COTT CORP /CN/
Form 10-Q
August 09, 2016
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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: July 2, 2016

¨ **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	**L4V 1H6**
MISSISSAUGA, ONTARIO, CANADA	
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 x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 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 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. (Check one):

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 August 2, 2016
Common Shares, no par value per share	137,860,725 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		For the Six Months Ended	
	July 2, 2016	**July 4, 2015**	**July 2, 2016**	**July 4, 2015**
Revenue, net	**$ 765.0**	$ 779.8	**$ 1,463.4**	$ 1,489.6
Cost of sales	**512.4**	539.2	**996.8**	1,047.7
Gross profit	**252.6**	240.6	**466.6**	441.9
Selling, general and administrative expenses	**202.1**	190.2	**399.1**	378.7
Loss on disposal of property, plant & equipment, net	**2.2**	0.2	**3.1**	1.6
Acquisition and integration expenses	**11.7**	4.1	**13.1**	8.8
Operating income	**36.6**	46.1	**51.3**	52.8
Other expense (income), net	**3.0**	1.0	**0.8**	(9.4)
Interest expense, net	**27.0**	27.9	**54.8**	55.6
Income (loss) before income taxes	**6.6**	17.2	**(4.3)**	6.6
Income tax benefit	**2.3**	1.1	**11.3**	10.5
Net income	**$ 8.9**	$ 18.3	**$ 7.0**	$ 17.1
Less: Net income attributable to non-controlling interests	**1.5**	1.7	**2.9**	3.0
Less: Accumulated dividends on convertible preferred shares		1.8		4.5
Less: Accumulated dividends on non-convertible preferred shares		0.6		1.4
Less: Foreign exchange impact on redemption of preferred shares		12.0		12.0
Net income (loss) attributed to Cott Corporation	**$ 7.4**	$ 2.2	**$ 4.1**	$ (3.8)
Net income (loss) per common share attributed to Cott Corporation				
Basic	**$ 0.06**	$ 0.02	**$ 0.03**	$ (0.04)
Diluted	**$ 0.06**	$ 0.02	**$ 0.03**	$ (0.04)

Weighted average common shares outstanding (in thousands)								
Basic		**123,239**		99,573		**118,253**		96,384
Diluted		**124,180**		100,165		**119,038**		96,384
Dividends declared per share	**$**	**0.06**	$	0.06	**$**	**0.12**	$	0.12

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

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Cott Corporation

Condensed Consolidated Statements of Comprehensive (Loss) Income

(in millions of U.S. dollars)

Unaudited

		For the Three Months Ended		For the Six Months Ended	
		July 2, 2016	**July 4, 2015**	**July 2, 2016**	**July 4, 2015**
Net income		**$ 8.9**	$ 18.3	**$ 7.0**	$ 17.1
Other comprehensive (loss) income:					
Currency translation adjustment		**(14.7)**	24.6	**(17.9)**	(1.3)
Pension benefit plan, net of tax	1	**0.1**	0.4	**0.2**	0.5
Unrealized gain (loss) on derivative instruments, net of tax	2	**2.6**	(2.8)	**3.1**	(2.8)
Total other comprehensive (loss) income		**(12.0)**	22.2	**(14.6)**	(3.6)
Comprehensive (loss) income		**$ (3.1)**	$ 40.5	**$ (7.6)**	$ 13.5
Less: Comprehensive income attributable to non-controlling interests		**1.5**	1.7	**2.9**	3.0
Less: Accumulated dividends on convertible preferred shares			1.8		4.5
Less: Accumulated dividends on non-convertible preferred shares			0.6		1.4
Less: Foreign exchange impact on redemption of preferred shares			12.0		12.0
Comprehensive (loss) income attributed to Cott Corporation		**$ (4.6)**	$ 24.4	**$ (10.5)**	$ (7.4)

1. Net of the effect of $0.1 million and $0.2 million tax benefit for the three and six months ended July 2, 2016, respectively, and net of the effect of $0.1 million and $0.2 million tax expense for the three and six months ended July 4, 2015, respectively.
2. Net of the effect of $1.2 million and $1.4 million tax benefit for the three and six months ended July 2, 2016, respectively, and net of the effect of $1.0 million tax benefit for the three and six months ended July 4, 2015.

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

	July 2, 2016	January 2, 2016
ASSETS		
Current assets		
Cash & cash equivalents	**$ 249.5**	$ 77.1
Restricted cash	**503.1**	
Accounts receivable, net of allowance of $7.9 ($9.2 as of January 2, 2016)	**339.5**	293.3
Income taxes recoverable	**0.9**	1.6
Inventories	**247.1**	249.4
Prepaid expenses and other current assets	**24.1**	17.2
Total current assets	**1,364.2**	638.6
Property, plant & equipment, net	**770.2**	769.8
Goodwill	**777.4**	759.6
Intangibles and other assets, net	**690.4**	711.7
Deferred tax assets	**12.8**	7.6
Total assets	**$ 3,615.0**	$ 2,887.3
LIABILITIES AND EQUITY		
Current liabilities		
Short-term borrowings	**$**	$ 122.0
Current maturities of long-term debt	**3.6**	3.4
Accounts payable and accrued liabilities	**468.0**	437.6
Total current liabilities	**471.6**	563.0
Long-term debt	**2,013.3**	1,525.4
Deferred tax liabilities	**63.7**	76.5
Other long-term liabilities	**72.5**	76.5
Total liabilities	**2,621.1**	2,241.4
Equity		
Common shares, no par - 137,860,725 (January 2, 2016 - 109,695,435) shares issued	**904.9**	534.7
Additional paid-in-capital	**54.6**	51.2
Retained earnings	**119.0**	129.6
Accumulated other comprehensive loss	**(90.8)**	(76.2)
Total Cott Corporation equity	**987.7**	639.3

Non-controlling interests		**6.2**		6.6
Total equity		**993.9**		645.9
Total liabilities and equity	**$**	**3,615.0**	$	2,887.3

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 Six Months Ended	
	July 2, 2016	July 4, 2015	July 2, 2016	July 4, 2015
Operating Activities				
Net income	**$ 8.9**	$ 18.3	**$ 7.0**	$ 17.1
Depreciation & amortization	**53.5**	58.2	**106.0**	115.6
Amortization of financing fees	**1.3**	1.1	**2.5**	2.4
Amortization of senior notes premium	**(1.5)**	(1.4)	**(2.9)**	(2.9)
Share-based compensation expense	**3.8**	3.7	**6.2**	6.1
Benefit for deferred income taxes	**(2.1)**	(5.2)	**(12.9)**	(16.9)
Loss on disposal of property, plant & equipment, net	**2.2**	0.2	**3.1**	1.6
Other non-cash items	**2.6**	(6.3)	**0.9**	(16.5)
Change in operating assets and liabilities, net of acquisitions:				
Accounts receivable	**(25.7)**	(19.4)	**(47.4)**	(60.7)
Inventories	**4.6**	6.1	**1.3**	(4.9)
Prepaid expenses and other current assets	**(3.4)**	(4.5)	**(7.8)**	25.8
Other assets	**(1.2)**	(1.3)	**1.2**	(3.7)
Accounts payable and accrued liabilities, and other liabilities	**44.6**	25.2	**14.6**	10.0
Income taxes recoverable		1.0	**(2.9)**	1.6
Net cash provided by operating activities	**87.6**	75.7	**68.9**	74.6
Investing Activities				
Acquisitions, net of cash received	**(1.8)**	(0.5)	**(46.2)**	(0.5)
Additions to property, plant & equipment	**(33.2)**	(29.9)	**(62.7)**	(57.2)
Additions to intangibles and other assets	**(1.0)**	(0.1)	**(3.3)**	(2.2)
Proceeds from sale of property, plant & equipment and sale-leaseback	**0.2**	40.1	**2.9**	40.5
Increase in restricted cash	**(2.8)**		**(2.8)**	
Net cash (used in) provided by investing activities	**(38.6)**	9.6	**(112.1)**	(19.4)
Financing Activities				
Payments of long-term debt	**(0.4)**	(1.1)	**(1.5)**	(1.9)
Borrowings under ABL	**123.9**	654.1	**621.1**	748.9
Payments under ABL	**(187.7)**	(674.4)	**(746.0)**	(777.2)

Distributions to non-controlling interests	**(1.0)**	(1.6)	**(3.3)**	(3.6)
Issuance of common shares	**220.1**	142.5	**364.2**	142.6
Financing fees		(0.2)		(0.2)
Preferred shares repurchased and cancelled		(148.8)		(148.8)
Common shares repurchased and cancelled			**(1.1)**	(0.7)
Dividends to common and preferred shareholders	**(7.4)**	(9.0)	**(14.7)**	(18.0)
Payment of deferred consideration for acquisitions		(2.5)		(2.5)
Net cash provided by (used in) financing activities	**147.5**	(41.0)	**218.7**	(61.4)
Effect of exchange rate changes on cash	**(2.1)**	0.2	**(3.1)**	(1.0)
Net increase (decrease) in cash & cash equivalents	**194.4**	44.5	**172.4**	(7.2)
Cash & cash equivalents, beginning of period	**55.1**	34.5	**77.1**	86.2
Cash & cash equivalents, end of period	**$ 249.5**	$ 79.0	**$ 249.5**	$ 79.0
Supplemental Non-cash Investing and Financing Activities:				
Long-term debt funded to escrow	**$ 498.7**	$	$ 498.7	$
Additions to property, plant & equipment through accounts payable and accrued liabilities	**10.2**	3.4	11.4	5.5
Acquisition related deferred consideration		2.5		11.4
Accrued deferred financing fees	**9.8**	0.2	9.8	0.2
Supplemental Disclosures of Cash Flow Information:				
Cash paid for interest	**$ 36.1**	$ 47.1	**$ 55.3**	$ 55.4
Cash (received) paid for income taxes, net	**$ (0.1)**	$ 1.6	**$ 4.1**	$ 2.1

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 Common Shares *(In thousands)*	**Common Shares**	**Additional Paid-in-Capital**	**Retained Earnings**	**Accumulated Other Comprehensive (Loss) Income**	**Non-Controlling Interests**	**Total Equity**
Balance at January 3, 2015	**93,073**	**$ 388.3**	**$ 46.6**	**$ 158.1**	**$ (51.0)**	**$ 6.9**	**$ 548.9**
Common shares repurchased and cancelled	(87)	(0.7)					(0.7)
Common shares issued - Equity Incentive Plan	384	1.9	(1.8)				0.1
Common shares issued - Equity issuance	16,215	142.6					142.6
Share-based compensation			6.1				6.1
Common shares dividend				(12.1)			(12.1)
Redemption of preferred shares				(12.0)			(12.0)
Distributions to non-controlling interests						(3.6)	(3.6)
Comprehensive (loss) income							
Currency translation adjustment					(1.3)	0.1	(1.2)
Pension benefit plan, net of tax					0.5		0.5
Unrealized loss on derivative instruments, net of tax					(2.8)		(2.8)
Preferred shares dividend				(5.9)			(5.9)
Net income				14.1		3.0	17.1
Balance at July 4, 2015	**109,585**	**$ 532.1**	**$ 50.9**	**$ 142.2**	**$ (54.6)**	**$ 6.4**	**$ 677.0**
Balance at January 2, 2016	**109,695**	**$ 534.7**	**$ 51.2**	**$ 129.6**	**$ (76.2)**	**$ 6.6**	**$ 645.9**
Common shares repurchased and cancelled	(101)	(1.1)					(1.1)
Common shares issued - Equity Incentive Plan	353	2.7	(2.7)				
Common shares issued - Equity issuance	27,853	368.0					368.0
Common shares issued - Dividend Reinvestment Plan	9	0.1					0.1

Common shares issued - Employee Stock Purchase Plan	52	0.5	(0.1)				0.4
Share-based compensation			6.2				6.2
Common shares dividend				(14.7)			(14.7)
Distributions to non-controlling interests						(3.3)	(3.3)
Comprehensive (loss) income							
Currency translation adjustment					(17.9)		(17.9)
Pension benefit plan, net of tax					0.2		0.2
Unrealized gain on derivative instruments, net of tax					3.1		3.1
Net income				4.1		2.9	7.0
Balance at July 2, 2016	**137,861**	**$ 904.9**	**$ 54.6**	**$ 119.0**	**$ (90.8)**	**$ 6.2**	**$ 993.9**

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. With the acquisitions of DS Services of America, Inc. (DSS) in December 2014 and the Eden Springs business (Eden) in August 2016, we combined leading providers in the direct-to-consumer beverage services industry with our traditional business, one of the world s largest producers of beverages on behalf of retailers, brand owners and distributors. We now have the largest volume-based national presence in the North American and European home and office delivery (HOD) industry for bottled water and one of the five largest national market share positions in the U.S. and European office coffee services (OCS) and filtration services industries. We reach over 2.3 million customers through routes located across North America and Europe supported by strategically located sales and distribution facilities and fleets. Our broad portfolio allows us to offer, on a direct-to-consumer basis, a variety of bottled water, coffee, brewed tea, water dispensers, coffee and tea brewers and filtration equipment. We believe we have the broadest distribution network in the direct-to-consumer beverage services industry in North America and Europe, which enables us to efficiently service residences and small and medium size businesses, as well as large corporations, universities and government agencies.

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 accruals) considered necessary for a fair statement of our results of operations for the interim periods reported and of our financial condition as of the date of the interim balance sheet have been included. The consolidated balance sheet as of January 2, 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 January 2, 2016 (2015 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 2015 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 2015 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 $503.1 million as of July 2, 2016 on our consolidated balance sheet and consists of the proceeds from the issuance of the 5.500% senior notes due 2024 that are held in escrow to fund a portion of the purchase price for the acquisition of Eden (see Note 16 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 DSS branch locations to the end-user consumer of those products which are recorded in selling, general and administrative (SG&A) expenses and were $78.8 million and $156.6 million for the three and six months ended July 2, 2016 and $69.7 million and $134.7 million for the three and six months ended July 4, 2015, respectively. Finished goods inventory costs include the cost of direct labor and materials and the applicable share of overhead expense chargeable to production.

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Recently Issued Accounting Pronouncements

Changes to GAAP are established by the Financial Accounting Standards Board (FASB) in the form of Accounting Standards Updates (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. We are currently assessing the impact of adoption of this standard on 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 2016-09 Compensation - Stock Compensation (Topic 718)

In March 2016, the FASB amended its guidance to simplify several areas of accounting for share-based compensation arrangements. The amendments in this update cover such areas as the recognition of excess tax benefits and deficiencies, the classification of those excess tax benefits on the consolidated statements of cash flows, an accounting policy election for forfeitures, the amount an employer can withhold to cover income taxes and still qualify for equity classification and the classification of those taxes paid on the consolidated statements of cash flows. The amendments in this update are effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years, with early adoption permitted. This guidance will be applied either prospectively, retrospectively or using a 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.

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 judgments 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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Note 2 Acquisitions

Aquaterra Acquisition

On January 4, 2016 (the Acquisition Date), the Company acquired 100% of the share capital of Aquaterra Corporation (Aquaterra) pursuant to a Share Purchase Agreement dated December 7, 2015 (the Aquaterra Acquisition). Aquaterra operates a Canadian direct-to-consumer HOD bottled water and OCS business. The aggregate purchase price paid by the Company in the Aquaterra Acquisition was approximately C$61.2 million (approximately U.S. $44.0 million). The purchase price was paid at closing in cash and was subject to a customary post-closing adjustment of actual working capital. The post-closing adjustment was completed in May 2016 and resulted in the payment of $0.5 million by the former owners of Aquaterra to the Company.

This acquisition supports the Company s strategy to become a more diversified beverage provider across multiple channels and geographies, as well as the Company s continuing consolidation of the higher margin HOD bottled water and OCS categories. The Company has accounted for this transaction as a business combination in accordance with authoritative accounting guidance.

The adjusted purchase consideration of $44.0 million was allocated to the assets acquired and liabilities assumed based on their estimated fair values as of the Acquisition Date. A preliminary allocation of the purchase price has been made to major categories of assets and liabilities based on management s estimates. The table below presents the preliminary purchase price allocation of the estimated acquisition date fair values of the assets acquired and the liabilities assumed and shows the allocation after the post-closing adjustment:

(in millions of U.S. dollars)	**Acquired Value**	**Adjustments**	**As reported at July 2, 2016**
Cash	$ 1.3	$	$ 1.3
Accounts receivable	6.2		6.2
Inventories	2.1		2.1
Prepaid expenses and other current assets	1.3		1.3
Property, plant & equipment	13.4		13.4
Goodwill	19.2	(0.5)[1]	18.7
Intangible and other assets	17.4		17.4
Accounts payable and accrued liabilities	(15.8)		(15.8)
Long-term debt	(0.3)		(0.3)
Other long-term liabilities	(0.3)		(0.3)
Total	$ 44.5	$ (0.5)	$ 44.0

1. The working capital adjustment was reflected in the preliminary allocation of the purchase price to the assets acquired and liabilities assumed as reported at April 2, 2016. When the post-closing adjustment was completed in May 2016, an adjustment to goodwill was made as reported at July 2, 2016.

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

The amount of revenues and net income related to the Aquaterra Acquisition included in the Company s consolidated statement of operations for the period from the Acquisition Date through July 2, 2016 were $31.0 million and $1.3 million, respectively. During the six months ended July 2, 2016, the Company incurred $0.4 million of acquisition related costs associated with the Aquaterra Acquisition, which are included in acquisition and integration expenses in the consolidated statements of operations.

Intangible Assets

In our preliminary determination of the fair value of the intangible assets, we considered, among other factors, the best use of acquired assets, analysis of historic financial performance and estimates of future performance of Aquaterra s products. The estimated fair values of identified intangible assets were calculated considering market participant expectations and using an income approach and estimates and assumptions provided by Aquaterra s and our management. The following table sets forth the components of identified intangible assets associated with the Aquaterra Acquisition and their estimated weighted average useful lives:

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(in millions of U.S. dollars)	Estimated Fair Market Value	Estimated Useful Life
Customer relationships	$ 10.0	12 years
Trademarks and trade names	6.7	Indefinite
Total	$ 16.7	

Customer relationships represent future projected revenue that will be derived from sales to existing customers of Aquaterra.

Trademark and trade names represent the future projected cost savings associated with the premium and brand image obtained as a result of owning the trademark or trade name as opposed to obtaining the benefit of the trademark or trade name through a royalty or rental fee.

Goodwill

The principal factor that resulted in recognition of goodwill was that the purchase price for the Aquaterra Acquisition was based in part on cash flow projections assuming the reduction of administration costs and the integration of acquired customers and products into our operations, which is of greater value than on a standalone basis. The goodwill recognized as part of the Aquaterra Acquisition was allocated to the DSS reporting segment, none of which is expected to be tax deductible.

Other HOD Water Business Acquisitions

During the six months ended July 2, 2016, the Company, through its DSS reporting segment, acquired five HOD water businesses for cash purchase prices aggregating to $3.5 million. The Company has accounted for these transactions as business combinations in accordance with GAAP. These tuck-in acquisitions support the Company s ongoing objective of leveraging its assets and further strengthening its customer density. Net assets, including goodwill, acquired have been allocated to the DSS reporting segment. All of the goodwill recorded is expected to be tax deductible.

Note 3 Share-Based Compensation

During the six months ended July 2, 2016, the Company granted 383,670 Performance-based RSUs, 201,921 Time-based RSUs, and 1,163,868 Stock Options.

The Performance-based RSUs are restricted share units with performance-based vesting granted under the Amended and Restated Cott Corporation Equity Incentive Plan (the Equity Incentive Plan). These Performance-based RSUs vest at the end of the performance period, or the last day of our 2018 fiscal year. The shares ultimately awarded will be based upon the performance percentage, which can range from 0% to 200% of the awards granted. The Performance-based RSUs ultimately awarded upon vesting are based primarily on the Company s achievement of a specified level of cumulative pre-tax income for the performance period. The weighted-average grant date fair value of $11.28 per share for the Performance-based RSUs was based on the closing market price of the Company s common shares on the date of grant on the New York Stock Exchange (NYSE).

The Time-based RSUs are restricted share units with time-based vesting granted under the Equity Incentive Plan. The Time-based RSUs vest ratably in three equal annual installments on the first, second and third anniversaries of the date of grant and are based upon a service condition. The weighted-average grant date fair value of $11.29 per share for the Time-based RSUs was based on the closing market price of the Company s common shares on the date of grant on the NYSE.

The Stock Options are non-qualified stock options granted under the Equity Incentive Plan and will vest ratably in three equal installments on the first, second and third anniversaries of the date of grant, are based upon a service condition and have a ten year contractual term. The weighted-average fair value of $2.94 per option for the Stock Options was based on the estimate of fair value on the date of grant using the Black-Scholes option pricing model and related assumptions.

During the three months ended July 2, 2016, the Company also granted 62,046 common shares to the non-management members of our board of directors under the Equity Incentive Plan with a grant date fair value of approximately $0.9 million. The common shares were issued in consideration of the directors annual board retainer fee and vested upon issuance.

The Company s share-based compensation expense was $6.2 million and $6.1 million for the six months ended July 2, 2016 and July 4, 2015, respectively, and was recorded in SG&A expenses in our consolidated statements of operations.

Note 4 Income Taxes

Income tax benefit was $11.3 million on pre-tax loss of $4.3 million for the six months ended July 2, 2016, as compared to an income tax benefit of $10.5 million on pre-tax income of $6.6 million for the six months ended July 4, 2015. This is the result of recognizing income tax benefit of pre-tax losses in certain jurisdictions that is not offset by income tax expense in other jurisdictions with pre-tax income.

As we have significant global permanent book to tax differences that exceed our estimated income before taxes on an annual basis, small changes in our estimated income before taxes or changes in year to date income before taxes between jurisdictions can cause material fluctuations in our estimated effective tax rate on a quarterly basis. We have therefore calculated our quarterly income tax provision for the fiscal periods ended July 2, 2016 and July 4, 2015 on a discrete basis for the United States rather than using the estimated annual effective tax rate for the year, in accordance with ASC 740, *Income Taxes.*

The Company evaluates positive and negative evidence on a regular basis to determine if a valuation allowance should be established in our various tax jurisdictions. The interest expense generated by the issuance of our 5.500% senior notes due 2024 (see Note 10 to the consolidated financial statements) in connection with the acquisition of Eden, which closed on August 2, 2016 (see Note 16 to the consolidated financial statements), will lower future projections of Canadian taxable income. Due to the change in projections, the Company may establish a valuation allowance of approximately $7.2 million in the third quarter of fiscal year 2016 against its Canadian tax assets.

Note 5 Common Shares and Net Income (Loss) Per Common Share

Common Shares

On June 29, 2016, we completed a public offering, on a bought deal basis, of 15,088,000 common shares at a price of $15.25 per share fo