

PRIMO WATER CORP

FORM 10-Q (Quarterly Report)

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**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, 2017

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)

30-0278688

*(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

(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, 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

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

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

As of May 5, 2017, there were 29,885,844 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, 2017

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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, 2017 (unaudited)	December 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 6,316	\$ 15,586
Accounts receivable, net	13,572	14,121
Inventories	8,391	6,182
Prepaid expenses and other current assets	3,732	3,086
Total current assets	32,011	38,975
Bottles, net	4,279	4,152
Property and equipment, net	104,980	100,331
Intangible assets, net	148,265	149,457
Goodwill	90,293	91,709
Investment in Glacier securities (\$3,817 available-for-sale, at fair value)	6,446	6,408
Other assets	448	353
Total assets	<u>\$ 386,722</u>	<u>\$ 391,385</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 16,379	\$ 13,788
Accrued expenses and other current liabilities	15,981	16,922
Current portion of long-term debt and capital leases	3,475	2,183
Total current liabilities	35,835	32,893
Long-term debt and capital leases, net of current portion and debt issuance costs	272,026	270,264
Deferred tax liability, net	13,793	13,607
Warrant liability	–	8,180
Other long-term liabilities	2,062	2,069
Total liabilities	323,716	327,013
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, 29,785 and 29,305 shares issued and outstanding at March 31, 2017 and December 31, 2016, respectively	30	29
Additional paid-in capital	324,746	325,779
Common stock warrants	18,892	7,492
Accumulated deficit	(279,255)	(267,393)
Accumulated other comprehensive loss	(1,407)	(1,535)
Total stockholders' equity	63,006	64,372
Total liabilities and stockholders' equity	<u>\$ 386,722</u>	<u>\$ 391,385</u>

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

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

	Three months ended March 31,	
	2017	2016
Net sales	\$ 60,737	\$ 32,296
Operating costs and expenses:		
Cost of sales	42,814	22,947
Selling, general and administrative expenses	10,544	5,028
Non-recurring and acquisition-related costs	4,448	207
Depreciation and amortization	6,391	2,408
(Gain) loss on disposal and impairment of property and equipment	(6)	193
Total operating costs and expenses	64,191	30,783
(Loss) income from operations	(3,454)	1,513
Interest expense, net	5,002	471
Change in fair value of warrant liability	3,220	-
(Loss) income from continuing operations before income taxes	(11,676)	1,042
Provision for income taxes	186	-
(Loss) income from continuing operations	(11,862)	1,042
Loss from discontinued operations	-	(11)
Net (loss) income	<u>\$ (11,862)</u>	<u>\$ 1,031</u>
Basic (loss) earnings per common share:		
(Loss) income from continuing operations	\$ (0.37)	\$ 0.04
Loss from discontinued operations	-	-
Net (loss) income	<u>\$ (0.37)</u>	<u>\$ 0.04</u>
Diluted (loss) earnings per common share:		
(Loss) income from continuing operations	\$ (0.37)	\$ 0.04
Loss from discontinued operations	-	-
Net (loss) income	<u>\$ (0.37)</u>	<u>\$ 0.04</u>
Weighted average shares used in computing (loss) earnings per share:		
Basic	32,364	26,462
Diluted	<u>32,364</u>	<u>29,211</u>

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

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

	Three months ended	
	March 31,	
	2017	2016
Net (loss) income	\$ (11,862)	\$ 1,031
Other comprehensive income:		
Unrealized gain on investment in Glacier securities	38	—
Foreign currency translation adjustments, net	90	185
Total other comprehensive income	128	185
Comprehensive (loss) income	\$ (11,734)	\$ 1,216

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

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

	Three Months Ended March 31,	
	2017	2016
Cash flows from operating activities:		
Net (loss) income	\$ (11,862)	\$ 1,031
Less: Loss from discontinued operations	–	(11)
(Loss) income from continuing operations	(11,862)	1,042
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	6,391	2,408
(Gain) loss on disposal and impairment of property and equipment	(6)	193
Stock-based compensation expense	2,335	560
Non-cash interest (income) expense	(41)	28
Change in fair value of warrant liability	3,220	–
Deferred income tax expense	186	–
Realized foreign currency exchange loss (gain) and other, net	35	(161)
Changes in operating assets and liabilities:		
Accounts receivable	519	(3,129)
Inventories	(2,211)	2,237
Prepaid expenses and other assets	(722)	(743)
Accounts payable	2,618	1,031
Accrued expenses and other liabilities	(415)	(751)
Net cash provided by operating activities	47	2,715
Cash flows from investing activities:		
Purchases of property and equipment	(4,466)	(2,938)
Purchases of bottles, net of disposals	(656)	(571)
Proceeds from the sale of property and equipment	11	3
Additions to intangible assets	(76)	(16)
Net cash used in investing activities	(5,187)	(3,522)
Cash flows from financing activities:		
Borrowings under prior Revolving Credit Facility	–	8,600
Payments under prior Revolving Credit Facility	–	(7,100)
Payments under prior Term loans	(794)	–
Note payable and capital lease payments	(78)	(74)
Stock option and employee stock purchase activity and other, net	(3,194)	(1,351)
Debt issuance costs and other	(93)	–
Net cash (used in) provided by financing activities	(4,159)	75
Cash used in operating activities of discontinued operations	–	(32)
Effect of exchange rate changes on cash and cash equivalents	29	81
Net decrease in cash and cash equivalents	(9,270)	(683)
Cash and cash equivalents, beginning of year	15,586	1,826
Cash and cash equivalents, end of period	<u>\$ 6,316</u>	<u>\$ 1,143</u>

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

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,” or “the Company”) is North America’s leading single source 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 and notes 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, 2016. 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, 2016 as filed on Form 10-K. The accompanying interim condensed consolidated financial statements are presented in accordance with the rules and regulations of the Securities and Exchange Commission (the “SEC”) 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 audited financial statements. Significant accounting policies are summarized in our 2016 Form 10-K.

Recent Accounting Pronouncements

In March 2016, the FASB issued ASU 2016-09, *Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*, which simplifies several aspects of the accounting for share-based payment award transactions including the income tax consequences, the classification of awards as either equity or liabilities, and the classification on the statement of cash flows. The update is effective for fiscal years beginning after December 15, 2016 and interim periods within those annual periods. We adopted this guidance in the first quarter of fiscal year 2017. On a prospective basis, excess tax benefits recognized on stock-based compensation expense were reflected as a component of the provision for income taxes. We have also elected to estimate the forfeiture rate as it applies to awards that are expected to vest. The result of this adoption did not have a material impact to the consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (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 (“ROU”) 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, 2019, and interim periods within fiscal years beginning after December 15, 2020. We currently anticipate that upon adoption of the new standard, ROU assets and lease liabilities will be recognized in amounts that will be material to the consolidated balance sheets.

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 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. We are currently in the initial stages of evaluating the provisions of the new standard and its potential impact on the Company’s revenue contracts by comparing our current accounting policies and practices to the requirements of the new standard, and identifying potential differences that would result from applying the new standard to our contracts.

2. Glacier Acquisition

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 supermarkets and other retail locations. We believe that the Acquisition will diversify our retailer and financial concentration, create operational and shared services synergies and create 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 Goldman Credit Facility (see “Note 3 – Debt and Capital Leases, net of Debt Issuance Costs”). Operations of the acquired entity are included in the condensed consolidated statement of operations from the acquisition date. We incurred fees and expenses related to the Acquisition of \$1,828 during the three months ended March 31, 2017.

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

During the three months ended March 31, 2017, we obtained additional information regarding the fair value of certain acquired property and equipment, capital leases, and accrued expenses based on facts that existed at the date of acquisition. We have recast the fair value of certain acquired property and equipment, and accrued expenses via a measurement period adjustment as follows:

	Purchase Price Allocation	Measurement Period Adjustment	Recast Purchase Price Allocation
Cash acquired	\$ 4,294	\$ –	\$ 4,294
Property and equipment	65,605	4,729	70,334
Identifiable intangible assets	142,330	–	142,330
Investments and other assets	11,765	(13)	11,752
Goodwill	91,822	(1,534)	90,288
Deferred tax liability	(13,607)	–	(13,607)
Net liabilities assumed	(101,989)	(3,182)	(105,171)
Aggregate purchase price	\$ 200,220	\$ –	\$ 200,220

The estimated fair values are subject to refinement during the measurement period (which is no longer than one year after the closing date of the acquisition), 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. The primary area of the purchase price allocation that is not yet finalized is property and equipment.

Unaudited pro forma results of operations are presented below for the three months ended March 31, 2017 and 2016, assuming that the Acquisition occurred on January 1, 2016. The pro forma information does not necessarily reflect the results of operations that would have occurred had we acquired Glacier at the beginning of 2016 as cost saving synergies are not reflected in the unaudited pro forma amounts.

	Pro forma for the three months ended	
	March 31, 2017	March 31, 2016
Net sales	\$ 60,737	\$ 64,179
Pro forma net loss	\$ (11,862)	\$ (818)
Basic and diluted loss per common share:		
Net loss attributable to common shareholders	\$ (0.37)	\$ (0.03)

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

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

	March 31, 2017	December 31, 2016
Term loans	\$ 185,535	\$ 186,000
Debt issuance costs	(3,597)	(3,794)
Total Credit Facilities	181,938	182,206
Junior Subordinated Debentures	89,291	89,529
Capital leases	4,272	712
	275,501	272,447
Less current portion	(3,475)	(2,183)
Long-term debt and capital leases, net of current portion and debt issuance costs	\$ 272,026	\$ 270,264

Goldman Credit Facility

On December 12, 2016, we entered into the Goldman Credit Facility that provides for a \$186,000 term loan facility (the “Term Loan”) and a \$10,000 revolving loan facility (the “Revolving Facility”). The Goldman Credit Facility matures on December 12, 2021. The Term Loan requires annual principal payments (payable in quarterly installments beginning March 31, 2017) equal to 1% per annum, or \$1,860, with the remaining indebtedness due at maturity. The Goldman Credit Facility is secured on a first priority basis by substantially all of our assets but no more than 65% of the voting equity of non-U.S. subsidiaries.

Interest on outstanding borrowings under the Goldman Credit Facility will be calculated at our option at either a base rate (which may be derived from the federal funds effective rate) or a London Interbank Offered Rate (“LIBOR”), subject to floors of 4.0% for the base rate and 1.0% per annum for LIBOR, respectively, plus, in each case, a margin, initially set at 5.50% per annum with respect to LIBOR loans and 4.50% per annum for base rate loans. Interest rate margins for the loans will step down upon the achievement of consolidated leverage ratios. A commitment fee of 0.50% per annum will be payable quarterly on the average undrawn portion of the Revolving Credit Facility. Total costs associated with the Goldman Credit Facility were \$4,041, 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 Goldman Credit Facility. As of March 31, 2017, we had no outstanding borrowings and our availability was \$1,308 under the Revolving Facility.

The Goldman 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 income (loss) from continuing operations before depreciation and amortization; interest expense; change in fair value of warrant liability; non-cash stock-based compensation expense; non-recurring costs; and loss on disposal and impairment of property and equipment and other.

The primary operational covenants included in the Goldman Credit Facility are as follows: (i) a minimum fixed charge coverage ratio of 1.20:1.00, (ii) a maximum total leverage ratio of 4.25:1.00, declining to 4.00:1.00 on December 31, 2017, and (iii) a minimum consolidated liquidity of \$3,500, with the financial ratios to be tested as of the last day of each fiscal quarter thereafter, and the minimum liquidity to be required at all times. The required financial ratios will step down further to lower levels in future periods as provided in the Goldman Credit Facility. At March 31, 2017 we were in compliance with all operational covenants, including (i) a fixed charge coverage ratio of 1.37:1.00 and (ii) a total leverage ratio of 3.77:1.00.

Junior Subordinated Debentures

In connection with the Acquisition, we assumed \$89,529 of Junior Subordinated Debentures (the “Subordinated Debentures”) issued to Glacier Water Trust I, a wholly owned subsidiary of Primo. Interest on the Subordinated Debentures accrues at an annual rate of 9.0625% payable monthly in arrears. The Subordinated Debentures mature on January 31, 2028 but may be redeemed at our option at any time at 100% of the principal amount plus any accrued but unpaid interest.

4. Glacier 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 become exercisable as follows: 33% become exercisable on and after June 10, 2017, an additional 33% become exercisable on and after September 8, 2017 and the final 34% become exercisable on and after December 12, 2017. The Glacier Warrants are exercisable at an exercise price of \$11.88 per share and expire on December 12, 2021.

The Glacier Warrants’ fair value at the date of issuance of \$8,420 was recorded as a liability on our condensed consolidated balance sheets as part of consideration for the Acquisition. Subsequent changes in the estimated fair value of the Glacier Warrants was recorded on our condensed 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 will no longer be reported as a liability on the condensed consolidated balance sheet with changes in the fair value of the warrant liability reported within the condensed consolidated statements of operations. Instead, the Glacier Warrants will be 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 condensed consolidated statements of operations for the three months ended March 31, 2017. The Glacier Warrants’ estimated fair value as recorded on our condensed consolidated balance sheet was \$0 and \$8,180 as of March 31, 2017 and December 31, 2016, respectively.

The estimated fair value of these Warrants is 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, 2017	December 31, 2016
Expected life in years	4.75	4.95
Risk-free interest rate	2.08%	1.92%
Expected volatility	33.0%	33.0%
Dividend yield	0.0%	0.0%

The risk-free interest rate is based on the U.S. Treasury rate for the expected remaining life of common stock warrants. Our expected volatility is based on the average long-term historical volatilities of peer companies. The dividend yield assumption is based on our current intent not to issue dividends.

5. Stock-Based Compensation

Overview

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 condensed consolidated statements of operations, was as follows:

	Three months ended March 31,	
	2017	2016
Stock options	\$ 154	\$ 147
Restricted stock	588	146
Value Creation Plan	1,482	254
Long-Term Performance Plan	100	–
Employee Stock Purchase Plan	11	13
	<u>\$ 2,335</u>	<u>\$ 560</u>

Value Creation Plan

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. 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. 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 related to the \$28,000 Adjusted EBITDA target.

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.

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. The LTPP provides for the issuance of awards based on our attainment of financial targets for the period of January 1, 2017 through December 31, 2019. Awards earned 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. The Board of Directors may permit or require the deferral of any LTPP award payment into a deferred compensation arrangement.

6. Commitments and Contingencies

Omnifrio Single-Serve Beverage Business

Deferred purchase price payments totaling \$710 and \$1,901 were included within accrued expenses and other current liabilities on the condensed consolidated balance sheets as of March 31, 2017 and December 31, 2016, 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”).

We entered into a settlement and release agreement with Omnifrio on March 31, 2017, 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 non-recurring and acquisition-related costs on the condensed consolidated statement of operations for the three months ended March 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 are 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 American Arbitration Association (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, totaling \$3,783 in April, July and October 2017. A liability of \$3,701 was recorded within accrued expenses and other liabilities on the condensed consolidated balance sheet as of March 31, 2017. The settlement resulted in other expense of \$3,701, reported within non-recurring and acquisition-related costs on the condensed consolidated statement of operations for the three months ended March 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 \$1.0 million in damages for alleged breach of contract. The arbitration was filed with the AAA, 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 \$1.0 million. The Company has filed a Motion for Partial Summary Judgment. 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, 2017 as we do not currently believe that any loss which may result can be reasonably estimated.

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.

7. Income Taxes

We have established a full valuation allowance to offset the net deferred tax assets that are not expected to be realized. For the three months ended March 31, 2017 and 2016, there was \$186 and \$0 income tax expense recognized, respectively related to goodwill and intangibles.

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.

8. 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.

At March 31, 2017 and December 31, 2016, 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:

	March 31, 2017			
	Fair Value	Level 1	Level 2	Level 3
Assets:				
Investment in money market funds (1)	\$ 379	\$ 379	\$ —	\$ —
Investment in Glacier securities	3,817	—	3,817	—
Total assets	\$ 4,196	\$ 379	\$ 3,817	\$ —
Liabilities:				
Contingent consideration	\$ 1,502	\$ —	\$ —	\$ 1,502
Total liabilities	\$ 1,502	\$ —	\$ —	\$ 1,502
	December 31, 2016			
	Fair Value	Level 1	Level 2	Level 3
Assets:				
Investment in money market funds (1)	\$ 675	\$ 675	\$ —	\$ —
Investment in Glacier securities	3,779	—	3,779	—
Total assets	\$ 4,454	\$ 675	\$ 3,779	\$ —
Liabilities:				
Warrant liability	\$ 8,180	\$ —	\$ —	\$ 8,180
Contingent consideration	1,513	—	—	1,513
Total liabilities	\$ 9,693	\$ —	\$ —	\$ 9,693

(1) Included in cash and cash equivalents in accompanying condensed consolidated balance sheets.

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. Liabilities of the Disposal Group classified as held for sale and reported within accrued expenses and other current liabilities, 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, the variable interest rate for borrowings under our Goldman Credit Facility and the fact that the Junior Subordinated Debentures were recorded at fair value at the time of the Acquisition, 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:

	Warrant Liability	Contingent Consideration
Balance at December 31, 2016	\$ 8,180	\$ 1,513
Change in fair value	3,220	(11)
Reclass Glacier warrant to equity	(11,400)	-
Balance at March 31, 2017	<u>\$ -</u>	<u>\$ 1,502</u>

9. Earnings Per Share

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

	Three months ended March 31,	
	2017	2016
Basic:		
(Loss) income from continuing operations	\$ (11,862)	\$ 1,042
Loss from discontinued operations	-	(11)
Net (loss) income	<u>\$ (11,862)</u>	<u>\$ 1,031</u>
Weighted average shares	<u>32,364</u>	<u>26,462</u>
Basic (loss) earnings per share from continuing operations	\$ (0.37)	\$ 0.04
Basic loss per share from discontinued operations	-	-
Basic (loss) earnings per share	<u>\$ (0.37)</u>	<u>\$ 0.04</u>
Diluted:		
(Loss) income from continuing operations	\$ (11,862)	\$ 1,042
Loss from discontinued operations	-	(11)
Net (loss) income	<u>\$ (11,862)</u>	<u>\$ 1,031</u>
Weighted average shares	32,364	26,462
Potential shares arising from stock options, restricted stock, warrants and contingently issuable shares under the VCP	-	2,749
Weighted average shares - diluted	<u>32,364</u>	<u>29,211</u>
Diluted (loss) earnings per share from continuing operations	\$ (0.37)	\$ 0.04
Diluted loss per share from discontinued operations	-	-
Diluted (loss) earnings per share	<u>\$ (0.37)</u>	<u>\$ 0.04</u>

For the three months ended March 31, 2017, stock options, warrants and unvested shares of restricted stock with respect to an aggregate of 1,598 shares were excluded from the computation of the number of shares used in the diluted earnings (loss) per share. These shares have been excluded because we incurred a net loss for the period and their inclusion would be anti-dilutive.

For the three months ended March 31, 2016, contingently issuable shares related to the first award under the VCP were included in the computation of the number of shares used in the diluted earnings per share through the March 11, 2016 issuance or deferral into the Deferred Compensation Plan. Subsequent to March 11, 2016, such shares were used in the computation of the number of shares used in basic earnings per share.

For the three months ended March 31, 2016, stock options, warrants and unvested shares of restricted stock with respect to an aggregate of 1,101 shares were excluded from the computation of the number of shares used in the diluted earnings per share because the exercise or grant prices of the awards were greater than the average market price of the underlying common stock and the effect of their inclusion would have been anti-dilutive.

10. 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”) and our self-service filtered drinking water (“Refill”) offered through retailers in the United States and Canada. Our Water products are offered through point of purchase display racks or self-service 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 evaluate the financial results of these segments focusing primarily on segment net sales and segment income from operations before depreciation and amortization (“segment income from operations”). We utilize segment net sales and segment 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 Exchange consists primarily of costs for bottling, distribution and bottles. Cost of sales for Refill consists primarily of costs associated with routine maintenance of reverse osmosis water filtration systems and filtered water displays as well as costs associated with obtaining meter readings to determine water usage, and collecting coins from our coin-operated vending machines. 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 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, information systems 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,	
	2017	2016
Segment net sales:		
Water	\$ 53,110	\$ 22,378
Dispensers	7,627	9,918
	<u>\$ 60,737</u>	<u>\$ 32,296</u>
Segment (loss) income from operations:		
Water	\$ 14,616	\$ 7,730
Dispensers	580	698
Corporate	(7,817)	(4,107)
Non-recurring and acquisition-related costs	(4,448)	(207)
Depreciation and amortization	(6,391)	(2,408)
Gain (loss) on disposal and impairment of property and equipment	6	(193)
	<u>\$ (3,454)</u>	<u>\$ 1,513</u>
Depreciation and amortization expense:		
Water	\$ 6,216	\$ 2,283
Dispensers	46	39
Corporate	129	86
	<u>\$ 6,391</u>	<u>\$ 2,408</u>
Capital expenditures:		
Water	\$ 4,557	\$ 3,338
Dispensers	57	-
Corporate	508	171
	<u>\$ 5,122</u>	<u>\$ 3,509</u>
	At March 31,	At December 31,
	2017	2016
Identifiable assets:		
Water	\$ 371,441	\$ 376,404
Dispensers	13,372	11,202
Corporate	1,909	1,479
	<u>\$ 386,722</u>	<u>\$ 391,385</u>

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, 2016. 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 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 comparable terms. 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, 2016. 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,” or “us,” is North America’s leading single source 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 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 founded in 2004 and is headquartered in Winston-Salem, North Carolina.

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 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. 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 diversifies retailer concentration and offers 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”).

Our business is designed to generate recurring demand for our purified bottled water or self-service 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. 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 filtered 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 March 31, 2017, our products were offered in the United States and in Canada at over 46,000 combined retail locations, including Lowe’s Home Improvement, Walmart, The Home Depot, Meijer, Kroger, Food Lion, H-E-B Grocery, Sobey’s, 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 filtered water.

We provide major retailers throughout the United States and Canada with a single-vendor solution for our two reporting segments, Primo Dispensers (“Dispensers”) and Primo Water (“Water”), 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 filtered 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 filtered water at a value price. Additionally, due to the recurring nature of water consumption, retailers benefit from year-round customer traffic and highly predictable revenue. We believe the Acquisition will help us build out and expand our Refill operations in particular, given Glacier’s extensive Refill network.

Business Segments

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

Our Water segment sales consist of our Exchange and Refill products, which are offered through retailers in each of the contiguous United States and Canada. Our Water products are offered through point of purchase display racks or self-service 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 retailers in the U.S. and Canada, where we recognize revenues for the sale of the water dispensers when title is transferred. We support retail sell-through with domestic inventory.

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 Exchange consists primarily of costs for bottling, distribution and bottles. Cost of sales for Refill consists primarily of costs associated with routine maintenance of reverse osmosis water filtration systems and filtered water displays, as well as costs associated with obtaining meter readings to determine water usage and collecting coins from our coin-operated vending machines. 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 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, information systems 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 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 (dollars in thousands):

	Three months ended March 31,	
	2017	2016
Consolidated statements of operations data:		
Net sales	\$ 60,737	\$ 32,296
Operating costs and expenses:		
Cost of sales	42,814	22,947
Selling, general and administrative expenses	10,544	5,028
Non-recurring and acquisition-related costs	4,448	207
Depreciation and amortization	6,391	2,408
(Gain) loss on disposal and impairment of property and equipment	(6)	193
Total operating costs and expenses	64,191	30,783
(Loss) income from operations	(3,454)	1,513
Interest expense, net	5,002	471
Change in fair value of warrant liability	3,220	-
(Loss) income from continuing operations before income taxes	(11,676)	1,042
Provision for income taxes	186	-
(Loss) income from continuing operations	(11,862)	1,042
Loss from discontinued operations	-	(11)
Net (loss) income	\$ (11,862)	\$ 1,031

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

	Three months ended March 31,	
	2017	2016
Consolidated statements of operations data:		
Net sales	100.0%	100.0%
Operating costs and expenses:		
Cost of sales	70.5	71.1
Selling, general and administrative expenses	17.4	15.6
Non-recurring and acquisition-related costs	7.3	0.5
Depreciation and amortization	10.5	7.5
(Gain) loss on disposal and impairment of property and equipment	-	0.6
Total operating costs and expenses	105.7	95.3
(Loss) income from operations	(5.7)	4.7
Interest expense, net	8.2	1.5
Change in fair value of warrant liability	5.3	-
(Loss) income from continuing operations	(19.2)	3.2
Provision for income taxes	0.3	-
(Loss) income from continuing operations	(19.5)	-
Loss from discontinued operations	-	-
Net (loss) income	(19.5)%	3.2%

The following table sets forth our segment net sales and segment income from operations presented on a segment basis and reconciled to our consolidated income from operations (dollars in thousands):

	Three months ended March 31,	
	2017	2016
Segment net sales		
Water	\$ 53,110	\$ 22,378
Dispensers	7,627	9,918
Total net sales	<u>\$ 60,737</u>	<u>\$ 32,296</u>
Segment income (loss) from operations		
Water	\$ 14,616	\$ 7,730
Dispensers	580	698
Corporate	(7,817)	(4,107)
Non-recurring and acquisition-related costs	(4,448)	(207)
Depreciation and amortization	(6,391)	(2,408)
Gain (loss) on disposal and impairment of property and equipment	6	(193)
	<u>\$ (3,454)</u>	<u>\$ 1,513</u>

Three Months Ended March 31, 2017 Compared to Three Months Ended March 31, 2016

Net Sales. Net sales increased 88.1%, or \$28.4 million to \$60.7 million for the three months ended March 31, 2017 from \$32.3 million for the three months ended March 31, 2016. The change was due to an increase of \$30.7 million for Water, partially offset by a decrease of \$2.3 million for Dispensers.

Water. Water net sales increased 137.3% to \$53.1 million, representing 87.4% of our total net sales for the three months ended March 31, 2017. The increase was primarily due to the \$30.0 million increase in Refill net sales due to the Acquisition. In addition, Exchange sales contributed to the increase through a 4.7% growth in net sales for the three months ended March 31, 2017. The Exchange sales were driven by same-store unit growth of approximately 6.1% for the three months ended March 31, 2017. Overall, five-gallon equivalent units for Water increased to 31.1 million units for the three months ended March 31, 2017 from 8.7 million for the same period of the prior year.

Dispensers. Dispensers net sales decreased 23.1% to \$7.6 million, representing 12.6% of our total net sales for the three months ended March 31, 2017. The decrease in Dispensers net sales was due primarily to the timing of orders by major retail customers. Consumer demand, which we measure as the dispenser unit sales by our retail customers to consumers, was approximately 143,000 for the three months ended March 31, 2017. We believe that dispenser sales are the driver to increases in Water sales, as they create new consumer household demand.

Gross Margin Percentage. The overall gross margin percentage increased to 29.5% for the three months ended March 31, 2017 from 28.9% for the same period of the prior year.

Water. Gross margin as a percentage of net sales for our Water segment decreased to 32.1% for the three months ended March 31, 2017 from 37.4% for the three months ended March 31, 2016 due primarily to Refill. Gross margin as a percentage of net sales for Refill decreased to 31.5% for the three months ended March 31, 2017 compared to 52.0% for the same period in 2016, due primarily to the impact of the Acquisition. With revenue reported as the amount charged to end consumers, primarily through coin-operated vending machines, and cost of goods sold including a commission paid to retailers, historical Glacier retailer customers have a lower gross margin percentage than historical Primo Refill. Gross margin in Exchange increased to 33.0% for the three months ended March 31, 2017 from 31.2% for the same period of the prior year, primarily as a result of improvements in supply chain costs.

Dispensers. Gross margin as a percentage of net sales for our Dispensers segment increased to 11.5% for the three months ended March 31, 2017 from 9.8% for the three months ended March 31, 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 to \$10.5 million for the three months ended March 31, 2017 from \$5.0 million for the three months ended March 31, 2016. As a percentage of net sales, SG&A increased to 17.4% for the three months ended March 31, 2017 from 15.6% for the three months ended March 31, 2016. The increase was driven by the increase in employee-related expenses of \$2.1 million primarily due to additional headcount in connection with the Acquisition. The increase was also attributable to the \$1.8 million increase in non-cash stock-based compensation expense, which was primarily related to the \$1.2 million increase for performance-based awards granted under the VCP that were contingent on achieving certain financial targets (see “Note 5 - Stock-Based Compensation” in the Notes to the Condensed Consolidated Financial Statements). Additionally, water quality and tax compliance expense increased \$1.0 million primarily due to the Acquisition. Excluding all non-cash stock compensation expense, SG&A expenses were 13.5% as a percentage of sales for the three months ended March 31, 2017. We expect SG&A expenses to decrease in future periods as we eliminate duplicate costs related to the Acquisition, with quarterly expense between \$7.5 and \$8.0 million.

Non-recurring and acquisition-related costs . Non-recurring and acquisition-related costs were \$4.4 million for the three months ended March 31, 2017 compared to \$0.2 million for the same period in 2016. The increase was primarily due to settlement payments and legal expenses of \$3.8 million associated with former Texas Regional Distributors; this was partially offset by a settlement reached with Omnifrio resulting in a \$1.2 million gain (see “Note 6 – Commitments and Contingencies” in the Notes to Condensed Consolidated Financial Statements). Additionally, non-recurring and acquisition-related costs associated with the Acquisition totaled \$1.8 million for the three months ended March 31, 2017 (see “Note 2 – Glacier Acquisition” in the Notes to Condensed Consolidated Financial Statements). We now expect acquisition related costs to total between \$2.3 and \$2.8 million for the full year as we accelerated the integration.

Depreciation and Amortization. Depreciation and amortization increased \$4.0 million to \$6.4 million for the three months ended March 31, 2017 from \$2.4 million for the three months ended March 31, 2016. The increase was primarily due to property and equipment, and intangibles acquired in connection with the Acquisition.

Interest Expense, net. Interest expense increased to \$5.0 million for the three months ended March 31, 2017 from \$0.5 million for the three months ended March 31, 2016. The increase was primarily due to increased debt levels related to the Goldman Credit Facility and the Subordinated Debentures assumed in connection of the Acquisition (see “Note 3 - Debt and Capital Leases, net of Debt Issuance Costs” in the Notes to the Condensed 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. While we had no material commitments for capital expenditures as of March 31, 2017, we anticipate net capital expenditures to range between \$13.5 million and \$16.5 million for the remainder of 2017. Anticipated capital expenditures are related primarily to growth and maintenance in Water locations. We anticipate using cash on hand and availability under the Goldman Credit Facility to meet these capital commitments.

At March 31, 2017, our cash and cash equivalents totaled \$6.3 million and we had \$1.3 million in 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 in the ordinary course of business for the foreseeable future. Given our increased indebtedness incurred under the Goldman Credit Facility in connection with the Acquisition, 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 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 acquisition and integration of Glacier. 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,	
	2017	2016
Net cash provided by operating activities	\$ 0.1	\$ 2.7
Net cash used in investing activities	\$ (5.2)	\$ (3.5)
Net cash (used in) provided by financing activities	\$ (4.2)	\$ 0.1

Net Cash Flows from Operating Activities

Net cash provided by operating activities decreased to \$0.1 million for the three months ended March 31, 2017, from \$2.7 million for the same period of the prior year, driven primarily by the decrease in income from continuing operations, partially offset by changes in operating assets and liabilities.

Net Cash Flows from Investing Activities

Net cash used in investing activities increased to \$5.2 million for the three months ended March 31, 2017 from \$3.5 million for the same period of the prior year, primarily as a result of increased investing activities associated with our Water segment 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 Water locations.

Net Cash Flows from Financing Activities

Net cash used in financing activities was (\$4.2) million for the three months ended March 31, 2017, compared to net cash provided by financing activities of \$0.1 million for the same period of the prior year, primarily due to an increase in shares purchased to pay taxes associated with certain incentive stock award payouts.

Adjusted EBITDA U.S. GAAP Reconciliation

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

	Three Months Ended	
	March 31,	
	2017	2016
(Loss) income from continuing operations	\$ (11,862)	\$ 1,042
Depreciation and amortization	6,391	2,408
Interest expense, net	5,002	471
Provision for income taxes	186	–
EBITDA	(283)	3,921
Change in fair value of warrant liability	3,220	–
Non-cash, stock-based compensation expense	2,335	560
Non-recurring and acquisition-related costs	4,448	207
Loss on disposal and impairment of property and equipment and other	59	233
Adjusted EBITDA	<u>\$ 9,779</u>	<u>\$ 4,921</u>

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 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 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, 2016.

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, 2016.

Item 3. Quantitative and Qualitative Disclosure About Market Risk

There has been no material change in our exposure to market risk during the three months ended March 31, 2017. Please refer to “Quantitative and Qualitative Disclosures about Market Risk” contained in Part II, Item 7A of our Form 10-K for the year ended December 31, 2016 for a discussion of our exposure to market risk.

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

On December 12, 2016, we completed the acquisition of Glacier. As this acquisition occurred in the fourth quarter of 2016, the scope of our assessment of the effectiveness of internal control over financial reporting does not include this recent acquisition. As of December 31, 2016 this exclusion was in accordance with the SEC’s general guidance that an assessment of a recently acquired business may be omitted from the scope of the assessment in the first year of consolidating the acquired business, if specified conditions are satisfied. We are currently integrating Glacier into our control environment. Glacier is a wholly owned subsidiary whose total assets and total revenue represent approximately 57% and 49%, respectively, of our related unaudited condensed consolidated financial statement amounts as of and for the three months ended March 31, 2017.

Other than the change noted above, there was no change in our internal control over financial reporting identified in connection with the evaluation required by Rules 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.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

Omnifrio Single-Serve Beverage Business

We entered into a settlement and release agreement with Omnifrio on March 31, 2017, 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.

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. On April 10, 2015, the ROs initiated an arbitration proceeding with the American Arbitration Association. We resolved the claims asserted by BBB Water, Inc. as of December 31, 2015. 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 totaling approximately \$3,783.

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, 2016. 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. There have been no material changes to such risk factors.

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

Not applicable.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information**Appointment of Chief Strategy Officer**

On May 9, 2017, our Board of Directors appointed David Hass as Chief Strategy Officer. Mr. Hass, 38, has served as our Vice President of Corporate Strategy and Financial Planning & Analysis and General Manager of Canada and Primo Direct Operations since January 2013. Prior to that, Mr. Hass served as our Director of Financial Planning & Analysis. Mr. Hass received a B.S. from Northern Illinois University and an MBA from the Cox School of Business at Southern Methodist University.

Frequency of Future Advisory Votes on Named Executive Officer Compensation

As previously reported in a Current Report on Form 8-K filed on April 28, 2017, a non-binding, advisory vote was taken at our 2017 Annual Meeting of Stockholders on the frequency of our future advisory votes regarding named executive officer compensation. A majority of the votes cast at the Annual Meeting were in favor of holding such advisory vote every three years. After considering the preference of the Company's stockholders and other factors, our Board of Directors determined on May 9, 2017, that we will hold a non-binding, advisory vote on our compensation of its named executive officers every three years until the next advisory vote is submitted to stockholders regarding the frequency of such advisory votes on named executive officer compensation.

Item 6. Exhibits**EXHIBIT INDEX**

Exhibit Number	Description
2.1	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 Appendix A to the consent solicitation statement/prospectus, which is part of the Registrant's Registration Statement on Form S-4 (File No. 333-214200) filed on October 24, 2016) (The schedules have been omitted from such filing pursuant to Item 601(b)(2) of Regulation S-K. The Company will furnish copies of such schedules and exhibits to the United States Securities and Exchange Commission upon request by the Commission)
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)
4.1	Form of Warrant Agreement between Primo Water Corporation and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 4.1 to the Registrant's Registration Statement on Form S-4 (File No. 333-214200) filed on October 24, 2016)
4.2	Amendment No. 1 to Warrant Agreement, dated as of March 13, 2017, by and between Primo Water Corporation and Wells Fargo Bank, National Association ⁽¹⁾
10.1	Long-Term Performance Plan ⁽¹⁾ ⁽²⁾
10.2	Amended and Restated Executive Deferred Compensation Plan ⁽¹⁾
10.3	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. ⁽¹⁾
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

(2) Indicates management contract or compensatory plan or arrangement

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 10, 2017

By: /s/ Billy D. Prim
Billy D. Prim
Chairman and Chief Executive Officer

Date: May 10, 2017

By: /s/ Mark Castaneda
Mark Castaneda
Chief Financial Officer

AMENDMENT NO. 1 TO WARRANT AGREEMENT

THIS AMENDMENT NO. 1 TO WARRANT AGREEMENT (this “*Amendment*”) is dated as of March 13, 2017, by and among Primo Water Corporation, a Delaware corporation (the “*Company*”), Wells Fargo Bank, National Association, a national banking association (the “*Warrant Agent*”), and the Holders of Warrants signatory hereto (each a “*Consenting Holder*” and, collectively, the “*Consenting Holders*”). Capitalized terms used but not defined herein have the meanings assigned to such terms in the Warrant Agreement (as defined below).

RECITALS

WHEREAS, on December 12, 2016, the Company completed its acquisition (the “*Acquisition*”) of Glacier Water Services, Inc., a Delaware corporation (“*Glacier*”), pursuant to that certain Agreement and Plan of Merger, dated October 9, 2016, by and among the Company, Primo Subsidiary Inc., a Delaware corporation, Glacier, and David Shladovsky, as Stockholder Representative (the “*Merger Agreement*”);

WHEREAS, in connection with the Acquisition and pursuant to the terms of the Merger Agreement, each outstanding share of Glacier common stock was converted into the right to receive, among other consideration, a warrant to purchase 0.54 of a share of the Company’s common stock pursuant to and in accordance with that certain Warrant Agreement, dated as of December 12, 2016, by and between the Company and the Warrant Agent (the “*Warrant Agreement*”); and

WHEREAS, the Company, the Warrant Agent and the Consenting Holders wish to clarify and confirm certain matters related to the Holders’ ability to exercise the Warrant in the event that (a) the Warrant Shares cannot be issued pursuant to an effective registration statement under the Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder (the “*Securities Act*”), and (b) a private placement exemption from the registration requirements of the Securities Act is not otherwise available.

NOW THEREFORE, for good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto hereby agree as follows:

1. ***Amendment to Warrant Agreement***. Section 1.6 of the Warrant Agreement is hereby deleted and replaced in its entirety with the following:

“(a) Subject to the terms of Section 1.6(b), payment of the aggregate Exercise Price for all Warrant Shares purchased may be made, at the option of the applicable Holder, either (i) by certified check payable to the Warrant Agent or (ii) by delivering a written direction to the Warrant Agent that such Holder desires to exercise the Warrants pursuant to a “cashless exercise,” in which case such Holder will receive a number of Warrant Shares that is equal to the aggregate number of Warrant Shares for which the Warrants are being exercised less the number of Warrant Shares that have an aggregate Market Price on the trading day on which such Warrants are exercised that is equal to the aggregate Exercise Price for such Warrant Shares. For the avoidance of doubt, if Warrants are exercised such that the aggregate Exercise Price would exceed the aggregate value (as measured by the Market Price) of the Warrant Shares issuable upon exercise, no amount shall be due and payable by such Holder to the Company, and such exercise shall be null and void and no Warrant Shares shall thereupon be issued and the Warrants shall continue in effect.

(b) Notwithstanding anything in Section 1.6(a) to the contrary, in the event that and for so long as (i) the Company determines in good faith that the Warrant Shares cannot be issued pursuant to an effective registration statement under the Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder (the “Securities Act”), either because such a registration statement is not effective or because it does not otherwise contain all information required to be included therein by the Securities Act and other applicable securities Laws, and (ii) an exemption from the registration requirements of the Securities Act is not otherwise available under Section 4(a)(2) of the Securities Act and the rules and regulations promulgated thereunder, the Holder shall only be permitted to exercise the Warrants in a “cashless exercise” pursuant to clause (ii) of the first sentence of Section 1.6(a) above in a transaction that is exempt from the registration requirements of the Securities Act pursuant to Section 3(a)(9) thereof. Further, for the avoidance of doubt, there is no circumstance under which the Holder shall be entitled to exercise the Warrants and receive a cash payment as a net cash settlement.”

2. ***Effect on Warrant Agreement.*** The Warrant Agreement is not modified or amended other than as expressly indicated herein, and all other terms and conditions of the Warrant Agreement shall remain in full force and effect.

3. ***Governing Law; Jurisdiction.*** The interpretation and construction of this Amendment, and all matters relating hereto, shall be governed by the Laws of the State of Delaware, without regard to the choice of Law principles thereof.

4. ***Counterparts.*** This Amendment may be executed in two or more counterparts, all of which taken together shall constitute one instrument. The facsimile or electronic “.pdf” transmission or retransmission of any original signed counterpart to this Amendment shall be deemed to be delivery of an original counterpart thereof for all purposes.

5. ***Severability.*** If any term, provision, agreement, covenant or restriction of this Amendment is held by a court of competent jurisdiction or other authority to be invalid, void or unenforceable, the remainder of the terms, provisions, agreements, covenants and restrictions of this Amendment shall remain in full force and effect and shall in no way be affected, impaired or invalidated so long as the economic or legal substance of the transactions contemplated hereby is not affected in any manner materially adverse to any party hereto. Upon such a determination, the parties shall negotiate in good faith to modify this Amendment so as to effect the original intent of the parties as closely as possible in a reasonably acceptable manner in order that the transactions contemplated hereby may be consummated as originally contemplated to the fullest extent possible.

[*Signature page follows*]

IN WITNESS WHEREOF , the undersigned have caused this Amendment to be duly executed as of the day and year first above written.

COMPANY:

PRIMO WATER CORPORATION

By: _____

Name: Mark Castaneda

Title: Chief Financial Officer

WARRANT AGENT:

WELLS FARGO BANK, N.A.

By: _____

Name: _____

Title: _____

[Signature Page to Amendment No. 1 to Warrant Agreement]

CONSENTING HOLDERS:

By: _____
Name: _____
Title: _____
Warrants Owned: _____

By: _____
Name: _____
Title: _____
Warrants Owned: _____

By: _____
Name: _____
Title: _____
Warrants Owned: _____

[Signature Page to Amendment No. 1 to Warrant Agreement]

**PRIMO WATER CORPORATION
LONG-TERM PERFORMANCE PLAN**

Primo Water Corporation (the “**Company**”) sets forth herein the terms and conditions of its Long-Term Performance Plan (the “**LTTP**”), effective February 28, 2017 (the “**Effective Date**”).

1. PURPOSE

The LTTP is intended to enhance the ability of the Company and its Affiliates to attract and retain highly qualified officers and key employees, and to motivate such officers and employees to serve the Company and its Affiliates and to expend maximum effort to improve the long-term business results and earnings of the Company, by providing to such persons an opportunity to acquire or increase a direct proprietary interest in the operations and future success of the Company. To this end, the LTTP provides for the grant of Performance Awards (as defined in the Company’s Amended and Restated 2010 Omnibus Long-Term Incentive Plan (as amended, the “**Omnibus Plan**”). The LTTP is a sub-plan of the Omnibus Plan. Each grant under the LTTP of a Performance Award (an “**LTTP Award**”) shall be an Award under the Omnibus Plan and shall be subject to all of the terms and conditions of the Omnibus Plan. Any shares of Common Stock (“**Shares**”) issued under an LTTP Award shall come from the Omnibus Plan and shall reduce the number of Shares available for issuance under the Omnibus Plan.

2. DEFINITIONS

Any term that is capitalized herein but not otherwise defined shall have the meaning given to it under the Omnibus Plan.

3. ADMINISTRATION OF LTTP

3.1. General

The LTTP shall be administered by the same administrator, and in the same manner, as the Omnibus Plan.

3.2. Forfeitures; Clawbacks

Upon notification of a termination of employment for Cause, any outstanding LTTP Award held by a Grantee shall terminate immediately, such LTTP Award shall be forfeited, and the Grantee shall have no further rights thereunder.

Any LTTP Award or other amount or benefit received under the LTTP shall be subject to potential cancellation, recoupment, rescission, payback, or other action in accordance with the terms of any applicable Company clawback policy or any applicable law, as may be in effect from time to time, all to the extent determined by the Committee to be applicable to the Grantee. By accepting an LTTP Award, the Grantee shall be deemed to have acknowledged and consented to the Company’s application, implementation, and enforcement of any applicable Company clawback policy that may apply to the Grantee and any provision of applicable law relating to cancellation, recoupment, rescission, or payback of compensation, whether adopted prior to or following the grant of the LTTP Award, and to have agreed that the Company may take such actions as may be necessary to effectuate any such policy or applicable law, without further consideration or action.

If the Grantee breaches a non-competition, non-solicitation, non-disclosure, non-disparagement, or other restrictive covenant set forth in an Award Agreement or any other agreement between the Grantee and the Company or any Affiliate, whether during the Grantee's employment with the Company or an Affiliate or following such employment, in addition to any other penalties or restrictions that may apply under any such agreement, state law, or otherwise, the Grantee shall forfeit or pay to the Company:

- (i) any and all outstanding LTPP Awards granted to the Grantee, including LTPP Awards deferred under Section 3.3 below;
- (ii) any Shares held by the Grantee issued pursuant to an LTPP Award or otherwise issued in connection with the LTPP that were acquired by the Grantee within the immediately preceding 36-month period;
- (iii) the profit realized by the Grantee from the sale, or other disposition for consideration, of any Shares received by the Grantee issued pursuant to an LTPP Award or otherwise issued in connection with the LTPP within the immediately preceding 36-month period; and
- (iv) any cash or other amounts issued to the Grantee pursuant to an LTPP Award within the immediately preceding 36-month period.

3.3. Deferral Arrangements

The Committee may permit or require the deferral of any LTPP Award payment into a deferred compensation arrangement, subject to such rules and procedures as it may establish in accordance with Section 409A, which may include provisions for the payment or crediting of interest or dividend equivalents, including converting such credits into deferred units of Common Stock.

4. AMENDMENT AND TERMINATION OF LTPP

The Committee may, at any time and from time to time, amend, suspend, or terminate the LTPP as to any LTPP Awards that have not been made. An amendment shall be contingent on approval of the Company's stockholders to the extent stated by the Committee, required by applicable law, or required by applicable securities exchange listing requirements. No LTPP Awards shall be made after the Termination Date. The applicable terms and conditions of the LTPP, and any terms and conditions applicable to LTPP Awards granted prior to the Termination Date, shall survive the termination of the LTPP and continue to apply to such LTPP Awards. No amendment, suspension, or termination of the LTPP shall, without the consent of the Grantee, materially impair rights or obligations under any LTPP Award previously awarded.

5. AWARD ELIGIBILITY

LTPP Awards may be made to any employee of the Company or its Affiliates as the Committee may determine and designate from time to time.

6. TERMS AND CONDITIONS OF LTPP AWARDS

6.1. Performance Measures and Terms and Conditions

LTPP Awards shall be eligible to become earned during an applicable performance period based upon the level of the Company's achievement of performance measures determined by the Committee for that performance period, as set forth in the applicable Award Agreement. At the time of grant, the Committee may establish a period of time and any additional terms and conditions applicable to LTPP Awards. Each LTPP Award may be subject to different restrictions.

6.2. Rights of Holders of LTPP Awards

6.2.1. Settlement of LTPP Awards

LTPP Awards shall be settled in accordance with the terms of the applicable Award Agreement.

6.2.2. Voting and Dividend Rights

Holders of LTPP Awards shall not have rights as Company stockholders with respect to Shares issuable under such awards, including voting or dividend or dividend equivalent rights, unless and until Shares become deliverable in connection with the awards.

6.2.3. Creditor's Rights

A holder of an LTPP Award shall have no rights other than those of a general creditor of the Company. An LTPP Award represents an unfunded and unsecured obligation of the Company, subject to the terms and conditions of the LTPP Plan and the applicable Award Agreement.

6.3. Delivery of Shares

Upon the satisfaction of all applicable terms and conditions prescribed by the Committee, the restrictions applicable to an LTPP Award shall lapse, and a stock certificate for the Shares earnable under the LTPP Award (to the extent payable in Shares) shall become deliverable, free of all such restrictions, to the Grantee or the Grantee's beneficiary or estate, as the case may be; *provided, however*, that the Company may elect to satisfy any requirement for the delivery of stock certificates through the use of book entry.

6.4. Status of LTPP Awards under Section 162(m)

It is the intent of the Company that LTPP Awards granted to persons who are designated by the Committee as likely to be Covered Employees within the meaning of Section 162(m) shall, if so designated by the Committee, qualify as "performance-based compensation" under Section 162(m); accordingly, such LTPP Awards shall be administered and interpreted in a manner consistent with Section 162(m). The foregoing notwithstanding, because the Committee cannot determine with certainty whether a given Grantee will be a Covered Employee with respect to a fiscal year that has not yet been completed, the term Covered Employee as used herein shall mean only a person designated by the Committee, at the time of grant of an LTPP Award, as likely to be a Covered Employee with respect to that fiscal year. If any provision of the LTPP or any agreement relating to an LTPP Award does not comply or is inconsistent with the applicable requirements of Section 162(m), such provision shall be construed or deemed amended to the extent necessary to conform to such requirements. Notwithstanding anything herein to the contrary, the Committee may provide for LTPP Awards to Covered Employees that are not intended to qualify as "performance-based compensation" under Section 162(m).

7. TERMS APPLICABLE GENERALLY TO LTPP AWARDS

7.1. Disclaimer of Rights

No provision in the LTPP or in any Award Agreement shall be construed to confer upon any individual the right to remain in the employ or service of the Company or any Affiliate, or to interfere in any way with any contractual or other right or authority of the Company or any Affiliate either to increase or decrease the compensation or other payments to any individual at any time, or to terminate any employment or other relationship between any individual and the Company or any Affiliate. In addition, notwithstanding anything contained in the LTPP to the contrary, no LTPP Award shall be affected by any change of duties or position of the Grantee, so long as such Grantee continues to be an employee of the Company or an Affiliate. The obligation of the Company to pay any benefits pursuant to the LTPP shall be interpreted as a contractual obligation to pay only those amounts described herein, in the manner and under the conditions prescribed herein. The LTPP shall in no way be interpreted to require the Company to transfer any amounts to a third party trustee or otherwise hold any amounts in trust or escrow for payment to any Grantee or beneficiary under the terms of the LTPP.

7.2. Nonexclusivity of LTPP

The adoption of the LTPP shall not be construed as creating any limitations upon the right or authority of the Committee to adopt such other incentive compensation arrangements, which arrangements may be applicable either generally to a class or classes of individuals or specifically to a particular individual or particular individuals.

7.3. Other Provisions

Each LTPP Award may contain such other terms and conditions not inconsistent with the LTPP as may be determined by the Committee. In the event of any conflict between the terms of an employment agreement by and between the Company (or any of its Affiliates) and a Grantee and the LTPP, the terms of the employment agreement shall govern.

Exhibit A

**PRIMO WATER CORPORATION
LONG-TERM PERFORMANCE PLAN
AWARD AGREEMENT**

GRANTED TO	GRANT DATE	NUMBER OF LTPP UNITS
[Name]	March 20, 2017	[•]

This Long-Term Performance Plan Award Agreement (“ **Award Agreement** ”) is made between Primo Water Corporation (the “ **Company** ”) and you, an employee of the Company (or an Affiliate).

The Company maintains a Long-Term Performance Plan (the “ **LTPP** ”). The LTPP provides for the grant of Performance Awards (as defined in the Company’s Amended and Restated 2010 Omnibus Long-Term Incentive Plan (as amended, the “ **Omnibus Plan** ”). The LTPP is a sub-plan of the Omnibus Plan. Each grant under the LTPP of a Performance Award, including the LTPP Units granted under this Award Agreement (an “ **LTPP Award** ”), is an Award under the Omnibus Plan and is subject to all of the terms and conditions of the Omnibus Plan. You acknowledge that the LTPP, the Omnibus Plan, and a prospectus describing the Omnibus Plan (the “ **Prospectus** ”) have been delivered to you. Copies of the LTPP and the Omnibus Plan are available upon request, and the terms, conditions, and provisions of the LTPP and the Omnibus Plan are incorporated herein by reference. When used in this Award Agreement, terms that are defined in the LTPP or the Omnibus Plan shall have the meanings given to them in the LTPP or the Omnibus Plan, as modified herein (if applicable).

The LTPP Units covered by this Award Agreement are subject to the following terms, conditions, and provisions:

1. Subject to the terms and conditions of the LTPP and this Award Agreement, the Company awards to you the number of LTPP Units shown above. Each LTPP Unit represents your right to receive one Share in the future upon the terms and subject to the conditions of the LTPP and this Award Agreement.
2. You acknowledge having read the Prospectus and agree to be bound by all of the terms and conditions of the Omnibus Plan, the LTPP, and this Award Agreement.
3. The LTPP Units covered by this Award shall become earned by, and payable to, you on the following terms and subject to the following conditions:
 - (a) Performance Period
 - (i) The “ **Performance Period** ” for the LTPP Units shall begin on January 1, 2017 and shall end on the earlier of a Change in Control and December 31, 2019.
 - (ii) Any LTPP Units that are unearned at the end of the Performance Period shall be immediately canceled and forfeited.

(b) Earning of LTPP Units

- (i) At the end of the Performance Period, 60% of the aggregate of the LTPP Units shall be eligible to become earned based on the Company's Adjusted EBITDA at such time, as follows (the "EA LTPP Units"), as long as you have remained employed with the Company or an Affiliate through such time:

Adjusted EBITDA	EA LTPP Units earned
\$183.4 million (Target)	100%
80% of Target	50%
120% of Target	140%
Between 80% and 120% of Target	Linear interpolation applies

- (ii) At the end of the Performance Period, the remaining 40% of the aggregate of the LTPP Units shall be eligible to become earned based on the Company's Free Cash Flow at such time, as follows (the "FCF LTPP Units"), as long as you have remained employed with the Company or an Affiliate through such time:

Free Cash Flow	FCF LTPP Units earned
\$66.4 million (Target)	100%
80% of Target	50%
120% of Target	140%
Between 80% and 120% of Target	Linear interpolation applies

- (iii) "Adjusted EBITDA" shall have the meaning set forth in the Company's then current credit agreements, as determined by the Committee.
- (iv) "Free Cash Flow" means net cash provided by operating activities plus non-recurring and acquisition-related costs minus net cash used in investing activities excluding acquisitions and intangibles, all as set forth in the Company's audited consolidated financial statements, or as determined by the Committee.

(c) Payment of LTPP Units

- (i) Any LTPP Units that become earned pursuant to Section 3(b) immediately above shall be payable as soon as practicable (generally within 30 days) after becoming earned.
- (ii) You shall be entitled to receive one Share for each LTPP Unit that becomes earned and payable.

(d) Impact of Termination of Employment

Except as otherwise provided in your employment agreement, upon your termination of employment with the Company and its Affiliates for any reason (whether initiated by you, the Company or an Affiliate), any LTPP Units that have not been earned pursuant to Section 3(b) above shall be immediately canceled and forfeited.

4. You shall have no voting, dividend, dividend equivalent, or other rights as a Company stockholder with respect to the LTPP Units unless and until Shares have become deliverable pursuant to this Award Agreement.

5. You agree that you shall comply with (and provide adequate assurance as to future compliance with) all applicable securities laws and income tax laws as determined by the Company as a condition precedent to the delivery of any Shares or other amounts pursuant to this Award Agreement. In addition, you agree that, upon request, you shall furnish a letter agreement providing that (a) you will not distribute or resell any of said Shares in violation of the Securities Act, (b) you will indemnify and hold the Company harmless against all liability for any such violation, and (c) you will accept all liability for any such violation.
6. The existence of this LTPP Award shall not affect in any way the right or power of the Company or the Company's stockholders to make or authorize any or all adjustments, recapitalizations, reorganizations, or other changes in the Company's capital structure or its business, or any merger or consolidation of the Company, or any issue of bonds, debentures, preferred or prior preference stocks ahead of, or convertible into, or otherwise affecting the Common Stock or the rights thereof, or the dissolution or liquidation of the Company, or any sale or transfer of all or any part of its assets or business, or any other corporate act or proceeding, whether of a similar character or otherwise.
7. The Company may, in its sole discretion, decide to deliver any documents related to this or future LTPP Awards that may be granted to you by electronic means. You hereby consent to receive such documents by electronic delivery and, if requested, agree to participate in the LTPP through an on-line or electronic system established and maintained by the Company or another third party designated by the Company. Any notice that either party hereto may be required or permitted to give to the other shall be in writing and may be delivered personally, by interoffice mail, by fax, by electronic mail or other electronic means, or via a postal service, postage prepaid, to such electronic mail or postal address and directed to such person the Company may notify you of from time to time; and to you at your electronic mail or postal address as shown on the records of the Company from time to time, or at such other electronic mail or postal address as you, by notice to the Company, may designate in writing from time to time.
8. Regardless of any action the Company takes with respect to any or all income tax, payroll tax, or other tax-related withholding (" **Tax-Related Items** "), you acknowledge that the ultimate liability for all Tax-Related Items owed by you is and remains your responsibility and that the Company (a) makes no representations or undertakings regarding the treatment of any Tax-Related Items in connection with any aspect of the grant of LTPP Units, including the grant and earning of the LTPP Units, the subsequent sale of Shares acquired upon the earning of the LTPP Units, and the receipt of any dividends; and (b) does not commit to structure the terms of the grant or any aspect of the LTPP Units to reduce or eliminate your liability for Tax-Related Items. In the event the Company determines that it must withhold any Tax-Related Items as a result of your participation in the LTPP, you agree as a condition of the grant of the LTPP Units to make arrangements satisfactory to the Company to enable it to satisfy all withholding requirements, including withholding any applicable Tax-Related Items from the pay-out of the LTPP Units. In addition, you authorize the Company to fulfill its withholding obligations by all legal means, including: withholding Tax-Related Items from your cash compensation the Company pays to you; withholding Tax-Related Items from the cash proceeds, if any, received upon sale of any Shares received in payment for your LTPP Units; and at the time of payment, withholding Shares sufficient to meet minimum withholding obligations for Tax-Related Items. The Company may refuse to issue and deliver Shares or other amounts in payment of any earned LTPP Units if you fail to comply with any withholding obligation.
9. This LTPP Award is intended to be exempt from (or in the alternative to comply with) the requirements of Section 409A, to the extent applicable. Notwithstanding any provision of the LTPP or this Award Agreement to the contrary, this LTPP Award shall be interpreted, operated, and administered consistent with this intent.

10. In the event any provision of this Award Agreement shall be held illegal or invalid for any reason, the illegality or invalidity shall not affect the remaining parts of this Award Agreement, and this Award Agreement shall be construed and enforced as if the illegal or invalid provision had not been included. This Award Agreement constitutes the final understanding between you and the Company regarding the LTPP Units. Any prior agreements, commitments, or negotiations concerning the LTPP Units are superseded.

IN WITNESS WHEREOF, the Company has caused this Award Agreement to be executed by its duly authorized officer, and you have hereunto set your hand and agreed to all of the terms, conditions, and provisions of this Award Agreement, all as of the Grant Date.

PRIMO WATER CORPORATION

(Grantee Signature)

By: _____
[Name]
[Title]

**PRIMO WATER CORPORATION
AMENDED AND RESTATED
EXECUTIVE DEFERRED COMPENSATION PLAN**

1. **Name** . This plan shall be known as the Primo Water Corporation Amended and Restated Executive Deferred Compensation Plan (the “**Plan**”).
 2. **Purpose and Intent** . Primo Water Corporation (the “**Company**”) has established the Plan for the purposes of providing certain employees with the opportunity to defer payment of a portion of awards under the Primo Water Corporation Amended & Restated Value Creation Plan, as amended (the “**VCP**”) and the Primo Water Corporation Long-Term Performance Plan, as amended (the “**LTPP**”), in each case, in the form of Stock Units (defined below). It is the intent of the Company that amounts deferred under the Plan shall not be taxable to the employee for income tax purposes until the time actually received by the employee. The provisions of the Plan shall be construed and interpreted to effectuate that intent.
 3. **Definitions** . For purposes of the Plan, the following terms have the following meanings:
 - (a) “**Acceleration Event**” means, with respect to a Participant with an Account under the Plan, the occurrence of any of the following: (1) the Participant’s death, (2) the Participant’s Disability or (3) the Participant attaining age 75.
 - (b) “**Account**” means the account established and maintained on the books of the Company to record a Participant’s interest under the Plan, measured in Stock Units, attributable to amounts credited to the Participant pursuant to the Plan.
 - (c) “**Award**” means, with respect to a Participant, any incentive award payable to the Participant pursuant to, (1) before [March 21], 2017, the VCP and, (2) after [March 21], 2017, the LTPP, provided such incentive award is payable prior to the date of the Participant’s Termination of Employment.
 - (d) “**Beneficiary**” means any person or trust designated by a Participant in accordance with procedures adopted by the Plan Administrator to receive the Participant’s Account in the event of the Participant’s death. If the Participant does not designate a Beneficiary, the Participant’s Beneficiary is his or her spouse, or if not then living, his or her estate.
 - (e) “**Board**” means the Board of Directors of the Company.
 - (f) “**Code**” means the Internal Revenue Code of 1986, as amended from time to time, and includes any valid and binding governmental regulations, court decisions and other regulatory and judicial authority issued or rendered thereunder.
 - (g) “**Committee**” means Compensation Committee of the Board.
 - (h) “**Common Stock**” means the common stock of the Company.
-

(i) “ **Disability** ” means that a Participant is: (1) unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than 12 months; (2) by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, receiving income replacement benefits for a period of not less than three months under an accident and health plan covering employees of the Company; or (3) determined to be totally disabled by the Social Security Administration.

(j) “ **Eligible Employee** ” means an Employee designated as an Eligible Employee pursuant to Section 5(a).

(k) “ **Employee** ” means an individual employed by the Company.

(l) “ **Fair Market Value** ” shall have the meaning set forth in the Stock Plan.

(m) “ **In-Service Account** ” means a Payment Sub-Account for a Participant established based on the Participant’s payment election under Section 6(a) providing for scheduled, in-service payments, comprised of deferrals for a Plan Year to which the payment election relates as adjusted in accordance with Section 5(e).

(n) “ **Participant** ” means an Eligible Employee who has elected to defer compensation under the Plan as provided in Section 5(b).

(o) “ **Payment Sub-Account** ” means a portion of a Participant’s Account established by the Plan Administrator to facilitate the administration of distributions under the Plan, including without limitation Payment Sub-Accounts representing (1) an In-Service Account and (2) a Post-Service Account.

(p) “ **Plan Administrator** ” means the Committee, or such other committee as determined by the Board.

(q) “ **Plan Year** ” means the calendar year.

(r) “ **Post-Service Account** ” means a Payment Sub-Account for a Participant established based on the Participant’s payment election under Section 6(a) providing for payments commencing following the Participant’s Termination of Employment, comprised of deferrals for a Plan Year to which the payment election relates as adjusted in accordance with Section 5(e).

(s) “ **Section 409A** ” means Section 409A of the Code.

(t) “ **Stock Plan** ” means the Primo Water Corporation Amended and Restated 2010 Omnibus Long-Term Incentive Plan, as it may be amended from time to time, and any successor plan thereto.

(u) “ **Stock Unit** ” means a unit having a value as of a given date equal to the Fair Market Value of one share of Common Stock on such date.

(v) “**Termination of Employment**” means a Participant’s “separation from service” with the Company within the meaning of Section 409A and any related administrative policies of the Company.

4. **Administration** . The Plan Administrator shall be responsible for administering the Plan. The Plan Administrator shall have all of the powers necessary to enable it to properly carry out its duties under the Plan. Not in limitation of the foregoing, the Plan Administrator shall have the power to construe and interpret the Plan and to determine all questions that arise thereunder. The Plan Administrator shall have such other and further specified duties, powers, authority and discretion as are elsewhere in the Plan either expressly or by necessary implication conferred upon it. The Plan Administrator may appoint any agents that it deems necessary for the effective performance of its duties, and may delegate to those agents those powers and duties that the Plan Administrator deems expedient or appropriate that are not inconsistent with the intent of the Plan. All decisions of the Plan Administrator upon all matters within the scope of its authority shall be made in the Plan Administrator’s sole discretion and shall be final and conclusive on all persons, except to the extent otherwise provided by law.

5. **Eligibility, Deferrals, Vested Status, Account Adjustments** .

(a) **Eligibility** . For each Plan Year before 2017, each Employee who was eligible to participate in the VCP shall be an Eligible Employee for such Plan Year, unless otherwise determined by the Committee, and for each Plan Year beginning in 2017, each Employee who is then eligible to participate in the LTTP shall be an Eligible Employee for such Plan Year, unless otherwise determined by the Committee; *provided, however* , that the determination of Eligible Employees shall be made consistent with the requirement that the Plan be a “top hat” plan for purposes of the Employee Retirement Income Security Act of 1974, as amended. An Employee designated as an Eligible Employee with respect to one Plan Year need not be designated as an Eligible Employee for any subsequent Plan Year.

(b) **Elections to Defer** . Unless otherwise determined by the Plan Administrator with respect to a Plan Year, a person who is an Eligible Employee for a Plan Year may elect to defer from 10% to 100%, in 5% increments, of the Eligible Employee’s Award that becomes earned based on Company performance for the Plan Year as provided under the VCP or LTTP, as applicable (after all required deductions and withholdings). Elections to defer Awards for a Plan Year must be made before the first day of the Plan Year; *provided, however* , that (1) a newly hired or promoted Eligible Employee who first becomes eligible to participate in the Plan after the start of a Plan Year may make a deferral election within 30 days after first becoming eligible to participate in the Plan if and to the extent so notified by the Plan Administrator, with respect to the pro-rated portion of the total Award payable for that Plan Year that is attributable to the Participant’s service with the Company rendered after the date the Participant makes a deferral election for that Plan Year to the extent required by Section 409A; and (2) if the Plan Administrator determines that Awards qualify as “performance-based compensation” under Section 409A, the Plan Administrator may permit deferral elections to be made as late as June 30 of the Plan Year in accordance with and subject to the requirements of Section 409A. All elections made under this Section 5(b) shall be made in writing on a form, or pursuant to other electronic or non-written procedures, as may be prescribed from time to time by the Plan Administrator and shall be irrevocable for the Plan Year. An election to defer made by an Eligible Employee with respect to any Award payable for a Plan Year shall not automatically apply with respect to any Award payable for any subsequent Plan Year. Amounts deferred under the Plan shall not be taken into account for purposes of determining contributions or allocations under the Company’s tax-qualified 401(k) plan.

(c) Fully Vested Status. Participants shall be fully vested at all times in their Account.

(d) Establishment of Accounts. The Company shall establish and maintain on its books an Account for each Participant employed by the Company. Each Account shall be designated by the name of the Participant for whom such Account is established. The amount to be deferred under Section 5(b) for a given Plan Year shall be credited to a separate Payment Sub-Account within the Participant's Account, designated by the applicable Plan Year. Such credit to the Payment Sub-Account shall be made as of the date such amount would have otherwise been paid to the Participant but for the Participant's deferral election. The amount credited to each Payment Sub-Account shall be in the form of Stock Units, with the number of Stock Units (whole and fractional) equal to the number of shares of Common Stock deferred under the VCP or the LTPP, as applicable, by the Participant on the applicable deferral date.

(e) Account Adjustments for Deemed Investment in Stock Units. Each Payment Sub-Account shall be credited with additional whole or fractional Stock Units for cash dividends paid on the Common Stock based on the number of Stock Units in the Payment Sub-Account on the applicable dividend record date and calculated based on the Fair Market Value of the Common Stock on the applicable dividend payment date. Each Payment Sub-Account shall also be equitably adjusted as determined by the Committee in the event of any stock dividend, stock split or similar change in the capitalization of the Company, in the manner described in Section 15.1.1 of the Stock Plan.

6. **Distribution Provisions**

(a) Payment Elections. A Participant shall elect the form of payment that shall apply to the deferrals for a Plan Year coincident with the deferral elections under Section 5(b) for such Plan Year. The Plan Administrator shall determine whether a single payment election shall be made for all such deferrals for the Plan Year or whether the election may be split among the available payment options. Except as otherwise determined by the Plan Administrator at the time elections are made and subject to the provisions of the Plan, including acceleration of payments upon an Acceleration Event pursuant to Section 6(g), there shall be two payment options available to a Participant: a Post-Service Account and an In-Service Account.

(1) Post-Service Account. The balance of a Participant's Post-Service Account shall be payable to the Participant commencing on or as soon as administratively practicable (but not more than 30 days) after the beginning of the seventh month following the Participant's Termination of Employment. At the time the Participant first elects deferrals to be credited to the Post-Service Account, the Participant shall also elect the form of payment of the Post-Service Account from the following options, which election shall become irrevocable and shall apply to all future deferrals of the Participant credited to the Post-Service Account, except as otherwise expressly provided by the Plan:

(A) Lump Sum. The balance of the Post-Service Account as of the applicable payment date as determined by the Plan Administrator shall be payable in a single payment.

(B) Installments. The balance of the Post-Service Account shall be payable in annual installments over a period of two to ten years (or such other maximum period of years as determined by the Committee), as selected by the Participant, with the amount of each installment determined under Section 6(c).

(2) In-Service Account. The balance of a Participant's In-Service Account shall be payable to the Participant commencing on or as soon as administratively practicable (but not more than 30 days) after January 1 of the specified year selected by the Participant (the "**Payment Year**"), which Payment Year cannot be later than the year in which the Participant will attain age 75; *provided, however*, that the Committee may permit a Participant to elect to have payment(s) commence earlier if the Participant has a Termination of Employment before January 1 of the Payment Year, in which case payment shall commence as soon as administratively practicable (but not more than 30 days) following the beginning of the seventh month following the Participant's Termination of Employment, in accordance with the distribution method elected for this earlier payment by the Participant. In order for a Participant to be eligible to elect deferrals to be credited to an In-Service Account, the Plan Administrator may, at the time of the election, require a minimum period of deferral. At the time the Participant first elects deferrals to be credited to an In-Service Account for a given Payment Year, the Participant shall also elect the form of payment of the In-Service Account from the following options, which election shall become irrevocable and shall apply to all future deferrals of the Participant credited to the In-Service Account for that Payment Year, except as otherwise expressly provided by the Plan:

(A) Lump Sum. The balance of the In-Service Account as of the applicable payment date as determined by the Plan Administrator shall be payable in a single payment.

(B) Installments. The balance of the In-Service Account shall be payable in annual installments over a period of two to ten years (or such other maximum period of years as determined by the Committee), as selected by the Participant, with the amount of each installment determined under Section 6(c).

(3) Default Election. If a Participant makes a deferral election for a Plan Year but fails to elect a method of payment for such deferrals, the Participant shall be deemed to have elected such deferrals to be credited to the Participant's Post-Service Account, and if the Participant has not previously elected deferrals to be credited to the Post-Service Account, the Participant shall be deemed to have elected the lump sum form of payment for the Post-Service Account payable at the beginning of the seventh month following the Participant's Termination of Employment.

(b) Subsequent Changes to Payment Elections.

(1) A Participant may make an election to change the form of payment (i.e., lump sum or permitted number of installments) of the Participant's Post-Service Account only if (i) such election is made at least 12 months prior to the date the payment of the Post-Service Account would have otherwise commenced, and (ii) the effect of such election is to defer the commencement of such payment by at least five years.

(2) A Participant may change the timing or form of the fixed date payment elected with respect to an In-Service Account only if (i) such election is made at least 12 months prior to the date the payment of the In-Service Account would have otherwise commenced, and (ii) the effect of such election is to defer the specified fixed date for such payment by at least five years (i.e., such election will not change the timing or form of the payment for the In-Service Account due to Termination of Employment occurring before the applicable fixed date).

(3) The Plan Administrator may determine whether a Participant will be permitted to make any elections under this Section 6(b) or to limit the number of any such elections permitted for a Participant.

(c) Installments. If amounts are payable to a Participant in the form of annual installments, the first annual installment shall be paid commencing per the applicable election set forth in Section 6(a) and each subsequent annual installment shall be paid on or about the anniversary of the first installment. The amount payable on each payment date shall be equal to the balance of the applicable Payment Sub-Account on the applicable payment date as determined by the Plan Administrator divided by the number of remaining installments (including the installment then payable).

(d) Payment Acceleration Due to Death, Disability or Attainment of Age 75. If an Acceleration Event occurs before all payments to the Participant under the Plan have been made, the Participant's Account shall be payable to the Participant or his or her Beneficiary in a single payment as soon as administratively practicable (but not more than 90 days) after the Acceleration Event, in an amount equal to the balance of the Participant's Account on the applicable payment date as determined by the Plan Administrator.

(e) Withdrawals on Account of an Unforeseeable Emergency. A Participant who is in active service with the Company may, if permitted by the Plan Administrator, receive a refund of all or any part of the amounts previously credited to the Participant's Account in the case of an "unforeseeable emergency." A Participant requesting a payment pursuant to this Section 6(e) shall have the burden of proof of establishing, to the Plan Administrator's satisfaction, the existence of an "unforeseeable emergency," and the amount of the payment needed to satisfy the same. In that regard, the Participant must provide the Plan Administrator with such financial data and information as the Plan Administrator may request. If the Plan Administrator determines that a payment should be made to a Participant under this Section 6(e), the payment shall be made within a reasonable time after the Plan Administrator's determination of the existence of the "unforeseeable emergency" and the amount of payment so needed. As used herein, the term "unforeseeable emergency" means a severe financial hardship to a Participant resulting from a sudden and unexpected illness or accident of the Participant or of a dependent of the Participant, loss of the Participant's property due to casualty, or other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Participant. The circumstances that constitute an "unforeseeable emergency" shall depend upon the facts of each case, but, in any case, payment may not be made to the extent that the hardship is or may be relieved (i) through reimbursement or compensation by insurance or otherwise, or (ii) by liquidation of the Participant's assets, to the extent the liquidation of such assets would not itself cause severe financial hardship. Examples of what are not considered to be "unforeseeable emergencies" include the need to send a Participant's child to college or the desire to purchase a home. Withdrawals of amounts because of an "unforeseeable emergency" may not exceed an amount reasonably needed to satisfy the emergency need.

(f) Other Payment Provisions. To be effective, any elections under this Section 6 shall be made on such form, at such time and pursuant to such procedures as determined by the Plan Administrator. Any deferral or payment hereunder shall be subject to applicable payroll and withholding taxes. In the event any amount becomes payable under the provisions of the Plan to a Participant, Beneficiary or other person who is a minor or an incompetent, whether or not declared incompetent by a court, such amount may be paid directly to the minor or incompetent person or to such person's fiduciary (or attorney-in-fact in the case of an incompetent) as the Plan Administrator may decide, and the Plan Administrator shall not be liable to any person for any such decision or any payment pursuant thereto. In accordance with and subject to the requirements of Section 409A, the Plan Administrator may require a Participant's Account to be paid in a lump sum upon Termination of Employment, notwithstanding any prior payment elections by the Participant, if the entire balance of the Participant's Account as of the date of Termination of Employment is less than an amount specified by the Plan Administrator not to exceed the applicable dollar amount under Section 402(g)(1)(B) of the Code for such year.

(g) Payment Amount. In the case of any payment due to a Participant under this Section 6, payment shall be made in the form of a number of shares of Common Stock equal to the number of Stock Units payable to the Participant, determined as of a business day preceding payment under administrative procedures established by the Company. Shares of Common Stock shall be issued pursuant to the Stock Plan or otherwise issued in a manner compliant with state and federal securities laws and regulations, securities exchange requirements and all other applicable laws.

7. **Amendment, Modification and Termination of the Plan**. The Board shall have the right and power at any time and from time to time to amend the Plan in whole or in part and at any time to terminate the Plan; *provided, however*, that no amendment or termination may reduce the amount actually credited to a Participant's Account on the date of the amendment or termination, or further defer the due dates for the payment of the amounts, without the consent of the affected Participant. Notwithstanding any provision of the Plan to the contrary but subject to the requirements of Section 409A, in connection with any termination of the Plan the Committee shall have the authority to cause the Accounts of all Participants (and Beneficiaries of any deceased Participants) to be paid in a single payment as of a date determined by the Committee or to otherwise accelerate the payment of all Accounts in such manner as the Committee determines.

8. **Claims Procedures** . Claims for benefits under the Plan shall be addressed pursuant to the claims procedures applicable under the Company's tax-qualified 401(k) plan. Any decision pursuant to such claims procedures shall be final and conclusive upon all persons interested therein, except to the extent otherwise provided by applicable law.

9. **Indemnity of Plan Administrator** . The Company shall indemnify and hold harmless the Plan Administrator and any Employee to whom the duties of the Plan Administrator may be delegated from and against any and all claims, losses, damages, expenses or liabilities arising from any action or failure to act with respect to the Plan, except in the case of willful misconduct by the Plan Administrator or any such Employee.

10. **Applicable Law** . The Plan shall be governed and construed in accordance with the laws of the State of Delaware, except to the extent such laws are preempted by the laws of the United States of America.

11. **Compliance With Section 409A** . The Plan and any payments provided hereunder are intended to comply with Section 409A. The Plan shall in all respects be interpreted, operated, and administered in accordance with this intent. Payments provided under the Plan may only be made upon an event and in a manner that complies with Section 409A or an applicable exemption. Any payments provided under the Plan to be made upon a termination of service that constitute deferred compensation subject to Section 409A shall only be made if such termination of service constitutes a "separation from service" under Section 409A. The Company makes no representations or warranties that the payments provided under the Plan comply with, or are exempt from, Section 409A, and in no event shall the Company be liable for any portion of any taxes, penalties, interest, or other expenses that may be incurred by a Participant on account of non-compliance with Section 409A.

12. **Miscellaneous** . A Participant's rights and interests under the Plan may not be assigned or transferred by the Participant. In that regard, no part of any amounts credited or payable hereunder shall, prior to actual payment, (i) be subject to seizure, attachment, garnishment or sequestration for the payment of debts, judgments, alimony or separate maintenance owed by the Participant or any other person, (ii) be transferable by operation of law in the event of the Participant's or any person's bankruptcy or insolvency or (iii) be transferable to a spouse as a result of a property settlement or otherwise. The Plan shall be an unsecured and unfunded arrangement. To the extent the Participant acquires a right to receive payments from the Company under the Plan, the right shall be no greater than the right of any unsecured general creditor of the Company. Nothing contained herein may be deemed to create a trust of any kind or any fiduciary relationship between the Company and any Participant. Designation as an Eligible Employee or Participant in the Plan shall not entitle or be deemed to entitle the person to continued employment with the Company. The Plan shall be binding on the Company and any successor in interest of the Company.

AMENDMENT NO. 1 TO STRATEGIC ALLIANCE AGREEMENT

This Amendment No. 1 to Strategic Alliance Agreement (this “ *Amendment* ”), effective as of March 13, 2017 (the “ *Amendment Effective Date* ”), is entered into by and between PRIMO WATER CORPORATION, a Delaware corporation (“ *Primo* ”), and DS SERVICES OF AMERICA, INC., a Delaware corporation f/k/a DS Waters of America, Inc. (“DSW”).

BACKGROUND

WHEREAS, Primo and DSW entered into a Strategic Alliance Agreement, dated as of November 12, 2013 (the “ *Original Agreement* ”);

WHEREAS, Primo and DSW desire to extend the term of the Original Agreement and to amend the Original Agreement to reflect certain changed conditions and the new understanding between the parties as set forth below; and

WHEREAS, pursuant to Section 25 of the Original Agreement, the amendments contemplated by the parties must be contained in a written agreement signed by each party.

NOW, THEREFORE, in consideration of the foregoing and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto intending to be legally bound, hereby agree as follows:

AGREEMENT

1. **Definitions**. Capitalized terms used and not defined in this Amendment have the respective meanings assigned to them in the Original Agreement.
2. **Amendment to Original Agreement**. Subject to the terms and conditions set forth herein, the Original Agreement is hereby amended as follows:
 - a. The definition of “ Reconciliation Balance” in **Section 1** of the Original Agreement is hereby replaced in its entirety by the following:

“Reconciliation Balance” shall mean, for each Customer that makes payments to Primo based upon the Bottles scanned in their point of sale systems (a “SBT Customer”), (A) the difference between (i) the number of Bottles of Product delivered by or on behalf of DSW to such SBT Customer for any given period, and (ii) the number of Bottles of Product for which Primo receives full payment from such SBT Customer for such period, times (B) the payment rate per Bottle as set forth on Schedule E.

- b. **Section 3** of the Original Agreement is hereby replaced in its entirety by the following:

“ **Term**. This Agreement shall commence on the Effective Date specified above, and shall, unless earlier terminated pursuant to the provisions hereof, continue until December 31, 2025 (“ *Initial Term* ”), when it shall either be terminated pursuant to the provisions hereof, or, unless so terminated, be automatically renewed for one (1) or more successive seven (7) year terms (“ *Renewal Terms* ”), each of which shall be subject to the termination and all other provisions hereof (collectively the “ *Term* ”).”

c. **Section 6(d)** of the Original Agreement is hereby amended to include the following **Section 6(d)(v)** :

(v) **Service Incentive**. Primo shall pay to DSW, quarterly, a service incentive (the “Service Incentive”) for year to date performance based on DSW’s Service Score and the resulting Price Per Bottle Incentive (as defined on **Schedule J**). The maximum Service Incentive Primo shall pay is \$0.05 per Bottle. The calculation for the Service Incentive is set forth on **Schedule J**. If the full year score measured at the end of any particular year is below 92%, the amount of any Service Incentive actually paid to DSW for any previous quarters during such year will be deemed forfeited and deducted by Primo from any amounts due to DSW.

d. **Schedule E** of the Original Agreement is hereby replaced in its entirety with Attachment A to this Amendment.

e. The “LIST OF SCHEDULES TO STRATEGIC ALLIANCE AGREEMENT” in the Original Agreement is hereby amended to add Schedule J, titled “Service Incentive”.

f. The Attachment B to this Amendment is hereby added to the Original Agreement as **Schedule J – Service Incentive**.

g. **Section 26** of the Original Agreement is hereby replaced in its entirety by the following:

26. Notices. Any notices required hereunder shall be sent by e-mail followed by a “hard copy” via overnight mail to the parties as follows (or to such other address as may be specified by either party to the other party in accordance with this Section 26):

To Primo:

Primo Water Corporation
101 N. Cherry Street, Suite 501
Winston-Salem, NC 27101
Attn: President and COO
Email: msheehan@primowater.com

With a copy to:

Primo Water Corporation
101 N. Cherry Street, Suite 501
Winston-Salem, NC 27101
Attn: Chief Financial Officer
Email: mcastaneda@primowater.com

To DSW:

DS Services of America, Inc.
2300 Windy Ridge Parkway SE, Suite 500N
Atlanta, GA 30339
Attn: President and CEO
Email: tharrington@water.com

With a copy to:

DS Services of America, Inc.
2300 Windy Ridge Parkway SE, Suite 500N
Atlanta, GA 30339
Attn: VP, General Counsel and Secretary
E-mail: mpoe@water.com

3. Miscellaneous.

- a. Conflicting Terms and Full Force and Effect. To the extent that any of the terms and conditions of this Amendment are inconsistent with the terms and conditions of the Original Agreement, the terms and conditions of this Amendment shall prevail. Except as expressly set forth herein, this Amendment does not constitute a waiver or modification of any provision of the Original Agreement. Except as expressly amended hereby, the Original Agreement shall continue in full force and effect in accordance with the provisions thereof on the date hereof. As used in the Original Agreement, the terms “this Agreement,” “herein,” “hereof,” “hereinafter,” “hereto” and words of similar import shall, unless the context otherwise requires, mean the Original Agreement as amended by this Amendment. References to the term “this Agreement” appearing in the Exhibits or Schedules to the Original Agreement shall, unless the context otherwise requires, mean the Original Agreement as amended by this Amendment.
- b. Governing Law and Dispute Resolution. The Governing Law and Dispute Resolution provisions of the Original Agreement shall extend this Amendment.
- c. Representations and Warranties. Each of Primo and DSW hereby represents and warrants to the other that it is not subject to any covenants, agreements or restrictions that would be breached or violated by its negotiation or execution of this Amendment or its performance of the Original Agreement, as amended hereby.
- d. Counterparts. This Amendment may be executed in one or more counterparts that together constitute one and the agreement and may be and delivered by electronic means, and each copy of which shall be deemed an original.

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IN WITNESS WHEREOF , the parties hereto have executed this Amendment as of the date first written above.

PRIMO WATER CORPORATION
(“Primo”)

By: /s/ Matthew T. Sheehan
Name: Matthew T. Sheehan
Title: President and Chief Operating Officer

DS SERVICES OF AMERICA, INC.
(“DSW”)

By: /s/ Thomas J. Harrington
Name: Thomas J. Harrington
Title: Chief Executive Officer

MANAGEMENT CERTIFICATION

I, Billy D. Prim, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Primo Water Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 10, 2017

/s/ Billy D. Prim

Billy D. Prim

Chairman and Chief Executive Officer

MANAGEMENT CERTIFICATION

I, Mark Castaneda, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Primo Water Corporation ;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 10, 2017

/s/ Mark Castaneda

Mark Castaneda

Chief Financial Officer

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Primo Water Corporation, (the "Company") on Form 10-Q for the period ended March 31, 2017 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), we, Billy D. Prim, Chairman and Chief Executive Officer of the Company, and Mark Castaneda, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

A signed original of this written statement required by Section 906 has been provided to Primo Water Corporation and will be retained by Primo Water Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

/s/ Billy D. Prim

Billy D. Prim
Chairman and Chief Executive Officer
May 10, 2017

/s/ Mark Castaneda

Mark Castaneda
Chief Financial Officer
May 10, 2017