COTT CORP /CN/
Form 10-Q
May 03, 2013
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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: March 30, 2013

¨ **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the transition period from _________ to _________

Commission File Number: 001-31410

COTT CORPORATION

(Exact name of registrant as specified in its charter)

CANADA	**98-0154711**
(State or Other Jurisdiction of Incorporation or Organization)	**(IRS Employer Identification No.)**
6525 VISCOUNT ROAD	
MISSISSAUGA, ONTARIO	
5519 WEST IDLEWILD AVE	**L4V 1H6**
TAMPA, FLORIDA	**33634**
(Address of principal executive offices)	**(Zip Code)**

Registrant s telephone number, including area code: (905) 672-1900 and (813) 313-1800

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

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

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 May 1, 2013
Common Stock, no par value per share	95,371,484 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 share and per share amounts)

Unaudited

	For the Three Months Ended March 30, 2013	March 31, 2012
Revenue, net	$ 505.4	$ 523.8
Cost of sales	449.0	460.4
Gross profit	56.4	63.4
Selling, general and administrative expenses	41.3	41.8
Loss on disposal of property, plant & equipment		0.6
Operating income	15.1	21.0
Other expense (income), net	0.3	(0.2)
Interest expense, net	13.3	14.0
Income before income taxes	1.5	7.2
Income tax expense	0.5	0.4
Net income	$ 1.0	$ 6.8
Less: Net income attributable to non-controlling interests	1.0	0.9
Net income attributed to Cott Corporation	$	$ 5.9
Net income per common share attributed to Cott Corporation		
Basic	$	$ 0.06
Diluted	$	$ 0.06
Weighted average outstanding shares (thousands) attributed to Cott Corporation		
Basic	95,371	94,427
Diluted	95,801	95,702
Dividends declared per share	$ 0.06	$

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

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Cott Corporation

Condensed Consolidated Statements of Comprehensive (Loss) Income

(in millions of U.S. dollars)

Unaudited

	For the Three Months Ended March 30, 2013	For the Three Months Ended March 31, 2012
Net income	**$ 1.0**	$ 6.8
Other comprehensive (loss) income:		
Currency translation adjustment	**(12.4)**	8.2
Pension benefit plan, net of tax[1]	**0.2**	(0.5)
Unrealized gain (loss) on derivative instruments, net of tax[2]	**0.1**	(0.3)
Total other comprehensive (loss) income	**(12.1)**	7.4
Comprehensive (loss) income	**$ (11.1)**	$ 14.2
Less: Comprehensive income attributable to non-controlling interests	**0.9**	0.8
Comprehensive (loss) income attributed to Cott Corporation	**$ (12.0)**	$ 13.4

1 Net of the effect of $0.1 million tax expense and no tax benefit for the three months ended March 30, 2013 and March 31, 2012, respectively.

2 Net of the effect of $0.1 million tax expense and $0.1 million tax benefit for the three months ended March 30, 2013 and March 31, 2012, respectively.

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

	March 30, 2013	December 29, 2012
ASSETS		
Current assets		
Cash & cash equivalents	**$ 93.0**	$ 179.4
Accounts receivable, net of allowance of $6.1 ($6.8 as of December 29, 2012)	**223.3**	199.4
Income taxes recoverable	**1.0**	1.2
Inventories	**235.7**	224.8
Prepaid expenses and other assets	**20.8**	20.3
Total current assets	**573.8**	625.1
Property, plant & equipment, net	**486.8**	490.9
Goodwill	**129.7**	130.3
Intangibles and other assets, net	**305.6**	315.4
Deferred income taxes	**3.0**	3.3
Other tax receivable	**1.2**	0.9
Total assets	**$ 1,500.1**	$ 1,565.9
LIABILITIES AND EQUITY		
Current liabilities		
Current maturities of long-term debt	**$ 2.0**	$ 1.9
Accounts payable and accrued liabilities	**238.4**	287.7
Total current liabilities	**240.4**	289.6
Long-term debt	**601.4**	601.8
Deferred income taxes	**38.4**	39.1
Other long-term liabilities	**15.1**	12.5
Total liabilities	**895.3**	943.0
Equity		
Capital stock, no par - 95,371,484 (December 29, 2012 - 95,371,484) shares issued	**397.8**	397.8
Additional paid-in-capital	**41.1**	40.4
Retained earnings	**180.4**	186.0
Accumulated other comprehensive loss	**(24.4)**	(12.4)
Total Cott Corporation equity	**594.9**	611.8
Non-controlling interests	**9.9**	11.1
Total equity	**604.8**	622.9

Total liabilities and equity	**$ 1,500.1**	$ 1,565.9

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 March 30, 2013	March 31, 2012
Operating Activities		
Net income	**$ 1.0**	$ 6.8
Depreciation & amortization	**24.7**	23.8
Amortization of financing fees	**0.7**	1.2
Share-based compensation expense	**0.7**	0.8
Loss on disposal of property, plant & equipment		0.6
Other non-cash items	**0.3**	(0.4)
Change in operating assets and liabilities, net of acquisition:		
Accounts receivable	**(28.2)**	(20.5)
Inventories	**(13.2)**	(16.5)
Prepaid expenses and other assets	**(0.6)**	(1.8)
Other assets	**(0.1)**	1.0
Accounts payable and accrued liabilities	**(44.1)**	(38.4)
Income taxes recoverable	**0.2**	0.3
Net cash used in operating activities	**(58.6)**	(43.1)
Investing Activities		
Acquisition		(5.0)
Additions to property, plant & equipment	**(19.9)**	(17.7)
Additions to intangibles and other assets	**(0.2)**	(2.7)
Proceeds from insurance recoveries	**0.4**	
Net cash used in investing activities	**(19.7)**	(25.4)
Financing Activities		
Payments of long-term debt	**(0.5)**	(1.2)
Borrowings under ABL		7.0
Payments under ABL		(7.0)
Distributions to non-controlling interests	**(2.1)**	(1.1)
Common shares repurchased and cancelled	**(2.9)**	
Net cash used in financing activities	**(5.5)**	(2.3)
Effect of exchange rate changes on cash	**(2.6)**	1.5
Net decrease in cash & cash equivalents	**(86.4)**	(69.3)
Cash & cash equivalents, beginning of period	**179.4**	100.9

Cash & cash equivalents, end of period	**$**	**93.0**	$	31.6
Supplemental Non-cash Financing Activities:				
Dividend payable issued through accounts payable and accrued liabilities	**$**	**5.6**	$	
Supplemental Disclosures of Cash Flow information:				
Cash paid for interest	**$**	**15.9**	$	16.0
Cash paid for income taxes, net	**$**	**0.5**	$	0.2

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

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Cott Corporation

Consolidated Statements of Equity

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

Unaudited

	Cott Corporation Equity								
	Number of Common Shares *(In thousands)*	**Number of Treasury Shares** *(In thousands)*	**Common Shares**	**Treasury Shares**	**Additional Paid-in-Capital**	**Retained Earnings**	**Accumulated Other Comprehensive Loss**	**Non-Controlling Interests**	**Total Equity**
Balance at December 31, 2011	**95,101**	**674**	**$ 395.9**	**$ (2.1)**	**$ 42.6**	**$ 144.1**	**$ (24.7)**	**$ 12.4**	**$ 568.2**
Share-based compensation					0.8				0.8
Distributions to non-controlling interests								(1.1)	(1.1)
Comprehensive income									
Currency translation adjustment							8.3	(0.1)	8.2
Pension benefit plan, net of tax							(0.5)		(0.5)
Unrealized loss on derivative instruments, net of tax							(0.3)		(0.3)
Net income						5.9		0.9	6.8
Balance at March 31, 2012	**95,101**	**674**	**$ 395.9**	**$ (2.1)**	**$ 43.4**	**$ 150.0**	**$ (17.2)**	**$ 12.1**	**$ 582.1**
Balance at December 29, 2012	**95,371**		**$ 397.8**	**$**	**$ 40.4**	**$ 186.0**	**$ (12.4)**	**$ 11.1**	**$ 622.9**
Dividend						(5.6)			(5.6)
Share-based compensation					0.7				0.7
Distributions to non-controlling interests								(2.1)	(2.1)
Comprehensive income									
Currency translation adjustment							(12.3)	(0.1)	(12.4)
Pension benefit plan, net of tax							0.2		0.2
Unrealized gain on derivative instruments, net of tax							0.1		0.1
Net income								1.0	1.0
Balance at March 30, 2013	**95,371**		**$ 397.8**	**$**	**$ 41.1**	**$ 180.4**	**$ (24.4)**	**$ 9.9**	**$ 604.8**

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

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Cott Corporation

Notes to the Consolidated Financial Statements

Unaudited

Note 1 Business and Recent Accounting Pronouncements

Description of Business

Cott Corporation, together with its consolidated subsidiaries (Cott, the Company, our Company, Cott Corporation, we, us, or our), is o world s largest producers of beverages on behalf of retailers, brand owners and distributors. Our product lines include carbonated soft drinks (CSDs), 100% shelf stable juice and juice-based products, clear, still and sparkling flavored waters, energy products, sports products, new age beverages, and ready-to-drink teas, as well as alcoholic beverages for brand owners.

Basis of Presentation

The accompanying interim unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X and in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial reporting. Accordingly, they do not include all information and notes presented in the annual consolidated financial statements in conformity with U.S. GAAP. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair statement of our results of operations for the interim periods reported and of our financial condition as of the date of the interim balance sheet have been included. This Quarterly Report on Form 10-Q should be read in conjunction with the annual audited consolidated financial statements and accompanying notes in our Annual Report on Form 10-K for the year ended December 29, 2012. The accounting policies used in these interim consolidated financial statements are consistent with those used in the annual consolidated financial statements.

The presentation of these interim consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes.

Recent Accounting Pronouncements

Update ASU 2013-02 Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income

In February 2013, the Financial Accounting Standards Board (FASB) amended its guidance regarding the information provided in relation to the amounts reclassified out of accumulated other comprehensive income. The amendments do not change the current requirements for reporting net income or other comprehensive income in financial statements. However, the amendments require an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures required under U.S. GAAP that provide additional detail about those amounts. For public entities, the amendments are effective prospectively for reporting periods beginning after December 15, 2012. Early adoption is permitted. We have adopted this guidance, and the required disclosure is set forth in Note 10.

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Note 2 Acquisitions

In March of 2012, our United Kingdom (U.K.) reporting segment acquired a beverage and wholesale business based in Scotland for approximately $5.0 million. The business was purchased from a company in administration and is expected to provide a number of benefits to our U.K. reporting segment, including increased product offerings, logistical synergies and access to an additional production line. The acquisition has been accounted for using the purchase method of accounting for business combinations, and related operating results are included in the Consolidated Statements of Operations for the periods subsequent to the acquisition. The identified assets, which included inventory, property, plant and equipment, trade names and customer lists, were recorded at their estimated fair values, which exceeded the fair value of the purchase price of the business. Accordingly, the acquisition has been accounted for as a bargain purchase and, as a result, we recognized a gain of approximately $0.9 million associated with the acquisition during the second quarter of 2012.

On August 17, 2010, we completed the acquisition of substantially all of the assets and liabilities of Cliffstar Corporation (Cliffstar) and its affiliated companies for approximately $503.0 million in cash, $14.0 million in deferred consideration payable in equal installments over three years and contingent consideration of up to $55.0 million (the Cliffstar Acquisition). The first $15.0 million of the contingent consideration was paid upon the achievement of milestones in certain expansion projects in 2010. The remainder of the contingent consideration was to be calculated based on the achievement of certain performance measures during the fiscal year ending January 1, 2011.

In 2011, the seller of Cliffstar raised certain objections to the performance measures used to calculate the contingent consideration, and the parties commenced the dispute resolution mechanism provided for in the asset purchase agreement. During 2011, Cott made interim payments to the seller equal to $29.6 million, which was net of a $4.7 million refund due to Cott and included $0.9 million in settlement of certain of the seller s objections to the calculation of the contingent consideration. The seller s claims for an additional $12.1 million in contingent consideration were submitted to binding arbitration pursuant to the asset purchase agreement and favorably resolved by payment by Cott in February 2013 of approximately $0.6 million.

Note 3 Share-Based Compensation

The table below summarizes the share-based compensation expense for the three months ended March 30, 2013 and March 31, 2012. This share-based compensation expense was recorded in selling, general, and administrative expenses in our Consolidated Statements of Operations. As used below: (i) Performance-based RSUs mean restricted share units with performance-based vesting granted under the Company s 2010 Equity Incentive Plan (the 2010 Equity Incentive Plan), (ii) Time-based RSUs mean restricted share units with time-based vesting granted under the 2010 Equity Incentive Plan, and (iii) Stock options mean non-qualified stock options granted under the 2010 Equity Incentive Plan and the Restated 1986 Common Share Option Plan (the 1986 Option Plan).

	For the Three Months Ended	
(in millions of U.S. dollars)	**March 30, 2013**	**March 31, 2012**
Stock options	**$ 0.1**	$ 0.1
Performance-based RSUs	**0.2**	
Time-based RSUs	**0.4**	0.7
Total	**$ 0.7**	$ 0.8

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As of March 30, 2013, the unrecognized share-based compensation expense and years we expect to recognize it as future compensation expense were as follows:

(in millions of U.S. dollars)	Unrecognized share-based compensation expense as of March 30, 2013	Weighted average years expected to recognize compensation
Stock options	$ 0.8	1.8
Performance-based RSUs	1.5	1.8
Time-based RSUs	2.0	1.6
Total	$ 4.3	

Stock option activity for the three months ended March 30, 2013 was as follows:

	Shares *(in thousands)*	Weighted average exercise price *(Canadian $)*
Balance at December 29, 2012	468	$ 7.28
Awarded		
Exercised		
Forfeited or expired		
Outstanding at March 30, 2013	468	$ 7.28
Exercisable at March 30, 2013	125	$ 9.49

During the three months ended March 30, 2013 Performance-based RSU and Time-based RSU activity was as follows:

(in thousands of shares)	Number of Performance-based RSUs	Number of Time-based RSUs
Balance at December 29, 2012	825	529
Awarded		
Issued		
Forfeited	(5)	(4)
Outstanding at March 30, 2013	820	525

There were no stock options awarded during the three months ended March 30, 2013. Stock options awarded in 2012 were granted under the 2010 Equity Incentive Plan, while stock options awarded prior to 2012 were granted under the 1986 Option Plan. Our board of directors terminated the 1986 Option Plan, as of February 23, 2011. In connection with the termination of the 1986 Option Plan, outstanding options will continue in accordance with the terms of the 1986 Option Plan until exercised, forfeited or terminated, as applicable. No further awards will be granted under the 1986 Option Plan.

On February 14, 2013, our board of directors adopted an amendment and restatement to the 2010 Equity Incentive Plan (the Amended and Restated Equity Plan), pursuant to which the 2010 Equity Incentive Plan was amended and restated to, among other things, increase the number of shares that may be issued under the plan to 12,000,000 shares and to provide that the number of shares available for issuance will be reduced 2.0 shares for each share issued pursuant to a full-value award (i.e. an award other than an option or stock appreciation right). The Amended and Restated Equity Plan was approved by Cott s shareowners on April 30, 2013.

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Average Canadian to U.S. Dollar Exchange Rate for the Three Months Ended March 30, 2013

The weighted-average exercise prices for options in this Note 3 are disclosed in Canadian dollars. The table below represents the average Canadian dollar to U.S. dollar exchange rate for the three months ended March 30, 2013:

	For the Three Months Ended March 30, 2013
Average exchange rate	$ 0.994

Note 4 Income Taxes

Income tax expense was $0.5 million on pretax income of $1.5 million for the three months ended March 30, 2013, as compared to an income tax expense of $0.4 million on pretax income of $7.2 million for the three months ended March 31, 2012. The first quarter s income tax rate was 33% in comparison to the prior year rate of 6%. This is the result of $0.2 million in discrete items that increased the current quarter s rate relative to net income in comparison to prior year discrete items of $(0.8) million which reduced that rate.

Note 5 Net Income Per Common Share

Basic net income per common share is computed by dividing net income by the weighted-average number of common shares outstanding during the period. Diluted net income per common share is calculated using the weighted-average number of common shares outstanding adjusted to include the effect, if dilutive, of the exercise of in-the-money stock options, Performance-based RSUs and Time-based RSUs.

A reconciliation of the denominators of the basic and diluted net income per common share computations is as follows: