

Primo Water Corp
Form 10-K
March 06, 2019

Table of Contents

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-K

(Mark One)

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF
1934
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2018**

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT
OF 1934**

COMMISSION FILE NUMBER 001-34850

PRIMO WATER CORPORATION

(Exact name of registrant as specified in its charter)

Delaware
(State of incorporation)

82-1161432
(I.R.S. Employer Identification No.)

101 North Cherry Street, Suite 501, Winston-Salem, NC
(Address of principal executive office)

27101
(Zip code)

(336) 331-4000

Edgar Filing: Primo Water Corp - Form 10-K

(Registrant's telephone number, including area code)

Securities Registered Pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
\$0.001 Par Value Common Stock	The NASDAQ Stock Market LLC

Securities Registered Pursuant to Section 12(g) of the Act: **NONE**

Indicate by checkmark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes No

Indicate by checkmark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Table of Contents

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company” and “emerging growth company” in Rule 12b-2 of the Exchange Act.:

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The aggregate market value of voting and non-voting common equity held by non-affiliates of the registrant, as of June 30, 2018, was approximately \$600,193,364 based on the closing sales price of the common stock on such date as reported on the NASDAQ Global Market.

As of March 1, 2019 there were 38,924,859 shares of our Common Stock, par value \$0.001 per share, outstanding.

Documents Incorporated by Reference

The registrant intends to file a definitive proxy statement pursuant to Regulation 14A within 120 days after the end of the fiscal year ended December 31, 2018. Portions of such proxy statement are incorporated by reference into Part III of this Form 10-K.

Table of Contents

PRIMO WATER CORPORATION

FORM 10-K

TABLE OF CONTENTS

PART 1

<u>Cautionary Note</u>	
<u>Regarding</u>	4
<u>Forward-Looking</u>	
<u>Statements</u>	
<u>Item 1. Business</u>	4
<u>Item 1A. Risk</u>	19
<u>Factors</u>	
<u>Item 1B.</u>	
<u>Unresolved Staff</u>	36
<u>Comments</u>	
<u>Item 2. Properties</u>	40
<u>Item 3. Legal</u>	40
<u>Proceedings</u>	
<u>Item 4. Mine</u>	
<u>Safety</u>	40
<u>Disclosures</u>	

PART II

<u>Item 5. Market for</u>	
<u>Registrant's</u>	
<u>Common Equity,</u>	
<u>Related</u>	40
<u>Stockholder</u>	
<u>Matters and Issuer</u>	
<u>Purchases of</u>	
<u>Equity Securities</u>	
<u>Item 6. Selected</u>	42
<u>Financial Data</u>	
<u>Item 7.</u>	43
<u>Management's</u>	
<u>Discussion and</u>	
<u>Analysis of</u>	
<u>Financial</u>	

<u>Condition and Results of Operations</u>	
<u>Item 7A. Quantitative and Qualitative Disclosures about Market Risk</u>	55
<u>Item 8. Financial Statements and Supplementary Data</u>	56
<u>Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	94
<u>Item 9A. Controls and Procedures</u>	94
<u>Item 9B. Other Information</u>	95

PART III

<u>Item 10. Directors, Executive Officers and Corporate Governance</u>	95
<u>Item 11. Executive Compensation</u>	95
<u>Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	95
<u>Item 13. Certain Relationships and Related Transactions, and Director Independence</u>	95
<u>Item 14. Principal Accountant Fees</u>	95

and Services

PART IV

<u>Item 15. Exhibits and Financial Statement Schedules</u>	96
<u>Item 16. Form 10-K Summary Signatures</u>	96 100

Note: Items 10-14 are incorporated by reference from the Proxy Statement.

Table of Contents

PART I

Cautionary Note Regarding Forward-Looking Statements

This document includes “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, that are intended to be covered by the “safe harbor” created by those sections. Forward-looking statements include statements about our estimates, expectations, beliefs, intentions, plans or strategies for the future (including our possible future results of operations, business strategies, competitive position, potential growth opportunities, potential market opportunities and the effects of competition), and the assumptions underlying such statements. Forward-looking statements include all statements that are not historical facts and can be identified by use of the words “anticipates,” “believes,” “estimates,” “expects,” “feels,” “intends,” “forecasts,” “may,” “potential,” “project,” “will,” “should,” “could,” “seek,” “plan,” and similar expressions. Forward-looking statements are neither historical facts nor assurances of future performance. Instead, they are based only on our current beliefs, expectations and assumptions regarding the future of our business, future plans and strategies, projections, anticipated events and trends, the economy and other future conditions. Forward-looking statements involve known and unknown risks, uncertainties, changes in circumstances and other factors that could cause actual results, performance or achievements to differ materially from historical experience or our present expectations. Therefore, you should not rely on any of these forward-looking statements. Factors that could cause these differences include, but are not limited to, the factors set forth under Part I, Item 1A - Risk Factors of this Annual Report on Form 10-K and our subsequently filed Quarterly Reports on Form 10-Q.

Caution should be taken not to place undue reliance on our forward-looking statements, which reflect the expectations of management only as of the time such statements are made. Except as required by law, we undertake no obligation to update publicly or revise any forward-looking statement, whether written or oral, that may be made from time to time, whether as a result of new information, future events or otherwise.

Item 1. Business

Company Background

Primo Water Corporation (together with its consolidated subsidiaries, “Primo,” “we,” “our,” “us,” or “the Company”) is North America’s leading single source provider of multi-gallon purified bottled water, self-service refill drinking water and water dispensers sold through major retailers in the United States and Canada. We are a Delaware corporation that was incorporated in 2017 in connection with the creation of a holding company structure. Our predecessor was founded in Delaware in 2004.

On December 12, 2016, we completed the acquisition by merger (the “Acquisition”) of Glacier Water Services, Inc. (“Glacier”), the leading provider of high-quality drinking water dispensed to consumers through self-service water machines located at over 20,000 locations, including supermarkets and other retail locations. The Acquisition was consummated pursuant to the terms of the Agreement and Plan of Merger (the “Merger Agreement”), dated October 9, 2016.

Our business is designed to generate recurring demand for our purified bottled water or self-service refill drinking water through the sale of innovative water dispensers (“Dispensers”). This business strategy is commonly referred to as “razor-razorblade” because the initial sale of a product creates a base of users who frequently purchase complementary consumable products. Once our bottled water is consumed using a water dispenser, empty bottles are exchanged at our recycling center displays, which provide a recycling ticket that offers a discount toward the purchase of a new bottle of Primo purified water (“Exchange”) or they are refilled at a self-service refill drinking water location (“Refill”). Each of our multi-gallon Exchange water bottles can be sanitized and reused up to 40 times before being taken out of use, crushed and recycled, substantially reducing landfill waste compared to consumption of equivalent volumes of single-serve bottled water. As of December 31, 2018, our products were offered in the United States and in Canada at over 45,000 combined retail locations, including Walmart, Lowe’s Home Improvement, Sam’s Club, The Home Depot, Meijer, Kroger, Food Lion, H-E-B Grocery, Circle K, Family Dollar, Walgreens, Albertsons, Publix, and CVS. We believe the market for purified and refill drinking water continues to grow due to evolving taste preferences, perceived health benefits and concerns regarding the quality of municipal tap water. Our products provide an environmentally friendly, economical, convenient and healthy solution for consuming purified and filtered water.

Table of Contents

We provide major retailers throughout the United States and Canada with a single-vendor solution for our three reporting segments (Refill, Exchange, and Dispensers) addressing a market demand that we believe was previously unmet. Our solutions are easy for retailers to implement, require minimal management supervision and store-based labor, and provide centralized billing and detailed performance reports. Exchange offers retailers attractive financial margins and the ability to optimize typically unused retail space with our displays. Refill provides drinking water for consumer purchase through the installation of self-service vending displays at retail locations. The Refill business model eliminates the bottling and distribution infrastructure required to deliver traditional bottled water, thereby allowing us to provide refill drinking water at a valuable price as compared to alternatives in the marketplace. Additionally, due to the recurring nature of water consumption, retailers benefit from year-round customer traffic, highly predictable revenue and health and wellness focused consumers.

Business Segments

We have three operating segments and three reportable segments: Refill, Exchange, and Dispensers. See Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations and "Note 15 – Segments" in the Notes to Consolidated Financial Statements in Item 8 herein.

Industry Overview

We believe there are several trends that support consumer demand for Refill, Exchange and Dispensers including the following:

Emphasis on Health and Wellness. As part of a desire to live a healthier lifestyle, we believe consumers are increasingly focused on drinking greater quantities of water compared to carbonated beverages and other high calorie drinks.

Concerns Regarding Quality of Municipal Tap Water. Many consumers purchase bottled water because of concerns regarding municipal tap water quality. Municipal water is typically surface water that is treated centrally and pumped to homes, which can allow chemical and microbiological contaminants to dissolve into the water through municipal or household pipes, impacting taste and quality. The U.S. Environmental Protection Agency estimated that local U.S. governments will be required to spend over \$300 billion to repair water and sewer pipes over the next decade.

Growing Preference for Purified Water. We believe consumer preference toward purified water relative to tap water continues to grow as purified water has become accepted on a mainstream basis. While it is difficult to quantify

purified water consumption in all of its forms, according to a 2017 report by industry consulting firm Beverage Marketing Corp. (“BMC”), wholesale spending on bottled water was almost \$16.2 billion in 2016, up from \$14.7 billion and \$13.4 billion in 2015 and 2014, respectively. The BMC also reported that global bottled water consumption has grown to 92.1 billion gallons in 2016 from 19.2 billion in 1996. Additionally, growth in spending on bottled water between 2012 and 2017 significantly exceeded spending growth in other beverage categories in the same period.

Increasing Demand for Products with Lower Environmental Impact. We believe that consumers are increasingly favoring products with a lower environmental impact with a “reuse, recycle, reduce” mindset becoming a common driver of consumer behavior. Most single-serve water bottles are produced using fossil fuels and contribute to landfill waste given that only 29.3% of single-serve bottles are recycled according to a December 2018 report issued for 2017 by The Association of Plastic Recyclers. Legislation also reflects these concerns with the passage of “bottle bills” in many jurisdictions that tax the purchase of plastic water bottles, require deposits with the purchase of certain plastic bottles, prohibit the use of government funds to purchase plastic water bottles and ban certain plastic bottles from landfills.

Availability of an Economical Exchange Solution, Refill Solution and Innovative Water Dispensers. We believe the vast majority of U.S. households utilize traditional home delivery services for water dispensers, which generally lack innovation, design enhancement, and functionality. These factors, combined with the retail pricing structure of our competitors’ dispenser models, have prevented greater household adoption of these dispensers. Compounding these issues, we believe there previously was no economical water bottle exchange and refill solution with major retailers throughout the United States and Canada to promote dispenser usage beyond the traditional home delivery model. We believe our Exchange and Refill solutions provide this alternative and we believe we are currently the only provider delivering a single-vendor solution to retailers throughout the United States and Canada. We believe there are over 50,000 additional major retail locations throughout the United States and Canada that we can target to sell our Refill, Exchange and Dispensers products.

Table of Contents

Our Competitive Strengths

We believe that Primo's competitive strengths include the following:

Appeal to Consumer Preferences

Health and Wellness. As part of a desire to live a healthier lifestyle, we believe that consumers are increasingly focused on drinking more water relative to other beverages and a recent study has shown that bulk water purchasers drink more water. As we raise our brand awareness, we believe consumers will recognize that our Water products are a convenient option for their water consumption needs.

Value. We provide consumers the opportunity for cost savings when consuming our bottled water compared to other forms of pre-filled one-gallon bottles, single-serve bottled water and typical home and office delivery services. Additionally, our water dispensers are sold at attractive retail prices in order to enhance consumer awareness and adoption of our Refill and Exchange ("Water") products, increase household penetration and drive sales of our purified and refill drinking water.

Taste. We have dedicated significant time and effort to develop our water purification process and formulate the proprietary blend of mineral ingredients included in our Primo purified water offered through Exchange. We believe that Primo purified water has a silky smooth taste profile.

Convenience. Both our Water and Dispensers products are available at major retail locations in the United States and Canada that are part of everyday shopping trips. In addition, our Water products and services provide consumers the convenience of either exchanging empty bottles and purchasing full bottles or refilling the empty bottles at any participating retailer.

Dispenser Innovation and Design. We strive to develop dispensers that fit our customers' lifestyles and décor. For example, Primo's hTRIO Water Dispenser brews K-cup® beverages and delivers cold and hot water on demand – integrating multiple kitchen appliances into one space-saving design. With our Water Dispenser with Pet Station, the entire family including pets can enjoy the delicious taste of Primo®.

Environmental Awareness. Our Refill and Exchange segments promote the reuse of existing bottles, recycling of water bottles when their lifecycle is complete and reduction of landfill waste and fossil fuel usage compared to alternative methods of bottled water consumption.

Key Retail Relationships Served by a Single-Vendor Solution. We are the only single-vendor solution of Water products for retailers in the United States and Canada. Our direct sales force actively pursues headquarters-based retail relationships to minimize layers of approval and decision-making with regard to the addition of new retail locations. We believe the combination of our major retail relationships, regional territory coverage, unique single-vendor solution for retail customers and our bottling and distribution network is difficult to replicate. We anticipate these factors will facilitate our ability to introduce new purified water-related products in the future.

Ability to Attract and Retain Consumers. We offer “razor-razorblade” products designed to generate recurring demand for our Water products (the razorblade) through the initial sale of our innovative Dispensers (the razor), which often include a coupon for a free multi-gallon bottle of our Exchange or Refill water. We acquire new consumers and enhance recycling efforts by accepting most dispenser-compatible empty water bottles in exchange for a recycle ticket discount toward the purchase of a full bottle of Primo purified water. In addition, we believe our offering of high-quality water dispensers enhances consumer awareness and adoption of our Water products, increases household penetration and drives sales of our Water products.

Efficient Business Model. Our business model allows us to efficiently offer our solutions to our retail partners and centrally manage our bottling, distribution and field service networks. We believe our business processes enable us to manage (i) the bottling and distribution of our Exchange products, (ii) our product quality, (iii) retailer inventory levels and (iv) company field service network in Refill on a centralized basis, leveraging our invested capital and personnel.

Table of Contents

Successful Acquisition Integration and Leading Platform of Scale. In December 2016, we completed the acquisition of Glacier Water Services, Inc., a leading provider of high-quality refill drinking water dispensed to consumers through self-service water machines located at over 20,000 locations, including supermarkets and other retail locations. The Glacier acquisition has created a platform of scale for our Refill business, enabling additional direct interaction with consumers, adding and strengthening our relationships with key retailers and diversifying our sales across customers and channels. Our successful integration of the Glacier business has delivered cost savings and synergies that have exceeded initial targets, and we continue to optimize the combined business for additional benefits.

Benefit from Management's and Board's Proven Track Record. We benefit greatly from management experience gained over the last 23 years at Primo and in other exchange businesses to implement and refine best practices and develop and maintain key business relationships. Billy D. Prim, our former Chief Executive Officer and current Executive Chairman, served as Chief Executive Officer of Blue Rhino Corporation, another company with a “razor/razorblade” business model that provided propane cylinder exchange and complementary propane and non-propane products, from March 1994 until its acquisition in 2004. In addition to our Executive Chairman, our President and Chief Executive Officer, Matthew T. Sheehan, who joined Primo in December 2012, was previously employed by Coinstar, Inc. where he was instrumental in building the Redbox DVD exchange business.

Growth Strategy

We seek to increase our market share and drive further growth in our business by pursuing the following strategies:

Drive Consumer Adoption Through Innovative Water Dispenser Models. We intend to continue to develop and sell innovative Dispenser products at attractive retail prices, which we believe is critical to increasing consumer awareness and driving consumer adoption of our Water products. At December 31, 2018, we offered our water dispensers at approximately 7,300 locations in the United States and Canada, including Walmart, Lowes Home Improvement, Sam's Club, Home Depot and Kroger. We also have distribution through leading online retailers including Amazon.com, Wayfair.com and our own Primowater.com site, as well as the websites of major retailers in the United States.

Increase Same Store Sales. We sell our Dispenser products at a low margin and often provide a coupon for a free multi-gallon bottle of our water at certain retailers to drive consumer demand for our Water products. We believe increasing unit sales of our Water products is dependent on generating greater consumer awareness of challenges with today's tap water quality and the environmentally friendly and economical aspects of as well as the convenience associated with our Water products. We expect that our branding, cross-promotion marketing and sales efforts, enhanced by recently commenced strategic marketing and brand activation initiatives, including deployment at better points of purchase signage, increasing our paid media, social and digital presence, and piloting instantly redeemable coupons, will result in greater usage of our Water products.

Increase Penetration with Existing Retail Relationships and Develop New Retail Relationships. We believe we have significant opportunities to increase store penetration with our existing retail relationships. As of December 31, 2018, our Exchange Water was offered at approximately 13,200 combined retail locations, and our Refill products were offered in approximately 24,600 locations, including over 20,000 locations added in connection with the Glacier acquisition. There is virtually no overlap of historical Primo and historical Glacier refill locations, diversifying our retailer base and thereby reducing our concentration with our largest retailers. In addition, we believe that the Acquisition continues to provide the opportunity to place our Exchange and Dispensers products within new retailers.

We expect to continue to increase our retail store locations (which includes new locations with our existing retail customers) within our primary retail categories of home centers, convenience stores, hardware stores, mass merchants, membership warehouses, grocery stores, office supply stores, drug stores and discount general merchandise stores.

Table of Contents

Pursue Strategic Acquisitions and other Partnerships to Augment Geographic and Retail Relationships. Assuming we have available adequate capital resources, we believe opportunities exist to expand through selective strategic acquisitions, including (i) other on-premises self-service water refill machine networks and retail accounts, (ii) water bottle exchange businesses with established retail accounts and (iii) water dispenser or other beverage-related appliance companies. We also intend to explore strategic partnerships with established distributed, operators and other partners, particularly in international markets, to expand our operations. In January 2019, we entered into an agreement with a Mexico partner creating the framework for establishing a business in Mexico to sell reverse-osmosis water through indoor and outdoor self-service refill drinking water machines. We will provide the Mexico partner our expertise in refill through the license of certain of our intellectual property and know-how and the supply of self-service refill drinking water machines.

Product Overview

Refill. Our Refill solution consists of a carbon filtration and a reverse osmosis water filtration system that provides refill drinking water, which is routinely tested for quality. All federal, state and industry standards related to our refill drinking water are met or exceeded. At a portion of our Refill locations, we offer empty reusable one-, two-, three- and five-gallon bottles that typically accompany our self-service refill drinking water display, which are sourced from several manufacturers.

Exchange. We have dedicated significant time and effort in developing our water purification process and formulating the proprietary blend of mineral ingredients included in the purified bottled water offered through Exchange. Our proprietary blend of mineral ingredients was developed with the assistance of consultants and several months of lab work and taste tests. To ensure that our safety standards are met and United States Food and Drug Administration (“FDA”) and industry standards are met or exceeded, each production lot of our purified water undergoes chemical and microbiological testing by the bottler and all facilities bottling Primo purified water undergo regular hygiene audits. We currently source three- and five-gallon water bottles from several manufacturers for use in Exchange. Each of our Primo water bottles includes a handle designed for easy transportation and lifting when installing the bottle onto or into one of our water dispensers.

Dispensers. We currently source and market water dispensers comprised of 50 models and 7 accessory items. Our dispensers are designed to dispense Primo and other dispenser-compatible bottled water. Our dispensers have manufacturer suggested retail prices that range from \$299.99 for our top-of-the-line bottom-loading model with a coffee maker to \$9.99 for a simple, manually operated pump that can be installed on a bottle and operated without electricity. Currently, the majority of our Dispensers sales are attributable to our bottom- and top-loading products. Consistent with our environmental focus, our electric dispensers are Energy Star® rated, and, we believe, utilize less energy than competing water dispensers without this industry rating. Currently, we contract with independent suppliers for the design and manufacture of our water dispensers and are closely involved in the design and innovation process.

Primo Water Marketing

Our marketing efforts focus on developing a unified brand identity synonymous with a healthy, economical, convenient and environmentally friendly solution for purified and refill water consumption. In furtherance of this goal, in the third quarter of 2018, we announced our plan to move forward with a unified Primo brand in Refill and discontinue the Glacier brand (the “Brand Unification”), which we currently expect to complete by the end of 2020. We expect the Brand Unification to streamline our marketing and brand activation efforts while focusing our resources and management’s attention on a single brand.

Focusing on development and implementation of advanced marketing and brand activation strategies through new display advertising, television, print and radio marketing, social media and email communications, among others, is one of our key strategic initiatives in the near- and long-term future. We direct our marketing efforts as close as possible to the point of purchase including in-store, online and word-of-mouth to strengthen our brand and promote consumer awareness of our products. We believe our innovative dispensers combined with Exchange develops consumer loyalty through the use of our recycling tickets, while Refill develops consumer loyalty through value-oriented pricing. Our marketing efforts include the following initiatives: (i) driving awareness activities online through social media conversations and posts; (ii) prominent display of our various brand logos and designs on water bottles, sales and recycling displays and water dispensers; (iii) highly visible sales and recycling center displays; and (iv) regular cross-marketing promotions between our dispensers and our water including instant redeemable coupon which is a coupon on the outside of all of our dispenser packages that allows consumers to receive a free Exchange bottle of water when purchased with a Primo dispenser.

Table of Contents

The Primo Supply Chain

Refill

In Refill, water is provided for consumer purchase through the installation of self-service coin-operated and non-coin-operated vending displays. Coin-operated vending displays are generally placed outside retail locations, and the retailer is paid a percentage of sales as a commission.

Non-coin-operated vending displays are placed inside retail locations, typically in the water aisle or on an outer wall of the store, and the consumer pays for the vended water at check-out directly to the retailer. Under certain arrangements, the retailer then keeps a percentage of sales generated as a commission and remits the remainder to us, while under other arrangements, the retailer pays us a fee based on the number of gallons of water purchased by the end consumers. Meter read data necessary for billing the retailer is transmitted to us electronically or obtained by the company service technicians.

In some arrangements, the reverse osmosis water filtration equipment necessary to filter water is installed in the back room of a retail location. A water line is installed from the water filtration equipment to the self-service refill drinking water display. In other arrangements, the reverse osmosis water filtration equipment and the water vending display are together as one unit. We own the water filtration and vending displays and the required service and maintenance on the systems is performed by our company service technicians. We work with the retailer to determine the location of the self-service refill drinking water display and the retailer is typically responsible for the required municipally supplied water and for the electricity to operate the displays. Installation costs, including plumbing, electrical and drainage requirements, may be the responsibility of the retailer or Primo, depending on the arrangement.

We utilize our manufacturing facilities to assemble, refurbish and repair our refill machines. We routinely refurbish equipment that has been in service for several years or when a customer requests refreshed equipment.

The regular service and maintenance of our reverse osmosis water filtration equipment generally includes a sanitization of the self-service refill water display, a system component check and any necessary preventative maintenance resulting from such component check and may include a water test for regulatory purposes. The various jurisdictions in which we operate have specific weekly, bimonthly, monthly, quarterly or annual water testing reporting requirements with which we comply, but we generally perform water tests semi-annually. As part of the routine visits to the vending displays, technicians will collect cash from the coin-operated machines. Depending upon the arrangement, the technician may obtain a meter reading to determine retail customer water usage. For certain locations, meter readings and other data are transmitted to us electronically, allowing for proactive, remote monitoring and reducing unnecessary visits to customer locations.

Our quality control team ensures that operation and sanitation standards with respect to our Refill business meet or exceed the requirements of federal and state regulations, requirements, National Automatic Merchandising Association (“NAMA”) standards, and other industry standards. As we seek to promote our brand, we believe it is critical to provide refill drinking water that is produced in a manner that exceeds current industry requirements. We regularly monitor, test and arrange for third-party quality testing of our self-service refill water displays and reverse osmosis water filtration systems.

Table of Contents

Exchange

In Exchange, our independent bottlers and distributors, including DS Services, a subsidiary of Cott Corporation, on whom we rely to perform the majority of the bottling and distribution responsibilities in our Exchange business, are responsible for the water purification, bottling and distribution processes and use their own equipment to complete these responsibilities. Our bottling process begins with either spring water or water from a public source that is processed through a pre-filtration stage to remove large particles. The water is then passed through polishing filters to catch smaller particles followed by a carbon filtration process that removes odors, tastes, sanitization by-products and pharmaceutical chemicals. A microfiltration process then removes microbes before the water is passed through a softener to increase the purification efficiency. The water next passes through the last phase of reverse osmosis or distillation, completing the purification process. After the purification process is complete, our proprietary blend of mineral ingredients is injected into the water followed by the final ozonation process to sanitize the water. Each of our production lots is placed on a 48-hour hold to allow for testing by the bottler and to ensure successful compliance with chemical and microbiological standards. We have the ability to trace each bottle of Primo water to its bottling and distributor sources, and we regularly perform recall tests to ensure our ability to react to a contamination event should it occur.

Utilizing either our systems or their own systems, we can anticipate demand and scheduling requirements in a distributor's territory. The distributor uses this information to load a truck with the appropriate inventory to stock or restock the Exchange sales displays on its route. Upon arrival at each retail location, the driver first visits the recycling center display to collect empty Primo and other dispenser-compatible bottles. The driver collects the data related to empty bottles and then loads the empty bottles onto the truck. The driver next checks the in-store sales display to compare the number of remaining bottles of water with the anticipated demand. After capturing data related to current stock levels, the driver replenishes the sales display. Critical data collected by distributors is transmitted to Primo and used to analyze and validate activity. Our distributors also capture electronic signatures, significantly reducing paper exchange.

At the completion of the delivery cycle, a distributor inspects the exchanged bottles for reusability. Our Exchange water bottles can be sanitized and reused up to 40 times before being taken out of use, crushed and recycled, substantially reducing landfill waste compared to consumption of similar amounts of single-serve bottled water. Bottles that pass a distributor's initial inspection are subject to three washing cycles to wash and disinfect. Bottles are then passed through two sanitization stages before a final rinse with hyper-ozonated water to kill or inactivate any microbes that remain at that point in the sanitization process. The water bottles are then ready to be filled with our purified water, as described above.

We work very closely with our bottling and distribution network to ensure their production and storage standards meet or exceed the requirements of the FDA and other industry regulations. As we seek to promote our brand, we believe it is critical to provide bottled water that has consistent taste and is produced in a manner that exceeds current industry requirements. In addition, we regularly monitor our distributors' performance to ensure a high level of account service.

Flow of Payments and Capital Requirements

We control the flow of payments between our retail customers and our distributors and service providers through electronic data interchange. Our retail customers are billed for outstanding amounts owed in three different methods, depending on the retail customer: (i) distributors present the store manager with an invoice for the bottles delivered for Exchange; (ii) our company service technician presents a meter reading or (iii) our systems electronically bill the retailer. In our coin-based refill business, we collect cash directly from the consumer and pay the retailer a commission based upon the sales generally within 30 days. Exchange provides five-gallon bottles of purified water that typically cost a consumer approximately \$6.99, after giving effect to the discount provided by our recycling ticket, while Refill typically costs a consumer between \$0.25 and \$0.50 per gallon, depending upon the geographic location, the retailer, the machine type (indoor or outdoor) and overall pricing strategy.

We generally compensate our Exchange distributors with a fixed payment per delivered Exchange water bottle. Due to the high degree of automation during our billing and inventory management procedures, we are able to leverage our centralized personnel and believe we will be able to significantly expand our business with minimal increases in variable costs.

Table of Contents

We focus our capital investments on raising brand awareness, growth marketing initiatives, developing new retail relationships, installing new store locations and research and development for new products. We are also responsible for the centralized operations and personnel, sales and recycling displays, bottles, reverse osmosis equipment and parts, displays and handheld devices. Our Exchange bottling and distribution network typically has made the capital investment required to operate our businesses, including a majority of the capital expenditures related to the bottling, sanitization and refill process and the distribution assets such as delivery trucks and warehouse storage. Participation in Exchange does not typically require the independent bottlers, distributors or service providers to make substantial new investments because they often are able to augment their current production capacity and leverage their existing bottling and distribution assets as well as personnel. In addition, many of our major retail customers have invested their capital to expand store locations and generate customer traffic.

Retailer Relationships

We target major retailers with either a national footprint or a significant regional concentration. Our relationships are diversified among the following retail categories and major accounts:

<u>Retail Category</u>	<u>Major Accounts</u>
Home Centers / Hardware Stores	Lowe’s Home Improvement, The Home Depot, Ace Hardware
Mass Merchants	Walmart, Meijer
Grocery Stores	Kroger, Food Lion, Safeway, H-E-B, Hy-Vee, Albertsons, Publix
Membership Warehouses	Sam’s Club, Costco
Drug Stores	Walgreens, CVS, Rite Aid
Convenience Stores	Circle K
Office Retail	Office Depot
Dollar	Dollar Tree, Family Dollar, Dollar General

Retailer Opportunity. We provide major retailers throughout the United States and Canada with a single-vendor solution for Dispensers, Exchange and Refill. We provide retailers with a year-round consumer product and an opportunity to increase sales and profits with minimal labor and financial investment. Through our Exchange bottling and distribution network and our Refill employee service network, we are able to service major retailers throughout the United States and Canada. Retailers benefit from Exchange and Refill which offer high margins and generate productivity from often underutilized interior and exterior retail space. In addition, these offerings have the potential to increase retailers’ sales of ancillary products through increased traffic from repeat water consumers, who we believe exchange or refill an average of 35 five-gallon water bottles annually.

Account Set-Up. We actively pursue headquarters-based retail relationships to better serve our retail partners and minimize layers of approval and decision-making with regard to the roll-out of Exchange or Refill to multiple

locations. Our sales team also pursues regional and local retailers, which greatly expands the opportunity for our retail reach. Upon confirmation of new retail locations, we coordinate with the retailer to schedule openings in a timely manner. We actively assist retailers in developing site plans for the setup of our sales and recycling center displays and reverse osmosis water filtration systems. While retailer setup preferences may vary, retailers often like to locate the recycling center display prominently on the exterior of their store to ease the transaction process, showcase their recycling and environmental efforts and conserve inside floor space while at the same time promoting the Primo brand. A majority of our refill locations are located on the exterior of the store.

Same Store Sales. We drive same store sales across brick and mortar and online retailers. Our marketing and shopper marketing teams leverage marketing research and market tests to determine the most cost effective and impactful methods to grow our retail partners' businesses. These techniques include improved communications, new merchandising and packaging, advertising and social media marketing. Additionally, we have implemented an instant redeemable coupon program that introduces new Primo dispenser owners to our water products with a free water offer upon purchase of a dispenser.

Account Service. Exchange and Refill are turn-key programs for retailers in which we and our distributors and company field service organization actively service each retail account. After the retail location is established, our distributors and service providers complete on-site training and have an economic interest in supporting and growing the business relationship to increase product throughput.

Table of Contents

Sales Support. While distributors service our Exchange retail accounts, the customer relationship is “owned” and maintained by our experienced retail sales organization, which allows us to develop strong brand affinity and maintain key headquarters-based relationships to secure and maintain our retail network. Our retail sales organization is responsible for selling and supporting Refill, Exchange and Dispensers to targeted retailers.

Significant Customers. For the year ended December 31, 2018, Walmart, Lowe’s Home Improvement and Home Depot represented approximately 33%, 9% and 8% of our consolidated net sales; 25%, 0%, and 0% of our Refill net sales; 29%, 20%, and 29% of our Exchange net sales and 66%, 20%, and 2% of our Dispenser net sales, respectively.

Information Technology Systems

We have made a substantial investment in information technology (“IT”) systems which enhance our ability to process orders, manage inventory and accounts receivable, maintain distributor and customer information, manage our company field service organization, maintain cost-efficient operations and assist in delivering products on a timely basis. Our technology utilizes highly integrated, scalable software applications that cost-effectively support our network of retail partners. Our IT systems also allow us to analyze historical trends and data to further enhance the execution, service and identification of new markets and marketing opportunities. The primary components of our systems include the following:

Sales and Marketing Support Systems. We operate a customer relationship management database that integrates all financial and transaction-based data with respect to each retail account. Our IT systems provide our account managers and customer service specialists’ access to crucial data to effectively manage each bottler, distributor and retail relationship.

Bottler and Distributor Level Technology. Our distribution process is highly automated and scalable. Our technology allows bottlers and distributors timely access to information for customer support needs and provides access to real-time data to enhance decisions. All delivery transactional information is uploaded from our distributors electronically creating a paperless environment.

Refill Service Technician Technology. Our Refill service technicians utilize smartphones to identify our assets via bar code scan. For our coin operated vending units, the technicians will download sales data from our vending equipment, which is used to reconcile the cash collected from the machine as well as serve as a basis for paying commissions to retailers. In the fourth quarter of 2018, we began to install credit card payment processing technology on our outdoor Refill machines. We believe that this credit card payment processing technology, in addition to providing our customers with increased payment options, will provide us the ability to remotely monitor our outdoor Refill machines in real time and ensure they are in continuous operation. For our non-coin operated units, the technicians gather water

usage meter reads on their smartphones, which in turn creates an invoice for the amount of water that will be billed to our retailers. For a significant amount of our Refill customers, meter readings and other data are transmitted to us electronically, allowing for proactive, remote monitoring and reducing unnecessary visits to customer locations.

Financial Integration. We utilize Microsoft's Dynamics GP software as our core platform which interfaces with all of our systems. All transactions are validated and data is imported into our database tables and mapped to corresponding accounting ledgers.

Manufacturing and Sourcing

Our manufacturing strategy for our Exchange and Dispenser businesses is to utilize independent manufacturers to produce empty water bottles, sales displays and recycle centers, and water dispensers at a reasonable cost. We believe that using independent manufacturers has several advantages over our manufacturing these items directly, including (i) decreased capital investment in manufacturing plants and equipment and working capital, (ii) the ability to leverage independent manufacturers' purchasing relationships for lower materials costs, (iii) minimal fixed costs of maintaining unused manufacturing capacity and (iv) the ability to utilize our suppliers' broad technical and process expertise.

For our reverse osmosis water filtration systems and self-service filtered water displays, we source parts from independent manufacturers and perform final assembly at our Vista, California facility. The assembly process involves installing replaceable panels and component parts on frames built to last for many years. Individual filters and other processing components are generally sourced by us from multiple suppliers.

Table of Contents

Currently, all of our Dispensers are assembled by independent manufacturers in China, which utilize several sub-suppliers to provide components and subassemblies. We have the sole North American rights to develop products with certain manufacturers and each dispenser unit is produced to our design specifications. Each unit is inspected and tested for quality by the manufacturer's personnel prior to shipment.

Our water bottles are produced by multiple independent vendors throughout North America. We select suppliers based on price, quality and geographic proximity to our bottlers and retail customers. We purchase only water bottles with handles for Exchange as a convenience feature for consumers.

Our sales displays and recycle centers are made to our design. We frequently request bids from multiple independent manufacturers to achieve optimal pricing.

Product Design and Development

A primary focus of our product research and development efforts is developing innovative water dispensers as part of our strategy to enhance consumer awareness and adoption of our Water products, increase household penetration and drive sales of our water. We continually work to improve water dispenser features, seek to lower manufacturing costs so that our innovative products are more affordable and introduce new models. Innovative improvements developed in cooperation with our manufacturing partners include bottom-loading dispensers, integrated K-cup® technology, a pet water dispenser, self-sanitizing units as well as faster water dispensing capabilities. Our water dispenser models are designed to appeal to consumers of diverse demographic audiences.

Competition

We participate in the highly competitive bottled water segment of the nonalcoholic beverage industry. While the industry is dominated by large and well-known international companies, numerous smaller firms are also seeking to establish market niches. We believe we have a unique business model in the bottled water market in the United States and Canada in that we not only offer three- and five-gallon bottled water on a nationwide basis but also provide consumers the ability to exchange their used containers as part of our Exchange business. We believe that we are one of the first companies to provide a national exchange solution at retail. While we are aware of a few direct competitors that operate similar networks, we believe they operate on a much smaller scale than we do and do not have equivalent systems or bottler and distributor capabilities to effectively support major retailers nationwide. Competitive factors with respect to our business include convenience, pricing, taste, advertising, sales promotion programs, product innovation, efficient production and distribution techniques, introduction of new packaging, and brand and trademark development and protection.

Our primary competitor in our Exchange business is Nestlé. Nestlé offers bottled water exchange to regional, but not national retailers. However, Nestlé is a leading consumer products company, has substantially greater financial and other resources than we do, has established a strong brand presence with consumers and has established relationships with retailers, manufacturers, bottlers and distributors necessary to start an exchange business at retail locations nationwide should they decide to do so. In addition to competition between firms within the bottled water industry, the industry itself faces significant competition from other non-alcoholic beverages, including carbonated and non-carbonated soft drinks and waters, juices, sport and energy drinks, coffees, teas and spring and tap water.

We also compete directly and indirectly in the water dispenser marketplace. This marketplace is diverse and faces competition from other methods of purified water consumption such as countertop filtration systems, faucet mounted filtration systems, in-line whole-house filtration systems, water filtration dispensing products such as pitchers and jugs, standard and advanced feature water coolers and refrigerator-dispensed filtered and unfiltered water.

Table of Contents

Refill also participates in the highly competitive purified water segment of the non-alcoholic beverage industry. Our Refill business model is differentiated from most of the participants in the North American nonalcoholic beverage industry in that it offers self-service refill of drinking water. There are few direct competitors that offer similar refill products, and we believe these direct competitors generally operate on a smaller geographical and operational scale than our Refill business. Refill faces two levels of competition: (i) competition at the retail customer level to secure placement of its reverse osmosis water filtration systems in the store; and (ii) competition at an end-user level to convince consumers to purchase its water versus other options. Competitive factors with respect to our Refill business include pricing, taste, advertising, sales promotion programs, retail placement, introduction of new packaging and branding.

Many of the indirect competitors in the bottled water segment of the nonalcoholic beverage industry are leading consumer products companies, have substantially greater financial and other resources than us, have established a strong brand presence with consumers and have established relationships with retailers, manufacturers, bottlers and distributors necessary to start a self-service drinking water refill business at North American retail locations should they decide to do so.

Intellectual Property and Trademarks

We believe that our intellectual property provides a competitive advantage and we have invested substantial time, effort and capital in establishing and protecting our intellectual property rights. We have filed certain patent applications and trademark registration applications and intend to seek additional patents, to develop additional trademarks and seek federal registrations for such trademarks and to develop other intellectual property. We consider our Primo tradenames, our related trademarks, and our other intellectual property to be valuable to our business. We rely on a combination of patent, copyright, trademark and trade secret laws and other arrangements to protect our proprietary rights. We own United States federal trademark registrations for our Primo® and Taste Perfection® trademarks, our Primo® logo and our distinctive four bubble design. U.S. federal trademark registrations generally have a perpetual duration if they are properly maintained and renewed. In addition, our recycling center is protected by a United States utility patent and four United States design patents. The United States design patents expire between May 2021 and April 2022. We also have patents to our unique ice machine that produce bagged ice on-site at a retailer.

In addition to patent protection, we also rely on trade secrets and other non-patented proprietary information relating to our product development, business processes and operating activities. We regard the composition of our mineral formula to be valuable trade secrets of Primo. We seek to protect this information through appropriate efforts to maintain its secrecy, including confidentiality agreements.

Table of Contents

Governmental Regulation

The conduct of our businesses and the production, distribution, advertising, promotion, labeling, safety, transportation, sale and use of our products are subject to various laws and regulations administered by federal, state, provincial and local governmental agencies in the United States and Canada. It is our policy to abide by the laws and regulations that apply to us, and we require our bottling, manufacturing, and distributing partners to comply with all laws and regulations applicable to them.

We are required to comply with:

federal laws, such as the US Federal Food, Drug and Cosmetic Act, the Canadian Food and Drug Act, the US Occupational Safety and Health Act and the Food Safety Modernization Act;

customs and foreign trade laws and regulations;

state and provincial consumer protection laws;

federal, state, provincial and local environmental, health and safety laws;

laws governing equal employment opportunity and workplace activities; and

various other federal, state, provincial and local statutes and regulations.

We maintain environmental, health and safety policies and a quality, environmental, health and safety program designed to ensure compliance with applicable laws and regulations.

The FDA regulates bottled water as a food under the federal Food, Drug and Cosmetic Act. Health Canada (“HC”) (Division 12) regulates bottled water in Canada. Our bottled water must meet FDA and HC requirements of safety for human consumption, identity, quality and labeling. Further, the sale and marketing of our products is subject to FDA’s and HC’s and the US FTC and Canadian Competition Bureau advertising and promotion requirements and restrictions. In addition, FDA and HC has established current “good manufacturing practice” regulations, which govern the facilities, methods, practices and controls used for the processing, bottling and distribution of bottled drinking water. We and our third-party supply, bottling and distribution partners are subject to these requirements. We also must comply with overlapping and sometimes inconsistent state and provincial regulations in various jurisdictions. As a result, we must

expend resources to continuously monitor state and provincial legislative and regulatory activities for purposes of identifying and ensuring compliance with the laws and regulations that apply to our bottled water business in each state in which we operate. While we must meet the government-mandated standards, we believe that our self-imposed standards meet or exceed those set by federal, state, provincial and local regulations.

Additionally, the manufacture, sale and use of resins used to make water bottles are subject to regulation by the FDA and HC. Those regulations are concerned with substances used in food packaging materials, not with specific finished food packaging products. We believe our beverage containers are in compliance with FDA and HC regulations. Additionally, the use of polycarbonates in food containers used by children under three years of age is subject to certain state and local restrictions.

Measures have been enacted in various localities, provinces and states that require a deposit or tax to be charged for certain non-refillable beverage containers. The precise requirements imposed by these measures vary. Other deposit, recycling or product stewardship proposals have been introduced in various jurisdictions. We anticipate that similar legislation or regulations may be proposed in the future at the local, state, provincial and federal levels.

The refill machines used with the reverse osmosis water filtration systems are certified by NAMA. NAMA maintains a certification program which evaluates food and beverage machines against current requirements of the U.S. Public Health Service Ordinance and Code. Currently, there are no U.S. or Canadian regulations that cover our refill machines. However, certain states, provinces and other regional localities have permit and testing requirements for the operation of the refill machines. All water testing is performed by independent nationally accredited labs.

Table of Contents

The cost of compliance with federal, state and local environmental provisions related to the protection of the environment has had no material effect on our business. There were no material capital expenditures for environmental control facilities in the year ended December 31, 2018, and there are no material expenditures planned for such purposes for the year ended December 31, 2019.

Environmental, Social and Corporate Responsibility

We believe that integrating and promoting best practices in the areas of environmental, social responsibility and corporate governance into our day-to-day operations underscores the importance of conducting business ethically and responsibly by delivering value to our customers, building strong communities, leveraging innovation and supporting the expertise, dedication and commitment of our employees and the communities in which they work.

Environmental Stewardship

Traditional water consumption, particularly via single-serve plastic water bottles, is environmentally unsustainable. 2017 data shows that, globally, approximately 1 million plastic bottles are purchased each minute, and that approximately 70% of plastic bottles once consumed are not recycled. Given that a single plastic bottle can take over 1,000 years to completely biodegrade, the current bottled and purified water consumption business model requires fundamental changes to meet consumer preferences for environmentally-friendly products. Recently proposed legislation reflects these concerns with the passage of “bottle bills” in many jurisdictions that tax the purchase of plastic water bottles, require deposits with the purchase of certain plastic bottles, prohibit the use of government funds to purchase plastic water bottles and ban certain plastic bottles from landfills.

As a purpose-driven company aiming to inspire healthier lives through better water, we are building our Refill, Exchange and Dispenser businesses in a manner that seeks to achieve a sustainable solution to the world’s problem of excessive plastic consumption and disposal. We have implemented and continue to develop business practices that are environmentally conscious and effective. We estimate that approximately 1,100 single-serve plastic bottles are saved by a single five-gallon bottle used in our Refill or Exchange water. Further, each of our multi-gallon Exchange water bottles can be sanitized and reused up to 40 times before being taken out of use, crushed and recycled, substantially reducing landfill waste compared to consumption of equivalent volumes of single-serve bottled water. We estimate that, since 2004, approximately 14.5 billion single-serve plastic bottles have been saved by consumer adoption of our Refill, Exchange and Dispenser products and offerings. We believe our focus on achieving an environmentally sustainable solution to the delivery and consumption of purified and filtered water provides a competitive advantage as we aim to meet the demands of consumers increasingly favoring products with a lower environmental impact with a “reuse, recycle, reduce” mindset becoming a common driver of their behavior.

Our Refill systems provide safe and economical drinking water to consumers by means of our environmentally friendly business model. Consumers reuse their water bottles by refilling them with sterilized high purity reverse osmosis water from our dispensers. This eliminates the need to purchase expensive, resource-consuming single-serve bottled water, which, when finished, are often disposed in landfill sites, oceans and other receiving streams.

Further, we have strategically placed over 24,000 Refill systems at grocery/retail locations across the United States and Canada. This ensures that refill water purchases are made efficiently during regular shopping trips, reducing the transportation time and related carbon emissions. There are no isolated, stand-alone Primo refill systems or systems located in water treatment specialty shops.

Recent improvements and investments in systems technology may substantially reduce our carbon footprint by cutting down on the number of driving hours by our service technicians. Our Refill service routes and dispatches are now managed by means of sophisticated routing and equipment maintenance software. This software monitors and directs our field service technicians via cellular and GPS technology to perform scheduled or emergency service. The system knows the location, schedule, traffic conditions and associated tasks for our technicians and will assign service calls in the most efficient manner.

Table of Contents

Our Exchange business model is also environmentally friendly. Consumers return their empty 5 or 3 gallon bulk water bottles to grocery/retail locations throughout the United States and Canada, and exchange it for a full prefilled bottle of Primo water. The empty bottle returns to the bottling plant and is cleaned, sanitized and refilled.

The water and wastewater infrastructure in the United States and Canada was given a D- grade by the American Society of Civil Engineers in 2017. Trillions of dollars will be required to bring water treatment and drinking water distribution into compliance with applicable laws and standards over the next twenty years. In addition, many sources of drinking water are now contaminated with known and emerging contaminants which will likely require sophisticated water treatment technologies to render tap water safe. Providing safe drinking water now will fall to forward thinking companies such as Primo who not only provide water that consumers trust but also provide products that align with a sustainable, environmentally friendly business model. While many water filtration manufacturers promote their faucet filters and other products to remove heavy metals from tap water, the onus is on the user to dispose of them responsibly. A used faucet filter cartridge loaded with lead and or arsenic that is tossed into the residential garbage collection will likely end up in a landfill site, which may contribute to contamination of the groundwater there in years to come. We believe The Primo Way is a better way.

Corporate Social Responsibility

We have built our corporate vision on these and other principles established in our vision statement, The Primo Way, and work daily to maintain an environment which is open, diverse and inclusive, and where our team members feel valued and included in our broader mission. Examples of our active and engaged commitment to our communities and social responsibility more broadly can be seen in, among other matters:

Active responses to communities affected by hurricanes, wildfires and other natural disasters, including assistance with disaster relief efforts and the donation of Primo bottles and dispensers to affected communities;

Donation of bottles and dispensers to several charitable and community service initiatives including the Pan-Mass challenge, the Los Angeles Chinatown Firecracker Run and the National MS Tour to Tanglewood;

Nationwide support of local non-profit organizations by providing water, dispensers and volunteer support to offset related costs and volunteer needs, including for the benefit of the American Diabetes Association and the Specially Fit Foundation, a non-profit organization encouraging active participation in exercise activities by those in underserved communities, including individuals with special needs and children living in foster care; and Support for a variety of animal welfare organizations, including chapters of the Society for Prevention of Cruelty to Animals (SPCA) throughout the country through donations of water and dispensers at SPCA animal shelters, pet food banks, pet training facilities, public veterinary centers, vaccination clinics and adoption drives.

Corporate Governance

In addition to our promotion of environmental and social responsibility best practices, we have a long-standing commitment to upholding a high level of ethical and corporate governance practices and standards, and we emphasize the importance of professional business conduct and ethics through our corporate governance initiatives. The Board of Directors has adopted a robust set of corporate governance practices to help it fulfill its responsibilities to stockholders in providing direction and oversight of management.

Earlier this year, the Board of Directors approved a series of corporate governance-related enhancements to strengthen and improve our commitment to adopting and enforcing strong corporate governance practices. Among others, the Board of Directors adopted a new set of Corporate Governance Guidelines to assist the Board and its committees in the exercise of its responsibilities and to establish a common set of expectations and guidelines to provide a strong and robust governance framework for the Company.

In January 2019, the Board of Directors appointed Susan Cates to serve as Lead Independent Director. In her new role as Lead Independent Director, Ms. Cates will be responsible for helping to set agendas for meetings of the Board of Directors, leading the Board's review of management performance and the succession planning process currently underway. Ms. Cates will also lead executive sessions of the independent members of the Board and, if requested by major stockholders, ensure her availability for consultation and direct communication as part of a Primo-wide initiative to enhance stockholder outreach and communication.

Table of Contents

In addition, the Board adopted a Board Diversity Policy that reinforces and reflects the Board's belief that diversity is a core value of Primo, a strategic driver of its success, and that diverse membership of the Board with varying perspectives and breadth of experience promotes the inclusion of different perspectives and ideas and results in both better corporate governance and improved corporate performance. In addition, the Board and each of its committees approved amended and restated committee charters requiring and promoting certain best practices in the operation of each committee.

Further, the Board has enhanced its commitment to solicit ongoing feedback from major shareholders and to provide for continued and robust shareholder engagement throughout the year. The Board welcomes feedback on its corporate governance and executive compensation practices and policies and believes that this continued engagement with shareholders will further align the long-term interests of the Board, the Company, its management and its shareholders.

Our corporate governance policies and practices are set forth in our Corporate Governance Guidelines and Board Diversity Policy. We also have a Code of Business Conduct and Ethics ("Code of Conduct") applicable to all employees, officers and directors of the Company, including the Chief Executive Officer and Executive Chairman. The Board has adopted charters for each of its Audit Committee, Compensation Committee and Nominating and Governance Committee. You may review the Corporate Governance Guidelines, our Code of Conduct and our Committee charters under the "Investor Relations" section of our website, under the subheading "Corporate Governance," on our website at: <http://www.primowater.com>. You may also obtain a copy of these documents by mailing a request to: Primo Water Corporation, Attn: Corporate Secretary, 101 North Cherry Street, Suite 501, Winston-Salem, North Carolina 27101.

Seasonality

We have experienced and expect to continue to experience seasonal fluctuations in our sales and operating income. Our sales and operating income have been highest in the spring and summer, and lowest in the fall and winter. Our Refill and Exchange segments, which generally enjoy higher margins than our Dispensers segment, experience higher sales and operating income in the spring and summer. We have historically experienced higher sales and operating income from Dispensers in spring and summer; however, we believe the seasonality of dispenser sales are more dependent on retailer inventory management and purchasing cycles and not correlated to weather. Sustained periods of poor weather, particularly in the spring and summer, can negatively impact our sales in our higher margin Refill and Exchange segments. Accordingly, our results of operations in any quarter will not necessarily be indicative of the results that we may achieve for a fiscal year or any future quarter.

Employees

As of December 31, 2018, we had 602 employees. We believe that our continued success will depend on our ability to continue to attract and retain skilled personnel. We have never had a work stoppage and none of our employees are represented by a labor union. We believe our relationship with our employees is good.

Financial Information

See our consolidated financial statements included elsewhere in this Form 10-K and accompanying notes to the consolidated financial statements.

Exchange Act Reports

We make available free of charge through our Internet website, www.primowater.com, our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports as soon as reasonably practicable after such materials are electronically filed with or furnished to the Securities and Exchange Commission ("SEC"). The SEC maintains an Internet website, www.sec.gov, which contains reports, proxy and information statements, and other information filed electronically with the SEC. The information provided on our website is not part of this report and is not incorporated herein by reference.

Table of Contents

Item 1A. Risk Factors

Risks Relating to Our Indebtedness

Restrictive covenants in our senior secured credit facility (the “SunTrust Credit Facility”) restrict or prohibit our ability to engage in or enter into a variety of transactions, which could adversely restrict our financial and operating flexibility and subject us to other risks.

At December 31, 2018, we had a \$30.0 million revolving credit facility (the “Revolving Credit Facility”) and \$185.3 million outstanding on our term loan facility (the “Term Loan Facility”) pursuant to the SunTrust Credit Facility. The SunTrust Credit Facility contains various restrictive covenants that limit our and our subsidiaries’ ability to take certain actions. In particular, these agreements limit our and our subsidiaries’ ability to, among other things:

incur additional indebtedness;

incur liens on our assets or enter into sale-leaseback transactions;

merge or enter into other change of control transactions;

make certain loans and investments;

make or declare dividends or other restricted payments or repurchase shares of capital stock;

conduct certain restricted asset sales;

amend or otherwise alter our organizational documents and certain material agreements;

make any significant changes in accounting treatment or reporting practices, except as required by GAAP; and

engage in transactions with affiliates.

Any or all of these covenants could have a material adverse effect on our business by limiting our ability to take advantage of financing, merger and acquisition or other corporate opportunities and to fund our operations. Any future debt could also contain financial and other covenants more restrictive than those currently imposed pursuant to the SunTrust Credit Facility.

A breach of a covenant or other provision in any debt instrument governing our current or future indebtedness, including the SunTrust Credit Facility, could result in a default under that instrument and, due to customary cross-default and cross-acceleration provisions, could result in a default under any other debt instrument that we may have. If the lenders under our indebtedness were to so accelerate the payment of the indebtedness, we cannot assure you that our assets or cash flow would be sufficient to repay in full our outstanding indebtedness, in which event we likely would seek reorganization or protection under bankruptcy or other, similar laws.

We incurred a substantial amount of indebtedness in connection with the Acquisition, which we refinanced in June 2018, and we may be unable to generate sufficient cash flow to service our debt obligations. In addition, our inability to generate sufficient cash flows to support operations and other activities without debt financing could prevent future growth and success.

The amount of our indebtedness or such other obligations could have important consequences for us, including, but not limited to:

a substantial portion of our cash flow from operations must be dedicated to the payment of principal and interest on our indebtedness, thereby reducing the funds available to us for other purposes;

Table of Contents

our ability to obtain additional financing for working capital, capital expenditures, acquisitions, debt service requirements or other general corporate purposes and our ability to satisfy our obligations with respect to our outstanding indebtedness may be impaired in the future;

we are exposed to the risk of increased interest rates because our borrowings are at variable rates of interest;

we may be at a competitive disadvantage compared to our competitors with less debt or with comparable debt at more favorable terms and that, as a result, may be better positioned to withstand economic downturns;

our ability to refinance indebtedness may be limited or the associated costs may increase;

our ability to engage in acquisitions or make additional capital investments without raising additional equity or obtaining additional debt financing may be impaired in the future;

it may be more difficult for us to satisfy our general obligations to our creditors, resulting in possible defaults on and acceleration of such indebtedness;

we may be more vulnerable to general adverse economic and industry conditions; and

our flexibility to adjust to changing market conditions and our ability to withstand competitive pressures could be limited, or we may be prevented from making capital investments that are necessary or important to our operations in general, growth strategy and efforts to improve operating margins of our business segments.

Our ability to make payments on our indebtedness and to fund planned capital expenditures depends in part on our ability to generate cash from future operations. Our ability to generate cash, make scheduled payments on our indebtedness or refinance our obligations depends on our successful financial and operating performance. Our financial and operating performance, cash flow and capital resources depend in part upon prevailing economic conditions and various financial, business, legislative, regulatory and other factors, many of which are beyond our control. If our cash flow and capital resources are insufficient to fund our debt service obligations, we may be forced to reduce or delay capital expenditures, sell material assets or operations, obtain additional capital or restructure or refinance our debt, any or all of which could have a material adverse effect on our business, financial condition and results of operations. In addition, we cannot assure you that we would be able to take any of these actions on terms acceptable to us, or at all, that these actions would enable us to continue to satisfy our capital requirements or that these actions would be permitted under the terms of our various debt agreements.

If we are unable to generate sufficient cash flows to support capital expansion, potential business acquisition plans and general operating activities, and are unable obtain the necessary funding for these items through equity financing, debt financing, or some combination thereof, our business could be negatively affected and we may be unable to expand

into existing and new markets. Our ability to generate cash flows is dependent in part upon obtaining necessary financing at favorable interest rates. Interest rate fluctuations and other capital market conditions may prevent us from doing so.

The interest rates under our SunTrust Credit Facility may be impacted by the phase-out of LIBOR.

LIBOR, the London Interbank Offered Rate, is the basic rate of interest used in lending between banks on the London interbank market and is widely used as a reference for setting the interest rates on loans globally. We generally use LIBOR as a reference rate to calculate interest rates under our SunTrust Credit Facility. In 2017, the United Kingdom's Financial Conduct Authority, which regulates LIBOR, announced that it intends to phase out LIBOR by the end of 2021. It is unclear if LIBOR will cease to exist at that time or if new methods of calculating LIBOR will be established such that it continues to exist after 2021. The U.S. Federal Reserve, in conjunction with the Alternative Reference Rates Committee, a steering committee comprised of large U.S. financial institutions, is considering replacing U.S. dollar LIBOR with a new index, the Secured Overnight Financing Rate (SOFR), calculated using short-term repurchase agreements backed by Treasury securities. SOFR is observed and backward looking, unlike LIBOR under the current methodology, which is an estimated forward-looking rate and relies, to some degree, on the expert judgment of submitting panel members. Given that SOFR is a secured rate backed by government securities, it will be a rate that does not take into account bank credit risk (as is the case with LIBOR). SOFR also may be more volatile than LIBOR. Whether or not SOFR, or another alternative reference rate, attains market traction as a LIBOR replacement tool remains in question. At this time, due to a lack of consensus as to what rate or rates may become accepted alternatives to LIBOR, it is impossible to predict the effect of any such alternatives on our liquidity. As of March 1, 2019, we had \$188.3 million of borrowings under our credit facilities that bore interest rates based on LIBOR. If LIBOR ceases to exist, we may need to renegotiate our credit agreements extending beyond 2021 that utilize LIBOR as a factor in determining the interest rate to replace LIBOR with an agreed upon replacement index, and certain of the interest rates under our credit agreements may change. The new rates may not be as favorable to us as those in effect prior to any LIBOR phase-out, which may cause the amount of interest payable under such credit arrangements to be different than expected. We may also find it desirable to engage in more frequent interest rate hedging transactions.

Table of Contents

Global capital and credit market issues could negatively affect our liquidity, increase our costs of borrowing and disrupt the operations of our suppliers, bottlers, distributors and customers.

The global capital and credit markets have experienced increased volatility and disruption, making it more difficult for companies to access those markets. There can be no assurance that continued or increased volatility and disruption in the capital and credit markets will not impair our liquidity or increase our costs of borrowing. Our business could also be negatively impacted if our suppliers, bottlers, distributors or retail customers experience disruptions resulting from tighter capital and credit markets or a slowdown in the general economy or in their respective industries.

Risks Relating to Our Business and Industry

We depend on a small number of large retailers for a significant portion of our consumer sales. Our arrangements with these retailers for our products are generally nonexclusive and terminable at will.

Certain retailers have historically made up a significant percentage of our retail sales volume, such that if one or more of these retailers were to materially reduce or terminate its business with us, our sales would suffer. For the year ended December 31, 2018, Walmart, Lowe's Home Improvement and Home Depot represented approximately 33%, 9% and 8% of our consolidated net sales; 25%, 0%, and 0% of our Refill net sales; 29%, 20%, and 29% of our Exchange net sales and 66%, 20%, and 2% of our Dispenser net sales, respectively. While we sell a small percentage of our dispensers directly to consumers through our online store and other direct sales channels, the vast majority of our sales are made through our retail partners.

We have arrangements with certain retailers for our products, but we cannot provide any assurance of any future sales. None of our significant retail accounts are contractually bound to offer our products. As a result, retailers can discontinue our products at any time and offer a competitor's products, or none at all. Additionally, the contractual commitments of many of our retail customers are typically not long-term in nature. In addition, contracts to which Glacier was a party prior to the Acquisition, and to which we are now a party, also contain termination clauses. Continued positive relations with a retailer depend upon a number of factors, including price, customer service, consumer demand and competition. Certain of our retailers have policies requiring them to solicit multiple vendors for one or more products and may seek to offer a competitor's products or services at new or existing locations. If any significant retailer materially reduces, terminates or is unwilling to expand its relationship with us, or requires price reductions or other adverse modifications in our selling terms, our business, financial condition, results of operation and cash flows would suffer. Furthermore, we could be adversely affected if any of our key retail customers elects to de-emphasize or reduce their product offerings in the categories with which we supply them, and such a reduction could adversely affect our business, financial condition, results of operation and cash flows.

Additionally, most major retailers continually evaluate and often modify their in-store retail strategies, including product placement, store set-up and design, promotions and demographic targets. Our business could suffer significant setbacks in net sales and operating income if one or more of our major retail customers modified its current retail strategy resulting in a termination or reduction of its business relationship with us, a reduction in store penetration or an unfavorable product placement within such retailer's stores, any or all of which could materially adversely affect our business, financial condition, results of operations and cash flows.

The success of our business depends on retailer and consumer acceptance of our products.

We are a consumer products company operating in the highly-competitive bottled water market and rely on continued consumer demand or preference for our products. To generate sales and profits, we must sell products that appeal to retailers and to consumers. Our future success depends on consumer acceptance, particularly at the household level, of our products. There is no guarantee that there will be significant market acceptance of our products on a scale necessary to achieve sustained profitability and the growth we desire.

Table of Contents

As a result of our “razor-razorblade” business strategy, we are reliant on consumer adoption of our “razors” (Dispensers) to drive sales of the “razorblades” (Exchange and Refill). If we are unable to generate consumer adoption of our Dispensers, we will face significant difficulties growing sales of Exchange and Refill, which would materially adversely affect our business, financial condition, results of operations and cash flows.

The markets for our products are evolving rapidly and we may not be able to accurately assess the size of the markets or trends that may emerge and affect our businesses. Consumer preference can change due to a variety of factors, including social trends, negative publicity and economic changes. If we are unable to convince current and potential retail customers and individual consumers of the advantages of our products, our ability to sell our products will be limited. Consumer acceptance also will affect, and be affected by, our existing retail partners’ and potential new retail partners’ decisions to sell our products and their perception of the likelihood of consumers purchasing our products. Even if retail customers purchase our products, there is no guarantee that they will be successful in selling our products to consumers on a scale necessary for us to achieve sustained profitability and growth. Any significant changes in consumer preferences for purified bottled water could result in reduced demand for our products and erosion of our competitive and financial position.

We may not fully realize expected growth in Refill sales volume and net sales from the insights discovered in the third quarter of 2018 related to downtime of certain Glacier Refill machines, including the extent to which the previously announced implementation of credit card reader technology on our Refill machines will permanently resolve related downtime issues going forward, as well as the potential difficulties retaining and growing the portion of our customer base targeted by such Refill machines.

In connection with the implementation of new technology in the third quarter of 2018 and the application of our “as-needed” service model to the legacy Glacier outdoor, coin-based Refill machines, we discovered that a number of such Refill machines were only identified as out-of-service upon the next occurrence of the “as-needed” servicing, which led to a lack of visibility to quickly identify machines experiencing downtime. Data showed us that, more often than not, we did not receive any notification from a retailer or customer that any downtime had occurred until such malfunctioning machines were identified on the next regularly scheduled service visit.

We have implemented a number of changes arising from such issues that we believe will help drive incremental, sustainable and long-term growth in our Refill business. In the fourth quarter of 2018, we entered into a partnership with Nayax, a leading cashless payment solutions provider, where we will install Nayax’s credit card payment processing technology on approximately 17,000 of our outdoor Refill machines. We believe that this credit card payment processing technology, in addition to providing our customers with increased payment options, will provide us the ability to remotely monitor our outdoor Refill machines in real time and ensure they are in continuous operation. In addition, in 2018 we commenced implementation of a broad-based increase in price in our Refill segment, and we believe this price increase may further support the incremental, sustainable and long-term growth in our Refill business along with our other proposed solutions.

However, there can be no assurances that our proposed solutions to the Refill machine downtime visibility issues, including the implementation of the Nayax credit card payment solution, will permanently resolve such downtime visibility issues. These solutions and related benefits may not be achieved within our anticipated time frame, or at all, and at the costs and expenses we currently expect. In the event that our proposed solutions do not adequately resolve such downtime visibility issues, we may not fully realize the expected growth in Refill sales volume and net sales, which may adversely affect our business, financial condition, results of operations and cash flows. In addition, extended downtime of our legacy Glacier outdoor, coin-based Refill machines may have prevented sales to current or prospective customers, and may have impaired relationships with existing customers or prevented us from establishing relationships with new customers. If our proposed solutions do not achieve the expected benefits, we may experience a decrease in our Refill customer base targeted by such machines or fail to achieve previously expected Refill customer base growth in respect of such machines, which may adversely affect our volume and net sales, which may impact our business, financial condition, results of operations and cash flows. In addition, our recently commenced increase in price in our Refill segment may result in a decrease in the sales volume of our Refill products to an extent that the increase in price will not offset such decrease in volume, or may otherwise negatively impact growth in our Refill business or otherwise inhibit the growth in our Refill business that the previously discussed solutions are meant to achieve. Any such further negative impact or inhibition of the growth in our Refill business would adversely affect our business, financial condition, results of operations and cash flows.

Table of Contents

We operate in a highly competitive industry, face competition from companies with far greater resources than we have and could encounter significant competition from these companies both in Exchange and Refill.

We primarily participate in the highly competitive bottled water segment of the non-alcoholic beverage industry. The industry is dominated by large and well-known international companies, and numerous smaller firms are also seeking to establish market niches. In Exchange, we offer three- and five-gallon bottled water and also provide consumers the ability to exchange their used containers. Competitive factors with respect to our business include pricing, taste, advertising, sales promotion programs, product innovation, increased efficiency in production and distribution techniques, the introduction of new packaging and brand and trademark development and protection.

Our primary competitors in our Exchange business include Nestlé, The Coca-Cola Company, PepsiCo, Dr. Pepper Snapple Group and Cott Corporation. Many of these competitors are leading consumer products companies, have substantially greater financial and other resources than we do, have established a strong brand presence with consumers and have established relationships with retailers, manufacturers, bottlers and distributors necessary to start an exchange business at retail locations nationwide should they decide to do so. Competitors with greater financial resources may put pressure on the prices at which we offer our products which would have a negative impact on our margins. Further, in 2018 we commenced implementation of a broad-based increase in price in our Refill segment. Any such increases for our Refill products or any of our other products, may decrease our overall sales volume, including a decrease in the sales volume of our Refill products to an extent that the increase in price will not offset such decrease in volume, any of which would adversely affect our business, financial condition, results of operations and cash flows. In addition to competition between companies within the bottled water industry, the industry itself faces significant competition from other non-alcoholic beverages, including carbonated and non-carbonated soft drinks and waters, juices, sport and energy drinks, coffees, teas and spring and tap water.

Refill also participates in the highly competitive purified water segment of the non-alcoholic beverage industry. While the non-alcoholic beverage industry is dominated by large and well-known international companies, numerous smaller firms are also seeking to establish market niches. Refill faces two levels of competition: (i) competition at the retail customer level to secure placement of its reverse osmosis water filtration systems in the store; and (ii) competition at an end-user level to convince consumers to purchase its water versus other options. Competitive factors with respect to our Refill business include pricing, taste, advertising, sales promotion programs, retail placement, introduction of new packaging and branding.

We also face competition from other methods of purified water consumption such as countertop filtration systems, faucet mounted filtration systems, in-line whole-house filtration systems, water filtration dispensing products such as pitchers and jugs, standard and advanced feature water coolers and refrigerator dispensed filtered and unfiltered water. We could face enhanced competition if such devices are improved to provide enhanced filtration or other competing services.

We also compete directly and indirectly in the Dispenser marketplace. There are many large consumer products companies with substantially greater financial and other resources, a larger brand presence with consumers and established relationships with retailers that could decide to enter the marketplace. Should any of these consumer products companies so decide to enter the Dispenser marketplace, sales of our water dispensers could be materially and adversely impacted, which, in turn, could materially and adversely affect our sales of Exchange and Refill water.

We have incurred operating losses in the past and may incur operating losses in the future.

We have recorded an operating loss for the year ended December 31, 2018 and although we have reported operating income for the year ended December 31, 2017, we have incurred operating losses in the past and may incur operating losses in the future. As of December 31, 2018, our accumulated deficit was \$328.6 million. We may incur losses in the future as we incur additional costs and expenses related to, among other matters, interest and other costs related to our indebtedness, branding and marketing, expansion of operations, additional strategic acquisitions, product development, development of relationships with strategic business partners, regulatory compliance and litigation. If our operating expenses exceed our expectations, our financial performance will be adversely affected. If our sales do not grow to offset any increased expenses, we may not experience profitability in the future. If we do not achieve sustained profitability, we may be unable to continue operations.

Table of Contents

In our Exchange business, we depend on independent bottlers, distributors and suppliers for our business to operate.

In our Exchange business, we continue to be dependent on independent bottlers, distributors and suppliers to bottle and deliver our bottled water products to our retail customers. We do not have our own manufacturing facilities to produce bottled water products. We are, and will continue to be for the foreseeable future, entirely dependent on third parties to supply the bottle pre-forms, bottles, water and other materials necessary to operate our Exchange business. We rely on third-party supply companies to manufacture our three- and five-gallon water bottles and deliver them to our bottlers. In turn, we rely on bottlers to properly purify the water, include our mineral enhancements and bottle the finished product without contamination and pursuant to our quality standards and preparation procedures. Finally, we rely upon our distributors to deliver bottled water to our retail partners in a timely manner, provide us with accurate information regarding the delivery of the bottles, manage our recycling center displays and return used bottles to the bottlers to be sanitized or crushed and recycled.

We rely on DS Services of America, Inc. (“DS Services”), a subsidiary of Cott Corporation, to perform the majority of the bottling and distribution responsibilities in our Exchange business and are substantially dependent on DS Services’ ability to provide bottling and distribution services to our retail partners. Should our strategic arrangement with DS Services not be successful or should the strategic alliance agreement not be extended beyond its term, which runs through December 31, 2025, we may be unable to re-establish our relationships with our prior network of independent bottlers, distributors and suppliers or otherwise establish relationships with new third parties as necessary to support existing operations, growth and profitability of our business on economically viable terms. As independent companies, these bottlers, distributors and suppliers make their own business decisions. Suppliers may choose not to do business with us for a variety of reasons, including competition, brand identity, product standards and concerns regarding our economic viability. They may have the right to determine whether, and to what extent and on what terms, they produce and distribute our products, our competitors’ products and their own products. Some of the business for certain of these bottlers, distributors and suppliers comes from producing or selling our competitors’ products. These bottlers, distributors and suppliers may devote more resources to other products or take other actions detrimental to our brands. In addition, their financial condition could also be adversely affected by conditions beyond our control. Any deterioration in the financial condition or operating capabilities of our bottlers, distributors or other suppliers could adversely affect our business. In addition, we will face risks associated with any bottler’s or distributor’s or DS Services’ failure to adhere to quality control and service guidelines we establish or laws or regulations governing their operations or failure to ensure an adequate and timely supply of product at retail locations. Any of these factors could negatively affect our business and financial performance. If we are unable to obtain and maintain a source of supply for bottles, water and other materials of adequate quality and quantity, our business will be materially and adversely affected.

In Exchange, if our distributors do not perform to our retailers’ expectations, if we encounter difficulties in managing our distributor operations or if we or our distributors are not able to manage growth effectively, our retail relationships may be adversely impacted and our business may suffer.

Our success depends on our ability to manage our retail relationships through the performance of our distributor partners, including DS Services. We exercise only limited influence over the resources our distributor partners devote to delivery and exchange of our three- and five-gallon water bottles. Our retailers impose demanding product and service requirements on us and we could suffer a loss of consumer or retailer goodwill if our distributors do not adhere to our quality control and service guidelines or fail to ensure an adequate and timely supply of bottled water at retail locations. The poor performance of services provided to a major retailer by us or our distributors could jeopardize our entire relationship with that retailer and cause our Exchange business to suffer. In addition, the number of retail locations offering Exchange and our corresponding sales has grown significantly over the past several years. Accordingly, our distributors, including DS Services, must be able to adequately service an increasing number of retail accounts. If our growth is not managed effectively both by us and our distributors, our Exchange business may suffer.

We may not be able to obtain capital when desired on favorable terms, if at all, or without dilution to our stockholders.

At December 31, 2018, our cash totaled \$7.3 million, and we had the \$27.0 million available under the revolving portion of the SunTrust Credit Facility. We anticipate that our current cash, availability under the SunTrust Credit Facility and cash flow from operations will be sufficient to meet our current capital needs for general corporate purposes. However, we may need or desire additional capital to finance our operations or to execute on our current or future business strategies, including to expand the number of retail store locations in which our products are offered, enhance our operating infrastructure, acquire new businesses, products or technologies, or otherwise respond to competitive pressures.

Table of Contents

If we raise additional funds through the issuance of equity or convertible debt securities, the percentage ownership of our stockholders could be significantly diluted, and these newly issued securities may have rights, preferences or privileges senior to those of existing stockholders. We cannot assure you that additional financing will be available on terms favorable to us, or at all. In addition, our ability to incur additional indebtedness may be impaired as a result of the significant amount of indebtedness at December 31, 2018. If adequate funds are not available or are not available on acceptable terms, when we desire them, our ability to invest in our operations, take advantage of unanticipated opportunities, develop or enhance our product offerings, or otherwise respond to competitive pressures would be significantly limited and we could be forced to reduce, delay or cancel capital expenditures, sell assets, or scale down our operations, all of which could harm our ability to generate revenues and reduce the value of our common stock.

If we lose key personnel or are unable to recruit qualified personnel, our ability to implement our business strategies could be delayed or hindered. In addition, we may not be able to attract and retain the highly skilled employees we need to support our planned growth.

We are highly dependent upon the services of our senior management because of their experience, industry relationships and knowledge of the business. The loss of one or more of our key employees could seriously harm our business and we may not be able to attract and retain individuals with the same or similar level of experience or expertise. We face competition for qualified employees from numerous sources and there can be no assurance that we will be able to attract and retain qualified personnel on acceptable terms. Our ability to recruit and retain such personnel will depend upon a number of factors, such as our results of operations, prospects and the level of competition then prevailing in the market for qualified personnel. Further, as the U.S. economy has generally improved in recent years, labor markets for certain of our personnel have tightened, and the continuation of such conditions or further tightening of such labor markets may adversely impact our ability to attract and retain qualified personnel. Failure to recruit and retain such personnel could materially adversely affect our business, financial condition and results of operations. While our employment agreements with members of our senior management include customary confidentiality, non-competition and non-solicitation covenants, there can be no assurance that such provisions will be enforceable or adequately protect us.

We have Canadian operations and are exposed to fluctuations in currency exchange rates and political uncertainties.

We have Canadian operations, and as a result, we are subject to risks associated with doing business internationally. Risks inherent to operating internationally include: changes in a country's economic or political conditions, changes in foreign currency exchange rates, and unexpected changes in regulatory requirements.

To the extent the United States dollar strengthens against the Canadian dollar, our foreign revenues and profits will be reduced when translated into United States dollars.

We recently entered into a partnership with a third party in Mexico related to Mexico Refill operations, and we regularly evaluate potential expansion into international markets. Such expansion into international operations, and our limited experience in international markets outside of Canada, could subject us to risks and expenses that could adversely impact our business, financial condition and results of operations.

To date, we have not undertaken substantial commercial activities outside of the United States and Canada. We have evaluated, and continue to evaluate, potential expansion into certain other international markets. In January 2019, we entered into an agreement with a Mexico partner creating the framework for establishing a business in Mexico to sell reverse-osmosis water through indoor and outdoor self-service refill drinking water machines (the “Mexico Refill Partnership”).

Table of Contents

As we seek to expand internationally in the future, our sales and operations are subject to a variety of risks, including fluctuations in currency exchange rates, tariffs, import restrictions and other trade barriers, unexpected changes in legal and regulatory requirements, political, economic and civil instability and uncertainty (including acts of terrorism, civil unrest, drug-cartel related and other forms of violence and outbreaks of war), investment restrictions or requirements, longer accounts receivable payment cycles, potentially adverse tax consequences, and difficulty in complying with foreign laws and regulations, as well as U.S. laws and regulations that govern foreign activities, such as the U.S. Foreign Corrupt Practices Act. Economic uncertainty in some of the geographic regions in which we might operate, including Mexico, could result in the disruption of commerce and negatively impact our operations in those areas. Also, as we pursue international expansion efforts, it may be necessary or desirable to contract with third parties, and we may not be able to enter into such agreements on commercially acceptable terms or at all. Further, such arrangements, including the Mexico Refill Partnership, may not perform to our expectations, and we may be exposed to various risks as a result of the activities of our partners.

In addition, prior to the Mexico Refill Partnership, we have had very limited experience undertaking international operations outside of Canada. The structuring, expansion and administration of the Mexico Refill Partnership may require significant management attention and financial and operational resources that may result in increased operational, administrative, legal, compliance and other costs and may divert management's attention and employee resources from other priorities. If we do not successfully manage and expand the Mexico Refill Partnership in a timely manner, if at all, the Mexico Refill Partnership may not generate its currently expected profitability, if any, and we may experience adverse effects on our business, financial, condition, results of operation or cash flows.

Any occurrences of the risks associated with our international operations and related expansion could adversely affect our business, financial condition, results of operation, reputation and ability to further expand internationally.

Recently imposed tariffs and other potential changes in international trade relations implemented by the U.S. presidential administration could have a material adverse effect on our business, financial condition, cash flows and results of operations. Further, any suspension, revocation, expiration, non-renewal or other loss of our recently secured temporary exemption from existing tariffs (including the extension of applicable tariffs beyond the duration of our temporary exemption) could adversely affect our business, financial condition, cash flows and results of operation.

Currently, all of our Dispensers are assembled by independent manufacturers in, and imported from, China. These import operations are subject to international trade regulations, including import charges and other agreements among the United States and its trading partners, including China.

The U.S. government recently proposed, among other actions, imposing new or higher tariffs on specified imported products originating from China in response to what it characterizes as unfair trade practices, and China has responded by proposing new or higher tariffs on specified products imported from the United States. In a notice published on

June 20, 2018, the Office of the United States Trade Representative (the “USTR”) issued a determination and request for public comment under Section 301 under the Trade Act of 1974 (the “Notices”) concerning the proposed imposition of an additional 25% tariff on specified products from China (the “June 2018 Tariffs”). The list of products set forth in the Notice included self-contained drinking water coolers, including our Dispensers, which we import from China. We have worked with our suppliers and secured a reduction in the amount we pay for Dispensers and with our customers to increase our prices to include the remaining incremental cost associated with the Tariff as implemented in the Notice. We believe the cost reduction and increased pricing will offset the impact of the Tariff as implemented in the Notice, however, if retailers increase prices to consumers, consumer demand may be reduced, and any increases in the rate of the Tariff or any additional tariffs may adversely affect us in a manner where we cannot negotiate cost reductions or price increases to offset any potential impact.

In July 2018, we applied to the USTR for a Request for Exclusion from the Tariffs for our Dispensers (the “Request for Exclusion”). Our Request for Exclusion was granted by the USTR in the fourth quarter of 2018. The exclusion is retroactive to July 6, 2018, and any amounts we paid in respect of such June 2018 Tariffs between the time of their implementation and the granting of our Request for Exclusion will be reimbursed. However, the exemption granted to us by the USTR is temporary and expires after one year from its granting. Any suspension, revocation, expiration, non-renewal or other loss of our temporary exemption from the June 2018 Tariffs, or the extension of the June 2018 Tariffs beyond the expiration date of our temporary exemption, could adversely affect our business, financial condition, cash flows and results of operations.

Table of Contents

In addition, in September 2018, the USTR finalized a new list of products imported from China that are subject to a new 10% tariff, which went into effect on September 24, 2018 and which was scheduled to increase to 25% on January 1, 2019 (the “List 3 Tariffs” and, together with the June 2018 Tariffs, the “Tariffs”). On February 28, 2019, President Trump delayed the increase from 10% to 25% to provide time for further negotiations with Chinese trade representatives. While the 10% rate for the List 3 Tariffs currently remains in effect, the rate is subject to the discretion of the President, and the List 3 Tariffs rate may increase at any time without advanced notice as to the timing or magnitude of any such increase. Primo imports a small number of lower-priced products subject to the List 3 Tariffs, and the Trump Administration has stated they will not implement a product exclusion process for products subject to the List 3 Tariffs. As a result, certain of our products remain subject to the 10% List 3 Tariffs, which may increase to 25% later in 2019. The continued implementation of such List 3 Tariffs, and any increase in the duties subject to such List 3 Tariffs, may have an adverse impact on our business, financial condition, cash flows and results of operations.

These Tariffs, along with any additional tariffs or other trade actions (including duties, import charges or other similar restrictions or other reductions in trade) that may be implemented, may further increase the cost of certain materials and/or products that we import from China, including our Dispensers, or any other foreign nation from which we may source any goods, thereby adversely affecting our profitability. These actions could require us to raise our prices, which could decrease demand for our products or otherwise impact the marketability of our products to retailers and consumers. The Tariffs could also force us to seek alternative suppliers for our Dispensers and other materials we import from China or force our existing suppliers to establish new manufacturing operations in other countries, and the products produced by such manufacturers may be of inferior quality, cost more than the Dispensers we currently import from China, or otherwise be sourced from suppliers with unproven operations or reliability. As a result, these actions, including potential retaliatory measures by China, may adversely impact our business. Given the uncertainty regarding the scope and duration of these trade actions by the United States or other countries, as well as the potential for additional trade actions, the impact on our operations and results remains uncertain and could be significant. To the extent that our supply chain, costs, sales or profitability are negatively affected by the Tariffs or any other trade actions (including duties, import charges or other similar restrictions or other reductions in trade), our business, financial condition and results of operations may be materially adversely affected.

In the Dispensers segment, because all of our dispensers are manufactured in China, a significant disruption in the operations of these manufacturers or political unrest in China could materially adversely affect us.

We have one primary manufacturer of our Dispensers. Any disruption in production or inability of our manufacturers to produce quantities of water dispensers adequate to meet our needs could significantly impair our ability to operate the Dispensers segment on a day-to-day basis. All of our manufacturers are located in China, which exposes us to certain risks including, among others, the possibility of product supply disruption and increased costs in the event of changes in the policies of the Chinese government, political unrest or unstable economic conditions in China, changes in currency exchange rates or developments in the United States that are adverse to trade with China or other nations, including enactment of protectionist legislation or policies. In addition, in some cases, our dispensers are shipped directly from the manufacturer to our retail partners. Although we routinely inspect and monitor our manufacturing partners’ activities and products, we rely heavily upon their quality controls when producing and delivering the dispensers to our retail partners. Any of these matters could materially adversely affect Dispensers and, as a result, our

profitability.

If the water we sell became contaminated, our business could be seriously harmed.

We have adopted various quality, environmental, health and safety standards. However, our Exchange and Refill products may still not meet these standards or could otherwise become contaminated. A failure to meet these standards or contamination could occur in our operations or those of our bottlers, distributors or suppliers. Such a failure or contamination could result in expensive production interruptions, recalls and liability claims. Any widespread product recall, whether or not related to a failure to meet standards or water contamination, could result in losses due to the costs of a recall, the destruction of product inventory and lost sales due to the unavailability of product for a period of time or damaged reputation due to negative publicity. Even if our Refill water does not ever become contaminated, a contamination of any vended water, including the water of our competitors, would be detrimental to certain segments of our industry as a whole, which may have adverse effects on our business and results of operation. We could also suffer losses from a significant product liability judgment against us. Moreover, negative publicity could be generated even from false, unfounded or nominal liability claims or limited recalls. Any of these failures or occurrences, or any allegation of such failures or occurrences, could negatively affect our business and financial performance.

Table of Contents

Electrical outages, localized municipal tap water system shut-downs, “boil water” directives or increases in the cost of electricity or municipal tap water could adversely affect portions of our Refill business.

Certain of our Refill machines depend on a supply of electricity and water to operate. Any electrical outages or cut-off of municipal tap water supplies to such machines or a directive to boil municipal tap water sources for such machines, in each case, whether due to natural disasters or otherwise, would cause us to lose all revenue from the affected machines during that period and could, in addition, lower subsequent revenues if consumers perceive that there is a risk of contamination in our vended water. Additionally, if electricity or municipal water costs were to increase significantly, our Refill retail partners may request that we pay them a higher commission, which, if granted, would adversely affect our financial condition and results of operations.

If any component of the Dispensers we sell is misused, the appliance may fail and cause personal injury or property damage. We may be subject to product liability claims as a result of any such failure, which will likely increase our costs and adversely affect our business and reputation.

Although we include explicit instructions for the operation of the Dispensers we sell and safety warnings are included on all of the products we sell, consumers may misuse these products, including by tampering with the hot water safety lock devices, which could expose consumers to hot liquids. The misuse of any of the components of our Dispensers we sell may cause personal injury and damage to property.

Our product liability insurance for personal injury and damage to property may not be sufficient or available to cover any successful product liability claim, or similar claims, against us, which could materially adversely impact our financial condition. Whether or not a claim against us would be successful, defense of the claim may be costly and the existence of any claim may adversely impact our reputation, financial condition or results of operations.

Interruption or disruption of our supply chain, distribution channels, bottling and distribution network or third-party services providers could adversely affect our business, financial condition and results of operations.

Our ability and that of our business partners, including suppliers, bottlers, distributors, retailers and service providers, to manufacture, sell and deliver products is critical to our success. Interruption or disruption of our supply chain, distribution channels or service network due to unforeseen events, including war, terrorism and other international conflicts, public health issues, natural disasters such as earthquakes, fires, hurricanes or other adverse weather and climate conditions, or strikes and other labor disputes, whether occurring in the United States or abroad, could impair our ability to manufacture, sell or deliver our products.

The consolidation of retail customers and disruption of the retail business model may adversely impact our operating margins and profitability.

Our customers, such as mass merchants, supermarkets, warehouse clubs, food distributors and drug and pharmacy stores, have consolidated in recent years and consolidation may continue. These consolidations have produced large, sophisticated customers with increased buying power. As a result, we are increasingly dependent on key retailers, which have significant bargaining power. If we fail to respond to these trends in our industry, our volume growth could slow or we may need to lower prices or increase trade promotions and consumer marketing for our products, both of which would adversely affect our margins and our financial results. These retailers may use floor or shelf space currently used for our products and displays for their own private label products. In addition, retailers are increasingly carrying fewer brands in any one category and our results of operations will suffer if we are not selected by our significant customers to remain a vendor. In the event of consolidation involving our current retailers, we may lose key business if the surviving entities do not continue to purchase products from us.

Further, the brick-and-mortar retail industry generally has seen significant disruption and declines in recent years due to, in part, the increased utilization of e-commerce options by consumers. Declines in brick-and-mortar retailers, including the closing of physical locations, could adversely affect our business, financial condition and results of operation. In the event any of our retailers are placed into bankruptcy, become insolvent or are liquidated due to economic downturns, global contractions of credit or for other factors, our business, financial condition, results of operation or cash flows may be adversely affected, including as a result of uncollectible accounts receivable from such retailers, in respect of which pre-bankruptcy petition accounts receivable may not be realized and post-bankruptcy petition orders may be reduced or cancelled.

Table of Contents

Moreover, our Refill business relies on such retailers to serve as partners to access consumers. Continued consolidation, bankruptcy, insolvency, liquidation, closure of sites or disruptions such as strikes or lock-outs could cause our Refill segment to lose access to some consumers, which may adversely affect our business, financial condition, results of operation or cash flows

We depend on key information technology systems.

We depend on our information technology (“IT”) systems to process orders, manage inventory and accounts receivable, maintain distributor and customer information, maintain cost-efficient operations and assist distributors in delivering products on a timely basis. Any disruption in the operation of our IT systems, the loss of employees knowledgeable about such IT systems, the termination of our relationships with third-party IT system partners or our failure to continue to effectively modify such IT systems as business expands could require us to expend significant additional resources or to invest additional capital to continue to manage our business effectively, and could even affect our compliance with public reporting requirements. Additionally, our IT systems are vulnerable to interruptions or other failures resulting from, among other things, natural disasters, terrorist attacks, software, equipment or telecommunications failures, processing errors, computer viruses, hackers, other security issues or supplier defaults. Security, backup and disaster recovery measures may not be adequate or implemented properly to avoid such disruptions or failures. Any disruption or failure of these systems or services could cause substantial errors, processing inefficiencies, security breaches, inability to use the IT systems or process transactions, loss of customers and retail partners or other business disruptions, all of which could negatively affect our business and financial performance.

A cyber breach, cybersecurity lapse or a failure or corruption of one or more of our key information technology systems, networks, processes, associated sites, or service providers could have an adverse impact on our business. In addition, if we are unable to securely maintain our confidential or credit card information of third parties, or other private data relating to our Company, our employees or any third party, we could be subject to negative publicity, costly government enforcement actions or private litigation, which could damage our business reputation and negatively affect our business, financial condition and results of operations.

We rely on key IT systems, networks, and services, including internet sites, data hosting and processing facilities and tools, hardware (including laptops and mobile devices), software, and technical applications and platforms, some of which are managed, hosted, provided, or used by third parties or their vendors, to help us manage our business. The various uses of these IT systems, networks, and services include, but are not limited to: hosting our internal network and communication systems; ordering and managing materials from suppliers; supply/demand planning; production; retailer and customer management; hosting corporate strategic plans and employee, customer, vendor and other third-party data; hosting our branded websites and marketing products to consumers; collecting and storing customer, consumer, vendor, employee, investor, and other data; processing transactions; summarizing and reporting results of operations; hosting, processing, and sharing confidential and proprietary research, business plans, and financial information; complying with regulatory, legal, or tax requirements; providing data security; and handling other processes necessary to manage our business.

Increased IT security threats and more sophisticated cybercrimes and cyberattacks pose a potential risk to the security and availability of our IT systems, networks, and services, including those that are managed, hosted, provided, or used by third parties, as well as the confidentiality, availability, and integrity of our data and the data of our customers, consumers, vendors, employees, and others. If the IT systems, networks, or service providers we rely upon fail to function properly, or if we suffer a loss or disclosure of our business strategy or other sensitive information, due to any number of causes, ranging from catastrophic events to power outages to security breaches to usage errors by employees and other security issues, we may suffer interruptions in our ability to manage operations and reputational, competitive, or business harm, which may adversely affect our business, financial condition, results of operations and reputation. In any of these events, we could also be required to spend significant financial and other resources to remedy the damage caused by a security breach or to repair or replace networks and IT systems, which could require a significant amount of time.

Table of Contents

Further, if we or any of our vendors experience a data security breach of any kind that exposes or makes public our customers' debit card, credit card and other personal information, our employees' private data and Company records and intellectual property, we could be exposed to negative publicity, government enforcement actions, private litigation or costly response measures. In addition, our reputation within the business community and with our retailers and customers may be affected, which could result in retailers electing to discontinue relationships with us or our customers discontinuing their purchases of our products and services or their use of the debit or credit card payment option. Any loss of our ability to securely offer our customers a credit card payment option would make our products less attractive. This could cause us to lose market share and could have a negative effect on our results of operations. In addition, the foreign, federal and state regulatory environment surrounding information security and privacy is increasingly demanding, with frequent imposition of new and changing requirements. Compliance with changes in privacy and information security laws and standards may result in significant expense due to increased investment in technology and the development of new operational processes.

We are subject to inventory loss and theft of inventory and cash.

We are subject to the risk of inventory loss and theft of inventory and cash. We have experienced inventory shrinkage in the past, and we cannot assure you that incidences of inventory loss and theft of inventory will decrease in the future or that the measures we are taking will effectively address the problem of inventory shrinkage. Our business further faces the risk of cash theft. Although some level of inventory shrinkage is a necessary and unavoidable cost of doing business, if we were to experience higher rates of inventory shrinkage or incur increased security costs to combat inventory theft or the theft of cash, our financial condition could be affected adversely.

Our results of operations could be adversely affected as a result of the impairment of intangibles.

In accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"), we must identify and value intangible assets that we acquire in business combinations, such as customer arrangements, customer relationships and non-compete agreements, that arise from contractual or other legal rights or that are capable of being separated or divided from the acquired entity and sold, transferred, licensed, rented or exchanged. The fair value of identified intangible assets is based upon an estimate of the future economic benefits expected to result from ownership, which represents the amount at which the assets could be bought or sold in a current transaction between willing parties, other than in a forced or liquidation sale.

U.S. GAAP provides that intangible assets that have indefinite useful lives not be amortized, but instead must be tested at least annually for impairment, and intangible assets that have finite useful lives should continue to be amortized over their useful lives. U.S. GAAP also provides specific guidance for testing goodwill and other non-amortized intangible assets for impairment. Absent any impairment indicators, we perform our impairment tests annually during the fourth quarter.

We review our intangible assets with definite lives for impairment when events or changes in business conditions indicate the carrying value of the assets may not be recoverable, as required by U.S. GAAP. An impairment of intangible assets with definite lives exists if the sum of the undiscounted estimated future cash flows expected is less than the carrying value of the assets. If this measurement indicates a possible impairment, we compare the estimated fair value of the asset to the net book value to measure the impairment charge, if any. The impairment test for indefinite-lived intangibles consists of a comparison of the fair value of the intangible asset with its carrying amount. If the carrying amount exceeds the fair value, an impairment charge is recognized in an amount equal to that excess.

We cannot predict the occurrence of certain future events that might adversely affect the reported value of intangible assets that totaled \$78.7 million, net at December 31, 2018. Such events include strategic decisions made in response to economic and competitive conditions, the impact of the economic environment on our customer base, material negative changes in our relationships with material customers and other parties breaching their contractual obligations under non-compete agreements. Future impairments, if any, will be recognized as operating expenses.

Table of Contents

In the third quarter of 2018, we initiated a process to unify the Glacier and Primo Refill brands under a unified Primo Refill brand. Failure to effectively move forward with a unified Primo brand in our Refill segment, including difficulties bringing the Primo brand to all Glacier Refill locations within our anticipated timeline, may adversely impact our ability to recognize the anticipated benefits and synergies of brand unification.

In the third quarter of 2018, we announced our plan to move forward with a unified Primo brand in Refill and discontinue the Glacier brand (the “Brand Unification”), which we currently expect to complete by the end of 2020. Our continued success depends, in part, on our ability to maintain and enhance a unified Primo Refill brand following the Brand Unification, and we believe that a unified Primo Refill brand will be critical in achieving success in our proposed marketing initiatives. The Brand Unification and subsequent efforts to maintain and enhance the unified brand may require us to make significant investments of time, money and resources, including the utilization of significant resources to change the Glacier branding some or all of which ultimately may not be successful. If we fail to effectively unify the Primo Refill brand and Glacier Refill brand in connection with the Brand Unification on the expected timeline, or not at all, or if we incur excessive costs in doing so, we may fail to recognize the anticipated benefits and synergies of the Brand Unification, and our business, financial condition, results of operations and cash flows may be adversely affected.

Our anticipated growth in net sales is dependent in part upon our ability to effectively implement certain strategic marketing and brand activation strategies. If any such strategies are ineffective, we may not realize all of the anticipated benefits of such strategies, including increased sales volume, net sales and customer loyalty. In addition, we may incur significant and unanticipated costs, resources and time associated with the development and implementation of new marketing and brand activation strategies in the event our currently proposed strategies are not effective.

An important part of our overall strategic plan is the development and implementation of new marketing and brand activation strategies in order to increase awareness of the healthy and environmentally-friendly aspects of our products and the risks associated with consumption of tap water, and to drive increased sales and customer loyalty. Such initiatives include, among others, new display advertising, television, print and radio marketing, social media and email communications.

These new marketing and brand activation initiatives may not succeed for a variety of reasons, including our inability to execute and implement such initiatives. In addition, these initiatives may become increasingly expensive and divert significant time, costs and resources, and generating a meaningful return on these initiatives may be difficult. Even if we successfully increase our net sales as a result of these initiatives, such increase may not offset the additional marketing expenses we may incur. Any failure to effectively implement any of these new marketing and brand activation strategies on the proposed timeline, if at all, and on the expected costs may adversely affect our business, financial condition, results of operations and cash flows. Further, in the event one or more of these marketing and brand activation initiatives is not effective and we are required to develop new initiatives, such development may further increase our marketing costs and expenses and divert management’s time and resources, which may adversely affect our business, financial condition, results of operations and cash flows.

If we are unable to build and maintain our brand image and corporate reputation, our business may suffer.

Our success depends on our ability to build and maintain the brand image for our existing products, successfully complete the Brand Unification and effectively build the brand image for any new products. We cannot assure you, however, that any additional expenditures on advertising and marketing will have the desired impact on our products' brand image and on consumer preferences. Actual or perceived product quality issues or allegations of product contamination, even if false or unfounded, could tarnish the image of our brands and may cause consumers to choose other products. Allegations of product defects or product contamination, even if untrue, may require us from time to time to recall a product from all of the markets in which the affected product was distributed. Product recalls would negatively affect our profitability and brand image. Also, adverse publicity surrounding water usage and any campaigns by activists attempting to connect our system to environmental issues, water shortages or workplace or human rights violations in certain developing countries in which we or our business partners operate, could negatively affect our overall reputation and our products' acceptance by consumers.

Adverse weather conditions could negatively impact our business.

Unseasonable or unusual weather, including hurricanes, may negatively impact demand for our products. The sales of our products are influenced to some extent by weather conditions in the markets in which we operate. Unusually cool or rainy weather may reduce temporarily the demand for our products and contribute to lower sales, which would have an adverse effect on our results of operations for such periods. Further, significant weather events such as hurricanes may force certain of our Refill locations to shut down, potentially for extended periods of time, or may otherwise cause damage to those Refill locations located outside.

Table of Contents

Water scarcity and poor quality could negatively impact our long-term profitability.

Water is a limited resource facing unprecedented challenges from overexploitation, population growth, increasing pollution, poor management and climate change. As demand for water continues to increase and as water becomes scarcer and the quality of available water deteriorates, our business may incur increasing costs or face capacity constraints which could adversely affect our profitability or net sales in the long run.

Our financial results and achievement of our growth strategy is dependent on our continued innovation and the successful development and launch of new products and product extensions.

Achievement of our growth strategy is dependent, among other things, on our ability to extend the product offerings of our existing brands and introduce innovative new products. Although we devote significant focus to the development of new products, we may not be successful in developing innovative new products or our new products may not be commercially successful. Our financial results and our ability to maintain or improve our competitive position will depend on our ability to effectively gauge the direction of our key marketplaces and successfully identify, develop, manufacture, market and sell new or improved products in these changing marketplaces. In addition, our introduction of new products or product extensions may generate litigation or other legal proceedings against us by competitors claiming infringement of their intellectual property or other rights, which could negatively impact our results of operations.

We may pursue acquisitions and investments in new product lines, businesses or technologies that involve numerous risks, which could disrupt our business or adversely affect our financial condition and results of operations.

We may in the future acquire or invest in new product lines, businesses or technologies to expand our current products. Acquisitions present a number of potential risks and challenges that could disrupt our business operations, increase our operating costs or capital expenditure requirements and reduce the value of the acquired product line, business or technology. For example, if we identify an acquisition candidate, we may not be able to successfully negotiate or finance the acquisition on favorable terms or at all. The process of negotiating acquisitions and integrating acquired products, services, technologies, personnel or businesses might result in significant transaction costs, operating difficulties or unexpected expenditures and might require significant management attention that would otherwise be available for ongoing development of our business. If we are successful in consummating an acquisition, we may not be able to integrate the acquired product line, business or technology into our existing business and products and we may not achieve the anticipated benefits of any acquisition. Furthermore, potential acquisitions and investments may divert our management's attention, require considerable cash outlays and require substantial additional expenses that could harm our existing operations and adversely affect our results of operations and financial condition. To complete future acquisitions, we may issue equity securities, incur debt, assume contingent liabilities or incur amortization expenses and write-downs of acquired assets, any of which could dilute the interests of

our stockholders or adversely affect our profitability or cash flow. Further, our ability to complete future acquisitions may be limited to the extent our ability to incur additional indebtedness to finance such acquisitions is limited by our existing indebtedness.

Economic conditions and other economic and political factors could impact our business adversely in various respects.

A slowdown in the U.S. or global economy or other economic and political factors affecting disposable consumer income, such as employment levels, inflation, business conditions, fuel and energy costs, consumer debt levels, lack of available credit, interest rates, and tax rates, may affect our business adversely by reducing overall consumer spending or by shifting the purchasing habits of our target consumers, both of which could result in lower net sales, decreases in inventory turnover or a reduction in profitability due to lower margins. Specifically, meaningful increases in the price of fuel could increase the cost associated with servicing vending machines, including those acquired in connection with the Acquisition. The current global economic uncertainty, the impact of recessions, and the potential for failures or realignments of financial institutions and the related impact on available credit may impact our suppliers, our distributors, our retail customers, and our operations in an adverse manner including, but not limited to, the inability of our retail customers to timely pay their obligations to us, thus reducing our cash flow, increased costs related to our distribution channels, the inability of our vendors to timely supply materials and an increased likelihood that our lender may be unable to honor its commitments under our Revolving Credit Facility.

Table of Contents

Activist stockholders could cause us to incur substantial costs, divert management’s attention and resources, and have an adverse effect on our business.

Actions of activist stockholders could cause us to incur substantial costs, divert management’s attention and resources, and have an adverse effect on our business. If activist stockholder activities ensue, our business could be adversely affected because responding to proxy contests and reacting to other actions by activist stockholders can be costly and time-consuming, distract our operations and divert the attention and resources of our management and employees. In addition, perceived uncertainties as to our strategic future may result in the loss of potential business opportunities, damage to our brand and reputation, and may make it more difficult to attract and retain qualified directors, personnel and business partners. These actions could also cause our stock price to experience periods of volatility based, in part, on speculative market perceptions or other factors that do not necessarily reflect the underlying fundamentals and prospects of our business. Activist stockholders may in the future make strategic proposals, suggestions or requests, including the nomination of director candidates and requests or demands for sales of all or substantial portions of our business, changes to our business strategy, adoption of corporate governance reforms, or other matters. In addition, if individuals are elected to our board of directors with a specific agenda different from ours, it may adversely affect our ability to effectively and timely implement our strategic plan and create additional value for our stockholders. We cannot predict, and no assurances can be given, as to the outcome or timing of any consequences arising from these actions or our responses to any of them, and any such consequences may adversely impact our business, financial condition, cash flows, results of operations or value of our common stock.

Risks Relating to Regulatory and Legal Issues

Our products are heavily regulated in the United States and Canada. If we are unable to continue to comply with applicable regulations and standards in any jurisdiction, we might not be able to sell our products in that jurisdiction or they could be recalled, and our business could be seriously harmed.

The production, distribution and sale of our products in the United States are subject to regulation by the FDA under the Federal Food, Drug and Cosmetic Act (the “FDCA”), and by other regulatory authorities under the Occupational Safety and Health Act, the Lanham Act and various environmental statutes. In Canada, these activities are subject to regulation by Health Canada (“HC”) and the Canadian Food Inspection Agency (the “CFIA”) under the Canadian Food and Drugs Act. We are also subject to various other federal, state, provincial and local statutes and regulations applicable to the production, transportation, sale, safety, advertising, promotion, labeling and ingredients of such products. For example, measures have been enacted in various localities and states that require a deposit to be charged for certain non-refillable beverage containers. The precise requirements imposed by these measures vary. Other deposit, recycling or product stewardship proposals have been introduced in various jurisdictions. We anticipate that similar legislation or regulations may be proposed in the future at the local, state and federal levels.

The FDA regulates bottled water as a food under the FDCA. Our bottled water must meet FDA and CFIA requirements of safety for human consumption, identity, quality and labeling. Further, any claims we make in marketing our products, such as claims related to the beneficial health effects of drinking water, are subject to FDA's and Canadian Competition Bureau's advertising and promotion requirements and restrictions. In addition, the FDA and HC have established current good manufacturing practices, regulations which govern the facilities, methods, practices and controls used for the processing, bottling and distribution of bottled drinking water. We are subject to additional or changing requirements under the recently enacted Federal Food Safety Modernization Act of 2011, which requires among other things, that food facilities conduct contamination hazard analyses, implement risk-based preventive controls and develop track and trace capabilities. We and our third-party bottling and distribution partners are subject to these requirements. In addition, all public drinking water must meet Environmental Protection Agency standards established under the Safe Drinking Water Act for mineral and chemical concentration and drinking water quality and treatment. We also must comply with overlapping and, in some cases, inconsistent state regulations in a variety of areas. These state-level regulations, among other things, set standards for approved water sources and the information that must be provided and the basis on which any therapeutic claims for water may be made. In Canada, we are subject to similar regulations administered by HC and the CFIA, as well as provincial authorities. We must expend resources to continuously monitor national, state and provincial legislative and regulatory activities in order to identify and ensure compliance with laws and regulations that apply to our bottled water business in each state and province in which we operate.

Table of Contents

Additionally, the manufacture, sale and use of resins used to make water bottles are subject to regulation by the FDA and HC. These regulations relate to substances used in food packaging materials, not with specific finished food packaging products. Our beverage containers are deemed to be in compliance with FDA regulations if the components used in the containers: (i) are approved by the FDA and HC as indirect food additives for their intended uses and comply with the applicable FDA indirect food additive regulations; (ii) are the subject of an effective Food Contact Substance Notification under Section 409(h) of the FDCA; (iii) are exempt from regulation under the FDA's Threshold of Regulation Process; or (iv) are generally recognized as safe for their intended uses and are of suitable purity for those intended uses.

Further, certain of our Refill operations, including those acquired in connection with the Acquisition, require us to obtain licenses from regulators for our businesses and machines, to pay annual license and inspection fees, to comply with certain detailed design and quality standards regarding the vending machines and the vended water and ice, and to continuously control the quality of the vended water and ice. Certain Refill machines, including those acquired in connection with the Acquisition, are subject to routine and random regulatory quality inspections.

The Consumer Product Safety Commission, FDA, HC, CFIA or other applicable regulatory bodies may require the recall, repair or replacement of our products if those products are found not to be in compliance with applicable standards or regulations. The failure of our third party manufacturers or bottlers to produce merchandise that adheres to our quality control standards could damage our reputation and lead to customer litigation against us. If our manufacturers or distributors are unable or unwilling to recall products failing to meet our quality standards, we may be required to remove merchandise or recall those products at a substantial cost to us. We may be unable to recover costs related to product recalls.

We believe that our self-imposed standards meet or exceed those set by federal, state, provincial and local regulations. In addition, we voluntarily comply with the Federal Trade Commission's "Green Guides" concerning the making of environmental claims in marketing materials. Nevertheless, our failure or the failure of our suppliers, bottlers, distributors or third-party service providers to comply with federal, state, provincial or local laws, rules or regulations could subject us to potential governmental enforcement action for violation of such regulations, which could result in warning letters, fines, product recalls or seizures, civil or criminal penalties and/or temporary or permanent injunctions, each of which could materially harm our business, financial condition and results of operations. In addition, our failure, or even our perceived failure, to comply with applicable laws, rules or regulations could cause retailers and others to determine not to do business with us or reduce the amount of business they do with us.

There can be no assurance that we will comply with all applicable laws and regulations to which we and our products are subject. If we fail to comply, we may be subject to civil remedies, including fines, injunctions, recalls or seizures, as well as potential criminal sanctions, which could have a material adverse effect on our business, results of operations and reputation.

Litigation or legal proceedings, including product liability claims, could expose us to significant liabilities, occupy a significant amount of our management's time and attention and damage our reputation.

We are from time to time party to various litigation claims and legal proceedings. We evaluate these claims and proceedings to assess the likelihood of unfavorable outcomes and estimate, if possible, the amount of potential losses. If our products are not properly manufactured or designed, personal injuries or property damage could result, which could subject us to claims for damages. In addition, claims made or threatened by our bottlers, distributors and other suppliers could adversely affect our relationships, damage our reputation or otherwise adversely affect our business, financial condition or results of operations. The costs associated with defending product liability and other claims, and the payment of damages, could be substantial. Our reputation could also be adversely affected by such claims, whether or not successful.

We may establish reserves as appropriate based upon assessments and estimates in accordance with our accounting policies in accordance with U.S. GAAP. We base our assessments, estimates and disclosures on the information available to us at the time and rely on legal and management judgment. Actual outcomes or losses may differ materially from assessments and estimates. Actual settlements, judgments or resolutions of these claims or proceedings may negatively affect our business and financial performance. A successful claim against us that is not covered by insurance or is in excess of our available insurance limits could require us to make significant payments of damages and could materially adversely affect our financial condition, results of operations and cash flows.

Table of Contents

Our inability to protect our intellectual property, or our involvement in damaging and disruptive intellectual property litigation, could adversely affect our business, results of operations and financial condition or result in the loss of use of products or services.

We have filed certain patent applications and trademark registration applications and intend to seek additional patents, to develop additional trademarks and seek federal registrations for such trademarks and to develop other intellectual property. We consider our Primo name and related trademarks and our other intellectual property to be valuable to our business, including the establishment of a national branded bottled water exchange program. We rely on a combination of patent, copyright, trademark and trade secret laws and other arrangements to protect our proprietary rights and could incur substantial expense to enforce our rights under such laws. A number of other companies, however, use trademarks similar or identical to the Primo[®] mark to identify their products, and we may not be able to stop these other companies from using such trademarks.

The trade name and trademarks “Glacier Water” and “Glacier Water & Penguin Design” previously used by Glacier contain the word “Glacier,” which is commonly used and has been registered in connection with other marks and designs by a number of other entities for water and related services. The mark “Glacier Water,” by itself, is considered by the United States Patent and Trademark Office to be generic in relation to water and related services. We believe that no party can claim exclusive rights to “Glacier Water,” and we may only claim rights to stylized forms of the mark or the mark with design elements. We can, however, give no assurance that other entities might not assert superior or exclusive rights to the marks and seek to obtain damages or injunctive relief against us. Therefore, there can be no assurance that our use of the trade name and trademarks “Glacier Water” and “Glacier Water & Penguin Design” will not violate the proprietary rights of others, which could result in a material adverse effect on us. Further, in the third quarter of 2018, we announced our plan to move forward with a unified Primo brand in Refill and discontinue the Glacier brand, and we plan to cease use of the Glacier brand throughout our operations by the end of 2020.

The requirement to change any of our trademarks, service marks or trade names could entail significant expense and result in the loss of any goodwill associated with that trademark, service mark or trade name. While we have filed, and intend to file in the future, patent applications, where appropriate, and to pursue such applications with the patent authorities, we cannot be sure that patents will be issued on such applications or that any issued patents will not be successfully contested by third parties. Also, since issuance of a patent does not prevent other companies from using alternative, non-infringing technology or designs, we cannot be sure that any issued patents, or patents that may be issued to others and licensed to us, will provide significant or any commercial protection, especially as new competitors enter the market.

In addition to patent protection, we also rely on trade secrets and other non-patented proprietary information relating to our product development, business processes and operating activities. We seek to protect this information through appropriate efforts to maintain its secrecy, including confidentiality agreements. We cannot be sure that these efforts will be successful or that confidentiality agreements will not be breached. We also cannot be sure that we would have adequate remedies for any breach of such agreements or other misappropriation of our trade secrets, or that our trade secrets and proprietary know-how will not otherwise become known or be independently discovered by others. Our

failure to successfully develop intellectual property, or to successfully obtain, maintain and enforce patents, trademarks and other intellectual property, could affect our ability to distinguish our products from those of our competitors and could cause our sales to suffer.

Where necessary, we may initiate litigation to enforce our patent or other intellectual property rights. Any such litigation may require us to spend a substantial amount of time and money and could distract management from its day-to-day operations. Moreover, there is no assurance that we will be successful in any such litigation or that such litigation will not result in successful counterclaims or challenges to the validity of our intellectual property rights.

Our business and our ability to provide products and services may be impaired by claims that we infringe the intellectual property rights of others. Vigorous protection and pursuit of intellectual property rights characterize the consumer products industry. These traits can result in significant, protracted and materially expensive litigation. In addition, parties making infringement and other claims may be able to obtain injunctive or other equitable relief that could effectively block our ability to provide our products, services or utilize our business methods and could cause us to pay substantial damages. In the event of a successful claim of infringement against us, we may need to obtain one or more licenses from third parties, which may not be available at a reasonable cost, or at all. It is possible that our intellectual property rights may not be valid or that we may infringe existing or future proprietary rights of others. Any successful infringement claims could subject us to significant liabilities, require us to seek licenses on unfavorable terms, prevent us from manufacturing or selling products, providing services and utilizing business methods and require us to redesign or, in the case of trademark claims, re-brand some or all of our products and offerings, products or services, any of which could have a material adverse effect on our business, results of operations or financial condition.

Table of Contents

The three- and five-gallon polycarbonate plastic bottles that we use to bottle our water and sell in connection with our exchange business, other than those distributed and sold in California, contain bisphenol A (“BPA”), a chemical that can possibly have adverse health effects on consumers, particularly young children. Any significant change in state, provincial or federal legislation, government regulation or perception by our customers of polycarbonate plastic in food and beverage products could adversely affect our operations and financial results.

Our three- and five-gallon polycarbonate plastic bottles, other than those distributed and sold in California, contain BPA. The use of BPA in food packaging materials has been subject to safety assessments by several international, federal and state authorities. The FDA’s most recent statement on the use of BPA in Food Contact Applications on the FDA’s website states that “FDA’s current perspective, based on its most recent safety assessment, is that BPA is safe at the current levels occurring in food. Based on FDA’s ongoing safety review of scientific evidence, the available information continues to support the safety of BPA for the currently approved uses in food containers and packaging.” In the fall of 2014, FDA experts from across the agency, specializing in toxicology, analytical chemistry, endocrinology, epidemiology, and other fields, completed a four-year review of more than 300 scientific studies. The FDA review did not find any information in the evaluated studies to prompt a revision of FDA’s safety assessment of BPA in food packaging at the time of the review.

HC’s Food Directorate has concluded that the current dietary exposure to BPA through food packaging uses is not expected to pose a health risk to the general population, including newborns and infants. However, due to the uncertainty raised in some animal studies relating to the potential effects of low levels of BPA, the Government of Canada is taking action to enhance the protection of infants and young children. It is therefore recommended that the general principle of ALARA (as low as reasonably achievable) be applied to continue efforts on limiting BPA exposure from food packaging applications to infants and newborns, specifically from pre-packaged infant formula products as a sole source food and baby bottles, for this sensitive segment of the population.

Media reports and the FDA report have prompted concern in our marketplace among existing and potential customers. It is possible that developments surrounding this issue could lead to adverse effects on our business. Such developments could include:

increased publicity that changes public or regulatory perception regarding packaging that uses BPA, so that significant numbers of consumers stop purchasing products that are packaged in polycarbonate plastic or certain of our key retailers elect to cease offering products packaged in polycarbonate plastic;

the emergence of new scientific evidence that suggests that the low doses of BPA to which consumers may be exposed when using polycarbonate plastic is unsafe;

interpretations of existing evidence by the FDA or other regulatory agencies that lead to prohibitions on the use of polycarbonate plastic as packaging for consumable products; and

the inability of sellers of consumable products to find an adequate supply of alternative packaging if polycarbonate plastic containing BPA becomes an undesirable or prohibited packaging material.

In addition, federal, state, provincial and local governmental authorities have and continue to introduce, and in certain states and provinces enact proposals intended to restrict or ban the use of BPA in food and beverage packaging materials. If any of these events were to occur, our sales and operating results could be materially adversely affected.

Table of Contents

Legislative and executive action in state and local governments enacting local taxes on bottled water to include multi-gallon bottled water could adversely affect our business and financial results.

Regulations have been enacted or proposed in some localities where we operate to enact local taxes on bottled water. These actions are purportedly designed to discourage the use of bottled water due in large part to concerns about the environmental effects of producing and discarding large numbers of plastic bottles. While we have not to date directly experienced any adverse effects from these concerns, and we believe that our products are sufficiently different from those affected by recent enactments, there is no assurance that our products will not be subject to future legislative and executive action by state and local governments, which could have a material adverse effect on our business, results of operations or financial condition.

Changes in taxation requirements could affect our financial results.

We are subject to income tax in the numerous jurisdictions in which we generate net sales. In addition, our water dispensers we sell are subject to certain import duties and sales taxes in certain jurisdictions in which we operate. Increases in income and other tax rates could reduce our after-tax income from affected jurisdictions, while increases in indirect taxes could affect our products' affordability and therefore reduce demand for our products.

Recent U.S. tax legislation may materially and adversely affect our financial condition, results of operation and cash flows.

Recently enacted U.S. tax legislation has significantly changed the U.S. federal income taxation of U.S. corporations. Many of these changes are effective immediately, without any transition periods or grandfathering for existing transactions. The legislation is unclear in many respects and could be subject to potential amendments and technical corrections, as well as the issuance of guidance and regulations by the Department of the Treasury and the Internal Revenue Service, any of which could lessen or increase certain adverse impacts of the legislation. In addition, it is unclear how these U.S. federal income tax changes will affect state and local taxation, which often uses federal taxable income as a starting point for computing state and local tax liabilities.

We continue to work with our tax advisors to determine the full impact that the recent tax legislation as a whole will have on us. There may be material adverse effects resulting from the legislation that we have not yet identified. While some of the changes made by the tax legislation may adversely affect us in one or more reporting periods and prospectively, other changes may be beneficial on a going forward basis. We urge our investors to consult with their legal and tax advisors with respect to such legislation and its potential effect on their investment in our common stock.

Our ability to use our net operating loss carryforwards in the United States may be limited, and we may not be able to utilize our net operating loss carryforwards as a result of recent U.S. federal tax reform legislation.

As of December 31, 2018, we had net operating losses (“NOLs”) of approximately \$254.7 million for federal income tax purposes, which expire at various dates between 2019 through 2038, and approximately \$169.8 million in state loss carryforwards that expire between 2019 through 2038. To the extent available and not otherwise utilized, we intend to use any NOL carryforwards to reduce the applicable U.S. or state corporate income tax liability associated with our operations. However, our ability to use our NOL carryforwards is based on the extent to which we generate future taxable income and on prevailing corporate income tax rates, and we cannot provide any assurance as to when and to what extent we will generate sufficient future taxable income to realize our deferred tax assets, whether in whole or in part. Furthermore, the use of our NOL carryforwards may become subject to an annual limitation under Section 382 of the Internal Revenue Code of 1986, as amended (the “Code”) (and similar state provisions) in the event of certain cumulative changes in the ownership interest of significant shareholders in excess of 50 percent over a three-year period. This could limit the amount of NOL carryforwards that can be utilized annually to offset taxable income. The amount of the annual limitation is determined based on the value of a company immediately prior to the ownership change. Subsequent ownership changes may further affect the limitation in future years. Future changes in our stock ownership, some of which are outside of our control, could result in an ownership change and impair our ability to use some or all of our NOL carryforwards to offset future taxable income. For these reasons, even if we are profitable, our ability to utilize our NOLs may be limited, potentially significantly so. To the extent our use of NOL carryforwards is significantly limited, our income could be subject to U.S. and/or state corporate income tax earlier and in amounts greater than it would if we were able to use net operating loss carryforwards, which could result in lower profits and reduced cash flows.

Table of Contents

Risks Relating to Our Common Stock

The value of our common stock could be volatile.

The overall market and the price of our common stock may fluctuate greatly. Shares of our common stock were sold in our November 2010 initial public offering at a price of \$12.00 per share, and, as of March 1, 2019, our common stock has subsequently traded as high as \$20.72 and as low as \$0.69 per share. An active, liquid and orderly market for our common stock may not be sustained, which could depress the trading price of our common stock. The trading price of our common stock may be significantly affected by various factors, including quarterly fluctuations in our operating results, changes in investors' and analysts' perception of the business risks and conditions of our business, issuance of additional shares in connections with strategic transactions or acquisitions we may make, our ability to meet the earnings estimates and other performance expectations of financial analysts or investors, unfavorable commentary or downgrades of our stock by equity research analysts, and general economic or political conditions.

Future sales of our common stock, or the perception in the public markets that these sales may occur, may depress our stock price.

The market price of our common stock could decline as a result of sales of shares of our common stock in the market or the perception that these sales could occur. These sales, or the possibility that these sales may occur, also might make it more difficult for us to sell equity securities in the future at a time and at a price that we deem appropriate.

Additionally, we have filed a "shelf" registration statement with the SEC pursuant to which we may sell common stock, preferred stock, debt securities, warrants, rights and units at any time in one or more offerings up to a total public offering price of \$125.0 million (inclusive of the approximately \$74.8 million of shares of common stock sold by us in our follow-on public offering of common stock in May 2018). The registration statement was declared effective by the SEC on December 19, 2017. The offer or sale of all or a portion of the above described securities may have an adverse effect on the market price of our common stock.

Concentration of ownership among our existing executive officers, directors and their affiliates may prevent new investors from influencing significant corporate decisions.

As of March 1, 2019, our executive officers, directors and their affiliates beneficially own, in the aggregate, approximately 8.6% of our outstanding shares of common stock. In particular, Billy D. Prim, our Executive Chairman, beneficially owns approximately 4.5% of our outstanding shares of common stock and also holds an additional

762,146 deferred stock units (each entitling Mr. Prim to one share of our common stock) in our Deferred Compensation Plan, in each case, as of March 1, 2019. As a result, these stockholders will be able to exercise a significant level of control over all matters requiring stockholder approval, including the election of directors, amendment of our certificate of incorporation and approval of significant corporate transactions. This control could have the effect of delaying or preventing a change of control of our Company or changes in management and will make the approval of certain transactions difficult or impossible without the support of these stockholders.

If securities or industry analysts do not publish research or publish inaccurate or unfavorable research about our business, our stock price and trading volume could decline.

The trading market for our common stock depends in part on the research and reports that securities or industry analysts publish about us or our business. We currently have research coverage by six securities and industry analysts. If one or more of the analysts who covers us downgrades our stock or publishes inaccurate or unfavorable research about our business, our stock price would likely decline. If one or more of these analysts ceases coverage of us or fails to publish reports on us regularly, demand for our stock could decrease, which could cause our stock price and trading volume to decline.

Table of Contents

Anti-takeover provisions in our charter documents and Delaware law might discourage or delay acquisition attempts for us that you might consider favorable.

Our amended and restated certificate of incorporation and amended and restated bylaws contain provisions that may make the acquisition of Primo more difficult without the approval of our Board of Directors. These provisions:

authorize the issuance of undesignated preferred stock, the terms of which may be established and the shares of which may be issued without stockholder approval, and which may include super voting, special approval, dividend, or other rights or preferences superior to the rights of the holders of common stock;

eliminate the ability of our stockholders to act by written consent in most circumstances;

eliminate the ability of our stockholders to remove a member of our Board of Directors without cause;

eliminate the ability of our stockholders to call a special meeting of the stockholders;

establish advance notice requirements for nominations for elections to our Board of Directors or for proposing matters that can be acted upon by stockholders at stockholder meetings;

provide that the Board of Directors is expressly authorized to make, alter or repeal our amended and restated bylaws; and

establish a classified board of directors the members of which serve staggered three-year terms.

As a Delaware corporation, we are also subject to provisions of Delaware law, including Section 203 of the Delaware General Corporation Law, which prevents some stockholders holding more than 15% of our outstanding common stock from engaging in certain business combinations without approval of the holders of substantially all of our outstanding common stock.

These anti-takeover provisions and other provisions under Delaware law could discourage, delay or prevent a transaction involving a change in control of our Company, including actions that our stockholders may deem advantageous, or negatively affect the trading price of our common stock. These provisions could also discourage proxy contests and make it more difficult for you and other stockholders to elect directors of your choosing and to cause us to take other corporate actions you desire.

Failure to maintain effective internal controls in accordance with Section 404 of the Sarbanes-Oxley Act could result in a restatement of our financial statements, cause investors to lose confidence in our financial statements and our company and have a material adverse effect on our business and stock price.

Effective internal controls are necessary for us to provide reliable financial reports and to operate successfully as a publicly traded company. As a public company, we are required to document and test our internal control procedures in order to satisfy the requirements of Section 404 of the Sarbanes-Oxley Act of 2002, or Section 404, which requires annual management assessments of the effectiveness of our internal controls over financial reporting.

Ensuring that Primo has adequate internal financial and accounting controls and procedures in place to produce accurate financial statements on a timely basis is a costly and time-consuming effort that needs to be reevaluated frequently. We may not be able to conclude on an ongoing basis that we have effective internal controls over financial reporting in accordance with Section 404 or our independent registered public accounting firm may not be able or willing to issue an unqualified report if we conclude that our internal controls over financial reporting are not effective. If we are unable to conclude that we have effective internal controls over financial reporting or our independent registered public accounting firm is unable to provide us with an unqualified report as required by Section 404, investors could lose confidence in our reported financial information and our company, which could result in a decline in the market price of our common stock, and cause us to fail to meet our reporting obligations in the future, which in turn could impact our ability to raise additional financing if needed in the future.

Item 1B. Unresolved Staff Comments

None.

Table of Contents

Item 2. Properties

Our corporate headquarters, including our principal administrative, marketing, sales, technical support and research and development facilities, are located in Winston-Salem, North Carolina where we lease 20,316 square feet under an agreement that expires on December 31, 2019. We have additional corporate offices located in Vista, California where we lease approximately 46,000 square feet of executive offices and warehouse space under an agreement that expires on December 31, 2020. We lease 13 warehouses related to Refill throughout the United States. We also lease two warehouses for operations relating to Exchange and Dispensers.

We believe that our current facilities are suitable and adequate to meet our current needs, and that suitable additional or substitute space will be available as needed to accommodate expansion of our operations.

Item 3. Legal Proceedings

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

The principal United States market in which our common stock is listed and traded is the Nasdaq Global Market under the symbol "PRMW."

We have never paid or declared cash dividends on our common stock and we do not expect to do so in the foreseeable future.

As of March 1, 2019, there were 52 shareholders of record of our common stock.

Table of Contents

Performance Graph

The following Performance Graph compares the cumulative total stockholder return on our common stock between December 31, 2013 and December 31, 2018, with the cumulative total return of (i) the S&P Smallcap 600 Index and (ii) the S&P Foods and Packaging Index, over the same period. This graph assumes that \$100 was invested in our common stock, the S&P Smallcap 600 Index and the S&P Foods and Packaging Index on December 31, 2013 and assumes the reinvestment of dividends, if any. We have not paid dividends on our common stock.

Table of Contents**Item 6. Selected Financial Data**

The following selected financial data should be read in conjunction with "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and consolidated financial statements and notes thereto contained in "Item 8. Financial Statements and Supplementary Data" of this report. On December 12, 2016, we completed the acquisition by merger of Glacier Water Services, Inc.

	Years ended December 31,				
	2018	2017	2016	2015	2014
	<i>(in thousands, except per share data)</i>				
Consolidated statements of operations data:					
Net sales	\$302,112	\$286,074	\$142,541	\$126,951	\$106,322
Operating costs and expenses:					
Cost of sales	215,502	202,878	100,184	92,476	78,452
Selling, general and administrative expenses	35,226	34,701	26,429	19,128	18,969
Special items	762	7,860	4,753	275	2,881
Depreciation and amortization	24,562	26,698	10,541	10,432	10,655
Impairment charges and other	68,397	(99)	749	500	2,104
Total operating costs and expenses	344,449	272,038	142,656	122,811	113,061
(Loss) income from operations	(42,337)	14,036	(115)	4,140	(6,739)
Interest expense, net	21,417	20,324	6,023	1,987	6,325
Change in fair value of warrant liability	-	3,220	(240)	-	-
(Loss) income from continuing operations before income taxes	(63,754)	(9,508)	(5,898)	2,153	(13,064)
Income tax benefit	(8,907)	(3,149)	-	-	-
(Loss) income from continuing operations	(54,847)	(6,359)	(5,898)	2,153	(13,064)
Loss from discontinued operations	-	-	(48)	(296)	(403)
Net (loss) income	\$(54,847)	\$(6,359)	\$(5,946)	\$1,857	\$(13,467)
Basic (loss) earnings per common share:					
(Loss) income from continuing operations	\$(1.47)	\$(0.19)	\$(0.21)	\$0.08	\$(0.54)
Loss from discontinued operations	-	-	-	(0.01)	(0.01)
Net (loss) income	\$(1.47)	\$(0.19)	\$(0.21)	\$0.07	\$(0.55)
Diluted (loss) earnings per common share:					
(Loss) income from continuing operations	\$(1.47)	\$(0.19)	\$(0.21)	\$0.08	\$(0.54)
Loss from discontinued operations	-	-	-	(0.01)	(0.01)
Net (loss) income	\$(1.47)	\$(0.19)	\$(0.21)	\$0.07	\$(0.55)
Weighted average shares used in computing (loss) earnings per share:					
Basic	37,418	33,258	28,456	25,190	24,339
Diluted	37,418	33,258	28,456	27,001	24,339

Edgar Filing: Primo Water Corp - Form 10-K

	As of December 31,				
	2018	2017	2016	2015	2014
Consolidated balance sheet data:					
Cash and cash equivalents	\$7,301	\$5,586	\$15,586	\$1,826	\$495
Total assets	320,128	383,753	391,385	64,487	65,748
Current portion of long-term debt and capital leases	11,159	3,473	2,183	172	106
Long-term debt and capital leases, net of current portion and debt issuance costs	178,966	269,793	270,264	19,903	24,210
Deferred tax liability, net	–	8,455	13,607	–	–
Warrant liability	–	–	8,180	–	–
Other long-term liabilities	607	1,985	2,069	2,535	2,316

Table of Contents

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion of our financial condition and results of operations should be read in conjunction with the consolidated financial statements and notes thereto included elsewhere in this report.

Overview

Primo Water Corporation (together with its consolidated subsidiaries, “Primo,” “we,” “our,” “us,” or “the Company”) is North America’s leading single source provider of multi-gallon purified bottled water, self-service refill drinking water and water dispensers sold through major retailers in the United States and Canada. We believe the market for purified water continues to grow due to evolving taste preferences, perceived health benefits and concerns regarding the quality of municipal tap water. Our products provide an environmentally friendly, economical, convenient and healthy solution for consuming purified and filtered water. We are a Delaware corporation that was incorporated in 2017 in connection with the creation of a holding company structure. Our predecessor was founded in Delaware in 2004.

Significant Transactions

On June 22, 2018, we entered into a new senior secured credit facility (the “SunTrust Credit Facility”) that provides for a \$190 million senior term loan facility (the “Term Loan”) and a \$30 million senior revolving loan facility (the “Revolving Facility”). The SunTrust Credit Facility matures on June 22, 2023. The Term Loan requires annual principal payments (payable in quarterly installments) equal to 5% per annum, or \$9.5 million, with the remaining indebtedness due at maturity. The SunTrust Credit Facility is secured by a first priority security interest in and lien on substantially all of our assets. The SunTrust Credit Facility and related obligations are guaranteed by certain of our domestic subsidiaries. See “Note 8 – Debt and Capital Leases, net of Debt Issuance Costs” in the notes to the consolidated financial statements.

On May 22, 2018, we completed a follow-on offering of 5.3 million shares of our common stock at a price of \$14.00 per share to the public, which included the exercise in full by the underwriters of their option to purchase 0.7 million additional shares of our common stock on the same terms and conditions. All of the shares were offered and sold by Primo. Net proceeds, after deducting the underwriting discounts and commissions and estimated offering expenses payable by us of approximately \$4.1 million, were approximately \$70.8 million. We used the net proceeds from the offering to pay down existing indebtedness and on June 22, 2018, we refinanced our remaining outstanding indebtedness as described in the paragraph above.

On December 12, 2016, we completed the acquisition (the “Acquisition”) of Glacier Water Services, Inc. (“Glacier”), the leading provider of high-quality filtered drinking water dispensed to consumers through self-service water machines located at over 20,000 locations, including supermarkets and other retail locations. The Acquisition was consummated pursuant to the terms of the Agreement and Plan of Merger, dated October 9, 2016. Aggregate consideration was approximately \$200.2 million consisting of cash, Primo common stock and warrants, plus the assumption of approximately \$78.8 million of debt, net of cash. The Acquisition diversified our retailer concentration and offered cross-selling opportunities, while creating operational and shared service synergies. We financed the transaction through a combination of cash-on-hand and borrowings under the \$196.0 million credit agreement with Goldman Sachs Bank USA (the “Goldman Credit Facility”). The Goldman Credit Facility was refinanced and terminated in connection with the SunTrust Credit Facility.

Business

Our business is designed to generate recurring demand for our purified bottled water or self-service refill drinking water through the sale of innovative water dispensers. This business strategy is commonly referred to as “razor-razorblade” because the initial sale of a product creates a base of users who frequently purchase complementary consumable products. Once our bottled water is consumed using a water dispenser, empty bottles are exchanged at our recycling center displays, which provide a recycling ticket that offers a discount toward the purchase of a new bottle of Primo purified water or they are refilled at a self-service refill drinking water location. Each of our multi-gallon Exchange water bottles can be sanitized and reused up to 40 times before being taken out of use, crushed and recycled, substantially reducing landfill waste compared to consumption of equivalent volumes of single-serve bottled water. As of December 31, 2018, our products were offered in the United States and in Canada at over 45,000 combined retail locations, including Walmart, Lowe’s Home Improvement, Sam’s Club, The Home Depot, Meijer, Kroger, Food Lion, H-E-B Grocery, Circle K, Family Dollar, Walgreens, Albertsons, Publix, and CVS. We believe the market for purified water continues to grow due to evolving taste preferences, perceived health benefits and concerns regarding the quality of municipal tap water. Our products provide an environmentally friendly, economical, convenient and healthy solution for consuming purified and refill drinking water.

Table of Contents

We provide major retailers throughout the United States and Canada with a single-vendor solution for our three reporting segments, Primo Refill (“Refill”), Primo Exchange (“Exchange”), and Primo Dispensers (“Dispensers”), addressing a market demand that we believe was previously unmet. Our over 45,000 locations include approximately 24,600 Refill locations, 13,200 Exchange locations and 7,300 Dispenser locations. Our solutions are easy for retailers to implement, require minimal management supervision and store-based labor, and provide centralized billing and detailed performance reports. Exchange offers retailers attractive financial margins and the ability to optimize typically unused retail space with our displays. Refill provides drinking water for consumer purchase through the installation of self-service vending displays at retail locations. The Refill business model eliminates the bottling and distribution infrastructure required to deliver traditional bottled water, thereby allowing us to provide refill drinking water at a value price as compared to alternatives in the marketplace. Additionally, due to the recurring nature of water consumption, retailers benefit from year-round customer traffic, highly predictable revenue and health and wellness focused consumers.

In a notice published on June 20, 2018, the Office of the United States Trade Representative (the “USTR”) issued a determination and request for public comment under Section 301 under the Trade Act of 1974 (the “Notices”) concerning the proposed imposition of an additional 25% tariff on specified products from China (the “June 2018 Tariffs”). The list of products set forth in the Notices included self-contained drinking water coolers, including our Dispensers, which we import from China. We have worked with our suppliers and secured a reduction in our cost as well as worked with our customers to increase our prices to include the incremental cost of the Tariff. We believe the cost reduction and increased pricing will offset the impact of the Tariff, however, if retailers increase prices to consumers, consumer demand may be reduced or we may reduce pricing to retailers to offset the Tariff, which would reduce gross margins. In addition, in July 2018, we applied to the USTR for a Request for Exclusion from the Tariffs for our Dispensers (the “Request for Exclusion”). Our Request for Exclusion was granted by the USTR in the fourth quarter of 2018. The exclusion is retroactive to July 6, 2018, and any amounts we paid in respect of such June 2018 Tariffs between the time of their implementation and the granting of our Request for Exclusion will be reimbursed. However, the exemption granted to us by the USTR is temporary and expires after one year from its granting.

In addition, in September 2018, the USTR finalized a new list of products imported from China that are subject to a new 10% tariff, which went into effect on September 24, 2018 and which was scheduled to increase to 25% on January 1, 2019 (the “List 3 Tariffs” and, together with the June 2018 Tariffs, the “Tariffs”). On February 28, 2019, President Trump delayed the increase from 10% to 25% to provide time for further negotiations with Chinese trade representatives. While the 10% rate for the List 3 Tariffs currently remains in effect, the rate is subject to the discretion of the President, and the List 3 Tariffs rate may increase at any time without advanced notice as to the timing or magnitude of any such increase. Primo imports a small number of lower-priced products subject to the List 3 Tariffs, and the Trump Administration has stated they will not implement a product exclusion process for products subject to the List 3 Tariffs. As a result, certain of our products remain subject to the 10% List 3 Tariffs, which may increase to 25% later in 2019.

Business Segments

We have three operating and reportable segments, Refill, Exchange, and Dispensers.

Our Refill segment sales consists of the sale of filtered drinking water dispensed directly to consumers through technologically advanced, self-service machines located at major retailers throughout the United States and Canada.

Our Exchange segment sales consist of the sale of multi-gallon purified bottled water offered through retailers in the United States and Canada. Our Exchange products are offered through point of purchase display racks and recycling centers that are prominently located at major retailers in space that is often underutilized.

Our Dispensers segment sells water dispensers that are designed to dispense Primo and other dispenser-compatible bottled water. Our Dispensers sales are primarily generated through major retailers in the United States and Canada where we recognize revenues for the sale of the water dispensers when the customer obtains control. We support retail sell-through and e-commerce with domestic inventory.

Table of Contents

We evaluate the financial results of these segments focusing primarily on segment net sales and segment (loss) income from operations before depreciation and amortization (“segment (loss) income from operations”). We utilize segment net sales and segment (loss) income from operations because we believe they provide useful information for effectively allocating our resources between business segments, evaluating the health of our business segments based on metrics that management can actively influence and gauging our investments and our ability to service, incur or pay down debt.

Cost of sales for Refill consists primarily of costs associated with routine maintenance of reverse osmosis water filtration systems and filtered water displays, costs of our field service operations and commissions paid to retailers associated with revenues earned. Cost of sales for Exchange consists primarily of costs for bottling, distribution and bottles. Cost of sales for Dispensers consists primarily of contract manufacturing, freight and duties.

Selling, general and administrative expenses for Refill, Exchange, and Dispensers consist primarily of personnel costs for operations support as well as other supporting costs for operating each segment.

Expenses not specifically related to operating segments are shown separately as Corporate. Corporate expenses are comprised mainly of compensation and other related expenses for corporate support and administration. Corporate expenses also include certain professional fees and expenses and compensation of our Board of Directors.

In this Management’s Discussion and Analysis of Financial Condition and Results of Operations, when we refer to “same-store unit growth,” we are comparing retail locations at which our products have been available for at least 12 months at the beginning of the relevant period. In addition, “gross margin percentage” is defined as net sales less cost of sales, as a percentage of net sales.

Results of Operations

The following table sets forth our results of operations expressed as a percentage of net sales (percentage amounts may not add totals due to rounding):

	Years ended December 31,		
	2018	2017	2016
	<i>(in thousands)</i>		
Consolidated statements of operations data:			
Net sales	\$ 302,112	\$ 286,074	\$ 142,541

Edgar Filing: Primo Water Corp - Form 10-K

Operating costs and expenses:			
Cost of sales	215,502	202,878	100,184
Selling, general and administrative expenses	35,226	34,701	26,429
Special items	762	7,860	4,753
Depreciation and amortization	24,562	26,698	10,541
Impairment charges and other	68,397	(99)	749
Total operating costs and expenses	344,449	272,038	142,656
(Loss) income from operations	(42,337)	14,036	(115)
Interest expense, net	21,417	20,324	6,023
Change in fair value of warrant liability	–	3,220	(240)
Loss from continuing operations before income taxes	(63,754)	(9,508)	(5,898)
Income tax benefit	(8,907)	(3,149)	–
Loss from continuing operations	(54,847)	(6,359)	(5,898)
Loss from discontinued operations	–	–	(48)
Net loss	\$(54,847)	\$(6,359)	\$(5,946)

Table of Contents

	Years ended December		
	31,		
	2018	2017	2016
Consolidated statements of operations data:			
Net sales	100.0%	100.0%	100.0%
Operating costs and expenses:			
Cost of sales	71.3	70.9	70.3
Selling, general and administrative expenses	11.7	12.1	18.5
Special items	0.3	2.8	3.3
Depreciation and amortization	8.1	9.3	7.5
Impairment charges and other	22.6	–	0.5
Total operating costs and expenses	114.0	95.1	100.1
(Loss) income from operations	(14.0)	4.9	(0.1)
Interest expense, net	7.1	7.1	4.2
Change in fair value of warrant liability	–	1.1	(0.2)
Loss from continuing operations before income taxes	(21.1)	(3.3)	(4.1)
Income tax benefit	(2.9)	(1.1)	–
Loss from continuing operations	(18.2)	(2.2)	(4.1)
Loss from discontinued operations	–	–	(0.1)
Net loss	(18.2)%	(2.2)%	(4.2)%

The following table sets forth our segment net sales and segment (loss) income from operations presented on a segment basis and reconciled to our consolidated net sales and consolidated (loss) income from operations (percentage amounts may not add totals due to rounding).

	Years ended December 31,					
	2018		2017		2016	
	<i>(in thousands)</i>					
	Dollars	Percent of Net Sales	Dollars	Percent of Net Sales	Dollars	Percent of Net Sales
Segment net sales						
Refill	\$174,996	57.9 %	\$173,241	60.6 %	\$33,730	23.7 %
Exchange	78,072	25.8 %	72,101	25.2 %	68,850	48.3 %
Dispensers	49,044	16.2 %	40,732	14.2 %	39,961	28.0 %
Total net sales	\$302,112	100.00 %	\$286,074	100.0 %	\$142,541	100.0 %
Segment income (loss) from operations						
Refill	\$51,135		\$47,146		\$14,596	
Exchange	22,663		21,434		20,506	
Dispensers	3,710		3,469		3,097	
Corporate	(26,124)		(23,554)		(22,271)	
Special items	(762)		(7,860)		(4,753)	

Edgar Filing: Primo Water Corp - Form 10-K

Depreciation and amortization	(24,562)	(26,698)	(10,541)
Impairment charges and other	(68,397)	99	(749)
	\$(42,337)	\$14,036	\$(115)

Year Ended December 31, 2018 Compared to Year Ended December 31, 2017

Net sales. Net sales increased 5.6%, or \$16.0 million, to \$302.1 million for 2018 from \$286.1 million for 2017. The change was due to increases in sales for Refill, Exchange and Dispensers of \$1.7 million, \$6.0 million, and \$8.3 million, respectively.

Refill. Refill net sales increased 1.0% to \$175.0 million for the year ended December 31, 2018. The increase in Refill net sales was primarily due to the Glacier Refill integration, in which the Primo locations were moved under the Glacier contracts in April 2017. Under the Glacier contract terms, revenue is recognized as the gross amount charged to the end consumers. During part of 2017, revenue was reported as the revenue net of the commission amount paid to the retailer. This resulted in an increase in revenue recognized of \$4.6 million in the Refill segment for the year ended December 31, 2018. Price increases implemented on certain outdoor coin-operated machines also contributed to the increase, partially offset by a 10.9% decline in five-gallon equivalent units to 96.1 million.

Table of Contents

Exchange. Exchange net sales increased 8.3% to \$78.1 million for the year ended December 31, 2018. Exchange sales growth was driven by the increase in U.S. same-store units of 10.7% for 2018. In addition, five-gallon equivalent units for Exchange increased 10.0% to 16.1 million units for 2018 from 14.6 million units for 2017. The increase in sales units was greater than the increase in sales dollars primarily due to a shift in customer and item mix and the additional promotional efforts.

Dispensers. Dispensers net sales increased 20.4% to \$49.0 million for the year ended December 31, 2018. The increase in Dispensers net sales was primarily due to increased consumer demand. Consumer demand, which we measure as the dispenser unit sales to end consumers, increased approximately 10.1% to a record 725,000 units for the year ended December 31, 2018.

Gross margin percentage. The overall gross margin percentage was 28.7% for 2018 compared to 29.1% for 2017.

Refill. Gross margin as a percentage of net sales for our Refill segment was 32.7% for 2018 compared to 31.9% for 2017. The increase in gross margin percentage is primarily due to a reduction in employee-related expenses attributable to synergies and efficiencies realized since the Acquisition.

Exchange. Gross margin as a percentage of net sales for our Exchange segment was 31.4% for 2018, compared to 32.2% for 2017. The decrease was primarily due to costs associated with certain promotional efforts.

Dispensers. Gross margin as a percentage of net sales for our Dispensers segment decreased to 9.8% for 2018 from 11.8% for 2017. The decrease in gross margin percentage was primarily due to an increase in promotional activities as well as a shift in sales mix towards lower-margin products.

Selling, general and administrative expenses ("SG&A"). SG&A increased 1.5% to \$35.2 million for 2018 from \$34.7 million for 2017. As a percentage of net sales, SG&A decreased to 11.7% for 2018 from 12.1% for 2017. The increase in SG&A expense was driven by a \$2.3 million increase in marketing and advertising expense, a \$0.5 million increase in bad debt expense associated with the bankruptcies of certain retailers and a \$0.6 million increase in professional fees and other expenses. The increase in SG&A expense was partially offset by a \$1.0 million reduction in employee-related expenses attributable to synergies realized since the Acquisition and a \$2.1 million decrease in non-cash, stock-based compensation expense (see "Note 10 - Stock Based Compensation" in the notes to the condensed consolidated financial statements).

Special items. Special items were \$0.8 million for 2018 compared to \$7.9 million for 2017. Special items for the year ended December 31, 2018 primarily related to costs associated with the Acquisition. Special items for the year ended December 31, 2017 included \$5.0 million in non-recurring settlement payments and legal expenses associated with former Texas Regional Distributors and Prism Distribution, LLC, and acquisition-related costs associated with the Acquisition totaling \$4.3 million. These costs were partially offset by a settlement reached with Omnifrio Beverage Company LLC resulting in a one-time \$1.2 million gain in 2017. See “Note 11 – Commitments and Contingencies” in the notes to the condensed consolidated financial statements.

Depreciation and amortization. Depreciation and amortization decreased to \$24.6 million for 2018 from \$26.7 million for 2017 as certain assets became fully depreciated during the prior year.

Impairment Charges and Other. Impairment charges and other consisted of an expense of \$68.4 million for the year ended December 31, 2018 compared to income of \$0.1 million for the same period in the prior year. During the third quarter of 2018, we decided to discontinue the use of the Glacier trade name acquired as part of the Acquisition in order to more effectively and efficiently focus our brand building and marketing efforts in Refill around the Primo brand (the “Re-branding Strategy”). As a result of the Re-branding Strategy, we recorded a pre-tax, non-cash intangible asset impairment charge of \$60.8 million to reduce the carrying value of the Glacier trade name to its estimated fair value during the year ended December 31, 2018. In addition, as a result of the Re-branding Strategy, we recorded a \$2.4 million pre-tax, non-cash asset impairment charge related to certain Glacier-branded Refill equipment that is not expected to generate future cash flows sufficient to recover the net book value of the equipment.

Table of Contents

During the third quarter of 2018, we concluded that a sale of certain assets of our Refill segment (the “Ice Assets”) was probable to take place within one year. Accordingly, we recorded a \$4.6 million pre-tax, non-cash asset impairment charge during the year ended December 31, 2018 to properly reflect the Ice Assets at their fair value less costs to sell. See “Note 2 – Impairment Charges and Other” in the notes to the condensed consolidated financial statements for additional information regarding each item above.

Interest expense, net. Interest expense, net increased to \$21.4 million for 2018 from \$20.3 million for 2017. The increase was primarily due to the refinancing of our outstanding indebtedness, which resulted in \$3.9 million of prepayment penalties and \$3.0 million related to the non-cash write-off of deferred loan costs and debt discount related to the prior senior credit facility.

This increase was partially offset by: (1) the refinancing of our senior secured credit facility which resulted in a lower interest rate in the second half of 2018 under the current credit facility compared to the prior credit facility; (2) lower outstanding indebtedness during 2018 following the refinancing of our senior secured credit facility; and (3) a gain of \$0.5 million due to the accretion of the remaining fair value adjustment initially recorded at the time of the Acquisition resulting from the redemption of the Junior Subordinated Debentures during the second quarter of 2018. See “Note 8 – Debt and Capital Leases, net of Debt Issuance Costs” in the Notes to the Consolidated Financial Statements.

Income Tax Benefit. We recorded an income tax benefit of \$8.9 million for 2018 compared to \$3.1 million for 2017. The income tax benefit recorded for the year ended December 31, 2018 was primarily attributable to the trade name intangible impairment described above.

On December 22, 2017, the Tax Cuts and Jobs Act (the “2017 Tax Act”) was signed into law. The 2017 Tax Act made broad and complex changes to the U.S. tax code that affected our income tax rate in 2017. In 2017, we recorded income tax expense of \$1.1 million related to goodwill and certain intangible assets. Additionally, we had made a reasonable estimate of the impact of the 2017 Tax Act and we recorded an income tax benefit of \$4.2 million as a result of the remeasurement of deferred tax assets and liabilities at the maximum federal rate decrease to 21% from 35%. We have finalized our accounting for the tax effects of the 2017 Tax Act in 2018, with no further impact to the remeasurement of deferred taxes or the transition tax. See “Note 12 – Income Taxes” in the Notes to the Consolidated Financial Statements.

Year Ended December 31, 2017 Compared to Year Ended December 31, 2016

Net sales. Net sales increased 100.7%, or \$143.5 million, to \$286.1 million for 2017 from \$142.5 million for 2016. The change was due to increases in sales for Refill, Exchange and Dispensers of \$139.5 million, \$3.2 million, and

\$0.8 million, respectively.

Refill. Refill net sales increased over five-fold to \$173.2 million for the year ended December 31, 2017. The increase in Refill net sales was primarily due to the Acquisition.

Exchange. Exchange net sales increased 4.7% to \$72.1 million for the year end December 31, 2017. Exchange sales growth was driven by the increase in U.S. same-store units of approximately 6.2% for 2017. Overall, five-gallon equivalent units for Exchange increased 6.1% to 14.6 million units for 2017 from 13.7 million units for 2016.

Dispensers. Dispensers net sales increased 1.9% to \$40.7 million for the year ended December 31, 2017. The increase in Dispensers net sales was primarily due to increased consumer demand and the timing of orders from major retailers compared to the prior year. Consumer demand, which we measure as the dispenser unit sales by our retail customers to consumers, was 659,000 for 2017. Our dispenser unit sales to retailers increased by 7.7% for 2017 compared to 2016. The increase in sales units was greater than the increase in sales dollars primarily due to a shift in customer and item mix.

Gross margin percentage. The overall gross margin percentage was 29.1% for 2017 compared to 29.7% for 2016 primarily due to the Acquisition as described below.

Table of Contents

Refill. Gross margin as a percentage of net sales for our Refill segment was 31.9% for 2017 compared to 47.6% for 2016 due to the impact of the Acquisition. With revenue reported as the amount charged to end consumers, primarily through coin-operated machines, and cost of goods sold including a commission paid to retailers, the historical Glacier refill business has a lower gross margin percentage than the historical Primo refill business.

Exchange. Gross margin as a percentage of net sales for our Exchange segment was 32.2% for 2017, compared to 32.0% for 2016.

Dispensers. Gross margin as a percentage of net sales for our Dispensers segment increased to 11.8% for 2017 from 10.6% for 2016. The increase in gross margin percentage was primarily due to a favorable change in sales mix towards higher-margin products and improved supply chain costs.

Selling, general and administrative expenses (“SG&A”). SG&A increased 31.3% to \$34.7 million for 2017 from \$26.4 million for 2016. As a percentage of net sales, SG&A decreased to 12.1% for 2017 from 18.5% for 2016. The increase in SG&A expense was primarily driven by additional costs related to the substantial growth in the size of the business associated with the Acquisition. In addition, the \$0.7 million rise in advertising expense associated with new marketing and advertising efforts contributed to the increase. The increase in SG&A expense was partially offset by a decrease in non-cash stock-based compensation expense of \$2.2 million compared to 2016 (see “Note 10 - Stock-Based Compensation” in the Notes to the Consolidated Financial Statements).

Special items. Special items were \$7.9 million for 2017 compared to \$4.8 million for 2016. The increase was due to one-time settlement payments and legal expenses totaling \$5.0 million associated with former Texas Regional Distributors and Prism Distribution litigation (see “Note 11 – Commitments and Contingencies” in the Notes to the Consolidated Financial Statements), and costs associated with the Acquisition totaling \$4.3 million for 2017 (see “Note 3 – Glacier Acquisition” in the Notes to Consolidated Financial Statements). These costs were partially offset by a settlement reached with Omnifrio resulting in a one-time, \$1.2 million gain in 2017 (see “Note 11 – Commitments and Contingencies” in the Notes to the Consolidated Financial Statements).

Depreciation and amortization. Depreciation and amortization increased to \$26.7 million for 2017 from \$10.5 million for 2016. The increase was primarily due to property and equipment and intangibles acquired in connection with the Acquisition.

Interest expense, net. Interest expense, net increased to \$20.3 million for 2017 from \$6.0 million for 2016, due primarily to increased debt levels related to the Goldman Credit Facility and the Subordinated Debentures assumed in connection with the Acquisition (see “Note 8 – Debt and Capital Leases, net of Debt Issuance Costs” in the Notes to the Consolidated Financial Statements).

Income Tax Benefit. We recorded an income tax benefit of \$3.1 million for 2017 compared to \$0 for 2016. On December 22, 2017, the Tax Cuts and Jobs Act (the “2017 Tax Act”) was signed into law. The 2017 Tax Act made broad and complex changes to the U.S. tax code that affected our income tax rate in 2017. In 2017, we recorded income tax expense of \$1.1 million related to goodwill and certain intangible assets. Additionally, we made a reasonable estimate of the impact of the 2017 Tax Act and we recorded an income tax benefit of \$4.2 million as a result of the remeasurement of deferred tax assets and liabilities at the maximum federal rate decrease to 21% from 35% (see “Note 12 – Income Taxes” in the Notes to the Consolidated Financial Statements).

Liquidity and Capital Resources

Adequacy of Capital Resources

Since our inception, we have financed our operations primarily through the sale of stock, the issuance of debt, borrowings under credit facilities and cash provided by operations. On May 22, 2018, we completed a follow-on public offering of our common stock as described in “Note 1 - Description of Business and Significant Accounting Policies” in the notes to the consolidated financial statements. We used the net proceeds from the offering to pay down existing indebtedness and on June 22, 2018, we refinanced our remaining outstanding indebtedness upon entering into the SunTrust Credit Facility (see “Note 8 – Debt and Capital Leases, net of Debt Issuance Costs” in the notes to the consolidated financial statements).

Table of Contents

We had capital expenditures of property, equipment and bottles of \$23.5 million for the year ended December 31, 2018, and we anticipate net capital expenditures to range between \$22.0 million and \$26.0 million for 2019.

Anticipated capital expenditures are related primarily to growth initiatives that drive same-store sales, the addition of credit card readers and the rebranding of Glacier Refill locations as well as growth in Refill and Exchange locations. We anticipate using cash on hand, cash provided by operations and availability under the SunTrust Credit Facility to meet these capital commitments.

At December 31, 2018, our cash totaled \$7.3 million and we had \$27.0 million available under our Revolving Facility. We anticipate using current cash, cash flow from operations and availability under our Revolving Facility to meet our current needs for working capital and capital expenditures in the ordinary course of business for the foreseeable future. If we do require additional debt financing, such debt financing may not be available to us on terms favorable to us, if at all.

Our future capital requirements may vary materially from those now anticipated and will depend on many factors including: the number of growth initiatives that will drive same store sales and the rate of growth in new Refill and Exchange locations and related display, rack and reverse osmosis filtration system costs, cost to develop new Dispenser product lines, sales and marketing resources needed to further penetrate our markets, the expansion of our operations in the United States and Canada, the response of competitors to our solutions and products, as well as the completion of future acquisitions. Historically, we have experienced increases in our capital expenditures consistent with the growth in our operations, and we anticipate that our expenditures will continue to increase as we grow our business.

Our ability to satisfy our obligations or to fund planned capital expenditures will depend on our future performance, which to a certain extent is subject to general economic, financial, competitive, legislative, regulatory and other factors beyond our control. We also believe that if we pursue any material acquisitions in the foreseeable future, we will need to finance this activity through the issuance of equity or additional debt financing, and such financing may not be available to us on terms favorable to us, if at all.

Changes in Cash Flows: 2018 Compared to 2017

The following table shows the components of our cash flows for the periods presented (in millions):

	Years ended December 31,	
	2018	2017
Net cash provided by operating activities	\$32.7	\$17.6

Edgar Filing: Primo Water Corp - Form 10-K

Net cash used in investing activities	\$(18.0)	\$(20.5)
Net cash used in financing activities	\$(13.0)	\$(7.0)

Net Cash Flows from Operating Activities

Net cash provided by operating activities increased to \$32.7 million for 2018 from \$17.6 million for 2017. The increase was driven primarily by an increase in income from operations, excluding impairment charges and other, which are non-cash in nature, and the positive impact of the changes in operating assets and liabilities.

Net Cash Flows from Investing Activities

Net cash used in investing activities decreased to \$18.0 million for 2018 from \$20.5 million for 2017 primarily as a result of the proceeds received from the redemption of the Trust Preferred Securities issued by Glacier Water Trust I of \$6.3 million (see “Note 8 – Debt and Capital Leases, net of Debt Issuance Costs” in the notes to the condensed consolidated financial statements). This decrease was partially offset by an increase in purchases of property and equipment primarily related to the installation of our recycle centers, display racks, reverse osmosis filtration systems and vending equipment at new Refill and Exchange locations.

Table of Contents*Net Cash Flows from Financing Activities*

Net cash used in financing activities was \$13.0 million for 2018 compared to \$7.0 million for 2017.

For 2018, the proceeds upon entering into the SunTrust Credit Facility, together with the approximately \$70.8 million in net proceeds from our recent follow-on equity offering, were used to pay off the Goldman Credit Facility and Junior Subordinated Debentures (see “Note 8 – Debt and Capital Leases, net of Debt Issuance Costs” in the notes to the condensed consolidated financial statements). Additionally, for the year ended December 31, 2018, the net cash used in financing activities included proceeds from warrant exercises, offset by payments made for taxes related to the net share settlement of equity awards as well as debt service payments under the SunTrust Credit Facility and capital lease payments.

For 2017, the net cash used in financing activities was driven primarily by payments made for taxes related to the net share settlement of equity awards, as well as debt service payments under the Goldman Credit Facility and capital leases.

Changes in Cash Flows: 2017 Compared to 2016

The following table shows the components of our cash flows for the periods presented (in millions):

	Years ended	
	December 31,	
	2017	2016
Net cash provided by operating activities	\$17.6	\$16.4
Net cash used in investing activities	\$(20.5)	\$(163.3)
Net cash (used in) provided by financing activities	\$(7.0)	\$160.7

Net Cash Flows from Operating Activities

Net cash provided by operating activities increased to \$17.6 million for 2017 from \$16.4 million for 2016. The increase was driven primarily by the \$14.2 million increase in income from operations and an increase in depreciation and amortization expense of \$16.2 million, partially offset by an increase in cash interest of \$14.7 million and the negative impact of the changes in operating assets and liabilities.

Net Cash Flows from Investing Activities

Net cash used in investing activities decreased to \$20.5 million for 2017 from \$163.3 million for 2016. Excluding the \$150.7 million of net cash used for the Acquisition in 2016, cash used in investing activities increased \$8.0 million for 2017 compared to 2016. The increase, excluding the Acquisition from the prior year, was primarily the result of increased investing activities associated with our Refill and Exchange segments post-Acquisition. Our primary investing activities are typically capital expenditures for equipment and bottles and include expenditures related to the installation of our recycle centers, display racks, reverse osmosis filtration systems and vending equipment at new Refill and Exchange locations.

Net Cash Flows from Financing Activities

Net cash used in financing activities was \$7.0 million for 2017 compared to net cash provided by financing activities of \$160.7 million for 2016. For 2017, the net cash used in financing activities was driven primarily by payments made for taxes related to the net share settlement of equity awards, as well as debt service payments under the Goldman Credit Facility. For 2016, net cash provided by financing activities resulted primarily from \$166.0 million in net borrowings under our current and former terms loans that were used to help fund the Acquisition.

Table of Contents**Adjusted EBITDA U.S. GAAP Reconciliation**

Adjusted EBITDA is a non-U.S. GAAP financial measure that is calculated as (loss) income from continuing operations before depreciation and amortization; interest expense, net; income tax benefit; change in fair value of warrant liability; non-cash, stock-based compensation expense; special items; and impairment charges and other. Our SunTrust Credit Facility contains financial covenants that use Adjusted EBITDA. We believe Adjusted EBITDA provides useful information to management and investors regarding certain financial and business trends relating to our financial condition and results of the ongoing operations. Adjusted EBITDA is used by management to compare our performance to that of prior periods for trend analyses and planning purposes and is presented to our Board of Directors.

Non-U.S. GAAP measures should not be considered a substitute for, or superior to, financial measures calculated in accordance with U.S. GAAP. Adjusted EBITDA excludes significant expenses that are required by U.S. GAAP to be recorded in our financial statements and is subject to inherent limitations. In addition, other companies in our industry may calculate this non-U.S. GAAP measure differently than we do or may not calculate it at all, limiting its usefulness as a comparative measure. The table below provides a reconciliation between loss from continuing operations and Adjusted EBITDA (in thousands).

	Years Ended December 31,		
	2018	2017	2016
Loss from continuing operations	\$ (54,847)	\$ (6,359)	\$ (5,898)
Depreciation and amortization	24,562	26,698	10,541
Interest expense, net	21,417	20,324	6,023
Income tax benefit	(8,907)	(3,149)	–
EBITDA	(17,775)	37,514	10,666
Change in fair value of warrant liability	–	3,220	(240)
Non-cash, stock-based compensation expense	3,683	5,761	7,975
Special items ⁽¹⁾	762	7,860	4,753
Impairment charges and other	68,708	360	975
Adjusted EBITDA	\$ 55,378	\$ 54,715	\$ 24,129

(1) For the year ended December 31, 2018, “Special items” consisted of approximately \$0.6 million of acquisition-related expenses that represent transaction expenses associated with the Acquisition, including fees payable to financial, legal, accounting and other advisors, and \$0.2 million of non-recurring expense related to various other income and expenses associated with restructuring and other costs. For the year ended December 31, 2017, “Special items” consisted of approximately \$4.3 million of acquisition-related expenses that represent transaction expenses associated with the Acquisition, including fees payable to financial, legal, accounting and other advisors, approximately \$5.0 million of non-recurring costs related to the strategic alliance agreement (the “DS Services Agreement”) with DS Services of America, Inc. (“DS Services”), in connection with a transformation of

our operating model, an infrequently occurring event, a one-time gain of \$1.2 million related to the settlement reached with Omnifrio Beverage Company LLC and a one-time gain of \$0.2 million related to various other income and expenses associated with restructuring and other costs which had not occurred in the two years prior to our recording of them and were not reasonably likely to recur within two years of such recording. For the year ended December 31, 2016, “Special items” consisted of approximately \$3.9 million of acquisition-related expenses that represent transaction expenses associated with the Acquisition, including fees payable to financial, legal, accounting and other advisors and approximately \$0.8 million of non-recurring costs related to the DS Services Agreement with DS Services in connection with a transformation of our operating model, an infrequently occurring event. See “Note 1 – Description of Business and Significant Accounting Policies – Special Items” and “Note 11 – Commitments and Contingencies” in the notes to the consolidated financial statements.to the consolidated financial statements.

Table of Contents**Off-Balance Sheet Arrangements**

We do not have any off-balance sheet arrangements, investments in special purpose entities or undisclosed borrowings or debt. Additionally, we are not a party to any derivative contracts or synthetic leases.

Contractual and Commercial Commitment Summary

Our contractual obligations and commercial commitments as of December 31, 2018 are summarized below (in thousands):

Contractual Obligations	Payments Due by Period				
	Total	Less Than One Year	One to Three Years	Four to Five Years	More Than Five Years
Debt obligations (1)	\$188,250	\$9,500	\$19,000	\$159,750	\$ –
Capital lease obligations (1)	3,140	1,659	1,300	181	–
Interest payment obligations (2)	36,512	9,010	16,538	10,964	–
Operating lease obligations	3,237	1,545	1,341	351	–
Purchase Obligations (3)	11,658	11,658	–	–	–
Total	\$242,797	\$33,372	\$38,179	\$171,246	\$ –

(1) Includes obligations to pay principal, not interest expense.

(2) Represents estimated interest payments to be made on our debt and capital leases. All interest payments assume that principal payments are made as originally scheduled.

(3) Represents obligations related to outstanding purchase orders.

Inflation and Changing Prices

In the three most recent fiscal years, inflation and changing prices have not had a material effect on our business and we do not expect that inflation or changing prices will materially affect our business in the foreseeable future.

Seasonality; Fluctuations of Results

We have experienced and expect to continue to experience seasonal fluctuations in our sales and operating income. Our sales and operating income have been highest in the spring and summer and lowest in the fall and winter. Our Refill and Exchange segments, which generally enjoy higher margins than our Dispensers segment, experience higher sales and operating income in the spring and summer. We have historically experienced higher sales and operating income from our water dispensers in spring and summer; however, we believe the seasonality of dispenser sales are more dependent on retailer inventory management and purchasing cycles and not correlated to weather. Sustained periods of poor weather, particularly in the spring and summer, can negatively impact our sales in our higher margin Refill and Exchange segments. Accordingly, our results of operations in any quarter will not necessarily be indicative of the results that we may achieve for a year or any future quarter.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations is based upon our consolidated financial statements and related notes, which have been prepared in accordance with U.S. GAAP. The preparation of our financial statements in conformity with U.S. GAAP requires us to make certain estimates, judgments and assumptions. We believe that the estimates, judgments and assumptions used to determine certain amounts that affect the financial statements are reasonable, based on information available at the time they are made. To the extent there are material differences between these estimates and actual results, our consolidated financial statements may be affected. We refer to accounting estimates of this type as critical accounting policies and estimates, which we discuss further below. See Note 1 of Part II, Item 8 of this Annual Report on Form 10-K for the summary of significant accounting policies.

Revenue Recognition. Revenue is recognized for the sale of multi-gallon purified bottled water upon either the delivery of inventory to the retail store or the purchase by the consumer. Revenue is either recognized as an exchange transaction (where a discount is provided on the purchase of a multi-gallon bottle of purified water for the return of an empty multi-gallon bottle) or a non-exchange transaction. Revenues on exchange transactions are recognized net of the exchange discount.

Table of Contents

Self-service refill water revenue is recognized as the filtered water is purchased by the consumer or retailer, which is measured by the water dispensing equipment meter for non-coin-operated vending displays and by cash collected for coin-operated vending displays. As it is impractical to visit all locations at the end of each reporting period, we estimate the revenue from the last time cash was collected or a meter read was obtained from each machine until the end of the reporting period, based on each machine's historical experience.

We report self-service refill water revenue based on the amount charged to the end consumer when we have earned revenue (as a principal) from the sale, which is based on our latitude in establishing the sales price to the end consumer, our control over the product and its specifications and other considerations. When, based on the terms of our arrangements with certain retailers, we do not meet such criteria, we report self-service refill water revenue based on the net amount charged to the retailer.

Revenue is recognized for the sale of our water dispenser products when control is transferred to our retail customers. We have no contractual obligation to accept returns nor do we guarantee sales. However, we will at times accept returns or issue credits for manufacturer defects or items that were damaged in transit. Revenues are recognized net of an estimated allowance for returns using an average return rate based upon historical experience.

In addition, we offer certain incentives such as coupons and rebates that are netted against and reduce net sales in the consolidated statements of operations. With the purchase of certain of our water dispensers, we include a coupon for a free multi-gallon bottle of purified water. No revenue is recognized with respect to the redemption of the coupon for a free multi-gallon bottle of water and the cost of the multi-gallon bottle of purified water is included in cost of sales.

Long-Lived Assets. We review long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The carrying amount of a long-lived asset is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset at the date it is tested for recoverability, whether in use or under development. An impairment loss is measured as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

Stock-Based Compensation. We estimate the grant date fair value of equity awards and amortize this value over the performance or service period. We measured the fair value of stock options using a Black-Scholes option pricing model which incorporates multiple complex and subjective inputs and assumptions. These variables include the expected term of the award, the expected stock price volatility over the expected term and risk-free interest rate. For restricted stock awards, we measure the fair value based upon the market price of our common stock on the date of the grant. Compensation expense is generally recognized on a straight-line basis over the service period. For awards with performance conditions, we begin recognizing compensation expense when it becomes probable that the performance condition will be attained. Stock-based compensation expense is reflected in selling, general, and administrative expenses.

Income Taxes. We account for income taxes using the asset and liability method, which requires recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities, using enacted tax rates in effect for the year in which the differences are expected to reverse. Deferred tax assets are reduced by a valuation allowance to the extent that utilization is not presently more likely than not.

As required by U.S. GAAP, we recognize the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant tax authority.

Business Combinations. We account for acquisitions under FASB Accounting Standards Codification (“ASC”) Topic 805, *Business Combinations*, which require the use of the acquisition method of accounting. All identifiable assets acquired and liabilities assumed are recorded at their estimated fair values. The excess of the fair value of purchase consideration over the fair values of identifiable assets and liabilities is recorded as goodwill. When determining the fair values of assets acquired and liabilities assumed, management makes significant estimates and assumptions.

Table of Contents

Critical estimates in valuing certain intangible assets include but are not limited to future expected cash flows from customer relationships and acquired tradenames. Management's estimates of fair value are based upon assumptions believed to be reasonable, but are inherently uncertain and unpredictable and, as a result, actual results may differ from estimates. Other estimates associated with the accounting for acquisitions may change as additional information becomes available regarding the assets acquired and liabilities assumed.

Goodwill and Intangible Assets. We classify intangible assets into three categories: (1) intangible assets with definite lives subject to amortization, (2) intangible assets with indefinite lives not subject to amortization and (3) goodwill. We determine the useful lives of definite-lived intangible assets after considering specific facts and circumstances related to each intangible asset. Factors we consider when determining useful lives include the contractual term of any agreement related to the asset, the historical performance of the asset, and other economic facts; including competition and specific market conditions. Intangible assets that are deemed to have definite lives are amortized, primarily on a straight-line basis, over their estimated useful lives.

The Company reviews intangible assets with indefinite lives, including goodwill, for impairment at least annually, or whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable, in which case an impairment charge would be recorded. In addition, goodwill is tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Sensitivity Risk

We are exposed to market risk related to changes in interest rates on borrowings under the SunTrust Credit Facility. Interest on outstanding borrowings under the SunTrust Credit Facility is calculated at our option at either (1) a base rate (which is derived from the Administrative Agent's prime lending rate, the federal funds effective rate plus 0.5%, or a London Interbank Offered Rate ("LIBOR") plus 1.0%) or (2) London Interbank Offered Rate ("LIBOR") plus, in each case of the foregoing (1) and (2), a margin, initially set at 2.50% per annum which was reduced to 2.25% at December 31, 2018 with respect to LIBOR loans and 1.50% per annum which was reduced to 1.25% at December 31, 2018 for base rate loans. A commitment fee, initially set at 0.30% per annum, ranging from 0.15% to 0.30% per annum, is payable quarterly on the average undrawn portion of the Revolving Facility.

As of December 31, 2018, in connection with the SunTrust Credit Facility, we had \$3.0 million outstanding borrowings under the Revolving Facility and \$185.3 million outstanding under the variable rate Term Loan. A hypothetical change in the annual interest rate of 100 basis points would change our anticipated annual cash interest

expense by approximately \$1.8 million for the year ending December 31, 2019.

Foreign Currency Exchange Risk

We have operations in Canada which have transactions denominated in Canadian Dollars, therefore we are exposed to currency exchange rate risks. As a result, fluctuations in exchange rates may affect our expenses and results of operations as well as the value of our assets and liabilities. Due to the size of our Canadian operations in relation to our consolidated operations as described in “Note 15 – Segments” in the Notes to Consolidated Financial Statements, we do not consider the potential loss resulting from a hypothetical 10% adverse change in quoted foreign currency exchange rates as of December 31, 2018 to be significant.

Table of Contents

Item 8. Financial Statements and Supplementary Data

Index to the Consolidated Financial Statements

	Page
Management's Report on Internal Control Over Financial Reporting	57
Report of Independent Registered Public Accounting Firm on Consolidated Financial Statements	58
Report of Independent Registered Public Accounting Firm on Internal Control over Financial Reporting	59
Consolidated Balance Sheets as of December 31, 2018 and 2017	60
Consolidated Statements of Operations for the years ended December 31, 2018, 2017 and 2016	61
Consolidated Statements of Comprehensive Income (Loss) for the years ended December 31, 2018, 2017 and 2016	62
Consolidated Statements of Stockholders' Equity for the years ended December 31, 2018, 2017 and 2016	63
Consolidated Statements of Cash Flows for the years ended December 31, 2018, 2017 and 2016	64
Notes to Consolidated Financial Statements	65

56

Table of Contents

Management's Report on Internal Control Over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

The Company's internal control over financial reporting includes policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets; (2) provide reasonable assurances that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures are being made only in accordance with authorizations of management and the board of directors of Primo; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on our financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2018. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework (2013 framework). Based on our assessment and those criteria, management has concluded that we maintained effective internal control over financial reporting as of December 31, 2018.

Our independent registered public accounting firm, BDO USA, LLP, has issued an audit report on the effectiveness of our internal control over financial reporting as of December 31, 2018, which is included herein.

Table of Contents

Report of Independent Registered Public Accounting Firm

Shareholders and Board of Directors

Primo Water Corporation

Winston-Salem, North Carolina

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Primo Water Corporation (the “Company”) and subsidiaries as of December 31, 2018 and 2017, the related consolidated statements of operations and comprehensive (loss) income, stockholders’ equity, and cash flows for each of the three years in the period ended December 31, 2018, and the related notes (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company and subsidiaries at December 31, 2018 and 2017, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) and our report dated March 6, 2019 expressed an unqualified opinion thereon.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of

material misstatement, whether due to error or fraud.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ BDO USA, LLP

We have served as the Company's auditor since 2015.

Raleigh, North Carolina

March 6, 2019

Table of Contents

Report of Independent Registered Public Accounting Firm

Shareholders and Board of Directors

Primo Water Corporation

Winston-Salem, North Carolina

Opinion on Internal Control over Financial Reporting

We have audited Primo Water Corporation's (the "Company's") internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (the "COSO criteria"). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated balance sheets of the Company and subsidiaries as of December 31, 2018 and 2017, the related consolidated statements of operations and comprehensive (loss) income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2018, and the related notes and our report dated March 6, 2019 expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Item 8, Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit of internal control over financial reporting in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an

understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ BDO USA, LLP

Raleigh, North Carolina

March 6, 2019

Table of Contents**PRIMO WATER CORPORATION****CONSOLIDATED BALANCE SHEETS****(In thousands, except par value information)**

	December 31, 2018	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	\$7,301	\$5,586
Accounts receivable, net	19,179	18,015
Inventories	9,965	6,178
Prepaid expenses and other current assets	7,004	3,409
Total current assets	43,449	33,188
Bottles, net	4,618	4,877
Property and equipment, net	95,627	100,692
Intangible assets, net	78,671	144,555
Goodwill	91,814	92,934
Investment in Glacier securities (\$0 and \$3,881 available-for-sale, at fair value at December 31, 2018 and 2017, respectively)	–	6,510
Other assets	661	997
Assets held-for-sale at fair value	5,288	–
Total assets	\$320,128	\$383,753
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$25,191	\$18,698
Accrued expenses and other current liabilities	8,274	9,878
Current portion of long-term debt and capital leases	11,159	3,473
Total current liabilities	44,624	32,049
Long-term debt and capital leases, net of current portion and debt issuance costs	178,966	269,793
Deferred tax liability, net	–	8,455
Other long-term liabilities	607	1,985
Liabilities held-for-sale at fair value	1,438	–
Total liabilities	225,635	312,282
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$0.001 par value - 10,000 shares authorized, none issued and outstanding	–	–

Edgar Filing: Primo Water Corp - Form 10-K

Common stock, \$0.001 par value - 70,000 shares authorized, 38,567 and 30,084 shares issued and outstanding at December 31, 2018 and 2017, respectively	39	30
Additional paid-in capital	424,635	345,963
Accumulated deficit	(328,599)	(273,752)
Accumulated other comprehensive loss	(1,582)	(770)
Total stockholders' equity	94,493	71,471
Total liabilities and stockholders' equity	\$ 320,128	\$ 383,753

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

Table of Contents**PRIMO WATER CORPORATION****CONSOLIDATED STATEMENTS OF OPERATIONS****(In thousands, except per share amounts)**

	Years ended December 31,		
	2018	2017	2016
Net sales	\$302,112	\$286,074	\$142,541
Operating costs and expenses:			
Cost of sales	215,502	202,878	100,184
Selling, general and administrative expenses	35,226	34,701	26,429
Special items	762	7,860	4,753
Depreciation and amortization	24,562	26,698	10,541
Impairment charges and other	68,397	(99)	749
Total operating costs and expenses	344,449	272,038	142,656
(Loss) income from operations	(42,337)	14,036	(115)
Interest expense, net	21,417	20,324	6,023
Change in fair value of warrant liability	–	3,220	(240)
Loss from continuing operations before income taxes	(63,754)	(9,508)	(5,898)
Income tax benefit	(8,907)	(3,149)	–
Loss from continuing operations	(54,847)	(6,359)	(5,898)
Loss from discontinued operations	–	–	(48)
Net loss	\$(54,847)	\$(6,359)	\$(5,946)
Basic (loss) earnings per common share:			
Loss from continuing operations	\$(1.47)	\$(0.19)	\$(0.21)
Loss from discontinued operations	–	–	–
Net loss	\$(1.47)	\$(0.19)	\$(0.21)
Diluted (loss) earnings per common share:			
Loss from continuing operations	\$(1.47)	\$(0.19)	\$(0.21)
Loss from discontinued operations	–	–	–
Net loss	\$(1.47)	\$(0.19)	\$(0.21)
Weighted average shares used in computing (loss) earnings per share:			
Basic	37,418	33,258	28,456
Diluted	37,418	33,258	28,456

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

Table of Contents**PRIMO WATER CORPORATION****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)****(In thousands)**

	Years ended December 31,		
	2018	2017	2016
Net loss	\$(54,847)	\$(6,359)	\$(5,946)
Other comprehensive (loss) income:			
Reclassification of gain recognized in net loss on redemption of Glacier securities	(86)	–	–
Unrealized gain (loss) on investment in Glacier securities	14	102	(29)
Foreign currency translation adjustments, net	(740)	663	(94)
Total other comprehensive (loss) income	(812)	765	(123)
Comprehensive loss	\$(55,659)	\$(5,594)	\$(6,069)

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

Table of Contents**PRIMO WATER CORPORATION****CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY****(In thousands)**

	Common Stock		Additional	Accumulated	Accumulated	Total
	Shares	Amount	Paid-in	Deficit	Other	Stockholders'
		Capital			Comprehensive	Equity
					Loss	
Balance, December 31, 2015	25,810	\$ 26	\$ 288,968	\$ (261,447)	\$ (1,412)	\$ 26,135
Employee stock compensation plans	443	—	8,980	—	—	8,980
Shares withheld for taxes related to the net share settlement of equity awards	(148)	—	(1,396)	—	—	(1,396)
Exercise of common stock warrants	21	—	231	—	—	231
Issuance of common stock in connection with Glacier acquisition, net of issuance costs	3,179	3	36,488	—	—	36,491
Net loss	—	—	—	(5,946)	—	(5,946)
Other comprehensive loss	—	—	—	—	(123)	(123)
Balance, December 31, 2016	29,305	\$ 29	\$ 333,271	\$ (267,393)	\$ (1,535)	\$ 64,372
Employee stock compensation plans	1,061	1	5,722	—	—	5,723
Shares withheld for taxes related to the net share settlement of equity awards	(337)	—	(4,459)	—	—	(4,459)
Exercise of common stock warrants	55	—	88	—	—	88
Reclassification of Glacier Warrant to equity	—	—	11,400	—	—	11,400
Equity issuance costs associated with reorganization	—	—	(59)	—	—	(59)
Net loss	—	—	—	(6,359)	—	(6,359)
Other comprehensive income	—	—	—	—	765	765
Balance, December 31, 2017	30,084	\$ 30	\$ 345,963	\$ (273,752)	\$ (770)	\$ 71,471
Employee stock compensation plans	2,351	2	6,900	—	—	6,902
Shares withheld for taxes related to the net share settlement of equity awards	(798)	—	(11,017)	—	—	(11,017)
Exercise of common stock warrants	1,591	2	12,174	—	—	12,176
Proceeds from equity offering, net of costs	5,339	5	70,786	—	—	70,791
Reclassification of equity issuance costs previously capitalized	—	—	(171)	—	—	(171)
Net loss	—	—	—	(54,847)	—	(54,847)

Edgar Filing: Primo Water Corp - Form 10-K

Other comprehensive loss	–	–	–	–	(812	)	(812)
Balance, December 31, 2018	38,567	\$ 39	\$ 424,635	\$ (328,599	) \$ (1,582	) \$ 94,493		

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

Table of Contents**PRIMO WATER CORPORATION****CONSOLIDATED STATEMENTS OF CASH FLOWS****(In thousands)**

	Years Ended December 31,		
	2018	2017	2016
Cash flows from operating activities:			
Net loss	\$(54,847)	\$(6,359)	\$(5,946)
Less: Loss from discontinued operations	–	–	(48)
Loss from continuing operations	(54,847)	(6,359)	(5,898)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation and amortization	24,562	26,698	10,541
Impairment charges and other	68,397	(99)	749
Gain on Omnifrio settlement	–	(1,191)	–
Stock-based compensation expense	3,683	5,761	7,975
Non-cash interest expense (income)	2,639	(69)	429
Change in fair value of warrant liability	–	3,220	(240)
Bad debt expense	635	198	18
Deferred income tax benefit	(8,907)	(3,149)	–
Realized foreign currency exchange loss and other, net	300	(65)	127
Changes in operating assets and liabilities:			
Accounts receivable	(1,956)	(4,636)	218
Inventories	(3,817)	14	518
Prepaid expenses and other current assets	(3,162)	(532)	(1,129)
Accounts payable	5,301	5,213	316
Accrued expenses and other current liabilities	(133)	(7,430)	2,751
Net cash provided by operating activities	32,695	17,574	16,375
Cash flows from investing activities:			
Purchases of property and equipment	(20,382)	(17,012)	(9,859)
Purchases of bottles, net of disposals	(3,116)	(3,588)	(2,661)
Proceeds from the sale of property and equipment	278	209	32
Proceeds from redemption of investment in Glacier securities	6,277	–	–
Acquisitions, net cash acquired	(920)	(65)	(150,740)
Additions to intangible assets	(88)	(63)	(55)
Net cash used in investing activities	(17,951)	(20,519)	(163,283)
Cash flows from financing activities:			
Borrowings under Revolving Credit Facility	18,600	–	–
Payments under Revolving Credit Facility	(15,600)	–	–
Borrowings under prior Revolving Credit Facilities	14,000	2,500	34,400
Payments under prior Revolving Credit Facilities	(14,000)	(2,500)	(34,400)
Borrowings under Term loan	190,000	–	–

Edgar Filing: Primo Water Corp - Form 10-K

Borrowings under prior Term loan	–	–	186,000
Payments under Term loan	(4,750)	–	–
Payments under prior Term loans	(184,140)	(1,860)	(20,000)
Payments upon redemption of Junior Subordinated Debentures	(87,629)	–	–
Capital lease payments	(1,566)	(1,782)	(321)
Proceeds from common stock issuance, net of costs	70,791	–	–
Proceeds from warrant exercises, net	12,176	88	231
Stock option and employee stock purchase activity	1,827	1,263	362
Payments for taxes related to net share settlement of equity awards	(11,017)	(4,459)	(1,396)
Debt issuance costs and other	(1,676)	(269)	(4,182)
Net cash (used in) provided by financing activities	(12,984)	(7,019)	160,694
Cash used in operating activities of discontinued operations	–	–	(105)
Effect of exchange rate changes on cash and cash equivalents	(45)	(36)	79
Net increase (decrease) in cash and cash equivalents	1,715	(10,000)	13,760
Cash and cash equivalents, beginning of year	5,586	15,586	1,826
Cash and cash equivalents, end of period	\$7,301	\$5,586	\$15,586

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

Table of Contents

PRIMO WATER CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except per share amounts)

1. Description of Business and Significant Accounting Policies

Business

Primo Water Corporation (together with its consolidated subsidiaries, “Primo,” “we,” “our,” “us,” or “the Company”) is North America’s leading single source provider of multi-gallon purified bottled water, self-service refill drinking water and water dispensers sold through major retailers in the United States and Canada.

Significant Transactions

On June 22, 2018, we entered into a new senior secured credit facility (the “SunTrust Credit Facility”) that provides for a \$190,000 senior term loan facility (the “Term Loan”) and a \$30,000 senior revolving loan facility (the “Revolving Facility”). The SunTrust Credit Facility matures on June 22, 2023. The Term Loan requires annual principal payments (payable in quarterly installments) equal to 5% per annum, or \$9,500, with the remaining indebtedness due at maturity. The SunTrust Credit Facility is secured by a first priority security interest in and lien on substantially all of our assets. The SunTrust Credit Facility and related obligations are guaranteed by certain of our domestic subsidiaries (see Note 8 – Debt and Capital Leases, net of Debt Issuance Costs).

On May 22, 2018, we completed a follow-on offering of 5,339 shares of our common stock at a price of \$14.00 per share to the public, which included the exercise in full by the underwriters of their option to purchase 696 additional shares of our common stock on the same terms and conditions. All of the shares were offered and sold by Primo. Net proceeds were approximately \$70,791, after deducting the underwriting discounts and commissions and estimated offering expenses payable by us of approximately \$4,132. We used the net proceeds from the offering to pay down existing indebtedness and subsequently refinance our remaining outstanding indebtedness (see Note 8 – Debt and Capital Leases, net of Debt Issuance Costs).

On December 12, 2016, we completed the acquisition (the “Acquisition”) of Glacier Water Services, Inc. (“Glacier”), the leading provider of high-quality filtered drinking water dispensed to consumers through self-service water machines

located at over 20,000 locations, including supermarkets and other retail locations. The Acquisition was consummated pursuant to the terms of the Agreement and Plan of Merger, dated October 9, 2016. Aggregate consideration was approximately \$200,200 consisting of cash, Primo common stock and warrants, plus the assumption of approximately \$78,800 of debt, net of cash. The Acquisition diversified our retailer concentration and offered cross-selling opportunities, while creating operational and shared service synergies. We financed the transaction through a combination of cash-on-hand and borrowings under the \$196,000 credit agreement with Goldman Sachs Bank USA (the “Goldman Credit Facility”). The Goldman Credit Facility was refinanced and terminated in connection with SunTrust Credit Facility (see Note 8 - Debt and Capital Leases, net of Debt Issuance Costs).

Principles of Consolidation

Our consolidated financial statements include the accounts of Primo and our wholly-owned subsidiaries. All intercompany amounts and transactions have been eliminated in consolidation. Our consolidated statements have been prepared in accordance with generally accepted accounting principles in the United States (“U.S. GAAP”).

We determine whether our investment arrangements constitute a variable interest entity (“VIE”) based on the nature and characteristics of such arrangements. If an investment arrangement is determined to be a VIE, then we assess whether the Company is the VIE’s primary beneficiary. If we determine the Company is the primary beneficiary of a VIE, then it is consolidated. The primary beneficiary consolidating the VIE must normally have both (i) the power to direct the primary activities of the VIE and (ii) the obligation to absorb losses of the VIE or the right to receive benefits from the VIE, which, in either case, could be significant to the VIE.

Use of Estimates

The preparation of our financial statements in conformity with U.S. GAAP requires us to make certain estimates, judgments and assumptions. We believe that the estimates, judgments and assumptions used to determine certain amounts that affect the financial statements are reasonable, based on information available at the time they are made. To the extent there are material differences between these estimates and actual results, our consolidated financial statements may be affected. Some of the more significant estimates include valuation of inventories, future cash flows associated with long-lived assets, useful lives of property and equipment and intangibles, fair value assumptions in analyzing valuation of intangible assets, assumptions involved in valuing equity awards, valuation of deferred taxes, accruals related to the cutoff of refill revenue and allowance for sales returns.

Table of Contents

Reclassifications

Certain amounts reported previously have been reclassified to conform to the current year presentation, with no effect on stockholders' equity or net (loss) income as previously reported. These reclassifications relate to the following: presentation of common stock warrants which are included within additional paid-in capital on the consolidated balance sheets and the consolidated statement of stockholders' equity, and (gain) loss on disposal of property and equipment which is included in impairment charges and other on the consolidated statements of operations.

Discontinued Operations

During 2012, we committed to a plan to sell the assets of the sparkling beverage appliances, flavorings, CO2 cylinders and accessories business sold under the Flavorstation brand as well as the Omnifrio single-serve business (the "Disposal Group") and initiated an active program to execute this plan. We determined that the Disposal Group met the criteria for classification as discontinued operations. As a result, the results of operations and financial position of the Disposal Group are reflected as discontinued operations. For 2016, the primary activities of our discontinued operations relate to the resolution of contingencies and other matters that arose from and that are directly related to the operations of the Disposal Group before its disposal. On March 31, 2017, we entered into a settlement and release agreement to settle this obligation (see "Note 11 – Commitments and Contingencies").

Revenue Recognition

Revenue is recognized for the sale of multi-gallon purified bottled water upon either the delivery of inventory to the retail store or the purchase by the consumer. Revenue is either recognized as an exchange transaction (where a discount is provided on the purchase of a multi-gallon bottle of purified water for the return of an empty multi-gallon bottle) or a non-exchange transaction. Revenues on exchange transactions are recognized net of the exchange discount.

Self-service refill water revenue is recognized as the filtered water is purchased by the consumer or retailer, which is measured by the water dispensing equipment meter for non-coin-operated vending displays and by cash collected for coin-operated vending displays. As it is impractical to visit all locations at the end of each reporting period, we estimate the revenue from the last time cash was collected or a meter read was obtained from each machine until the end of the reporting period, based on each machine's historical experience.

We report self-service refill water revenue based on the amount charged to the end consumer when we have earned revenue (as a principal) from the sale, which is based on our latitude in establishing the sales price to the end consumer, our control over the product and its specifications and other considerations. When, based on the terms of our arrangements with certain retailers, we do not meet such criteria, we report self-service refill water revenue based on the net amount charged to the retailer.

Revenue is recognized for the sale of our water dispenser products when control is transferred to our retail customers. We have no contractual obligation to accept returns nor do we guarantee sales. However, we will at times accept returns or issue credits for manufacturer defects or that were damaged in transit. Revenues are recognized net of an estimated allowance for returns using an average return rate based upon historical experience.

In addition, we offer certain incentives such as coupons and rebates that are netted against and reduce net sales in the consolidated statements of operations. With the purchase of certain of our water dispensers, we include a coupon for a free multi-gallon bottle of purified water. No revenue is recognized with respect to the redemption of the coupon for a free multi-gallon bottle of water and the cost of the multi-gallon bottle of purified water is included in cost of sales.

Sales of Products

We earn revenue from contracts with customers, primarily through the sale of our purified, multi-gallon bottled water, self-service filtered drinking water, or through the sale of water dispensers. All revenue recognized in the current period is derived from contracts with customers. We account for these revenues under Accounting Standards Update (“ASU”) 2014-09, *Revenue from Contracts with Customers* (Topic 606) which we adopted January 1, 2018, using the modified retrospective approach, which resulted in no adjustment to the opening balance of retained earnings.

Table of Contents

In certain arrangements, depending on the nature and scope of the contract, our customer may be identified as the end consumer as we are interacting directly with the consumer via an implied contract upon the dispensing of self-service purified water. In other arrangements, our customer may be identified as the retailer, as we enter into contracts with retailers to resell purified multi-gallon bottled water or self-service filtered drinking water to the end consumer on our behalf. Our arrangements may also include standalone purchase orders from retailers to sell water dispensers. In such arrangements, the retailer is our customer.

Our performance obligations vary by business segment. Our performance obligations may include the delivery of purified water, the sale of the related bottle, or the sale of a water dispenser. In some instances, our sales arrangements may include multiple of the aforementioned performance obligations.

Our arrangements may include the shipping of products to our customers after the performance obligation related to that product has been satisfied. For such arrangements when shipping and handling activities are performed subsequent to the performance obligation being satisfied, we have elected to account for shipping and handling as activities to fulfill the promise to transfer goods. In such instances, we recognize shipping and handling costs at the same time as we recognize revenue.

We have no contractual obligation to accept returns nor do we guarantee sales. We may accept returns or issue credits for manufacturer defects or for items that were damaged in transit. We recognize revenue net of an estimated allowance for returns based on historical average return rates.

Typically, the transaction price of our products is fixed as agreed upon in our contracts with customers. Our arrangements may include variable consideration in the form of volume incentive agreements or coupon programs. We provide sales incentives to certain retailers in the form of a volume rebate to promote the sale of our products. Generally, the rebates are tiered, such that as sales increase, the rebate percentage increases. We estimate the expected amount of these rebates based on historical sales volume at the time of the original sale. We update our assessment of the amount of rebates that will be earned either quarterly or annually based on our best estimate of the volume levels the customer will reach during the measurement period. We also may include a redeemable coupon for the purchase of purified, multi-gallon bottled water upon the purchase of one of our products. We account for the coupons based on historical redemption rates. The customer's right to redeem the coupon for a free purified, multi-gallon bottle of water is exercised at or near the purchase of our products such that it does not create a material timing difference in the recognition of revenue.

Our sales arrangements may involve collecting revenue directly from the end consumer. Tax on filtered water dispensed from a vended machine is exempt in several jurisdictions. For those remaining jurisdictions in which taxes are not exempt, we have analyzed our contracts with customers, concluding that we are the primary obligor to the respective taxing authority, and as such present sales tax charged to the end consumer utilizing the gross method.

We recognize revenue on the products we sell at a point in time. The delivery of purified water and sale of the related bottle are completed via a point-of-sale transaction at which time the customer obtains control and remits payment for the product. The shipment of a water dispenser to our customer reflects the transfer of control. We may grant credit limits and terms to customers based upon traditional practices and competitive conditions. In such instances, the terms may vary, but payments are generally due in 30 days or less from the invoicing date. Due to the point-of-sale nature of our products, we have not recognized revenue in the current period for performance obligations satisfied in previous reporting periods and have no unsatisfied performance obligations as of the end of the current period.

Multiple Performance Obligations

Our sales arrangements may include multiple performance obligations. We identify each of the performance obligations in these arrangements and allocate the total transaction price to each performance obligation based on its identified relative selling price. In such arrangements, all of the performance obligations are met simultaneously as our products are concurrently delivered and have the same pattern of transfer to the customer. Thus, revenue is recognized simultaneously for each performance obligation when the customer obtains control of the product.

Presentation of Revenue

Our arrangements may involve another party selling products to our customers. We partner with retailers to place our self-service filtered water dispensing machines in their stores. We pay retailers a commission on the amount of sales generated from our products. We evaluate whether we control the products before they are transferred to the customer. In such instances where we control our products prior to transferring them to the customer, we are the principal in the transaction and record revenue at the gross amount and record commission paid to retailers as cost of sales. If we conclude that we do not control the products, we are the agent in the transaction and record revenue net of commissions paid to retailers.

Table of Contents*Disaggregation of Revenue*

The tables below present our consolidated net sales by geographic area.

Geographical area	Year ended December 31, 2018			
	Refill	Exchange	Dispensers	Total
United States	\$ 169,705	\$ 74,810	\$ 45,020	\$289,535
Canada	5,291	3,262	4,024	12,577
	\$174,996	\$ 78,072	\$ 49,044	\$302,112

Geographical area	Year ended December 31, 2017			
	Refill	Exchange	Dispensers	Total
United States	\$ 168,361	\$ 68,990	\$ 40,436	\$277,787
Canada	4,880	3,111	296	8,287
	\$173,241	\$ 72,101	\$ 40,732	\$286,074

Geographical area	Year ended December 31, 2016			
	Refill	Exchange	Dispensers	Total
United States	\$30,045	\$ 66,056	\$ 39,627	\$135,728
Canada	3,685	2,794	334	6,813
	\$33,730	\$ 68,850	\$ 39,961	\$142,541

Cash

All highly liquid investments with an original maturity of three months or less at the date of purchase are considered to be cash equivalents. The Company had no cash equivalents at December 31, 2018 and 2017.

Accounts Receivable Net of Allowances

All trade accounts receivable are due from customers located within the United States and Canada. Trade accounts receivable represent amounts billed to customers and not yet collected, and are presented net of allowances. These allowances totaled \$1,755 and \$1,509 at December 31, 2018 and December 31, 2017, respectively. We maintain an allowance for sales discounts, rebates and promotions based on our arrangements with customers. Accounts receivable, net included allowances for sales discounts, rebates and promotions of \$663, \$352 and \$640 at December 31, 2018, 2017 and 2016, respectively. Accounts receivable, net includes allowances for doubtful accounts of \$192, \$165 and \$105 at December 31, 2018, 2017 and 2016, respectively. The allowance for doubtful accounts is based on a review of specifically identified accounts in addition to an overall aging analysis. Judgments are made with respect to the collectability of accounts receivable based on historical experience and current economic trends. Actual losses could differ from those estimates. Accounts receivable, net includes an allowance for returns of \$900, \$992 and \$1,007 at December 31, 2018, 2017 and 2016, respectively. The allowance for returns is computed using an average return rate based upon historical experience. Account balances are charged off against the allowance in the period in which we determine that it is probable the receivable will not be recovered.

Table of Contents

	Amounts			
	Beginning	Charged	Deductions	Ending
	Balance	to		Balance
		Expense		
		or		
		Revenue		
Allowance for sales discounts, rebates and promotions				
Year Ended December 31, 2018	\$ 352	6,121	(5,810	) \$ 663
Year Ended December 31, 2017	\$ 640	5,195	(5,483	) \$ 352
Year Ended December 31, 2016	\$ 586	4,558	(4,504	) \$ 640
Allowance for doubtful accounts				
Year Ended December 31, 2018	\$ 165	676	(649	) \$ 192
Year Ended December 31, 2017	\$ 105	198	(138	) \$ 165
Year Ended December 31, 2016	\$ 101	18	(14	) \$ 105
Allowance for returns				
Year Ended December 31, 2018	\$ 992	3,494	(3,586	) \$ 900
Year Ended December 31, 2017	\$ 1,007	2,221	(2,236	) \$ 992
Year Ended December 31, 2016	\$ 996	2,367	(2,356	) \$ 1,007

Inventories

Our water dispenser inventories consist primarily of finished goods and are valued at the lower of cost or net realizable value, with cost determined using the first-in, first-out (FIFO) method. The cost basis of multi-gallon purified bottled water held on consignment at retail store locations is the amount paid to independent distributors who deliver our water. All components of inventories are finished goods.

Prepaid expenses and other current assets

During part of 2018, certain of our Dispensers, which are imported from China, were subject to a tariff (the “June 2018 Tariffs”) imposed by the Office of the United States Trade Representative (the “USTR”). In July 2018, we applied to the USTR for a Request for Exclusion from the June 2018 Tariffs for our Dispensers (the “Request for Exclusion”) and our Request for Exclusion was granted by the USTR in the fourth quarter of 2018. The exclusion is retroactive to July 6, 2018, and any amounts we paid in respect of such June 2018 Tariffs between the time of their implementation and the granting of our Request for Exclusion will be reimbursed. At December 31, 2018, prepaid expenses and other current assets include a receivable for \$2,318 related to the June 2018 Tariff reimbursement. Prepaid expenses and other current assets also includes routine prepaid expenses for insurance, permits and other items, as well as deposits and

other, non-trade receivables.

Investments

We determine the appropriate classification of investments at the time of purchase based on our intent and such designation is evaluated as of each balance sheet date. Investments in Trust Preferred Securities issued by Glacier Water Trust I (the "Trust"), as described below under *Junior Subordinated Debentures and Glacier Water Trust I*, were classified as available-for-sale securities and, therefore, were stated at fair value. In connection with the redemption of the Subordinated Debentures described in Note 8 – Debt and Capital Leases, net of Debt Issuance Costs, the Trust issued a revocable notice of redemption of all outstanding capital securities of the Trust, and all outstanding capital securities of the Trust were redeemed on June 29, 2018. The fair value of the Trust Preferred Securities was \$3,881 at December 31, 2017. The Company also maintained a 100% Trust Common Security interest in the Trust and received proceeds upon their redemption as described in Note 8 – Debt and Capital Leases, net of Debt Issuance Costs. Prior to the redemption in June 2018, the investment in the common security interest was accounted for under the equity method of accounting. At December 31, 2017, the carrying amount of the investment was \$2,629.

Bottles

Bottles consist of three- and five-gallon refillable bottles used in our exchange business and are stated at cost, less accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful life of fifteen months. We changed our estimate of the useful life of bottles which resulted in incremental depreciation expense of \$644 for the last six months of 2017 reported in depreciation and amortization in our consolidated statements of operations.

Table of Contents

Property and Equipment

Property and equipment are stated at cost, less accumulated depreciation and amortization. Internal and external costs incurred to acquire and create internal use software are capitalized and amortized over the useful life of the software. Depreciation and amortization is generally calculated using straight-line methods over estimated useful lives that range from one to fifteen years, taking into account estimated salvage values for certain assets.

We incur maintenance costs on our major equipment. Maintenance, repair and minor refurbishment costs are charged to expense as incurred, while additions, renewals, and improvements that extend the useful lives are capitalized.

Customer Bottle Deposits

In our Canadian Exchange business, at the majority of our retailers, we collect a refundable deposit on each customer's initial purchase of our water. If a customer decides to exit our program, the deposit is refunded. At December 31, 2018 and 2017, customer bottle deposits of \$828 and \$880, respectively, were reported in accrued expenses and other current liabilities on our consolidated balance sheets. We estimate a portion of deposits which, based on historical experience, we do not believe will be refunded to customers. The customer bottle deposit liability was reduced by \$223, \$182 and \$190 for 2018, 2017 and 2016, respectively, for such estimates, which are included in cost of goods sold on the consolidated statement of operations.

Junior Subordinated Debentures and Glacier Water Trust I

In connection with the Acquisition as described in Note 3 – Glacier Acquisition, we assumed \$89,529 of 9-1/16% Junior Subordinated Deferrable Interest Debentures due in 2028 (the “Subordinated Debentures”) issued to the Trust, a wholly owned subsidiary of Primo following the Acquisition. On June 29, 2018, as described in Note 8 - Debt and Capital Leases, net of Debt Issuance Costs, we paid \$87,938, including accrued interest of \$309, to redeem the Subordinated Debentures. Long-term debt and capital leases, net of current portion and debt issuance costs includes \$88,579 at December 31, 2017, of the Subordinated Debentures. The Trust was considered a variable interest entity because (i) its activities were so restricted and predetermined that the equity holders lack the power through voting (or similar) rights to direct the activities that most significantly impact the Trust's economic performance, and (ii) the Trust's common stock equity would not be considered at risk and thus was not sufficient to permit the Trust to finance its activities without additional subordinated financial support. The Trust existed for the sole purpose of purchasing the Subordinated Debentures and issuing Trust Preferred Securities to outside investors. The financial statements of the Trust were not consolidated with those of the Company as Primo was not the primary beneficiary of the Trust nor did it hold a variable interest in the Trust. Subsequent to the redemption of the Subordinated Debentures and the redemption of all outstanding capital securities of the Trust, the Trust and all related agreements were terminated and

effectively dissolved effective June 29, 2018.

Warrant Liability

We account for stock warrants as either equity instruments or derivative liabilities depending on specific terms of the warrant agreement. Stock warrants are accounted for as a derivative in accordance with ASC 815, *Derivatives and Hedging*, if the stock warrants contain terms that could potentially require “net cash settlement” and therefore, do not meet the scope exception for treatment as a derivative. Warrant instruments that could potentially require “net cash settlement” in the absence of express language precluding such settlement are initially classified as derivative liabilities at their estimated fair values, regardless of the likelihood that such instruments will ever be settled in cash. We will classify the fair value of the warrants that contain “net cash settlement” as a liability until the warrants are exercised, expire, or are amended in a way that would no longer require these warrants to be classified as a liability.

On March 13, 2017, we entered into Amendment No. 1 to the Glacier Warrant Agreement (the “Amendment”) as described in Note 9 – Stockholders’ Equity. The Amendment provided, among other things, that under no circumstances may a Glacier Warrant holder exercise any Glacier Warrants and receive a cash payment as a net cash settlement. Thus, effective March 13, 2017, the Glacier Warrants were no longer reported as a liability on the consolidated balance sheets with changes in the fair value of the warrant liability reported within the consolidated statements of operations. Instead, the Glacier Warrants were reported as equity instruments on the consolidated statements of stockholders’ equity.

Table of Contents

Business Combinations

We account for acquisitions using the acquisition method of accounting, which requires that all identifiable assets acquired and liabilities assumed be recorded at their estimated fair values. The excess of the fair value of purchase consideration over the fair values of identifiable assets and liabilities is recorded as goodwill. When determining the fair values of assets acquired and liabilities assumed, management makes significant estimates and assumptions.

Critical estimates in valuing certain intangible assets include but are not limited to future expected cash flows from customer relationships, acquired tradenames, and acquired patented technology. Management's estimates of fair value are based upon assumptions believed to be reasonable, but are inherently uncertain and unpredictable and, as a result, actual results may differ from estimates. Other estimates associated with the accounting for acquisitions may change as additional information becomes available regarding the assets acquired and liabilities assumed.

Contingent Consideration

Consideration paid in a business combination may include potential future payments that are contingent upon the acquired business achieving certain levels of earnings in the future ("contingent consideration"). Contingent consideration liabilities are measured at their estimated fair value as of the date of acquisition, with subsequent changes in fair value recorded in the consolidated statements of operations. Fair value as of the date of acquisition is estimated based on projections of expected future cash flows of the acquired business. Subsequent to the date of acquisition, we reassess the actual consideration earned and the probability-weighted future earn-out payments at each balance sheet date. Any adjustment to the contingent consideration liability will be recorded in the consolidated statements of operations. The contingent consideration liability is included within other long-term liabilities in the consolidated balance sheets. Glacier has certain contingent consideration agreements in connection with acquisitions made by Glacier prior to its acquisition by Primo. The liability for such agreements was \$1,464 and presented within other long-term liabilities on the consolidated balance sheets at December 31, 2017. The liability of \$1,438 was reclassified and presented within liabilities held-for-sale on the consolidated balance sheets at December 31, 2018 as described in Note 2 – Impairment Charges and Other.

Goodwill and Intangible Assets

We classify intangible assets into three categories: (1) intangible assets with definite lives subject to amortization, (2) intangible assets with indefinite lives not subject to amortization and (3) goodwill. We determine the useful lives of definite-lived intangible assets after considering specific facts and circumstances related to each intangible asset. Factors we consider when determining useful lives include the contractual term of any agreement related to the asset, the historical performance of the asset, and other economic facts; including competition and specific market

conditions. Intangible assets that are deemed to have definite lives are amortized, primarily on a straight-line basis, over their estimated useful lives.

Intangible assets that are deemed to have indefinite lives, including goodwill, are reviewed for impairment annually, as of the first day of our fourth quarter, or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test for indefinite-lived intangibles, other than goodwill, consists of a comparison of the fair value of the intangible asset with its carrying amount. If the carrying amount exceeds the fair value, an impairment charge is recognized in an amount equal to that excess.

Goodwill is tested for impairment annually on October 1, or more frequently if events and circumstances indicate that the carrying amount of the reporting unit may be impaired. We have the option to first perform a qualitative assessment to determine if a potential impairment exists. If the qualitative assessment indicates that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, or if we forego the qualitative assessment, we perform a two-step quantitative impairment test. The first step involves a comparison of the fair value of a reporting unit to its carrying value. The fair value is estimated based on a number of factors including operating results, business plans and future cash flows. If the carrying amount of the reporting unit exceeds its fair value, the second step compares the implied value of the reporting unit goodwill with the carrying value of the goodwill of that reporting unit. If the carrying value of the goodwill exceeds the implied fair value of that goodwill, the difference is recognized as an impairment.

Long-Lived Assets

We review long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The carrying amount of a long-lived asset is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset at the date it is tested for recoverability, whether in use or under development. An impairment loss is measured as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

Table of Contents

Stock-Based Compensation

We estimate the grant date fair value of equity awards and amortize this value over the performance or service period. We measured the fair value of stock options using a Black-Scholes option pricing model which incorporates multiple complex and subjective inputs and assumptions (see Note 10 – Stock-Based Compensation). These variables include the expected term of the award, the expected stock price volatility over the expected term and risk-free interest rate. For restricted stock awards, we measure the fair value based upon the market price of our common stock on the date of the grant. We estimated our forfeiture rate at 11.3% throughout 2018 based on historical experience. Compensation expense is generally recognized on a straight-line basis over the service period. For awards with performance conditions, we begin recognizing compensation expense when it becomes probable that the performance condition will be attained. Stock-based compensation expense is reflected in selling, general, and administrative expenses.

Concentrations of Risk

Our principal financial instruments subject to potential concentration of credit risk are cash, trade receivables and accounts payable. We invest our funds in highly rated institutions and believe the financial risk associated with cash in excess of federally insured amounts is minimal. At December 31, 2018 and 2017, \$6,710 and \$5,114, respectively, of our cash on deposit exceeded the insured limits.

We perform ongoing credit evaluations of our customers' financial condition and maintain allowances for doubtful accounts that we believe are sufficient to provide for losses that may be sustained on realization of accounts receivable. We had three customers that accounted for approximately 33%, 9%, 8% of consolidated net sales in 2018, 29%, 10%, 10% of consolidated net sales in 2017 and 39%, 19%, 16% of consolidated net sales in 2016.

We had three customers that accounted for approximately 49%, 12% and 7% of total trade receivables at December 31, 2018 and three customers that accounted for approximately 39%, 11% and 11% of total trade receivables at December 31, 2017.

Basic and Diluted Earnings (Loss) Per Share

Earnings (loss) per share has been computed using the weighted average number of shares of common stock outstanding during each period. Diluted amounts per share include the dilutive impact, if any, of our outstanding

potential common shares, such as stock options, restricted stock units and warrants. Potential common shares that are anti-dilutive are excluded from the calculation of diluted net loss per common share.

Income Taxes

We account for income taxes using the asset and liability method, which requires recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities, using enacted tax rates in effect for the year in which the differences are expected to reverse. Deferred tax assets are reduced by a valuation allowance to the extent that utilization is not presently more likely than not.

As required by U.S. GAAP, we recognize the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant tax authority.

Cumulative Translation Adjustment and Foreign Currency Transactions

The local currency of our operations in Canada is considered to be the functional currency. Assets and liabilities of the Canada subsidiaries are translated into U.S. dollars using the exchange rates in effect at the balance sheet date. Results of operations are translated using the average exchange rate prevailing throughout the period. The effects of unrealized exchange rate fluctuations on translating foreign currency assets and liabilities into U.S. dollars are presented as foreign currency translation adjustments, net included in other comprehensive income (loss) in the consolidated statements of comprehensive income (loss). With the exception of transaction gains and losses on certain intercompany balances which we have determined are of a long-term investment nature, realized gains and losses on foreign currency transactions are included in the consolidated statements of operations. At December 31, 2018 and 2017, accumulated other comprehensive loss balances of \$1,582 and \$842, respectively, were related to unrealized foreign currency translation adjustments and transaction gains and losses on certain intercompany balances.

Table of Contents*Special Items*

We have incurred expenses or realized gains that either we do not believe to be indicative of our core operations, or we believe are significant to our current operating results warranting separate classification. As such, we have separately classified these expenses (gains) as special items. The components of special items are as follows:

	Years ended		
	December 31,		
	2018	2017	2016
Acquisition-related costs ⁽¹⁾	\$623	\$4,298	\$3,935
DS Services Strategic alliance agreement costs ⁽²⁾	–	4,966	786
Omnifrio settlement ⁽³⁾	–	(1,170)	–
Other costs ⁽⁴⁾	139	(234)	32
Total	\$762	\$7,860	\$4,753

- (1) Acquisition-related costs that represent transaction expenses associated with the acquisition of Glacier, including fees payable to financial, legal, accounting and other advisor.
Non-recurring costs that represent expenses associated with the strategic alliance agreement (the “DS Services Agreement”) with DS Services of America, Inc. (“DS Services”), including transition payments and legal expenses
- (2) associated with litigation and arbitration proceedings against certain former regional operators (see Note 11 – Commitments and Contingencies), in connection with a transformation of our operating model, an infrequently occurring event.
- (3) For the year ended December 31, 2017, we recorded a non-recurring gain related to the settlement reached with Omnifrio Beverage Company LLC (“Omnifrio”) (see Note 11 – Commitments and Contingencies).
Non-recurring costs that represent various other income and expenses associated with restructuring and other costs
- (4) which had not occurred in the two years prior to recording them and were not reasonably likely to occur within two years of such recording.

Recent Accounting Pronouncements

In August 2018, the Financial Accounting Standards Board (“FASB”) issued ASU 2018-15, *Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40)*. This update aligns the requirements for capitalizing implementation costs incurred in a cloud computing arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The update is effective for fiscal years beginning after December 15, 2019, and interim periods within that reporting period. Early adoption is permitted. We are currently in the process of evaluating the impact of adopting this guidance on our consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*, which modifies the disclosure requirements on fair value measurements. The update is effective for annual reporting periods, and interim periods within those years, beginning after December 15, 2019 and early adoption is permitted. We are currently in the process of evaluating the impact of adopting this guidance on our consolidated financial statements.

In June 2018, the FASB issued ASU 2018-07, *Compensation - Stock Compensation (Topic 718), Improvements to Nonemployee Share-Based Payment Accounting*. This ASU is intended to simplify aspects of share-based compensation issued to non-employees by making the guidance consistent with the accounting for employee share-based compensation. The update is effective for fiscal years beginning after December 15, 2018, and interim periods within that reporting period. Early adoption is permitted, but no earlier than an entity's adoption date of Topic 606. We do not expect that the adoption of this ASU will have a material impact on our consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, *Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*. The updated guidance eliminates step two of the goodwill impairment test and specifies that goodwill impairment should be measured by comparing the fair value of a reporting unit with its carrying amount. Additionally, the amount of goodwill allocated to each reporting unit with a zero or negative carrying amount of net assets should be disclosed. The update is effective for annual or interim goodwill impairment tests performed in fiscal years beginning after December 15, 2019; early adoption is permitted. We currently anticipate that adoption of the guidance will not have a material impact on our consolidated financial statements.

Table of Contents

In January 2017, the FASB issued ASU 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business* to clarify the definition of a business, which is fundamental in the determination of whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses combinations. The updated guidance requires that in order to be considered a business the integrated set of assets and activities acquired must include, at a minimum, an input and process that contribute to the ability to create output. If substantially all of the fair value of the assets acquired are concentrated in a single identifiable asset or group of similar assets, it is not considered a business, and therefore would not be considered a business combination. We adopted this standard on January 1, 2018 with no impact on our consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)* along with subsequent amendments to the initial guidance in ASU 2017-13, ASU 2018-10 and ASU 2018-11 (collectively, Topic 842) requiring lessees to recognize for all leases (with the exception of short-term leases) at the commencement date: (1) a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis, and (2) a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. The update is effective for fiscal years beginning after December 15, 2018, and interim periods within that reporting period. The update will be effective for the Company in the first quarter of 2019 and we plan to adopt the guidance utilizing the modified retrospective method. We have selected a leasing software solution and are in the process of identifying changes to our business processes, systems and controls to support the adoption of this standard. The practical expedients we intend to elect include the package of practical expedients available at transition to not reassess the historical lease determination, lease election to combine components and the short-term lease exception. Our assessment of the quantitative impact is an estimate and subject to change as we finalize implementation of the accounting guidance but we currently do not believe adoption of this ASU will have a material effect on our consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)* which supersedes existing revenue recognition requirements in U.S. GAAP. The updated guidance requires that an entity recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, the guidance establishes a five-step approach for the recognition of revenue. In each of March, April, May and December 2016, the FASB issued further guidance to provide clarity regarding principal versus agent considerations, the identification of performance obligations and certain other matters. The updates are currently effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Financial statement disclosures required under the guidance will enable users to understand the nature, amount, timing, judgments and uncertainty of revenue and cash flows relating to contracts with customers. Based on the analysis of our contracts with customers, the timing, measurement, and presentation of revenues based on Topic 606 is consistent with our revenues under Topic 605. We adopted the above standard utilizing the modified retrospective method beginning January 1, 2018, with no adjustment to the opening balance of retained earnings. Based on our analysis of disclosure requirements within the standard, we have included additional disclosures of disaggregated net sales included above in Note 1 – Description of Business and Significant Accounting Policies.

2. Impairment Charges and Other

The components of impairment charges and other are as follows:

	Years ended		
	December 31,		
	2018	2017	2016
Impairment of Glacier trade name intangible	\$60,750	\$–	\$–
Impairment of property and equipment	2,405	–	–
Impairment of Ice assets held-for-sale	4,586	–	–
Loss (gain) on disposal of property and equipment and other	656	(99)	749
Total	\$68,397	\$(99)	\$749

74

Table of Contents

During the third quarter of 2018, we decided to discontinue the use of the Glacier trade name acquired as part of the Acquisition in December 2016, in order to more effectively and efficiently focus our brand building and marketing efforts in Refill around the Primo brand (the “Re-branding Strategy”). In connection with the initial accounting for the Acquisition, \$62,900 of the purchase price was allocated to the indefinite-lived trade name related to the Refill segment. As a result of the Re-branding Strategy, during the year ended December 31, 2018, we recorded a pre-tax, non-cash intangible asset impairment charge of \$60,750 to reduce the carrying value of the Glacier trade name to its estimated fair value, which is recorded in impairment charges and other on the consolidated statements of operations. The fair value of the trade name was estimated based on the future discounted cash flows expected to be generated under the trade name prior to its complete phase-out. Based on the change in circumstances, the trade name was determined to have a finite life and will be amortized straight line, in-line with the expected roll-out of the Re-branding Strategy. The following table provides a rollforward of the discontinued Glacier trade name:

	Glacier Trade Name Intangible
Balance at December 31, 2017	\$ 62,900
Impairment charge	(60,750)
Balance at December 31, 2018	\$ 2,150

In addition, as a result of the Re-branding Strategy, during the year ended December 31, 2018, we recorded a pre-tax, non-cash asset impairment charge of \$2,405 to reduce the carrying value of property and equipment to its estimated fair value associated with certain Glacier-branded Refill equipment that is not expected to generate future cash flows sufficient to recover the net book value of the equipment. The fair value was estimated based on the undiscounted cash flows expected to be produced by the property and equipment. The impairment charge is recorded in impairment charges and other on the consolidated statements of operations.

During the third quarter of 2018, we concluded that certain assets of our Refill segment (the “Ice Assets”) meet the criteria for assets held-for-sale treatment in accordance with FASB ASC No. 360, *Property, Plant, and Equipment*. Accordingly, during the year ended December 31, 2018, we recorded a pre-tax, non-cash asset impairment charge of \$4,586. These impairment charges reduced the carrying value of the Ice Assets to their estimated fair value less costs to sell at December 31, 2018 as follows:

**December
31,
2018**

Property and equipment, net	\$ 4,688
Identifiable intangible assets	600
Assets held-for-sale at fair value	\$ 5,288
Contingent consideration	\$ 1,438
Liabilities held-for-sale at fair value	\$ 1,438
Ice Assets, net	\$ 3,850

The estimated fair value of the assets held-for-sale does not include accounts receivable for which we anticipate retaining the rights.

We recorded losses and gains on disposal of property and equipment and other resulting in a loss of \$656 for 2018, a gain of \$99 for 2017 and loss of \$749 for 2016, unrelated to the Glacier trade name and the Ice assets, which are reported within impairment charges and other on our consolidated statements of operations.

3. Glacier Acquisition

On December 12, 2016, we completed the acquisition of Glacier, the leading provider of high-quality drinking water dispensed to consumers through self-service water machines located at over 20,000 locations, including supermarkets and other retail locations. We believe that the Acquisition diversified our retailer and financial concentration, created operational and shared services synergies and created cross-selling opportunities with retailers and consumers.

Aggregate consideration in connection with the Acquisition was \$200,220, consisting of a combination of cash, Primo common stock, the retirement or assumption of indebtedness and minority interests, and warrants to purchase shares of Primo common stock as outlined below. We financed the transaction through a combination of cash-on-hand and borrowings under the \$196,000 credit agreement the Goldman Credit Facility which has subsequently been refinanced as described in Note 8 – Debt and Capital Leases, net of Debt Issuance Costs.

Table of Contents

We have recorded the assets purchased and liabilities assumed at their estimated fair value in accordance with FASB ASC Topic 805: *Business Combinations*. The initial purchase price exceeded the fair value of the net assets acquired resulting in goodwill of \$91,822, attributable to expected operational and financial synergies, and the ability to capture additional market share. The identifiable definite-lived intangible assets consisted of customer lists and developed technology which are being amortized over 19 years and 8 years, respectively. The identifiable indefinite-lived intangible asset consisted of the Glacier trade name, which has subsequently been impaired as described in Note 2 – Impairment Charges and Other. Operations of the acquired entity are included in the consolidated statement of operations from the acquisition date. We incurred fees and expenses related to the Acquisition of \$623, \$4,298 and \$3,935 for the year ended December 31, 2018, 2017 and 2016, respectively, as recorded within special items on the consolidated statement of operations.

A summary of the consideration paid is as follows:

Aggregate consideration:

Cash consideration	\$49,397
Common stock issued	36,767
Warrants issued	8,420
Extinguishment of debt	64,658
Noncontrolling interest retired	40,978
Purchase price	\$200,220

The estimated fair values are subject to refinement during the measurement period, as additional information regarding closing date fair value becomes available. During the measurement period, the causes of any changes in cash flow estimates are considered to determine whether the change results from circumstances that existed at the acquisition date or if the change results from an event that occurred after the date of acquisition. During the year ended December 31, 2017, we obtained additional information regarding the fair value of certain acquired property and equipment, investments and other assets, capital leases, deferred tax liability and accrued expenses based on facts that existed at the date of acquisition. We have recast the fair value of the aforementioned acquired assets and liabilities via a measurement period adjustment as follows:

	Purchase Price	Measurement Period	Recast Purchase Price
	Allocation	Adjustment	Allocation
Cash acquired	\$4,294	\$ –	\$4,294
Property and equipment	65,605	862	66,467
Identifiable intangible assets	142,330	(60)	142,270

Edgar Filing: Primo Water Corp - Form 10-K

Investments and other assets	11,765	(319	)	11,446
Goodwill	91,822	888		92,710
Deferred tax liability	(13,607)	2,454		(11,153)
Net liabilities assumed	(101,989)	(3,825	)	(105,814)
Aggregate purchase price	\$ 200,220	\$ -		\$ 200,220

Glacier contributed net sales and a net loss of \$6,602 and \$327, respectively, reported in our consolidated statement of operations for the year ended December 31, 2016, excluding acquisition and integration related expenses included in special items. The purchase price allocation was complete as of December 12, 2017.

Unaudited pro forma results of operations are presented below for the year ended December 31, 2016, assuming that the Acquisition occurred on January 1, 2015. The pro forma information does not necessarily reflect the results of operations that would have occurred had we acquired Glacier at the beginning of 2015 as cost saving synergies are not reflected in the unaudited pro forma amounts.

	Pro Forma Year Ended December 31, 2016
Net sales	\$ 272,923
Pro forma net loss	\$(15,007)
Basic and diluted loss per common share:	
Net loss attributable to common shareholders	\$(0.53)

Table of Contents**4. Goodwill and Intangible Assets**

The change in the carrying amount of goodwill is summarized as follows:

Balance at December 31, 2016	\$91,709
Measurement period adjustments	888
Effect of foreign currency translation	337
Balance at December 31, 2017	\$92,934
Allocation to Ice Assets	(800)
Additions	102
Effect of foreign currency translation and other	(422)
Balance at December 31, 2018	\$91,814

During the year ended December 31, 2018, we allocated \$800 of goodwill to the Ice Assets as described in in Note 2 – Impairment Charges and Other.

During the year end December 31, 2018, as a result of the Re-branding Strategy, we recorded a pre-tax, non-cash intangible asset impairment charge of \$60,750 to reduce the carrying value of the discontinued indefinite-lived Glacier trade name to its estimated fair value of \$2,150 which was then determined to have a finite life as described in Note 2 – Impairment Charges and Other. Additionally, during the year ended December 31, 2018, we reclassified the estimated fair value of identifiable intangible Ice Assets related to our Refill segment totaling \$600 to assets held-for-sale as a result of concluding that a sale of the Ice Assets was probable to take place within one year as described in Note 2 – Impairment Charges and Other.

Information regarding intangible assets is summarized as follows:

	December 31, 2018					Weighted
	Gross	Accumulated	Impairment	Allocation to	Net	Average
	Carrying	Amortization		Assets	Intangible	Life
	Amount			held-for-sale	Assets	(Years)
Amortized intangible assets:						
Customer relationships	\$94,272	\$ (18,108)	\$ –	\$ (600)	\$ 75,564	18.0
Patent costs	1,256	(1,216)	–	–	40	15.0

Edgar Filing: Primo Water Corp - Form 10-K

Developed technology	831	(214	)	–	–	617	8.0
Trademarks	404	(104	)	–	–	300	15.0
Glacier trade name	62,900	–		(60,750	)	–	2,150
Total	\$159,663	\$ (19,642	)	\$ (60,750	)	\$ (600	) \$ 78,671

77

Table of Contents

	December 31, 2017					Weighted
	Gross	Accumulated		Allocation to	Net	Average
	Carrying	Amortization	Impairment	Assets	Intangible	Life
	Amount			held-for-sale	Assets	(Years)
Amortized intangible assets:						
Customer relationships	\$93,917	\$ (13,282)	\$ -	\$ -	\$ 80,635	18.0
Patent costs	1,248	(1,217)	-	-	31	3.0
Developed technology	830	(98)	-	-	732	8.0
Trademarks	326	(69)	-	-	257	15.0
	96,321	(14,666)	-	-	81,655	
Unamortized intangible assets:						
Glacier trade name	62,900	-	-	-	62,900	
Total	\$ 159,221	\$ (14,666)	\$ -	\$ -	\$ 144,555	15.0

Amortization expense for intangible assets was \$5,127, \$5,095 and \$1,066 in 2018, 2017 and 2016, respectively. Future amortization expense related to intangible assets is as follows:

2019	\$6,195
2020	6,195
2021	5,120
2022	5,109
2023	5,093
Thereafter	50,959
	\$78,671

5. Bottles

Bottles are summarized as follows at December 31:

	2018	2017
Cost	\$5,533	\$5,109
Less accumulated depreciation	(915)	(232)

\$4,618 \$4,877

Depreciation expense for bottles was \$3,634, \$2,885 and \$2,200 for 2018, 2017 and 2016, respectively.

6. Property and Equipment

Property and equipment is summarized as follows at December 31:

	2018	2017
Land	\$71	\$78
Buildings	674	732
Machinery and equipment	9,701	9,454
Vending equipment	93,104	94,506
Racks and display panels	41,512	41,147
Software and computer equipment	5,460	4,592
Vehicles under capital leases	6,954	6,395
Other	736	243
	158,212	157,147
Less accumulated depreciation and amortization	(62,585)	(56,455)
	\$95,627	\$100,692

Depreciation expense for property and equipment was \$15,801, \$18,718 and \$7,260 for 2018, 2017 and 2016, respectively.

Table of Contents**7. Accrued Expenses and Other Current Liabilities**

Accrued expenses and other current liabilities are summarized as follows at December 31:

	2018	2017
Accrued distributor, service provider and commission payments	\$2,629	\$1,946
Accrued payroll and related items	2,406	3,749
Customer bottle deposits	828	880
Property tax liability	522	511
Coupons and promotions	405	242
Accrued sales allowances	386	164
Accrued professional expenses	290	97
Accrued sales tax payable	206	366
Accrued interest	101	697
Other	501	1,226
	\$8,274	\$9,878

8. Debt and Capital Leases, net of Debt Issuance Costs

Debt and capital leases, net of debt issuance costs are summarized as follows at December 31:

	December 31,	
	2018	2017
Revolving Credit Facility	\$3,000	\$-
Term loans	185,250	184,140
Debt issuance costs	(1,265)	(3,011)
Total Credit Facilities	186,985	181,129
Junior Subordinated Debentures	-	88,579
Capital leases	3,140	3,558
	190,125	273,266
Less current portion	(11,159)	(3,473)
Long-term debt and capital leases, net of current portion and debt issuance costs	\$178,966	\$269,793

SunTrust Credit Facility

On June 22, 2018, we entered into the SunTrust Credit Facility that provides for a \$190,000 Term Loan and a \$30,000 Revolving Facility. SunTrust Bank serves as the Administrative Agent, Swingline Lender and Issuing Bank under the SunTrust Credit Facility. The SunTrust Credit Facility matures on June 22, 2023. The Term Loan requires annual principal payments (payable in quarterly installments) equal to 5% per annum, or \$9,500, with the remaining indebtedness due at maturity. The SunTrust Credit Facility is secured by a first priority security interest in and lien on substantially all of our assets. The SunTrust Credit Facility and related obligations are guaranteed by certain of our domestic subsidiaries.

Interest on outstanding borrowings under the SunTrust Credit Facility is calculated at our option at either (1) a base rate (which is derived from the Administrative Agent's prime lending rate, the federal funds effective rate plus 0.5%, or a London Interbank Offered Rate ("LIBOR") plus 1.0%) or (2) LIBOR plus, in each case of the foregoing (1) and (2), a margin, initially set at 2.50% per annum which was reduced to 2.25% at December 31, 2018 with respect to LIBOR loans and 1.50% per annum which was reduced to 1.25% at December 31, 2018 for base rate loans. A commitment fee, initially set at 0.30% per annum, ranging from 0.15% to 0.30% per annum, is payable quarterly on the average undrawn portion of the Revolving Facility. The margins and commitment fee fluctuate based on our consolidated leverage ratio as specified in the SunTrust Credit Facility. Total issuance costs associated with the SunTrust Credit Facility were \$1,667, which have been presented either as a direct deduction from the carrying amount of the debt within long-term debt and capital leases, net of current portion and debt issuance costs, with respect to costs attributable to the Term Loan, or within other assets, with respect to costs attributable to the Revolving Facility. The costs are being amortized as part of interest expense over the term of the SunTrust Credit Facility. As of December 31, 2018, we had \$3,000 outstanding borrowings and \$27,000 of availability under the Revolving Facility.

Table of Contents

The SunTrust Credit Facility contains a number of affirmative and negative covenants that use consolidated adjusted EBITDA (“Adjusted EBITDA”). Adjusted EBITDA is a non-U.S. GAAP financial measure that is calculated as net income (loss) before depreciation and amortization; interest expense, net; income tax benefit; change in fair value of warrant liability; non-cash stock-based compensation expense; special items; and impairment charges and other.

The primary operational covenants included in the SunTrust Credit Facility are as follows: (i) a minimum consolidated fixed charge coverage ratio of 1.10:1.00 beginning with the fiscal quarter ended June 30, 2018 and (ii) a maximum consolidated leverage ratio of 4.50:1.00 beginning with the fiscal quarter ended June 30, 2018 with the financial ratios tested as of the last day of each fiscal quarter. The leverage ratio steps down to 4.25:1.00 with respect to each fiscal quarter ending after June 30, 2019 and on or prior to June 30, 2020, and to 4.00:1.00 with respect to each fiscal quarter ending after June 30, 2020. At December 31, 2018, we were in compliance with all operational covenants, including (i) a consolidated fixed charge coverage ratio of 1.34:1.00 and (ii) a consolidated leverage ratio of 3.46:1.00.

The proceeds of entering into the SunTrust Credit Facility, together with the \$70,791 in net proceeds from our recent follow-on equity offering, were used to pay off the Goldman Credit Facility and Junior Subordinated Debentures, as described below.

Goldman Credit Facility

On December 12, 2016, to complete the Acquisition, we entered into a senior secured credit facility with Goldman Sachs Bank USA (the “Goldman Credit Facility”) that provided for an \$186,000 term loan facility and a \$10,000 revolving loan facility. We repaid all outstanding borrowings and accrued interest under the Goldman Credit Facility with the proceeds from our recent follow-on equity offering and the proceeds from the SunTrust Credit Facility during the second quarter of 2018. In connection with the repayment and termination of the Goldman Credit Facility during the second quarter of 2018, we immediately charged to interest expense, net on the consolidated statements of operations the remaining \$2,960 in unamortized debt issuance costs related to the Goldman Credit Facility and \$3,904 related to early payment penalties.

Junior Subordinated Debentures

In connection with the Acquisition, we assumed \$89,529 of the Subordinated Debentures issued to the Trust, a wholly owned subsidiary of Primo following the Acquisition. On June 29, 2018, in connection with the closing of the SunTrust Credit Facility, we paid \$87,938, including accrued interest of \$309, to redeem the Subordinated Debentures. In connection with the redemption of the Subordinated Debentures, we recorded a gain of \$475 in interest expense, net on the consolidated statements of operations for the year ended December 31, 2018 resulting from the

accretion of the remaining fair value adjustment allocated to the Subordinated Debentures as part of the purchase price allocation of the Acquisition.

In connection with the redemption of the Subordinated Debentures described above, the Trust issued a revocable notice of redemption of all outstanding capital securities of the Trust, and all outstanding capital securities of the Trust were redeemed on June 29, 2018. We owned a portion of such securities and received \$6,277 in proceeds upon their redemption, resulting in a \$161 loss on the redemption of the Glacier securities which is included in impairment charges and other on the consolidated statements of operations for the year ended December 31, 2018.

Subsequent to the redemption of the Subordinated Debentures and the redemption of all outstanding capital securities of the Trust, the Trust and all related agreements were terminated and effectively dissolved effective June 29, 2018.

Capital Leases

We periodically enter into capital leases for service vehicles for field operations and had 248 such capital leases outstanding at December 31, 2018.

Table of Contents

The aggregate future maturities of debt and capital leases as of December 31, 2018 were as follows:

	Capital leases	SunTrust Credit Facility	Total
2019	\$ 1,991	\$ 9,500	\$ 11,491
2020	949	9,500	10,449
2021	788	9,500	10,288
2022	248	9,500	9,748
2023	–	150,250	150,250
Thereafter	–	–	–
	\$ 3,976	\$ 188,250	\$ 192,226
Less: amounts representing estimated executory and debt issuance costs	(504)	(1,265)	(1,769)
Less: amounts representing interest	(332)	–	(332)
	\$ 3,140	\$ 186,985	\$ 190,125

9. Stockholders' Equity*Common Stock Warrants*

As part of the DS Services Agreement, on January 1, 2014, we granted DS Services a warrant to purchase 475 shares of our common stock (the “DS Services Warrant”) which had an exercise price of \$3.04 per share and an expiration of January 1, 2021. The DS Services Warrant was exercised during the third quarter of 2018 and we issued 404 shares of our common stock upon cashless exercise of 475 shares of the DS Services Warrant.

A prior credit facility was accompanied by detachable warrants to purchase 1,731 shares of our common stock (the “Comvest Warrants”), including detachable warrants to purchase 131 shares of our common stock received by five of our current directors or stockholders (the “Insider Participants”). The Comvest Warrants are exercisable at an exercise price of \$2.30 per share and expire April 30, 2020. For the non-Insider Participants, the exercise price of their portion of the Comvest Warrants was adjusted to \$1.20 on November 6, 2012. No changes were made to the warrants we issued to the five directors and stockholders of Primo. All warrants held by non-Insiders were exercised in 2014 and 2015. During 2018, we issued 25 shares of our common stock upon cashless exercise of 28 shares of the Comvest Warrants by Insider Participants. At December 31, 2018, the warrants to purchase 46 shares held by the Insider Participants represented the only outstanding portion of the Comvest Warrants.

On December 12, 2016, we issued warrants to purchase 2,000 shares of our common stock in connection with the Acquisition (the “Glacier Warrants”). The Glacier Warrants became exercisable as follows: 33% became exercisable on June 10, 2017, an additional 33% became exercisable on September 8, 2017 and the final 34% became exercisable on December 12, 2017. The Glacier Warrants are exercisable at an exercise price of \$11.88 per share and expire on December 12, 2021. The warrants’ fair value at the date of issuance of \$8,420 was recorded as a liability on our consolidated balance sheets and as part of consideration for the Acquisition. Subsequent changes in the estimated fair value of the warrants were recorded in our consolidated statements of operations. The warrants’ estimated fair value as of December 31, 2016 was \$8,180. The change in the estimated fair value of our warrant liability for the year ended December 31, 2016 resulted in non-cash income of \$240 which is included in the change in fair value of warrant liability on the consolidated statements of operations.

On March 13, 2017, we entered into Amendment No. 1 to the Glacier Warrant Agreement (the “Amendment”). The Amendment provides, among other things, that under no circumstances may a Glacier Warrant holder exercise any Glacier Warrants and receive a cash payment as a net cash settlement. Thus, effective March 13, 2017, the Glacier Warrants were no longer reported as a liability on the consolidated balance sheets with changes in the fair value of the warrant liability reported within the consolidated statements of operations. Instead, the Glacier Warrants were reported as equity instruments on the consolidated statements of stockholders’ equity. The change in the estimated fair value of the warrant liability for the period of January 1, 2017 through March 13, 2017 resulted in non-cash expense of \$3,220 as presented on the consolidated statements of operations for the year ended December 31, 2017.

Table of Contents

The estimated fair value of these warrants was determined using Level 3 inputs and assumptions within the Black-Scholes pricing model. The key assumptions used in the Black-Scholes model were as follows:

	March 13,	December 31,	December 12,
	2017	2016	2016
Expected life in years	4.75	4.95	5.0
Risk-free interest rate	2.08%	1.92%	1.90%
Expected volatility	33.0%	33.0%	33.0%
Dividend yield	0.0%	0.0%	0.0%

The risk free interest rate was based on the U.S. Treasury rate for the expected remaining life of common stock warrants. Our expected volatility was based on the average long-term historical volatilities of peer companies. We consistently used a similar group of publicly traded peer companies to determine expected volatility in the future until sufficient information regarding volatility of our share price becomes available or certain of the selected companies are no longer suitable for this purpose. The dividend yield assumption was based on our current intent not to issue dividends.

During the year ended December 31, 2018, we issued 1,145 shares of common stock upon the exercise of Glacier Warrants, including 123 shares of common stock upon the cashless exercise of 380 Glacier Warrants exercised for common stock. At December 31, 2018, there were Glacier Warrants outstanding to purchase 598 shares of common stock.

A summary of common stock warrant activity for the years ended December 31, 2018 and 2017 is presented below:

		Weighted	Weighted
		Average	Average
	Warrants	Exercise	Remaining
		Price	Life
			(Years)
Warrants outstanding, December 31, 2016	861	\$ 5.08	3.46
Exercised	(68	) \$ 3.26	
Forfeited	(61	) \$ 9.07	
Reclass Glacier warrant from a liability to equity	2,000	\$ 11.88	

Warrants outstanding, December 31, 2017	2,732	\$ 10.03	3.57
Exercised	(1,957	) \$ 9.57	
Forfeited	(54	) \$ 13.04	
Warrants outstanding, December 31, 2018	721	\$ 11.03	2.65

10. Stock-Based Compensation

Overview

Our Board of Directors approved the Primo Water Corporation 2004 Stock Plan (the “2004 Plan”) for employees, including officers, non-employee directors and non-employee consultants. The Plan provides for the issue of incentive or nonqualified stock options and shares of restricted common stock. We do not intend to issue any additional awards under the 2004 Plan; however, all outstanding awards will remain in effect and will continue to be governed by their existing terms.

Our stockholders have approved the Amended and Restated 2010 Omnibus Long-Term Incentive Plan (the “2010 Plan”, and, together with the 2004 Plan, the “Plans”). The 2010 Plan is limited to the issuance of awards to employees, officers, non-employee directors, consultants and advisors. The 2010 Plan provides for the issuance of incentive or nonqualified stock options, restricted stock, stock appreciation rights, restricted stock units, cash- or stock-based performance awards and other stock-based awards. Any shares of common stock subject to stock options granted under the 2004 Plan that are cancelled, expired, forfeited, settled in cash or otherwise terminated without delivery of shares of common stock will be available for issuance under the 2010 Plan. We have 6,650 shares of common stock authorized for issuance under the Plans. To date all equity awards under the 2010 Plan have consisted of nonqualified stock options, shares of restricted common stock and restricted stock units.

Table of Contents

As of December 31, 2018, there were 3,374 shares available for future issuance under the 2010 Plan. Total non-cash stock-based compensation expense by award type for all of our plans, all of which is included in selling, general and administrative expenses on our consolidated statements of operations, was as follows:

	Years Ended December 31,		
	2018	2017	2016
Stock options	\$453	\$631	\$638
Restricted stock	2,319	2,799	757
Value Creation Plan	–	1,482	6,503
Long-term incentive plan	807	683	–
Employee Stock Purchase Plan	104	166	77
	\$3,683	\$5,761	\$7,975

Stock Options under the Plans

Stock options are granted with an exercise price equal to 100% of the fair market value per share of the common stock on the date of grant. For purposes of determining compensation expense for stock option awards, the fair value of each option award is estimated on the date of grant using the Black-Scholes option pricing model. The key assumptions used in the Black-Scholes model were as follows:

	Years Ended December 31,				
	2018	2017	2016		
Expected life of options in years	6.0	6.0	6.0	-	6.3
Risk-free interest rate	2.7 %	2.1 %	1.3%	-	2.2%
Expected volatility	38.0%	34.0%	37.0%	-	44.0%
Dividend yield	0.0 %	0.0 %			0.0%

The risk free interest rate is based on the U.S. Treasury rate for the expected life at the time of grant. In 2018, our expected volatility is based on the historical volatility of our common stock. For 2017 and 2016, our expected volatility is based on the average long-term historical volatilities of peer companies as we did not believe we had sufficient historical information regarding volatility of our share price. Due to our limited trading history, we are using the “simplified method” to calculate expected holding periods, which represents the period of time that options granted are expected to be outstanding. We will continue to use this method until we have sufficient historical exercise experience to give us confidence that our calculations based on such experience will be reliable. The dividend yield assumption is based on our current intent not to issue dividends.

A summary of stock option activity for the year ended December 31, 2018, is presented as follows:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Life (Years)	Aggregate Intrinsic Value
Options outstanding, December 31, 2017	1,591	\$ 5.27		
Granted	20	11.95		
Exercised	(381)	4.12		\$ 3,860
Forfeited	(81)	14.15		
Options outstanding, December 31, 2018	1,149	5.14	5.1	\$ 10,192
Options vested and expected to vest, December 31, 2018	1,134	\$ 5.05	5.0	\$ 10,157
Options exercisable, December 31, 2018	1,017	\$ 4.29	4.7	\$ 9,885

The weighted-average fair value per share of the options granted during 2018, 2017 and 2016 was \$4.91, \$5.16 and \$5.05, respectively. The total intrinsic value of the options exercised during 2018, 2017 and 2016 was \$3,860, \$2,409 and \$1,334, respectively.

As of December 31, 2018, there was \$500 of unrecognized compensation expense, net of estimated forfeitures, related to outstanding stock options which is expected to be recognized over a weighted-average period of 1.9 years. Cash received from option exercises for 2018, 2017 and 2016 was \$1,570, \$1,013 and \$425, respectively.

Table of Contents

Restricted Stock under the Plans

A summary of restricted stock activity for the year ended December 31, 2018 is presented below:

The fair value of restricted stock awards is estimated based on the closing price of our stock on the date of grant, and, for the purposes of expense recognition, the total new number of shares expected to vest is adjusted for estimated forfeitures. As of December 31, 2018, there was \$2,826 of unrecognized compensation expense, net of estimated forfeitures, related to non-vested restricted stock which is expected to be recognized over a weighted-average period of 2.4 years.

Long-Term Performance Plan

On February 28, 2017, we established the Long-Term Performance Plan (the “LTPP”). The LTPP provides equity grants for eligible employees based on the attainment of certain performance-based targets. Our intention is that all awards under the LTPP will be in the form of equity grants.

On March 20, 2017, we granted performance based equity awards under the LTPP with vesting terms based on our attainment of certain financial targets for the period of January 1, 2017 through December 31, 2019 (the “March 2017 Grant”). The number of shares earnable under the March 2017 Grant awards vary based on achievement of the established financial targets of Adjusted EBITDA and free cash flow on a cumulative basis for fiscal years 2017 through 2019. In the third quarter of 2018, we determined that the attainment of certain financial targets for the March 2017 Grant was not probable, which resulted in the reversal of expense during the year ended December 31, 2018.

On March 9, 2018, we granted performance based equity awards under the LTPP with vesting terms based on our attainment of certain financial targets for the period of January 1, 2018 through December 31, 2020 (the “March 2018 Grant”). The number of shares earnable under the March 2018 Grant awards vary based on achievement of the established financial targets of Adjusted EBITDA and free cash flow on a cumulative basis for fiscal years 2018 through 2020.

Employee Stock Purchase Plan

Our stockholders have approved the 2010 Employee Stock Purchase Plan (the “ESPP”) which provides for the purchase of common stock and is generally available to all employees. Shares are purchased at six-month intervals at 85% of the lower of the fair market value on the first day of the offering or the last day of each six-month purchase period. Employees may purchase shares having a fair value not exceeding 15% of their annual compensation, or \$25, whichever is less. During the year ended December 31, 2018 and 2017, employees purchased 24 and 22 shares, respectively, at an average price of \$10.68 and \$10.44 per share, respectively. At December 31, 2018, there were 143 shares of common stock available for future issuance under the ESPP.

Value Creation Plan (Superseded)

On May 7, 2012, we established the Value Creation Plan (the “VCP”), which was subsequently amended on May 14, 2013 and amended and restated on March 3, 2016. On December 22, 2016, the Compensation Committee of our Board of Directors approved the termination of the VCP, effective December 31, 2016, eliminating the third award target. The VCP provided awards comprised of cash or equity grants for eligible employees as determined by the Compensation Committee, based on the attainment of certain performance-based targets. The VCP provided for the issuance of up to three separate awards to eligible employees based on our attainment of financial targets of at least \$15,000, \$24,000 and \$28,000 in Adjusted EBITDA for any fiscal year between 2014 and 2019.

Table of Contents

The award pool for the second issuance based on the achievement of the \$24,000 Adjusted EBITDA target equaled 17.5% of the market capital appreciation of our stock from March 11, 2016 to March 20, 2017, the market close on the third full trading day after public announcement of financial results for 2016. On March 20, 2017, 1,370 shares were issued or deferred into the Primo Water Corporation Executive Deferred Compensation Plan (the “Deferred Compensation Plan”) as a result of the achievement of the \$24,000 Adjusted EBITDA target. The deferral of certain shares did not alter the existing vesting conditions, number of awards vested or the form of the awards issued under the VCP

As equity-classified awards, we determined the total compensation expense for awards under the VCP on their grant date based on the fair value method using the Black-Scholes option pricing model. The key assumptions used in the Black-Scholes model for the VCP were as follows:

	\$24,000 Adjusted EBITDA Target Award
Total fair value	\$7,730
Assumptions:	
March 11, 2016 closing stock price	\$9.39
Fair value measurement date stock price	\$9.39
Expected life of awards in years	1.7
Risk-free interest rate	0.7%
Expected volatility	37.5%
Dividend yield	0.0%

Assumptions related to risk-free interest rate, expected volatility and dividend yield with respect to the VCP are developed using an approach consistent with that described above for stock options issued under the Plans. The expected life of awards under the VCP is determined based on the period of time between their grant date and the expected date of the first issuance. For awards without an established grant date, the expected life is based on the period of time between the reporting date and the expected date of the first issuance under the VCP.

During the fourth quarter of the year ended December 31, 2016, we concluded that it was probable that the \$24,000 Adjusted EBITDA target would be attained in the 2016 fiscal year. As such, we recorded non-cash expense of \$6,248 for the year ended December 31, 2016. During the first quarter of 2017, we recorded non-cash expense of \$1,482 related to the VCP, as this is when the issuance of awards related to the \$24,000 Adjusted EBITDA target occurred.

11. Commitments and Contingencies*Operating Leases*

We lease office space, warehouse space and vehicles under various lease arrangements. Total rental expense was \$3,315, \$3,399 and \$1,574 for 2018, 2017 and 2016, respectively. At December 31, 2018, future minimum rental commitments under non-cancelable operating leases were as follows:

2019	\$ 1,545
2020	962
2021	379
2022	285
2023	66
Thereafter	–
Total	\$ 3,237

Table of Contents

Omnifrio Single-Serve Beverage Business

We previously accrued deferred purchase price payments totaling \$1,901 on the consolidated balance sheets as of December 31, 2016 related to the April 11, 2011 acquisition of certain intellectual property and other assets from the seller, Omnifrio. On March 31, 2017, we entered into a settlement and release agreement with Omnifrio in which we agreed to a cash payment of \$710 to Omnifrio and to transfer all intellectual property and other assets purchased from Omnifrio in April 2011 back to Omnifrio. The settlement resulted in a gain of \$1,191, reported within special items on the consolidated statement of operations for the year ended December 31, 2017.

Prism Arbitration

On August 5, 2014, Primo Distribution, LLC (also known as Prism Distribution) initiated an arbitration proceeding against us, claiming less than \$1,000 in damages for alleged breach of contract. The arbitration was filed with the American Arbitration Association (the “AAA”), and was amended on December 19, 2014 to include additional claims for conversion, unfair and deceptive trade practices, fraud, and unjust enrichment.

On July 24, 2017, we entered into a settlement and mutual release agreement with Prism Distribution pursuant to which we agreed to make a payment to Prism of \$825 which was paid during the fourth quarter of 2017. The settlement resulted in expense of \$825, reported within special items on the consolidated statement of operations for the year ended December 31, 2017.

Texas Regional Operator Litigation/Arbitration

On August 8, 2014, a lawsuit was commenced against us by our regional operators Artesia Springs, LLC, HOD Enterprises, L.P., and BBB Water, Inc. (the “ROs”) in the State of Texas. DS Services of America, Inc. was also named as a defendant in the lawsuit. The claims alleged against us in the lawsuit were breach of contract, conspiracy and fraud, and the ROs sought unspecified monetary damages as well as injunctive relief. On April 10, 2015, the ROs initiated an arbitration proceeding with the AAA. We resolved the claims asserted by BBB Water, Inc. as of December 31, 2015, and BBB Water, Inc. is no longer a party to the arbitration proceedings.

We entered into a settlement and mutual release agreement with Artesia Springs, LLC and HOD Enterprises, L.P. on April 5, 2017, pursuant to which we agreed to make payments including interest in April, July and September 2017 totaling \$3,783. The settlement resulted in other expense of \$3,701, reported within special items on the consolidated statement of operations for the year ended December 31, 2017. The settlement also resulted in interest expense of \$82

for the year ended December 31, 2017.

Sales Tax

We routinely purchase equipment for use in operations from various vendors. These purchases are subject to sales tax depending on the equipment type and local sales tax regulations; however, we believe certain vendors have not assessed the appropriate sales tax. For purchases that are subject to sales tax in which we believe the vendor did not assess the appropriate amount, we accrue an estimate of the sales tax liability we ultimately expect to pay.

Other Contingencies

From time to time, we are involved in various claims and legal actions that arise in the normal course of business. Management believes that the outcome of such claims and legal actions will not have a significant adverse effect on our financial position, results of operations or cash flows.

12. Income Taxes

On December 22, 2017, the Tax Cuts and Jobs Act (the “2017 Tax Act”) was signed into law. The 2017 Tax Act made broad and complex changes to the U.S. tax code that affected our income tax rate in 2017. The 2017 Tax Act reduced the U.S. federal corporate income tax rate from 35% to 21%. The 2017 Tax Act also established new tax laws that went into effect in 2018. ASC 740 requires a company to record the effects of a tax law change in the period of enactment, however, shortly after the enactment of the 2017 Tax Act, the SEC staff issued SAB 118, which allows a company to record a provisional amount when it does not have the necessary information available, prepared, or analyzed in reasonable detail to complete its accounting for the change in the tax law. The measurement period ends when the company has obtained, prepared and analyzed the information necessary to finalize its accounting, but cannot extend beyond one year. We have finalized our accounting for the tax effects of the 2017 Tax Act in 2018, with no impact to the remeasurement of deferred taxes or the transition tax.

Table of Contents

Although we have incurred operating losses since inception, we recorded income tax benefits in 2018 of \$8,907 associated with the impairment of the Glacier trade name as a result of the Re-branding Strategy as described in Note 2 – Impairment and other charges. The tax benefits were recorded to offset previously recorded tax expense primarily associated with the Glacier trade name. In 2017, we recorded income tax benefits of \$3,149, primarily due to the remeasurement of the deferred tax assets and liabilities from 35% to 21%. Components of income tax benefit are as follows:

	Years Ended December 31,	
	2018	2017
Current:		
Federal	\$(452)	\$–
State	–	–
Foreign	–	–
	(452)	–
Deferred:		
Federal	(6,379)	(3,313)
State	(2,076)	164
Foreign	–	–
	(8,455)	(3,149)
Income tax benefit	\$(8,907)	\$(3,149)

A reconciliation of the statutory U.S. federal tax rate and effective tax rates is as follows:

	Years Ended December 31,					
	2018		2017		2016	
Federal statutory taxes	21.0 %		34.0 %		34.0 %	
State income taxes, net of federal tax benefit	4.0 %		7.3 %		1.3 %	
Foreign taxes less than the domestic rate	0.0 %		(1.0 %)		(0.2 %)	
Permanent differences	(2.9 %)		32.3 %		(0.5 %)	
Stock compensation benefits	8.8 %		15.3 %		0.0 %	
Nondeductible acquisition costs	0.0 %		0.0 %		(20.0 %)	
Change in valuation allowance	(15.3 %)		(109.7 %)		(14.8 %)	
Changes in rates and other true-ups	(1.7 %)		55.0 %		0.3 %	
Other	0.1 %		(0.1 %)		(0.1 %)	
	14.0 %		33.1 %		0.0 %	

Deferred income taxes are recorded based upon differences between the financial reporting and income tax basis of assets and liabilities. The following deferred income taxes are recorded at December 31:

	2018	2017
Deferred tax assets:		
Federal net operating loss carryforward	\$ 53,484	\$ 52,142
State loss carryforward	8,047	8,245
Goodwill	10,159	11,394
Interest expense carryforward	3,095	–
Stock-based compensation	2,629	4,053
Allowance for doubtful accounts	425	368
Accrued expenses	117	14
Inventory	34	23
Other	1,642	2,497
Total gross deferred tax assets	79,632	78,736
Deferred tax liabilities:		
Fixed assets	(7,374)	(8,972)
Intangible assets	(1,521)	(16,832)
Total gross deferred tax liabilities	(8,895)	(25,804)
Valuation allowance	(70,737)	(61,387)
Total deferred liability, net	\$ –	\$ (8,455)

Table of Contents

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion of the deferred tax assets will be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, available taxes in the carryback periods, projected future taxable income and tax planning strategies in making this assessment. Accordingly, we have provided a full valuation allowance of \$70,737 and \$61,387 to offset the net deferred tax assets at December 31, 2018 and 2017, respectfully. The \$9,350 net increase in the valuation allowance for 2018 primarily reflects the tax effects of the impairment charge of the Glacier trade name. The \$17,407 net decrease in the valuation allowance for 2017 primarily reflects the change in the federal corporate tax rate due to the 2017 Tax Act.

We have approximately \$254,686 in U.S. federal net operating loss carryforwards that expire between 2019 through 2038, approximately \$12,480 in Canadian federal and provincial net operating loss carryforwards that expire between 2027 through 2037 and approximately \$169,764 in state loss carryforwards that expire between 2019 through 2038. Section 382 of the U.S. Internal Revenue Code imposes an annual limitation on the amount of net operating loss carryforwards that can be used to offset taxable income when a corporation has undergone significant changes in stock ownership. We believe that an annual limit will be imposed by Section 382 on our net operating loss carryforwards, however, should taxable income be generated in future years, we expect to be able to utilize our net operating loss carryforwards during their respective carryforward periods.

We have no unrecognized tax benefits and there are no uncertain tax positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will significantly increase within the next 12 months. Substantially all tax years remain open by federal, state and foreign tax jurisdictions.

13. Fair Value Measurements

Fair value rules currently apply to all financial assets and liabilities and for certain nonfinancial assets and liabilities that are required to be recognized or disclosed at fair value. For this purpose, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs.

U.S. GAAP establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include:

• Level 1 — quoted prices in active markets for identical assets and liabilities.

Level 2 — observable inputs other than quoted prices in active markets for identical assets and liabilities.

Level 3 — unobservable inputs in which there is little or no market data available, which require the reporting entity to develop its own assumptions.

Table of Contents

At December 31, 2018 and 2017, we held financial assets and liabilities that are required to be measured at fair value on a recurring basis. The financial assets and liabilities held by the Company and the fair value hierarchy used to determine their fair values are as follows:

	December 31, 2018			
	Fair Value	Level 1	Level 2	Level 3
Assets:				
Assets held-for-sale at fair value	\$5,288	\$ –	\$ –	\$5,288
Total assets	\$5,288	\$ –	\$ –	\$5,288
Liabilities:				
Liabilities held-for-sale at fair value	\$1,438	\$ –	\$ –	\$1,438
Total liabilities	\$1,438	\$ –	\$ –	\$1,438

	December 31, 2017			
	Fair Value	Level 1	Level 2	Level 3
Assets:				
Investment in Glacier securities	\$3,881	\$ –	\$3,881	\$–
Total assets	\$3,881	\$ –	\$3,881	\$–
Liabilities:				
Contingent consideration	1,464	–	–	1,464
Total liabilities	\$1,464	\$ –	\$–	\$1,464

The carrying amounts of cash and cash equivalents, accounts receivable, net, accounts payable, and accrued expenses and other current liabilities, approximate their fair values due to their short maturities. Other long-term liabilities on our consolidated balance sheets are presented at their carrying value, which approximates their fair value. Based on borrowing rates currently available to us for loans with similar terms and the variable interest rate for borrowings under our SunTrust Credit Facility, the carrying value of debt and capital leases approximates fair value.

The following table provides a rollforward of the Company's Level 3 fair value measurements:

	Assets Held-For-Sale	Contingent Consideration	Liabilities Held-For-Sale
Balance at December 31, 2017	\$ –	\$ 1,464	\$ –
Change in fair value	–	(26)	–

Edgar Filing: Primo Water Corp - Form 10-K

Reclassification to assets held-for-sale at fair value	9,874	–	–
Reclassification to liabilities held-for-sale at fair value	–	(1,438)	1,438
Impairment of assets held-for-sale	(4,586)) –	–
Balance at December 31, 2018	\$ 5,288	\$ –	\$ 1,438

During the third quarter of 2018, the sale of the Ice Assets was deemed probable to take place within one year, and therefore were reclassified to assets and liabilities held-for-sale as described in Note 2 – Impairment Charges and Other. As a result, during the third quarter of 2018, we recorded a pre-tax, non-cash asset impairment charge of \$4,586 related to the assets held-for-sale, consisting of \$3,786 related to property and equipment and \$800 related to goodwill allocated to the Ice Assets. The impairment charge reduced the carrying value of the Ice Assets to their estimated fair value less costs to sell. The fair value was determined based on the price that would be received to sell the asset or transfer the liabilities between market participants.

The following table presents the nonrecurring fair value measurements recorded during the year ended December 31, 2018. There were no material nonrecurring fair value measurements recorded in the years ended December 31, 2017 or 2016.

	Year Ended December 31, 2018			Impairment Charge
	Level 1	Level 2	Level 3	
Glacier trade name	\$–	\$ –	\$2,150	\$ 60,750
Property and equipment	\$–	\$ –	\$529	\$ 2,405

Table of Contents

During the year ended December 31, 2018, as a result of the Re-branding Strategy, we recorded a pre-tax, non-cash intangible asset impairment charge of \$60,750 to reduce the carrying value of the discontinued indefinite-lived Glacier trade name to its estimated fair value of \$2,150 which was then determined to have a finite life as described in Note 2 – Impairment Charges and Other. The fair value of the Glacier trade name was estimated based on the future cash flows expected to be generated under the trade name prior to its complete phase-out.

In addition, as a result of the Re-branding Strategy, during the year ended December 31, 2018, certain property and equipment associated with Glacier-branded Refill equipment having an aggregate carrying value of \$2,934 was written down to their estimated fair values of \$529, resulting in an pre-tax, non-cash impairment charge of \$2,405 as described in Note 2 – Impairment Charges and Other. The fair value was estimated based on the undiscounted cash flows expected to be produced by the property and equipment.

The impairment charges discussed above are recorded in impairment charges and other on the consolidated statements of operations.

14. Earnings (Loss) Per Share

The following table sets forth the calculations of basic and diluted (loss) earnings per share:

	Years ended December 31,		
	2018	2017	2016
Basic:			
Loss from continuing operations	\$(54,847)	\$(6,359)	\$(5,898)
Loss from discontinued operations	–	–	(48)
Net loss	\$(54,847)	\$(6,359)	\$(5,946)
Weighted average shares	37,418	33,258	28,456
Basic loss per share from continuing operations	\$(1.47)	\$(0.19)	\$(0.21)
Basic loss per share from discontinued operations	–	–	–
Basic loss per share	\$(1.47)	\$(0.19)	\$(0.21)
Diluted:			
Loss from continuing operations	\$(54,847)	\$(6,359)	\$(5,898)
Loss from discontinued operations	–	–	(48)
Net loss	\$(54,847)	\$(6,359)	\$(5,946)
Weighted average shares	37,418	33,258	28,456

Edgar Filing: Primo Water Corp - Form 10-K

Potential shares arising from stock options, restricted stock and warrants	–	–	–
Weighted average shares - diluted	37,418	33,258	28,456
Diluted loss per share from continuing operations	\$(1.47)	\$(0.19)	\$(0.21)
Diluted loss per share from discontinued operations	–	–	–
Diluted loss per share	\$(1.47)	\$(0.19)	\$(0.21)

For the years ended December 31, 2018, 2017 and 2016, stock options, unvested shares of restricted stock, restricted stock units and warrants with respect to an aggregate of 3,335, 4,365 and 3,070 shares have been excluded from the computation of the number of shares used in the diluted loss per share, respectively. These shares have been excluded because we incurred a net loss for each of these periods and their inclusion would be anti-dilutive.

Table of Contents

15. Segments

We have three operating and reportable segments, Primo Refill (“Refill”), Primo Exchange (“Exchange”), and Primo Dispensers (“*Dispensers*”).

Our Refill segment sales consists of the sale of filtered drinking water dispensed directly to consumers through technologically advanced, self-service machines located at major retailers throughout the United States and Canada.

Our Exchange segment sales consist of the sale of multi-gallon purified bottled water offered through retailers in the United States and Canada. Our Exchange products are offered through point of purchase display racks and recycling centers that are prominently located at major retailers in space that is often underutilized.

Our Dispensers segment sells water dispensers that are designed to dispense Primo and other dispenser-compatible bottled water. Our Dispensers sales are primarily generated through major retailers in the United States and Canada, where we recognize revenues for the sale of the water dispensers when the customer obtains control. We support retail sell-through with domestic inventory.

We evaluate the financial results of these segments focusing primarily on segment net sales and segment (loss) income from operations before depreciation and amortization (“segment (loss) income from operations”). We utilize segment net sales and segment (loss) income from operations because we believe they provide useful information for effectively allocating our resources between business segments, evaluating the health of our business segments based on metrics that management can actively influence and gauging our investments and our ability to service, incur or pay down debt.

Cost of sales for Refill consists primarily of costs associated with routine maintenance of reverse osmosis water filtration systems and filtered water displays, costs of our field service operations and commissions paid to retailers associated with revenues earned. Cost of sales for Exchange consists primarily of costs for bottling, distribution and bottles. Cost of sales for Dispensers consists primarily of contract manufacturing, freight and duties.

Selling, general and administrative expenses for Refill, Exchange, and Dispensers consist primarily of personnel costs for operations support as well as other supporting costs for operating each segment.

Expenses not specifically related to operating segments are shown separately as Corporate. Corporate expenses are comprised mainly of compensation and other related expenses for corporate support and administration. Corporate expenses also include certain professional fees and expenses and compensation of our Board of Directors.

Table of Contents

The following table presents segment information for each of the last three years:

	Years ended December 31,		
	2018	2017	2016
Segment net sales			
Refill	\$174,996	\$173,241	\$33,730
Exchange	78,072	72,101	68,850
Dispensers	49,044	40,732	39,961
	\$302,112	\$286,074	\$142,541
Segment (loss) income from operations			
Refill	\$51,135	\$47,146	\$14,596
Exchange	22,663	21,434	20,506
Dispensers	3,710	3,469	3,097
Corporate	(26,124)	(23,554)	(22,271)
Special items	(762)	(7,860)	(4,753)
Depreciation and amortization	(24,562)	(26,698)	(10,541)
Impairment charges and other	(68,397)	99	(749)
	\$(42,337)	\$14,036	\$(115)
Depreciation and amortization expense:			
Refill	\$16,912	\$20,229	\$5,160
Exchange	6,821	5,731	4,851
Dispensers	188	186	157
Corporate	641	552	373
	\$24,562	\$26,698	\$10,541
Capital expenditures:			
Refill	\$13,331	\$11,765	\$5,884
Exchange	8,692	8,009	5,936
Dispensers	94	158	146
Corporate	1,381	668	554
	\$23,498	\$20,600	\$12,520

Identifiable assets:	At December 31,	
	2018	2017
Refill	\$268,427	\$343,513
Exchange	24,444	23,296
Dispensers	20,523	12,486
Corporate	6,734	4,458
	\$320,128	\$383,753

Edgar Filing: Primo Water Corp - Form 10-K

For the years ended December 31, 2018, 2017 and 2016, our U.S. operations represented 97.2%, 97.2%, and 95.5%, respectively, of our total net sales, and Canadian operations represented 2.8%, 2.8% and 4.5%, respectively, of our total net sales. At December 31, 2018 and 2017, 96.8% and 96.3%, respectively, of property and equipment, net, on our consolidated balance sheets related to our U.S. operations, and 3.2% and 3.7%, respectively, of property and equipment, net, on our consolidated balance sheets related to our Canadian operations.

As of December 31, 2018 and 2017, we had goodwill of \$91,814 and \$92,934, respectively, as a result of the Acquisition. All goodwill is reported within our Refill segment. In the year ended December 31, 2018, we recorded pre-tax, non-cash asset impairment charges totaling of \$67,741 related to the Refill segment as described in Note 2 – Impairment Charges and Other.

Table of Contents**16. Supplemental Cash Flow Information**

	Years ended December 31,		
	2018	2017	2016
Cash paid for interest	\$19,398	\$20,064	\$5,317
Noncash investing and financing activities:			
Assets acquired under capital leases	\$1,290	\$1,314	\$523
Accrued capital expenditures	\$945	\$425	\$415
Warrants issued in connection with Glacier acquisition	\$-	\$-	\$8,420
Common stock issued in connection with Glacier acquisition	\$-	\$-	\$36,767

17. Employee Retirement Savings Plan

We sponsor a defined contribution plan that covers substantially all full-time employees who are at least 18 years of age and who have completed at least one month of service. Plan participants may make before tax elective contributions up to the maximum percentage of compensation and dollar amount allowed under the Internal Revenue Code. Plan participants are 100% vested in their elective contributions at all times and are vested 25% per year of service for four years in our discretionary contributions. A year of service for vesting purposes is 1,000 hours of service in a plan year. Our Board of Directors established a company match of up to 50% of the employee contributions up to 6% of their salaries, with 50% of the matching amount to be determined by our Board of Directors. Contribution expense for the plan was \$510, \$600 and \$208 for 2018, 2017 and 2016, respectively.

Table of Contents**18. Selected Quarterly Financial Information (Unaudited)**

The following table presents the quarterly operating results for 2018 and 2017:

	Quarter ended			
	March 31,	June 30,	September 30,	December 31,
2018:				
Net sales	\$73,659	\$75,802	\$ 81,770	\$ 70,881
Total operating costs and expenses	68,888	68,964	139,954	66,643
Income (loss) from operations	4,771	6,838	(58,184)	4,238
Net income (loss)	\$1,210	\$451	\$ (58,238)	\$ 1,730
Basic earnings (loss) per common share:				
Income (loss) from continuing operations	\$0.04	\$0.01	\$ (1.45)	\$ 0.04
Loss from discontinued operations	-	-	-	-
Net income (loss)	\$0.04	\$0.01	\$ (1.45)	\$ 0.04
Diluted earnings (loss) per common share:				
Income (loss) from continuing operations	\$0.04	\$0.01	\$ (1.45)	\$ 0.04
Loss from discontinued operations	-	-	-	-
Net income (loss)	\$0.04	\$0.01	\$ (1.45)	\$ 0.04
	Quarter ended			
	March 31,	June 30,	September 30,	December 31,
2017:				
Net sales	\$60,737	\$74,817	\$ 82,207	\$ 68,312
Total operating costs and expenses	64,191	72,084	71,656	64,106
(Loss) income from operations	(3,454)	2,733	10,551	4,206
Net (loss) income	\$(11,862)	\$(2,475)	\$ 4,947	\$ 3,031
Basic (loss) earnings per common share:				
(Loss) income from continuing operations	\$(0.37)	\$(0.07)	\$ 0.15	\$ 0.09
Loss from discontinued operations	-	-	-	-
Net (loss) income	\$(0.37)	\$(0.07)	\$ 0.15	\$ 0.09
Diluted (loss) earnings per common share:				
(Loss) income from continuing operations	\$(0.37)	\$(0.07)	\$ 0.14	\$ 0.09
Loss from discontinued operations	-	-	-	-
Net (loss) income	\$(0.37)	\$(0.07)	\$ 0.14	\$ 0.09

The amounts presented in the table above are computed independently for each quarter. As a result, their sum may not equal the total year amounts.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this report, an evaluation was performed under the supervision and with the participation of our management, including the chief executive officer (“CEO”), and chief financial officer (“CFO”), of the effectiveness of the design and operation of our “disclosure controls and procedures” (as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934 (the “Exchange Act”)) pursuant to Rule 13a-15(b) of the Exchange Act. Based on that evaluation, our management, including the CEO and CFO, concluded that our disclosure controls and procedures are effective for the purpose of providing reasonable assurance that the information required to be disclosed in the reports we file or submit under the Exchange Act (i) is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms and (ii) is accumulated and communicated to our management, including our CEO and CFO, as appropriate to allow timely decisions regarding required disclosures.

Table of Contents

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Management's Annual Report on Internal Control over Financial Reporting

Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2018. See page 54 for “Management’s Report on Internal Control over Financial Reporting.”

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

For information with respect to the executive officers of Primo, see the “Executive Officers”, “Executive Compensation”, “Compensation Discussion and Analysis” and “Executive Compensation Tables” sections of the Proxy Statement for the 2019 Annual Meeting of Stockholders, which are incorporated herein by reference. For information with respect to the Directors of Primo, see the “Proposal 1 – Election of Directors” and “Nominees for Director and Continuing Directors” sections of the Proxy Statement for the 2019 Annual Meeting of Stockholders, which is incorporated herein by reference. For information with respect to Section 16 reports, see the “Additional Information About Directors and Executive Officers” section of the Proxy Statement for the 2019 Annual Meeting of Stockholders, which is incorporated herein by reference. For information with respect to the Audit Committee of the Board of Directors, see the “Corporate Governance — Board Committees” section of the Proxy Statement for the 2019 Annual Meeting of Stockholders, which is incorporated herein by reference.

We have adopted a Code of Business Conduct and Ethics, which is intended to qualify as a “code of ethics” within the meaning of Item 406 of Regulation S-K of the Exchange Act. This code applies to all of the directors, officers and employees of Primo and its subsidiaries. A copy of our Code of Business Conduct and Ethics is available on our corporate website (www.primowater.com). We expect that any amendments to the code, or any waivers of its requirements, will be disclosed on our website.

Item 11. Executive Compensation

For information with respect to executive and director compensation, see the “Proposal 1 – Election of Directors”; “Corporate Governance”, “Executive Officers,” “Director Compensation”, “Executive Compensation”, “Compensation Discussion and Analysis”, “Executive Compensation Tables”, “Employment Agreements and Change of Control Agreements” and “Additional Information About Directors and Executive Officers” sections of the Proxy Statement for the 2019 Annual Meeting of Stockholders, which are incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

For information with respect to security ownership of certain beneficial owners and management, see the “Principal Stockholders” section of the Proxy Statement for the 2019 Annual Meeting of Stockholders, which is incorporated herein by reference. For information with respect to securities authorized for issuance under equity compensation plans, see the “Equity Compensation Plan Information” section of the Proxy Statement for the 2019 Annual Meeting of Stockholders, which is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence

For information with respect to certain relationships and related transactions, see the “Related Persons Transactions” section of the Proxy Statement for the 2019 Annual Meeting of Stockholders, which is incorporated herein by reference. For certain information with respect to director independence, see the disclosures in the “Corporate Governance” section of the Proxy Statement for the 2019 Annual Meeting of Stockholders, which is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services

For information with respect to principal accountant fees and services, see “Proposal 5: Ratification of Appointment of Independent Registered Public Accounting Firm” section of the Proxy Statement for the 2019 Annual Meeting of Stockholders, which is incorporated herein by reference.

Table of Contents

PART IV

Item 15. Exhibits and Financial Statement Schedules

a) Financial Information

Financial Statements: See “Index to Consolidated Financial Statements” in Part II, Item 8 of this
(1) Form 10-K.

(2) Financial Statement Schedule: Information required by this item is included within the consolidated financial statements

(3) Exhibits

See (b) below.

b) Exhibits

See Exhibit Index on page 95.

Item 16. Form 10-K Summary

Not applicable.

Table of Contents**EXHIBIT INDEX**

Exhibit Number	Description
2.1	<u>Agreement and Plan of Merger, dated as of October 9, 2016, by and among Primo Water Corporation, Primo Subsidiary Inc., Glacier Water Services, Inc. and David Shladovsky, as stockholder representative (incorporated by reference to Exhibit 2.1 the Company's Current Report on Form 8-K filed on October 11, 2016)</u>
2.2	<u>Agreement and Plan of Merger, dated May 18, 2017, by and among Primo Water Corporation, Primo Water Operations, Inc., and New PW Merger Sub, Inc. (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed on May 19, 2017)</u>
3.1	<u>Amended and Restated Certificate of Incorporation of Primo Water Corporation (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed on May 19, 2017)</u>
3.2	<u>Certificate of Amendment to Amended and Restated Certificate of Incorporation of Primo Water Corporation (incorporated by reference to Post-Effective Amendment No. 1 to the Registrant's Registration Statement on Form S-3 (File No. 333-200016) filed on May 19, 2017)</u>
3.3	<u>Bylaws of Primo Water Corporation (incorporated by reference to Exhibit 3.3 to the Registrant's Quarterly Report on Form 10-Q filed on August 9, 2017)</u>
4.1	<u>Specimen Certificate representing shares of common stock of Primo Water Corporation (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed on May 19, 2017)</u>
4.2	<u>Amendment to Sixth Amended and Restated Certificate of Incorporation of Primo Water Operations, Inc. (contained in Certificate of Merger) (incorporated by reference to Exhibit 4.2 to the Registrant's Current Report on Form 8-K filed on May 19, 2017)</u>
4.3	<u>Form of Indenture relating to the issuance from time to time in one or more series of debentures, notes, bonds or other evidences of indebtedness (incorporated by reference to Exhibit 4.7 to the Company's Registration Statement on Form S-3 (File No. 333-221938) filed on December 7, 2017)</u>
4.4	<u>Form of Warrant Agreement between Primo Water Corporation and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-4 (File No. 333-214200) filed on October 24, 2016)</u>
4.5	<u>Amendment No. 1 to Warrant Agreement, dated as of March 13, 2017, by and between Primo Water Corporation and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 4.2 to the Company's Quarterly Report on Form 10-Q filed on May 10, 2017)</u>
10.1	<u>Form of Subordinated Convertible Debt – Common Stock Purchase Warrant, dated as of December 30, 2009 (incorporated by reference to Exhibit 10.9 to Amendment No. 1 to the Company's Registration Statement on Form S-1 (Registration No. 333-165452) filed April 26, 2010)</u>
10.2	<u>2004 Stock Plan (incorporated by reference to Exhibit 10.15 to Amendment No. 1 to the Company's Registration Statement on Form S-1 (Registration No. 333-165452) filed April 26, 2010)*</u>
10.3	<u>2010 Omnibus Long-Term Incentive Plan ("2010 Omnibus Plan") (incorporated by reference to Exhibit 10.16 to Amendment No. 1 to the Company's Registration Statement on Form S-1 (Registration No. 333-165452) filed April 26, 2010)*</u>
10.4	<u>Form of Option Agreement under 2010 Omnibus Plan (incorporated by reference to Exhibit 10.17 to Amendment No. 1 to the Company's Registration Statement on Form S-1 (Registration No. 333-165452) filed April 26, 2010)*</u>
10.5	

Form of Restricted Stock Award Agreement under 2010 Omnibus Plan (incorporated by reference to Exhibit 10.18 to Amendment No. 1 to the Company's Registration Statement on Form S-1 (Registration No. 333-165452) filed April 26, 2010)*

10.6 2010 Employee Stock Purchase Plan (incorporated by reference to Exhibit 10.19 to Amendment No. 1 to the Company's Registration Statement on Form S-1 (Registration No. 333-165452) filed April 26, 2010)*

10.7 Form of Indemnification Agreement for Directors (incorporated by reference to Exhibit 10.26 to Amendment No. 1 to the Company's Registration Statement on Form S-1 (Registration No. 333-165452) filed April 26, 2010)*

97

Table of Contents

- 10.8 Form of Amended and Restated Series B Common Stock Purchase Warrant (incorporated by reference to Exhibit 10.43 to Amendment No. 7 to the Company’s Registration Statement on Form S-1 (Registration No. 333-165452) filed October 6, 2010)
- 10.9 Form of Amended and Restated Series C Common Stock Purchase Warrant (incorporated by reference to Exhibit 10.44 to Amendment No. 7 to the Company’s Registration Statement on Form S-1 (Registration No. 333-165452) filed October 6, 2010)
- 10.10 Asset Purchase Agreement dated March 8, 2011 by and among the Company, Omnifrio Beverage Company, LLC and the other parties thereto (incorporated by reference to Exhibit 10.4 to the Company’s Current Report on Form 8-K filed March 9, 2011)
- 10.11 Form of Restricted Stock Unit Award Agreement under 2010 Omnibus Plan (incorporated by reference to Exhibit 10.30 to the Company’s Annual Report on Form 10-K filed March 30, 2011)*
- 10.12 Form of Warrant to Purchase Common Stock dated as of April 30, 2012 (incorporated by reference to Exhibit 10.4 to the Company’s Current Report on Form 8-K filed May 2, 2012)
- 10.13 Registration Rights Agreement dated as of April 30, 2012 by and among the Company and certain holders of warrants issued by the Company on April 30, 2012 (incorporated by reference to Exhibit 10.5 to the Company’s Current Report on Form 8-K filed May 2, 2012)
- 10.14 Amended and Restated 2010 Omnibus Long-Term Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company’s Current Report on Form 8-K filed May 17, 2012) *
- 10.15 Amendment No. 1 to 2010 Employee Stock Purchase Plan (incorporated by reference to Exhibit 10.2 to the Company’s Current Report on Form 8-K filed May 17, 2012) *
- 10.16 First Amendment to Warrant dated as of November 6, 2012 by and between the Company and Comvest Capital II, L.P. (incorporated by reference to Exhibit 10.2 to the Company’s Quarterly Report on Form 10-Q filed November 8, 2012)
- 10.17 Primo Water Corporation 2013 Annual Incentive Plan (incorporated by reference to Exhibit 10.2 to the Company’s Quarterly Report on Form 10-Q filed August 14, 2013)*
- 10.18 Amended and Restated Employment Agreement dated as of June 10, 2013 between the Company and Billy D. Prim (incorporated by reference to Exhibit 10.3 to the Company’s Current Report on Form 8-K filed June 14, 2013)*
- 10.19 Employment Agreement dated as of June 10, 2013 between the Company and Matthew T Sheehan (incorporated by reference to Exhibit 10.2 to the Company’s Current Report on Form 8-K filed June 14, 2013)*
- 10.20 Strategic Alliance Agreement dated as of November 12, 2013 by and between the Company and DS Waters of America, Inc. (incorporated by reference to Exhibit 10.1 to the Company’s Quarterly Report on Form 10-Q filed November 14, 2013)
- 10.21 Warrant dated as of January 1, 2014 by and between the Company and DS Waters of America, Inc. (incorporated by reference to Exhibit 10.34 to the Company’s Annual Report Form 10-K filed March 17, 2014)
- 10.22 Primo Water Corporation Annual Incentive Plan (incorporated by reference to Exhibit 10.38 to the Company’s Annual Report Form 10-K filed March 17, 2014)*
- 10.23 Amendment No. 1 to Primo Water Corporation 2010 Omnibus Long-Term Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company’s Current Report on Form 8-K filed May 5, 2015)*
- 10.24 Primo Water Corporation Executive Deferred Compensation Plan (incorporated by reference to Exhibit 10.1 to the Company’s Current Report on Form 8-K filed on July 2, 2015)*
- 10.25 Primo Water Corporation Amended and Restated Value Creation Plan (incorporated by reference to Exhibit 10.1 to the Company’s Quarterly Report on Form 10-Q filed on May 4, 2016)*
- 10.26 2016 Amendment to Employment Agreement, dated as of October 31, 2016, by and between Primo Water Corporation and Billy Prim (incorporated by reference to Exhibit 10.1 to the Company’s Quarterly Report on Form 10-Q filed on November 2, 2016)*

Table of Contents

10.27	<u>2016 Amendment to Employment Agreement, dated as of October 31, 2016, by and between Primo Water Corporation and Matthew Sheehan (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q filed on November 2, 2016)*</u>
10.28	<u>Amendment No. 2 to Primo Water Corporation Amended and Restated 2010 Omnibus Long-Term Incentive Plan (incorporated by reference to Appendix A to the Definitive Proxy Statement for the Company's 2017 Annual Meeting of Stockholders filed on March 29, 2017)*</u>
10.29	<u>Amendment No. 2 to Primo Water Corporation 2010 Employee Stock Purchase Plan (incorporated by reference to Appendix B to the Definitive Proxy Statement for the Company's 2017 Annual Meeting of Stockholders filed on March 29, 2017)*</u>
10.30	<u>Primo Water Corporation Long-Term Performance Plan (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed on May 10, 2017)*</u>
10.31	<u>Primo Water Corporation Amended and Restated Executive Deferred Compensation Plan (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q filed on May 10, 2017)*</u>
10.32	<u>Amendment No. 1 to Strategic Alliance Agreement, dated as of March 13, 2017, by and between Primo Water Corporation and DS Services of America, Inc. (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q filed on May 10, 2017)</u>
10.33	<u>Compensation Plan and Warrant Assignment Agreement, dated May 18, 2017, by and between Primo Water Corporation and Primo Water Operations, Inc. (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on May 19, 2017)*</u>
10.34	<u>Amendment No. 2 to Strategic Alliance Agreement, dated as of December 21, 2017, by and between Primo Water Corporation and DS Services of America, Inc. (incorporated by reference to Exhibit 10.41 to the Company's Annual Report on Form 10-K filed on March 7, 2018)</u>
10.35	<u>Employment Agreement, dated as of March 6, 2018, by and between Primo Water Corporation and David J. Mills (incorporated by reference to Exhibit 10.43 to the Company's Annual Report on Form 10-K filed on March 7, 2018)*</u>
10.36	<u>Credit Agreement, by and among Primo Water Corporation, as Borrower, the subsidiaries of Primo Water Corporation, each as a guarantor, the lenders from time to time party thereto, BMO Harris Bank N.A. and U.S. Bank, National Association, as Co-Syndication Agents, JP Morgan Chase Bank, N.A., HSBC Bank USA, National Association and Fifth Third Bank, as Co-Documentation Agents, and SunTrust Bank, as Administrative Agent, Swingline Lender and Issuing Bank, with BMO Capital Markets Corp., U.S. Bank, National Association, JPMorgan Chase Bank, N.A. and SunTrust Robinson Humphrey, Inc. as Joint Lead Arrangers and Bookrunners (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on June 25, 2018)</u>
10.37	<u>Amended and Restated Non-Employee Director Compensation Policy, effective February 28, 2018 (filed herewith)*</u>
16.1	<u>Letter of McGladrey LLP dated August 28, 2015 (incorporated by reference to Exhibit 16.1 to the Company's Current Report on Form 8-K filed on August 28, 2015)</u>
21.1	<u>List of subsidiaries of Primo Water Corporation (filed herewith)</u>
23.1	<u>Consent of BDO USA, LLP (filed herewith)</u>
31.1	<u>Certification of Periodic Report by Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14a and pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)</u>
31.2	<u>Certification of Periodic Report by Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14a and pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)</u>
32.1	<u>Certification of Periodic Report by Chief Executive Officer and Chief Financial Officer pursuant to U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith)</u>
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document

101.DEF XBRL Taxonomy Extension Definition Linkbase Document

101.LAB XBRL Taxonomy Extension Label Linkbase Document

101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

*Indicates management contract or compensatory plan or arrangement.

Confidential treatment has been granted with respect to portions of this exhibit, indicated by asterisks, which have
t been filed separately with the Securities and Exchange Commission.

Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Annual Report to be signed on its behalf by the undersigned, thereunto duly authorized.

PRIMO WATER CORPORATION

Dated: March 6, 2019 By: /s/ Matthew T. Sheehan
 Matthew T. Sheehan
 President & Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this Annual Report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Capacity</u>	<u>Date</u>
/s/ Billy D. Prim Billy D. Prim	Executive Chairman of the Board of Directors	March 6, 2019
/s/ Matthew T. Sheehan Matthew T. Sheehan	President & Chief Executive Officer (Principal Executive Officer)	March 6, 2019
/s/ David J. Mills David J. Mills	Chief Financial Officer (Principal Financial Officer)	March 6, 2019
/s/ Michael L. Cauthen Michael L. Cauthen	Vice President of Finance (Principal Accounting Officer)	March 6, 2019
/s/ Emma S. Battle Emma S. Battle	Director	March 6, 2019
/s/ Richard A. Brenner Richard A. Brenner	Director	March 6, 2019

Edgar Filing: Primo Water Corp - Form 10-K

/s/ Susan E. Cates Director March 6, 2019
Susan E. Cates

/s/ Jack C. Kilgore Director March 6, 2019
Jack C. Kilgore

/s/ Malcolm McQuilkin Director March 6, 2019
Malcolm McQuilkin

/s/ Charles A. Norris Director March 6, 2019
Charles A. Norris

/s/ David L. Warnock Director March 6, 2019
David L. Warnock