COTT CORP /CN/
Form 10-Q
November 06, 2008
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United States

Securities and Exchange Commission

Washington, D.C. 20549

FORM 10-Q

x **Quarterly Report Pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934**
For the quarterly period ended: September 27, 2008

¨ **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: 000-31410

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 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 x	Accelerated filer ¨
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 October 31, 2008**
Common Stock, no par value per share	71,871,330 shares

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements
Cott Corporation

Consolidated Statements of Operations

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

Unaudited

		For the three months ended		For the nine months ended	
		September 27, 2008	September 29, 2007	September 27, 2008	September 29, 2007
Revenue, net		**$ 420.5**	$ 464.5	**$ 1,276.7**	$ 1,363.2
Cost of sales		**372.8**	418.8	**1,131.2**	1,204.4
Gross profit		**47.7**	45.7	**145.5**	158.8
Selling, general and administrative expenses		**42.4**	34.2	**139.7**	116.5
Loss on disposal of property, plant & equipment		**0.1**	0.2	**0.4**	(0.2)
Restructuring and asset impairments	Note 2				
Restructuring		**(0.1)**	14.1	**6.6**	23.5
Goodwill impairments		**69.2**		**69.2**	
Asset impairments		**26.6**	0.9	**27.0**	0.9
Operating (loss) income		**(90.5)**	(3.7)	**(97.4)**	18.1
Other (income) expense, net		**0.4**	(0.8)	**(5.8)**	(3.1)
Interest expense, net		**8.6**	8.4	**24.3**	24.1
Minority interest		**0.3**	0.4	**1.3**	1.9
Loss before income taxes		**(99.8)**	(11.7)	**(117.2)**	(4.8)
Income tax recovery	Note 4	**(12.2)**	(5.9)	**(6.5)**	(8.5)
Net (loss) income		**$ (87.6)**	$ (5.8)	**$ (110.7)**	$ 3.7
Net (loss) income per common share					
Basic		**$ (1.25)**	$ (0.08)	**$ (1.56)**	$ 0.05
Diluted		**$ (1.25)**	$ (0.08)	**$ (1.56)**	$ 0.05
Weighted average outstanding shares (thousands)					
Basic		**70,279**	71,871	**71,096**	71,818
Diluted		**70,279**	71,871	**71,096**	71,846

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

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Cott Corporation

Consolidated Balance Sheets

(in millions of U.S. dollars)

Unaudited

		September 27, 2008	December 29, 2007
ASSETS			
Current assets			
Cash		$ 20.6	$ 27.4
Accounts receivable, net of allowance of $11.5 million ($9.4 million as of December 29, 2007)		186.9	195.4
Income taxes recoverable		15.6	32.8
Inventories	Note 8	127.7	130.1
Prepaid and other expenses		12.5	10.2
Deferred income taxes		0.8	2.5
		364.1	398.4
Property, plant and equipment		386.9	388.4
Goodwill		31.0	108.3
Intangibles and other assets	Note 9	191.9	236.0
Deferred income taxes		12.2	13.3
Income taxes receivable		9.3	
		$ 995.4	$ 1,144.4
LIABILITIES AND SHAREOWNERS EQUITY			
Current liabilities			
Short-term borrowings	Note 10	$ 132.5	$ 137.0
Current maturities of long-term debt		9.8	2.4
Income taxes payable		0.8	
Accounts payable and accrued liabilities		178.0	195.4
		321.1	334.8
Long-term debt	Note 10	295.8	269.0
Other long-term liabilities	Note 2	13.1	18.1
Other tax liabilities		26.3	36.6
Deferred income taxes		26.0	34.1
		682.3	692.6
Contingencies and Commitments	Note 11		
Minority interest		18.2	19.6
Shareowners equity			
Capital stock		275.0	275.0
Treasury stock	Note 12	(6.4)	
Restricted shares			(0.4)
Additional paid-in-capital		37.4	32.2
(Accumulated deficit) retained earnings		(17.6)	93.1

Accumulated other comprehensive income	**6.5**	**32.3**
	294.9	**432.2**
	$ 995.4	**$ 1,144.4**

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

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Cott Corporation

Consolidated Statements of Shareowners Equity

(in millions of U.S. dollars)

Unaudited

	Number of Common Shares *(In Thousands)*	Number of Treasury Shares *(In Thousands)*	Common Shares	Treasury Shares	Restricted Shares	Additional Paid-in-Capital	(Accumulated Deficit) Retained Earnings	Accumulated Other Comprehensive Income	Total Equity
Balance at December 30, 2006	**71,750**		**$ 273.4**		**$ (0.7)**	**$ 29.8**	**$ 168.7**	**$ 17.5**	**$ 488.7**
Options exercised Note 3	53		0.5						0.5
Common shares issued Note 3	68		1.1						1.1
Restricted shares Note 3					0.2				0.2
Share-based compensation Note 3						2.6			2.6
Reclassified share-based compensation to liabilities Note 3						(0.4)			(0.4)
Change in accounting policy						(4.6)	(4.3)		(8.9)
Currency translation adjustment								22.9	22.9
Net income							3.7		3.7
Other comprehensive income									26.6
Balance at September 29, 2007	**71,871**		**$ 275.0**		**$ (0.5)**	**$ 27.4**	**$ 168.1**	**$ 40.4**	**$ 510.4**
Balance at December 29, 2007	**71,871**		**$ 275.0**		**$ (0.4)**	**$ 32.2**	**$ 93.1**	**$ 32.3**	**$ 432.2**
Treasury shares		1,954		(5.4)					(5.4)
Treasury shares purchased - EISP - Note 12		353		(1.0)		1.0			
Restricted shares Note 3					0.4	(0.4)			
Share-based compensation Note 3						4.6			4.6
Comprehensive loss Note 5									
Currency translation adjustment								(26.0)	(26.0)
Pension liabilities								0.2	0.2
Net loss							(110.7)		(110.7)
Other comprehensive loss									(136.5)

Balance at September 27, 2008	**71,871**	**2,307**	**$ 275.0**	**$ (6.4)**	**$ 37.4**	**$ (17.6)**	**$ 6.5**	**$ 294.9**

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

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Cott Corporation

Consolidated Statements of Cash Flows

(in millions of U.S. dollars)

Unaudited

	For the three months ended		For the nine months ended	
	September 27, 2008	September 29, 2007	September 27, 2008	September 29, 2007
Operating Activities				
Net (loss) income	**$ (87.6)**	$ (5.8)	**$ (110.7)**	$ 3.7
Depreciation and amortization	**20.1**	17.7	**60.9**	53.3
Amortization of financing fees	**0.2**	0.3	**0.8**	0.8
Share-based compensation expense	**0.3**	(2.3)	**5.4**	2.6
Deferred income taxes	**(4.7)**	2.0	**(3.2)**	5.4
Increase in other income tax liabilities	**(10.1)**	3.4	**(11.1)**	3.9
Minority interest	**0.3**	0.4	**1.3**	1.9
Loss (gain) on disposal of property, plant & equipment	**0.1**	0.2	**0.4**	(0.2)
Asset impairments	**(0.8)**	0.9	**(0.4)**	0.9
Intangbile asset impairments	**27.4**		**27.4**	
Goodwill asset impairments	**69.2**		**69.2**	
Lease contract termination loss		12.5	**0.3**	12.5
Lease contract termination payments	**(2.7)**	(7.3)	**(3.1)**	(7.5)
Other non-cash items	**4.2**	1.0	**4.8**	1.6
Change in accounts receivable	**30.4**	33.0	**5.0**	(16.7)
Change in inventories	**3.3**	15.0	**(1.3)**	(8.1)
Change in prepaid expenses and other current assets	**3.8**	(0.9)	**(2.8)**	(1.6)
Change in other assets	**(5.6)**		**(6.0)**	
Change in accounts payable and accrued liabilities	**(32.7)**	(21.8)	**(15.0)**	14.3
Change in income taxes recoverable	**1.0**	(11.0)	**8.7**	(18.8)
Net cash provided by operating activities	**16.1**	37.3	**30.6**	48.0
Investing Activities				
Additions to property, plant and equipment	**(22.5)**	(14.1)	**(46.7)**	(50.4)
Additions to intangibles	**(0.1)**	(1.4)	**(3.4)**	(3.1)
Proceeds from disposal of property, plant & equipment	**(0.1)**		**2.5**	0.8
Net cash used in investing activities	**(22.7)**	(15.5)	**(47.6)**	(52.7)
Financing Activities				
Payments of long-term debt	**(3.0)**	(0.6)	**(4.5)**	(2.2)
Issuance of long-term debt	**17.0**		**33.6**	
Payments on credit facility, net			**(127.5)**	
Short-term borrowings, net	**2.2**	(21.0)	**2.9**	1.1
Short-term borrowings, ABL	**436.5**		**1,031.9**	
Short-term repayments, ABL	**(446.2)**		**(910.4)**	
Distributions to subsidiary minority shareowner	**(1.1)**	(1.6)	**(2.7)**	(2.9)
Issuance of common shares				0.5
Purchase of treasury shares			**(6.4)**	
Deferred financing fees	**(0.7)**		**(5.0)**	
Other financing activities	**(0.5)**	(0.1)	**(0.4)**	(0.3)
Net cash provided by (used in) financing activities	**4.2**	(23.3)	**11.5**	(3.8)
Effect of exchange rate changes on cash	**(0.9)**		**(1.3)**	

Net decrease in cash	**(3.3)**	(1.5)	**(6.8)**	(8.5)
Cash, beginning of period	**23.9**	6.4	**27.4**	13.4
Cash, end of period	**$ 20.6**	$ 4.9	**$ 20.6**	$ 4.9

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

Business

Cott Corporation (the Company, our Company, Cott Corporation, we, us, or our) is one of the world s largest non-alcoholic beverage co and the world s largest retailer brand soft drink provider. In addition to carbonated soft drinks (CSD), our product lines include clear, still and sparkling flavored waters, juice-based products, bottle water, energy drinks and ready-to-drink teas. We operate in five reportable segments North America (which includes the United States operating unit and Canada operating unit), United Kingdom (which includes our United Kingdom operating unit and our Continental European operating unit), Mexico, Royal Crown International (RCI) and All Other (which includes our business in Asia). We anticipate closing our active Asian operations by the end of 2008. We changed our reporting segments in the third quarter of 2008 to reflect a change in our management structure and how information is reported to management.

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 United States (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 fair presentation 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 December 29, 2007. The accounting policies used in these interim consolidated financial statements are consistent with those used in the annual consolidated financial statements

During the period ended September 27, 2008, we identified an error related to the expensing of certain information technology software costs that were previously capitalized and amortized over an estimated life. In accordance with Accounting Principles Board Opinion No. 28 (APB 28), we assessed the materiality of this item on the estimated income for the full fiscal year ended December 27, 2008 and also assessed the quarter ended September 27, 2008, year ended December 29, 2007 and any other periods between and subsequent to those dates, in accordance with the SEC s Staff Accounting Bulletin No. 99 (SAB 99) and concluded that the error was not material to any such periods. Accordingly, in accordance with SEC s Staff Accounting Bulletin No. 108 (SAB 108), the September 27, 2008 consolidated financial statements herein have been revised to correct the immaterial error and to reflect the corrected balances of intangible assets and selling, general and administrative expenses as of that date. This correction resulted in a reduction of intangible assets of $4.6 million and an increase in selling, general and administrative expenses of $4.6 million.

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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.

Certain of the comparative figures have been reclassified to conform to the current period s presentation, which includes a reclassification of $4.5 million from accrued liabilities to allowance for doubtful accounts and certain income tax line items discussed in Note 4.

Impairment of Long-lived Assets

We evaluate the recoverability of our long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable and periodically evaluate the useful lives of such assets. 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.

Each year, or more frequently if events or changes in circumstances so require, we re-evaluate the assumptions used to reflect changes in our business environment. Based on the evaluation performed in the third quarter of 2008, we determined that the fair values of our reporting units, except for the United Kingdom operating unit, exceeded their carrying amounts and as a result further impairment testing was not required. We determined that as of September 27, 2008, our United Kingdom operating unit s goodwill was impaired based on our estimate of its fair value. This was due to declines in our forecasts of volumes and the profit margin of products in the United Kingdom operating unit, which resulted in lower revenues and operating income. Allocating this fair value to the assets and liabilities to the United Kingdom operating unit resulted in a $69.2 million goodwill impairment charge.

We also evaluate on an annual basis, or more frequently if events or changes in circumstances so require, the fair value of our intellectual property that represents the knowledge to manufacture concentrate and the ability to use the trademark of RC Cola outside of the United States, Canada and Mexico as described in Note 2 (the Rights). As of September 27, 2008, we recorded an asset impairment related to the Rights of $27.4 million, primarily due to the decline of our North American case volume partially offset by anticipated increased overseas concentrate volume by our RCI reporting unit. If some of our assumptions (including volume and per unit price) underlying this impairment change adversely, then we could have an additional impairment loss.

A long-term contract with Wal-Mart for the lease and maintenance of vending machines expired in June 2008, in connection with Wal-Mart s plans to implement a different approach to soft drink vending. The existing program was designed to support Wal-Mart s brands. The new program resulted in a significant reduction in the number of our vending machines at Wal-Mart. In January 2008, we revised the expected useful life of these assets, and as a result, we recorded accelerated depreciation of $1.6 million for the first six months of 2008. Accordingly, these assets have no carrying value on our balance sheet as of September 27, 2008.

Recent Accounting Pronouncements

On December 30, 2007, we adopted Statement of Financial Accounting Standards No. 157, Fair Value Measurements (SFAS 157) for financial assets and liabilities. There was no cumulative effect related to the adoption of SFAS 157 and the adoption did not have a material impact on our financial position or results of operations. As permitted by FASB Staff Position No. FAS 157-2, Effective Date of FASB Statement No. 157, we elected to defer the adoption of SFAS 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in our financial statements on a recurring basis.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115 (SFAS 159), which permits entities to choose to measure many financial instruments and certain other items at fair value. SFAS 159 also includes an amendment to SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities, which applies to all entities with available-for-sale and trading securities. This statement is effective as of the beginning of an entity s first fiscal year that began after November 15, 2007. We chose not to elect the fair value option for our financial assets and liabilities existing at December 30, 2007, and did not elect the fair value option on financial assets and liabilities transacted in the nine months ended September 27, 2008. Therefore, the adoption of SFAS 159 had no impact on our consolidated financial statements.

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In December 2007, the FASB issued SFAS No. 141 (revised 2007), Business Combinations. This statement significantly changes the financial accounting and reporting of business combination transactions. The provisions of this statement are to be applied prospectively to business combination transactions in the first annual reporting period beginning on or after December 15, 2008. We expect this to have an impact on our accounting for future business combinations once adopted but the effect is dependent upon acquisitions made in the future.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51 (SFAS 160). SFAS 160 establishes accounting and reporting standards for noncontrolling interests in subsidiaries. This statement requires the reporting of all noncontrolling interests as a separate component of stockholders equity, the reporting of consolidated net income (loss) as the amount attributable to both the parent and the noncontrolling interests and the separate disclosure of net income (loss) attributable to the parent and to the noncontrolling interests. In addition, this statement provides accounting and reporting guidance related to changes in noncontrolling ownership interests. Other than the reporting requirements described above which require retrospective application, the provisions of SFAS 160 are to be applied prospectively in the first annual reporting period beginning on or after December 15, 2008. We are currently evaluating the impact of this standard on our consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133 (SFAS 161). SFAS 161 increases the disclosure requirements for derivative instruments and hedging activities to improve the transparency of financial reporting. Entities are required to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under Statement No. 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity s financial position, financial performance, and cash flows. The provisions of this statement are to be applied prospectively in the first annual reporting period beginning on or after November 15, 2008 with comparative disclosures for earlier periods at initial adoption being optional. We are currently evaluating the impact of this standard on our disclosure. Since we currently do not have any derivative instruments, we do not expect any impact upon adoption of this statement.

In April 2008, the FASB issued FASB Staff Position (FSP) No. 142-3, Determination of the Useful Life of Intangible Assets (FSP 142-3). FSP 142-3 amends the factors to be considered in developing renewal or extension assumptions used to determine the useful life of intangible assets under SFAS No. 142, Goodwill and Other Intangible Assets. Its intent is to improve the consistency between the useful life of an intangible asset and the period of expected cash flows used to measure its fair value. This FSP becomes effective for us on January 1, 2009. We are still in the process of evaluating the impact of FSP 142-3 on our consolidated financial statements.

Note 2 Restructuring, Asset and Goodwill Impairments

The following table summaries restructuring and asset impairment charges for the nine months ended September 27, 2008:

(in millions of U.S. dollars)	**Total**
Restructuring	**$ 6.6**
Asset recovery	**(0.4)**
Intangible asset impairment	**27.4**
Goodwill impairment	**69.2**
	$ 102.8

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Restructuring Plans

On June 19, 2008, we announced a plan to refocus on retailer brands and reduce costs in the operation of our business (the Cost Reduction Plan). The following table is a summary of our Cost Reduction Plan charges and payments for the nine months ended September 27, 2008:

(in millions of U.S. dollars)	Balance at December 29, 2007	Charge to Costs and Expenses	Payments made during nine months ended September 27, 2008	Balance at September 27, 2008
Severance and termination benefits	$	$ 6.3	$ (6.0)	$ 0.3
	$	$ 6.3	$ (6.0)	$ 0.3

In 2008, we recorded pre-tax restructuring charges totaling $6.3 million (December 29, 2007 nil) in connection with severance costs relating to headcount reductions associated with the Cost Reduction Plan. As of September 27, 2008, the remaining severance and termination benefits have been classified as accounts payable and accrued liabilities.

In September 2005, we announced our plan to realign the management of our Canadian and U.S. businesses to a North American basis, rationalize product offerings, eliminate under-performing assets and increase focus on high potential accounts. The following table is a summary of charges and payments under such plan for the nine months ended September 27, 2008:

(in millions of U.S. dollars)	Balance at December 29, 2007	Charge to Costs and Expenses	Payments made during nine months ended September 27, 2008	Balance at September 27, 2008
Severance and termination benefits	$ 1.1	$	$ (1.1)	$
Lease contract termination loss	13.1	0.3	(3.1)	10.3
	14.2	0.3	(4.2)	10.3

As of September 27, 2008, $6.6 million (December 29, 2007 $12.1 million) of our lease contract termination loss liability has been recorded as other long-term liabilities and $3.7 million of the lease contract termination loss liability (December 29, 2007 $2.1 million) has been classified as accounts payable and accrued liabilities.

In 2006 and 2007, we recorded pre-tax restructuring charges totaling $44.8 million in connection with the closure of our facilities at Elizabethtown, Kentucky (Elizabethtown) and at Wyomissing, Pennsylvania (Wyomissing), and severance costs relating to headcount reductions. We completed all of our previously announced cost restructuring programs as of the end of 2007. However, in June 2008, we recorded a $0.3 million lease contract termination charge associated with finalizing the payments related to a termination agreement for the Wyomissing facility.

Asset And Goodwill Impairments

In the third quarter of 2008, we recorded an asset impairment related to the Rights of $27.4 million and a goodwill impairment loss of $69.2 million associated with our United Kingdom operating unit as disclosed in Note 1. In June 2008, we also recorded a $0.4 million asset impairment charge for our Elizabethtown facility. We also increased the value of previously impaired held-for-sale assets by $0.8 million in the third quarter of 2008.

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Note 3 Share-Based Compensation

As of September 27, 2008, we had various share-based compensation plans, which are described below.

The table below summarizes the compensation expenses for the three and nine month periods ended September 27, 2008 and September 29, 2007. This compensation expense was recorded in selling, general and administrative expenses.

	For the three months ended		For the nine months ended	
(in millions of U.S. dollars)	**September 27, 2008**	**September 29, 2007**	**September 27, 2008**	**September 29, 2007**
Stock options	**$ 0.3**	$ 0.4	**$ 0.6**	$ 2.9
Performance share units	**0.6**	(3.7)	**1.7**	(1.6)
Share appreciation rights	**0.2**	0.2	**0.5**	0.5
Restricted stock			**(0.1)**	
CEO award [1]		0.7	**1.9**	0.8
Interim CEO award	**(0.8)**		**0.7**	
Share purchase plan			**0.1**	
Total	**$ 0.3**	$ (2.4)	**$ 5.4**	$ 2.6

[1] Includes expense for restricted shares of $0.4 million and $0.2 million, respectively, for nine month periods ended September 27, 2008 and September 29, 2007.

The table below summarizes the unrecognized compensation expense as of September 27, 2008 and the weighted average years over which such compensation expense is expected to be recognized.

	Unrecognized compensation expense as of September 27, 2008 *(in millions of U.S. dollars)*	**Weighted average years expected to recognize compensation**
Stock options	$ 0.1	0.2
Performance share units	1.9	1.1
Share appreciation rights	0.8	0.5
Interim CEO award	0.2	0.3
Total	$ 3.0	

Common Share Option Plan

Under the 1986 Common Share Option Plan, as amended (the Option Plan), we have reserved a total of 14.0 million common shares for future issuance. Options are granted at a price not less than the fair value of the shares on the date of grant. As of September 27, 2008, there were 7.3 million shares available for issuance under the Option Plan.

There were no common shares issued pursuant to option exercises in the first nine months of 2008. However, in the second quarter and the third quarter of 2008, we granted new board members options to purchase 25,000 shares and 100,000 shares, respectively.

Options granted after September 1, 1998 expire after 7 years. Options granted after July 17, 2001 to the non-management members of the Board of Directors vest immediately. All options are non-transferable and when options are exercised we issue new shares. As a result, these options are dilutive to our shareowners. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model. The estimates are based on four factors: risk-free interest rate, average expected life, expected stock price volatility and expected dividend yield. The risk-free interest rate is based on the implied yield available on zero coupon Government of Canada bonds with an equivalent remaining term. The average expected life of the options represents the estimated period of time until exercise and is based on historical experience of similar awards, giving consideration to the contractual terms, vesting schedules and expectations of future employee behavior. The expected stock price volatility is based on a combination of historical volatility of our stock and the implied volatility of our traded options.

The fair value of each option granted during the quarter and prior quarters is estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions:

	June 28, 2008	August 5, 2008
Risk-free interest rate	3.4%	3.3%
Average expected life (years)	5.0	5.0
Expected volatility	75.5%	76.5%
Expected dividend yield		

Option activity was as follows:

	Shares *(In Thousands)*	Weighted average exercise price *(Canadian$)*
Balance at December 29, 2007	2,368	$ 30.03
Awarded	125	3.32
Forfeited or expired	(1,536)	17.45
Outstanding at September 27, 2008	957	27.87
Exercisable at September 27, 2008	951	$ 27.93

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 Amended and Restated 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. PSUs granted will vest over a term not to exceed three fiscal years. The amendments to the PSU Plan allow for early funding by us under the PSU Plan and clarify the authority of our Board of Directors to accelerate the vesting of all or a portion of the unvested PSUs of all of or any of the participants under the PSU Plan on a Change of Control (as such term is defined in the PSU Plan) irrespective of whether termination of employment has occurred. As of September 27, 2008, the trustee under the PSU Plan had purchased 1.6 million common shares in the open market during 2008 to satisfy our anticipated future liability under the PSU Plan.

Amended and Restated SAR Plan

Under the Amended and Restated SAR Plan, share appreciation rights (SARs) may be awarded to employees and directors of our Company and its subsidiaries. SARs will typically vest on the third anniversary of the grant date. On vesting, each SAR will represent the right to be paid the difference, if any, between the price of our common shares on the date of grant and their price on the vesting date of the SAR. Payments in respect of vested in-the-money SARs will be made in the form of our common shares purchased on the open market by an independent trust with cash contributed by us. If our share price on the date of vesting is lower than on the date of grant, no payment will be made in respect of those vested SARs. Prior to vesting, there are no dividends paid on the SARs, and holders do not

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have the right to vote the common shares represented by their SARs. The amendments to the SAR Plan allow for early funding by us and clarify the authority of our Board of Directors to accelerate vesting of some or all of the SARs of all of or any of the participants under the SAR Plan as determined by the Board of Directors or the Committee (as such term is defined in the SAR Plan) in its sole discretion, irrespective of whether termination or a Change of Control (as such term is defined in the SAR Plan) has occurred.

We recognize the compensation cost of the PSUs and SARs based on the fair value of the grant. We recognize these compensation costs net of a forfeiture rate on a straight-line basis over the requisite service period of the award, which is generally the vesting term. Compensation cost of the PSUs may vary depending on management s estimates of the probability of the performance measures being achieved and the number of PSUs expected to vest.

During the first nine months of 2008, the PSU and SAR activity was as follows:

	Number of PSUs *(In Thousands)*	**Number of SARs** *(In Thousands)*
Balance at December 29, 2007	860	622
Awarded	1,581	
Forfeited	(730)	(82)
Outstanding at September 27, 2008	1,711	540

Subject to meeting certain performance targets and other terms of the PSU Plan, the vesting date for the PSUs awarded in fiscal years 2006 and 2007 will be December 27, 2008 and December 26, 2009, respectively. In 2007, we determined that it was no longer probable that the performance targets for the 2006 and 2007 PSU awards would be achieved and as such, no compensation costs for these awards have been recognized nor are they expected to be recognized in 2008. As of September 27, 2008, no compensation costs were recognized associated with these units because it is not probable that the targets will be met.

In the first quarter of 2008, we awarded a fixed dollar amount of $4.2 million of PSUs (representing 1.5 million shares) to certain executives as part of an executive retention plan. If certain performance targets are met, $1.5 million of these awards will vest as of December 27, 2008 with the remainder vesting as of December 26, 2009. This award is payable in shares and has been accounted for as an equity award in accordance with SFAS 123R, Share-Based Payments (SFAS 123R). We also awarded $0.4 million of individual sign-on awards in the first and third quarters of 2008 that will vest if certain performance targets are met. We recognized $1.7 million of compensation costs associated with these awards for the first nine months of 2008.

CEO Share-Based Compensation

In 2006, Brent Willis, our former Chief Executive Officer, received a net cash award of $0.9 million at the commencement of his employment to purchase shares of the Company. The purchased shares were required to be held for a minimum of three years. As part of his termination agreement, we will no longer enforce the requirement that he hold the shares. For the first three months of 2008, $0.4 million (September 27, 2007 $0.2 million) was recorded as compensation expense. In addition, in 2006, 204,000 common shares with a fair value of $3.2 million, which vest over three years, were granted to Mr. Willis. For 2008, compensation costs of $1.4 million were expensed as compensation expense in the first three months because the shares vested upon termination. On May 16, 2007, one third of his grant vested and, as a result, he received 68,000 common shares, which was recognized as an issuance of share capital. As part of his termination agreement, the remaining 136,000 shares were vested upon his termination and $0.3 million of cash (which was reclassified as a liability award) was paid based on the fair value of such shares.

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We granted to David Gibbons, our Interim Chief Executive Officer, 720,000 restricted stock units on March 24, 2008 of which 360,000 units vested immediately. The remaining 360,000 restricted stock units vest ratably on a monthly basis beginning October 24, 2008, provided Mr. Gibbons is still employed as Interim Chief Executive Officer on the applicable vesting date. This award is recognized as compensation expense over the vesting period. For the nine months ended September 27, 2008, $0.7 million of this award was recorded as compensation expense to reflect the value of the 360,000 vested restricted stock units and the anticipated vesting of the remaining shares as of September 27, 2008. The fair value and compensation costs vary based on share price and this has been accounted for as a liability award in accordance with SFAS 123R.

Restated Executive Incentive Share Purchase Plan

In the second quarter of 2007, our shareowners approved a restated executive incentive share purchase plan (the EISP Plan) which allows officers and senior management executives, as designated by the Human Resources and Compensation Committee, to elect to receive their performance bonus (or a portion thereof) as common share units held on their behalf by an independent trust. If the employee elects to receive common share units, we will provide to the employee an equal number of shares, which vest in three years provided certain corporate performance goals are achieved (Match Portion).

The Match Portion of the performance bonus is estimated based on the employee s election and will be amortized over the service period of approximately four years. During 2007, employees elected to defer a total of $1.1 million under the EISP Plan. The Company recorded an expense of $0.1 million for the nine months ended September 27, 2008 related to the anticipated 2008 and 2007 matching portion of the performance bonus. At September 27, 2008, the awards for the 2007 plan year have been accounted for as an equity award under SFAS 123R because the number of shares have been fixed under the EISP Plan. The awards for the 2008 EISP Plan have been accounted for as a liability award in accordance with SFAS 123R because the number of shares were not fixed as of September 27, 2008.

Note 4 Income Taxes

Income tax recovery was $6.5 million on pretax loss of $117.2 million in the nine months ended September 27, 2008 as compared to an $8.5 million recovery on pretax loss of $4.8 million in the nine months ended September 29, 2007. The following table reconciles income taxes calculated at the basic Canadian corporate rate with the income tax provision:

	For the three months ended		For the nine months ended	
(in millions of U.S. dollars)	**September 27, 2008**	**September 29, 2007**	**September 27, 2008**	**September 29, 2007**
Income tax provision (recovery) based on Canadian statutory rates	**$ (32.6)**	$ (3.9)	**$ (38.3)**	$ (1.7)
Foreign tax rate differential	**(1.8)**	(1.3)	**(3.2)**	(2.3)
Inter-company debt structures	**(0.9)**	(0.6)	**(2.7)**	(2.8)
Non-deductible expenses and other items	**25.9**	(0.5)	**26.4**	(0.7)
(Decrease) increase to other tax liabilities	**(10.1)**	0.4	**(11.1)**	(1.0)
Increase in valuation allowance	**7.3**		**22.4**	
Total	**$ (12.2)**	$ (5.9)	**$ (6.5)**	$ (8.5)

For the nine months ended September 27, 2008, we recognized a benefit of $3.5 million on the reversal of interest and penalties in the income statement. As of September 27, 2008, we had $4.0 million of interest and penalties in the balance sheet. We have classified the interest and penalties as income tax expense.

We are currently under audit by the Canada Revenue Agency for tax years 2000 through 2004 and by the Internal Revenue Service for tax years 2004 through 2007. The amounts that may ultimately be payable by us as a result of these audits are uncertain. We believe that the amounts provided for the outcome of these audits in our tax liabilities are adequate; however, our estimates of tax liabilities for these audits may change materially in the near term as the audits progress.

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During the third quarter of 2008, we reduced our tax reserves by $10.1 million because we recorded a non-cash benefit associated with a tax settlement of approximately $6.2 million and $3.9 million of other items, predominately interest and penalties associated with this tax settlement. We expect to pay $7.2 million of taxes within the next twelve months associated with this tax settlement.

Note 5 Comprehensive (Loss) Income

(in millions of U.S. dollars)	For the three months ended		For the nine months ended	
	September 27, 2008	September 29, 2007	September 27, 2008	September 29, 2007
Net (loss) income	**$ (87.6)**	$ (5.8)	**$ (110.7)**	$ 3.7
Foreign currency translation	**(23.5)**	10.5	**(26.0)**	22.9
Pension liabilities	**0.1**		**0.2**	
	$ (111.0)	$ 4.7	**$ (136.5)**	$ 26.6

Note 6 Net (Loss) Income Per Common Share

Basic net (loss) income per common share is computed by dividing net (loss) income by the weighted average number of common shares outstanding during the period. Diluted net (loss) income per common share is calculated using the weighted average number of common shares outstanding adjusted to include the effect, if dilutive, that would occur if in-the-money stock options were exercised.

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

	Three months ended					
	September 27, 2008			September 29, 2007		
	Net (loss) (numerator) *(in millions of U.S. dollars)*	Weighted Average Shares (denominator) *(in thousands)*	Per-share amount	Net (loss) (numerator) *(in millions of U.S. dollars)*	Weighted Average Shares (denominator) *(in thousands)*	Per-share amount
Basic (loss) income available to common shareholders						
Net (loss) income	**$ (87.6)**	**70,279**	**$ (1.25)**	$ (5.8)	71,871	$ (0.08)
Effect of dilutive securities						
Options						
Diluted (loss) income available to common shareholders						
Net (loss) income	**$ (87.6)**	**70,279**	**$ (1.25)**	$ (5.8)	71,871	$ (0.08)

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	Nine months ended					
	September 27, 2008			September 29, 2007		
	Net (loss) (numerator) *(in millions of U.S. dollars)*	**Weighted Average Shares (denominator)** *(in thousands)*	**Per-share amount**	**Net income (numerator)** *(in millions of U.S. dollars)*	**Weighted Average Shares (denominator)** *(in thousands)*	**Per-share amount**
Basic (loss) income available to common shareholders						
Net (loss) income	**$ (110.7)**	**71,096**	**$ (1.56)**	$ 3.7	71,818	$ 0.05
Effect of dilutive securities						
Options					28	
Diluted (loss) income available to common shareholders						
Net (loss) income	**$ (110.7)**	**71,096**	**$ (1.56)**	$ 3.7	71,846	$ 0.05

At September 27, 2008, options to purchase 956,740 (September 29, 2007 2,318,114) shares of common stock at a weighted average exercise price of C$27.87 (September 29, 2007 C$30.47) per share were outstanding, but were not included in the computation of diluted net (loss) income per share because the options exercise price was greater than the average market price of the common stock. Shares purchased on the open market and held by independent trusts are categorized as treasury shares. We excluded 1,592,393 of treasury shares associated with our PSU plan and held in various trusts in the calculation of basic and diluted earnings per share pursuant to Statement of Financial Accounting Standard No. 128 Earnings Per Share (SFAS 128).

Note 7 Segment Reporting

We produce, package and distribute retailer brand and branded bottled and canned soft drinks, waters, juice-based products, energy drinks and ready-to-drink teas to regional and national grocery, mass-merchandise and wholesale chains in through five reportable segments North America (which includes the United States operating unit and Canada operating unit), United Kingdom (which includes our United Kingdom operating unit and our Continental European operating unit), Mexico, RCI and All Other (which includes our business in Asia). We anticipate closing our active Asian operations by the end of 2008. We changed the reporting segments in the third quarter of 2008 to reflect a change in our management structure and how information is reported to management.

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Business Segments[1]

(in millions of U.S. dollars)	North America	United Kingdom	Mexico	RCI	All Other	Total
For the three months ended September 27, 2008						
External revenue[1]	**$ 296.9**	**$ 101.9**	**$ 16.0**	**$ 5.3**	**$ 0.4**	**$ 420.5**
Depreciation and amortization	**15.3**	**4.1**	**0.7**			**20.1**
Operating (loss) income	**(27.6)**	**(62.7)**	**(1.0)**	**1.2**	**(0.4)**	**$ (90.5)**
Restructuring and asset impairments Note 2	**26.4**	**69.2**			**0.1**	**95.7**
Additions to property, plant and equipment	**20.5**	**1.8**	**0.8**		**(0.6)**	**22.5**
For the nine months ended September 27, 2008						
External revenue[1]	**$ 899.6**	**$ 309.9**	**$ 50.1**	**$ 16.3**	**$ 0.8**	**$ 1,276.7**
Depreciation and amortization	**46.8**	**12.6**	**1.5**			**60.9**
Operating (loss) income	**(43.1)**	**(53.8)**	**(4.6)**	**5.9**	**(1.8)**	**(97.4)**
Restructuring and asset impairments Note 2	**33.5**	**69.2**			**0.1**	**102.8**
Additions to property, plant and equipment	**37.0**	**5.8**	**3.9**			**46.7**
As of September 27, 2008						
Property, plant and equipment	**$ 258.6**	**$ 110.9**	**$ 17.4**	**$**	**$**	**$ 386.9**
Goodwill	**26.5**				**4.5**	**31.0**
Intangibles and other assets	**166.8**	**23.3**	**1.6**		**0.2**	**191.9**
Total assets[2]	**697.5**	**237.8**	**38.7**	**10.6**	**10.8**	**995.4**

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 receivables.

Business Segments[1]

(in millions of U.S. dollars)	North America	United Kingdom	Mexico	RCI	All Other	Total
For the three months ended September 29, 2007						
External revenue[1]	$ 329.9	$ 110.5	$ 18.4	$ 5.7	$	$ 464.5
Depreciation and amortization	13.0	4.4	0.3			17.7
Operating (loss) income	(10.1)	4.2	1.1	2.3	(1.2)	$ (3.7)
Restructuring and asset impairments Note 2	15.0					15.0
Additions to property, plant and equipment	8.2	3.6	2.3			14.1
For the nine months ended September 29, 2007						
External revenue[1]	$ 990.0	$ 301.0	$ 52.4	$ 19.8	$	$ 1,363.2
Depreciation and amortization	38.9	13.4	1.0			53.3
Operating (loss) income	(6.5)	17.3	2.8	7.8	(3.3)	$ 18.1
Restructuring and asset impairments Note 2	24.3			0.1		24.4
Additions to property, plant and equipment	31.0	16.7	2.7			50.4
As of December 29, 2007						
Property, plant and equipment	$ 250.8	$ 125.2	$ 12.4	$	$	$ 388.4
Goodwill	28.0	75.8		4.5		108.3
Intangibles and other assets	208.0	26.4	1.6			236.0
Total assets[2]	732.5	351.1	35.5	11.9	13.4	1,144.4

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 receivables. Also, we performed a reclassification related to North America to conform to the current period s presentation, which includes a reclassification of $4.5 million from accrued liabilities to allowance for doubtful accounts.

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For the nine months ended September 27, 2008, sales to Wal-Mart accounted for 35.8% (September 29, 2007 39.7%) of our total revenues, 42.5% of our North American reporting unit (September 29, 2007 46.6%), 21.6% of our United Kingdom reporting unit (September 29, 2007 25.8%), and 3.2% of our Mexico reporting unit (September 29, 2007 3.8%).

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 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, other than the current commercial paper and commercial borrowing issues in the marketplace. We are not aware of serious liquidity issues with any of our customers in our North American or United Kingdom reporting units. We continue to have collection issues with our customers in Mexico as we tighten our credit terms in that country.

Revenues by geographic area are as follows:

(in millions of U.S. dollars)	**For the three months ended**		**For the nine months ended**	
	September 27, 2008	**September 29, 2007**	**September 27, 2008**	**September 29, 2007**
United States	**$ 255.9**	$ 278.2	**$ 763.8**	$ 850.6
Canada	**55.0**	73.4	**180.8**	202.7
United Kingdom	**101.9**	110.5	**309.9**	301.0
Mexico	**16.0**	18.4	**50.1**	52.4
All Other	**5.7**	5.7	**17.1**	19.8
Elimination[1]	**(14.0)**	(21.7)	**(45.0)**	(63.3)
	$ 420.5	$ 464.5	**$ 1,276.7**	$ 1,363.2

1 Represents intersegment revenue among all countries of which $3.0 million and $9.3 million represent intersegment revenue between North America and our international segments for the three and nine months ended September 27, 2008, respectively.

Revenues are attributed to countries based on the location of the plant.

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

(in millions of U.S. dollars)	**September 27, 2008**	**December 29, 2007**
United States	**$ 205.9**	$ 191.4
Canada	**52.7**	59.4
United Kingdom	**110.9**	125.2
Mexico	**17.4**	12.4
	$ 386.9	$ 388.4

Note 8 Inventories

(in millions of U.S. dollars)	**September 27, 2008**	**December 29, 2007**
Raw materials	**$ 45.9**	$ 50.1
Finished goods	**63.2**	61.4
Other	**18.6**	18.6

	$	**127.7**	$	130.1

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Note 9 Goodwill, Intangibles and Other Assets

	September 27, 2008			December 29, 2007		
(in millions of U.S. dollars)	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net
Intangibles						
Not subject to amortization						
Rights	**$ 53.0**	**$**	**$ 53.0**	$ 80.4	$	$ 80.4
Subject to amortization						
Customer relationships	**162.7**	**68.3**	**94.4**	165.9	60.8	105.1
Trademarks	**25.7**	**13.3**	**12.4**	29.9	13.6	16.3
Information technology	**56.0**	**45.2**	**10.8**	65.5	44.2	21.3
Other	**4.1**	**1.7**	**2.4**	4.0	1.5	2.5
	248.5	**128.5**	**120.0**	265.3	120.1	145.2
	301.5	**128.5**	**173.0**	345.7	120.1	225.6
Other Assets						
Financing costs	**6.4**	**1.3**	**5.1**	4.8	4.1	0.7
Deposits	**7.5**		**7.5**	1.2		1.2
Other	**10.2**	**3.9**	**6.3**	13.3	4.8	8.5
	24.1	**5.2**	**18.9**	19.3	8.9	10.4
Total Intagibles & Other Assets	**$ 325.6**	**$ 133.7**	**$ 191.9**	$ 365.0	$ 129.0	$ 236.0
Goodwill	**$ 31.0**		**$ 31.0**	$ 108.3		$ 108.3

Amortization expense of intangible assets was $6.9 million and $21.9 million, respectively, for the three and nine months ended September 27, 2008 ($5.7 million and $16.6 million for the three and nine months ended September 29, 2007).

In the third quarter of 2008, we recorded an asset impairment related to the Rights of $27.4 million associated with our North American reporting unit as disclosed in Note 1. We expensed $4.5 million of information technology costs in the third quarter of 2008 as disclosed in Note 1.

The decrease in goodwill was due to the write-off of goodwill associated with our United Kingdom operating unit as disclosed in Note 1 and in Note 2.

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Note 10 Debt

Our total debt is as follows:

(in millions of U.S. dollars)		**September 27, 2008**		**December 29, 2007**
8% senior subordinated notes due in 2011[1]	**$**	**269.0**	$	269.0
Senior secured credit facility				102.3
Asset based lending facility		**121.5**		
GE obligation		**30.2**		
Receivables securitization				33.0
Other debt		**12.9**		3.1
Other capital leases		**6.9**		3.9
Total debt		**440.5**		411.3
Less: Short-term borrowings and current debt:				
Asset based lending facility		**121.5**		
Senior secured credit facility				102.3
Receivables securitization				33.0
Other short-term debt[2]		**11.0**		1.7
Total short-term borrowings		**132.5**		137.0
GE obligation - current maturities		**7.2**		
Other capital leases current maturities		**1.6**		2.4
Other debt - current maturities		**1.0**		
Total current debt		**142.3**		139.4
Long-term debt before discount		**298.2**		271.9
Less discount on 8% notes		**(2.4)**		(2.9)
Total long-term debt	**$**	**295.8**	$	269.0

1 Our 8% senior subordinated notes were issued at a discount of 2.75% on December 21, 2001. The notes contain a number of financial covenants including limitations on capital stock repurchases, dividend payments and incurrence of indebtedness. Penalties exist if we redeem the notes prior to December 15, 2009.

2 Primarily includes $11.0 million of checks and electronic payments issued but not cashed.

8% Senior Subordinated Notes due in 2011

We have outstanding 8% senior subordinated notes (Notes), which are due on December 15, 2011. As of September 27, 2008, the principal amount of the Notes was $269.0 million (December 29, 2007- $269.0). The issuer of the Notes is Cott Beverages Inc., but we and most of our U.S., Canadian and United Kingdom subsidiaries guarantee the Notes. The interest on the Notes is payable semi-annually on June 15th and December 15th .

Asset Based Lending Facility

On March 31, 2008, we entered into an agreement which created a new asset-based lending credit facility (the ABL Facility) that provides for financing in the United States, Canada, the United Kingdom and Mexico. Cott Corporation, Cott Beverages Inc. and Cott Beverages Limited are borrowers under the ABL Facility. The debt under the ABL Facility is guaranteed by most of our U.S., United Kingdom, Canadian and Mexican subsidiaries. The ABL Facility replaced our former senior secured credit facilities in the United States, Canada, the United Kingdom, and Mexico and our receivables securitization facility in the United States, the latter of which was terminated on March 28, 2008. At that time, there were no amounts due under the receivables securitization facility. On March 31, 2008, we paid off the remaining balance and terminated the former senior secured credit facility.

The ABL Facility is a five-year revolving facility of up to $250 million. The five-year term runs through March 2013 but is subject to the refinancing of the Notes; the new ABL Facility will mature early if the Notes have not been refinanced six months prior to their maturity (i.e. June 2011) on terms and conditions specified in the ABL Facility.

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The amount available under the ABL Facility is dependent on a borrowing base calculated as a percentage of the value of eligible inventory, accounts receivable and property, plant and equipment as of the end of each fiscal month, effective beginning on the 15th of the following month. The ABL Facility has subfacilities for letters of credit and swingline loans and geographical sublimits for Canada ($40.0 million) and the United Kingdom ($75.0 million).

The interest rate margin on loans under the ABL Facility was fixed for the first six months of the term. Beginning September 29, 2008, the interest rate on LIBOR and prime loans varies quarterly based on our average aggregate availability. The interest rate on LIBOR (or other fixed rate) loans for the first six months was LIBOR (or such other fixed rate) plus 2.50%. Prime (or other variable rate) loans during the first six months bore an interest rate of prime (or such other variable rate) plus 1.00%.

Beginning on September 29, 2008, the interest rate on LIBOR and Prime loans is now based on average aggregate availability as follows:

(in millions of U.S. dollars)	**Average Aggregate Availability**	**ABR Spread**	**Canadian Prime Spread**	**Eurodollar Spread**	**LIBOR Spread**
	Over $175	0.50%	0.50%	2.00%	2.00%
	$100 -175	0.75%	0.75%	2.25%	2.25%
	$50 - 100	1.00%	1.00%	2.50%	2.50%
	Under $50	1.25%	1.25%	2.75%	2.75%

The interest rate for the ABL Facility as of September 27, 2008 was 5.0%. Most of our borrowings as of September 27, 2008 were LIBOR borrowings. However, in October 2008, we changed all of our borrowings to prime based (ABR) borrowings. Our commitment fee also changes based on the average utilization of the ABL. This fee ranges from 0.25% per annum to 0.375% per annum based on availability. We currently pay 0.375% per annum.

The Company incurred $5.1 million of financing fees in connection with the ABL Facility. The financing fees are being amortized over a five year period which represents the life of the ABL Facility.

Covenant Compliance

ABL Facility

We and our restricted subsidiaries are subject to a number of business and financial covenants and events of default. The debt under the ABL Facility is guaranteed by most of our U.S., United Kingdom, Canadian and Mexican subsidiaries. The ABL Facility contains customary limitations on indebtedness, liens, mergers, consolidations, liquidations and sales, payment of dividends, investments, loans and advances, optional payments and modifications of subordinated and other debt instruments, and transactions with affiliates. Events of default under the ABL Facility include nonpayment, inaccuracy of representations and warranties, violation of covenants, cross-default to other indebtedness, bankruptcy, material judgments, and a change of control of the Company. Upon the occurrence of an event of default, the lenders may terminate the commitments and declare all loans due and payable. We have agreed to a mandatory prepayment provision (but without a reduction of the commitment), subject to certain exceptions, upon a sale or transfer of assets of a borrower or guarantor, upon the sale of any common stock or other equity, upon the receipt of proceeds from the issuance of any indebtedness, upon the occurrence of an availability shortfall under the revolver, or upon receipt of insurance proceeds or condemnation awards.

The ABL Facility also contains a covenant requiring a minimum fixed charge coverage ratio of 1.1 to 1.0 effective when and if excess availability is less than $30.0 million. If this covenant had been triggered as of September 27, 2008, we would not have been in compliance. As of September 27, 2008, our excess availability under the ABL facility was $63.9 million. 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. We have agreed to maintain excess availability of at least $15.0 million.

8% Senior Subordinated Notes due 2011

The indenture respecting the Notes contains a number of business and financial covenants and events of default that apply to the issuer and the guarantors. In addition to us, the guarantors are, in general, the subsidiaries organized in Canada, the U.S., and the United Kingdom. Events of default or triggers for prepayment provided for under the indenture include, among others: (i) a change of control of us in certain circumstances; (ii) unsatisfied judgments or cross default or cross acceleration to other indebtedness in excess of $10.0 million, in the case of the indenture; (iii) our insolvency or that of the restricted subsidiaries; and (iv) covenant default under the credit facilities or indenture. Some of the more material financial covenants are discussed below.

The indenture respecting the Notes has numerous covenants that are applicable to Cott Beverages Inc. and the guarantors. We can only make restricted payments, such as paying dividends, buying back stock or making certain investments, if our fixed charge coverage ratio is at least 2.0 to 1.0. Even then, we can only make those restricted payments in an amount that is no greater than 50% of our consolidated net income subject to certain adjustments. Certain other investments, like those not exceeding $60.0 million in the aggregate, may be made without satisfying the restricted payments test.

We can only incur additional debt or issue preferred stock, other than certain specified debt, if our fixed charge coverage ratio is greater than 2.0 to 1.0. As of September 27, 2008, our fixed charge coverage ratio under the indenture was greater than 2.0 to 1.0. Subject to some exceptions, asset sales may only be made where the sale price is equal to the fair market value of the asset sold and we receive at least 75% of the proceeds in cash. There are also limitations on what we may do with the sale proceeds such that we may be required to pay down debt or reinvest the proceeds in enumerated business uses within a specified period of time.

There are further restrictions in several of the covenants, such as a complete prohibition on paying any dividends if we are in default under the indenture. Many of the covenants also effectively limit transactions with our unrestricted subsidiaries or non-guarantor entities.

We have been in compliance with all of the covenants under the Notes and there have been no amendments to any such covenants since they were issued.

The events of default in the Notes indenture related to other indebtedness arise only if there is a failure to pay principal, interest or premiums of such other indebtedness after the expiration of any applicable grace period, or if there has been acceleration in payment of such other indebtedness, in each case, in excess of a threshold amount. As at September 27, 2008, these conditions of default did not exist with respect to any other indebtedness.

Note 11 Contingencies and Commitments

We are subject to various claims and legal proceedings with respect to matters such as governmental regulations, income taxes, other taxes (including value added 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 of operations or cash flows.

We had $12.6 million in standby letters of credit outstanding as of September 27, 2008 ($6.5 million December 29, 2007).

In January 2005, we were named as one of many defendants in a class action suit alleging the unauthorized use by the defendants of container deposits and the imposition of recycling fees on consumers. On June 2, 2006, the British Columbia Supreme Court granted the summary trial application, which resulted in the dismissal of the plaintiffs action against us and the other defendants. On June 26, 2006, the plaintiffs appealed the dismissal of the action to the British Columbia Court of Appeals, which appeal was denied, and an appeal to the Supreme Court of Canada was rejected on December 20, 2007. In February 2005, similar class action claims were filed in a number of other Canadian provinces. Claims filed in Quebec have since been discontinued, but is unclear how the dismissal of the British Columbia case will impact the other cases.

We have a foreign non-income tax issue for which we have recorded a charge of $0.5 million. This charge was determined in accordance with Statement of Financial Accounting Standards No. 5, Accounting for Contingencies, and represents our current best estimate of probable loss.

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Note 12 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 shares of our common shares on the open market for $6.4 million, of which 2.0 million shares or $5.4 million are to be used to satisfy our anticipated future liability under the PSU Plan and the EISP Plan and 0.3 million shares or $1.0 million are held in trust for our employees as part of the deferred compensation arrangement under the EISP Plan. See Note 3 for further details of these two plans.

Note 13 Other Income

(in millions of U.S. dollars)	For the three months ended September 27, 2008	September 29, 2007	For the nine months ended September 27, 2008	September 29, 2007
Foreign exchange (gain) loss	**$ 0.3**	$ (0.8)	**$ 0.1**	$ (3.1)
Insurance reimbursement			**(4.5)**	
Other loss (gain)	**0.1**		**(1.4)**	
Total	**$ 0.4**	$ (0.8)	**$ (5.8)**	$ (3.1)

In the second quarter of 2008, we recorded $4.5 million as business interruption recovery for some of the costs related to our voluntary product recall in the United Kingdom through claims under our insurance coverage.

Note 14 Guarantor Subsidiaries

The Notes issued by our wholly owned subsidiary Cott Beverages Inc. are unconditionally guaranteed on a senior subordinated 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.

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.

Cott Corporation

Consolidating Statements of Operations

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

	For the three months ended September 27, 2008					
	Cott Corporation	Cott Beverages Inc.	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Elimination Entries	Consolidated
Revenue	$ 54.9	$ 238.7	$ 103.5	$ 36.4	$ (13.0)	$ 420.5
Cost of sales	45.8	218.0	89.4	32.6	(13.0)	372.8
Gross profit	9.1	20.7	14.1	3.8		47.7
Selling, general and administrative expenses	9.3	21.3	7.9	3.9		42.4
Loss on disposal of property, plant and equipment		0.1				0.1
Restructuring, asset impairments and other charges:						
Restructuring and other	0.1	(0.2)				(0.1)
Goodwill impairments			69.2			69.2
Asset impairments		26.6				26.6
Operating (loss) income	(0.3)	(27.1)	(63.0)	(0.1)		(90.5)
Other expense (income), net	(0.3)	1.2	(0.7)	0.2		0.4
Intercompany Interest expense (income), net	(3.0)	3.2	(0.2)			0.0
Interest expense (income), net	0.1	8.7		(0.2)		8.6
Minority interest				0.3		0.3
Income (loss) before income taxes (recovery) and equity (loss) income	2.9	(40.2)	(62.1)	(0.4)		(99.8)
Income taxes (recovery) expense	1.2	(19.1)	4.4	1.3		(12.2)
Equity (loss) income	(89.3)	1.2	(30.6)		118.7	
Net (loss) income	$ (87.6)	$ (19.9)	$ (97.1)	$ (1.7)	$ 118.7	$ (87.6)

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Cott Corporation

Consolidating Statements of Operations

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

	For the nine months ended September 27, 2008					
	Cott Corporation	Cott Beverages Inc.	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Elimination Entries	Consolidated
Revenue	$ 180.7	$ 715.1	$ 314.5	$ 108.0	$ (41.6)	$ 1,276.7
Cost of sales	149.0	651.4	274.0	98.4	(41.6)	1,131.2
Gross profit	31.7	63.7	40.5	9.6		145.5
Selling, general and administrative expenses	27.7	74.2	26.6	11.2		139.7
Loss (gain) on disposal of property, plant and equipment	0.3	0.6	(0.5)			0.4
Restructuring, asset impairments and other charges:						
Restructuring and other	1.0	5.6				6.6
Goodwill impairments			69.2			69.2
Asset impairments		27.0				27.0
Operating (loss) income	2.7	(43.7)	(54.8)	(1.6)		(97.4)
Other expense (income), net	(0.2)	(0.2)	(5.6)	0.2		(5.8)
Intercompany Interest expense (income), net	(9.7)	9.7				
Interest expense (income), net	0.3	23.8		0.2		24.3
Minority interest				1.3		1.3
Income (loss) before income taxes (recovery) and equity (loss) income	12.3	(77.0)	(49.2)	(3.3)		(117.2)
Income taxes (recovery) expense	3.7	(16.3)	5.6	0.5		(6.5)
Equity (loss) income	(119.3)	2.1	(67.5)		184.7	
Net (loss) income	$ (110.7)	$				