

PRIMO WATER CORP /CN/

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

Filed 02/24/15 for the Period Ending 12/12/14

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

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): December 12, 2014

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 December 15, 2014 (the “Initial 8-K”) by Cott Corporation (“Cott”) to include, among other things, certain financial information relating to Cott’s acquisition of DSS Group, Inc. and its subsidiaries (collectively “DSS”) that was consummated on December 12, 2014 (the “DSS 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 Cott’s acquisition of DSS and Aimia Foods Holdings Limited (“Aimia”) 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.**

- (i) The audited financial statements of DSS Group, Inc. as of December 27, 2013 (successor entity) and December 28, 2012 (predecessor entity) and for the periods from June 29, 2013 to December 27, 2013 (successor entity), from December 29, 2012 to August 30, 2013 (predecessor entity) and for each of the two years in the period ended December 28, 2012 (predecessor entity) are attached hereto as Exhibit 99.1 and are incorporated in their entirety herein by reference.
- (ii) The unaudited interim financial statements of DSS Group, Inc. as of September 26, 2014 and for the nine months ended September 26, 2014, and for the period from June 29, 2013 to September 27, 2013 (successor entity) and the period from December 29, 2012 to August 30, 2013 (predecessor entity) are attached hereto as Exhibit 99.2 and are incorporated in their entirety herein by reference.

(b) Pro Forma Financial Information.

The unaudited pro forma condensed combined balance sheet as of September 27, 2014, the unaudited pro forma condensed combined statement of operations for the year ended December 27, 2013, and the unaudited pro forma condensed combined statement of operations for the nine months ended September 27, 2014 are attached hereto as Exhibit 99.3 and incorporated in their entirety herein by reference.

(d) Exhibits

23.1 Consent of PricewaterhouseCoopers LLP, Independent Registered Public Accounting Firm for DSS Group, Inc.

99.1 Audited financial statements of DSS Group, Inc. as of December 27, 2013 (successor entity) and December 28, 2012 (predecessor entity) and for the periods from June 29, 2013 to December 27, 2013 (successor entity), from December 29, 2012 to August 30, 2013 (predecessor entity) and for each of the two years in the period ended December 28, 2012 (predecessor entity).

99.2 The unaudited interim financial statements of DSS Group, Inc. as of September 26, 2014 and for the nine months ended September 26, 2014, and for the period from June 29, 2013 to September 27, 2013 (successor entity) and the period from December 29, 2012 to August 30, 2013 (predecessor entity).

99.3 Unaudited pro forma condensed combined balance sheet as of September 27, 2014, which gives effect to the DDS Acquisition as if it had occurred on September 27, 2014; the unaudited pro forma condensed combined statement of operations for the nine months ended September 27, 2014, which gives effect to the Aimia transaction and the DDS Acquisition as if each had occurred on December 30, 2012; and the unaudited pro forma condensed combined statement of operations for the year ended December 27, 2013, which gives effect to the Aimia transaction and the DDS Acquisition as if each had occurred on December 30, 2012.

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.

February 24, 2015

Cott Corporation
(Registrant)

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

EXHIBIT INDEX

<u>Exhibit No.</u>	<u>Description</u>
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99.1	Audited financial statements of DSS Group, Inc. as of December 27, 2013 (successor entity) and December 28, 2012 (predecessor entity) and for the periods from June 29, 2013 to December 27, 2013 (successor entity), from December 29, 2012 to August 30, 2013 (predecessor entity) and for each of the two years in the period ended December 28, 2012 (predecessor entity).
99.2	Unaudited interim financial statements of DSS Group, Inc. as of September 26, 2014 and for the nine months ended September 26, 2014, and for the period from June 29, 2013 to September 27, 2013 (successor entity) and the period from December 29, 2012 to August 30, 2013 (predecessor entity).
99.3	Unaudited pro forma condensed combined balance sheet as of September 27, 2014, which gives effect to the DDS Acquisition as if it had occurred on September 27, 2014; the unaudited pro forma condensed combined statement of operations for the nine months ended September 27, 2014, which gives effect to the Aimia transaction and the DDS Acquisition as if each had occurred on December 30, 2012; and the unaudited pro forma condensed combined statement of operations for the year ended December 27, 2013, which gives effect to the Aimia transaction and the DDS Acquisition as if each had occurred on December 30, 2012.

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (No. 333-182100) and Form S-8 (Nos. 333-188735, 333-151812, 333-122974, 333-108128, 333-56980, and 333-166507) of Cott Corporation of our reports dated August 29, 2014 relating to the financial statements of DSS Group, Inc., which appears in this Current Report on Form 8-K/A of Cott Corporation dated February 24, 2015.

/s/ PricewaterhouseCoopers LLP
Atlanta, Georgia
February 24, 2015

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DSS GROUP, INC.**

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders
DSS Group, Inc.

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of income (loss) and comprehensive income (loss), of changes in equity (deficit) and of cash flows present fairly, in all material respects, the financial position of DSS Group, Inc. and its subsidiaries (Successor Company) at December 27, 2013 and the results of their operations and their cash flows for the period from June 29, 2013 to December 27, 2013 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP

Atlanta, GA

August 29, 2014

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders
DSS Group, Inc.

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of income (loss) and comprehensive income (loss), of changes in equity (deficit) and of cash flows present fairly, in all material respects, the financial position of DSS Group, Inc. and its subsidiaries (Predecessor Company) at December 28, 2012 and the results of their operations and their cash flows for the period from December 29, 2012 to August 30, 2013, and for each of the two years in the period ended December 28, 2012 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP

Atlanta, Georgia

August 29, 2014

DSS Group, Inc.

Consolidated Balance Sheets as of December 27, 2013 and December 28, 2012

<i>(in thousands of dollars, except share data)</i>	<u>Successor</u> <u>December 27,</u>	<u>Predecessor</u> <u>December 28,</u>
	<u>2013</u>	<u>2012</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 34,307	\$ 35,524
Restricted cash	—	3,500
Trade accounts receivable, net of allowance for doubtful accounts of \$4,513 and \$5,538, respectively	97,179	92,022
Inventories	36,279	36,962
Prepaid and other current assets	11,401	9,641
Income tax receivable	1,608	227
Deferred tax assets	26,127	5,632
Total current assets	206,901	183,508
Property, plant and equipment, net	428,036	329,929
Intangibles, net	365,870	54,049
Goodwill	198,849	39,851
Other assets	5,180	4,872
Deferred financing costs, net	28,855	11,140
Total assets	<u>\$ 1,233,691</u>	<u>\$ 623,349</u>
Liabilities and Shareholders' Equity		
Current liabilities		
Current portion of long-term debt	\$ 3,211	\$ 6,462
Accounts payable	31,172	36,693
Accrued expenses and other current liabilities	63,274	54,160
Current portion of insurance reserves	14,059	12,124
Customer deposits	32,408	35,553
Total current liabilities	144,124	144,992
Long-term debt, less current portion, less discounts	655,025	451,720
Insurance reserves, less current portion	16,401	18,968
Other long-term liabilities	3,032	4,931
Deferred tax liabilities	165,052	9,964
Total liabilities	983,634	630,575
Commitments and contingencies (Note 12)		
Preferred stock; \$0.01 par value; 1,000,000 authorized shares as of December 27, 2013 and 4,137,846 authorized shares as of December 28, 2012; 0 shares issued and outstanding as of December 27, 2013 and 4,137,846 shares issued and outstanding as of December 28, 2012	—	432,641
Shareholders' equity (deficit)		
Common stock; \$0.01 par value; 4,000,000 authorized shares; 2,606,980 shares issued and outstanding as of December 27, 2013 and 3,385,510 shares issued and outstanding as of December 28, 2012	26	34
Additional paid in capital common stock	260,672	40,787
Accumulated other comprehensive income (loss)	281	(1,895)
Retained deficit	(10,922)	(478,793)
Total shareholders' equity (deficit)	250,057	(439,867)
Total liabilities, preferred stock and shareholders' equity (deficit)	<u>\$ 1,233,691</u>	<u>\$ 623,349</u>

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

DSS Group, Inc.

Consolidated Statements of Income (Loss) and Comprehensive Income (Loss) for the Period From June 29, 2013 to December 27, 2013 (Successor) and the Period From December 29, 2012 to August 30, 2013, and the Years Ended December 28, 2012 and December 30, 2011 (Predecessor)

	Successor	Predecessor		
	Period from June 29, 2013 to December 27, 2013	Period from December 29, 2012 to August 30, 2013	Year Ended December 28, 2012	Year Ended December 30, 2011
<i>(in thousands of dollars, except share data)</i>				
Net product sales	\$ 265,403	\$ 562,145	\$ 799,968	\$ 678,886
Net rental income	32,834	65,214	94,583	86,337
Net revenue	298,237	627,359	894,551	765,223
Cost of products sold	114,865	233,450	349,694	292,301
Cost of rentals	4,027	7,758	8,471	5,845
Cost of revenue	118,892	241,208	358,165	298,146
Gross profit	179,345	386,151	536,386	467,077
Selling, general and administrative	164,694	352,235	472,698	410,897
Amortization of intangible assets	6,781	6,154	9,448	5,959
Operating income	7,870	27,762	54,240	50,221
Other (expense) income				
Interest expense	(25,515)	(67,199)	(89,353)	(76,542)
Other, net	(94)	(121)	(6,994)	1,591
Other expenses	(25,609)	(67,320)	(96,347)	(74,951)
(Loss) before income taxes	(17,739)	(39,558)	(42,107)	(24,730)
Income tax (benefit)	(6,817)	(1,025)	(1,422)	(9,829)
Net (loss)	(10,922)	(38,533)	(40,685)	(14,901)
Less: Cumulative dividend on Preferred Stock	0	43,680	44,982	0
Net loss attributable to common shareholders	\$ (10,922)	\$ (82,213)	\$ (85,613)	\$ (14,901)
Net (loss)	\$ (10,922)	\$ (38,533)	\$ (40,685)	\$ (14,901)
Other comprehensive (loss) income, net of tax				
Change in periodic pension and other postretirement costs, net of tax expense (benefit) of \$180, \$449, (\$103) and (\$709)	281	711	(243)	(1,092)
Comprehensive (loss)	\$ (10,641)	\$ (37,822)	\$ (40,928)	\$ (15,993)

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

DSS Group, Inc.,

Consolidated Statements of Changes in Equity (Deficit) for the
 Period From June 29, 2013 to December 27, 2013 (Successor) and for the Period From December 29, 2012 to
 August 30, 2013, and the Years Ended December 28, 2012 and December 30, 2011 (Predecessor)

	Common Stock		Additional Paid In Capital	Accumulated Other Comprehensive (Loss) Income	Retained Earnings (Deficit)	Noncontrolling Interest	Total Equity (Deficit)
	Shares	Amount					
<i>(in thousands of dollars, except share data)</i>							
Predecessor							
Balances at December 31, 2010	3,385,510	\$ 34	\$ 36,523	\$ (560)	\$(423,207)	\$ 247	\$(386,963)
Stock option compensation expense (Note 17)	—	—	1,876	—	—	—	1,876
Change in periodic pension and other postretirement costs (Note 15)	—	—	—	(1,092)	—	—	(1,092)
Purchase of noncontrolling interest in Polycycle Solutions, LLC	—	—	444	—	—	(247)	197
Net income	—	—	—	—	(14,901)	—	(14,901)
Balances at December 30, 2011	3,385,510	34	38,843	(1,652)	(438,108)	—	(400,883)
Stock option compensation expense (Note 17)	—	—	1,558	—	—	—	1,558
Change in periodic pension and other postretirement costs (Note 15)	—	—	—	(243)	—	—	(243)
Equity contribution	—	—	386	—	—	—	386
Net loss	—	—	—	—	(40,685)	—	(40,685)
Balances at December 28, 2012	3,385,510	34	40,787	(1,895)	(478,793)	—	(439,867)
Stock option compensation expense (Note 17)	—	—	2,400	—	—	—	2,400
Change in periodic pension and other postretirement costs (Note 15)	—	—	—	711	—	—	711
Net loss	—	—	—	—	(38,533)	—	(38,533)
Balances at August 30, 2013	3,385,510	\$ 34	\$ 43,187	\$ (1,184)	\$(517,326)	\$ —	\$(475,289)
Successor							
Balances at June 29, 2013	—	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Capital contribution	2,606,980	26	260,672	—	—	—	260,698
Change in periodic pension and other postretirement costs (Note 15)	—	—	—	281	—	—	281
Net loss	—	—	—	—	(10,922)	—	(10,922)
Balances at December 27, 2013	2,606,980	\$ 26	\$260,672	\$ 281	\$ (10,922)	\$ —	\$ 250,057

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

DSS Group, Inc.

Consolidated Statements of Cash Flows for the Period From June 29, 2013 to December 27, 2013 (Successor) and
the Period From December 29, 2012 to August 30, 2013, and the Years Ended December 28, 2012 and
December 30, 2011 (Predecessor)

	Successor	Predecessor		
	Period from June 29, 2013 to December 27, 2013	Period from December 29, 2012 to August 30, 2013	Year Ended December 28, 2012	Year Ended December 30, 2011
<i>(in thousands of dollars)</i>				
Cash flows from operating activities				
Net (loss)	\$ (10,922)	\$ (38,533)	\$ (40,685)	\$ (14,901)
Adjustments to reconcile net (loss) to net cash provided by operating activities				
Depreciation and amortization of property, plant and equipment	29,437	44,299	61,688	57,320
Amortization of intangibles	6,781	6,154	9,448	5,959
Amortization of debt discount and deferred financing costs	2,578	3,389	5,290	3,347
Mark-to-market of derivative investments	—	50	(275)	(3,910)
Loss on disposal of assets	1,212	3,341	2,779	1,472
Loss on extinguishment of debt	—	26,580	987	—
Paid in-kind (PIK) non-cash interest expense	—	2,844	37,133	55,221
Provision for bad debts (Note 2)	4,513	38	111	(1,718)
Non-cash stock compensation expense	—	2,400	1,558	1,876
Deferred income taxes	(7,057)	(406)	(2,123)	(10,031)
Changes in operating assets and liabilities, net of acquisitions				
Accounts receivable	2,101	(11,884)	(7,741)	(3,734)
Inventories	1,006	(245)	(5,578)	(6,319)
Prepaid and other current assets	1,497	(610)	(244)	1,514
Other assets	371	(730)	441	1,177
Accounts payable	(4,382)	952	5,487	(105)
Accrued expenses and other current liabilities	11,198	2,040	15,223	(6,122)
Insurance reserves	1,251	(1,883)	103	(4,891)
Income tax receivable	567	(1,948)	1,688	5,698
Customer deposits	(734)	(2,412)	1,770	172
Other liabilities	(704)	(1,216)	(1,524)	562
Net cash provided by operating activities	<u>38,713</u>	<u>32,220</u>	<u>85,536</u>	<u>82,587</u>
Cash flows from investing activities				
Proceeds from sales of property, plant and equipment	111	404	674	486
Purchases of property, plant and equipment	(17,684)	(56,172)	(71,819)	(50,180)
Purchase of business, net of \$6,459 cash acquired (Note 4)	(874,007)	—	—	—
Purchase of businesses and other intangibles (Note 5)	(300)	(4,848)	(74,043)	(15,118)
Change in restricted cash	—	3,500	23,357	(26,857)
Net cash used in investing activities	<u>(891,880)</u>	<u>(57,116)</u>	<u>(121,831)</u>	<u>(91,669)</u>
Cash flows from financing activities				
Repayments of long-term debt and capital leases	(16)	(4,169)	(462,975)	(1,997)
Borrowings of long-term debt	657,480	—	465,000	—
Preferred stock issuance	—	—	41	—
Equity contribution	260,698	—	—	—
Debt issuance costs	(30,688)	—	(23,148)	—
Net cash provided by (used in) financing activities	<u>887,474</u>	<u>(4,169)</u>	<u>(21,082)</u>	<u>(1,997)</u>
Net increase (decrease) in cash and cash equivalents	34,307	(29,065)	(57,377)	(11,079)
Cash and cash equivalents				
Beginning of period	—	35,524	92,901	103,980
End of period	<u>\$ 34,307</u>	<u>\$ 6,459</u>	<u>\$ 35,524</u>	<u>\$ 92,901</u>

Supplemental disclosure of cash flow information (Note 19)

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

Notes to Consolidated Financial Statements
(in thousands of dollars, except share data)

1. Business Organization and Basis of Presentation

Business Organization

Successor

On August 30, 2013, DSS Group, Inc., a Delaware corporation (individually and, where appropriate in the context, collectively with its consolidated subsidiaries, the “Company”) was acquired by Crestview DSW Investors, L.P. (“Parent”), a Delaware limited partnership and affiliate of Crestview Partners II GP, L.P. and certain co-investors, including GCM Grosvenor NPS, L.P., affiliates of StepStone LLC and various other co-investors (collectively with Parent, the “DSSG Stockholders”), pursuant to that certain Agreement and Plan of Merger dated as of July 23, 2013 (the “Merger Agreement”), by and among Parent, Crestview DSW Merger Sub, Inc., a Delaware corporation (“Acquisition Sub”) and wholly owned subsidiary of Parent, the Company, and DSW Group Holdings, LLC, a Delaware limited liability company (“Seller”), in a transaction hereinafter referred to as the “Merger.”

In connection with the Merger, Acquisition Sub merged with and into the Company, with the Company as the surviving corporation, and Crestview DS Merger Sub II, Inc., a Delaware corporation (“Merger Sub”) and wholly owned subsidiary of Acquisition Sub, merged with and into DS Services of America, Inc., a Delaware corporation (“DSSA”), with DSSA as the surviving corporation (such Merger Sub and DSSA merger, the “Issuer Merger”). The Merger, the Issuer Merger, the related financings, the equity contributions and the payment of all costs related to these transactions are collectively referred to in this report as the “Transactions.” See Note—4 “Acquisition of Predecessor” for further information on the Transactions.

The Company owns all of the issued and outstanding shares of DS Services Holdings, Inc., a Delaware corporation (“DSSH”). DSSH owns all of the issued and outstanding shares of DSSA. The Company conducts its operations by and through DSSA. DSSA is the sole member of Crystal Springs of Alabama Holdings, LLC, a Delaware limited liability company (“CSAH”). CSAH holds a fifty percent interest in a joint venture referred to as the Crystal Springs of Alabama Joint Venture.

DSSA was the sole member of PolyCycle Solutions, LLC, a Delaware limited liability company (“PCS”). PCS was formed on May 1, 2009 as a joint venture between the Company and C.V. Plastics, LLC (“CV Plastics”). On November 17, 2011, the Company acquired all of CV Plastics’ interests in PCS. PCS merged into DSSA with DSSA as the surviving corporation effective December 28, 2013.

Effective March 1, 2014, (a) the Company’s corporate name was changed from “DSW Group, Inc.” to its current name of “DSS Group, Inc.”, (b) DSSH’s corporate name was changed from “DS Waters Enterprises, Inc.” to its current name of “DS Services Holdings, Inc.”, and (c) DSSA’s corporate name was changed from “DS Waters of America, Inc.” to its current name of “DS Services of America, Inc.”

Predecessor

Kelso & Company (“Kelso”), through its acquisition vehicle DSW Holdings, Inc., a Delaware corporation (“DSWH”), acquired DSSH and its direct and indirect subsidiaries on November 14, 2005. Kelso formed the Company on October 12, 2007 in connection with a restructuring wherein all of the common stock of DSWH was contributed to the Company by Kelso in exchange for all of the issued and outstanding shares of the Company.

In connection with a restructuring in 2012, DSWH was dissolved with the Company acquiring all of its rights and obligations and, in connection therewith, a majority interest in the Company was indirectly acquired by a group of noteholders under the Note Purchase Agreement dated as of October 24, 2007 (the “DSSG Group Note”), by and among the Company and such noteholders, led by Solar Capital, Magnetar Capital and GoldenTree Capital (the “Noteholders”). The Noteholders held their majority interest in the Company through their ownership of Seller.

Business

The Company operates its business primarily through its wholly owned operating subsidiary, DSSA. The Company is a national direct-to-consumer provider of bottled water, office coffee (“OCS”) and water filtration services. The Company offers a comprehensive portfolio of beverage products, equipment and supplies to approximately 1.5 million customers through its network of over 200 sales and distribution facilities and daily operation of over 2,100 routes. With one of the broadest distribution networks in the country, the Company reaches approximately 90 percent of U.S. households and efficiently services homes and national, regional and local offices.

The Company operates through two reportable segments—“Direct-to-Consumer Services” and “Retail Services.”

Revision of previously issued financial statements

The Company has revised the Consolidated Statements of Income (Loss) and Comprehensive Income (Loss) to present cumulative dividend on preferred stock and net loss attributable to common shareholders. Additionally, the Company has revised the disclosure of dividends earned but not yet declared or paid as of December 28, 2012 within Note 20, Preferred Stock from \$43,680 to \$44,928. The error is considered immaterial to the previously issued financial statements.

2. Summary of Significant Accounting Policies

Principles of Consolidation

The accompanying Consolidated Financial Statements include the accounts of the Company and its direct and indirect wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

In May 2009, the Company contributed \$525 in cash and an outside investor contributed \$150 in cash and property to PCS in exchange for the Company’s and such outside investor’s membership interests in PCS. In accordance with Accounting Standards Codification (“ASC”) 810- *Consolidation*, PCS’s assets and liabilities are consolidated with those of the Company and the outside investors’ interest is included in the Company’s Consolidated Financial Statements as a noncontrolling interest. As of December 31, 2010, the noncontrolling interest in PCS was equal to \$247 and was included within the shareholders’ equity section of the Company’s Consolidated Balance Sheet. For the year ended December 31, 2010, the income attributable to the noncontrolling interest in PCS was \$80 and was reflected in the Company’s Consolidated Statements of Income (Loss) and Comprehensive Income (Loss). In February 2011, the Company contributed an additional \$450 in cash and the outside investor contributed an additional \$150 in cash to PCS. In November 2011, the Company purchased the outside investor’s noncontrolling interest in PCS for \$1. Prior to the purchase, the noncontrolling interest was \$294. As a result of the purchase, Additional Paid in Capital increased by \$444 which represented the outside investor’s initial contribution of \$150, the outside investor’s 2011 contribution of \$150, and the \$144 cumulative noncontrolling interest in PCS’s earnings.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (“GAAP”) requires the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates are used for, but not limited to, receivable valuations, inventory valuations of obsolete inventories, the useful lives of long-lived assets including property, equipment and intangible assets, annual goodwill impairment assessment, income taxes and contingencies. Actual results could differ from those estimates.

Fiscal Periods

The Company's fiscal year ends on the Friday nearest the calendar year unless such Friday falls after such calendar period end, in which case the fiscal year end is the calendar year end. Unless otherwise stated, references to years in this Annual Report relate to fiscal years, not calendar years. For purposes of this financial report, (a) "Successor 2013" refers to the period beginning June 29, 2013 through and including December 27, 2013, (b) "Predecessor 2013" refers to the period beginning December 29, 2012 through and including August 30, 2013, (c) "Predecessor 2012" refers to the Company's fiscal year ending as of December 28, 2012, and (d) "Predecessor 2011" refers to the Company's fiscal year ending as of December 30, 2011. Merger Sub was legally formed on July 23, 2013. Prior to the incorporation of Merger Sub, the Company incurred costs on Merger Sub's behalf beginning on June 29, 2013. Prior to the Merger, such costs as reflected on the Successor 2013 Consolidated Statements of Income (Loss) and Comprehensive Income (Loss), Consolidated Statements of Changes in Equity (Deficit) and Consolidated Statements of Cash Flows consist solely of Merger-related costs.

Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents. The Company routinely has deposits at its financial institutions that substantially exceed federal depository insurance coverage of \$250. The Company believes that maintaining the deposits at large, reputable regional or national banks mitigates any risks associated with these excess deposits.

Restricted Cash

As of December 28, 2012, the Company had short-term restricted cash of \$3,500 included in restricted cash as set forth on the Company's Consolidated Balance Sheet, which restricted cash collateralized the Company's insurance reserve. As of December 27, 2013, the Company had no restricted cash.

Concentrations of Credit Risk

The Company's financial instruments that are exposed to concentrations of credit risk consist primarily of cash and cash equivalents and accounts receivable. The Company places its cash and temporary investments with high quality financial institutions. The Company serves customers located throughout the United States with no significant concentration in any one region. No one customer accounted for more than ten percent of revenue. The Company routinely assesses the financial strength of its customers and, as a consequence, believes that its trade accounts receivable risk is limited.

Trade Accounts Receivable

Accounts receivable consist of amounts owed to the Company by customers. The Company performs periodic credit evaluations of the financial condition of its customers, monitors collections and payments from customers, and generally does not require collateral. Accounts receivable are generally due within thirty to sixty days. The Company provides for the possible inability to collect accounts receivable by recording an allowance for doubtful accounts. The Company reserves for an account when it is considered to be potentially uncollectible. The Company estimates its allowance for doubtful accounts based on historical experience, aging of accounts receivable and information regarding the creditworthiness of its customers. To date, losses have been within the range of management's expectations. If the estimated allowance for doubtful accounts subsequently proves to be insufficient, additional allowances may be required. The Company writes off accounts receivable once it is determined that the account is uncollectible.

The Company's allowance for doubtful accounts activity consists of the following:

	Balance at Beginning of Period	Provision	Write-offs, net of recoveries	Balance at End of Period
Period Ended:				
Predecessor				
December 30, 2011	\$ (7,145)	(16,102)	17,820	\$ (5,427)
December 29, 2012	\$ (5,427)	(18,925)	18,814	\$ (5,538)
August 30, 2013	\$ (5,538)	(8,507)	8,469	\$ (5,576)
Successor				
December 27, 2013	\$ —	(4,513)	—	\$ (4,513)

Inventories

Inventories consist principally of raw materials, water products, water dispensers, coffee and tea products, breakroom supplies, and other products for resale, and are stated at the lower of cost or market. Cost is determined by the first-in, first-out ("FIFO") method. The Company records provisions, as appropriate, to write-down obsolete or unusable inventory to estimated net realizable value. The process for evaluating obsolete or unusable inventory often requires the Company to make subjective judgments and estimates concerning future sales levels, quantities and prices at which such inventories will be able to be sold in the normal course of business.

Property, Plant and Equipment

Property, plant and equipment are stated at cost, less accumulated depreciation and amortization. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets, which ranges from five to ten years for leasehold improvements, thirty years for buildings, three to ten years for machinery and equipment, three to ten years for vehicles, office furniture and other, three years for returnable bottles and three to ten years for customer equipment. Leasehold improvements are amortized over the lesser of the lease term or the estimated useful lives of the assets. Depreciation and amortization are recorded as a component of cost of revenue or as a component of Selling, general and administrative (“SG&A”) in the Consolidated Statements of Income (Loss) and Comprehensive Income (Loss). The cost of maintenance and repairs are charged to operations as incurred and major renewals and betterments are capitalized. The cost of assets retired or otherwise disposed of and the related accumulated depreciation are relieved from the accounts and any resulting gain or loss is reflected in the Company’s Consolidated Statements of Income (Loss) and Comprehensive Income (Loss) during the period of disposition.

Impairment of Long-Lived Assets

The Company assesses potential impairments of its long-lived assets including definite-lived intangibles in accordance with the provisions of ASC 360—*Property, Plant, and Equipment*. An impairment review is performed whenever events or changes in circumstances indicate that the carrying value of the assets may not be recoverable. Factors considered by the Company include, but are not limited to: significant underperformance relative to expected historical or projected future operating results; significant changes in the manner of use of the acquired assets or the strategy for the overall business; significant negative industry or economic trends. The recoverability is assessed by comparing the carrying value of the assets group to the undiscounted cash flows expected to be generated by these assets. Impairment losses are measured as the amount by which the carrying values of the primary assets exceed their fair values. For the periods covered in the Consolidated Financial Statements, the Company has not recognized an impairment charge related to the write-down of long-lived assets.

Goodwill and Other Intangible Assets

Goodwill represents the excess of the purchase price of acquired businesses over the fair value of the assets acquired less liabilities assumed in connection with such acquisition. In accordance with the provisions of ASC 350—*Intangibles—Goodwill and Other*, goodwill and intangible assets with indefinite useful lives acquired in an acquisition are not amortized, but instead tested for impairment at least annually or more frequently should an event occur or circumstances indicate that the carrying amount may be impaired. Such events or circumstances may be a significant change in business climate, economic and industry trends, legal factors, negative operating performance indicators, significant competition, changes in strategy or disposition of a reporting unit or a portion thereof. Goodwill impairment testing is performed at the reporting unit level, which for the Company is at the Direct-to-Consumer and Retail Services segment levels, on December 1st of each fiscal year.

Goodwill impairment testing is a two-step test. The first step identifies potential impairment by comparing the fair value of a reporting unit with its carrying amount, including goodwill. If the fair value exceeds its carrying amount, goodwill is not considered impaired and the second step of the test is unnecessary. If the carrying amount of a reporting unit’s goodwill exceeds its fair value, the second step measures the impairment loss, if any. The second step compares the implied fair value of goodwill with the carrying amount of that goodwill. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination. If the carrying amount of goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess.

The fair value of each reporting unit is estimated using a combination of market earnings multiples and discounted cash flow methodologies. This requires significant judgments including estimation of future cash flows, which is dependent on internal forecasts, estimation of the long-term rate of growth of the business, the useful life over which cash flows will occur and determination of the weighted average cost of capital. Changes in these estimates and assumptions could materially affect the determination of fair value and/or goodwill impairment.

Intangible assets with indefinite useful lives are not amortized but tested annually on December 1st of each fiscal year for impairment or more often if events or circumstances arise that would constitute a triggering event. Indefinite useful lives are reassessed annually. The Company's primary intangible assets with indefinite useful lives are its trademarks. The valuation of such trademarks was derived from an income approach by which the relief from royalty method was applied valuing the savings as cash flow. The relief from royalty method requires assumptions to be made concerning forecasted net sales, a discount rate and a royalty rate. The underlying concept of the relief from a royalty method is that the value of trademarks can be estimated by determining the cost savings the Company achieves by not having to license the trademarks. Changes in projections or estimates, a deterioration of operating results and the related cash flow effect or a significant increase in the discount rate or decrease in the royalty rate could decrease the estimated fair value and result in impairments.

Intangible assets with definite useful lives are amortized using the straight-line method, which the Company believes is the most appropriate, over the estimated period of benefit from five to twelve years. Definite useful lives are reassessed annually.

Customer Deposits

The Company generally collects deposits on three- and five-gallon bottles used by its customers. Such deposits are refunded only after customers return such bottles in satisfactory condition. The associated bottle deposit liability is estimated based on the number of water customers, average consumption and return rates and bottle deposit market rates. The Company analyzes these assumptions and adjusts as necessary.

Insurance Accruals

It is the Company's policy to retain a portion of expected losses related to workers' compensation, general, product, casualty, and property and vehicle liability through retentions or deductibles under its insurance programs. Provisions for losses expected under these programs are recorded based on estimates of the undiscounted aggregate liabilities for claims incurred.

Deferred Financing Costs

Deferred financing costs are amortized using the effective interest rate method over the term of the related debt, except for the deferred charges in connection with revolving credit facilities which are amortized on a straight-line basis. Amortization of deferred financing costs is included in Interest expense on the Consolidated Statements of Income (Loss) and Comprehensive Income (Loss) and was \$1,833, \$2,050, \$3,402 and \$3,348 for Successor 2013, Predecessor 2013, Predecessor 2012 and Predecessor 2011, respectively. Amortization of debt discounts is also included in Interest expense and was \$745, \$1,339, \$1,888 and \$0 for Successor 2013, Predecessor 2013, Predecessor 2012 and Predecessor 2011, respectively.

Fair Value of Financial Instruments

The Company determines the fair value of its financial instruments in accordance with the Fair Value Measurements and Disclosures Topic of the ASC. Fair value is the price to hypothetically sell an asset or transfer a liability in an orderly manner in the principal market for that asset or liability. This topic provides a hierarchy that gives highest priority to unadjusted quoted market prices in active markets for identical assets or liabilities. This topic requires that financial assets and liabilities be classified into one of the following three categories:

- Level 1 Quoted prices are available in active markets for identical assets or liabilities;
- Level 2 Pricing inputs are other than quoted prices in active markets included in Level 1, which are either directly or indirectly observable;
- Level 3 Unobservable pricing inputs in which little or no market activity exists, therefore, requiring an entity to develop its own assumptions about what market participants would use in pricing an asset or liability.

The Company's cash, restricted cash and cash equivalents, accounts receivable, accounts payable and accrued expenses are carried at cost which approximates fair value because of the short-term maturity of these instruments. The Company's cash equivalents are classified as Level 1 within the fair value hierarchy. The Company's short-term borrowings and long term debt are classified as Level 2 within the fair value hierarchy and are valued based on similar publicly-traded debt securities. See Note 11—"Long-Term Debt" for additional discussion. The Company's pension plan assets are classified as Level 2 within the fair value hierarchy for Successor 2013 and are based off significant observable inputs. The Company's pension plan assets are classified as Level 1 and Level 3 within the fair value hierarchy for Predecessor 2012 and are valued at costs that reflect quoted market prices and unobservable pricing inputs, respectively. See Note 15—"Defined Benefit Pension Plan, Multiemployer Plans and Post-Retirement Medical Benefits". The Company's interest rate swaps approximate fair value because of their variable interest rates. The Company's derivatives are measured at fair value using significant other observable inputs and are classified as Level 2. See Note 13—"Financial Instruments and Risk Management" for additional discussion.

Revenue Recognition

The Company recognizes revenues from product sales when persuasive evidence of an arrangement exists, title transfers to the customer, the sales price charged is fixed or determinable and collection is reasonably assured; these items occur when goods are delivered to customers. Sales returns are nominal.

The Company recognizes rental income on filtration, brewers and dispensing equipment at customer locations based on the terms of the related rental agreements, which are generally measured based on 28-day periods. Amounts billed to customers for rental in future periods are deferred and included in Accrued expenses and other current liabilities on the Consolidated Balance Sheets.

Total equipment rental revenues for Successor 2013, Predecessor 2013, Predecessor 2012 and Predecessor 2011 were \$32,834, \$65,214, \$94,583 and \$86,337, respectively. These amounts consist of water dispenser and brewed beverage equipment rental income of \$25,474, \$51,296, \$75,933 and \$73,990, as well as filtration equipment rental income of \$7,360, \$13,918, \$18,650 and \$12,347 for Successor 2013, Predecessor 2013, Predecessor 2012 and Predecessor 2011, respectively.

Total filtration income consists of filtration equipment rental income, as noted above, as well as filtration other income of \$532, \$880, \$931 and \$356, for Successor 2013, Predecessor 2013, Predecessor 2012 and Predecessor 2011, respectively. Total bottle deposit forfeitures income for Successor 2013, Predecessor 2013, Predecessor 2012 and Predecessor 2011 were \$3,402, \$7,050, \$5,240 and \$5,500, respectively.

Rebates

The Company accounts for discounts, rebates, bill-backs and similar arrangements with its customers as components of Net revenue set forth on the Consolidated Statements of Income (Loss) and Comprehensive Income (Loss) and these items are recorded based upon estimates at the time products are sold. These estimates are based on the Company's historical experience for similar programs and products. The Company reviews such rebates on an ongoing basis and amounts are adjusted, if necessary, as additional information becomes available. Rebates of \$5,946, \$13,385, \$31,990 and \$55,819 were deducted from Net revenue for Successor 2013, Predecessor 2013, Predecessor 2012 and Predecessor 2011, respectively.

Handling and Distribution Costs

Handling costs are recognized as a component of Cost of revenue set forth on the Consolidated Statements of Income (Loss) and Comprehensive Income (Loss), and represent costs incurred to store, prepare and move products from production facilities to branch locations prior to delivery to end-user customers, distributors and distribution centers. Handling costs were \$12,820, \$28,944, \$46,567 and \$40,155 for the Company's Successor 2013, Predecessor 2013, Predecessor 2012 and Predecessor 2011, respectively. Distribution costs are recognized as a component of SG&A set forth on the Consolidated Statements of Income (Loss) and Comprehensive Income (Loss) and consist of costs incurred to deliver products from branch locations to end-user customers or customers' stores. Distribution costs were \$85,599, \$171,393, \$241,561 and \$218,134 for Successor 2013, Predecessor 2013, Predecessor 2012 and Predecessor 2011, respectively.

Advertising

The Company expenses advertising costs at the commencement of an advertising campaign. Advertising expense is recognized as a component of SG&A set forth on the Consolidated Statements of Income (Loss) and Comprehensive Income (Loss) and was \$5,523, \$14,823, \$19,070 and \$15,663 for Successor 2013, Predecessor 2013, Predecessor 2012 and Predecessor 2011, respectively.

Stock Compensation

ASC 718— *Stock Compensation* requires companies to estimate the fair value of stock-based payment awards on the date of grant using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as an expense during the requisite service periods. The Company previously adopted the stock compensation plan (the “Stock Option Plan”) which allowed the Company to grant nonqualified stock options to select employees, officers and directors. The Stock Option Plan was terminated in connection with the Merger. The Company estimated the fair value for each award under the Stock Option Plan as of the date of grant using the Black-Scholes option pricing model. The Black-Scholes model considers, among other factors, the expected life of the award, the expected volatility of the Company’s stock price, the risk free rate, and the dividend yield of the Company’s stock. The Company recognizes the stock-based compensation expense using the graded vesting method over the requisite service periods, which is generally a vesting term of 5 years. The stock options granted under the Stock Option Plan had an exercise price equal to the estimated fair value of the Company’s common stock on the grant date. Compensation costs for awards that vest are not reversed if the awards expire without being exercised.

Income Taxes

The Company records federal and state income taxes in accordance with ASC 740— *Income Taxes* , which requires the recognition of deferred tax assets and liabilities for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are determined using the enacted tax rates applied to taxable income in the years in which temporary differences are expected to be recovered or settled.

The Company regularly reviews its deferred tax assets for recoverability and to establish a valuation allowance if it is more likely than not that some portion or all of a deferred tax asset will not be realized. The determination as to whether a deferred tax asset will be realized is made on a jurisdictional basis and is based on the evaluation of positive and negative evidence. This evidence includes projected future taxable income, the expected timing of the reversal of existing temporary differences and the implementation of tax planning strategies. Projected future taxable income is based on the Company’s expected results and assumptions as to the jurisdiction in which the income will be earned. The expected timing of the reversals of existing temporary differences is based on current tax law and the Company’s tax methods of accounting.

The Company recognizes the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the Consolidated Financial Statements from such a position are measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon settlement. Interest and penalties related to uncertain tax positions are recognized as part of the provision for income taxes and are accrued beginning in the period that such interest and penalties would be applicable under relevant tax law until such time that the related tax benefits are recognized.

3. Recent Accounting Pronouncements

Changes to GAAP are established by the Financial Accounting Standards Board (“FASB”) in the form of Accounting Standards Updates (“ASUs”) to the FASB’s ASC. The Company considers the applicability and impact of all ASUs. ASUs not listed below were assessed and determined not to be applicable or are expected to have minimal impact on the Company’s Consolidated Financial Statements.

Revenue From Contracts With Customers

In May 2014, the FASB and International Accounting Standards Board (“IASB”) issued a comprehensive new revenue recognition standard for contracts with customers that will supersede most current revenue recognition guidance, including industry-specific guidance. The core principle of this standard is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve this core principle, the standard provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include the capitalization and amortization of certain contract costs, ensuring the time value of money is considered in the transaction price and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. This guidance also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity’s contracts with customers. The new guidance is effective for public companies which are accelerated filers for annual reporting periods (including interim reporting periods within those periods) beginning after December 15, 2016. The standard permits the use of either the full retrospective or modified transition method. This guidance will be applicable to the Company at the beginning of its first quarter of fiscal year 2017. The Company is currently evaluating whether the full retrospective or modified transition approach will be applied and whether the new guidance will have a material impact on the Company’s Consolidated Financial Statements.

Reporting Discontinued Operations

In April 2014, the FASB issued new guidance which changes the criteria for determining which disposals can be presented as discontinued operations and modifies related disclosure requirements. The new guidance is effective for annual and interim periods beginning after December 15, 2014. The impact on the Company of adopting the new guidance will depend on the nature, terms and size of business disposals completed after the effective date. This authoritative guidance is not expected to have a material impact on the Company's Consolidated Financial Statements.

Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income

In February 2013, the FASB issued updated guidance which requires companies to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, companies are required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by respective line items of net income but only if the amount reclassified is required under GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under GAAP to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures required under GAAP that provide additional detail about those amounts. For public entities, the amendments are effective prospectively for reporting periods beginning after December 15, 2012, with early adoption permitted. For nonpublic entities, the amendments are effective prospectively for reporting periods beginning after December 15, 2013. This authoritative guidance did not have a material impact on the Company's Consolidated Financial Statements.

Indefinite-Lived Intangible Asset Impairment Testing

In July 2012, the FASB issued updated guidance concerning the testing of indefinite-lived intangible assets for impairment. This guidance allows an entity to first perform a qualitative assessment to determine whether it is necessary to perform the quantitative impairment test described in the existing guidance. If an entity elects to perform a qualitative assessment, it shall assess qualitative factors to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired. If after assessing relevant events and circumstances an entity determines that it is more likely than not that the indefinite-lived intangible asset is impaired, the entity shall calculate the fair value of the asset and perform the quantitative impairment test described in the existing guidance. These amendments are effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012, with early adoption permitted. The Company did not elect to perform a qualitative assessment; the Company performed the quantitative assessment as described in the guidance.

4. Acquisition of Predecessor

As discussed in Note—1 "Business Organization and Basis of Presentation", the DSSG Stockholders acquired the Company pursuant to the Merger for \$874,007, net of \$6,459 cash acquired, subject to certain customary adjustments for working capital and tax matters. A portion of the Merger consideration was used to pay transaction costs and approximately \$459,069 was used by the Seller to repay existing debt of the Company as of the date of Merger. The Merger was financed by:

- Borrowings under a \$320,000, 7-year, senior secured term loan facility (the "Term Loan Facility"), \$316,800 of which was provided at closing, net of \$3,200 discount;
- Issuance by DSSA of \$350,000, 10.000% second-priority senior secured notes due 2021 (the "Notes") in the amount of \$340,679, which amount is net of discount of \$9,321; and
- An aggregate equity contribution of \$260,698 from the DSSG Stockholders.

The Merger has been accounted for using the acquisition method of accounting in accordance with ASC 805—*Business Combinations*, which requires, among other things, that the assets acquired and liabilities assumed be recognized at their acquisition date fair values, with any excess of the consideration transferred over the estimated fair values of the identifiable net assets acquired recorded as goodwill.

The accounting for the Merger is based on currently available information and is considered final.

The following is a summary of the fair values of the net assets acquired:

Total consideration transferred, net of cash acquired of \$6,459	\$ 874,007
Income tax receivable	2,175
Trade accounts receivable	103,793
Inventories	36,108
Prepaid and other current assets	12,552
Deferred tax asset	10,409
Property, plant and equipment	442,676
Intangibles	372,353
Other assets	5,551
Accounts payables	35,794
Accrued expenses and other current liabilities	52,409
Customer deposits	33,142
Current portion of insurance reserves	13,748
Insurance reserves, less current portion	15,461
Other long term liabilities	3,735
Deferred tax liability	156,170
Net assets acquired	<u>675,158</u>
Goodwill	<u>\$ 198,849</u>

The goodwill of \$198,849 recorded as part of the acquisition is for the potential growth of the Company. See Note—8 “Intangibles and Goodwill” for further discussion on Goodwill by segment. Included in the goodwill, \$32,757 is deductible for income tax purposes and the remaining goodwill is not expected to be deductible for income tax purposes.

The \$372,353 of intangible assets acquired in connection with the Merger were assigned to the following:

	<u>Fair Value</u>	<u>Estimated Weighted Average Life (Years)</u>
Customer Lists	\$243,352	12
Trademark/trade name	128,891	N/A
Covenants not to compete	110	5
Total	<u>\$372,353</u>	

The Company incurred costs in connection with the Merger of \$3,927 and \$15,892 for Successor 2013 and Predecessor 2013, respectively. The foregoing amounts were expensed by the Company as incurred and are included in the Consolidated Statements of Income (Loss) and Comprehensive Income (Loss) in SG&A expense.

Pursuant to the terms of the Merger Agreement, the Merger Consideration payable to the Seller was increased by \$11,056 as a result of an adjustment related to working capital. This amount will be paid by the Company to the Seller during 2014.

5. Business Acquisitions

The Company expands the geographical area it services and its customer base and product portfolio through the acquisition of businesses. Acquisitions are accounted for in accordance with ASC 805— *Business Combinations*. If goodwill is recorded in connection with an acquisition it is booked to the appropriate business segment. The Company incurred acquisition costs of \$1,079, \$2,368, \$8,032 and \$1,347 during Successor 2013, Predecessor 2013, Predecessor 2012 and Predecessor 2011, respectively. Acquisition costs incurred were recorded as a component of SG&A on the Consolidated Statements of Income (Loss) and Comprehensive Income (Loss).

During Successor 2013, the Company negotiated a \$300 five year not to compete agreement with a supplier to ensure the supplier's product is not sold to the Company's competitors.

Successor 2013

The Company did not complete any material acquisitions during Successor 2013.

Predecessor 2013

Cascade Coffee Acquisition

On August 9, 2013, the Company purchased certain assets of Cascade Coffee, Inc.'s ("Cascade") OCS business. Cascade's principal business was office coffee and water filtration services. The aggregate purchase price was as follows:

Gross purchase price	\$4,605
Liabilities assumed	<u>(405)</u>
Cash purchase price	<u>\$4,200</u>

The fair values of the assets acquired and liabilities assumed in connection with the Cascade acquisition were as follows:

Inventory	\$ 404
Property, plant and equipment	421
Customer lists	1,540
Trade names	230
Non-compete agreement	110
Goodwill	1,900
Liabilities assumed	<u>(405)</u>
Total cash purchase price	<u>\$4,200</u>

The amortization periods for the customer list and the covenant not to compete included with the Cascade acquisition are 12 years and 5 years, respectively. Prior to the Merger, the Company determined that the customer list amortization period for this acquisition was 10 years and the covenant not to compete amortization period was 5 years. The trade names acquired in connection with the acquisition are intangible assets with indefinite useful lives and are accounted for as such. The \$1,900 of goodwill recorded in connection with the acquisition relates to cost synergies anticipated through the consolidation of routes, route management and administrative employee headcount reduction, and potential cross-selling benefits generated by the consolidation of customers and facilities. In addition to the cash purchase price paid at closing, the Company is required to pay Cascade a contingent earnout payment equal to three percent of revenues derived from acquired customers determined and payable quarterly for three years. The Company estimates that such liability is \$292. This liability was remeasured as of December 27, 2013 and was not material for the period and will continue to be re-measured at each reporting period for the three years until fully paid out.

Matilija Pure Water Acquisition

On May 3, 2013, the Company purchased certain assets from Calmin, Inc. d/b/a Matilija Pure Water (“Matilija Pure Water”) related to its bottled water delivery business. Matilija Pure Water’s principal business was the home and office delivery of bottled water. The aggregate purchase price was as follows:

Gross purchase price	\$648
Cash purchase price	<u>\$648</u>

The fair values of the assets acquired in connection with the Matilija Pure Water acquisition were as follows:

Current assets	\$ 66
Property, plant and equipment	55
Customer lists	305
Non-compete agreement	31
Goodwill	191
Total cash purchase price	<u>\$648</u>

The amortization periods for the customer list and covenant not to compete included with the Matilija Pure Water acquisition were 12 years and 3 years, respectively. Prior to the Merger, the Company determined that the customer list amortization period for this acquisition was 6 years and the covenant not to compete amortization period was 3 years. The \$191 of goodwill recorded in connection with the acquisition relates to cost synergies anticipated through the consolidation of routes, route management and administrative employee headcount reduction, and potential cross-selling benefits generated by the consolidation of customers and facilities.

Predecessor 2012

Standard Coffee Acquisition

On March 24, 2012, the Company purchased certain assets of The Standard Companies Inc. d/b/a Standard Coffee Service Company (“Standard Coffee”). Standard Coffee’s principal business was the distribution of coffee, tea and other breakroom supplies and the provision of water filtration services. The aggregate purchase price was as follows:

Gross purchase price	\$78,863
Liabilities assumed	(4,543)
Cash purchase price	<u>\$74,320</u>

The fair values of the assets acquired in connection with the Standard Coffee acquisition were as follows:

Current assets	\$16,267
Property, plant and equipment	10,150
Customer lists	28,220
Trade names	10,680
Non-compete agreement	660
Goodwill	12,886
Liabilities assumed	(4,543)
Total cash purchase price	<u>\$74,320</u>

The amortization periods of the customer list and covenant not to compete included in the Standard Coffee acquisition were 12 years and 2 years, respectively. Prior to the Merger, the Company determined that the customer list amortization period for this acquisition was 6 years and the covenant not to compete amortization period was 3 years. The trade names acquired in connection with the acquisition are intangible assets with indefinite useful lives and are accounted as such. The \$12,886 of tax deductible goodwill recorded in connection with the acquisition relates to cost synergies anticipated through the consolidation of routes, route management and administrative employee headcount reduction, and potential cross-selling benefits generated by the consolidation of customers and facilities.

Predecessor 2011

On December 1, 2011, the Company purchased certain assets of Deep Rock Water Co. and Crystal Drop Water Co. (collectively, "Deep Rock"). Deep Rock's principal business was bottling, selling, and distributing bottled water. The aggregate purchase price was as follows:

Gross purchase price	\$ 14,527
Liabilities assumed	(1,753)
Cash purchase price	<u>\$ 12,774</u>

The fair values of the assets acquired and liabilities assumed were as follows:

Current assets	\$ 677
Property, plant and equipment	2,964
Customer lists	5,630
Trade names	920
Goodwill	4,336
Liabilities assumed	(1,753)
Total cash purchase price	<u>\$12,774</u>

The amortization period of the customer list is 12 years. The trade names acquired in connection with the acquisition are intangible assets with indefinite useful lives and are accounted as such. Prior to the Merger, the Company determined that the customer list amortization period for this acquisition was 6 years. Goodwill of \$4,336 recorded in connection with the acquisition relates to cost synergies anticipated through the consolidation of routes, route management and administrative employee headcount reduction, and potential cross-selling benefits generated by the consolidation of customers and facilities. During 2012, the Company reached a settlement with Deep Rock related to a shortfall of the purchase agreement's working capital requirements. The Company adjusted the working capital amounts to goodwill.

A reconciliation of the carrying value of goodwill related to the Deep Rock acquisition from December 30, 2011 to December 28, 2012 is as follows:

Goodwill at December 30, 2011	\$ 4,762
Adjustment due to working capital settlement	(426)
Goodwill at December 28, 2012	<u>\$ 4,336</u>

These changes have been incorporated into the fair values of the assets acquired and liabilities assumed disclosed in the breakout of the cash purchase price above.

Pro forma Financial Information (Unaudited)

The following unaudited pro forma summary presents consolidated information of the Company as if the Merger and the acquisition of Standard Coffee occurred at the beginning of the annual period prior to the year purchased. No other acquisitions were included in the pro forma as they were deemed to have an immaterial impact. The pro forma summary adjustments primarily relate to revenue, gross profit generated, depreciation expense on stepped up fixed assets, amortization and acquired intangibles, interest expense related to new financing arrangements and the estimated impact of the Company's income tax provision. The unaudited pro forma combined results of operations are provided for illustrative purposes only and are not indicative of the Company's actual consolidated results.

	December 27, 2013	December 28, 2012	December 30, 2011
Net revenue	\$ 928,788	\$ 928,510	\$ 883,946
Net loss	(27,294)	(72,324)	(21,550)

6. Inventories

Inventories consisted of the following as of December 27, 2013 and December 28, 2012:

	<u>Successor</u> <u>2013</u>	<u>Predecessor</u> <u>2012</u>
Raw materials	\$ 4,956	\$ 4,481
Finished goods	13,389	9,656
Resale items	17,934	22,825
	<u>\$36,279</u>	<u>\$ 36,962</u>

7. Property, Plant and Equipment

Property, plant and equipment consisted of the following as of December 27, 2013 and December 28, 2012:

	Estimated Useful Life	Successor	Predecessor
	in Years	2013	2012
Land	—	\$ 84,396	\$ 82,043
Buildings	30	84,768	68,689
Leasehold improvements	5–10	7,086	5,070
Machinery and equipment	3–10	70,143	126,542
Vehicles, office furniture and other	3–10	67,795	104,352
Returnable bottles	3	30,402	47,641
Customer equipment	3–10	114,628	171,272
Capital assets in progress		—	7
		<u>459,218</u>	<u>605,616</u>
Accumulated depreciation and amortization		<u>(31,182)</u>	<u>(275,687)</u>
		<u>\$428,036</u>	<u>\$ 329,929</u>

As a result of the Merger, the Company reevaluated the fair values of Property, plant and equipment. See Note—4 “Acquisition of Predecessor” for further discussion. During Successor 2013, Predecessor 2013, Predecessor 2012 and Predecessor 2011, the Company recorded depreciation expense of \$29,437, \$44,299, \$61,688 and \$57,320, respectively.

Approximately \$676 of Property, plant and equipment relate to assets under capital leases as of both December 27, 2013 and December 28, 2012. Assets under capital leases were fully depreciated as of December 28, 2012.

Costs incurred to develop software for the Company’s internal use are capitalized and amortized over the estimated useful life of the software, which is three years. Costs related to the design or maintenance of software for the Company’s internal use is expensed as incurred. As of December 27, 2013 and December 28, 2012, the Company capitalized \$1,335 and \$936, respectively, of costs associated with such internal-use software in accordance with ASC 350— *Internal-Use Software* . The unamortized software development costs as of December 27, 2013 and December 28, 2012 were \$2,191 and \$2,274, respectively. Amortization of software development costs included in the Company’s depreciation expense for Property, plant and equipment was \$326, \$1,092, \$1,105 and \$974 for Successor 2013, Predecessor 2013, Predecessor 2012 and Predecessor 2011.

8. Intangibles and Goodwill

	2013 Successor as of December 27, 2013		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Intangible assets not subject to amortization			
Trade names	\$128,891	\$ —	\$128,891
Intangible assets subject to amortization			
Customer lists	243,352	(6,761)	236,591
Covenants not to compete	410	(22)	388
Total intangibles	<u>\$372,653</u>	<u>\$ (6,783)</u>	<u>\$365,870</u>

	2012 Predecessor as of December 28, 2012		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Intangible assets not subject to amortization			
Trade names	\$ 16,719	\$ —	\$ 16,719
Intangible assets subject to amortization			
Customer lists	65,122	(28,288)	36,834
Covenants not to compete	4,772	(4,276)	496
Total intangibles	<u>\$ 86,613</u>	<u>\$ (32,564)</u>	<u>\$ 54,049</u>

The Company amortizes customer lists and covenants not to compete acquired in connection with the Merger over 12 years and 5 years, respectively. See Note—4 “Acquisition of Predecessor” for further discussion. Prior to the Merger, the Company amortized customer lists over 6 weighted average years and covenants not to compete over 3 weighted average years. During Successor 2013, Predecessor 2013, Predecessor 2012 and Predecessor 2011, the Company recorded \$6,783, \$6,154, \$9,448 and \$5,959, respectively, of amortization expense related to its intangible assets. Based on the current amount of intangible assets subject to amortization, the estimated amortization expense for each of the succeeding five fiscal years is as follows:

Years Ending	
2014	\$ 20,361
2015	20,361
2016	20,361
2017	20,361
2018	20,339
Thereafter	<u>135,196</u>
	<u>\$236,979</u>

Goodwill consisted of the following for Predecessor 2011, Predecessor 2012, Predecessor 2013 and Successor 2013:

	<u>Direct-to-Consumer</u>	<u>Retail Services</u>	<u>Consolidated</u>
Predecessor			
Goodwill at December 30, 2011	\$ 27,446	\$ —	\$ 27,446
Acquisitions	12,405	—	12,405
Goodwill at December 28, 2012	\$ 39,851	\$ —	\$ 39,851
Acquisitions	2,091	—	2,091
Goodwill at August 30, 2013	\$ 41,942	\$ —	\$ 41,942
Successor			
Goodwill at June 29, 2013	\$ —	\$ —	\$ —
Merger (Note 4)	192,486	6,363	198,849
Goodwill at December 27, 2013	\$ 192,486	\$ 6,363	\$ 198,849

In connection with the Merger, Goodwill was adjusted as of June 29, 2013. See Note—4 “Acquisition of Predecessor” for further discussion.

9. Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consisted of the following as of December 27, 2013 and December 28, 2012:

	<u>Successor 2013</u>	<u>Predecessor 2012</u>
Payroll and employee benefits	\$32,354	\$ 25,606
Sales, property and other taxes	3,990	4,164
Deferred equipment rental revenue	3,812	3,799
Freight	1,731	1,892
Interest	13,223	13,731
Deferred facility rent	1,894	1,995
Accrued professional services	1,904	1,623
Legal Settlement (Note 12)	2,000	—
Insurance recovery due to Seller (Note 12)	1,000	—
Other	1,366	1,350
	<u>\$63,274</u>	<u>\$ 54,160</u>

10. Related Party Transactions

Successor

In connection with the Merger, the DSSG Stockholders entered into a Stockholders Agreement dated as of August 30, 2013 (the “Stockholders Agreement”). The Stockholders Agreement provides for, among other things, (a) an agreement by the DSSG Stockholders to vote their shares of common stock of the Company to elect as directors of the Company the individual who holds the title of Chief Executive Officer of the Company, one individual that is nominated from time to time by a significant co-investor (subject to certain continuing ownership requirements) and the individuals that are nominated from time to time by funds affiliated with Crestview Partners II GP, L.P., including Parent (the “Crestview Stockholders”) or an affiliate thereof, (b) restrictions on transfer by the DSSG Stockholders other than Parent and its affiliates (the “NonCrestview Stockholders”), (c) certain rights of repurchase with respect to employee stockholders, and (d) certain registration rights for NonCrestview Stockholders following an initial public offering of the Company.

In connection with the Merger, DSSA entered into a Monitoring Agreement dated as of August 30, 2013 (the “Monitoring Agreement”) with Crestview Advisors, L.L.C. (the “Manager”) relating to the monitoring of the investment of the Crestview Stockholders in the Company following the consummation of the Merger. Under the Monitoring Agreement, DSSA is required to (a) pay to the Manager a nonrefundable annual monitoring fee in an amount equal to the greater of (i) \$2,000, and (ii) 2% of EBITDA of DSSA and its consolidated subsidiaries, and (b) reimburse the Manager for all reasonable fees and expenses incurred in connection with its monitoring activities. The Company paid to the Manager an amount equal to \$667 in full satisfaction of the Company’s obligations under the Monitoring Agreement with respect to Successor 2013, which amount is based on a prorated annual fee of \$2,000 plus additional costs incurred of \$125.

Effective August 31, 2013, the Company engaged each of K. Dillon Schickli (“Schickli”) and Jim L. Turner (“Turner”) to serve on its Board of Directors. In connection with their respective service, Schickli is entitled to \$100 annually and is eligible to participate in the Company’s medical plan and Turner is entitled to \$60 annually. Each of Schickli and Turner is a minority co-investor in the Company.

Predecessor

Pursuant to a Tax Sharing Agreement dated as of October 18, 2007 (the “Tax Sharing Agreement”) among the members of the Company’s consolidated filing group, which includes each subsidiary of the Company, each such subsidiary was required to pay to the Company an amount equal to the tax impact of items of income, loss and credits that were includable in the Federal Consolidated Income Tax Returns, or the Combined Consolidated State Income Tax Returns, of the consolidated group. These amounts due to or from the Company were recorded in the Company’s due to/from DSSG account. The Tax Sharing Agreement was terminated effective August 30, 2013 and it was noted that any tax attributes of members of the consolidated group as of the termination date are made available for use by other members of the group without compensation.

The Company engaged Kelso to provide consulting and advisory services commencing on November 15, 2005. Kelso owned a majority interest in the Company until the restructuring in 2012, which is discussed in more detail in Note—1 “Business Organization and Basis of Presentation”. In consideration for Kelso providing the foregoing services, the Company paid Kelso an annual fee of \$250. The Company terminated this relationship with Kelso on April 20, 2012. The Company paid Kelso \$63 and \$250 for Predecessor 2012 and Predecessor 2011, respectively.

The Company engaged G. John Krediet (“Krediet”) to serve on the Board of Directors of the Company commencing March 28, 2006. Krediet was an indirect minority owner of the Company prior to the Merger. In consideration for such services, the Company paid Krediet an annual fee of \$180. This relationship was terminated effective April 20, 2012. The Company engaged Krediet to provide certain consulting services to management and the Company’s Board of Directors commencing April 20, 2012. In consideration for such services, the Company paid Krediet an annual fee of \$50. The Company paid Krediet \$25, \$26, \$95 and \$184 for Successor 2013, Predecessor 2013, Predecessor 2012 and Predecessor 2011, respectively.

A partner at the law firm of Stewart McKelvey served as Secretary of the Company until August 9, 2012. The Company also engaged Stewart McKelvey to provide various legal services during 2012. In consideration for such services, the Company paid Stewart McKelvey \$198 and \$286 for Predecessor 2012 and Predecessor 2011, respectively.

DSW Holding Company, LLC, the majority member of Seller, engaged Turner to serve on the Board of Directors of Seller. Turner was an indirect minority owner of the Company prior to the Merger. In consideration for Turner providing the foregoing services, the Company, on behalf of DSW Holding Company, LLC, paid Turner an annual fee of \$100. The Company paid Turner \$21, \$78, \$29 and \$0 for Successor 2013, Predecessor 2013, Predecessor 2012 and Predecessor 2011.

The Company engaged Stewart Allen (“Allen”) to provide certain consulting services to management and the Board of Directors commencing April 20, 2012. Allen was a minority indirect owner of the Company prior to the Merger. In consideration for such services, the Company paid Allen an annual fee of \$100. The Company paid Allen \$25, \$75 and \$100 for Successor 2013, Predecessor 2013, and Predecessor 2012, respectively.

11. Long-Term Debt

The Company's long-term debt and capital lease obligations consisted of the following as of December 27, 2013 and December 28, 2012:

	<u>Successor</u> <u>2013</u>	<u>Predecessor</u> <u>2012</u>
Term Loan Facility	\$320,000	\$ —
Notes	350,000	—
Predecessor First Lien Facility	—	363,175
Predecessor Second Lien Facility	—	102,329
Capital lease obligations	<u>11</u>	<u>90</u>
Total debt	670,011	465,594
Less debt discount	<u>(11,775)</u>	<u>(7,412)</u>
	658,236	458,182
Less current portion	<u>(3,211)</u>	<u>(6,462)</u>
Total long-term debt	<u>\$655,025</u>	<u>\$ 451,720</u>

Successor

Senior Facilities

In connection with the Merger, on the Merger Date, the Company (through DSSA, which is the borrower under the respective credit facilities) received borrowings under the Term Loan Facility and a \$75,000 senior secured asset-based revolving credit facility (the "ABL Facility" and, collectively with the Term Loan Facility, the "Senior Facilities").

Term Loan Facility

The Term Loan Facility is governed by that certain First Lien Credit Agreement (the "Term Credit Agreement") with Barclays Bank PLC, as administrative agent, and the other lenders party thereto. The aggregate principal amount of the Term Loan Facility is \$320,000, which was fully funded at closing of the Merger, net of discount of \$3,200. The Company may request additional borrowings under the Term Loan Facility in an aggregate principal amount up to \$100,000 and additional amounts based on certain net leverage ratios.

The Term Loan Facility has a seven-year term and amortizes in equal quarterly installments in an aggregate annual amount equal to 1.0% of the original principal amount with the balance payable on the maturity date of August 30, 2020 of the Term Loan Facility. The maturity date of the Term Loan Facility is August 30, 2020. The weighted average interest rate as of December 27, 2013 was 5.25%.

The borrowings under the Term Loan Facility bear interest at a rate equal to, as determined at the Company's option, either (a) a base rate determined by reference to the highest of (1) the U.S. federal funds rate plus 0.50%, (2) the prime rate of Barclays Bank PLC, and (3) the adjusted LIBO rate for a one-month interest period plus 1.00%, or (b) a eurocurrency rate ("LIBOR") determined by reference to the costs of funds for eurocurrency deposits in dollars in the London interbank market for the interest period relevant to such borrowing adjusted for certain additional costs, in each case, plus an applicable margin. From and after the date of delivery of financial statements covering the Company's last fiscal quarter of 2013, interest rate margins under the Term Loan Facility will be subject to one step down subject to a 1.00% LIBOR floor based upon a net first lien leverage ratio.

The Company may voluntarily repay outstanding loans under the Term Loan Facility at any time without premium or penalty, other than customary "breakage" costs with respect to eurocurrency loans and with respect to certain repricing transactions occurring within twelve months after the closing of the Merger, which shall be subject to a prepayment premium of 1.00%.

All obligations under the Term Loan Facility are unconditionally guaranteed by DSSH and each of DSSA's existing and future direct and indirect wholly owned domestic subsidiaries. The obligations and guarantees are secured by (a) first-priority security interests in substantially all of DSSA's assets (other than the ABL Priority Collateral (as defined below)) and those of each domestic guarantor, including a pledge of the DSSA's capital stock by DSSH, in each case subject to certain exceptions (the "NonABL Priority Collateral"), and (b) second-priority security interests in all accounts receivable, loan receivable, other receivables, inventory, related books and records and general intangibles, deposit accounts, business interruption insurance, certain real property, cash and proceeds of the foregoing (the "ABL Priority Collateral").

ABL Facility

The ABL Facility is governed by that certain Asset-Based Revolving Credit Agreement (the "ABL Credit Agreement") with BMO Harris Bank N.A., as administrative agent, and the other lenders party thereto. The aggregate principal amount of the ABL Facility is the lesser of (a) \$75,000, and (b) the Company's "borrowing base" set forth in the ABL Credit Agreement. In addition, the Company may request one or more incremental revolving commitments in an aggregate principal amount up to the greater of (a) \$25,000 and (b) the excess of the borrowing base (subject to certain exceptions) over the amount of the then-effective commitments under the ABL Facility. The ABL Facility has a five-year term. The ABL Facility includes borrowing capacity available for letters of credit and for short-term borrowings (swingline loans) on same-day notice.

The borrowings under the ABL Facility bear interest at a rate equal to, as determined at the Company's option, either (a) a base rate determined by reference to the highest of (1) the U.S. federal funds rate plus 0.50%, (2) the prime rate of the Bank of Montreal, and (3) the adjusted LIBOR rate for a one-month interest period plus 1.0%, or (b) an adjusted LIBOR determined by reference to the costs of funds for eurocurrency liabilities in dollars in the London interbank market for the interest period relevant to such borrowing adjusted for certain additional costs, plus, in each case an applicable margin as set forth in the ABL Credit Agreement. From and after the date of delivery of financial statements covering the Company's Successor 2013, Predecessor 2013 and Predecessor 2012, the applicable margin for such borrowings may be adjusted based on availability.

In addition to paying interest on outstanding principal under the ABL Facility, the Company is required to pay a commitment fee to the lenders in respect of the unutilized commitments thereunder at a rate equal to 0.25% per annum if average utilization is greater than 50% and 0.375% if average utilization is less than or equal to 50%, which amounts may be adjusted based on usage. The Company is also required to pay a customary letter of credit fee, including a fronting fee equal to 0.125% per annum of the aggregate face amount of outstanding letters of credit, and customary issuance and administration fees.

The Company may voluntarily repay outstanding loans under the ABL Facility at any time without premium or penalty, other than customary "breakage" costs with respect to eurocurrency loans.

All obligations under the ABL Facility are unconditionally guaranteed by DSSH and each of DSSA's existing and future direct and indirect wholly owned domestic restricted subsidiaries. The obligations and guarantees are secured by (a) first-priority security interests in the ABL Priority Collateral, and (b) third-priority security interests in the NonABL Priority Collateral.

At December 27, 2013, there were no borrowings under the ABL Facility.

10.000% Second-Priority Senior Secured Notes

In connection with the Merger, on August 30, 2013, DSSA issued \$350,000 in principal amount of the Notes in a private placement. The Notes were issued under an indenture with Wilmington Trust, National Association as trustee. The Notes bear interest at a rate of 10.000% per annum, payable semi-annually in arrears on March 1 and September 1 of each year, commencing on March 1, 2014. The Notes were issued at a discount of 2.663%.

DSSA may redeem the Notes at its option, in whole or in part, at any time on or after September 1, 2017 at certain redemption prices. In addition, DSSA may redeem up to 35% of the aggregate principal amount of the Notes on or prior to September 1, 2016 with the net proceeds from certain equity offerings at certain redemption prices. Prior to September 1, 2017, DSSA may redeem some or all of the Notes at a price equal to 100% of the principal amount thereof, plus accrued and unpaid interest, if any, plus the applicable "make-whole" premium.

The Notes are fully and unconditionally guaranteed by DSSH and each of DSSA's existing and future direct and indirect wholly owned domestic restricted subsidiaries. The Notes and related guarantees are secured by (a) second-priority security interests in the NonABL Priority Collateral, and (b) third-priority security interests in the ABL Priority Collateral. The guarantees may be released under certain customary circumstances with respect to a subsidiary guarantor including:

- DSSA’s obligations under the indenture are discharged in accordance with the terms of the indenture;
- The sale, disposition, exchange or other transfer (including through merger, consolidation, amalgamation or otherwise) of the equity interests in such subsidiary guarantor;
- The designation of such subsidiary guarantor as an “Unrestricted Subsidiary” under the indenture;
- The release or discharge of the guarantee by such subsidiary guarantor of the Senior Facilities or other indebtedness which resulted in the obligation to guarantee the notes;
- DSSA’s exercise of its legal defeasance option or covenant defeasance option in accordance with the indenture;
- Such subsidiary guarantor ceasing to be a subsidiary of DSSA as a result of any foreclosure of any pledge or security interest in connection with the Senior Facilities; and/or
- The occurrence of certain “Covenant Suspension Events” under the indenture.

The Senior Facilities and the Notes contain certain customary affirmative covenants and events of default. In addition, the Senior Facilities and Notes contain a number of covenants that, among other things restrict, subject to certain exceptions, DSSA’s ability, and the ability of its restricted subsidiaries to: sell assets, incur additional indebtedness, make voluntary repayments on certain other indebtedness, pay dividends and distributions (See Note 22—“Condensed Financial Information of Parent Company”) or repurchase DSSA’s capital stock, create liens on certain assets, make investments, loans, guarantees or advances, engage in mergers or acquisitions, enter into sale/leaseback transactions, engage in certain transactions with affiliates, make negative pledges, amend their respective organization documents and certain debt documents, change their respective fiscal years, change their respective businesses, or enter into agreement that restrict dividends from subsidiaries. The Senior Facilities and the Notes also contain covenants limiting the activities of DSSH.

Future Payments

The required principal repayments on the Company’s long-term debt and capital lease obligations for the next five years are as follows:

2014	\$ 3,211
2015	3,200
2016	3,200
2017	3,200
2018	3,200
Thereafter	654,000
	<u>\$670,011</u>

The fair values of the Company’s short-term borrowings and long-term debt are classified as Level 2 within the fair value hierarchy and are based on similar publicly-traded debt securities as of December 27, 2013 and December 28, 2012.

The Company’s December 28, 2012 short-term borrowings and long term debt approximate fair value because of their variable interest rates. The Company’s December 27, 2013 short-term borrowings and long-term debt are summarized below at estimated fair values:

	Successor	
	2013	
	Net Carrying	Estimated
	Value	Fair Value
Notes	\$ 341,239	\$374,500
Term Loan Facility	316,986	324,800

Predecessor***Credit Facilities Terminated as a Result of the Merger***

In connection with the Merger, borrowings under the following credit facilities were repaid and the associated facilities terminated.

First Lien Facility

The Company received \$365,000 in borrowings under a senior secured term facility dated as of February 29, 2012 (the “Predecessor First Lien Facility”) that was set to expire in August 2017. Under the Predecessor First Lien Facility, base rate loans bore interest at the base rate (subject to a floor equal to the one-month eurodollar rate plus 1.00%) plus 8.00%, and USD Libor rate loans bore interest at the USD Libor rate (subject to a floor of 1.50% per annum) plus 9.00%. Interest was payable quarterly. The interest rate as of August 30, 2013 was 10.5%.

Second Lien Facility

The Company received \$100,000 in borrowings under a second lien facility dated as of February 29, 2012 (the “Predecessor Second Lien Facility”) that was set to expire in February 2018. Under the Predecessor Second Lien Facility, base rate loans bore interest at the base rate (subject to a floor equal to the one-month eurodollar rate plus 1.00%) plus 8.50% plus a paid-in-kind margin, or PIK Margin, of 4.00% and rate loans bore interest at the rate (subject to a floor of 1.50% per annum) plus 9.50% plus a PIK Margin of 4.00%. Interest was payable quarterly.

\$70,000 ABL Facility

The Company entered into a \$70,000 asset based loan facility dated as of February 29, 2012 (the “Predecessor ABL Facility”) that was set to expire on February 27, 2017. The Predecessor ABL Facility provided for revolving credit financing, subject to borrowing base availability.

In connection with the repayment of the foregoing borrowings, a prepayment penalty of \$11,416 and the write off of deferred financing fees and debt discount of \$15,164 were extinguished through interest expense in Predecessor 2013.

Credit Facilities Terminated as a Result of 2012 Restructuring

In connection with a restructuring in 2012, borrowings under the following credit facilities were repaid and the associated facilities terminated:

2011 Letter of Credit Facility

The Company entered into a \$50,000 credit facility dated September 2, 2011 (the “Letter of Credit Facility”) pursuant to which certain letters of credit were issued. Borrowings under the Letter of Credit Facility bore quarterly interest at a rate equal to 2.00% plus 1.25% of the face amount of letters credit outstanding. Proceeds from the Predecessor First Lien Facility and the Predecessor Second Lien Facility were used to repay all borrowings under the Letter of Credit Facility on February 29, 2012.

DSSG Group Note

The Company received \$225,000 in borrowings under the DSSG Group Note. Borrowings under the DSSG Group Note initially bore interest at 12.0% and increased incrementally over the term to 15.0%. Accrued interest was added to the principal amount of the DSSG Group Note on a quarterly basis. On April 20, 2012, the Noteholders contributed the notes associated with the DSSG Group Note (and the obligations associated therewith) to the Company in exchange for a majority interest in the Company. See Note—1 “Business Organization and Basis of Presentation”. At the time the notes were contributed to the Company, the principal amount of the DSSG Group Note was \$418,010 and it was subject to a 3.5% repurchase premium of \$14,630. Accordingly, this transaction was classified in Additional paid in capital preferred stock on the Predecessor 2012 Consolidated Balance Sheet.

DSWH Term Facility

The Company received \$300,000 in borrowings under the DSWH Term Agreement. Borrowings under the DSWH Term Agreement bore interest at either the base rate (for base rate loans) plus 3.00% or at the eurodollar rate (for eurodollar rate loans) plus 4.00%. Interest payments were due on the DSWH Term Agreement at the end of each rollover period. Proceeds from the Predecessor First Lien Facility and the Predecessor Second Lien Facility were used to repay all borrowings under a term loan credit agreement dated March 2, 2007 (the "DSWH Term Agreement") on February 29, 2012. Remaining deferred financing costs of \$987 related to the DSWH Term Agreement were extinguished through interest expense in Predecessor 2012.

2006 Revolving and Term Loan Facility

The Company received \$180,000 in borrowings and \$20,000 in revolving availability under a Revolving and Term Loan Credit Agreement dated as of October 27, 2006. Borrowings under this facility bore interest at either a base rate or eurodollar rate, in each case plus an applicable margin that was based on the "Consolidated Leverage Ratio" of the Company. The principal amount of this facility was payable in twenty-two quarterly installments of \$450 with the remainder due upon maturity. The revolving portion of the facility was terminated on September 2, 2011. Proceeds from the Predecessor First Lien Facility and the Predecessor Second Lien Facility were used to repay all borrowings under this facility on February 29, 2012.

2006 Revolving Credit Facility

The Company entered into an \$80,000 Revolving Credit Agreement dated as of October 27, 2006. Borrowings under this facility bore interest at either the base rate or at the eurodollar rate plus 1.0%. Proceeds from the Letter of Credit Facility were used to repay all borrowings under this facility on September 2, 2011.

12. Commitments and Contingencies

Operating Lease Commitments

The Company has entered into various operating leases for office space, vehicles, and bottling and distribution facilities. The future minimum payments required under operating leases with terms of one year or longer are as follows:

	Operating
	Leases
2014	\$ 10,236
2015	5,382
2016	3,644
2017	2,785
2018	1,475
Thereafter	2,259
Total minimum lease payments	<u>\$ 25,781</u>

Rental expense related to operating leases during Successor 2013, Predecessor 2013, Predecessor 2012 and Predecessor 2011 was \$3,970, \$7,704, \$11,527 and \$9,392, respectively.

Legal Claims

The Company is party to a putative class action lawsuit in California alleging that it violated certain privacy obligations by recording calls made through its call centers. The Company reached a binding agreement to settle the lawsuit for \$2,000, which has been preliminarily approved by the court but is subject to final court approval. The Company recorded a \$2,000 liability in its December 27, 2013 Consolidated Balance Sheet in connection with this lawsuit. The Company settled a separate coverage action with its insurance carriers with respect to coverage for the lawsuit for \$1,000. Under the Merger Agreement, any insurance proceeds received by the Company related to this lawsuit are required to be paid to the Seller. The Company is subject to legal claims in the ordinary course of business. The Company does not believe that the resolution of such claims will result in a material adverse impact on the Company's financial position, results of operations or liquidity.

13. Financial Instruments and Risk Management

From time to time the Company enters into hedging contracts with respect to interest rates under its credit facilities and raw coffee beans. The Company accounts for these instruments in accordance with ASC 815— *Derivatives and Hedging* . The Company does not hold or issue derivative financial instruments for trading purposes.

Interest Rate Contracts

The Company is subject to long-term variable rate debt obligations in connection with its credit facilities. These debt obligations expose the Company to variability in interest payments due to changes in interest rates. If interest rates increase, interest expense increases. Conversely, if interest rates decrease, interest expense decreases. The Company believes it is prudent to limit the variability of a portion of its interest payments and, therefore, generally hedges a portion of its variable-rate interest obligations. Accordingly, the Company enters into interest rate hedge/swap agreements whereby the Company receives variable interest rate payments and makes fixed interest rate payments on a portion of its debt.

The Company records its interest rate contracts as Other assets in the Consolidated Balance Sheets at fair value. Changes in fair value are recorded in Interest expense in the Consolidated Statements of Income (Loss) and Comprehensive Income (Loss).

The table below provides a summary of the interest rate cap contract the Company had entered into to manage its interest rate exposure related to Predecessor indebtedness as of December 28, 2012:

Description	Borrowing	Notional Amount Outstanding	Receive	Pay	Fiscal Year	Original Maturity
					Entered	(Fiscal Year)
Interest rate cap	Term debt	\$ 300,000	2.0%	LIBOR	2012	2015

The foregoing interest rate contract was extinguished in connection with the Merger. The Company has not entered into any interest rate contracts as of December 27, 2013.

The Company makes use of observable market-based inputs to calculate fair value, in which case the measurements are classified within Level 2 of the valuation hierarchy. Derivative financial instruments that are traded on an index are valued based on direct or indirect prices and classified within Level 2. The fair value of the Company's derivative financial instruments was estimated using the net present value of a series of cash flows on both the cap and floor components. These cash flows were based on yield curves that take into account the contractual terms of the derivatives, including the period of maturity and market-based parameters such as interest rates and volatility. The Company incorporates nonperformance risk by adjusting the present value of each liability position utilizing an estimation of its credit risk, if applicable.

The fair value of the interest rate contract set forth above was recorded at \$104 as of December 28, 2012.

The effect of the cash interest expense of derivative instruments in the Consolidated Statements of Income (Loss) and Comprehensive Income (Loss) for Successor 2013, Predecessor 2013, Predecessor 2012, and Predecessor 2011 was as follows:

Derivatives Not Designated as Hedging Instruments Under ASC 815	Location of Gain or (Loss) Recognized in Income on Derivative	Amount of Gain or (Loss) Recognized in Income on Derivative(a)			
		Successor	Predecessor		
		2013	2013	2012	2011
Interest rate floor	Interest expense	\$ —	\$—	\$(942)	\$(4,089)

(a) This amount includes cash interest expense.

The effect of the noncash interest expense of derivative instruments in the Consolidated Statements of Income (Loss) and Comprehensive Income (Loss) for Successor 2013, Predecessor 2013, Predecessor 2012, and Predecessor 2011 was as follows:

Derivatives Not Designated as Hedging Instruments Under ASC 815	Location of Gain or (Loss) Recognized in Income on Derivative	Amount of Gain or (Loss) Recognized in Income on Derivative(b)			
		Successor	Predecessor		
		2013	2013	2012	2011
Interest rate cap	Interest expense	\$ —	\$ (49)	\$ (667)	\$ (1)
Interest rate floor	Interest expense	—	—	942	3,911
		<u>\$ —</u>	<u>\$ (49)</u>	<u>\$ 275</u>	<u>\$ 3,910</u>

(b) This amount includes noncash interest expense.

Coffee Bean Contracts

The Company is subject to the variability associated with the cost of raw coffee beans used in the Company's coffee products. Accordingly, the Company enters into coffee bean hedging contracts to hedge this risk.

The Company records its coffee bean contracts in the Consolidated Balance Sheets at their fair values. Changes in fair values are recorded in Other income (expense) in the Consolidated Statements of Income (Loss) and Comprehensive Income (Loss).

The Company was party to various coffee bean contracts during Predecessor 2013 and Predecessor 2012. These contracts were extinguished in connection with the Merger.

The Company uses quoted prices that are available in active markets to calculate fair value of its coffee bean contracts, which measurements are classified within Level 2 of the valuation hierarchy. The fair value of the coffee bean contracts the Company was a party to as of December 28, 2012 was (\$63) and was included in Accrued expenses and other current liabilities. The effect of the realized Other income (expense) for the coffee bean contracts in the Consolidated Statements of Income (Loss) and Comprehensive Income (Loss) for Predecessor 2012 was (\$438) and unrealized Other income (expense) was (\$63). The effect of the realized Other income (expense) for the coffee bean contracts in the Consolidated Statements of Income (Loss) and Comprehensive Income (Loss) for Predecessor 2013 was (\$132) and realized Other income (expense) was \$63.

14. Income Taxes

The provision (benefit) for income taxes included the following for Successor 2013, Predecessor 2013, Predecessor 2012 and Predecessor 2011:

	Successor	Predecessor		
	2013	2013	2012	2011
Current expense (benefit)				
Federal expense (benefit)	\$ —	\$ (911)	\$ 291	\$ (311)
State expense (benefit)	240	292	410	513
Total current expense (benefit)	<u>240</u>	<u>(619)</u>	<u>701</u>	<u>202</u>
Deferred expense (benefit)				
Federal (benefit) expense	(6,129)	(469)	(33)	(8,583)
State (benefit) expense	(928)	63	(2,090)	(1,448)
Total deferred (benefit) expense	<u>(7,057)</u>	<u>(406)</u>	<u>(2,123)</u>	<u>(10,031)</u>
Provision (benefit) expense for income	<u>\$ (6,817)</u>	<u>\$ (1,025)</u>	<u>\$ (1,422)</u>	<u>\$ (9,829)</u>

A reconciliation for Successor 2013, Predecessor 2013, Predecessor 2012 and Predecessor 2011, respectively, between the amount computed by applying the statutory federal income tax rate to pretax income and reported income tax benefit for Successor 2013, Predecessor 2013, and Predecessor 2012 and income tax expense for Predecessor 2011 was as follows:

	<u>Successor</u>	<u>Predecessor</u>		
	<u>2013</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Computed tax expense	35.0%	34.0%	34.0%	35.0%
Permanent differences—transaction costs	(1.4)%	(3.0)%	0.0%	0.0%
Permanent differences—OID	0.0%	0.0%	(4.1)%	0.0%
State taxes, net of federal benefit	5.8%	2.7%	2.7%	5.5%
Change in uncertain tax positions	(0.4)%	0.0%	0.3%	0.7%
True up of deferred tax balances	(0.7)%	(4.4)%	3.0%	0.0%
Valuation allowance	0.0%	(32.1)%	(31.4)%	(1.7)%
NOL carryback	0.0%	5.3%	(1.0)%	0.0%
Other	0.1%	0.1%	(0.1)%	0.2%
	<u>38.4%</u>	<u>2.6%</u>	<u>3.4%</u>	<u>39.7%</u>

The significant components of the net deferred tax assets (liabilities) were as follows as of December 27, 2013 and December 28, 2012:

	<u>Successor</u>	<u>Predecessor</u>
	<u>2013</u>	<u>2012</u>
Deferred tax liabilities		
Property, plant and equipment	\$ (93,050)	\$ (52,673)
Prepaid and other current assets	(1,710)	(1,973)
Intangibles	(121,605)	—
Hedging	—	(16)
Total deferred tax (liability)	<u>(216,365)</u>	<u>(54,662)</u>
Deferred tax assets		
Allowance for doubtful accounts	1,760	2,111
Inventory capitalization	2,065	1,765
Deferred compensation	419	430
Pension	423	1,271
Accrued expenses	1,854	1,964
Reserves	8,893	9,819
Stock compensation	—	3,682
Intangibles	—	1,699
Other	92	69
Federal net operating losses & credits	56,849	37,691
State net operating losses & credits	5,085	6,262
Total deferred tax asset	<u>77,440</u>	<u>66,763</u>
Valuation allowance	—	(16,433)
Net deferred tax (liability)	<u>\$(138,925)</u>	<u>\$ (4,332)</u>

As of December 27, 2013 and December 28, 2012, the Company had federal net operating loss carryovers of \$156,158 and \$108,640, respectively, and federal credit carryovers of \$2,176 and \$652, respectively. These net operating loss and credit carryovers will expire in tax years 2030 through 2033 and 2027 through 2033, respectively. The Company believes that the application of IRC Section 382 will not limit the ability to utilize federal net operating loss carryovers and credits.

As of December 27, 2013 and December 28, 2012, the Company had net operating loss carryovers in state jurisdictions of \$72,712 and \$111,579, respectively. As of December 27, 2013 and December 28, 2012, the Company had state credit carryovers of \$1,610 and \$1,231, respectively, net of federal benefit. These net operating losses and credits will begin to expire in tax years 2013 through 2033 and 2017 through 2023, respectively. Due to the application of IRC Section 382, \$79,966 of state loss carryovers were written off with the Merger.

Deferred income taxes reflect the net effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

The Company regularly reviews its deferred tax assets for recoverability, taking into consideration such factors as historical losses, projected future taxable income, and the expected timing of the reversals of existing taxable temporary differences. The Company has sufficient taxable temporary differences, exclusive of indefinite lived intangibles, that are expected to reverse prior to the expiration of the deferred tax assets, to be able to fully realize its existing deferred tax assets. As part of the Merger, the entire \$29,161 of Predecessor valuation allowance was written off through purchase accounting.

At this time, the Company believes all of its deferred tax assets are fully recoverable. There are sufficient taxable temporary differences, exclusive of indefinite lived intangibles, that are expected to reverse prior to the expiration of the deferred tax assets, to be able to fully realize the existing deferred tax assets.

As of December 27, 2013, the gross amount of the unrecognized tax benefits was \$171, exclusive of interest and penalties. Of this balance, we estimate \$0 of our gross unrecognized tax benefit will reverse due to the expiration of statutes and settlements during the next twelve months.

The Company recognizes interest and penalties related to unrecognized tax benefits in Income tax (benefit) expense in the Consolidated Statements of Income (Loss) and Comprehensive Income (Loss). For the tax periods ending Successor 2013, Predecessor 2013, Predecessor 2012 and Predecessor 2011 the Company recorded \$0, \$0, (\$2) and (\$137), respectively, of income related to interest and penalties. The Company had accrued \$5, \$5, \$5 and \$7 for the payment of interest and penalties for Successor 2013, Predecessor 2013, Predecessor 2012 and Predecessor 2011, respectively.

A reconciliation of the beginning and ending amount of the consolidated liability for unrecognized income tax benefits during Predecessor 2011, Predecessor 2012, Predecessor 2013 and Successor 2013 are as follows:

Predecessor	
Balance at December 31, 2010	\$ 710
Additions based on tax positions related to the current year	42
Additions based on tax positions related to the prior year	106
Reductions for tax positions of prior years due to settlement with taxing authorities	(542)
Balance at December 30, 2011	316
Additions based on tax positions related to the current year	13
Reductions for tax positions of prior years	(63)
Reductions for tax positions of prior years due to settlement with taxing authorities	(169)
Balance at December 28, 2012	97
Additions based on tax positions related to the current period	12
Additions based on tax positions related to the prior year	41
Reductions for tax positions of prior years due to settlement with taxing authorities	(13)
Balance at August 30, 2013	<u>\$ 137</u>
Successor	
Balance at June 29, 2013	\$—
Merger (Note 4)	137
Additions based on tax positions related to the current period	34
Balance at December 27, 2013	<u>\$171</u>

The Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction and various state jurisdictions. With few exceptions, the Company was no longer subject to U.S. federal, state and local or non-U.S. income tax examinations by the tax authorities for years before 2009. For U.S. federal jurisdiction purposes, the statute of limitations is open for tax years 2010 and forward. The statute of limitations for state jurisdictions is generally open from 2009 forward.

15. Defined Benefit Pension Plan, Multiemployer Plans and Post-Retirement Medical Benefits

The Company accounts for its retirement benefit plans in accordance with ASC—712 *Compensation — Nonretirement Postemployment Benefits* and ASC 715— *Compensation — Retirement Benefits*, as applicable.

Defined Benefit Pension Plan

The Company has a defined benefit pension plan (the “DBP Plan”), which is frozen.

Pension expense associated with the DBP Plan is computed using the projected unit credit actuarial cost method. The Company’s policy is to fund pension liabilities in accordance with applicable law, including minimum and maximum limits imposed by the Employee Retirement Income Security Act of 1974 and federal income tax laws. DBP Plan assets are invested in a diversified portfolio consisting primarily of domestic and international mutual funds, and bond funds.

The measurement date used to determine pension benefits under the DBP Plan is December 31st of each plan year.

The DBP Plan weighted-average asset allocations consist of the following as of December 27, 2013 and December 28, 2012:

Asset category	Successor 2013	Predecessor 2012
Equity fund—domestic	38%	53%
Equity fund—international	13	22
Fixed income	44	25
Balanced asset allocation	5	—
	100%	100%

Pension Plan Asset Allocation and Investment Strategy

The Company’s asset allocation and investment strategy is based on several factors including:

- The projected liability stream of benefits and the costs of funding to covered employees;
- The relationship between the current and projected assets of the Plan and the projected actuarial liability stream;
- The historical performance of capital markets adjusted for the perception of future short—and long-term capital market performance; and
- The perception of future economic conditions, including inflation and interest rate assumptions.

As part of its asset allocation and investment strategy, the Company identifies target allocations for eligible asset classes and, where appropriate, suitable ranges within which each asset class can fluctuate as a percent of the total fund. The Company invests each asset class at all times in either cash (or cash equivalents) or permitted securities within each asset class. The asset classes may be rebalanced from time to time to align the current asset mix with strategic targets.

DBP Plan assets are classified as Level 2 and Level 3 within the fair value hierarchy for Successor 2013 and are based off significant observable inputs and unobservable inputs, respectively. The pension assets are invested in a series of disparate funds. These funds mimic the broad spectrum typically used for a balanced portfolio allocation. The types of funds range from small cap to large cap, international, bond and money market funds. The fair value was established for some funds based on the actual market value of the publically traded fund invested. Other fair values were established based on the value of the underlying specific stock or commercial paper.

DBP Plan assets are classified as Level 1 in the fair value hierarchy for Predecessor 2012 and are invested in publicly traded balanced funds.

	Quoted Prices			Total
	in Active Markets for Identical Assets (Level 1)	Significant Observable	Significant Unobservable	
	Inputs (Level 2)	Inputs (Level 3)	Inputs (Level 3)	
Successor				
Equity	\$ —	\$ 3,846	\$ —	\$3,846
Short-term fixed income	—	2	—	2
Fixed income	—	2,989	379	3,368
Balanced Asset Allocation	—	381	—	381
December 27, 2013	<u>\$ —</u>	<u>\$ 7,218</u>	<u>\$ 379</u>	<u>\$7,597</u>

	Quoted Prices			Total
	in Active Markets for Identical Assets (Level 1)	Significant Observable	Significant Unobservable	
	Inputs (Level 2)	Inputs (Level 3)	Inputs (Level 3)	
Predecessor				
Equity	\$ 4,623	\$ —	\$ —	\$4,623
Short-term fixed income	386	—	—	386
Fixed income	1,152	—	—	1,152
December 28, 2012	<u>\$ 6,161</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$6,161</u>

The following is a summary of the activity for the pension assets whose fair value is classified as Level III during Successor 2013:

	Successor 2013			
	Fair Value Measurement Using Significant Unobservable Inputs (Level 3)			
	Balance at June 29, 2013	Return on Assets Still Held at the End of the Period	Purchases, Sales and Settlements, Net	Balance at December 27, 2013
Real Estate	\$ —	\$ 4	\$ 375	\$ 379

The following table sets forth the DBP Plan's funded status and amounts recognized in the Company's Consolidated Balance Sheet as of period end for Successor 2013, period end Predecessor 2013 and year ended Predecessor 2012.

	<u>Successor</u> <u>2013</u>	<u>Predecessor</u>	
		<u>2013</u>	<u>2012</u>
Change in projected benefit obligation			
Projected benefit obligation at beginning of period	\$ —	\$ 9,495	\$ 8,677
Merger (Note 4)	8,655	—	—
Interest cost	136	248	385
Actuarial (gain) loss	(13)	(907)	682
Benefits paid	(95)	(181)	(249)
Projected benefit obligation at end of period	<u>8,683</u>	<u>8,655</u>	<u>9,495</u>
Change in plan assets			
Fair value at beginning of year	6,944	6,161	4,979
Actual return on plan assets	600	580	768
Employer contributions	149	384	663
Benefits paid	(95)	(181)	(249)
Fair value at end of period	<u>7,598</u>	<u>6,944</u>	<u>6,161</u>
Funded status			
Assets under obligation	<u>(1,085)</u>	<u>(1,711)</u>	<u>(3,334)</u>
Net amount recognized	<u>\$ (1,085)</u>	<u>\$ (1,711)</u>	<u>\$ (3,334)</u>

Amounts recognized in the Consolidated Balance Sheet as of December 27, 2013 and December 28, 2012 consists of:

	<u>Successor</u> <u>2013</u>	<u>Predecessor</u> <u>2012</u>
Long-term liabilities	<u>\$ (1,085)</u>	<u>\$ (3,334)</u>
	<u>\$ (1,085)</u>	<u>\$ (3,334)</u>

There were no amounts included in long-term assets or current liabilities as of December 27, 2013 or December 28, 2012.

	<u>Successor</u> <u>2013</u>	<u>Predecessor</u>		
		<u>2013</u>	<u>2012</u>	<u>2011</u>
Components of net periodic benefit cost				
Interest cost	\$ 136	\$ 248	\$ 385	\$ 399
Expected return on plan assets	(151)	(268)	(310)	(299)
Amortization of net loss	—	61	87	36
Net periodic benefit (credit) cost	<u>\$ (15)</u>	<u>\$ 41</u>	<u>\$ 162</u>	<u>\$ 136</u>
Other changes in plan assets and benefit obligations recognized in other comprehensive income (pre-tax)				
Net (gain) loss	\$ (461)	\$(1,219)	\$ 225	\$1,620
Amortization of net loss	—	(61)	(87)	(36)
Total recognized in other comprehensive (income) loss	<u>\$ (461)</u>	<u>\$ (1,280)</u>	<u>\$ 138</u>	<u>\$1,584</u>

The net loss that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year is \$0.

The accumulated benefit obligation as of December 27, 2013 and December 28, 2012 was \$8,683 and \$9,495, respectively.

Amounts included in Accumulated OCI (pre-tax) were as follows as of Successor 2013, Predecessor 2013, and Predecessor 2012:

	<u>Successor</u> <u>2013</u>	<u>Predecessor</u> <u>2013</u>	<u>Predecessor</u> <u>2012</u>
Net actuarial (gain) loss	\$ (461)	\$ 2,240	\$ (3,520)
	<u>\$ (461)</u>	<u>\$ 2,240</u>	<u>\$ (3,520)</u>

The Company expects to contribute \$537 to the DBP Plan in 2014 of which \$53 will be related to the 2013 plan year. During 2013, the Company contributed \$533 to the DBP Plan, of which \$149 relates to Successor 2013 and \$384 relates to Predecessor 2013.

The following benefit payments are expected to be paid:

Years ending	
2014	\$ 350
2015	360
2016	380
2017	400
2018	430
2019–2023	2,660

Weighted-average assumptions used to determine benefit obligations were as follows as of December 27, 2013 and December 28, 2012:

	<u>Successor</u> <u>2013</u>	<u>Predecessor</u> <u>2012</u>
Discount rate	4.75%	4.00%
Rate of compensation increase	N/A	N/A

Weighted-average assumptions used to determine net periodic benefit cost were as follows for Successor 2013, Predecessor 2013, Predecessor 2012 and Predecessor 2011:

	<u>Successor</u> <u>2013</u>	<u>Predecessor</u>		
		<u>2013</u>	<u>2012</u>	<u>2011</u>
Discount rate	4.75%	4.00%	4.50%	5.50%
Rate of compensation increase	N/A	N/A	N/A	N/A
Expected return on plan assets	8.00%	8.00%	8.00%	8.00%

The expected long-term rate of return on DBP Plan assets was developed based on a capital markets model which uses expected class returns, variance and correlation assumptions. The expected class returns were developed starting with current treasury yields and then adding corporate bond spreads and equity risk premiums to develop the return expectations for each class. The expected class returns are forward-looking and are not developed by an examination of historical returns. The variance and correlation assumptions are also forward-looking. They take into account historical relationships, but are adjusted to reflect expected capital market trends.

Multiemployer Plans

In connection with certain collective bargaining agreements that the Company is a party to, the Company is required to make contributions on behalf of certain union employees to multiemployer pension plans. The ongoing contributions and liabilities associated with these plans are not material.

Post-Retirement Medical Benefits

The Company provides post-retirement medical coverage for qualified former employees. 31 employees are currently participating in this program and no additional employees will become eligible. Benefit coverage expires when the participant reaches the age of 65. The youngest eligible participant turns 65 in 2014. This plan is not funded and the liability is not collateralized. The measurement date used to determine accumulated post-retirement benefits is December 31st.

The following table sets forth the plan's funded status and amounts recognized in the Company's Consolidated Balance Sheet as of Successor 2013, Predecessor 2013 and Predecessor 2012:

	<u>Successor</u>	<u>Predecessor</u>		
	<u>2013</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Change in accumulated post-retirement benefit obligation				
Projected accumulated post-retirement benefit at beginning of period	\$ —	\$ 95	\$ 254	
Merger (Note 4)	39	—	—	
Interest cost	1	1	8	
Actuarial (gain)	—	(57)	(34)	
Benefits paid, net of contributions	1	—	(133)	
Accumulated post-retirement benefit obligation at end of period	<u>41</u>	<u>39</u>	<u>95</u>	
(Unfunded) status at end of year	<u>\$ (41)</u>	<u>\$ (39)</u>	<u>\$ (95)</u>	
Components of net periodic post-retirement benefit cost				
Interest cost	\$ 1	\$ 1	\$ 8	\$ 19
Amortization of net (gain)	—	(131)	(173)	(162)
Amortization of prior service (credit)	—	(34)	(66)	(66)
Net periodic post-retirement benefit (credit)	<u>\$ 1</u>	<u>\$ (164)</u>	<u>\$ (231)</u>	<u>\$ (209)</u>
Other changes in plan assets and benefit obligations recognized in other comprehensive income (pre-tax)				
Net (gain)	\$ —	\$ (57)	\$ (34)	\$ (11)
Amortization of net gain	—	131	173	162
Amortization of prior service credit	—	34	66	66
Total recognized in other comprehensive loss	<u>\$ —</u>	<u>\$ 108</u>	<u>\$ 205</u>	<u>\$ 217</u>

Amounts recognized in the Consolidated Balance Sheet as of December 27, 2013 and December 28, 2012 consists of:

	<u>Successor</u>	<u>Predecessor</u>
	<u>2013</u>	<u>2012</u>
Current liabilities	\$ 41	\$ 79
Long-term liabilities	—	16
Accrued post-retirement benefit costs	<u>\$ 41</u>	<u>\$ 95</u>

There were no amounts included in short-term or long-term assets as of December 27, 2013 and December 28, 2012.

Amounts included in Accumulated OCI (pre-tax) were as follows as of December 27, 2013 and December 28, 2012:

	<u>Successor 2013</u>	<u>Predecessor 2012</u>
Net actuarial loss	\$ —	\$ 406
Prior service credit	—	51
	<u>\$ —</u>	<u>\$ 457</u>

The following benefit payments are expected to be paid:

Years Ending	
2014	\$ 41
Thereafter	—

Assumed health care cost trend rates were as follows as of December 27, 2013 and December 28, 2012:

	<u>Successor 2013</u>	<u>Predecessor 2012</u>
Health care cost trend rate assumed for next year	7.50%	8.00%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	7.50%	8.00%
Year that the rate reaches the ultimate trend rate	2014	2013

The following table shows the impact that a change in the trend rate assumption would have on liabilities and post-retirement expenses:

	<u>-1.00%</u>	<u>Rate</u>	<u>+1.00%</u>
2014 service cost and interest cost	\$ 2	\$ 2	\$ 2
Accumulated post-retirement benefit obligation	\$ 41	\$ 41	\$ 41

Weighted-average assumptions used to determine benefit obligations were as follows as of December 27, 2013 and December 28, 2012:

	<u>Successor 2013</u>	<u>Predecessor 2012</u>
Discount rate	4.75%	4.00%
Rate of compensation increase	N/A	N/A

Weighted average assumptions used to determine net periodic benefit cost were as follows for Successor 2013, Predecessor 2013, Predecessor 2012 and Predecessor 2011:

	<u>Successor 2013</u>	<u>Predecessor</u>		
		<u>2013</u>	<u>2012</u>	<u>2011</u>
Discount rate	4.75%	4.00%	4.50%	5.50%
Rate of compensation increase	N/A	N/A	N/A	N/A
Expected return on plan assets	N/A	N/A	N/A	N/A

16. Defined Contribution and Nonqualified Deferred Compensation Plans

Defined Contribution Plans

DSSA sponsors the DSSA Retirement Savings Plan (the "RSP"). The RSP is a defined contribution plan that provides for employee contributions as well as employer matching contributions. Eligible employees may contribute between 1% and 25% of their pre-tax earnings and DSSA matches 50% of the first 6% contributed. The matching contributions under the RSP were \$1,011, \$2,508, \$3,162 and \$2,813 for Successor 2013, Predecessor 2013, Predecessor 2012 and Predecessor 2011, respectively.

The RSP also includes a profit sharing component. Annual contributions are made by the Company at the discretion of the Company's Board of Directors. This contribution is for employees who have worked for the Company for at least one year and is based on a percentage of the employees' salaries. The Company did not make any contributions during Successor 2013, Predecessor 2013, Predecessor 2012 or Predecessor 2011.

The Company's contributions to the RSP vest for employees over five years as follows: 0%, 25%, 50%, 75% and 100%.

Nonqualified Deferred Compensation Plans

The Company maintains a deferred compensation plan that is available for certain employees of predecessor organizations (the "Historical Deferred Compensation Plan"). Eligible employees contribute to the Historical Deferred Compensation Plan. The Company accrued interest of 2.5% for each of Successor 2013, Predecessor 2013, Predecessor 2012 and Predecessor 2011. Historical Deferred Compensation Plan balances are distributed upon termination of employment. The Historical Deferred Compensation Plan is not funded and the liability is not collateralized. The Company's liability under the Historical Deferred Compensation Plan was recorded in short and long-term liabilities and was \$608 and \$717 as of December 27, 2013 and December 28, 2012, respectively. The Company's interest expense related to the Historical Deferred Compensation Plan was \$5, \$10, \$18 and \$24 for Successor 2013, Predecessor 2013, Predecessor 2012 and Predecessor 2011, respectively.

The Company also maintains a deferred compensation plan available for a limited number of higher salaried employees (the "Executive Deferred Compensation Plan"). Eligible employees contribute to the Executive Deferred Compensation Plan. The Company accrued interest of 2.5% for each of Successor 2013, Predecessor 2013, Predecessor 2012 and Predecessor 2011. Executive Deferred Compensation Plan balances are distributed upon termination of employment. The Executive Deferred Compensation Plan is not funded and the liability is not collateralized. The Company's liability under the Executive Deferred Compensation Plan was recorded in short and long-term liabilities and was \$650 and \$609 as of December 27, 2013 and December 28, 2012, respectively. The Company's interest expense related to this plan was \$5, \$10, \$14 and \$13 for Successor 2013, Predecessor 2013, Predecessor 2012 and Predecessor 2011, respectively.

17. Stock Compensation Plan

As discussed in Note—2 "Summary of Significant Accounting Policies", the Company adopted the Stock Compensation Plan to provide certain stock options to eligible employees. The Stock Compensation Plan authorized the Company to issue stock options to acquire a maximum of 625,000 shares of the Company's common stock. As of December 28, 2012, stock options had been issued under the Stock Compensation Plan to acquire 488,038 shares of the Company's common stock.

The Stock Compensation Plan and the associated outstanding stock options were terminated in connection with the Merger. This resulted in a charge of \$1,616 during Predecessor 2013. The Company had not adopted any new stock option plans as of December 27, 2013.

Under the terms of the Stock Compensation Plan, nonqualified stock options were priced at or above the fair market value of the Company's stock on the date of the grant. Typically, nonqualified stock options granted under the Stock Compensation Plan vested in twenty percent increments starting on the initial grant date and on each anniversary thereafter for four years and expired on the tenth anniversary of the grant date.

The Company adopted the fair value method of recording stock-based compensation expense in accordance with ASC 817— *Stock Compensation*, with the Company's initial offering of employee stock options. During Predecessor 2013, Predecessor 2012 and Predecessor 2011, the Company recognized pre-tax stock compensation expense of \$2,400, \$1,558 and \$1,876, respectively. As of Predecessor 2013, Predecessor 2012 and Predecessor 2011, the Company had \$0, \$2,832 and \$4,397 of total unrecognized compensation cost, respectively, related to nonvested share-based compensation arrangements granted under the Stock Compensation Plan. This cost recognized as stock-based compensation expense over a weighted-average period of 1.7 years in 2012 and 2.4 years in 2011. This expected cost did not include the impact of any future stock-based compensation awards.

The fair value of stock options were determined on the date of grant using the Black-Scholes option-pricing model that uses various assumptions noted in the following table. Expected volatility was based on historical volatility of similar entities within the beverage services industry that are public entities and other factors. The Company used the simplified method to estimate the expected term of the options. The expected term of the stock options granted represented the period of time that options were expected to be outstanding. The risk-free rate was based on U.S. Treasury yields for the expected term of the options.

	Successor	Predecessor		
	2013	2013	2012	2011
Risk-free interest rate (average)	NA	3.1%	3.1%	3.1%
Volatility	NA	80.0%	80.0%	80.0%
Dividend yield	NA	0.0%	0.0%	0.0%
Lives of options	NA	6.5 years	6.5 years	6.5 years

There were no options granted under the Plan during Successor 2013, Predecessor 2013 or Predecessor 2012. As of Predecessor 2013, the Company had \$0 of unrecognized compensation cost related to nonvested share-based compensation arrangements granted under the Stock Compensation Plan. The following table depicts the number of shares outstanding, weighted average exercise price, weighted average remaining life, and the weighted average grant-date fair value:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Life (Yrs.)	Weighted Average Grant-Date Fair Value	Aggregate Intrinsic Value
Predecessor					
Outstanding at December 31, 2010	277,773	\$ 48.76	6.48	\$ 28.62	\$ —
Granted	225,000	24.81		17.93	
Forfeited or canceled	(12,424)	50.07		29.53	
Outstanding at December 30, 2011	490,349	37.74	7.21	23.69	\$ —
Forfeited or canceled	(5,400)	41.08		24.72	
Outstanding at December 28, 2012	484,949	37.70	6.19	23.68	—
Forfeited or canceled	(484,949)	37.70		23.68	
Outstanding at August 30, 2013	—	\$ —	—	\$ —	\$ —
Exercisable at August 30, 2013	—	\$ —	—	\$ —	\$ —

The grant date fair value of the options granted during the year ended December 30, 2011 was \$3,467. During Predecessor 2012, the Company did not repurchase vested options from terminated employees.

18. Business Segment and Geographic Information

The “management approach” has been used to present the following segment information. This approach is based upon the way the management of the Company organizes segments within an enterprise for making operating decisions and assessing performance. Financial information is reported on the basis that it is used internally by the chief operating decision maker (the “CODM”) for evaluating segment performance and deciding how to allocate resources to segments. The Company’s chief executive officer has been identified as the CODM.

The Company has two operating segments and reportable segments, which are presented below:

- Direct-to-Consumer Services consist of sales of products and equipment rental income from the Company’s Home and Office Delivery (“HOD”) of bottled water services, OCS and filtration services. The Company sells bottled water, brewed beverages and ancillary products, and rents water dispensers, brewed beverage equipment and filtration equipment to residential and commercial customers. Direct-to-Consumer Services are provided through the Company’s national network of sales and distribution facilities, vehicles and routes.
- Retail Services consist of sales of the Company’s nonreturnable branded and private label one and two and a half-gallon high-density polyethylene (“HDPE”) bottles, as well as branded polyethylene terephthalate (“PET”) bottles, to major retailers. These products are distributed to retailers in 46 states.

These operating segments were determined based on the nature of our sales channels. The measures that are used to assess the reportable segment's operating performance are revenues and gross profit (excluding depreciation expense). A measure of assets is not applicable, as segment assets are not regularly reviewed by the CODM for evaluating performance or allocating resources. The table below presents information about the Company's reportable segments for Successor 2013, Predecessor 2013, Predecessor 2012 and Predecessor 2011:

	<u>Successor</u>	<u>Predecessor</u>		
	<u>2013</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Net revenue				
Direct-to-Consumer Services	\$260,403	\$541,491	\$745,059	\$628,014
Retail Services	37,834	85,868	149,492	137,209
Total revenue	<u>298,237</u>	<u>627,359</u>	<u>894,551</u>	<u>765,223</u>
Segment gross profit (excluding depreciation expense)				
Direct-to-Consumer Services	196,150	406,897	562,619	492,557
Retail Services	2,931	7,324	13,025	10,683
Total reportable segment gross profit (excluding depreciation expense)	199,081	414,221	575,644	503,240
Expenses not allocated to the reportable segments	<u>216,820</u>	<u>453,779</u>	<u>617,751</u>	<u>527,970</u>
(Loss) income before income taxes	<u>\$ (17,739)</u>	<u>\$ (39,558)</u>	<u>\$ (42,107)</u>	<u>\$ (24,730)</u>

Expenses not specifically related to the reportable segments are shown separately in the above reconciliation to consolidated income (loss) before income taxes. Expenses not allocated to the reportable segments are comprised of freight charges, variable manufacturing costs, depreciation & amortization, compensation, other corporate support related costs, interest expense and other, net costs.

For Successor 2013, Predecessor 2013, Predecessor 2012 and Predecessor 2011, no customer represented more than 10% of the Company's total revenues. The Company does not earn revenues or have long-lived assets located in foreign countries. In accordance with GAAP enterprise-wide disclosure requirements, the Company's net revenues from external customers by main product lines are as follows:

	<u>Successor</u>	<u>Predecessor</u>		
	<u>2013</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Water Delivery Service Returnable (5G/3G)	\$129,964	\$270,932	\$376,476	\$362,935
Water Delivery Service Small Pack (PET/HDPE)	61,088	137,799	224,113	206,262
Coffee & Break room supplies	53,503	107,985	139,073	58,155
Filtration	7,892	14,797	19,581	12,703
Rental Equipment (Water dispensers/brewers)	25,474	51,296	75,933	73,990
Other	20,316	44,550	59,375	51,178
	<u>\$298,237</u>	<u>\$627,359</u>	<u>\$894,551</u>	<u>\$765,223</u>

A measure of assets is not applicable, as segment assets are not regularly reviewed by the chief operating decision maker for evaluating performance and allocating resources to the segments. The Company's Other revenues from external customers include energy surcharge fees, finance and termination fees and the sale of three- and five-gallon polycarbonate bottles.

19. Supplemental Cash Flow Disclosure

Supplemental Disclosure of Cash Flow Information

Cash paid for interest during Successor 2013, Predecessor 2013, Predecessor 2012 and Predecessor 2011 was \$22,927, \$60,897, \$46,184 and \$21,845, respectively.

Cash (received) paid for income tax during Successor 2013, Predecessor 2013, Predecessor 2012 and Predecessor 2011 was \$(652), \$490, (\$783) and (\$5,693), respectively.

Capital expenditures included in the Company's Accounts payables during Successor 2013 and Predecessor 2013 were \$1,278, and \$2,839, respectively.

Supplemental Disclosure of Noncash Financing Activities

During 2012, the Company converted \$432,641 of debt on the DSSG Group Note to Participating Preferred Stock (additional paid in capital preferred stock) in the amount of \$432,600 and preferred stock of \$41.

20. Preferred Stock

On April 20, 2012, the Company authorized and issued 4,137,846 shares of preferred stock ("Preferred Stock"), with a par value of \$0.01 per share, at an Original Issue Price of \$104.56, in exchange for \$432,641. The Preferred Stock had a liquidation preference equal to \$104.56 per share, subject to anti-dilution adjustments, plus accrued but unpaid dividends. The Preferred Stock had equal voting rights with the common stock and were eligible to receive cumulative preferential distributions of 15% annually when authorized by the Board of Directors of the Company. Dividends earned but not declared or paid as of December 27, 2013 and December 28, 2012 were \$0 and \$44,928, respectively. During the Predecessor period, the cumulative preferred dividends on the Preferred Stock have been presented as a reduction of income available to common shareholders on the Consolidated Statements of Income (Loss) and Comprehensive Income (Loss).

The Preferred Stock was convertible upon either a qualifying initial public offering ("IPO") or a change of control transaction. Upon a qualifying IPO, the Preferred Stock was mandatorily convertible into common shares on a 1:1 conversion ratio. In addition to converting into common shares, the Preferred Stock entitled a holder to receive an amount in cash equal to the liquidation preference. Upon a change of control transaction, the Preferred Stock could have been, upon selection of the holder, converted to common shares and received the liquidation preference payment in cash or treated the event as a deemed liquidation. In the event of an involuntary liquidation or deemed liquidation, the Preferred Stock would have been entitled to the liquidation preference which would have been paid out before the common shares. Because the Preferred Stock was contingently redeemable upon a change of control, the shares are presented outside of permanent equity on the accompanying consolidated balance sheets.

At December 27, 2013, there were no preferred stock shares issued and outstanding as the shares were redeemed in conjunction with the Merger. At December 28, 2012, the number of preferred stock shares issued and outstanding was 4,137,846.

21. Condensed Financial Information of Parent Company

The Company has no material assets or standalone operations other than its direct ownership of the shares of DSSH.

The Senior Facilities and the indenture governing the Notes restrict the Company's ability to obtain funds from its subsidiaries through dividends, loans or advances. Accordingly, this condensed financial information has been presented on a "Parent-only" basis. Under a Parent-only presentation, the Company's investments in its consolidated subsidiaries are presented under the equity method of accounting.

The following tables present the financial position of the Company as of December 27, 2013 and December 28, 2012, and the results of operations for the periods of Successor 2013, Predecessor 2013, fiscal year ended December 28, 2012, and fiscal year ended December 30, 2011.

DSS Group Inc.
Condensed Balance Sheet

	<u>Successor 2013</u>	<u>Predecessor 2012</u>
Assets		
Investments in DS Services Holdings, Inc. and subsidiaries	\$250,057	\$ —
Deferred tax assets	—	31,123
Other assets	—	83
Total assets	<u>\$250,057</u>	<u>\$ 31,206</u>
Liabilities and Shareholders' Equity		
Current Liabilities		
Accumulated losses of DS Services Holdings, Inc. and subsidiaries in excess of investment	\$ —	\$ 27,531
Deferred tax liabilities	—	2,566
Total current liabilities	<u>—</u>	<u>30,097</u>
Payable to affiliate	—	8,335
Total liabilities	<u>—</u>	<u>38,432</u>
Preferred stock; \$0.01 par value; 1,000,000 authorized shares as of December 27, 2013 and 4,137,846 authorized shares as of December 28, 2012; 0 shares issued and outstanding as of December 27, 2013 and 4,137,846 shares issued and outstanding as of December 28, 2012	—	432,641
Shareholders' equity (deficit)		
Total shareholders' equity (deficit)	<u>250,057</u>	<u>(439,867)</u>
Total liabilities, preferred stock and shareholders' equity (deficit)	<u>\$250,057</u>	<u>\$ 31,206</u>

DSS Group Inc.
Condensed Statements of Net Loss and Comprehensive Loss

	Successor	Predecessor		
	2013	2013	2012	2011
Selling, general and administrative	\$ —	\$ —	\$ —	\$ 1,175
Operating loss	—	—	—	(1,175)
Other income (expense)				
Interest expense	—	—	(34,120)	(56,270)
Other, net	—	(1,589)	(6,409)	—
Equity in net income (loss) from investment in DS Services Holdings, Inc. and subsidiaries	(10,922)	(23,830)	(1,229)	21,055
Other income (expense)	(10,922)	(25,419)	(41,758)	(35,215)
Loss before taxes	(10,922)	(25,419)	(41,758)	(36,390)
Income tax expense (benefit)	—	13,114	(1,073)	(21,489)
Net loss	<u>(10,922)</u>	<u>(38,533)</u>	<u>(40,685)</u>	<u>(14,901)</u>
Other comprehensive (loss) income, net of tax				
Less: Cumulative dividend on Preferred Stock	0	43,680	44,982	0
Net loss attributable to common shareholders	<u>\$(10,922)</u>	<u>\$(82,213)</u>	<u>\$(85,613)</u>	<u>\$(14,901)</u>
Net (loss)	\$(10,922)	\$(38,533)	\$(40,685)	\$(14,901)
Change in periodic pension and other postretirement costs, net of tax expense (benefits) of \$180, \$449, (\$103) and (\$709)	281	711	(243)	(1,092)
Comprehensive loss	<u><u>\$(10,641)</u></u>	<u><u>\$(37,822)</u></u>	<u><u>\$(40,928)</u></u>	<u><u>\$(15,993)</u></u>

DSS Group Inc.
Condensed Statements of Cash Flows

	Successor	Predecessor		
	2013	2013	2012	2011
Cash flows from operating activities				
Net cash provided by (used in) operating activities	\$ —	\$(2,260)	\$(7,308)	\$ 2,180
Cash flows from investing activities				
Investment in DS Services Holdings, Inc. and subsidiaries	(260,698)	—	—	—
Net cash used in investing activities	(260,698)	—	—	—
Cash flows from financing activities				
Equity contribution	260,698	—	—	—
Due (to) from affiliate	—	2,260	6,121	(1,806)

	Successor	Predecessor		
	2013	2013	2012	2011
Preferred stock issuance	—	—	41	—
Net cash provided by (used in) financing activities	260,698	2,260	6,162	(1,806)
Net increase (decrease) in cash and cash equivalents	—	—	(1,146)	374
Cash and cash equivalents				
Beginning of year	—	—	1,146	772
End of year	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 1,146</u>

At December 27, 2013, restricted net assets of the Company's consolidated subsidiaries approximated \$230.1 million. During Successor 2013, Predecessor 2013 and Predecessor 2012, the Company's consolidated subsidiaries did not pay any cash dividends to the Company.

22. Subsequent Event

The Company has evaluated all activity through August 29, 2014, the date these financial statements was available to be issued, and concluded that no subsequent events have occurred that would require recognition or disclosure in these financial statements.

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DSS GROUP, INC.**

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DSS Group, Inc.
Unaudited Condensed Consolidated Balance Sheets

<i>(in thousands of dollars, except share data)</i>	September 26, 2014	December 27, 2013
Assets		
Current assets		
Cash and cash equivalents	\$ 19,559	\$ 34,307
Trade accounts receivable, net of allowance for doubtful accounts of \$3,545 and \$4,513, respectively	109,888	97,179
Inventories	41,419	36,279
Prepaid and other current assets	8,265	11,401
Income tax receivable	859	1,608
Deferred tax assets	26,127	26,127
Total current assets	<u>206,117</u>	<u>206,901</u>
Property, plant and equipment, net	415,360	428,036
Intangibles, net	351,028	365,870
Goodwill	200,079	198,849
Other assets	6,825	5,180
Deferred financing costs, net	24,892	28,855
Total assets	<u>\$ 1,204,301</u>	<u>\$ 1,233,691</u>
Liabilities and Shareholders' Equity		
Current liabilities		
Current portion of long-term debt	\$ 3,200	\$ 3,211
Accounts payable	41,046	31,172
Accrued expenses and other current liabilities	38,080	63,274
Current portion of insurance reserves	11,869	14,059
Customer deposits	32,619	32,408
Total current liabilities	<u>126,814</u>	<u>144,124</u>
Long-term debt, less current portion, less discounts	654,225	655,025
Insurance reserves, less current portion	16,372	16,401
Other long-term liabilities	3,417	3,032
Deferred tax liabilities	161,719	165,052
Total liabilities	<u>962,547</u>	<u>983,634</u>
Commitments and contingencies (Note 9)		
Shareholders' equity		
Common stock; \$0.01 par value; 1,000 authorized shares; 199 shares issued and outstanding	—	—
Additional paid in capital	263,399	260,698
Accumulated other comprehensive income	281	281
Accumulated deficit	(21,926)	(10,922)
Total shareholders' equity	<u>241,754</u>	<u>250,057</u>
Total liabilities and shareholders' equity	<u>\$ 1,204,301</u>	<u>\$ 1,233,691</u>

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

DSS Group, Inc.
Unaudited Condensed Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)

<i>(in thousands of dollars)</i>	<u>Successor</u> <u>June 28, 2014</u> <u>to</u> <u>September 26, 2014</u>	<u>Successor</u> <u>June 29, 2013</u> <u>to</u> <u>September 27, 2013</u>	<u>Predecessor</u> <u>June 29, 2013</u> <u>to</u> <u>August 30, 2013</u>
Net product sales	\$ 234,637	\$ 65,886	\$ 152,241
Net rental income	25,178	7,868	16,854
Net revenue	259,815	73,754	169,095
Cost of products sold	101,681	28,146	63,321
Cost of rentals	3,202	792	2,479
Cost of revenue	104,883	28,938	65,800
Gross profit	154,932	44,816	103,295
Selling, general and administrative	134,304	40,066	105,395
Amortization of intangible assets	5,090	1,690	1,456
Operating income	15,538	3,060	(3,556)
Other expense			
Interest expense	(15,021)	(10,247)	(36,789)
Other income (expense), net	(250)	—	13
Other expenses	(15,271)	(10,247)	(36,776)
Income (loss) before income taxes	267	(7,187)	(40,332)
Income tax (expense) benefit	(261)	2,773	1,101
Net income (loss)	\$ 6	\$ (4,414)	\$ (39,231)
Less: Cumulative dividend on preferred stock	—	—	14,976
Net income (loss) attributable to common shareholders	\$ 6	\$ (4,414)	\$ (54,207)
Net income (loss)	\$ 6	\$ (4,414)	\$ (39,231)
Other comprehensive loss, net of tax			
Change in periodic pension and other postretirement costs, net of tax benefit of \$0, \$0 and \$461, respectively	—	—	759
Comprehensive income (loss)	\$ 6	\$ (4,414)	\$ (38,472)

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

DSS Group, Inc.
Unaudited Condensed Consolidated Statements of Loss and Comprehensive Loss

<i>(in thousands of dollars)</i>	<u>Successor</u> <u>December 28, 2013</u> <u>to</u> <u>September 26, 2014</u>	<u>Successor</u> <u>June 29, 2013</u> <u>to</u> <u>September 27, 2013</u>	<u>Predecessor</u> <u>December 29, 2012</u> <u>to</u> <u>August 30, 2013</u>
Net product sales	\$ 666,663	\$ 65,886	\$ 562,145
Net rental income	75,066	7,868	65,214
Net revenue	741,729	73,754	627,359
Cost of products sold	292,212	28,146	233,450
Cost of rentals	9,752	792	7,758
Cost of revenue	301,964	28,938	241,208
Gross profit	439,765	44,816	386,151
Selling, general and administrative	393,618	40,066	352,235
Amortization of intangible assets	15,271	1,690	6,154
Operating income	30,876	3,060	27,762
Other expense			
Interest expense	(44,951)	(10,247)	(67,199)
Other income (expense), net	282	—	(121)
Other expenses	(44,669)	(10,247)	(67,320)
Loss before income taxes	(13,793)	(7,187)	(39,558)
Income tax benefit	2,789	2,773	1,025
Net loss	\$ (11,004)	\$ (4,414)	\$ (38,533)
Less: Cumulative dividend on preferred stock	—	—	43,680
Net income (loss) attributable to common shareholders	\$ (11,004)	\$ (4,414)	\$ (82,213)
Net loss	\$ (11,004)	\$ (4,414)	\$ (38,533)
Other comprehensive loss, net of tax			
Change in periodic pension and other postretirement costs, net of tax benefit of \$0, \$0 and \$461, respectively	—	—	711
Comprehensive loss	\$ (11,004)	\$ (4,414)	\$ (37,822)

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

DSS Group, Inc.
Unaudited Condensed Consolidated Statements of Cash Flows

<i>(in thousands of dollars)</i>	<u>Successor</u> December 28, 2013 to September 26, 2014	<u>Successor</u> June 29, 2013 to September 27, 2013	<u>Predecessor</u> December 29, 2012 to August 30, 2013
Cash flows from operating activities			
Net loss	\$ (11,004)	\$ (4,414)	\$ (38,533)
Adjustments to reconcile net loss to net cash provided by operating activities			
Depreciation and amortization of property, plant and equipment	69,588	6,855	44,299
Amortization of intangibles	15,271	1,690	6,154
Amortization of debt discount and deferred financing costs	5,563	651	3,389
Mark-to-market of derivative investments and warrants	(352)	—	50
Loss on disposal of assets	2,397	363	3,341
Loss of extinguishment of debt	—	—	26,580
Paid-in-kind (PIK) noncash interest expense	—	—	2,844
Provision for bad debts	(969)	(586)	38
Noncash stock compensation expense	2,701	—	2,400
Deferred income taxes	(4,047)	(2,717)	(406)
Changes in operating assets and liabilities, net of acquisitions			
Accounts receivable	(11,740)	552	(11,884)
Inventories	(4,979)	2,303	(245)
Prepaid and other current assets	3,136	1,880	(610)
Other assets	(1,293)	(22)	(730)
Due from parent	—	—	—
Accounts payable	8,431	(431)	952
Accrued expenses and other current liabilities	(14,278)	(1,165)	2,040
Insurance reserves	(2,219)	469	(1,883)
Income tax receivable	749	(463)	(1,948)
Customer deposits	191	160	(2,412)
Other liabilities	385	(140)	(1,216)
Net cash provided by operating activities	<u>57,531</u>	<u>4,985</u>	<u>32,220</u>
Cash flows from investing activities			
Proceeds from sales of property, plant and equipment	3,962	16	404
Purchases of property, plant and equipment	(61,883)	(6,238)	(56,172)
Purchase of business, net of \$6,459 cash acquired (Note 3)	(11,056)	(874,007)	—
Purchase of business and other intangibles (Note 4)	(891)	—	(4,848)
Restricted cash	—	—	3,500
Net cash used in investing activities	<u>(69,868)</u>	<u>(880,229)</u>	<u>(57,116)</u>
Cash flows from financing activities			
Repayments of long-term debt and capital leases	(2,411)	(4)	(4,169)
Borrowings of long-term debt	—	657,480	—
Equity contribution	—	260,698	—
Draw on asset based line of credit	—	4,000	—
Debt issuance costs	—	(30,688)	—
Net cash provided by (used in) financing activities	<u>(2,411)</u>	<u>891,486</u>	<u>(4,169)</u>
Net increase (decrease) in cash and cash equivalents	<u>(14,748)</u>	<u>16,242</u>	<u>(29,065)</u>
Cash and cash equivalents			
Beginning of the period	34,307	—	35,524
End of period	<u>\$ 19,559</u>	<u>\$ 16,242</u>	<u>\$ 6,459</u>

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

DSS Group, INC.
NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(in thousands, except share data)

1. Business Organization and Basis of Presentation

Business Organization

Successor

On August 30, 2013, DSS Group, Inc., a Delaware corporation (individually and, where appropriate in the context, collectively with its consolidated subsidiaries, the “Company”) was acquired by Crestview DSW Investors, L.P. (“Parent”), a Delaware limited partnership and affiliate of Crestview Partners II GP, L.P. and certain co-investors, including GCM Grosvenor NPS, L.P., affiliates of StepStone LLC and various other co-investors (collectively with Parent, the “DSSG Stockholders”), pursuant to that certain Agreement and Plan of Merger dated as of July 23, 2013 (the “Merger Agreement”), by and among Parent, Crestview DSW Merger Sub, Inc., a Delaware corporation (“Acquisition Sub”) and wholly owned subsidiary of Parent, the Company, and DSW Group Holdings, LLC, a Delaware limited liability company (“Seller”), in a transaction hereinafter referred to as the “Merger.”

In connection with the Merger, Acquisition Sub merged with and into the Company, with the Company as the surviving corporation, and Crestview DS Merger Sub II, Inc., a Delaware corporation (“Merger Sub”) and wholly owned subsidiary of Acquisition Sub, merged with and into DS Services of America, Inc., a Delaware corporation (“DSSA”), with DSSA as the surviving corporation (such Merger Sub and DSSA merger, the “Issuer Merger”). The Merger, the Issuer Merger, the related financings, the equity contributions and the payment of all costs related to these transactions are collectively referred to in this report as the “Transactions.” See Note—3 “Acquisition of Predecessor” for further information on the Transactions.

The Company owns all of the issued and outstanding shares of DS Services Holdings, Inc., a Delaware corporation (“DSSH”). DSSH owns all of the issued and outstanding shares of DSSA. The Company conducts its operations by and through DSSA. DSSA is the sole member of Crystal Springs of Alabama Holdings, LLC, a Delaware limited liability company (“CSAH”). CSAH holds a fifty percent interest in a joint venture referred to as the Crystal Springs of Alabama Joint Venture.

DSSA was the sole member of PolyCycle Solutions, LLC, a Delaware limited liability company (“PCS”). PCS was formed on May 1, 2009 as a joint venture between the Company and C.V. Plastics, LLC (“CV Plastics”). On November 17, 2011, the Company acquired all of CV Plastics’ interests in PCS. PCS merged into DSSA with DSSA as the surviving corporation effective December 28, 2013.

Effective March 1, 2014, (a) the Company’s corporate name was changed from DSW Group, Inc. to its current name of “DSS Group, Inc.”, (b) DSSH’s corporate name was changed from “DS Waters Enterprises, Inc.” to its current name of “DS Services Holdings, Inc.”, and (c) DSSA’s corporate name was changed from “DS Waters of America, Inc.” to its current name of “DS Services of America, Inc.”

Predecessor

In 2012, a majority interest in DSSG was indirectly acquired from Kelso & Company (“Kelso”) by a group of noteholders under that certain Note Purchase Agreement dated as of October 24, 2007 (the “DSSG Group Note”), by and among DSSG and such noteholders, which group was led by Solar Capital, Magnetar Capital and GoldenTree Capital. These noteholders held their majority interest in DSSG through their ownership of Seller.

Business

The Company operates its business primarily through its wholly owned operating subsidiary, DSSA. The Company is a national direct-to-consumer provider of bottled water, office coffee service and water filtration services. The Company offers a comprehensive portfolio of beverage products, equipment and supplies to approximately 1.5 million customers through its network of over 200 sales and distribution facilities and daily operation of over 2,100 routes. With one of the broadest distribution networks in the country, the Company reaches approximately 90 percent of U.S. households and efficiently services homes and national, regional and local offices.

The Company operates through two reportable segments – “Direct-to-Consumer Services” and “Retail Services”.

Basis of Presentation

The accompanying Unaudited Condensed Consolidated Financial Statements include the accounts of the Company and its direct and indirect wholly owned subsidiaries. All significant intercompany balances and transactions between the two entities have been eliminated in consolidation.

The accompanying Unaudited Condensed Consolidated Financial Statements have been prepared in accordance with generally accepted accounting principles and practices of the United States of America (“GAAP”) for interim financial information. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair statement of the results for interim periods have been included. As set forth above and discussed in more detail in Note —3 “Acquisition of Predecessor”, the Company was acquired on August 30, 2013 (the “Merger Date”) pursuant to the Merger. The year-end condensed balance sheet data was derived from audited financial statements, but does not include all disclosures required by GAAP.

Results for the interim periods should not be considered indicative of results for a full year. These interim Unaudited Condensed Consolidated Financial Statements do not represent complete financial statements and should be read in conjunction with the Company’s annual financial statements for the year ended December 27, 2013 set forth in the Registration Statement filed with the Securities and Exchange Commission (“SEC”).

Fiscal Periods

The Company’s fiscal year and fiscal quarters end on the Friday nearest the calendar year and calendar quarter end, as applicable, unless such Friday falls after such calendar period end, in which case the fiscal year end is the calendar year end and the fiscal quarter end is the final Friday in such quarter. Unless otherwise stated, references to years in this report relate to fiscal years and references to quarters in this report relate to fiscal quarters rather than calendar years and calendar quarters. For purposes of these Unaudited Condensed Consolidated Financial Statements, (a) “Quarter Successor 2014” refers to the period beginning June 28, 2014 through and including September 26, 2014, (b) “Quarter Successor 2013” refers to the period beginning June 29, 2013 through and including September 27, 2013, (c) “Quarter Predecessor 2013” refers to the period beginning June 29, 2013 through and including August 30, 2013, (d) “Year to Date Successor 2014” refers to the period beginning December 28, 2013 through and including September 26, 2014, and (e) “Year to Date Predecessor 2013” refers to the period beginning December 29, 2012 through and including August 30, 2013. The Successor period began on June 29, 2013. As a result, the Year to Date Successor period for 2013 covers the same period as Quarter to Date Successor 2013.

Merger Sub was legally formed on July 23, 2013. Prior to the incorporation of Merger Sub, DSSA incurred costs on Merger Sub’s behalf beginning on June 29, 2013. When used in this report, the term “Predecessor” refers only to the Company for periods prior to the Merger Date and the term “Successor” refers only to the Company for the period June 29, 2013 through and including September 26, 2014.

2. Recent Accounting Pronouncements

Changes to GAAP are established by the Financial Accounting Standards Board (“FASB”) in the form of Accounting Standards Updates (“ASUs”) or the issuance of new standards to the FASB’s Accounting Standards Codification (“ASC”).

The Company considers the applicability and impact of all ASUs. ASUs not listed below were assessed and determined to be either not applicable or are expected to have minimal impact on these Unaudited Condensed Consolidated Financial Statements.

Revenue From Contracts With Customers

In May 2014, the FASB and International Accounting Standards Board (“IASB”) issued a comprehensive new revenue recognition standard for contracts with customers that will supersede most current revenue recognition guidance, including industry-specific guidance. The core principle of this standard is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve this core principle, the standard provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include the capitalization and amortization of certain contract costs, ensuring the time value of money is considered in the transaction price and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. This guidance also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity’s contracts with customers. The new guidance is effective for public companies which are accelerated filers for annual reporting periods (including interim reporting periods within those periods) beginning after December 15, 2016. The standard permits the use of either the full retrospective or modified transition method. This guidance will be applicable to the Company at the beginning of its first quarter of fiscal year 2017. The Company is currently evaluating whether the full retrospective or modified transition approach will be applied and whether the new guidance will have a material impact on the Company’s Consolidated Financial Statements.

Reporting Discontinued Operations

In April 2014, the FASB issued new guidance which changes the criteria for determining which disposals can be presented as discontinued operations and modifies related disclosure requirements. The new guidance is effective for annual and interim periods beginning after December 15, 2014. The impact on the Company of adopting the new guidance will depend on the nature, terms and size of business disposals completed after the effective date. This authoritative guidance is not expected to have a material impact on the Company’s Consolidated Financial Statements.

3. Acquisition of Predecessor

As discussed in Note—1 “Business Organization and Basis of Presentation,” the DSSG Stockholders acquired DSSG pursuant to the Merger for \$885,063, net of \$6,459 cash acquired, subject to certain customary adjustments for working capital and tax matters. A portion of the Merger consideration was used to pay transaction costs and approximately \$459,069 was used by Seller to repay existing debt of the Company as of the Merger date. The Merger was financed by:

- Borrowings under a \$320,000, 7-year, senior secured term loan facility (the “Term Loan Facility”), \$316,800 of which was provided at closing, net of \$3,200 discount;
- Issuance by DSSA of \$350,000, 10.000% second-priority senior secured notes due 2021 (the “Notes”) in the amount of \$340,679, which amount is net of discount of \$9,321; and
- An aggregate equity contribution of \$260,698 from the DSSG Stockholders.

The Merger has been accounted for using the acquisition method of accounting in accordance with ASC 805—*Business Combinations*, which requires, among other things, that the assets acquired and liabilities assumed be recognized at their acquisition date fair values, with any excess of the consideration transferred over the estimated fair values of the identifiable net assets acquired recorded as goodwill.

The accounting for the Merger is based on currently available information and was considered final as of the fiscal quarter ending September 26, 2014.

The following is a summary of the fair values of the net assets acquired:

	Purchase Price as of		Updated Purchase Price as of September 26, 2014
	December 27, 2013	Adjustment	
Total consideration transferred, net of cash acquired of \$6,459	\$ 874,007	\$ 11,056	\$ 885,063
Income tax receivable	2,175	—	2,175
Trade accounts receivable	103,793	—	103,793
Inventories	36,108	—	36,108
Prepaid and other current assets	12,552	—	12,552
Deferred tax asset	10,409	—	10,409
Property, plant and equipment	442,676	—	442,676
Intangibles	372,353	—	372,353
Other assets	5,551	—	5,551
Accounts payable	(35,794)	—	(35,794)
Accrued expenses and other current liabilities	(52,409)	11,056	(41,353)
Customer deposits	(33,142)	—	(33,142)
Current portion of insurance reserves	(13,748)	—	(13,748)
Insurance reserves, less current portion	(15,461)	—	(15,461)
Other long term liabilities	(3,735)	—	(3,735)
Deferred tax liability	(156,170)	(714)	(156,884)
Net assets acquired	675,158	10,342	685,500
Goodwill	\$ 198,849	\$ 714	\$ 199,563

The goodwill of \$199,563 recorded as part of the acquisition is for the potential growth of the Company. See Note – 6 “Intangibles and Goodwill” for further discussion on Goodwill by segment. Included in the goodwill, \$32,757 is deductible for income tax purposes and the remaining goodwill is not expected to be deductible for income tax purposes.

Pursuant to the terms of the Merger Agreement, the Merger Consideration payable to Seller was increased by \$11,056 as a result of an adjustment related to working capital. This amount was paid by the Company on behalf of Parent to Seller during the first quarter ending March 28, 2014 and, as a result, the purchase price allocation was adjusted. In Quarter Successor 2014, the Company recorded \$714 of additional Goodwill related to the adjustment of the IRC Sec 195 deferred tax asset that was recorded through purchase accounting, which was finalized during the quarter.

The \$372,353 of intangible assets acquired in connection with the Merger were assigned to the following:

	Fair value	Weighted Average Life (years)
Customer Lists	\$243,352	12
Trademark/trade name	128,891	N/A
Covenants not to compete	110	5
	<u>\$372,353</u>	

The Company incurred costs in connection with the Merger of \$194, \$1,423 and \$15,142 during Quarter Successor 2014, Quarter Successor 2013 and Quarter Predecessor 2013, respectively. The Company incurred costs in connection with the Merger of \$1,339 and \$15,416 during Year to Date Successor 2014 and Year to Date Predecessor 2013, respectively. The foregoing amounts were expensed by the Company as incurred and are included in the Unaudited Condensed Consolidated Statements of Income (Loss) and Comprehensive Income (Loss) in the line item titled Selling, general and administrative (“SG&A”) expense.

4. Business Acquisitions

During Year to Date Successor 2014 and Year to Date Predecessor 2013, the Company expanded the geographical area it services through the acquisition of several businesses. All acquisitions have been accounted for in accordance with ASC 805 – *Business Combinations*, as discussed in more detail in Note – 3 “Acquisition of Predecessor”. All goodwill recorded in conjunction with such

acquisitions relates to the Company's Direct-to-Consumer segment. The Company incurred acquisition costs of \$86, \$458 and \$817 during Quarter Successor 2014, Quarter Successor 2013 and Quarter Predecessor 2013, respectively. The Company incurred acquisition costs of \$1,080 and \$2,368 during Year to Date Successor 2014 and Year to Date Predecessor 2013, respectively. Acquisition costs incurred were recorded as a component of SG&A on the Unaudited Condensed Consolidated Statements of Income (Loss) and Comprehensive Income (Loss).

Successor 2014

Coffee Pause Acquisition

On August 29, 2014, the Company purchased certain assets of The Coffee Pause Company, Inc. ("Coffee Pause"). Coffee Pause's principal business is office coffee and water filtration services. The aggregate purchase price for Coffee Pause was as follows:

Cash purchase price paid at closing	\$160
Initial Cash purchase price	<u>160</u>
Deferred cash payment as described below	40
Total potential cash purchase price	<u>\$200</u>

The fair values of the assets acquired in connection with the Coffee Pause acquisition were as follows:

Property, plant and equipment	\$ 20
Customer lists	116
Noncompete agreement	5
Goodwill	<u>59</u>
Total potential cash purchase price	<u>\$200</u>

The amortization periods for the customer list and the covenant not to compete included with the Coffee Pause acquisition are 12 years and 5 years, respectively. The \$59 of goodwill recorded in connection with the Coffee Pause acquisition relates to cost synergies anticipated through the consolidation of routes, route management and administrative employee headcount reduction and potential cross-selling benefits generated by the consolidation of customers and facilities. For income tax purposes, this goodwill will be amortized over a 15 year period. The total cash purchase price will be paid in two installments with \$160 at closing, and a deferred cash payment of \$40 which is contingent on the Company invoicing and actually receiving as payment for the provision of goods and services from each and every customer acquired in the acquisition during the ninety day period beginning after the closing date. The Company estimates that such liability is \$40 and is payable 120 days after the acquisition date.

Pine Mountain Acquisition

On September 12, 2014, the Company purchased certain assets of Pine Mountain Springs, Inc. ("Pine Mountain") related to its water delivery, office coffee and filtration services business. Pine Mountain's principal business is the water delivery, office coffee and filtration service business. The aggregate purchase price for Pine Mountain was as follows:

Cash purchase price	\$751
Liabilities assumed	<u>(20)</u>
Initial net cash purchase price paid at closing	731
Deferred cash payment as described below	<u>100</u>
Total potential net cash purchase price	<u>\$831</u>

The fair values of the assets acquired and liabilities assumed in connection with the Pine Mountain acquisition were as follows:

Inventory	\$ 6
Property, plant and equipment	80
Customer lists	286
Noncompete agreement	22
Goodwill	457
Liabilities assumed	(20)
Total potential net cash purchase price	<u>\$831</u>

The amortization periods for the customer list and the covenant not to compete included with the Pine Mountain acquisition are 12 years and 5 years, respectively. The \$457 of goodwill recorded in connection with the Pine Mountain acquisition relates to cost synergies anticipated through the consolidation of routes, route management and administrative employee headcount reduction and potential cross-selling benefits generated by the consolidation of customers and facilities. For income tax purposes, this goodwill will be amortized over a 15 year period. The cash purchase price will be paid in two installments with \$731 at closing, and a deferred cash payment of \$100 which is contingent on the Company invoicing and actually receiving as payment for the provision of goods and services from each and every customer acquired in the acquisition during the ninety day period beginning after the closing date. The Company estimates that such liability is \$100 and is payable 120 days after the acquisition date.

Predecessor 2013

Cascade Coffee Acquisition

On August 9, 2013, the Company purchased certain assets of Cascade Coffee, Inc.'s ("Cascade") OCS business. Cascade's principal business was office coffee and water filtration services. The aggregate purchase price for Cascade Coffee was \$4,200 which included a deferred payment liability of \$405.

Gross purchase price	\$4,605
Liabilities assumed	(405)
Net cash purchase price	<u>\$4,200</u>

The fair values of the assets acquired and liabilities assumed in connection with the Cascade acquisition were as follows:

Inventory	\$ 404
Property, plant and equipment	421
Customer lists	1,540
Trade names	230
Noncompete agreement	110
Goodwill	1,900
Liabilities assumed	(405)
Total net cash purchase price	<u>\$4,200</u>

The amortization periods for the customer list and the covenant not to compete included with the Cascade acquisition are 12 years and 5 years, respectively. The trade names acquired in connection with the acquisition are intangible assets with indefinite useful lives and are accounted for as such. The \$1,900 of goodwill recorded in connection with the acquisition relates to cost synergies anticipated through the consolidation of routes, route management and administrative employee headcount reduction and potential cross-selling benefits generated by the consolidation of customers and facilities. In addition to the cash purchase price paid at closing, the Company is required to pay Cascade a contingent earnout payment equal to three percent of revenues derived from acquired customers determined and payable quarterly for three years. The Company estimates that such liability is \$196 as of September 26, 2014. The Company will re-measure this liability at each reporting period for the three years until fully paid out.

Pro forma Financial Information

The following unaudited pro forma summary presents consolidated information of the Company as if the Merger and the acquisition of Cascade occurred at the beginning of the annual period prior to the year purchased. No other acquisitions were included in the pro forma as they were deemed to have an immaterial impact. The pro forma adjustments primarily relate to revenue, gross profit generated, depreciation expense on stepped up fixed assets, amortization of acquired intangibles, interest expense related to new financing arrangements and the estimated impact on the Company's income tax provision. The unaudited pro forma combined results of operations are provided for illustrative purposes only and are not necessarily indicative of what the Company's actual consolidated results would have been.

	Proforma Quarter Ended September 27, 2013	Proforma Nine Months Ended September 27, 2013
Net revenue	\$ 243,285	\$ 704,305
Net loss	(35,478)	(42,040)

5. Inventories

Inventories consisted of the following as of September 26, 2014 and December 27, 2013:

	September 26, 2014	December 27, 2013
Raw materials	\$ 6,362	\$ 4,956
Finished goods	19,355	13,389
Resale items	15,702	17,934
	<u>\$ 41,419</u>	<u>\$ 36,279</u>

6. Intangibles and Goodwill

	As of September 26, 2014			As of December 27, 2013		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Intangible assets not subject to amortization						
Trade names	\$128,891	\$ —	\$128,891	\$128,891	\$ —	\$128,891
Intangible assets subject to amortization						
Customer lists	243,753	(21,969)	221,784	243,352	(6,761)	236,591
Covenants not to compete	437	(84)	353	410	(22)	388
Total intangibles	<u>\$373,081</u>	<u>\$ (22,053)</u>	<u>\$351,028</u>	<u>\$372,653</u>	<u>\$ (6,783)</u>	<u>\$365,870</u>

The Company amortizes customer lists and covenants not to compete acquired in connection with the Merger over 12 years and 5 years, respectively. See Note – 3 “Acquisition of Predecessor” for further discussion. For acquisitions other than the Merger, the Company will review the purchase agreement and customer trend data to appropriately amortize the acquisition’s respective intangible assets. Prior to the Merger, the Company amortized customer lists over 6 weighted average years and covenants not to compete over 3 weighted average years. During Quarter Successor 2014, Quarter Successor 2013 and Quarter Predecessor 2013, the Company recorded \$5,090, \$1,690 and \$1,456, respectively, of amortization expense related to its intangible assets. During Year to Date Successor 2014 and Year to Date Predecessor 2013, the Company recorded \$15,271 and \$6,154, respectively, of amortization expense related to its intangible assets.

Goodwill consisted of the following for September 26, 2014 and December 27, 2013:

	September 26, 2014	December 27, 2013
Direct-to-Consumer Services	\$ 193,716	\$ 192,486
Retail Services	6,363	6,363
Consolidated	<u>\$ 200,079</u>	<u>\$ 198,849</u>

7. Related Party Transactions

Successor

In connection with the Merger, the DSSG Stockholders entered into a Stockholders Agreement dated as of August 30, 2013 (the “Stockholders Agreement”). The Stockholders Agreement provides for, among other things, (a) an agreement by the DSSG Stockholders to vote their shares of common stock of DSSG to elect as directors of DSSG the individual who holds the title of Chief Executive Officer of DSSH, one individual that is nominated from time to time by a significant co-investor (subject to certain

continuing ownership requirements) and the individuals that are nominated from time to time by Parent and its affiliates (the “Crestview Stockholders”), (b) restrictions on transfer by the DSSG Stockholders other than Parent and its affiliates (the “NonCrestview Stockholders”), (c) certain rights of repurchase with respect to employee stockholders, and (d) certain registration rights for NonCrestview Stockholders following an initial public offering of DSSG.

In connection with the Merger, DSSA entered into a Monitoring Agreement dated as of August 30, 2013 (the “Monitoring Agreement”) with an affiliate of Parent (the “Manager”) relating to the monitoring of the investment of the Crestview Stockholders in DSSG following the consummation of the Merger. Under the Monitoring Agreement, during fiscal year 2014 DSSA is required to pay to the Manager a nonrefundable annual monitoring fee of \$2,000 and reimburse the Manager for all reasonable fees and expenses incurred in connection with its monitoring activities. The Company paid to the Manager an amount equal to \$500 and \$1,500 in satisfaction of the Company’s obligations under the Monitoring Agreement with respect to Quarter Successor 2014 and Year to Date Successor 2014, respectively, which amount is based on a prorated annual fee of \$2,000.

Effective August 31, 2013, DSSG engaged each of K. Dillon Schickli (“Schickli”) and Jim L. Turner (“Turner”) to serve on its Board of Directors. In connection with their respective services, Schickli is entitled to \$100 annually and is eligible to participate in the Company’s medical plan and Turner is entitled to \$60 annually. Each of Schickli and Turner is a minority co-investor in DSSG.

Predecessor

Prior to the Merger, pursuant to a Tax Sharing Agreement dated as of October 18, 2007 (the “Tax Sharing Agreement”) among the members of DSSG’s consolidated filing group which includes the Company, each subsidiary of DSSG was required to pay to DSSG an amount equal to the tax impact of items of income, loss and credits that were includable in the Federal Consolidated Income Tax Returns, or the Combined Consolidated State Income Tax Returns, of the consolidated group. These amounts due to or from DSSG were recorded in the Company’s due to/from DSSG account. The Tax Sharing Agreement was terminated effective August 30, 2013 and it was noted that any tax attributes of members of the consolidated group as of the termination date are made available for use by other members of the group without compensation.

DSW Group Holdings, LLC, the majority member of Seller, engaged Turner to serve on the Board of Directors of Seller. Turner was an indirect minority owner of the Company prior to the Merger. In consideration for Turner providing the foregoing services, the Company, on behalf of DSW Group Holdings, LLC, paid Turner an annual fee of \$100. The Company paid Turner \$25 and \$50 for Quarter Predecessor 2013 and Year to Date Predecessor 2013, respectively.

The Company engaged Stewart Allen (“Allen”) to provide certain consulting services to management and the Board of Directors commencing April 20, 2012. Allen was a minority indirect owner of the Company prior to the Merger. In consideration for such services, the Company paid Allen an annual fee of \$100.

8. Long-Term Debt

The Company’s long-term debt and capital lease obligations consisted of the following as of September 26, 2014 and December 27, 2013:

	<u>September 26, 2014</u>	<u>December 27, 2013</u>
Term loan facility	\$ 317,600	\$ 320,000
Notes	350,000	350,000
Capital lease obligations	—	11
Total debt	667,600	670,011
Less: Debt discount	(10,175)	(11,775)
	657,425	658,236
Less: Current portion	(3,200)	(3,211)
Total long-term debt	<u>\$ 654,225</u>	<u>\$ 655,025</u>

Successor

Senior Facilities

In connection with the Merger, on the Merger Date, the Company received borrowings under the Term Loan Facility and a \$75,000 senior secured asset-based revolving credit facility (the “ABL Facility” and, collectively with the Term Loan Facility, the “Senior Facilities”).

Term Loan Facility

The Term Loan Facility is governed by that certain First Lien Credit Agreement (the “Term Credit Agreement”) with Barclays Bank PLC, as administrative agent, and the other lenders party thereto. The aggregate principal amount of the Term Loan Facility is \$320,000, which was fully funded at closing of the Merger, net of discount of \$3,200. The Company may request additional borrowings under the Term Loan Facility in an aggregate principal amount up to \$100,000 and additional amounts based on certain net leverage ratios.

The Term Loan Facility has a seven-year term and amortizes in equal quarterly installments in an aggregate annual amount equal to 1.0% of the original principal amount with the balance payable on the maturity date of August 30, 2020 of the Term Loan Facility. The maturity date of the Term Loan Facility is August 30, 2020. The weighted average interest rate as of September 26, 2014 was 5.25%. As of September 26, 2014, the Company’s outstanding principal balance on the Term Loan Facility was \$317,600.

The borrowings under the Term Loan Facility bear interest at a rate equal to, as determined at the Company’s option, either (a) a base rate determined by reference to the highest of (1) the U.S. federal funds rate plus 0.50%, (2) the prime rate of Barclays Bank PLC, and (3) the adjusted LIBO rate for a one-month interest period plus 1.00%, or (b) a eurocurrency rate (“LIBOR”) determined by reference to the costs of funds for eurocurrency deposits in dollars in the London interbank market for the interest period relevant to such borrowing adjusted for certain additional costs, in each case, plus an applicable margin equal to 4.25% for LIBOR loans and 3.25% for base rate loans with a 1.00% LIBOR floor.

The Company may voluntarily repay outstanding loans under the Term Facility at any time without premium or penalty, other than customary “breakage costs” with respect to Eurocurrency loans.

All obligations under the Term Loan Facility are unconditionally guaranteed by the Company and each of DSSA’s existing and future direct and indirect wholly owned domestic subsidiaries. The obligations and guarantees are secured by (a) first-priority security interests in substantially all of DSSA’s assets (other than the ABL Priority Collateral (as defined below) and those of each domestic guarantor, including a pledge of the DSSA’s capital stock, in each case subject to certain exceptions (the “NonABL Priority Collateral”), and (b) second-priority security interests in all accounts receivable, loan receivable, other receivables, inventory, related books and records and general intangibles, deposit accounts, business interruption insurance, certain real property, cash and proceeds of the foregoing (the “ABL Priority Collateral”).

ABL Facility

The ABL Facility is governed by that certain Asset-Based Revolving Credit Agreement (the “ABL Credit Agreement”) with BMO Harris Bank N.A., as administrative agent, and the other lenders party thereto. The aggregate principal amount of the ABL Facility is the lesser of (a) \$75,000, and (b) the Company’s “borrowing base” set forth in the ABL Credit Agreement. In addition, the Company may request one or more incremental revolving commitments in an aggregate principal amount up to the greater of (a) \$25,000 and (b) the excess of the borrowing base (subject to certain exceptions) over the amount of the then-effective commitments under the ABL Facility. The ABL Facility has a five-year term. The ABL Facility includes borrowing capacity available for letters of credit and for short-term borrowings (swingline loans) on same-day notice.

The borrowings under the ABL Facility bear interest at a rate equal to, as determined at the Company’s option, either (a) a base rate determined by reference to the highest of (1) the U.S. federal funds rate plus 0.50%, (2) the prime rate of the Bank of Montreal, and (3) the adjusted LIBOR rate for a one-month interest period plus 1.0%, or (b) an adjusted LIBOR determined by reference to the costs of funds for eurocurrency liabilities in dollars in the London interbank market for the interest period relevant to such borrowing adjusted for certain additional costs, plus, in each case an applicable margin as set forth in the ABL Credit Agreement, as such applicable margin may be adjusted on a quarterly basis.

In addition to paying interest on outstanding principal under the ABL Facility, the Company is required to pay a commitment fee to the lenders in respect of the unutilized commitments thereunder at a rate equal to 0.25% per annum if average utilization is greater than 50% and 0.375% if average utilization is less than or equal to 50%, which amounts may be adjusted based on usage. The Company is also required to pay a customary letter of credit fee, including a fronting fee equal to 0.125% per annum of the aggregate face amount of outstanding letters of credit, and customary issuance and administration fees.

The Company may voluntarily repay outstanding loans under the ABL Facility at any time without premium or penalty, other than customary “breakage” costs with respect to eurocurrency loans.

All obligations under the ABL Facility are unconditionally guaranteed by the Company and each of DSSA’s existing and future direct and indirect wholly owned domestic restricted subsidiaries. The obligations and guarantees are secured by (a) first-priority security interests in the ABL Priority Collateral, and (b) third-priority security interests in the NonABL Priority Collateral.

10.000% Second-Priority Senior Secured Notes

In connection with the Merger, on August 30, 2013, DSSA issued \$350,000 in principal amount of the Notes in a private placement. The Notes were issued under an indenture with Wilmington Trust, National Association as trustee. The Notes bear interest at a rate of 10.000% per annum, payable semi-annually in arrears on March 1 and September 1 of each year, commencing on March 1, 2014. The Notes were issued at a discount of 2.663%.

DSSA may redeem the Notes at its option, in whole or in part, at any time on or after September 1, 2017 at certain redemption prices. In addition, DSSA may redeem up to 35% of the aggregate principal amount of the Notes on or prior to September 1, 2016 with the net proceeds from certain equity offerings at certain redemption prices. Prior to September 1, 2017, DSSA may redeem some or all of the Notes at a price equal to 100% of the principal amount thereof, plus accrued and unpaid interest, if any, plus the applicable “make-whole” premium.

The Notes are fully and unconditionally guaranteed by the Company and each of DSSA’s existing and future direct and indirect 100% owned domestic restricted subsidiaries. The Notes and related guarantees are secured by (a) second-priority security interests in the NonABL Priority Collateral, and (b) third-priority security interests in the ABL Priority Collateral. The guarantees may be released under certain customary circumstances with respect to a subsidiary guarantor including:

- DSSA’s obligations under the indenture are discharged in accordance with the terms of the indenture;
- The sale, disposition, exchange or other transfer (including through merger, consolidation, amalgamation or otherwise) of the equity interests in such subsidiary guarantor;
- The designation of such subsidiary guarantor as an “Unrestricted Subsidiary” under the indenture;
- The release or discharge of the guarantee by such subsidiary guarantor of the Term Loan Facility and ABL Facility or other indebtedness which resulted in the obligation to guarantee the Notes;
- DSSA’s exercise of its legal defeasance option or covenant defeasance option in accordance with the indenture;
- Such subsidiary guarantor ceasing to be a subsidiary of DSSA as a result of any foreclosure of any pledge or security interest in connection with the Term Loan Facility and ABL Facility; and
- The occurrence of certain “Covenant Suspension Events” under the indenture in the event that the Notes are rated investment grade.

The Senior Facilities and the Notes contain certain customary affirmative covenants and events of default. In addition, the Senior Facilities and Notes contain a number of covenants that, among other things restrict, subject to certain exceptions, DSSA’s ability, and the ability of its restricted subsidiaries to: sell assets; incur additional indebtedness; make voluntary repayments on certain other indebtedness; pay dividends and distributions or repurchase DSSA’s capital stock; create liens on certain assets; make investments, loans, guarantees or advances; engage in mergers or acquisitions; enter into sale/leaseback transactions; engage in certain transactions with affiliates; make negative pledges; amend their respective organization documents and certain debt documents; change their respective fiscal years; change their respective businesses; or enter into agreements that restrict dividends from subsidiaries. The Senior Facilities and the Notes also contain covenants limiting the activities of the Company.

Predecessor

In connection with the Merger, a prepayment penalty of \$11,416 and the write off of deferred financing fees of \$15,164 were extinguished through interest expense in Quarter Predecessor 2013.

First Lien Facility

Prior to the Merger, the Company’s senior secured term facility (the “Predecessor First Lien Facility”) was set to expire in August 2017. As a result of the Merger, the Predecessor First Lien Facility was repaid on August 30, 2013. Under the Predecessor First Lien Facility, base rate loans would bear interest at the base rate (subject to a floor equal to the one-month eurodollar rate plus 1.00%) plus 8.00%, and USD Libor rate loans would bear interest at the USD Libor rate (subject to a floor of 1.50% per annum) plus 9.00%. Interest was payable quarterly. The interest rate as of August 30, 2013 was 10.50%.

Second Lien Facility

Prior to the Merger, the Company’s second lien facility (the “Predecessor Second Lien Facility”) was set to expire in February 2018. As a result of the Merger, the Predecessor Second Lien Facility was repaid on August 30, 2013. Under the Predecessor Second Lien Facility, base rate loans would bear interest at the base rate (subject to a floor equal to the one-month eurodollar rate plus 1.00%) plus 8.50% plus a paid-in-kind margin, or PIK Margin, of 4.00% and rate loans would bear interest at the rate (subject to a floor of 1.50% per annum) plus 9.50% plus a PIK Margin of 4.00%. Interest was payable quarterly.

\$70,000 ABL Facility

Prior to the Merger, the Company's \$70,000 asset based loan facility (the "Predecessor ABL Facility") was set to expire in February 2017. As a result of the Merger, the Predecessor ABL Facility was repaid on August 30, 2013. The Predecessor ABL Facility provided for revolving credit financing, subject to borrowing base availability.

9. Commitments and Contingencies

Legal Claims

The Company is party to a putative class action lawsuit in California alleging that it violated certain privacy obligations by recording calls made through its call centers. During Year to Date Predecessor 2013, the Company recorded a \$2,000 liability in its Unaudited Condensed Consolidated Balance Sheet in connection with this lawsuit. During the fiscal quarter ending June 27, 2014 the court approved an agreement to settle the lawsuit for \$2,000, and the Company paid \$2,000 to the plaintiffs.

During the fiscal quarter ending March 28, 2014, the Company reached an agreement to settle two putative class action lawsuits in California alleging that it violated certain obligations under California and federal wage and hour laws for \$2,000, and recorded a \$2,000 liability in its Unaudited Condensed Consolidated Balance Sheet. The court preliminarily approved the agreement to settle both lawsuits for \$2,000 during the fiscal quarter ended June 27, 2014. In addition, the Company placed the \$2,000 settlement into escrow with the court during the Quarter Successor 2014. The settlement agreement is subject to final approval by the court. The Company is subject to a third putative class action lawsuit in California alleging similar claims.

The Company is subject to other legal claims in the ordinary course of business. The Company does not believe that the resolution of such claims will result in a material adverse impact on the Company's financial position, results of operations or liquidity.

10. Financial Instruments and Risk Management

From time to time the Company enters into hedging contracts with respect to interest rates under its credit facilities and raw coffee beans. The Company accounts for these instruments in accordance with ASC 815— *Derivatives and Hedging* . The Company does not hold or issue derivative financial instruments for trading purposes.

Interest Rate Contracts

The Company is subject to long-term variable rate debt obligations in connection with its credit facilities. These debt obligations expose the Company to variability in interest payments due to changes in interest rates. If interest rates increase, interest expense increases. Conversely, if interest rates decrease, interest expense decreases. The Company believes it is prudent to limit the variability of a portion of its interest payments and, therefore, generally hedges a portion of its variable-rate interest obligations. Accordingly, the Company enters into interest rate hedge/swap agreements whereby the Company receives variable interest rate payments and makes fixed interest rate payments on a portion of its debt.

The Company records its interest rate contracts as Other assets in the Unaudited Condensed Consolidated Balance Sheets at fair value. Changes in fair value are recorded in Interest expense in the Unaudited Condensed Consolidated Statements of Income (Loss) and Comprehensive Income (Loss).

The table below provides a summary of the interest rate cap contract the Company had entered into to manage its interest rate exposure related to Predecessor indebtedness:

Description	Borrowing	Notional Amount Outstanding	Receive	Pay	Fiscal Year Entered	Original Maturity
					Into	(Fiscal Year)
Interest rate cap	Term debt	\$ 300,000	2.0%	LIBOR	2012	2015

The foregoing interest rate contract was extinguished in connection with the Merger. The Company has not entered into any interest rate contracts during Year to Date Successor 2014.

Fair Value of Financial Instruments

The Company determines the fair value of its financial instruments in accordance with the ASC 820— *Fair Value Measurements and Disclosures* . Fair value is the price to hypothetically sell an asset or transfer a liability in an orderly manner in the principal market for that asset or liability. This topic provides a hierarchy that gives highest priority to unadjusted quoted market prices in active markets for identical assets or liabilities. This topic requires that financial assets and liabilities be classified into one of the following three categories:

- Level 1 Quoted prices are available in active markets for identical assets or liabilities;
- Level 2 Pricing inputs are other than quoted prices in active markets included in Level 1, which are either directly or indirectly observable;
- Level 3 Unobservable pricing inputs in which little or no market activity exists, therefore, requiring an entity to develop its own assumptions about what market participants would use in pricing an asset or liability.

The Company makes use of observable market-based inputs to calculate fair value, in which case the measurements are classified within Level 2 of the valuation hierarchy. Derivative financial instruments that are traded on an index are valued based on direct or indirect prices and classified within Level 2. The fair value of the Company's derivative financial instruments was estimated using the net present value of a series of cash flows on both the cap and floor components. These cash flows were based on yield curves that take into account the contractual terms of the derivatives, including the period to maturity and market-based parameters such as interest rates and volatility. The Company incorporates nonperformance risk by adjusting the present value of each liability position utilizing an estimation of its credit risk, if applicable.

The effect of the cash interest expense of derivative instruments in the Unaudited Condensed Consolidated Statements of Income (Loss) and Comprehensive Income (Loss) was \$0 for Quarter Successor 2014, Quarter Successor 2013 and Quarter Predecessor 2013. The effect of the cash interest expense of derivative instruments in the Unaudited Condensed Consolidated Statements of Loss and Comprehensive Loss was \$0 for Year to Date Successor 2014 and Year to Date Predecessor 2013.

The effect of the noncash interest expense of derivative instruments in the Unaudited Condensed Consolidated Statements of Income (Loss) and Comprehensive Income (Loss) was as follows:

Derivatives Not Designated as Hedging Instruments Under ASC 815	Location of Gain or (Loss) Recognized in Income on Derivative	Amount of Gain or (Loss) Recognized in Income on Derivative ^(a)				
		Quarter Successor 2014	Quarter Successor 2013	Quarter Predecessor 2013	Year to Date Successor 2014	Year to Date Predecessor 2013
		Interest rate cap	\$ —	\$ —	\$ (11)	\$ —
		\$ —	\$ —	\$ (11)	\$ —	\$ (49)

(a) This amount includes noncash interest expense.

The Company's cash, restricted cash and cash equivalents, accounts receivable and accounts payable are carried at cost which approximates fair value because of the short-term maturity of these instruments. The Company's cash equivalents are classified as Level 1 within the fair value hierarchy. The Company's pension plan assets are classified as Level 2 within the fair value hierarchy and are valued based off significant observable inputs and unobservable inputs. The Company's derivatives are measured at fair value using significant other observable inputs and are classified as Level 2.

The Company's short-term borrowings and long term debt are classified as Level 2 within the fair value hierarchy and are valued based on similar publicly-traded debt securities. See Note – 8 "Long-Term Debt" for additional discussion. The Company's short-term borrowings and long term debt are summarized below at estimated fair values at September 26, 2014 and December 27, 2013:

Notes	Successor		
	Net Carrying Value	Fair Value	Fair Value
	September 26, 2014	September 26, 2014	December 27, 2013
Term loan facility	\$ 342,435	\$ 389,375	\$ 374,500
	314,990	320,800	324,800

Warrant

On January 1, 2014, the Company received a warrant related to a strategic alliance agreement it entered into with Primo Water Corporation ("Primo"). The warrant allows the Company to purchase 475,000 shares of Common Stock of the customer, \$0.001 par value, of Primo at an exercise price of \$3.04. The Company recorded \$613 in Other assets, \$88 in Accrued expenses and other current liabilities and \$525 in Other long-term liabilities on the Unaudited Condensed Consolidated Balance Sheet for the original fair value of the warrant. The warrant expires in seven years and is being amortized over the term in Net product sales on the Unaudited Condensed Consolidated Statements of Income (Loss) and Comprehensive Income (Loss).

The warrant is classified as Level 2 within the fair value hierarchy. The fair value of our stock warrant was estimated using the Black-Scholes option pricing model. The inputs used in the model include the quoted stock price, the strike price, the underlying volatility of traded options for similar publically traded companies, the treasury risk-free rate and the estimated approximate time to conversion. The fair value of the warrant increased from the issue date by \$351 as of September 26, 2014 and the increase in value was recorded as a gain in Other, net in the Unaudited Condensed Consolidated Statements of Income (Loss) and Comprehensive Income (Loss).

At September 26, 2014, the Company has \$964 in Other assets, \$88 in Accrued expenses and other current liabilities and \$460 in Other long-term liabilities on the Unaudited Condensed Consolidated Balance Sheet related to the warrant.

11. Income Taxes

Under ASC 740-270 - *Income Taxes* - Interim Reporting, each interim period is considered an integral part of the annual period and tax expense (benefit) is measured using an estimated annual effective income tax rate. Estimates of the annual effective income tax rate at the end of interim periods are, of necessity, based on evaluation of possible future events and transactions and may be subject to subsequent refinement or revision. The Company forecasts its estimated annual effective income tax rate and then applies that rate to its year-to-date pre-tax ordinary income (loss), subject to certain loss limitation provisions. In addition, certain specific transactions are excluded from the Company's estimated annual effective tax rate computation, but are discretely recognized within income tax expense (benefit) in their respective interim period. Future changes in the forecasted annual income (loss) projections, tax rate changes, or discrete tax items could result in significant adjustments to quarterly income tax expense (benefit) in future periods.

The Company accounts for income taxes under ASC 740 - *Income Taxes*, whereby deferred tax assets and liabilities are recognized for the expected future tax consequences of events that have been included in the financial statements or income tax returns. Deferred tax assets and liabilities are determined based on differences between financial statement carrying amounts of existing assets and their respective tax bases using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Deferred tax positions of the Company were impacted by the Merger and the resulting step up in fair value of the assets, which are disallowed for tax purposes.

All tax balances prior to August 31, 2013 were prepared on a separate entity basis and the Quarter Successor 2014 and Year to Date Successor 2014 were prepared on a consolidated entity basis as a result of the Merger, which caused the previously separate entities to reflect the same results as the Company after pushing down the purchase of the Company by the Parent.

For the fiscal nine months ended September 26, 2014, Successor 2013 and Year to Date Predecessor 2013, the effective tax rate was 20.2%, 38.6% and 2.6%, respectively. In the fiscal nine months ended September 26, 2014, permanent return to provision differences, a tax refund receivable deemed uncollectible, and the write-off of a deferred tax asset decreased the effective tax rate due to the Company's year to date loss. In Successor 2013, permanent differences and state taxes increased the effective rate above the statutory rate due to the Company's forecasted pre-tax income. In Year to Date Predecessor 2013, the full valuation allowance against the net deferred tax asset, with the exception of indefinite lived intangibles, decreased the effective rate well below the statutory rate of 34% with a slight offset for current state income tax expense. At the end of each interim period, the Company estimates the annual effective tax rate and applies that rate to our ordinary quarterly earnings. The tax expense or benefit related to significant, unusual or extraordinary items that will be separately reported or reported net of their related tax effect and individually computed, are recognized in the interim period in which those items occur. In addition, the effect of changes in enacted tax laws or rates or tax status is recognized in the interim period in which the change occurs.

As of September 26, 2014 and December 27, 2013, the amount of the unrecognized tax benefits was \$172 and \$171; respectively, exclusive of interest and penalties. The Company recognizes accrued interest and penalties related to unrecognized tax benefits in income tax expense. In addition to the unrecognized tax benefits, as of September 26, 2014 and December 27, 2013, the Company had \$5 and \$5, respectively of accrued interest and penalties associated with uncertain tax positions.

The Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction and various state jurisdictions. Polycycle Solutions, LLC (“PCS”), a former wholly-owned subsidiary of the Company that was merged into the Company effective December 2013, is currently under examination by the U.S. Internal Revenue Service (“IRS”) for the tax year ended November 15, 2011. There are no material state examinations currently in process. With few exceptions, the Company is no longer subject to U.S. federal, state and local or non-U.S. income tax examinations by the tax authorities for years before 2010. For U.S federal and state jurisdiction purposes, the statute of limitations is generally open from 2010 forward. In addition, a tax indemnification agreement has been executed that requires any income tax adjustment in periods through the closing of the Merger to be retained by the Seller.

12. Stock Compensation Plan

2014 Equity Incentive Plan

The DSS Group, Inc. 2014 Equity Incentive Plan (the “Plan”) was adopted by the Company’s board of directors in July 2014. The Plan permits the Company to grant stock options, restricted shares, or other share based awards to persons or entities providing services to the Company or its Affiliates. The maximum number of shares of common stock reserved and available for issuance under the Plan is 260,698. Shares that are forfeited or canceled without delivery of the full number of shares to the grantee will be available for future award.

Under the terms of the Plan, options are to be priced at or above the fair market value of DSS’s common stock on the date of the grant. Typically, the options become exercisable in five installments of 20% vesting increments starting on the initial vesting date and continuing over four years and expire on the tenth anniversary date of the grant.

The Company uses the Black-Scholes option pricing model to estimate the fair value of options. This model requires the inputs of highly subjective assumptions which include the expected term of the option, expected stock price volatility and expected forfeitures.

The following is a summary of assumptions for the grants in 2014:

	<u>2014</u>
Expected volatility	68.0%
Expected life of options	6.1 years
Risk-free interest rate (average)	2.2%
Expected dividend yield	0.0%

As the Company has limited historical option exercise data, the expected term of the stock options granted to employees under the Plan was calculated based on the simplified method. Under the simplified method, the expected term is equal to the average of an option’s weighted-average vesting period and its contractual term. The Company will continue using the simplified method until sufficient information regarding exercise behavior becomes available. The Company estimates the expected volatility of its common stock on the date of grant based on the historical stock volatilities of similar publicly-traded entities over a period equal to the expected terms of the options, as the Company does not have any trading history to use the volatility of its own common stock. The Company has no history or expectations of paying a cash dividends on its common stock. The risk-free interest rate is based on the U.S. Treasury yield for a term consistent with the expected life of the options in effect at the time of grant.

The following table summarizes stock options outstanding at September 26, 2014 and changes during the nine months then ended:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Life (Years)	Aggregate Intrinsic Value
Outstanding at December 28, 2013	—	\$ —		
Granted	211,426	100.00		
Exercised	—	—		
Forfeited or canceled	—	—		
Outstanding at September 26, 2014	<u>211,426</u>	<u>\$ 100.00</u>	<u>9.49</u>	<u>\$ —</u>
Options exercisable at September 26, 2014	<u>42,285</u>	<u>\$ 100.00</u>	<u>9.49</u>	<u>\$ —</u>

For stock options granted by the Company, stock-based compensation cost is measured at grant date based on the fair value of the award and is expensed over the requisite service period, which equates to the vesting period of the options. The weighted-average grant date fair value of the options granted during the Year to Date Successor was \$62.72. During the Quarter Successor 2014 and Year to Date Successor 2014, the Company recognized stock compensation expense of \$2,701, net of 6.0% forfeiture rate. The Company reassesses its estimated forfeiture rate annually or when new information, including actual forfeitures, indicate a change is appropriate.

The total intrinsic value of options exercised during the Quarter Successor 2014 and Year to Date Successor was \$0. The intrinsic value is calculated based on the exercise price of the underlying awards and the calculated fair value of such awards as of each respective period-end date.

The following table summarizes information regarding the Company's non-vested shares as of September 26, 2014, and changes during the nine month period ended September 26, 2014:

<u>Non-Vested Options</u>	<u>Non-Vested Options Outstanding</u>	<u>Weighted Average Grant-Date Fair Value</u>
Non-Vested at December 28, 2013	—	\$ —
Granted	211,426	62.72
Vested	(42,285)	62.72
Forfeited or canceled	—	—
Non-Vested at September 26, 2014	<u>169,141</u>	<u>\$ 62.72</u>

The total fair value of shares vested during Quarter Successor 2014 and Year to Date Successor 2014 was \$2,652.

As of September 26, 2014, the Company had \$9,764 of total unrecognized compensation cost related to non-vested stock options granted under the Plan, which is expected to be recognized as stock-based compensation expense over a weighted-average period of 3.93 years. This expected cost does not include the impact of any future stock-based compensation awards.

DSWG Stock Compensation Plan

In connection with the Merger, the DSWG Stock Compensation Plan (the "DSWG Plan") which provided that nonqualified stock options could be issued to select employees, officers and directors of the Company was accelerated and canceled with resulted in a charge of \$1,616 during Year to Date Predecessor 2013. For further discussion on the Merger refer to Note – 4 "Acquisition of Predecessor."

Under the DSWG Plan, the Company was authorized to issue a maximum of 625,000 shares to DSWG's common stock. During Quarter Predecessor 2013 and Year to Date Predecessor 2013 the Company recognized pre-tax stock compensation expense of approximately \$1,812 and \$2,400, respectively. As of December 28, 2012, the Company had approximately \$2,832 of total unrecognized compensation cost related to the non-vested share-based compensation arrangements granted under the DSWG Plan. This cost was expected to be recognized as stock-based compensation expense over a weighted-average period of 1.7 years in 2012. This expected cost did not include the impact of any future stock-based compensation awards.

There were no awards granted under the DSWG Plan in Year to Date Predecessor 2013. As a result of the Merger, all outstanding nonqualified stock options under the DSWG Plan were immediately vested and forfeited or canceled. As of August 30, 2013, the Company had \$0 of unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the DSWG Plan. The following table depicts the number of shares outstanding, weighted average exercise price, weighted average remaining life and the weighted average grand-date fair value:

Predecessor	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Life (Years)	Weighted Average Grant-Date Fair Value	Aggregate Intrinsic Value
Outstanding at December 28, 2012	484,949	\$ 37.70	6.19	\$ 23.68	\$ —
Forfeited or canceled	484,949	37.70	—	23.68	—
Outstanding at August 30, 2013	—	\$ —	—	\$ —	\$ —
Exercisable at August 30, 2013	—	\$ —	—	\$ —	\$ —

13. Business Segment and Geographic Information

The “management approach” has been used to present the following segment information. This approach is based upon the way the management of the Company organizes segments within an enterprise for making operating decisions and assessing performance. Financial information is reported on the basis that it is used internally by the chief operating decision maker (the “CODM”) for evaluating segment performance and deciding how to allocate resources to segments. The Company’s chief executive officer has been identified as the CODM.

The Company has two operating segments and reportable segments, which are presented below:

- Direct-to-Consumer Services consist of sales of products and equipment rental income from the Company’s Home and Office Delivery (“HOD”) bottled water services, OCS and filtration services. The Company sells bottled water, brewed beverages and ancillary products, and rents water dispensers, brewed beverage equipment and filtration equipment to residential and commercial customers. Direct-to-Consumer Services are provided through the Company’s national network of sales and distribution facilities, vehicles and routes.
- Retail Services consist of sales of the Company’s nonreturnable branded and private label one- and two- and a half-gallon high-density polyethylene (“HDPE”) bottles, as well as branded polyethylene terephthalate (“PET”) bottles, to major retailers. These products are distributed to retailers in all 50 states.

These operating segments were determined based on the nature of our sales channels. The measures that are used to assess the reportable segment's operating performance are revenues and gross profit (excluding depreciation expense). A measure of assets is not applicable, as segment assets are not regularly reviewed by the CODM for evaluating performance or allocating resources. The table below presents information about the Company's reportable segments for Quarter Successor 2014, Quarter Successor 2013 and Quarter Predecessor 2013:

	Quarter Successor 2014	Quarter Successor 2013	Quarter Predecessor 2013
Net Revenue Components:			
Direct-to-Consumer Services	\$223,742	\$64,199	\$ 146,944
Retail services	36,073	9,555	22,151
Total net revenue	<u>259,815</u>	<u>73,754</u>	<u>169,095</u>
Gross profit (excluding depreciation expense)			
Direct-to-Consumer Services	168,882	48,595	109,353
Retail services	1,390	872	1,116
Total reportable segment profit (excluding depreciation expense)	<u>170,272</u>	<u>49,467</u>	<u>110,469</u>
Expenses not allocated to the reportable segments	<u>170,005</u>	<u>56,654</u>	<u>150,801</u>
Income (Loss) before income taxes	<u>\$ 267</u>	<u>\$ (7,187)</u>	<u>\$ (40,332)</u>

The table below presents information about the Company's reportable segments for Year to Date Successor 2014, Quarter Successor 2013 and Year to Date Predecessor 2013:

	Year to Date Successor 2014	Quarter Successor 2013	Year to Date Predecessor 2013
Net Revenue Components:			
Direct-to-Consumer Services	\$638,025	\$64,199	\$ 541,490
Retail services	103,704	9,555	85,869
Total net revenue	<u>741,729</u>	<u>73,754</u>	<u>627,359</u>
Gross profit (excluding depreciation expense)			
Direct-to-Consumer Services	480,783	48,595	406,897
Retail services	4,860	872	7,324
Total reportable segment profit (excluding depreciation expense)	<u>485,643</u>	<u>49,467</u>	<u>414,221</u>
Expenses not allocated to the reportable segments	<u>499,436</u>	<u>56,654</u>	<u>453,779</u>
Loss before income taxes	<u>\$ (13,793)</u>	<u>\$ (7,187)</u>	<u>\$ (39,558)</u>

Expenses not specifically related to the reportable segments are shown separately in the above reconciliation to consolidated income (loss) before income taxes. Expenses not allocated to the reportable segments are comprised of freight charges, variable manufacturing costs, depreciation & amortization, compensation, other corporate support related costs, interest expense and other, net costs.

No customer represented more than 10% of the Company's total revenues during Quarter Successor 2014, Quarter Successor 2013, Quarter Predecessor 2013, Year to Date Successor 2014 and Year to Date Predecessor 2013. The Company does not earn revenues or have long-lived assets located in foreign countries. In accordance with GAAP enterprise-wide disclosure requirements, the Company's net revenues from external customers by main product lines are as follows:

	Quarter Successor 2014	Quarter Successor 2013	Quarter Predecessor 2013
Water Delivery Services	\$184,182	\$51,242	\$ 119,419
OCS	33,452	10,986	23,731
Filtration Services	6,107	1,971	3,794
Retail Services	36,074	9,555	22,151
Total	<u>\$259,815</u>	<u>\$73,754</u>	<u>\$ 169,095</u>

	Year to Date Successor 2014	Year to Date Successor 2013	Year to Date Predecessor 2013
Water Delivery Services	\$514,921	\$51,242	\$ 429,945
OCS	104,847	10,986	96,748
Filtration Services	18,257	1,971	14,797
Retail Services	103,704	9,555	85,868
Total	<u>\$741,729</u>	<u>\$73,754</u>	<u>\$ 627,358</u>

The Company recognizes rental income on filtration, brewers and dispensing equipment at customer locations based on the terms of the related operating leases, which are generally on a 28-day period. Amounts billed to customers for rental in future periods are deferred and included in Accrued expenses and other current liabilities on the Unaudited Condensed Consolidated Balance Sheets. Most revenues from product sales and rentals are made on credit without collateral. Total rental income for Quarter Successor 2014, Quarter Successor 2013 and Quarter Predecessor 2013 was \$25,178, \$7,868 and \$16,854, respectively. This consists of water dispenser rental income of \$19,539, \$6,019 and \$13,282 for Quarter Successor 2014, Quarter Successor 2013 and Quarter Predecessor 2013, respectively, as well as filtration rental income of \$5,638, \$1,849 and \$3,572 for Quarter Successor 2014, Quarter Successor 2013 and Quarter Predecessor 2013, respectively. Total filtration income consists of filtration rental income, as noted above, as well as filtration other income of \$469, \$122 and \$221 for Quarter Successor 2014, Quarter Successor 2013 and Quarter Predecessor 2013, respectively. Total rental income for Year to Date Successor 2014 and Year to Date Predecessor 2013 was \$75,066 and \$65,214, respectively. This consists of water dispenser rental income of \$58,260 and \$51,296 for Year to Date Successor 2014 and Year to Date Predecessor 2013, respectively, as well as filtration rental income of \$16,806 and \$13,918 for Year to Date Successor 2014 and Year to Date Predecessor 2013, respectively. Total filtration income consists of filtration rental income, as noted above, as well as filtration other income of \$1,452 and \$880 for Year to Date Successor 2014 and Year to Date Predecessor 2013, respectively.

The Company's Other revenues from external customers included energy surcharge fees, finance fees and the sale of three- and five-gallon polycarbonate bottles.

14. Preferred Stock

On April 20, 2012, the Company authorized and issued 4,137,846 shares of preferred stock ("Preferred Stock"), with a par value of \$0.01 per share, at an Original Issue Price of \$104.56 in exchange for \$432,641.

The Preferred Stock had a liquidation preference equal to \$104.56 per share, subject to anti-dilution adjustments, plus accrued but unpaid dividends. The Preferred Stock had equal voting rights with the common stock and were eligible to receive cumulative preferential distributions of 15% annually when authorized by the Board of Directors of the Company. Dividends earned but not declared or paid for the Quarter Successor 2014, Quarter Successor 2013, and Quarter Predecessor 2013 were \$0, \$0, and \$14,976, respectively. Dividends earned but not declared or paid for the year to date Successor 2014, year to date Successor 2013, and year to date Predecessor 2013 were \$0, \$0, and \$43,680, respectively. During the Predecessor period, the cumulative preferred dividends on the Preferred Stock have been presented as a reduction of income available to common shareholders on the Condensed Combined Consolidated Statements of Income (Loss) and Comprehensive Income (Loss).

The Preferred Stock was convertible upon either a qualifying initial public offering (“IPO”) or a change of control transaction. Upon a qualifying IPO, the Preferred Stock was mandatorily convertible into common shares on a 1:1 conversion ratio. In addition to converting into common shares, the Preferred Stock entitled a holder to receive an amount in cash equal to the liquidation preference. Upon a change of control transaction, the Preferred Stock could have been, upon election of the holder, converted to common shares and received the liquidation preference payment in cash or treated the event as a deemed liquidation. In the event of an involuntary liquidation or deemed liquidation, the Preferred Stock would have been entitled to the liquidation preference which would have been paid out before the common shares. Because the Preferred Stock was contingently redeemable upon a change of control, the shares are presented outside of permanent equity on the accompanying consolidated balance sheets.

At June 27, 2014 and December 27, 2013, there were no preferred stock shares issued and outstanding as the shares were redeemed in conjunction with the Merger.

15. Subsequent Event

On October 16, 2014, the Company sold its 50% interest in the joint venture operating under the name Crystal Springs of Alabama for \$1,977. The Company is expected to recognize a Gain on Investment of \$1,595 in the fourth fiscal quarter.

In October 2014, a putative class action lawsuit was filed against the Company and a Notice of Labor Law Violations was filed with the Labor and Workforce Development Agency each alleging violations of wage and hour laws by the Company.

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 DSS Acquisition

On November 6, 2014, Cott Corporation (the “Company” or “Cott”), and its newly formed, indirect wholly-owned subsidiary, Delivery Acquisition, Inc. (“Merger Sub”), entered into an Agreement and Plan of Merger (the “Merger Agreement”) with DSS Group, Inc. (“DSS Group”) and Crestview DSW Investors, L.P., as the sellers’ representative. On December 12, 2014, Merger Sub merged with and into DSS Group, with DSS Group as the surviving corporation (the “Merger”). As a result of the Merger, DSS Group became a wholly owned subsidiary of the Company. DSS Group, parent company to DS Services of America, Inc. and its subsidiaries (collectively, “DSS”), is a provider of bottled water, coffee and filtration services to commercial and residential customers across the United States.

The aggregate purchase price paid by the Company was \$1.246 billion, paid at closing in cash, through the assumption of certain indebtedness of DSS Group, and through the issuance of Convertible Preferred Shares (as defined below) and Non-Convertible Preferred Shares (as defined below) to the security holders of DSS Group. The purchase price is subject to post-closing adjustments for net working capital, net indebtedness and transaction expenses. DSS Group had been a portfolio company of Crestview Partners. Neither DSS Group, Crestview Partners nor any of DSS Group’s security holders had a material relationship with the Company before the Merger, and the Merger was not an affiliated transaction.

The Company paid for the acquisition and a portion of the related acquisition costs through a combination of incremental borrowings under the Company’s amended asset based lending facility (the “ABL facility”) of approximately \$180.0 million, the issuance of \$625.0 million of 6.75% Senior Notes due 2020 (the “2020 Notes”), the assumption of \$350 million of the 10.000% Second-Priority Senior Secured Notes due 2021 issued by DS Services of America, Inc. (“DS Services”), a wholly-owned subsidiary of DSS Group (the “DSS Notes”) and the issuance of newly-created Series A Convertible Preferred Shares having an aggregate value of approximately \$116.1 million (the “Convertible Preferred Shares”) and newly-created Series B Non-Convertible Preferred Shares having an aggregate value of \$32.7 million (the “Non-Convertible Preferred Shares” and together with the Convertible Preferred Shares, the “Preferred Shares”), in reliance on the exemption from registration contained in Section 4(a)(2) of the Securities Act of 1933, as amended, and the rules and regulations thereunder. Pursuant to the terms and conditions set forth in the Merger Agreement, a portion of the aggregate consideration is being held in escrow to secure the indemnification obligations of DSS Group’s security holders under the Merger Agreement.

Cott and DSS Group incurred approximately \$35.9 million and \$ 37.2 million of acquisition related costs, respectively, including \$9.8 million for certain bridge financing and related legal fees, \$20.2 million as consent fees to the holders of the DSS Notes and legal, banker and other advisory fees of \$43.1 million. This does not include legal fees related to the equity financing, which is estimated to be approximately \$0.4 million, and financing and related legal fees for the debt financing, which is estimated to be approximately \$16.2 million. The financing fees related to the debt financing were reflected in the unaudited pro forma condensed combined financial statements as deferred financing costs and equity issuance costs were deducted from retained earnings.

In connection with the DSS Acquisition, \$29.4 million was required to cash collateralize certain DSS self-insurance programs. The \$29.4 million was funded with borrowings against our ABL facility, and cash collateral is included within prepaid expenses and other current assets.

The Aimia Acquisition

On May 30, 2014, the United Kingdom / Europe (“U.K.”) Business Unit of Cott entered into a Share Purchase Agreement (the “SPA”) pursuant to which it acquired on that date 100% of the share capital of Aimia Foods Holdings Limited (“Aimia”). Aimia, a privately-held company headquartered in Merseyside, United Kingdom, manufactures, sells and distributes food and beverages, including hot chocolate, coffee, malt drinks,

creamers/whiteners and cereals. The purchase price under the SPA, based on exchange rates in effect on the acquisition date of May 30, 2014, included the payment of approximately \$80.4 million at closing plus a \$7.2 million adjustment for working capital, \$33.5 million in deferred consideration paid in September 2014, and an on-target earnout consideration of \$20.1 million, with a minimum earnout consideration of \$13.4 million and a maximum earnout consideration of \$26.9 million, based upon the achievement by Aimia of certain performance measures during the twelve months ending July 1, 2016. Hereafter, this transaction is referred to as the "Aimia Acquisition."

Basis for historical Information

The unaudited pro forma condensed combined balance sheet as of September 27, 2014 gives effect to the DSS Acquisition as if it occurred on September 27, 2014. The Aimia Acquisition is already reflected in Cott's historical unaudited consolidated balance sheet as of September 27, 2014; therefore, no pro forma balance sheet adjustments are necessary to show the pro forma impact of the Aimia Acquisition. The unaudited pro forma condensed combined statements of operations for the year ended December 28, 2013 and the nine months ended September 27, 2014 assume that the DSS Acquisition and the Aimia Acquisition were consummated on December 30, 2012.

Cott's historical financial information for the year ended December 28, 2013 and as of and for the nine month period ended September 27, 2014 is derived from the Company's Form 10-K and 10-Q filed with the U.S. Securities and Exchange Commission ("SEC") on February 24, 2014 and November 4, 2014, respectively. The historical financial information for DSS for the year ended December 27, 2013 is derived by adding the financial data from DSS's audited consolidated financial statements for the predecessor period beginning December 29, 2012 through and including August 30, 2013 and the successor period beginning June 29, 2013 through and including December 27, 2013, respectively. In connection with the acquisition of DSS by Crestview DSW Investors, L.P. (the "Crestview Acquisition"), Crestview DS Merger Sub II, Inc. (the "Crestview Merger Sub") was formed to facilitate the Crestview Acquisition. The Crestview Merger Sub did not survive the Crestview Acquisition. Prior to the incorporation of Crestview Merger Sub, DSS incurred costs on Crestview Merger Sub's behalf beginning on June 29, 2013, which is the beginning of the successor period. The historical financial data for DSS for the nine month period ended September 26, 2014 is derived from its unaudited condensed consolidated financial statements for the nine months ended September 26, 2014.

The historical financial information of Aimia in the unaudited pro forma condensed combined statements of operations for the twelve months ended December 28, 2013 is calculated by adding the unaudited historical financial information of Aimia in the consolidated profit and loss account for the six months ended December 31, 2013 and the audited historical financial information of Aimia in the consolidated profit and loss account for the year ended June 30, 2013, and subtracting the unaudited historical financial information of Aimia in the consolidated profit and loss account for the six months ended December 31, 2012. The historical financial information of Aimia included in the unaudited pro forma condensed combined statement of operations for the nine months ended September 27, 2014 is derived from the unaudited historical profit and loss of Aimia for the five months ended May 31, 2014. The results of operations of Aimia from May 30, 2014 through and including September 27, 2014 is already reflected in Cott's unaudited consolidated statement of operations for the nine months ended September 27, 2014.

The historical financial information has been adjusted to give effect to matters that are (i) directly attributable to the DSS Acquisition and the Aimia 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 company.

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 separate historical audited consolidated financial statements of Cott as of and for the year ended December 28, 2013, included in Cott's Annual Report on Form 10-K filed with the SEC on February 24, 2014 and incorporated herein by reference;

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- the separate historical unaudited condensed consolidated financial statements of Cott as of and for the nine months ended September 27, 2014, included in Cott's Quarterly Report on Form 10-Q filed with the SEC on November 4, 2014 and incorporated herein by reference;
 - the separate historical audited consolidated financial statements of DSS as of December 27, 2013 and for the periods from June 29, 2013 to December 27, 2013 (Successor) and from December 29, 2012 to August 30, 2013 (Predecessor), and for each of the two years in the period ended December 28, 2012 (Predecessor) included herein;
 - the separate historical unaudited condensed consolidated financial statements of DSS as of and for the nine months ended September 26, 2014, included herein;
 - the audited historical financial statements of Aimia as of and for the year ended June 30, 2013, included in Cott's Current Report on Form 8-K/A filed with the SEC on August 6, 2014 and incorporated herein by reference;
 - the unaudited historical financial statements of Aimia as of and for the six months ended December 31, 2013 and 2012 and as of and for the three months ended March 31, 2014, included in Cott's Current Report on Form 8-K/A filed with the SEC on August 6, 2014 and incorporated herein by reference; and
 - the unaudited historical financial statements of Aimia as of and for the five months ended May 31, 2014, included in Cott's Current Report on 8-K, filed with the SEC on December 2, 2014 and incorporated herein by reference.

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. 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 DSS Acquisition and the Aimia Acquisition had been completed as of the dates set forth above, nor is it indicative of the future results of the combined company. The unaudited pro forma condensed combined financial information does not purport to project the future operating results or financial position of the combined company following the DSS Acquisition. The unaudited pro forma condensed combined statements of operations do not reflect any revenue or cost savings from synergies that may be achieved with respect to the combined companies, or the impact of non-recurring items, including synergies, directly related to the DSS Acquisition and Aimia Acquisition.

Unaudited Pro Forma Condensed Combined Balance Sheet
(dollars in millions, except per share amounts)

	Historical		Pro Forma Adjustments		As of Sept 27, 2014 Pro Forma Combined
	As of Sept 27, 2014	As of Sept 26, 2014	Financing Adjustments	DSS Acquisition Adjustments	
	Cott	DSS			
ASSETS					
<i>Current assets</i>					
Cash and cash equivalents	\$ 47.4	\$ 19.6	\$ 758.8 3(a)	\$ (744.2) 3(b)	\$ 81.6
Accounts receivable, net of allowance	250.2	109.9	—	—	360.1
Income taxes recoverable	1.0	0.9	—	—	1.9
Inventories	230.9	41.4	—	5.4 3(c)	277.7
Prepaid expenses and other current assets	24.1	8.3	33.7 3(a)	0.2 3(d)	72.1
				2.3 3(d)	
				3.5 3(e)	
Deferred income taxes	—	26.1	—	(4.3) 3(e)	1.7
				(20.1) 3(e)	
Total current assets	553.6	206.2	792.5	(757.2)	795.1
Property, plant & equipment, net	462.5	412.2	—	(412.2) 3(c)	865.8
				403.3 3(c)	
Goodwill	187.1	200.1	—	(200.1) 3(c)	756.2
				569.1 3(c)	
Intangibles and other assets, net	364.6	385.9	11.9 3(a)	0.6 3(d)	756.4
				(0.8) 3(d)	
				(24.9) 3(d)	
				(354.2) 3(c)	
				373.3 3(c)	
Deferred income taxes	5.4	—	—	6.1 3(e)	11.5
Other tax receivable	0.3	—	—	—	0.3
Total assets	\$ 1,573.5	\$ 1,204.4	\$ 804.4	\$ (397.0)	\$ 3,185.3
LIABILITIES AND EQUITY					
<i>Current liabilities</i>					
Short-term borrowings	\$ 69.3	\$ —	\$ 209.4 3(a)	\$ —	\$ 278.7
Current maturities of long-term debt	4.1	3.2	—	(3.2) 3(f)	4.1
Accounts payable and accrued liabilities	297.5	123.7	—	(2.5) 3(f)	460.9
				42.2 3(g)	
Total current liabilities	370.9	126.9	209.4	36.5	743.7
Long-term debt	535.5	654.2	625.0 3(a)	10.2 3(f)	1,566.8
				56.0 3(f)	
				(314.1) 3(f)	
Deferred income taxes	63.1	161.7	—	(22.5) 3(e)	131.0
				(35.0) 3(e)	
				(36.3) 3(e)	
Other long-term liabilities	38.8	19.8	—	(0.1) 3(g)	58.5
Total liabilities	1,008.3	962.6	834.4	(305.3)	2,500.0
Convertible Preferred A Shares, \$1,000 par value, 117,100 shares issued				116.1 3(h)	116.1
Non-convertible Preferred B shares, \$1,000 par value, 41,500 shares issued				32.7 3(h)	32.7
<i>Equity</i>					
Capital stock	389.4	—	—	—	389.4
Additional paid-in capital	47.9	263.4	—	(263.4) 3(i)	47.9
Retained earnings (Accumulated deficit)	147.4	(21.9)	(30.0) 3(a)	20.8 3(i)	118.7
				(43.5) 3(i)	
				45.9 3(e)	
Accumulated other comprehensive (loss) income	(26.0)	0.3	—	(0.3) 3(i)	(26.0)
Non-controlling interests	6.5	—	—	—	6.5
Total equity	565.2	241.8	(30.0)	(240.5)	536.5
Total liabilities and equity	\$ 1,573.5	\$ 1,204.4	\$ 804.4	\$ (397.0)	\$ 3,185.3

The accompanying notes are an integral part of, and should be read together with, this unaudited pro forma condensed combined financial information.

Unaudited Pro Forma Condensed Combined Statement of Operations
For the Twelve Months Ended December 28, 2013
(dollars in millions, except per share amounts)

	Historical		Historical				Pro Forma Adjustments		Twelve Months Ended December 28, 2013
	Twelve Months	Twelve Months	Predecessor		Successor		DSS Acquisition		
	Ended December 28, 2013	Ended December 28, 2013	December 29, 2012 to August 30, 2013	June 29, 2013 to December 27, 2013	DSS		Financing Adjustments	Adjustments	
	Cott	Proforma Aimia Note 5	Cott Proforma including Aimia					Pro Forma Combined	
Revenue, net	\$ 2,094.0	\$ 98.4	\$ 2,192.4	\$ 627.4	\$ 298.2	\$ —	\$ —	\$ 3,118.0	
Cost of sales	1,842.0	78.1	1,920.1	241.2	118.1	—	6.6 4(b)	2,291.4	
Gross profit	252.0	20.3	272.3	386.2	180.1	—	(12.0)	826.6	
Selling, general, and administrative expenses	160.4	14.1	174.5	358.4	172.2 4(i)	—	31.3 4(d) 3.2 4(b) (0.7) 4(e) 3.1 4(f) 3.3 4(k) 0.3 4(l)	745.6	
Loss on disposal of property, plant, and equipment	1.0	—	1.0	—	—	—	—	1.0	
Restructuring	2.0	—	2.0	—	—	—	—	2.0	
Operating income	88.6	6.2	94.8	27.8	7.9	—	(52.5)	78.0	
Other expense (income), net	12.8	(0.1)	12.7	0.1	0.1	—	—	12.9	
Interest expense, net	51.6	(2.1)	49.5	67.2	25.5 4(i)	(92.7) 4(a)	—	127.2	
						77.7 4(a)			
Income (loss) before income taxes	24.2	8.4	32.6	(39.5)	(17.7)	15.0	(52.5)	(62.1)	
Income tax expense (benefit)	2.2	1.7	3.9	(1.0)	(6.8)	5.6 4(g)	(19.6) 4(g)	(17.9)	
Net income (loss)	22.0	6.7	28.7	(38.5)	(10.9)	9.4	(32.9)	(44.2)	
Less: Net income attributable to non-controlling interests	5.0	—	5.0	—	—	—	—	5.0	
Less: Cumulative dividends on preferred stock	—	—	—	43.7	—	—	(43.7) 4(j) 13.7 4(j)	13.7	
Net income (loss) attributal to Cott	\$ 17.0	\$ 6.7	\$ 23.7	\$ (82.2)	\$ (10.9)	\$ 9.4	\$ (2.9)	\$ (62.9)	
Net income (loss) per common Cott share attributable to Cott:									
Basic	\$ 0.18		\$ 0.25					\$ (0.66) 4(h)	
Diluted	\$ 0.18		\$ 0.25					\$ (0.66) 4(h)	
Weighted average shares outstanding (in thousands):									
Basic	94,750		94,750					94,750 4(h)	
Diluted	95,633		95,633					94,750 4(h)	

The accompanying notes are an integral part of, and should be read together with, this unaudited pro forma condensed combined financial information.

Unaudited Pro Forma Condensed Combined Statement of Operations
For the Nine Months Ended September 27, 2014
(dollars in millions, except per share amounts)

	<u>Historical</u>		<u>Cott Proforma including Aimia</u>	<u>Historical</u>		<u>Pro Forma Adjustments</u>		<u>Pro Forma Combined</u>
	<u>Nine Months Ended</u>	<u>Five Months Ended</u>		<u>Nine Months Ended</u>	<u>DSS Acquisition</u>		<u>Nine Months Ended</u>	
	<u>Sept 27, 2014</u>	<u>May 29, 2014</u>		<u>Sept 26, 2014</u>	<u>Financing Adjustments</u>	<u>Adjustments</u>	<u>Sept 27, 2014</u>	
	<u>Cott</u>	<u>Proforma Aimia</u>		<u>DSS</u>				
Revenue, net	\$ 1,561.0	\$ 46.8	\$ 1,607.8	\$ 741.7	\$ —	\$ —		\$ 2,349.5
Cost of sales	1,373.4	35.4	1,408.8	301.4	—	(4.4) 4(b)		1,705.8
Gross profit	187.6	11.4	199.0	440.3	—	4.4		643.7
Selling, general, and administrative expenses	134.2	4.9	139.1	409.4	—	(2.5) 4(b)		565.0
						15.6 4(d)		
						(1.7) 4(e)		
						2.4 4(f)		
						2.5 4(k)		
						0.2 4(l)		
Loss on disposal of property, plant, and equipment	1.2	—	1.2	—	—	—		1.2
Restructuring	2.4	—	2.4	—	—	—		2.4
Asset impairments	1.7	—	1.7	—	—	—		1.7
Operating income	48.1	6.5	54.6	30.9	—	(12.1)		73.4
Other expense (income), net	22.9	(0.1)	22.8	(0.3)	—	—		22.5
Interest expense, net	27.2	(1.2)	26.0	45.0	(45.0) 4(a)	—		84.0
					58.0 4(a)			
Income (loss) before income taxes	(2.0)	7.8	5.8	(13.8)	(13.0)	(12.1)		(33.1)
Income tax expense (benefit)	3.4	1.8	5.2	(2.8)	(4.9) 4(g)	(4.5) 4(g)		(7.0)
Net income (loss)	(5.4)	6.0	0.6	(11.0)	(8.1)	(7.6)		(26.1)
Less: Net income attributable to non-controlling interests	4.1	—	4.1	—	—	—		4.1
Less: Cumulative dividends on preferred stock	—	—	—	—	—	11.4 4(j)		11.4

Net income (loss) attributable to Cott	\$	<u>(9.5)</u>	\$	<u>6.0</u>	\$	<u>(3.5)</u>	\$	<u>(11.0)</u>	\$	<u>(8.1)</u>	\$	<u>(19.0)</u>	\$	<u>(41.6)</u>
Net loss per common share attributable to Cott:														
Basic	\$	(0.10)			\$	(0.04)							\$	(0.44) 4(h)
Diluted	\$	(0.10)			\$	(0.04)							\$	(0.44) 4(h)
Weighted average shares outstanding:														
Basic		94,053				94,053								94,053 4(h)
Diluted		94,053				94,053								94,053 4(h)

The accompanying notes are an integral part of, and should be read together with, this unaudited pro forma condensed combined financial information.

1. Basis of Presentation

The unaudited pro forma condensed combined financial information presented above gives effect to both the DSS Acquisition and the Aimia Acquisition. The historical financial information of Cott and DSS is presented in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). The historical financial information of Aimia is presented in accordance with accounting principles generally accepted in the United Kingdom ("U.K. GAAP"). Such financial information has been subject to pro forma adjustments to align with U.S. GAAP.

The unaudited pro forma condensed combined balance sheet at September 27, 2014 was prepared using the historical unaudited consolidated balance sheets of Cott and DSS as of September 27, 2014 and September 26, 2014, respectively. The Aimia Acquisition is already reflected in Cott's historical unaudited consolidated balance sheet as of September 27, 2014; therefore, no pro forma balance sheet adjustments are necessary to show the pro forma impact of the Aimia Acquisition.

Cott's historical financial information for the year ended December 28, 2013 and as of and for the nine month period ended September 27, 2014 is derived from the Company's Form 10-K and 10-Q filed with the SEC on February 24, 2014 and November 4, 2014, respectively. The historical financial information for DSS for the year ended December 27, 2013 is derived by adding the financial data from DSS's audited consolidated financial statements for the predecessor period beginning December 29, 2012 through and including August 30, 2013 and the successor period beginning June 29, 2013 through and including December 27, 2013. Prior to the incorporation of Crestview Merger Sub, DSS incurred costs on Crestview Merger Sub's behalf beginning on June 29, 2013, which is the beginning of the successor period. The historical financial data for DSS for the nine month period ended September 26, 2014 is derived from its unaudited condensed consolidated financial statements for the nine months ended September 26, 2014.

The historical financial information of Aimia in the unaudited pro forma condensed combined statements of operations for the twelve months ended December 28, 2013 is calculated by adding the unaudited historical financial information of Aimia in the consolidated profit and loss account for the six months ended December 31, 2013 and the audited historical financial information of Aimia in the consolidated profit and loss account for the year ended June 30, 2013, and subtracting the unaudited historical financial information of Aimia in the consolidated profit and loss account for the six months ended December 31, 2012. The historical financial information of Aimia included in the unaudited pro forma condensed combined statement of operations for the nine months ended September 27, 2014 is derived from the unaudited historical profit and loss of Aimia for the five months ended May 31, 2014. The results of operations of Aimia from May 30, 2014 through and including September 27, 2014 is already reflected in Cott's unaudited consolidated statement of operations for the nine months ended September 27, 2014.

Management has made certain adjustments to Aimia's historical financial statements prepared under U.K. GAAP to conform to Cott's accounting policies under U.S. GAAP used in the preparation of this unaudited pro forma condensed combined financial information. Additionally, management has determined that no significant adjustments are necessary to conform DSS's financial statements to the accounting policies used by Cott in the preparation of this unaudited pro forma condensed combined financial information. Certain historical financial information of DSS and Aimia has 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 DSS to those of Cott as the Company is still in the process of conforming the accounting policies of DSS to those of Cott as of the date of this Current Report on 8-K/A.

The historical financial information has been adjusted to give effect to matters that are (i) directly attributable to the DSS Acquisition and the Aimia Acquisition, (ii) factually supportable, and (iii) with respect to the statements of operations, expected to have a continuing impact on the operating results of the combined company. The 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 DSS Acquisition and the Aimia 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 date the respective acquisitions close, and could result in a significant change to the unaudited pro forma condensed combined financial information, including goodwill.

2. Calculation of Purchase Consideration and Preliminary Purchase Price Allocation of the DSS Acquisition

The fair value of consideration transferred on the DSS acquisition date includes the value of the estimated cash consideration, the estimated fair value of the preferred equity transferred as part of the DSS Acquisition, and the repayment of DSS's term loan. The aggregate merger consideration is subject to post-closing adjustments for net working capital, net indebtedness and certain transaction expenses. A preliminary estimate of the purchase consideration is as follows:

(dollars in millions)	
Cash to sellers	\$449.7
Cash paid on behalf of sellers for their expenses	25.3
Cash paid on behalf of DSS to retire existing term loan	317.3
Convertible Preferred Shares, issued at par	116.1
Non-Convertible Preferred Shares, issued at par	32.7
Estimated purchase consideration	\$941.1

Of the \$449.7 million of cash paid to sellers \$20.4 million represents amounts payable to employees of DSS, this amount and \$25.3 million of cash paid on behalf of sellers for their expenses is settled after close and is recorded as a deferred consideration included within accounts payable and accrued liabilities (as described in Note 3(g)) in the unaudited pro forma condensed combined balance sheet.

Preliminary Purchase Price Allocation

Under the acquisition method of accounting, the identifiable assets acquired and liabilities assumed of DSS 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 DSS Acquisition. The 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 DSS based on DSS's September 26, 2014 balance sheet, with the excess recorded as goodwill:

(dollars in millions)	
Cash and cash equivalents	\$ 67.8
Accounts receivable	109.9
Income tax recoverable	0.9
Inventories	46.8
Prepaid expenses and other current assets	9.6
Deferred income taxes	1.7
Property, plant & equipment	403.3
Intangibles and other assets	<u>379.9</u>
Total assets	\$1,019.9
Accounts payable and accrued liabilities	(117.7)
Long-term debt	(406.3)
Deferred income taxes	(104.2)
Other long-term liabilities	<u>(19.7)</u>
Total liabilities	\$ (647.9)
Net assets acquired (a)	372.0
Estimated purchase consideration (b)	941.1
Estimated goodwill (b) - (a)	\$ 569.1

On December 10, 2014, DSS entered into a sale-leaseback transaction which increased the cash acquired in the DSS Acquisition by \$48.2 million. This increased the cash acquired when compared to the balance shown in the historical DSS balance sheet of \$19.6 million to \$67.8 million (see Note 3(b)).

Preliminary identifiable intangible assets in the pro forma financial statements consist of anticipated intangibles derived from customer relationships and trademarks and trade names. All intangible assets of DSS have definite lives. The amortization related to these 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 DSS 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 DSS's assets acquired and liabilities assumed by Cott. 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 DSS Acquisition is not expected to be deductible for tax purposes.

The final determination of the purchase price allocation of the DSS Acquisition will be based on DSS's net assets acquired as of the DSS acquisition date. 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) These amounts represent the issuance of 2020 Notes and additional borrowings on Cott's ABL facility to fund the DSS Acquisition, less consent solicitation fees for the DSS Notes and related debt financing costs.

(dollars in millions)	
2020 Notes	\$625.0
Draw down from existing ABL facility	209.4
Consent solicitation fees	(20.2)
Bridge financing commitment fees	(9.8)
Debt financing costs and cash collateral associated with the ABL facility	(1.8)
Cash collateral	(29.4)
Debt financing costs associated with the 2020 Notes issuance	(14.4)
Net cash inflow	\$758.8
Debt financing costs and cash collateral are classified as:	
Prepaid expenses and other current assets	\$ 33.7
Intangibles and other assets, net	11.9
	\$ 45.6
Additional borrowings are classified as:	
Short-term borrowings	\$209.4
Long-term debt	625.0
	\$834.4

In connection with the DSS Acquisition, \$29.4 million was required to cash collateralize certain DSS self-insurance programs. The \$29.4 million was funded with borrowings against our ABL facility, and the cash collateral is included within prepaid expenses and other current assets.

The consent solicitation fees incurred for the DSS Notes and the bridge financing commitment fees aggregating to \$30.0 million are treated as acquisition costs and are adjusted to retained earnings.

The following represents the key financing terms of the additional borrowings to finance the DSS Acquisition.

	<u>Interest rate</u>	<u>Maturity</u>	<u>Payments</u>
2020 Notes	6.75%	5years	Interest paid semi-annually when due and principal on maturity
ABL facility	1.94%	5years	Interest paid monthly when due and principal on maturity

The 1.94% interest rate on the ABL facility is based on the 1-Month LIBOR rate of 19 basis points plus a LIBOR spread of 175 basis points. The 6.75% interest rate on 2020 Notes is based on the terms and conditions of the 2020 Notes issued by the Company on December 4, 2014.

- (b) Represents the use of the additional borrowings, discussed in 3(a) above, to fund a portion of the estimated purchase consideration, as described in Note 2; Cott's equity financing and certain other anticipated acquisition costs anticipated to be paid prior to, or concurrent with, closing the DSS Acquisition.

(dollars in millions)	
Cash paid to sellers and on their behalf, net of proceeds from sale-leaseback of \$48.2 million	\$381.1
Repayment of DSS Term Loan	317.3
Prepaid insurance	2.3
Other transaction costs (discussed in 3(j))	43.5
Net cash outflow	\$744.2

On December 10, 2014, DSS entered into a sale-leaseback transaction which increased the cash acquired in the DSS Acquisition by \$48.2 million. This increased the cash acquired when compared to the balance shown in the historical DSS balance sheet of \$19.6 million to \$67.8 million as disclosed in the allocation of purchase price to the assets acquired and liabilities assumed in Note 2.

- (c) Reflects the acquisition method of accounting based on the estimated fair value of the assets of DSS as discussed in Note 2 above. Additional information regarding the estimated fair value of identifiable intangible assets acquired and tax effect of the purchase accounting is discussed in Note 4(d) and 3(e), respectively.

(dollars in millions)	
Inventories	\$ 5.4
Property, plant & equipment - Elimination	(412.2)
Property, plant & equipment - Addition	403.3
Goodwill - Elimination	(200.1)
Goodwill - Addition	570.2
Intangibles - Elimination	(354.2)
Intangibles - Addition	373.3

Fair value of Property, plant & equipment (“PP&E”) acquired does not include the value of certain buildings for which DSS entered into a sale-leaseback agreement on December 10, 2014. The adjustment for rental expenses of such leased back buildings is discussed in Note 4(k).

- (d) Reflects the elimination of DSS’s certain capitalized diligence costs of \$0.8 million and capitalized debt financing fees of \$24.9 million as a purchase accounting adjustment. Also represents adjustments to record the following:

(dollars in millions)	
Prepaid insurance	\$2.3
Favorable leases - current	0.2
Favorable leases - non current	0.6

- (e) Represents adjustments to 1) deferred tax assets (“DTA”) and deferred tax liabilities (“DTL”) at an effective tax rate of 37.4% to reflect operating activities of DSS from the beginning of the 2014 fiscal year through the acquisition date that impacted the opening deferred tax balances assumed as part of the acquisition (before consideration of purchase accounting adjustments), 2) reflect the deferred tax impact of fair value adjustments to inventory, PP&E, intangibles, long-term debt and other items and 3) to reflect the impact to Cott historical deferred tax balances of releasing its United States (“US”) valuation allowance as a result of the DSS Acquisition, including additional benefit recognized without a valuation allowance. The Cott current DTA is recorded with the prepaid expenses and other current assets.

	Current	Noncurrent	Noncurrent
(dollars in millions)	DTA	DTA	DTL
Adjustments to DSS deferred tax balances for operating activities of DSS from the beginning of the 2014 fiscal year through the acquisition date	\$(20.1)		\$ (35.0)
Adjustments to DSS deferred tax balances for purchase accounting fair value adjustments			
Inventories	\$ (2.0)		
Prepaid and other current assets	(0.1)		
Accounts payable and other current liabilities	(2.2)		
Property plant and equipment			\$ 4.4
Intangibles and other assets, net			(2.2)
Long-term debt, less current portion, less discounts			(24.7)
	\$ (4.3)		\$ (22.5)
Adjustments to Cott historical deferred tax balances upon release of the US valuation allowance	\$ 3.5	\$ 6.1	\$ (36.3)

- (f) Reflects an adjustment to record the DSS Notes being assumed by Cott at fair value of \$406.0 million as of the DSS acquisition date. The carrying amount of accrued interest on these DSS Notes is also adjusted, as the fair value is based on the remaining contractual cash flows of the DSS Notes, including any unpaid interest thereon. Also, reflects adjustments to eliminate DSS's term loan including the current and long-term balances and the unamortized debt discount associated with the DSS Notes and term loan.

(dollars in millions)	
Adjustment for the fair value of assumed DSS Notes	\$ 56.0
Elimination of accrued interest included in fair value of assumed DSS Notes	(2.5)
Retirement of the current portion of DSS term loan debt	(3.2)
Retirement of the long term portion of DSS term loan debt	(314.1)
Elimination of debt issuance discounts associated with DSS Notes and term loan debt	10.2

- (g) Represents adjustments of \$42.2 million in accounts payable and accrued liabilities and (\$0.1) million in other long-term liabilities to reflect the appropriate purchase accounting adjustments related to deferred consideration, deferred rent and deferred revenue as they do not represent a present obligation at the acquisition date and to record unfavorable lease position related to certain off-market operating leases of DSS.

(dollars in millions)	
Elimination of current portion of deferred rent	\$ (0.6)
Elimination of deferred revenue	(3.6)
Deferred consideration	45.7
Unfavorable leases - current	0.7
Total adjustments to accounts payable and accrued liabilities	\$42.2
Unfavorable leases - non current	\$ 0.6
Elimination of long term portion of deferred rent	(0.7)
Total adjustments to long- term liabilities	\$ (0.1)

- (h) Reflects issuance of new \$116.1 million of Convertible Preferred Shares (\$1,000 par value) and \$32.7 million of Non-Convertible Preferred Shares (\$1,000 par value) being issued to the sellers as purchase consideration.
- (i) Reflects the elimination of DSS's historical equity accounts, including additional paid-in capital of \$263.4 million, accumulated deficit of (\$21.9) million and accumulated other comprehensive income of \$0.3 million.
- (j) Represents adjustments to retained earnings for \$43.1 million of estimated transaction costs incurred in relation to the DSS Acquisition and \$0.4 million of equity financing costs.

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

- (a) To reverse historical interest expense of DSS and record estimated interest expense and amortization of debt financing fees associated with anticipated borrowings, as described in Note 3(a).

(dollars in millions)	Twelve Months Ended	Nine Months Ended
	December 28, 2013	September 27, 2014
Reversal of DSS interest expense and amortization of deferred debt financing fees	\$ (92.7)	\$ (45.0)
Interest expense on new financing	77.7	58.0
Pro forma interest expense adjustment	\$ (15.0)	\$ 13.0

A sensitivity analysis on interest expense for the year ended December 28, 2013 and the nine month period ended September 27, 2014 has been performed for the ABL facility 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 debt financing:

(dollars in millions)	Twelve Months Ended	Nine Months Ended
	December 28, 2013	September 27, 2014
Interest expense assuming		
Increase of 0.125%	\$ 1.1	\$ 0.8
Decrease of 0.125%	\$ (1.0)	\$ (0.7)

- (b) Represents adjustment to record elimination of historical depreciation expense and recognition of new depreciation expense based on the fair value of PP&E on a straight-line basis from December 29, 2012. The depreciation of PP&E is based on the estimated remaining useful lives of the assets. Depreciation expense is allocated between costs of sales ("COS") and selling, general and administrative expenses ("SG&A") based upon the nature of activities associated with the PP&E acquired.

(dollars in millions)	Twelve Months Ended December 28, 2013		Nine Months Ended September 27, 2014	
	COS	SG&A	COS	SG&A
Reversal of DSS historical depreciation	\$ (47.4)	\$ (25.2)	\$ (45.1)	\$ (23.6)
Depreciation of acquired property, plant & equipment	54.0	28.4	40.7	21.1
Pro forma depreciation expense adjustment	\$ 6.6	\$ 3.2	\$ (4.4)	\$ (2.5)

- (c) Represents adjustment related to the change in the fair value of inventory of \$5.4 million that is recognized in COS upon sale of the finished goods inventory for the year ended December 28, 2013.
- (d) Represents adjustment to record straight line amortization expense related to 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 SG&A for the amortization of intangible assets is as follows:

(dollars in millions)	Twelve Months Ended	Nine Months Ended
	December 28, 2013	September 27, 2014
Reversal of DSS historical intangible asset amortization	\$ (14.1)	\$ (16.1)
Amortization of acquired identifiable intangible assets	45.4	31.7
Pro forma intangibles amortization expense adjustment	\$ 31.3	\$ 15.6

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

(dollars in millions)	Estimated Fair Value	Estimated Useful Life
Customer relationships	\$ 219.8	16 years
Trademarks and trade names	147.4	20 years
Non-compete covenants	0.4	4 years
Software	5.7	3 years
Total	\$ 373.3	

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	\$36.0	\$32.9	\$28.5	\$24.0	\$19.1

- (e) Agreement between DSS and Crestview Partners to monitor the investment of Crestview stockholders in DSS will be terminated upon consummation of the DSS Acquisition. This represents an adjustment to remove the impact of the any fees paid to Crestview pursuant to such agreement.
- (f) Represents adjustment to record additional compensation expense that will be paid to certain executives for agreements entered into in connection with the DSS Acquisition.

- (g) Represents adjustment to income tax expense as a result of the tax impact on the pro forma adjustments related to financing and purchase price allocation adjustments based on an effective tax rate of 37.4% to compute the income tax expense related to each entity's pro forma condensed combined statement of operations.
- (h) Represents pro forma basic and diluted earnings per share ("EPS"). The numerator for pro forma basic EPS has been computed in the manner discussed in the table below. To calculate diluted EPS, 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) would be antidilutive as these would decrease the loss per share. As such, the basic and diluted EPS are the same for the pro forma periods presented.

	Twelve Months Ended	Nine Months Ended
<u>Pro Forma Basic and Diluted Earnings Per Share</u>	<u>December 28, 2013</u>	<u>September 27, 2014</u>
Net loss attributable to Cott (in millions)	\$ (62.8)	\$ (41.7)
Pro forma weighted average shares (basic and diluted, in thousands)	94,750	94,053
Basic and diluted earnings per share	\$ (0.66)	\$ (0.44)

- (i) Certain one-time costs totaling \$46.5 million reflected in DSS's historical financial statements have not been adjusted, as they are not directly attributable to the DSS Acquisition. These represent \$19.9 million of legal and other professional service transactional costs, \$15.2 million of write-off of deferred financing costs and \$11.4 million pre-payment penalty on debt, associated with the Crestview Acquisition. If such costs were adjusted, the pro forma net loss would be reduced by \$29.1 million, net of tax.
- (j) Represents adjustments for dividends earned but not yet declared or paid for the Preferred Shares issued as partial consideration for the DSS Acquisition. Such dividends will be subject to a 25.0% dividend distribution tax. No adjustment has been made for such taxes as they would be due only when the Company declares and distributes dividends to its shareholders. Additionally, represents adjustment to eliminate dividends earned but not yet declared or paid for the preferred stock issued by DSS, as of December 27, 2013, as those preferred securities were eliminated as part of the Crestview Acquisition.
- (k) Represents adjustment for rental expense related to certain properties for which DSS entered into a sale-leaseback arrangement on December 10, 2014. These properties were not acquired by Cott; however, Cott acquired the right to use the properties through the sale-leaseback arrangement.
- (l) Represents straight line amortization of certain prepaid insurance costs incurred as a precondition to the consummation of the DSS Acquisition.

5. Acquisition of Aimia

As described in the section discussing the Aimia Acquisition above, Cott acquired Aimia on May 30, 2014. The following tables discuss the pro forma adjustments for the Aimia Acquisition.

Aimia Foods Holdings Limited
Unaudited Pro Forma Condensed Combined Statement of Operations
For the year ended December 28, 2013
(dollars in millions)

	<u>Historical</u>	<u>Proforma Adjustments for Aimia Transaction</u>				<u>Twelve Months Ended</u>
	<u>Twelve Months Ended</u>					<u>December 28, 2013</u>
	<u>December 28, 2013</u>	<u>UK to US GAAP</u>	<u>Bond Offering</u>	<u>Purchase Accounting</u>	<u>December 28, 2013</u>	
	<u>Aimia</u>	<u>5(a)</u>	<u>5(b)</u>	<u>5(a)</u>	<u>Proforma Aimia</u>	
	<u>5(a)</u>	<u>5(a)</u>		<u>5(a)</u>	<u>Note 5</u>	
Revenue, net	\$ 98.3	\$ 0.1	5(b)	\$ —	\$ 98.4	
Cost of sales	<u>75.2</u>	<u>0.1</u>	5(b)	<u>2.8</u>	<u>78.1</u>	
Gross profit	23.1	—		(2.8)	20.3	
Selling, general, and administrative expenses	10.3	(0.7)	5(c)	4.5	14.1	
Loss on disposal of property, plant, and equipment	—				—	
Restructuring	—				—	
Operating Income	12.8	0.7		(7.3)	6.2	
Other expense (income), net	—	(0.1)	5(d)		(0.1)	
Interest expense, net	0.2	—		(0.2)	(2.1)	
Income before income taxes	12.6	0.8		2.1	8.4	
Income tax expense (benefit)	2.9	0.2	5(e)	0.2	1.7	
Net income (loss)	9.7	0.6		1.9	6.7	
Less: Net income attributable to non-controlling interests	—	—		—	—	
Net income (loss) attributable to Cott	<u>\$ 9.7</u>	<u>\$ 0.6</u>		<u>\$ (5.5)</u>	<u>\$ 6.7</u>	

The accompanying notes are an integral part of, and should be read together with, this unaudited pro forma condensed combined financial information.

The following adjustments were made to the unaudited pro forma condensed combined statement of operations for Aimia for the year ended December 28, 2013.

- (a) These amounts in millions of U.S. Dollars have been converted from pounds sterling at a conversion rate of 1.56433, which approximates the average exchange rate over the period from December 30, 2012 through December 28, 2013.
- (b) This adjustment is to reflect the amortization of the deferred income associated with the portion of the historical cost of machinery and equipment financed by a customer, and an increase in depreciation expense associated with the increase in historical cost of the equipment in accordance with U.S. GAAP. The machinery and equipment was historically recorded under U.K. GAAP at the portion of the historical cost of the equipment paid directly by Aimia.
- (c) This adjustment is to reflect the historical balances of Aimia in accordance with U.S. GAAP. The decrease in SG&A expenses of \$0.7 million reverses the amortization of goodwill recognized by Aimia in accordance with U.K. GAAP during the year ended December 28, 2013.
- (d) The \$0.1 million increase in other income reflects Aimia's equity in earnings of its joint venture investment in accordance with U.S. GAAP equity method of accounting for investments, which was previously accounted for at cost under U.K. GAAP.
- (e) The adjustment in the bond offering column assumes income taxes assessed at the same effective rate applicable to Cott, as those transactions are specific to the Company. The adjustments in the other pro forma adjustment columns assume income taxes based on Aimia's historical statutory income tax rate. However, the effective tax rate of the combined company could be significantly different, depending on post-acquisition activities.
- (f) This adjustment represents an interest rate savings associated with the refinance of Cott's 8.125% Senior Notes due in 2018 (the "2018 Notes") with Cott's 5.375% Senior Notes due in 2022 (the "2022 Notes") and reducing the interest rate from 8.125% to 5.375%, including the impact of the change in amortization of deferred financing costs.
- (g) This adjustment represents an increase in amortization expense for the fair value of intangible assets acquired in the acquisition of Aimia, as well as an increase in depreciation for the step up of acquired PP&E to their fair values as of the acquisition date totaling \$6.4 million, of which \$4.7 million is related to the amortization of the customer relationships and licensing agreements intangible assets recorded as an adjustment to SG&A expenses. The adjustment to SG&A expenses was reduced by \$0.2 million to eliminate certain acquisition related costs reflected in the historical profit and loss accounts of Aimia for the year ended December 28, 2013. Those acquisition costs, which included financial and other advisory fees, are excluded from the unaudited pro forma condensed combined statement of operations for the year ended December 28, 2013, as they are considered non-recurring. The remaining \$1.1 million is attributable to an increase in cost of goods sold associated with the increase in fair value of acquired finished goods inventories sold during the year ended December 28, 2013.
- (h) This adjustment reverses the historical interest expense of Aimia, as all interest-bearing liabilities were repaid by the former owners of Aimia prior to the acquisition.

Aimia Foods Holdings Limited
Unaudited Pro Forma Condensed Combined Statement of Operations
For the nine months ended September 27, 2014
(dollars in millions)

	<u>Historical</u>				<u>Five Months Ended</u>		<u>Proforma Adjustments for Aimia</u>		<u>Five Months Ended</u>			
	<u>May 29, 2014</u>		<u>May 29, 2014</u>		<u>May 29, 2014</u>		<u>May 29, 2014</u>		<u>May 29, 2014</u>			
	<u>Aimia</u>	<u>5(i)</u>	<u>UK to US GAAP</u>	<u>5(i)</u>	<u>Bond Offering</u>	<u>4(i)</u>	<u>Purchase Accounting</u>	<u>5(o)</u>	<u>Proforma Aimia</u>	<u>Note 5</u>		
Revenue, net	\$	46.7	\$	0.1	5(j)	\$	—	\$	—	\$	46.8	
Cost of sales		34.6		0.1	5(j)		—		0.7	5(o)	35.4	
Gross profit		12.1		—			—		(0.7)		11.4	
Selling, general, and administrative expenses		5.2		(0.3)	5(k)		—		5(o)		4.9	
Loss on disposal of property, plant, and equipment		—									—	
Restructuring		—									—	
Asset impairments		—									—	
Operating Income		6.9		0.3			—		(0.7)		6.5	
Other expense (income), net		—		(0.1)	5(l)						(0.1)	
Interest expense, net		0.2					(1.2)	5(n)	(0.2)	5(p)	(1.2)	
Income (Loss) before income taxes		6.7		0.4			1.2		(0.5)		7.8	
Income tax expense (benefit)		1.5		0.1	5(m)		0.3	5(m)	(0.1)	5(m)	1.8	
Net income (loss)		5.2		0.3			0.9		(0.4)		6.0	
Less: Net income attributable to non-controlling interests		—		—			—		—		—	
Net income (loss) attributable to Cott	\$	5.2	\$	0.3		\$	0.9		\$	(0.4)	\$	6.0

The accompanying notes are an integral part of, and should be read together with, this unaudited pro forma condensed combined financial information.

The following adjustments were made to the unaudited pro forma condensed combined statement of operations for Aimia for the five months ended May 29, 2014. The results of operations of Aimia from May 30, 2014 through and including September 27, 2014 is already reflected in Cott's unaudited consolidated statement of operations for the nine months ended September 27, 2014.

- (i) These amounts in millions of U.S. Dollars have been converted from pounds sterling at a conversion rate of 1.66636, which approximates the average exchange rate over the period from December 29, 2013 through May 31, 2014.
- (j) This adjustment is to reflect the amortization of the deferred income associated with the portion of the historical cost of machinery and equipment financed by a customer, and an increase in depreciation expense associated with the increase in historical cost of the equipment in accordance with U.S. GAAP. The machinery and equipment was historically recorded under U.K. GAAP at the portion of the historical cost of the equipment paid by Aimia.
- (k) This adjustment is to reflect the historical balances of Aimia in accordance with U.S. GAAP. The decrease in SG&A expenses of \$0.3 million reverses the amortization of goodwill recognized by Aimia in accordance with U.K. GAAP during the five months ended May 29, 2014.
- (l) The \$0.1 million increase in other income reflects Aimia's equity in earnings of its joint venture investment in accordance with U.S. GAAP equity method of accounting for investments, which was previously accounted for at cost under U.K. GAAP.
- (m) The adjustment in the bond offering column assumes income taxes assessed at the same effective rate applicable to Cott, as those transactions are specific to the Company. The adjustments in the other pro forma adjustment columns assume income taxes based on Aimia's historical statutory income tax rate. However, the effective tax rate of the combined company could be significantly different, depending on post-acquisition activities.
- (n) This adjustment represents an interest rate savings associated with the refinance of the 2018 Notes with the 2022 Notes and reducing the interest rate from 8.125% to 5.375%, including the impact of the change in amortization of deferred financing costs.
- (o) This adjustment represents an increase in amortization expense for the fair value of intangible assets acquired in the Aimia Acquisition, as well as an increase in depreciation for the step up of acquired PP&E to their fair values as of the acquisition date totaling \$2.8 million, of which \$2.1 million is related to the amortization of the customer relationships and licensing agreements intangible assets recorded as an adjustment to SG&A expenses. The increase in SG&A expenses of \$2.1 million noted above was completely offset by adjustments of \$1.8 million and \$0.3 million to eliminate certain acquisition related costs reflected in the unaudited consolidated statements of operations of Cott and the historical profit and loss accounts of Aimia for the nine months ended September 27, 2014, respectively. Those acquisition costs, which included financial and other advisory fees, are excluded from the unaudited pro forma condensed combined statement of operations for the nine months ended September 27, 2014, as they are considered non-recurring.
- (p) This adjustment reverses the historical interest expense of Aimia, as all interest-bearing liabilities were repaid by the former owners of Aimia prior to the acquisition.