Primo Water Corp
Form 10-Q
May 06, 2015

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

FORM 10-Q
(Mark One)
QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2015
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	30-0278688
(State of incorporation)	(I.R.S. Employer Identification No.)

104 Cambridge Plaza Drive, Winston-Salem, NC 27104
(Address of principal executive office) (Zip code)

(336) 331-4000

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	Accelerated filer
Non-accelerated filer (Do not check if smaller reporting company)	Smaller reporting company

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

As of May 1, 2015, there were 24,901,740 shares of our Common Stock, par value $0.001 per share, outstanding.

PRIMO WATER CORPORATION
FORM 10-Q
FOR THE THREE MONTHS ENDED MARCH 31, 2015

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

PRIMO WATER CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except par value information)

	March 31, 2015 (unaudited)	December 31, 2014
ASSETS		
Current assets:		
Cash	$787	$495
Accounts receivable, net	10,717	9,010
Inventories	5,844	6,826
Prepaid expenses and other current assets	1,560	1,279
Total current assets	18,908	17,610
Bottles, net	3,681	3,574
Property and equipment, net	33,747	34,235
Intangible assets, net	8,966	9,452
Other assets	840	877
Total assets	$66,142	$65,748
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$12,557	$12,499
Accrued expenses and other current liabilities	4,205	4,343
Current portion of capital leases and notes payable	105	106
Total current liabilities	16,867	16,948
Long-term debt, capital leases and notes payable, net of current portion	24,883	24,210
Liabilities of disposal group, net of current portion, and other long-term liabilities	2,305	2,316
Total liabilities	44,055	43,474
Commitments and contingencies		
Stockholders’ equity:		
Preferred stock, $0.001 par value - 10,000 shares authorized, none issued and outstanding	–	–
Common stock, $0.001 par value - 70,000 shares authorized, 24,825 and 24,642 shares issued and outstanding at March 31, 2015 and December 31, 2014, respectively	25	25
Additional paid-in capital	278,260	277,708
Common stock warrants	8,475	8,659
Accumulated deficit	(263,541)	(263,304)
Accumulated other comprehensive loss	(1,132)	(814)
Total stockholders’ equity	22,087	22,274
Total liabilities and stockholders’ equity	$66,142	$65,748

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

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PRIMO WATER CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(In thousands, except per share amounts)

	Three months ended March 31,	
	2015	2014
Net sales	$29,213	$23,528
Operating costs and expenses:		
Cost of sales	21,557	17,342
Selling, general and administrative expenses	4,665	3,841
Non-recurring costs	22	1,825
Depreciation and amortization	2,585	2,744
Loss on disposal and impairment of property and equipment	64	134
Total operating costs and expenses	28,893	25,886
Income (loss) from operations	320	(2,358)
Interest expense	519	1,276
Loss from continuing operations	(199)	(3,634)
Loss from discontinued operations	(38)	(119)
Net loss	$(237)	$(3,753)
Basic and diluted loss per common share:		
Loss from continuing operations	$(0.01)	$(0.15)
Loss from discontinued operations	(0.00)	(0.01)
Net loss	$(0.01)	$(0.16)
Basic and diluted weighted average common shares outstanding	24,683	24,076

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

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PRIMO WATER CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(Unaudited)
(In thousands)

	Three months ended March 31,	
	2015	2014
Net loss	$(237)	$(3,753)
Other comprehensive loss:		
Foreign currency translation adjustments, net	(318)	(167)
Comprehensive loss	$(555)	$(3,920)

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

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PRIMO WATER CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(In thousands)

	Three months ended March 31,	
	2015	2014
Cash flows from operating activities:		
Net loss	$(237)	$(3,753)
Less: Loss from discontinued operations	(38)	(119)
Loss from continuing operations	(199)	(3,634)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	2,585	2,744
Loss on disposal and impairment of property and equipment	64	134
Stock-based compensation expense	635	289
Non-cash interest expense	28	306
Issuance of common stock warrant	–	589
Other	195	(50)
Changes in operating assets and liabilities:		
Accounts receivable	(1,861)	(86)
Inventories	974	321
Prepaid expenses and other assets	(284)	(276)
Accounts payable	101	3,946
Accrued expenses and other liabilities	(355)	164
Net cash provided by operating activities	1,883	4,447
Cash flows from investing activities:		
Purchases of property and equipment	(1,474)	(1,501)
Purchases of bottles, net of disposals	(706)	(1,202)
Proceeds from the sale of property and equipment	5	41
Additions to and acquisitions of intangible assets	(3)	(7)
Net cash used in investing activities	(2,178)	(2,669)
Cash flows from financing activities:		
Borrowings under Revolving Credit Facilities	7,500	18,809
Payments under Revolving Credit Facilities	(6,800)	(21,955)
Borrowings under Term loans	–	2,500
Note payable and capital lease payments	(27)	(26)
Stock option and employee stock purchase activity, net	27	(14)
Debt issuance costs and other	(6)	(78)
Net cash provided by (used in) financing activities	694	(764)
Cash used in operating activities of discontinued operations	(56)	(96)
Effect of exchange rate changes on cash	(51)	(16)
Net increase in cash	292	902
Cash, beginning of year	495	394
Cash, end of period	$787	$1,296

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

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PRIMO WATER CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(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") is a leading provider of multi-gallon purified bottled water, self-service refill water and water dispensers sold through major retailers in the United States and Canada.

Unaudited Interim Financial Information

The accompanying interim condensed consolidated financial statements have been prepared in accordance with our accounting practices described in our audited consolidated financial statements as of and for the year ended December 31, 2014, and are unaudited. In the opinion of management, the unaudited interim condensed consolidated financial statements included herein contain all adjustments necessary to present fairly our financial position, results of operations and cash flows for the periods indicated. Such adjustments, other than nonrecurring adjustments that have been separately disclosed, are of a normal, recurring nature. The operating results for interim periods are not necessarily indicative of results to be expected for a full year or future interim periods. The unaudited interim condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and accompanying notes as of and for the year ended December 31, 2014. The accompanying interim condensed consolidated financial statements are presented in accordance with the rules and regulations of the Securities and Exchange Commission and, accordingly, do not include all the disclosures required by generally accepted accounting principles in the United States ("U.S. GAAP") with respect to annual financial statements. Certain significant accounting policies, in addition to those described below, are summarized in our 2014 Form 10-K. Certain 2014 amounts in the accompanying interim condensed consolidated financial statements have been reclassified to conform to the 2015 presentation, with no effect on stockholders' equity or net loss as previously presented.

Discontinued Operations

As described in Note 2, 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 (the "Disposal Group"). We determined that the Disposal Group meets the criteria for classification as discontinued operations. As a result, the results of operations and financial position of the Disposal Group for the current and prior periods are reflected as discontinued operations.

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 water is filtered, which is measured by the water dispensing equipment meter.

Revenue is recognized for the sale of our water dispenser products when title 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 for units 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 condensed 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 estimated cost of the multi-gallon bottle of purified water is included in cost of sales.

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Accounts Receivable

All trade accounts receivable are due from customers located within the United States and Canada. 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 $1,784 and $1,212 at March 31, 2015 and December 31, 2014, respectively. We maintain an allowance for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. Accounts receivable, net included allowances for doubtful accounts of $154 and $107 at March 31, 2015 and December 31, 2014, 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.

Intangible Assets

We classify intangible assets into two categories: (1) intangible assets with definite lives subject to amortization and (2) intangible assets with indefinite lives not subject to amortization. We determine the useful lives of our identifiable intangible assets after considering the 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, our long-term strategy for using the asset, any laws or other local regulations which could impact the useful life of the asset, and other economic factors, 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 useful lives. Intangible assets that are deemed to have indefinite lives are tested for impairment annually, as of December 31, or more frequently if events or changes in circumstances indicate that the asset might be impaired. 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.

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 a highly rated institution and believe the financial risk associated with cash in excess of federally insured amounts is minimal. 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.

Basic and Diluted Loss Per Share

Net 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.

For the three months ended March 31, 2015 and 2014, stock options, unvested shares of restricted stock, restricted stock units and warrants with respect to an aggregate of 3,082 and 3,252 shares, respectively, have been excluded from the computation of the number of shares used in the diluted earnings per share. These shares have been excluded because we incurred a net loss for each of these periods and their inclusion would be anti-dilutive.

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 subsidiary 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 accumulated as the cumulative translation adjustment included in accumulated other comprehensive loss in the condensed consolidated statements of comprehensive 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 condensed consolidated statements of operations. At March 31, 2015 and December 31, 2014, accumulated other comprehensive loss balances of $1,132 and $814, respectively, were related to unrealized foreign currency translation adjustments and transaction gains and losses on certain intercompany balances.

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Non-recurring costs

Transactions that are unusual in nature or which occur infrequently, but not both, are reported as non-recurring costs on our condensed consolidated statements of operations. Non-recurring costs consist primarily of transition and other expenses associated with the strategic alliance agreement (the "DS Services Agreement") with DS Services of America, Inc. ("DS Services") as well as other legal and severance expenses.

Recent Accounting Pronouncements

In May 2014, the FASB issued updated guidance 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. The update is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. We are currently evaluating the impact of adopting this guidance on our consolidated financial statements.

In April 2015, the FASB issued updated guidance requiring that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with the presentation of debt discounts. The update is effective for fiscal years beginning after December 15, 2015, and interim periods within fiscal years beginning after December 15, 2016. We do not expect the adoption of this updated guidance to have a significant impact on our consolidated financial statements.

2. Discontinued Operations

During 2012, we committed to a plan to sell the assets of the Disposal Group, which includes sparkling beverage appliances, flavorings, CO_2 cylinders and accessories sold under the Flavorstation brand as well as the Omnifrio Single-Serve Business and initiated an active program to execute this plan. In addition, we determined that the Disposal Group met all of the criteria for classification as discontinued operations. As a result, current and prior year amounts and disclosures reflect these operations as discontinued operations. For 2015, the primary activities of our discontinued operations relate to the resolution of contingencies and other matters that arise from and that are directly related to the operations of the Disposal Group before its disposal.

Accrued expenses and other current liabilities of the disposal group of $17 and $23 at March 31, 2015 and December 31, 2014, respectively, are presented within accrued expenses and other current liabilities on the condensed consolidated balances. Other long-term liabilities of the disposal group of $1,976 and $1,987 at March 31, 2015 and December 31, 2014, respectively, are presented within liabilities of disposal group, net of current portion, and other long-term liabilities on the condensed consolidated balance sheets.

The net sales and operating results classified as discontinued operations were as follows:

	Three months ended March 31,	
	2015	2014
Net sales	$–	$142
Operating costs and expenses:		
Cost of sales	5	110

Selling, general and administrative expenses	33	151
Total operating costs and expenses	38	261
Loss from discontinued operations	$(38)	$(119)

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3. Debt, Capital Leases and Notes Payable

Long-term debt, capital leases and notes payable are summarized as follows:

	March 31, 2015	December 31, 2014
Revolving Credit Facility	$4,700	$ 4,000
Term Notes	20,000	20,000
Capital leases	280	304
Notes payable	8	12
	24,988	24,316
Less current portion	(105)	(106)
Long-term debt, notes payable and capital leases, net of current portion	$24,883	$ 24,210

Revolving Credit Facility and Term Notes

On June 20, 2014, we entered into a note purchase agreement (the "Credit Agreement") that provides up to $35,000 in secured indebtedness and consists of a $15,000 revolving credit facility (the "Revolving Credit Facility") and $20,000 in term notes (the "Term Notes"). The Revolving Credit Facility matures on June 20, 2019 with all outstanding borrowings and accrued interest to be repaid on such date and the Term Notes mature on June 20, 2021 with all outstanding indebtedness and accrued interest to be repaid on such date. The Revolving Credit Facility and Term Notes are secured on a first priority basis by substantially all of our assets.

Interest on outstanding amounts owed under the Term Notes is payable quarterly at the rate of 7.8%. Principal payments under the Term Notes are payable in five annual $4,000 installments beginning on June 20, 2017. Total costs associated with the Term Notes were $339, which have been capitalized as deferred loan costs and are being amortized as part of interest expense over the term of the Term Notes. At March 31, 2015 and December 31, 2014, accumulated amortization related to Term Notes deferred loan costs was $51 and $34, respectively.

Interest on outstanding borrowings under the Revolving Credit Facility is payable at our option at either (i) the Base Rate, defined as the greater of the Prime Rate, the Federal Funds Effective Rate plus 0.50% or the LIBOR for a three-month interest period plus 1.0%, plus in each such case a margin of 3.25% or (ii) a one-, two-, three- or six-month LIBOR rate, plus a margin of 4.25%. We are required to pay a commitment fee of 0.50% on the unused amount of the commitment under the Revolving Credit Facility. Total costs associated with the Revolving Credit Facility were $214, which have been capitalized and are being amortized as part of interest expense over the term of the Revolving Credit Facility. At March 31, 2015 and December 31, 2014, accumulated amortization related to Revolving Credit Facility deferred loan costs was $32 and $21, respectively. As of March 31, 2015, we had $4,700 in outstanding borrowings at a weighted-average interest rate of 4.51% and our remaining availability was $10,300 under the Revolving Credit Facility.

The Credit Agreement contains a number of affirmative and restrictive financial covenants (including limitations on dissolutions, sales of assets, investments, and indebtedness and liens) that use adjusted EBITDA ("Adjusted EBITDA"). Adjusted EBITDA is a non-U.S. GAAP financial measure that is calculated as loss from continuing operations before depreciation and amortization; interest expense; non-cash, stock-based compensation expense; non-recurring costs; and loss on disposal and impairment of property and equipment and other.

The covenants included in the Revolving Credit Facility are as follows: (i) a ratio of consolidated total indebtedness to Adjusted EBITDA of no more than 3.00 to 1.00 as of the last day of each month (measured on a trailing four-quarter

basis), declining to 2.75 on October 31, 2015 and thereafter, (ii) a consolidated tangible net worth requirement measured at the end of each month of no less than $11,000 plus 50% of consolidated net income on a cumulative basis for each fiscal quarter beginning with the quarter ended June 30, 2014 (net losses are disregarded), and (iii) a ratio of Adjusted EBITDA to consolidated fixed charges of no less than 1.00 to 1.00 as of the last day of each quarter (measured on a trailing four-quarter basis). At March 31, 2015 we were in compliance with all covenants with: (i) a consolidated total indebtedness to Adjusted EBITDA ratio of 1.79 to 1.00, (ii) consolidated tangible net worth of $13,121 compared to the minimum of $11,109 and (iii) an Adjusted EBITDA to consolidated fixed charges ratio of 1.23.

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Prior Senior Revolving Credit Facility and Prior Term Loans

We entered into a senior revolving credit facility on April 30, 2012, as amended on February 21, 2013 (the "Prior Senior Revolving Credit Facility"). The Prior Senior Revolving Credit Facility provided for total borrowing availability of up to $20,000.

We entered into a credit and security agreement on April 30, 2012, as amended on November 6, 2012, June 14, 2013, and December 24, 2013, pursuant to which $23,150 in term loans were provided (the "Prior Term Loans").

We repaid borrowings outstanding on the Prior Senior Revolving Credit Facility and Prior Term Loans upon entering into the Revolving Credit Facility on June 20, 2014.

4. Stockholders' Equity and Stock-Based Compensation

Common Stock Warrants

The Prior Term Loans were accompanied by a detachable warrant to purchase 1,731 shares of our common stock (the "Comvest Warrant"), 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 Warrant is immediately exercisable at an exercise price of $2.30 per share and expires April 30, 2020. For the non-Insider Participants, the exercise price of their portion of the Comvest Warrant 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.

During the first quarter of 2015, we issued 153 shares of our common stock upon partial cashless exercises of 200 shares of the Comvest Warrant. At March 31, 2015, 1,131 Comvest Warrants remain outstanding.

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"). The DS Services Warrant is immediately exercisable at an exercise price of $3.04 per share and expires January 1, 2021. The warrant's fair value of $589 was determined using the Black-Scholes pricing model and was recorded in common stock warrants on our condensed consolidated balance sheets and in non-recurring costs on our condensed consolidated statements of operations for the three months ended March 31, 2014.

Compensation expense related to stock-based compensation plans was $635 and $289 for the three months ended March 31, 2015 and 2014, respectively. Stock-based compensation is included in selling, general and administrative expenses in the condensed consolidated statements of operations. Compensation expense related to stock-based compensation plans includes charges of $315 and $0 for the three months ended March 31, 2015 and 2014, respectively, related to awards under the Primo Water Corporation Value Creation Plan (the "VCP") that are contingent on achieving certain financial targets. As of March 31, 2015, there was $1,249 of unrecognized expense related to the VCP which is expected to be recognized over the remainder of 2015 and the first quarter of 2016, when the first issuance of awards under the VCP is currently expected to occur.

5. Commitments and Contingencies

Florida Concentrates Suit

On October 16, 2012, Primo was served with the Summons and Complaint in a suit filed in the Florida state courts on September 26, 2012. Plaintiffs in the suit are Florida Concentrates International, LLC (a Florida limited liability company), Florida Sparkling DS, LLC (a Florida limited liability company), and Didier Hardy (a Florida resident and apparently the principal of the LLC plaintiffs). Also named as defendants are Susan and Scott Ballantyne (alleged to

be Florida residents) and SDS-IC. The suit was filed in the Circuit Court for the Twentieth Judicial District (Collier County, Florida). Plaintiffs' allegations include breach of contract, misappropriation of trade secrets and certain additional claims and plaintiffs seek monetary damages. We filed a motion to dismiss all claims, which was granted in part and denied in part on June 21, 2013. Plaintiffs filed an amended complaint on July 10, 2013 to which we responded on August 28, 2013. We do not believe that the suit has any merit whatsoever, and plan to vigorously contest and defend against it. No accrual has been made for this claim at March 31, 2015, as we do not currently believe that any losses are probable.

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Omnifrio Single-Serve Beverage Business

Deferred purchase price payments totaling $1,976 and $1,987 were included within liabilities of disposal group, net of current portion, and other long-term liabilities on the condensed consolidated balance sheets as of March 31, 2015 and December 31, 2014, respectively. These payments were related to the April 11, 2011 acquisition of certain intellectual property and other assets from the seller, Omnifrio Beverage Company LLC ("Omnifrio"). On July 19, 2013, we entered into a conditional settlement and release agreement with Omnifrio and certain other parties pursuant to which we agreed to, among other things, use commercially reasonable efforts to sell the assets purchased from Omnifrio in April 2011 and to provide Omnifrio certain amounts of the proceeds of any such sale in exchange for Omnifrio agreeing to release us from any claims related to the milestone payments included in our original purchase agreement with Omnifrio and, upon the sale of such assets, to release us from any claims related to the deferred purchase price payments included in such agreement. On July 19, 2014, the conditional settlement and release agreement was amended to extend its term through October 17, 2014. On October 18, 2014, the conditional settlement and release agreement was further amended to extend its term through April 17, 2015. On April 18, 2015, the conditional settlement and release agreement was further amended to extend its term through July 16, 2015.

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, and was amended on December 19, 2014 to include additional claims for conversion, unfair and deceptive trade practices, fraud, and unjust enrichment. Damages claimed remain less than $1,000. We do not believe that the claim has any merit and plan to vigorously contest and defend against it. No accrual has been made for this claim at March 31, 2015, as we do not currently believe that any losses are probable.

Texas Regional Operator Litigation/Arbitration

On August 8, 2014, a lawsuit was commenced against us by our regional operators in the State of Texas, Artesia Springs, LLC, HOD Enterprises, L.P., and BBB Water, Inc. (the "ROs"). DS Services is also named as a defendant in the suit. The suit was filed in the 166th Judicial District Court of Bexar County, Texas, and was served upon us on August 25, 2014. We removed the suit to the United States District Court for the Western District of Texas on September 5, 2014. The claims alleged against us in the suit are breach of contract, conspiracy and fraud, and the ROs seek unspecified monetary damages as well as injunctive relief. We responded to the complaint on September 24, 2014 by filing a motion to dismiss, to compel alternative dispute resolution, and to stay proceedings. On January 13, 2015, the Magistrate Judge to whom the case was assigned issued a decision recommending dismissal of the suit and enforcement of the alternative dispute resolution provisions of the ROs' contracts. On January 31, 2015, the District Judge entered an Order endorsing the Magistrate Judge's recommended decision and dismissed the case without prejudice. The District Judge indicated that to pursue their claims, the plaintiffs would have to proceed with alternative dispute resolution in North Carolina as provided in their contracts. On April 10, 2015, the ROs initiated an arbitration proceeding with the American Arbitration Association. The claims asserted are essentially the same as the ones made in their lawsuit described above. We do not believe that the claims have any merit and plan to vigorously contest and defend against them. No accrual has been made for this claim at March 31, 2015 as we do not currently believe that any loss which may result can be reasonably estimated. An estimate of the possible loss or range of losses cannot be made.

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 legal actions will not have a significant adverse effect on our financial position, results of operations or cash flows.

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6. Income Taxes

We have established a full valuation allowance for our deferred tax assets that are not expected to be realized. We have incurred losses since inception and in all reporting periods with the exception of the third quarter of 2014. Therefore, for the three months ended March 31, 2015 and 2014, there was no income tax expense or benefit.

Section 382 of the U.S. Internal Revenue Code imposes an annual limitation on the amount of net operating loss carryforwards that might be used to offset taxable income when a corporation has undergone significant changes in stock ownership. We believe our prior ownership changes have created an annual limit, imposed by Section 382, on the amount of net operating loss we can utilize in a given year, however, we believe the annual limit is such that we will be able to utilize our net operating loss carryforwards during their respective carryforward periods.

7. 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.

The carrying amounts of our financial instruments, which include cash, accounts receivable, net, accounts payable, and accrued expenses and other current liabilities, approximate their fair values due to their short maturities. Liabilities of the Disposal Group classified as held for sale and reported within accrued expenses and other current liabilities and liabilities of disposal group, net of current portion, and other long-term liabilities on our condensed 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 Revolving Credit Facility, the carrying value of debt, capital leases and notes payable approximates fair value.

8. Segments

We have two operating segments and two reportable segments: Primo Water (“Water”) and Primo Dispensers (“Dispensers”).

Our Water segment sales consist of the sale of multi-gallon purified bottled water (exchange services) and our self-service refill water service (refill services) offered through retailers throughout the United States and Canada. Our Water services are offered through point of purchase display racks or self-serve filtered water displays 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 U.S. retailers, where we recognize revenues for the sale of the water dispensers when title is transferred. We support retail sell-through with domestic inventory. We design, market and arrange for certification and inspection of our water dispensers.

We evaluate the financial results of these segments focusing primarily on segment net sales and segment income (loss) from operations before depreciation and amortization (“segment income (loss) from operations”). We utilize segment net sales and segment income (loss) 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.

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Cost of sales for Water consists of costs for distribution, bottles and related packaging materials for our exchange services and servicing and material costs for our refill services. Cost of sales for Dispensers consists of contract manufacturing, freight and duties.

Selling, general and administrative expenses for Water and Dispensers consist primarily of personnel costs for sales, marketing, operations support and customer service, 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, information systems, and human resources and administration. Corporate expenses also include certain professional fees and expenses and compensation of our Board of Directors.

The following table presents segment information for the following periods:

	Three months ended March 31,	
	2015	2014
Segment net sales		
Water	$20,657	$15,891
Dispensers	8,556	7,637
	$29,213	$23,528
Segment income (loss) from operations		
Water	$6,428	$4,938
Dispensers	331	328
Corporate	(3,768)	(2,921)
Non-recurring costs	(22)	(1,825)
Depreciation and amortization	(2,585)	(2,744)
Loss on disposal and impairment of property and equipment	(64)	(134)
	$320	$(2,358)
Depreciation and amortization expense:		
Water	$2,359	$2,506
Dispensers	95	76
Corporate	131	162
	$2,585	$2,744
Capital expenditures:		
Water	$2,142	$2,623
Dispensers	–	63
Corporate	38	17
	$2,180	$2,703

	At March 31,	At December 31,
Identifiable assets:	2015	2014
Water	$52,532	$ 52,758
Dispensers	11,823	11,075
Corporate	1,787	1,915

	$66,142 $ 65,748

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our historical consolidated financial statements and related notes thereto in this Quarterly Report on Form 10-Q and with our Annual Report on Form 10-K for the year ended December 31, 2014. This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities and Exchange Act of 1934, as amended, that are intended to be covered by the "safe harbor" created by those sections. Forward-looking statements, which are based on certain assumptions and describe our future plans, strategies and expectations, can generally be identified by the use of forward-looking terms such as "believe," "expect," "may," "will," "should," "could," "seek," "intend," "plan," "estimate," "anticipate" or other compa These forward-looking statements are subject to uncertainty and changes in circumstances. Actual results may differ materially from these expectations due to inaccurate assumptions and known or unknown risks and uncertainties, including those identified in "Cautionary Note Regarding Forward-Looking Statements" in this Item 2 and in "Risk Factors" in Item 1A of Part I of our Annual Report on Form 10-K for the year ended December 31, 2014. We urge you to consider those risks and uncertainties in evaluating our forward-looking statements. We caution readers not to place undue reliance upon any such forward-looking statements, which speak only as of the date made. Except as otherwise required by the federal securities laws, we disclaim any obligation or undertaking to publicly release any updates or revisions to any forward-looking statement contained herein (or elsewhere) to reflect any change in our expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

Overview

Primo Water Corporation (together with its consolidated subsidiaries, "Primo," "we," "our," "us") is a leading provider of multi-gallon purified bottled water, self-service refill water and water dispensers sold through major retailers in the United States and Canada. We believe the market for purified water is growing 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 founded in 2004 and is headquartered in Winston-Salem, North Carolina.

Our business is designed to generate recurring demand for our purified bottled water or self-serve filtered 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. We believe dispenser owners consume an average of 35 multi-gallon bottles of water annually. 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-serve filtered drinking water location ("Refill"). Each of our multi-gallon 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 March 31, 2015, our products and services were offered in each of the United States and in Canada at approximately 24,500 combined retail locations, including Lowe's Home Improvement, Walmart, The Home Depot, Kmart, Meijer, Kroger, Food Lion, H-E-B Grocery, Sobeys and Walgreens.

We provide major retailers throughout the United States and Canada with single-vendor solutions for our Dispensers, Exchange and Refill services, 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. Our Exchange solution offers retailers attractive financial margins and the ability to optimize typically unused retail space with our displays. Our Refill solution provides filtered water through the installation and servicing of reverse osmosis water filtration systems in the back room of the retailer's store location, which minimizes the usage of the customer's retail space. The refill machine, which is typically accompanied by a sales display containing empty reusable bottles, is located within the retailer customer's floor space.

Additionally, due to the recurring nature of water consumption, retailers benefit from year-round customer traffic and highly predictable revenue.

Business Segments

We have two operating segments and two reportable segments: Primo Water (“Water”) and Primo Dispensers (“Dispensers”).

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Our Water segment sales consist of the sale of multi-gallon purified bottled water (exchange services) and our self-service refill water service (refill services) offered through retailers throughout the United States and Canada. Our Water services are offered through point of purchase display racks or self-serve filtered water displays 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 U.S. retailers, where we recognize revenues for the sale of the water dispensers when title is transferred. We support retail sell-through with domestic inventory. We design, market and arrange for certification and inspection of our water dispensers.

We evaluate the financial results of these segments focusing primarily on segment net sales and segment income (loss) from operations before depreciation and amortization ("segment income (loss) from operations"). We utilize segment net sales and segment income (loss) 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 Water consists of costs for distribution, bottles and related packaging materials for our exchange services and servicing and material costs for our refill services. Cost of sales for Dispensers consists of contract manufacturing, freight and duties.

Selling, general and administrative expenses for Water and Dispensers consist primarily of personnel costs for sales, marketing, operations support and customer service, 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, information systems, and human resources 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" for our Water segment, we are comparing retail locations at which our services 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:

	Three months ended March 31,	
	2015	2014
Consolidated statements of operations data:		
Net sales	$29,213	$23,528
Operating costs and expenses:		
Cost of sales	21,557	17,342
Selling, general and administrative expenses	4,665	3,841
Non-recurring costs	22	1,825
Depreciation and amortization	2,585	2,744
Loss on disposal and impairment of property and equipment	64	134
Total operating costs and expenses	28,893	25,886

Income (loss) from operations	320	(2,358)
Interest expense	519	1,276
Loss from continuing operations	(199)	(3,634)
Loss from discontinued operations	(38)	(119)
Net loss	$(237)	$(3,753)

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The following table sets forth our results of operations expressed as a percentage of net sales:

	Three months ended March 31,	
	2015	2014
Consolidated statements of operations data:		
Net sales	100.0%	100.0%
Operating costs and expenses:		
Cost of sales	73.8	73.7
Selling, general and administrative expenses	16.0	16.3
Non-recurring costs	0.1	7.8
Depreciation and amortization	8.8	11.6
Loss on disposal and impairment of property and equipment	0.2	0.6
Total operating costs and expenses	98.9	110.0
Income (loss) from operations	1.1	(10.0)
Interest expense	1.8	5.4
Loss from continuing operations	(0.7)	(15.4)
Loss from discontinued operations	(0.1)	(0.6)
Net loss	(0.8)%	(16.0)%

The following table sets forth our segment net sales and segment income (loss) from operations presented on a segment basis and reconciled to our consolidated income (loss) from operations.

	Three months ended March 31,	
	2015	2014
Segment net sales		
Water	$20,657	$15,891
Dispensers	8,556	7,637
Total net sales	$29,213	$23,528
Segment income (loss) from operations		
Water	$6,428	$4,938
Dispensers	331	328
Corporate	(3,768)	(2,921)
Non-recurring costs	(22)	(1,825)
Depreciation and amortization	(2,585)	(2,744)
Loss on disposal and impairment of property and equipment	(64)	(134)
	$320	$(2,358)

Three Months Ended March 31, 2015 Compared to Three Months Ended March 31, 2014

Net Sales. Net sales increased 24.2%, or $5.7 million, to $29.2 million for the three months ended March 31, 2015 from $23.5 million for the three months ended March 31, 2014. The change was due to increases of $4.8 million and $0.9 million for Water and Dispensers net sales, respectively.

Water. Water net sales increased 30.0% to $20.7 million, representing 70.7% of our total net sales for the three months ended March 31, 2015. The increase in Water net sales was primarily due to a 53.0% increase in U.S. Exchange sales, which was driven by same-store unit growth of 8.6% and the addition of retail exchange locations. Overall, five-gallon equivalent units for Water increased 18.8% to 8.2 million for the three months ended March 31, 2015 from 6.9 million for the same period of the prior year. The increase in net sales was greater than the increase in

five-gallon equivalent units primarily due to the higher-priced U.S. Exchange business providing a larger portion of the total units compared to the prior year.

Dispensers. Dispensers net sales increased 12.0% to $8.5 million, representing 29.3% of our total net sales for the three months ended March 31, 2015. Our dispenser unit sales to retailers increased by 11.0% for the first quarter of 2015 compared to the first quarter of 2014. The dispenser unit sales by our retail customers to consumers increased by 6.3% for 2015 compared to 2014.

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Gross Margin Percentage. Our overall gross margin percentage decreased slightly to 26.2% for the three months ended March 31, 2015 from 26.3% for the three months ended March 31, 2014.

Water. Gross margin as a percentage of net sales for our Water segment decreased to 34.2% for the three months ended March 31, 2015 from 35.6% for the three months ended March 31, 2014 due primarily to the growth in the lower-margin U.S. Exchange business. U.S. Exchange represented 64.7% of total Water net sales for the three months ended March 31, 2015 compared to 55.0% for the three months ended March 31, 2014. The decrease in gross margin as a percentage of net sales was mitigated by improvements for Refill related to replacing third-party service providers with employees in certain service territories.

Dispensers. Gross margin as a percentage of net sales for our Dispensers segment decreased slightly to 6.8% for the three months ended March 31, 2015 from 7.0% for the three months ended March 31, 2014. The decrease in gross margin percentage was primarily due to a shift in sales mix compared to the prior year.

Selling, General and Administrative Expenses ("SG&A"). SG&A increased 21.4% to $4.7 million for the three months ended March 31, 2015 from $3.8 million for the three months ended March 31, 2014. As a percentage of net sales, SG&A decreased to 16.0% for the three months ended March 31, 2015 from 16.3% for the three months ended March 31, 2014.

Water. SG&A for our Water segment decreased 9.3% to $0.6 million for the three months ended March 31, 2015 from $0.7 million for the three months ended March 31, 2014. Water SG&A as a percentage of Water net sales decreased to 3.1% for the three months ended March 31, 2015 from 4.5% for the three months ended March 31, 2014. This decrease was primarily a result of lower headcount and travel-related expenses for the three months ended March 31, 2015 compared to the same period in the prior year.

Dispensers. SG&A for our Dispensers segment increased 21.4% to $0.3 million for the three months ended March 31, 2015 from $0.2 million for the three months ended March 31, 2014. SG&A as a percentage of Dispensers segment net sales increased slightly to 2.9% for the three months ended March 31, 2015 from 2.7% for the three months ended March 31, 2014. This increase was primarily due to higher logistics costs and certain consulting expenses for the three months ended March 31, 2015 compared to the same period in the prior year.

Corporate. Corporate SG&A increased 28.9% to $3.8 million for the three months ended March 31, 2015 from $2.9 million for the three months ended March 31, 2014. Corporate SG&A as a percentage of consolidated net sales increased to 12.9% for the three months ended March 31, 2015 from 12.4% for the three months ended March 31, 2014. The increase in Corporate SG&A expense was primarily due to a $0.3 million increase in non-cash stock compensation expense driven by accruals for performance-based awards under the Primo Water Corporation Value Creation Plan (the "VCP") as well as higher professional fees. Additionally, the first quarter of the prior year benefited from a lower-than-normal level of bad debt expense associated with the successful collection of certain accounts receivable.

Non-Recurring Costs. Non-recurring costs were less than $0.1 million for the three months ended March 31, 2015 compared to $1.8 million for the three months ended March 31, 2014. For the three months ended March 31, 2015, non-recurring costs consisted primarily of legal expenses associated with the strategic alliance agreement (the "DS Services Agreement") with DS Services of America, Inc. ("DS Services"). For the three months ended March 31, 2014, non-recurring costs consisted primarily of expenses associated with the DS Services Agreement, including transition and other payments made to current and former distributors as well as $0.6 million related to the common stock warrant issued to DS Services. The decrease in non-recurring costs is due to the completion of the transition of bottling and distribution responsibilities in the Exchange business to DS Services and the timely progress towards the transition of DS Services retail customers to Primo.

Depreciation and Amortization. Depreciation and amortization decreased 5.8% to $2.6 million for the three months ended March 31, 2015 from $2.7 million for the three months ended March 31, 2014, primarily due to the sale or disposal of certain Water property and equipment related to the transition in the U.S. Exchange business from our prior service network to DS Services during 2014.

Loss on Disposal and Impairment of Property and Equipment. Loss on disposal and impairment of property and equipment was $0.1 million for both the three months ended March 31, 2015 and the three months ended March 31, 2014.

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Interest Expense. Interest expense decreased 59.4% to $0.5 million for the three months ended March 31, 2015 from $1.3 million for the three months ended March 31, 2014, due to more favorable borrowing rates under the new credit facility compared to the prior senior revolving credit facility and prior term loans. Additionally, for the three months ended March 31, 2014, we incurred supplier financing-related interest charges of $0.2 million.

Discontinued Operations. Loss from discontinued operations decreased to less than $0.1 million for the three months ended March 31, 2015 compared to $0.1 million for the three months ended March 31, 2014 due to the overall winding-down of our discontinued operations.

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. While we had no material commitments for capital expenditures as of March 31, 2015, we anticipate net capital expenditures to range between $5.0 million and $7.0 million for the remainder of 2015. Anticipated capital expenditures are related primarily to growth in Water locations.

At March 31, 2015, our cash totaled $0.8 million and we had $10.3 million in additional availability under our revolving credit facility. We anticipate that our current cash, availability under our revolving credit facility and cash flow from operations will be sufficient to meet our current needs for working capital and capital expenditures through at least the next 12 months.

Our future capital requirements may vary materially from those now anticipated and will depend on many factors including: the rate of growth in new Water 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 acquisitions of other businesses. Historically, we have experienced increases in our capital expenditures consistent with the growth in our operations and personnel, 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.

Changes in Cash Flows

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

	Three months ended March 31,	
	2015	2014
Net cash provided by operating activities	$1.9	$4.4
Net cash used in investing activities	$(2.2)	$(2.7)
Net cash provided by (used in) financing activities	$0.7	$(0.8)

Net Cash Flows from Operating Activities

Net cash provided by operating activities decreased to $1.9 million for the three months ended March 31, 2015 from $4.4 million for the three months ended March 31, 2014. The decrease in cash flow from operations is primarily due to a $5.5 million decrease in cash provided from net working capital components primarily driven by the timing of dispenser shipments. This decrease was partially offset by the impact of higher income from operations for the three months ended March 31, 2015 compared to the three months ended March 31, 2014.

Net Cash Flows from Investing Activities

Net cash used in investing activities decreased to $2.2 million for the three months ended March 31, 2015 from $2.7 million for the three months ended March 31, 2014, primarily as a result of the timing of investment in capital expenditures.

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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 and reverse osmosis filtration systems at new Water locations.

Net Cash Flows from Financing Activities

Net cash provided by financing activities was $0.7 million for the three months ended March 31, 2015. Net cash used in financing activities was $0.8 million for the three months ended March 31, 2014. The change was primarily driven by borrowing under our revolving credit facility.

Credit facility

On June 20, 2014, we entered into a note purchase agreement (the "Credit Agreement") that provides up to $35.0 million in secured indebtedness and consists of a $15.0 million revolving credit facility (the "Revolving Credit Facility") and $20 million in term notes (the "Term Notes"). The Revolving Credit Facility matures on June 20, 2019 with all outstanding borrowings and accrued interest to be repaid on such date and the Term Notes mature on June 20, 2021 with all outstanding indebtedness and accrued interest to be repaid on such date. The Revolving Credit Facility and Term Notes are secured on a first priority basis by substantially all of our assets.

Interest on outstanding amounts owed under the Term Notes is payable quarterly at the rate of 7.8%. Principal payments under the Term Notes are payable in five annual $4.0 million installments beginning on June 20, 2017. As of March 31, 2015, we had $4.7 million in outstanding borrowings at a weighted-average interest rate of 4.51% and our remaining availability was $10.3 million under the Revolving Credit Facility.

The Credit Agreement contains a number of affirmative and restrictive financial covenants (including limitations on dissolutions, sales of assets, investments, and indebtedness and liens) and contains the following financial covenants: (i) a ratio of consolidated total indebtedness to adjusted EBITDA of no more than 3.00 to 1.00 as of the last day of each month (measured on a trailing four-quarter basis), declining to 2.75 on October 31, 2015 and thereafter, (ii) a consolidated tangible net worth requirement measured at the end of each month of no less than $11 million plus 50% of consolidated net income on a cumulative basis for each fiscal quarter beginning with the quarter ended June 30, 2014 (net losses are disregarded), and (iii) a ratio of adjusted EBITDA to consolidated fixed charges of no less than 1.00 to 1.00 as of the last day of each quarter (measured on a trailing four-quarter basis). At March 31, 2015 we were in compliance with all covenants with: (i) a consolidated total indebtedness to adjusted EBITDA ratio of 1.79 to 1.00, (ii) consolidated tangible net worth of $13.1 million compared to the minimum of $11.1 million and (iii) an adjusted EBITDA to consolidated fixed charges ratio of 1.23.

Adjusted EBITDA U.S. GAAP Reconciliation

Adjusted EBITDA is a non-U.S. GAAP financial measure that is calculated as loss from continuing operations before depreciation and amortization; interest expense; non-cash, stock-based compensation expense; non-recurring costs; and loss on disposal and impairment of property and equipment and other. Our 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 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.

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	Three months ended March 31,	
	2015	2014
Loss from continuing operations	$(199)	$(3,634)
Depreciation and amortization	2,585	2,744
Interest expense	519	1,276
EBITDA	2,905	386
Non-cash, stock-based compensation expense	635	289
Non-recurring costs	22	1,825
Loss on disposal and impairment of property and equipment and other	102	185
Adjusted EBITDA	$3,664	$2,685

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.

Inflation

During the last four 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 Water segment, which generally enjoys higher margins than our Dispensers segment, experiences 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 Water segment. 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

There have been no material changes to our critical accounting policies and estimates from the information provided in Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” included in our Annual Report on Form 10-K for the year ended December 31, 2014.

Recent Accounting Pronouncements

In May 2014, the FASB issued updated guidance 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. The update is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. We are currently evaluating the impact of adopting this guidance on our consolidated financial statements.

In April 2015, the FASB issued updated guidance requiring that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with the presentation of debt discounts. The update is effective for fiscal years beginning after December 15, 2015, and interim periods within fiscal years beginning after December 15, 2016. We do not expect the adoption of this updated guidance to have a significant impact on our consolidated financial statements.

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Cautionary Note Regarding Forward-Looking Statements

This document includes and other information we make public from time to time may include “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include statements about our estimates, expectations, projections, beliefs, intentions or strategies for the future, and the assumptions underlying such statements. We use the words “anticipates,” “believes,” “estimates,” “expects,” “intends,” “forecasts,” “may,” “will,” “should,” and similar expressions to identify our forward-looking statements. Forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from historical experience or our present expectations. Factors that could cause these differences include, but are not limited to, the factors set forth in Part I, Item 1A, “Risk Factors” of our Annual Report on Form 10-K for the fiscal year ended December 31, 2014.

Item 3. Quantitative and Qualitative Disclosure About Market Risk

Not applicable.

Item 4. 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.

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.

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PART II – OTHER INFORMATION

Item 1. Legal Proceedings

Texas Regional Operator Litigation/Arbitration

On August 8, 2014, a lawsuit was commenced against us by our regional operators in the State of Texas, Artesia Springs, LLC, HOD Enterprises, L.P., and BBB Water, Inc. (the "ROs"). DS Services is also named as a defendant in the suit. The suit was filed in the 166th Judicial District Court of Bexar County, Texas, and was served upon us on August 25, 2014. We removed the suit to the United States District Court for the Western District of Texas on September 5, 2014. The claims alleged against us in the suit are breach of contract, conspiracy and fraud, and the ROs seek unspecified monetary damages as well as injunctive relief. We responded to the complaint on September 24, 2014 by filing a motion to dismiss, to compel alternative dispute resolution, and to stay proceedings. On January 13, 2015, the Magistrate Judge to whom the case was assigned issued a decision recommending dismissal of the suit and enforcement of the alternative dispute resolution provisions of the ROs' contracts. On January 31, 2015, the District Judge entered an Order endorsing the Magistrate Judge's recommended decision and dismissed the case without prejudice. The District Judge indicated that to pursue their claims, the plaintiffs would have to proceed with alternative dispute resolution in North Carolina as provided in their contracts. On April 10, 2015, the ROs initiated an arbitration proceeding with the American Arbitration Association. The claims asserted are essentially the same as the ones made in their lawsuit described above. We do not believe that the claims have any merit and plan to vigorously contest and defend against them.

Item 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the factors discussed under Part I, Item 1A, "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2014. These factors could materially adversely affect our business, financial condition, liquidity, results of operations and capital position, and could cause our actual results to differ materially from our historical results or the results contemplated by the forward-looking statements contained in this report.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

On March 13, 2015, we issued 153,125 shares of our common stock upon a partial cashless exercise of an outstanding common stock purchase warrant with an exercise price of $1.20 per share originally issued to Comvest Capital II, L.P. on April 30, 2012. The issuances of the shares of common stock upon the partial exercise of the warrant was made in reliance upon the exemption from registration provided by Section 4(2) of the Securities Act of 1933, as amended, and Regulation D.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information

None.

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Item 6. Exhibits

EXHIBIT INDEX

Exhibit Number	Description
3.1	Sixth Amended and Restated Certificate of Incorporation of Primo Water Corporation (incorporated by reference to Exhibit 3.1 to Amendment No. 2 to the Registrant's Registration Statement on Form S-1/A (File No. 333-173554) filed on May 31, 2011)
3.2	Amended and Restated Bylaws of Primo Water Corporation (incorporated by reference to Exhibit 3.1 to the Company's Form 8-K filed November 16, 2010)
31.1	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)
31.2	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)
32.1	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)
101.INS	XBRL Instance Document [(1)]
101.SCH	XBRL Taxonomy Extension Schema Document [(1)]
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document [(1)]
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document [(1)]
101.LAB	XBRL Taxonomy Extension Label Linkbase Document [(1)]
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document [(1)]

(1) Included herewith

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SIGNATURES

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

PRIMO WATER CORPORATION
(Registrant)

Date: May 6, 2015 By: /s/ Billy D. Prim
Billy D. Prim
Chairman and Chief Executive Officer

Date: May 6, 2015 By: /s/ Mark Castaneda
Mark Castaneda
Chief Financial Officer