COTT CORP /CN/
Form 10-Q
May 11, 2017
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United States

Securities and Exchange Commission

Washington, D.C. 20549

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended: April 1, 2017

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, CANADA	**L4V 1H6**
5519 WEST IDLEWILD AVENUE	
TAMPA, FLORIDA, UNITED STATES	**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 No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

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

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the 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 May 4, 2017
Common Shares, no par value per share	138,937,656 shares

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements (unaudited)

Cott Corporation

Consolidated Statements of Operations

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

Unaudited

	For the Three Months Ended	
	April 1, 2017	**April 2, 2016**
Revenue, net	**$ 896.4**	$ 698.4
Cost of sales	**585.8**	484.4
Gross profit	**310.6**	214.0
Selling, general and administrative expenses	**291.1**	197.0
Loss on disposal of property, plant & equipment, net	**1.4**	0.9
Acquisition and integration expenses	**7.3**	1.4
Operating income	**10.8**	14.7
Other expense (income), net	**8.4**	(2.2)
Interest expense, net	**35.7**	27.8
Loss before income taxes	**(33.3)**	(10.9)
Income tax expense (benefit)	**1.1**	(9.5)
Net loss	**$ (34.4)**	$ (1.4)
Less: Net income attributable to non-controlling interests	**2.0**	1.4
Net loss attributed to Cott Corporation	**$ (36.4)**	$ (2.8)
Net loss per common share attributed to Cott Corporation		
Basic	**$ (0.26)**	$ (0.02)
Diluted	**(0.26)**	(0.02)
Weighted average common shares outstanding (in thousands)		
Basic	**138,735**	113,267
Diluted	**138,735**	113,267
Dividends declared per common share	**$ 0.06**	$ 0.06

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

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Cott Corporation

Condensed Consolidated Statements of Comprehensive Loss

(in millions of U.S. dollars)

Unaudited

	For the Three Months Ended	
	April 1, 2017	April 2, 2016
Net loss	**$ (34.4)**	$ (1.4)
Other comprehensive income (loss):		
Currency translation adjustment	**9.7**	(3.2)
Pension benefit plan, net of tax [1]	**0.1**	0.1
Gain on derivative instruments, net of tax [2]	**2.4**	0.5
Total other comprehensive income (loss)	**12.2**	(2.6)
Comprehensive loss	**$ (22.2)**	$ (4.0)
Less: Comprehensive income attributable to non-controlling interests	**2.0**	1.4
Comprehensive loss attributed to Cott Corporation	**$ (24.2)**	$ (5.4)

1. Net of the effect of $0.1 million tax expense and $0.1 million tax benefit for the three months ended April 1, 2017 and April 2, 2016, respectively.
2. Net of the effect of $0.2 million tax benefit for the three months ended April 2, 2016.

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

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Cott Corporation

Consolidated Balance Sheets

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

Unaudited

	April 1, 2017	December 31, 2016
ASSETS		
Current assets		
Cash & cash equivalents	**$ 86.1**	$ 118.1
Restricted cash	**444.4**	
Accounts receivable, net of allowance of $8.4 ($8.8 as of December 31, 2016)	**427.5**	403.9
Inventories	**329.4**	301.4
Prepaid expenses and other current assets	**40.3**	29.8
Total current assets	**1,327.7**	853.2
Property, plant & equipment, net	**933.2**	929.9
Goodwill	**1,184.3**	1,175.4
Intangible assets, net	**930.1**	939.7
Deferred tax assets	**1.4**	0.2
Other long-term assets, net	**40.6**	41.3
Total assets	**$ 4,417.3**	$ 3,939.7
LIABILITIES AND EQUITY		
Current liabilities		
Short-term borrowings	**$ 146.8**	$ 207.0
Current maturities of long-term debt	**4.9**	5.7
Accounts payable and accrued liabilities	**618.1**	597.4
Total current liabilities	**769.8**	810.1
Long-term debt	**2,532.5**	1,988.0
Deferred tax liabilities	**157.6**	157.8
Other long-term liabilities	**111.6**	110.0
Total liabilities	**3,571.5**	3,065.9
Equity		
Common shares, no par - 138,902,294 (December 31, 2016 - 138,591,100) shares issued	**911.7**	909.3
Additional paid-in-capital	**55.3**	54.2
(Accumulated deficit) retained earnings	**(21.9)**	22.9
Accumulated other comprehensive loss	**(105.7)**	(117.9)

Total Cott Corporation equity		**839.4**		868.5
Non-controlling interests		**6.4**		5.3
Total equity		**845.8**		873.8
Total liabilities and equity	**$**	**4,417.3**	$	3,939.7

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

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Cott Corporation

Consolidated Statements of Cash Flows

(in millions of U.S. dollars)

Unaudited

	For the Three Months Ended April 1, 2017	For the Three Months Ended April 2, 2016
Operating Activities		
Net loss	**$ (34.4)**	$ (1.4)
Depreciation & amortization	**64.4**	52.5
Amortization of financing fees	**1.6**	1.2
Amortization of senior notes premium	**(1.6)**	(1.4)
Share-based compensation expense	**4.8**	2.4
Benefit for deferred income taxes	**(0.5)**	(11.3)
Unrealized commodity hedging gain, net	**(1.9)**	
Loss on extinguishment of debt	**10.1**	
Loss on disposal of property, plant & equipment, net	**1.4**	0.9
Other non-cash items	**(2.0)**	(1.7)
Change in operating assets and liabilities, net of acquisitions:		
Accounts receivable	**(14.0)**	(21.7)
Inventories	**(26.6)**	(3.3)
Prepaid expenses and other current assets	**(9.5)**	(4.4)
Other assets	**0.5**	2.4
Accounts payable and accrued liabilities, and other liabilities	**3.3**	(30.0)
Income taxes recoverable	**0.7**	(2.9)
Net cash used in operating activities	**(3.7)**	(18.7)
Investing Activities		
Acquisitions, net of cash received	**(5.0)**	(44.4)
Additions to property, plant & equipment	**(40.6)**	(29.5)
Additions to intangible assets	**(2.8)**	(2.3)
Proceeds from sale of property, plant & equipment	**4.1**	2.7
Other investing activities	**0.2**	
Net cash used in investing activities	**(44.1)**	(73.5)
Financing Activities		
Payments of long-term debt	**(203.3)**	(1.1)
Issuance of long-term debt	**750.0**	
Borrowings under ABL	**772.9**	497.2
Payments under ABL	**(834.2)**	(558.3)
Premiums and costs paid upon extinguishment of long-term debt	**(7.2)**	

Financing fees		**(9.4)**		
Distributions to non-controlling interests		**(0.9)**		(2.3)
Issuance of common shares		**0.5**		144.1
Common shares repurchased and cancelled		**(1.8)**		(1.1)
Dividends paid to common shareowners		**(8.4)**		(7.3)
Other financing activities		**0.5**		
Net cash provided by financing activities		**458.7**		71.2
Effect of exchange rate changes on cash		**1.5**		(1.0)
Net increase (decrease) in cash, cash equivalents and restricted cash		**412.4**		(22.0)
Cash, cash equivalents and restricted cash, beginning of period		**118.1**		77.1
Cash, cash equivalents and restricted cash, end of period	**$**	**530.5**	$	55.1
Supplemental Non-cash Investing and Financing Activities:				
Accrued deferred financing fees	**$**	**2.2**	$	
Additions to property, plant & equipment through accounts payable and accrued liabilities		**9.5**		4.8
Supplemental Disclosures of Cash Flow Information:				
Cash paid for interest	**$**	**22.2**	$	19.2
Cash paid for income taxes, net		**0.7**		4.2

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

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Cott Corporation

Consolidated Statements of Equity

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

Unaudited

	Cott Corporation Equity						
	Number of Common Shares *(In thousands)*	**Common Shares**	**Additional Paid-in-Capital**	**Retained Earnings (Accumulated Deficit)**	**Accumulated Other Comprehensive (Loss) Income**	**Non-Controlling Interests**	**Total Equity**
Balance at January 2, 2016	**109,695**	**$ 534.7**	**$ 51.2**	**$ 129.6**	**$ (76.2)**	**$ 6.6**	**$ 645.9**
Cumulative effect adjustment				2.8			2.8
Common shares repurchased and cancelled	(100)	(1.1)					(1.1)
Common shares issued - Equity Incentive Plan	286	2.7	(2.7)				
Common shares issued - Equity issuance	12,765	145.5					145.5
Common shares issued - Dividend reinvestment plan	5	0.1					0.1
Common shares issued - Employee stock purchase plan	26	0.3	(0.1)				0.2
Share-based compensation			2.4				2.4
Common shares dividends				(7.3)			(7.3)
Distributions to non-controlling interests						(2.3)	(2.3)
Comprehensive (loss) income							
Currency translation adjustment					(3.2)		(3.2)
Pension benefit plan, net of tax					0.1		0.1
Gain on derivative instruments, net of tax					0.5		0.5
Net (loss) income				(2.8)		1.4	(1.4)
Balance at April 2, 2016	**122,677**	**$ 682.2**	**$ 50.8**	**$ 122.3**	**$ (78.8)**	**$ 5.7**	**$ 782.2**
Balance at December 31, 2016	**138,591**	**$ 909.3**	**$ 54.2**	**$ 22.9**	**$ (117.9)**	**$ 5.3**	**$ 873.8**

Common shares repurchased and cancelled	(150)	(1.8)					(1.8)
Common shares issued - Equity Incentive Plan	410	3.6	(3.6)				
Common shares issued - Dividend reinvestment plan	12	0.1					0.1
Common shares issued - Employee stock purchase plan	39	0.5	(0.1)				0.4
Share-based compensation			4.8				4.8
Common shares dividends				(8.4)			(8.4)
Distributions to non-controlling interests						(0.9)	(0.9)
Comprehensive income							
Currency translation adjustment					9.7		9.7
Pension benefit plan, net of tax					0.1		0.1
Gain on derivative instruments, net of tax					2.4		2.4
Net (loss) income				(36.4)		2.0	(34.4)
Balance at April 1, 2017	**138,902**	**$ 911.7**	**$ 55.3**	**$ (21.9)**	**$ (105.7)**	**$ 6.4**	**$ 845.8**

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

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Cott Corporation

Notes to the Consolidated Financial Statements

Unaudited

Note 1 Business and Recent Accounting Pronouncements

Description of Business

As used herein, Cott, the Company, our Company, Cott Corporation, we, us, or our refers to Cott Corporat together with its consolidated subsidiaries. Cott is a diversified beverage company with a leading volume-based national presence in the North America and European home and office delivery (HOD) industry for bottled water, a leader in custom coffee roasting and blending of iced tea for the U.S. foodservice industry, and a leader in the production of beverages on behalf of retailers, brand owners and distributors. Our platform reaches over 2.3 million customers or delivery points across North America and Europe supported by strategically located sales and distribution facilities and fleets, as well as wholesalers and distributors. This enables us to efficiently service residences, businesses, restaurant chains, hotels and motels, small and large retailers, and healthcare facilities.

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. In the opinion of management, all adjustments (consisting of normal recurring adjustments) 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. The consolidated balance sheet as of December 31, 2016 included herein was derived from the audited consolidated financial statements included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016 (2016 Annual Report). This Quarterly Report on Form 10-Q should be read in conjunction with the annual audited consolidated financial statements and accompanying notes in our 2016 Annual Report. 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 GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes.

Significant Accounting Policies

Included in Note 1 of the 2016 Annual Report is a summary of the Company s significant accounting policies. Provided below is a summary of additional accounting policies that are significant to the financial results of the Company.

Restricted Cash

Restricted cash includes cash that is restricted as to withdrawal or usage. The Company s restricted cash was $444.4 million as of April 1, 2017 on our consolidated balance sheet and represents a portion of the proceeds from the issuance of the 5.500% senior notes due 2025 (the 2025 Notes) that were deposited with the trustee as of April 1, 2017 to satisfy and discharge our obligations under the indenture for the 6.750% senior notes due 2020 (the 2020 Notes) (see Note 7 to the consolidated financial statements).

Cost of sales

We record costs associated with the manufacturing of our products in costs of sales. Shipping and handling costs incurred to store, prepare and move products between production facilities or from production facilities to branch locations or storage facilities are recorded in cost of sales. Costs incurred in shipment of products from our production facilities to customer locations are also reflected in cost of sales, with the exception of shipping and handling costs incurred to deliver products from our Water & Coffee Solutions reporting segment branch locations to the end-user consumer of those products, which are recorded in selling, general and administrative (SG&A) expenses. These shipping and handling costs were $106.3 million and $77.8 million for the three months ended April 1, 2017 and April 2, 2016, respectively. Finished goods inventory costs include the cost of direct labor and materials and the applicable share of overhead expense chargeable to production.

Recently adopted accounting pronouncements

In July 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) 2015-11 Inventory (Topic 330) to simplify the accounting for inventory. The guidance requires entities to measure most inventory at the lower of cost or net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. The Company adopted the provisions of this guidance effective January 1, 2017, and applied it prospectively to all periods presented. The adoption of this standard did not have a material impact on the Company s financial statements.

In March 2016, the FASB issued ASU 2016-09 - Compensation Stock Compensation (Topic 718). We elected to early adopt this standard in the fourth quarter of 2016, effective as of the beginning of the Company s fiscal year, January 3, 2016. Amendments requiring the recognition of excess tax benefits and tax deficiencies within the consolidated statements of operations were adopted prospectively and resulted in an increase of $0.5 million in income tax benefit, net loss, and net loss attributed to Cott Corporation and an increase of $0.01 in net loss per common share attributed to Cott Corporation within the consolidated statement of operations for the three months ended April 2, 2016.

Recently issued accounting pronouncements

Changes to GAAP are established by the FASB in the form of ASUs or the issuance of new standards to the FASB s Accounting Standards Codification (ASC). The Company considers the applicability and impact of all ASUs. ASUs not listed below were assessed and determined to be either not applicable or are expected to have minimal impact on these consolidated financial statements.

Update ASU 2014-09 Revenue from Contracts with Customers (Topic 606)

In May 2014, the FASB amended its guidance regarding revenue recognition and created a new Topic 606, Revenue from Contracts with Customers. The objectives for creating Topic 606 were to remove inconsistencies and weaknesses in revenue recognition, provide a more robust framework for addressing revenue issues, provide more useful information to users of the financial statements through improved disclosure requirements, simplify the preparation of financial statements by reducing the number of requirements to which an entity must refer, and improve comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve the core principle, an entity should apply the following steps: 1) identify the contract(s) with a customer; 2) identify the performance obligations in the contract; 3) determine the transaction price; 4) allocate the transaction price to the performance obligations in the contract; and 5) recognize revenue when (or as) the entity satisfies a performance obligation. For public entities, the amendments are effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. The amendments may be applied retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying the amendment recognized at the date of initial application.

During the first quarter of 2017, we hired a third-party consultant to assist in the adoption of this standard, developed a scoping phase project plan, identified inventory of revenue streams and are currently in the contract review phase. The contract review phase will allow us to identify gaps between our current revenue recognition policies and the new standard so that we can quantify the impact to our consolidated financial statements.

Update ASU 2016-02 Leases (Topic 842)

In February 2016, the FASB issued an update to its guidance on lease accounting. This update revises accounting for operating leases by a lessee, among other changes, and requires a lessee to recognize a liability to make lease payments and an asset representing its right to use the underlying asset for the lease term in the balance sheet. The distinction between finance and operating leases has not changed and the update does not significantly change the effect of finance and operating leases on the consolidated statements of operations and the consolidated statements of cash flows. Additionally, this update requires both qualitative and specific quantitative disclosures. For public entities, the amendments in this update are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, with early adoption permitted. At adoption, this update will be applied using a modified retrospective approach. We are currently assessing the impact of adoption of this standard on our consolidated financial statements.

Update ASU 2016-13 Financial Instruments Credit Losses (Topic 326)

In June 2016, the FASB amended its guidance to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Entities will now use forward-looking information to better form their credit loss estimates. The amended guidance also requires enhanced disclosures to help financial statement users better understand significant estimates and judgements used in estimating credit losses, as well as the credit quality and underwriting standards of an entity s portfolio. The amendments in this update are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption will be permitted for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. This guidance will be applied using a prospective or modified retrospective transition method, depending on the area covered in this update. We are currently assessing the impact of adoption of this standard on our consolidated financial statements.

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Update ASU 2017-01 Business Combinations (Topic 805)

In January 2017, the FASB amended its guidance regarding business combinations. The amendment clarified the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The amendments provide an analysis of fair value of assets acquired to determine when a set is not a business, and uses more stringent criteria related to inputs, substantive process, and outputs to determine if a business exists. The amendments in this update are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years, with early adoption permitted. The amendments in this update should be applied prospectively on or after the effective date with no requirement for disclosures at transition. We are currently assessing the impact of adoption of this standard on our consolidated financial statements.

Update ASU 2017-04 Intangibles Goodwill and Other (Topic 350)

In January 2017, the FASB amended its guidance regarding goodwill impairment. The amendments remove certain conditions of the goodwill impairment test and simplify the computation of impairment. The amendments in this update are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years, with early adoption permitted for any tests performed after January 1, 2017. The amendments in this update should be applied prospectively, with disclosure required as to the nature of and reason for the change in accounting principle upon transition. We are currently assessing the impact of adoption of this standard on our consolidated financial statements.

Update ASU 2017-07 Compensation Retirement Benefits (Topic 715)

In March 2017, the FASB issued an update to its guidance on presentation of net periodic pension cost and net periodic post-retirement pension cost, and requires the service cost component to be presented in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations. The amendments in this update also allow only the service cost component to be eligible for capitalization when applicable. For public entities, the amendments in this update are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years, with early adoption permitted. At adoption, this update will be applied retrospectively for the presentation of the service cost component and other components of net periodic pension cost and net periodic post-retirement benefit cost in the income statement and prospectively, on or after the effective date, for the capitalization of the service cost component of net periodic pension cost and net periodic post-retirement benefit in assets. Additionally, in the period of adoption, an entity should provide disclosures about a change in accounting principle. We are currently assessing the impact of adoption of this standard on our consolidated financial statements.

Update ASU 2017-08 Receivables Nonrefundable Fees and Other Costs (Subtopic 310-20)

In March 2017, the FASB amended its guidance on accounting for debt securities. The amendments shorten the amortization period for certain callable debt securities held at a premium. Specifically, the amendments require the premium to be amortized to the earliest call date. The amendments do not require an accounting change for securities held at a discount; the discount continues to be amortized to maturity. For public entities, the amendments in this update are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, with early adoption is permitted. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. At adoption, this update will be applied using a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. Additionally, in the period of adoption, an entity should provide disclosures about a change in accounting principle. We are currently assessing the impact of adoption of this standard on our consolidated financial statements.

Note 2 Acquisitions

S&D Acquisition

On August 11, 2016, the Company acquired S&D Coffee Holding Company, the parent company of S. & D. Coffee, Inc. (S&D), a premium coffee roaster and provider of customized coffee, tea and extract solutions pursuant to a Stock and Membership Interest Purchase Agreement dated August 3, 2016 (the S&D Acquisition). The purchase price consideration of $353.6 million was allocated to the assets acquired and liabilities assumed based on their estimated fair values as of the acquisition date. Measurement period adjustments recorded during the three months ended April 1, 2017 include adjustments to property, plant & equipment and a related adjustment to deferred taxes based on the results of the validation procedures performed as well as an adjustment to income taxes payable existing at the acquisition date. The measurement period adjustments did not have a material effect on our results of operations in prior periods.

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The table below summarizes the previously reported estimated acquisition date fair values, measurement period adjustments recorded and the final purchase price allocation of assets acquired and liabilities assumed:

(in millions of U.S. dollars)	Originally Reported	Measurement Period Adjustments	Final
Cash	$ 1.7	$	$ 1.7
Accounts receivable	51.4		51.4
Inventory	62.5		62.5
Prepaid expenses and other assets	2.3		2.3
Property, plant & equipment	92.9	(0.7)	92.2
Goodwill	117.1	0.7	117.8
Intangible assets	119.0		119.0
Other assets	2.2		2.2
Accounts payable and accrued liabilities	(46.7)	(0.2)	(46.9)
Deferred tax liabilities	(43.3)	0.2	(43.1)
Other long-term liabilities	(5.5)		(5.5)
Total	$ 353.6	$	$ 353.6

Eden Acquisition

On August 2, 2016, the Company acquired Hydra Dutch Holdings 1 B.V., the indirect parent company of Eden Springs Europe B.V., a leading provider of water and coffee solutions in Europe (Eden), pursuant to a Share Purchase Agreement dated June 7, 2016 (the Eden Acquisition). The purchase price consideration of 515.9 million (U.S. $576.3 million at the exchange rate in effect on the acquisition date), was allocated to the assets acquired and liabilities assumed based on their estimated fair values as of the acquisition date. Measurement period adjustments recorded during the three months ended April 1, 2017 primarily related to the on-going analysis of transfer pricing issues and various deferred tax adjustments related to the preliminary valuations. The measurement period adjustments did not have a material effect on our results of operations in prior periods.

The table below summarizes the originally reported estimated acquisition date fair values, measurement period adjustments recorded and the preliminary purchase price allocation of assets acquired and liabilities assumed:

(in millions of U.S. dollars)	Originally Reported	Measurement Period Adjustments	Preliminary
Cash & cash equivalents	$ 19.6	$	$ 19.6
Accounts receivable	95.4		95.4
Inventories	17.7		17.7
Prepaid expenses and other current assets	6.2		6.2
Property, plant & equipment	107.1		107.1
Goodwill	299.7	0.8	300.5
Intangible assets	213.2		213.2

Other assets	2.8		2.8
Deferred tax assets	19.5		19.5
Current maturities of long-term debt	(2.7)		(2.7)
Accounts payable and accrued liabilities	(128.3)		(128.3)
Long-term debt	(3.1)		(3.1)
Deferred tax liabilities	(49.5)	1.0	(48.5)
Other long-term liabilities	(21.3)	(1.8)	(23.1)
Total	$ 576.3	$	$ 576.3

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The fair values of acquired property, plant & equipment, customer relationships, and deferred taxes are provisional pending validation and receipt of the final valuations for those assets. In addition, consideration for potential loss contingencies, including uncertain tax positions, are still under review.

Supplemental Pro Forma Data (unaudited)

The following unaudited pro forma financial information for the three months ended April 2, 2016, represent the combined results of operations as if the S&D Acquisition and Eden Acquisition had occurred on January 4, 2015. Unaudited pro forma consolidated results of operations for the acquisition of Aquaterra Corporation (Aquaterra) in January 2016 were not included in the combined results of our operations for the three months ended April 2, 2016 because the Company determined they were immaterial. The unaudited pro forma financial information results reflect certain adjustments related to these acquisitions such as increased amortization expense on acquired intangible assets resulting from the preliminary fair valuation of assets acquired. The unaudited pro forma financial information does not necessarily reflect the results of operations that would have occurred had we operated as a single entity during such periods.

(in millions of U.S. dollars, except per share amounts)	**For the Three Months Ended April 2, 2016**	
Revenue	$	916.2
Net loss attributed to Cott Corporation		(9.4)
Net loss per common share attributed to Cott Corporation, diluted	$	(0.07)

Note 3 Income Taxes

Income tax expense was $1.1 million on pre-tax loss of $33.3 million for the three months ended April 1, 2017, as compared to an income tax benefit of $9.5 million on pre-tax loss of $10.9 million for the three months ended April 2, 2016. The increase in the income tax expense was due primarily to the Company no longer recognizing tax benefits in the U.S. and Canada.

Note 4 Net Loss Per Common Share

Basic net loss per common share is calculated by dividing net loss attributed to Cott Corporation by the weighted average number of common shares outstanding during the periods presented. Diluted net loss per common share is calculated by dividing net loss attributed to Cott Corporation by the weighted average number of common shares outstanding adjusted to include the effect, if dilutive, of the exercise of in-the-money stock options, Performance-based RSUs, and Time-based RSUs during the periods presented. Set forth below is a reconciliation of the denominator for the diluted net loss per common share computations for the periods indicated:

	For the Three Months Ended			
(in thousands)	**April 1, 2017**		**April 2, 2016**	
Diluted net loss attributed to Cott Corporation (numerator)	**$**	**(36.4)**	$	(2.8)

Weighted average common shares outstanding - basic	**138,735**	113,267
Dilutive effect of Stock Options		
Dilutive effect of Performance-based RSUs		
Dilutive effect of Time-based RSUs		
Weighted average common shares outstanding - diluted (denominator)	**138,735**	113,267

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The following table summarizes anti-dilutive securities excluded from the computation of diluted net loss per common share for the periods indicated:

	For the Three Months Ended	
(in thousands)	**April 1, 2017**	**April 2, 2016**
Stock Options	**4,474**	2,892
Performance-based RSUs [1]	**1,824**	2,003
Time-based RSUs	**721**	733

1. Performance-based RSUs represent the number of shares expected to be issued based primarily on the estimated achievement of cumulative pre-tax income targets for these awards.

Note 5 Segment Reporting

Our broad portfolio of products include bottled water, coffee, brewed tea, water dispensers, coffee and tea brewers, filtration equipment, carbonated soft drinks (CSDs), 100% shelf stable juice and juice-based products, clear, still and sparkling flavored waters, energy drinks and shots, sports products, new age beverages, ready-to-drink teas, liquid enhancers, freezables, ready-to-drink alcoholic beverages, hot chocolate, malt drinks, creamers/whiteners, cereals and beverage concentrates.

During the first quarter of 2016, we completed the acquisition of Aquaterra followed by the S&D Acquisition and the Eden Acquisition in the third quarter of 2016. These businesses were added to our DSS reporting segment, which was then renamed Water & Coffee Solutions to reflect the increased scope of our offering. Other than the change in name, there was no impact on prior period results for this reporting segment. The Water & Coffee Solutions reporting segment produces a product category consisting primarily of bottled water, coffee, brewed tea, water dispensers, coffee and tea brewers and filtration equipment.

Our business operates through four reporting segments: Water & Coffee Solutions, Cott North America, Cott U.K. and All Other. We refer to our Cott North America, Cott U.K. and All Other reporting segments together as our traditional business. Our corporate oversight function is not treated as a segment; it includes certain general and administrative costs that are not allocated to any of the reporting segments.

	For the Three Months Ended April 1, 2017						
(in millions of U.S. dollars)	**Water & Coffee Solutions**	**Cott North America**	**Cott U.K.**	**All Other**	**Corporate**	**Eliminations**	**Total**
Revenue, net [1]	**$ 495.5**	**$ 301.1**	**$ 94.2**	**$ 11.5**	**$**	**$ (5.9)**	**$ 896.4**
Depreciation and amortization	**41.6**	**17.8**	**4.8**	**0.2**			**64.4**
Operating income (loss)	**14.9**	**1.1**		**1.6**	**(6.8)**		**10.8**
Additions to property, plant & equipment	**28.1**	**8.3**	**3.6**	**0.6**			**40.6**
As of April 1, 2017							
Total assets [2]	**2,750.9**	**1,318.8**	**320.9**	**26.7**			**4,417.3**

1. Intersegment revenue between Cott North America and the other reporting segments was $5.9 million for the three months ended April 1, 2017.
2. Excludes intersegment receivables, investments and notes receivable.

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	For the Three Months Ended April 2, 2016						
(in millions of U.S. dollars)	**Water & Coffee Solutions**	**Cott North America**	**Cott U.K.**	**All Other**	**Corporate**	**Eliminations**	**Total**
Revenue, net [1]	$ 257.3	$ 313.3	$ 120.6	$ 13.6	$	$ (6.4)	$ 698.4
Depreciation and amortization	28.4	18.3	5.5	0.3			52.5
Operating income (loss)	5.7	0.6	9.9	2.5	(4.0)		14.7
Additions to property, plant & equipment	17.8	9.4	2.0	0.3			29.5
As of December 31, 2016							
Total assets [2]	2,735.1	862.9	316.5	25.2			3,939.7

1. Intersegment revenue between Cott North America and the other reporting segments was $6.4 million for the three months ended April 2, 2016.
2. Excludes intersegment receivables, investments and notes receivable.

For the three months ended April 1, 2017, sales to Walmart accounted for 13.0% of our total revenue (April 2, 2016 18.2%), 1.3% of our Water & Coffee Solutions reporting segment revenue (April 2, 2016 2.5%), 33.4% of our Cott North America reporting segment revenue (April 2, 2016 34.3%), 9.6% of our Cott U.K. reporting segment revenue (April 2, 2016 11.1%), and 2.7% of our All Other reporting segment revenue (April 2, 2016 1.6%).

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 channel by reporting segment were as follows:

	For the Three Months Ended April 1, 2017					
(in millions of U.S. dollars)	**Water & Coffee Solutions**	**Cott North America**	**Cott U.K.**	**All Other**	**Eliminations**	**Total**
Revenue, net						
Private label retail	**$ 21.4**	**$ 240.6**	**$ 38.3**	**$ 0.9**	**$ (0.4)**	**$ 300.8**
Branded retail	**19.1**	**22.6**	**29.5**	**0.9**	**(0.4)**	**71.7**
Contract packaging		**31.1**	**21.8**	**3.0**	**(1.9)**	**54.0**
Home and office bottled water delivery	**229.1**					**229.1**
Coffee and tea services	**165.6**		**0.6**			**166.2**
Concentrate and other	**60.3**	**6.8**	**4.0**	**6.7**	**(3.2)**	**74.6**
Total	**$ 495.5**	**$ 301.1**	**$ 94.2**	**$ 11.5**	**$ (5.9)**	**$ 896.4**

(in millions of U.S. dollars)	For the Three Months Ended April 2, 2016 Water & Coffee Solutions	Cott North America	Cott U.K.	All Other	Eliminations	Total
Revenue, net						
Private label retail	$ 16.9	$ 248.5	$ 50.7	$ 0.5	$ (0.4)	$ 316.2
Branded retail	24.3	26.8	36.2	0.8	(0.3)	87.8
Contract packaging		31.4	28.3	4.7	(2.1)	62.3
Home and office bottled water delivery	162.0					162.0
Coffee and tea services	31.5		0.8			32.3
Concentrate and other	22.6	6.6	4.6	7.6	(3.6)	37.8
Total	$ 257.3	$ 313.3	$ 120.6	$ 13.6	$ (6.4)	$ 698.4

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Note 6 Inventories

The following table summarizes inventories as of April 1, 2017 and December 31, 2016:

(in millions of U.S. dollars)	April 1, 2017	December 31, 2016
Raw materials	**$ 134.9**	$ 123.4
Finished goods	**142.4**	131.6
Resale items	**21.9**	22.0
Other	**30.2**	24.4
Total	**$ 329.4**	$ 301.4

Note 7 Debt

Our total debt as of April 1, 2017 and December 31, 2016 was as follows:

	April 1, 2017			December 31, 2016		
(in millions of U.S. dollars)	Principal	Unamortized Debt Issuance Costs	Net	Principal	Unamortized Debt Issuance Costs	Net
6.750% senior notes due in 2020	**$ 422.7**	**$ 5.8**	**$ 416.9**	$ 625.0	$ 9.3	$ 615.7
10.000% senior notes due in 2021 [1]	**382.6**		**382.6**	384.2		384.2
5.375% senior notes due in 2022	**525.0**	**6.9**	**518.1**	525.0	7.1	517.9
5.500% senior notes due in 2024	**480.7**	**9.6**	**471.1**	474.1	9.8	464.3
5.500% senior notes due in 2025	**750.0**	**11.6**	**738.4**			
ABL facility	**146.8**		**146.8**	207.0		207.0
GE Term Loan	**3.7**	**0.1**	**3.6**	4.3	0.2	4.1
Capital leases and other debt financing	**6.7**		**6.7**	7.5		7.5
Total debt	**2,718.2**	**34.0**	**2,684.2**	2,227.1	26.4	2,200.7
Less: Short-term borrowings and current debt:						
ABL facility	**146.8**		**146.8**	207.0		207.0
Total short-term borrowings	**146.8**		**146.8**	207.0		207.0
GE Term Loan - current maturities	**2.3**		**2.3**	2.3		2.3
Capital leases and other debt financing - current maturities	**2.6**		**2.6**	3.4		3.4
Total current debt	**151.7**		**151.7**	212.7		212.7
Total long-term debt	**$ 2,566.5**	**$ 34.0**	**$ 2,532.5**	$ 2,014.4	$ 26.4	$ 1,988.0

1. The outstanding aggregate principal amount of $350.0 million of our 10.000% senior secured notes (DSS Notes) was assumed by Cott at fair value of $406.0 million in connection with Cott s acquisition of DSS. The premium of $56.0 million is being amortized as an adjustment to interest expense using the effective interest method over the remaining contractual term of the DSS Notes. The effective interest rate is 7.515%. The remaining unamortized premium was $32.6 million and $34.2 million at April 1, 2017 and December 31, 2016, respectively.

5.500% Senior Notes due in 2025

On March 22, 2017, we issued $750.0 million of 2025 Notes to qualified purchasers in a private placement offering under Rule 144A under the Securities Act of 1933, as amended (the Securities Act), and outside the United States to non-U.S. purchasers pursuant to Regulation S under the Securities Act and other applicable laws. The 2025 Notes were issued by our wholly-owned subsidiary Cott Holdings Inc., and most of our U.S., Canadian, U.K., Luxembourg and Dutch subsidiaries guarantee the 2025 Notes. The 2025 Notes will mature on April 1, 2025 and interest is payable semi-annually on April 1st and October 1st of each year commencing on October 1, 2017.

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We incurred $11.6 million of financing fees in connection with the issuance of the 2025 Notes. The financing fees are being amortized using the effective interest method over an eight-year period, which represents the term to maturity of the 2025 Notes.

6.750% Senior Notes due in 2020

On March 22, 2017, we used a portion of the proceeds from the issuance of the 2025 Notes to purchase $202.3 million in aggregate principal amount of the 2020 Notes in a cash tender offer. The tender offer included $7.1 million in premium payments, accrued interest of $3.1 million, the write-off of $2.9 million in deferred financing fees and other costs of $0.1 million. In addition, as of April 1, 2017, $444.4 million of the proceeds from the issuance of the 2025 Notes were deposited with the trustee to satisfy and discharge our obligations under the 2020 Notes, and as a result, such amount was recorded to restricted cash.

On April 5, 2017, we redeemed all of the remaining $422.7 million aggregate principal amount of our 2020 Notes. The redemption included $14.3 million in premium payments as well as accrued interest of $7.4 million.

Note 8 Accumulated Other Comprehensive (Loss) Income

Changes in accumulated other comprehensive (loss) income (AOCI) by component for the three months ended April 1, 2017 and April 2, 2016 were as follows:

(in millions of U.S. dollars)[1]	Gains and Losses on Derivative Instruments	Pension Benefit Plan Items	Currency Translation Adjustment Items	Total
Beginning balance January 2, 2016	$ (4.7)	$ (10.1)	$ (61.4)	$ (76.2)
OCI before reclassifications	1.5		(3.2)	(1.7)
Amounts reclassified from AOCI	(1.0)	0.1		(0.9)
Net current-period OCI	0.5	0.1	(3.2)	(2.6)
Ending balance April 2, 2016	$ (4.2)	$ (10.0)	$ (64.6)	$ (78.8)
Beginning balance December 31, 2016	$ (0.1)	$ (14.4)	$ (103.4)	$ (117.9)
OCI before reclassifications	3.1		9.7	12.8
Amounts reclassified from AOCI	(0.7)	0.1		(0.6)
Net current-period OCI	2.4	0.1	9.7	12.2
Ending balance April 1, 2017	$ 2.3	$ (14.3)	$ (93.7)	$ (105.7)

1. All amounts are net of tax. Amounts in parentheses indicate debits.

The following table summarizes the amounts reclassified from AOCI for the three months ended April 1, 2017 and April 2, 2016, respectively.

(in millions of U.S. dollars)	**For the Three Months Ended**		**Affected Line Item in the Statement**
Details About AOCI Components[1]	**April 1, 2017**	**April 2, 2016**	**Where Net Income Is Presented**
Gains and losses on derivative instruments Foreign currency and commodity hedges	$ 0.7	$ 1.6	Cost of sales
	$ 0.7	$ 1.6	Total before taxes
		(0.6)	Tax expense
	$ 0.7	$ 1.0	Net of tax
Amortization of pension benefit plan items Prior service costs [2]	$ (0.1)	$ (0.1)	Cost of sales
	(0.1)	(0.1)	Total before taxes
			Tax expense
	$ (0.1)	$ (0.1)	Net of tax
Total reclassifications for the period	$ 0.6	$ 0.9	Net of tax

1. Amounts in parenthesis indicate debits.
2. These AOCI components are included in the computation of net periodic pension cost.

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Note 9 Commitments and Contingencies

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

We had $39.9 million in standby letters of credit outstanding as of April 1, 2017 ($42.4 million December 31, 2016).

Note 10 Hedging Transactions and Derivative Financial Instruments

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

We use various types of derivative instruments including, but not limited to, forward contracts, futures contracts and swap agreements for certain commodities. Forward and futures contracts are agreements to buy or sell a quantity of a commodity at a predetermined future date, and at a predetermined rate or price. Forward contracts are traded over-the-counter whereas future contracts are traded on an exchange. A swap agreement is a contract between two parties to exchange cash flows based on specified underlying notional amounts, assets and/or indices.

All derivatives are carried at fair value in the consolidated balance sheets in the line item accounts receivable, net or accounts payable and accrued liabilities. The carrying values of the derivatives reflect the impact of legally enforceable master netting agreements with each counterparty. These allow us to net settle positive and negative positions (assets and liabilities) arising from different transactions with the same counterparty.

The accounting for gains and losses that result from changes in the fair values of derivative instruments depends on whether the derivatives have been designated and qualify as hedging instruments and the types of hedging relationships. Derivatives can be designated as fair value hedges, cash flow hedges or hedges of net investments in foreign operations. The changes in the fair values of derivatives that have been designated and qualify for fair value hedge accounting are recorded in the same line item in our consolidated statements of operations as the changes in the fair value of the hedged items attributable to the risk being hedged. The changes in fair values of derivatives that have been designated and qualify as cash flow hedges are recorded in AOCI and are reclassified into the line item in the consolidated statements of operations in which the hedged items are recorded in the same period the hedged items affect earnings. 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 changes in fair values of derivatives that were not designated and/or did not qualify as hedging instruments are immediately recognized into earnings. We classify cash inflows and outflows related to derivative and hedging instruments within the appropriate cash flows section associated with the item being hedged.

For derivatives that will be accounted for as hedging instruments, we formally designate and document, at inception, the financial instrument as a hedge of a specific underlying exposure, the risk management objective and the strategy for undertaking the hedge transaction. In addition, we formally assess both at the inception and at least quarterly thereafter, whether the financial instruments used in hedging transactions are effective at offsetting changes in either the fair values or cash flows of the related underlying exposures. Any ineffective portion of a financial instrument s change in fair value is immediately recognized into earnings.

We estimate the fair values of our derivatives based on quoted market prices or pricing models using current market rates (see Note 11 to the consolidated financial statements). The notional amounts of the derivative financial instruments do not necessarily represent amounts exchanged by the parties and, therefore, are not a direct measure of our exposure to the financial risks described above. The amounts exchanged are calculated by reference to the notional amounts and by other terms of the derivatives, such as interest rates, foreign currency exchange rates or other financial indices. We do not view the fair values of our derivatives in isolation, but rather in relation to the fair values or cash flows of the underlying hedged transactions. All of our derivatives are over-the-counter or exchange traded instruments with liquid markets.

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Credit Risk Associated with Derivatives

We have established strict counterparty credit guidelines and enter into transactions only with financial institutions of investment grade or better. We monitor counterparty exposures regularly and review promptly any downgrade in counterparty credit rating. We mitigate pre-settlement risk by being permitted to net settle for transactions with the same counterparty. To minimize the concentration of credit risk, we enter into derivative transactions with a portfolio of financial institutions. Based on these factors, we consider the risk of counterparty default to be minimal.

Cash Flow Hedging Strategy

We use cash flow hedges to minimize the variability in cash flows of assets or liabilities or forecasted transactions caused by fluctuations in foreign currency exchange rates and commodity prices. The changes in fair values of hedges that are determined to be ineffective are immediately reclassified from AOCI into earnings. We did not discontinue any cash flow hedging relationships during the three months ended April 1, 2017 or April 2, 2016, respectively. Foreign exchange contracts typically have maturities of less than twelve months. Substantially all outstanding hedges as of April 1, 2017 are expected to settle in the next twelve months.

We maintain a foreign currency cash flow hedging program to reduce the risk that our procurement activities will be adversely affected by changes in foreign currency exchange rates. We enter into forward contracts to hedge certain portions of forecasted cash flows denominated in foreign currencies. The total notional values of derivatives that were designated and qualified for our foreign currency cash flow hedging program were $17.9 million and $15.3 million as of April 1, 2017 and December 31, 2016, respectively. Approximately $0.1 million and $1.1 million of unrealized losses, net of tax, related to the foreign currency cash flow hedges were included in AOCI as of April 1, 2017 and April 2, 2016 respectively. The hedge ineffectiveness for these cash flow hedging instruments was not material during the periods presented.

We have entered into commodity swaps on aluminum to mitigate the price risk associated with forecasted purchases of materials used in our manufacturing process. These derivative instruments were designated and qualified as a part of our commodity cash flow hedging program. The objective of this hedging program is to reduce the variability of cash flows associated with future purchases of aluminum. We had no outstanding aluminum commodity swaps as of April 1, 2017 and December 31, 2016. Unrealized net of tax losses of $3.4 million related to the commodity swaps were included in AOCI as of April 2, 2016. The cumulative hedge ineffectiveness for these hedging instruments was not material during the periods presented.