COTT CORP /CN/
Form 10-Q
November 10, 2010
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United States

Securities and Exchange Commission

Washington, D.C. 20549

FORM 10-Q

x **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended: October 2, 2010

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

Commission File Number: 001-31410

COTT CORPORATION

(Exact name of registrant as specified in its charter)

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T 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 whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

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

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

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

Class	**Outstanding at November 9, 2010**
Common Stock, no par value per share	94,750,120 shares

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements
Cott Corporation

Consolidated Statements of Operations

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

Unaudited

	For the Three Months Ended		For the Nine Months Ended	
	October 2, 2010	September 26, 2009	October 2, 2010	September 26, 2009
Revenue, net	**$ 490.6**	$ 404.9	**$ 1,278.2**	$ 1,210.7
Cost of sales	**419.8**	341.1	**1,076.7**	1,015.4
Gross profit	**70.8**	63.8	**201.5**	195.3
Selling, general and administrative expenses	**47.3**	36.9	**114.2**	106.7
Loss on disposal of property, plant & equipment	**0.3**		**0.4**	
Restructuring and asset impairments				
Restructuring			**(0.5)**	1.6
Asset impairments				3.5
Operating income	**23.2**	26.9	**87.4**	83.5
Other expense, net	**1.3**	3.2	**3.6**	0.5
Interest expense, net	**10.3**	7.6	**22.6**	22.7
Income before income taxes	**11.6**	16.1	**61.2**	60.3
Income tax (benefit) expense	**1.9**	0.9	**15.1**	(10.7)
Net income	**$ 9.7**	$ 15.2	**$ 46.1**	$ 71.0
Less: Net income attributable to non-controlling interests	**1.4**	1.3	**4.0**	3.5
Net income attributed to Cott Corporation	**$ 8.3**	$ 13.9	**$ 42.1**	$ 67.5
Net income per common share attributed to Cott Corporation				
Basic	**$ 0.10**	$ 0.18	**$ 0.51**	$ 0.93
Diluted	**$ 0.09**	$ 0.18	**$ 0.50**	$ 0.92
Weighted average outstanding shares (millions) attributed to Cott Corporation				
Basic	**87.2**	76.6	**82.7**	72.5
Diluted	**89.0**	77.0	**83.5**	73.1

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, except share amounts)

Unaudited

	October 2, 2010	January 2, 2010
ASSETS		
Current assets		
Cash & cash equivalents	**$ 35.4**	$ 30.9
Accounts receivable, net of allowance of $7.4 ($5.9 as of January 2, 2010)	**237.8**	152.3
Income taxes recoverable	**8.2**	20.8
Inventories	**206.2**	99.7
Prepaid expenses and other assets	**19.0**	16.8
Total current assets	**506.6**	320.5
Property, plant and equipment	**508.8**	343.0
Goodwill	**127.1**	30.6
Intangibles and other assets	**379.9**	155.5
Deferred income taxes	**7.9**	5.4
Other tax receivable	**6.7**	18.8
Total assets	**$ 1,537.0**	$ 873.8
LIABILITIES AND EQUITY		
Current liabilities		
Short-term borrowings	**$ 50.3**	$ 20.2
Current maturities of long-term debt	**5.9**	17.6
Accounts payable and accrued liabilities	**313.8**	169.3
Total current liabilities	**370.0**	207.1
Long-term debt	**606.6**	233.2
Deferred income taxes	**18.5**	17.5
Other long-term liabilities	**19.8**	14.7
Total liabilities	**1,014.9**	472.5
Contingencies and Commitments - Note 11		
Equity		
Capital shares, no par - 94,750,120 (January 2, 2010 - 81,331,330) shares issued	**395.6**	322.5
Treasury shares	**(3.2)**	(4.4)
Additional paid-in-capital	**39.1**	37.4
Retained earnings	**93.9**	51.8
Accumulated other comprehensive loss	**(17.1)**	(21.3)
Total Cott Corporation equity	**508.3**	386.0

Non-controlling interests		**13.8**		15.3
Total equity		**522.1**		401.3
Total liabilities and equity	**$**	**1,537.0**	$	873.8

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 Nine Months Ended	
	October 2, 2010	**September 26, 2009**	**October 2, 2010**	**September 26, 2009**
Operating Activities				
Net income	**$ 9.7**	$ 15.2	**$ 46.1**	$ 71.0
Depreciation & amortization	**19.1**	16.4	**49.9**	49.7
Amortization of financing fees	**0.6**	0.4	**1.6**	1.0
Share-based compensation expense	**1.1**	0.4	**2.8**	1.2
Increase in deferred income taxes	**9.7**		**9.6**	2.9
Decrease in other income tax liabilities		(0.1)		(16.6)
Write-off of financing fees	**1.4**		**1.4**	
Loss on disposal of property, plant & equipment	**0.3**		**0.4**	
Gain on buyback of Notes		0.2	**0.1**	0.2
Asset impairments				3.5
Lease contract termination loss			**(0.4)**	
Lease contract termination payments	**(0.6)**	(0.9)	**(5.4)**	(2.8)
Other non-cash items	**0.1**	2.9	**4.3**	1.8
Change in operating assets and liabilities, net of acquisition:				
Accounts receivable	**17.4**	37.2	**(28.9)**	1.9
Inventories	**(3.8)**	7.7	**(20.5)**	2.2
Prepaid expenses and other current assets	**(0.5)**	1.5	**1.9**	(1.5)
Other assets		0.5	**(1.1)**	0.3
Accounts payable and accrued liabilities	**8.3**	(24.4)	**16.1**	(0.2)
Income taxes recoverable	**2.7**	(0.2)	**27.1**	0.6
Net cash provided by operating activities	**65.5**	56.8	**105.0**	115.2
Investing Activities				
Acquisition	**(507.7)**		**(507.7)**	
Additions to property, plant & equipment	**(11.4)**	(5.3)	**(29.5)**	(18.9)
Additions to intangibles	**(0.2)**		**(3.6)**	
Proceeds from sale of property, plant & equipment	**0.5**	0.1	**0.9**	1.4
Net cash used in investing activities	**(518.8)**	(5.2)	**(539.9)**	(17.5)
Financing Activities				
Payments of long-term debt	**(1.2)**	(22.7)	**(17.3)**	(26.4)
Issuance of long-term debt	**375.0**		**375.0**	
Borrowings under ABL	**165.7**	48.9	**307.7**	679.4
Payments under ABL	**(126.2)**	(115.5)	**(277.8)**	(788.1)
Distributions to non-controlling interests	**(2.8)**	(2.6)	**(5.5)**	(4.9)
Issuance of common shares, net of offering fees	**71.1**	47.4	**71.1**	47.4
Financing fees	**(14.0)**	(1.1)	**(14.2)**	(1.1)
Other financing activities		(0.2)		(0.4)

Net cash (used in) provided by financing activities		**467.6**		(45.8)		**439.0**		(94.1)
Effect of exchange rate changes on cash		**0.8**				**0.4**		0.7
Net increase in cash & cash equivalents		**15.1**		5.8		**4.5**		4.3
Cash & cash equivalents, beginning of period		**20.3**		13.2		**30.9**		14.7
Cash and cash equivalents, end of period	**$**	**35.4**	$	19.0	**$**	**35.4**	$	19.0
Supplemental Noncash Investing and Financing Activities:								
Capital lease additions	**$**		$		**$**	**2.4**	$	
Deferred consideration		**13.1**				**13.1**		
Contingent consideration		**52.5**				**52.5**		
Working capital adjustment		**(3.8)**				**(3.8)**		
Supplemental disclosures of cash flow information:								
Cash paid for interest	**$**	**1.2**	$	2.1	**$**	**12.8**	$	16.7
Cash paid (received) for income taxes, net		**(10.0)**		3.5		**(21.8)**		3.3

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

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Cott Corporation

Consolidated Statements of Equity

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

Unaudited

			Cott Corporation Equity						
	Number of Common Shares *(In thousands)*	**Number of Treasury Shares** *(In thousands)*	**Common Shares**	**Treasury Shares**	**Additional Paid-in-Capital**	**Retained Earnings (Deficit)**	**Accumulated Other Comprehensive Loss**	**Non-Controlling Interests**	**Total Equity**
Balance at December 27, 2008	**71,871**	**2,307**	**$ 275.0**	**($ 6.4)**	**$ 38.1**	**($ 29.7)**	**($ 47.8)**	**$ 17.3**	**$ 246.5**
Treasury shares issued		(396)		1.1	(1.1)				
Common shares issued	9,435		47.4						47.4
Share-based compensation					1.2				1.2
Reclassified share-based compensation to liabilities					(0.1)				(0.1)
Distributions to non-controlling interests								(4.9)	(4.9)
Comprehensive income									
Currency translation adjustment							20.3	(0.1)	20.2
Pension liabilities							0.5		0.5
Net income						67.5		3.5	71.0
Balance at September 26, 2009	**81,306**	**1,911**	**$ 322.4**	**($ 5.3)**	**$ 38.1**	**$ 37.8**	**($ 27.0)**	**$ 15.8**	**$ 381.8**
Balance at January 2, 2010	**81,331**	**1,504**	**$ 322.5**	**($ 4.4)**	**$ 37.4**	**$ 51.8**	**($ 21.3)**	**$ 15.3**	**$ 401.3**
Common shares issued	13,340		71.1						71.1
Treasury shares issued - PSU Plan		(437)		1.2	(1.2)				
Tax Impact of Common Shares Issuance			2.0						2.0
Treasury Shares issued - EISPP		(1)							
Common Shares issued - Directors Share Award	79				0.7				0.7
Share-based compensation					2.2				2.2
Distributions to non-controlling interests								(5.5)	(5.5)
Comprehensive income									
Currency translation adjustment							3.9		3.9
Pension liabilities							0.3		0.3
Net income						42.1		4.0	46.1
Balance at October 2, 2010	**94,750**	**1,066**	**$ 395.6**	**($ 3.2)**	**$ 39.1**	**$ 93.9**	**($ 17.1)**	**$ 13.8**	**$ 522.1**

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

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Cott Corporation

Condensed Consolidated Statements of Comprehensive Income

(in millions of U.S. dollars)

Unaudited

	For the Three Months Ended		For the Nine Months Ended	
	October 2, 2010	September 26, 2009	October 2, 2010	September 26, 2009
Net income (loss)	**$ 9.7**	$ 15.2	**$ 46.1**	$ 71.0
Other comprehensive income (loss), net of tax:				
Net currency translation	**10.5**	3.2	**3.9**	20.2
Pension benefit plan, net of tax	**0.1**	0.1	**0.3**	0.5
Unrealized gains on derivative instruments	**(0.1)**			
Total other comprehensive income (loss), net of tax	**10.5**	3.3	**4.2**	20.7
Comprehensive income	**$ 20.2**	$ 18.5	**$ 50.3**	$ 91.7
Less: Net income attributable to non-controlling interests	**1.4**	1.3	**4.0**	3.5
Comprehensive income attributed to Cott Corporation	**$ 18.8**	$ 17.2	**$ 46.3**	$ 88.2

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

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Cott Corporation

Notes to the Consolidated Financial Statements

Unaudited

Note 1 Business and Recent Accounting Pronouncements

Description of Business

Cott Corporation, together with its consolidated subsidiaries (Cott, the Company, our Company, Cott Corporation, we, us, or our), is tl largest retailer brand beverage company. In addition to carbonated soft drinks (CSDs), our product lines include clear, still and sparkling flavored waters, energy-related drinks, juice, juice-based products, bottled water and ready-to-drink teas.

Basis of Presentation

The accompanying interim unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X and in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial reporting. Accordingly, they do not include all information and notes presented in the annual consolidated financial statements in conformity with U.S. GAAP. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair statement of our results of operations for the interim periods reported and of our financial condition as of the date of the interim balance sheet have been included. This Quarterly Report on Form 10-Q should be read in conjunction with the annual audited consolidated financial statements and accompanying notes in our Annual Report on Form 10-K for the year ended January 2, 2010. The accounting policies used in these interim consolidated financial statements are consistent with those used in the annual consolidated financial statements.

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

Recent Accounting Pronouncements

ASC No. 810 Variable Interest Entity (formerly SFAS No. 167)

In June 2009, the Financial Accounting Standards Board (FASB) issued Accounting Standards Codification (ASC) No. 810, Amendments to FASB Interpretation No. 46(R) , which amends FASB Interpretation No. 46 (revised December 2003), to address the elimination of the concept of a qualifying special purpose entity. ASC 810 also replaces the quantitative-based risks and rewards calculation for determining which enterprise has a controlling financial interest in a variable interest entity with an approach focused on identifying which enterprise has the power to direct the activities of a variable interest entity and the obligation to absorb losses of the entity or the right to receive benefits from the entity. Additionally, ASC 810 provides more timely and useful information about an enterprise s involvement with a variable interest entity. ASC 810 became effective in the first quarter of 2010. This standard does not have an impact on our consolidated financial statements.

ASU 2010 -06 Improving Disclosures about Fair Value Measurements

In January 2010, the FASB issued Accounting Standards Update (ASU) 2010-06, Improving Disclosures about Fair Value Measurements . ASU 2010-06 requires additional disclosures about fair value measurements, including transfers in and out of Levels 1 and 2 and a higher level of disaggregation for the different types of financial instruments. For the reconciliation of Level 3 fair value measurements, information about purchases, sales, issuances and settlements are presented separately. This standard is effective for interim and annual reporting periods beginning after December 15, 2009 with the exception of revised Level 3 disclosure requirements, which are effective for interim and annual reporting periods beginning after December 15, 2010. Comparative disclosures are not required in the year of adoption. The Company adopted the provisions of the standard on January 3, 2010, which did not have a material impact on our financial statements.

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Note 2 Acquisition

On August 17, 2010 (the Acquisition Date), we completed the acquisition (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 $500.0 million payable 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 which is payable upon the achievement of milestones in upgrading certain expansion projects in 2010, and the remainder is based on the achievement of certain performance measures during the fiscal year ending January 1, 2011 (the Earn Out Period).

The total consideration paid by us in the Acquisition is summarized below:

(in millions of U.S. dollars)	
Cash	$ 500.0
Deferred Consideration (a)	13.1
Contingent Consideration (b)	52.5
Working Capital Payment (c)	7.7
Working Capital Adjustment (d)	(3.8)
Total Consideration	$ 569.5

(a) Principal amount of $14.0 million to be paid in three equal annual installments and recorded at fair value.
(b) Represents estimated contingent consideration based on probability of achievement of EBITDA targets recorded at fair value.
(c) Represents amount paid to seller for estimated closing balance sheet working capital.
(d) Represents estimated actual closing balance sheet working capital adjustment.

The 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 Note Offering), the underwritten public offering of 13.4 million of our common shares (the Equity Offering) and borrowings under our asset based lending (ABL) credit facility, which we refinanced in connection with the Acquisition, which increased the amount available for borrowings to $275.0 million.

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

Cliffstar is entitled to contingent consideration of up to a maximum of $55.0 million, the first $15.0 million of which will be due by us if Cliffstar and its affiliated companies achieve milestones in upgrading certain expansion projects in 2010. The remaining contingent consideration will be due by us if Cliffstar and its affiliated companies meet certain targets relating to net income plus interest, income taxes, depreciation and amortization (EBITDA) for the Earn Out Period. We estimated the fair value of the contingent payment based on financial projections of the acquired business and estimated probabilities of achievement. We believe that our estimates and assumptions are reasonable, but there is significant judgment involved. Changes in the fair value of contingent consideration liabilities subsequent to the Acquisition will be recorded in our Consolidated Statement of Operations. The fair value of the contingent consideration arrangement of $52.5 million was determined using the probability-weighted income approach. Key assumptions include probability-adjusted EBITDA amounts with discount rates consistent with the level of risk of achievement.

In addition to the purchase price, we incurred $7.5 million in 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 nine months ended October 2, 2010, in accordance with ASC 805, *Business Combinations*.

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The following table summarizes the estimated allocation of the purchase price to the fair value of the assets acquired and liabilities assumed in connection with the Acquisition. The allocation of the purchase price is based on a preliminary valuation, subject to working capital adjustments that are expected to be completed in the fourth quarter of 2010. Any adjustment will affect the total purchase price and goodwill.

(in millions of U.S. dollars)	Acquired Value
Accounts receivable	$ 51.7
Inventories	85.8
Prepaid expenses and other assets	5.4
Property, plant and equipment	171.4
Goodwill	95.8
Intangibles and other assets	224.3
Accounts payable and accrued liabilities	(62.1)
Other long-term liabilities	(2.8)
Total	$ 569.5

Intangible Assets

In our preliminary determination of the fair value of the intangible assets, we considered, among other factors, the best use of acquired assets, analysis of historical financial performance and estimates of future performance of 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 Acquisition and their estimated weighted average useful lives:

(in millions of U.S. dollars)	**Estimated Fair Market Value**	**Estimated Useful Life**
Customer relationships	$ 216.9	15 years
Non-competition agreements	6.6	3 years
Total	$ 223.5	

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 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 Acquisition Date. 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 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.

Supplemental Pro Forma Data

The following unaudited pro forma financial information for the nine months ended October 2, 2010 and September 26, 2009 represent the combined results of our operations as if the Acquisition had occurred on December 27, 2008. The unaudited pro forma results reflect certain adjustments related to the 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 constituted a single entity during such period.

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(in millions of U.S. dollars, except share amounts)	For the Nine Months Ended October 2, 2010	September 26, 2009
Revenue	**$ 1,681.4**	$ 1,727.5
Net income (a)	**58.8**	85.0
Net income per common share, diluted	**$ 0.70**	$ 1.02

(a) For the nine months ended September 26, 2009 Cott recorded restructuring charges of $1.6 million due to the 2009 Restructuring Plan and $3.5 million of asset impairments primarily related to the write-off of a customer list.

Revenues for Cliffstar since the date of Acquisition were $80.2 million and operating income was $1.1 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 the nine months ended October 2, 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 approximately $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 the nine months ended October 2, 2010. In 2009, the Company recorded a $3.4 million asset impairment charge related to customer relationships upon the loss of a customer and a $0.1 million charge for our Elizabethtown facility. The Company also recorded $1.6 million in severance costs related to the 2009 Restructuring Plan.

There were no restructuring or asset impairment charges for the three months ended October 2, 2010 and September 26, 2009. The following table summarizes restructuring and asset impairment charges for the nine months ended October 2, 2010 and September 26, 2009.

(in millions of U.S. dollars)	For the Nine Months Ended October 2, 2010		September 26, 2009	
	North America	**Total**	**North America**	**Total**
Restructuring	**$ (0.5)**	**$ (0.5)**	**$ 1.6**	**$ 1.6**
Asset impairments			**3.5**	**3.5**
	$ (0.5)	**$ (0.5)**	**$ 5.1**	**$ 5.1**

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

North American Plan:

(in millions of U.S. dollars)	Balance at January 2, 2010	Charges to costs and expenses	Cash payments	Balance at October 2, 2010
Lease contract termination loss	**$ 5.8**	**$ (0.4)**	**$ (5.4)**	**$**
	$ 5.8	**$ (0.4)**	**$ (5.4)**	**$**

As of October 2, 2010, no amounts are owed under the North American Plan.

The following table is a summary of our restructuring liabilities as of December 27, 2008 and September 26, 2009, along with charges to costs and expenses and cash payments:

North American Plan:

(in millions of U.S. dollars)	Balance at December 27, 2008	Charges to costs and expenses	Cash payments	Balance at September 26, 2009
Lease contract termination loss	**$ 9.6**	**$**	**$ (2.8)**	**$ 6.8**
	$ 9.6	**$**	**$ (2.8)**	**$ 6.8**

Note 4 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 expenses for the three and nine months ended October 2, 2010 and September 26, 2009. This share-based compensation expense was recorded in the *selling, general, and administrative expenses* caption of our Consolidated Statements of Operations. As used below, PSUs mean performance share units granted under our Amended and Restated Performance Share Unit Plan. As used below, Performance-based RSUs mean restricted share units with performance-based vesting granted under our 2010 Equity Incentive Plan. As used below, Time-based RSUs mean restricted share units with time-based vesting granted under our 2010 Equity Incentive Plan.

	For the Three Months Ended		For the Nine Months Ended	
(in millions of U.S. dollars)	October 2, 2010	September 26, 2009	October 2, 2010	September 26, 2009
Stock options	**$ 0.2**	$ 0.1	**$ 1.0**	$ 0.2
PSU		0.2	**0.2**	0.6

Performance-based RSUs	**0.4**		**0.4**	
Time-based RSUs	**0.5**		**0.5**	
Director share units	**0.1**		**0.7**	
Share appreciation rights		0.1	**0.1**	0.4
Restricted stock				0.1
Interim CEO award				(0.1)
Total	**$ 1.2**	$ 0.4	**$ 2.9**	$ 1.2

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As of October 2, 2010, the unrecognized share-based compensation expense and years we expect to recognize as future compensation expense were as follows:

(in millions of U.S. dollars)	Unrecognized share-based compensation expense as of October 2, 2010	Weighted average years expected to recognize compensation
PSUs	$ 0.1	0.3
Performance-based RSUs	6.6	2.3
Time-based RSUs	6.6	2.3
Restated Executive Incentive Share Purchase Plan	0.1	0.3
Total	$ 13.4	

Option Plan

There were no common shares issued pursuant to option exercises during the nine months ended October 2, 2010. 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.

The fair value of each option granted during the nine months ended October 2, 2010 and September 26, 2009 was estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions:

	October 2, 2010	September 26, 2009
Risk-free interest rate	2.3%	2.3%
Average expected life (years)	5.5	5.5
Expected volatility	74.8%	50.0%
Expected dividend yield		

The table below summarizes option activity for the nine months ended October 2, 2010:

	Shares *(in thousands)*	Weighted average exercise price *(Canadian $)*
Balance at January 2, 2010	831	$ 18.97
Awarded	250	8.01
Forfeited or expired	(377)	20.33
Outstanding at October 2, 2010	704	16.67

Exercisable at October 2, 2010	704	$	16.67

Long-Term Incentive Plans

2010 Equity Incentive Plan

Our shareowners approved our 2010 Equity Incentive Plan (the Equity Incentive Plan) at the Annual and Special Meeting of Shareowners held on May 4, 2010. Awards under the 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 Equity Incentive Plan is administered by the Human Resources and Compensation Committee of the Board of Directors (the HRCC) or any other board committee as may be designated by the board from time to time. At the inception of the 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 4, 2010, the Company granted 78,790 common shares to the non-management members of the Company s Board of Directors under the Equity Incentive Plan. The common shares were issued in consideration of such directors annual board retainer fee.

On August 6, 2010, the Company granted 1,693,370 Performance-based RSUs and 1,363,370 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 1, 2010 and ending on the last day of our 2012 fiscal year. The payout percentage of the Performance-based RSUs 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 1, 2010 and ending on the last day of our 2012 fiscal year. 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 employees of our Company. The value of an employee s award under our PSU Plan depends 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 annually by the HRCC. PSUs granted will vest over a term not to exceed three fiscal years. As of October 2, 2010, the Trustee under the PSU Plan held 0.6 million common shares as treasury shares to satisfy our anticipated future liability under the PSU Plan. The Company intends that no further grants will be made under the PSU Plan.

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 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. During the nine months ended October 2, 2010, 154,000 SARs vested out-of-the-money. The Company intends that no further grants will be made under the SAR Plan. On August 10, 2010, the Company entered into a Stock Appreciation Right Cancellation Agreement to cancel 100,000 SARs. The cancellation was effective as of September 2, 2010.

During the nine months ended October 2, 2010, PSU, Performance-based RSU, Time-based RSU and SAR activity was as follows:

(in thousands)	Number of PSUs	Number of performance-based RSUs	Number of time-based RSUs	Number of SARs
Balance at January 2, 2010	625			254
Awarded		1,693	1,363	
Issued	(437)			
Forfeited				(254)
Outstanding at October 2, 2010	188	1,693	1,363	

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

Various compensation components in Note 4 are disclosed in Canadian dollars. The table below represents the average Canadian dollar to U.S. dollar exchange rate for the three and nine months ended October 2, 2010 and September 26, 2009, respectively, for comparative purposes:

	For the Three Months Ended		For the Nine Months Ended	
	October 2, 2010	September 26, 2009	October 2, 2010	September 26, 2009
Average exchange rate	$ 0.963	$ 0.907	$ 0.966	$ 0.856

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Note 5 Income Taxes

Income tax expense was $15.1 million on pretax income of $61.2 million and $4.0 million of net income attributable to non-controlling interests for the nine months ended October 2, 2010 as compared to a $10.7 million benefit on pretax income of $60.3 million and $3.5 million of net income attributable to non-controlling interests for the nine months ended September 26, 2009. The estimated effective tax rate applied to income from operations for the nine months ended October 2, 2010 differs from the statutory rate due mostly to foreign tax rate differentials. The estimated effective tax rate applied to income from operations for the nine months ended September 26, 2009 differs from the statutory rate due to the net reversal of previously recorded valuation allowances, a $14.4 million tax benefit related to the reversal of uncertain tax positions in the first nine months of 2009 and a benefit of $2.2 million on the reversal of interest and penalty accruals in the income statement.

Income tax expense was $1.9 million on pretax income of $11.6 million and $1.4 million of net income attributable to non-controlling interests for the three months ended October 2, 2010 as compared to income tax expense of $0.9 million on pretax income of $16.1 million and $1.3 million of net income attributable to non-controlling interests for the three months ended September 26, 2009.

Note 6 Net Income Per Common Share

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

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

	For the three months ended	
(In thousands)	**October 2, 2010**	**September 26, 2009**
Weighted average number of shares outstanding - basic	**87,196**	76,568
Dilutive effect of stock options	**191**	402
Dilutive effect of PSUs	**189**	
Dilutive effect of Performance-based RSUs	**1,100**	
Dilutive effect of Time-based RSUs	**280**	
Adjusted weighted average number of shares outstanding - diluted	**88,956**	**76,970**

	For the nine months ended	
(In thousands)	**October 2, 2010**	**September 26, 2009**
Weighted average number of shares outstanding - basic	**82,675**	72,504
Dilutive effect of stock options	**191**	599
Dilutive effect of PSUs	**189**	
Dilutive effect of Performance-based RSUs	**366**	
Dilutive effect of Time-based RSUs	**93**	
Adjusted weighted average number of shares outstanding - diluted	**83,514**	**73,103**

At October 2, 2010, options to purchase 704,000 (September 26, 2009 870,650) shares of common stock at a weighted average exercise price of C$16.67 (September 26, 2009 C$18.70) per share were outstanding, but 354,000 options 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 stock. Shares purchased on the open market and held by independent trusts are categorized as treasury shares. We excluded 957,104 of treasury shares held in various trusts under the PSU Plan and the Restated Executive Incentive Share Purchase Plan (the Restated EISPP) in the calculation of basic and diluted earnings per share.

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Note 7 Segment Reporting

We produce, package and distribute private-label CSDs, waters, juice, juice-based products, energy-related drinks and ready-to-drink teas to regional and national grocery, mass-merchandise and wholesale chains and customers in the dollar convenience and drug channels through five reportable segments North America (which includes our U.S. reporting unit and Canada reporting unit), 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).

	Operating Segments[1]					
(in millions of U.S. dollars)	**North America**	**U.K.**	**Mexico**	**RCI**	**All Other**	**Total**
For the Three Months Ended October 2, 2010						
External revenue[1]	**$ 375.5**	**$ 96.6**	**$ 12.4**	**$ 6.1**	**$**	**$ 490.6**
Depreciation and amortization	**15.2**	**3.4**	**0.5**			**19.1**
Operating income (loss)	**16.3**	**7.3**	**(1.2)**	**0.8**		**23.2**
Additions to property, plant and equipment	**9.9**	**1.5**				**11.4**
For the Nine Months Ended October 2, 2010						
External revenue[1]	**$ 939.5**	**$ 277.5**	**$ 38.3**	**$ 22.9**	**$**	**$ 1,278.2**
Depreciation and amortization	**38.8**	**9.6**	**1.5**			**49.9**
Operating income (loss)	**67.4**	**19.0**	**(5.2)**	**6.2**		**87.4**
Restructuring and asset impairments Note 3	**(0.5)**					**(0.5)**
Additions to property, plant and equipment	**21.9**	**5.9**	**1.7**			**29.5**
As of October 2, 2010						
Property, plant and equipment	**$ 405.6**	**$ 89.7**	**$ 13.5**	**$**	**$**	**$ 508.8**
Goodwill	**122.6**			**4.5**		**127.1**
Intangibles and other assets	**363.5**	**15.6**	**0.8**			**379.9**
Total assets[2]	**1,280.0**	**208.0**	**34.3**	**14.0**	**0.7**	**1,537.0**

1 Intersegment revenue between North America and the other segments is not material and has not been separately disclosed in the table above.

2 Excludes intersegment receivables, investments and notes receivable.

	Operating Segments[1]					
(in millions of U.S. dollars)	**North America**	**U.K.**	**Mexico**	**RCI**	**All Other**	**Total**
For the Three Months Ended September 26, 2009						
External revenue[1]	**$ 287.2**	**$ 101.6**	**$ 10.3**	**$ 5.8**	**$**	**$ 404.9**
Depreciation and amortization	**12.4**	**3.5**	**0.5**			**16.4**
Operating income (loss)	**16.1**	**10.8**	**(1.6)**	**1.6**		**26.9**
Additions to property, plant and equipment	**3.7**	**1.4**	**0.2**			**5.3**
For the Nine Months Ended September 26, 2009						
External revenue[1]	**$ 899.7**	**$ 264.6**	**$ 30.7**	**$ 15.7**	**$**	**$ 1,210.7**
Depreciation and amortization	**38.6**	**9.7**	**1.4**			**49.7**
Operating income (loss)	**69.0**	**16.5**	**(5.1)**	**3.2**	**(0.1)**	**83.5**

Restructuring and asset impairments Note 3	**5.1**					**5.1**
Additions to property, plant and equipment	**11.9**	**6.7**	**0.3**			**18.9**
As of January 2, 2010						
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[2]	**632.1**	**197.0**	**33.4**	**10.6**	**0.7**	**873.8**

1 Intersegment revenue between North America and the other segments is not material and has not been separately disclosed in the table above.

2 Excludes intersegment receivables, investments and notes receivable.

For the nine months ended October 2, 2010, sales to Wal-Mart accounted for 30.6% (September 26, 2009 33.9%) of our total revenues, 35.3% of our North America operating segment revenues (September 26, 2009 39.9%), 16.1% of our U.K. operating segment revenues (September 26, 2009 17.3%), and 38.7% of our Mexico operating segment revenues (September 26, 2009 18.6%).

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

Revenues by geographic area are as follows:

	For the Three Months Ended		For the Nine Months Ended	
(in millions of U.S. dollars)	**October 2, 2010**	**September 26, 2009**	**October 2, 2010**	**September 26, 2009**
United States	**$ 339.7**	$ 252.5	**$ 831.1**	$ 795.1
Canada	**49.3**	48.0	**151.4**	149.1
United Kingdom	**96.9**	101.8	**278.5**	265.5
Mexico	**12.4**	10.3	**38.3**	30.7
RCI[1]	**6.1**	5.8	**22.9**	15.7
All Other				
Elimination[2]	**(13.8)**	(13.5)	**(44.0)**	(45.4)
	$ 490.6	$ 404.9	**$ 1,278.2**	$ 1,210.7

1 RCI sells concentrate products to bottlers in approximately 50 countries.

2 Represents intersegment revenue among all countries of which $10.2 million and $3.0 million relate to the three months ended October 2, 2010 and September 26, 2009, respectively, and $15.1 million and $9.9 million relate to the nine months ended October 2, 2010 and September 26, 2009, respectively.

Revenues are attributed to operating segments based on the location of the plant.

The revenue by product tables have been revised to include the category Juice which is a significant portion of our revenue due to the Acquisition of Cliffstar.

Revenues by product are as follows:

	For the Three Months Ended October 2, 2010					
(in millions of U.S. dollars)	**North America**	**United Kingdom**	**Mexico**	**RCI**	**All Other**	**Total**
Revenue						
Carbonated soft drinks	**$ 184.8**	**$ 37.1**	**$ 10.6**	**$**	**$**	**$ 232.5**
Concentrate	**1.8**	**1.0**		**6.1**		**8.9**
Juice	**75.8**	**3.1**	**0.1**			**79.0**
All other products	**113.1**	**55.4**	**1.7**			**170.2**
Total	**$ 375.5**	**$ 96.6**	**$ 12.4**	**$ 6.1**	**$**	**$ 490.6**

	For the Nine Months Ended October 2, 2010					
(in millions of U.S. dollars)	**North America**	**United Kingdom**	**Mexico**	**RCI**	**All Other**	**Total**
Revenue						
Carbonated soft drinks	**$ 535.2**	**$ 109.6**	**$ 33.1**	**$**	**$**	**$ 677.9**

Concentrate	5.7	3.6		22.9		32.2
Juice	78.3	8.4	0.6			87.3
All other products	320.3	155.9	4.6			480.8
Total	$ 939.5	$ 277.5	$ 38.3	$ 22.9	$	$ 1,278.2

	For the Three Months Ended September 26, 2009					
(in millions of U.S. dollars)	North America	United Kingdom	Mexico	RCI	All Other	Total
Revenue						
Carbonated soft drinks	$ 181.6	$ 47.1	$ 9.0	$	$	$ 237.7
Concentrate	1.7	0.9		5.3		7.9
Juice		3.7	0.2			3.9
All other products	103.9	49.9	1.1	0.5		155.4
Total	$ 287.2	$ 101.6	$ 10.3	$ 5.8	$	$ 404.9

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For the Nine Months Ended September 26, 2009						
(in millions of U.S. dollars)	**North America**	**United Kingdom**	**Mexico**	**RCI**	**All Other**	**Total**
Revenue						
Carbonated soft drinks	**$ 582.5**	**$ 121.3**	**$ 27.9**	**$**	**$**	**$ 731.7**
Concentrate	**4.8**	**3.3**		**14.6**		**22.7**
Juice		**8.4**	**0.2**			**8.6**
All other products	**312.4**	**131.6**	**2.6**	**1.1**		**447.7**
Total	**$ 899.7**	**$ 264.6**	**$ 30.7**	**$ 15.7**	**$**	**$ 1,210.7**

Property, plant and equipment by geographic area are as follows:

(in millions of U.S. dollars)	**October 2, 2010**	**January 2, 2010**
United States	**$ 356.9**	$ 188.7
Canada	**48.8**	47.8
United Kingdom	**89.6**	93.0
Mexico	**13.5**	13.5
	$ 508.8	$ 343.0

The increase in property, plant and equipment was primarily due to the Acquisition (See Note 2).

Note 8 Inventories

(in millions of U.S. dollars)	**October 2, 2010**	**January 2, 2010**
Raw materials	**$ 69.9**	$ 39.4
Finished goods	**118.3**	45.3
Other	**18.0**	15.0
	$ 206.2	$ 99.7

The increase in inventories was primarily due to the Acquisition (See Note 2).

Note 9 Intangibles and Other Assets including Goodwill

(in millions of U.S. dollars)