COTT CORP /CN/
Form 10-Q
August 04, 2010

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: July 3, 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 Incorporation or Organization)	**(IRS Employer Identification No.)**
6525 VISCOUNT ROAD	
MISSISSAUGA, ONTARIO	**L4V 1H6**
5519 WEST IDLEWILD AVE	
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 August 2, 2010**
Common Stock, no par value per share	81,410,120 shares

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 Six Months Ended	
	July 3, 2010	**June 27, 2009**	**July 3, 2010**	**June 27, 2009**
Revenue, net	**$ 424.7**	$ 438.8	**$ 787.6**	$ 805.8
Cost of sales	**351.2**	365.5	**656.9**	674.3
Gross profit	**73.5**	73.3	**130.7**	131.5
Selling, general and administrative expenses	**34.5**	35.1	**66.9**	69.8
(Gain) loss on disposal of property, plant & equipment	**(0.1)**	0.1	**0.1**	
Restructuring and asset impairments				
Restructuring		0.4	**(0.5)**	1.6
Asset impairments		3.4		3.5
Operating income	**39.1**	34.3	**64.2**	56.6
Other expense (income), net	**0.5**	(2.8)	**2.3**	(2.7)
Interest expense, net	**6.1**	7.5	**12.3**	15.1
Income before income taxes	**32.5**	29.6	**49.6**	44.2
Income tax expense (benefit)	**8.8**	(5.4)	**13.2**	(11.6)
Net income	**$ 23.7**	$ 35.0	**$ 36.4**	$ 55.8
Less: Net income attributable to non-controlling interests	**1.4**	1.3	**2.6**	2.2
Net income attributed to Cott Corporation	**$ 22.3**	$ 33.7	**$ 33.8**	$ 53.6
Net income per common share attributed to Cott Corporation				
Basic	**$ 0.28**	$ 0.48	**$ 0.42**	$ 0.76
Diluted	**$ 0.28**	$ 0.48	**$ 0.42**	$ 0.76
Weighted average outstanding shares (thousands) attributed to Cott Corporation				
Basic	**80,429**	70,472	**80,401**	70,472
Diluted	**80,887**	70,529	**80,861**	70,491

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

Cott Corporation

Consolidated Balance Sheets

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

Unaudited

	July 3, 2010	January 2, 2010
ASSETS		
Current assets		
Cash & cash equivalents	**$ 20.3**	$ 30.9
Accounts receivable, net of allowance of $5.4 ($5.9 as of January 2, 2010)	**195.3**	152.3
Income taxes recoverable	**7.8**	20.8
Inventories	**115.0**	99.7
Prepaid expenses and other assets	**14.2**	16.8
Total current assets	**352.6**	320.5
Property, plant and equipment	**332.6**	343.0
Goodwill	**30.3**	30.6
Intangibles and other assets	**149.3**	155.5
Deferred income taxes	**6.6**	5.4
Other tax receivable	**8.6**	18.8
Total assets	**$ 880.0**	$ 873.8
LIABILITIES AND EQUITY		
Current liabilities		
Short-term borrowings	**$ 10.6**	$ 20.2
Current maturities of long-term debt	**5.9**	17.6
Accounts payable and accrued liabilities	**172.7**	169.3
Total current liabilities	**189.2**	207.1
Long-term debt	**231.2**	233.2
Deferred income taxes	**17.9**	17.5
Other long-term liabilities	**10.6**	14.7
Total liabilities	**448.9**	472.5
Contingencies and Commitments - Note 10		
Equity		
Capital stock, no par - 81,410,120 (January 2, 2010 - 81,331,330) shares issued	**322.5**	322.5
Treasury stock	**(3.3)**	(4.4)
Additional paid-in-capital	**38.7**	37.4
Retained earnings	**85.6**	51.8
Accumulated other comprehensive loss	**(27.6)**	(21.3)
Total Cott Corporation equity	**415.9**	386.0
Non-controlling interests	**15.2**	15.3

Total equity		**431.1**		401.3
Total liabilities and equity	**$**	**880.0**	$	873.8

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

Cott Corporation

Consolidated Statements of Cash Flows

(in millions of U.S. dollars)

Unaudited

	For the Three Months Ended July 3, 2010	For the Three Months Ended June 27, 2009	For the Six Months Ended July 3, 2010	For the Six Months Ended June 27, 2009
Operating Activities				
Net income	**$ 23.7**	$ 35.0	**$ 36.4**	$ 55.8
Depreciation and amortization	**14.9**	16.3	**30.8**	33.3
Amortization of financing fees	**0.5**	0.3	**1.0**	0.6
Share-based compensation expense	**1.2**	0.7	**1.7**	0.8
Decrease in deferred and other income taxes		(8.0)	**(0.1)**	(13.6)
Other non-cash items	**1.1**	1.8	**4.0**	2.4
Lease contract termination payments	**(0.9)**	(1.0)	**(4.8)**	(1.9)
Change in accounts receivable	**(24.4)**	(28.7)	**(46.3)**	(35.3)
Change in inventories	**(4.0)**	(2.5)	**(16.7)**	(5.5)
Change in prepaid expenses and other current assets	**1.6**	(5.7)	**2.4**	(3.0)
Change in other assets	**(0.6)**	(0.3)	**(1.1)**	(0.2)
Change in accounts payable and accrued liabilities	**11.2**	28.2	**7.8**	24.2
Change in income taxes	**7.0**	1.3	**24.4**	0.8
Net cash provided by operating activities	**31.3**	37.4	**39.5**	58.4
Investing Activities				
Additions to property, plant and equipment	**(10.5)**	(7.7)	**(18.1)**	(13.6)
Additions to intangibles and other assets	**(2.3)**		**(3.4)**	
Proceeds from disposal of property, plant and equipment	**0.3**	0.1	**0.4**	1.3
Net cash used in investing activities	**(12.5)**	(7.6)	**(21.1)**	(12.3)
Financing Activities				
Payments of long-term debt	**(2.9)**	(1.9)	**(16.1)**	(3.7)
Short-term borrowings, ABL	**83.4**	286.1	**142.0**	630.5
Short-term repayments, ABL	**(100.8)**	(311.3)	**(151.6)**	(672.6)
Distributions to non-controlling interests	**(0.8)**	(0.9)	**(2.7)**	(2.3)
Deferred financing fees			**(0.2)**	
Other financing activities		(0.1)		(0.2)
Net cash used in financing activities	**(21.1)**	(28.1)	**(28.6)**	(48.3)
Effect of exchange rate changes on cash	**(0.6)**	0.9	**(0.4)**	0.7
Net (decrease) increase in cash & cash equivalents	**(2.9)**	2.6	**(10.6)**	(1.5)
Cash & cash equivalents, beginning of period	**23.2**	10.6	**30.9**	14.7
Cash & cash equivalents, end of period	**$ 20.3**	$ 13.2	**$ 20.3**	$ 13.2

Supplemental Noncash Financing Activities:				
Capital lease additions	**$ 2.3**	$	**$ 2.4**	$
Supplemental Disclosures of Cash Flow Information:				
Cash paid for interest	**$ 10.3**	$ 12.5	**$ 11.6**	$ 14.6
Cash paid (received) for income taxes, net	**1.9**	(0.4)	**(11.8)**	(0.2)

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

Cott Corporation

Consolidated Statements of Equity

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

Unaudited

	Number of Common Shares (In thousands)	Number of Treasury Shares (In thousands)	Cott Corporation Equity							
			Capital Stock	Treasury Stock	Additional Paid-in-Capital	Retained Earnings	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 - PSU				1.1	(1.1)				
Share-based compensation					0.8				0.8
Reclassified share-based compensation to liabilities					(0.1)				(0.1)
Distributions to non-controlling interests								(2.3)	(2.3)
Comprehensive income									
Currency translation adjustment							17.0		17.0
Pension liabilities							0.4		0.4
Net income						53.6		2.2	55.8
Balance at June 27, 2009	**71,871**	**2,307**	**$ 275.0**	**$ (5.3)**	**$ 37.7**	**$ 23.9**	**$ (30.4)**	**$ 17.2**	**$ 318.1**
Balance at January 2, 2010	**81,331**	**1,504**	**$ 322.5**	**$ (4.4)**	**$ 37.4**	**$ 51.8**	**$ (21.3)**	**$ 15.3**	**$ 401.3**
Treasury shares issued - PSU Plan		(437)		1.1	(1.1)				
Tax Impact of PSU distributions					0.7				0.7
Treasury Shares issued - EISPP		(1)							
Share-based compensation	79				1.7				1.7
Distributions to non-controlling interests								(2.7)	(2.7)
Comprehensive income									
Currency translation adjustment							(6.6)		(6.6)
Pension liabilities							0.2		0.2
Unrealized gains on derivative instruments, net of income tax							0.1		0.1
Net income						33.8		2.6	36.4
Balance at July 3, 2010	**81,410**	**1,066**	**$ 322.5**	**$ (3.3)**	**$ 38.7**	**$ 85.6**	**$ (27.6)**	**$ 15.2**	**$ 431.1**

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

Cott Corporation

Consolidated Statements of Comprehensive Income

(in millions of U.S. dollars)

Unaudited

	For the Three Months Ended		For the Six Months Ended	
	July 3, 2010	**June 27, 2009**	**July 3, 2010**	**June 27, 2009**
Net income	**$ 23.7**	$ 35.0	**$ 36.4**	$ 55.8
Other comprehensive (loss) income, net of tax:				
Net currency translation	**(6.9)**	21.0	**(6.6)**	17.0
Pension benefit plan, net of tax		0.3	**0.2**	0.4
Unrealized gains on derivative instruments	**0.2**		**0.1**	
Total other comprehensive (loss) income, net of tax	**(6.7)**	21.3	**(6.3)**	17.4
Comprehensive income	**$ 17.0**	$ 56.3	**$ 30.1**	$ 73.2
Less: Net income attributable to non-controlling interests	**1.4**	1.3	**2.6**	2.2
Comprehensive income attributed to Cott Corporation	**$ 15.6**	$ 55.0	**$ 27.5**	$ 71.0

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

Cott Corporation

Notes to the Consolidated Financial Statements

Unaudited

Note 1 Business and Summary of Significant Accounting Policies

Description of Business

Cott Corporation, together with its consolidated subsidiaries (Cott, the Company, our Company, Cott Corporation, we, us, or our), is o world s largest non-alcoholic beverage companies and the world s largest retailer brand soft drink provider. In addition to carbonated soft drinks (CSDs), our product lines include clear, still and sparkling flavored waters, energy-related drinks, 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.

Note 2 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 six months ended July 3, 2010, the Company made $4.8 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. 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 following table summarizes restructuring charges and gains for the three and six months ended July 3, 2010 and June 27, 2009:

	For Three Months Ended			
	July 3, 2010		June 27, 2009	
(in millions of U.S. dollars)	North America	Total	North America	Total
Restructuring	$	$	$ 0.4	$ 0.4
Asset impairments			3.4	3.4
	$	$	$ 3.8	$ 3.8

	For Six Months Ended			
	July 3, 2010		June 27, 2009	
(in millions of U.S. dollars)	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

The following table is a summary of our restructuring liabilities as of January 2, 2010 and July 3, 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 July 3, 2010
Lease contract termination loss	$ 5.8	$ (0.4)	$ (4.8)	$ 0.6
	$ 5.8	$ (0.4)	$ (4.8)	$ 0.6

The following table is a summary of our restructuring liabilities as of December 27, 2008 and June 27, 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 June 27, 2009
Lease contract termination loss	**$ 9.6**	**$**	**$ (1.8)**	**$ 7.8**
	$ 9.6	**$**	**$ (1.8)**	**$ 7.8**

Note 3 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 our Chief Executive Officer award, 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 six months ended July 3, 2010 and June 27, 2009. This shared-based compensation expense was recorded in selling, general and administrative expenses.

	For the Three Months Ended		**For the Six Months Ended**	
(in millions of U.S. dollars)	**July 3, 2010**	**June 27, 2009**	**July 3, 2010**	**June 27, 2009**
Stock options	**$ 0.5**	$ 0.1	**$ 0.8**	$ 0.1
Performance share units	**0.1**	0.2	**0.2**	0.4
Director share units	**0.6**		**0.6**	
Share appreciation rights		0.1	**0.1**	0.2
Restricted stock		0.1		0.1
Interim CEO award				(0.1)
Total	**$ 1.2**	$ 0.5	**$ 1.7**	$ 0.7

As of July 3, 2010, the unrecognized shared-based compensation expense and years we expect to recognize as future share-based compensation expense were as follows:

	Unrecognized share-based compensation expense as of July 3, 2010 (in millions of U.S. dollars)	**Weighted average years expected to recognize compensation**
Stock options	$ 0.4	0.3
Performance share units	0.1	0.5
Share appreciation rights	0.1	1.7
Restated Executive Incentive Share Purchase Plan	0.1	0.5
Total	$ 0.7	

Option Plan

There were no common shares issued pursuant to option exercises during the six months ended July 3, 2010. Options representing 250,000 shares were granted 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. This grant vests in four equal quarterly installments from the date of grant.

The fair value of each option granted during the period was estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions:

	July 3, 2010	June 27, 2009
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		

The table below summarizes option activity for the six months ended July 3, 2010:

	Shares (in thousands)	Weighted average exercise price (Canadian $)
Balance at January 2, 2010	831	$ 18.97
Awarded	250	8.01
Forfeited or expired	(34)	33.38
Outstanding at July 3, 2010	1,047	15.88
Exercisable at July 3, 2010	922	$ 16.95

Long-Term Incentive Plans

During the second quarter of 2006, our shareowners approved and adopted two long-term incentive plans, 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 PSU Plan, performance share units (PSUs) may be awarded 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 maximum 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 (HRCC). PSUs granted will vest over a term not to exceed three fiscal years. As of July 3, 2010, the Trustee under the PSU Plan held 0.6 million common shares as treasury stock to satisfy our anticipated future liability of this plan. The Company intends that no further grants will be made under the PSU Plan.

Amended and Restated SAR Plan

Under the SAR Plan, share appreciation rights (SARs) may be awarded to employees and directors of our Company and its subsidiaries. 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 six months ended July 3, 2010, 154,000 SARs vested out-of-the-money. The Company intends that no further grants will be made under the SAR Plan.

During the six months ended July 3, 2010, PSU and SAR activity was as follows:

	Number of PSUs (in thousands)	Number of SARs (in thousands)
Balance at January 2, 2010	625	254
Awarded		
Issued	(437)	
Forfeited		(154)
Outstanding at July 3, 2010	188	100

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 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 of the Equity Incentive Plan. The common shares were issued in consideration of such members annual board retainer fee.

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

Various compensation components in Note 3 are disclosed in Canadian dollars. The table below represents the average Canadian dollar to U.S. dollar exchange rate for the three and six months ended July 3, 2010 and June 27, 2009, respectively, for comparative purposes:

	For the Three Months Ended		For the Six Months Ended	
	July 3, 2010	June 27, 2009	July 3, 2010	June 27, 2009
Average exchange rate	$ 0.973	$ 0.852	$ 0.967	$ 0.830

Note 4 Income Taxes

Income tax expense was $13.2 million on pretax income of $49.6 million and $2.6 million of net income attributable to non-controlling interests for the six months ended July 3, 2010 as compared to a $11.6 million benefit on pretax income of $44.2 million and $2.2 million of net income attributable to non-controlling interests for the six months ended June 27, 2009. The estimated effective tax rate applied to income from operations differs from the statutory rate due to the net reversal of previously recorded valuation allowances, the tax benefit of intercompany financing structures and foreign tax rate differentials. Also, the 2009 tax benefit includes a $14.1 million tax benefit related to the reversal of uncertain tax positions in the first half of 2009 and a benefit of $2.4 million on the reversal of interest and penalty accruals in the income statement.

Note 5 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 and PSUs.

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

	For the three months ended	
(In thousands)	**July 3, 2010**	**June 27, 2009**
Weighted average number of shares outstanding - basic	**80,429**	70,472
Dilutive effect of stock options	**270**	57
Dilutive effect of PSUs	**188**	
Adjusted weighted average number of shares outstanding - diluted	**80,887**	70,529

	For the six months ended	
(In thousands)	**July 3, 2010**	**June 27, 2009**
Weighted average number of shares outstanding - basic	**80,401**	70,472
Dilutive effect of stock options	**272**	19
Dilutive effect of PSUs	**188**	
Adjusted weighted average number of shares outstanding - diluted	**80,861**	70,491

At July 3, 2010, options to purchase 1,046,650 (June 27, 2009 919,650) common shares at a weighted average exercise price of C$15.88 (June 27, 2009 C$19.51) per share were outstanding, of which 696,650 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. We excluded 957,104 of treasury shares associated with the PSU Plan and held in various trusts under the PSU Plan in the calculation of basic and diluted earnings per share.

Note 6 Segment Reporting

We produce, package and distribute retailer brand and branded bottled and canned CSDs, waters, juice-based products, energy-related drinks and ready-to-drink teas to regional and national grocery, mass-merchandise and wholesale chains 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 July 3, 2010						
External revenue[1]	**$ 300.8**	**$ 101.2**	**$ 14.1**	**$ 8.6**	**$**	**$ 424.7**
Depreciation and amortization	**11.5**	**2.9**	**0.5**			**14.9**
Operating income (loss)	**30.2**	**8.7**	**(2.2)**	**2.4**		**39.1**
Additions to property, plant and equipment	**7.1**	**2.0**	**1.4**			**10.5**
For the Six Months Ended July 3, 2010						
External revenue[1]	**$ 564.0**	**$ 180.9**	**$ 25.9**	**$ 16.8**	**$**	**$ 787.6**
Depreciation and amortization	**23.6**	**6.2**	**1.0**			**30.8**
Operating income (loss)	**51.1**	**11.7**	**(4.0)**	**5.4**		**64.2**
Restructuring and asset impairments Note 2	**(0.5)**					**(0.5)**
Additions to property, plant and equipment	**12.0**	**4.4**	**1.7**			**18.1**
As of July 3, 2010						
Property, plant and equipment	**$ 233.0**	**$ 85.4**	**$ 14.2**	**$**	**$**	**$ 332.6**
Goodwill	**25.8**			**4.5**		**30.3**

Intangibles and other assets	**132.7**	**15.8**	**0.8**			**149.3**
Total assets[2]	**628.0**	**200.1**	**35.1**	**16.1**	**0.7**	**880.0**

[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.

(in millions of U.S. dollars)	North America	U.K.	Mexico	RCI	All Other	Total
	Operating Segments[1]					
For the Three Months Ended June 27, 2009						
External revenue[1]	**$ 323.5**	**$ 99.0**	**$ 10.6**	**$ 5.7**	**$**	**$ 438.8**
Depreciation and amortization	**12.6**	**3.1**	**0.4**		**0.2**	**16.3**
Operating income (loss)	**26.6**	**8.3**	**(1.2)**	**0.6**		**34.3**
Restructuring and asset impairments Note 2	**3.8**					**3.8**
Additions to property, plant and equipment	**5.2**	**2.4**	**0.1**			**7.7**
For the Six Months Ended June 27, 2009						
External revenue[1]	**$ 612.5**	**$ 163.0**	**$ 20.4**	**$ 9.9**	**$**	**$ 805.8**
Depreciation and amortization	**26.2**	**6.1**	**0.8**		**0.2**	**33.3**
Operating income (loss)	**52.9**	**5.7**	**(3.5)**	**1.5**		**56.6**
Restructuring and asset impairments Note 2	**5.1**					**5.1**
Additions to property, plant and equipment	**8.2**	**5.3**	**0.1**			**13.6**
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 six months ended July 3, 2010, sales to Wal-Mart accounted for 29.7% (June 27, 2009 34.9%) of our total revenues, 34.4% of our North America operating segment revenues (June 27, 2009 40.6%), 15.9% of our U.K. operating segment revenues (June 27, 2009 17.4%), and 32.8% of our Mexico operating segment revenues (June 27, 2009 20.9%).

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:

(in millions of U.S. dollars)	For the Three Months Ended		For the Six Months Ended	
	July 3, 2010	June 27, 2009	July 3, 2010	June 27, 2009
United States	**$ 255.5**	$ 280.6	**$ 491.4**	$ 542.6
Canada	**62.0**	60.6	**102.1**	101.1
United Kingdom	**101.2**	99.7	**181.6**	163.7
Mexico	**14.1**	10.6	**25.9**	20.4
RCI[1]	**8.6**	5.7	**16.8**	9.9
All Other				
Elimination[2]	**(16.7)**	(18.4)	**(30.2)**	(31.9)
	$ 424.7	$ 438.8	**$ 787.6**	$ 805.8

[1] RCI sells concentrate products to bottlers in approximately 50 countries.
[2] Represents intersegment revenue among all countries of which $4.9 million and $10.8 million represent intersegment revenue between North America and our international segments for the three and six months ended July 3, 2010 and $4.0 million and $6.9 million represent

intersegment revenue between North America and our international segments for the three and six months ended June 27, 2009, respectively. Revenues are attributed to operating segments based on the location of the plant.

Revenues by product are as follows:

(in millions of U.S. dollars)	North America	United Kingdom	Mexico	RCI	All Other	Total
	For the Three Months Ended July 3, 2010					
Revenue						
Carbonated soft drinks	**$ 183.7**	**$ 39.0**	**$ 12.1**	**$**	**$**	**$ 234.8**
Concentrate	**1.9**	**1.3**		**8.6**		**11.8**
All other products	**115.2**	**60.9**	**2.0**			**178.1**
Total	**$ 300.8**	**$ 101.2**	**$ 14.1**	**$ 8.6**	**$**	**$ 424.7**

(in millions of U.S. dollars)	North America	United Kingdom	Mexico	RCI	All Other	Total
	For the Six Months Ended July 3, 2010					
Revenue						
Carbonated soft drinks	**$ 350.4**	**$ 72.5**	**$ 22.5**	**$**	**$**	**$ 445.4**
Concentrate	**3.9**	**2.6**		**16.8**		**23.3**
All other products	**209.7**	**105.8**	**3.4**			**318.9**
Total	**$ 564.0**	**$ 180.9**	**$ 25.9**	**$ 16.8**	**$**	**$ 787.6**

(in millions of U.S. dollars)	North America	United Kingdom	Mexico	RCI	All Other	Total
	For the Three Months Ended June 27, 2009					
Revenue						
Carbonated soft drinks	$ 207.0	$ 45.9	$ 9.5	$	$	$ 262.4
Concentrate	1.6	1.5		5.1		8.2
All other products	114.9	51.6	1.1	0.6		168.2
Total	$ 323.5	$ 99.0	$ 10.6	$ 5.7	$	$ 438.8

(in millions of U.S. dollars)	North America	United Kingdom	Mexico	RCI	All Other	Total
	For the Six Months Ended June 27, 2009					
Revenue						
Carbonated soft drinks	$ 400.9	$ 74.2	$ 18.9	$	$	$ 494.0
Concentrate	3.1	2.4		9.3		14.8
All other products	208.5	86.4	1.5	0.6		297.0
Total	$ 612.5	$ 163.0	$ 20.4	$ 9.9	$	$ 805.8

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

(in millions of U.S. dollars)	July 3, 2010	January 2, 2010
United States	**$ 185.6**	$ 188.7
Canada	**47.4**	47.8
United Kingdom	**85.4**	93.0
Mexico	**14.2**	13.5
	$ 332.6	$ 343.0

Note 7 Inventories

(in millions of U.S. dollars)	July 3, 2010	January 2, 2010
Raw materials	**$ 43.3**	$ 39.4
Finished goods	**57.2**	45.3
Other	**14.5**	15.0
	$ 115.0	$ 99.7

Note 8 Intangibles and Other Assets including Goodwill

(in millions of U.S. dollars)	July 3, 2010 Cost	July 3, 2010 Accumulated Amortization	July 3, 2010 Net	January 2, 2010 Cost	January 2, 2010 Accumulated Amortization	January 2, 2010 Net
Goodwill	**$ 30.3**	**$**	**$ 30.3**	$ 30.6	$	$ 30.6

Goodwill is not subject to amortization and the change in goodwill represents fluctuations in foreign currency exchange rates.

(in millions of U.S. dollars)	July 3, 2010 Cost	July 3, 2010 Accumulated Amortization	July 3, 2010 Net	January 2, 2010 Cost	January 2, 2010 Accumulated Amortization	January 2, 2010 Net
Intangibles						
Not subject to amortization						
Rights	**45.0**		**45.0**	45.0		45.0
Subject to amortization						
Customer relationships	**150.6**	**82.5**	**68.1**	154.1	79.3	74.8
Trademarks	**28.7**	**20.1**	**8.6**	24.7	15.2	9.5
Information technology	**56.9**	**48.7**	**8.2**	54.1	48.3	5.8
Other	**3.6**	**2.1**	**1.5**	3.6	2.0	1.6
	239.8	**153.4**	**86.4**	236.5	144.8	91.7
	284.8	**153.4**	**131.4**	281.5	144.8	136.7
Other Assets						
Financing costs	**11.5**	**3.1**	**8.4**	11.4	2.1	9.3
Deposits	**7.6**		**7.6**	7.8		7.8
Other	**7.1**	**5.2**	**1.9**	7.3	5.6	1.7
	26.2	**8.3**	**17.9**	26.5	7.7	18.8
Total Intangibles & Other Assets	**$ 311.0**	**$ 161.7**	**$ 149.3**	$ 308.0	$ 152.5	$ 155.5

Amortization expense of intangible and other assets was $4.6 million and $9.9 million for the three and six months ended July 3, 2010 and $4.4 million and $9.3 million for the three and six months ended June 27, 2009, respectively.

The estimated amortization expense for intangibles over the next five years and thereafter is as follows:

(in millions of U.S. dollars)	
Remainder of 2010	**$ 7.0**
2011	**13.9**
2012	**12.8**
2013	**12.7**
2014	**12.4**
Thereafter	**27.6**
	$ 86.4

Note 9 Debt

Our total debt is as follows:

(in millions of U.S. dollars)	July 3, 2010	January 2, 2010
8% senior subordinated notes due in 2011	**$**	$ 11.1
8.375% senior notes due in 2017	**215.0**	215.0
ABL facility	**10.6**	20.2
GE Obligation	**18.4**	22.0
Other capital leases	**4.4**	3.2
Other debt	**2.2**	2.6
Total debt	**250.6**	274.1
Less: Short-term borrowings and current debt:		
ABL facility	**10.6**	20.2
Total short-term borrowings	**10.6**	20.2
8% senior subordinated notes due in 2011		11.1
GE obligation - current maturities	**3.9**	5.5
Other capital leases - current maturities	**1.4**	0.4
Other debt - current maturities	**0.6**	0.6
Total current debt	**16.5**	37.8
Long-term debt before discount	**234.1**	236.3
Less discount on 8.375% notes	**(2.9)**	(3.1)
Total long-term debt	**$ 231.2**	$ 233.2

Debt

8% Senior Subordinated Notes due in 2011

The Company repurchased all of the 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 the Company have been retired, and we have discontinued the payment of interest.

Asset Based Lending Facility

On March 31, 2008, we entered into a credit agreement that created an asset-based lending (ABL) credit facility to provide financing for our North America, United Kingdom and Mexico operating segments.

As of July 3, 2010, we had $10.6 million in borrowings under the ABL facility outstanding. The commitment fee was 0.5% per annum of the unused commitment, which was $206.9 million as of July 3, 2010.

8.375% Senior Subordinated Notes due in 2017

On November 13, 2009, we issued $215.0 million of senior subordinated notes that are due on November 15, 2017 (the 2017 Notes). The 2017 Notes were issued at a $3.1 million discount and deferred financing fees of $5.1 million. 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 15th and November 15th of each year, beginning on May 15, 2010.

We incurred $5.1 million of financing fees in connection with the 2017 Notes. The financing fees are being amortizedover an eight-year period, which represents the duration of the 2017 Notes.

Covenant Compliance

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 $30.0 million. Our fixed charge coverage ratio as calculated under this covenant as of July 3, 2010, 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 revolver. The credit agreement governing the ABL facility requires us to maintain excess availability of at least $15.0 million. We believe we were in compliance with all of the applicable covenants under the ABL facility on July 3, 2010.

8.375% Senior Notes due in 2017

Under the indenture governing the 8.375% Senior Notes due in 2017 (the 2017 Notes), we are subject to a number of covenants. We believe 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 they were issued.

Note 10 Contingencies and Commitments

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.

We had $7.5 million in standby letters of credit outstanding as of July 3, 2010 (June 27, 2009 $9.9 million).

Note 11 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 any future liability under the PSU Plan and the Restated Executive Investment Share Purchase Plan (the Restated EISPP). During six months ended July 3, 2010, we distributed 0.4 million shares from the trust to satisfy certain PSU obligations that had vested. As of July 3, 2010, 0.6 million and 0.5 million shares were held in trust for remaining obligations under the PSU Plan and the Restated EISPP, respectively. Treasury shares are reported at cost.

Note 12 Hedging Transactions and Derivative Financial Instruments

The Company is directly and indirectly affected by changes in foreign currency market conditions. These changes in market conditions may adversely impact the Company s financial performance and are referred to as market risks. Our Company, when deemed appropriate by management, uses derivatives as a risk management tool to mitigate the potential impact of foreign currency market risks. The Company s foreign currency market risks are managed by the Company through the use of derivative instruments.

The Company purchases 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 accounts payable and accrued liabilities. The carrying values of the derivatives reflect the impact of legally enforceable agreements with the same counterparties. These allow the Company 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 type 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 income statement 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.

The Company formally designates and documents, 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, the Company formally assesses 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.

The Company estimates the fair values of its derivatives based on quoted market prices or pricing models using current market rates (refer to Note 13). 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. The Company does not view the fair values of its 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. The Company mitigates pre-settlement risk by being permitted to net settle for transactions with the same counterparty.

Cash Flow Hedging Strategy

The Company uses 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 income statement 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. The Company did not discontinue any cash flow hedging relationships during the first half of 2010. The maximum length of time over which the Company hedges its exposure to future cash flows is typically one year.

The Company maintains 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 as 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 the Company s foreign currency cash flow hedging program as of July 3, 2010, was approximately $4.5 million.

The following table summarizes the Company s derivative instruments as of July 3, 2010:

(in millions of U.S. dollars)	**Asset Derivatives**	
Derivatives designated as cash flow hedging instruments	**Balance sheet location**	**Fair value**
Foreign exchange contracts	Accounts receivable	$ 0.2

The settlement of our derivative instruments resulted in a charge to cost of sales of $0.1 million for each of the three and six months ended July 3, 2010.

Note 13 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.

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.

The Company has certain assets and liabilities that are required to be recorded at fair value on a recurring basis in accordance with U.S. GAAP. For our Company, the only assets and liabilities that are adjusted to fair value on a recurring basis are derivative instruments. The following table summarizes those assets and liabilities measured at fair value on a recurring basis as of July 3, 2010.

	July 3, 2010				
(in millions of U.S. dollars)	**Level 1**	**Level 2**	**Level 3**	**Netting Adjustment**	**Fair Value Measurements**
Assets					
Derivatives	$	$ 0.2	$	$	$ 0.2
Total Assets	$	$ 0.2	$	$	$ 0.2

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 July 3, 2010 and January 2, 2010 are as follows:

	July 3, 2010		**January 2, 2010**	
(in millions of US dollars)	**Carrying Value**	**Fair Value**	**Carrying Value**	**Fair Value**
8% senior subordinated notes due in 2011[1]	**$**	**$**	$ 11.1	$ 11.1
8.375% senior notes due in 2017[1]	**215.0**	**217.7**	215.0	222.0
ABL facility	**10.6**	**10.6**	20.2	20.2
Total	**$ 225.6**	**$ 228.3**	$ 246.3	$ 253.3

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

Note 14 Subsequent Events

On July 7, 2010, the Company entered into an Asset Purchase Agreement (the Asset Purchase Agreement) to acquire substantially all of the assets of Cliffstar Corporation (Cliffstar), a privately-owned company that is one of the leading suppliers of private-label beverages and the largest private-label producer of apple juice, grape juice, cranberry juice and juice-blends in North America (such acquisition, the Cliffstar Acquisition). Pursuant to the Asset Purchase Agreement, the Company will acquire substantially all of the assets and liabilities of Cliffstar and its affiliated companies. The purchase price is $500 million in cash, payable at closing, subject to certain adjustments relating to working capital and other items, and $14 million of deferred compensation which will be paid over a three year period. Cliffstar is also entitled to additional contingent earnout consideration of up to a maximum of $55 million, the first $15 million of which is payable upon the successful completion of certain expansion projects in 2010 and the remainder of which is based upon the achievement of certain performance measures during the fiscal year ending January 1, 2011. Consummation of the Cliffstar Acquisition is subject to several conditions, including receipt of financing and regulatory approval, and there can be no assurance that the Cliffstar Acquisition will be completed as contemplated, or at all. The condition relating to the expiration of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 has been satisfied as of July 30, 2010.

The Company intends to finance the transaction by a combination of a new debt issuance of $375 million, new common equity issuance of $65 million, and incremental borrowings of up to $85 million under an amended or refinanced ABL facility. The Company expects to amend or refinance the existing ABL facility (the Amended ABL Facility) in connection with the transaction to, among other things, provide for the Cliffstar Acquisition, the new common equity issuance of $65 million and the application of net proceeds therefrom and the new debt issuance of $375 million and the application of net proceeds therefrom. In addition, we are contemplating increasing the amount available for borrowing to an amount up to $300.0 million, although as of the date hereof our committed amount from the lenders is approximately $225 million.

Note 15 Guarantor Subsidiaries

The 2017 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). Such guarantees are full, unconditional and joint and several.

We have not presented separate financial statements and other disclosures 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 income 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.

Consolidating Statements of Operations

(in millions of U.S. dollars, unaudited)

	For the Three Months Ended July 3, 2010					
	Cott Corporation	Cott Beverages Inc.	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Elimination Entries	Consolidated
Revenue, net	$ 62.0	$ 236.1	$ 101.2	$ 37.5	$ (12.1)	$ 424.7
Cost of sales	45.8	200.3	84.7	32.5	(12.1)	351.2
Gross profit	16.2	35.8	16.5	5.0		73.5
Selling, general and administrative expenses	9.8	12.9	7.9	3.9		34.5
Gain on disposal of property, plant and equipment		(0.1)				(0.1)
Operating income	6.4	23.0	8.6	1.1		39.1
Other expense, net	0.2		0.2	0.1		0.5
Intercompany interest (income) expense, net	(1.6)	3.2	(1.6)			
Interest expense, net	0.1	5.9	0.1			6.1
Income before income taxes and equity income (loss)	7.7	13.9	9.9	1.0		32.5
Income tax expense	3.1	4.2	1.4	0.1		8.8
Equity income (loss)	17.7	1.7	11.6		(31.0)	
Net income (loss)	$ 22.3	$ 11.4	$ 20.1	$ 0.9	$ (31.0)	$ 23.7
Less: Net income attributable to non-controlling interests				1.4		1.4
Net income (loss) attributed to Cott Corporation	$ 22.3	$ 11.4	$ 20.1	$ (0.5)	$ (31.0)	$ 22.3

Consolidating Statements of Operations

(in millions of U.S. dollars, unaudited)

	For the Three Months Ended June 27, 2009					
	Cott Corporation	Cott Beverages Inc.	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Elimination Entries	Consolidated
Revenue, net	$ 60.6	$ 260.7	$ 100.9	$ 32.7	$ (16.1)	$ 438.8
Cost of sales	50.0	217.6	85.8	28.2	(16.1)	365.5
Gross profit	10.6	43.1	15.1	4.5		73.3
Selling, general and administrative expenses	7.5	18.0	6.9	2.7		35.1
Loss (gain) on disposal of property, plant and equipment	0.1	0.1	(0.1)			0.1
Restructuring and asset impairments						
Restructuring	0.2	0.2				0.4
Asset impairments	(0.1)	3.5				3.4
Operating income	2.9	21.3	8.3	1.8		34.3
Other income, net	(2.3)	(0.2)		(0.3)		(2.8)
Intercompany interest (income) expense, net	(2.3)	3.3	(1.0)			
Interest expense, net	0.1	7.2	0.1	0.1		7.5
Income before income taxes and equity income (loss)	7.4	11.0	9.2	2.0		29.6
Income tax (benefit) expense	(7.9)	0.7	1.7	0.1		(5.4)
Equity income (loss)	18.4	1.5	11.9		(31.8)	
Net income (loss)	$ 33.7	$ 11.8	$ 19.4	$ 1.9	$ (31.8)	$ 35.0
Less: Net income attributable to non-controlling interests				1.3		1.3
Net income (loss) attributed to Cott Corporation	$ 33.7	$ 11.8	$ 19.4	$ 0.6	$ (31.8)	$ 33.7

Consolidating Statements of Operations

(in millions of U.S. dollars, unaudited)

	For the Six Months Ended July 3, 2010					
	Cott Corporation	Cott Beverages Inc.	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Elimination Entries	Consolidated
Revenue	$ 102.1	$ 454.2	$ 181.6	$ 71.0	$ (21.3)	$ 787.6
Cost of sales	79.8	381.8	155.0	61.6	(21.3)	656.9
Gross profit	22.3	72.4	26.6	9.4		130.7
Selling, general and administrative expenses	17.6	27.1	14.9	7.3		66.9
Loss on disposal of property, plant and equipment		0.1				0.1
Restructuring		(0.5)				(0.5)
Operating income	4.7	45.7	11.7	2.1		64.2
Other expense (income), net	1.9	0.1	0.4	(0.1)		2.3
Intercompany interest (income) expense, net	(3.3)	6.4	(3.1)			
Interest expense, net	0.2	11.8	0.2	0.1		12.3
Income before income taxes and equity income (loss)	5.9	27.4	14.2	2.1		49.6
Income tax expense	2.1	9.3	1.5	0.3		13.2
Equity income (loss)	30.0	3.2	21.4		(54.6)	
Net income (loss)	$ 33.8	$ 21.3	$ 34.1	$ 1.8	$ (54.6)	$ 36.4
Less: Net income attributable to non-controlling interests				2.6		2.6
Net income (loss) attributed to Cott Corporation	$ 33.8	$ 21.3	$ 34.1	$ (0.8)	$ (54.6)	$ 33.8

Consolidating Statements of Operations

(in millions of U.S. dollars, unaudited)

	For the Six Months Ended June 27, 2009					
	Cott Corporation	**Cott Beverages Inc.**	**Guarantor Subsidiaries**	**Non-guarantor Subsidiaries**	**Elimination Entries**	**Consolidated**
Revenue	$ 101.1	$ 504.3	$ 166.0	$ 62.4	$ (28.0)	$ 805.8
Cost of sales	86.6	415.4	145.7	54.6	(28.0)	674.3
Gross profit	14.5	88.9	20.3	7.8		131.5
Selling, general and administrative expenses	13.8	35.4	14.7	5.9		69.8
Loss (gain) on disposal of property, plant and equipment	0.1		(0.1)			
Restructuring and asset impairments						
Restructuring	0.2	1.4				1.6
Asset impairments		3.5				3.5
Operating income	0.4	48.6	5.7	1.9		56.6
Other income, net	(2.7)					(2.7)
Intercompany interest (income) expense, net	(4.7)	6.5	(1.8)			
Interest expense, net	0.2	14.6	0.2	0.1		15.1
Income before income taxes and equity income (loss)	7.6	27.5	7.3	1.8		44.2
Income tax (benefit) expense	(15.7)	3.5	0.5	0.1		(11.6)
Equity income (loss)	30.3	2.8	27.7		(60.8)	
Net income (loss)	$ 53.6	$ 26.8	$ 34.5	$ 1.7	$ (60.8)	$ 55.8
Less: Net income attributable to non-controlling interests				2.2		2.2
Net income (loss) attributed to Cott Corporation	$ 53.6	$ 26.8	$ 34.5	$ (0.5)	$ (60.8)	$ 53.6

Consolidating Balance Sheets

As of July 3, 2010

(in millions of U.S. dollars, unaudited)

	Cott Corporation	Cott Beverages Inc.	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Elimination Entries	Consolidated
ASSETS						
Current assets						
Cash & cash equivalents	$ 9.7	$ 1.6	$ 2.7	$ 6.3	$	$ 20.3
Accounts receivable, net	29.6	85.9	74.3	19.0	(13.5)	195.3
Income taxes recoverable	2.1	5.2		0.5		7.8
Inventories	19.2	70.1	17.7	8.0		115.0
Prepaid expenses and other assets	3.1	5.2	5.8	0.1		14.2
	63.7	168.0	100.5	33.9	(13.5)	352.6
Property, plant and equipment	47.4	182.4	87.9	14.9		332.6
Goodwill	25.8	4.5				30.3
Intangibles and other assets	0.8	109.6	15.7	23.2		149.3
Deferred income taxes	5.7			0.9		6.6
Other tax receivable		8.6				8.6
Due from affiliates	228.5	10.0	210.9	41.8	(491.2)	
Investments in subsidiaries		9.3		151.3	(160.6)	
	$ 371.9	$ 492.4	$ 415.0	$ 266.0	$ (665.3)	$ 880.0
LIABILITIES						
Current liabilities						
Short-term borrowings	$	$ 8.2	$ 2.4	$	$	$ 10.6
Current maturities of long-term debt		5.5		0.4		5.9
Accounts payable and accrued liabilities	25.5	82.8	58.3	19.6	(13.5)	172.7
	25.5	96.5	60.7	20.0	(13.5)	189.2
Long-term debt	0.1	228.6		2.5		231.2
Deferred income taxes		6.4	10.2	1.3		17.9
Other long-term liabilities		3.4	6.7	0.5		10.6
Losses and distributions in excess of investment	(113.0)		115.6		(2.6)	
Due to affiliates	43.1	209.6	213.5	25.0	(491.2)	
	(44.3)	544.5	406.7	49.3	(507.3)	448.9
Equity						
Capital Stock	322.8	279.1	371.1	175.0	(825.5)	322.5
Treasury Stock	(3.3)					(3.3)
Additional paid-in-capital	38.7					38.7
Retained earnings (deficit)	85.6	(329.8)	(368.2)	(31.2)	729.2	85.6
Accumulated other comprehensive (loss) income	(27.6)	(1.4)	5.4	57.7	(61.7)	(27.6)

Total Cott Corporation equity	416.2	(52.1)	8.3	201.5	(158.0)	415.9
Non-controlling interests				15.2		15.2
Total equity	416.2	(52.1)	8.3	216.7	(158.0)	431.1
	$ 371.9	$ 492.4	$ 415.0	$ 266.0	$ (665.3)	$ 880.0

Consolidating Balance Sheets

As of January 2, 2010

(in millions of U.S. dollars, unaudited)

	Cott Corporation	Cott Beverages Inc.	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Elimination Entries	Consolidated
ASSETS						
Current assets						
Cash & cash equivalents	$ 4.2	$ 10.4	$ 12.2	$ 4.1		$ 30.9
Accounts receivable, net	38.1	77.3	55.8	17.5	(36.4)	152.3
Income taxes recoverable	2.5	17.8		0.5		20.8
Inventories	15.9	61.1	15.8	6.9		99.7
Prepaid expenses and other assets	5.6	6.9	4.2	0.1		16.8
	66.3	173.5	88.0	29.1	(36.4)	320.5
Property, plant and equipment	47.8	185.3	96.1	13.8		343.0
Goodwill	26.1	4.5				30.6
Intangibles and other assets	1.0	111.8	17.7	25.0		155.5
Deferred income taxes	5.6			0.2	(0.4)	5.4
Other tax receivable		18.8				18.8
Due from affiliates	247.1	10.0	207.9	41.9	(506.9)	
Investments in subsidiaries		14.5		152.5	(167.0)	
	$ 393.9	$ 518.4	$ 409.7	$ 262.5	$ (710.7)	$ 873.8
LIABILITIES						
Current liabilities						
Short-term borrowings		20.2				20.2
Current maturities of long-term debt		17.2		0.4		17.6
Accounts payable and accrued liabilities	37.1	99.5	54.9	14.2	(36.4)	169.3
	37.1	136.9	54.9	14.6	(36.4)	207.1
Long-term debt		230.5		2.7		233.2
Deferred income taxes		6.4	10.9	0.2		17.5
Other long-term liabilities	0.1	6.5	7.6	0.9	(0.4)	14.7
Losses and distributions in excess of investment	(72.5)		118.8		(46.3)	
Due from affiliates	43.2	206.6	234.5	22.6	(506.9)	
	7.9	586.9	426.7	41.0	(590.0)	472.5
EQUITY						
Capital stock	322.5	279.2	378.0	175.0	(832.2)	322.5
Treasury stock	(4.4)					(4.4)
Additional paid-in-capital	37.4					37.4
Retained earnings (deficit)	51.8	(346.2)	(393.0)	(27.6)	766.8	51.8
Accumulated other comprehensive (loss) income	(21.3)	(1.5)	(2.0)	58.8	(55.3)	(21.3)

Total Cott Corporation equity	386.0	(68.5)	(17.0)	206.2	(120.7)	386.0
Non-controlling interests				15.3		15.3
Total equity	386.0	(68.5)	(17.0)	221.5	(120.7)	401.3
	$ 393.9	$ 518.4	$ 409.7	$ 262.5	$ (710.7)	$ 873.8

Condensed Consolidating Statements of Cash Flows

(in millions of U.S. dollars, unaudited)

	For the Three Months Ended July 3, 2010					
	Cott Corporation	Cott Beverages Inc.	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Elimination Entries	Consolidated
Operating activities						
Net income (loss)	$ 22.3	$ 11.4	$ 20.1	$ 0.9	$ (31.0)	$ 23.7
Depreciation and amortization	1.6	8.6	3.2	1.5		14.9
Amortization of financing fees	0.1	0.4				0.5
Share-based compensation expense	0.6	0.6				1.2
Equity (income) loss, net of distributions	(17.7)	(1.7)	(11.6)		31.0	
Intercompany transactions	2.0	0.8			(2.8)	
Other non-cash items	0.1	0.8	0.2			1.1
Lease contract termination payments		(0.9)				(0.9)
Net change in non-cash working capital	(8.8)	1.6	(7.6)	2.8	2.8	(9.2)
Net cash provided by operating activities	0.2	21.6	4.3	5.2		31.3
Investing activities						
Additions to property, plant and equipment	(1.3)	(5.8)	(2.0)	(1.4)		(10.5)
Additions to intangibles and other assets		(2.3)				(2.3)
Proceeds from disposal of property, plant and equipment		0.2	0.1			0.3
Advances to affiliates	19.8		(2.9)	1.5	(18.4)	
Net cash provided by (used in) investing activities	18.5	(7.9)	(4.8)	0.1	(18.4)	(12.5)
Financing activities						
Payments of long-term debt		(2.8)		(0.1)		(2.9)
Short-term borrowings, ABL		47.6	35.8			83.4
Short-term payments, ABL		(62.8)	(38.0)			(100.8)
Advances from affiliates	(1.5)	3.0	(19.9)		18.4	
Intercompany contributions	(18.7)		18.7			
Distributions to non-controlling interests				(0.8)		(0.8)
Net cash (used in) provided by financing activities	(20.2)	(15.0)	(3.4)	(0.9)	18.4	(21.1)
Effect of exchange rate on cash	(0.6)		0.1	(0.1)		(0.6)
Net (decrease) increase in cash & cash equivalents	**(2.1)**	**(1.3)**	**(3.8)**	**4.3**		**(2.9)**
Cash & cash equivalents, beginning of period	**11.8**	**2.9**	**6.5**	**2.0**		**23.2**
Cash & cash equivalents, end of period	**$ 9.7**	**$ 1.6**	**$ 2.7**	**$ 6.3**	**$**	**$ 20.3**

Condensed Consolidating Statements of Cash Flows

(in millions of U.S. dollars, unaudited)

	For the Three Months Ended June 27, 2009					
	Cott Corporation	Cott Beverages Inc.	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Elimination Entries	Consolidated
Operating activities						
Net income (loss)	$ 33.7	$ 11.8	$ 19.4	$ 1.9	$ (31.8)	$ 35.0
Depreciation and amortization	2.0	9.4	3.5	1.4		16.3
Amortization of financing fees		0.2	0.1			0.3
Share-based compensation expense	0.7					0.7
Increase (decrease) in deferred and other income taxes	7.5	(0.4)	(0.1)	(15.0)		(8.0)
Equity (income) loss, net of distributions	(18.3)	(1.5)	(11.9)		31.7	
Intercompany transactions	2.1	0.9			(3.0)	
Other non-cash items	0.2	1.7	(0.1)			1.8
Lease contract termination payments		(1.0)				(1.0)
Net change in non-cash working capital	(15.0)	3.5	(13.1)	13.8	3.1	(7.7)
Net cash provided by (used in) operating activities	12.9	24.6	(2.2)	2.1		37.4
Investing activities						
Additions to property, plant and equipment	(0.2)	(4.9)	(2.5)	(0.1)		(7.7)
Additions to intangibles and other assets						
Proceeds from disposal of property, plant and equipment			0.1			0.1
Net cash used in investing activities	(0.2)	(4.9)	(2.4)	(0.1)		(7.6)
Financing activities						
Payments of long-term debt		(1.9)				(1.9)
Short-term borrowings, ABL	17.8	229.3	39.0			286.1
Short-term payments, ABL	(29.7)	(247.0)	(34.6)			(311.3)
Distributions to non-controlling interests				(0.9)		(0.9)
Other financing activities	(0.1)					(0.1)
Net cash (used in) provided by financing activities	(12.0)	(19.6)	4.4	(0.9)		(28.1)
Effect of exchange rate on cash	0.3		0.4	0.2		0.9
Net increase in cash & cash equivalents	**1.0**	**0.1**	**0.2**	**1.3**		**2.6**
Cash & cash equivalents, beginning of period	**0.8**	**0.1**	**2.7**	**7.0**		**10.6**
Cash & cash equivalents, end of period	**$ 1.8**	**$ 0.2**	**$ 2.9**	**$ 8.3**	**$**	**$ 13.2**

Condensed Consolidating Statements of Cash Flows

(in millions of U.S. dollars, unaudited)

	For the Six Months Ended July 3, 2010					
	Cott Corporation	Cott Beverages Inc.	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Elimination Entries	Consolidated
Operating activities						
Net income (loss)	$ 33.8	$ 21.3	$ 34.1	$ 1.8	$ (54.6)	$ 36.4
Depreciation and amortization	3.3	18.0	6.6	2.9		30.8
Amortization of financing fees	0.1	0.8	0.1			1.0
Share-based compensation expense	0.6	1.0	0.1			1.7
Decrease in deferred and other income taxes			(0.1)			(0.1)
Equity (income) loss, net of distributions	(30.0)	(3.2)	(21.4)		54.6	
Intercompany transactions	2.1	0.9			(3.0)	
Other non-cash items	2.0	1.8	0.2			4.0
Lease contract termination payments		(4.8)				(4.8)
Net change in non-cash working capital	(7.9)	(10.5)	(18.0)	3.9	3.0	(29.5)
Net cash provided by operating activities	4.0	25.3	1.6	8.6		39.5
Investing activities						
Additions to property, plant and equipment	(3.1)	(8.9)	(4.4)	(1.7)		(18.1)
Additions to intangibles and other assets		(3.4)				(3.4)
Proceeds from disposal of property, plant and equipment		0.2	0.2			0.4
Advances to affiliates	21.0		(6.0)	(2.4)	(12.6)	
Net cash provided by (used in) investing activities	17.9	(12.1)	(10.2)	(4.1)	(12.6)	(21.1)
Financing activities						
Payments of long-term debt		(15.9)		(0.2)		(16.1)
Short-term borrowings, ABL		99.5	42.5			142.0
Short-term payments, ABL		(111.4)	(40.2)			(151.6)
Advances from affiliates	2.4	6.0	(21.0)		12.6	
Intercompany contributions	(18.7)		18.7			
Distributions to non-controlling interests				(2.7)		(2.7)
Deferred financing fees		(0.2)				(0.2)
Net cash (used in) provided by financing activities	(16.3)	(22.0)		(2.9)	12.6	(28.6)
Effect of exchange rate on cash	(0.1)		(0.9)	0.6		(0.4)
Net increase (decrease) in cash & cash equivalents	**5.5**	**(8.8)**	**(9.5)**	**2.2**		**(10.6)**
Cash & cash equivalents, beginning of period	**4.2**	**10.4**	**12.2**	**4.1**		**30.9**
Cash & cash equivalents, end of period	**$ 9.7**	**$ 1.6**	**$ 2.7**	**$ 6.3**	**$**	**$ 20.3**

Condensed Consolidating Statements of Cash Flows

(in millions of U.S. dollars, unaudited)

	For the Six Months Ended June 27, 2009					
	Cott Corporation	Cott Beverages Inc.	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Elimination Entries	Consolidated
Operating activities						
Net income (loss)	$ 53.6	$ 26.8	$ 34.5	$ 1.7	$ (60.8)	$ 55.8
Depreciation and amortization	4.1	19.7	6.8	2.7		33.3
Amortization of financing fees	0.1	0.4	0.1			0.6
Share-based compensation expense	0.8					0.8
Increase (decrease) in deferred and other income taxes		1.8	(0.3)	(15.1)		(13.6)
Equity (income) loss, net of distributions	(30.2)	(2.8)	(27.7)		60.7	
Intercompany transactions	3.9	2.4			(6.3)	
Asset impairments						
Other non-cash items	0.2	2.3	(0.1)			2.4
Lease contract termination payments		(1.9)				(1.9)
Net change in non-cash working capital	(38.8)	4.5	(13.9)	22.8	6.4	(19.0)
Net cash (used in) provided by operating activities	(6.3)	53.2	(0.6)	12.1		58.4
Investing activities						
Additions to property, plant and equipment	(1.0)	(7.2)	(5.3)	(0.1)		(13.6)
Additions to intangibles and other assets						
Proceeds from disposal of property, plant and equipment		1.2	0.1			1.3
Advances to affiliates	6.3		(2.6)	(3.7)		
Net cash provided by (used in) investing activities	5.3	(6.0)	(7.8)	(3.8)		(12.3)
Financing activities						
Payments of long-term debt		(3.6)		(0.1)		(3.7)
Short-term borrowings, ABL	85.7	487.5	57.3			630.5
Short-term payments, ABL	(88.8)	(536.5)	(47.3)			(672.6)
Advances from affiliates	3.8	2.6	(6.4)			
Distributions to non-controlling interests				(2.3)		(2.3)
Other financing activities	(0.1)	(0.1)				(0.2)
Net cash provided by (used in) financing activities	0.6	(50.1)	3.6	(2.4)		(48.3)
Effect of exchange rate on cash	0.1		0.3	0.3		0.7
Net (decrease) increase in cash & cash equivalents	**(0.3)**	**(2.9)**	**(4.5)**	**6.2**		**(1.5)**
Cash & cash equivalents, beginning of period	**2.1**	**3.1**	**7.4**	**2.1**		**14.7**
Cash & cash equivalents, end of period	**$ 1.8**	**$ 0.2**	**$ 2.9**	**$ 8.3**	**$**	**$ 13.2**

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

This discussion is intended to further the reader s understanding of the consolidated financial condition and results of operations of our Company. It should be read in conjunction with the financial statements included in this quarterly report on Form 10-Q and our annual report on Form 10-K for the year ended January 2, 2010 (the 2009 Annual Report). These historical financial statements may not be indicative of our future performance. This Management s Discussion and Analysis of Financial Condition and Results of Operations contains a number of forward-looking statements, all of which are based on our current expectations and could be affected by the uncertainties and risks described Risk Factors in Part II, Item 1A of this report.

Overview

We are one of the world s largest non-alcoholic beverage companies and the world s largest retailer brand soft drink company. Our objective of creating sustainable long-term growth in revenue and profitability is predicated on working closely with our retailer partners 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.

Sales of our products tend to be seasonal, with the second and third quarters accounting for higher unit sales of our products than the first and fourth quarters. The seasonality of our sales volume, combined with the accounting for fixed costs such as depreciation, amortization, rent and interest expense, impacts our results on a quarterly basis. Accordingly, our results for the six months ended July 3, 2010 may not necessarily be indicative of the results that may be expected for the full year.

Retailer brand suppliers, such as us, typically operate at low margins and therefore relatively small changes in cost structures can materially impact results.

During the first half of 2010, our revenues decreased 2.3%, or 4.1% excluding the impact of foreign exchange. This decrease was primarily due to a decline in North America beverage case volume in carbonated soft drinks (CSDs) partially offset by volume improvements in the United Kingdom (U.K.) and Royal Crown International (RCI). RCI primarily sells concentrate case volume. We also had a favorable foreign exchange impact due to the strengthening of the Canadian dollar, British pound sterling and Mexican peso versus the U.S. dollar compared to the prior year period.

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 three largest commodities are aluminum, PET resin, and corn (which is used to produce high fructose corn syrup (HFCS)). We attempt to manage our exposure to fluctuations in ingredient and packaging costs of our products by implementing price increases with customers as needed and entering into fixed price commitments for a portion of our ingredient and packaging requirements. We have entered into fixed price commitments for a majority of our 2010 HFCS and aluminum requirements, with the remaining forecasted requirements to be purchased at prevailing market prices. We have also entered into fixed price commitments for approximately half of our estimated aluminum requirements for 2011.

In the U.S., we had been supplying Wal-Mart with private label CSDs under an exclusive supply agreement dated December 21, 1998, between Cott Beverages Inc., a wholly-owned subsidiary of the Company, and Wal-Mart Stores, Inc. (the Exclusive U.S. Supply Contract). We also supply Wal-Mart and its affiliated companies with a variety of products on a non-exclusive basis in the U.S., Canada, United Kingdom and Mexico, including CSDs, clear, still and sparkling flavored waters, juice-based products, bottled water, energy drinks and ready-to-drink teas. On January 27, 2009, we received written notice from Wal-Mart stating that Wal-Mart was exercising its right to terminate, without cause, the Exclusive U.S. Supply Contract. The termination is effective on January 28, 2012. This has the effect of returning our relationship to more typical market terms over time, and allows Wal-Mart to introduce other suppliers in the future, if they so desire. The termination provision of the Exclusive U.S. Supply Contract provides for our exclusive right to supply CSDs to Wal-Mart in the U.S. 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 Wal-Mart s total CSD volumes in the U.S., on an exclusive basis, during the first 12 months of the Notice Period, and we have the exclusive right to supply at least one-third of Wal-Mart s total CSD volumes in the U.S. during the second 12 months of the Notice Period. Notwithstanding the notice of termination of the Exclusive U.S. Supply Contract, we continue to supply Wal-Mart with all of its private label CSDs in the U.S. However, should Wal-Mart choose to introduce an additional supplier to fulfill a portion of its requirements for its private label CSDs, our operating results could be materially adversely affected.

For the six months ended July 3, 2010, sales to Wal-Mart accounted for 29.7% (June 27, 2009 34.9%) of our total revenues, 34.4% of our North America operating segment revenues (June 27, 2009 40.6%), 15.9% of our U.K. operating segment revenues (June 27, 2009 17.4%), and 32.8% of our Mexico operating segment revenues (June 27, 2009 20.9%).

Recent Developments

On July 7, 2010, the Company entered into an Asset Purchase Agreement (the Asset Purchase Agreement) to acquire substantially all of the assets of Cliffstar Corporation (Cliffstar), a privately-owned company that is one of the leading suppliers of private-label beverages and the largest private-label producer of apple juice, grape juice, cranberry juice and juice-blends in North America (such acquisition, the Cliffstar Acquisition). Pursuant to the Asset Purchase Agreement, the Company will acquire substantially all of the assets and liabilities of Cliffstar and its affiliated companies. The purchase price is $500 million in cash, payable at closing, subject to certain adjustments relating to working capital and other items, and $14 million of deferred compensation which will be paid over a three year period. Cliffstar is also entitled to additional contingent earnout consideration of up to a maximum of $55 million, the first $15 million of which is payable upon the successful completion of certain expansion projects in 2010 and the remainder of which is based upon the achievement of certain performance measures during the fiscal year ending January 1, 2011. Consummation of the Cliffstar Acquisition is subject to several conditions, including receipt of financing and regulatory approval, and there can be no assurance that the Cliffstar Acquisition will be completed as contemplated, or at all. The condition relating to the expiration of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 has been satisfied as of July 30, 2010.

The Company intends to finance the transaction by a combination of a new debt issuance of $375 million, new common equity issuance of $65 million, and incremental borrowings of up to $85 million under an amended or refinanced ABL facility. The Company expects to amend or refinance the existing ABL facility (the Amended ABL Facility) in connection with the transaction to, among other things, provide for the Cliffstar Acquisition, the new common equity issuance of $65 million and the application of net proceeds therefrom and the new debt issuance of $375 million and the application of net proceeds therefrom. In addition, we are contemplating increasing the amount available for borrowing to an amount up to $300.0 million, although as of the date hereof our committed amount from the lenders is approximately $225 million.

Summary financial results

Our net income for the three months ended July 3, 2010 (the second quarter) and the six months ended July 3, 2010 (first half of 2010 or year-to-date) was $22.3 million or $0.28 per diluted share and $33.8 million or $0.42 per diluted share, respectively, compared with net income of $33.7 million or $0.48 per diluted share and $53.6 million or $0.76 per diluted share for the three and six months ended June 27, 2009, respectively.

The following items of significance impacted our financial results for the first half of 2010:

- increased competition in North America led to beverage case volume declines in that segment of 7.1% from the comparable prior year period;
- new customer gains and improved product mix in the U.K. led to a beverage case volume improvement in that segment of 8.1% from the comparable prior year period;
- increased gross profit margins to 16.6% as compared to 16.3% from the comparable prior year period;
- increase in the foreign exchange rate for the Canadian dollar, pound sterling and Mexican peso as compared to the U.S. dollar that resulted in a $15.9 million favorable impact on revenues and a $2.0 million favorable impact on gross profit;
- continued selling, general and administrative cost savings;
- increase in other expenses of $5.0 million due to foreign exchange transaction losses;

decline in interest expense of $2.8 million resulting from our reduction of debt in the second half of 2009; and

tax expense of $13.2 million in the current year as compared to a prior year tax benefit of $11.6 million. The prior year benefit included favorable reversals of accruals related to uncertain tax positions.

The following items of significance impacted our financial results for the first half of 2009:

- the consumer trend toward retailer brand products;
- overall decrease of 1.3% beverage case volume reflecting a slight increase in our North America operating segment offset by decreases in our U.K. and Mexico operating segments;
- improved gross margins in the first half of 2009 to 16.3% from 11.4% for the six months ended June 28, 2008, reflecting the benefit of price increases announced in the second half of 2008, lower ingredient and packaging costs and increased efficiencies from the utilization of plants;
- decrease in the foreign exchange rate for the Canadian dollar, pound sterling and Mexican peso as compared to the U.S. dollar resulted in a $75.2 million adverse impact on revenues and a $10.0 million adverse impact on gross profit;
- additional selling, general and administrative cost savings;
- restructuring, severance and lease termination costs of $1.6 million in connection with the 2009 Restructuring Plan and asset impairment costs of $3.5 million relating primarily to the loss of a customer; and
- a tax benefit resulting from the reversal of accruals related to uncertain tax positions that generated a $14.1 million tax benefit and a benefit of $2.4 million on the reversal of interest and penalties, a lower effective income tax rate resulting from intercompany debt structures and the partial reversal of the previously recorded valuation allowance in the United States offset by a valuation allowance in Mexico, and reduced tax rates in Canada.

Non-GAAP Measures

In this report, we present certain information regarding changes in our revenue excluding the impact of foreign exchange. We believe that this is a useful financial measure for investors in evaluating our operating performance for the periods presented, as when read in conjunction with our changes in revenue on a U.S. GAAP basis, it presents a useful tool to evaluate our ongoing operations and provides investors with an opportunity to evaluate our management of assets held from period to period. In addition, these adjusted amounts are one of the factors we use in internal evaluations of the overall performance of our business. This information, however, is not a measure of financial performance under U.S. GAAP and should not be considered a substitute for changes in revenue as determined in accordance with U.S. GAAP.

Results of Operations

	For the Three Months Ended		For the Six Months Ended	
	July 3, 2010 Percent of Revenue	June 27, 2009 Percent of Revenue	July 3, 2010 Percent of Revenue	June 27, 2009 Percent of Revenue
Revenue	**100.0%**	100.0%	**100.0%**	100.0%
Cost of sales	**82.7%**	83.3%	**83.4%**	83.7%
Gross profit	**17.3%**	16.7%	**16.6%**	16.3%
Selling, general, and administrative expenses	**8.1%**	8.0%	**8.5%**	8.7%
(Gain) Loss on disposal of property, plant and equipment	**0.0%**	0.0%	**0.0%**	0.0%
Restructuring	**0.0%**	0.1%	**-0.1%**	0.2%
Asset impairment	**0.0%**	0.8%	**0.0%**	0.4%
Operating income	**9.2%**	7.8%	**8.2%**	7.0%
Other expense (income), net	**0.1%**	-0.6%	**0.3%**	-0.3%
Interest expense, net	**1.4%**	1.7%	**1.6%**	1.8%
Income before income taxes	**7.7%**	6.7%	**6.3%**	5.5%
Income tax expense (benefit)	**2.1%**	-1.3%	**1.7%**	-1.4%
Net income	**5.6%**	8.0%	**4.6%**	6.9%
Less: Non-controlling interests	**0.3%**	0.3%	**0.3%**	0.3%
Net income attributed to Cott Corporation	**5.3%**	7.7%	**4.3%**	6.6%
Depreciation & amortization	**3.5%**	3.7%	**3.9%**	4.1%

Analysis of Revenue, Operating (Loss) Income and Case Volume by Geographic Region:

(in millions of U.S. Dollars)	For the Three Months Ended July 3, 2010	For the Three Months Ended June 27, 2009	For the Six Months Ended July 3, 2010	For the Six Months Ended June 27, 2009
Revenue				
North America	**$ 300.8**	$ 323.5	**$ 564.0**	$ 612.5
United Kingdom	**101.2**	99.0	**180.9**	163.0
Mexico	**14.1**	10.6	**25.9**	20.4
RCI	**8.6**	5.7	**16.8**	9.9
All Other				
Total	**$ 424.7**	$ 438.8	**$ 787.6**	$ 805.8
Operating income (loss)				
North America	**$ 30.2**	$ 26.6	**$ 51.1**	$ 52.9
United Kingdom	**8.7**	8.3	**11.7**	5.7
Mexico	**(2.2)**	(1.2)	**(4.0)**	(3.5)
RCI	**2.4**	0.6	**5.4**	1.5
All Other				
Total	**$ 39.1**	$ 34.3	**$ 64.2**	$ 56.6

(in millions of cases)	For the Three Months Ended July 3, 2010	For the Three Months Ended June 27, 2009	For the Six Months Ended July 3, 2010	For the Six Months Ended June 27, 2009
Volume 8oz equivalent cases - Total Beverage (including concentrate)				
North America	**167.5**	175.7	**319.5**	336.5
United Kingdom	**53.5**	52.7	**98.0**	92.3
Mexico	**10.1**	5.6	**18.4**	11.2
RCI	**91.7**	57.3	**176.0**	106.4
All Other				
Total	**322.8**	291.3	**611.9**	546.4
Volume 8oz equivalent cases Filled Beverage				
North America	**147.3**	157.2	**277.9**	299.0
United Kingdom	**50.3**	47.1	**89.5**	82.8
Mexico	**10.1**	5.6	**18.4**	11.2
RCI	**0.1**	0.1	**0.1**	0.1
All Other				
Total	**207.8**	210.0	**385.9**	393.1

Analysis of Revenue by Geographic Region:

			Three Months Ended July 3, 2010			
(in millions of U.S. dollars)	Cott [1]	North America	United Kingdom	Mexico	RCI	All Other
Change in revenue	$ (14.1)	$ (22.7)	$ 2.2	$ 3.5	$ 2.9	$
Impact of foreign exchange	(3.4)	(6.5)	3.7	(0.6)		
Change excluding foreign exchange	$ (17.5)	$ (29.2)	$ 5.9	$ 2.9	$ 2.9	$
Percentage change in revenue	-3.2%	-7.0%	2.2%	33.0%	50.9%	0.0%
Percentage change in revenue excluding foreign exchange	-4.0%	-8.8%	6.2%	25.9%	50.9%	0.0%

[1] Cott includes the following operating segments: North America, United Kingdom, Mexico, RCI and All Other.

			Six Months Ended July 3, 2010			
(in millions of U.S. dollars)	Cott [1]	North America	United Kingdom	Mexico	RCI	All Other
Change in revenue	$ (18.2)	$ (48.5)	$ 17.9	$ 5.5	$ 6.9	$
Impact of foreign exchange	(15.9)	(12.7)	(1.5)	(1.7)		
Change excluding foreign exchange	$ (34.1)	$ (61.2)	$ 16.4	$ 3.8	$ 6.9	$
Percentage change in revenue	-2.3%	-7.9%	11.0%	27.0%	69.7%	0.0%
Percentage change in revenue excluding foreign exchange	-4.1%	-9.8%	10.0%	17.2%	69.7%	0.0%

[1] Cott includes the following operating segments: North America, United Kingdom, Mexico, RCI and All Other.

Analysis of Revenue by Product:

		For the Three Months Ended July 3, 2010				
(in millions of U.S. dollars)	North America	United Kingdom	Mexico	RCI	All Other	Total
Revenue						
Carbonated soft drinks	**$ 183.7**	**$ 39.0**	**$ 12.1**	**$**	**$**	**$ 234.8**
Concentrate	**1.9**	**1.3**		**8.6**		**11.8**
All other products	**115.2**	**60.9**	**2.0**			**178.1**
Total	**$ 300.8**	**$ 101.2**	**$ 14.1**	**$ 8.6**	**$**	**$ 424.7**

		For the Three Months Ended July 3, 2010				
(in millions of physical cases)	North America	United Kingdom	Mexico	RCI	All Other	Total
8oz. volume						
Carbonated soft drinks	**88.7**	**26.1**	**7.8**			**122.6**
Concentrate	**20.0**	**3.2**		**91.7**		**114.9**

All other products	**58.8**	**24.2**	**2.3**		**85.3**
Total	**167.5**	**53.5**	**10.1**	**91.7**	**322.8**

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	For the Six Months Ended July 3, 2010					
(in millions of U.S. dollars)	North America	United Kingdom	Mexico	RCI	All Other	Total
Revenue						
Carbonated soft drinks	**$ 350.4**	**$ 72.5**	**$ 22.5**	**$**	**$**	**$ 445.4**
Concentrate	**3.9**	**2.6**		**16.8**		**23.3**
All other products	**209.7**	**105.8**	**3.4**			**318.9**
Total	**$ 564.0**	**$ 180.9**	**$ 25.9**	**$ 16.8**	**$**	**$ 787.6**

	For the Six Months Ended July 3, 2010					
(in millions of physical cases)	North America	United Kingdom	Mexico	RCI	All Other	Total
8oz. volume						
Carbonated soft drinks	**169.3**	**47.4**	**14.8**			**231.5**
Concentrate	**41.5**	**8.5**		**176.0**		**226.0**
All other products	**108.7**	**42.1**	**3.6**			**154.4**
Total	**319.5**	**98.0**	**18.4**	**176.0**		**611.9**

	For the Three Months Ended June 27, 2009					
(in millions of U.S. dollars)	North America	United Kingdom	Mexico	RCI	All Other	Total
Revenue						
Carbonated soft drinks	$ 207.0	$ 45.9	$ 9.5	$	$	$ 262.4
Concentrate	1.6	1.5		5.1		8.2
All other products	114.9	51.6	1.1	0.6		168.2
Total	$ 323.5	$ 99.0	$ 10.6	$ 5.7	$	$ 438.8

	For the Three Months Ended June 27, 2009					
(in millions of physical cases)	North America	United Kingdom	Mexico	RCI	All Other	Total
8oz. volume						
Carbonated soft drinks	97.4	23.5	5.1			126.0
Concentrate	18.5	5.6		57.2		81.3
All other products	59.8	23.6	0.5	0.1		84.0
Total	175.7	52.7	5.6	57.3		291.3

	For the Six Months Ended June 27, 2009					
(in millions of U.S. dollars)	North America	United Kingdom	Mexico	RCI	All Other	Total
Revenue						
Carbonated soft drinks	$ 400.9	$ 74.2	$ 18.9	$	$	$ 494.0
Concentrate	3.1	2.4		9.3		14.8
All other products	208.5	86.4	1.5	0.6		297.0
Total	$ 612.5	$ 163.0	$ 20.4	$ 9.9	$	$ 805.8