

PRIMO WATER CORP /CN/

FORM 8-K (Current report filing)

Filed 08/04/10 for the Period Ending 08/04/10

| | |
|-------------|---|
| Address | 4221 W. BOY SCOUT BLVD. SUITE 400 TAMPA, FL, 33607 |
| Telephone | 813-313-1732 |
| CIK | 0000884713 |
| Symbol | PRMW |
| SIC Code | 2086 - Bottled and Canned Soft Drinks and Carbonated Waters |
| Industry | Non-Alcoholic Beverages |
| Sector | Consumer Non-Cyclicals |
| Fiscal Year | 12/28 |

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): August 4, 2010

Cott Corporation

(Exact name of registrant as specified in its charter)

Canada
(State or other jurisdiction
of incorporation)

001-31410
(Commission
File Number)

98-0154711
(IRS Employer
Identification No.)

6525 Viscount Road
Mississauga, Ontario, Canada

L4V1H6

5519 West Idlewild Avenue
Tampa, Florida, United States
(Address of Principal Executive Offices)

33634
(Zip Code)

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

N/A

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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Item 2.02. Results of Operations and Financial Condition

On August 4, 2010, Cott Corporation (the “Company”) issued a press release reporting financial results for the fiscal quarter ended July 3, 2010. A copy of the press release is furnished herewith under the Securities Exchange Act of 1934, as amended, as Exhibit 99.1 to this Form 8-K and is incorporated by reference into this Item 2.02 as if fully set forth herein.

Item 7.01. Regulation FD Disclosure

On July 7, 2010, the Company entered into an Asset Purchase Agreement with Cliffstar Corporation (“Cliffstar”) to acquire substantially all of the assets and liabilities of Cliffstar and its affiliated companies. Cliffstar, a privately-held corporation headquartered in Dunkirk, New York, manufactures, sells and distributes non-alcoholic beverages, primarily private-label shelf-stable juices.

On August 4, 2010, the Company announced that it intends to offer, subject to market and other conditions, U.S. \$65 million of its common shares pursuant to an underwritten public offering (the “Common Share Offering”). In connection with the Common Share Offering, the Company will grant the underwriters an option for 30 days to purchase an additional \$9.75 million of common shares to cover over-allotments, if any. A copy of the press release announcing the Common Share Offering is attached as Exhibit 99.2 to this Form 8-K and is incorporated herein by reference.

Item 8.01. Other Events

Attached as Exhibit 99.3 to this Form 8-K and incorporated herein by reference are Cliffstar’s audited consolidated balance sheets as of January 2, 2010 and January 3, 2009, and the related consolidated statements of operations, stockholders’ equity and cash flows for the three year period ended January 2, 2010.

Attached as Exhibit 99.4 to this Form 8-K and incorporated herein by reference are Cliffstar’s unaudited consolidated balance sheet as of July 3, 2010 and the related unaudited consolidated statements of income for the three and six month periods ended July 3, 2010 and July 4, 2009, and the related unaudited consolidated statements of shareholders’ equity and cash flows for the six month periods ended July 3, 2010 and July 4, 2009.

Attached as Exhibit 99.5 to this Form 8-K and incorporated herein by reference is the Company’s unaudited pro forma condensed combined balance sheet as of July 3, 2010, unaudited pro forma condensed combined statements of operations for the fiscal year ended January 2, 2010, the six months ended July 3, 2010 and June 27, 2009, and for the twelve months ended July 3, 2010.

This pro forma financial information gives effect to certain pro forma events related to the Company’s acquisition of Cliffstar and has been presented for informational purposes only. It does not purport to project the future financial position or operating results of the post-transaction combined company.

In accordance with general instruction B.2 of Form 8-K, the information in this report (including exhibits) that is being furnished pursuant to Item 2.02 or Item 7.01 of Form 8-K shall not be deemed to be “filed” for the purposes of Section 18 of the Securities Exchange Act, as amended, or otherwise subject to liabilities of that section, nor shall they be deemed incorporated by reference in any filing under the Securities Act, except as expressly set forth in such filing. This report will not be deemed an admission as to the materiality of any information in the report that is required to be disclosed solely by Regulation FD.

Item 9.01. Financial Statements and Exhibits**(d) Exhibits**

| <u>Exhibit Number</u> | <u>Description</u> |
|---------------------------|---|
| 23.1 | Consent of Grant Thornton LLP, independent accountants for Cliffstar Corporation. |
| 99.1 | Press Release dated August 4, 2010 Announcing Financial Results for the Fiscal Quarter Ended July 3, 2010. |
| 99.2 | Press Release dated August 4, 2010 Announcing Intention to Offer Common Shares. |
| 99.3 | Cliffstar Corporation audited consolidated balance sheets as of January 2, 2010 and January 3, 2009, and the related consolidated statements of income, stockholders' equity and cash flows for the three year period ended January 2, 2010. |
| 99.4 | Cliffstar Corporation unaudited consolidated balance sheet as of July 3, 2010 and the related unaudited consolidated statement of income for the three and six month periods ended July 3, 2010 and July 4, 2009 and the related unaudited consolidated statements of shareholders' equity and cash flows for the six months periods ended July 3, 2010 and July 4, 2009. |
| 99.5 | Cott Corporation unaudited pro forma condensed combined financial information. |

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

August 4, 2010

Cott Corporation
(Registrant)

By: /s/ Marni Morgan Poe
Marni Morgan Poe
Vice President, General Counsel and Secretary

EXHIBIT INDEX

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| 99.5 | Cott Corporation unaudited pro forma condensed combined financial information. |

CONSENT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANT

We have issued our report dated March 9, 2010, with respect to the consolidated financial statements of Cliffstar Corporation and subsidiaries as of January 2, 2010 and January 3, 2009 and for the three year period ended January 2, 2010, included as exhibits in the Current Report on Form 8-K of Cott Corporation as filed on August 4, 2010. We hereby consent to the incorporation by reference of said report in (i) the Registration Statement on Form S-3 (File No.333-159617) as filed with the Securities and Exchange Commission on August 4, 2010 and to the use of our name as it appears under the caption "Experts" in the Prospectus Supplement dated August 4, 2010, which forms a part of the Registration Statement and (ii) the Registration Statement on Form S-4 (File No. 333-164493) as filed with the Securities Exchange Commission on June 11, 2010.

/s/ GRANT THORNTON LLP

Cleveland, Ohio

August 4, 2010

**Press Release****CONTACT:**

Kimball Chapman
Investor Relations
Tel: (813) 313-1840
investorrelations@cott.com

COTT REPORTS SECOND QUARTER 2010 RESULTS

- Revenue was \$425 million compared to \$439 million
- Gross margin as a percentage of sales increased to 17.3% from 16.7%
- Operating income increased 15%, to \$39 million from \$34 million
- Income before taxes of \$32.5 million compared to \$29.6 million
- EBITDA was \$53.5 million (see accompanying reconciliation of GAAP net income to non-GAAP EBITDA)

(All information in U.S. dollars; all second quarter 2010 comparisons are relative to the second quarter of 2009.)

TORONTO, ON and TAMPA, FL — August 4, 2010 — Cott Corporation (NYSE:COT; TSX:BCB) today announced its results for the second quarter ended July 3, 2010. Second quarter 2010 revenue was \$425 million compared to \$439 million, a decline of 3%, or 4% excluding the impact of foreign exchange. Significant promotional activity by the national brands resulted in lower revenue in North America, partially offset by increased international revenue. Operating income increased 15% to \$39 million from \$34 million, benefiting from lower costs and strong international performance. Net income and earnings per diluted share were \$22 million and \$0.28, respectively, compared to \$34 million and \$0.48, respectively. The decrease in net income and earnings per diluted share was due to higher taxes; Cott recognized an income tax benefit of \$5 million in 2009, compared to a tax expense of \$9 million in 2010.

“I am pleased with our second quarter results, which were at the upper end of the volume and operating income ranges disclosed in early July,” commented Cott’s Chief Executive Officer, Jerry Fowden. “The much publicized deep discounting of national brands in North America during the quarter obviously hindered our performance. However, despite these challenges we grew total global volume in 8 oz. equivalents, including concentrate sales, by 11%, and maintained filled beverage case volume within 1% of last year, while increasing operating income by 15%,” continued Mr. Fowden.



Press Release

SECOND QUARTER 2010 PERFORMANCE SUMMARY

- Revenue declined 3%, or 4% excluding the impact of foreign exchange. Filled beverage volume growth in the United Kingdom / Europe operating segment (“U.K.”) and Mexico almost fully offset lower volumes in North America (company-wide filled beverage case volume was down 1%), while a 60% increase in Royal Crown International (“RCI”) sales volume drove total global volume in 8 oz. equivalents (including concentrate sales) up 11%.
- Gross margin as a percentage of sales was 17.3% compared to 16.7%, driven by the ongoing benefit of operational efficiencies and lower cost of goods, including the favorable impact of transactional foreign exchange on commodities.
- Selling, general and administrative (“SG&A”) expenses declined to \$34 million from \$35 million. Second quarter 2010 SG&A included \$1 million of costs related to the previously-announced acquisition of Cliffstar Corporation.
- Operating income was \$39 million compared to \$34 million. Second quarter 2009 operating income included \$4 million of restructuring and asset impairment charges.
- Income tax expense was \$9 million compared to a tax benefit of \$5 million in 2009.

SECOND QUARTER 2010 OPERATING SEGMENT HIGHLIGHTS

- North America revenue declined 7%, or 9% excluding the impact of foreign exchange. Filled beverage case volume declined 6% to 147 million cases. The volume decline was primarily attributable to national brand discounting during the quarter. Operating income increased by \$4 million to \$30 million. Second quarter 2009 operating income included \$3 million of asset impairment charges.
- U.K. revenue increased 2%, or 6% excluding the impact of foreign exchange. Filled beverage case volume increased 7% to 50 million cases. The volume increase was primarily due to the continued growth in energy, sports and isotonic products. Operating income increased to \$9 million primarily due to a more favorable sales mix and operational cost savings.
- Mexico revenues increased 33% to \$14 million from \$11 million, primarily as a result of new business.



Press Release

- RCI revenue increased 51% to \$9 million from \$6 million, primarily as a result of increased volume to existing customers. RCI concentrate volumes increased to 92 million cases from 57 million cases.

“Compared to the estimated second quarter 2010 financial results released in early July, our actual second quarter 2010 operating income of \$39 million with a 1% filled beverage case volume decline was at the upper end of the estimated ranges. These results continue to show the benefit of our focus on the 4 C’s of customers, costs, capex optimization and cash management,” commented Cott’s Chief Financial Officer, Neal Cravens.

Second Quarter Conference Call

Cott Corporation will host a conference call today, August 4, 2010, at 4:30 p.m. ET, to discuss second quarter results, which can be accessed as follows:

North America: (877) 407-0782

International: (201) 689-8567

A live audio webcast will be available through Cott’s website at <http://www.cott.com>. The earnings conference call will be recorded and archived for playback on the investor relations section of the website for a period of two weeks following the event.



Press Release

About Cott Corporation

Cott Corporation is one of the world's largest non-alcoholic beverage companies and the world's largest retailer brand soft drink company. With approximately 2,800 employees, Cott operates bottling facilities in the United States, Canada, the United Kingdom and Mexico. Cott markets non-alcoholic beverage concentrates in over 50 countries around the world.

Non-GAAP Measures

Cott supplements its reporting of revenue determined in accordance with GAAP by excluding the impact of foreign exchange to separate the impact of currency exchange rate changes from Cott's results of operations. Additionally, Cott supplements its reporting of earnings before interest, taxes, depreciation & amortization in accordance with GAAP by excluding the impact of certain items to separate the impact of these items from underlying business. Since Cott uses these adjusted financial results in the management of its business, management believes this supplemental information is useful to investors for their independent evaluation and understanding of the performance of Cott's management and its core business performance. The non-GAAP financial measures described above are in addition to, and not meant to be considered superior to, or a substitute for, Cott's financial statements prepared in accordance with GAAP. In addition, the non-GAAP financial measures included in this earnings announcement reflect management's judgment of particular items, and may be different from, and therefore may not be comparable to, similarly titled measures reported by other companies.

Safe Harbor Statements

This press release contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 conveying management's expectations as to the future based on plans, estimates and projections at the time Cott makes the statements. Forward-looking statements involve inherent risks and uncertainties and Cott cautions you that a number of important factors could cause actual results to differ materially from those contained in any such forward-looking statement. The forward-looking statements contained in this press release include, but are not limited to, statements related to future financial operating results and related matters. The forward-looking statements are based on assumptions regarding the timing of receipt of the necessary financing and approvals for the Cliffstar acquisition, the time necessary to satisfy the conditions to the closing of the Cliffstar acquisition, that volume and revenue will be consistent with recent historical trends, that interest rates will remain constant, and, in certain cases, on management's current plans and estimates. Management believes these assumptions to be reasonable but there is no assurance that they will prove to be accurate.

Factors that could cause actual results to differ materially from those described in this press release include, among others: our ability to realize the expected benefits of the Cliffstar acquisition because of integration difficulties and other challenges;



Press Release

significant transaction and acquisition-related costs that we will incur in connection with the Cliffstar acquisition; limited financial information on which to evaluate Cott assuming the completion of the Cliffstar acquisition; the effectiveness of Cliffstar's system of internal control over financial reporting; the substantial indebtedness we must incur to finance the Cliffstar acquisition; risks associated with our Asset Purchase Agreement in connection with the Cliffstar acquisition; Cott's ability to compete successfully; changes in consumer tastes and preferences for existing products and Cott's ability to develop and timely launch new products that appeal to such changing consumer tastes and preferences; a loss of or reduction in business with key customers, particularly Wal-Mart; fluctuations in commodity prices and Cott's ability to pass on increased costs to its customers, and the impact of those increased prices on Cott's volumes; Cott's ability to maintain favorable arrangements and relationships with its suppliers; Cott's ability to manage its operations successfully; currency fluctuations that adversely affect the exchange between the U.S. dollar and the pound sterling, the Euro, the Canadian dollar, the Mexican peso and other currencies; Cott's substantial debt levels and Cott's ability to service and reduce its debt; Cott's ability to maintain compliance with the covenants and conditions under its debt agreements; fluctuations in interest rates; credit rating changes; further deterioration of the capital markets; Cott's ability to fully realize the expected cost savings and/or operating efficiencies from its restructuring activities; any disruption to production at Cott's beverage concentrates or other manufacturing facilities; Cott's ability to protect its intellectual property; the impact of regulation and regulatory, investigative and legal actions; the impact of proposed taxes on soda and other sugary drinks; unseasonably cold or wet weather, which could reduce the demand for Cott's beverages; the impact of national, regional and global events, including those of a political, economic, business and competitive nature; Cott's ability to recruit, retain, and integrate new management and a new management structure; Cott's exposure to intangible asset risk; the volatility of Cott's stock price; Cott's ability to maintain compliance with the listing requirements of the New York Stock Exchange; Cott's ability to renew its collective bargaining agreements on satisfactory terms; and disruptions in Cott's information systems.

The foregoing list of factors is not exhaustive. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. Readers are urged to carefully review and consider the various disclosures, including but not limited to risk factors contained in Cott's Annual Report on Form 10-K for the year ended January 2, 2010 and its quarterly reports on Form 10-Q, as well as other periodic reports filed with the securities commissions. Cott does not undertake to update or revise any of these statements in light of new information or future events, except as expressly required by applicable law.



Press Release

COTT CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(in millions of U.S. dollars except per share data, U.S. GAAP)
Unaudited

EXHIBIT 1

| | For the Three Month Ended | | For the Six Months Ended | |
|---|---------------------------|----------------|--------------------------|----------------|
| | July 3, 2010 | June 27, 2009 | July 3, 2010 | June 27, 2009 |
| Revenue, net | \$ 424.7 | \$ 438.8 | \$ 787.6 | \$ 805.8 |
| Cost of sales | <u>351.2</u> | <u>365.5</u> | <u>656.9</u> | <u>674.3</u> |
| Gross profit | 73.5 | 73.3 | 130.7 | 131.5 |
| Selling, general and administrative expenses | 34.5 | 35.1 | 66.9 | 69.8 |
| (Gain) loss on disposal of property, plant & equipment | (0.1) | 0.1 | 0.1 | — |
| Restructuring and asset impairments | | | | |
| Restructuring | — | 0.4 | (0.5) | 1.6 |
| Asset impairments | — | 3.4 | — | 3.5 |
| Operating income | 39.1 | 34.3 | 64.2 | 56.6 |
| Other expense (income), net | 0.5 | (2.8) | 2.3 | (2.7) |
| Interest expense, net | <u>6.1</u> | <u>7.5</u> | <u>12.3</u> | <u>15.1</u> |
| Income before income taxes | 32.5 | 29.6 | 49.6 | 44.2 |
| Income tax expense (benefit) | <u>8.8</u> | <u>(5.4)</u> | <u>13.2</u> | <u>(11.6)</u> |
| Net income | \$ 23.7 | \$ 35.0 | \$ 36.4 | \$ 55.8 |
| Less: Net income attributable to non-controlling interests | <u>1.4</u> | <u>1.3</u> | <u>2.6</u> | <u>2.2</u> |
| Net income attributed to Cott Corporation | \$ 22.3 | \$ 33.7 | \$ 33.8 | \$ 53.6 |
| Net income per common share attributed to Cott Corporation | | | | |
| Basic | 0.28 | 0.48 | 0.42 | 0.76 |
| Diluted | 0.28 | 0.48 | 0.42 | 0.76 |
| Weighted average outstanding shares (thousands) attributed to Cott Corporation | | | | |
| Basic | 80,429 | 70,472 | 80,401 | 70,472 |
| Diluted | 80,887 | 70,529 | 80,861 | 70,491 |



Press Release

COTT CORPORATION
CONSOLIDATED BALANCE SHEETS
(in millions of U.S. dollars, except share data, U.S. GAAP)
Unaudited

EXHIBIT 2

| | <u>July 3, 2010</u> | <u>January 2, 2010</u> |
|---|---------------------|------------------------|
| ASSETS | | |
| <i>Current assets</i> | | |
| Cash & cash equivalents | \$ 20.3 | \$ 30.9 |
| Accounts receivable, net of allowance of \$5.4 (\$5.9 as of January 2, 2010) | 195.3 | 152.3 |
| Income taxes recoverable | 7.8 | 20.8 |
| Inventories | 115.0 | 99.7 |
| Prepaid expenses and other assets | <u>14.2</u> | <u>16.8</u> |
| Total current assets | 352.6 | 320.5 |
| Property, plant and equipment | 332.6 | 343.0 |
| Goodwill | 30.3 | 30.6 |
| Intangibles and other assets | 149.3 | 155.5 |
| Deferred income taxes | 6.6 | 5.4 |
| Other tax receivable | <u>8.6</u> | <u>18.8</u> |
| Total assets | \$ 880.0 | \$ 873.8 |
| LIABILITIES AND EQUITY | | |
| <i>Current liabilities</i> | | |
| Short-term borrowings | \$ 10.6 | \$ 20.2 |
| Current maturities of long-term debt | 5.9 | 17.6 |
| Accounts payable and accrued liabilities | <u>172.7</u> | <u>169.3</u> |
| Total current liabilities | 189.2 | 207.1 |
| Long-term debt | 231.2 | 233.2 |
| Deferred income taxes | 17.9 | 17.5 |
| Other long-term liabilities | <u>10.6</u> | <u>14.7</u> |
| Total liabilities | 448.9 | 472.5 |
| Contingencies and Commitments | | |
| <i>Equity</i> | | |
| Capital stock, no par - 81,410,120 (January 2, 2010 - 81,331,330) shares issued | 322.5 | 322.5 |
| Treasury stock | (3.3) | (4.4) |
| Additional paid-in-capital | 38.7 | 37.4 |
| Retained earnings | 85.6 | 51.8 |
| Accumulated other comprehensive loss | <u>(27.6)</u> | <u>(21.3)</u> |
| Total Cott Corporation equity | 415.9 | 386.0 |
| Non-controlling interests | <u>15.2</u> | <u>15.3</u> |
| Total equity | 431.1 | 401.3 |
| Total liabilities and equity | \$ 880.0 | \$ 873.8 |

COTT CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in millions of U.S. dollars, U.S. GAAP)
Unaudited

EXHIBIT 3

| | For the Three Month Ended | | For the Six Months Ended | |
|---|---------------------------|------------------|--------------------------|------------------|
| | July 3, 2010 | June 27, 2009 | July 3, 2010 | June 27, 2009 |
| Operating Activities | | | | |
| Net income | \$ 23.7 | \$ 35.0 | \$ 36.4 | \$ 55.8 |
| Depreciation and amortization | 14.9 | 16.3 | 30.8 | 33.3 |
| Amortization of financing fees | 0.5 | 0.3 | 1.0 | 0.6 |
| Share-based compensation expense | 1.2 | 0.7 | 1.7 | 0.8 |
| Decrease in deferred and other income taxes | — | (8.0) | (0.1) | (13.6) |
| Other non-cash items | 1.1 | 1.8 | 4.0 | 2.4 |
| Lease contract termination payments | (0.9) | (1.0) | (4.8) | (1.9) |
| Change in accounts receivable | (24.4) | (28.7) | (46.3) | (35.3) |
| Change in inventories | (4.0) | (2.5) | (16.7) | (5.5) |
| Change in prepaid expenses and other current assets | 1.6 | (5.7) | 2.4 | (3.0) |
| Change in other assets | (0.6) | (0.3) | (1.1) | (0.2) |
| Change in accounts payable and accrued liabilities | 11.2 | 28.2 | 7.8 | 24.2 |
| Change in income taxes | 7.0 | 1.3 | 24.4 | 0.8 |
| Net cash provided by operating activities | <u>31.3</u> | <u>37.4</u> | <u>39.5</u> | <u>58.4</u> |
| Investing Activities | | | | |
| Additions to property, plant and equipment | (10.5) | (7.7) | (18.1) | (13.6) |
| Additions to intangibles and other assets | (2.3) | — | (3.4) | — |
| Proceeds from disposal of property, plant & equipment and intangible and other assets | 0.3 | 0.1 | 0.4 | 1.3 |
| Net cash used in investing activities | <u>(12.5)</u> | <u>(7.6)</u> | <u>(21.1)</u> | <u>(12.3)</u> |
| Financing Activities | | | | |
| Payments of long-term debt | (2.9) | (1.9) | (16.1) | (3.7) |
| Short-term borrowings, ABL | 83.4 | 286.1 | 142.0 | 630.5 |
| Short-term repayments, ABL | (100.8) | (311.3) | (151.6) | (672.6) |
| Distributions to non-controlling interests | (0.8) | (0.9) | (2.7) | (2.3) |
| Deferred financing fees | — | — | (0.2) | — |
| Other financing activities | — | (0.1) | — | (0.2) |
| Net cash used in financing activities | <u>(21.1)</u> | <u>(28.1)</u> | <u>(28.6)</u> | <u>(48.3)</u> |
| Effect of exchange rate changes on cash | (0.6) | 0.9 | (0.4) | 0.7 |
| Net increase (decrease) in cash & cash equivalents | (2.9) | 2.6 | (10.6) | (1.5) |
| Cash & cash equivalents, beginning of period | 23.2 | 10.6 | 30.9 | 14.7 |
| Cash & cash equivalents, end of period | <u>\$ 20.3</u> | <u>\$ 13.2</u> | <u>\$ 20.3</u> | <u>\$ 13.2</u> |



Press Release

COTT CORPORATION
SEGMENT INFORMATION
(in millions of U.S. dollars, U.S. GAAP)
Unaudited

EXHIBIT 4

| | For the Three Month Ended | | For the Six Months Ended | |
|--|---------------------------|-----------------|--------------------------|-----------------|
| | July 3, 2010 | June 27, 2009 | July 3, 2010 | June 27, 2009 |
| Revenue | | | | |
| North America | \$ 300.8 | \$ 323.5 | \$ 564.0 | \$ 612.5 |
| United Kingdom | 101.2 | 99.0 | 180.9 | 163.0 |
| Mexico | 14.1 | 10.6 | 25.9 | 20.4 |
| RCI | 8.6 | 5.7 | 16.8 | 9.9 |
| All Other | — | — | — | — |
| | <u>\$ 424.7</u> | <u>\$ 438.8</u> | <u>\$ 787.6</u> | <u>\$ 805.8</u> |
| Operating income (loss) | | | | |
| North America | \$ 30.2 | \$ 26.6 | \$ 51.1 | \$ 52.9 |
| United Kingdom | 8.7 | 8.3 | 11.7 | 5.7 |
| Mexico | (2.2) | (1.2) | (4.0) | (3.5) |
| RCI | 2.4 | 0.6 | 5.4 | 1.5 |
| All Other | — | — | — | — |
| | <u>\$ 39.1</u> | <u>\$ 34.3</u> | <u>\$ 64.2</u> | <u>\$ 56.6</u> |
| Volume - 8 oz equivalent cases - Total Beverage (including concentrate) | | | | |
| North America | 167.5 | 175.7 | 319.5 | 336.5 |
| United Kingdom | 53.5 | 52.7 | 98.0 | 92.3 |
| Mexico | 10.1 | 5.6 | 18.4 | 11.2 |
| RCI | 91.7 | 57.3 | 176.0 | 106.4 |
| All Other | — | — | — | — |
| | <u>322.8</u> | <u>291.3</u> | <u>611.9</u> | <u>546.4</u> |
| Volume - 8 oz equivalent cases - Filled Beverage | | | | |
| North America | 147.3 | 157.2 | 277.9 | 299.0 |
| United Kingdom | 50.3 | 47.1 | 89.5 | 82.8 |
| Mexico | 10.1 | 5.6 | 18.4 | 11.2 |
| RCI | 0.1 | 0.1 | 0.1 | 0.1 |
| All Other | — | — | — | — |
| | <u>207.8</u> | <u>210.0</u> | <u>385.9</u> | <u>393.1</u> |



Press Release

COTT CORPORATION
Analysis of Revenue by Geographic Region
(In millions of U.S. dollars, U.S. GAAP)
Unaudited

EXHIBIT 5

| <u>(In millions of U.S. dollars)</u> | For the Three Months Ended July 3, 2010 | | | | | |
|---|--|----------------------|-----------------------|---------------|---------------|------------------|
| | <u>Cott ¹</u> | <u>North America</u> | <u>United Kingdom</u> | <u>Mexico</u> | <u>RCI</u> | <u>All Other</u> |
| Change in revenue | \$ (14.1) | \$ (22.7) | \$ 2.2 | \$ 3.5 | \$ 2.9 | \$ — |
| Impact of foreign exchange | (3.4) | (6.5) | 3.7 | (0.6) | — | — |
| Change excluding foreign exchange | <u>\$ (17.5)</u> | <u>\$ (29.2)</u> | <u>\$ 5.9</u> | <u>\$ 2.9</u> | <u>\$ 2.9</u> | <u>\$ —</u> |
| Percentage change in revenue | -3.2% | -7.0% | 2.2% | 33.0% | 50.9% | 0.0% |
| Percentage change in revenue excluding foreign exchange | <u>-4.0%</u> | <u>-8.8%</u> | <u>6.2%</u> | <u>25.9%</u> | <u>50.9%</u> | <u>0.0%</u> |

| <u>(In millions of U.S. dollars)</u> | For the Six Months Ended July 3, 2010 | | | | | |
|---|--|----------------------|-----------------------|---------------|---------------|------------------|
| | <u>Cott ¹</u> | <u>North America</u> | <u>United Kingdom</u> | <u>Mexico</u> | <u>RCI</u> | <u>All Other</u> |
| Change in revenue | \$ (18.2) | \$ (48.5) | \$ 17.9 | \$ 5.5 | \$ 6.9 | \$ — |
| Impact of foreign exchange | (15.9) | (12.7) | (1.5) | (1.7) | — | — |
| Change excluding foreign exchange | <u>\$ (34.1)</u> | <u>\$ (61.2)</u> | <u>\$ 16.4</u> | <u>\$ 3.8</u> | <u>\$ 6.9</u> | <u>\$ —</u> |
| Percentage change in revenue | -2.3% | -7.9% | 11.0% | 27.0% | 69.7% | 0.0% |
| Percentage change in revenue excluding foreign exchange | <u>-4.1%</u> | <u>-9.8%</u> | <u>10.0%</u> | <u>17.2%</u> | <u>69.7%</u> | <u>0.0%</u> |

¹ Cott includes the following operating segments: North America, United Kingdom, Mexico, RCI and All Other



Press Release

COTT CORPORATION
SUPPLEMENTARY INFORMATION - NON-GAAP - EARNINGS BEFORE INTEREST, TAXES, DEPRECIATION &
AMORTIZATION (EBITDA)

EXHIBIT 6

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

Unaudited

| | For the Three Month Ended | | For the Six Months Ended | |
|--|---------------------------|----------------|--------------------------|----------------|
| | July 3, 2010 | June 27, 2009 | July 3, 2010 | June 27, 2009 |
| Net income | \$ 22.3 | \$ 33.7 | \$ 33.8 | \$ 53.6 |
| Interest expense, net | 6.1 | 7.5 | 12.3 | 15.1 |
| Income tax expense (benefit) | 8.8 | (5.4) | 13.2 | (11.6) |
| Depreciation and amortization | 14.9 | 16.3 | 30.8 | 33.3 |
| Net income attributable to non-controlling interests | 1.4 | 1.3 | 2.6 | 2.2 |
| EBITDA | \$ 53.5 | \$ 53.4 | \$ 92.7 | \$ 92.6 |
| Restructuring and asset impairments | | | | |
| Restructuring | — | 0.4 | (0.5) | 1.6 |
| Asset impairments | — | 3.4 | — | 3.5 |
| Adjusted EBITDA | \$ 53.5 | \$ 57.2 | \$ 92.2 | \$ 97.7 |

**Press Release****CONTACT:**

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**COTT ANNOUNCES INTENTION TO OFFER COMMON SHARES
TO FUND CLIFFSTAR ACQUISITION**

TORONTO, ON and TAMPA, FL – Aug. 4, 2010 – Cott Corporation (NYSE:COT; TSX:BCB) announced today that it intends to offer, subject to market and other conditions, U.S. \$65 million of its common shares pursuant to an underwritten public offering. In connection with the offering, Cott will grant the underwriters an option for 30 days to purchase an additional \$9.75 million of common shares to cover over-allotments, if any.

Cott intends to use the net proceeds from the offering to fund a portion of the purchase price and related fees and expenses for the previously announced and pending acquisition of substantially all of the assets and liabilities of Cliffstar Corporation and its affiliated companies (the "Cliffstar Acquisition"). The common share offering is expected to close concurrently with the Cliffstar Acquisition. Cott intends to finance the remaining portion of the acquisition of Cliffstar through a draw-down on its asset based lending facility, which Cott intends to amend in connection with the Cliffstar Acquisition to, among other things, increase the amount of borrowings available under such facility, as well as a previously announced private offering of U.S. \$375.0 million aggregate principal amount of senior notes. If Cott does not complete the Cliffstar Acquisition, it intends to use the net proceeds from the offering for general corporate purposes.

Deutsche Bank Securities, J.P. Morgan and Morgan Stanley are acting as joint bookrunners for this offering. Barclay's and BofA Merrill Lynch will be co-managers.

Cott has filed a registration statement (including a prospectus) and will file a preliminary prospectus supplement with the Securities and Exchange Commission for the offering to which this communication relates. Before you invest, you should read such documents and the other documents Cott has filed or will file with the Securities and Exchange Commission for more complete information about Cott and the offering. You may get these documents for free by visiting EDGAR on the SEC Web site at www.sec.gov. Alternatively, copies of the prospectus and preliminary prospectus supplement relating to the offering may be obtained from Deutsche Bank Securities Inc., Attention: Prospectus Department, 100 Plaza One, Jersey City, NJ 07311, by calling 800-503-4611 or by e-mail to prospectus.cpdg@db.com.

This press release does not constitute an offer to sell, or the solicitation of an offer to buy, any securities of Cott, nor will there be any sale of securities in any state or jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification.



Press Release

About Cott Corporation

Cott Corporation is one of the world's largest non-alcoholic beverage companies and the world's largest retailer brand soft drink company. With approximately 2,800 employees, Cott operates bottling facilities in the United States, Canada, the United Kingdom and Mexico. Cott markets non-alcoholic beverage concentrates in over 50 countries around the world.

Safe Harbor Statements

This press release contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, Section 21E of the Securities Exchange Act of 1934 and applicable Canadian securities laws conveying management's expectations as to the future based on plans, estimates and projections at the time Cott makes such statements. Forward-looking statements involve inherent risks and uncertainties and Cott cautions you that a number of important factors could cause actual results to differ materially from those contained in any such forward-looking statement. The forward-looking statements are based on assumptions regarding management's current plans and estimates. Management believes these assumptions to be reasonable but there is no assurance that they will prove to be accurate.

Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. Readers are urged to carefully review and consider the various disclosures, including but not limited to risk factors contained in Cott's Annual Report on Form 10-K for the year ended January 2, 2010 and its quarterly reports on Form 10-Q, as well as other periodic reports filed with the securities commissions. Cott does not, except as expressly required by applicable law, undertake to update or revise any of these statements in light of new information or future events.

Financial Statements and Report of Independent Certified Public Accountants

Cliffstar Corporation and Subsidiaries

January 2, 2010 and January 3, 2009

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Report of Independent Certified Public Accountants

To the Board of Directors

Cliffstar Corporation and Subsidiaries

We have audited the consolidated balance sheets of Cliffstar Corporation and Subsidiaries as of January 2, 2010 and January 3, 2009 and the related consolidated statements of operations, shareholders' equity, and cash flows for the three year period ended January 2, 2010. These financial statements are the responsibility of the Company's management. Our responsibility was to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America as established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Cliffstar Corporation and Subsidiaries as of January 2, 2010 and January 3, 2009, and the results of its operations and its cash flows for each of the three years in the period ended January 2, 2010, in conformity with accounting principles generally accepted in the United States of America.

/s/ GRANT THORNTON LLP

Cleveland, Ohio

March 9, 2010

Cliffstar Corporation and Subsidiaries
CONSOLIDATED BALANCE SHEETS

January 2, 2010 and January 3, 2009
(in thousands)

| | <u>January 2, 2010</u> | <u>January 3, 2009</u> |
|--|----------------------------|----------------------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 2,885 | \$ 3,279 |
| Accounts receivable, trade – net of allowances of \$1,281 and \$941, for 2009 and 2008, respectively | 54,385 | 50,696 |
| Inventories | 89,813 | 87,765 |
| Other current assets | <u>2,675</u> | <u>5,366</u> |
| Total current assets | 149,758 | 147,106 |
| PROPERTY, PLANT AND EQUIPMENT | | |
| | 92,535 | 93,978 |
| OTHER ASSETS | | |
| Goodwill | 20,070 | 20,070 |
| Intangible assets | 1,040 | 1,507 |
| Other non-current assets | <u>2,787</u> | <u>2,036</u> |
| Total other assets | <u>23,897</u> | <u>23,613</u> |
| | <u>\$266,190</u> | <u>\$264,697</u> |

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

| | January 2, 2010 | January 3, 2009 |
|--|-------------------------|-------------------------|
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| CURRENT LIABILITIES | | |
| Accounts payable, trade | \$ 62,746 | \$108,349 |
| Accrued liabilities, including \$800,000 in payables to related parties as of January 2, 2010 and January 3, 2009 | 21,882 | 18,112 |
| Current portion of long-term debt | 1,824 | 344 |
| Other current liabilities | <u>25</u> | <u>219</u> |
| Total current liabilities | 86,477 | 127,024 |
| LONG-TERM OBLIGATIONS | | |
| Long-term debt | 91,714 | 106,575 |
| Derivative liability | 2,309 | 4,370 |
| Other long-term liabilities | <u>2,191</u> | <u>2,147</u> |
| Total long-term obligations | 96,214 | 113,092 |
| Total liabilities | 182,691 | 240,116 |
| SHAREHOLDERS' EQUITY | | |
| Common stock | | |
| Class A common voting stock, 100 shares authorized, 10 shares issued and outstanding at January 2, 2010 and January 3, 2009, respectively. | 4 | 4 |
| Class B common non-voting stock, 1,900 shares authorized 990 shares issued and outstanding at January 2, 2010 and January 3, 2009, respectively. | 19 | 19 |
| Additional paid-in capital | 4,304 | 4,304 |
| Retained earnings | <u>79,172</u> | <u>20,254</u> |
| Total shareholders' equity | <u>83,499</u> | <u>24,581</u> |
| | <u>\$266,190</u> | <u>\$264,697</u> |

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

Cliffstar Corporation and Subsidiaries

CONSOLIDATED STATEMENTS OF OPERATIONS

For the years ended January 2, 2010, January 3, 2009 and December 29, 2007
(in thousands)

| | January 2, 2010 | January 3, 2009 | December 29, 2007 |
|---|-------------------------|---------------------------|---------------------------|
| Revenue: | | | |
| Gross revenue | \$693,170 | \$714,822 | \$ 647,552 |
| Less discounts | <u>(21,871)</u> | <u>(22,019)</u> | <u>(28,344)</u> |
| Net revenue | 671,299 | 692,803 | 619,208 |
| Costs and expenses: | | | |
| Cost of goods sold (excluding depreciation) | 516,319 | 626,810 | 550,215 |
| Depreciation | 13,493 | 13,034 | 11,488 |
| Selling and administrative expenses | <u>58,271</u> | <u>52,955</u> | <u>58,183</u> |
| | <u>588,083</u> | <u>692,799</u> | <u>619,886</u> |
| Income (loss) from operations | 83,216 | 4 | (678) |
| Other expense: | | | |
| Interest expense | 4,686 | 12,150 | 11,377 |
| Other | <u>493</u> | <u>777</u> | <u>1,271</u> |
| Total other expense | <u>5,179</u> | <u>12,927</u> | <u>12,648</u> |
| NET INCOME (LOSS) | <u>\$ 78,037</u> | <u>\$ (12,923)</u> | <u>\$ (13,326)</u> |

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

Cliffstar Corporation and Subsidiaries

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

For the years ended January 2, 2010, January 3, 2009 and December 29, 2007
(in thousands except share data)

| | <u>Common Stock</u> <u>Class A</u> <u>Stated</u> | | <u>Common Stock</u> <u>Class B</u> <u>Stated</u> | | <u>Additional</u> <u>Paid-In</u> <u>Capital</u> | <u>Retained</u> <u>Earnings</u> | <u>Total</u> |
|---|--|--------------------|--|---------------------|---|------------------------------------|-------------------------|
| | <u>Shares</u> | <u>Value</u> | <u>Shares</u> | <u>Value</u> | | | |
| Balance at December 30, 2006 | 10 | \$ 4 | 990 | \$ 19 | \$ 4,304 | \$ 47,919 | \$ 52,246 |
| Net loss | — | — | — | — | — | (13,326) | (13,326) |
| Distributions to shareholders | — | — | — | — | — | (804) | (804) |
| Balance at December 29, 2007 | 10 | 4 | 990 | 19 | 4,304 | 33,789 | 38,116 |
| Net loss | — | — | — | — | — | (12,923) | (12,923) |
| Distributions to shareholders | — | — | — | — | — | (612) | (612) |
| Balance at January 3, 2009 | 10 | 4 | 990 | 19 | 4,304 | 20,254 | 24,581 |
| Net Income | — | — | — | — | — | 78,037 | 78,037 |
| Distributions to shareholders | — | — | — | — | — | (17,276) | (17,276) |
| Adjustment for related party purchase of fixed assets | — | — | — | — | — | (1,843) | (1,843) |
| Balance at January 2, 2010 | <u>10</u> | <u>\$ 4</u> | <u>990</u> | <u>\$ 19</u> | <u>\$ 4,304</u> | <u>\$ 79,172</u> | <u>\$ 83,499</u> |

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended January 2, 2010, January 3, 2009 and December 29, 2007
(in thousands)

| | January 2, 2010 | January 3, 2009 | December 29, 2007 |
|---|--------------------|--------------------|----------------------|
| Cash Flows from Operating Activities: | | | |
| Net Income (Loss) | \$ 78,037 | \$(12,923) | \$ (13,326) |
| Adjustments to reconcile net loss to net cash provided by operating activities: | | | |
| Depreciation | 13,493 | 13,034 | 11,488 |
| Change in LIFO reserve | (27,639) | 19,159 | 13,669 |
| Market adjustment on derivatives | (2,061) | 2,528 | 2,083 |
| Amortization | 467 | 608 | 1,219 |
| Loss (Gain) on sale or retirement of fixed assets | 76 | (8) | — |
| Change in assets and liabilities affecting cash flows: | | | |
| Accounts receivable, trade | (3,689) | 1,214 | 616 |
| Inventories | 25,591 | (15,590) | (10,643) |
| Other current assets | 2,691 | 13,819 | (10,982) |
| Other assets | (751) | 49 | 483 |
| Accounts payable, trade | (45,603) | 10,252 | 14,961 |
| Accrued liabilities | 3,770 | (3,420) | 6,409 |
| Other current liabilities | (194) | (172) | 187 |
| Other long-term liabilities | 44 | (771) | 626 |
| Net cash provided by operating activities | 44,232 | 27,779 | 16,790 |
| Cash Flows from Investing Activities: | | | |
| Acquisition of property, plant and equipment | (13,980) | (9,208) | (22,722) |
| Proceeds from sale of property, plant and equipment | 11 | 88 | — |
| Net cash used in investing activities | (13,969) | (9,120) | (22,722) |
| Cash Flows from Financing Activities: | | | |
| Proceeds from issuance of long-term debt | — | — | 1,500 |
| Net borrowings (payments) of bank revolving credit facility | (15,000) | (20,800) | 7,650 |
| Payments of long-term debt | (431) | (219) | (258) |
| Change in notes payable to shareholder | 2,050 | 663 | (721) |
| Distribution to shareholders | (17,276) | (612) | (804) |
| Net cash (used in) provided by financing activities | (30,657) | (20,968) | 7,367 |
| NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS | (394) | (2,309) | 1,435 |
| Cash and cash equivalents, beginning of year | 3,279 | 5,588 | 4,153 |
| Cash and cash equivalents, end of year | <u>\$ 2,885</u> | <u>\$ 3,279</u> | <u>\$ 5,588</u> |
| Supplemental Information | | | |
| Interest paid | <u>\$ 7,023</u> | <u>\$ 10,082</u> | <u>\$ 10,211</u> |

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

Cliffstar Corporation and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
January 2, 2010 and January 3, 2009

NOTE 1 – DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidated Financial Statements

Consolidated financial statements include the accounts of Cliffstar Corporation (“Cliffstar”), its wholly owned subsidiaries Star World Trading Company (“Star World”), Shanstar Biotech Inc. (“Shanstar”), Harvest Classic, LLC (“Harvest LLC”), and its majority owned subsidiary Star Real Property LLC (“Star LLC”) collectively, the “Company”. All material intercompany accounts and transactions have been eliminated.

Cliffstar is an independent private label juice and drink processor operating in the United States, serving hundreds of private label lines. Cliffstar has operating facilities in Pennsylvania, California, Massachusetts, Missouri, South Carolina, New York, Washington and Wisconsin.

Common Stock

The Company has 100 shares of Class A common voting stock authorized and 10 shares issued and outstanding at January 2, 2010, January 3, 2009 and December 29, 2007. There are 1,900 shares of Class B common non-voting stock authorized and 990 shares issued and outstanding at January 2, 2010, January 3, 2009 and December 29, 2007.

Fiscal Year

The Company maintains its accounting records on a 52-53 week fiscal year. The fiscal year ends on the Saturday closest to December 31. The years ended January 2, 2010 (fiscal 2009), January 3, 2009 (fiscal 2008) and December 29, 2007 (fiscal 2007).

Revenue Recognition

Revenue is recognized when product is shipped and title and the risk of loss transfers to the customer. The Company’s terms are FOB shipping point, with no customer acceptance provisions. The costs of price promotions are treated as a reduction of revenues. No products are sold on consignment. Shipping and handling fees billed to customers are included in gross revenue.

Sales incentives

The Company participates in various incentive programs with their customers, including volume-based incentives, promotional allowance incentives and contractual rebate incentives. Sales incentives are based on customers achieving volume targets for a period of time. They are deducted from revenue and accrued as the incentives are earned and are based on management’s estimate of the total the customer is expected to earn and claim.

Shipping and Handling Cost

Shipping and handling costs are included in cost of goods sold.

Accounts Receivable

Credit is extended based on evaluation of a customer’s financial condition. Accounts receivable are stated at amounts due from customers net of an allowance for doubtful accounts. Accounts outstanding longer than payment terms are considered past due. The Company determines its allowance by considering a number of factors, including the length of time trade accounts receivable are past due, the Company’s previous loss history, the customer’s current ability to pay their obligations to the Company and the condition of the general economy and the industry as a whole. The Company writes off accounts receivable when they become uncollectible and payments subsequently received on such receivables are credited to income or the allowance for doubtful accounts. Bad debt expense was \$50,000, \$0 and (\$7,488) for 2009, 2008 and 2007, respectively.

Cliffstar Corporation and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
January 2, 2010 and January 3, 2009

NOTE 1 – DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Marketplace Spending

Marketplace spending includes the costs of advertising and other marketing activities and is reported as selling and administrative expenses. Advertising expenses were \$2,364,395, \$1,831,556, \$2,128,560 in 2009, 2008 and 2007, respectively.

Cash and Cash Equivalents

All cash and cash instruments with original maturities of three months or less are considered cash and cash equivalents.

The Company maintains its cash balances in various financial institutions. These balances at times exceed federal insured limits. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

Restricted Cash

Restricted cash is maintained separately from operating cash. The Company maintains funds in an escrow account related to a manufacturing facility's workers compensation requirements. The amount held in escrow as of January 2, 2010 and January 3, 2009 was \$200,000 and is included in the accompanying balance sheets in "other non-current assets".

Derivatives

The Company uses derivative financial instruments to manage its economic exposure to movements in interest rates. The use of these financial instruments modifies the exposure of these risks with the intent to reduce risk to the Company. Changes in fair value of derivative financial instruments are recorded as adjustments to the assets or liabilities being hedged in the statements of income or in accumulated other comprehensive income (loss), depending on whether the derivative is designated and qualifies for hedge accounting. The Company is currently accounting for all derivative transactions as being ineffective and therefore has adjusted the market-to-market changes through the statements of operations.

On June 1, 2004, the Company entered into an Interest Rate Cap agreement in order to reduce the interest rate exposure on additional floating debt arrangements. The agreement requires 27 monthly payments of approximately \$11,000 as an economic hedge related to \$30 million of debt and an additional 26 monthly payments of approximately \$18,000 as an economic hedge related to \$50 million of debt. The Cap expired in November 2008. The Cap has been accounted for on a mark-to-market basis. The Company has recorded a reduction to interest expense in the amount of \$196,766 for 2008 to reflect the change in market value of the derivative.

During December 2006, the Company entered into two \$40 million swap agreements that fixed short-term rates at 4.75% and 4.61% on a portion of the Company's revolving debt arrangement and expire on February 2010 and the second swap has the option to extend to February 2011. During March 2009, the Company entered into two additional \$40 million Swap agreements in conjunction with the original agreements that had the effect of lowering the fixed short-term rates of the original swaps to 3 month LIBOR and expire on February 2010 and 2011, respectively. The mark-to-market adjustments for the swap agreements are included as an adjustment to interest expense which in 2009 decreased interest expense in the amount of \$2,060,655 and increased interest expense in the amount of \$2,724,522 and \$2,276,585 in 2008 and 2007, respectively. Also, the Company paid \$3,143,000 and \$1,358,000 in 2009 and 2008, respectively and received \$523,000 in 2007 in conjunction with the swap that increased and decreased interest expense. As of January 2, 2010 and January 3, 2009, the Company has a liability of \$2,308,846 and \$4,369,501, respectively, related to the above swap arrangements which are included in derivative liabilities.

Cliffstar Corporation and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

January 2, 2010 and January 3, 2009

NOTE 1 – DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

In accordance with the FASB guidance regarding fair value, a hierarchy is established which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The hierarchy defines three levels of inputs that may be used to measure fair value:

Level 1 – Unadjusted quoted prices in active markets for identical unrestricted assets and liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset and liability or can be corroborated with observable market data for substantially the entire contractual term of the asset or liability.

Level 3 – Unobservable inputs that reflect the entity’s own assumptions about the assumption market participants would use in the pricing of the asset or liability and are consequently not based on market activity but rather through particular valuation techniques.

The Company’s interest rate swaps are valued based on a fixed priced rate, and are therefore defined as Level 2 fair value measurements. In accordance with FASB ASC 820, the following table represents the Company’s assets and (liabilities) recorded at fair value as of January 2, 2010:

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|---------------------|----------------|----------------|----------------|---------------|
| Interest Rate Swaps | \$ — | \$(2,308,846) | \$ — | \$(2,308,846) |

Inventories

In fiscal 2005, the Company adopted the lower of last-in, first-out (LIFO) cost or market method for inventory valuation. Inventories are stated net of reserves for obsolescence and spoilage. If the cost of inventory exceeds market value, an adjustment is recorded to reflect the difference. There was no adjustment required in fiscal 2009 or 2008.

Income Taxes

Cliffstar, with the consent of the shareholders, has elected, under Subchapter S of the Internal Revenue Code and applicable state codes, to be treated substantially as a partnership instead of as a corporation for Federal and State income tax purposes. Star LLC is also treated as a partnership for tax purposes. As a result, the shareholders report their proportionate share of the entire corporate taxable income on their individual income tax returns.

Property, Plant and Equipment

Property, plant and equipment are stated at cost. Maintenance and repairs are expensed as incurred. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Average useful lives are as follows:

| | <u>Life in Years</u> |
|-------------------------------------|----------------------|
| Land improvements | 10 |
| Buildings and building improvements | 10-40 |
| Machinery and equipment | 5-10 |

Construction in progress represents costs incurred for property, plant and equipment not yet placed in service.

Cliffstar Corporation and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
January 2, 2010 and January 3, 2009

NOTE 1 – DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Goodwill

Under FASB ASC 350, *Goodwill and Other Intangible Assets*, intangible assets with indefinite lives, including goodwill, are not subject to amortization and are tested for impairment annually and whenever there is an impairment indicator. When evaluating whether goodwill is impaired, the Company calculates an estimate of its enterprise value and compares such estimate to the net carrying value of its assets, if the net carrying value exceeds the estimated enterprise value a potential impairment of goodwill exists. The Company estimates its enterprise value utilizing assumed market multiples of historical and forecasted levels of earnings before interest, taxes, depreciation and amortization (EBITDA). The Company tested goodwill for impairment at January 2, 2010 and January 3, 2009 and concluded that no impairment existed at either date.

Impairment of Long-Lived Assets

We evaluate the recoverability of our long-lived assets whenever adverse events or changes in the business climate indicate that the expected undiscounted future cash flows from the related category of assets may be less than previously anticipated. If the net book value of the related category of assets exceeds the undiscounted future cash flows of the category of assets, or if we believe a certain asset's future utilization is impaired, the carrying amount would be reduced to the fair value and an impairment loss would be recognized. This analysis requires us to make significant estimates and assumptions in projecting future cash flows, and changes in facts and circumstances could result in material changes in the amount of any impairment losses.

If the carrying amount of an asset, including associated intangibles, exceeds the sum of estimated undiscounted future cash flows, then an impairment loss is recognized for the difference between estimated fair value and carrying amount. When we dispose of assets, the cost and related accumulated depreciation are removed from the accounts, and any gains or losses are reflected in operating expenses.

Financial Instruments

Financial instruments held by the Company include cash and cash equivalents, accounts receivable, accounts payable, the revolving line of credit, and long term debt. Management believes that the carrying values of cash and cash equivalents, accounts receivable and accounts payable approximate their respective fair values due to the short-term nature of these instruments, while the carrying values of the revolving line of credit and long-term debt approximate their respective fair values as they bear interest at variable indexed to market rates of interest.

Accrued Liabilities

Accrued liabilities consist of the following at January 2, 2010 and January 3, 2009:

| | January 2, 2010 | January 3, 2009 |
|---------------------------|--------------------|--------------------|
| | (in thousands) | |
| Accrued customer programs | \$ 6,096 | \$ 3,472 |
| Accrued profit sharing | 3,971 | 2,200 |
| Other accrued liabilities | 11,815 | 12,440 |
| | <u>\$ 21,882</u> | <u>\$ 18,112</u> |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

January 2, 2010 and January 3, 2009

NOTE 1 – DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Self-Insurance

The Company is self-insured for workers' compensation claims in New York State and Missouri for up to \$350,000 per occurrence and additionally in California for up to \$500,000 per occurrence. The Company's liability for its self-insured workers' compensation plan is estimated based on the Company's historical claims experience, estimated future claims, and other factors. The Company's accrued liability for its self-insured plan at January 2, 2010 and January 3, 2009 totaled \$1,567,532 and \$1,302,712, respectively.

The Company is self-insured for medical, dental and vision insurance up to a stop loss amount of \$175,000 per person. The Company's liability for its self-insured medical, dental and vision plans are estimated based on the historical claims experience and estimated future claims. The Company's accrued liability for its self-insurance plans at January 2, 2010 and January 3, 2009 totaled approximately \$657,000 and \$502,000, respectively.

Accounting Estimates

The preparation of financial statements and the accompanying notes thereto, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

New Accounting Pronouncements

In May 2009, the Financial Accounting Standard Board (FASB) issued FASB Accounting Standards Codification Topic 855, Subsequent Events (FASB ASC 855). FASB ASC 855 sets forth: 1) the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition of disclosure in the financial statements; 2) the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements; and 3) the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. As required, the Company adopted this guidance in 2009.

In June 2009, the FASB issued FASB Accounting Standards Codification Topic 105, *Generally Accepted Accounting Principles* (FASB ASC 105) which establishes the FASB Accounting Standards Codification as the sole source of authoritative generally accepted accounting principles. Pursuant to the provisions of FASB ASC 105, the Company has updated references to GAAP in its financial statements issued for the period January 2, 2010. As required, the Company adopted this guidance in 2009.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

January 2, 2010 and January 3, 2009

NOTE 1 – DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

In July 2006, the Financial Accounting Standards Board (FASB) issued Accounting Standards Codification Topic 740, *Accounting for Uncertain Tax Positions*, guidance which establishes the criterion that an individual income tax position has to meet for some or all of the benefits of that position to be recognized in the Company's financial statements. On initial application, this uncertain income tax position guidance has been applied to all income tax positions for which the statute of limitations remains open. Only tax positions that meet the more-likely-than-not recognition threshold at the adoption date are recognized or will continue to be recognized. Adoption of the FASB's guidance on accounting for uncertain income tax positions as of January 4, 2009 had no effect on the Company's financial statements.

In September 2006, the Financial Accounting Standards Board (FASB) issued Accounting Standards Codification Topic 820, *Fair Value Measurement*. This statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. FASB ASC 820 applies under the accounting pronouncements that require or permit fair value measurements, the FASB having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, this statement does not require any new fair value measurements. However, for some entities, the application of this statement will change current practice. FASB ASC 820 is effective for financial statements issued for the fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. However, in February 2008, the FASB deferred the effective date of FASB ASC 820 with respect to nonfinancial assets and nonfinancial liabilities to fiscal years ending after December 15, 2009. The adoption of FASB ASC 820 in fiscal 2009 did not impact the Company's financial position or results of operations.

NOTE 2 – RELATED PARTY TRANSACTIONS

The Company maintains a management agreement with Star Consulting, a company owned by the Company's controlling shareholder. Star Consulting is active in day to day management decisions and strategic direction of the Company. The agreement provided for management fees of approximately \$644,000, \$302,000 and \$667,000 in fiscal 2009, 2008 and 2007, respectively and a bonus under the discretionary Bonus Plan with the amount of the total bonuses set by the Compensation Committee. The bonus paid to Star Consulting was \$2,000,000, \$800,000 and \$530,000 in fiscal 2009, 2008 and 2007, respectively.

The company has entered into an IC DISC brokerage agreement owned by the Company's controlling shareholder. The agreement specifies commissions that are paid related to sales made to foreign customers, predominantly customers in Canada. The commission rate paid on these sales is 4% which is the same rate paid to unrelated brokers and sales representatives. The agreement provided for a brokerage commission of \$2,041,047, \$2,400,000 and \$1,800,000 for 2009, 2008 and 2007, respectively.

The Company has notes payable to its shareholders, see Note 6.

The Company leases an administrative facility from a related party limited partnership under a four-year term ending September 30, 2013. Rent expense related to the facility lease totaled \$450,000 annually for 2009, 2008 and 2007.

In July 2004, the Company entered into a ten-year lease agreement with a related party limited liability corporation to lease a cold storage facility. In October 2009 the Company purchased the facility from the related party. Rent expense related to this facility lease totaled \$200,000 in fiscal 2009 and \$240,000 for fiscal 2008 and 2007.

In December 2005, the Company entered into a ten-year lease agreement with a related party limited liability corporation to lease an office building. In October 2009 the Company purchased the building from the related party. Rent expense incurred totaled \$60,000 in 2009 and \$72,000 for fiscal 2008 and 2007.

The cold storage facility and the office building were purchased for \$3,031,153. The assets purchased were recorded at their carry over basis and the excess of \$1,843,336 is recorded as a charge to shareholders equity.

Cliffstar Corporation and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
January 2, 2010 and January 3, 2009

NOTE 3 – INVENTORIES

Inventories consist of the following:

| | January 2, 2010 | January 3, 2009 |
|---|--------------------|--------------------|
| | (in thousands) | |
| Raw materials and supplies | \$ 70,129 | \$ 89,886 |
| Work in process | 14,667 | 14,600 |
| Finished goods | 19,290 | 25,191 |
| | 104,086 | 129,677 |
| Less excess of FIFO cost over LIFO cost | 14,273 | 41,912 |
| | \$ 89,813 | \$ 87,765 |

In fiscal year 2005, the Company adopted the last-in, first-out (LIFO) method of costing inventory. Management believes that the LIFO method has the effect of minimizing the impact of price level changes on inventory valuations and generally matches current costs against current revenues in the statement of operations. Had the Company used the first-in, first-out (FIFO) method of costing inventory, net income would have decreased by \$ 27,639,000 and increased by \$19,159,000 and \$13,669,000 for fiscal 2009, 2008 and 2007, respectively. At January 2, 2010 and January 3, 2009, the Company had prepaid for inventory totaling approximately \$715,000 and \$2,605,000, respectively, which is included in other current assets.

NOTE 4 – PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following:

| | January 2, 2010 | January 3, 2009 |
|-------------------------------------|--------------------|--------------------|
| | (in thousands) | |
| Land | \$ 1,457 | \$ 1,293 |
| Land improvements | 1,120 | 943 |
| Buildings and building improvements | 43,358 | 41,105 |
| Machinery and equipment | 147,042 | 141,256 |
| | 192,977 | 184,597 |
| Less accumulated depreciation | (106,943) | (94,434) |
| | 86,034 | 90,163 |
| Construction in progress | 6,501 | 3,815 |
| | \$ 92,535 | \$ 93,978 |

Cliffstar Corporation and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

January 2, 2010 and January 3, 2009

NOTE 5 – INTANGIBLE ASSETS

Intangible assets consist of the following:

| | <u>January 2,</u> <u>2010</u> | <u>January 3,</u> <u>2009</u> |
|--|----------------------------------|----------------------------------|
| | <u>(in thousands)</u> | |
| Amortizing intangible assets: | | |
| Customer relationships, net of accumulated amortization of \$1,799,000 and \$1,584,000, in 2009 and 2008, respectively | \$ 600 | \$ 816 |
| Bank financing costs, net of accumulated amortization of \$973,000 and \$721,000, in 2009 and 2008, respectively | <u>440</u> | <u>691</u> |
| | <u>\$ 1,040</u> | <u>\$ 1,507</u> |

Accumulated amortization was \$2,772,000 and \$2,305,000 at January 2, 2010 and January 3, 2009, respectively. Aggregate amortization expense for the above intangible assets was approximately \$466,000, \$608,000 and \$1,219,000 for the fiscal years ended January 2, 2010, January 3, 2009 and December 29, 2007, respectively.

The estimated aggregate amortization expense applicable to intangible assets subject to amortization for the fiscal years subsequent to January 2, 2010 are as follows:

| <u>Fiscal Year</u> | <u>(In Thousands)</u> |
|--------------------|------------------------|
| 2010 | \$ 456 |
| 2011 | 414 |
| 2012 | 25 |
| 2013 | 25 |
| 2014 | 25 |
| Thereafter | <u>95</u> |
| | <u>\$ 1,040</u> |

Cliffstar Corporation and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

January 2, 2010 and January 3, 2009

NOTE 6 – BANK REVOLVING CREDIT FACILITY AND LONG-TERM DEBT

Long-term debt consists of the following:

| | <u>January 2,</u> | <u>January 3,</u> |
|--|-------------------------|-------------------------|
| | <u>2010</u> | <u>2009</u> |
| | (in thousands) | |
| Secured revolving credit facility in the amount of \$175,000,000 interest at LIBOR, (London Inter Bank Offered Rate) or administrative agent’s base rate, plus incremental margin ranging from 1.25% to 2.25% on LIBOR and 0.25% to 0.75% on base loan rates. The rate at January 2, 2010 was 1.48%. The secured revolving credit line has an expiration date of November 7, 2011. | \$ 81,100 | \$ 96,100 |
| Note payable to Chautauqua County IDA (pka New York Job Development Authority) in monthly installments of \$15,910 including interest at 5%, due August 2017 | 1,213 | 1,340 |
| Note payable to F.F.S., Inc. in monthly installments of \$2,550 including interest at 8 %, fully paid in 2009. | — | 110 |
| Note payable to Chautauqua County IDA (pka New York Job Development Authority) in monthly installments of \$10,607 including interest at 5%, due April 2012. | 280 | 390 |
| Other notes payable – related party, bearing interest rate of 8% to 10%. | 7,955 | 5,905 |
| Capital lease obligations in monthly installments ranging from \$13,333 to \$18,269, including interest from 6.8% – 8.00% and final payments between March 2010 – May 2022. | 2,990 | 3,074 |
| | <u>93,538</u> | <u>106,919</u> |
| Less current portion | <u>(1,824)</u> | <u>(344)</u> |
| Long-term portion | <u>\$ 91,714</u> | <u>\$106,575</u> |

Cliffstar Corporation and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 January 2, 2010 and January 3, 2009

NOTE 6 – BANK REVOLVING CREDIT FACILITY AND LONG-TERM DEBT – CONTINUED

The following table represents annual payments for capital lease obligations:

| <u>Fiscal Year</u> | <u>(In Thousands)</u> |
|--------------------|------------------------|
| 2010 | \$ 1,693 |
| 2011 | 178 |
| 2012 | 181 |
| 2013 | 182 |
| 2014 | 182 |
| Thereafter | 1,376 |
| | <u>3,792</u> |
| Less interest | <u>802</u> |
| | <u><u>\$ 2,990</u></u> |

On November 6, 2006, the Company entered into a \$175,000,000 secured revolving credit facility with a new bank. The Company received proceeds of \$107 million which were used to pay off the existing credit facility. This credit line has an expiration date of November 7, 2011. Letters of credit may be issued against the revolver to the extent that the outstanding principal amount of the line of credit plus the aggregate face amount of letters of credit outstanding does not exceed the authorized borrowing capacity. The letters of credit outstanding were \$3,133,763 and \$3,068,935 at January 2, 2010 and January 3, 2009, respectively. The Company's Senior Secured Credit Facility contains restrictive covenants, the most significant of which require achieving certain leverage ratio, minimum EBITDA, and fixed charge coverage ratios as defined in the agreement. At January 2, 2010, the Company was in compliance with the restrictive covenants.

Included in Other notes payable-related party are approximately \$8.0 million and \$5.9 million of unsecured promissory notes to shareholders at January 2, 2010 and January 3, 2009, respectively. These promissory notes bore interest at rates of 8%-10%. These notes have a two-year payment term. However, the shareholders have historically renewed the notes for additional two year terms and, therefore, are included as "thereafter" principal payment in the maturity schedule below. These notes are subordinate to the revolving credit facility.

Based on the borrowing rates currently available to the Company for loans with similar terms and average maturities, management has estimated that the fair value of long-term debt approximated its carrying value at January 2, 2010 and January 3, 2009.

Cliffstar Corporation and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

January 2, 2010 and January 3, 2009

NOTE 6 – BANK REVOLVING CREDIT FACILITY AND LONG-TERM DEBT – CONTINUED

The aggregate annual principal payments applicable to long-term debt for the fiscal years subsequent to January 2, 2010 are as follows:

| <u>Fiscal Year</u> | <u>(In Thousands)</u> |
|--------------------|-----------------------|
| 2010 | \$ 1,824 |
| 2011 | 81,442 |
| 2012 | 278 |
| 2013 | 251 |
| 2014 | 266 |
| Thereafter | 9,477 |
| | <u>\$ 93,538</u> |

NOTE 7 – COMMITMENTS AND CONTINGENCIES

The Company has entered into purchase agreements with numerous growers that extend through 2013. Prices under the agreements are based on the market price in the year of delivery. The amounts to be purchased under the agreements are based on actual production. The Company estimates that the minimum annual purchase commitments are approximately \$57,555,000 as of January 2, 2010. The estimate is based on historical quantities and the Company's best estimate of market price using current data.

The Company has entered into forward contracts for a percentage of its energy usage. The contracts expire through March, 2012. The total commitment under these agreements is \$9,800,518 at January 2, 2010.

Guarantees and claims arise during the ordinary course of business from relationships with suppliers and customers. The Company currently has no other known exposures and believes that any such claims noted above would not have a material adverse effect on the consolidated financial position or results of operations as of January 2, 2010.

The Company leases warehouses, machinery and equipment, automobiles, and office equipment under various operating leases with non-cancelable lease terms of more than one year. The following is a schedule by year of future minimum lease payments under these operating leases as of January 2, 2010:

| <u>Fiscal Year</u> | <u>(In Thousands)</u> |
|--------------------|-----------------------|
| 2010 | \$ 4,428 |
| 2011 | 2,604 |
| 2012 | 1,711 |
| 2013 | 634 |
| 2014 | 4 |
| Thereafter | — |
| | <u>\$ 9,381</u> |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

January 2, 2010 and January 3, 2009

NOTE 7 – COMMITMENTS AND CONTINGENCIES – CONTINUED

Rental expense for the fiscal years ended January 2, 2010, January 3, 2009 and December 29, 2007 amounted to approximately \$3,816,000, \$4,598,000 and \$4,772,000, respectively.

NOTE 8 – OTHER LONG-TERM LIABILITIES

The Company has a lease agreement in which warehouse space is being leased to a bottle manufacturer. The lease commenced in December 1999 and expires in March 2010. A new lease and supply agreement was signed in January 2010. These new agreements expire June 30, 2015. The Company received an upfront payment for the supply agreement of \$1,500,000 and is amortizing the payment over the life of the agreement. The related revenue was recognized equally over the life of the agreement. The lease is being paid quarterly.

The new supply agreement allows the supplier to sell product to customers other than the Company and all pricing is set at market price with fixed unit costs. The Company may receive volume discounts if they exceed specified volumes.

As discussed in Note 10, the Company established a SERP pursuant to an agreement with certain officers of the Company. The long-term obligation related to this agreement approximated \$1,860,000 and \$1,242,000 at January 2, 2010 and January 3, 2009, respectively.

NOTE 9 – MAJOR CUSTOMER CONCENTRATION

Sales to the Company's two largest customers amounted to approximately 46% annually of the Company's gross revenues for fiscal years 2009, 2008 and 2007, respectively. Accounts receivable from these two customers totaled approximately \$29,676,000 and \$24,298,000 as of January 2, 2010 and January 3, 2009, respectively.

NOTE 10 – PROFIT SHARING PLANS AND POST-RETIREMENT BENEFITS

Cliffstar has established a noncontributory profit sharing plan, covering substantially all employees. At the discretion of the Board of Directors, contributions may be made to the plan by the Company. No contributions were declared for the years ended January 2, 2010 and January 3, 2009.

Cliffstar offers a 401(k) profit sharing plan, in addition to the noncontributory profit sharing plan above, covering substantially all employees. The Company will match 65% of the first 6% of the individual associate's pay contributed. Employer contributions related to this plan were approximately \$1,042,000, \$1,067,000 and \$1,045,000 for fiscal 2009, 2008 and 2007, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

January 2, 2010 and January 3, 2009

NOTE 10 – PROFIT SHARING PLANS AND POST-RETIREMENT BENEFITS – CONTINUED

The Company has a SERP Plan that provides for benefits that supplement those provided by the Company's other retirement plans. The SERP is an unfunded plan pursuant to which the Company will pay supplemental post-retirement benefits to certain key employees upon retirement based upon the employee's years of service, compensation and tier. The Company's discretionary contributions are being made into a separate account for the benefit of participants. The assets in this separate account are subject to unsecured creditors. For the fiscal years ended January 2, 2010, January 3, 2009 and December 29, 2007, contribution expense was approximately \$382,850, \$334,000 and \$321,000, respectively. For the fiscal years ended January 2, 2010 and January 3, 2009, the fair value of the SERP was \$1,860,000 and \$1,242,000, respectively. The fair value of the assets are comprised of cash and cash equivalents, marketable securities, real estate funds and commodity funds investments. This SERP amount is included within other noncurrent assets and the associated deferred compensation liability is included within other long-term liabilities on the consolidated balance sheets. The fair value of the liability fluctuates based on the annual change in the value of the assets set aside for the benefit of the SERP participants.

Financial instruments measured at fair value on a recurring basis using quoted prices for identical instruments in an active market (or Level 1 inputs) include marketable securities, cash and cash equivalents, real estate funds and commodity funds. Financial instruments measured at fair value using inputs based upon quoted market prices for similar instruments in active markets (or Level 2 inputs) include marketable securities in bonds.

| | Assets at Fair Value as of January 2, 2010 | | | |
|-----------------------------------|--|-------------------------|--------------------|---------------------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Cash & Cash Equivalents | \$ 22,000 | \$ — | \$ — | \$ 22,000 |
| Marketable Securities | 1,381,000 | 377,000 | — | 1,758,000 |
| Real Estate Funds | 16,000 | — | — | 16,000 |
| Commodity Funds | 64,000 | — | — | 64,000 |
| Total Assets at Fair Value | <u>\$1,483,000</u> | <u>\$377,000</u> | <u>\$ —</u> | <u>\$1,860,000</u> |

NOTE 11 – INCOME TAXES

Prior to adopting the FASB's new guidance on accounting for uncertain income tax positions, the Company had accounted for tax contingencies in accordance with FASB Accounting Standards Codification Topic 450, Contingencies. As required by the new guidance on accounting for uncertain income tax positions, the Company recognizes the financial statement benefit of an income tax position only after determining that the relevant tax authority would more-likely-than-not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant tax authority.

The Company is a flow-through entity and not subject to federal or state income tax. Tax regulations within each jurisdiction are subject to the interpretation of the related tax laws and regulations and require significant judgment to apply. For federal income tax purposes, the Company is no longer subject to examination by tax authorities for years before 2006. The Company has no uncertain income tax positions that are attributable to it.

The Company recognizes interest and penalties related to uncertain income tax positions in the provision for income taxes. However, no such interest and penalties were recorded in 2009 and 2008.

Cliffstar Corporation and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

January 2, 2010 and January 3, 2009

NOTE 12 – SUBSEQUENT EVENTS

The Company evaluated its financial statements for subsequent events through March 9, 2010, the date the financial statements were available to be issued. The Company is not aware of any other subsequent events which would require recognition or disclosure in the financial statements.

(Unaudited)

Cliffstar Corporation and Subsidiaries

July 3, 2010

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Cliffstar Corporation and Subsidiaries
CONSOLIDATED BALANCE SHEETS

July 3, 2010 and January 2, 2010
(in thousands)

| | <u>July 3, 2010</u> | <u>January 2, 2010</u> |
|--|--------------------------|--------------------------|
| | <u>(UNAUDITED)</u> | |
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 165 | \$ 2,885 |
| Accounts receivable, trade – net of allowances of \$1,307 and \$1,281 for July 3, 2010 and January 2, 2010, respectively | 51,555 | 54,385 |
| Inventories | 80,680 | 89,813 |
| Other current assets | <u>5,782</u> | <u>2,675</u> |
| Total current assets | 138,182 | 149,758 |
| PROPERTY, PLANT AND EQUIPMENT, NET | 92,554 | 92,535 |
| OTHER ASSETS | | |
| Goodwill | 20,070 | 20,070 |
| Intangible assets, net | 812 | 1,040 |
| Other non-current assets | <u>2,835</u> | <u>2,787</u> |
| Total other assets | <u>23,717</u> | <u>23,897</u> |
| | <u>\$ 254,453</u> | <u>\$ 266,190</u> |

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

| | <u>July 3, 2010</u> <u>(UNAUDITED)</u> | <u>January 2, 2010</u> |
|--|---|------------------------|
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| CURRENT LIABILITIES | | |
| Accounts payable, trade | \$ 34,858 | \$ 62,746 |
| Accrued liabilities, including amounts due to related parties of \$0 and \$800,000 at July 3, 2010 and January 2, 2010, respectively | 18,819 | 21,882 |
| Current portion of long-term debt | 333 | 1,824 |
| Other current liabilities | 25 | 25 |
| Total current liabilities | <u>54,035</u> | <u>86,477</u> |
| LONG-TERM OBLIGATIONS | | |
| Long-term debt | 97,277 | 91,714 |
| Derivative liability | 1,196 | 2,309 |
| Other long-term liabilities | 3,432 | 2,191 |
| Total long-term obligations | <u>101,905</u> | <u>96,214</u> |
| Total liabilities | 155,940 | 182,691 |
| SHAREHOLDERS' EQUITY | | |
| Common stock: | | |
| Class A common voting stock, 100 shares authorized, 10 shares issued and outstanding at July 3, 2010 and January 2, 2010 | 4 | 4 |
| Class B common non-voting stock, 1,900 shares authorized, 990 shares issued and outstanding at July 3, 2010 and January 2, 2010 | 19 | 19 |
| Additional paid-in capital | 4,304 | 4,304 |
| Retained earnings | 94,186 | 79,172 |
| Total shareholders' equity | <u>98,513</u> | <u>83,499</u> |
| | <u>\$ 254,453</u> | <u>\$ 266,190</u> |

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

Cliffstar Corporation and Subsidiaries

CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)For the three and six months ended July 3, 2010 and July 4, 2009
(in thousands)

| | Three Months Ended | | Six Months Ended | |
|---|---------------------------|-------------------------|-------------------------|-------------------------|
| | July 3, 2010 | July 4, 2009 | July 3, 2010 | July 4, 2009 |
| Revenue: | | | | |
| Gross revenue | \$ 169,719 | \$ 179,097 | \$ 341,239 | \$ 367,725 |
| Less discounts | (5,478) | (6,039) | (11,143) | (11,602) |
| Net revenue | 164,241 | 173,058 | 330,096 | 356,123 |
| Costs and expenses: | | | | |
| Cost of goods sold (excluding depreciation) | 124,824 | 131,809 | 246,784 | 276,077 |
| Depreciation | 3,348 | 3,482 | 6,696 | 6,963 |
| Selling and administrative expenses | 15,232 | 13,891 | 31,770 | 28,718 |
| | <u>143,404</u> | <u>149,182</u> | <u>285,250</u> | <u>311,758</u> |
| Income from operations | 20,837 | 23,876 | 44,846 | 44,365 |
| Other expense: | | | | |
| Interest expense | 815 | 1,053 | 1,382 | 2,856 |
| Other | 211 | 222 | 376 | 280 |
| Total other expense | <u>1,026</u> | <u>1,275</u> | <u>1,758</u> | <u>3,136</u> |
| NET INCOME | <u>\$ 19,811</u> | <u>\$ 22,601</u> | <u>\$ 43,088</u> | <u>\$ 41,229</u> |

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

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(UNAUDITED)

For the six months ended July 3, 2010 and July 4, 2009
(in thousands except share data)

| | <u>Common Stock</u> <u>Class A</u> <u>Stated</u> | | <u>Common Stock</u> <u>Class B</u> <u>Stated</u> | | <u>Additional</u> <u>Paid-In</u> <u>Capital</u> | <u>Retained</u> <u>Earnings</u> | <u>Total</u> |
|-----------------------------------|--|--------------|--|--------------|---|------------------------------------|------------------|
| | <u>Shares</u> | <u>Value</u> | <u>Shares</u> | <u>Value</u> | | | |
| Balance at January 3, 2009 | 10 | \$ 4 | 990 | \$ 19 | \$ 4,304 | \$ 20,254 | \$ 24,581 |
| Net Income | — | — | — | — | — | 41,229 | 41,229 |
| Distributions to shareholders | — | — | — | — | — | (9,642) | (9,642) |
| Balance at July 4, 2009 | 10 | \$ 4 | 990 | \$ 19 | \$ 4,304 | \$ 51,841 | \$ 56,168 |
| | <u>Shares</u> | <u>Value</u> | <u>Shares</u> | <u>Value</u> | <u>Additional</u> <u>Paid-In</u> <u>Capital</u> | <u>Retained</u> <u>Earnings</u> | <u>Total</u> |
| Balance at January 2, 2010 | 10 | \$ 4 | 990 | \$ 19 | \$ 4,304 | \$ 79,172 | \$ 83,499 |
| Net income | — | — | — | — | — | 43,088 | 43,088 |
| Distributions to shareholders | — | — | — | — | — | (28,074) | (28,074) |
| Balance at July 3, 2010 | 10 | \$ 4 | 990 | \$ 19 | \$ 4,304 | \$ 94,186 | \$ 98,513 |

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

CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

For the six months ended July 3, 2010 and July 4, 2009
(in thousands)

| | <u>July 3, 2010</u> | <u>July 4, 2009</u> |
|---|---------------------|---------------------|
| Cash Flows from Operating Activities: | | |
| Net Income | \$ 43,088 | \$ 41,229 |
| Adjustments to reconcile net income to net cash used in operating activities: | | |
| Depreciation | 6,696 | 6,963 |
| Change in LIFO reserve | (6,216) | (13,819) |
| Fair value adjustment on derivatives | (1,113) | (857) |
| Amortization | 228 | 233 |
| Loss (gain) on sale or retirement of fixed assets | 15 | (3) |
| Change in operating assets and liabilities: | | |
| Accounts receivable, trade | 2,830 | (7,714) |
| Inventories | 15,349 | 28,996 |
| Other current assets | (3,107) | 249 |
| Other assets | (48) | (263) |
| Accounts payable, trade | (27,888) | (67,557) |
| Accrued liabilities | (3,063) | 1,981 |
| Other current liabilities | — | (190) |
| Other long-term liabilities | <u>1,241</u> | <u>(190)</u> |
| Net cash provided by (used in) operating activities | 28,012 | (10,942) |
| Cash Flows from Investing Activities: | | |
| Acquisition of property, plant and equipment | (6,891) | (4,512) |
| Proceeds from sale of property, plant and equipment | <u>161</u> | <u>97</u> |
| Net cash used in investing activities | (6,730) | (4,415) |
| Cash Flows from Financing Activities: | | |
| Net borrowings of bank revolving credit facility | (6,500) | 20,200 |
| Payments of long-term debt | (1,660) | (177) |
| Change in notes payable to shareholder | 12,232 | 1,971 |
| Distribution to shareholders | <u>(28,074)</u> | <u>(9,642)</u> |
| Net cash provided by (used in) financing activities | <u>(24,002)</u> | <u>12,352</u> |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | (2,720) | (3,005) |
| Cash and cash equivalents, beginning of period | 2,885 | 3,279 |
| Cash and cash equivalents, end of period | <u>\$ 165</u> | <u>\$ 274</u> |
| Supplemental Information | | |
| Interest paid | <u>\$ 1,766</u> | <u>\$ 3,085</u> |

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

July 3, 2010 and July 4, 2009

NOTE 1 – DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidated Financial Statements

Consolidated financial statements include the accounts of Cliffstar Corporation (“Cliffstar”), its wholly owned subsidiaries Star World Technology Trading Company (“Star World”), Shanstar Biotech, Inc. (“Shanstar”), Harvest Classic, LLC (“Harvest”) and its majority owned subsidiary Star Real Property LLC (“Star LLC”) collectively, the “Company”. All material intercompany accounts and transactions have been eliminated.

These unaudited consolidated condensed financial statements should be read in conjunction with the consolidated financial statements and related notes included in the Company’s 2009 audited financial statements. The results of operations for any interim period are not necessarily indicative of the results to be expected for other interim periods or the full year.

Derivatives

The Company uses derivative financial instruments to manage its economic exposure to movements in interest rates. The use of these financial instruments modifies the exposure of these risks with the intent to reduce risk to the Company. The Company does not use financial instruments for trading purposes. Changes in fair value of derivative financial instruments are recorded as adjustments to the assets or liabilities being hedged in the statements of income or in accumulated other comprehensive income (loss), depending on whether the derivative is designated and qualifies for hedge accounting. The Company is currently accounting for all derivative transactions as being ineffective and therefore has adjusted the market-to-market changes through the statements of income.

During December 2006, the Company entered into two \$40 million swap agreements that fixed short-term rates at 4.75% and 4.61% on a portion of the Company’s revolving debt arrangement and expire on February 2010 and the second swap has the option to extend to February 2011. During March 2009, the Company entered into two additional \$40 million swap agreements in conjunction with the original agreements that had the effect of lowering the fixed short-term rates of the original swaps to 3 month LIBOR and expire on February 2010 and 2011, respectively. The mark-to-market adjustments for the swap agreements are included as an adjustment to interest expense which decreased interest expense in the amount of \$1,113,388 and \$856,328 for the six months ended July 3, 2010 and July 4, 2009, respectively. Also, the Company paid \$997,079 and \$1,403,286 for the six months ended July 3, 2010 and July 4, 2009, respectively in conjunction with the swap that increased interest expense. As of July 3, 2010 and January 2, 2010, the Company has a liability of \$1,195,458 and \$2,308,846, respectively, related to the above swap arrangements which are included in derivative liabilities.

In accordance with the FASB guidance regarding fair value, a hierarchy is established which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The hierarchy defines three levels of inputs that may be used to measure fair value:

Level 1 – Unadjusted quoted prices in active markets for identical unrestricted assets and liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset and liability or can be corroborated with observable market data for substantially the entire contractual term of the asset or liability.

Level 3 – Unobservable inputs that reflect the entity’s own assumptions about the assumption market participants would use in the pricing of the asset or liability and are consequently not based on market activity but rather through particular valuation techniques.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

July 3, 2010 and July 4, 2009

NOTE 1 – DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**Derivatives - continued**

The Company's interest rate swaps are valued based on a fixed priced rate, and are therefore defined as Level 2 fair value measurements. In accordance with FASB guidance regarding fair value measurements, the following table represents the Company's assets and (liabilities) recorded at fair value as of July 3, 2010 and January 2, 2010, respectively:

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|-------------------------------------|----------------|----------------|----------------|---------------|
| July 3, 2010 interest rate swaps | \$ — | \$(1,195,458) | \$ — | \$(1,195,458) |
| January 2, 2010 interest rate swaps | — | (2,308,846) | — | (2,308,846) |

Financial Instruments

Financial instruments held by the Company include cash and cash equivalents, accounts receivable, accounts payable, the revolving line of credit, and long term debt. Management believes that the carrying values of cash and cash equivalents, accounts receivable and accounts payable approximate their respective fair values due to the short-term nature of these instruments, while the carrying values of the revolving line of credit and long-term debt approximate their respective fair values as they bear interest at variable indexed to market rates of interest.

Accrued Liabilities

Accrued liabilities consist of the following at July 3, 2010 and January 2, 2010:

| | <u>July 3, 2010</u> <u>(UNAUDITED)</u> <u>(in thousands)</u> | <u>January 2,</u> <u>2010</u> |
|---------------------------|--|----------------------------------|
| Accrued customer programs | \$ 5,442 | \$ 6,096 |
| Accrued profit sharing | 2,150 | 3,971 |
| Other accrued liabilities | <u>11,227</u> | <u>11,815</u> |
| | <u>\$ 18,819</u> | <u>\$ 21,882</u> |

Accounting Estimates

The preparation of financial statements and the accompanying notes thereto, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 – RELATED PARTY TRANSACTIONS

The Company maintains a management agreement with Star Consulting, a company owned by the Company's controlling shareholder. Star Consulting is active in day to day management decisions and strategic direction of the Company. The agreement provided for management fees of approximately \$370,000 and \$170,000 during the six months ended July 3, 2010 and July 4, 2009, respectively and a bonus under the discretionary Bonus Plan with the amount of the total bonuses set by the Compensation Committee. The bonus paid to Star Consulting was \$1,000,000 for each of the six months ended July 3, 2010 and July 4, 2009, respectively.

Cliffstar Corporation and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

July 3, 2010 and July 4, 2009

NOTE 2 – RELATED PARTY TRANSACTIONS (CONTINUED)

The Company has entered into an IC DISC brokerage agreement owned by the Company's controlling shareholder. The agreement specifies commissions that are paid related to sales made to foreign customers, predominantly customers in Canada. The commission rate paid on these sales is 4% which is the same rate paid to unrelated brokers and sales representatives. The agreement provided for a brokerage commission of \$1,260,000 and \$1,120,000 during the six months ended July 3, 2010 and July 4, 2009, respectively.

The Company has notes payable to its shareholders, see Note 5.

The Company leases an administrative facility from a related party limited partnership under a four-year term ending September 30, 2013. Rent expense related to the facility lease totaled \$225,000 for each of the six months ended July 3, 2010 and July 4, 2009.

In July 2004, the Company entered into a ten-year lease agreement with a related party limited liability corporation to lease a cold storage facility. In October 2009 the Company purchased the facility from the related party. Rent expense related to this facility lease totaled \$0 and \$120,000 during the six months ended July 3, 2010 and July 4, 2009, respectively.

In December 2005, the Company entered into a ten-year lease agreement with a related party limited liability corporation to lease an office building. In October 2009 the Company purchased the building from the related party. Rent expense incurred totaled \$0 and \$36,000 during the six months ended July 3, 2010 and July 4, 2009, respectively.

NOTE 3 – INVENTORIES

Inventories consist of the following:

| | <u>July 3, 2010</u> <u>(UNAUDITED)</u> | <u>January 2,</u> <u>2010</u> |
|---|---|----------------------------------|
| | (in thousands) | |
| Raw materials and supplies | \$ 46,805 | \$ 70,129 |
| Work in process | 18,604 | 14,667 |
| Finished goods | <u>23,328</u> | <u>19,290</u> |
| | 88,737 | 104,086 |
| Less excess of FIFO cost over LIFO cost | <u>(8,057)</u> | <u>(14,273)</u> |
| | <u>\$ 80,680</u> | <u>\$ 89,813</u> |

The change in the LIFO reserve reduced cost of goods sold in the amounts of \$6,216,501 and \$13,819,229 for the six months ended July 3, 2010 and July 4, 2009, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

July 3, 2010 and July 4, 2009

NOTE 4 – PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following:

| | July 3, 2010 (UNAUDITED) | January 2, 2010 |
|-------------------------------------|-----------------------------|-------------------------|
| | (in thousands) | |
| Land | \$ 1,457 | \$ 1,457 |
| Land improvements | 1,120 | 1,120 |
| Buildings and building improvements | 44,216 | 43,358 |
| Machinery and equipment | 149,495 | 147,042 |
| | <u>196,288</u> | <u>192,977</u> |
| Less accumulated depreciation | (113,443) | (106,943) |
| | 82,845 | 86,034 |
| Construction in progress | <u>9,709</u> | <u>6,501</u> |
| | <u><u>\$ 92,554</u></u> | <u><u>\$ 92,535</u></u> |

NOTE 5 – BANK REVOLVING CREDIT FACILITY AND LONG-TERM DEBT

Long-term debt consists of the following:

| | July 3, 2010 (UNAUDITED) | January 2, 2010 |
|---|-----------------------------|-------------------------|
| | (in thousands) | |
| Secured revolving credit facility in the amount of \$175,000,000 interest at LIBOR, (London Inter Bank Offered Rate) or administrative agent's base rate, plus incremental margin ranging from 1.25% to 2.25% on LIBOR and 0.25% to 0.75% on base loan rates. The rate at July 3, 2010 was 2.07%. The secured revolving credit line has an expiration date of November 7, 2011. | \$ 74,600 | \$ 81,100 |
| Note payable to Chautauqua County IDA (pka New York Job Development Authority) in monthly installments of \$15,910 including interest at 5%, due August 2017 | 1,148 | 1,213 |
| Note payable to Chautauqua County IDA (pka New York Job Development Authority) in monthly installments of \$10,607 including interest at 5%, due July 2012. | 223 | 280 |
| Other notes payable – related party, bearing interest rate of 5% to 10%. | 20,187 | 7,955 |
| Capital lease obligations in monthly installments ranging from \$13,333 to \$18,269, including interest from 6.8% –8.00% and final payments between March 2010 – May 2022. | <u>1,452</u> | <u>2,990</u> |
| | 97,610 | 93,538 |
| Less current portion | <u>333</u> | <u>1,824</u> |
| Long-term portion | <u><u>\$ 97,277</u></u> | <u><u>\$ 91,714</u></u> |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

July 3, 2010 and July 4, 2009

NOTE 5 – BANK REVOLVING CREDIT FACILITY AND LONG-TERM DEBT (CONTINUED)

On November 6, 2006, the Company entered into a \$175,000,000 secured revolving credit facility with a new bank. The Company received proceeds of \$107 million which were used to pay off the existing credit facility. This credit line has an expiration date of November 7, 2011. Letters of credit may be issued against the revolver to the extent that the outstanding principal amount of the line of credit plus the aggregate face amount of letters of credit outstanding does not exceed the authorized borrowing capacity. The letters of credit outstanding were \$3,133,763 at July 3, 2010 and January 2, 2010, respectively. The Company's Senior Secured Credit Facility contains restrictive covenants, the most significant of which require achieving certain leverage ratio, minimum EBITDA, and fixed charge coverage ratios as defined in the agreement. At July 3, 2010, the Company was in compliance with the restrictive covenants.

Included in Other notes payable-related party are approximately \$20.2 million and \$8.0 million of unsecured promissory notes to shareholders at July 3, 2010 and January 2, 2010, respectively. These promissory notes bore interest at rates of 5%-10%. These notes have a two-year payment term. However, the shareholders have historically renewed the notes for additional two year terms. These notes are subordinate to the revolving credit facility. On April 27, 2010, the Company amended its revolving credit facility to allow for additional unsecured promissory notes payable to shareholders. Concurrently, the shareholder loans subordination agreement was amended to include the additional notes. Proceeds on the new shareholder notes were approximately \$9 million.

NOTE 6 – COMMITMENTS AND CONTINGENCIES

The Company has entered into purchase agreements with numerous growers that extend through 2013. Prices under the agreements are based on the market prices in the year of delivery. The amounts to be purchased under the agreements are based on actual production. The Company estimates that the minimum annual purchase commitments are approximately \$57,555,000 as of July 3, 2010. The estimate is based on historical quantities and the Company's best estimate of market price using current data.

The Company has entered into forward contracts for a percentage of its energy usage. These contracts expire in March, 2012. The total commitment under these agreements is approximately \$9,610,000 as of July 3, 2010

Guarantees and claims arise during the ordinary course of business from relationships with suppliers and customers. The Company currently has no other known exposures and believes that any such claims noted above would not have a material adverse effect on the consolidated financial position or results of operations as of July 3, 2010.

NOTE 7 – OTHER LONG-TERM LIABILITIES

The Company has a lease agreement in which warehouse space is being leased to a bottle manufacturer. The lease commenced in December 1999 and expired in March 2010. A new lease and supply agreement was signed in January 2010. These new agreements expire on June 30, 2015. The new supply agreement allows the supplier to sell product to customers other than the Company and all pricing is set at market price with fixed unit costs. The Company may receive volume discounts if they exceed specified volumes. The Company received an upfront incentive payment of \$1,500,000 for signing the supply agreement and is amortizing the payment over the life of the agreement. The related revenue is recognized equally over the life of the agreement. The lease is being paid quarterly.

NOTE 8 – INCOME TAXES

The Company is a flow-through entity and not subject to federal or state income tax. Tax regulations within each jurisdiction are subject to the interpretation of the related tax laws and regulations and require significant judgment to apply. For federal income tax purposes, the Company is no longer subject to examination by tax authorities for years before 2006. The Company has no uncertain income tax positions that are attributable to it.

Cliffstar Corporation and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

July 3, 2010 and July 4, 2009

NOTE 9 – SUBSEQUENT EVENT

On July 7, 2010, Cott Corporation entered into an asset purchase agreement with Cliffstar to acquire substantially all of the assets and liabilities of Cliffstar for a purchase price of \$500 million in cash plus additional contingent consideration, payable at closing, subject to adjustment for working capital and other items.

Cott and Cliffstar Unaudited Pro Forma Condensed Combined Financial Statements

On July 7, 2010, Cott Corporation (“Cott” or the “Company”) entered into an Asset Purchase Agreement with Cliffstar Corporation (“Cliffstar”), to acquire substantially all of the assets and liabilities of Cliffstar, a privately-held corporation (“Cliffstar Acquisition”). The purchase includes \$500 million in cash, payable at closing, subject to adjustment for working capital and other items and \$14 million of deferred consideration which will be paid over a three-year period. Cliffstar is entitled to additional contingent earnout consideration of up to a maximum of \$55 million, based upon the achievement of certain performance measures during the fiscal year ending January 1, 2011 as well as the successful completion of certain expansion projects in 2010. The closing of the transaction is subject to certain customary conditions, including receipt of required regulatory approvals, and is expected to close in the third quarter of 2010.

The unaudited pro forma condensed combined financial statements have been prepared to illustrate the effect of the Cliffstar Acquisition, including related financing. The unaudited pro forma condensed combined balance sheet combines the historical consolidated balance sheets of Cott and Cliffstar, giving effect to the Cliffstar Acquisition as if it had occurred on July 3, 2010. The unaudited pro forma condensed combined statement of operations for the fiscal year ended January 2, 2010, for the six months ended July 3, 2010 and for the six months ended June 27, 2009 combine the historical consolidated statements of operations of Cott and Cliffstar, giving effect to the Cliffstar Acquisition as if it had occurred on January 2, 2009. The unaudited pro forma condensed combined statements of operations for the twelve months ended July 3, 2010 is calculated by subtracting the Cott data for the six months ended June 27, 2009 and the Cliffstar data for the six months ended July 4, 2009 from the fiscal year ended January 2, 2010 and then adding the six months ended July 3, 2010. The historical financial information has been adjusted to give effect to matters that are (i) directly attributable to the Cliffstar Acquisition, (ii) factually supportable, and (iii) with respect to the statements of operations, expected to have a continuing impact on the operating results of the combined company. The unaudited pro forma condensed combined financial statements should be read in conjunction with the accompanying Notes to the Unaudited Pro Forma Condensed Combined Financial Statements and:

- the audited historical financial statements of Cott Corporation, as of and for the year ended January 2, 2010, included in Cott’s Annual Report on Form 10-K filed with the U.S. Securities and Exchange Commission (“SEC”) on March 16, 2010;
- the unaudited historical financial statements of Cott Corporation, as of and for the three and six months ended July 3, 2010 and the three and six months ended June 27, 2009, included in Cott’s Quarterly Report on Form 10-Q filed with the SEC on August 4, 2010;
- the audited historical financial statements of Cliffstar as of and for the year ended January 2, 2010, included in this Current Report on Form 8-K; and
- the unaudited historical financial statements of Cliffstar as of and for the three and six months ended July 3, 2010 and the three and six months ended July 4, 2009, included in this Current Report on Form 8-K.

The unaudited pro forma condensed combined financial statements have been prepared using the acquisition method of accounting, with Cott treated as the acquirer. The unaudited pro forma condensed combined financial statements will differ from our final acquisition accounting for a number of reasons, including the fact that our estimates of fair values of assets and liabilities acquired are preliminary and subject to change when our formal valuation and other studies are finalized. The differences that will occur between the preliminary estimates and the final acquisition accounting could have a material impact on the accompanying unaudited pro forma condensed combined financial statements.

The unaudited pro forma condensed combined financial statements are presented for informational purposes only. It has been prepared in accordance with the Article 11 of Regulation S-X of the SEC and is not necessarily indicative of what our financial position or results of operations actually would have been had we completed the Cliffstar Acquisition at the dates indicated, nor does it purport to project the future financial position or operating results of the combined company. The unaudited pro forma condensed combined statements of operations does not reflect any revenue or cost savings from synergies that may be achieved with respect to the combined companies, or the impact of non-recurring items, including synergies, directly related to the Cliffstar Acquisition.

The unaudited pro forma condensed combined statements of operations for the twelve months ended July 3, 2010 and for the six months ended June 27, 2009 are not required by Regulation S-X, but have been included as we believe the last twelve months of data is a better representative of the results of the combined companies. The overall market for carbonated soft drinks in which Cott operates has declined and both Cott and Cliffstar are subject to volatile commodity fluctuations. Therefore, presenting the last twelve months provides a more accurate representation of current market conditions in which the combined companies operate.

Cott Corporation
Unaudited Pro Forma Condensed Combined Balance Sheet
As of July 3, 2010

| | <u>Cott</u> | <u>Cliffstar</u> | <u>Pro Forma</u> <u>Adjustments</u> | <u>Pro Forma</u> <u>Combined</u> |
|--|-------------------------------|------------------|--|-------------------------------------|
| | (In millions of U.S. dollars) | | | |
| ASSETS | | | | |
| <i>Current assets:</i> | | | | |
| Cash and cash equivalents | \$ 20.3 | \$ 0.2 | \$ 0.6 A | \$ 21.1 |
| Accounts receivable, net | 195.3 | 51.6 | — | 246.9 |
| Income tax recoverable | 7.8 | — | — | 7.8 |
| Inventories | 115.0 | 80.7 | 12.8 B | 208.5 |
| Prepaid and other expenses | 14.2 | 5.8 | — | 20.0 |
| Total current assets | <u>352.6</u> | <u>138.3</u> | <u>13.4</u> | <u>504.3</u> |
| Property, plant and equipment | 332.6 | 92.5 | (1.0) C | 424.1 |
| Goodwill | 30.3 | 20.1 | 117.6 D | 168.0 |
| Intangibles and other assets | 149.3 | 3.6 | 255.8 E | 408.7 |
| Deferred income taxes | 6.6 | — | — | 6.6 |
| Other tax receivable | 8.6 | — | — | 8.6 |
| Total assets | <u>\$ 880.0</u> | <u>\$ 254.5</u> | <u>\$ 385.8</u> | <u>\$1,520.3</u> |
| LIABILITIES AND EQUITY | | | | |
| <i>Current liabilities:</i> | | | | |
| Short-term borrowings | \$ 10.6 | \$ — | \$ 85.0 F | \$ 95.6 |
| Current maturities of long-term debt | 5.9 | 0.3 | (0.3) G | 5.9 |
| Accounts payable and accrued liabilities | 172.7 | 53.8 | 59.6 H | 286.1 |
| Total Current Liabilities | <u>189.2</u> | <u>54.1</u> | <u>144.3</u> | <u>387.6</u> |
| Long term debt | 231.2 | 97.3 | 279.2 I | 607.7 |
| Deferred income taxes | 17.9 | — | — | 17.9 |
| Other long-term liabilities | 10.6 | 4.6 | 7.5 J | 22.7 |
| Total Liabilities | <u>448.9</u> | <u>156.0</u> | <u>431.0</u> | <u>1,035.9</u> |
| <i>Equity</i> | | | | |
| Capital stock | 322.5 | — | 61.7 K | 384.2 |
| Treasury stock | (3.3) | — | — | (3.3) |
| Additional paid-in capital | 38.7 | 4.3 | (4.3) L | 38.7 |
| Retained earnings | 85.6 | 94.2 | (102.6) M | 77.2 |
| Accumulated other comprehensive loss | (27.6) | — | — | (27.6) |
| Total Cott Corporation equity | 415.9 | 98.5 | (45.2) | 469.2 |
| Non controlling interest | <u>15.2</u> | <u>—</u> | <u>—</u> | <u>15.2</u> |
| Total equity | <u>431.1</u> | <u>98.5</u> | <u>(45.2)</u> | <u>484.4</u> |
| Total liabilities and equity | <u>\$ 880.0</u> | <u>\$ 254.5</u> | <u>\$ 385.8</u> | <u>\$1,520.3</u> |

See accompanying notes to the unaudited pro forma condensed combined financial statements.

Cott Corporation
Unaudited Pro Forma Condensed Combined Statement of Operations
For the Six Months Ended July 3, 2010

| | <u>Cott</u> | <u>Cliffstar (a)</u> | <u>Pro Forma Adjustments</u> | <u>Pro Forma Combined</u> |
|--|--|----------------------|------------------------------|---------------------------|
| | (In millions of U.S. dollars, except per share data) | | | |
| Revenues, net | \$ 787.6 | \$ 330.1 | \$ — | \$1,117.7 |
| Cost of sales | <u>656.9</u> | <u>252.8</u> | <u>14.2 A</u> | <u>923.9</u> |
| Gross profit (loss) | 130.7 | 77.3 | (14.2) | 193.8 |
| Selling, general and administrative expenses | 66.9 | 32.4 | — | 99.3 |
| Loss on disposal of property and equipment, net | 0.1 | — | — | 0.1 |
| Restructuring gain | <u>(0.5)</u> | <u>—</u> | <u>—</u> | <u>(0.5)</u> |
| Operating income (loss) | 64.2 | 44.9 | (14.2) | 94.9 |
| Other expense, net | 2.3 | 0.4 | — | 2.7 |
| Interest expense, net | <u>12.3</u> | <u>1.4</u> | <u>17.3 B</u> | <u>31.0</u> |
| Income (loss) before income taxes | 49.6 | 43.1 | (31.5) | 61.2 |
| Income tax expense | <u>13.2</u> | <u>—</u> | <u>4.5 C</u> | <u>17.7</u> |
| Net income (loss) | \$ 36.4 | \$ 43.1 | \$ (36.0) | \$ 43.5 |
| Less: Net income attributable to non-controlling interests | <u>2.6</u> | <u>—</u> | <u>—</u> | <u>2.6</u> |
| Net income (loss) attributed to Cott Corporation | <u>\$ 33.8</u> | <u>\$ 43.1</u> | <u>\$ (36.0)</u> | <u>\$ 40.9</u> |
| Net income per common share | | | | |
| Basic | \$ 0.42 | | | \$ 0.45 |
| Diluted | \$ 0.42 | | | \$ 0.45 |
| Weighted average outstanding shares (in thousands) | | | | |
| Basic | 80,401 | | 10,833 D | 91,234 |
| Diluted | 80,861 | | 10,833 D | 91,694 |

(a) - For purposes of this presentation we have allocated historical Cliffstar depreciation in the ratio of 90% to cost of sale and 10% to selling, general and administrative.

See accompanying notes to the unaudited pro forma condensed combined financial statements.

Cott Corporation
Unaudited Pro Forma Condensed Combined Statement of Operations
For the Six Months Ended June 27, 2009

| | <u>Cott</u> | <u>Cliffstar (a)</u> | <u>Pro Forma</u> <u>Adjustments</u> | <u>Pro Forma</u> <u>Combined</u> |
|--|--|----------------------|--|-------------------------------------|
| | (In millions of U.S. dollars, except per share data) | | | |
| Revenues, net | \$ 805.8 | \$ 356.1 | \$ — | \$1,161.9 |
| Cost of sales | <u>674.3</u> | <u>282.3</u> | <u>21.8 A</u> | <u>978.4</u> |
| Gross profit (loss) | 131.5 | 73.8 | (21.8) | 183.5 |
| Selling, general and administrative expenses | 69.8 | 29.4 | — | 99.2 |
| Restructuring and asset impairments | | | | |
| Restructuring charge | 1.6 | — | — | 1.6 |
| Asset impairments | <u>3.5</u> | <u>—</u> | <u>—</u> | <u>3.5</u> |
| Operating income (loss) | 56.6 | 44.4 | (21.8) | 79.2 |
| Other (income) expense, net | (2.7) | 0.3 | — | (2.4) |
| Interest expense, net | <u>15.1</u> | <u>2.9</u> | <u>15.8 B</u> | <u>33.8</u> |
| Income (loss) before income taxes | 44.2 | 41.2 | (37.6) | 47.8 |
| Income tax expense (benefit) | <u>(11.6)</u> | <u>—</u> | <u>1.4 C</u> | <u>(10.2)</u> |
| Net income (loss) | \$ 55.8 | \$ 41.2 | \$ (39.0) | \$ 58.0 |
| Less: Net income attributable to non-controlling interests | <u>2.2</u> | <u>—</u> | <u>—</u> | <u>2.2</u> |
| Net income (loss) attributed to Cott Corporation | <u>\$ 53.6</u> | <u>\$ 41.2</u> | <u>\$ (39.0)</u> | <u>\$ 55.8</u> |
| Net income per common share | | | | |
| Basic | \$ 0.76 | | | \$ 0.69 |
| Diluted | \$ 0.76 | | | \$ 0.69 |
| Weighted average outstanding shares (in thousands) | | | | |
| Basic | 70,472 | | 10,833 D | 81,305 |
| Diluted | 70,491 | | 10,833 D | 81,324 |

(a) - For purposes of this presentation we have allocated historical Cliffstar depreciation in the ratio of 90% to cost of sale and 10% to selling, general and administrative.

See accompanying notes to the unaudited pro forma condensed combined financial statements.

Cott Corporation
Unaudited Pro Forma Condensed Combined Statement of Operations
For the Fiscal Year Ended January 2, 2010

| | <u>Cott</u> | <u>Cliffstar (a)</u> | <u>Pro Forma</u> <u>Adjustments</u> | <u>Pro Forma</u> <u>Combined</u> |
|--|---|----------------------|--|-------------------------------------|
| | (In millions of U.S. dollars, except per share data) | | | |
| Revenues, net | \$1,596.7 | \$ 671.3 | \$ — | \$2,268.0 |
| Cost of sales | <u>1,346.9</u> | <u>528.5</u> | <u>43.6 A</u> | <u>1,919.0</u> |
| Gross profit (loss) | 249.8 | 142.8 | (43.6) | 349.0 |
| Selling, general and administrative expenses | 146.8 | 59.6 | — | 206.4 |
| Loss on disposal of property and equipment, net | 0.5 | — | — | 0.5 |
| Restructuring and asset impairments | | | | |
| Restructuring charge | 1.5 | — | — | 1.5 |
| Asset impairments | <u>3.6</u> | <u>—</u> | <u>—</u> | <u>3.6</u> |
| Operating income (loss) | 97.4 | 83.2 | (43.6) | 137.0 |
| Other expense, net | 4.4 | 0.5 | — | 4.9 |
| Interest expense, net | <u>29.7</u> | <u>4.7</u> | <u>32.7 B</u> | <u>67.1</u> |
| Income (loss) before income taxes | 63.3 | 78.0 | (76.3) | 65.0 |
| Income tax expense (benefit) | <u>(22.8)</u> | <u>—</u> | <u>0.7 C</u> | <u>(22.1)</u> |
| Net income (loss) | \$ 86.1 | \$ 78.0 | \$ (77.0) | \$ 87.1 |
| Less: Net income attributable to non-controlling interests | <u>4.6</u> | <u>—</u> | <u>—</u> | <u>4.6</u> |
| Net income (loss) attributed to Cott Corporation | <u>\$ 81.5</u> | <u>\$ 78.0</u> | <u>\$ (77.0)</u> | <u>\$ 82.5</u> |
| Net income per common share | | | | |
| Basic | \$ 1.10 | | | \$ 0.97 |
| Diluted | \$ 1.08 | | | \$ 0.96 |
| Weighted average outstanding shares (in thousands) | | | | |
| Basic | 74,207 | | 10,833 D | 85,040 |
| Diluted | 75,215 | | 10,833 D | 86,048 |

(a) - For purposes of this presentation we have allocated historical Cliffstar depreciation in the ratio of 90% to cost of sale and 10% to selling, general and administrative.

See accompanying notes to the unaudited pro forma condensed combined financial statements.

Cott Corporation
Unaudited Pro Forma Condensed Combined Statement of Operations
For the Twelve Months Ended July 3, 2010

| | <u>Cott</u> | <u>Cliffstar (a)</u> | <u>Pro Forma Adjustments</u> | <u>Pro Forma Combined</u> |
|--|-------------------------------|----------------------|------------------------------|---------------------------|
| | (In millions of U.S. dollars) | | | |
| Revenues, net | \$1,578.5 | \$ 645.3 | \$ — | \$2,223.8 |
| Cost of sales | <u>1,329.5</u> | <u>499.0</u> | <u>36.0 A</u> | <u>1,864.5</u> |
| Gross profit (loss) | 249.0 | 146.3 | (36.0) | 359.3 |
| Selling, general and administrative expenses | 143.9 | 62.6 | — | 206.5 |
| Loss on disposal of property and equipment, net | 0.6 | — | — | 0.6 |
| Restructuring and asset impairments | | | | |
| Restructuring gain | (0.6) | — | — | (0.6) |
| Asset impairments | <u>0.1</u> | <u>—</u> | <u>—</u> | <u>0.1</u> |
| Operating income (loss) | 105.0 | 83.7 | (36.0) | 152.7 |
| Other expense, net | 9.4 | 0.6 | | 10.0 |
| Interest expense, net | <u>26.9</u> | <u>3.2</u> | <u>34.2 B</u> | <u>64.3</u> |
| Income (loss) before income taxes | 68.7 | 79.9 | (70.2) | 78.4 |
| Income tax expense | <u>2.0</u> | <u>—</u> | <u>3.8 C</u> | <u>5.8</u> |
| Net income (loss) | \$ 66.7 | \$ 79.9 | \$ (74.0) | \$ 72.6 |
| Less: Net income attributable to non-controlling interests | <u>5.0</u> | <u>—</u> | <u>—</u> | <u>5.0</u> |
| Net income (loss) attributed to Cott Corporation | <u>\$ 61.7</u> | <u>\$ 79.9</u> | <u>\$ (74.0)</u> | <u>\$ 67.6</u> |

(a) - For purposes of this presentation we have allocated historical Cliffstar depreciation in the ratio of 90% to cost of sale and 10% to selling, general and administrative.

See accompanying notes to the unaudited pro forma condensed combined financial statements.

Notes to the Unaudited Pro Forma Condensed Combined Financial Statements

Note 1 — Basis of Presentation

The unaudited pro forma condensed combined balance sheet was prepared using the historical unaudited consolidated balance sheets of Cott and Cliffstar as of July 3, 2010. The unaudited pro forma condensed combined statement of operations was prepared using the historical audited consolidated statements of operations of Cott and Cliffstar for the fiscal year ended January 2, 2010 and the historical unaudited consolidated statements of operations of Cott and Cliffstar for the six months ended July 3, 2010 and June 27, 2009. The unaudited pro forma condensed combined statements of operations for the twelve months ended July 3, 2010 is calculated by subtracting the Cott data for the six months ended June 27, 2009 and the Cliffstar data for the six months ended July 4, 2009 from the fiscal year ended January 2, 2010 and then adding the six months ended July 3, 2010.

The unaudited pro forma condensed combined financial statements were prepared using the acquisition method of accounting. Based on the terms of the Asset Purchase Agreement, Cott is treated as the acquirer of Cliffstar. Accordingly, we have adjusted the historical consolidated financial statements to give effect to the impact of the consideration issued in connection with the Cliffstar Acquisition. The purchase price has been allocated in the unaudited pro forma condensed combined balance sheet, based on management's preliminary estimate of their respective values. Definitive allocations will be performed and finalized based upon certain valuation and other studies that will be performed by Cott with the services of outside valuation specialists after the closing. Accordingly, the purchase price allocation adjustments and related amortization reflected in the following unaudited pro forma condensed combined financial statements are preliminary, have been made solely for the purpose of preparing these statements and are subject to revision based on a final determination of fair value after the closing of the Cliffstar Acquisition. For example, if the value of the finite-lived intangible assets increased by 10%, annual pro forma operating income would decrease by approximately \$2 million. The unaudited pro forma condensed combined statements of operations also include certain acquisition accounting adjustments that are expected to have a continuing impact on the combined results, such as increased interest expense on additional acquisition related borrowings.

Note 2 — Preliminary Purchase Price Allocation

The purchase price for the Cliffstar Acquisition is \$569 million, with \$500 million payable in cash at closing, \$14 million in deferred consideration to be paid over three years and contingent consideration of up to \$55 million if certain performance measures during the fiscal year ending January 1, 2011 as well as the successful completion of certain expansion projects in 2010 are met. This contingent consideration is payable in July 2011. For purposes of the pro forma combined financial statements the contingent consideration is treated as fully earned. The purchase price of \$569 million has been allocated to the assets acquired and the liabilities assumed as follows (in millions):

| | |
|---|-----------------------|
| Accounts receivable | \$ 51.6 |
| Inventories | 93.5 |
| Property, plant and equipment | 91.6 |
| Identifiable intangibles and other assets | 252.7 |
| Goodwill | 137.6 |
| Accounts payable and accrued liabilities | (53.7) |
| Long term debt | (1.5) |
| Other long-term liabilities | (2.8) |
| Total Purchase Price | <u>\$569.0</u> |

For the purpose of preparing the unaudited pro forma condensed combined financial statements, certain of the assets acquired and liabilities assumed have been measured at their estimated fair values as of July 3, 2010. A final determination of fair values will be based on the actual assets and liabilities that will exist on the date of the closing of the Cliffstar Acquisition and on our formal valuation and other studies when they are finalized. Accordingly, the fair values of the assets and liabilities included in the table above are preliminary and subject to change pending additional information that may become known. An increase in the fair value of inventory, property, plant and equipment, or any identifiable intangible assets will reduce the amount of goodwill in the unaudited pro forma condensed combined financial statements, and may result in increased depreciation, and or amortization expense.

The following outlines the adjustments made to Cliffstar's assets and liabilities in connection with the preparation of these unaudited pro forma condensed combined financial statements:

Intangible Assets: Based on our initial assessments as well as discussions with Cliffstar and our external valuation advisors, Cott identified customer relationships as the most significant intangible assets. The determination of fair value for these assets was determined using the excess earnings method and is primarily based upon expected discounted cash flows according to currently available information, such as Cliffstar's historical and projected revenues, customer attrition rates and certain other high level assumptions. Cott assigned a value of \$246 million to customer relationships which was estimated with the assistance of our external third party valuation advisors. The estimated economic life is 15 years. Based on these assumptions our annual amortization for customer lists is approximately \$16 million.

The fair value and estimated economic life assigned to the customer list is a preliminary estimate and the final fair value and or life may be different. We also may identify additional intangible assets as we learn more about Cliffstar's operations. The difference could have a material impact on the accompanying unaudited pro forma condensed combined financial statements.

Inventories: Inventories reflect an adjustment of \$8.1 million to value Cliffstar's inventory from the last-in-first-out (LIFO) method of accounting to the first-in-first-out (FIFO) method, consistent with Cott's critical accounting policies. Cott's inventory is valued under the FIFO method and will value Cliffstar's inventory under this method.

We also increased inventories by \$4.7 million to reflect the fair value of the inventories on hand. This step-up in inventory effectively represents the margins on Cliffstar's finished goods inventories and thus will temporarily impact our gross margins after closing until such inventory has been sold and therefore it is considered non-recurring. This step-up amount is not included in the unaudited pro forma condensed combined statement of operations.

Contingent Consideration: As part of the Asset Purchase Agreement Cott is required to make a contingent consideration payment based on certain 2010 earnings targets of Cliffstar, as well as the successful completion of certain expansion projects in 2010, as defined in the agreement. We have adjusted these pro forma financials for the maximum payment amounts of \$55 million for which we currently estimate will be achieved. The estimated payment is preliminary and is subject to a number of factors that may cause the actual results to differ materially.

Debt: Approximately \$95.8 million of Cliffstar's debt will be repaid at the effective time of the acquisition.

Goodwill: Goodwill is calculated as the difference between the acquisition date fair value of the consideration expected to be transferred and the values assigned to the assets acquired and liabilities assumed. Goodwill is not amortized and is subject to an annual fair value impairment test.

Property, Plant and Equipment: Certain assets were not assumed as part of the Asset Purchase Agreement of \$1 million and have been eliminated. The fair value of property, plant and equipment has been assumed to equal Cliffstar's net book value as of July 3, 2010.

Note 3 — Elimination of Cliffstar Historical Balances

For the purpose of presenting a pro forma balance sheet assuming the Cliffstar Acquisition had occurred on July 3, 2010 certain of the Cliffstar's identifiable intangible assets, debt (excluding capital leases), and equity as of July 3, 2010 have been eliminated. According to the terms of the Asset Purchase Agreement, Cliffstar's cash balances will remain with the sellers. Accordingly, we have eliminated Cliffstar's cash balance as of July 3, 2010. For the purposes of presenting the pro forma statement of operations assuming the acquisition had occurred on January 2, 2009, certain of Cliffstar's historical interest expense, amortization expense and amortization of debt issue costs have been eliminated.

Note 4 — Debt Financing

These adjustments display the expected debt financing required to fund the Cliffstar Acquisition and related transaction costs. These adjustments are contingent upon the closing of the Cliffstar Acquisition and therefore may not occur in the event the Cliffstar Acquisition is not consummated. For purposes of these unaudited pro forma condensed combined financial statements, we anticipate that we will complete a debt financing at the time the Cliffstar Acquisition closes. The debt financing is as follows:

- Senior unsecured notes payable estimated to be due 2018 totaling approximately \$375 million with an estimated interest rate of approximately 8.75%.
- Borrowing under asset based lending facility (“ABL”) of approximately \$85 million at an estimated interest rate of approximately 3.1%.

We anticipate to use our credit facility to fund our transaction costs, which we expect to be approximately \$24.6 million, which includes fees of \$12.6 million for debt issuance and amendment to our ABL, and will be capitalized and amortized over the term of the notes and amended ABL.

A $1/8$ % increase in interest rates would result in additional interest expense of approximately \$0.6 million and a $1/8$ % decrease in interest rates would result in a decrease in interest expense of approximately \$0.6 million.

Note 5 — Equity Financing

We intend to issue approximately \$65 million in common stock in a public offering (net of issuance fees of approximately \$3.3 million) to fund a portion of the purchase price. Shares to be issued of 10.8 million were calculated using an estimated price of \$6.00 per share. If the price of Cott’s common stock increases or decreases by \$1 per share, the number of shares required to be issued would decrease by 1.5 million shares or increase by 2.2 million shares, respectively. The net proceeds have been presented as an addition to capital stock.

Note 6 — Non-Recurring Acquisition Expenses

We expect to incur additional transaction costs, including financial and legal advisory fees through the closing of the Cliffstar Acquisition. The total of these costs has been recorded as additional borrowings under our ABL and a reduction to retained earnings of \$8.4 million on the unaudited pro forma condensed combined balance sheet. These costs are excluded from the unaudited pro forma condensed combined statement of operations for the fiscal year ended January 2, 2010 and for the six and twelve months ended July 3, 2010, as they are considered non-recurring.

Note 7 — Adjustments to unaudited Pro Forma Condensed Combined Balance Sheets

(A) The sources and uses of funds relating to the proposed acquisitions are estimated as follows (in millions):

| | |
|--------------------------------|---------------|
| Cash outflow as consideration | \$(500.0) |
| Outflow for transaction costs | (24.2) |
| ABL proceeds | 85.0 |
| Senior notes | 375.0 |
| Equity Shares | 65.0 |
| Net cash flow from transaction | <u>\$ 0.8</u> |

The net cash flows from the transaction have been adjusted to eliminate Cliffstar’s cash balance of \$0.2 million.

(B) Adjustment to reflect fair values assigned to inventory of approximately \$4.7 million and LIFO to FIFO conversion of Cliffstar’s inventories of approximately \$8.1 million.

- (C) Represents the elimination of certain Cliffstar assets excluded from the acquisition.
- (D) Adjustment reflects preliminary estimate of goodwill from the acquisition after allocating the purchase price to the fair value of net assets and liabilities acquired, net of elimination of Cliffstar goodwill of approximately \$20.1 million.
- (E) Net adjustment reflects the capitalization of approximately \$12.6 million in debt issuance costs associated with the senior notes and amendment to the ABL and preliminary valuation of approximately \$246.0 million of identifiable customer relationships, net of elimination of Cliffstar intangible and other assets of approximately \$2.8 million.
- (F) Represents additional ABL borrowings to fund purchase consideration and related acquisition fees.
- (G) Adjustment to eliminate historical Cliffstar balance.
- (H) Adjustment reflects the estimated earnout contingent consideration as defined in the Asset Purchase Agreement of \$55.0 million and short-term portion of the deferred consideration of approximately \$4.6 million.
- (I) Net adjustment to long-term debt as follows (in millions):

| | |
|--|----------------|
| Senior notes | \$375.0 |
| Payoff of existing Cliffstar credit facility | (95.8) |
| | <u>\$279.2</u> |

- (J) Adjustment reflects the long-term portion of the deferred consideration of approximately \$9.3 million and elimination of approximately \$1.8 million of Cliffstar liabilities not assumed.
- (K) Reflects issuance of 10.8 million shares with gross proceeds of \$65.0 million net of issuance costs of approximately \$3.3 million.
- (L) Adjustment to eliminates Cliffstar's additional paid in capital.
- (M) Adjustment eliminates Cliffstar's retained earnings and recognizes the estimated acquisition costs of approximately \$8.4 million.

Note 8 — Adjustments to unaudited Pro Forma Condensed Combined Statements of Operations

- (A) Adjustment to increase amortization expense for the fair value of customer list intangible assets and the impact of changing methods of Cliffstar's inventories cost accounting from LIFO to FIFO.
- (B) Net adjustment reflects interest expense for new debt obtained in connection with the acquisition along with additional amortization of new deferred financing fees in excess of amounts previously recorded, net of the elimination of Cliffstar's interest expense on their credit facility.
- (C) Adjustment to provide for income taxes of the S-Corp (i.e. non-tax paying) acquiree. For purposes of these unaudited pro forma condensed combined financial statements, we used an estimated statutory rate of 38.5% for Cliffstar and related pro forma adjustments. This estimated statutory tax rate recognizes that Cliffstar is predominantly a U.S. based entity and that the debt incurred by Cott to effect the acquisitions will be an obligation of a U.S. entity. However, the effective tax rate of the combined company could be significantly different (either higher or lower) depending on post-acquisition activities.
- (D) Adjustment to reflect the issuance of 10.8 million shares of Cott common stock to finance the acquisition of Cliffstar and are reflected as if the acquisition occurred on January 2, 2009.