

PRIMO WATER CORP /CN/

FORM 8-K/A (Amended Current report filing)

Filed 10/14/16 for the Period Ending 08/11/16

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/A
Amendment No. 1

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 11, 2016

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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Explanatory Note

This Amendment No. 1 on Form 8-K/A is being filed to amend the Current Report on Form 8-K filed on August 12, 2016 (the “Initial 8-K”) by Cott Corporation (“Cott”) to include, among other things, certain financial information relating to Cott’s acquisition of S&D Coffee Holding Company (“S&D Holdings”) and Arabica, L.L.C. that was consummated on August 11, 2016 (the “S&D Acquisition”). This Form 8-K/A amends and restates in its entirety Item 9.01(a) and Item 9.01(b) of the Initial 8-K. All of the other Items in the Initial 8-K remain the same and are not affected by this Amendment No. 1.

This pro forma financial information gives effect to certain pro forma events related to the S&D Acquisition and Cott’s acquisition of Hydra Dutch Holdings 1 B.V. (“Eden Holdings”), the indirect parent company of Eden Springs Europe B.V. (the “Eden Acquisition”), 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.

Item 9.01. Financial Statements and Exhibits.

(a) *Financial Statements of Businesses Acquired*

- The audited consolidated balance sheets of S&D Holdings as of December 30, 2015 and December 31, 2014, and the related consolidated statements of income and comprehensive income, changes in stockholder’s equity, and cash flows for the years ended December 30, 2015, December 31, 2014, and January 1, 2014, are attached to this Form 8-K/A as Exhibit 99.1 and are incorporated herein by reference.
- The unaudited consolidated balance sheets of S&D Holdings as of June 15, 2016 and June 17, 2015, and the related interim consolidated statements of income and comprehensive income, changes in stockholder’s equity, and cash flows for the 24-week periods then ended, are attached to this Form 8-K/A as Exhibit 99.2 and are incorporated herein by reference.
- The unaudited consolidated balance sheets of Eden Holdings as of June 30, 2016, and the related interim consolidated statements of comprehensive loss for the six and three month periods that end on June 30, 2015 and June 30, 2016 and changes in shareholders’ deficit and cash flows for the six month periods that end on June 30, 2015 and June 30, 2016, are attached to this Form 8-K/A as Exhibit 99.3 and are incorporated herein by reference.

(b) *Pro Forma Financial Information*

Cott’s unaudited pro forma condensed combined balance sheet data as of July 2, 2016 (which gives effect to the S&D Acquisition, the Eden Acquisition and the related financing transaction as if they each occurred on July 2, 2016) and Cott’s unaudited pro forma condensed combined statement of operations data for the year ended January 2, 2016 and the six months ended July 2, 2016 (which assumes that the S&D Acquisition and the Eden Acquisition and the related financing transactions were each consummated on January 4, 2015) are attached as Exhibit 99.4 to this Form 8-K/A and are incorporated herein by reference.

(d) Exhibits

<u>Exhibit No.</u>	<u>Description</u>
23.1	Consent of Grant Thornton LLP, independent accountants for S&D Holdings.
99.1	S&D Holdings audited consolidated balance sheets as of December 30, 2015 and December 31, 2014, and the related consolidated statements of income and comprehensive income, changes in stockholder’s equity, and cash flows for the years ended December 30, 2015, December 31, 2014, and January 1, 2014.
99.2	S&D Holdings’ unaudited consolidated balance sheets as of June 15, 2016 and June 17, 2015, and the related consolidated statements of income and comprehensive income, changes in stockholder’s equity, and cash flows for the 24-week periods then ended.

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- 99.3 Eden Holdings unaudited consolidated balance sheets as of June 30, 2016, and the related interim consolidated statements of comprehensive loss for the six and three month periods that end on June 30, 2015 and June 30, 2016 and changes in shareholders' deficit and cash flows for the six month periods that end on June 30, 2015 and June 30, 2016.
- 99.4 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.

Cott Corporation
(Registrant)

October 14, 2016

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

EXHIBIT INDEX

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99.2	S&D Holdings unaudited consolidated balance sheets as of June 15, 2016 and June 17, 2015, and the related consolidated statements of income and comprehensive income, changes in stockholder's equity, and cash flows for the 24-week periods then ended.
99.3	Eden Holdings unaudited consolidated balance sheets as of June 30, 2016, and the related interim consolidated statements of comprehensive loss for the six and three month periods that end on June 30, 2015 and June 30, 2016 and changes in shareholders' deficit and cash flows for the six month periods that end on June 30, 2015 and June 30, 2016.
99.4	Cott Corporation unaudited pro forma condensed combined financial information.

CONSENT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

We have issued our report dated September 26, 2016, with respect to the consolidated financial statements of S&D Coffee Holding Company included in the Current Report on Form 8-K/A of Cott Corporation as of October 14, 2016. We consent to the incorporation by reference of said report in the Registration Statements of Cott Corporation on Forms S-3 (File No. 333-204450 and File No. 333-204287) and on Forms S-8 (File No. 333-204286, File No. 333-204285, File No. 333-188735, File No. 333-108128 and File No. 333-166507).

/s/ GRANT THORNTON LLP

Charlotte, North Carolina
October 14, 2016

Consolidated Financial Statements and Report of
Independent Certified Public Accountants

S&D Coffee Holding Company

As of December 30, 2015 and December 31, 2014

S&D Coffee Holding Company

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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Board of Directors
S&D Coffee Holding Company:

We have audited the accompanying consolidated financial statements of **S&D Coffee Holding Company** (a North Carolina corporation), which comprise the consolidated balance sheets as of December 30, 2015 and December 31, 2014, and the related consolidated statements of income and comprehensive income, changes in stockholder's equity, and cash flows for the years ended December 30, 2015, December 31, 2014, and January 1, 2014, and the related notes to the financial statements.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of S&D Coffee Holding Company as of December 30, 2015 and December 31, 2014, and the results of their operations and their cash flows for the years ended December 30, 2015, December 31, 2014, and January 1, 2014 in accordance with accounting principles generally accepted in the United States of America.



Charlotte, North Carolina
September 26, 2016

S&D Coffee Holding Company

Consolidated balance sheets

	December 30, 2015	December 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	\$ 4,922,425	\$ 6,463,163
Trade accounts receivable, net of allowances of \$819,000 and \$947,000, respectively	52,081,539	54,134,824
Inventories at cost less LIFO reserve of \$10,173,000 and \$11,233,000, respectively	51,668,971	44,786,518
Deferred income taxes	—	4,429,891
Prepaid expenses	4,079,671	3,828,788
Income tax receivable	—	1,268,568
Other	3,045,025	4,633,148
Total current assets	115,797,631	119,544,900
Property, plant and equipment, net	75,757,576	81,828,525
Cash surrender value of officers' life insurance	11,530,576	10,470,907
Notes receivable from affiliates	7,988,128	7,581,435
Notes receivable, other	3,269,970	2,984,336
Goodwill and other intangible assets, net	3,266,955	3,396,955
Other assets, net	230,447	230,447
	<u>\$217,841,283</u>	<u>\$226,037,505</u>

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

S&D Coffee Holding Company

Consolidated balance sheets (cont'd)

	December 30, 2015	December 31, 2014
Liabilities and stockholder's equity		
Current liabilities:		
Bank overdraft	\$ 7,417,844	\$ 12,755
Current portion of long-term debt	4,000,000	4,000,000
Accounts payable	32,550,731	25,209,749
Accrued expenses and other current liabilities	18,200,364	21,371,431
Current income taxes payable	634,693	—
Total current liabilities	62,803,632	50,593,935
Long-term debt	29,333,333	33,000,000
Lines of credit	13,050,000	11,100,000
Deferred income taxes	—	8,096,972
Income taxes payable	1,928,988	2,740,644
Other liabilities	8,975,137	8,842,707
	<u>116,091,090</u>	<u>114,374,258</u>
Commitments and contingencies (Note 8)		
Stockholders' equity:		
Common stock, Class A Shares; \$0 par value per share; 10,490 shares issued and outstanding	—	—
Common stock, Class B Shares; \$0 par value per share; 985,031 shares issued and outstanding	—	—
Additional paid-in capital	—	—
Retained earnings	111,896,517	104,917,919
Accumulated other comprehensive (loss) gain, net of tax in 2014	(11,972,131)	4,856,323
Noncontrolling interest	1,825,807	1,889,005
Total equity	<u>101,750,193</u>	<u>111,663,247</u>
	<u>\$217,841,283</u>	<u>\$226,037,505</u>

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

S&D Coffee Holding Company

Consolidated statements of income and comprehensive income

For the years ended	December 30, 2015	December 31, 2014	January 1, 2014
Net sales	\$571,813,307	\$533,454,156	\$500,717,130
Cost of sales	423,017,796	396,137,270	360,669,131
Gross profit	<u>148,795,511</u>	<u>137,316,886</u>	<u>140,047,999</u>
Operating expenses:			
Selling and sales support services	99,463,432	97,004,137	87,881,179
General and administrative	38,996,434	34,864,680	34,259,265
Supplemental executive retirement expense	234,654	709,323	232,606
Total operating expenses	<u>138,694,520</u>	<u>132,578,140</u>	<u>122,373,050</u>
Operating income	10,100,991	4,738,746	17,674,949
Interest expense	(1,406,538)	(805,375)	(945,325)
Other income, net	2,037,544	1,688,410	661,935
Income before income taxes	10,731,997	5,621,781	17,391,559
Provision for income taxes	(67,537)	1,631,310	6,265,847
Net income	10,799,534	3,990,471	11,125,712
Income attributable to noncontrolling interest	639,802	731,312	712,046
Net income attributable to S&D Coffee Holding Company	10,159,732	3,259,159	10,413,666
Other comprehensive income (loss)			
Unrealized (loss) gain on coffee futures, net of tax in 2014 and 2013	(16,848,323)	16,215,391	(3,750,972)
Unrealized gain (loss) on interest rate swap, net of tax in 2014 and 2013	19,869	(83,219)	111,383
Comprehensive income attributable to S&D Coffee Holding Company	<u>\$ (6,668,722)</u>	<u>\$ 19,391,331</u>	<u>\$ 6,774,077</u>

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

S&D Coffee Holding Company

Consolidated statements of stockholders' equity

	Common Stock				Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interest	Total
	Class A		Class B					
	Shares	Amount	Shares	Amount				
Balance, January 2, 2013	10,490	\$ —	985,031	\$ —	\$ 91,245,094	\$ (7,636,260)	\$ 1,808,147	\$ 85,416,981
Comprehensive income (loss)	—	—	—	—	10,413,666	(3,639,589)	—	6,774,077
Noncontrolling interest	—	—	—	—	—	—	712,046	712,046
Distributions declared and paid	—	—	—	—	—	—	(600,500)	(600,500)
Balance, January 1, 2014	10,490	\$ —	985,031	\$ —	\$101,658,760	\$ (11,275,849)	\$ 1,919,693	\$ 92,302,604
Comprehensive income	—	—	—	—	3,259,159	16,132,172	—	19,391,331
Noncontrolling interest	—	—	—	—	—	—	731,312	731,312
Distributions declared and paid	—	—	—	—	—	—	(762,000)	(762,000)
Balance, December 31, 2014	10,490	—	985,031	—	104,917,919	4,856,323	1,889,005	111,663,247
Comprehensive income (loss)	—	—	—	—	10,159,732	(16,828,454)	—	(6,668,722)
Shareholder tax distributions	—	—	—	—	(3,181,134)	—	—	(3,181,134)
Noncontrolling interest	—	—	—	—	—	—	639,802	639,802
Distributions declared and paid	—	—	—	—	—	—	(703,000)	(703,000)
Balance, December 30, 2015	10,490	\$ —	985,031	\$ —	\$111,896,517	\$ (11,972,131)	\$ 1,825,807	\$101,750,193

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

S&D Coffee Holding Company

Consolidated statements of cash flows

For the years ended	December 30, 2015	December 31, 2014	January 1, 2014
Cash flows from operating activities:			
Net income	\$ 10,799,534	\$ 3,990,471	\$ 11,125,712
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	16,722,674	16,502,838	13,981,157
(Gain) Loss on sale of property and equipment	(640,950)	(183,946)	210,334
receivable	(1,466,362)	(1,960,885)	(1,858,726)
Deferred income tax (benefit) provision, net	(626,941)	(5,106,023)	436,532
Changes in operating assets and liabilities:			
Accounts receivable, net	2,053,285	(4,770,085)	368,176
Inventories, net	(11,457,272)	(7,994,870)	(3,721,832)
Prepaid expenses and other current assets	1,259,127	(2,697,393)	(1,035,332)
Accounts payable	7,340,982	3,710,610	4,497,938
Accrued expenses and other liabilities	(4,755,187)	3,961,146	(531,587)
Federal and state income taxes	1,091,605	390,892	(1,587,973)
Coffee futures contracts	(13,499,112)	16,568,756	(7,477,370)
Net cash provided by operating activities	<u>6,821,383</u>	<u>22,411,511</u>	<u>14,407,029</u>
Cash flows from investing activities:			
Capital expenditures	(11,162,483)	(30,033,368)	(17,908,241)
Proceeds from sale of property, plant and equipment	1,281,708	350,263	1,233,452
Issuance of notes receivable	(3,310,752)	(2,984,336)	—
Proceeds from notes receivable	3,025,118	—	—
Net cash used in investing activities	<u>(10,166,409)</u>	<u>(32,667,441)</u>	<u>(16,674,789)</u>
Cash flows from financing activities:			
Checks issued in excess of funds on deposit	7,405,089	(4,713,875)	(56,461)
Shareholder distributions	(3,181,134)	—	—
Net proceeds from lines of credit	1,950,000	6,900,000	(15,955,000)
Principal payments on long-term debt	(3,666,667)	(3,049,607)	(18,395,678)
Proceeds from borrowings	—	10,000,000	30,000,000
Noncontrolling interest distributions	(703,000)	(762,000)	(600,500)
Net cash provided by (used in) financing activities	<u>1,804,288</u>	<u>8,374,518</u>	<u>(5,007,639)</u>
Net decrease in cash and cash equivalents	(1,540,738)	(1,881,412)	(7,275,399)
Cash and cash equivalents, beginning of year	6,463,163	8,344,575	15,619,974
Cash and cash equivalents, end of year	<u>\$ 4,922,425</u>	<u>\$ 6,463,163</u>	<u>\$ 8,344,575</u>
Supplemental disclosures of cash flow information – Cash paid during the year for:			
Interest	\$ 1,238,000	\$ 829,000	\$ 934,000
Income taxes	<u>483,000</u>	<u>6,400,000</u>	<u>7,374,000</u>

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

S&D Coffee Holding Company

Notes to consolidated financial statements

1 Nature of Operations and Summary of Significant Accounting Policies**Operations**

The accompanying consolidated financial statements present the accounts of S&D Coffee Holding Company (the Company). The Company is primarily engaged in the production and distribution of coffee, tea and liquid beverages, and the distribution of related products, to institutional and commercial customers in the United States. The Company's operations are significantly impacted by the world market for green coffee. Coffee is an agricultural product and its price fluctuates as a result of many factors beyond the Company's control, including the actions of domestic and foreign governments, the weather in coffee-producing nations and the operation of the commodity futures markets. Once received, the beans are processed and distributed from facilities located in Concord, North Carolina.

The Company has a 52- or 53-week fiscal year ending on the Wednesday closest to December 31. Fiscal years 2015, 2014 and 2013 contained 52 weeks.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, S&D Coffee, Inc. (S&D) as well as S&D's variable interest entity (VIE), Arabica, LLC (Arabica). All significant intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates in Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions. These 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.

Cash and Cash Equivalents

The Company considers cash, demand deposits and highly liquid investments with original maturities of less than three months to be cash and cash equivalents. The Company maintains cash deposits with major banks, which may exceed federally insured limits. The Company periodically assesses the financial condition of the institutions and believes the risk of loss to be remote.

Revenue Recognition and Concentration of Credit Risk

The Company recognizes revenue upon delivery of products to its customers.

The Company extends credit based on an evaluation of customers' financial conditions, generally without requiring collateral. Exposure to losses on receivables is principally dependent on each customer's financial condition. The Company considers invoices past due when they are outstanding longer than the stated term, which is typically 30 days. The Company monitors its exposure for credit losses and maintains allowances for anticipated losses. Three customers of the Company represent approximately 32% and 34% of sales for the fiscal years ended December 30, 2015 and December 31, 2014, respectively. At December 30, 2015 and December 31, 2014, these three customers made up 31% and 26% of the outstanding accounts receivable balance, respectively. Two customers of the company represent approximately 34% of sales for the fiscal year ended January 1, 2014.

S&D Coffee Holding Company

Notes Receivable

The Company entered into an agreement with a customer in November 2014 by which the Company would lend the customer up to \$12,000,000 for the purpose of financing beverage equipment purchases. The note bears no interest and is over a five-year term with a one-year renewal option. During 2015, the Company advanced \$3,311,000 and \$2,984,000 during 2014. The Company received repayments of \$3,025,000 during the year ended December 30, 2015. As of December 30, 2015 and December 31, 2014, the outstanding amount of this note was \$3,270,000 and \$2,984,000, respectively.

Inventories

Inventories of coffee (57% and 43% of total inventory at December 30, 2015 and December 31, 2014, respectively) are stated at cost, determined using the last in, first out (LIFO) method. Tea, allied products, drinks, syrups and packaging supplies (43% and 57% of inventory at December 30, 2015 and December 31, 2014, respectively) are stated at cost, determined using the first in, first out (FIFO) method. For these inventories, cost is less than market value.

Shipping and Handling Costs

Shipping and handling costs included in selling and sales support services expense for the years ended December 30, 2015, December 31, 2014 and January 1, 2014, were \$11,829,000, \$11,691,000 and \$10,548,000, respectively.

Advertising Costs

The cost of advertising is expensed when incurred. Advertising costs totaled \$2,117,000, \$2,562,000 and \$2,044,000 for the years ended December 30, 2015, December 31, 2014 and January 1, 2014, respectively. Of this amount, \$1,887,000, \$2,444,000 and \$1,808,000 was included in selling and sales support services expense, and \$230,000, \$118,000 and \$236,000 was included in general and administrative expense for the years ended December 30, 2015, December 31, 2014 and January 1, 2014, respectively.

Futures Contracts

Coffee is a significant raw material component for the Company and, as a commodity, is subject to market fluctuations based on crop yield projections and global product demand. The Company enters into coffee futures contracts to hedge its exposure to price fluctuations on coffee raw materials associated with fixed-price sales contracts with institutional customers, which generally range from three months to one year in length.

Property, Plant and Equipment

Property, plant and equipment are stated at cost, less accumulated depreciation. Major additions are capitalized; maintenance, repairs and minor improvements are charged to operating expenses as incurred. Depreciation is computed for financial reporting purposes using a combination of the straight-line and double-declining balance methods over the estimated useful lives of the assets, which are as follows:

Buildings and leasehold improvements	15-39 years
Equipment and software	3-10 years

Accelerated depreciation methods, as provided by federal income tax laws, are used for income tax purposes.

Income Taxes

As of January 1, 2015, S&D Coffee Holding Company and S&D Coffee, Inc. elected to be treated as pass-through entities, S Corporation, under the Internal Revenue Code (IRC). Under this election, the shareholders of the Company are taxed on their proportional share of the taxable income of the Company. The deferred tax assets and liabilities recorded as of December 31, 2014 were reversed through the income statement as of January 1, 2015 because the future tax benefits and liabilities for those deferred will be the responsibility of the shareholders.

S&D Coffee Holding Company

Fair Value of Financial Instruments

The Company uses a fair value hierarchy for those instruments measured at fair value that distinguishes between assumptions based on market data (observable inputs) and the Company's own assumptions (unobservable inputs). The hierarchy consists of three levels:

- Level 1** Quoted market prices in active markets for identical assets or liabilities;
- Level 2** Inputs other than Level 1 inputs that are either directly or indirectly observable; and
- Level 3** Unobservable inputs developed using estimates and assumptions developed by management, which reflect those that a market participant would use.

The following table discloses assets and liabilities measured at fair value on a recurring basis:

<u>Fair value measurements as of December 30, 2015</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Interest rate swaps	\$ —	\$(302,000)	\$ —	\$ (302,000)
Futures contracts	<u>38,000</u>	<u>—</u>	<u>—</u>	<u>38,000</u>
<u>Fair value measurements as of December 31, 2014</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Interest rate swaps	\$ —	\$(322,000)	\$ —	\$ (322,000)
Futures contracts	<u>1,774,425</u>	<u>—</u>	<u>—</u>	<u>1,774,425</u>

The Company's coffee futures contracts are carried at fair value, based on readily available quoted market prices (see Note 5). The Company's interest rate swap agreements are carried at fair value, determined based on the present value of the estimated future cash flows using implied rates in the applicable yield curve as of the valuation date (see Note 5).

The carrying amounts of cash and cash equivalents, trade accounts receivable, prepaid expenses and other current assets, accounts payable and accrued expenses approximate fair value because of the short-term nature of these financial instruments. The carrying amount of the Company's long-term debt approximates fair value because the interest rates, credit spreads and other significant terms approximate current market conditions.

Long-lived Assets

The Company reviews its long-lived assets, including property, plant and equipment, and certain identifiable intangible assets, for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. No impairment charge was recognized for the fiscal years ended December 30, 2015, December 31, 2014 and January 1, 2014.

Goodwill and Other Intangible Assets

Goodwill and other intangible assets at December 30, 2015 and December 31, 2014, consist of goodwill, noncompete agreements and customer lists arising from past business acquisitions as well as certain distinct intangible assets acquired in 2009. The other intangible assets are being amortized over their estimated useful lives, which range from 10 to 15 years.

S&D Coffee Holding Company

The Company evaluates its goodwill for impairment at least annually and had no impairment in 2015, 2014 or 2013. To test for impairment, the Company first assesses qualitative factors to determine whether the existence of events or circumstances leads to a determination that is more-likely-than-not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events or circumstances, the Company determines it is not more-likely-than-not that the fair value of a reporting unit is less than its carrying amount, then further testing is unnecessary. However, if the Company concludes otherwise, then it is required to first calculate the fair value of the reporting unit and compare that fair value with the carrying amount of the reporting unit. If the fair value of the reporting unit is less than its carrying value, impairment is indicated and the Company would calculate the amount by which its goodwill is impaired based on the fair value of its other assets and liabilities at the testing date.

As of December 30, 2015 and December 31, 2014, the Company had unamortized goodwill of \$2,817,000.

Comprehensive Income

Comprehensive income in the statements of income and comprehensive income consists of net income plus unrealized gains and losses on the Company's coffee futures transactions and interest rate swap agreements, and is net of tax for the fiscal years ended December 31, 2014 and January 1, 2014.

Variable Interest Entity

The Company consolidates entities in which it has a controlling financial interest.

The Company follows the authoritative guidance included in generally accepted accounting principles on accounting for consolidation of variable interest entities (VIEs). Such guidance applies to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties.

The Company determines the primary beneficiary based on an evaluation of which party has both: (i) the power to direct the activities that most significantly impact the economic performance of the VIE; and, (ii) has the obligation to absorb losses, or the right to receive benefits that could potentially be significant to the VIE. The Company evaluates its relationships with other entities to identify whether those entities are VIEs and to assess whether it is the primary beneficiary of such entities. If the determination is made that the Company is the primary beneficiary, then that entity is included in the consolidated financial statements. The Company is the primary beneficiary for such a VIE, Arabica (see Note 10).

2 Inventories

The components of inventories are as follows:

	December 30, 2015	December 31, 2014
At FIFO cost:		
Coffee	\$ 39,252,000	\$ 29,083,000
Allied products	2,954,000	2,979,000
Tea	10,385,000	12,951,000
Liquid beverages	3,885,000	3,868,000
Drinks and syrup	2,157,000	3,524,000
Packaging supplies	2,917,000	3,200,000
Other	292,000	415,000
Inventories at FIFO cost	61,842,000	56,020,000
Less – LIFO reserve for coffee	(10,173,000)	(11,233,000)
	<u>\$ 51,669,000</u>	<u>\$ 44,787,000</u>

3 Property, Plant and Equipment, Net

The components of property, plant and equipment are as follows:

	December 30, 2015	December 31, 2014
Brewing and beverage equipment	\$ 52,719,000	\$ 53,189,000
Land	2,106,000	2,106,000
Buildings and leasehold improvements	44,024,000	43,844,000
Plant equipment	75,418,000	70,465,000
Office equipment	6,075,000	5,922,000
Computer equipment and software	18,980,000	18,656,000
Transportation equipment	9,466,000	9,621,000
Construction-in-progress	1,052,000	2,162,000
	<u>209,840,000</u>	<u>205,965,000</u>
Less – Accumulated depreciation	(134,082,000)	(124,137,000)
	<u>\$ 75,758,000</u>	<u>\$ 81,828,000</u>

Depreciation expense for 2015, 2014 and 2013 was \$16,593,000, \$16,357,000 and \$13,834,000, respectively.

4 Intangible Assets

Intangible assets consist of certain identifiable assets resulting from previous acquisitions, including noncompete agreements, customer lists, trade secrets and goodwill. The gross carrying amount and accumulated amortization for these intangible assets are as follows:

	December 30, 2015	December 31, 2014	Estimated Useful Lives
Amortizable intangible assets:			
Noncompete agreements	\$ 825,000	\$ 825,000	10-15 years
Customer lists	130,000	130,000	15 years
Trade secrets	1,300,000	1,300,000	10 years
Accumulated amortization	(1,805,000)	(1,675,000)	
Amortizable intangible assets	450,000	580,000	
Non-amortizable intangible assets - Goodwill	2,817,000	2,817,000	
	<u>\$ 3,267,000</u>	<u>\$ 3,397,000</u>	

Intangible assets are being amortized on a straight-line basis over the estimated useful lives of each asset. Amortization expense for the years ended December 30, 2015, December 31, 2014 and January 1, 2014, was \$130,000, \$146,000 and \$147,000, respectively. Future amortization expense related to intangible assets is as follows:

	Amount
2016	\$130,000
2017	130,000
2018	130,000
2019	60,000
	<u>\$450,000</u>

5 Hedging Activities

The Company records all derivatives, whether designated in hedging relationships or not, at fair value on the balance sheet. If the derivative is designated as a fair-value hedge, the changes in the fair value of the derivative and the hedged item are recognized in earnings. If the derivative is designated as a cash flow hedge, the effective portions of changes in the fair value of the derivative are recorded in other comprehensive income or loss and are recognized in earnings when the hedged item affects earnings. Any material ineffective portions of changes in the fair value of cash flow hedges are recognized in earnings as they occur.

The Company is subject to price risk related to price- to-be-fixed coffee purchase commitments and anticipated coffee purchase commitments. In the normal course of business, under procedures and controls established by the Company's financial risk management framework, the Company enters into green coffee futures contracts to manage changes in raw materials prices in order to ensure supply and protect the gross margin of price-to-be-fixed customer sales commitments. The Company designates these future contracts as cash flow hedges. As of December 30, 2015, the Company had unrealized losses on futures contracts of \$3,787,000 and current assets related to open futures contracts of \$38,000. As of December 31, 2014, the Company had unrealized gains on future contracts of \$2,602,000 and current assets related to open future contracts of \$1,774,000. The amounts recorded in accumulated other comprehensive income relating to these futures will be reflected as a component of cost of sales, generally within 12 months following the balance sheet date, as the related inventory is sold. As a matter of policy, the Company does not enter into coffee derivatives contracts for trading or speculative purposes.

In July 2010, the Company entered into a \$6,160,000 notional amount interest rate swap effective August 2011. The notional amount of the swap amortized to zero in December 2015, at which time it terminated. In November 2011, the Company entered into a \$10,594,000 notional amount interest rate swap effective April 30, 2012. The notional amount of the swap amortizes to \$2,555,000 in October 2016, at which time it terminates. In March 2014, the Company entered into a \$11,731,000 notional amount interest rate swap. In September 2014, the swap agreement notional amount increased to \$19,870,000. The notional amount of the swap amortizes to \$15,813,000 in December 2018, at which time it terminates. These interest rate swaps, which have been designated as cash flow hedges, are utilized to hedge a portion of the Company's interest rate payments on its variable rate debt. As of December 30, 2015 and December 31, 2014, the Company has recognized a liability of \$302,000 and \$322,000, respectively, for accumulated unrealized losses related to these swap agreements, which are shown as a component of accumulated other comprehensive income (loss) in the accompanying consolidated financial statements, net of a deferred tax benefit for the fiscal years ended December 31, 2014 and January 1, 2014 of \$124,000 and \$72,000, respectively. The ineffective portion of these cash flow hedges was not material at December 30, 2015, December 31, 2014 and January 1, 2014.

6 Notes Payable and Long-term Debt

A summary of the Company's long-term debt is as follows:

	December 30, 2015	December 31, 2014	January 1, 2014
Note payable to banks, unsecured, monthly principal and quarterly interest payments, final payment of remaining principal due December 31, 2018	33,333,000	37,000,000	30,000,000
Note payable to bank, unsecured, monthly principal and interest payments, final payment of remaining principal due March 1, 2014	—	—	50,000
Total long-term debt	33,333,000	37,000,000	30,050,000
Less - current maturities of long-term debt	(4,000,000)	(4,000,000)	(3,050,000)
Long-term debt, excluding current maturities	<u>\$29,333,000</u>	<u>\$33,000,000</u>	<u>\$27,000,000</u>

S&D Coffee Holding Company

In December 2013, the Company entered into a syndicated credit facility with three banks for a principal amount of \$30,000,000 and a revolving credit facility. The proceeds of this term loan were used to refinance the prior term debt and to pay off prior lines of credit. The principal of the loan began to amortize in January 2014 and a final payment of \$15,000,000 is due in December 2018. In December 2014, the Company exercised its option to borrow an additional \$10,000,000 under the above stated syndicated term loan, which began to amortize in January 2015. The proceeds from this additional \$10,000,000 were used to fund capital expenditures. A final payment of \$20,800,000 on the term loan is due in December 2018. Interest is payable monthly at LIBOR plus an applicable margin. The revolving credit facility is intended to satisfy seasonal working capital requirements and has maximum available borrowings of \$75,000,000. The Company had \$13,050,000 outstanding under its line of credit as of December 30, 2015 and \$11,100,000 outstanding as of December 31, 2014. The line of credit expires in December 2018.

In October 2001, Arabica entered into two term notes with different financial institutions with original principal amounts totaling approximately \$2,400,000. At December 30, 2015 and December 31, 2014 there were no outstanding amounts; at January 1, 2014, the amount outstanding was approximately \$50,000.

The terms of the notes and lines of credit are subject to certain restrictive loan covenants based on the Company's financial position, including a subjective covenant whereby the debt would be callable upon an event, act, condition or occurrence, which has a material adverse effect on the Company, the rights and remedies of the bank under the notes or the legality, validity or enforceability of the loan document. As of December 30, 2015, the Company was in compliance with all covenants of the notes and lines of credit.

The aggregate maturities of the lines of credit and long-term debt are as follows:

	<u>Notes Payable</u>	<u>Lines of Credit</u>	<u>Amount</u>
2016	\$ 4,000,000	\$ —	\$ 4,000,000
2017	4,000,000	—	4,000,000
2018	25,333,000	13,050,000	38,383,000
	<u>\$33,333,000</u>	<u>\$13,050,000</u>	<u>\$46,383,000</u>

S&D Coffee Holding Company

7 Income Taxes

As discussed in Note 1, S&D Coffee Holding Company and S&D Coffee, Inc. elected to be treated as pass-through entities, S Corporation, effective January 1, 2015. As a result of this election, the income tax liability resulting from the activities of the Company is paid proportionally by the shareholders. The Company is still subject to entity level state income taxes in certain states that do not recognize the pass-through status. Upon conversion, the current net deferred tax asset of \$4,430,000, the noncurrent net deferred tax liability of \$8,097,000 and the deferred tax asset of \$3,040,000 in adjusted other comprehensive income were reversed and a net deferred tax benefit was recorded. In order to elect to be taxed as an S Corporation, the Company recaptured the LIFO reserve of \$12,000,000 on its 2014 tax return. The Internal Revenue Code allows for deferred payments of the income tax liability associated with this recapture in four installments of \$964,500. As a result, the Company recorded a federal income tax liability of \$2,893,000 at December 30, 2015 and \$3,858,000 at December 31, 2014, which is payable in 4 equal installments that started March 15, 2015.

The provision for income taxes consists of the following:

	December 30, 2015	December 31, 2014
Current:		
Federal	\$ 268,000	\$ 6,056,000
State	292,000	681,000
	560,000	6,737,000
Deferred	(627,000)	(5,106,000)
	<u>\$ (67,000)</u>	<u>\$ 1,631,000</u>

Pursuant to the Company's conversion to an S Corporation in 2015 and thereafter, management does not anticipate federal income taxes at the Company level. The Company's effective tax rate for the fiscal years ended December 30, 2015 and December, 31, 2014, excluding noncontrolling interests, varied from the federal statutory rate as follows:

	December 30, 2015	December 31, 2014
Federal statutory rate	—	35.0%
State income taxes, net of federal tax benefit	—	4.2%
Meals and entertainment	—	8.2%
Key man life insurance	—	(1.0)%
Uncertain tax positions	—	1.0%
Tax credits and special deductions	—	(15.5)%
Other	—	3.4%
Effective tax rate	<u>—</u>	<u>33.3%</u>

S&D Coffee Holding Company

The tax effects of temporary differences that give rise to the deferred tax assets and deferred tax liabilities at December 30, 2015 and December 31, 2014, are presented below:

	<u>December 30,</u> <u>2015</u>	<u>December 31,</u> <u>2014</u>
Deferred tax assets:		
Accounts receivable, principally due to allowance for doubtful accounts	\$ —	\$ 365,000
Inventories, principally due to additional cost inventoried for tax purposes	—	563,000
Inventories, LIFO recapture	—	4,325,000
Accrued expenses, principally due to bonuses and deferred compensation	—	2,238,000
Phantom stock plan	—	3,000
Deferred loss on coffee futures	—	—
Supplemental executive retirement plan	—	1,486,000
Self-insurance reserves	—	347,000
Other	—	124,000
Total deferred tax assets	<u>—</u>	<u>9,451,000</u>
Deferred tax liabilities:		
Plant and equipment, principally due to differences in depreciation	—	(8,930,000)
Goodwill and other intangible assets	—	(777,000)
Deferred gain on coffee futures	—	(3,164,000)
Inventories, LIFO	—	—
Prepaid expenses	—	(247,000)
Total deferred tax liabilities	<u>—</u>	<u>(13,118,000)</u>
Net deferred tax liabilities	<u>\$ —</u>	<u>\$ (3,667,000)</u>
Net current deferred tax assets	<u>\$ —</u>	<u>\$ 4,430,000</u>
Net noncurrent deferred tax liabilities	<u>—</u>	<u>(8,097,000)</u>
Net deferred tax liabilities	<u>\$ —</u>	<u>\$ (3,667,000)</u>

The Company follows applicable authoritative guidance on accounting for uncertainty in income taxes, which among other things, prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return, and provides guidance on derecognition, classification, interest, and penalties, accounting in interim periods, disclosure and transition.

As of December 30, 2015 and December 31, 2014, the Company had recorded a provision for unrecognized tax liabilities of \$396,000 and \$458,000, respectively, which is reflected in other long-term liabilities in the accompanying financial statements. The Company records any associated interest and penalties as additional income tax in the accompanying statements of income and comprehensive income. Such amounts were insignificant for the years ended December 30, 2015, December 31, 2014 and January 1, 2014. Based on management's analysis, the Company does not believe any remaining unrecognized tax liabilities will significantly change in the next fiscal year. As of December 30, 2015, the Company's open tax years include fiscal 2012 - 2015.

8 Commitments and Contingencies

The Company is obligated under various operating leases related to land, plant and transportation equipment for periods of up to 10 years. Rent expense under operating leases was approximately \$8,462,000 in fiscal 2015, \$8,320,000 in fiscal 2014 and \$8,589,000 in fiscal 2013. At December 30, 2015, future minimum lease payments under operating leases having initial or remaining noncancelable lease terms in excess of one year are as follows:

	<u>Amount</u>
2016	\$ 7,308,000
2017	5,619,000
2018	4,563,000
2019	3,294,000
2020	1,719,000
Thereafter	1,308,000
Total minimum lease payments	<u>\$23,811,000</u>

Litigation

The Company is involved in various lawsuits arising in the normal course of business. In management's opinion, such matters will not have a material adverse effect on the financial position or results of operations of the Company.

9 Benefit Plans and Deferred Compensation**Defined Contribution Plan**

The Company has a 401(k) savings plan available to all employees. New employees are eligible to become participants on the first day of each quarter. Each savings plan participant may elect to have up to 80% of total compensation withheld, subject to limitations, as a contribution to the plan. For the 2014 plan year and thereafter, the Company elected a Safe Harbor Match, rather than a discretionary match at the end of the year. The Company matches 100% of the first 1% and 50% between 1% and 6% of eligible pay deferred. Participants become 100% vested in the matching contribution after two years of service. Forfeitures may be used by the Company to satisfy its contribution. The Company did not have an accrual at December 30, 2015 or December 31, 2014, due to the Company funding the match after each payroll rather than at a lump sum at the end of the year. On January 1, 2014 the accrual was approximately \$1,428,000 for the 2013 plan year. During 2013, the Company had a discretionary match up to 10% of a participant's compensation. The Company matched \$1,591,000 and \$1,488,000 for the years ended December 30, 2015 and December 31, 2014, respectively.

Non-qualified Deferred Compensation Plan

In June 2007, the Company established the Non-qualified Deferred Compensation Plan for corporate executives, which allows the participants to elect to defer a portion of their compensation into the plan. During the years ended December 30, 2015, December 31, 2014 and January 1, 2014, participant deferrals were \$740,000, \$789,000 and \$356,000, respectively. The Company made matching contributions of \$70,000, \$110,000 and \$56,000 for the years ended December 30, 2015, December 31, 2014 and January 1, 2014, respectively.

Distributions from the plan are made upon death, retirement, disability or upon the election of the participant (as long as funds are held for at least five years prior to the participant's elective payment date). The plan does not qualify under ERISA; therefore, Company contributions are not tax deductible until distributions are made to the participants. A deferred tax benefit is recorded for non-deductible contributions made by the Company.

S&D Coffee Holding Company

Phantom Equity Plan

On January 1, 2008, the Company established the Phantom Equity Plan (the Plan) to compensate certain key executives based on the issuance of Phantom Equity Units. The units vest over a five-year vesting period on a straight-line basis. The grants are measured at the date of grant and subsequently under the intrinsic value method, which is the amount by which the value of the Plan award exceeds the base value, as defined in the Plan. The Company has elected to recognize compensation expense on a straight-line basis over the requisite service period for each separately vesting portion of the award as if the award was, in substance, multiple awards. Compensation expense for the Phantom Equity Plan was \$300,000 for the year ended December 30, 2015. During 2014, the value of the awards declined resulting in a \$2,332,000 benefit recognized in the accompanying consolidated statements of income and comprehensive income. Compensation expense for the Phantom Equity Plan was \$1,081,000 for the year ended January 1, 2014. The Company paid \$319,000, \$1,350,000 and \$1,662,000 for the 2010, 2009 and 2008 units, respectively, to the participants during fiscal years 2015, 2014 and 2013, respectively. The Company accrued \$652,000 and \$678,000 related to the Phantom Equity Plan as of December 30, 2015 and December 31, 2014, respectively.

Supplemental Executive Retirement Plan

The Company established a Supplemental Executive Retirement Plan (SERP) in 2001. Under the SERP, the Company has agreed to pay, on an annual basis, \$500,000 plus out-of-pocket medical costs for the remainder of the Chairman Emeritus' spouse's life. The Company has recorded a liability of \$3,632,000 and \$3,859,000 for the actuarially determined present value of the SERP as of December 30, 2015 and December 31, 2014, respectively. Of this liability, \$505,000 for fiscal years 2015 and 2014 is included in accrued expenses and \$3,127,000 and \$3,354,000 is included in other liabilities in the accompanying consolidated balance sheets as of December 30, 2015 and December 31, 2014, respectively.

The following table provides a reconciliation of benefit obligations, plan assets and funded status of the SERP.

	December 30, 2015	December 31, 2014
Change in benefit obligation:		
Benefit obligation, beginning of year	\$ 3,859,000	\$ 3,654,000
Interest cost	146,000	146,000
Actuarial loss	131,000	561,000
Plan participants' contribution	—	5,000
Benefits paid	(504,000)	(507,000)
Benefit obligation, end of year	<u>\$ 3,632,000</u>	<u>\$ 3,859,000</u>
Change in plan assets:		
Fair value of plan assets, beginning of year	\$ —	\$ —
Employer contributions	504,000	502,000
Plan participants' contribution	—	5,000
Benefits paid	(504,000)	(507,000)
Fair value of plan assets, end of year	<u>\$ —</u>	<u>\$ —</u>

S&D Coffee Holding Company

The net periodic benefit cost included the following components:

	December 30, 2015	December 31, 2014	January 1, 2014
Interest cost	\$ 146,000	\$ 146,000	\$ 149,000
Amortization of prior service cost	—	—	—
Recognized actuarial loss	—	—	—
Net periodic benefit cost	<u>\$ 146,000</u>	<u>\$ 146,000</u>	<u>\$ 149,000</u>

The health care cost trend rate assumed for 2015 was 6.50%, trending down to 5.00% in 2019 and thereafter. The weighted average discount rate used in determining the accumulated benefit obligation was 4.22%, 4.05% and 4.30% in 2015, 2014 and 2013, respectively.

The following benefit payments are expected to be paid through 2025:

Year:	Pension Benefits	Other Benefits
2016	\$ 489,000	\$ 5,000
2017	464,000	5,000
2018	438,000	5,000
2019	410,000	5,000
2020	380,000	5,000
2021-2025	<u>1,432,000</u>	<u>20,000</u>
	<u>\$3,613,000</u>	<u>\$45,000</u>

10 Related-party Transactions

The Company has operating leases with Arabica. In October 2001, the Company entered into an operating lease with Arabica for a manufacturing warehouse and office facility, which was renewed in October 2011 with an expiration date of September 2016 with one five-year renewal option. Rental payments to Arabica for this lease in fiscal 2015, 2014 and 2013 were \$434,000. Additionally, the Company leases its main manufacturing facilities, administrative offices and associated land from Arabica. The leases expired in September 2011 and the Company elected the first of three five-year renewal options. Under these leases, total annual rent payments to Arabica escalated from \$295,000 to \$355,000 over the lease term. Rent expense recorded in fiscal years 2015, 2014 and 2013 for these leases was \$355,000. The Company is the primary beneficiary of Arabica, which is a VIE. As of December 30, 2015 and December 31, 2014, and for each of the years then ended, Arabica has been consolidated with S&D Coffee Holding Company

The consolidated financial statements for December 30, 2015, December 31, 2014 and January 1, 2014, include the following amounts as a result of the VIEs consolidation:

	2015	2014	2013
Cash and cash equivalents	\$ —	\$ —	\$ 18,000
Other current assets	—	—	—
Land and building, net	1,826,000	1,890,000	1,952,000
Current portion of long-term debt	—	—	50,000
Current liabilities	800	500	800
Long-term debt	—	—	—
Net income	<u>\$ 640,000</u>	<u>\$ 731,000</u>	<u>\$ 712,000</u>

S&D Coffee Holding Company

As the VIE has elected to be taxed as a partnership for federal and state income tax purposes, there was no effect on income tax expense as a result of the consolidation.

During 2003, the Company converted the cash surrender value of certain life insurance policies to notes receivable from three of the Company's officers. The split-dollar policies converted by the Company were policies in which the premiums paid by the Company exceeded the cash surrender value of the policies. The original amount of the notes receivable was \$3,620,000. Additional advances under the notes for premium payments in fiscal years 2015 and 2014 were \$94,000, for each year, and \$109,000 for fiscal year 2013. The notes, plus accrued interest, at rates varying depending on the terms, are payable upon the earlier of, the cancellation of the policies, the death of the insured, or December 15, 2023. The cash surrender value of these life insurance policies serves as collateral for these notes. During fiscal 2015, 2014 and 2013, the Company accrued interest income of \$344,000, \$440,000 and \$351,000, respectively.

11 Subsequent Events

The Company has evaluated subsequent events through September 26, 2016, which is the date the financial statements were available to be issued.

All subsequent events requiring recognition or disclosure have been incorporated into these financial statements. In August of 2016, Cott Corporation purchased S&D Coffee Holding Company.

Condensed Consolidated Interim Financial Statements

S&D Coffee Holding Company

As of June 15, 2016 and June 17, 2015

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S&D Coffee Holding Company

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Condensed consolidated balance sheets (unaudited)

	<u>June 15, 2016</u>	<u>June 17, 2015</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 5,559,660	\$ 10,134,161
Trade accounts receivable, net of allowances of \$ 869,000 and \$ 900,000 in 2016 and 2015, respectively	44,846,158	45,096,364
Inventories	40,458,850	44,904,678
Prepaid expenses	3,294,823	4,322,450
Other	6,952,506	685,995
Total current assets	101,111,997	105,143,648
Property, plant and equipment, net	72,668,986	79,605,143
Cash surrender value of officers' life insurance	12,257,641	11,507,383
Notes receivable - Affiliates	8,245,291	7,792,582
Notes receivable	2,516,513	4,660,186
Goodwill and other intangibles	3,206,955	3,336,954
Other assets	230,447	230,447
	<u>\$200,237,830</u>	<u>\$212,276,343</u>

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

Condensed consolidated balance sheets (unaudited) (cont'd)

	<u>June 15, 2016</u>	<u>June 17, 2015</u>
Liabilities and stockholder's equity		
Current liabilities:		
Bank overdraft	\$ 2,543,693	\$ 3,720,804
Current portion of long-term debt	4,000,000	4,000,000
Accounts payable	25,231,609	21,489,318
Accrued expenses and other current liabilities	16,370,267	18,640,725
Federal and state income taxes	1,010,091	78,790
Total current liabilities	<u>49,155,660</u>	<u>47,929,637</u>
Long-term debt	27,333,333	31,333,333
Lines of credit	—	24,100,000
Federal and state income tax payable - Noncurrent	964,494	1,827,096
Other liabilities	10,032,747	9,568,103
Total liabilities	<u>87,486,234</u>	<u>114,758,169</u>
Stockholders' equity:		
Common Stock:		
Class A	—	—
Class B	—	—
Retained earnings	112,009,609	105,529,094
Accumulated other comprehensive loss	(1,083,820)	(9,899,925)
Noncontrolling interest	1,825,807	1,889,005
Total stockholders' equity	<u>112,751,596</u>	<u>97,518,174</u>
	<u>\$200,237,830</u>	<u>\$212,276,343</u>

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

Condensed consolidated statements of income and comprehensive income (unaudited)

For the periods ended	June 15, 2016	June 17, 2015
Net sales	\$253,298,254	\$260,470,835
Cost of sales		
Cost of goods sold	159,035,293	169,142,703
Plant & distribution expenses	25,635,569	25,750,066
Total cost of sales	<u>184,670,862</u>	<u>194,892,769</u>
Gross profit	<u>68,627,392</u>	<u>65,578,066</u>
Operating expenses:		
Selling and sales support services	44,600,327	45,282,096
General and administrative	19,072,316	17,939,886
Supplemental executive retirement expense	92,310	92,310
Total operating expenses	<u>63,764,953</u>	<u>63,314,292</u>
Operating income	4,862,439	2,263,774
Interest expense	(537,746)	(577,804)
Other income, net	721,925	892,539
Earnings before income taxes	5,046,618	2,578,509
Income tax benefit	—	(616,680)
Net income	5,046,618	3,195,189
Less net income attributable to noncontrolling interest	(295,293)	(337,529)
Net income attributable to S&D Coffee Holding Company	4,751,325	2,857,660
Other comprehensive income (loss)		
Unrealized gain (loss) on coffee futures	11,079,237	(14,700,347)
Unrealized loss on interest rate swap	(190,926)	(55,901)
Comprehensive income attributable to S&D Coffee Holding Company	\$ 15,639,636	\$ (11,898,588)

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

Condensed consolidated statements of stockholders' equity (unaudited)

	Common Stock				Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interest	Total
	Class A		Class B					
	Shares	Amount	Shares	Amount				
Consolidated balance, January 1, 2015	10,490	\$ —	985,031	\$ —	\$104,917,919	\$ 4,856,323	\$ 1,889,005	\$111,663,247
Comprehensive income (loss)	—	—	—	—	2,857,660	(14,756,248)	337,529	(11,561,059)
Shareholder tax distributions	—	—	—	—	(2,246,485)	—	—	(2,246,485)
Noncontrolling interest distributions	—	—	—	—	—	—	(337,529)	(337,529)
Consolidated balance, June 17, 2015	<u>10,490</u>	<u>\$ —</u>	<u>985,031</u>	<u>\$ —</u>	<u>\$105,529,094</u>	<u>\$ (9,899,925)</u>	<u>\$ 1,889,005</u>	<u>\$ 97,518,174</u>
Consolidated balance, December 31, 2015	—	\$ —	—	\$ —	\$111,896,517	\$ (11,972,131)	\$ 1,825,807	\$101,750,193
Comprehensive income	—	—	—	—	4,751,325	10,888,311	295,293	15,934,929
Shareholder tax distributions	—	—	—	—	(4,638,233)	—	—	(4,638,233)
Noncontrolling interest distributions	—	—	—	—	—	—	(295,293)	(295,293)
Consolidated balance, June 15, 2016	<u>10,490</u>	<u>\$ —</u>	<u>985,031</u>	<u>\$ —</u>	<u>\$112,009,609</u>	<u>\$ (1,083,820)</u>	<u>\$ 1,825,807</u>	<u>\$112,751,596</u>

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

Condensed consolidated statements of cash flows (unaudited)

For the periods ended	June 15, 2016	June 17, 2015
Cash flows from operating activities:		
Net income	\$ 5,046,618	\$ 3,195,189
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	7,532,353	7,501,491
Gain on sale of property and equipment	(344,329)	(400,999)
Net increase in cash surrender value of officers' life insurance and notes receivable	(984,228)	(1,247,623)
Deferred income tax benefit, net	—	(626,942)
Changes in operating assets and liabilities:		
Accounts receivable, net	7,235,381	9,038,459
Inventories, net	12,992,221	964,611
Prepaid expenses and other current assets	1,908,647	3,396,659
Accounts payable	(7,319,122)	(3,720,431)
Accrued expenses and other liabilities	(963,414)	(8,458,936)
Federal and state income taxes	(589,096)	433,810
Coffee futures contracts	4,265,858	(12,368,700)
Net cash provided by (used in) operating activities	<u>28,780,889</u>	<u>(2,293,412)</u>
Cash flows from investing activities:		
Capital expenditures	(4,633,419)	(5,793,899)
Proceeds from sale of property, plant and equipment	593,985	976,790
Issuance of notes receivable	—	(3,310,752)
Proceeds from notes receivable	753,457	1,634,903
Net cash used in investing activities	<u>(3,285,977)</u>	<u>(6,492,958)</u>
Cash flows from financing activities:		
Checks issued in excess of funds on deposit	(4,874,151)	3,708,049
Shareholder distributions	(4,638,233)	(2,246,485)
Net proceeds from lines of credit	(13,050,000)	13,000,000
Principal payments on long-term debt	(2,000,000)	(1,666,667)
Noncontrolling interest distributions	(295,293)	(337,529)
Net cash (used in) provided by financing activities	<u>(24,857,677)</u>	<u>12,457,368</u>
Increase cash and cash equivalents	<u>637,235</u>	<u>3,670,998</u>
Cash and cash equivalents, beginning of period	<u>4,922,425</u>	<u>6,463,163</u>
Cash and cash equivalents, end of period	<u>\$ 5,559,660</u>	<u>\$ 10,134,161</u>
Supplemental disclosures of cash flow information –		
Cash paid during the year for:		
Interest	\$ 642,000	\$ 482,000
Income taxes	<u>589,000</u>	<u>367,000</u>

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

Notes to unaudited condensed consolidated interim financial statements

1 Nature of Operations and Summary of Significant Accounting Policies

Operations

The accompanying condensed consolidated financial statements present the accounts of S&D Coffee Holding Company (the Company). The Company is primarily engaged in the production and distribution of coffee, tea and liquid beverages, and the distribution of related products, to institutional and commercial customers in the United States. The Company's operations are significantly impacted by the world market for green coffee. Coffee is an agricultural product and its price fluctuates as a result of many factors beyond the Company's control, including the actions of domestic and foreign governments, the weather in coffee-producing nations and the operation of the commodity futures markets. Once received, the beans are processed and distributed from facilities located in Concord, North Carolina.

The Company's fiscal years end on the Wednesday closest to December 31. These condensed consolidated financial statements show the 24-week periods ending June 15, 2016 and June 17, 2015.

Principles of Consolidation

The condensed consolidated financial statements include the accounts of the Company, its wholly owned subsidiary, S&D Coffee, Inc. (S&D), and its variable interest entity (VIE), Arabica, LLC (Arabica). All significant intercompany accounts and transactions have been eliminated in consolidation.

Basis of Presentation

The accompanying condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (US GAAP). These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements of the Company. The nature of the Company's business is such that the results of any interim period are not necessarily indicative of results for a full year. In the opinion of management, all adjustments, which consist of normal recurring adjustments necessary for a fair statement of the interim period results have been made. The Company evaluates subsequent events through the date of issuing these unaudited consolidated financial statements.

Use of Estimates in Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions. These 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.

Cash and Cash Equivalents

The Company considers cash, demand deposits and highly liquid investments with original maturities of less than three months to be cash and cash equivalents. The Company maintains cash deposits with major banks, which may exceed federally insured limits. The Company periodically assesses the financial condition of the institutions and believes the risk of loss to be remote.

S&D Coffee Holding Company

Revenue Recognition and Concentration of Credit Risk

The Company recognizes revenue upon delivery of products to its customers.

The Company extends credit based on an evaluation of customers' financial conditions, generally without requiring collateral. Exposure to losses on receivables is principally dependent on each customer's financial condition. The Company considers invoices past due when they are outstanding longer than the stated term, which is typically 30 days.

Notes Receivable

The Company entered into an agreement with a customer in November 2014 by which the Company would lend the customer up to \$12,000,000 for the purpose of financing beverage equipment purchases. The note bears no interest and is over a five-year term with a one-year renewal option.

Inventories

Inventories of coffee (53% and 52% of total inventory at June 15, 2016 and June 17, 2015, respectively) are stated at cost, determined using the last in, first out (LIFO) method. Tea, allied products, drinks, syrups and packaging supplies (47% and 48% of inventory at June 15, 2016 and June 17, 2015, respectively) are stated at cost, determined using the first in, first out (FIFO) method. For these inventories, cost is less than market value.

Shipping and Handling Costs

Shipping and handling costs included in selling and sales support services expense for the period ended June 15, 2016 and June 17, 2015, were \$6,488,000 and \$6,733,000, respectively.

Futures Contracts

Coffee is a significant raw material component for the Company and, as a commodity, is subject to market fluctuations based on crop yield projections and global product demand. The Company enters into coffee futures contracts to hedge its exposure to price fluctuations on coffee raw materials associated with fixed-price sales contracts with institutional customers, which generally range from three months to one year in length.

Property, Plant and Equipment

Property, plant and equipment are stated at cost, less accumulated depreciation. Major additions are capitalized; maintenance, repairs and minor improvements are charged to operating expenses as incurred. Depreciation is computed for financial reporting purposes using a combination of the straight-line and double-declining balance methods over the estimated useful lives of the assets, which are as follows:

Buildings and leasehold improvements	15-39 years
Equipment and software	3-10 years

Accelerated depreciation methods, as provided by federal income tax laws, are used for income tax purposes.

Income Taxes

As of January 1, 2015, S&D Coffee Holding Company and S&D Coffee, Inc. elected to be treated as a pass-through entity, S Corporation, under the Internal Revenue Code (IRC). Under this election, the shareholders of the Company are taxed on their proportional share of the taxable income of the Company. The deferred tax assets and liabilities recorded as of December 31, 2014 were reversed through the income statement as of January 1, 2015 because the future tax benefits and liabilities for those deferred will be the responsibility of the shareholders.

Fair Value of Financial Instruments

The Company uses a fair value hierarchy for those instruments measured at fair value that distinguishes between assumptions based on market data (observable inputs) and the Company's own assumptions (unobservable inputs). The hierarchy consists of three levels:

- Level 1** Quoted market prices in active markets for identical assets or liabilities;
- Level 2** Inputs other than Level 1 inputs that are either directly or indirectly observable; and
- Level 3** Unobservable inputs developed using estimates and assumptions developed by management, which reflect those that a market participant would use.

The following table discloses assets and liabilities measured at fair value on a recurring basis:

Fair value measurements as of June 15, 2016	Level 1	Level 2	Level 3	Total
Interest rate swaps	\$ —	\$(492,871)	\$ —	\$ (492,871)
Futures contracts	<u>5,064,745</u>	<u>—</u>	<u>—</u>	<u>5,064,745</u>
Fair value measurements as of June 17, 2015	Level 1	Level 2	Level 3	Total
Interest rate swaps	\$ —	\$(377,715)	\$ —	\$ (377,715)
Futures contracts	<u>(4,623,304)</u>	<u>—</u>	<u>—</u>	<u>(4,623,304)</u>

The Company's coffee futures contracts are carried at fair value, based on readily available quoted market prices (see Note 5). The Company's interest rate swap agreements are carried at fair value, determined based on the present value of the estimated future cash flows using implied rates in the applicable yield curve as of the valuation date (see Note 5).

The carrying amounts of cash and cash equivalents, trade accounts receivable, prepaid expenses and other current assets, accounts payable and accrued expenses approximate fair value because of the short-term nature of these financial instruments. The carrying amount of the Company's long-term debt approximates fair value because the interest rates, credit spreads and other significant terms approximate current market conditions.

Long-lived Assets

The Company reviews its long-lived assets, including property, plant and equipment, and certain identifiable intangible assets, for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. No impairment charge was recognized for the period ended June 15, 2016 and June 17, 2015.

Goodwill and Other Intangible Assets

Goodwill and other intangible assets at June 15, 2016 and June 17, 2015, consist of goodwill, noncompete agreements and customer lists arising from past business acquisitions as well as certain distinct intangible assets acquired in 2009. The other intangible assets are being amortized over their estimated useful lives, which range from 10 to 15 years.

Comprehensive Income

Comprehensive income in the statements of income and comprehensive income consists of net income plus unrealized gains and losses on the Company's coffee futures transactions and interest rate swap agreements.

S&D Coffee Holding Company**Variable Interest Entity**

The Company consolidates entities in which it has a controlling financial interest.

The Company follows the authoritative guidance included in generally accepted accounting principles on accounting for consolidation of VIEs. Such guidance applies to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties.

The Company determines the primary beneficiary based on an evaluation of which party has both: (i) the power to direct the activities that most significantly impact the economic performance of the VIE; and, (ii) has the obligation to absorb losses, or the right to receive benefits that could potentially be significant to the VIE. The Company evaluates its relationships with other entities to identify whether those entities are VIEs and to assess whether it is the primary beneficiary of such entities. If the determination is made that the Company is the primary beneficiary, then that entity is included in the condensed consolidated financial statements. The Company is the primary beneficiary for such a VIE, Arabica (see Note 10).

2 Inventories

The components of inventories are as follows:

	<u>June 15, 2016</u>	<u>June 17, 2015</u>
At FIFO cost:		
Coffee	\$ 30,639,468	\$ 33,494,409
Allied products	3,077,182	2,784,872
Tea	8,756,136	9,643,162
Liquid beverages	3,370,971	4,737,811
Drinks and syrup	1,475,631	2,093,335
Packaging supplies	2,939,104	3,003,121
Other	373,680	380,807
Inventories at FIFO cost	<u>50,632,172</u>	<u>56,137,517</u>
Less – LIFO reserve for coffee	<u>(10,173,322)</u>	<u>(11,232,839)</u>
	<u>\$ 40,458,850</u>	<u>\$ 44,904,678</u>

3 Property, Plant and Equipment, Net

The components of property, plant and equipment are as follows:

	<u>June 15, 2016</u>	<u>June 17, 2015</u>
Brewing and beverage equipment	\$ 53,836,401	\$ 52,062,241
Land	2,106,000	2,106,000
Buildings and leasehold improvements	44,023,798	43,833,646
Plant equipment	75,722,169	71,420,525
Office equipment	6,075,331	5,948,327
Computer equipment and software	19,041,292	19,042,799
Transportation equipment	9,408,723	9,465,633
Construction-in-progress	1,698,405	4,113,844
	<u>211,912,119</u>	<u>207,993,015</u>
Less – Accumulated depreciation	<u>(139,243,133)</u>	<u>(128,387,872)</u>
	<u>\$ 72,668,986</u>	<u>\$ 79,605,143</u>

Depreciation expense for the periods ending June 15, 2016 and June 17, 2015 was \$7,472,000 and \$7,441,000, respectively.

4 Intangible Assets

Intangible assets consist of certain identifiable assets resulting from previous acquisitions, including noncompete agreements, customer lists, trade secrets and goodwill. The gross carrying amount and accumulated amortization for these intangible assets are as follows:

	<u>June 15, 2016</u>	<u>June 17, 2015</u>	<u>Estimated Useful Lives</u>
Amortizable intangible assets:			
Noncompete agreements	\$ 825,000	\$ 825,000	10-15 years
Customer lists	130,000	130,000	15 years
Trade secrets	1,300,000	1,300,000	10 years
Accumulated amortization	<u>(1,865,045)</u>	<u>(1,735,046)</u>	
Amortizable intangible assets	389,955	519,954	
Non-amortizable intangible assets - Goodwill	<u>2,817,000</u>	<u>2,817,000</u>	
	<u>\$ 3,206,955</u>	<u>\$ 3,336,954</u>	

Intangible assets are being amortized on a straight-line basis over the estimated useful lives of each asset. Amortization expense for the period ended June 15, 2016 and June 17, 2015, were \$60,000 and \$60,000, respectively. Future amortization expense related to intangible assets is as follows:

	<u>Amount</u>
Remainder of 2016	\$ 70,000
2017	130,000
2018	130,000
2019	59,955
	<u>\$389,955</u>

5 Hedging Activities

The Company records all derivatives, whether designated in hedging relationships or not, at fair value on the balance sheet. If the derivative is designated as a fair-value hedge, the changes in the fair value of the derivative and the hedged item are recognized in earnings. If the derivative is designated as a cash flow hedge, the effective portions of changes in the fair value of the derivative are recorded in other comprehensive income or loss and are recognized in earnings when the hedged item affects earnings. Any material ineffective portions of changes in the fair value of cash flow hedges are recognized in earnings as they occur.

The Company is subject to price risk related to price-to-be-fixed coffee purchase commitments and anticipated coffee purchase commitments. In the normal course of business, under procedures and controls established by the Company's financial risk management framework, the Company enters into green coffee futures contracts to manage changes in raw materials prices in order to ensure supply and protect the gross margin of price-to-be-fixed customer sales commitments. The Company designates these future contracts as cash flow hedges. The amounts recorded in accumulated other comprehensive income relating to these futures will be reflected as a component of cost of sales, generally within 12 months following the balance sheet date, as the related inventory is sold. As a matter of policy, the Company does not enter into coffee derivatives contracts for trading or speculative purposes.

In July 2010, the Company entered into a \$6,160,000 notional amount interest rate swap effective August 2011. The notional amount of the swap amortized to zero in December 2015, at which time it terminated. In November 2011, the Company entered into a \$10,594,000 notional amount interest rate swap effective April 30, 2012. The notional amount of the swap amortizes to \$2,555,000 in October 2016, at which time it terminates. In March 2014, the Company entered into a \$11,731,000 notional amount interest rate swap. In September 2014, the swap agreement notional amount increased to \$19,870,000. The notional amount of the swap amortizes to \$15,813,000 in December 2018, at which time it terminates. These interest rate swaps, which have been designated as cash flow hedges, are utilized to hedge a portion of the Company's interest rate payments on its variable rate debt. As of June 15, 2016 and June 17, 2015, the Company has recognized a liability of \$492,000 and \$378,000, respectively, for accumulated unrealized losses related to these swap agreements, which are shown as a component of accumulated other comprehensive income (loss) in the accompanying condensed consolidated financial statements.

6 Notes Payable and Long-term Debt

A summary of the Company's long-term debt is as follows:

	<u>June 15, 2016</u>	<u>June 17, 2015</u>
Note payable to banks, unsecured, monthly principal and quarterly interest payments, final payment of remaining principal due December 2018	27,333,333	31,333,333
Current portion	4,000,000	4,000,000
Total long-term debt	31,333,333	35,333,333
Less - current maturities of long-term debt	(4,000,000)	(4,000,000)
Long-term debt, excluding current maturities	<u>\$27,333,333</u>	<u>\$31,333,333</u>

In December 2013, the Company entered into a syndicated credit facility with three banks for a principal amount of \$30,000,000 and a revolving credit facility. The proceeds of this term loan were used to refinance the prior term debt and to pay off prior lines of credit. The principal of the loan began to amortize in January 2014 and a final payment of \$15,000,000 is due in December 2018. In December 2014, the Company exercised its option to borrow an additional \$10,000,000 under the above stated syndicated term loan, which began to amortize in January 2015. The proceeds from this additional \$10,000,000 were used to fund capital expenditures. A final payment of \$20,800,000 on the term loan is due in December 2018. Interest is payable monthly at LIBOR plus an applicable margin. The revolving credit facility is intended to satisfy seasonal working capital requirements and has maximum available borrowings of \$75,000,000. The Company had \$0 outstanding under its line of credit as of June 15, 2016 and \$24,100,000 outstanding as of June 17, 2015. The line of credit expires in December 2018.

The terms of the notes and lines of credit are subject to certain restrictive loan covenants based on the Company's financial position, including a subjective covenant whereby the debt would be callable upon an event, act, condition or occurrence, which has a material adverse effect on the Company, the rights and remedies of the bank under the notes or the legality, validity or enforceability of the loan document. As of June 15, 2016, the Company was in compliance with all covenants of the notes and lines of credit.

The aggregate maturities of the lines of credit and long-term debt are as follows:

	Notes Payable	Lines of Credit	Amount
Remainder of 2016	\$ 2,000,000	\$ —	\$ 2,000,000
2017	4,000,000	—	4,000,000
2018	21,333,333	—	21,333,333
	<u>\$27,333,333</u>	<u>\$ —</u>	<u>\$27,333,333</u>

7 Income Taxes

As discussed in Note 1, the Company elected to be treated as a pass-through entity, S Corporation, effective January 1, 2015. As a result of this election, the income tax liability resulting from the activities of the Company is paid proportionally by the shareholders. The Company is still subject to entity level state income taxes in certain states that do not recognize the pass-through status. Upon conversion, the current net deferred tax asset of \$4,430,000, the noncurrent net deferred tax liability of \$8,097,000 and the deferred tax asset of \$3,040,000 in adjusted other comprehensive income were reversed and a net deferred tax benefit was recorded. In order to elect to be taxed as an S Corporation, the Company recaptured the LIFO reserve of \$12,000,000 on its 2014 tax return. The Internal Revenue Code allows for deferred payments of the income tax liability associated with this recapture in four installments of \$964,500. As a result, the Company recorded a federal income tax liability of \$1,929,000 at June 15, 2016 and \$2,893,000 at June 17, 2015, which is payable in four equal installments that started March 15, 2015.

The Company follows applicable authoritative guidance on accounting for uncertainty in income taxes, which among other things, prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return, and provides guidance on derecognition, classification, interest, and penalties, accounting in interim periods, disclosure and transition.

8 Commitments and Contingencies

Litigation

The Company is involved in various lawsuits arising in the normal course of business. In management's opinion, such matters will not have a material adverse effect on the financial position or results of operations of the Company.

9 Benefit Plans and Deferred Compensation

Defined Contribution Plan

The Company has a 401(k) savings plan available to all employees. New employees are eligible to become participants on the first day of each quarter. Each savings plan participant may elect to have up to 80% of total compensation withheld, subject to limitations, as a contribution to the plan. For the 2015 plan year and thereafter, the Company elected a Safe Harbor Match, rather than a discretionary match at the end of the year. The Company matches 100% of the first 1% and 50% between 1% and 6% of eligible pay deferred. Participants become 100% vested in the matching contribution after two years of service. Forfeitures may be used by the Company to satisfy its contribution.

Non-qualified Deferred Compensation Plan

In June 2007, the Company established the Non-qualified Deferred Compensation Plan for corporate executives, which allows the participants to elect to defer a portion of their compensation into the plan. During the period ended June 15, 2016 and June 17, 2015, participant deferrals were \$545,000 and \$560,000, respectively. The Company made matching contributions of \$0 and \$0 for the period ended June 15, 2016 and June 17, 2015, respectively.

Distributions from the plan are made upon death, retirement, disability or upon the election of the participant (as long as funds are held for at least five years prior to the participant’s elective payment date). The plan does not qualify under ERISA; therefore, Company contributions are not tax deductible until distributions are made to the participants. A deferred tax benefit is recorded for non-deductible contributions made by the Company.

Phantom Equity Plan

On January 1, 2008, the Company established the Phantom Equity Plan (the Plan) to compensate certain key executives based on the issuance of Phantom Equity Units. The units vest over a five-year vesting period on a straight-line basis. The grants are measured at the date of grant and subsequently under the intrinsic value method, which is the amount by which the value of the Plan award exceeds the base value, as defined in the Plan. The Company has elected to recognize compensation expense on a straight-line basis over the requisite service period for each separately vesting portion of the award as if the award was, in substance, multiple awards. Compensation expense for the Phantom Equity Plan was \$461,000 and \$165,000 for the period ended June 15, 2016 and the period June 17, 2015. No cash payments were made by the Company during the periods ended June 15, 2016 and June 17, 2015. The Company accrued \$1,144,000 and \$884,000 related to the Phantom Equity Plan as of June 15, 2016 and June 17, 2015, respectively.

Supplemental Executive Retirement Plan

The Company established a Supplemental Executive Retirement Plan (SERP) in 2001. Under the SERP, the Company has agreed to pay, on an annual basis, \$500,000 plus out-of-pocket medical costs for the remainder of the Chairman Emeritus’ spouse’s life. The Company has recorded a liability of \$3,472,000 and \$3,742,000 for the actuarially determined present value of the SERP as of June 15, 2016 and June 17, 2015, respectively. Of this liability, \$500,000 for each year is included in accrued expenses and \$2,972,000 and \$3,242,000 is included in other liabilities in the accompanying condensed consolidated balance sheets as of June 15, 2016 and June 17, 2015, respectively.

The net periodic benefit cost included the following components:

	<u>June 15, 2016</u>	<u>June 17, 2015</u>
Interest cost	\$ 67,000	\$ 67,000
Amortization of prior service cost	—	—
Recognized actuarial loss	—	—
Net periodic benefit cost	<u>\$ 67,000</u>	<u>\$ 67,000</u>

10 Related-party Transactions

The Company has operating leases with Arabica. In October 2001, the Company entered into an operating lease with Arabica for a manufacturing warehouse and office facility, which was renewed in October 2011 with an expiration date of September 2016 with one five-year renewal option. Rental payments to Arabica for this lease in the period 2016 and 2015 were \$200,000. Additionally, the Company leases its main manufacturing facilities, administrative offices and associated land from Arabica. The leases expired in September 2011 and the Company elected the first of three five-year renewal options. Under these leases, total annual rent payments to Arabica escalated from \$295,000 to \$355,000 over the lease term. Rent expense recorded in the periods ended June 15, 2016 and June 17, 2015 for these leases was \$164,000. The Company is the primary beneficiary of Arabica, which is a VIE. As of June 15, 2016 and June 17, 2015, and for the period then ended, Arabica has been consolidated with S&D Coffee, Inc.

The condensed consolidated financial statements for June 15, 2016 and June 17, 2015, include the following amounts as a result of the VIEs consolidation:

	<u>2016</u>	<u>2015</u>
Cash and cash equivalents	\$ —	\$ —
Other current assets	—	—
Land and building, net	1,797,000	1,861,000
Current portion of long-term debt	—	—
Current liabilities	800	500
Long-term debt	—	—
Net income	\$ 295,000	\$ 338,000

As the VIE has elected to be taxed as a partnership for federal and state income tax purposes, there was no effect on income tax expense as a result of the consolidation.

During 2003, the Company converted the cash surrender value of certain life insurance policies to notes receivable from three of the Company's officers. The split-dollar policies converted by the Company were policies in which the premiums paid by the Company exceeded the cash surrender value of the policies. The original amount of the notes receivable was \$3,620,000. Additional advances under the notes for premium payments for each period presented were \$94,000 and \$78,000 for the periods ended June 15, 2016 and June 17, 2015, respectively. The notes, plus accrued interest, at rates varying depending on the terms, are payable upon the earlier of, the cancellation of the policies, the death of the insured, or December 15, 2023. The cash surrender value of these life insurance policies serves as collateral for these notes. For periods ended June 15, 2016 and June 17, 2015, the Company accrued interest income of \$163,000 and \$133,000, respectively.

11 Subsequent Events

The Company has evaluated subsequent events through September 26, 2016, which is the date the financial statements were available to be issued.

All subsequent events requiring recognition or disclosure have been incorporated into these financial statements. In August of 2016, Cott Corporation purchased S&D Coffee Holding Company.

Hydra Dutch Holdings 1 B.V.

**Interim Condensed Consolidated Financial Statements
30 June 2016**

Hydra Dutch Holdings 1 B.V.

Interim Condensed Consolidated Financial Statements

30 June 2016

in '000 €

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Hydra Dutch Holdings 1 B.V.

Interim Consolidated Balance Sheets as of 30 June 2016 in

‘000 €

	Notes	30/06/2016 <i>unaudited</i>	31/12/2015 <i>audited</i>
ASSETS			
Current assets			
Cash and cash equivalents		11 974	12 608
Available-for-sale financial asset		15 007	15 019
Trade receivables - net		76 095	68 105
Income tax receivable		2 633	2 224
Receivable from related parties		74	71
Prepaid and other assets		14 747	7 767
Inventories		18 201	17 944
Financial asset at fair value through profit or loss		11 195	—
Non-current assets		149 926	123 738
Property, plant and equipment		87 466	82 360
Goodwill		171 532	164 511
Other intangible assets		87 425	91 055
Deferred tax assets		17 918	15 956
Other non-current assets		2 853	2 332
		<u>367 194</u>	<u>356 214</u>
Total assets		<u>517 120</u>	<u>479 952</u>
LIABILITIES			
Current liabilities			
Borrowings	5	364 818	4 767
Trade accounts payable		39 142	36 820
Current tax liability		5 017	4 626
Other current liabilities		43 901	44 651
Customer deposits and prepaid income		31 967	33 534
Provisions		1 678	2 208
Borrowing from shareholder and related parties		78 865	91
Non-current liabilities		565 388	126 697
Deferred tax liabilities		20 819	19 178
Borrowings	5	2 680	298 616
Other non-current liabilities		2	52
Provisions		982	1 026
Liability for employee rights		5 253	5 250
Borrowing from shareholder and related parties		—	75 623
Derivatives financial instruments		5 585	5 201
		<u>35 321</u>	<u>404 946</u>
Total liabilities		<u>600 709</u>	<u>531 643</u>
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital		—	—
Share premium		13 618	13 618
Other Reserves		(364)	(352)
Cumulative translation adjustment		10 972	9 649
Accumulated deficit		(108 005)	(74 760)
		<u>(83 779)</u>	<u>(51 845)</u>
Non controlling interests in Equity		190	154
Total deficit		<u>(83 589)</u>	<u>(51 691)</u>
Total liabilities and equity		<u>517 120</u>	<u>479 952</u>

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

/s/ Raanan Zilberman

Raanan Zilberman
Chief Executive Officer

/s/ Itamar Eder

Itamar Eder
Chief Financial Officer

/s/ Stephane Parisod

Stephane Parisod
Group Financial Controller

Hydra Dutch Holdings 1 B.V.

Interim Consolidated Statements of Comprehensive Loss as of 30 June 2016

in '000 €

	For the 6 months ended 30/06/2016 <i>unaudited</i>	For the 6 months ended 30/06/2015 <i>unaudited</i>	For the 3 months ended 30/06/2016 <i>unaudited</i>	For the 3 months ended 30/06/2015 <i>unaudited</i>
Revenues	176 583	175 452	93 075	93 146
Cost of goods sold	(57 171)	(58 283)	(29 795)	(30 110)
Gross profit	119 412	117 169	63 280	63 036
Service expenses	(66 769)	(66 828)	(34 703)	(34 634)
Sales & Marketing expenses	(17 072)	(18 202)	(8 528)	(9 705)
General and administration expenses	(13 729)	(13 620)	(7 232)	(7 186)
Amortization of customer portfolio and trademarks	(5 665)	(5 424)	(2 874)	(2 816)
Other operating expenses	(7 788)	(11 174)	(4 294)	(6 496)
Income from operations	8 389	1 921	5 649	2 199
Financial income	1 681	6 908	770	4 896
Financial expenses	(42 061)	(21 664)	(31 091)	(11 022)
Loss before taxes	(31 991)	(12 835)	(24 672)	(3 927)
Taxation	(1 218)	(218)	(679)	281
Net loss	(33 209)	(13 053)	(25 351)	(3 646)
Other comprehensive income / (loss) :				
Items that may be reclassified subsequently to profit or loss:				
Currency translation adjustment	1 323	23 453	1 655	(51)
Changes in the fair value of available-for-sale financial assets	(12)	3	(7)	1
Total comprehensive income / (loss)	(31 898)	10 403	(23 703)	(3 696)
Net loss attributable to:				
Equity holders of the company	(33 245)	(13 084)	(25 365)	(3 674)
Non controlling interest	36	31	14	28
	(33 209)	(13 053)	(25 351)	(3 646)
Total comprehensive loss attributable to:				
Equity holders of the company	(31 934)	10 372	(23 717)	(3 724)
Non controlling interest	36	31	14	28
	(31 898)	10 403	(23 703)	(3 696)

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

Hydra Dutch Holdings 1 B.V.

Interim Consolidated Statements of Cash Flows as of 30 June 2016

in '000 €

	30/06/2016	30/06/2015
	<i>unaudited</i>	<i>unaudited</i>
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss before taxes on income	(31 991)	(12 835)
Adjustment for :		
Depreciation and amortization	17 395	16 897
Amortization of capitalized financial costs	11 498	2 583
Financial expenses net, included in loss before taxes on income	28 498	12 981
Gain on disposal of property, plant and equipment	363	—
Derivative financial instruments	384	(807)
Other operating items	(104)	(43)
Change in fair value of financial asset through or loss	(100)	—
<i>Operating cash flow before working capital changes</i>	<u>25 943</u>	<u>18 776</u>
<i>Changes in operating working capital</i>		
Increase in Trade receivables	(7 331)	(12 210)
Increase in inventories	(45)	(1 907)
Increase in Prepaid and other assets	(6 334)	(2 909)
Increase in Trade accounts payable	2 787	1 345
Increase (Decrease) in Other current liabilities and Provision	(3 977)	696
Payables to related parties and shareholders	31	—
<i>Cash flows generated from operating activities</i>	<u>11 074</u>	<u>3 791</u>
Income tax paid	(1 710)	(1 680)
<i>Net cash flows generated from operating activities</i>	<u>9 364</u>	<u>2 111</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment (PPE) and software	(12 890)	(13 392)
Proceeds from sale of PPE	849	1 207
Acquisition of subsidiaries	(18 234)	(39 756)
Deposit on escrow account	—	(28 912)
Purchase of financial asset at fair value through profit or loss	(11 095)	—
Loan to others, net	35	—
Interest received	120	6
<i>Net cash used in investing activities</i>	<u>(41 215)</u>	<u>(80 847)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of long term borrowings	—	(54 897)
Proceeds from long-term borrowings (net of borrowing costs)	42 500	135 393
Repayment of other liabilities	(628)	(98)
Borrowings from Shareholders	—	500
Interest paid	(11 793)	(7 041)
<i>Net cash provided by financing activities</i>	<u>30 079</u>	<u>73 857</u>
Net decrease of cash	<u>(1 772)</u>	<u>(4 879)</u>
Effect of exchange rate changes	175	1 116
Cash and cash equivalent at beginning of year	10 450	22 541
Cash, cash equivalents and bank overdrafts at end of period	<u>8 853</u>	<u>18 778</u>

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

Hydra Dutch Holdings 1 B.V.

Interim Consolidated Statements of Changes in Deficit

in '000 €

	Attributable to equity holders of the Company						Total equity
	Share capital	Share premium	Other reserves	Cumulative translation adjustment	Accumulated deficit	Non controlling interests	Total
Balance at 1 January 2016 (audited)	—	13 618	(352)	9 649	(74 760)	154	(51 691)
Total comprehensive loss	—	—	(12)	1 323	(33 245)	36	(31 898)
Balance at 30 June 2016 (unaudited)	—	13 618	(364)	10 972	(108 005)	190	(83 589)

	Attributable to equity holders of the Company						Total equity
	Share capital	Share premium	Other reserves	Cumulative translation adjustment	Accumulated deficit	Non controlling interests	Total
Balance at 1 January 2015 (audited)	—	13 430	(1022)	(1222)	(43 097)	88	(31 823)
Total comprehensive income	—	—	3	23 453	(13 084)	31	10 403
Transactions with owners:							
Capital surplus from borrowings from shareholders	—	188	—	—	—	—	188
Balance at 30 June 2015 (unaudited)	—	13 618	(1019)	22 231	(56 181)	119	(21 232)

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

1 General information

Hydra Dutch Holdings 1 BV (hereafter “the Company”), a Limited Liability Company incorporated in Amsterdam, The Netherlands, and its subsidiaries (hereafter “the Group”), are active in 19 countries and mainly engaged in Home & Office Delivery (HOD) of water cooler bottles. Additionally, the Group offers customers in most markets a range of direct-marketing products such as water filters and Lavazza coffee products.

2 Basis of preparation of financial statements**2.1 Statement of compliance**

These financial statements are the interim condensed consolidated financial statements (hereafter “the interim financial statements”) of the Group for the six month period ended 30 June 2016. They are prepared in accordance with and comply with the International Accounting Standard 34, Interim Financial Reporting.

The interim financial statements include the operations of Hydra Dutch Holdings 1 B.V. and its controlled subsidiaries where control is defined as the power to govern the financial and operating policies of the enterprise so to obtain benefits from its activities. These interim financial statements should be read in conjunction with the annual consolidated financial statements for the year ended 31 December 2015. These interim financial statements are not audited.

2.2 Accounting policies

The accounting policies used in the preparation of these interim financial statements are consistent with those used in the annual consolidated financial statements for the year ended 31 December 2015.

The preparation of interim financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial statements, the significant judgments made by management in applying ‘the Group’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the financial statements for the period from 1 January, 2015 to 31 December 2015. Regarding financial asset at fair value through profit or loss, see note 3.2.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual profit or loss.

2.3 Business Combination

On 1 February 2016, the Group completed the third stage of the acquisition of the Nestlé Waters Direct (NWD) business in Poland. Due to anti-trust regulations and competition law in Poland we were able to acquire a portion of the NWD Polish business. The remaining assets that were not purchased by us were transferred to a third party company named GetFresh Sp. z o.o. (GetFresh). The overall purchase consideration for the assets transferred to us and the assets transferred to GetFresh amounts to EUR 32.7 million including a recoverable VAT amount of EUR 5.7 million. GetFresh remitted the purchase price by issuing EUR 11.1 million bonds in favor of Eden Springs Europe B.V. The EUR 18.2 million purchase price for the assets transferred to us has been preliminarily assigned to the fair values of assets acquired and liabilities assumed. This third step of the NWD acquisition was entirely funded using borrowings under the revolving credit facility agreement.

In 2016 acquired business contributed revenues of € 4'678 since the acquisition dates. If the acquisitions had occurred on 1 January 2016, the acquired businesses, for the period would have contributed revenues of € 5'614.

Details of net assets acquired and intangibles are as follows:

	NWD Poland 30/06/2016
Purchase consideration :	
Cash consideration	18 258
Total Purchase Consideration	18 258
Fair Value of Net Assets Acquired	(8 919)
Goodwill	9 339

The total fair values of the assets and liabilities in the acquiree's financial statements are as follows:

	30/06/2016
Purchase consideration settled in cash	18 258
Cash paid prior year acquisitions	(24)
Net Cash Flow impact from Acquisitions	18 234

	NWD Poland 30/06/2016
Provisional fair values (1)	
Cash and cash equivalents	—
Trade receivables	1 872
Prepaid and other current assets	82
Inventories	320
Property, plant and equipment	5 644
Customer portfolio and Trademarks	3 267
Other intangible assets	57
Trade payables	(537)
Other current liabilities	(1 786)
Total identifiable net assets	8 919
Goodwill	9 339
	18 258

(1) Based on a preliminary purchase price allocation conducted

3 Financial risk management and financial instruments**3.1 Financial risk factors**

The Group's activities expose it to a variety of financial risks: foreign currency exchange risk, cash flow interest rates risk, credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the financial performance of the Group.

The condensed consolidated interim financial statements do not include all financial risk management information and disclosures required in the annual financial statements; they should be read in conjunction with the group's annual financial statements as at 31 December 2015.

3.2 Fair value estimation

The table below presents financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

Liabilities	Level 2	
	30.06.2016	31.12.2015
Derivatives financial instruments	(5 585)	(5 201)

The fair value of the financial asset at fair value through profit or loss is at level 3 measurement (see note 2.3) . Changes in fair value are classified in other operating expenses net, and amounted to EUR 100 in the six months ended June 30, 2016.

There were no transfers between Levels 1 and 2 during the period, and there were no changes in valuation techniques during the periods

3.3 Valuation techniques used to derive Level 2 fair values

Level 2 trading derivatives comprise interest rate swaps. Interest rate swaps are fair valued using forward interest rates extracted from observable yield curves. The effects of discounting are generally insignificant for Level 2 derivatives.

3.4 Fair value of financial assets and liabilities measured at amortized cost

The fair value of the senior secured notes as of June 30, 2016 is EUR 309.4 millions.

The fair value of the following financial assets and liabilities approximate their carrying amount :

- Borrowing from shareholders and related parties
- Trade and other receivables
- Other current financial assets
- Cash and cash equivalents
- Trade payables and other current liabilities

4 Seasonality

The HOD business, in the same way as all other water businesses, is seasonal. The period from May to September represents the peak period for sales and revenues, due to increased consumption of water during the summer months.

5 Borrowings

	<u>30/06/2016</u>	<u>31/12/2015</u>
Non-Current		
Senior secured notes and bank borrowings, net	—	295 378
Finance lease liabilities	2 680	3 238
	<u>2 680</u>	<u>298 616</u>
Current		
Senior secured notes and bank borrowings, net	359 395	—
Bank borrowings, net	3 121	2 158
Finance lease liabilities	1 116	1 203
Other borrowings	1 186	1 406
	<u>364 818</u>	<u>4 767</u>
Total borrowings	<u>367 498</u>	<u>303 383</u>

On 29 January 2015, the Company successfully issued EUR 160 million of 8% Senior Secured Notes due 15 April 2019 comprising of EUR 35 million of Exchange Notes of the existing EUR 210 million Floating Rate Senior Secured Notes due 2019 and EUR 125 million of New Cash Notes to finance the acquisition of the Nestle Waters Direct water solutions businesses in Germany, the Netherlands, Portugal, Russia and Poland from Nestle Waters as well as repaying in full the utilization of the Bridge facility.

The Notes are redeemable by the Company at any time prior to their maturity, based on prices and terms stipulated in the Notes agreement which include a make-whole call premium if the Notes are redeemed prior to 1 February 2017.

Therefore, on 29 January 2015, the Company used the first portion of the proceeds from the New Cash Notes to repay EUR 53.2 million of the Bridge Facility that was partially drawn on 28 November 2014 in connection with the first stage of the acquisition of three of the five Nestle Waters Direct water solutions businesses from Nestle Waters. The closing date for the acquisition of the businesses in the Netherlands, Portugal and Germany occurred on 1 December 2014.

On 2 February 2015, the Company used a second portion of the proceeds from the New Cash Notes to settle the purchase price for the acquisition of Nestle Waters Direct water solution business in Russia. The remainder of the proceeds from the New Cash Notes was deposited into an Escrow Account held with the Escrow Agent in the name of the Company pursuant to an Escrow Agreement. This remainder of the proceeds from the New Cash Notes was to be used to pay the purchase price for the acquisition of Nestle Waters Direct water solution business in Poland.

As the acquisition of Nestle Water Direct Poland did not occur on or prior to 31 October 2015 (the "Polish NWDE Closing Date") the Company redeemed EUR 34.9 million in aggregate principal amount of EUR 160 million 8% Senior Secured Notes due 2019 (the "Notes") at a price equal to 101% of that aggregate principal amount of the Notes plus accrued but unpaid interest on 9 November 2015 (the "Redemption Date"). Following the Redemption Date, the outstanding principal amount of the Notes is EUR 125.1 million.

On 30 October 2015 the Company secured an increase of the existing Revolving Credit Facility Agreement (the "RCF") that was entered on 15 April 2014. The RCF increased from an aggregate amount of EUR 45 million to EUR 65 million.

On 1 February 2016, the Company used additional RCF proceeds to settle the purchase price of Nestle Water Poland that was drawn on 29 January 2016. The total RCF drawdown as of 30 June 2016 is EUR 50 million.

On 30 June 2016 the senior secured notes as well as the RCF are classified as current liability following the early redemption of these senior secured notes and the full repayment of the senior secured notes and the RCF that occurred on 2 August 2016, date of the closing of the Eden Springs acquisition by Cott Corporation, which included an additional prepayment amount of EUR 10 million, accordingly such additional prepayment amount as well as unamortized borrowing costs, in an aggregate amount of EUR 19.7 million is recorded as financial expenses in the second quarter of 2016. The prepayment of the debt was financed by Cott following closing of the transaction.

6 Segment information**General**

The chief operating decision maker of the Group (hereinafter - CODM). The CODM reviews internal reports of the Group to assess performance and for resource allocation. Group management identified operating segments based on those reports.

The CODM reviews the business activity based on geographical regions, and this serves management to assess performance of geographical regions and to allocate resources. European regions have been aggregated since they bear similar economic characteristics and are similar in the nature of products and production processes, types of customers and distribution methods

As of June 30, 2016, the CODM reviews the performance of operating segments in the year ended on that date based on measuring income before financing expenses, financing income, tax, depreciation, amortization, other expenses and income (loss) (operating EBITDA).

Information related to geographical segments:

	Europe	Israel	For the 6 months ended 30/06/2016 Total
Segment income	129 611	46 972	176 583
Operating EBITDA	28 187	5 385	33 572
Capex	8 608	3 433	12 041

	Europe	Israel	For the 6 months ended 30/06/2015 Total
Segment income	130 746	44 706	175 452
Operating EBITDA	25 510	4 482	29 992
Capex	9 728	3 660	13 387

	For the 6 months ended 30/06/2016	For the 6 months ended 30/06/2015
Operating EBITDA of reporting segments	33 572	29 992
Depreciation and amortization	(17 395)	(16 897)
Other expenses - net	(7 788)	(11 174)
Operating income	8 389	1 921
Financing income	1 681	6 908
Financing expenses	(42 061)	(21 664)
Taxes on income	(1 218)	(218)
Net loss	(33 209)	(13 053)

The following is a breakdown of revenue from external customers of the Group's products:

	For the 6 months ended 30/06/2016	For the 6 months ended 30/06/2015
Water	142 429	140 521
Coffee	34 154	34 931
	176 583	175 452

7 Contingent liabilities and Commitments

The French, German, Israeli and Polish subsidiaries are involved in legal actions in the ordinary course of business. The total amount thereof is approximately € 912. A total provision of € 912 is recorded as of 30 June 2016.

On 25 February 2015 a request for a class action was filed against Mey Eden Bar – First Class Service Ltd. (“MEB”) in the sum of NIS 444 million (approx. € 103.6 million). The plaintiff’s claim is that the UV light in the company’s water bars marketed by MEB did not function as it was supposed to. At this stage, the probabilities of the claim being accepted and that financial resources will be required to discharge the claim, could not be estimated by the company and the company’s lawyers.

On 29 September, 2014 a request for a class action was filed against Mey Eden Bar – First Class Service Ltd. (“MEB”) by a former HOD customer. The plaintiff claims that MEB raised the prices of the HOD dispensers without a proper prior notice, that the total amount of the raises was unreasonably high and that in some of the raises the notice of the raise was not in line with the actual raise. The plaintiff estimated the total damages to all MEB customers in the sum of NIS 67 million (approx € 15.6 million). On April 6, 2016 the parties signed a settlement agreement in which an expert will be appointed to examine past price increases and check if they were legally carried out. MEB will then compensate its customers in the sum equal to 40% of the total sums that will be found by the expert (“Total COMPENSATION”) plus the plaintiff compensation and legal fees in the amount equal to 20% of the total compensation fee. The agreement was submitted to court for its approval on April 18, 2016. Based on the settlement agreement, Management estimates the potential future compensation expenses to be approximately € 200, and respectively a provision was recorded.

8 Subsequent events

On 2 August 2016 Hydra Luxembourg Holdings S.à.r.l. - the shareholders of the company sold the sole issued and outstanding share capital of the company to Carbon Acquisition Co B.V., a wholly owned subsidiary of Cott Corporation for an amount of EUR 470 million subject to customary adjustments for cash, debt, working capital and other items.

Between 1 and 3 August 2016, in conjunction with the acquisition the borrowings from shareholders were fully repaid, in an amount of EUR 79.3 million.

On 9 September 2016, Hydra Dutch Holdings 1 B.V. had no subsequent event leading to a material modification of the financial statements.

UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

The following unaudited pro forma condensed combined financial information represents the pro forma impacts of multiple transactions, each of which are described in the following paragraphs.

The S&D Acquisition

On August 3, 2016, Cott Corporation (the “Company” or “Cott”) and its indirect wholly-owned subsidiary, Sip Acquisition Company, entered into a Stock and Membership Interest Purchase Agreement (the “S&D Purchase Agreement”) with S&D Coffee Holding Company (“S&D Holdings”), the owners of S&D Holdings, the owners of Arabica, L.L.C. (“Arabica”), and Alan P. Davis and E. Rhyne Davis, as Sellers’ Representative, pursuant to which Cott agreed to purchase all of the outstanding stock of S&D Holdings and all of the outstanding membership interests of Arabica on a cash-free, debt-free basis (the “S&D Acquisition”). S&D Holdings is the parent company of S&D Coffee, Inc. (“S&D”), a premium coffee roaster and provider of customized coffee, tea and extract solutions, and Arabica owns real estate that it leases to S&D. On August 11, 2016, the parties consummated the S&D Acquisition and as a result, S&D Holdings and its subsidiaries and Arabica became wholly owned subsidiaries of the Company. The unaudited pro forma condensed combined financial information is based on the historical consolidated financial information of S&D Holdings which includes S&D’s variable interest entity Arabica.

The aggregate purchase price paid by the Company was \$354.1 million, paid at closing through a combination of incremental borrowings under the Company’s senior secured asset-based lending credit facility (“ABL facility”) of \$270 million and cash on hand of \$84.1 million resulting from the issuance of Cott shares in a public offering in June 2016. The purchase price is subject to customary post-closing adjustments for cash, debt, working capital and other items. The Company incurred approximately \$2.7 million of acquisition related costs in connection with the S&D Acquisition.

The Eden Acquisition

On June 7, 2016, Carbon Acquisition Co B.V., a private company with limited liability incorporated under the laws of the Netherlands and a wholly-owned subsidiary of Cott, as the purchaser, and Cott, as the purchaser’s guarantor, entered into a Share Purchase Agreement (the “Eden Purchase Agreement”) with Hydra Luxembourg Holdings S.à.r.l., a private limited liability company incorporated in Luxembourg, as the seller, to acquire the share capital of Hydra Dutch Holdings 1 B.V. (“Eden Holdings”), the indirect parent company of Eden Springs Europe B.V., a leading provider of water and coffee solutions in Europe (the “Eden Acquisition”). On August 2, 2016, the parties consummated the Eden Acquisition and as a result, Eden Holdings and its subsidiaries became wholly owned subsidiaries of the Company. The unaudited pro forma condensed combined financial information is based on the financial information of Eden Holdings.

The purchase price consideration paid by the Company in the Eden Acquisition was approximately €529 million (\$585.7 million based on an exchange rate of 1.1083 at July 2, 2016), which represents the €470 million stated purchase price, €28 million of cash on hand, estimated working capital of €16 million, Polish bond of €10 million and an interest rate swap of €5 million, paid at closing in cash of which approximately €354 million (\$404.3 million based on 1.1083 exchange rate at July 2, 2016) was used to pay the outstanding third-party indebtedness of Eden Holdings’ subsidiaries. The purchase price is subject to customary adjustments for cash, debt, working capital and other items.

The Company received committed financing to support the Eden Acquisition. The Company ultimately financed the Eden Acquisition and certain related fees and expenses through a combination of the proceeds of the 5.500% Senior Notes due July 1, 2024 (the “Senior Notes”) and cash on hand.

The Company incurred approximately \$5.3 million of acquisition costs in connection with the Eden Acquisition (which does not include financing fees related to the debt financing and other financing-related costs of approximately \$14.8 million).

Basis for Pro Forma Information

The unaudited pro forma condensed combined balance sheet data as of July 2, 2016 gives effect to the S&D Acquisition, the Eden Acquisition and the related financing transactions as if they each occurred on July 2, 2016.

The unaudited pro forma condensed combined statements of operations data for the year ended January 2, 2016 and the six months ended July 2, 2016 assume that the S&D Acquisition and the Eden Acquisition were each consummated on January 4, 2015.

Cott's historical financial data for the year ended January 2, 2016 and as of and for the six months ended July 2, 2016 is derived from Cott's audited historical consolidated financial statements for the year ended January 2, 2016 and its unaudited interim consolidated financial statements for the six months ended July 2, 2016, respectively.

The historical financial data for S&D Holdings and its subsidiaries for the fiscal year ended December 30, 2015 and for the six-month reporting period ended June 15, 2016 is derived from its audited consolidated financial statements for the fiscal year ended December 30, 2015 and its unaudited condensed interim consolidated financial statements for the twenty-four week reporting period ended June 15, 2016, respectively, which are being filed concurrently as Exhibits 99.1 and 99.2, respectively. Historically, S&D Holdings had a fiscal year which was comprised of thirteen, four-week periods used for reporting purposes, resulting in the reporting period for the first six months of 2016 ending on June 15, 2016. All references to January 2, 2016 reflect S&D Holdings' historical financial statements for the fiscal year ended December 30, 2015, and all references to July 2, 2016 reflect S&D Holdings' unaudited consolidated financial statements as of and for the six month reporting period ended June 15, 2016.

The historical financial data for Eden Holdings and its subsidiaries for the year ended December 31, 2015 and for the six months ended June 30, 2016 is derived from (i) its audited historical consolidated financial statements for the year ended December 31, 2015 which is included in Exhibit 99.3 of Cott's Form 8-K filed with the Securities and Exchange Commission (the "SEC") on June 21, 2016, and (ii) its unaudited condensed interim consolidated financial statements for the six months ended June 30, 2016, which is being filed concurrently as Exhibit 99.3. All references to January 2, 2016 reflect Eden Holdings' historical financial statements for the year ended December 31, 2015, and all references to July 2, 2016 reflect Eden Holdings' unaudited consolidated financial statements as of and for the six months ended June 30, 2016.

The historical financial information has been adjusted to give effect to matters that are (i) directly attributable to the S&D Acquisition and the Eden Acquisition, (ii) factually supportable, and (iii) with respect to the unaudited pro forma condensed combined statement of operations, expected to have a continuing impact on the operating results of the combined entities.

The unaudited pro forma condensed combined financial information should be read in conjunction with:

- the accompanying notes to the unaudited pro forma condensed combined financial information;
- the audited consolidated financial statements of Cott as of and for the year ended January 2, 2016, included in Cott's Annual Report on Form 10-K filed with the SEC on February 29, 2016;
- the unaudited condensed consolidated financial statements of Cott as of and for the six months ended July 2, 2016, included in Cott's Quarterly Report on Form 10-Q filed with the SEC on August 9, 2016;
- The audited consolidated balance sheets of S&D Holdings as of December 30, 2015 and December 31, 2014, and the related consolidated statements of income and comprehensive income, changes in stockholder's equity, and cash flows for the years ended December 30, 2015, December 31, 2014 and January 1, 2014, which are being filed concurrently as Exhibit 99.1;
- The unaudited consolidated balance sheets of S&D Holdings as of June 15, 2016 and June 17, 2015, and the related interim consolidated statements of income and comprehensive income, changes in stockholder's equity, and cash flows for the six month reporting period then ended, respectively, which are being filed concurrently as Exhibit 99.2;
- the audited consolidated financial statements of Eden Holdings as of and for the year ended December 31, 2015 included in Exhibit 99.3 of Cott's Form 8-K filed with the SEC on June 21, 2016; and
- The unaudited consolidated balance sheets of Eden Holdings as of June 30, 2016, and the related interim consolidated statements of comprehensive loss for the six and three month periods that end on June 30, 2015 and June 30, 2016 and changes in shareholders' deficit and cash flows for the six month periods that end on June 30, 2015 and June 30, 2016, respectively, which are being filed concurrently as Exhibit 99.3.

The unaudited pro forma condensed combined financial information has been prepared using the acquisition method of accounting in accordance with the business combination accounting guidance as provided in Accounting Standards Codification 805, *Business Combinations*, with Cott treated as the accounting acquirer. The unaudited pro forma condensed combined financial information will differ from the final acquisition accounting for a number of reasons, including the fact that the estimates of fair values of assets and liabilities acquired are preliminary and subject to change when the formal valuation and other studies are finalized. Furthermore, accounting for income taxes in accordance with Accounting Standards Codification 740, *Income Taxes*, is preliminary and deferred tax assets and liabilities may change when final fair value adjustments and additional information is considered. Also, the definitive determination of the fair value of assets acquired and liabilities assumed will occur on the date of acquisition, which will also have an impact on the final acquisition accounting, and ultimately on goodwill. 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 information.

The unaudited pro forma condensed combined financial information is provided for informational purposes only and is not necessarily indicative of the operating results that would have occurred if the S&D Acquisition and the Eden Acquisition had been completed as of the dates set forth above, nor is it indicative of the future results of the combined entities. The unaudited pro forma condensed combined financial information does not purport to project the future operating results or financial position of the combined entities following the S&D Acquisition, the Eden Acquisition and the transactions related thereto. The unaudited pro forma condensed combined statements of operations and balance sheet are based on certain assumptions described in the accompanying notes, which management believes are reasonable and do not reflect any revenue or cost savings from synergies that may be achieved with respect to the combined entities, or the impact of non-recurring items, including synergies, directly related to the S&D Acquisition and the Eden Acquisition.

Unaudited Pro Forma Condensed Combined Balance Sheet
(dollars in millions)

	Historical			Pro Forma Adjustments					As of July 2, 2016
	As of July 2, 2016	As of June 15, 2016	As of June 30, 2016	Reclassification Adjustments	Financing Adjustments	Acquisition Adjustments	Pro Forma Combined		
	Cott	S&D Holdings	Eden Holdings						
ASSETS									
<i>Current Assets</i>		3(b)	3(j)	3(a)					
Cash & cash equivalents	\$ 249.5	\$ 5.6	\$ 13.3	\$ 16.6	\$ 503.1	3(k)	\$ (602.1)	3(l)	\$ 99.2
Restricted cash	503.1	—	—	—	270.0	3(c)	(356.8)	3(d)	—
Available-for-sale financial asset	—	—	16.6	(16.6)	(503.1)	3(k)	—	—	—
Accounts receivable, net of allowance	339.5	44.8	84.3	—	—	—	—	—	468.6
Income taxes recoverable	0.9	—	2.9	—	—	—	—	—	3.8
Receivable from related parties	—	—	0.1	—	—	—	(0.1)	3(m)	—
Inventories	247.1	40.5	20.2	—	—	—	2.6	3(m)	327.8
							17.4	3(e)	
Prepaid expenses and other current assets	24.1	3.3	16.3	19.3	—	—	0.7	3(m)	63.7
Financial asset at fair value through profit or loss	—	—	12.4	(12.4)	—	—	—	—	—
Other current assets	—	6.9	—	(6.9)	—	—	—	—	—
Total current assets	<u>1,364.2</u>	<u>101.1</u>	<u>166.1</u>	<u>—</u>	<u>270.0</u>	<u>—</u>	<u>(938.3)</u>	<u>—</u>	<u>963.1</u>
Property, plant and equipment, net	770.2	72.7	96.9	—	—	—	18.9	3(e)	958.7
Cash surrender value of officers' life insurance	—	12.3	—	(12.3)	—	—	—	—	—
Notes receivable - affiliates	—	8.2	—	—	—	—	(8.2)	3(f)	—
Notes receivable	—	2.5	—	(2.5)	—	—	—	—	—
Goodwill and other intangibles	—	3.2	—	(3.2)	—	—	—	—	—
Goodwill	777.4	—	190.1	2.8	—	—	95.3	3(m)	1,176.6
							111.0	3(e)	
Intangibles and other assets, net	690.4	—	96.9	18.6	—	—	125.4	3(m)	1,036.8
							118.0	3(e)	
							(12.5)	3(f)	
Deferred tax assets	12.8	—	19.9	—	—	—	—	—	32.7
Other assets	—	0.2	—	(0.2)	—	—	—	—	—
Other non-current assets	—	—	3.2	(3.2)	—	—	—	—	—
Total assets	<u>\$3,615.0</u>	<u>\$ 200.2</u>	<u>\$ 573.1</u>	<u>\$ —</u>	<u>\$ 270.0</u>	<u>—</u>	<u>\$ (490.4)</u>	<u>—</u>	<u>\$ 4,167.9</u>
LIABILITIES AND EQUITY									
<i>Current Liabilities</i>									
Short-term borrowings	\$ —	\$ —	\$ 404.3	\$ —	\$ 270.0	3(c)	\$ (404.3)	3(n)	\$ 270.0
Bank overdraft	—	2.6	—	(2.6)	—	—	—	—	—
Current maturities of long-term debt	3.6	4.0	—	—	—	—	(4.0)	3(g)	3.6
Accounts payable and accrued liabilities	468.0	—	—	180.1	—	—	(6.6)	3(f)	641.5
Trade accounts payable	—	25.2	43.4	(68.6)	—	—	—	—	—
Accrued expenses and other current liabilities	—	16.4	—	(16.4)	—	—	—	—	—
Current tax liability	—	1.0	5.6	(6.6)	—	—	—	—	—
Other current liabilities	—	—	48.6	(48.6)	—	—	—	—	—
Customer deposits and prepaid income	—	—	35.4	(35.4)	—	—	—	—	—
Provisions	—	—	1.9	(1.9)	—	—	—	—	—
Payable to parent company	—	—	87.4	—	—	—	(71.0)	3(m)	—
							(16.4)	3(l)	
Total current liabilities	<u>471.6</u>	<u>49.2</u>	<u>626.6</u>	<u>—</u>	<u>270.0</u>	<u>—</u>	<u>(502.3)</u>	<u>—</u>	<u>915.1</u>
Long-term debt	2,013.3	27.3	3.0	—	—	—	(27.3)	3(g)	2,016.3
Deferred tax liabilities	63.7	—	23.1	—	—	—	20.9	3(m)	152.8
							45.1	3(e)	
Other long-term liabilities	72.5	—	—	24.0	—	—	(4.0)	3(f)	92.5
Income taxes payable	—	1.0	—	(1.0)	—	—	—	—	—
Provisions	—	—	1.0	(1.0)	—	—	—	—	—
Liability for employee rights	—	—	5.8	(5.8)	—	—	—	—	—
Borrowings from shareholder and related parties	—	—	—	—	—	—	—	—	—
Derivative financial instruments	—	—	6.2	(6.2)	—	—	—	—	—
Other liabilities	—	10.0	—	(10.0)	—	—	—	—	—
Total liabilities	<u>2,621.1</u>	<u>87.5</u>	<u>665.7</u>	<u>—</u>	<u>270.0</u>	<u>—</u>	<u>(467.6)</u>	<u>—</u>	<u>3,176.7</u>
<i>Equity</i>									
Common shares	904.9	—	—	—	—	—	—	—	904.9
Additional paid-in capital	54.6	—	15.1	—	—	—	(15.1)	3(o)	54.6
Retained earnings (accumulated deficit)	119.0	112.0	(119.7)	—	—	—	119.7	3(o)	116.3
							(112.0)	3(h)	
Accumulated other comprehensive (loss) income	(90.8)	(1.1)	11.8	—	—	—	(2.7)	3(i)	(90.8)
							(11.8)	3(o)	
							1.1	3(h)	
Total Cott Corporation equity	<u>987.7</u>	<u>110.9</u>	<u>(92.8)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(20.8)</u>	<u>—</u>	<u>985.0</u>
Non-controlling interests	6.2	1.8	0.2	—	—	—	(0.2)	3(o)	6.2
							(1.8)	3(h)	
Total equity	<u>993.9</u>	<u>112.7</u>	<u>(92.6)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(22.8)</u>	<u>—</u>	<u>991.2</u>
Total liabilities and equity	<u>\$3,615.0</u>	<u>\$ 200.2</u>	<u>\$ 573.1</u>	<u>\$ —</u>	<u>\$ 270.0</u>	<u>—</u>	<u>\$ (490.4)</u>	<u>—</u>	<u>\$ 4,167.9</u>

See accompanying notes to unaudited pro forma condensed combined financial information.

Unaudited Pro Forma Condensed Combined Statement of Operations
For the Year Ended January 2, 2016
(dollars in millions, except per share amounts)

	Historical			Reclassification Adjustments	Proforma Adjustments		For the Year Ended January 2, 2016	Pro Forma Combined
	For the Year Ended January 2, 2016	For the Year Ended December 30, 2015	For the Year Ended December 31, 2015		Financing Adjustments	Acquisition Adjustments		
	Cott	S&D Holdings	Eden Holdings					
			4(h)	4(a)				
Revenue, net	\$ 2,944.0	\$ 571.8	\$ 395.1	\$ —	\$ —	\$ —		\$ 3,910.9
Cost of sales	2,048.5	423.0	131.4	—	—	1.1	4(f)	2,604.0
Gross profit	895.5	148.8	263.7	—	—	(1.1)		1,306.9
Selling, general and administrative expenses	768.6	—	—	381.7	—	(12.4)	4(k)	1,155.0
						13.6	4(k)	
						(0.1)	4(d)	
						3.6	4(d)	
						3.7	4(e)	
Service expenses	—	—	150.3	(150.3)	—	—		—
Sales and marketing expenses	—	—	39.9	(39.9)	—	—		—
Selling and sales support services	—	99.5	—	(99.5)	—	—		—
General and administration expenses	—	39.0	29.4	(68.4)	—	—		—
Amortization of customer portfolio and trademarks	—	—	12.4	(12.4)	—	—		—
Other operating income / (expenses) - net	—	—	24.4	(24.4)	—	—		—
Supplemental executive retirement expense	—	0.2	—	(0.2)	—	—		—
Loss on disposal of property, plant and equipment	6.9	—	—	(0.2)	—	—		6.7
Acquisition and integration expenses	20.6	—	—	13.6	—	—		34.2
Operating income	99.4	10.1	7.3	—	—	(9.5)		111.0
Other (income) expense, net	(9.5)	(2.0)	—	2.2	—	—		(9.3)
Interest expense, net	111.0	1.4	—	40.0	(40.0)	4(i)		145.9
					28.7	4(i)		
					(1.4)	4(b)		
					6.2	4(b)		
Financial income	—	—	3.9	(3.9)	—	—		—
Financial expenses	—	—	(46.1)	46.1	—	—		—
(Loss) income before income taxes	(2.1)	10.7	(34.9)	—	6.5	(9.5)		(25.6)
Income tax (benefit) expense	(22.7)	(0.1)	0.1	—	(7.4)	4(j)	4(g)	(35.5)
					(2.4)	4(c)	4(n)	
Net income (loss)	\$ 20.6	\$ 10.8	\$ (35.0)	\$ —	\$ 16.2	\$ (6.3)		\$ 9.9
Less: Net income attributable to non- controlling interest	6.1	0.6	0.1	—	—	(0.6)	4(m)	6.1
						(0.1)	4(m)	
Less: Accumulated dividends on convertible preferred shares	4.5	—	—	—	—	—		4.5
Less: Accumulated dividends on non- convertible preferred shares	1.4	—	—	—	—	—		1.4
Less: Foreign exchange impact on redemption of preferred shares	12.0	—	—	—	—	—		12.0
Net (loss) income attributed to Cott Corporation	\$ (3.4)	\$ 10.2	\$ (35.1)	\$ —	\$ 16.2	\$ (5.6)		\$ (14.1)
Net loss per common share								
Basic	\$ (0.03)							\$ (0.12) 4(o)
Diluted	\$ (0.03)							\$ (0.12) 4(o)
Weighted average outstanding shares (in thousands)								
Basic	103,037				15,305	4(o)		118,342 4(o)
Diluted	103,037				15,305	4(o)		118,342 4(o)

See accompanying notes to unaudited pro forma condensed combined financial information.

Unaudited Pro Forma Condensed Combined Statement of Operations
For the Six Months Ended July 2, 2016
(dollars in millions, except per share amounts)

	Historical			Reclassification Adjustments	Proforma Adjustments		For the Six Months Ended July 2, 2016
	For the Six Months Ended July 2, 2016	For the Six Months Ended June 15, 2016	For the Six Months Ended June 30, 2016		Financing Adjustments	Acquisition Adjustments	
	Cott	S&D Holdings	Eden Holdings	4(h)	4(a)		Combined
Revenue, net	\$ 1,463.4	\$ 253.3	\$ 197.1	\$ —	\$ —	\$ —	\$ 1,913.8
Cost of sales	996.8	159.0	63.8	25.7	—	—	1,245.3
Plant and distribution expense	—	25.7	—	(25.7)	—	—	—
Gross profit	466.6	68.6	133.3	—	—	—	668.5
Selling, general and administrative expenses	399.1	—	—	185.1	—	(6.3)	590.7
						8.3	4(k)
						(0.1)	4(d)
						2.7	4(d)
						1.9	4(e)
Service expenses	—	—	74.5	(74.5)	—	—	—
Sales and marketing expenses	—	—	19.1	(19.1)	—	—	—
Selling and sales support services	—	44.6	—	(44.6)	—	—	—
General and administration expenses	—	19.1	15.3	(34.4)	—	—	—
Amortization of customer portfolio and trademarks	—	—	6.3	(6.3)	—	—	—
Other operating expenses, net	—	—	8.7	(8.7)	—	—	—
Supplemental executive retirement expense	—	0.1	—	(0.1)	—	—	—
Loss on disposal of property, plant and equipment	3.1	—	—	0.4	—	—	3.5
Acquisition and integration expenses	13.1	—	—	2.2	—	(10.3)	5.0
Operating income (loss)	51.3	4.8	9.4	—	—	3.8	69.3
Other expense (income), net	0.8	(0.7)	—	4.9	—	—	5.0
Interest expense, net	54.8	0.5	—	40.2	(40.2)	4(i)	72.3
						14.4	4(i)
						(0.5)	4(b)
						3.1	4(b)
Financial income	—	—	1.8	(1.8)	—	—	—
Financial expenses	—	—	(46.9)	46.9	—	—	—
Income (loss) before income taxes	(4.3)	5.0	(35.7)	—	23.2	3.8	(8.0)
Income tax (benefit) expense	(11.3)	—	1.4	—	(3.7)	4(j)	(17.0)
						(1.2)	4(c)
						(0.4)	4(n)
Net income	\$ 7.0	\$ 5.0	\$ (37.1)	\$ —	\$ 28.1	\$ 6.0	\$ 9.0
Less: Net income attributable to non-controlling interest	2.9	0.3	—	—	—	(0.3)	2.9
Net income (loss) attributed to Cott Corporation	\$ 4.1	\$ 4.7	\$ (37.1)	\$ —	\$ 28.1	\$ 6.3	\$ 6.1
Net loss per common share							
Basic	\$ 0.03						\$ 0.05 4(o)
Diluted	\$ 0.03						\$ 0.05 4(o)
Weighted average outstanding shares (in thousands)							
Basic	118,253				15,057	4(o)	133,310 4(o)
Diluted	119,038				15,057	4(o)	134,095 4(o)

See accompanying notes to unaudited pro forma condensed combined financial information.

1. Basis of Presentation

The unaudited pro forma condensed combined financial information presented above gives effect to the S&D Acquisition and the Eden Acquisition, subject to the assumptions set out herein. The historical financial information of Cott and S&D Holdings are presented in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). The historical financial information of Eden Holdings is presented in accordance with the International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board. Cott assessed the need to make certain adjustments to Eden Holdings historical financial statements prepared under IFRS to conform to Cott's accounting framework and accounting policies under U.S. GAAP and noted no significant adjustments were needed in the preparation of this unaudited pro forma condensed combined financial information. Certain historical financial information of S&D Holdings and Eden Holdings have been reclassified to conform to the presentation of historical financial information of Cott. However, the pro forma financial statements may not reflect all the adjustments necessary to conform the accounting policies of S&D Holdings and Eden Holdings to those of Cott as the Company is still in the process of conforming the accounting policies of S&D Holdings and Eden Holdings to those of Cott.

The unaudited pro forma condensed combined balance sheet at July 2, 2016 was prepared using the historical unaudited consolidated balance sheets of Cott, S&D Holdings and Eden Holdings as of July 2, 2016, June 15, 2016 and June 30, 2016, respectively. The unaudited pro forma condensed combined statement of operations for the year ended January 2, 2016 was prepared using the Cott audited consolidated statement of operations for the year ended January 2, 2016, the S&D Holdings audited consolidated statement of income and comprehensive income for the year ended December 30, 2015, and the Eden Holdings audited consolidated statement of comprehensive loss for the year ended December 31, 2015. The unaudited pro forma condensed combined statement of operations for the six months ended July 2, 2016 was prepared using the Cott unaudited consolidated statement of operations for the six months ended July 2, 2016, the S&D Holdings unaudited interim condensed consolidated statement of income and comprehensive income for the six months ended June 15, 2016, and the Eden Holdings unaudited interim consolidated statement of comprehensive loss for the six months ended June 30, 2016.

Cott's historical financial information for the year ended January 2, 2016 is derived from the audited consolidated financial statements of Cott for the year ended January 2, 2016, included in Cott's Annual Report on Form 10-K filed with the SEC on February 29, 2016, and as of and for the six months ended July 2, 2016 from the unaudited condensed consolidated financial statements of Cott as of and for the six months ended July 2, 2016, included in Cott's Quarterly Report on Form 10-Q filed with the SEC on August 9, 2016.

The historical financial information for S&D Holdings for the year ended December 30, 2015 is derived from its audited consolidated financial statements for the year ended December 30, 2015, and for the twenty-four week ended June 15, 2016 from its unaudited interim condensed consolidated financial statements for the six months ended June 15, 2016, which are being filed concurrently as Exhibits 99.1 and 99.2, respectively.

The historical financial information for Eden Holdings for the year ended December 31, 2015 is derived from its audited consolidated financial statements for the year ended December 31, 2015, which is incorporated by reference to Exhibit 99.3 of Cott's Form 8-K filed June 21, 2016, and for the six months ended June 30, 2016 from its unaudited condensed consolidated financial statements for the six months ended June 30, 2016, which is being filed concurrently as Exhibit 99.3.

The historical financial information has been adjusted to give effect to matters that are (i) directly attributable to the S&D Acquisition and the Eden Acquisition, (ii) factually supportable, and (iii) with respect to the unaudited pro forma condensed combined statements of operations, expected to have a continuing impact on the operating results of the combined entities. The pro forma adjustments are preliminary and based on estimates of the fair value and useful lives of the assets acquired and liabilities assumed and have been prepared to illustrate the estimated effect of the S&D Acquisition and the Eden Acquisition and certain other adjustments. The final determination of the purchase price allocation will be based on the fair values of assets acquired and liabilities assumed as of the closing dates of the respective acquisitions, and could result in a significant change to the unaudited pro forma condensed combined financial information, including goodwill.

2. The S&D Holdings Acquisition and the Eden Acquisition

S&D Holdings

Estimated Purchase Consideration

The estimated purchase consideration paid on the S&D Acquisition date included the value of the estimated cash consideration, the repayment of the outstanding indebtedness of S&D Holdings and the reimbursement on behalf of the owners of S&D Holdings of acquisition-related transaction expenses. The aggregate purchase consideration is subject to customary post-closing adjustments for cash, debt, working capital and other items. The closing estimate of the purchase consideration is as follows:

(dollars in millions)	
Cash to seller	\$238.7
Cash paid on behalf of S&D Holdings to retire outstanding indebtedness	31.3
Reimbursement of S&D Holdings' acquisition-related liabilities	84.1
Estimated purchase consideration	\$354.1

The working capital adjustment will be determined as the difference between the actual working capital at closing and the target working capital specified in the S&D Purchase Agreement. For purposes of the pro forma condensed combined balance sheet, no amounts have been included in the purchase consideration with respect to the working capital adjustment as any estimated amount for the working capital adjustment would be offset by a corresponding change in working capital.

Preliminary Purchase Price Allocation

Under the acquisition method of accounting, the identifiable assets acquired and liabilities assumed of S&D Holdings are recorded at the acquisition date fair values and added to those of Cott. The pro forma adjustments are based on preliminary estimates of the fair value and useful lives of the assets acquired and liabilities assumed as of the acquisition date and have been prepared to illustrate the estimated effect of the S&D Acquisition. The final allocation is dependent upon certain valuation and other studies that have not yet been completed. Accordingly, the pro forma purchase price allocation is subject to further adjustment as additional information becomes available and as additional analyses and final valuations are completed. There can be no assurances that these additional analyses and final valuations will not result in significant changes to the estimates of fair value set forth below.

The following table sets forth a preliminary allocation of the estimated purchase consideration to the identifiable tangible and intangible assets acquired and liabilities assumed of S&D Holdings based on S&D Holdings' June 15, 2016 balance sheet, with the excess recorded as goodwill:

(dollars in millions)	
Assets Acquired	
Cash & cash equivalents	\$ 5.6
Accounts receivable	44.8
Inventories	57.9
Prepaid expenses and other current assets	10.2
Property, plant and equipment	91.6
Intangibles and other assets (1)	<u>120.9</u>
Total assets	\$331.0
Liabilities Assumed	
Short-term borrowings	\$ 2.6
Accounts payable and accrued liabilities	36.0
Deferred tax liabilities	45.1
Other long-term liabilities	<u>7.0</u>
Total liabilities	\$ 90.7
Net assets acquired (a)	240.3
Estimated purchase consideration (b)	354.1
Estimated goodwill (b) - (a)	\$113.8

(1) Includes \$2.5 million in other assets.

The Company is still in the process of validating and performing valuations for the assets acquired and liabilities assumed. Preliminary identifiable intangible assets in the pro forma financial statements consist of intangibles derived from customer relationships, trade names and non-competition agreements. Acquired intangible assets of S&D Holdings all have definite lives ranging from three to twenty years. The amortization related to definite lived intangible assets is reflected as a pro forma adjustment, as further described in Note 4(d). The identifiable intangible assets' estimated fair value and related amortization estimates are preliminary and are based on management's estimates after consideration of similar transactions. As discussed above, the amount that will ultimately be allocated to identifiable intangible assets and liabilities, and the related amount of amortization, may differ materially from this preliminary allocation. In addition, the periods in which the amortization expense is recorded ultimately will be based upon the periods in which the associated economic benefits or detriments are expected to be derived, or where appropriate, based on the use of a straight-line method. Therefore, the amount of amortization following the S&D Acquisition may differ significantly between periods based upon the final value assigned, and amortization methodology used, for each identifiable intangible asset.

The deferred income tax assets have been adjusted to tax effect the difference between the carrying value and fair value of S&D Holdings' assets acquired and liabilities assumed by Cott using an estimated statutory tax rate of 38.2%. This determination is preliminary and subject to change based upon the final determination of the fair value of the identifiable intangible assets and liabilities.

Goodwill represents the excess of the preliminary estimated purchase consideration over the fair value of the net assets acquired. Goodwill is not amortized to earnings, but instead is reviewed for impairment at least annually, absent any indicators of impairment. Goodwill recognized in the S&D Acquisition is not expected to be deductible for tax purposes.

The final determination of the purchase price allocation of the S&D Acquisition will be based on S&D Holdings' net assets as of the date of closing of the S&D Acquisition. The purchase price allocation may change materially based on the receipt of more detailed information. Therefore, the actual allocations may differ from the pro forma adjustments presented.

Eden Holdings

Estimated Purchase Consideration

The estimated purchase consideration paid on the Eden Acquisition date includes the value of the estimated cash consideration and the repayment of the outstanding indebtedness of Eden Holdings and its subsidiaries. The aggregate purchase consideration is subject to customary post-closing adjustments for cash, debt, working capital and other items. A preliminary estimate of the purchase consideration is as follows:

(dollars in millions)	
Cash to seller	\$ 110.4
Cash paid on behalf of Eden Holdings to retire outstanding indebtedness	404.3
Settlement of Eden Holdings' financing payables, net	<u>71.0</u>
Estimated purchase consideration	\$585.7

The working capital adjustment will be determined as the difference between the actual working capital at closing and the target working capital specified in the Eden Purchase Agreement. For purposes of the pro forma condensed combined balance sheet, no amounts have been included in the purchase consideration with respect to the working capital adjustment as any estimated amount for the working capital adjustment would be offset by a corresponding change in working capital.

Preliminary Purchase Price Allocation

Under the acquisition method of accounting, the identifiable assets acquired and liabilities assumed of Eden Holdings are recorded at the acquisition date fair values and added to those of Cott. The pro forma adjustments are based on preliminary estimates of the fair value and useful lives of the assets acquired and liabilities assumed as of the acquisition date and have been prepared to illustrate the estimated effect of the Eden Acquisition. The final allocation is dependent upon certain valuation and other studies that have not yet been completed. Accordingly, the pro forma purchase price allocation is subject to further adjustment as additional information becomes available and as additional analyses and final valuations are completed. There can be no assurances that these additional analyses and final valuations will not result in significant changes to the estimates of fair value set forth below.

The following table sets forth a preliminary allocation of the estimated purchase consideration to the identifiable tangible and intangible assets acquired and liabilities assumed of Eden Holdings based on Eden Holdings' June 30, 2016 balance sheet, with the excess recorded as goodwill:

Assets Acquired	
Cash & cash equivalents	\$ 13.5
Accounts receivable	84.3
Income taxes recoverable	2.9
Inventories	22.8
Prepaid expenses and other current assets	29.4
Property, plant and equipment	96.9
Intangibles and other assets (1)	225.5
Deferred tax assets	19.9
Total assets	\$495.2
Liabilities Assumed	
Accounts payable and accrued liabilities	\$ 134.9
Long-term debt	3.0
Deferred tax liabilities	44.0
Other long-term liabilities	13.0
Total liabilities	\$ 194.9
Net assets acquired (a)	300.3
Estimated purchase consideration (b)	585.7
Estimated goodwill (b) - (a)	\$285.4

(1) Includes \$3.2 million in other assets.

The Company is still in the process of validating and performing valuations for the assets acquired and liabilities assumed. Preliminary identifiable intangible assets in the pro forma financial statements consist of intangibles derived from customer relationships and trade names. Acquired intangible assets of Eden Holdings have both indefinite and definite lives. The amortization related to definite lived intangible assets is reflected as a pro forma adjustment, as further described in Note 4(k). The identifiable intangible assets' estimated fair value and related amortization estimates are preliminary and are based on management's estimates after consideration of similar transactions. As discussed above, the amount that will ultimately be allocated to identifiable intangible assets and liabilities, and the related amount of amortization, may differ materially from this preliminary allocation. In addition, the periods in which the amortization expense is recorded ultimately will be based upon the periods in which the associated economic benefits or detriments are expected to be derived, or where appropriate, based on the use of a straight-line method. Therefore, the amount of amortization may differ significantly between periods based upon the final value assigned, and amortization methodology used, for each identifiable intangible asset.

The deferred income tax assets have been adjusted to tax effect the difference between the carrying value and fair value of Eden Holdings' assets acquired and liabilities assumed by Cott using a blended statutory tax rate of 20.0%. This determination is preliminary and subject to change based upon the final determination of the fair value of the identifiable intangible assets and liabilities in each of the jurisdictions in which Eden Holdings operates.

Goodwill represents the excess of the preliminary estimated purchase consideration over the fair value of the net assets acquired. Goodwill is not amortized to earnings, but instead is reviewed for impairment at least annually, absent any indicators of impairment. Goodwill recognized in the Eden Acquisition is not expected to be deductible for tax purposes.

The final determination of the purchase price allocation of the Eden Acquisition will be based on Eden Holdings' net assets as of the date of closing of the Eden Acquisition. The purchase price allocation may change materially based on the receipt of more detailed information. Therefore, the actual allocations will differ from the pro forma adjustments presented.

3. Notes to Unaudited Pro Forma Condensed Combined Balance Sheet

- (a) Certain historical financial information of S&D Holdings and Eden Holdings has been reclassified to conform to the presentation of historical financial information of Cott. These reclassifications have no impact on total assets or total liabilities and equity:

(dollars in millions) As of July 2, 2016	Eden Holdings					S&D Holdings					Total Reclassification Adjustments	
	(i)	(ii)	(iii)	(iv)	(v)	(vi)	(vii)	(viii)	(ix)	(x)		(xi)
Cash & cash equivalents	\$ 16.6	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 16.6
Available-for-sale financial asset	(16.6)	—	—	—	—	—	—	—	—	—	—	(16.6)
Prepaid expenses and other current assets	—	12.4	—	—	—	6.9	—	—	—	—	—	19.3
Financial asset at fair value through profit or loss	—	(12.4)	—	—	—	—	—	—	—	—	—	(12.4)
Other current assets	—	—	—	—	—	(6.9)	—	—	—	—	—	(6.9)
Cash surrender value of officers' life insurance	—	—	—	—	—	—	—	(12.3)	—	—	—	(12.3)
Notes receivable	—	—	—	—	—	—	—	(2.5)	—	—	—	(2.5)
Goodwill and other intangibles	—	—	—	—	—	—	(3.2)	—	—	—	—	(3.2)
Goodwill	—	—	—	—	—	—	2.8	—	—	—	—	2.8
Intangibles and other assets, net	—	—	—	—	3.2	—	0.4	15.0	—	—	—	18.6
Other assets	—	—	—	—	—	—	—	(0.2)	—	—	—	(0.2)
Other non-current assets	—	—	—	—	(3.2)	—	—	—	—	—	—	(3.2)
Bank overdraft	—	—	—	—	—	—	—	—	(2.6)	—	—	(2.6)
Accounts payable and accrued liabilities	—	—	134.9	—	—	—	—	—	2.6	42.6	—	180.1
Trade accounts payable	—	—	(43.4)	—	—	—	—	—	—	(25.2)	—	(68.6)
Accrued expenses and other current liabilities	—	—	—	—	—	—	—	—	—	(16.4)	—	(16.4)
Current tax liability	—	—	(5.6)	—	—	—	—	—	—	(1.0)	—	(6.6)
Other current liabilities	—	—	(48.6)	—	—	—	—	—	—	—	—	(48.6)
Customer deposits and prepaid income	—	—	(35.4)	—	—	—	—	—	—	—	—	(35.4)
Provisions	—	—	(1.9)	—	—	—	—	—	—	—	—	(1.9)
Other long-term liabilities	—	—	—	13.0	—	—	—	—	—	—	11.0	24.0
Income tax payable	—	—	—	—	—	—	—	—	—	—	(1.0)	(1.0)
Provisions (LT)	—	—	—	(1.0)	—	—	—	—	—	—	—	(1.0)
Liability for employee rights	—	—	—	(5.8)	—	—	—	—	—	—	—	(5.8)
Derivative financial instruments	—	—	—	(6.2)	—	—	—	—	—	—	—	(6.2)
Other liabilities	—	—	—	—	—	—	—	—	—	—	(10.0)	(10.0)

- i. Represents a reclassification of available for sale financial asset to cash and cash equivalents.
- ii. Represents a reclassification of financial asset at fair value though profit or loss to prepaid expenses and other current assets.
- iii. Represents a reclassification of trade accounts payable, current tax liability, other current liabilities, customer deposits and prepaid income, and provisions to accounts payable and accrued liabilities.
- iv. Represents a reclassification of long-term provisions, liability for employee rights and derivative financial instruments to other long-term liabilities.
- v. Represents a reclassification of other non-current assets to intangibles and other assets, net.
- vi. Represents a reclassification of other current assets to prepaid expenses and other current assets.
- vii. Represents a reclassification of goodwill and other intangibles to goodwill and intangibles and other assets, net.
- viii. Represents a reclassification of cash surrender value of officers' life insurance, notes receivable, and other assets, net to intangibles and other assets, net.
- ix. Represents a reclassification of bank overdraft to accounts payable and accrued liabilities.
- x. Represents a reclassification of accrued expenses and other current liabilities, trade accounts payable, and current tax liability to accounts payable and accrued liabilities.
- xi. Represents a reclassification of income tax payable and other liabilities to other long-term liabilities.

S&D Holdings

- (b) All amounts are presented in millions of U.S. Dollars.
- (c) These amounts represent the borrowings on Cott's ABL facility to fund the S&D Acquisition.

(dollars in millions)	
ABL facility	\$270.0
Net cash inflow	270.0
ABL facility	\$270.0
Total short-term borrowings	270.0

Such borrowings have the interest rate, maturity date and payment terms as indicated below.

	<u>Interest Rate</u>	<u>Maturity</u>	<u>Payments</u>
ABL facility	LIBOR plus 175 bps	2.25 years	Interest paid monthly when due and principal on maturity

As of July 2, 2016, the interest rate on the ABL facility was 2.22% based on the 1-Month LIBOR rate of 47 basis points plus a LIBOR spread of 175 basis points. The effect of a 12.5 basis point variance in interest rates on the ABL facility is described in Note 4(b). The borrowings on the ABL facility are recorded in short-term borrowings as it is a revolving line of credit with the balance fluctuating daily. The maturity of 2.25 years represents the remaining term of the credit agreement for the ABL facility agreement.

- (d) Represents the estimated purchase consideration, as described in Note 2, of \$354.1 million and \$2.7 million of acquisition related costs incurred in the S&D Acquisition.
- (e) Reflects the preliminary allocation of purchase price based on the estimated fair values of the assets and liabilities of S&D Holdings as discussed in Note 2 above.

Inventories	\$ 17.4
Property, plant and equipment, net	18.9
Goodwill - Elimination	(2.8)
Goodwill - Addition	113.8
Intangible assets - Elimination	(0.4)
Intangible assets - Addition	118.4
Deferred tax liabilities - Addition	45.1

The adjustment to the change in fair value of inventories results from (i) the fair value increase in inventories of \$7.2 million, and (ii) the recapture of \$10.2 million resulting from conforming S&D Holdings' inventory accounting policy from the last-in, first-out method of accounting to Cott's accounting policy of the lower of cost, determined on a first-in, first-out method, or net realizable value. After the S&D Holdings Acquisition, the step-up in the inventories fair value of \$17.4 million will increase cost of sales over approximately two months as the inventory is sold. This increase is not reflected in the unaudited pro forma condensed combined statements of operations because it does not have a continuing impact.

The fair value for property, plant and equipment, net represents S&D Holdings' preliminary estimate of the fair value of S&D Holding's property, plant and equipment. The final determination of the fair value of these assets could result in a significant change in the fair value of these assets upon the completion of the formal valuation and other studies are finalized.

- (f) Represents assets specifically excluded from the S&D Purchase Agreement totaling \$20.7 million, as well as the termination of obligations for certain executive benefits and benefit plans upon the closing of the S&D Acquisition totaling \$10.6 million.

Interest income of \$0.2 million resulting from the assets specifically excluded from the S&D Purchase Agreement, as well as \$1.8 million expensed for executive benefits and benefit plans which were terminated upon the closing of the S&D Acquisition are not reflected in the unaudited pro forma condensed combined statements of operations because they do not have a continuing impact.

- (g) These amounts represent payments on behalf of S&D Holdings to retire outstanding indebtedness.

(dollars in millions)	
Payments to retire outstanding indebtedness	
Current maturities of long-term debt	\$ 4.0
Long-term debt	27.3
Total	\$31.3

- (h) Reflects the elimination of S&D Holdings' historical equity accounts.
- (i) Represents adjustments to retained earnings for \$2.7 million of transaction costs paid by Cott on behalf of the owners of S&D Holdings.

Eden Holdings

- (j) These amounts in millions of U.S. Dollars have been converted from Euro at a conversion rate of 1.1083, the exchange rate at July 2, 2016.
- (k) Represents the release of \$503.1 million in restricted cash, which consists of the proceeds from the issuance of the Senior Notes that were held in escrow to fund a portion of the Eden Acquisition, and accrued interest from the Senior Notes issuance date through the Eden Acquisition date which was funded by Cott.
- (l) Represents the estimated purchase consideration, as described in Note 2 of \$585.7 million and \$16.4 million of available cash and cash equivalents of Eden Holdings that were used to repay a portion of the outstanding related-party indebtedness with Hydra Luxembourg Holdings S.à.r.l. prior to closing of the Eden Acquisition.
- (m) Reflects the preliminary allocation of purchase price based on the estimated fair values of the assets and liabilities of Eden Holdings as discussed in Note 2 above.

(dollars in millions)	
Receivable from related parties	\$ (0.1)
Inventories	2.6
Prepaid expenses	0.7
Goodwill - Elimination	(190.1)
Goodwill - Addition	285.4
Intangible assets - Elimination	(96.9)
Intangible assets - Addition	222.3
Deferred tax liabilities - Elimination	(23.1)
Deferred tax liabilities - Addition	44.0

After the Eden Acquisition, the step-up in the inventories fair value of \$2.6 million will increase cost of sales over approximately two months as the inventory is sold. This increase is not reflected in the pro forma condensed combined statements of operations because it does not have a continuing impact.

No fair value adjustment was recorded for property, plant and equipment, net as Eden Holdings had several significant acquisitions prior to the Eden Acquisition resulting in the carrying value of property, plant and equipment, net approximating the fair value of these assets on the date of acquisition.

- (n) These amounts represent payments to retire outstanding indebtedness, including the elimination of capitalized debt financing fees on behalf of Eden Holdings.

(dollars in millions)	
Payments to retire outstanding indebtedness	
Short-term borrowings	\$404.3
Eden Holdings' financing payables, net	71.0
Total	\$475.3
Capitalized debt financing fees included in long-term debt	\$ (11.7)

(o) Reflects the elimination of Eden Holdings' historical equity accounts.

4. Notes to Unaudited Pro Forma Condensed Combined Statements of Operations

(a) Certain historical financial information of S&D Holdings and Eden Holdings has been reclassified to conform to the presentation of historical financial information of Cott. These reclassifications have no impact on net income (loss) and represent the following items:

(dollars in millions) For the Year Ended January 2, 2016	Eden Holdings						S&D Holdings		Total Reclassification Adjustments
	(i)	(ii)	(iii)	(iv)	(v)	(vi)	(vii)	(viii)	
Selling, general and administrative expenses	\$ 243.0	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 138.7	\$ —	381.7
Service expenses	(150.3)	—	—	—	—	—	—	—	(150.3)
Sales and marketing expenses	(39.9)	—	—	—	—	—	—	—	(39.9)
Sales and sales support services	—	—	—	—	—	—	(99.5)	—	(99.5)
General and administration expenses	(29.4)	—	—	—	—	—	(39.0)	—	(68.4)
Amortization of customer portfolio and trademarks	(12.4)	—	—	—	—	—	—	—	(12.4)
Other operating income / (expense) - net	(11.0)	(13.4)	—	—	—	—	—	—	(24.4)
Supplemental executive retirement expense	—	—	—	—	—	—	(0.2)	—	(0.2)
Loss on disposal of property, plant and equipment	—	(0.2)	—	—	—	—	—	—	(0.2)
Acquisition and integration expenses	—	13.6	—	—	—	—	—	—	13.6
Other (income) expense, net	—	—	2.2	—	—	—	—	—	2.2
Interest expense, net	—	—	—	—	33.6	6.4	—	—	40.0
Financial income	—	—	(3.2)	(0.6)	(0.1)	—	—	—	(3.9)
Financial expense	—	—	5.4	0.6	33.7	6.4	—	—	46.1

(dollars in millions) For the Six Months Ended July 2, 2016	Eden Holdings						S&D Holdings		Total Reclassification Adjustments
	(i)	(ii)	(iii)	(iv)	(v)	(vi)	(vii)	(viii)	
Cost of sales	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 25.7	\$ 25.7
Plant and distribution expenses	—	—	—	—	—	—	—	(25.7)	(25.7)
Selling, general and administrative expenses	121.3	—	—	—	—	—	63.8	—	185.1
Service expenses	(74.5)	—	—	—	—	—	—	—	(74.5)
Sales and marketing expenses	(19.1)	—	—	—	—	—	—	—	(19.1)
Sales and sales support services	—	—	—	—	—	—	(44.6)	—	(44.6)
General and administration expenses	(15.3)	—	—	—	—	—	(19.1)	—	(34.4)
Amortization of customer portfolio and trademarks	(6.3)	—	—	—	—	—	—	—	(6.3)
Other operating income / (expense) - net	(6.1)	(2.6)	—	—	—	—	—	—	(8.7)
Supplemental executive retirement expense	—	—	—	—	—	—	(0.1)	—	(0.1)
Gain on disposal of property, plant and equipment	—	0.4	—	—	—	—	—	—	0.4
Acquisition and integration expenses	—	2.2	—	—	—	—	—	—	2.2
Other (income) expense, net	—	—	4.4	0.5	—	—	—	—	4.9
Interest expense, net	—	—	—	—	38.3	1.9	—	—	40.2
Financial income	—	—	(1.6)	—	(0.2)	—	—	—	(1.8)
Financial expense	—	—	6.0	0.5	38.5	1.9	—	—	46.9

i. Represents a reclassification of service expenses, sales and marketing expenses, general and administration expenses, amortization of customer portfolio and trademarks, and other operating income / (expense), net to selling, general and administrative expenses.

- ii. Represents a reclassification of other operating income / (expense), net to gain (loss) on disposal of property, plant and equipment and acquisition and integration expenses.
- iii. Represents a reclassification of foreign exchange (gain) loss from financial income and financial expense to other (income) expense, net.
- iv. Represents a reclassification of other (income), net expense from financial income and financial expense to other (income) expense, net.
- v. Represents a reclassification of interest (income) expense from financial income and financial expense to interest expense, net.
- vi. Represents a reclassification of amortization of capitalized financial costs from financial expense to interest expense, net.
- vii. Represents a reclassification of sales and sales support services, general and administration expenses, and supplemental executive retirement expense to selling, general and administrative expenses.
- viii. Represents a reclassification of plant and distribution expenses to cost of sales.

S&D Holdings

- (b) To reverse historical interest expense of S&D Holdings and record estimated interest expense and amortization of debt financing fees associated with borrowings, as described in Note 3(c).

(dollars in millions)	For the Year Ended January 2, 2016	Six Months Ended July 2, 2016
Reversal of S&D Holdings interest expense and amortization of capitalized debt financing fees	\$ (1.4)	\$ (0.5)
Interest expense on new financing	6.2	3.1
Pro forma interest expense adjustment	\$ 4.8	\$ 2.6

A sensitivity analysis on interest expense for the year ended January 2, 2016 and the six months ended July 2, 2016 has been performed for the ABL facility to assess the effect that a change of 12.5 basis points of the hypothetical interest rate would have on the debt financing. The following table shows the change in interest expense for the year ended January 2, 2016 and the six months ended July 2, 2016:

(dollars in millions)	For the Year Ended January 2, 2016	Six Months Ended July 2, 2016
Interest expense assuming		
Increase of 0.125%	\$ 0.3	\$ 0.2
Decrease of 0.125%	\$ (0.3)	\$ (0.2)

- (c) Represents adjustment to income tax expense as a result of the tax impact on the pro forma adjustments related to financing. Cott's interest expense on new financing related to the S&D Acquisition was tax-effected at an estimated statutory tax rate of 38.2%.
- (d) Represents amortization expense related to the identifiable intangible assets, which are being amortized based upon the periods over which the economic benefits of the assets are expected to be realized.

The net adjustment to selling, general and administrative expenses for the amortization of intangible assets is as follows:

<u>(dollars in millions)</u>	<u>For the Year Ended</u> <u>January 2, 2016</u>	<u>Six Months Ended</u> <u>July 2, 2016</u>
Reversal of S&D Holdings historical intangible asset amortization	\$ (0.1)	\$ (0.1)
Amortization of acquired identifiable intangible assets	3.7	2.8
Pro forma intangible asset amortization expense adjustment	\$ 3.6	\$ 2.7

The table below indicates the estimated fair value of each of the intangibles identified and the approximate useful life of each:

<u>(dollars in millions)</u> <u>Intangible Assets</u>	<u>Estimated Fair Value</u>	<u>Estimated Useful</u> <u>Life</u>
Customer relationships	\$ 108.9	6-20 years
Trademarks and trade names	6.5	15 years
Non-compete agreement	3.0	3 years
Total	\$ 118.4	

For purposes of determining the fair value of the identifiable intangible assets, the income approach was primarily used. Specifically, the relief from royalty method was used to value the trademarks and trade names, the multi-period excess earnings method was used to value the customer relationships, and the probability-weighted loss earnings method was used to value the non-compete agreement.

The estimated effect of amortization of the customer relationships on the operating results for the five years following the acquisition is expected to be as follows:

<u>(dollars in millions)</u>	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>
Amortization of identified intangibles	\$ 3.7	\$ 5.6	\$ 7.9	\$ 8.3	\$ 8.1

- (e) Represents depreciation expense of \$3.7 million and \$1.9 million related to the fair value adjustment for property, plant and equipment as of January 2, 2016 and July 2, 2016, respectively.
- (f) Represents an estimated \$1.1 million increase in cost of sales for the year ended January 2, 2016 to adjust for changes in S&D Holdings LIFO inventory reserve resulting from S&D Holdings change in policy from the last-in, first-out method of accounting to Cott's accounting policy of the lower of cost, determined on a first-in, first out method, or net realizable value,
- (g) Represents adjustment to income tax expense as a result of the tax impact on the pro forma adjustments related to purchase price allocation adjustments based on an estimated S&D Holdings' statutory tax rate of approximately 38.2% for the year ended January 2, 2016 and the six months ended July 2, 2016.

Eden Holdings

- (h) These amounts in millions of U.S. Dollars have been converted from Euro at a conversion rate of 1.1103 for the year ended January 2, 2016, which approximates the average exchange rate over the period from January 4, 2015 through January 2, 2016, and 1.1160 for the six months ended July 2, 2016, which approximates the average exchange rate over the period from January 3, 2016 through July 2, 2016.
- (i) To reverse historical interest expense of Eden Holdings and record estimated interest expense and amortization of debt financing fees associated with the €450,000 million Senior Notes (\$498.7 million on July 2, 2016 based on 1.1083 exchange rate at July 2, 2016). The pro forma interest expense adjustment is based on an effective interest rate for the Senior Notes of 6.4%.

<u>(dollars in millions)</u>	<u>For the Year Ended January 2, 2016</u>	<u>Six Months Ended July 2, 2016</u>
Reversal of Eden interest expense and amortization of capitalized debt financing fees	\$ (40.0)	\$ (40.2)
Interest expense on the Senior Notes	28.7	14.4
Pro forma interest expense adjustment	\$ (11.3)	\$ (25.8)

A sensitivity analysis on interest expense for the year ended January 2, 2016 and the six months ended July 2, 2016 has been performed for the Senior Notes to assess the effect that a change of 12.5 basis points of the hypothetical interest rates would have on the debt financing. The following table shows the change in interest expense for the year ended January 2, 2016 and the six months ended July 2, 2016:

<u>(dollars in millions)</u> <u>Interest expense assuming</u>	<u>For the Year Ended January 2, 2016</u>	<u>Six Months Ended July 2, 2016</u>
Increase of 0.125%	\$ 0.6	\$ 0.2
Decrease of 0.125%	\$ (0.6)	\$ (0.2)

- (j) Represents adjustment to income tax expense as a result of the tax impact on the pro forma adjustments related to financing. For Eden Holdings, the reversal of interest and related expenses was not tax-effected as these related to tax losses for which no benefit was recognized for the periods presented. Cott's interest expense on new financing related to the Eden Acquisition was tax-effected at the Cott Canadian statutory tax rate of 25.7% for the year ended January 2, 2016 and the six months ended July 2, 2016.
- (k) Represents straight line amortization expense related to the identifiable intangible assets, except for customer relationships which is being amortized based upon the periods over which the economic benefits of the asset is expected to be realized.

The net adjustment to selling, general and administrative expenses for the amortization of intangible assets is as follows:

<u>(dollars in millions)</u>	<u>For the Year Ended January 2, 2016</u>	<u>Six Months Ended July 2, 2016</u>
Reversal of Eden Holdings historical intangible asset amortization	\$ (12.4)	\$ (6.3)
Amortization of acquired identifiable intangible assets	13.6	8.3
Pro forma intangible asset amortization expense adjustment	\$ 1.2	\$ 2.0

The table below indicates the estimated fair value of each of the intangibles identified and the approximate useful life of each:

<u>(dollars in millions)</u> <u>Intangible Asset</u>	<u>Estimated Fair Value</u>	<u>Estimated Useful Life</u>
Customer relationships	\$ 149.8	15 years
Trademarks and trade names	67.8	Indefinite
Software	4.7	4 years
Total	\$ 222.3	

For purposes of valuing the intangible assets, the income approach was primarily used. Specifically, the relief from royalty method was used to value the trademarks and trade names, and the multi-period excess earnings method was used to value the customer relationships.

The estimated effect of amortization of the customer relationships on the operating results for the five years following the acquisition is expected to be as follows:

(dollars in millions)	Year 1	Year 2	Year 3	Year 4	Year 5
Amortization of customer relationships	\$ 13.6	16.6	16.6	15.9	14.1

- (l) Represents \$5.0 million of bridge financing commitment fees and \$5.3 million of professional fees and other acquisition costs in connection with the Eden Acquisition which were included in Cott's historical financial information for the six months ended July 2, 2016.
- (m) Represents the elimination of net income to non-controlling interest as both entities are now wholly-owned by Cott.
- (n) Represents adjustment to income tax expense as a result of the tax impact on the pro forma adjustments related to purchase price allocation adjustments based on Cott's Canadian statutory tax rate of 25.7% for the year ended January 2, 2016 and the six months ended July 2, 2016.
- (o) Represents pro forma basic and diluted loss per share ("EPS"). In order to calculate diluted EPS for the year ended January 2, 2016, any impact of the potential dilutive instruments (i.e. stock options, performance-based restricted share units ("RSU"), timed based RSUs and the convertible preferred shares issued in connection with Cott's acquisition of DS Services which were redeemed in June 2015) would be antidilutive as these would decrease the loss per share. As such, the basic and diluted EPS for January 2, 2016 are therefore the same. The impact of these potential dilutive instruments are included in the diluted EPS for July 2, 2016.

Pro Forma Basic and Diluted Loss Per Common Share	For the Year Ended January 2, 2016	Six Months Ended July 2, 2016
Pro forma net loss attributable to Cott (dollars in millions)	\$ (14.1)	\$ 6.1
Weighted average outstanding shares - basic, in thousands)	118,342	133,310
Basic (loss) income per share	\$ (0.12)	\$ 0.05
Weighted average outstanding shares - diluted, in thousands)	118,342	134,095
Diluted (loss) income per share	\$ (0.12)	\$ 0.05

The weighted average outstanding shares for both the fiscal year ended January 2, 2016 and the six-months ended July 2, 2016 include the weighted average effect of approximately 15.1 million shares issued in a stock offering in June 2016, the proceeds of which were used in part to finance the S&D Acquisition; and other issuances of 0.2 million shares issued to the officers of S&D Holdings under their respective employment agreements. All of these shares for purposes of determining pro forma (loss) income per share are recorded as if the shares were issued on January 4, 2015.

For the six months ended July 2, 2016, the weighted average effect of the 15.1 million shares issued in a stock offering in June 2016 was reduced by 248,000 shares as Cott's historical basic and diluted weighted average shares outstanding for the six months ended June 30, 2016 included those shares for the days the 15.1 million shares were outstanding during the six month period ended July 2, 2016.