Contents**

We recognize interest and penalties related to unrecognized tax benefits in the provision for income taxes. We recovered \$0.2 million, \$0.2 million and \$2.1 million of interest and penalties during the year ended December 31, 2011, January 1, 2011 and January 2, 2010, respectively. The amount of interest and penalties recognized as an asset in the Consolidated Balance Sheets for 2011 and 2010 was \$3.1 million and \$2.7 million, respectively.

Years prior to 2007 are closed to audit by the Internal Revenue Service. Years prior to 2006 are closed to audit by U.S. state jurisdictions. We are also currently under audit in Canada by the Canada Revenue Agency ( CRA ) for tax years 2005 through 2008. Years prior to 1997 are closed to audit by the CRA. In the U.K., years prior to 2006 are closed to audit.

**Note 7 Share-based Compensation**

Each of our share-based compensation plans has been approved by our shareowners, except for our 1986 Common Share Option Plan, as amended (the Option Plan ), which was adopted prior to our initial public offering, and a stock option award granted to our Chief Executive Officer, which was an inducement grant made to attract and retain that executive. Subsequent amendments to the Option Plan that required shareowner approval have been so approved.

The table below summarizes the share-based compensation expense for the years ended December 31, 2011, January 1, 2011, and January 2, 2010. This share-based compensation expense was recorded in selling, general, and administrative expenses in our Consolidated Statements of Operations. As used below: (i) PSUs mean performance share units granted under our Amended and Restated Performance Share Unit Plan (the PSU Plan ), (ii) 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 ); (iii) Time-based RSUs mean restricted share units with time-based vesting granted under the 2010 Equity Incentive Plan, (iv) EISPP means common share units granted under the Restated Executive Incentive Share Purchase Plan (the Restated EISPP ); and (v) Director share units mean common shares granted to the non-management members of Cott's Board of Directors under the 2010 Equity Incentive Plan, which were issued in consideration of such directors' annual board retainer fee.

(in millions of U.S. dollars)	For the Years Ended		
	December 31, 2011	January 1, 2011	January 2, 2010
Stock options	\$	\$ 1.0	\$ 0.1
PSUs		0.2	0.8
Performance-based RSUs	(1.2)	1.4	
Time-based RSUs	3.4	1.3	
Director share units	0.7	0.7	
Share appreciation rights		0.1	0.4
Restricted Stock			0.1
Interim CEO award			(0.1)
<b>Total</b>	<b>\$ 2.9</b>	<b>\$ 4.7</b>	<b>\$ 1.3</b>

During the third quarter of 2011, we concluded that it was no longer probable that the targets established for the Performance-based RSUs would be met, and we no longer expect these awards to ultimately vest. Accordingly, we recorded an adjustment to reverse \$3.3 million in compensation costs that had been recorded to date for the Performance-based RSUs.



**Table of Contents**

As of December 31, 2011, the unrecognized share-based compensation expense and years we expect to recognize it as future compensation expense were as follows:

(in millions of U.S. dollars)	Unrecognized share-based compensation expense as of December 31, 2011	Weighted average years expected to recognize compensation
Time-based RSUs	\$ 4.0	1.3
Total	\$ 4.0	

**Option Plan**

No options were granted during the year ended December 31, 2011. Options representing 250,000 shares were granted to our Chief Executive Officer during the first quarter of 2010 at an exercise price of C\$8.01 per share. The fair value of this option grant was estimated to be C\$5.16 using the Black-Scholes option pricing model. On August 9, 2010, the Company entered into a Common Share Option Cancellation and Forfeiture Agreement to cancel this option award. The cancellation was effective as of September 22, 2010. The Company entered into this arrangement with the Chief Executive Officer in order to transition him to the Company's 2010 Equity Incentive Plan, which was approved by shareholders on May 4, 2010. Future grants to this and other executive officers are expected to be governed by the terms of such plan.

Options representing 250,000 shares were issued during the year ended January 2, 2010 at an exercise price of C\$1.10 and vested ratably over four quarters. The fair value of this option grant was estimated at C\$0.475 using the Black-Scholes options pricing model.

No options were granted during the year ended December 31, 2011. The fair value of each option granted during the years ended January 1, 2011 and January 2, 2010 was estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions:

	For the Years Ended January 1, 2011	January 2, 2010
Risk-free interest rate	2.5%	2.3%
Average expected life (years)	5.5	5.5
Expected volatility	74.8%	50.0%
Expected dividend yield		

**Table of Contents**

Stock option activity was as follows:

	Shares (in thousands)	Weighted average exercise price	Weighted average remaining contractual term (years)	Aggregate intrinsic (C\$) (in thousands)
<b>Balance at December 27, 2008</b>	892	\$ 27.52	3.0	\$
Granted	250	1.10		
Exercised	(25)	2.60		
Forfeited or expired	(286)	31.69		
<b>Balance at January 2, 2010</b>	831	\$ 18.97	4.6	\$ 618.1
Granted	250	8.01		
Forfeited or expired	(377)	20.33		
<b>Balance at January 1, 2011</b>	704	\$ 16.67	4.2	\$ 625.0
Exercised	(275)	1.32		
Forfeited or expired	(145)	38.27		
<b>Balance at December 31, 2011</b>	284	\$ 20.47	1.7	\$ 263.0
<b>Vested at December 31, 2011</b>	284	\$ 20.47	1.7	\$ 263.0
<b>Exercisable at December 31, 2011</b>	284	\$ 20.47	1.7	\$ 263.0

The aggregate intrinsic value amounts in the table above represent the difference between the closing price of our common stock on December 31, 2011, which was C\$6.40 (January 1, 2011 C\$8.95; January 2, 2010 C\$8.66), and the exercise price, multiplied by the number of in-the-money stock options as of the same date. The total intrinsic value of stock options exercised during the year ended December 31, 2011 was \$0.4 million (January 1, 2011 nil; January 2, 2010 \$0.1 million).

Total compensation cost related to unvested awards under the option plan not yet recognized is nil. The total fair value of shares that vested during the year ended December 31, 2011 was nil.

Subsequent to the adoption of the 2010 Equity Incentive Plan, the Human Resources and Compensation Committee of the Board of Directors ( HRCC ) determined that certain of Cott s long-term incentive plans were no longer needed and terminated the Option Plan. In connection with the termination of the Option Plan, outstanding options will continue in accordance with the terms of the Option Plan until vested, paid out, forfeited or terminated, as applicable. No further awards will be granted under the Option Plan. Future awards are expected to be governed by the terms of the Company s 2010 Equity Incentive Plan.

Outstanding options at December 31, 2011 were as follows:

Range of Exercise Prices (C\$)	Options Outstanding Remaining			Options Exercisable	
	Number Exercisable (in thousands)	Contractual Life (Years)	Weighted Exercise Price (C\$)	Number Exercisable (in thousands)	Weighted Exercise Price (C\$)

Edgar Filing: COTT CORP /CN/ - Form 10-K

\$3.50	75	3.6	\$ 3.50	75	\$ 3.50
\$18.48	50	2.3	\$ 18.48	50	\$ 18.48
\$28.98	134	0.6	\$ 28.98	134	\$ 28.98
\$29.95	25	0.1	\$ 29.95	25	\$ 29.95
	284	1.7	\$ 20.47	284	\$ 20.47

F-24

---

**Table of Contents**

**Long-Term Incentive Plans**

*2010 Equity Incentive Plan*

Our shareowners approved our 2010 Equity Incentive Plan at the Annual and Special Meeting of Shareowners held on May 4, 2010. Awards under the 2010 Equity Incentive Plan may be in the form of incentive stock options, non-qualified stock options, restricted shares, restricted share units, performance shares, performance units, stock appreciation rights, and stock payments to employees, directors and outside consultants. The 2010 Equity Incentive Plan is administered by the HRCC or any other board committee as may be designated by the board from time to time. At the inception of the 2010 Equity Incentive Plan, 4,000,000 shares were reserved for future issuance, subject to adjustment upon a share split, share dividend, recapitalization, and other similar transactions and events.

On May 6, 2011, we granted 76,110 common shares to the non-management members of our Board of Directors under the 2010 Equity Incentive Plan. The common shares were issued in consideration of such directors' annual board retainer fee.

In 2011, we granted 592,163 Performance-based RSUs and 151,545 Time-based RSUs to certain employees of the Company. The Performance-based RSUs vest based on the achievement of a specified target level of pre-tax income for the period beginning on January 2, 2011 and ending on the last day of our 2013 fiscal year. The amount of Performance-based RSUs that may vest and the related unrecognized compensation cost is subject to change based on the level of targeted pre-tax income that is achieved during the period beginning on January 2, 2011 and ending on the last day of our 2013 fiscal year. The Time-based RSUs vest on the last day of our 2013 fiscal year.

On May 4, 2010, we granted 78,790 common shares to the non-management members of our Board of Directors under the 2010 Equity Incentive Plan. The common shares were issued in consideration of such directors' annual board retainer fee.

In 2010, we granted 1,726,807 Performance-based RSUs and 1,396,807 Time-based RSUs to certain employees of the Company. The Performance-based RSUs vest based on the achievement of a specified target level of pre-tax income for the period beginning on January 3, 2010 and ending on the last day of our 2012 fiscal year. The amount of Performance-based RSUs that may vest and the related unrecognized compensation cost is subject to change based on the level of targeted pre-tax income that is achieved during the period beginning on January 3, 2010 and ending on the last day of our 2012 fiscal year. During the fourth quarter of 2010, the HRCC modified the original pre-tax income targets to reflect the Cliffstar Acquisition. The Time-based RSUs vest on the last day of our 2012 fiscal year.

*Amended and Restated PSU Plan*

Under the Amended and Restated Performance Share Unit Plan (the "PSU Plan"), PSUs were awarded to Company employees. The value of an employee's award under our PSU Plan depended on (i) our performance over a maximum three-year performance cycle; and (ii) the market price of our common shares at the time of vesting. Performance targets were established by the HRCC. PSUs granted vested over a term not exceeding three fiscal years. As of January 1, 2011, the Trustee under the PSU Plan held 0.6 million common shares as treasury shares. The remaining outstanding awards under the PSU Plan vested in February 2011 upon the achievement of adjusted operating income exceeding zero for 2008, 2009 and 2010.

Subsequent to the adoption of the 2010 Equity Incentive Plan on May 4, 2010, the HRCC determined that certain of Cott's long-term incentive plans were no longer needed and terminated the PSU Plan effective February 23, 2011.

**Table of Contents***Amended and Restated SAR Plan*

Under the Amended and Restated Share Appreciation Rights Plan (the SAR Plan), share appreciation rights (SARs) were awarded to employees and directors of our Company. SARs typically vested on the third anniversary of the grant date. On vesting, each SAR represented the right to be paid the difference, if any, between the price of our common shares on the date of grant and their price on the vesting date of the SAR. Payments in respect of vested in-the-money SARs were made in the form of our common shares purchased on the open market by an independent trust with cash contributed by us. During the year ended January 1, 2011, 154,000 SARs vested out-of-the-money. On August 10, 2010, the Company entered into a Stock Appreciation Right Cancellation Agreement with an executive officer to cancel 100,000 previously granted SARs. The cancellation was effective as of September 2, 2010.

Subsequent to the adoption of the 2010 Equity Incentive Plan on May 4, 2010, the HRCC determined that certain of Cott's long-term incentive plans were no longer needed and terminated the SAR Plan effective February 23, 2011.

During the year ended December 31, 2011, EISPP, PSU, Performance-based RSU and Time-based RSU activity was as follows:

(in thousands)	EISPP	Number of PSUs	Number of Performance- based RSUs	Number of Time-based RSUs
Balance at January 1, 2011	189	188	1,727	1,397
Awarded			592	151
Issued	(189)	(188)		
Forfeited				
Outstanding at December 31, 2011			2,319	1,548

**Other Share-Based Compensation**

In connection with his appointment, we granted to David Gibbons, our former Interim Chief Executive Officer, 720,000 restricted stock units on March 24, 2008, of which 360,000 units vested immediately. Of the remaining 360,000 restricted stock units, 300,000 vested ratably on a monthly basis over a five-month period beginning October 24, 2008 through February 27, 2009. Mr. Gibbons resigned as Interim Chief Executive Officer and his employment arrangements came to an end on February 27, 2009, at which time 6,000 prorated restricted stock units vested and the remaining 54,000 restricted stock units were forfeited. This award was recognized as compensation expense over the vesting period. The fair value and compensation costs varied based on share price. This award was accounted for as a liability.

**Restated Executive Incentive Share Purchase Plan**

In the second quarter of 2007, our shareowners approved a restated executive incentive share purchase plan (the Restated EISPP), which allowed officers and senior management executives, as designated by the HRCC, to elect to receive their performance bonus (or a portion thereof) as common share units held on their behalf by an independent trust. If the employee elected to receive common share units, we provided to the employee an equal number of shares, which vested on January 1, 2011 due to the achievement of certain performance goals (Match Portion).

The Match Portion of the performance bonus was estimated based on the employee's election and was amortized over the service period of approximately four years. During 2007, employees elected to defer a total of \$1.1 million under the Restated EISPP. In 2009, the Company recorded an expense of \$0.1 million related to the anticipated 2007 matching portion of the performance bonus. No amount was accrued for the Match Portion for 2008 deferrals because corporate performance goals were not achieved and no bonus amounts were deferred into

**Table of Contents**

the plan. Effective as of December 27, 2008, the HRCC approved an amendment to the Restated EISPP with the effect of freezing participation in the plan. The remaining outstanding Match Portion vested in February 2011 upon the achievement of cumulative EBIT growth of 10% per annum over the three-year performance cycle ending at the end of fiscal 2010.

Subsequent to the adoption of the 2010 Equity Incentive Plan on May 4, 2010, the HRCC determined that certain of Cott's long-term incentive plans were no longer needed and terminated the Restated EISPP effective February 23, 2011.

**Average Canadian U.S. Dollar Exchange Rates for 2011, 2010 and 2009**

The weighted average exercise prices for options in this Note are disclosed in Canadian dollars. The table below represents the average Canadian dollar to U.S. dollar exchange rate for the fiscal years ended 2011, 2010 and 2009.

	For the Years Ended		
	December 31, 2011	January 1, 2011	January 2, 2010
Average exchange rate	\$ 1.012	\$ 0.971	\$ 0.878

**Note 8 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, PSUs, 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 Years Ended		
(in thousands)	December 31, 2011	January 1, 2011	January 2, 2010
Weighted average number of shares outstanding - basic	94,241	85,588	74,207
Dilutive effect of stock options	33	191	267
Dilutive effect of PSUs		161	741
Dilutive effect of Performance-based RSUs	727	96	
Dilutive effect of Time-based RSUs		149	
Adjusted weighted average number of shares outstanding - diluted	95,001	86,185	75,215

At December 31, 2011, options to purchase 284,000 (January 1, 2011 - 704,000; January 2, 2010 - 830,650) shares of common stock at a weighted average exercise price of C\$20.47 (January 1, 2011 - C\$16.67; January 2, 2010 - C\$18.97) per share were outstanding, of which 209,000 (January 1, 2011 - 354,000; January 2, 2010 - 439,441) were not included in 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 (January 1, 2011 - 1,051,000; January 2, 2010 - 1,503,763) treasury shares held in various trusts in the calculation of basic and diluted earnings per share.

**Note 9 Segment Reporting**

We produce, package and distribute private-label CSDs, clear, still and sparkling flavored waters, energy-related drinks, juice, juice-based products, bottled water and ready-to-drink teas to regional and national grocery,

**Table of Contents**

mass-merchandise and wholesale chains and customers in the dollar convenience and drug channels 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, RCI and All Other.

**Reporting Segments**

(in millions of U.S. dollars)	December 31, 2011					Total
	North America	United Kingdom	Mexico	RCI	All Other	
External revenue <sup>1</sup>	\$ 1,809.3	\$ 447.9	\$ 51.8	\$ 25.6	\$	\$ 2,334.6
Depreciation and amortization	80.0	13.2	2.1			95.3
Asset impairments			0.6			0.6
Intangible asset impairments	1.4					1.4
Operating income (loss)	70.4	27.5	(4.4)	7.2		100.7
Property, plant and equipment	383.1	89.8	9.3			482.2
Goodwill	125.1			4.5		129.6
Intangibles and other assets	326.1	14.6	0.4			341.1
Total assets <sup>2</sup>	1,231.3	237.0	28.4	11.3	0.9	1,508.9
Additions to property, plant and equipment	39.1	9.5	0.2			48.8

<sup>1</sup> Intersegment revenue between North America and the other reporting segments was \$14.7 million for the year ended December 31, 2011.

<sup>2</sup> Excludes intersegment receivables, investments and notes receivable.

**Reporting Segments**

(in millions of U.S. dollars)	January 1, 2011					Total
	North America	United Kingdom	Mexico	RCI	All Other	
External revenue <sup>1</sup>	\$ 1,357.3	\$ 367.1	\$ 50.1	\$ 28.8	\$	\$ 1,803.3
Depreciation and amortization	59.1	12.8	2.1			74.0
Restructuring	(0.5)					(0.5)
Operating income (loss)	75.0	24.5	(7.5)	7.0		99.0
Property, plant and equipment	400.4	90.2	13.2			503.8
Goodwill	125.7			4.5		130.2
Intangibles and other assets	354.7	15.7	0.7			371.1
Total assets <sup>2</sup>	1,275.9	207.4	31.5	13.7	0.7	1,529.2
Additions to property, plant and equipment	31.9	10.6	1.5			44.0

<sup>1</sup> Intersegment revenue between North America and the other reporting segments was \$19.0 million for the year ended January 1, 2011.

<sup>2</sup> Excludes intersegment receivables, investments and notes receivable.

**Table of Contents****Reporting Segments**

(in millions of U.S. dollars)	January 2, 2010					Total
	North America	United Kingdom	Mexico	RCI	All Other	
External revenue <sup>1</sup>	\$ 1,173.9	\$ 359.3	\$ 42.7	\$ 20.8	\$	\$ 1,596.7
Depreciation and amortization	51.0	13.4	1.8			66.2
Restructuring and asset impairments						
Restructuring	1.5					1.5
Asset impairments	3.6					3.6
Operating income (loss)	77.6	23.0	(7.1)	3.9		97.4
Property, plant and equipment	236.5	93.0	13.5			343.0
Goodwill	26.1			4.5		30.6
Intangibles and other assets	137.0	17.7	0.8			155.5
Total assets <sup>2</sup>	632.1	197.0	33.4	10.6	0.7	873.8
Additions to property, plant and equipment	22.7	8.6	1.0			32.3

<sup>1</sup> Intersegment revenue between North America and the other reporting segments was \$14.0 million for the year ended January 2, 2010.

<sup>2</sup> Excludes intersegment receivables, investments and notes receivable.

For the year ended December 31, 2011, sales to Walmart accounted for 31.6% (2010 31.0%, 2009 33.5%) of our total revenue, 35.9% of our North America reporting segment revenue (2010 35.3%, 2009 39.4%), 14.6% of our U.K. reporting segment revenue (2010 16.6%, 2009 17.7%) and 44.7% of our Mexico reporting segment revenue (2010 38.9%, 2009 18.4%).

Credit risk arises from the potential default of a customer in meeting its financial obligations with 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:

(in millions of U.S. dollars)	For the Years Ended		
	December 31, 2011	January 1, 2011	January 2, 2010
United States	\$ 1,610.5	\$ 1,212.1	\$ 1,034.1
Canada	249.0	201.1	198.7
United Kingdom	447.9	367.1	359.3
Mexico	51.8	50.1	42.7
RCI	25.6	28.8	20.8
Elimination <sup>1</sup>	(50.2)	(55.9)	(58.9)
<b>Total</b>	<b>\$ 2,334.6</b>	<b>\$ 1,803.3</b>	<b>\$ 1,596.7</b>

<sup>1</sup> Represents intercompany revenue among our operating segments, of which \$14.7 million, \$19.0 million and \$14.0 million represents intersegment revenue between the North America reporting segment and our other operating segments for December 31, 2011, January 1, 2011, and January 2, 2010, respectively.

The revenue by product table for 2009 has been revised to include the category Juice, which is a significant portion of our 2010 and 2011 revenue due to the Cliffstar Acquisition.





**Table of Contents**

Revenues by product were as follows:

(in millions of U.S. dollars)	For the Year Ended December 31, 2011				
	North America	United Kingdom	Mexico	RCI	Total
<b><u>Revenue</u></b>					
Carbonated soft drinks	\$ 731.4	\$ 179.2	\$ 39.6	\$	\$ 950.2
Juice	587.7	12.3	2.7		602.7
Concentrate	9.1	2.8		25.6	37.5
All other products	481.1	253.6	9.5		744.2
Total	\$ 1,809.3	\$ 447.9	\$ 51.8	\$ 25.6	\$ 2,334.6

(in millions of U.S. dollars)	For the Year Ended January 1, 2011				
	North America	United Kingdom	Mexico	RCI	Total
<b><u>Revenue</u></b>					
Carbonated soft drinks	\$ 705.5	\$ 159.5	\$ 43.4	\$	\$ 908.4
Juice	225.3	10.0	0.8		236.1
Concentrate	7.5	4.1		28.8	40.4
All other products	419.0	193.5	5.9		618.4
Total	\$ 1,357.3	\$ 367.1	\$ 50.1	\$ 28.8	\$ 1,803.3

(in millions of U.S. dollars)	For the Year Ended January 2, 2010				
	North America	United Kingdom	Mexico	RCI	Total
<b><u>Revenue</u></b>					
Carbonated soft drinks	\$ 760.0	\$ 161.9	\$ 36.4	\$	\$ 958.3
Juice		10.1	0.4		10.5
Concentrate	6.5	4.6		19.7	30.8
All other products	407.4	182.7	5.9	1.1	597.1
Total	\$ 1,173.9	\$ 359.3	\$ 42.7	\$ 20.8	\$ 1,596.7

Property, plant and equipment by geographic area as of December 31, 2011 and January 1, 2011 were as follows:

(in millions of U.S. dollars)	December 31, 2011	January 1, 2011
United States	\$ 336.2	\$ 350.4
Canada	46.9	50.0
United Kingdom	89.8	90.2
Mexico	9.3	13.2
<b>Total</b>	<b>\$ 482.2</b>	<b>\$ 503.8</b>

**Note 10 Accounts Receivable, Net**

## Edgar Filing: COTT CORP /CN/ - Form 10-K

The following table summarizes accounts receivable, net as of December 31, 2011 and January 1, 2011:

(in millions of U.S. dollars)	December 31, 2011	January 1, 2011
Trade receivables	\$ 211.6	\$ 209.0
Allowance for doubtful accounts	(9.0)	(8.3)
Other	8.2	12.9
<b>Total</b>	<b>\$ 210.8</b>	<b>\$ 213.6</b>

F-30

**Table of Contents****Note 11 Inventories**

The following table summarizes inventories as of December 31, 2011 and January 1, 2011:

(in millions of U.S. dollars)	December 31, 2011	January 1, 2011
Raw materials	\$ 87.3	\$ 90.1
Finished goods	102.3	107.3
Other	20.4	18.1
<b>Total</b>	<b>\$ 210.0</b>	<b>\$ 215.5</b>

**Note 12 Property, Plant & Equipment**

The following table summarizes property, plant and equipment as of December 31, 2011 and January 1, 2011:

(in millions of U.S. dollars)	December 31, 2011			January 1, 2011		
	Cost	Accumulated Depreciation	Net	Cost	Accumulated Depreciation	Net
Land and Land Improvements	\$ 30.4	\$ 0.6	\$ 29.8	\$ 30.2	\$ 0.2	30.0
Buildings	156.7	58.0	98.7	157.6	51.7	105.9
Machinery and equipment						
Owned	636.9	331.7	305.2	600.7	290.4	310.3
Capital leases	21.2	5.8	15.4	25.8	7.3	18.5
Plates, films and molds	34.5	26.6	7.9	36.2	28.2	8.0
Vending	13.8	12.0	1.8	15.6	13.1	2.5
Transportation equipment	0.6	0.5	0.1	0.7	0.5	0.2
Leasehold improvements	39.4	18.7	20.7	39.2	15.0	24.2
IT Systems	2.7	1.3	1.4	3.2		3.2
Furniture and fixtures	9.7	8.5	1.2	9.3	8.3	1.0
<b>Total</b>	<b>\$ 945.9</b>	<b>\$ 463.7</b>	<b>\$ 482.2</b>	<b>\$ 918.5</b>	<b>\$ 414.7</b>	<b>\$ 503.8</b>

Depreciation expense for the year ended December , 2011 was \$63.5 million (\$52.6 million January 1, 2011; \$48.5 million January 2, 2010).

**Table of Contents****Note 13 Intangibles and Other Assets**

The following table summarizes intangibles and other assets as of December 31, 2011 and January 1, 2011:

(in millions of U.S. dollars)	Cost	December 31, 2011 Accumulated Amortization	Net	Cost	January 1, 2011 Accumulated Amortization	Net
<b>Intangibles</b>						
<i>Not subject to amortization</i>						
Rights	\$ 45.0	\$	\$ 45.0	\$ 45.0	\$	\$ 45.0
<i>Subject to amortization</i>						
Customer relationships	366.2	117.8	248.4	369.3	94.8	274.5
Trademarks	27.5	21.6	5.9	28.9	21.1	7.8
Information technology	64.6	53.9	10.7	60.3	52.5	7.8
Other	11.8	5.7	6.1	10.3	3.1	7.2
	<b>470.1</b>	<b>199.0</b>	<b>271.1</b>	468.8	171.5	297.3
	<b>515.1</b>	<b>199.0</b>	<b>316.1</b>	513.8	171.5	342.3
<b>Other Assets</b>						
Financing costs	23.1	7.4	15.7	23.2	3.6	19.6
Deposits	8.1		8.1	7.6		7.6
Other	1.4	0.2	1.2	4.3	2.7	1.6
	<b>32.6</b>	<b>7.6</b>	<b>25.0</b>	35.1	6.3	28.8
<b>Total Intangibles &amp; Other Assets</b>	<b>\$ 547.7</b>	<b>\$ 206.6</b>	<b>\$ 341.1</b>	\$ 548.9	\$ 177.8	\$ 371.1

Amortization expense of intangible and other assets was \$35.7 million during 2011 (\$26.5 million January 1, 2011; \$20.2 million January 2, 2010). Amortization of intangibles includes \$2.7 million (\$2.2 million January 1, 2011; \$4.5 million January 2, 2010) relating to information technology assets and \$3.9 million (\$2.7 million January 1, 2011; \$1.6 million January 2, 2010) relating to deferred financing assets.

The estimated amortization expense for intangible and other assets over the next five years is:

(in millions of U.S. dollars)	
2012	\$ 30.9
2013	29.5
2014	27.8
2015	25.4
2016	22.1
Thereafter	135.4
<b>Total</b>	<b>\$ 271.1</b>

**Table of Contents****Note 14 Accounts Payable and Accrued Liabilities**

The following table summarizes accounts payable and accrued liabilities as of December 31, 2011 and January 1, 2011:

(in millions of U.S. dollars)	December 31, 2011	January 1, 2011
Trade payables	\$ 165.8	\$ 146.1
Deferred income taxes	0.5	0.5
Accrued compensation	27.0	19.1
Accrued sales incentives	29.6	24.8
Accrued interest	12.8	14.1
Payroll, sales and other taxes	16.0	12.8
Other accrued liabilities	29.4	59.2
<b>Total</b>	<b>\$ 281.1</b>	<b>\$ 276.6</b>

**Note 15 Debt**

Our total debt as of December 31, 2011 and January 1, 2011 is as follows:

(in millions of U.S. dollars)	December 31, 2011	January 1, 2011
8.375% senior notes due in 2017 <sup>1</sup>	215.0	215.0
8.125% senior notes due in 2018	375.0	375.0
ABL facility		7.9
GE Obligation	12.4	16.5
Other capital leases	4.1	5.8
Other debt	1.5	2.0
<b>Total debt</b>	<b>608.0</b>	<b>622.2</b>
Less: Short-term borrowings and current debt:		
ABL facility		7.9
<b>Total short-term borrowings</b>		<b>7.9</b>
GE Obligation current maturities	2.6	4.1
Other capital leases current maturities	0.6	1.4
Other debt current maturities	0.2	0.5
<b>Total current debt</b>	<b>3.4</b>	<b>13.9</b>
Long-term debt before discount	604.6	608.3
Less discount on 8.375% notes	(2.5)	(2.8)
<b>Total long-term debt</b>	<b>\$ 602.1</b>	<b>\$ 605.5</b>

<sup>1</sup> Our 8.375% senior notes were issued at a discount of 1.425% on November 13, 2009.

**Table of Contents**

The long-term debt payments (which include current maturities of long-term debt) required in each of the next five years and thereafter are as follows:

(in millions of U.S. dollars)	Long Term Debt (incl. current)
2012	\$ 3.4
2013	2.0
2014	2.1
2015	2.2
2016	1.1
Thereafter	597.2
	\$ 608.0 <sup>1</sup>

<sup>1</sup> We funded the purchase of new water bottling equipment through an interim financing agreement signed in January 2008 (the GE Obligation). At the end of the GE Obligation, we may exchange \$6.0 million of deposits for the extinguishment of \$6.0 million in debt or elect to purchase such equipment.

*Asset Based Lending Facility*

On March 31, 2008, we entered into a credit agreement with JPMorgan Chase Bank, N.A. as Agent that created an asset-based lending credit facility (the ABL facility) to provide financing for our North America, U.K. and Mexico reporting segments. In connection with the Cliffstar Acquisition, we refinanced the ABL facility on August 17, 2010 to, among other things, provide for the Cliffstar Acquisition, the issuance of the 2018 Notes and the application of net proceeds therefrom, the underwritten public offering of 13,340,000 common shares at a price of \$5.67 per share and the application of net proceeds therefrom and to increase the amount available for borrowings to \$275.0 million. We drew down a portion of the indebtedness under the ABL facility in order to fund the Cliffstar Acquisition. We incurred \$5.4 million of financing fees in connection with the refinancing of the ABL facility. The financing fees are being amortized using the straight line method over a four-year period, which represents the duration of the ABL facility.

As of December 31, 2011, we had no outstanding borrowings under the ABL. The commitment fee was 0.5% per annum of the unused commitment, which was \$265.3 million as of December 31, 2011.

The effective interest rate as of December 31, 2011 on LIBOR and Prime loans is based on average aggregate availability as follows:

**Average Aggregate Availability**

(in millions of U.S. dollars)	ABR Spread	Canadian Prime Spread	Eurodollar Spread	CDOR Spread	LIBOR Spread
Over \$150	1.50%	1.50%	2.50%	2.50%	2.50%
\$75 - 150	1.75%	1.75%	2.75%	2.75%	2.75%
Under \$75	2.00%	2.00%	3.00%	3.00%	3.00%

8.125% Senior Notes due in 2018

On August 17, 2010, we issued the 2018 Notes. The issuer of the 2018 Notes is our wholly-owned subsidiary Cott Beverages Inc., but we and most of our U.S., Canadian and United Kingdom subsidiaries guarantee the 2018 Notes. The interest on the 2018 Notes is payable semi-annually on March 1<sup>st</sup> and September 1<sup>st</sup> of each year.

We incurred \$8.6 million of financing fees in connection with the issuance of the 2018 Notes. The financing fees are being amortized using the effective interest method over an eight-year period, which represents the duration of the 2018 Notes.





---

**Table of Contents**

*8.375% Senior Notes due in 2017*

On November 13, 2009, we issued \$215.0 million of senior notes that are due on November 15, 2017 (the 2017 Notes ). The 2017 Notes were issued at a \$3.1 million discount. The issuer of the 2017 Notes is Cott Beverages Inc., but we and most of our U.S., Canadian and United Kingdom subsidiaries guarantee the 2017 Notes. The interest on the 2017 Notes is payable semi-annually on May 15<sup>th</sup> and November 15<sup>th</sup> of each year.

We incurred \$5.1 million of financing fees in connection with the 2017 Notes. The financing fees are being amortized using the effective interest method over an eight-year period, which represents the duration of the 2017 Notes.

*8% Senior Subordinated Notes due in 2011*

We repurchased the remaining outstanding 8% senior subordinated notes due December 15, 2011 (the 2011 Notes ) for \$11.1 million on February 1, 2010, and recorded a loss on buyback of \$0.1 million. The 2011 Notes acquired by us have been retired, and we have discontinued the payment of interest.

In 2009, the Company repurchased \$257.8 million in principal amount of the 2011 Notes, and recorded a loss on buyback of \$3.3 million.

***GE Financing Agreement***

We funded \$32.5 million of water bottling equipment purchases through a finance lease arrangement in 2008. The quarterly payments under the lease obligation totaled approximately \$8.8 million per annum for the first two years, \$5.3 million per annum for the subsequent two years, then \$1.7 million per annum for the final four years.

***Covenant Compliance***

*8.125% Senior Notes due in 2018*

Under the indenture governing the 2018 Notes, we are subject to a number of covenants, including covenants that limit our and certain of our subsidiaries' ability, subject to certain exceptions and qualifications, to (i) pay dividends or make distributions, repurchase equity securities, prepay subordinated debt or make certain investments, (ii) incur additional debt or issue certain disqualified stock or preferred stock, (iii) create or incur liens on assets securing indebtedness, (iv) merge or consolidate with another company or sell all or substantially all of our assets taken as a whole, (v) enter into transactions with affiliates and (vi) sell assets. We have been in compliance with all of the covenants under the 2018 Notes and there have been no amendments to any such covenants since the 2018 Notes were issued.

*8.375% Senior Notes due in 2017*

Under the indenture governing the 2017 Notes, we are subject to a number of covenants, including covenants that limit our and certain of our subsidiaries' ability, subject to certain exceptions and qualifications, to (i) pay dividends or make distributions, repurchase equity securities, prepay subordinated debt or make certain investments, (ii) incur additional debt or issue certain disqualified stock or preferred stock, (iii) create or incur liens on assets securing indebtedness, (iv) merge or consolidate with another company or sell all or substantially all of our assets taken as a whole, (v) enter into transactions with affiliates and (vi) sell assets. We have been in compliance with all of the covenants under the 2017 Notes and there have been no amendments to any such covenants since the 2017 Notes were issued.

*ABL Facility*

Under the credit agreement governing the ABL facility, we and our restricted subsidiaries are subject to a number of business and financial covenants, including a covenant requiring a minimum fixed charge coverage ratio of at least 1.1 to 1.0 effective when and if excess availability is less than the greater of (a)\$30.0 million and

**Table of Contents**

(b) the lesser of (i) 12.5% of the amount of the aggregate borrowing base or (ii) \$37.5 million. Although the covenant was not triggered as of December 31, 2011, our fixed charge coverage ratio as calculated under this covenant was greater than 1.1 to 1.0. If availability is less than \$37.5 million, the lenders will take dominion over the cash and will apply excess cash to reduce amounts owing under the facility. The credit agreement governing the ABL facility requires us to maintain aggregate availability of at least \$15.0 million. We were in compliance with all of the applicable covenants under the ABL facility on December 31, 2011.

**Note 16 Benefit Plans**

We maintain two defined benefit plans resulting from prior acquisitions that cover certain employees at one plant in the United States under a collective bargaining agreement ( U.S. Plan ) and certain employees in the United Kingdom ( U.K. Plan ). Retirement benefits for employees covered by the U.S. Plan are based on years of service multiplied by a monthly benefit factor. The monthly benefit for employees under the U.K. Plan is based on years of service multiplied by a monthly benefit factor. Pension costs are funded in accordance with the provisions of the applicable law. Both plans are closed to new participants. We use a December 31<sup>st</sup> measurement date for both of our plans.

*Obligations and Funded Status*

The following table summarizes the change in the benefit obligation, change in plan assets and unfunded status of the two plans as of December 31, 2011 and January 1, 2011:

(in millions of U.S. dollars)	December 31, 2011	January 1, 2011
<b><u>Change in Benefit Obligation</u></b>		
Benefit obligation at beginning of year	\$ 34.5	\$ 32.3
Service cost	0.5	0.4
Interest cost	1.8	1.8
Plan participant contributions	0.1	0.1
Benefit payments	(0.9)	(0.6)
Actuarial losses	3.4	1.6
Translation losses	(0.1)	(1.1)
 Benefit obligation at end of year	 \$ 39.3	 \$ 34.5
<b><u>Change in Plan Assets</u></b>		
Plan assets beginning of year	\$ 26.4	\$ 23.1
Employer contributions	1.8	1.7
Plan participant contributions	0.1	0.1
Benefit payments	(0.9)	(0.6)
Actual return on plan assets	0.2	2.9
Translation losses	(0.1)	(0.8)
 Fair value at end of year	 \$ 27.5	 \$ 26.4
<b><u>Funded Status of Plan</u></b>		
Projected benefit obligation	\$ (39.3)	\$ (34.5)
Fair value of plan assets	27.5	26.4
 Unfunded status	 \$ (11.8)	 \$ (8.1)

The accumulated benefit obligation for both defined benefit pension plans equaled the projected benefit obligations of \$39.3 million and \$34.5 million at the end of 2011 and 2010, respectively.



**Table of Contents***Periodic Pension Costs*

The components of net periodic pension cost are as follows:

(in millions of U.S. dollars)	December 31, 2011	For the Years Ended January 1, 2011	January 2, 2010
Service cost	\$ 0.5	\$ 0.4	\$ 0.3
Interest cost	1.9	1.8	1.7
Expected return on plan assets	(1.9)	(1.7)	(1.2)
Amortization of prior service costs	0.1	0.1	0.1
Amortization of net loss	0.5	0.5	0.6
Net periodic pension cost	\$ 1.1	\$ 1.1	\$ 1.5

*Accumulated Other Comprehensive Income (Loss)*

Amounts included in accumulated other comprehensive income, net of tax, at year-end which have not yet been recognized in net periodic benefit cost are as follows:

(in millions of U.S. dollars)	December 31, 2011	For the Years Ended January 1, 2011	January 2, 2010
Unamortized prior service benefit	\$ (0.4)	\$ (0.5)	\$ (0.6)
Unrecognized net actuarial gain (loss)	8.5	5.8	(6.9)
Unamortized prior service benefit (actuarial loss)	\$ 8.1	\$ 5.3	\$ (7.5)

*Assumptions*

Assumptions used to determine benefit obligations at year-end:

	December 31, 2011	January 1, 2011	January 2, 2010
Discount rate	6.2%	6.2%	6.3%

Assumptions used to determine net periodic benefit cost at year-end:

	December 31, 2011	January 1, 2011	January 2, 2010
<u>U.K. Plan</u>			
Discount rate	4.6%	5.4%	5.8%
Expected long-term rate of return on plan assets	5.7%	6.9%	7.2%
<u>U.S. Plan</u>			
Discount rate	4.1%	5.7%	6.2%
Expected long-term rate of return on plan assets	7.0%	7.0%	7.0%
Inflation factor	3.3%	3.7%	3.7%

## Edgar Filing: COTT CORP /CN/ - Form 10-K

The discount rate for the U.S. Plan is based on a model portfolio of AA rated bonds with a maturity matched to the estimated payouts of future pension benefits for this type of plan. The discount rate of the U.K. Plan is based on a model portfolio of AA rated bonds, using the redemption yields on the constituent stocks of the Merrill Lynch index with a maturity matched to the estimated future pension benefits. The weighted average return for both plans for the year ended December 31, 2011 was 1.4%. The expected return under the U.S. Plan and the U.K. Plan on plan assets are based on our expectation of the long-term average rate of return on assets in the pension funds, which is based on the allocation of assets.

F-37

**Table of Contents***Asset Mix*

Our pension plan weighted-average asset allocations by asset category are as follows:

	December 31, 2011	January 1, 2011
<b>U.K. Plan</b>		
Equity securities	58.3%	65.9%
Debt securities	41.7%	34.1%
<b>U.S. Plan</b>		
Equity securities	66.9%	65.3%
Debt securities	33.1%	34.7%

*Plan Assets*

Our investment policy is that plan assets will be managed utilizing an investment philosophy and approach characterized by all of the following, but listed in priority order: (1) emphasis on total return, (2) emphasis on high-quality securities, (3) sufficient income and stability of income, (4) safety of principal with limited volatility of capital through proper diversification and (5) sufficient liquidity. (The target allocation percentages for the U.K. Plan assets are 65% in equity securities and 35% in debt securities. The target allocation percentages for the U.S. Plan assets are 50% in equity securities and 50% in debt securities. None of our equity or debt securities are included in plan assets.)

*Cash Flows*

We expect to contribute \$2.0 million to the pension plans during the 2012 fiscal year.

The following benefit payments are expected to be paid:

<b>(in millions of U.S. dollars)</b>	
<b>Expected benefit payments</b>	
FY 2012	\$ 0.9
FY 2013	1.0
FY 2014	1.0
FY 2015	1.0
FY 2016	1.1
FY 2017 through FY 2020	7.2

Cott primarily maintains defined contribution retirement plans covering qualifying employees. The total expense with respect to these plans was \$6.4 million for the year ended December 31, 2011 (\$3.9 million January 1, 2011; \$4.1 million January 2, 2010).

The fair values of the Company's pension plan assets at December 31, 2011 were as follows:

<b>(in millions of U.S. dollars)</b>	<b>December 31, 2011</b>		
	Level 1	Level 2	Level 3
<b>Cash and cash equivalents:</b>			
Cash and cash equivalents	\$ 0.1	\$ 0.1	\$
<b>Equities:</b>			
International mutual funds	14.8		
Index mutual funds	3.1		
U.S. mutual funds	1.5		
<b>Fixed income:</b>			
Mutual funds	7.9		

<b>Total</b>	<b>\$ 27.4</b>	<b>\$ 0.1</b>	<b>\$</b>
--------------	----------------	---------------	-----------

F-38

**Table of Contents**

The fair values of the Company's pension plan assets at January 1, 2011 were as follows:

(in millions of U.S. dollars)	Level 1	January 1, 2011 Level 2	Level 3
<b><u>Cash and cash equivalents:</u></b>			
Cash and cash equivalents	\$ 0.1	\$ 0.1	\$
<b><u>Equities:</u></b>			
International mutual funds	15.9		
Index mutual funds	2.5		
U.S. mutual funds	1.4		
<b><u>Fixed income:</u></b>			
Mutual funds	6.4		
<b>Total</b>	<b>\$ 26.3</b>	<b>\$ 0.1</b>	<b>\$</b>

**Note 17 Commitments and Contingencies**

We lease buildings, machinery and equipment, computer hardware and furniture and fixtures. All contractual increases and rent free periods included in the lease contract are taken into account when calculating the minimum lease payment and recognized on a straight-line basis over the lease term. Certain leases have renewal periods and contingent rentals, which are not included in the table below. The minimum annual payments under operating leases are as follows:

(in millions of U.S. dollars)	
2012	<b>\$ 19.1</b>
2013	<b>15.1</b>
2014	<b>14.0</b>
2015	<b>12.2</b>
2016	<b>9.7</b>
Thereafter	<b>20.5</b>
<b>Total</b>	<b>\$ 90.6</b>

Operating lease expenses were:

(in millions of U.S. dollars)	
Year ended December 31, 2011	<b>\$ 25.9</b>
Year ended January 1, 2011	<b>\$ 20.3</b>
Year ended January 2, 2010	<b>19.9</b>
<b>Total</b>	<b>\$ 66.1</b>

Operating lease expenses are shown net of sublease income of \$0.3 million for 2011. As of December 31, 2011, we had commitments for capital expenditures of approximately \$20.5 million and commitments for inventory of approximately \$271.5 million.

In 2007, we entered into a \$39.7 million purchase obligation for new equipment to support our bottled water business. Of the \$39.7 million, payments of \$16.5 million were made as of December 29, 2007. We funded \$32.5 million of water bottling equipment purchases through a finance lease arrangement in 2008. The quarterly payments under the lease obligation totaled approximately \$8.8 million per annum for the first two years, \$5.3 million per annum for the subsequent two years, then \$1.7 million per annum for the final four years.





---

**Table of Contents**

In January 2005, we were named as one of many defendants in a class action suit alleging the unauthorized use by the defendants of container deposits and the imposition of recycling fees on consumers. On June 2, 2006, the British Columbia Supreme Court granted the summary trial application, which resulted in the dismissal of the plaintiffs' action against us and the other defendants. On June 26, 2006, the plaintiffs appealed the dismissal of the action to the British Columbia Court of Appeals which was denied, and an appeal to the Supreme Court of Canada was rejected on December 20, 2007. In February 2005, similar class action claims were filed in a number of other Canadian provinces. Claims filed in Quebec have since been discontinued, but it is unclear how the dismissal of the British Columbia case will impact the other cases.

As of December 31, 2011, our accrued liability for litigation contingencies with a probable likelihood of loss was \$2.9 million related to a single contingency. Subsequent to December 31, 2011, we settled this legal matter for an amount not materially different than our accrued liability.

On August 17, 2010, we completed the Cliffstar Acquisition. The first \$15.0 million of the contingent consideration was based upon the achievement of milestones in certain expansion projects in 2010, which were achieved in 2010. The remainder of the contingent consideration was based on the achievement of certain performance measures during the fiscal year ending January 1, 2011.

We were notified on May 9, 2011 by the seller of Cliffstar of certain objections to the performance measures used to calculate the contingent consideration, and the seller asserted a claim for amounts in excess of the amounts accrued as contingent consideration at July 2, 2011. The seller's remaining objections to the calculation of the contingent consideration are subject to an ongoing binding arbitration process under the terms of the asset purchase agreement. The seller is seeking up to \$12.1 million in additional contingent consideration. The final resolution of these matters may result in amounts payable to the seller that vary materially from our current estimated fair value. We are currently unable to predict the ultimate outcome of this action. Any changes in the fair value of contingent consideration will be recorded in our Consolidated Statements of Operations.

We are subject to various claims and legal proceedings with respect to matters such as governmental regulations, and other actions arising out of the normal course of business. Management believes that the resolution of these matters will not have a material adverse effect on our financial position, results of operations, or cash flow.

In addition, we are involved in legal matters where the likelihood of loss has been judged to be reasonably possible, but for which a range of the potential loss cannot be reasonably estimated.

We had \$9.7 million in standby letters of credit outstanding as of December 31, 2011 (\$12.6 million January 1, 2011; \$9.9 million January 2).

We have future purchase obligations of \$271.5 million that consist of commitments for the purchase of inventory, energy transactions, and payments related to information technology outsourcing agreements. These obligations represent the minimum contractual obligations expected under the normal course of business.

**Note 18 Shares Held in Trust treated as Treasury Shares**

In May 2008, an independent trustee acting under certain of our benefit plans purchased 2.3 million of our common shares to be used to satisfy future liabilities under the PSU Plan and the Restated EISPP. During the year ended December 31, 2011, we distributed 0.2 million shares from the trust to satisfy certain PSU obligations that had vested. During the year ended December 31, 2011, we distributed 0.2 million shares from the trust to satisfy certain Restated EISPP obligations that had vested. As of December 31, 2011, 0.7 million shares were held in trust and accounted for as treasury shares under applicable accounting rules. Treasury shares are reported at cost.

---

## **Table of Contents**

Subsequent to the adoption of the 2010 Equity Incentive Plan on May 4, 2010, the HRCC determined that certain of Cott's long-term incentive plans were no longer needed and terminated the PSU Plan and the Restated EISPP effective February 23, 2011. No further awards will be granted under such plans, as future awards will be made under the Company's 2010 Equity Incentive Plan.

### **Note 19 Hedging Transactions and Derivative Financial Instruments**

We are directly and indirectly affected by changes in foreign currency market conditions. These changes in market conditions may adversely impact our financial performance and are referred to as market risks. When deemed appropriate by management, we use derivatives as a risk management tool to mitigate the potential impact of foreign currency market risks.

We purchase forward contract derivative instruments. Forward contracts are agreements to buy or sell a quantity of a currency at a predetermined future date, and at a predetermined rate or price. 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 item other receivables. The carrying values of the derivatives reflect the impact of legally enforceable agreements with the same counterparties. These allow us 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 types of hedging relationships. The changes in fair values of derivatives that have been designated and qualify as cash flow hedges are recorded in accumulated other comprehensive income (loss) (AOCI) and are reclassified into the line item in the Consolidated Statements of Operations 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.

We formally designate and document, 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, we formally assess 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.

We estimate the fair values of our derivatives based on quoted market prices or pricing models using current market rates (refer to Note 21). 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. We do not view the fair values of our derivatives in isolation, but rather in relation to the fair values or cash flows of the underlying hedged transactions. 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 mitigate pre-settlement risk by being permitted to net settle for transactions with the same counterparty.

---

## **Table of Contents**

### **Cash Flow Hedging Strategy**

We use 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. 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 Statements of Operations 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. We did not discontinue any cash flow hedging relationships during the year ended December 31, 2011. The maximum length of time over which we hedge our exposure to future cash flows is typically one year.

We maintain a foreign currency cash flow hedging program to reduce the risk that our procurement activities will be adversely affected by changes in foreign currency exchange rates. We enter into forward contracts to hedge certain portions of forecasted cash flows denominated in foreign currencies. When the U.S. dollar strengthens significantly against 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 U.S. dollar weakens compared to other currencies, 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 our foreign currency cash flow hedging program as of December 31, 2011 was approximately \$14.7 million.

The fair value of the Company's derivative instruments was \$0.2 million as of December 31, 2011.

The settlement of our derivative instruments resulted in a charge to cost of sales of \$0.9 million for the year ended December 31, 2011.

### **Note 20 Equity Offering**

On August 17, 2010, we completed an underwritten public offering of 13,340,000 common shares at a price of \$5.67 per share. The net proceeds of the Equity Offering of \$71.1 million, after deducting expenses, underwriting discounts and commissions, were used to finance, in part, the Cliffstar Acquisition.

On August 11, 2009, we completed a public offering of 9,435,000 common shares at a price of \$5.30 per share (the 2009 Stock Offering). Net proceeds of the 2009 Stock Offering were \$47.5 million, after deducting expenses, underwriting discounts and commissions.

### **Note 21 Fair Value Measurements**

ASC No. 820 defines 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.

**Table of Contents**

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.

We have certain assets and liabilities that are required to be recorded at fair value on a recurring basis in accordance with U.S. GAAP.

(in millions of U.S. dollars)	December 31, 2011			Fair Value Measurements
	Level 1	Level 2	Level 3	
<b>Assets</b>				
Derivatives	\$	\$ 0.2	\$	\$ 0.2
Assets held for sale		1.2		1.2
<b>Total Assets</b>	\$	\$ 1.4	\$	\$ 1.4

**Fair value of financial instruments**

The carrying amounts reflected in the Consolidated Balance Sheets for cash, receivables, payables, short-term borrowings and long-term debt approximate their respective fair values, except as otherwise indicated. The carrying values and estimated fair values of our significant outstanding debt as of December 31, 2011 and January 1, 2011 are as follows:

(in millions of U.S. dollars)	December 31, 2011		January 1, 2011	
	Carrying Value	Fair Value	Carrying Value	Fair Value
8.375% senior notes due in 2017 <sup>1</sup>	215.0	231.4	215.0	232.7
8.125% senior notes due in 2018 <sup>1</sup>	375.0	404.5	375.0	404.1
ABL facility			7.9	7.9
Total	\$ 590.0	\$ 635.9	\$ 597.9	\$ 644.7

<sup>1</sup> The fair values are based on the trading levels and bid/offer prices observed by a market participant.

**Fair value of contingent consideration**

The fair value of the contingent consideration payable in the Cliffstar Acquisition was based on significant inputs not observed in the market and thus represented a Level 3 instrument. Level 3 instruments are valued based on unobservable inputs that are supported by little or no market activity and reflect our own assumptions in measuring fair value.

(in millions of U.S. dollars)	For the Years Ended	
	December 31, 2011	January 1, 2011
Beginning balance	\$ 32.2	\$
Acquisition date fair value		52.5
Payment	(34.3)	
Accretion to fair value	1.2	
Adjustments to fair value	0.9	(20.3)
Ending balance	\$	\$ 32.2



**Table of Contents**

We were notified on May 9, 2011 by the seller of Cliffstar of certain objections to the performance measures used to calculate the contingent consideration, and the seller asserted a claim for amounts in excess of the amounts accrued as contingent consideration at July 2, 2011. During the third and fourth quarters of 2011, Cott made interim payments to the seller equal to \$21.0 million and \$8.6 million, respectively. The payment of \$21.0 million was net of a \$4.7 million refund due to Cott as a result of the final determination of working capital, and the payment of \$8.6 million included \$0.9 million in settlement of certain of the seller's objections to the calculation of the contingent consideration. The seller's remaining objections to the calculation of the contingent consideration are subject to an ongoing binding arbitration process under the terms of the asset purchase agreement. The seller is seeking up to \$12.1 million in additional contingent consideration. The final resolution of these matters may result in amounts payable to the seller that materially vary from our current estimated fair value which consists of payments to the seller as noted above and amounting to \$34.3 million. We are currently unable to predict the ultimate outcome of this action. Any changes in the fair value of contingent consideration will be recorded in our Consolidated Statement of Operations.

**Note 22 Quarterly Financial Information (unaudited)**

(in millions of U.S. dollars, except per share amounts)	Year ended December 31, 2011				Total
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	
Revenue	\$ 534.1	\$ 640.0	\$ 611.3	\$ 549.2	\$ 2,334.6
Cost of sales	464.5	552.0	543.7	497.8	2,058.0
Gross Profit	69.6	88.0	67.6	51.4	276.6
Selling, general and administrative expenses	45.1	45.1	38.1	44.4	172.7
Loss (gain) on disposal of property, plant and equipment			0.5	0.7	1.2
Asset impairments				0.6	0.6
Intangible asset impairments				1.4	1.4
Operating income	24.5	42.9	29.0	4.3	100.7
Net income (loss) attributed to Cott Corporation	\$ 6.8	\$ 26.5	\$ 16.2	\$ (11.9)	\$ 37.6
Per share data:					
Net income (loss) per common share					
Basic	\$ 0.07	\$ 0.28	\$ 0.17	\$ (0.13)	\$ 0.40
Diluted	\$ 0.07	\$ 0.28	\$ 0.17	\$ (0.12)	\$ 0.40

**Table of Contents**

(in millions of U.S. dollars, except per share amounts)	Year ended January 1, 2011				Total
	First Quarter	Second Quarter	Third Quarter <sup>1</sup>	Fourth Quarter <sup>2</sup>	
Revenue	\$ 362.9	\$ 424.7	\$ 486.9	\$ 528.8	\$ 1,803.3
Cost of sales	305.7	351.2	419.8	\$ 460.3	1,537.0
Gross Profit	57.2	73.5	67.1	68.5	266.3
Selling, general and administrative expenses	32.4	34.5	47.3	52.5	166.7
Loss (gain) on disposal of property, plant and equipment	0.2	(0.1)	0.3	0.7	1.1
Restructuring	(0.5)				(0.5)
Operating income	25.1	39.1	19.5	15.3	99.0
Net income attributable to Cott Corporation	\$ 11.5	\$ 22.3	\$ 5.8	\$ 15.1	\$ 54.7
Per share data:					
Net income per common share					
Basic	\$ 0.14	\$ 0.28	\$ 0.07	\$ 0.16	\$ 0.64
Diluted	\$ 0.14	\$ 0.28	\$ 0.07	\$ 0.16	\$ 0.63

<sup>1</sup> During the third quarter of 2010, we completed the Cliffstar Acquisition. We recorded \$7.2 million of transaction costs related to the acquisition. These costs were recorded in SG&A.

<sup>2</sup> During the fourth quarter of 2010 we recorded a reduction to the contingent consideration earn-out accrual of \$20.3 million.

**Note 23 Guarantor Subsidiaries**

The 2017 Notes and 2018 Notes issued by our wholly-owned subsidiary, Cott Beverages, Inc., are unconditionally guaranteed on a senior basis pursuant to guarantees by Cott Corporation and certain other wholly owned subsidiaries (the Guarantor Subsidiaries). The guarantees of the Guarantor Subsidiaries are subject to release in limited circumstances only upon the occurrence of certain customary conditions.

We have not presented separate financial statements and separate disclosures have not been provided concerning subsidiary guarantors because management has determined such information is not material to the holders of the above-mentioned notes.

The following supplemental financial information sets forth on an unconsolidated basis, our Balance Sheets, Statements of Operations and Cash Flows for Cott Corporation, Cott Beverages Inc., Guarantor Subsidiaries and our other subsidiaries (the Non-guarantor Subsidiaries). The supplemental financial information reflects our investments and those of Cott Beverages Inc. in their respective subsidiaries using the equity method of accounting.



**Table of Contents****Condensed Consolidating Statement of Operations**

For the year ended December 31, 2011

(in millions of U.S. dollars)

	Cott Corporation	Cott Beverages Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Elimination Entries	Consolidated
<b>Revenue, net</b>	<b>\$ 207.0</b>	<b>\$ 932.3</b>	<b>\$ 1,065.7</b>	<b>\$ 167.3</b>	<b>\$ (37.7)</b>	<b>\$ 2,334.6</b>
Cost of sales	167.8	825.5	951.7	150.7	(37.7)	2,058.0
<b>Gross profit</b>	<b>39.2</b>	<b>106.8</b>	<b>114.0</b>	<b>16.6</b>		<b>276.6</b>
Selling, general and administrative expenses	30.1	59.0	71.8	11.8		172.7
Loss on disposal of property, plant & equipment		0.4	0.8			1.2
Restructuring and asset impairments						
Restructuring						
Asset impairments				0.6		0.6
Intangible asset impairments		1.4				1.4
<b>Operating income</b>	<b>9.1</b>	<b>46.0</b>	<b>41.4</b>	<b>4.2</b>		<b>100.7</b>
Contingent consideration earn-out adjustment			0.9			0.9
Other expense (income), net	1.6	(0.3)	0.2	0.7		2.2
Intercompany interest (income) expense, net	(3.5)	(4.1)	7.6			
Interest expense, net	0.3	54.8	1.8	0.2		57.1
<b>Income (loss) before income tax expense (benefit) and equity income (loss)</b>	<b>10.7</b>	<b>(4.4)</b>	<b>30.9</b>	<b>3.3</b>		<b>40.5</b>
Income tax expense (benefit)	2.9	(0.8)	(3.3)	0.5		(0.7)
Equity income (loss)	29.8	4.2	0.8		(34.8)	
<b>Net income</b>	<b>\$ 37.6</b>	<b>\$ 0.6</b>	<b>\$ 35.0</b>	<b>\$ 2.8</b>	<b>\$ (34.8)</b>	<b>\$ 41.2</b>
Less: Net income attributable to non-controlling interests				3.6		3.6
<b>Net income (loss) attributed to Cott Corporation</b>	<b>\$ 37.6</b>	<b>\$ 0.6</b>	<b>\$ 35.0</b>	<b>\$ (0.8)</b>	<b>\$ (34.8)</b>	<b>\$ 37.6</b>

**Table of Contents****Condensed Consolidating Statement of Operations**

For the year ended January 1, 2011

(in millions of U.S. dollars)

	<b>Cott Corporation</b>	<b>Cott Beverages Inc.</b>	<b>Guarantor Subsidiaries</b>	<b>Non-Guarantor Subsidiaries</b>	<b>Elimination Entries</b>	<b>Consolidated</b>
<b>Revenue, net</b>	<b>\$ 201.0</b>	<b>\$ 905.6</b>	<b>\$ 600.4</b>	<b>\$ 137.6</b>	<b>\$ (41.3)</b>	<b>\$ 1,803.3</b>
Cost of sales	158.0	774.3	527.0	119.0	(41.3)	1,537.0
<b>Gross profit</b>	<b>43.0</b>	<b>131.3</b>	<b>73.4</b>	<b>18.6</b>		<b>266.3</b>
Selling, general and administrative expenses	31.0	79.1	42.6	14.0		166.7
Loss (gain) on disposal of property, plant & equipment		1.0	(0.1)	0.2		1.1
Restructuring		(0.5)				(0.5)
<b>Operating income</b>	<b>12.0</b>	<b>51.7</b>	<b>30.9</b>	<b>4.4</b>		<b>99.0</b>
Contingent consideration earn-out adjustment			(20.3)			(20.3)
Other expense (income), net	2.3	1.3	0.8	(0.4)		4.0
Intercompany interest (income) expense, net	(6.8)	8.2	(1.3)		(0.1)	(0.0)
Interest expense, net	0.2	35.6	0.9	0.2		36.9
<b>Income before income tax expense and equity income (loss)</b>	<b>16.3</b>	<b>6.6</b>	<b>50.8</b>	<b>4.6</b>	<b>0.1</b>	<b>78.4</b>
Income tax expense	4.5	12.0	1.7	0.4		18.6
Equity income	42.9	6.0	0.9		(49.8)	
<b>Net income</b>	<b>\$ 54.7</b>	<b>\$ 0.6</b>	<b>\$ 50.0</b>	<b>\$ 4.2</b>	<b>\$ (49.7)</b>	<b>\$ 59.8</b>
Less: Net income attributable to non-controlling interests				5.1		5.1
<b>Net income (loss) attributed to Cott Corporation</b>	<b>\$ 54.7</b>	<b>\$ 0.6</b>	<b>\$ 50.0</b>	<b>\$ (0.9)</b>	<b>\$ (49.7)</b>	<b>\$ 54.7</b>

F-47

**Table of Contents****Condensed Consolidating Statement of Operations**

For the year ended January 2, 2010

(in millions of U.S. dollars)

	Cott Corporation	Cott Beverages Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Elimination Entries	Consolidated
<b>Revenue, net</b>	<b>\$ 198.7</b>	<b>\$ 958.8</b>	<b>\$ 360.6</b>	<b>\$ 126.6</b>	<b>\$ (48.0)</b>	<b>\$ 1,596.7</b>
Cost of sales	167.9	805.9	313.1	108.0	(48.0)	1,346.9
<b>Gross profit</b>	<b>30.8</b>	<b>152.9</b>	<b>47.5</b>	<b>18.6</b>		<b>249.8</b>
Selling, general and administrative expenses	36.5	70.9	24.7	14.7		146.8
Loss (gain) on disposal of property, plant & equipment	0.2	0.4	(0.1)			0.5
Restructuring and asset impairments:						
Restructuring	0.2	1.3				1.5
Asset impairments		3.6				3.6
<b>Operating (loss) income</b>	<b>(6.1)</b>	<b>76.7</b>	<b>22.9</b>	<b>3.9</b>		<b>97.4</b>
Other expense, net	0.8	3.6				4.4
Intercompany interest (income) expense, net	(8.1)	12.9	(4.8)			0.0
Interest expense, net	0.3	28.9	0.3	0.2		29.7
<b>Income before income tax (benefit) expense and equity income</b>	<b>0.9</b>	<b>31.3</b>	<b>27.4</b>	<b>3.7</b>		<b>63.3</b>
Income tax (benefit) expense	(16.8)	(9.7)	3.5	0.2		(22.8)
Equity income	63.8	5.7	46.6		(116.1)	
<b>Net income</b>	<b>\$ 81.5</b>	<b>\$ 46.7</b>	<b>\$ 70.5</b>	<b>\$ 3.5</b>	<b>\$ (116.1)</b>	<b>\$ 86.1</b>
Less: Net income attributable to non-controlling interests				4.6		4.6
<b>Net income (loss) attributed to Cott Corporation</b>	<b>\$ 81.5</b>	<b>\$ 46.7</b>	<b>\$ 70.5</b>	<b>\$ (1.1)</b>	<b>\$ (116.1)</b>	<b>\$ 81.5</b>

F-48

**Table of Contents****Consolidating Balance Sheet**

As of December 31, 2011

(in millions of U.S. dollars)

	Cott Corporation	Cott Beverages Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Elimination Entries	Consolidated
<b>ASSETS</b>						
<i>Current assets</i>						
Cash & cash equivalents	\$ 13.7	\$ 20.7	\$ 58.9	\$ 7.6	\$	\$ 100.9
Accounts receivable, net of allowance	22.4	97.2	136.3	14.6	(59.7)	210.8
Income taxes recoverable		8.8	0.8	0.3		9.9
Inventories	18.1	60.2	124.2	7.5		210.0
Prepaid expenses and other assets	1.8	13.8	3.6	0.1		19.3
<b>Total current assets</b>	<b>56.0</b>	<b>200.7</b>	<b>323.8</b>	<b>30.1</b>	<b>(59.7)</b>	<b>550.9</b>
Property, plant & equipment	48.0	179.3	245.1	9.8		482.2
Goodwill	26.9	4.5	98.2			129.6
Intangibles and other assets	0.9	105.3	216.5	18.4		341.1
Deferred income taxes	4.1					4.1
Other tax receivable	0.5		0.5			1.0
Due from affiliates	30.3	166.4	79.1	41.9	(317.7)	
Investments in subsidiaries	459.8	365.5	572.3	225.3	(1,622.9)	
<b>Total assets</b>	<b>\$ 626.5</b>	<b>\$ 1,021.7</b>	<b>\$ 1,535.5</b>	<b>\$ 325.5</b>	<b>\$ (2,000.3)</b>	<b>\$ 1,508.9</b>
<b>LIABILITIES AND EQUITY</b>						
<i>Current liabilities</i>						
Short-term borrowings	\$	\$	\$	\$	\$	\$
Current maturities of long-term debt		2.9	0.1	0.4		3.4
Accounts payable and accrued liabilities	27.1	117.1	181.2	15.4	(59.7)	281.1
<b>Total current liabilities</b>	<b>27.1</b>	<b>120.0</b>	<b>181.3</b>	<b>15.8</b>	<b>(59.7)</b>	<b>284.5</b>
Long-term debt	0.2	599.0	1.2	1.7		602.1
Deferred income taxes		26.8	6.8	0.5		34.1
Other long-term liabilities	0.2	3.5	16.3			20.0
Due to affiliates	43.2	77.8	168.9	27.8	(317.7)	
<b>Total liabilities</b>	<b>70.7</b>	<b>827.1</b>	<b>374.5</b>	<b>45.8</b>	<b>(377.4)</b>	<b>940.7</b>
<i>Equity</i>						
Capital stock, no par	395.9	569.3	1,396.5	218.2	(2,184.0)	395.9
Treasury stock	(2.1)					(2.1)
Additional paid-in-capital	42.6					42.6
Retained earnings (deficit)	144.1	(365.5)	(329.0)	(43.2)	737.7	144.1
Accumulated other comprehensive (loss) income	(24.7)	(9.2)	93.5	92.3	(176.6)	(24.7)
Total Cott Corporation equity	555.8	194.6	1,161.0	267.3	(1,622.9)	555.8
Non-controlling interests				12.4		12.4
<b>Total equity</b>	<b>555.8</b>	<b>194.6</b>	<b>1,161.0</b>	<b>279.7</b>	<b>(1,622.9)</b>	<b>568.2</b>
<b>Total liabilities and equity</b>	<b>\$ 626.5</b>	<b>\$ 1,021.7</b>	<b>\$ 1,535.5</b>	<b>\$ 325.5</b>	<b>\$ (2,000.3)</b>	<b>\$ 1,508.9</b>



**Table of Contents****Consolidating Balance Sheet**

As of January 1, 2011

(in millions of U.S. dollars)

	Cott Corporation	Cott Beverages Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Elimination Entries	Consolidated
<b>ASSETS</b>						
<i>Current assets</i>						
Cash & cash equivalents	\$ 7.8	\$ 9.1	\$ 26.0	\$ 5.3	\$	\$ 48.2
Accounts receivable, net of allowance	108.6	151.6	128.6	17.3	(192.5)	213.6
Income taxes recoverable		1.3	(1.3)	0.3		0.3
Inventories	18.1	66.1	124.6	6.7		215.5
Prepaid expenses and other assets	3.6	19.3	8.1	1.7		32.7
<b>Total current assets</b>	<b>138.1</b>	<b>247.4</b>	<b>286.0</b>	<b>31.3</b>	<b>(192.5)</b>	<b>510.3</b>
Property, plant & equipment	50.0	180.4	259.5	13.9		503.8
Goodwill	27.4	4.5	98.3			130.2
Intangibles and other assets	1.3	114.8	233.6	21.4		371.1
Deferred income taxes	3.7			(1.2)		2.5
Other tax receivable	2.5	7.6	1.2			11.3
Due from affiliates	241.8	166.9	220.9	41.9	(671.5)	
Investments in subsidiaries		351.5		161.0	(512.5)	
<b>Total assets</b>	<b>\$ 464.8</b>	<b>\$ 1,073.1</b>	<b>\$ 1,099.5</b>	<b>\$ 268.3</b>	<b>\$ (1,376.5)</b>	<b>\$ 1,529.2</b>
<b>LIABILITIES AND EQUITY</b>						
<i>Current liabilities</i>						
Short-term borrowings	\$	\$ 7.9	\$	\$	\$	\$ 7.9
Current maturities of long-term debt	0.1	5.4	0.1	0.4		6.0
Accounts payable and accrued liabilities	97.3	204.0	185.9	14.1	(192.5)	308.8
<b>Total current liabilities</b>	<b>97.4</b>	<b>217.3</b>	<b>186.0</b>	<b>14.5</b>	<b>(192.5)</b>	<b>322.7</b>
Long-term debt		601.9	1.4	2.5	(0.3)	605.5
Deferred income taxes		31.8	10.7	1.1		43.6
Other long-term liabilities		5.4	16.9		(0.1)	22.2
Losses and distributions in excess of investment	(198.4)		(322.7)		521.1	
Due to affiliates	43.2	219.6	377.2	31.7	(671.7)	
<b>Total liabilities</b>	<b>(57.8)</b>	<b>1,076.0</b>	<b>269.5</b>	<b>49.8</b>	<b>(343.5)</b>	<b>994.0</b>
<i>Equity</i>						
Capital stock, no par	395.6	354.4	1,182.6	175.0	(1,712.0)	395.6
Treasury stock	(3.2)					(3.2)
Additional paid-in-capital	40.7	0.4			(0.3)	40.8
Retained earnings (deficit)	106.4	(350.4)	(352.0)	(36.4)	738.9	106.5
Accumulated other comprehensive (loss) income	(16.9)	(7.3)	(0.6)	66.9	(59.6)	(17.5)
<b>Total Cott Corporation equity</b>	<b>522.6</b>	<b>(2.9)</b>	<b>830.0</b>	<b>205.5</b>	<b>(1,033.0)</b>	<b>522.2</b>
Non-controlling interests				13.0		13.0
<b>Total equity</b>	<b>522.6</b>	<b>(2.9)</b>	<b>830.0</b>	<b>218.5</b>	<b>(1,033.0)</b>	<b>535.2</b>

Edgar Filing: COTT CORP /CN/ - Form 10-K

<b>Total liabilities and equity</b>	<b>\$ 464.8</b>	<b>\$ 1,073.1</b>	<b>\$ 1,099.5</b>	<b>\$ 268.3</b>	<b>\$ (1,376.5)</b>	<b>\$ 1,529.2</b>
-------------------------------------	-----------------	-------------------	-------------------	-----------------	---------------------	-------------------

F-50

**Table of Contents****Condensed Consolidating Statement of Cash Flows**

For the year ended December 31, 2011

(in millions of U.S. dollars)

	<b>Cott Corporation</b>	<b>Cott Beverages Inc.</b>	<b>Guarantor Subsidiaries</b>	<b>Non-Guarantor Subsidiaries</b>	<b>Elimination Entries</b>	<b>Consolidated</b>
<b>Operating Activities</b>						
Net income	\$ 37.6	\$ 0.6	\$ 35.0	\$ 2.8	\$ (34.8)	\$ 41.2
Depreciation & amortization	6.0	35.1	48.2	6.0		95.3
Amortization of financing fees	0.3	3.3	0.3			3.9
Share-based compensation expense	1.1	1.0	0.7	0.1		2.9
Increase (decrease) in deferred income taxes	0.4	0.1	(3.9)	(0.3)		(3.7)
Loss on disposal of property, plant & equipment		0.4	0.8			1.2
Asset impairments				0.6		0.6
Intangible asset impairments		1.4				1.4
Contract termination payments	(0.8)	(2.3)				(3.1)
Equity (loss) income, net of distributions	(29.6)	(4.2)	0.2		33.6	
Intercompany transactions	25.8	9.6			(35.4)	
Other non-cash items	(0.1)	1.1	3.6	0.3		4.9
Net change in operating assets and liabilities	(25.7)	210.4	(198.6)	(3.8)	36.6	18.9
Net cash provided by (used in) operating activities	15.0	256.5	(113.7)	5.7		163.5
<b>Investing Activities</b>						
Acquisition		(34.3)				(34.3)
Additions to property, plant & equipment	(5.2)	(33.9)	(9.5)	(0.2)		(48.8)
Additions to intangibles and other assets	(0.2)	(5.3)	(0.1)	(0.1)		(5.7)
Proceeds from sale of property, plant & equipment		0.4				0.4
Other investing activities		(1.8)				(1.8)
Advances to affiliates			156.1	3.6	(159.7)	
Net cash (used in) provided by investing activities	(5.4)	(74.9)	146.5	3.3	(159.7)	(90.2)
<b>Financing Activities</b>						
Payments of long-term debt	0.1	(6.4)		(0.5)		(6.8)
Borrowings under ABL		224.1				224.1
Payments under ABL		(231.9)				(231.9)
Advances from affiliates	(3.6)	(156.1)			159.7	
Distributions to non-controlling interests				(6.0)		(6.0)
Exercise of options		0.3				0.3



Edgar Filing: COTT CORP /CN/ - Form 10-K

Net cash used in financing activities	(3.5)	(170.0)		(6.5)	159.7	(20.3)
Effect of exchange rate changes on cash	(0.2)		0.1	(0.2)		(0.3)
<b>Net increase in cash &amp; cash equivalents</b>	<b>5.9</b>	<b>11.6</b>	<b>32.9</b>	<b>2.3</b>		<b>52.7</b>
<b>Cash &amp; cash equivalents, beginning of period</b>	<b>7.8</b>	<b>9.1</b>	<b>26.0</b>	<b>5.3</b>		<b>48.2</b>
<b>Cash &amp; cash equivalents, end of period</b>	<b>\$ 13.7</b>	<b>\$ 20.7</b>	<b>\$ 58.9</b>	<b>\$ 7.6</b>	<b>\$</b>	<b>\$ 100.9</b>

F-51

**Table of Contents****Condensed Consolidating Statement of Cash Flows**

For the year ended January 1, 2011

(in millions of U.S. dollars)

	Cott Corporation	Cott Beverages Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Elimination Entries	Consolidated
<b>Operating Activities</b>						
Net income	\$ 54.7	\$ 0.6	\$ 50.0	\$ 4.2	\$ (49.7)	\$ 59.8
Depreciation & amortization	6.3	35.4	26.4	5.9		74.0
Amortization of financing fees	0.4	2.1	0.2			2.7
Share-based compensation expense	0.7	3.9	0.1			4.7
Increase in deferred income taxes	2.3	12.0	1.7	1.1		17.0
Write-off of financing fees	0.2	1.0	0.2			1.4
Loss (gain) on disposal of property, plant & equipment		1.0	(0.1)	0.2		1.1
Loss on buyback of Notes		0.1				0.1
Contingent consideration earn-out adjustment			(20.3)			(20.3)
Contract termination loss		3.6				3.6
Contract termination payments		(5.4)				(5.4)
Equity (loss) income, net of distributions	(42.9)	(6.0)	(0.9)		49.8	
Intercompany transactions	8.9	7.7			(16.5)	
Other non-cash items	2.0	3.8		(0.3)		5.5
Net change in operating assets and liabilities	(35.3)	63.4	(17.9)	7.6	16.4	34.2
Net cash (used in) provided by operating activities	(2.8)	123.1	39.4	18.7		178.4
<b>Investing Activities</b>						
Acquisition		(507.7)				(507.7)
Additions to property, plant & equipment	(5.4)	(26.5)	(10.6)	(1.5)		(44.0)
Additions to intangibles and other assets		(4.2)				(4.2)
Proceeds from sale of property, plant & equipment		0.3	0.3	0.6		1.2
Advances to affiliates	21.0		(12.3)	(8.8)	0.1	
Net cash provided by (used in) investing activities	15.6	(538.1)	(22.6)	(9.7)	0.1	(554.7)
<b>Financing Activities</b>						
Payments of long-term debt	0.1	(18.3)		(0.5)		(18.7)
Issuance of long-term debt		375.0				375.0
Borrowings under ABL		307.1	59.4			366.5
Payments under ABL		(319.3)	(59.7)			(379.0)
Advances from affiliates	8.8	12.3	(21.0)		(0.1)	
Intercompany contributions	(89.8)	71.1	18.7			
Distributions to non-controlling interests				(7.4)		(7.4)
	71.1					71.1

Edgar Filing: COTT CORP /CN/ - Form 10-K

Issuance of common shares, net of offering fees						
Financing fees		(14.2)				(14.2)
Net cash (used in) provided by financing activities	(9.8)	413.7	(2.6)	(7.9)	(0.1)	393.3
Effect of exchange rate changes on cash	0.6		(0.4)	0.1		0.3
<b>Net increase (decrease) in cash &amp; cash equivalents</b>	<b>3.6</b>	<b>(1.3)</b>	<b>13.8</b>	<b>1.2</b>		<b>17.3</b>
<b>Cash &amp; cash equivalents, beginning of period</b>	<b>4.2</b>	<b>10.4</b>	<b>12.2</b>	<b>4.1</b>		<b>30.9</b>
<b>Cash &amp; cash equivalents, end of period</b>	<b>\$ 7.8</b>	<b>\$ 9.1</b>	<b>\$ 26.0</b>	<b>\$ 5.3</b>	<b>\$</b>	<b>\$ 48.2</b>

F-52

**Table of Contents****Condensed Consolidating Statement of Cash Flows**

For the year ended January 2, 2010

(in millions of U.S. dollars)

	Cott Corporation	Cott Beverages Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Elimination Entries	Consolidated
<b>Operating Activities</b>						
Net income	\$ 81.5	\$ 46.7	\$ 70.5	\$ 3.5	\$ (116.1)	\$ 86.1
Depreciation & amortization	8.1	37.9	14.6	5.6		66.2
Amortization of financing fees	0.2	1.1	0.2			1.5
Share-based compensation expense	0.1	1.2				1.3
Increase (decrease) in deferred income taxes	3.3	2.9	0.1	(0.1)		6.2
Loss (gain) on disposal of property, plant & equipment	0.2	0.4	(0.1)			0.5
Loss on buyback of Notes	1.5					1.5
Asset impairments		0.1				0.1
Intangible impairments		3.5				3.5
Contract termination payments		(3.8)				(3.8)
Equity (loss) income, net of distributions	(62.4)	(5.7)	(46.7)	(1.3)	116.1	
Intercompany transactions	8.6	6.9			(15.5)	
Other non-cash items		2.6				2.6
Net change in operating assets and liabilities	(102.0)	64.6	(0.5)	11.8	15.5	(10.6)
Net cash (used in) provided by operating activities	(60.9)	158.4	38.1	19.5		155.1
<b>Investing Activities</b>						
Additions to property, plant & equipment	(4.3)	(18.4)	(8.6)	(1.0)		(32.3)
Additions to intangibles and other assets		(1.6)				(1.6)
Proceeds from sale of property, plant & equipment		1.5	0.2			1.7
Advances to affiliates	12.6		(11.2)	(9.9)	8.5	
Net cash provided by (used in) investing activities	8.3	(18.5)	(19.6)	(10.9)	8.5	(32.2)
<b>Financing Activities</b>						
Payments of long-term debt		(265.2)		(0.3)		(265.5)
Issuance of long-term debt		211.9				211.9
Borrowings under ABL	87.0	595.0	86.1			768.1
Payments under ABL	(90.1)	(679.4)	(87.1)			(856.6)
Advances from affiliates	10.0	11.3	(12.8)		(8.5)	
Distributions to non-controlling interests				(6.7)		(6.7)
Issuance of common shares, net of offering fees	47.5					47.5
Financing fees		(6.2)				(6.2)
Other financing activities				(0.1)		
	54.4	(132.6)	(13.8)	(7.1)	(8.5)	(107.5)

Edgar Filing: COTT CORP /CN/ - Form 10-K

Net cash provided by (used in) financing activities					
Effect of exchange rate changes on cash	0.3		0.1	0.4	0.8
<b>Net increase in cash &amp; cash equivalents</b>	<b>2.1</b>	<b>7.3</b>	<b>4.8</b>	<b>1.9</b>	<b>16.2</b>
<b>Cash &amp; cash equivalents, beginning of period</b>	<b>2.1</b>	<b>3.1</b>	<b>7.4</b>	<b>2.1</b>	<b>14.7</b>
<b>Cash &amp; cash equivalents, end of period</b>	<b>\$ 4.2</b>	<b>\$ 10.4</b>	<b>\$ 12.2</b>	<b>\$ 4.0</b>	<b>\$ 30.9</b>

F-53

**Table of Contents****Schedule II Valuation and Qualifying Accounts**

(in millions of U.S. dollars)

Description	Balance at Beginning of Year	Reduction in Sales	Year ended December 31, 2011			Balance at End of Year
			Charged to Costs and Expenses	Charged to Other Accounts	Deductions	
<b>Reserves deducted in the balance sheet from the asset to which they apply</b>						
<u>Allowances for losses on:</u>						
Accounts receivables	\$ (7.0)	\$	\$ 0.6	\$ 0.2	\$ 0.5	\$ (5.7)
Inventories	(8.2)		(2.1)		1.5	(8.8)
Deferred income tax assets	(12.7)		(9.4)	(0.1)		(22.2)
	\$ (27.9)	\$	\$ (10.9)	\$ 0.1	\$ 2.0	\$ (36.7)

(in millions of U.S. dollars)

Description	Balance at Beginning of Year	Reduction in Sales	Year ended January 1, 2011			Balance at End of Year
			Charged to Costs and Expenses	Charged to Other Accounts	Deductions	
<b>Reserves deducted in the balance sheet from the asset to which they apply</b>						
<u>Allowances for losses on:</u>						
Accounts receivables	\$ (5.9)	\$	\$ (0.6)	\$ (0.1)	\$ (0.4)	\$ (7.0)
Inventories	(6.7)		(1.3)	0.2	(0.4)	(8.2)
Deferred income tax assets	(17.6)		4.4	0.5		(12.7)
	\$ (30.2)	\$	\$ 2.5	\$ 0.6	\$ (0.8)	\$ (27.9)

(in millions of U.S. dollars)

Description	Balance at Beginning of Year	Reduction in Sales	Year ended January 2, 2010			Balance at End of Year
			Charged to Costs and Expenses	Charged to Other Accounts	Deductions	
<b>Reserves deducted in the balance sheet from the asset to which they apply</b>						
<u>Allowances for losses on:</u>						
Accounts receivables	\$ (5.5)	\$	\$ (0.8)	\$ 0.6	\$ (0.2)	\$ (5.9)
Inventories	(7.1)		0.6	(0.1)	(0.1)	(6.7)
Deferred income tax assets	(42.7)		22.7	2.4		(17.6)
	\$ (55.3)	\$	\$ 22.5	\$ 2.9	\$ (0.3)	\$ (30.2)

F-54

**Table of Contents**

**Cott Corporation**

**Exhibit Index**

<b>Number</b>	<b>Description</b>
2.1	Asset Purchase Agreement, dated as of July 7, 2010, by and among Cott Corporation, Caroline LLC, a wholly-owned subsidiary of Cott Corporation, Cliffstar Corporation, each of the Cliffstar companies named therein, and Stanley Star, solely in his capacity as sellers representative (incorporated by reference to Exhibit 2.1 to our Form 8-K/A filed July 9, 2010).
3.1	Articles of Amalgamation of Cott Corporation (incorporated by reference to Exhibit 3.1 to our Form 10-K filed February 28, 2007).
3.2	Amended and Restated By-laws of Cott Corporation (incorporated by reference to Exhibit 3.2 to our Form 10-Q filed May 10, 2007).
4.1	Indenture dated as of December 21, 2001 governing the 8.0% Senior Subordinated Notes due in 2011, between Cott Beverages Inc. (as issuer) and HSBC Bank USA (as trustee) (incorporated by reference to Exhibit 4.3 to our Form 10-K filed March 8, 2002).
4.2	Registration Rights Agreement dated as of December 21, 2001, among Cott Beverages Inc., the Guarantors named therein and Lehman Brothers Inc., BMO Nesbitt Burns Corp. and CIBC World Markets Corp. (incorporated by reference to Exhibit 4.4 to our Form 10-K filed March 8, 2002).
4.3	Supplemental Indenture dated as of November 13, 2009 governing the 8.0% Senior Subordinated Notes due 2011, by and among Cott Beverages Inc., Cott Corporation, the guarantors identified therein and HSBC Bank USA, National Association, as trustee (incorporated by reference to Exhibit 4.4 to our Form 8-K filed on November 16, 2009).
4.4	Indenture dated as of November 13, 2009, governing the 8.375% Senior Notes due 2017, by and among Cott Beverages Inc., Cott Corporation, the guarantors identified therein and HSBC Bank USA, National Association, as trustee (incorporated by reference to Exhibit 4.1 to our Form 8-K filed on November 16, 2009).
4.5	Form of 8.375% Senior Note due 2017 (incorporated by reference to Exhibit 4.2 to our Form 8-K filed on November 16, 2009).
4.6	Registration Rights Agreement, dated as of November 13, 2009, among Cott Beverages Inc., Cott Corporation, the guarantors identified therein and Barclays Capital Inc., J.P. Morgan Securities Inc. and Deutsche Bank Securities Inc. (incorporated by reference to Exhibit 4.3 to our Form 8-K filed on November 16, 2009).
4.7	Indenture dated as of August 17, 2010, governing the 8.125% Senior Notes due 2018, by and among Cott Beverages Inc., Cott Corporation, the guarantors identified therein and HSBC Bank USA, National Association, as trustee (incorporated by reference to Exhibit 4.1 to our Form 8-K filed August 20, 2010).
4.8	Form of 8.125% Senior Note due 2018 (included as Exhibit A to Exhibit 4.7, which is incorporated by reference to Exhibit 4.1 to our Form 8-K filed August 20, 2010).
4.9	Registration Rights Agreement, dated as of August 17, 2010, among Cott Beverages Inc., Cott Corporation, the guarantors identified therein and Deutsche Bank Securities Inc., as representative to the Initial Purchasers (incorporated by reference to Exhibit 4.3 to our Form 8-K filed August 20, 2010).
10.1 <sup>1</sup>	Supply Agreement, dated December 21, 1998, between Walmart Stores, Inc. and Cott Beverages USA, Inc. (now Cott Beverages Inc. ) (incorporated by reference to Exhibit 10.1 of our Form 10-K filed March 15, 2011).

**Table of Contents**

<b>Number</b>	<b>Description</b>
10.2 <sup>2</sup>	Second Canadian Employee Share Purchase Plan effective January 2, 2001 (incorporated by reference to Exhibit 10.11 to our Form 10-K filed March 20, 2001).
10.3 <sup>1</sup>	Supply Agreement executed November 11, 2003, effective January 1, 2002 between Crown Cork & Seal Company, Inc. and Cott Corporation (incorporated by reference to Exhibit 10.14 to our Form 10-Q/A filed August 5, 2004).
10.4 <sup>2</sup>	Share Plan for Non-Employee Directors effective November 1, 2003 (incorporated by reference to Exhibit 10.15 to our Form 10-K filed March 18, 2004).
10.5 <sup>2</sup>	Restated 1986 Common Share Option Plan of Cott Corporation/Corporation Cott as amended through October 20, 2004 (incorporated by reference to Exhibit 10.15 to our Form 10-K filed March 16, 2005).
10.6 <sup>1</sup>	Amendment to Supply Agreement between Crown Cork & Seal USA, Inc. (successor to Crown Cork & Seal Company, Inc.) and Cott Corporation, dated December 23, 2004 (incorporated by reference to Exhibit 10.17 to our Form 10-K filed March 16, 2005).
10.7 <sup>2</sup>	Cott Corporation Executive Incentive Share Purchase Plan (2008 Restatement) effective December 31, 2006 (incorporated by reference to Exhibit 4.1 of our Form S-8 filed on June 20, 2008).
10.8 <sup>2</sup>	Employment Offer Letter to William Reis dated January 29, 2007 (incorporated by reference to Exhibit 10.43 to our Form 10-K filed March 11, 2008).
10.9 <sup>2</sup>	Employment Offer Letter to Michael Creamer dated April 16, 2007 (incorporated by reference to Exhibit 10.19 to our Form 10-K filed March 11, 2009).
10.10 <sup>2</sup>	Amended and Restated Retention, Severance and Non-Competition Plan (incorporated by reference to Exhibit 10.6 to our Form 10-Q filed August 9, 2007).
10.11 <sup>2</sup>	Amended and Restated Performance Share Unit Plan (incorporated by reference to Exhibit 10.7 to our Form 10-Q filed August 9, 2007).
10.12 <sup>2</sup>	Amended and Restated Share Appreciation Rights Plan (incorporated by reference to Exhibit 10.8 to our Form 10-Q filed August 9, 2007).
10.13 <sup>2</sup>	Employment Offer Letter to Gregory Leiter, executed October 15, 2007 (incorporated by reference to Exhibit 10.41 to our Form 10-K filed March 11, 2008).
10.14 <sup>2</sup>	Employment Offer Letter to Jerry Fowden dated February 29, 2008 (incorporated by reference to Exhibit 10.29 to our Form 10-K filed March 11, 2009).
10.15 <sup>1</sup>	Credit Agreement dated as of August 17, 2010 among Cott Corporation, Cott Beverages Inc., Cott Beverages Limited, Cliffstar LLC and the other Loan Parties party thereto, the Lenders party thereto, JPMorgan Chase Bank, N.A., London Branch as UK Security Trustee, JPMorgan Chase Bank, N.A., as Administrative Agent and Administrative Collateral Agent, General Electric Capital Corporation, as Co-Collateral Agent and Bank of America, N.A., as Documentation Agent (incorporated by reference to Exhibit 10.1 to our Amended Form 10-Q filed June 20, 2011).
10.16 <sup>2</sup>	Employment Offer Letter to Neal Cravens dated August 19, 2009 (incorporated by reference to Exhibit 10.1 to our Form 10-Q filed October 29, 2009).
10.17 <sup>2</sup>	Amendment No. 1 to Restated Executive Investment Share Purchase Plan, effective December 28, 2008 (incorporated by reference to Exhibit 10.1 to our Form 10-Q filed May 5, 2009).
10.18 <sup>2</sup>	Employment Agreement between Cott Corporation and Jerry Fowden dated February 18, 2009 (incorporated by reference to Exhibit 10.1 to our Form 8-K dated February 24, 2009).
10.19 <sup>2</sup>	Cott Corporation Severance and Non-Competition Plan, dated February 18, 2009 (incorporated by reference to Exhibit 10.2 to our Form 8-K dated February 24, 2009).



**Table of Contents**

<b>Number</b>	<b>Description</b>
10.20 <sup>2</sup>	Employment Offer Letter to Marni Morgan Poe dated January 14, 2010 (incorporated by reference to Exhibit 10.1 to our Form 10-Q filed May 12, 2010).
10.21 <sup>2</sup>	Common Share Option Cancellation and Forfeiture Agreement between Jerry Fowden and Cott Corporation, dated August 9, 2010 (incorporated by reference to Exhibit 10.1 to our Form 8-K filed August 10, 2010).
10.22 <sup>2</sup>	Stock Appreciation Right Cancellation Agreement between Neal Cravens and Cott Corporation, dated August 10, 2010 (incorporated by reference to Exhibit 10.2 to our Form 8-K filed August 10, 2010).
10.23	2010 Equity Incentive Plan (incorporated by reference to Appendix B of our Definitive Proxy Statement on Schedule 14A filed on April 1, 2010).
10.24	Amendment to 2010 Equity Incentive Plan (incorporated by reference to Exhibit 4.2 to our Form 8-K filed on May 4, 2010).
10.25	Form of Restricted Share Unit Award Agreement with Time-Based Vesting under Cott Corporation's 2010 Equity Incentive Plan (incorporated by reference to Exhibit 10.4 to our Form 10-Q filed November 10, 2010).
10.26	Form of Restricted Share Unit Award Agreement with Performance-Based Vesting under Cott Corporation's 2010 Equity Incentive Plan (incorporated by reference to Exhibit 10.5 to our Form 10-Q filed November 10, 2010).
10.27 <sup>2</sup>	Employment Offer Letter to Michael Gibbons dated March 6, 2009 (incorporated by reference to Exhibit 10.1 of our Form 10-K filed March 15, 2011).
10.28 <sup>1</sup>	Supply Agreement executed December 21, 2010, effective January 1, 2011 between Crown Cork & Seal USA, Inc. and Cott Corporation (incorporated by reference to Exhibit 10.34 of our Form 10-K/A filed January 1, 2012).
10.29 <sup>1</sup>	Termination of Supply Agreement and Release dated as of December 31, 2010 between Crown Cork & Seal USA, Inc. and Cott Corporation (incorporated by reference to Exhibit 10.35 of our Form 10-K/A filed January 1, 2012).
21.1	List of Subsidiaries of Cott Corporation (filed herewith).
23.1	Consent of Independent Registered Certified Public Accounting Firm (filed herewith).
31.1	Certification of the Chief Executive Officer pursuant to section 302 of the Sarbanes-Oxley Act of 2002 for the year ended December 31, 2011 (filed herewith).
31.2	Certification of the Chief Financial Officer pursuant to section 302 of the Sarbanes-Oxley Act of 2002 for the year ended December 31, 2011 (filed herewith).
32.1	Certification of the Chief Executive Officer pursuant to section 906 of the Sarbanes-Oxley Act of 2002 for the year ended December 31, 2011 (furnished herewith).
32.2	Certification of the Chief Financial Officer pursuant to section 906 of the Sarbanes-Oxley Act of 2002 for the year ended December 31, 2011 (furnished herewith).
101	The following financial statements from Cott Corporation's Annual Report on Form 10-K for the year ended December 31, 2011, filed on February 29, 2012, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Statements of Operations, (ii) Consolidated Balance Sheets, (iii) Consolidated Statements of Cash Flows, (iv) Consolidated Statements of Equity (v) Condensed Consolidated Statements of Comprehensive Income (vi) Notes to the Consolidated Financial Statements (furnished herewith).

<sup>1</sup> Document is subject to request for confidential treatment.

<sup>2</sup> Indicates a management contract or compensatory plan.