COTT CORP /CN/
Form 10-Q
August 09, 2007

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United States
Securities and Exchange Commission
Washington, D.C. 20549
FORM 10-Q

þ **Quarterly Report Pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934**
For the quarterly period ended: June 30, 2007

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

Commission File Number: 000-19914
COTT CORPORATION
(Exact name of registrant as specified in its charter)

CANADA	NONE
(State or Other Jurisdiction of Incorporation or Organization)	(IRS Employer Identification No.)
207 QUEEN S QUAY WEST, SUITE 340, TORONTO, ONTARIO	M5J 1A7
5481 WEST WATERS AVENUE, SUITE 111 TAMPA, FLORIDA	33634
(Address of principal executive offices)	(Zip Code)

Registrant s telephone number, including area code: (416) 203-3898 and (813) 313-1800

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.:

Large accelerated filer þ Accelerated filer o Non-accelerated filer o

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

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

Class	Outstanding at June 30, 2007
Common Stock, no par value per share	71,865,830 shares

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements
Cott Corporation
Consolidated Statements of Income
(in millions of U.S. dollars, except per share amounts)
Unaudited

	For the three months ended		For the six months ended	
	June 30, 2007	**July 1, 2006**	**June 30, 2007**	**July 1, 2006**
Revenue	$ 498.4	$ 502.0	$ 898.7	$ 896.2
Cost of sales	438.8	429.7	785.6	771.2
Gross profit	59.6	72.3	113.1	125.0
Selling, general and administrative expenses	44.7	48.7	82.3	88.6
Gain on disposal of property, plant and equipment	(0.4)	(0.1)	(0.4)	
Restructuring, asset impairments and other charges note 2				
Restructuring	9.1	0.2	9.4	1.8
Asset (recovery) impairments		(0.1)		1.3
Other		0.6		2.6
Operating income	6.2	23.0	21.8	30.7
Other income, net	(2.6)		(2.3)	(0.2)
Interest expense, net	7.9	7.5	15.7	15.7
Minority interest	0.8	1.1	1.5	2.1
Income before income taxes	0.1	14.4	6.9	13.1
Income tax (recovery) expense note 4	(4.6)	6.8	(2.6)	7.6
Net income note 5	$ 4.7	$ 7.6	$ 9.5	$ 5.5
Per share data note 6				
Income per common share				
Basic	$ 0.07	$ 0.11	$ 0.13	$ 0.08
Diluted	$ 0.07	$ 0.11	$ 0.13	$ 0.08

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

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Cott Corporation
Consolidated Balance Sheets
(in millions of U.S. dollars)
Unaudited

	June 30, 2007	December 30, 2006
Assets		
Current assets		
Cash	**$ 6.4**	$ 13.4
Accounts receivable	**241.1**	187.0
Income taxes recoverable	**25.6**	17.8
Inventories note 7	**157.8**	131.2
Prepaid expenses and other assets	**11.3**	10.3
Deferred income taxes	**12.9**	11.7
	455.1	371.4
Property, plant and equipment note 9	**384.0**	360.2
Goodwill	**162.5**	158.4
Intangibles and other assets note 10	**240.1**	250.7
Deferred income taxes	**12.5**	
	$ 1,254.2	$ 1,140.7
Liabilities		
Current liabilities		
Short-term borrowings note 11	**$ 133.0**	$ 107.7
Current maturities of long-term debt	**2.0**	2.0
Accounts payable and accrued liabilities	**226.3**	186.5
	361.3	296.2
Long-term debt	**276.1**	275.2
Deferred income taxes	**53.3**	48.2
Other tax liabilities note 4	**34.5**	11.5
	725.2	631.1

Minority interest	**21.1**	20.9
Shareowners Equity		
Capital stock		
Common shares 71,865,830 shares issued (December 30, 2006 71,749,630)	**275.0**	273.4
Restricted shares	**(0.6)**	(0.7)
Additional paid-in-capital	**29.7**	29.8
Retained earnings	**173.9**	168.7
Accumulated other comprehensive income	**29.9**	17.5
	507.9	488.7
	$ 1,254.2	$ 1,140.7

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

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Cott Corporation
Consolidated Statements of Shareowners Equity
(in millions of U.S. dollars)
Unaudited

	Number of Common Shares (IN THOUSANDS)	Common Shares	Restricted Shares	Additional Paid-in-Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Equity
Balance at December 31, 2005	71,712	$ 273.0	$	$ 18.4	$ 186.2	$ 4.3	$ 481.9
Options exercised	3						
Share-based compensation				4.6			4.6
Comprehensive income note 5							
Currency translation adjustment						10.1	10.1
Unrealized losses on cash flow hedges note 8						0.2	0.2
Net loss					5.5		5.5
					5.5	10.3	15.8
Balance at July 1, 2006	71,715	$ 273.0	$	$ 23.0	191.7	14.6	502.3
Balance at December 30, 2006	71,750	$ 273.4	$ (0.7)	$ 29.8	$ 168.7	$ 17.5	$ 488.7
Options exercised (net of tax of nil) note 13	48	0.5					0.5
Common shares issued note 13	68	1.1					1.1
Restricted shares note 13			0.1				0.1
Share-based compensation note 13				4.9			4.9
Reclassified share-based compensation to liabilities note 13				(0.4)			(0.4)
Change in accounting policy note 1				(4.6)	(4.3)		(8.9)
Comprehensive income note 5							
Currency translation adjustment						12.4	12.4
Net income					9.5		9.5
					9.5	12.4	21.9
Balance at June 30, 2007	**71,866**	**$ 275.0**	**$ (0.6)**	**$ 29.7**	**$ 173.9**	**$ 29.9**	**$ 507.9**

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

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Cott Corporation
Consolidated Statements of Cash Flows
(in millions of U.S. dollars)
Unaudited

	For the three months ended		For the six months ended	
	June 30, 2007	**July 1, 2006**	**June 30, 2007**	**July 1, 2006**
Operating Activities				
Net income	**$ 4.7**	$ 7.6	**$ 9.5**	$ 5.5
Depreciation and amortization	**17.7**	19.1	**35.6**	38.4
Amortization of financing fees	**0.2**	0.2	**0.5**	0.5
Share-based compensation expense	**2.4**	1.9	**4.9**	4.6
Deferred income taxes	**3.6**	6.4	**3.4**	6.6
(Decrease) increase in other income tax liabilities note 4	**(0.7)**		**0.5**	
Minority interest	**0.8**	1.1	**1.5**	2.1
Gain on disposal of property, plant and equipment	**(0.4)**	(0.1)	**(0.4)**	
Asset (recovery) impairments		(0.1)		1.3
Other non-cash items	**0.2**	0.2	**0.5**	0.5
Net change in non-cash working capital note 12	**(33.2)**	(15.6)	**(45.3)**	(31.4)
Cash (used in) provided by operating activities	**(4.7)**	20.7	**10.7**	28.1
Investing Activities				
Additions to property, plant and equipment	**(20.1)**	(8.4)	**(36.3)**	(16.7)
Additions to intangibles and other assets	**(1.3)**	(3.3)	**(1.7)**	(5.7)
Proceeds from disposition of property, plant and equipment	**0.6**	0.8	**0.8**	1.5
Cash used in investing activities	**(20.8)**	(10.9)	**(37.2)**	(20.9)
Financing Activities				
Issuance of common shares	**0.5**		**0.5**	
Payments of long-term debt	**(0.4)**	(0.3)	**(1.6)**	(0.5)
Short-term borrowings	**26.3**	(9.7)	**22.1**	(16.7)
Distributions to subsidiary minority shareowner	**(0.7)**	(0.7)	**(1.3)**	(1.8)
Other financing activities	**(0.1)**		**(0.2)**	(0.1)
Cash provided by (used in) financing activities	**25.6**	(10.7)	**19.5**	(19.1)
Effect of exchange rate changes on cash	**0.1**	(0.1)		

Net increase (decrease) in cash		**0.2**		(1.0)		**(7.0)**		(11.9)
Cash, beginning of period		**6.2**		10.8		**13.4**		21.7
Cash, end of period	**$**	**6.4**	**$**	9.8	**$**	**6.4**	**$**	9.8

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

Cott Corporation
Notes to the Consolidated Financial Statements
Unaudited
Note 1
Summary of Significant Accounting Policies
Basis of Presentation
The interim consolidated financial statements have been prepared in accordance with United States (U.S.) generally accepted accounting principles (GAAP) for interim financial information. Accordingly, they do not include all information and notes presented in the annual consolidated financial statements in conformity with U.S. GAAP. In our opinion, the financial statements reflect all adjustments that are necessary for a fair presentation of the results for the interim periods presented. All such adjustments are of a normal recurring nature. These financial statements should be read in conjunction with the most recent annual consolidated financial statements. The accounting policies used in these interim consolidated financial statements are consistent with those used in the annual consolidated financial statements, except for the Accounting for Uncertainty in Income Taxes as outlined below.
The presentation of these interim consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. We review long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. Determining whether an impairment has occurred requires various estimates and assumptions including evaluating the lowest level of cash flows associated with groups of assets as well as estimates of cash flows that are directly related to the potentially impaired asset or groups of assets, 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 is also based on estimates of future cash flows. These estimates could change in the near term and any such changes could be material.
Accounting for Uncertainty in Income Taxes
In 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement No. 109 (FIN 48), 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. FIN 48 addresses the determination of whether tax benefits, either permanent or temporary, should be recorded in the financial statements. We adopted FIN 48 as of the beginning of our 2007 fiscal year and, as a result, recognized a $4.3 million decrease to retained earnings and $4.6 million decrease in additional paid-in- capital from the cumulative effect of adoption. As of the beginning of our 2007 fiscal year, we recorded a liability for uncertain tax positions in our Consolidated Balance Sheet of $30.2 million. This liability consists of the $4.3 million and $4.6 million decreases in retained earnings and additional paid-in-capital, respectively; $11.5 million of amounts reclassified from income taxes recoverable and deferred income tax liabilities and $9.8 million recognition of deferred income tax assets. Of the $30.2 million, approximately $24.2 million would, if recognized, impact our effective tax rate over time. In addition, we accrue interest and any necessary penalties related to unrecognized tax positions in our provision for income taxes. As of December 31, 2006, we accrued approximately $3.0 million of interest and penalties, which are included in Other Tax Liabilities.
Fair Value Measurements
In September 2006, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements (SFAS 157), which establishes a framework for reporting fair value and expands disclosures about fair value measurements. SFAS 157 is effective for fiscal years beginning after November 15, 2007. We are currently evaluating the impact of this standard on our Consolidated Financial Statements.

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Notes to the Consolidated Financial Statements
Unaudited
Note 2
Restructuring, Asset Impairments and Other Charges

	For the three months ended		For the six months ended	
	June 30, 2007	**July 1, 2006**	**June 30, 2007**	**July 1, 2006**
	(in millions of U.S. dollars)		*(in millions of U.S. dollars)*	
Restructuring	**$ 9.1**	$ 0.2	**$ 9.4**	$ 1.8
Asset impairments		(0.1)		1.3
Other		0.6		2.6
	$ 9.1	$ 0.7	**$ 9.4**	$ 5.7

On October 26, 2006, we announced the closures of our manufacturing plants in Elizabethtown, Kentucky (Elizabethtown) and Wyomissing, Pennsylvania (Wyomissing).
On June 29, 2007, we announced further steps to realign our North American business. The realignment includes the creation of fully-integrated business units and Customer Development & Solutions Teams to reduce costs and improve connections with our major customers. As part of this process, we continued our organizational restructuring and announced headcount reductions of approximately 40 executive and salaried positions, associated with the realignment of our North American business and the consolidation of our senior leadership team in Tampa, Florida.
Restructuring
We recorded restructuring charges of $9.4 million including $8.6 million for severance costs relating to the previously announced office consolidation and the headcount reduction associated with the realignment of the North American business announced on June 29, 2007, and $0.8 million for severance costs relating to the closures of Elizabethtown and Wyomissing.
The following table is a summary of our cash restructuring charges for the six months ended June 30, 2007 and the year ended December 30, 2006:

(IN MILLIONS OF U.S. DOLLARS)	Balance at December 31, 2006	Charged to Costs and Expenses during the period	Payments made during the period	Balance at June 30, 2007
Severance and termination benefits	**$ 5.4**	**$ 9.4**	**$ (6.3)**	**$ 8.5**
Contract loss	**7.3**		**(0.2)**	**7.1**
Total	**$ 12.7**	**$ 9.4**	**$ (6.5)**	**$ 15.6**

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Cott Corporation
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(IN MILLIONS OF U.S. DOLLARS)	Balance at January 1, 2006	Charged to Costs and Expenses during the year	Payments made during the year	Balance at December 30, 2006
Severance and termination benefits	$ 1.0	$ 12.1	$ (7.7)	$ 5.4
Contract loss		7.7	(0.4)	7.3
Other		0.7	(0.7)	
Total	$ 1.0	$ 20.5	$ (8.8)	$ 12.7

In the fourth quarter of 2006, we announced that we would record an estimated $115 to $125 million in aggregate charges for cost reduction programs including additional plant closures, office consolidation and organizational streamlining. This range was revised from the $60 to $80 million in estimated charges associated with the North American realignment plan and other asset impairments that we initially announced on September 29, 2005. Since September 29, 2005 through the end of the first half of 2007, we have recorded pre-tax charges of $95.4 million. In 2005, we recorded pre-tax charges of $36.9 million relating to the North American realignment and other asset impairments, of which $20.0 million related to customer relationship impairment. In 2006, we recorded pre-tax charges of $49.1 million, of which $30.4 million was in connection with the Elizabethtown and Wyomissing closures announced on October 26, 2006. The pre-tax charges of $30.4 million consisted of $10.6 million for accelerated depreciation and amortization recorded in cost of sales, $14.2 million for impairment charges relating to property, plant, equipment and intangible assets, and $5.6 million for severance of approximately 350 employees. In the first half of 2007, we recorded pre-tax charges of $9.4 million, primarily for severance costs relating to headcount reductions as a result of the new customer development and solutions teams and office consolidation. We estimate that the remainder of the cost reduction program charges (approximately $20 million to $30 million), comprising additional contract losses and severances, will be incurred over the next 12 months.

We may also rationalize products, customers and production capacity but have not yet completed our analysis nor have we completed our detailed plans. Accordingly, the ultimate amount of any asset impairment charges or change in useful lives of assets that may result is uncertain. It is reasonably possible that our estimates of future cash flows generated by, the useful lives of, or both related to certain equipment and intangibles will be significantly reduced in the near term. As a result, the carrying value of the related assets may also be reduced materially in the near term.

Note 3

Business Seasonality

Our net income for the three and six month periods ended June 30, 2007 is not necessarily indicative of the results that may be expected for the full year due to business seasonality. Operating results are impacted by business seasonality, which normally leads to higher sales in the second and third quarters versus the first and fourth quarters of the year. Conversely, fixed costs such as depreciation, amortization and interest, are not impacted by seasonal trends.

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Cott Corporation
Notes to the Consolidated Financial Statements
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Note 4
Income Taxes
The following table reconciles income taxes calculated at the basic Canadian corporate rates with the income tax provision:

	For the three months ended		For the six months ended	
	June 30, 2007	**July 1, 2006**	**June 30, 2007**	**July 1, 2006**
	(in millions of U.S. dollars)		*(in millions of U.S. dollars)*	
Income tax provision based on Canadian statutory rates	**$ 0.1**	$ 5.0	**$ 2.4**	$ 4.5
Foreign tax rate differential	**(1.1)**		**(1.0)**	0.2
Inter-company debt structures	**(2.1)**	(1.3)	**(3.3)**	(2.6)
Non-deductible expenses and other items	**(0.8)**	4.4	**(1.2)**	5.6
(Decrease) increase to other income tax liabilities	**(0.7)**		**0.5**	
Decrease in valuation allowance		(1.3)		(0.1)
	$ (4.6)	$ 6.8	**$ (2.6)**	$ 7.6

As of June 30, 2007, we recognized $0.7 million of interest and penalties in the income statement and $3.7 million of interest and penalties in the balance sheet. We have classified the interest and penalties as income tax expense.
The total amount of gross unrecognized tax benefits as at December 31, 2006 was $28.9 million.
We are currently under audit by the Canada Revenue Agency for tax years 2000 through 2004 and by the Internal Revenue Service for tax years 2002 and 2003. The amounts that may ultimately be payable by us as a result of these audits are uncertain. We believe that the amounts provided for these audits in our tax liabilities are adequate; however, it is reasonably possible that our estimates of tax liabilities for these audits may change materially in the near term.
As of June 30, 2007, the tax years prior to 1997 are closed to examination by major tax jurisdictions.
Note 5
Comprehensive Income

	For the three months ended		For the six months ended	
	June 30, 2007	**July 1, 2006**	**June 30, 2007**	**July 1, 2006**
	(in millions of U.S. dollars)		*(in millions of U.S. dollars)*	
Net income	**$ 4.7**	$ 7.6	**$ 9.5**	$ 5.5
Foreign currency translation	**11.3**	10.7	**12.4**	10.1
Unrealized losses on cash flow hedges note 8		0.1		0.2
	$ 16.0	$ 18.4	**$ 21.9**	$ 15.8

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Cott Corporation
Notes to the Consolidated Financial Statements
Unaudited
Note 6
Income Per 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 share is calculated using the weighted average number of common shares outstanding adjusted to include the effect, if dilutive, that would occur if in-the-money stock options were exercised.
The following table reconciles the basic weighted average number of shares outstanding to the diluted weighted average number of shares outstanding:

	For the three months ended		For the six months ended	
	June 30, 2007	**July 1, 2006**	**June 30, 2007**	**July 1, 2006**
	(in thousands)		*(in thousands)*	
Weighted average number of shares outstanding basic	**71,831**	71,714	**71,791**	71,713
Dilutive effect of stock options	**28**	46	**36**	44
Adjusted weighted average number of shares outstanding diluted	**71,859**	71,760	**71,827**	71,757

At June 30, 2007, options to purchase 2,155,814 shares (3,835,664 July 1, 2006) of common stock at a weighted average exercise price of C$31.92 per share (C$41.59 July 1, 2006) were outstanding, but were not included in the computation of diluted net income per share because the exercise price of such options was greater than the average market price of our common stock during the period.
As of June 30, 2007, we had 71,865,830 common shares and 2,463,814 common share options outstanding. Of our common share options outstanding, 2,056,863 options were exercisable as of June 30, 2007.
During the second quarter ended June 30, 2007, 50,000 common share options were issued at an exercise price of C$18.48 and 43,200 common share options were exercised at a weighted average exercise price of C$9.61. In the first half of 2007, 50,000 common share options were issued at an exercise price of C$18.48 and 48,200 common share options were exercised at a weighted average exercise price of C$10.06.
Note 7
Inventories

	June 30, 2007	**December 30, 2006**
	(in millions of U.S. dollars)	
Raw materials	**$ 62.9**	$ 52.2
Finished goods	**76.6**	61.5
Other	**18.3**	17.5
	$ 157.8	$ 131.2

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Cott Corporation
Notes to the Consolidated Financial Statements
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Note 8
Derivative Financial Instruments
At June 30, 2007 and December 30, 2006 there were no outstanding derivatives that were accounted for as hedges.
In 2006, we entered into cash flow hedges to mitigate exposure to declines in the value of the Canadian dollar attributable to certain forecasted U.S. dollar raw material purchases of the Canadian business. The hedges consisted of monthly foreign exchange options to buy U.S. dollars at fixed rates per Canadian dollar and matured at various dates through December 28, 2006. The fair market value of the foreign exchange options was included in prepaid expenses and other assets.
As at July 1, 2006, the hedges consisted of foreign exchange options to buy U.S. dollars at fixed rates per Canadian dollar at a cost of $0.3 million. The unrealized loss of $0.3 million was recorded in other comprehensive income, reflecting a $0.2 million change in the unrealized loss in comprehensive income for the period ending July 1, 2006.
Note 9
Property, Plant and Equipment

	June 30, 2007	December 30, 2006
	(in millions of U.S. dollars)	
Cost	**$ 743.0**	$ 684.7
Accumulated depreciation	**(359.0)**	(324.5)
	$ 384.0	$ 360.2

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Cott Corporation
Notes to the Consolidated Financial Statements
Unaudited
Note 10
Intangibles and Other Assets

	June 30, 2007			**December 30, 2006**		
	Cost	**Accumulated Amortization**	**Net**	**Cost**	**Accumulated Amortization**	**Net**
	(in millions of U.S. dollars)			*(in millions of U.S. dollars)*		
Intangibles						
Not subject to amortization						
Rights	**$ 80.4**	**$**	**$ 80.4**	$ 80.4	$	$ 80.4
Subject to amortization						
Customer relationships	**166.1**	**55.3**	**110.8**	165.7	50.0	115.7
Trademarks	**29.6**	**12.5**	**17.1**	29.4	11.3	18.1
Information technology	**61.8**	**38.2**	**23.6**	57.0	32.8	24.2
Other	**3.6**	**1.4**	**2.2**	3.6	1.2	2.4
	261.1	**107.4**	**153.7**	255.7	95.3	160.4
	341.5	**107.4**	**234.1**	336.1	95.3	240.8
Other Assets						
Financing costs	**4.9**	**2.9**	**2.0**	4.8	2.3	2.5
Other	**8.4**	**4.4**	**4.0**	11.2	3.8	7.4
	13.3	**7.3**	**6.0**	16.0	6.1	9.9
	$354.8	**$ 114.7**	**$240.1**	$352.1	$ 101.4	$250.7

Amortization expense of intangible assets was $10.9 million for the six-month period ended June 30, 2007 ($11.6 million July 1, 2006).

Note 11
Short-Term Borrowings

Short-term borrowings include bank overdrafts and borrowings under our credit facilities and receivables securitization facility.

The credit facilities are collateralized by substantially all of our personal property with certain exceptions including the
receivables sold as part of our receivables securitization facility discussed below.

In general, borrowings under the credit facilities bear interest at either a floating or fixed rate for the applicable currency plus a margin based on our consolidated total leverage ratio. A facility fee of between 0.15% and 0.375% per annum is payable on the entire line of credit. The level of the facility fee is dependent on financial covenants.

As at June 30, 2007, credit of $154.4 million was available after borrowings of $66.1 million and standby letters of credit of $4.5 million. The weighted average interest rate was 6.95% on these facilities as of June 30, 2007.

The amount of funds available under the receivables securitization facility is based upon the amount of eligible receivables and various reserves required by the facility. Accordingly, availability may fluctuate over time, as a result of changes in eligible receivables balances and calculation of reserves, but will not exceed the $75.0 million program limit. This facility bears interest at a variable rate, based on the cost of borrowing of an unaffiliated entity, Park Avenue Receivables Company, LLC and certain other financial institutions. A fee of between 0.20% and 0.40% per annum is currently payable on the unused portion of the facility. The level of the facility fee is dependent on financial covenants. As of June 30, 2007, $53.4 million of eligible receivables, net of reserves, were available for purchase and $53.3 million was outstanding under this facility, at a weighted average interest rate of 6.34%.

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Cott Corporation
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On July 17, 2007, we entered into a third amendment to our senior secured credit facilities. The third amendment, effective June 29, 2007, adjusts the maximum total leverage ratio that is required to be maintained under the credit facilities for the period from April 1, 2007 through and including September 30, 2007 from 3.00 to 1.00 to 4.00 to 1.00. A conforming change was made to the receivables securitization facility to align the total leverage ratio set forth in that agreement with that contained in the amended credit facilities. Our financial covenants are calculated and determined at the end of each quarter. After giving effect to the amendment, we are in compliance with our covenants as of June 30, 2007.

Note 12

Net Change in Non-Cash Working Capital

The changes in non-cash working capital components, net of effects of unrealized foreign exchange gains and losses, are as follows:

	For the three months ended		For the six months ended	
	June 30, 2007	**July 1, 2006**	**June 30, 2007**	**July 1, 2006**
	(in millions of U.S. dollars)		*(in millions of U.S. dollars)*	
Increase in accounts receivable	**$ (40.5)**	$ (48.7)	**$ (49.8)**	$ (40.3)
Increase in income taxes recoverable	**(9.4)**	(2.1)	**(7.8)**	(4.4)
(Increase) decrease in inventories	**(6.9)**	13.3	**(23.1)**	(14.1)
Decrease (increase) in prepaid and other expenses	**0.9**	(5.2)	**(0.7)**	(7.7)
Increase in accounts payable and accrued liabilities	**22.7**	27.1	**36.1**	35.1
	$ (33.2)	$ (15.6)	**$ (45.3)**	$ (31.4)

Note 13

Share-Based Compensation

As of June 30, 2007, we had three share-based compensation plans, which are described below. The share-based compensation plans have been approved by the shareholders, except for our Common Share Option Plan, which was adopted prior to our initial public offering. Subsequent amendments to that plan that required shareholder approval have been so approved.

The table below summarizes the compensation expense for the six-month period ended June 30, 2007 and the unrecognized compensation expense on non-vested awards at that date. This compensation expense was recorded in selling, general and administrative expenses.

(IN MILLIONS OF U.S. DOLLARS)	**Compensation expense**	**Unrecognized compensation expense**
Stock options	$ 2.5	$ 1.9
Performance share units	2.1	11.4
Share appreciation rights	0.3	2.0
Total	$ 4.9	$ 15.3

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Common Share Option Plan
Under the 1986 Common Share Option Plan, as amended, we have reserved 14.0 million common shares for future issuance. Options are granted at a price not less than fair value of the shares on the grant date.
There were 50,000 options granted during the second quarter of fiscal 2007 as compared to nil during the second quarter of 2006. The fair value of each option grant is estimated to be C$5.70 using the Black-Scholes option pricing model. These grants were fully vested at the time of the grant and therefore the entire amount was recorded as share-based compensation expense during the second quarter of 2007.
The fair value of each option grant is estimated on the date of the grant using the Black-Scholes option pricing model with the following assumptions:

	June 30, 2007
Risk-free interest rate	4.73%
Average expected life (years)	3
Expected volatility	37.4%
Expected dividend yield	

Option activity was as follows:

	Shares (IN THOUSANDS)	**Weighted average exercise price (C$)**	**Weighted average remaining contractual term (in years)**
Balance at December 31, 2005	4,605	$ 30.69	
Granted			
Exercised	(3)	5.95	
Forfeited or expired	(645)	33.93	
Outstanding at July 1, 2006	3,957	40.61	4.2
Exercisable at July 1, 2006	2,548	$ 29.63	4.5
Balance at December 30, 2006	2,696	$ 29.65	
Granted	50	18.48	
Exercised	(48)	10.06	
Forfeited or expired	(234)	29.15	
Outstanding at June 30, 2007	2,464	29.85	3.1
Exercisable at June 30, 2007	2,057	30.44	2.8

Total compensation cost related to non-vested options to be recognized in future periods is $1.9 million. The weighted average period over which this is expected to be recognized is 1 year.

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Outstanding options at June 30, 2007 are as follows:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices (C$)	Number Outstanding (IN THOUSANDS)	Remaining Contractual Life (Years)	Weighted Average Exercise Price (C$)	Number Exercisable (IN THOUSANDS)	Weighted Average Exercise Price (C$)
$8.15 $16.10	58	0.8	$ 9.68	58	$ 9.68
$16.68 $24.25	475	2.2	$ 17.79	382	$ 17.46
$26.57 $33.30	1,316	3.4	$ 29.87	1,005	$ 30.11
$35.73 $43.64	615	3.8	$ 41.03	612	$ 41.04
	2,464	3.1	$ 29.85	2,057	$ 30.44

Long-Term Incentive Plans

During the second quarter of 2006, our shareowners approved and adopted two new long-term incentive plans for 2006 and future periods, the Performance Share Unit Plan (PSU Plan) and the Share Appreciation Rights Plan (SAR Plan). The PSU Plan and SAR Plan were amended and restated in the second quarter of 2007.

Amended and Restated PSU Plan

Under the Amended and Restated PSU Plan, performance share units (PSUs) may be granted to employees of our Company and its subsidiaries. The value of an employee s award under our PSU Plan will depend on (i) our performance over a three-year performance cycle; and (ii) the market price of our common shares at the time of vesting. Performance targets will be established annually by the Human Resources and Compensation Committee of the Board of Directors. PSUs granted will vest over a term not to exceed three fiscal years. The amendments to the PSU Plan clarify the authority of our Board of Directors to accelerate the vesting of all or a portion of the unvested PSUs of all of or any of the participants under the PSU Plan on a Change of Control (as such term is defined in the PSU Plan) irrespective of whether termination has occurred and allow for early funding by us under the PSU Plan.

Amended and Restated SAR Plan

Under the Amended and Restated SAR Plan, share appreciation rights (SARs) may be granted to employees and directors of our Company and its subsidiaries. SARs will typically vest on the third anniversary of the grant date. On vesting, each SAR will represent 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 will be made in the form of our common shares purchased on the open market by an independent trust with cash contributed by us. If our share price on the date of vesting is lower than on the date of grant, no payment will be made in respect of those vested SARs. Prior to vesting, there are no dividends paid on the SARs and holders do not have the right to vote the common shares represented by their SARs. The amendments to the SAR Plan clarify the authority of our Board of Directors to accelerate vesting of some or all of the SARs of all of or any of the participants under the SAR Plan as determined by the Board of Directors or the Committee (as such term is defined in the SAR Plan) in its sole discretion, irrespective of whether termination or a Change of Control (as such term is defined in the SAR Plan) has occurred and allow for early funding by us under the SAR Plan.

We recognize the compensation cost of the PSUs and SARs based on the fair value of the grant. We recognize 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. Compensation cost of the PSUs may vary depending on management s estimates of the probability of the performance measures being achieved and the number of PSUs expected to vest.

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During the first half of 2007, the PSU activity was as follows:

	Number of PSUs (IN THOUSANDS)	**Target Value per PSU (C$)**	**Total Value at date of grant** (IN MILLIONS OF C$)	**Total Value at date of grant** (IN MILLIONS OF U.S. DOLLARS)
Granted				
June 25, 2007	13	$ 15.84	$ 0.2	$ 0.2
June 13, 2007	27	15.92	0.4	0.4
May 7, 2007	14	17.86	0.2	0.2
March 26, 2007	44	16.13	0.7	0.6
February 16, 2007	562	17.08	9.6	8.3
Total	660		$ 11.1	$ 9.7

During the first half of 2007 as compared to the first half of 2006, the PSU and SAR activity was as follows:

	Number of PSUs (IN THOUSANDS)	**Number of SARs** (IN THOUSANDS)
Balance at December 31, 2005		
Granted	98	
Forfeited		
Outstanding at July 1, 2006	98	
Balance at December 30, 2006	531	415
Granted	660	218
Forfeited	(153)	(4)
Outstanding at June 30, 2007	1,038	629

The number of PSUs granted and target values per PSU noted above are based on an assumption that our performance target will be achieved. The number of units and target values can vary from 0 to 150% depending on the level of performance achieved relative to the performance target. Subject to the terms of the PSU Plan, the vesting date for the PSUs granted in fiscal 2006 and 2007 will be December 27, 2008 and December 26, 2009, respectively. The target value per PSU noted above was determined based on the closing market price of our common shares on the Toronto Stock Exchange (TSX) on the last trading day prior to the grant date. Compensation costs of $2.1 million were

recognized in selling, general and administrative expenses in the period ended June 30, 2007. As of June 30, 2007 there was approximately $11.4 million of unearned compensation relating to the grants that is expected to be recognized on a straight-line basis over a period of 15 to 36 months.

In connection with the termination of certain employees announced on June 29, 2007, we will make a cash payment equal to the value (based on the closing price of our stock on the TSX on the applicable date of termination) representing the pro rata portion of PSUs granted to each terminated employee in 2006 and 2007. Therefore, the amount of $0.4 million previously recognized relating to these PSUs recorded in additional paid-in-capital has been reclassified to accrued liabilities as of June 30, 2007.

During the first quarter of 2007, we granted 217,836 SARs to our employees at a fair value of $1.0 million. Subject to the terms of the SAR plan, the vesting dates for the SARs granted in fiscal 2006 and 2007 will be July 26, 2009, October 25, 2009 and February 19, 2010. Compensation costs of $0.3 million were recognized in selling, general and administrative expenses in the period ended June 30, 2007. As of June 30, 2007 there was $2.0 million of unearned compensation relating to the grants that is expected to be recognized on a straight-line basis over a period of 25 to 33 months.

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The fair value of the SARs grant is estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions:

	June 30, 2007	December 30, 2006
Risk-free interest rate	5.05%	5.05%
Average expected life (years)	4	4
Expected volatility	33.9%	33.9%
Expected dividend yield		

Other Share-Based Compensation
In 2006, Brent Willis, our Chief Executive Officer, received a net cash award of $0.9 million at commencement of employment to purchase shares of the Company. The purchased shares must be held for a minimum of three years and must be transferred to the Company (or as the Company may otherwise direct) for no additional consideration on a prorated basis if the service condition of three years is not met. This award is recognized as compensation expense over the vesting period. For the period ended June 30, 2007, $0.1 million was expensed as compensation expense and the remaining balance is classified as restricted shares which is a reduction in shareowners equity. In addition, in 2006, 204,000 common shares with a fair value of $3.2 million, which vest over three years, were granted to Mr. Willis. Compensation costs of $0.6 million were recognized in selling, general and administration expenses in the period ended June 30, 2007 with respect to this grant. On May 16, 2007, one third of his grant vested and, as a result, he received 68,000 common shares, which has been recognized as an issuance of share capital. As of June 30, 2007 there was $2.0 million of unearned compensation relating to the grant that is being recognized on a straight-line basis over a period of 23 months.

Note 14
Contingencies
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.
In January 2005, we were named as one of many defendants in a class action suit in British Columbia alleging the unauthorized use by the defendants of container deposits and the imposition of recycling fees on customers. On June 2, 2006, the British Columbia Supreme Court granted a summary trial application, which resulted in the dismissal of the plaintiffs action against us and the other defendants. The plaintiffs appealed the dismissal, and on June 21, 2007 the British Columbia Court of Appeal dismissed the appeal. The plaintiffs have until September 20, 2007 to make an application for leave to appeal to the Supreme Court of Canada. In February 2005, similar class action claims were filed in a number of other Canadian provinces. The claims which were filed in Quebec have since been discontinued.

Note 15
Segment Reporting
We produce, package and distribute retailer brand and branded bottled and canned soft drinks to regional and national grocery, mass-merchandise and wholesale chains in North America and International business segments. The International segment includes our United Kingdom business, our European business, our Mexican business, our Royal Crown International business and our business in Asia. The concentrate manufacturing plant assets, sales and related expenses have been included in the North America segment. Total assets under the heading Eliminations include the elimination of intersegment receivables and investments. For comparative purposes, segmented information has been restated to conform to the way we currently manage our beverage business.

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	Business Segments			
(IN MILLIONS OF U.S. DOLLARS)	North America	International	Eliminations	Total
For the three months ended June 30, 2007				
External revenue	**$364.5**	**$ 133.9**		