CALLON PETROLEUM CO
Form 10-Q
November 06, 2007

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q
QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended September 30, 2007
Commission File Number 001-14039
CALLON PETROLEUM COMPANY
(Exact name of registrant as specified in its charter)

Delaware	**64-0844345**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

200 North Canal Street
Natchez, Mississippi 39120
(Address of principal executive offices)(Zip code)
(601) 442-1601
(Registrant s telephone number, including area code)

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definitions of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o Accelerated filer þ Non-accelerated filer o

Indicate by check mark whether the registrant is a shell company (as defined in Exchange Act Rule 12b-2). Yes o No þ

As of November 1, 2007, there were 20,883,149 shares of the Registrant s Common Stock, par value $0.01 per share, outstanding.

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Callon Petroleum Company
Consolidated Balance Sheets
(In thousands, except share data)

	September 30, 2007 (Unaudited)	December 31, 2006 (Note 1)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 3,175	$ 1,896
Accounts receivable	21,664	32,166
Restricted investments	604	4,306
Fair market value of derivatives	2,185	13,311
Other current assets	6,385	5,973
Total current assets	34,013	57,652
Oil and gas properties, full-cost accounting method:		
Evaluated properties	1,313,382	1,096,907
Less accumulated depreciation, depletion and amortization	(661,279)	(604,682)
	652,103	492,225
Unevaluated properties excluded from amortization	67,394	54,802
Total oil and gas properties	719,497	547,027
Other property and equipment, net	2,014	1,996
Restricted investments	3,959	1,935
Investment in Medusa Spar LLC	12,641	12,580
Other assets, net	8,289	4,337
Total assets	$ 780,413	$ 625,527
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$ 27,035	$ 46,611
Asset retirement obligations	7,175	14,355
Current maturities of long-term debt		213
Total current liabilities	34,210	61,179
Long-term debt	391,451	225,521
Asset retirement obligations	25,286	26,824

Deferred tax liability	32,330	30,054
Accrued liabilities to be refinanced	10,000	
Other long-term liabilities	1,265	586
Total liabilities	494,542	344,164
Stockholders equity:		
Preferred Stock, $.01 par value, 2,500,000 shares authorized;		
Common Stock, $.01 par value, 30,000,000 shares authorized; 20,879,220 and 20,747,773 shares outstanding at September 30, 2007 and December 31, 2006, respectively	209	207
Capital in excess of par value	222,448	220,785
Other comprehensive income	843	8,652
Retained earnings	62,371	51,719
Total stockholders equity	285,871	281,363
Total liabilities and stockholders equity	$ 780,413	$ 625,527

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

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Callon Petroleum Company
Consolidated Statements of Operations
(In thousands, except per share amounts) (Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Operating revenues:				
Oil sales	$ 15,912	$ 23,754	$ 48,058	$ 78,133
Gas sales	21,957	21,124	78,769	59,383
Total operating revenues	37,869	44,878	126,827	137,516
Operating expenses:				
Lease operating expenses	5,338	8,070	20,550	21,340
Depreciation, depletion and amortization	15,931	14,973	56,597	43,600
General and administrative	2,606	2,908	7,098	6,558
Accretion expense	904	1,082	2,959	3,832
Derivative expense		30		150
Total operating expenses	24,779	27,063	87,204	75,480
Income from operations	13,090	17,815	39,623	62,036
Other (income) expenses:				
Interest expense	10,148	4,027	23,905	12,303
Other (income)	(387)	(354)	(814)	(1,354)
Total other (income) expenses	9,761	3,673	23,091	10,949
Income before income taxes	3,329	14,142	16,532	51,087
Income tax expense	1,165	4,856	6,283	17,700
Income before Medusa Spar LLC	2,164	9,286	10,249	33,387
Income from Medusa Spar LLC net of tax	104	344	403	1,313
Net income	$ 2,268	$ 9,630	$ 10,652	$ 34,700
Net income per share:				
Basic	$ 0.11	$ 0.47	$ 0.51	$ 1.74
Diluted	$ 0.11	$ 0.45	$ 0.50	$ 1.64

Shares used in computing net income per share:				
Basic	20,800	20,650	20,728	19,919
Diluted	21,230	21,326	21,220	21,154

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

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Callon Petroleum Company
Consolidated Statements of Cash Flows
(In thousands) (Unaudited)

	Nine Months Ended	
	September 30, 2007	September 30, 2006
Cash flows from operating activities:		
Net income	$ 10,652	$ 34,700
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation, depletion and amortization	57,270	44,105
Accretion expense	2,959	3,832
Amortization of deferred financing costs	2,153	1,667
Non-cash derivative expense		150
Equity in earnings of Medusa Spar LLC	(403)	(1,313)
Deferred income tax expense	6,283	17,700
Non-cash charge related to compensation plans	490	718
Excess tax benefits from share-based payment arrangements		(1,449)
Changes in current assets and liabilities:		
Accounts receivable	7,891	4,569
Other current assets	(413)	(687)
Current liabilities	896	5,404
Change in gas balancing receivable	(160)	(131)
Change in gas balancing payable	564	149
Change in other long-term liabilities	(7)	1
Change in other assets, net	1,745	(2,692)
Cash provided by operating activities	89,920	106,723
Cash flows from investing activities:		
Capital expenditures	(106,899)	(122,002)
Entrada acquisition	(150,000)	
Distribution from Medusa Spar LLC	559	849
Cash used by investing activities	(256,340)	(121,153)
Cash flows from financing activities:		
Change in accrued liabilities to be refinanced	10,000	2,000
Increases in debt	213,000	63,000
Payments on debt	(48,000)	(51,000)
Deferred financing costs	(6,429)	
Equity issued related to employee stock plans		(438)
Excess tax benefits from share-based payment arrangements		1,449
Capital leases	(872)	(200)
Cash provided by financing activities	167,699	14,811
Net increase in cash and cash equivalents	1,279	381

Cash and cash equivalents:		
Balance, beginning of period	1,896	2,565
Balance, end of period	$ 3,175	$ 2,946

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

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CALLON PETROLEUM COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2007

1. General

The financial information presented as of any date other than December 31, 2006 has been prepared from the books and records of Callon Petroleum Company (the Company or Callon) without audit. Financial information as of December 31, 2006 has been derived from the audited financial statements of the Company, but does not include all disclosures required by U.S. generally accepted accounting principles. In the opinion of management, all adjustments, consisting only of normal recurring adjustments, necessary for the fair presentation of the financial information for the periods indicated, have been included. For further information regarding the Company s accounting policies, refer to the Consolidated Financial Statements and related notes for the year ended December 31, 2006 included in the Company s Annual Report on Form 10-K filed March 16, 2007. The results of operations for the three-month and nine-month periods ended September 30, 2007 are not necessarily indicative of future financial results.

2. Net Income Per Share

Basic net income per share was computed by dividing net income by the weighted average number of shares of common stock outstanding during the period. Diluted net income per share was determined on a weighted average basis using common shares issued and outstanding adjusted for the effect of common stock equivalents computed using the treasury stock method.

A reconciliation of the basic and diluted net income per share computation is as follows (in thousands, except per share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
(a) Net income	$ 2,268	$ 9,630	$ 10,652	$ 34,700
(b) Weighted average shares outstanding	20,800	20,650	20,728	19,919
Dilutive impact of stock options	136	193	142	258
Dilutive impact of warrants	292	443	308	894
Dilutive impact of restricted stock	2	40	42	83
(c) Weighted average shares outstanding for diluted net income per share	21,230	21,326	21,220	21,154
Basic net income per share (a¸b)	$ 0.11	$ 0.47	$ 0.51	$ 1.74
Diluted net income per share (a¸c)	$ 0.11	$ 0.45	$ 0.50	$ 1.64
Stock options and warrants excluded due to the exercise price being greater than the average stock price	104	30	92	27

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3. Derivatives

The Company periodically uses derivative financial instruments to manage oil and gas price risk on a limited amount of its future production and does not use these instruments for trading purposes. Settlements of oil and gas derivative contracts are generally based on the difference between the contract price or prices specified in the derivative instrument and a NYMEX price or other cash or futures index price. Such derivative contracts are accounted for under Statement of Financial Accounting Standards No. 133. Accounting for Derivative Instruments and Hedging Activities, (SFAS No. 133), as amended.

In September 2007, the Company entered into a six-month interest rate swap with Union Bank of California (UBOC), N.A. Callon will pay UBOC a fixed interest rate of 5.43% on a notional amount of $25,000,000 and receive the floating LIBOR rate. The objective of the interest rate swap is to minimize the impact of variable interest rates by locking into a fixed rate on a portion of the borrowings of the Merrill Lynch Senior Secured Credit Agreement dated April 18, 2007. The fair value of this interest rate swap as of September 30, 2007 was immaterial.

The Company s derivative contracts that are accounted for as cash flow hedges under SFAS 133 are recorded at fair market value and the changes in fair value are recorded through other comprehensive income (loss), net of tax, in stockholders equity. The cash settlements on contracts for future production are recorded as an increase or decrease in oil and gas sales. The cash settlements for interest rate contacts are recorded as an increase or decrease to interest expense. The changes in fair value related to ineffective derivative contracts are recognized as derivative expense (income). The cash settlements on these contracts are also recorded within derivative expense (income).

Cash settlements on effective oil and gas cash flow hedges during the three-month periods ended September 30, 2007 and 2006 resulted in an increase in oil and gas sales of $3.4 million and $3.2 million, respectively. Cash settlements on effective oil and gas cash flow hedges during the nine-month periods ended September 30, 2007 and 2006 resulted in an increase in oil and gas sales of $7.0 million and $5.7 million, respectively.

Derivative expense of $30,000 and $150,000 for three-month and the nine-month periods ended September 30, 2006, respectively, represents the amortization of derivative contract premiums.

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Listed in the table below are the outstanding oil and gas derivative contracts as of September 30, 2007:

Collars

Product	Volumes per Month	Quantity Type	Average Floor Price	Average Ceiling Price	Period
Oil	25,000	Bbls	$ 65.00	$ 83.30	10/07-12/07
Oil	25,000	Bbls	$ 65.00	$ 94.20	10/07-12/07
Oil	30,000	Bbls	$ 65.00	$ 81.50	01/08-12/08
Natural Gas	600,000	MMBtu	$ 8.00	$ 12.70	10/07-12/07

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4. Long-Term Debt

Long-term debt consisted of the following at:

	September 30, 2007	December 31, 2006
	(In thousands)	
Senior Secured Credit Facility (matures July 31, 2010)	$	$ 35,000
9.75% Senior Notes (due 2010), net of discount	191,451	189,862
Senior Revolving Credit Facility (due 2014)	200,000	
Capital lease		872
Total debt	391,451	225,734
Less current portion:		
Capital lease		213
Long-term debt	$ 391,451	$ 225,521

On August 30, 2006, the Company closed on a four-year amended and restated senior secured credit facility with UBOC. The borrowing base, which is reviewed and redetermined semi-annually, was $50 million at September 30, 2007. Borrowings under the credit facility are secured by mortgages covering the Company s major fields excluding Entrada. As of September 30, 2007, there were no borrowings under the facility.

On April 18, 2007, Callon closed the Entrada acquisition contemporaneous with a seven-year $200 million senior revolving credit facility arranged by Merrill Lynch Capital Corporation, which is secured by a lien on the Entrada properties. Borrowings outstanding under the facility bear interest at a rate of LIBOR plus 7%. The Company borrowed the full commitment amount under the facility at closing to cover the required $150 million payment to BP Exploration and Production Company (BP) and expenses and fees related to the transaction and the balance was used to pay down the Company s UBOC senior secured credit facility. Callon s UBOC senior secured credit facility was amended to allow for this transaction. The amendment included a provision which reduced the borrowing base under the UBOC facility to $50 million until the next borrowing base redetermination date. See Note 7 for more discussion on the Entrada acquisition.

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5. Comprehensive Income

A summary of the Company s comprehensive income is detailed below (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Net income	$ 2,268	$ 9,630	$ 10,652	$ 34,700
Other comprehensive income (loss):				
Change in fair value of derivatives	(1,968)	8,472	(7,809)	10,766
Total comprehensive income	$ 300	$ 18,102	$ 2,843	$ 45,466

6. Asset Retirement Obligations

The following table summarizes the activity for the Company s asset retirement obligations:

	Nine Months Ended September 30, 2007
Asset retirement obligation at beginning of period	$ 41,179
Accretion expense	2,959
Liabilities incurred	1,509
Liabilities settled	(16,868)
Revisions to estimate	3,682
Asset retirement obligation at end of period	32,461
Less: current asset retirement obligation	(7,175)
Long-term asset retirement obligation	$ 25,286

Assets, primarily U.S. Government securities, of approximately $4.6 million at September 30, 2007, are recorded as restricted investments. These assets are held in abandonment trusts dedicated to pay future abandonment costs for several of the Company s oil and gas properties.

7. Entrada Acquisition and Development

On April 18, 2007, the Company completed an acquisition of BP s 80% working interest in the Entrada Field for a purchase price of $190 million. The purchase price included $150 million payable at closing and an additional $40 million payable after the achievement of certain production milestones. The purchased interests included five federal offshore blocks at Garden Banks Blocks 738, 782, 785, 826 and 827, subject to certain depth limitations. As a result of the acquisition, Callon owns a 100% working interest in the Entrada Field and is operator. The acquisition added 150 billion cubic feet of natural gas equivalent (Bcfe) to Callon s proved undeveloped reserves.

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The acquisition was recorded at fair value based on the initial purchase price of $150 million. The Company may record the additional $40 million as additional purchase price in the future when the production milestones are achieved, in accordance with the terms of the agreement.

To finance the initial $150 million payment of the purchase price, Callon closed on a seven-year $200 million senior revolving credit facility arranged by Merrill Lynch Capital Corporation contemporaneous with the closing of the acquisition. The facility is secured by a lien on the Entrada properties. The Company borrowed the full commitment amount under the facility at closing to cover the required $150 million payment to BP and expenses and fees related to the transaction and the balance was used to pay down our UBOC senior secured credit facility.

In August 2007, Callon entered into a production handling agreement (PHA) with ConocoPhillips and Devon Energy Corporation. The PHA provides for production from the Entrada Field to be processed through the Magnolia production platform, which is owned by ConocoPhillips and Devon.

Callon is in the process of identifying a partner to participate in the Entrada Field development and has retained Merrill Lynch Petrie Divestiture Advisors to assist with this search.

8. Accounting for Uncertainty in Income Taxes

Callon adopted Financial Accounting Standards Board (FASB) Interpretation No. 48 Accounting for Uncertainty in Income Taxes (FIN 48), effective January 1, 2007. FIN 48 clarifies the accounting for income taxes by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN 48 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. The Company had no significant unrecognized tax benefits at the date of adoption or at September 30, 2007. Accordingly, the Company does not have any interest or penalties related to uncertain tax positions. However, if interest or penalties were to be incurred related to uncertain tax positions, such amounts would be recognized in income tax expense. Tax periods for all years after 1978 remain open to examination by the federal and state taxing jurisdictions to which the Company is subject.

9. Accrued Liabilities to be Refinanced

Amounts included in accrued liabilities to be refinanced at September 30, 2007 represent capital expenditures that were refinanced with the availability under the Company s senior secured credit facility subsequent to September 30, 2007.

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10. Accounting Pronouncements

In September 2006, the FASB issued Statement of Financial Accounting Standard No. 157, (SFAS 157), Fair Value Measurements. SFAS 157 defines fair value, establishes a framework for measuring fair value and requires enhanced disclosures about fair value measurements. SFAS 157 is effective for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The Company is currently reviewing the provisions of SFAS 157 and has not yet determined the impact of adoption.

In February 2007, the FASB issued Statement of Financial Accounting Standard No. 159 The Fair Value Option for Financial Assets and Liabilities Including an amendment of FASB No. 115 (SFAS 159). SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value. This statement is effective for fiscal years beginning after November 15, 2007, with early adoption allowed. The Company has not yet determined the impact, if any, the adoption of this standard may have on its financial condition or results of operations.

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Item 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Statements

This report includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. All statements other than statements of historical facts included in this report, including statements regarding our financial position, adequacy of resources, estimated reserve quantities, business strategies, plans, objectives and expectations for future operations and covenant compliance, are forward-looking statements. We can give no assurances that the assumptions upon which such forward-looking statements are based will prove to have been correct. Important factors that could cause actual results to differ materially from our expectations (Cautionary Statements) are disclosed in the section entitled Risk Factors included in our Annual Report on Form 10-K for our most recent fiscal year, elsewhere in this report and from time to time in other filings made by us with the Securities and Exchange Commission. All subsequent written and oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified by the Cautionary Statements.

General

Our revenues, profitability, future growth and the carrying value of our oil and gas properties are substantially dependent on prevailing prices of oil and gas, our ability to find, develop and acquire additional oil and gas reserves that are economically recoverable and our ability to develop existing proved undeveloped reserves. Our ability to maintain or increase our borrowing capacity and to obtain additional capital on attractive terms is also influenced by oil and gas prices. Prices for oil and gas are subject to large fluctuations in response to relatively minor changes in the supply of and demand for oil and gas, market uncertainty and a variety of additional factors beyond our control. These factors include weather conditions in the United States, the condition of the United States economy, the actions of the Organization of Petroleum Exporting Countries, governmental regulations, political stability in the Middle East and elsewhere, the foreign supply of oil and gas, the price of foreign imports and the availability of alternate fuel sources. Any substantial and extended decline in the price of oil or gas would have an adverse effect on the carrying value of our proved reserves, borrowing capacity, revenues, profitability and cash flows from operations. We use derivative financial instruments for price protection purposes on a limited amount of our future production, but do not use derivative financial instruments for trading purposes.

The following discussion is intended to assist in an understanding of our historical financial position and results of operations. Our historical financial statements and notes thereto included elsewhere in this quarterly report contain detailed information that should be referred to in conjunction with the following discussion.

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Liquidity and Capital Resources

Our primary sources of capital are cash flows from operations, borrowings from financial institutions and the sale of debt and equity securities. On September 30, 2007, we had cash and cash equivalents of $3.2 million and $50 million of availability under our UBOC senior secured credit facility. Cash provided from operating activities during the nine-month period ended September 30, 2007 totaled $89.9 million, a 16% decrease when compared to 2006. The decrease was primarily attributable to an increase in interest expense resulting from the seven-year $200 million senior revolving credit facility discussed below and a reduction in revenues primarily due to lower oil production.

Our capital expenditure budget for 2007, including capitalized interest and general and administrative expenses, will require approximately $125 million of funding. We expect that available cash and cash flows generated from operations during 2007 along with current availability under our UBOC senior secured credit facility will provide the capital necessary to fund these capital expenditures as well as our asset retirement obligations which are expected to be approximately $2 million. See the Capital Expenditures section below for a more detailed discussion of our anticipated capital expenditures for 2007.

On April 18, 2007, we closed the Entrada acquisition contemporaneous with a seven-year $200 million senior revolving credit facility arranged by Merrill Lynch Capital Corporation. This facility is secured by a lien on the Entrada properties. We borrowed the full commitment amount under the facility at closing to cover the required $150 million payment to BP and expenses and fees related to the transaction, and the balance was used to pay down our UBOC senior secured credit facility.

On August 30, 2006, we closed on a four-year amended and restated senior secured credit facility with UBOC. The borrowing base, which is reviewed and redetermined semi-annually, was $50 million at September 30, 2007. Borrowings under the UBOC senior secured credit facility are secured by mortgages covering our major fields excluding Entrada. Our UBOC senior secured credit facility was amended to allow for the financing arranged to acquire BP s interest in the Entrada Field. See Entrada Acquisition and Development below for further discussion about the acquisition.

The Indenture governing our 9.75% Senior Notes due 2010, the seven-year $200 million senior revolving credit facility and our senior secured credit facility with UBOC contain various covenants, including restrictions on additional indebtedness and payment of cash dividends. In addition, our senior secured credit facility contains covenants for maintenance of certain financial ratios. We were in compliance with these covenants at September 30, 2007. See Note 7 of the Consolidated Financial Statements for the year ended December 31, 2006 included in our Annual Report on Form 10-K filed March 16, 2007 for a more detailed discussion of long-term debt.

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The following table describes our outstanding contractual obligations (in thousands) as of September 30, 2007:

Contractual Obligations	Total	Less Than One Year	One-Three Years	Four-Five Years	After-Five Years
Senior Secured Credit Facility	$	$	$	$	$
9.75% Senior Notes	200,000			200,000	
Senior Revolving Credit Facility	200,000				200,000
Throughput Commitments:					
Medusa Spar LLC	6,412	2,580	3,832		
Medusa Oil Pipeline	322	87	118	71	46
	$ 406,734	$ 2,667	$ 3,950	$ 200,071	$ 200,046

Capital Expenditures

Capital expenditures on an accrual basis, excluding the Entrada acquisition, were $88 million for the nine-months ended September 30, 2007. Included in the $88 million were $33 million of costs incurred in the Gulf of Mexico Shelf Area for drilling costs associated with five wells, completion costs for three successful wells and completion and development costs related to 2006 discoveries. In addition, we incurred $29 million of costs in the Gulf of Mexico Deepwater Area for development drilling cost at our Habanero Field, exploratory drilling cost for Bob North and long-lead items and engineering for the development of Entrada. Interest of approximately $5 million and general and administrative costs allocable directly to exploration and development projects of approximately $8 million were capitalized for the first nine months of 2007. The remainder of the capital expended primarily includes the acquisition of seismic and leases.

Capital expenditures for the remainder of 2007 are projected to be approximately $36 million and include:

development wells and discretionary drilling of exploratory wells;

Entrada development costs;

the acquisition of seismic and leases; and

capitalized interest and general and administrative costs.

In addition, we are projecting to spend $700,000 for the remainder of 2007 for asset retirement obligations.

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Entrada Acquisition and Development

On April 18, 2007, we completed an acquisition with BP to purchase its 80% working interest in the Entrada Field for a purchase price of $190 million. The purchase price included $150 million payable at closing and an additional $40 million payable after the achievement of certain production milestones. The purchased interests included five federal offshore blocks at Garden Banks Blocks 738, 782, 785, 826 and 827, subject to certain depth limitations. As a result of the acquisition, we own a 100% working interest in the Entrada Field and became operator. The acquisition added 150 Bcfe to our proved undeveloped reserves.

The acquisition was recorded at fair value based on the initial purchase price of $150 million. We may record the additional $40 million as additional purchase price in the future when the production milestones are achieved, in accordance with the terms of the agreement.

To finance the initial $150 million payment of the purchase price, we closed on a seven-year $200 million senior revolving credit facility arranged by Merrill Lynch Capital Corporation contemporaneous with the closing of the acquisition. The facility is secured by a lien on the Entrada properties. We borrowed the full commitment amount under the facility at closing to cover the required $150 million payment to BP and expenses and fees related to the transaction, and the balance was used to pay down our UBOC senior secured credit facility.

Our UBOC senior secured credit facility was amended to allow for the Merrill Lynch Capital Corporation financing. The amendment included a provision which reduced the borrowing base under the UBOC facility to $50 million until the next borrowing base redetermination date.

In August 2007, we entered into a production handling agreement (PHA) with ConocoPhillips and Devon Energy Corporation. The PHA provides for production from the Entrada Field to be processed through the Magnolia production platform, which is owned by ConocoPhillips and Devon. We currently expect first production to commence in the first half of 2009.

We are now in the process of identifying a partner to participate in the Entrada Field development and have retained Merrill Lynch Petrie Divestiture Advisors to assist with this search.

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Off-Balance Sheet Arrangements

We have a 10% ownership interest in Medusa Spar LLC (LLC), which is a limited liability company that owns a 75% undivided ownership interest in the deepwater Spar production facilities on our Medusa Field in the Gulf of Mexico. We contributed a 15% undivided ownership interest in the production facility to the LLC in return for approximately $25 million in cash and a 10% ownership interest in the LLC. The LLC will earn a tariff based upon production volume throughput from the Medusa area. We are obligated to process our share of production from the Medusa Field and any future discoveries in the area through the Spar production facilities. This arrangement allows us to defer the cost of the Spar production facility over the life of the Medusa Field. Our cash proceeds were used to reduce the balance outstanding under our senior secured credit facility. The LLC used $83.7 million of cash proceeds from non-recourse financing and a cash contribution by one of the LLC owners to acquire its 75% interest in the Spar. The balance of Medusa Spar LLC is owned by Oceaneering International, Inc. and Murphy Oil Corporation. We are accounting for our 10% ownership interest in the LLC under the equity method.

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Results of Operations

The following table sets forth certain unaudited operating information with respect to the Company s oil and gas operations for the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Net production :				
Oil (MBbls)	223	381	774	1,340
Gas (MMcf)	2,840	2,710	9,883	7,241
Total production (MMcfe)	4,179	4,998	14,527	15,278
Average daily production (MMcfe)	45.4	54.3	53.2	56.0
Average sales price:				
Oil (Bbls) (a)	$ 71.29	$ 62.31	$ 62.09	$ 58.33
Gas (Mcf)	7.73	7.79	7.97	8.20
Total (Mcfe)	9.06	8.98	8.73	9.00
Oil and gas revenues:				
Oil revenue	$ 15,912	$ 23,754	$ 48,058	$ 78,133
Gas revenue	21,957	21,124	78,769	59,383
Total	$ 37,869	$ 44,878	$ 126,827	$ 137,516
Oil and gas production costs:				
Lease operating expenses	$ 5,338	$ 8,070	$ 20,550	$ 21,340
Additional per Mcfe data:				
Sales price	$ 9.06	$ 8.98	$ 8.73	$ 9.00
Lease operating expense	1.28	1.61	1.41	1.40
Operating margin	$ 7.78	$ 7.37	$ 7.32	$ 7.60
Depletion, depreciation and amortization	$ 3.81	$ 3.00	$ 3.90	$ 2.85
General and administrative (net of management fees)	$ 0.62	$ 0.58	$ 0.49	$ 0.43

(a) Below is a reconciliation of the average NYMEX price to the average realized sales price per barrel of oil:

Average NYMEX oil price	$ 75.37	$ 70.51	$ 66.21	$ 68.23
Basis differential and quality adjustments	(2.96)	(6.91)	(4.45)	(7.81)
Transportation	(1.12)	(1.29)	(1.13)	(1.28)
Hedging			1.46	(0.81)
Average realized oil price	$ 71.29	$ 62.31	$ 62.09	$ 58.33

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Comparison of Results of Operations for the Three Months Ended September 30, 2007 and the Three Months Ended September 30, 2006.

Oil and Gas Production and Revenues

Total oil and gas revenues decreased to $37.9 million in the third quarter of 2007 compared to $44.9 million in the third quarter of 2006. Total production on an equivalent basis for the third quarter of 2007 decreased by 16% compared to the third quarter of 2006.

Gas production during the third quarter of 2007 totaled 2.8 billion cubic feet of gas (Bcf) and generated $22 million in revenues compared to 2.7 Bcf and $21.1 million in revenues during the same period in 2006. The average gas price after hedging impact for the third quarter of 2007 was $7.73 per thousand cubic feet of natural gas (Mcf) compared to $7.79 per Mcf for the same period last year. The 5% increase in 2007 production was primarily attributable to new discoveries being brought online. The increase was partially offset by the sale of our Mobile Bay 952,953,955 Field, early water production from our High Island Block 73 and North Padre Island Block 913 fields and normal and expected declines in production from our High Island Block 119 and Mobile Bay 864 fields and older properties. In addition, remedial work with wireline and coil tubing was performed to correct mechanical problems on the A-1 well at Medusa in the fourth quarter of 2006 that resulted in production being restored at a lower rate.

Oil production during the third quarter of 2007 totaled 223,000 barrels and generated $15.9 million in revenues compared to 381,000 barrels and $23.8 million in revenues for the same period in 2006. The average oil price received after hedging impact in the third quarter of 2007 was $71.29 per barrel compared to $62.31 per barrel in the third quarter of 2006. The 41% decrease in production was primarily due to the A-1 well at Medusa having mechanical problems which required remedial work and resulted in production being restored at a lower rate. In addition, the #1 well at Habanero became uneconomic as expected in the third quarter of 2007 and was sidetracked and completed as planned in an updip location in the reservoir. Production at this well commenced in October 2007.

Lease Operating Expenses

Lease operating expenses were $5.3 million for the three-month period ended September 30, 2007, a 34% decrease when compared to the same period in 2006. The decrease was primarily due to the sale of the Mobile Bay 952,953,955 Field effective May 1, 2007 and the shut-in of our South Marsh Island 261 Field, which is scheduled to be plugged and abandoned. The decrease was partially offset by additional operating costs associated with new discoveries.

Depreciation, Depletion and Amortization

Depreciation, depletion and amortization for the three months ended September 30, 2007 and 2006 was $15.9 million and $15.0 million, respectively. The 6% increase was due to a higher depletion rate resulting from higher costs associated with our exploration and development activities in the Gulf of Mexico.

Accretion Expense

Accretion expense for the three-month periods ended September 30, 2007 and 2006 of $904,000 and $1.1 million, respectively, represents accretion of our asset retirement obligations. See Note 6 to the Consolidated Financial Statements.

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General and Administrative

General and administrative expenses, net of amounts capitalized, were $2.6 million and $2.9 million for the three-month periods ended September 30, 2007 and 2006, respectively. The 10% decrease was primarily the result of the non-cash charge that was recognized in the third quarter of 2006 for the vesting of 20% of restricted shares issued as part of the 2006 restricted stock award.

Interest Expense

Interest expense increased to $10.1 million during the three months ended September 30, 2007 compared to $4.0 million during the three months ended September 30, 2006. This increase was due to the new debt associated with the Entrada acquisition. See Note 4 and 7 for more details.

Income Taxes

Income tax expense was $1.2 million and $4.9 million for the three-month periods ended September 30, 2007 and 2006, respectively. The decrease was due to a decrease in income before income taxes.

Comparison of Results of Operations for the Nine Months Ended September 30, 2007 and the Nine Months Ended September 30, 2006.

Oil and Gas Production and Revenues

Total oil and gas revenues decreased to $126.8 million in the first nine months of 2007 compared to $137.5 million in the same period in 2006. Total production on an equivalent basis during nine-month period ended September 30, 2007 decreased by 5% compared to the nine-month period ended September 30, 2006.

Gas production during the first nine months of 2007 totaled 9.9 Bcf and generated $78.8 million in revenues compared to 7.2 Bcf and $59.4 million in revenues during the same period in 2006. The average gas price after hedging impact for the nine months ended September 30, 2007 was $7.97 per Mcf compared to $8.20 per Mcf for the same period in 2006. The 36% increase in 2007 production was primarily attributable to new discoveries being brought online. The increase was partially offset by the sale of the Mobile Bay 952,953,955 Field in the second quarter of 2007, early water production from East Cameron Block 90, High Island Block 73 and North Padre Island Block 913 and normal and expected declines in production from our High Island Block 119 and Mobile Bay area fields and older properties. In addition, remedial work with wireline and coil tubing was performed to correct mechanical problems on the A-1 well at Medusa in the fourth quarter of 2006 that resulted in production being restored at a lower rate.

Oil production during the nine months ended September 30, 2007 totaled 774,000 barrels and generated $48.1 million in revenues compared to 1,340,000 barrels and $78.1 million in revenues for the same period in 2006. The average oil price received after hedging impact for the nine-month period ended September 30, 2007 was $62.09 per barrel compared to $58.33 per barrel during the same period in 2006. The 42% decrease in production was primarily due to the A-1 well at Medusa having mechanical problems which required remedial work and resulted in production being restored at a lower rate. In addition, the #1 well at Habanero became uneconomic as expected in the third quarter of 2007 and was sidetracked and completed as planned in an updip location in the reservoir. Production at this well commenced in October 2007.

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Lease Operating Expenses

Lease operating expenses were $20.6 million for the nine-month period ended September 30, 2007, a 4% decrease when compared to the same period in 2006. The decrease was primarily due to the sale of the Mobile Bay 952,953,955 Field effective May 1, 2007, lower throughput charges at Habanero and the shut-in of our South Marsh Island 261 Field, which is scheduled to be plugged and abandoned. The decrease was partially offset by additional operating costs associated with our new discoveries.

Depreciation, Depletion and Amortization

Depreciation, depletion and amortization for the nine months ended September 30, 2007 and 2006 was $56.6 million and $43.6 million, respectively. The 30% increase was due to a higher depletion rate resulting from higher costs associated with our exploration and development activities in the Gulf of Mexico.

Accretion Expense

Accretion expense for the nine-month periods ended September 30, 2007 and 2006 of $3.0 million and $3.8 million, respectively, represents accretion of our asset retirement obligations. See Note 6 to the Consolidated Financial Statements.

General and Administrative

General and administrative expenses, net of amounts capitalized, were $7.1 million and $6.6 million for the nine-month periods ended September 30, 2007 and 2006, respectively. The 8% increase was a result of additions to our staff and higher compensation costs.

Interest Expense

Interest expense increased to $23.9 million during the nine months ended September 30, 2007 compared to $12.3 million during the nine months ended September 30, 2006. The increase was due to the new debt associated with the Entrada acquisition. See note 4 and 7 for more details.

Income Taxes

Income tax expense was $6.3 million and $17.7 million for the nine-month periods ended September 30, 2007 and 2006, respectively. The decrease was primarily due to a decrease in income before income taxes.

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Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Commodity Price Risk

The Company s revenues are derived from the sale of its crude oil and natural gas production. The prices for oil and gas remain extremely volatile and sometimes experience large fluctuations as a result of relatively small changes in supply, weather conditions, economic conditions and government actions. From time to time, the Company enters into derivative financial instruments to manage oil and gas price risk.

The Company may utilize fixed price swaps, which reduce the Company s exposure to decreases in commodity prices and limit the benefit the Company might otherwise have received from any increases in commodity prices.

The Company may utilize price collars to reduce the risk of changes in oil and gas prices. Under these arrangements, no payments are due by either party as long as the market price is above the floor price and below the ceiling price set in the collar. If the price falls below the floor, the counter-party to the collar pays the difference to the Company, and if the price rises above the ceiling, the counter-party receives the difference from the Company.

Callon may purchase puts which reduce the Company s exposure to decreases in oil and gas prices while allowing realization of the full benefit from any increases in oil and gas prices. If the price falls below the floor, the counter-party pays the difference to the Company.

The Company enters into these various agreements from time to time to reduce the effects of volatile oil and gas prices and does not enter into derivative transactions for speculative purposes. However, certain of the Company s derivative positions may not be designated as hedges for accounting purposes.

See Note 3 to the Consolidated Financial Statements for a description of the Company s outstanding derivative contracts at September 30, 2007.

Interest Rate Risk

The Company s $200 million senior revolving credit facility arranged by Merrill Lynch Capital Corporation bears interest at a variable LIBOR-based rate. As a result, an increase in LIBOR would increase the interest cost associated with this facility and would have a negative impact on the Company s results of operations and cash flows. As of September 30, 2007, the Company had $200 million of borrowings outstanding under the facility and had an interest rate swap in place to reduce its risk associated with changes in interest rates on $25 million of this variable rate debt for a six-month period. See Note 3 to the Consolidated Financial Statements for a description of the interest rate hedge and Note 4 for the Company s outstanding debt at September 30, 2007.

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Item 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Securities Exchange Act of 1934, as amended, is accumulated and communicated to the issuer s management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. The Company s principal executive and principal financial officers have concluded that the Company s disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the Exchange Act)) were effective as of September 30, 2007.

There were no changes in the Company s internal control over financial reporting that occurred during the Company s last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

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CALLON PETROLEUM COMPANY
PART II. OTHER INFORMATION

Item 6. EXHIBITS

Exhibits

3. Articles of Incorporation and By-Laws
   - 3.1 Certificate of Incorporation of the Company, as amended (incorporated by reference from Exhibit 3.1 of the Company s Annual Report on Form 10-K for the year ended December 31, 2003 filed March 15, 2004, File No. 001-14039)
   - 3.2 Bylaws of the Company (incorporated by reference from Exhibit 3.2 of the Company s Registration Statement on Form S-4, filed August 4, 1994, Reg. No. 33-82408)
4. Instruments defining the rights of security holders, including indentures
   - 4.1 Specimen Common Stock Certificate (incorporated by reference from Exhibit 4.1 of the Company s Registration Statement on Form S-4, filed August 4, 1994, Reg. No. 33-82408)
   - 4.2 Rights Agreement between Callon Petroleum Company and American Stock Transfer & Trust Company, Rights Agent, dated March 30, 2000 (incorporated by reference from Exhibit 99.1 of the Company s Registration Statement on Form 8-A, filed April 6, 2000, File No. 001- 14039)
   - 4.3 Form of Warrant entitling certain holders of the Company s 10.125% Senior Subordinated Notes due 2002 to purchase common stock from the Company (incorporated by reference to Exhibit 4.13 of the Company s Form 10-Q for the period ended June 30, 2002, File No. 001-14039)

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4.4 Form of Warrants dated December 8, 2003 and December 29, 2003 entitling lenders under the Company s $185 million amended and restated Senior Unsecured Credit Agreement, dated December 23, 2003, to purchase common stock from the Company (incorporated by reference to Exhibit 4.14 of the Company s Annual Report on Form 10-K for the year ended December 31, 2003, File No. 001-14039)

4.5 Indenture for the Company s 9.75% Senior Notes due 2010, dated March 15, 2004, between Callon Petroleum Company and American Stock Transfer & Trust Company (incorporated by reference to Exhibit 4.16 of the Company s Quarterly Report on Form 10-Q for the period ended March 31, 2004, File No. 001-14039)

10. Material Contracts

10.1 Deepwater Production Handling and Operating Services Agreement for Garden Banks Blocks 738, 782, 785, 826 and 827 Production Handling at the Garden Banks Block 783 Magnolia TLP, dated as of August 31, 2007, by and between ConocoPhillips Company and Devon Energy Production Company, L.P. and Callon Petroleum Operating Company

31. Certifications

31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32. Section 1350 Certifications

32.1 Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

32.2 Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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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 thereunto duly authorized.

CALLON PETROLEUM COMPANY

Date: November 5, 2007

By: /s/ B.F. Weatherly

B.F. Weatherly, Executive Vice-President and Chief Financial Officer

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Exhibit Index

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32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

e principal amount, the portion of the principal amount payable if the maturity of the debt securities is accelerated;

whether any index, formula or other method will determine payments of principal or interest and the manner of determining the amount of the payments;

if other than U.S. dollars, the currency, currencies or currency units in which the principal of, or any premium or interest on, debt securities of the series will be payable;

if the principal or any premium or interest is to be payable, at the election of Cott or the holder, in a currency or currencies other than that or those in which the debt securities are stated to be payable, the currency or currencies in which the payment may be elected to be payable and the periods within which, and the terms and conditions upon which, the election is to be made;

whether we have the right to defer payments of interest by extending the interest payment period and the duration of any permissible extension;

whether the provisions relating to defeasance and covenant defeasance described under Defeasance and Covenant Defeasance apply;

if the debt securities will be issued in whole or in part in the form of a book-entry debt security, as described under the heading Book-Entry Securities , the depositary for the debt securities and the terms and conditions, if any, upon which the book-entry debt securities may be registered for transfer or exchange in the name of a person other than the depositary or its nominee;

any addition to, or change in, the events of default described under Remedies If an Event of Default Occurs ;

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any addition to, or change in, the covenants in the indenture applicable to the debt securities;

if applicable, the terms of any right to convert or exchange the debt securities into common or preferred stock or depositary shares of Cott;

whether the debt securities will be sold as part of units consisting of debt securities and other securities;

if applicable, the terms of any guarantee of debt securities;

if the debt securities are to be issued upon the exercise of warrants, the time, manner and place for the debt securities to be authenticated and delivered; and

any other terms consistent with the applicable indenture.

We may issue some of the debt securities at a substantial discount below their principal amount as original issue discount securities. Original issue discount securities means that less than the entire principal amount of the securities will be payable upon declaration of acceleration of their maturity. The applicable prospectus supplement will describe any material federal income tax consequences and other considerations that apply to original issue discount securities.

Debt securities may bear interest at a fixed rate or a floating rate. Debt securities bearing no interest or interest at a rate that at the time of issuance is below the prevailing market rate and debt securities issued as part of units consisting of debt securities and other securities may be sold or deemed to be sold at a discount below their stated principal amount. If Cott has the right to defer interest with respect to any debt securities, the holders of these debt securities may be allocated interest income for federal and state income tax purposes without receiving equivalent, or any, interest payments. Any material federal income tax considerations applicable to any discounted debt securities or to debt securities issued at par that are treated as having been issued at a discount for federal income tax purposes will be described in the applicable prospectus supplement.

Subordination of Subordinated Debt Securities

To the extent provided in the subordinated debt indenture, the payment of the principal of, and any premium and interest on, any subordinated debt securities, including amounts payable on any redemption or repurchase, will be subordinated in right of payment to the prior payment in full of all our senior debt, as defined below. This means that in some circumstances, if we do not make payments on all of our debt obligations as they come due, the holders of our senior debt will be entitled to receive payment in full of all amounts that are due or will become due on our senior debt before the holders of subordinated debt securities will be entitled to receive any amounts on the subordinated debt securities. These circumstances include:

our filing for bankruptcy or the occurrence of other events in bankruptcy, insolvency or similar proceedings;

any liquidation, dissolution or winding up of our company, or any assignment for the benefit of our creditors or marshaling of our assets; or

acceleration of the maturity of the subordinated debt securities. For example, the entire principal amount of a series of subordinated debt securities may be declared to be due and immediately payable or may be automatically accelerated due to an event of default as described under Remedies If an Event of Default Occurs .

In addition, we are not permitted to make payments of principal, any premium or interest on the subordinated debt securities if we default in our obligation to make payments on any senior debt beyond any applicable grace period and do not cure that default, or if an event of default that

permits the holders of any senior debt or a trustee on their behalf to accelerate the maturity of the senior debt occurs, or if any judicial proceeding is pending with respect to a payment default or event of default of this kind with respect to senior debt.

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These subordination provisions mean that if we are insolvent, a holder of our senior debt may ultimately receive out of our assets more than a holder of the same amount of our subordinated debt.

Senior debt means the principal of, any premium and unpaid interest on all of our present and future:

- indebtedness for money that we borrow;
- obligations represented by our bonds, debentures, notes or similar instruments;
- indebtedness incurred, assumed or guaranteed when we acquire any business, property or assets except purchase-money indebtedness classified as accounts payable under generally accepted accounting principles;
- obligations that we owe as a lessee under leases that generally accepted accounting principles require us to capitalize on our balance sheet;
- reimbursement obligations under letters of credit relating to indebtedness or other obligations of the kind referred to in the four bullets above; and
- obligations under our guarantees of the indebtedness or obligations of others of the kind referred to in the five bullets above.

Senior debt does not include any indebtedness that expressly states in the instrument creating or evidencing it that it is not superior in right of payment to the subordinated debt securities. Senior debt also does not include any subordinated debt securities.

The applicable prospectus supplement may further describe the provisions applicable to the subordination of the subordinated debt securities of a particular series. The applicable prospectus supplement will describe the approximate amount, on a recent date, of senior debt outstanding to which the subordinated debt securities of that series will be subordinated. The indentures do not limit the amount of senior debt we are permitted to have, and we may incur additional senior debt after the issuance of any subordinated debt securities.

Conversion or Exchange of Debt Securities

The applicable prospectus supplement will describe the terms, if any, on which a series of debt securities may be converted into or exchanged for Cott common or preferred stock or depositary shares. These terms will include whether the conversion or exchange is mandatory, or is at Cott s option or the option of the holder. We will also describe in the applicable prospectus supplement how we will calculate the number of securities that holders of debt securities would receive if they were to convert or exchange their debt securities, the conversion price, any other terms related to conversion and any anti-dilution protections.

Consolidation, Merger or Sale of Assets

The indentures generally permit Cott to consolidate with or merge into another company. They also permit us to sell substantially all our assets to another company. However, we may not take any of these actions unless the following conditions are met:

- If we merge out of existence or sell our assets, the resulting entity must agree to be legally responsible for the debt securities and be a corporation, partnership or trust organized and existing under the laws of Canada or any province or territory thereof, the United States, any state thereof or the District of Columbia or, if such transaction would not impair your rights, any other country provided the successor entity assumes our obligations under the debt securities and the indenture to pay additional amounts; and

The merger, sale of assets or other transaction must not cause a default on the debt securities. For purposes of this no-default test, a default would include any event of default described below under

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Remedies If an Event of Default Occurs that has occurred and is continuing. A default for this purpose would also include any event that would be an event of default if the requirement for giving us default notice or the requirement that the default had to exist for a specific period of time was disregarded.

If we merge out of existence or sell substantially all our assets, the surviving or acquiring entity will be substituted for Cott in the indentures with the same effect as if it had been an original party to the indentures. After a merger or sale of substantially all our assets, the surviving or acquiring entity may exercise Cott s rights and powers under each indenture, and Cott will be released from all its liabilities and obligations under the indenture and under the debt securities.

Modification and Waiver

Modification

There are three types of changes we can make to the indentures and the debt securities.

Changes Requiring Approval of All Holders. First, there are changes that cannot be made to the indenture and the debt securities issued under that indenture without the approval of the holder of each debt security affected by the changes:

change the stated maturity of the principal of or interest on any debt security;

reduce any amounts due on any debt security;

reduce the amount of principal payable upon acceleration of the maturity of a debt security following a default;

change the place or currency of payment on any debt security;

impair the right of the holders to sue for payment;

impair any right that a holder of a debt security may have to exchange or convert the debt security for or into our common stock, preferred stock or depositary shares;

reduce the percentage of the securities of any series whose holders consent is needed to modify the indenture;

reduce the percentage of the securities of any series whose holders consent is needed to waive compliance with certain provisions of the indenture or to waive certain defaults;

in the case of subordinated debt securities, modify the ranking or priority of the securities in a way that is adverse to the holders in any material respect; or

modify any aspect of the provisions dealing with modification and waiver of the indenture, except to increase any required percentage referred to above or to add to the provisions that cannot be changed or waived without consent of the holder of each affected debt security.

Changes Requiring Consent by the Holders of 50% of the Debt Securities of Each Affected Series. The second type of change to the indenture and the debt securities issued under that indenture requires a vote in favor by holders owning more than 50% of the principal amount of the debt securities of each series affected by the change. Most changes fall into this category, except for clarifying changes and certain other changes that would not adversely affect holders of the debt securities in any material respect.

Changes Not Requiring Approval. The third type of change does not require any consent by holders of the debt securities. This type is limited to clarifications and other changes that would not adversely affect holders of the debt securities in any material respect and changes that affect only debt securities to be issued under the indenture after the changes take effect.

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Waiver

A vote in favor by holders owning a majority of the principal amount of the debt securities of an affected series would be required for us to obtain a waiver of all or part of the restrictive covenants described below under Restrictive Covenants in Senior Debt Indenture or a waiver of a past default with respect to the series. However, we cannot obtain a waiver of a payment default or any other aspect of either indenture or the debt securities listed above under Changes Requiring Approval of All Holders unless we obtain the individual consent of each holder of securities affected by the change.

Rules Concerning Voting

When taking a vote, we will use the following rules to decide how much principal amount to attribute to a debt security:

For original issue discount securities, we will use the principal amount that would be due and payable on the voting date if the maturity of these securities were accelerated to that date because of a default.

For debt securities whose principal amount is not known, because, for example, it is based on an index, we will use a special rule described in the prospectus supplement.

For debt securities denominated in one or more foreign currencies or currency units, we will use the U.S. dollar equivalent.

Debt securities will not be considered outstanding and will, therefore, not be eligible to vote if we have deposited or set aside in trust for the holders money for their payment or redemption. In addition, securities will not be eligible to vote if they have been fully defeased as described under Defeasance and Covenant Defeasance Full Defeasance .

Also, securities that we or our affiliates own will not be considered outstanding. However, securities so owned which have been pledged in good faith may be regarded as outstanding if the pledgee establishes to the trustee s satisfaction the pledgee s right to vote with respect to the securities and that the pledgee is not one of the persons referred to in the preceding sentence.

In certain circumstances, we or the trustee will be entitled to set a record date for action by holders. If we or the trustee set a record date for a vote or other action to be taken by holders of a particular series of debt securities, that vote or action may be taken only if holders of the required percentage of outstanding debt securities vote within 90 days of the record date to approve taking the action.

Remedies If an Event of Default Occurs

If you are the holder of a subordinated debt security, all the remedies available upon the occurrence of any event of default under the subordinated debt indenture will be subject to the restrictions on the subordinated debt securities described above under Subordination of Subordinated Debt Securities.

Each indenture defines an event of default with respect to the debt securities of any series to mean any of the following:

our failure to pay interest on a debt security of that series within 30 days after its due date;

our failure to pay the principal of, or any premium on, a debt security of that series at its due date, and continuance of that failure for a period of 30 days if the security became due by its terms as a result of a sinking fund provision;

our failure to deposit any sinking fund payment with respect to debt securities of that series within 30 days after it becomes due;

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our failure to perform, or breach of, any other covenant or warranty of Cott in the indenture with respect to debt securities of that series that continues for 90 days after a written notice to us by the applicable trustee or to us and the trustee by the holders of at least 25% of the principal amount of the outstanding debt securities of that series stating that we are in default;

our filing for bankruptcy or the occurrence of other specific events of bankruptcy, insolvency, or reorganization; and

the occurrence of any other event of default with respect to any debt securities of that series described in the prospectus supplement.

If an event of default applicable to any series of debt securities then outstanding occurs and continues, the applicable trustee or the holders of at least 25% of the principal amount of the outstanding debt securities of that series will have the right to declare the entire principal of all the debt securities of that series to be due and payable immediately. If the event of default occurs because of specified events in bankruptcy, insolvency or reorganization relating to Cott, the entire principal amount of the debt securities of that series will be automatically accelerated, without any action by the trustee or any holder. Each of the situations described above is called a declaration of acceleration of maturity. Under certain circumstances, the holders of a majority of the principal amount of the securities of that series may cancel the declaration of acceleration of maturity and waive the past defaults.

For most defaults under either indenture with respect to any series of debt securities, the trustee will be required to give to the holders of the securities of the series notice of a default known to it within 90 days of the occurrence of the default. For these purposes, a default is defined as the occurrence of any of the events set forth in the events of default in the indenture, without any grace periods and regardless of notice. For defaults described in the fourth bullet from the top in this subsection, the trustee is not to give notice until at least 30 days after the occurrence of the default. The trustee may withhold notice of any default, except in the payment of principal or interest or any sinking fund installment, if it decides in good faith that withholding notice is in the interests of the holders.

Generally, the trustee is not required to take any action under the relevant indenture at the request of any holders unless the holders offer the trustee reasonable protection from expenses and liabilities. This protection is called an indemnity. If they provide this indemnity, the holders of a majority in principal amount of the outstanding debt securities of the relevant series may direct the time, method and place of conducting any lawsuit or other formal legal action seeking any remedy available to the trustee. These majority holders may also direct the trustee to exercise any other action permitted under the applicable indenture. The trustee may decline to act if the direction given is contrary to law or the applicable indenture.

Before you bypass the trustee and bring your own lawsuit or other formal legal action or take other steps to enforce your rights or protect your interests relating to the debt securities, the following must occur:

You must give the trustee written notice that an event of default has occurred and is continuing;

The holders of not less than 25% in principal amount of all outstanding securities of the relevant series must make a written request that the trustee take action because of the default and must offer reasonable indemnity to the trustee against the cost and other liabilities of taking that action;

The trustee must not have taken action for 60 days after receipt of the above notice, request and offer of indemnity; and

During those 60 days, the holders of a majority in principal amount of the debt securities of the relevant series must not have given the trustee directions that are inconsistent with the written request of the holders of not less than 25% in principal amount of the debt securities of the relevant series.

However, you are entitled at any time to bring a lawsuit for the payment of money due on your debt security on or after its due date.

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Defeasance and Covenant Defeasance

The following discussion of defeasance and covenant defeasance will be applicable to your series of debt securities only if we choose to have them apply to that series. If we do so choose, we will state that in the prospectus supplement.

Full Defeasance

If there is a change in federal tax law, as described below, we can legally release ourselves from any payment or other obligations on the debt securities of a series (called full defeasance) on the 91st day after the date of the deposit referred to in the first bullet below if we satisfy the conditions below:

- We must deposit in trust for the benefit of all holders of the debt securities a combination of cash and U.S. government obligations or U.S. government agency obligations unconditionally guaranteed by the United States (or if the debt securities are in a foreign currency, foreign government securities in the same foreign currency) that will generate enough cash to pay principal and any premium and any interest on the debt securities on their various due dates.

- There must be a change in current federal tax law or an IRS ruling that lets us make the above deposit without causing you to be taxed on the debt securities any differently than if we did not make the deposit and just repaid the debt securities ourselves. Under current federal tax law, the deposit and our legal release from the debt securities would be treated as though we took back your debt securities and gave you your share of the cash and notes or bonds deposited in trust. In that event, you could recognize gain or loss on the debt securities you give back to us.

- We must deliver to the trustee a legal opinion of our counsel confirming the tax law change described above.

- In the case of any subordinated debt securities, at the time of the deposit referred to above, no payment default on any senior debt may have occurred and be continuing, no acceleration of the maturity of any senior debt upon any event of default may have occurred and be continuing and no other event of default with respect to any senior debt may have occurred and be continuing permitting (after notice or lapse of time or both) the holders of the senior debt or a trustee on their behalf to accelerate the maturity of the senior debt.

- We must deliver to the trustee an officers certificate and an opinion of counsel, each stating that the above conditions and all other conditions to defeasance under the applicable indenture have been complied with.

If we ever fully defeased your debt securities, you would have to rely solely on the trust deposit for repayment on the debt securities. You could not look to us for repayment in the unlikely event of any shortfall. Conversely, the trust deposit would most likely be protected from claims of our lenders and other creditors if we ever become bankrupt or insolvent. If the debt securities are subordinated debt securities, their holders would be released from the subordination provisions described under Subordination of Subordinated Debt Securities.

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Covenant Defeasance

Under current federal tax law, we can make the same type of deposit described above and be released from certain restrictive covenants relating to your debt security that may be described in your prospectus supplement. The release from these covenants is called covenant defeasance. In that event, you would lose the protection of these covenants, and any omission to comply with them would not constitute an event of default. You would, however, gain the protection of having cash and securities set aside in trust to repay the debt securities. If the debt securities are subordinated, their holders would be released from the subordination provisions described above under Subordination of Subordinated Debt Securities . In order to achieve covenant defeasance, we must do the following:

- We must deposit in trust for the benefit of all holders of the debt securities a combination of cash and U.S. government obligations or U.S. government agency obligations unconditionally guaranteed by the United States (or if the debt securities are in a foreign currency, foreign government securities in the same foreign currency) that will generate enough cash to pay principal and any premium and any interest on the debt securities on their various due dates.

- We must deliver to the trustee a legal opinion of our counsel confirming that under current federal income tax law we may make that deposit without causing you to be taxed on the debt securities any differently than if we did not make the deposit and just repaid the debt securities ourselves.

- In the case of any subordinated debt securities, at the time of the deposit referred to above, no payment default on any senior debt may have occurred and be continuing, no acceleration of the maturity of any senior debt upon any event of default may have occurred and be continuing and no other event of default with respect to any senior debt may have occurred and be continuing permitting (after notice or lapse of time or both) the holders of the senior debt or a trustee on their behalf to accelerate the maturity of the senior debt.

- We must deliver to the trustee an officers certificate and an opinion of counsel, each stating that the above conditions and all other conditions to defeasance under the applicable indenture have been complied with.

If we accomplish covenant defeasance with regard to your debt securities, the following provisions of the applicable indenture and the debt securities would no longer apply:

- If your debt securities are senior debt securities, certain restrictions.

- Any other covenants applicable to the series of debt securities described in the prospectus supplement.

- The events of default relating to breach of covenants described above under Remedies If an Event of Default Occurs .

- If the securities are subordinated, the subordination provisions of the debt securities described above under Subordination of Subordinated Debt Securities .

If we accomplish covenant defeasance, the holders of the debt securities could still look to us for repayment of those securities if there were a shortfall in the trust deposits. If a remaining event of default occurred and the debt securities became immediately due and payable, there could be a shortfall. Depending on the event causing the default, you may not be able to obtain payment of the shortfall.

Legal Ownership

Street Name and Other Indirect Owners

Investors who hold securities in accounts at banks or brokers will generally not be recognized by us as legal holders of securities. This is called holding in street name. Instead, we would recognize only the bank or broker, or the financial institution the bank or broker uses to hold its securities. These intermediary banks,

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brokers and other financial institutions pass along principal, interest and other payments on the securities, either because they agree to do so in their customer agreements or because they are legally required to. If you hold securities in street name, you should check with your own institution to find out:

- How it handles securities payments and notices.
- Whether it imposes fees or charges.
- How it would handle voting if ever required.
- Whether and how you can instruct it to send you securities registered in your own name so you can be a holder as described below.
- How it would pursue rights under the securities if there were a default or other event triggering the need for holders to act to protect their interests.

Registered Holders

Our obligations, as well as the obligations of the trustee and those of any third parties employed by us or the trustee, run only to persons who are registered as holders of securities. As noted above, we do not have obligations to you if you hold securities in street name or by other indirect means, either because you choose to hold securities in that manner or because the securities are issued in the form of book-entry securities as described below. For example, once we make payment to the registered holder, we have no further responsibility for the payment even if that holder is legally required to pass the payment along to you as a street name customer but does not do so.

Book-Entry Securities

What is a Book-Entry Security? A book-entry security is a special type of indirectly held security, as described above under Street Name and Other Indirect Owners . If we choose to issue securities in the form of book-entry securities, the ultimate beneficial owners can only be indirect owners. We do this by requiring that the book-entry security be registered in the name of a financial institution we select and by requiring that the securities included in the book-entry security not be transferred to the name of any other holder unless the special circumstances described below occur. The financial institution that acts as the sole holder of the book-entry security is called the depositary. Any person wishing to own a security must do so indirectly by means of an account with a broker, bank or other financial institution that in turn has an account with the depositary. The prospectus supplement indicates whether your series of securities will be issued only in the form of book-entry securities.

Special Investor Considerations for Book-Entry Securities. As an indirect owner, an investor s rights relating to a book-entry security will be governed by the account rules of the investor s financial institution and of the depositary, as well as general laws relating to securities transfers. We do not recognize this type of investor as a holder of securities and instead deal only with the depositary that holds the book-entry security.

An investor should be aware that if securities are issued only in the form of book-entry securities:

- The investor cannot get securities registered in his or her own name and cannot receive physical certificates for his or her interest in the securities, except in the special situations we describe below.
- The investor will be a street name owner and must look to his or her own bank or broker for payments on the securities and protection of his or her legal rights relating to the securities. See Street Name and Other Indirect Owners for information about these procedures.

The investor may not be able to sell interests in the securities to some insurance companies and other institutions that are required by law to own their securities in the form of physical certificates

The investor may not be able to pledge his or her interest in the securities in circumstances where certificates representing the securities must be delivered to the lender or other beneficiary of the pledge in order for the pledge to be effective.

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The depositary s policies will govern payments, transfers, exchanges and other matters relating to the investor s interest in the book-entry security. We and the trustee have no responsibility for any aspect of the depositary s actions or for its records of ownership interests in the book-entry security. We and the trustee also do not supervise the depositary in any way.

The depositary will require that interests in a book-entry security be purchased or sold within its system using same-day funds and your broker or bank may require you to do so as well.

Special Situations When a Book-Entry Security Will Be Terminated

In a few special situations described below, a book-entry security will terminate and interests in it will be exchanged for physical certificates representing the securities it represented. After that exchange, the choice of whether to hold securities directly or in street name will be up to the investor. Investors must consult their own bank or brokers to find out how to have their interests in securities transferred to their own name, so that they will be holders. The rights of street name investors and holders in the securities are described under Street Name and Other Indirect Owners and Registered Holders.

The special situations for termination of a book-entry security are:

If the depositary notifies us that it is unwilling or unable to continue as depositary, or ceases to be a clearing agency registered under applicable law, and we have not appointed a successor depositary within 90 days.

If we notify the trustee that we wish to terminate the book-entry security.

If an event of default on the securities has occurred and is continuing. Defaults are discussed above under Remedies If an Event of Default Occurs .

The prospectus supplement may also list additional situations for terminating a book-entry security that would apply only to the particular series of securities covered by the prospectus supplement.

If a book-entry security is terminated, only the depositary, and not we or the trustee, is responsible for deciding the names of the institutions in whose names the debt securities represented by the book-entry security will be registered and, therefore, who will be the holders of those securities.

Certificated Debt Securities

If we issue certificated debt securities, they will be registered in the name of the holder of the debt security. Holders may transfer or exchange these certificated debt securities without the payment of any service charge, other than any tax or other governmental charge, by contacting the trustee.

We will pay principal of, and any premium and interest on, certificated debt securities at designated places, or we may choose to make these payments by check mailed to the persons in whose names the debt securities are registered or by wire transfer to their accounts, on days specified in the prospectus supplement.

Governing Law

The indentures and the debt securities will be governed by, and construed in accordance with, the laws of the State of New York.

About the Trustee and Paying Agent

The trustee under both the senior debt indenture and the subordinated debt indenture will be named when debt securities are issued.

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If an event of default, or an event that would be an event of default if the requirements for giving us default notice or our default having to exist for a specific period of time were disregarded, occurs, the trustee may be considered to have a conflicting interest with respect to the securities offered by this prospectus and any accompanying prospectus supplement, or with respect to the securities outstanding under that other indenture, for purposes of the Trust Indenture Act of 1939. In that case, the trustee may be required to resign as trustee under the indenture under which the securities offered by this prospectus and any accompanying prospectus supplement will be issued, and we would be required to appoint a successor trustee.

At any time, the trustee under either indenture may resign or be removed by the holders of at least a majority in principal amount of any series of the outstanding debt securities of that indenture. If the trustee resigns, is removed or becomes incapable of acting as trustee, or if a vacancy occurs in the office of the trustee for any reason, a successor trustee will be appointed in accordance with the provisions of the indenture.

The trustee will act as paying agent for the debt securities unless a different paying agent is identified in any prospectus supplement.

DESCRIPTION OF COMMON SHARES

Our authorized capital stock consists of an unlimited number of common shares. As of May 1, 2009, there were 71,871,330 common shares outstanding. Our common shares are quoted on the New York Stock Exchange under the symbol COT and are listed on the Toronto Stock Exchange under the symbol BCB.

The following description of our common shares and provisions of our articles of amalgamation and By-laws is only a summary. The description may not be complete and is subject to, and qualified in its entirety by reference to, the terms and provisions of our articles and By-laws, which are exhibits to the registration statement which contains this prospectus. We encourage you to review complete copies of our articles and By-laws.

Voting Rights

Each holder of our common shares is entitled to one vote for each share on all matters submitted to a vote of our shareholders, including the election of our directors. The rights attached to the common shares do not provide for cumulative voting rights or preemptive rights. Accordingly, the holders of a majority of our outstanding common shares entitled to vote in any election of directors can elect all of the directors standing for election, if they should so choose.

Dividend Rights

Subject to limitations under the Canada Business Corporations Act (the CBCA), preferences that may apply to any outstanding shares of preferred stock and contractual restrictions, holders of our common shares are entitled to receive ratably dividends or other distributions when and if declared by Cott s board of directors. There are certain restrictions on the payment of dividends under our asset based lending facility and the indenture governing our 8% senior subordinated notes due 2011. In addition to such restrictions, whether any future dividends are paid to our shareholders will depend on decisions that will be made by our board of directors and will depend on then existing conditions, including our financial condition, contractual restrictions, corporate law restrictions, capital requirements and business prospects. Under the CBCA, Cott may pay dividends unless there are reasonable grounds for believing that (i) Cott is, or would after such payment be, unable to pay its liabilities as they become due or (ii) the realizable value of Cott s assets would be less than the aggregate of its liabilities and stated capital of all classes of shares. For a more complete description of our dividend policy, see Dividend Policy.

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Change of Control

Under the CBCA, the affirmative vote of two-thirds of the votes cast is required for shareholder approval of an amalgamation (other than certain short form amalgamations), for any sale, lease or exchange of all, or substantially all, of our assets, if not in the ordinary course of our business, and certain other fundamental changes including an amendment to the articles of amalgamation. Other shareholder action is generally decided by a majority of the votes cast at a meeting of shareholders.

There is no limitation imposed by Canadian law or by our articles or other charter documents on the right of a non-resident to hold or vote common shares, other than as provided by the Investment Canada Act, which requires notification and, in certain cases, advance review and approval by the Government of Canada of the acquisition by a non-Canadian of control of a Canadian business.

The authorization of undesignated preferred shares in our articles of amalgamation makes it possible for our board of directors to issue preferred shares with rights or preferences that could impede the success of any attempt to change control of us. These and other provisions may have the effect of deterring hostile takeovers or delaying changes in control or management of us.

Transfer Agent and Registrar

The transfer agent and registrar for our common shares is Computershare Trust Company N.A.

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DESCRIPTION OF PREFERRED SHARES

We have the ability to issue an unlimited number of preferred shares, in series with such terms as our board of directors may determine. Any such series of preferred shares could have rights equal or superior to the rights of our common shares.

The following briefly summarizes the provisions of our articles of amalgamation that would be important to holders of our preferred shares. The following description may not be complete and is subject to, and qualified in its entirety by reference to, the terms and provisions of our articles which is an exhibit to the registration statement which contains this prospectus. The description of most of the financial and other specific terms of your series will be in the prospectus supplement accompanying this prospectus. We encourage you to review complete copies of our articles and By-laws.

The specific terms of your series of preferred shares as described in your prospectus supplement will supplement and, if applicable, may modify or replace the general terms described in this section. If there are differences between your prospectus supplement and this prospectus, your prospectus supplement will control. Thus, the statements we make in this section may not apply to your series of preferred shares. The terms in your prospectus supplement will have the meanings described in this prospectus, unless otherwise specified.

Our Authorized Preferred Shares

Under our articles of amalgamation, our board of directors is authorized, without further action by our shareholders, to issue at any time an unlimited number of preferred shares. Our board of directors may from time to time before the issue thereof fix the number of shares in, and determine the designation, rights, privileges, restrictions and conditions attaching to, each series of preferred shares. The preferred shares shall be entitled to priority over the common shares and all other shares ranking junior to the preferred shares with respect to the payment of dividends and the distribution of our assets in the event of any liquidation, dissolution or winding-up or other distribution of our assets among our shareholders for the purpose of winding-up our affairs. Except as otherwise provided by law or as may be required by the rules of the applicable national securities exchange or quotation service, the holders of the preferred shares shall not, as such, be entitled to receive notice of or to attend any meeting of our shareholders and shall not be entitled to vote at any such meeting. Without limiting the generality of the foregoing, the holders of the preferred shares shall not be entitled to vote separately as a class on any proposal to amend our articles of amalgamation to:

- increase or decrease any maximum number of authorized preferred shares, or increase any maximum number of authorized shares of a class having rights or privileges equal or superior to the preferred shares;
- effect an exchange, reclassification or cancellation of all or part of the preferred shares; or
- create a new class of shares equal or superior to the preferred shares.

The prospectus supplement relating to the particular series of preferred shares will contain a description of the specific terms of that series as fixed by our board of directors, including, as applicable:

- the offering price at which we will issue the preferred shares;
- the title, designation of number of preferred shares and stated value of the preferred shares;
- the dividend rate or method of calculation, the payment dates for dividends and the place or places where the dividends will be paid, whether dividends will be cumulative or noncumulative, and, if cumulative, the dates from which dividends will begin to cumulate;
- any conversion or exchange rights;

whether the preferred shares will be subject to redemption and the redemption price and other terms and conditions relative to the redemption rights;

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any liquidation rights;

any voting rights; and

any other rights, preferences, privileges, limitations and restrictions that are not inconsistent with the terms of our articles of amalgamation.

When we issue and receive payment for the preferred shares, the shares will be fully paid and non-assessable, which means that the holders will have paid their purchase price in full and we may not ask them to surrender additional funds.

The rights of holders of the preferred shares offered may be adversely affected by the rights of holders of any preferred shares that may be issued in the future. Our board of directors may cause the preferred shares to be issued in public or private transactions for any proper corporate purposes and may include issuances to obtain additional financing in connection with acquisitions, and issuances to officers, directors and employees pursuant to benefit plans. Our board of directors ability to issue preferred shares may discourage attempts by others to acquire control of us without negotiation with our board of directors, as it may make it difficult for a person to acquire us without negotiating with our board of directors.

Transfer Agent and Registrar

The transfer agent, registrar and dividend disbursement agent for the special shares will be stated in the applicable prospectus supplement.

DESCRIPTION OF DEPOSITARY SHARES

We may elect to offer fractional interests in preferred shares, rather than offer whole preferred shares. If we choose to do this, we will provide for the issuance by a depositary to the public of receipts for depositary shares. Each depositary share will represent fractional interests of a particular series of preferred shares.

The shares of any series of preferred shares underlying the depositary shares will be deposited under a separate deposit agreement between us and a bank or trust company, which we will select. The prospectus supplement relating to a series of depositary shares will state the name and address of the depositary. Unless otherwise provided by the deposit agreement, each owner of depositary shares will be entitled, in proportion to the applicable fractional interests in preferred shares underlying the depositary shares, to all the rights and preferences of the preferred stock underlying the depositary shares including dividend, voting, redemption, conversion and liquidation rights.

The depositary shares will be evidenced by depositary receipts issued under the deposit agreement. Depositary receipts will be distributed to those persons purchasing the fractional interests in shares of the related series of preferred shares in accordance with the terms of the offering described in the related prospectus supplement.

Dividends and Other Distributions

The depositary will distribute all cash dividends or other cash distributions received in respect of preferred shares to the record holders of depositary shares relating to the preferred shares in proportion to the numbers of the depositary shares owned by the holders on the relevant record date. The depositary will distribute only an amount, however, that can be distributed without attributing to any holder of depositary shares a fraction of one cent, and any balance not so distributed will be added to and treated as part of the next sum received by the depositary for distribution to record holders of depositary shares.

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If there is a non-cash distribution, the depositary will distribute property received by it to the record holders of depositary shares entitled to it, unless the depositary determines that it is not feasible to make the distribution. If this happens, the depositary may, with our approval, sell the property and distribute the net sale proceeds to the holders. The deposit agreement will also contain provisions relating to the manner in which any subscription or similar rights that we offer to holders of the preferred stock will be made available to the holders of depositary shares.

Redemption of Depositary Shares

If a series of the preferred shares underlying the depositary shares is redeemed in whole or in part, the depositary shares will be redeemed from the redemption proceeds received by the depositary. The depositary will mail notice of redemption not less than 30, and not more than 60, days before the date fixed for redemption to the record holders of the depositary shares to be redeemed at their addresses appearing in the depositary s books. The redemption price for each depositary share will be equal to the applicable fraction of the redemption price for each share payable with respect to the series of the preferred shares. Whenever we redeem preferred shares held by the depositary, the depositary will redeem on the same redemption date the number of depositary shares relating to the preferred shares so redeemed. If less than all of the depositary shares are to be redeemed, the depositary shares to be redeemed will be selected by lot or proportionally as may be determined by the depositary.

After the date fixed for redemption, the depositary shares called for redemption will no longer be considered outstanding and all rights of the holders of the depositary shares will cease, except the right to receive the cash, securities or other property payable upon the redemption and any cash, securities or other property to which the holders of the redeemed depositary shares were entitled upon surrender to the depositary of the depositary receipts evidencing the depositary shares.

Voting the Preferred Shares

Upon receipt of notice of any meeting at which the holders of the preferred shares are entitled to vote, the depositary will mail the information contained in the notice of meeting to the record holders of the depositary shares relating to the preferred shares. Each record holder of depositary shares on the record date, which will be the same date as the record date for the preferred shares, will be entitled to instruct the depositary how to exercise the voting rights pertaining to the number of preferred shares underlying the holder s depositary shares. The depositary will endeavor, to the extent practicable, to vote the number of preferred shares underlying the depositary shares in accordance with these instructions, and we will agree to take all action which the depositary may consider necessary in order to enable the depositary to vote the shares.

Amendment and Termination of Depositary Agreement

We may enter into an agreement with the depositary at any time to amend the form of depositary receipt evidencing the depositary shares and any provision of the deposit agreement. However, the holders of a majority of the depositary shares must approve any amendment which materially and adversely alters the rights of the existing holders of depositary shares. We or the depositary may terminate the deposit agreement only if (a) all outstanding depositary shares issued under the agreement have been redeemed or (b) a final distribution in connection with any liquidation, dissolution or winding up has been made to the holders of the depositary shares.

Charges of Depositary

We will pay all transfer and other taxes and governmental charges arising solely from the existence of the depositary arrangements. We will also pay charges of the depositary in connection with the initial deposit of the preferred shares and any redemption of the preferred shares. Holders of depositary shares will pay transfer and other taxes and governmental charges and such other charges as are expressly provided in the deposit agreement to be for their accounts.

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Resignation and Removal of Depositary

The depositary may resign at any time by delivering to us notice of its election to resign, and we may at any time remove the depositary. Any resignation or removal will take effect when a successor depositary has been appointed and has accepted the appointment. Appointment must occur within 60 days after delivery of the notice of resignation or removal.

Miscellaneous

The depositary will forward to the holders of depositary shares all reports and communications that we deliver to the depositary and that we are required to furnish to the holders of the preferred shares. Neither the depositary nor Cott will be liable if it is prevented or delayed by law or any circumstance beyond its control in performing its obligations under the deposit agreement. The obligations of Cott and the depositary under the deposit agreement will be limited to performance in good faith of their duties under the agreement and they will not be obligated to prosecute or defend any legal proceeding in respect of any depositary shares or preferred shares unless the holders provide them with satisfactory indemnity. They may rely upon written advice of counsel or accountants, or information provided by persons presenting preferred stock for deposit, holders of depositary shares or other persons believed to be competent and on documents they believe to be genuine.

DESCRIPTION OF WARRANTS

We may issue warrants to purchase debt or equity securities. We may issue warrants independently or together with any offered securities. The warrants may be attached to or separate from those offered securities. We will issue the warrants under warrant agreements to be entered into between us and a bank or trust company, as warrant agent, all as described in the applicable prospectus supplement. The warrant agent will act solely as our agent in connection with the warrants and will not assume any obligation or relationship of agency or trust for or with any holders or beneficial owners of warrants.

The prospectus supplement relating to any warrants that we may offer will contain the specific terms of the warrants. These terms may include the following:

- the title of the warrants;
- the designation, amount and terms of the securities for which the warrants are exercisable;
- the designation and terms of the other securities, if any, with which the warrants are to be issued and the number of warrants issued with each other security;
- the price or prices at which the warrants will be issued;
- the aggregate number of warrants;
- any provisions for adjustment of the number or amount of securities receivable upon exercise of the warrants or the exercise price of the warrants;
- the price or prices at which the securities purchasable upon exercise of the warrants may be purchased;

if applicable, the date on and after which the warrants and the securities purchasable upon exercise of the warrants will be separately transferable;

if applicable, a discussion of the material United States federal income tax considerations applicable to the exercise of the warrants;

any other terms of the warrants, including terms, procedures and limitations relating to the exchange and exercise of the warrants;

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the date on which the right to exercise the warrants will commence, and the date on which the right will expire;

the maximum or minimum number of warrants which may be exercised at any time; and

information with respect to book-entry procedures, if any.

Exercise of Warrants

Each warrant will entitle the holder of warrants to purchase for cash the amount of debt or equity securities, at the exercise price stated or determinable in the prospectus supplement for the warrants. Warrants may be exercised at any time up to the close of business on the expiration date shown in the prospectus supplement relating to the warrants, unless otherwise specified in the applicable prospectus supplement. After the close of business on the expiration date, unexercised warrants will become void. Warrants may be exercised as described in the prospectus supplement relating to the warrants. When the warrant holder makes the payment and properly completes and signs the warrant certificate at the corporate trust office of the warrant agent or any other office indicated in the prospectus supplement, we will, as soon as possible, forward the debt or equity securities that the warrant holder has purchased. If the warrant holder exercises the warrant for less than all of the warrants represented by the warrant certificate, we will issue a new warrant certificate for the remaining warrants.

DESCRIPTION OF STOCK PURCHASE CONTRACTS AND STOCK PURCHASE UNITS

We may issue stock purchase contracts, including contracts obligating holders to purchase from us, and us to sell to the holders, a specified number of common shares at a future date or dates. The price per share of common stock and the number of shares of common stock may be fixed at the time the stock purchase contracts are issued or may be determined by reference to a specific formula stated in the stock purchase contracts.

The stock purchase contracts may be issued separately or as part of units that we call stock purchase units. Stock purchase units consist of a stock purchase contract and either our debt securities or debt obligations of third parties, including U.S. treasury securities, securing the holders obligations to purchase the common stock under the stock purchase contracts.

The stock purchase contracts may require us to make periodic payments to the holders of the stock purchase units or vice versa, and these payments may be unsecured or refunded on some basis. The stock purchase contracts may require holders to secure their obligations in a specified manner.

The applicable prospectus supplement will describe the terms of the stock purchase contracts or stock purchase units. The description in the prospectus supplement will only be a summary, and you should read the stock purchase contracts, and, if applicable, collateral or depositary arrangements, relating to the stock purchase contracts or stock purchase units. Material United States federal income tax considerations applicable to the stock purchase units and the stock purchase contracts will also be discussed in the applicable prospectus supplement.

PLAN OF DISTRIBUTION

We may sell the securities through agents, underwriters or dealers, or directly to one or more purchasers.

We may designate agents who agree to use their reasonable efforts to solicit purchases for the period of their appointment or to sell securities on a continuing basis.

If we use underwriters for a sale of securities, the underwriters will acquire the securities for their own account. The underwriters may resell the securities in one or more transactions, including negotiated transactions,

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at a fixed public offering price or at varying prices determined at the time of sale. The obligations of the underwriters to purchase the securities will be subject to the conditions stated in the applicable underwriting agreement. The underwriters will be obligated to purchase all the securities of the series offered if any of the securities of that series are purchased. Any initial public offering price and any discounts or concessions allowed or re-allowed or paid to dealers may be changed from time to time.

We may sell securities directly to one or more purchasers without using underwriters or agents.

We may also sell securities upon the exercise of rights that may be distributed to security holders.

Underwriters, dealers and agents that participate in the distribution of the securities may be underwriters as defined in the Securities Act, and any discounts or commissions they receive from us and any profit on their resale of the securities may be treated as underwriting discounts and commissions under the Securities Act. The applicable prospectus supplement will identify any underwriters, dealers or agents and will describe their compensation. We may have agreements with the underwriters, dealers and agents to indemnify them against certain civil liabilities, including liabilities under the Securities Act. Underwriters, dealers and agents may engage in transactions with or perform services for us or our subsidiaries in the ordinary course of their business.

Unless otherwise specified in the applicable prospectus supplement, each class or series of securities will be a new issue with no established trading market, other than the common shares, which is listed on the New York Stock Exchange and the Toronto Stock Exchange. We may elect to list any other class or series of securities on any exchange, but we are not obligated to do so. It is possible that one or more underwriters may make a market in a class or series of securities, but the underwriters will not be obligated to do so and may discontinue any market making at any time without notice. We cannot give any assurance as to the liquidity of the trading market for any of the securities.

We may enter into derivative transactions with third parties, or sell securities not covered by this prospectus to third parties in privately negotiated transactions. If the applicable prospectus supplement indicates, in connection with those derivatives, the third parties may sell securities covered by this prospectus and the applicable prospectus supplement, including in short sale transactions. If so, the third party may use securities pledged by us or borrowed from us or others to settle those sales or to close out any related open borrowings of stock, and may use securities received from us in settlement of those derivatives to close out any related open borrowings of stock. We may also loan or pledge securities covered by this prospectus and any applicable prospectus supplement to third parties, who may sell the loaned securities or, in an event of default in the case of a pledge, sell the pledged securities pursuant to this prospectus and any applicable prospectus supplement (or a post-effective amendment).

Any underwriter may engage in over-allotment, stabilizing transactions, short-covering transactions and penalty bids in accordance with Regulation M under the Securities Exchange Act. Over-allotment involves sales in excess of the offering size, which create a short position. Stabilizing transactions permit bids to purchase the underlying security so long as the stabilizing bids do not exceed a specified maximum. Short-covering transactions involve purchases of the securities in the open market after the distribution is completed to cover short positions. Penalty bids permit the underwriters to reclaim a selling concession from a dealer when the securities originally sold by the dealer are purchased in a covering transaction to cover short positions. Those activities may cause the price of the securities to be higher than it would otherwise be. If commenced, the underwriters may discontinue any of the activities at any time.

LEGAL MATTERS

Unless otherwise specified in a prospectus supplement, certain Canadian legal matters in connection with this offering of securities will be passed upon for us by Goodmans LLP, Toronto and certain U.S. legal matters in connection with this offering of securities will be passed upon for us by Kirkland & Ellis LLP, New York, New York.

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EXPERTS

The financial statements incorporated in this Prospectus by reference to Cott Corporation s Current Report on Form 8-K dated May 29, 2009 and the financial statement schedule and management s assessment of the effectiveness of internal control over financial reporting (which is included in Management s Report on Internal Control over Financial Reporting) incorporated in this Prospectus by reference to the Annual Report on Form 10-K of Cott Corporation for the year ended December 27, 2008 have been so incorporated in reliance on the report of PricewaterhouseCoopers LLP, an independent registered certified public accounting firm, given on the authority of said firm as experts in auditing and accounting.

The financial statements as of December 29, 2007 and for each of the two years in the period ended December 29, 2007, incorporated in this Prospectus by reference to Cott Corporation s Current Report on Form 8-K dated May 29, 2009 and the financial statement schedule as of December 29, 2007 and for each of the two years in the period ended December 29, 2007, incorporated in this Prospectus by reference to the Annual Report on Form 10-K of Cott Corporation for the year ended December 27, 2008 have been so incorporated in reliance on the report of PricewaterhouseCoopers LLP, an independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

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9,435,000 Shares

Common Shares

Prospectus Supplement

TD Securities Inc.

CIBC World Markets Inc.

BMO Nesbitt Burns Inc.

August 4, 2009