

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

Table of Contents

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

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

Part II
Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from _____ to _____

Commission File Number: 000-19914

COTT CORPORATION

(Exact name of registrant as specified in its charter)

CANADA

NONE

(State or Other Jurisdiction of Incorporation
or Organization)

(IRS Employer Identification No.)

207 QUEEN S QUAY WEST, SUITE 340,
TORONTO, ONTARIO
5481 WEST WATERS AVENUE, SUITE 111
TAMPA, FLORIDA

M5J 1A7

33634

(Address of principal executive offices)

(Zip Code)

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

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

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

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

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

Class

Outstanding at June 30, 2007

Common Stock, no par value per share

71,865,830 shares

TABLE OF CONTENTS

PART I FINANCIAL INFORMATION

<u>Item 1.</u>	<u>Financial Statements</u>	
	<u>Consolidated Statements of Income for the three and six month periods ended June 30, 2007 and July 1, 2006</u>	Page 3
	<u>Consolidated Balance Sheets as of June 30, 2007 and December 30, 2006</u>	Page 4
	<u>Consolidated Statements of Shareowners' Equity as of June 30, 2007 and July 1, 2006</u>	Page 5
	<u>Consolidated Statements of Cash Flows for the three and six month periods ended June 30, 2007 and July 1, 2006</u>	Page 6
	<u>Notes to Consolidated Financial Statements</u>	Page 7
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	Page 22
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	Page 28
<u>Item 4.</u>	<u>Controls and Procedures</u>	Page 28

PART II OTHER INFORMATION

<u>Item 1.</u>	<u>Legal Proceedings</u>	Page 30
<u>Item 1A.</u>	<u>Risk Factors</u>	Page 30
<u>Item 4.</u>	<u>Submission of Matters to a Vote of Security Holders</u>	Page 30
<u>Item 6.</u>	<u>Exhibits</u>	Page 32
<u>Signatures</u>		Page 33

<u>Financial Statement Schedules</u>	Page 34
<u>EX-10.1</u>	
<u>EX-10.2</u>	
<u>EX-10.3</u>	
<u>EX-10.4</u>	
<u>EX-10.5</u>	
<u>EX-10.6</u>	
<u>EX-10.7</u>	
<u>EX-10.8</u>	
<u>EX-31.1</u>	
<u>EX-31.2</u>	
<u>EX-32.1</u>	
<u>EX-32.2</u>	

Table of Contents**PART I FINANCIAL INFORMATION****Item 1. Financial Statements****Cott Corporation****Consolidated Statements of Income***(in millions of U.S. dollars, except per share amounts)**Unaudited*

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

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

Table of Contents

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

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

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

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

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

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

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

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

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

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

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

Table of Contents

Cott Corporation

Notes to the Consolidated Financial Statements

Unaudited

Note 1

Summary of Significant Accounting Policies

Basis of Presentation

The interim consolidated financial statements have been prepared in accordance with United States (U.S.) generally accepted accounting principles (GAAP) for interim financial information. Accordingly, they do not include all information and notes presented in the annual consolidated financial statements in conformity with U.S. GAAP. In our opinion, the financial statements reflect all adjustments that are necessary for a fair presentation of the results for the interim periods presented. All such adjustments are of a normal recurring nature. These financial statements should be read in conjunction with the most recent annual consolidated financial statements. The accounting policies used in these interim consolidated financial statements are consistent with those used in the annual consolidated financial statements, except for the Accounting for Uncertainty in Income Taxes as outlined below.

The presentation of these interim consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. We review long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. Determining whether an impairment has occurred requires various estimates and assumptions including evaluating the lowest level of cash flows associated with groups of assets as well as estimates of cash flows that are directly related to the potentially impaired asset or groups of assets, the useful life over which cash flows will occur and their amounts. The measurement of an impairment loss requires an estimate of fair value, which is also based on estimates of future cash flows. These estimates could change in the near term and any such changes could be material.

Accounting for Uncertainty in Income Taxes

In 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement No. 109 (FIN 48), which provides specific guidance on the financial statement recognition, measurement, reporting and disclosure of uncertain tax positions taken or expected to be taken in a tax return. FIN 48 addresses the determination of whether tax benefits, either permanent or temporary, should be recorded in the financial statements. We adopted FIN 48 as of the beginning of our 2007 fiscal year and, as a result, recognized a \$4.3 million decrease to retained earnings and \$4.6 million decrease in additional paid-in- capital from the cumulative effect of adoption. As of the beginning of our 2007 fiscal year, we recorded a liability for uncertain tax positions in our Consolidated Balance Sheet of \$30.2 million. This liability consists of the \$4.3 million and \$4.6 million decreases in retained earnings and additional paid-in-capital, respectively; \$11.5 million of amounts reclassified from income taxes recoverable and deferred income tax liabilities and \$9.8 million recognition of deferred income tax assets. Of the \$30.2 million, approximately \$24.2 million would, if recognized, impact our effective tax rate over time. In addition, we accrue interest and any necessary penalties related to unrecognized tax positions in our provision for income taxes. As of December 31, 2006, we accrued approximately \$3.0 million of interest and penalties, which are included in Other Tax Liabilities.

Fair Value Measurements

In September 2006, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements (SFAS 157), which establishes a framework for reporting fair value and expands disclosures about fair value measurements. SFAS 157 is effective for fiscal years beginning after November 15, 2007. We are currently evaluating the impact of this standard on our Consolidated Financial Statements.

Table of Contents**Cott Corporation****Notes to the Consolidated Financial Statements***Unaudited***Note 2****Restructuring, Asset Impairments and Other Charges**

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

On October 26, 2006, we announced the closures of our manufacturing plants in Elizabethtown, Kentucky (Elizabethtown) and Wyomissing, Pennsylvania (Wyomissing).

On June 29, 2007, we announced further steps to realign our North American business. The realignment includes the creation of fully-integrated business units and Customer Development & Solutions Teams to reduce costs and improve connections with our major customers. As part of this process, we continued our organizational restructuring and announced headcount reductions of approximately 40 executive and salaried positions, associated with the realignment of our North American business and the consolidation of our senior leadership team in Tampa, Florida.

Restructuring

We recorded restructuring charges of \$9.4 million including \$8.6 million for severance costs relating to the previously announced office consolidation and the headcount reduction associated with the realignment of the North American business announced on June 29, 2007, and \$0.8 million for severance costs relating to the closures of Elizabethtown and Wyomissing.

The following table is a summary of our cash restructuring charges for the six months ended June 30, 2007 and the year ended December 30, 2006:

	Balance at December 31, 2006	Charged to Costs and Expenses during the period	Payments made during the period	Balance at June 30, 2007
(IN MILLIONS OF U.S. DOLLARS)				