

# PRIMO WATER CORP

## FORM 10-Q (Quarterly Report)

Filed 11/08/17 for the Period Ending 09/30/17

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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 SEPTEMBER 30 , 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)*

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

**101 North Cherry Street, Suite 501, Winston-Salem, NC 27101**

*(Address of principal executive office)*      *(Zip code)*

**(336) 331-4000**  
*(Registrant 's telephone number, including area code)*

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

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

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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 November 3, 2017, there were 30,020,649 shares of our Common Stock, par value \$0.001 per share, outstanding.

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**PRIMO WATER CORPORATION**  
**FORM 10- Q**  
**FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30 , 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)**

	<u>September 30,</u> <u>2017</u>	<u>December 31,</u> <u>2016</u>
	(unaudited)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 4,250	\$ 15,586
Accounts receivable, net	22,300	14,121
Inventories	6,542	6,182
Prepaid expenses and other current assets	3,824	3,086
Total current assets	<u>36,916</u>	<u>38,975</u>
Bottles, net	4,380	4,152
Property and equipment, net	102,176	100,331
Intangible assets, net	145,891	149,457
Goodwill	92,999	91,709
Investment in Glacier securities (\$3,838 available-for-sale, at fair value)	6,467	6,408
Other assets	542	353
Total assets	<u>\$ 389,371</u>	<u>\$ 391,385</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 21,101	\$ 13,788
Accrued expenses and other current liabilities	12,496	16,922
Current portion of long-term debt and capital leases	3,555	2,183
Total current liabilities	<u>37,152</u>	<u>32,893</u>
Long-term debt and capital leases, net of current portion and debt issuance costs	270,386	270,264
Deferred tax liability, net	11,976	13,607
Warrant liability	–	8,180
Other long-term liabilities	2,045	2,069
Total liabilities	<u>321,559</u>	<u>327,013</u>
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, 29,908 and 29,305 shares issued and outstanding at September 30, 2017 and December 31, 2016, respectively	30	29
Additional paid-in capital	326,427	325,779
Common stock warrants	18,892	7,492
Accumulated deficit	(276,784)	(267,393)
Accumulated other comprehensive loss	(753)	(1,535)
Total stockholders' equity	<u>67,812</u>	<u>64,372</u>
Total liabilities and stockholders' equity	<u>\$ 389,371</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 September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Net sales	\$ 82,207	\$ 35,504	\$ 217,762	\$ 102,185
Operating costs and expenses:				
Cost of sales	57,273	24,435	154,166	71,351
Selling, general and administrative expenses	7,939	4,909	26,703	14,715
Non-recurring and acquisition-related costs	158	655	7,583	1,094
Depreciation and amortization	6,358	2,397	19,571	7,225
(Gain) loss on disposal and impairment of property and equipment	(72)	158	(90)	570
Total operating costs and expenses	71,656	32,554	207,933	94,955
Income from operations	10,551	2,950	9,829	7,230
Interest expense, net	5,153	477	15,177	1,436
Change in fair value of warrant liability	-	-	3,220	-
Income (loss) from continuing operations before income taxes	5,398	2,473	(8,568)	5,794
Provision for income taxes	451	-	823	-
Income (loss) from continuing operations	4,947	2,473	(9,391)	5,794
Loss from discontinued operations	-	(17)	-	(43)
Net income (loss)	<u>\$ 4,947</u>	<u>\$ 2,456</u>	<u>\$ (9,391)</u>	<u>\$ 5,751</u>
Basic earnings (loss) per common share:				
Income (loss) from continuing operations	\$ 0.15	\$ 0.09	\$ (0.28)	\$ 0.21
Loss from discontinued operations	-	(0.01)	-	(0.01)
Net income (loss)	<u>\$ 0.15</u>	<u>\$ 0.08</u>	<u>\$ (0.28)</u>	<u>\$ 0.20</u>
Diluted earnings (loss) per common share:				
Income (loss) from continuing operations	\$ 0.14	\$ 0.08	\$ (0.28)	\$ 0.19
Loss from discontinued operations	-	-	-	-
Net income (loss)	<u>\$ 0.14</u>	<u>\$ 0.08</u>	<u>\$ (0.28)</u>	<u>\$ 0.19</u>
Weighted average shares used in computing earnings (loss) per share:				
Basic	33,525	28,900	33,086	28,066
Diluted	<u>34,653</u>	<u>30,210</u>	<u>33,086</u>	<u>29,843</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)

	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
Net income (loss)	\$ 4,947	\$ 2,456	\$ (9,391)	\$ 5,751
Other comprehensive income:				
Unrealized gain on investment in Glacier securities	38	–	59	–
Foreign currency translation adjustments, net	386	(39)	723	148
Total other comprehensive income	424	(39)	782	148
Comprehensive income (loss)	<u>\$ 5,371</u>	<u>\$ 2,417</u>	<u>\$ (8,609)</u>	<u>\$ 5,899</u>

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)

	<b>Nine Months Ended September 30,</b>	
	<b>2017</b>	<b>2016</b>
<b>Cash flows from operating activities:</b>		
Net (loss) income	\$ (9,391)	\$ 5,751
Less: Loss from discontinued operations	—	(43)
(Loss) income from continuing operations	(9,391)	5,794
<b>Adjustments to reconcile net (loss) income to net cash provided by operating activities:</b>		
Depreciation and amortization	19,571	7,225
(Gain) loss on disposal and impairment of property and equipment	(90)	570
Stock-based compensation expense	4,611	1,556
Non-cash interest (income) expense	(51)	83
Change in fair value of warrant liability	3,220	—
Deferred income tax expense	823	—
Realized foreign currency exchange loss (gain) and other, net	169	(144)
<b>Changes in operating assets and liabilities:</b>		
Accounts receivable	(8,480)	(4,680)
Inventories	(351)	(1,236)
Prepaid expenses and other assets	(956)	(268)
Accounts payable	7,611	1,693
Accrued expenses and other liabilities	(6,036)	702
<b>Net cash provided by operating activities</b>	<b>10,650</b>	<b>11,295</b>
<b>Cash flows from investing activities:</b>		
Purchases of property and equipment	(13,434)	(7,397)
Purchases of bottles, net of disposals	(2,120)	(1,933)
Proceeds from the sale of property and equipment	167	32
Additions to intangible assets	(113)	(49)
<b>Net cash used in investing activities</b>	<b>(15,500)</b>	<b>(9,347)</b>
<b>Cash flows from financing activities:</b>		
Borrowings under Revolving Credit Facility	2,500	—
Payments under Revolving Credit Facility	(2,500)	—
Borrowings under prior Revolving Credit Facility	—	33,500
Payments under prior Revolving Credit Facility	—	(33,500)
Term loan and capital lease payments	(3,107)	(187)
Stock option and employee stock purchase activity and other, net	(3,088)	(1,022)
Debt issuance costs and other	(261)	(256)
<b>Net cash used in financing activities</b>	<b>(6,456)</b>	<b>(1,465)</b>
Cash used in operating activities of discontinued operations	—	(89)
Effect of exchange rate changes on cash and cash equivalents	(30)	82
Net (decrease) increase in cash and cash equivalents	(11,336)	476
Cash and cash equivalents, beginning of year	15,586	1,826
<b>Cash and cash equivalents, end of period</b>	<b>\$ 4,250</b>	<b>\$ 2,302</b>

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

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)* requiring lessees to recognize all leases (with the exception of short-term leases) at the commencement date as: (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 September 2015, the FASB issued ASU 2015-16, *Simplifying the Accounting for Measurement-Period Adjustments (Topic 805)* which eliminates the requirement that an acquirer in a business combination account for measurement-period adjustments retrospectively. Instead, an acquirer recognizes measurement period adjustments during the period in which it determines the amount of the adjustment. ASU 2015-16 is effective for fiscal years beginning after December 15, 2015, and interim period within those fiscal years. We adopted ASU 2015-16 on January 1, 2017, and adoption of the new standard had a material impact to our consolidated balance sheets as disclosed within “Note 2 – Glacier Acquisition” in the notes to the consolidated financial statements.



In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* ( *Topic 606* ) which supersedes existing revenue recognition requirements in U.S. GAAP. The updated guidance requires that an entity recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, the guidance establishes a five-step approach for the recognition of revenue. The updates are currently effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. We will adopt the new revenue standard effective January 1, 2018. We are in the process of finalizing how the application of the new standard will impact our consolidated financial statements 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. We currently anticipate using the modified retrospective method of adoption and based on our preliminary analysis to date, we do not anticipate a material effect on the timing and measurement of revenue recognition due to the nature and substance of our contracts with customers. We are planning to finalize our analysis in November 2017. Within the notes to the consolidated financial statements after adoption of this guidance, we will disclose sufficient information to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

## 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 and after the acquisition date. We incurred fees and expenses related to the Acquisition of \$146 and \$4,011 during the three and nine months ended September 30, 2017, respectively, as recorded within non-recurring and acquisition-related costs.

A summary of the consideration paid is as follows:

<b>Aggregate consideration:</b>	
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	<u>\$ 200,220</u>

During the nine months ended September 30, 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	889	66,494
Identifiable intangible assets	142,330	–	142,330
Investments and other assets	11,765	(450)	11,315
Goodwill	91,822	900	92,722
Deferred tax liability	(13,607)	2,454	(11,153)
Net liabilities assumed	(101,989)	(3,793)	(105,782)
Aggregate purchase price	<u>\$ 200,220</u>	<u>\$ –</u>	<u>\$ 200,220</u>

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.

Unaudited pro forma results of operations are presented below for the three and nine months ended September 30, 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.

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Net sales	\$ 82,207	\$ 74,088	\$ 217,762	\$ 208,141
Pro forma net income (loss)	\$ 4,947	\$ 2,825	\$ (9,391)	\$ 2,104
Basic earnings (loss) per common share:				
Net earnings (loss) attributable to common shareholders	\$ 0.15	\$ 0.09	\$ (0.28)	\$ 0.07
Diluted earnings (loss) per common share:				
Net earnings (loss) attributable to common shareholders	\$ 0.14	\$ 0.08	\$ (0.28)	\$ 0.06

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

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

	September 30, 2017	December 31, 2016
Term loans	\$ 184,605	\$ 186,000
Debt issuance costs	(3,206)	(3,794)
Total Credit Facilities	181,399	182,206
Junior Subordinated Debentures	88,816	89,529
Capital leases	3,726	712
	273,941	272,447
Less current portion	(3,555)	(2,183)
Long-term debt and capital leases, net of current portion and debt issuance costs	\$ 270,386	\$ 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 \$4,303, 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 September 30, 2017, we had no outstanding borrowings and our availability was \$10,000 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, net; change in fair value of warrant liability; non-cash stock-based compensation expense; non-recurring and acquisition-related 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 tested as of the last day of each fiscal quarter and the minimum liquidity 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 September 30, 2017 we were in compliance with all operational covenants, including (i) a fixed charge coverage ratio of 1.25:1.00 and (ii) a total leverage ratio of 3.54:1.00.

#### *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 are exercisable as follows: 33% became exercisable on and after June 10, 2017, an additional 33% became 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 of Primo common stock 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.

On March 13, 2017, we entered into Amendment No. 1 to the Glacier Warrant Agreement (the “Amendment”). The Amendment provides, among other things, that under no circumstances may a Glacier Warrant holder exercise any Glacier Warrants and receive a cash payment as a net cash settlement. Thus, effective March 13, 2017, the Glacier Warrants were no longer reported as a liability on the 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 were reported as equity instruments on the consolidated statements of stockholders’ equity. The change in the estimated fair value of the warrant liability for the period of January 1, 2017 through March 13, 2017 resulted in non-cash expense of \$3,220 as presented on the condensed consolidated statements of operations for the nine months ended September 30, 2017. The Glacier Warrants’ estimated fair value as recorded on our condensed consolidated balance sheet was \$0 and \$8,180 as of September 30, 2017 and December 31, 2016, respectively.

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

	<b>March 13, 2017</b>	<b>December 31, 2016</b>
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 was based on the U.S. Treasury rate for the expected remaining life of common stock warrants. Our expected volatility was based on the average long-term historical volatilities of peer companies. The dividend yield assumption was 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 September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Stock options	\$ 142	\$ 147	\$ 441	\$ 476
Restricted stock	641	348	2,089	782
Value Creation Plan	–	–	1,482	254
Long-Term Performance Plan	124	–	526	–
Employee Stock Purchase Plan	26	15	73	44
	<u>\$ 933</u>	<u>\$ 510</u>	<u>\$ 4,611</u>	<u>\$ 1,556</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.

## 6. Commitments and Contingencies

### Omnifrio Single-Serve Beverage Business

Deferred purchase price payments totaling \$1,901 were included within accrued expenses and other current liabilities on the condensed consolidated balance sheets as of December 31, 2016. These payments were related to the April 11, 2011 acquisition of certain intellectual property and other assets from the seller, Omnifrio Beverage Company LLC (“Omnifrio”).

On March 31, 2017, we entered into a settlement and release agreement with Omnifrio in which we agreed to a cash payment of \$710 to Omnifrio and to transfer all intellectual property and other assets purchased from Omnifrio in April 2011 back to Omnifrio. The settlement resulted in a gain of \$1,191, reported within non-recurring and acquisition-related costs on the condensed consolidated statement of operations for the nine months ended September 30, 2017.

### *Texas Regional Operator Litigation/Arbitration*

On August 8, 2014, a lawsuit was commenced against us by our regional operators Artesia Springs, LLC, HOD Enterprises, L.P., and BBB Water, Inc. (the "ROs") in the State of Texas. DS Services of America, Inc. was also named as a defendant in the lawsuit. The claims alleged against us in the lawsuit were breach of contract, conspiracy and fraud, and the ROs sought unspecified monetary damages as well as injunctive relief. On April 10, 2015, the ROs initiated an arbitration proceeding with the 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 in April, July and September 2017 totaling \$3,783. 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 nine months ended September 30, 2017. The settlement also resulted in interest expense of \$21 and \$82 for the three and nine months ended September 30, 2017, respectively.

### *Prism Arbitration*

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

On July 24, 2017, we entered into a settlement and mutual release agreement with Prism Distribution pursuant to which we agreed to make a payment to Prism of \$825. A liability of \$825 was recorded within accrued expenses and other liabilities on the condensed consolidated balance sheet as of September 30, 2017. The settlement resulted in expense of \$825, reported within non-recurring and acquisition-related costs on the condensed consolidated statement of operations for the nine months ended September 30, 2017.

### *Sales Tax*

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

### *Other Contingencies*

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

## **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 September 30, 2017 and 2016, there was \$451 and \$0 income tax expense recognized, respectively, and for the nine months ended September 30, 2017 and 2016, there was \$823 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. Realization of the loss carryforwards is dependent upon generating sufficient taxable income prior to the expiration of the loss carryforwards, subject to the Section 382 limitation.

## 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 September 30, 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:

	<b>September 30, 2017</b>			
	<b>Fair Value</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<b>Assets:</b>				
Investment in Glacier securities	\$ 3,838	\$ —	\$ 3,838	\$ —
<b>Total assets</b>	<b>\$ 3,838</b>	<b>\$ —</b>	<b>\$ 3,838</b>	<b>\$ —</b>
<b>Liabilities:</b>				
Contingent consideration	\$ 1,476	\$ —	\$ —	\$ 1,476
<b>Total liabilities</b>	<b>\$ 1,476</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 1,476</b>
	<b>December 31, 2016</b>			
	<b>Fair Value</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<b>Assets:</b>				
Investment in money market funds (1)	\$ 675	\$ 675	\$ —	\$ —
Investment in Glacier securities	3,779	—	3,779	—
<b>Total assets</b>	<b>\$ 4,454</b>	<b>\$ 675</b>	<b>\$ 3,779</b>	<b>\$ —</b>
<b>Liabilities:</b>				
Warrant liability	\$ 8,180	\$ —	\$ —	\$ 8,180
Contingent consideration	1,513	—	—	1,513
<b>Total liabilities</b>	<b>\$ 9,693</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 9,693</b>

(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	(37)
Reclass Glacier warrant to equity	(11,400)	-
Balance at September 30, 2017	<u>\$ -</u>	<u>\$ 1,476</u>

## 9. Earnings Per Share

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

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
<b>Basic:</b>				
Income (loss) from continuing operations	\$ 4,947	\$ 2,473	\$ (9,391)	\$ 5,794
Loss from discontinued operations	-	(17)	-	(43)
Net income (loss)	<u>\$ 4,947</u>	<u>\$ 2,456</u>	<u>\$ (9,391)</u>	<u>\$ 5,751</u>
Weighted average shares	<u>33,525</u>	<u>28,900</u>	<u>33,086</u>	<u>28,066</u>
Basic earnings (loss) per share from continuing operations	\$ 0.15	\$ 0.09	\$ (0.28)	\$ 0.21
Basic loss per share from discontinued operations	-	(0.01)	-	(0.01)
Basic earnings (loss) per share	<u>\$ 0.15</u>	<u>\$ 0.08</u>	<u>\$ (0.28)</u>	<u>\$ 0.20</u>
<b>Diluted:</b>				
Income (loss) from continuing operations	\$ 4,947	\$ 2,473	\$ (9,391)	\$ 5,794
Loss from discontinued operations	-	(17)	-	(43)
Net income (loss)	<u>\$ 4,947</u>	<u>\$ 2,456</u>	<u>\$ (9,391)</u>	<u>\$ 5,751</u>
Weighted average shares	33,525	28,900	33,086	28,066
Potential shares arising from stock options, restricted stock, warrants and contingently issuable shares under the VCP	1,128	1,310	-	1,777
Weighted average shares - diluted	<u>34,653</u>	<u>30,210</u>	<u>33,086</u>	<u>29,843</u>
Diluted earnings (loss) per share from continuing operations	\$ 0.14	\$ 0.08	\$ (0.28)	\$ 0.19
Diluted loss per share from discontinued operations	-	-	-	-
Diluted earnings (loss) per share	<u>\$ 0.14</u>	<u>\$ 0.08</u>	<u>\$ (0.28)</u>	<u>\$ 0.19</u>

For the nine months ended September 30, 2017, stock options, warrants and unvested shares of restricted stock with respect to an aggregate of 4,554 were excluded from the computation of the number of shares used in the diluted (loss) earnings per share. These shares have been excluded because we incurred a net loss for the respective period and their inclusion would be anti-dilutive.

For the three months ended September 30, 2017, stock options and warrants with respect to an aggregate of 502 have been 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.

For the three and nine months ended September 30, 2016, stock options, warrants and unvested shares of restricted stock with respect to an aggregate of 435 and 740 shares, respectively, have been 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.

For the nine months ended September 30, 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.

## 10. Segments

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

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

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

Our Dispensers segment sells water dispensers that are designed to dispense Primo and other dispenser-compatible bottled water. Our Dispensers sales are primarily generated through major 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 (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 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 machines. Cost of sales for Exchange consists primarily of costs for bottling, distribution and bottles. Cost of sales for Dispensers consists of contract manufacturing, freight and duties.

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

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

Effective May 31, 2017 Billy D. Prim transitioned from his position as Chief Executive Officer to the Executive Chairman of the Board of Directors. At that time, Matthew T. Sheehan, President and Chief Operating Officer, assumed the role of Chief Executive Officer. Following this change, we determined that we now have three reportable segments, Refill, Exchange, and Dispensers. These segments are reflective of how the Company’s Chief Operating Decision Maker (“CODM”) reviews operating results for the purposes of allocating resources and assessing performance. Prior periods have been recast to reflect the change in reportable segments.





## 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,” 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. 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 September 30, 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, Sam’s Club, The Home Depot, Meijer, Kroger, Food Lion, H-E-B Grocery, Sobeys, 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 three reporting segments, Refill, Exchange, and Dispensers, addressing a market demand that we believe was previously unmet. Our solutions are easy for retailers to implement, require minimal management supervision and store-based labor, and provide centralized billing and detailed performance reports. Exchange offers retailers attractive financial margins and the ability to optimize typically unused retail space with our displays. Refill provides 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 three operating segments and three reportable segments: Refill, Exchange, and Dispensers.

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

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

Our Dispensers segment sells water dispensers that are designed to dispense Primo and other dispenser-compatible bottled water. Our Dispensers sales are primarily generated through major retailers in the 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 machines. Cost of sales for Dispensers consists of contract manufacturing, freight and duties.

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

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

Effective May 31, 2017 Billy D. Prim transitioned from his position as Chief Executive Officer to the Executive Chairman of the Board of Directors. At that time, Matthew T. Sheehan, President and Chief Operating Officer, assumed the role of Chief Executive Officer. Following this change, we determined that we now have three reportable segments, Refill, Exchange, and Dispensers. These segments are reflective of how the Company's Chief Operating Decision Maker ("CODM") reviews operating results for the purposes of allocating resources and assessing performance. Prior periods have been recast to reflect the change in reportable segments.

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

## Results of Operations

The following table sets forth our results of operations (dollars in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
<b>Consolidated statements of operations data:</b>				
Net sales	\$ 82,207	\$ 35,504	\$ 217,762	\$ 102,185
Operating costs and expenses:				
Cost of sales	57,273	24,435	154,166	71,351
Selling, general and administrative expenses	7,939	4,909	26,703	14,715
Non-recurring and acquisition-related costs	158	655	7,583	1,094
Depreciation and amortization	6,358	2,397	19,571	7,225
(Gain) loss on disposal and impairment of property and equipment	(72)	158	(90)	570
Total operating costs and expenses	71,656	32,554	207,933	94,955
Income from operations	10,551	2,950	9,829	7,230
Interest expense, net	5,153	477	15,177	1,436
Change in fair value of warrant liability	—	—	3,220	—
Income (loss) from continuing operations before income taxes	5,398	2,473	(8,568)	5,794
Provision for income taxes	451	—	823	—
Income (loss) from continuing operations	4,947	2,473	(9,391)	5,794
Loss from discontinued operations	—	(17)	—	(43)
Net income (loss)	\$ 4,947	\$ 2,456	\$ (9,391)	\$ 5,751

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

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
<b>Consolidated statements of operations data:</b>				
Net sales	100.0%	100.0%	100.0%	100.0%
Operating costs and expenses:				
Cost of sales	69.7	68.8	70.8	69.8
Selling, general and administrative expenses	9.7	13.8	12.3	14.4
Non-recurring and acquisition-related costs	0.2	1.8	3.5	1.1
Depreciation and amortization	7.7	6.8	9.0	7.1
(Gain) loss on disposal and impairment of property and equipment	(0.1)	0.5	(0.1)	0.5
Total operating costs and expenses	87.2	91.7	95.5	92.9
Income from operations	12.8	8.3	4.5	7.1
Interest expense, net	6.3	1.3	7.0	1.4
Change in fair value of warrant liability	—	—	1.4	—
Income (loss) from continuing operations before income taxes	6.5	7.0	(3.9)	5.7
Provision for income taxes	0.5	—	0.4	—
Income (loss) from continuing operations	6.0	7.0	(4.3)	5.7
Loss from discontinued operations	—	(0.1)	—	(0.1)
Net income (loss)	6.0%	6.9%	(4.3)%	5.6%

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 September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
<b>Segment net sales</b>				
Refill	\$ 51,287	\$ 7,355	\$ 131,814	\$ 20,512
Exchange	20,435	18,821	55,301	52,323
Dispensers	10,485	9,328	30,647	29,350
<b>Total net sales</b>	<b>\$ 82,207</b>	<b>\$ 35,504</b>	<b>\$ 217,762</b>	<b>\$ 102,185</b>
<b>Segment income (loss) from operations</b>				
Refill	\$ 15,413	\$ 3,642	\$ 35,619	\$ 9,959
Exchange	6,039	5,659	16,572	15,787
Dispensers	970	733	2,657	2,216
Corporate	(5,427)	(3,874)	(17,955)	(11,843)
Non-recurring and acquisition-related costs	(158)	(655)	(7,583)	(1,094)
Depreciation and amortization	(6,358)	(2,397)	(19,571)	(7,225)
Gain (loss) on disposal and impairment of property and equipment	72	(158)	90	(570)
	<b>\$ 10,551</b>	<b>\$ 2,950</b>	<b>\$ 9,829</b>	<b>\$ 7,230</b>

#### **Three Months Ended September 30, 2017 Compared to Three Months Ended September 30, 2016**

*Net Sales*. Net sales increased 131.5%, or \$46.7 million, to \$82.2 million for the three months ended September 30, 2017 from \$35.5 million for the three months ended September 30, 2016. The change was due to increases in sales for Refill, Exchange, and Dispensers of \$43.9 million, \$1.6 million, and \$1.2 million, respectively.

*Refill*. Refill net sales increased approximately seven-fold to \$51.3 million, representing 62.4% of our total net sales for the three months ended September 30, 2017. The increase in Refill net sales was primarily due to the Acquisition.

*Exchange*. Exchange net sales increased 8.6% to \$20.4 million, representing 24.9% of our total net sales for the three months ended September 30, 2017. The Exchange sales were driven by U.S. same-store unit growth of approximately 6.2% for the three months ended September 30, 2017. Overall, five-gallon equivalent units for Exchange increased 5.7% to 4.0 million units for the three months ended September 30, 2017 from 3.8 million units for the same period of the prior year.

*Dispensers*. Dispensers net sales increased 12.4% to \$10.5 million, representing 12.7% of our total net sales for the three months ended September 30, 2017. The increase in Dispensers net sales was due primarily to increased consumer demand and the timing of orders by major retail customers compared to the prior year. Consumer demand, which we measure as the dispenser unit sales by our retail customers to consumers, was 169,000.

*Gross Margin Percentage*. The overall gross margin percentage was 30.3% for the three months ended September 30, 2017 compared to 31.2% for the same period of the prior year primarily due to the Acquisition as well as an increase in lower margin Dispenser sales.

*Refill*. Gross margin as a percentage of net sales for our Refill segment was 33.5% for the three months ended September 30, 2017 compared to 53.6% for the three months ended September 30, 2016 due to the impact of the Acquisition. With revenue reported as the amount charged to end consumers, primarily through coin-operated machines, and cost of goods sold including a commission paid to retailers, the historical Glacier refill business had a lower gross margin percentage than historical Primo refill business.

*Exchange*. Gross margin as a percentage of net sales for our Exchange segment was 31.7% for the three months ended September 30, 2017 compared to 32.2% for the three months ended September 30, 2016. The change was primarily due to changes in product and customer mix.

*Dispensers*. Gross margin as a percentage of net sales for our Dispensers segment increased to 12.3% for the three months ended September 30, 2017 from 11.4% for the three months ended September 30, 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 \$7.9 million for the three months ended September 30, 2017 from \$4.9 million for the three months ended September 30, 2016. As a percentage of net sales, SG&A decreased to 9.7% for the three months ended September 30, 2017 from 13.8% for the three months ended September 30, 2016. The increase in SG&A expense was driven by the Acquisition and included an increase in employee-related expenses of \$1.1 million, as well as an increase in water quality, tax compliance, insurance, professional and consulting services, and rent expense of \$1.2 million. The increase was also attributable to the \$0.4 million increase in non-cash stock-based compensation expense (see “Note 5 - Stock-Based Compensation” in the Notes to the Condensed Consolidated Financial Statements).

*Non-recurring and acquisition-related costs .* Non-recurring and acquisition-related costs were \$0.2 million for the three months ended September 30, 2017 compared to \$0.7 million for the same period in 2016. The decrease was primarily driven by the \$0.3 million decrease in costs associated with the Acquisition (see “Note 2 – Glacier Acquisition” in the Notes to Condensed Consolidated Financial Statements) and the \$0.2 decrease in legal and other expenses associated with settled litigation and arbitration proceedings against certain former regional operators (see “Note 6 – Commitments and Contingencies” in the Notes to Condensed Consolidated Financial Statements).

*Depreciation and Amortization.* Depreciation and amortization increased to \$6.4 million for the three months ended September 30, 2017 from \$2.4 million for the three months ended September 30, 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 \$5.2 million for the three months ended September 30, 2017 from \$0.5 million for the three months ended September 30, 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).

#### ***Nine Months Ended September 30, 2017 Compared to Nine Months Ended September 30, 2016***

*Net Sales .* Net sales increased 113.1%, or \$115.6 million, to \$217.8 million for the nine months ended September 30, 2017 from \$102.2 million for the nine months ended September 30, 2016. The change was due to increases in sales for Refill, Exchange, and Dispensers of \$111.3 million, \$3.0 million, and \$1.3 million, respectively.

*Refill .* Refill net sales increased over six-fold to \$131.8 million, representing 60.5% of our total net sales for the nine months ended September 30, 2017. The increase in Refill net sales was primarily due to the Acquisition.

*Exchange.* Exchange net sales increased 5.7% to \$55.3 million, representing 25.4% of our total net sales for the nine months ended September 30, 2017. The Exchange sales were driven by U.S. same-store unit growth of approximately 6.2% for the nine months ended September 30, 2017. Overall, five-gallon equivalent units for Exchange increased 6.1% to 11.1 million units for the nine months ended September 30, 2017 from 10.4 million units for the same period of the prior year.

*Dispensers.* Dispensers net sales increased 4.4% to \$30.7 million, representing 14.1% of our total net sales for the nine months ended September 30, 2017. The increase in Dispensers net sales was primarily due to the timing of orders from major retailers compared to the prior year. Consumer demand, which we measure as the dispenser unit sales by our retail customers to consumers, was a record 481,000 for the nine months ended September 30, 2017 . Our dispenser unit sales to retailers increased by 9.1% for the nine months ended September 30, 2017 compared to the same period in 2016. The increase in sales units was greater than the increase in sales dollars primarily due to a shift in customer and item mix.

*Gross Margin Percentage.* The overall gross margin percentage was 29.2% for the nine months ended September 30, 2017 compared to 30.2% for the nine months ended September 30, 2016 due primarily to the Acquisition.

*Refill .* Gross margin as a percentage of net sales for our Refill segment was 31.8% for the nine months ended September 30, 2017 compared to 53.1% for the nine months ended September 30, 2016 due to the impact of the Acquisition. With revenue reported as the amount charged to end consumers, primarily through coin-operated machines, and cost of goods sold including a commission paid to retailers, the historical Glacier refill business has a lower gross margin percentage than the historical Primo refill business.

*Exchange.* Gross margin as a percentage of net sales for our Exchange segment was 32.4% for the nine months ended September 30, 2017, compared to 32.3% for the nine months ended September 30, 2016.

*Dispensers.* Gross margin as a percentage of net sales for our Dispensers segment increased to 12.0% for the nine months ended September 30, 2017 from 10.4% for the nine months ended September 30, 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 81.5% to \$26.7 million for the nine months ended September 30, 2017 from \$14.7 million for the nine months ended September 30, 2016. As a percentage of net sales, SG&A decreased to 12.3% for the nine months ended September 30, 2017 from 14.4% for the nine months ended September 30, 2016. The increase in SG&A expense was driven by the Acquisition and included an increase in employee-related expenses of \$4.0 million, as well as an increase in water quality, tax compliance, insurance, professional and consulting services, and rent expense of \$3.9 million. The increase was partially driven by an increase of \$0.4 million in advertising expense. The increase was also attributable to the \$3.1 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).

*Non-recurring and acquisition-related costs .* Non-recurring and acquisition-related costs were \$7.6 million for the nine months ended September 30, 2017 compared to \$1.1 million for the same period in 2016. The increase was primarily due to settlement payments and legal expenses totaling \$4.8 million associated with former Texas Regional Distributors and Prism Distribution, and costs associated with the Acquisition totaling \$4.0 million for the nine months ended September 30, 2017 (see "Note 2 – Glacier Acquisition" in the Notes to Condensed Consolidated Financial Statements). These costs were 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).

*Depreciation and Amortization.* Depreciation and amortization increased to \$19.6 million for the nine months ended September 30, 2017 from \$7.2 million for the nine months ended September 30, 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 \$15.2 million for the nine months ended September 30, 2017 from \$1.4 million for the nine months ended September 30, 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 September 30, 2017, we anticipate net capital expenditures to range between \$4.0 million and \$6.0 million for the remainder of 2017. Anticipated capital expenditures are related primarily to growth and maintenance in Refill and Exchange locations. We anticipate using cash on hand and availability under the Goldman Credit Facility to meet these capital commitments.

At September 30, 2017, our cash and cash equivalents totaled \$4.3 million and we had \$10.0 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 Refill or Exchange locations and related display, rack and reverse osmosis filtration system costs, cost to develop new Dispenser product lines, sales and marketing resources needed to further penetrate our markets, the expansion of our operations in the United States and Canada, the response of competitors to our solutions and products, as well as 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):

	Nine months ended September 30,	
	2017	2016
Net cash provided by operating activities	\$ 10.7	\$ 11.3
Net cash used in investing activities	\$ (15.5)	\$ (9.3)
Net cash used in financing activities	\$ (6.5)	\$ (1.5)

#### *Net Cash Flows from Operating Activities*

Net cash provided by operating activities decreased to \$10.7 million for the nine months ended September 30 2017, from \$11.3 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 \$15.5 million for the nine months ended September 30, 2017, from \$9.3 million for the same period of the prior year, primarily as a result of increased investing activities associated with our Refill 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 Refill and Exchange locations.

#### *Net Cash Flows from Financing Activities*

Net cash used in financing activities increased to \$6.5 million for the nine months ended September 30, 2017, from \$1.5 million for the same period of the prior year, driven primarily by an increase in shares purchased to pay taxes associated with certain incentive stock award payouts, as well as an increase in debt service payments under the Goldman Credit Facility.

#### **Adjusted EBITDA U.S. GAAP Reconciliation**

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, net; change in fair value of warrant liability; non-cash stock-based compensation expense; non-recurring and acquisition-related costs; and loss on disposal and impairment 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 (loss) from continuing operations and Adjusted EBITDA.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Income (loss) from continuing operations	\$ 4,947	\$ 2,473	\$ (9,391)	\$ 5,794
Depreciation and amortization	6,358	2,397	19,571	7,225
Interest expense, net	5,153	477	15,177	1,436
Provision for income taxes	451	–	823	–
EBITDA	16,909	5,347	26,180	14,455
Change in fair value of warrant liability	–	–	3,220	–
Non-cash, stock-based compensation expense	933	510	4,611	1,556
Non-recurring and acquisition-related costs	158	655	7,583	1,094
Gain (loss) on disposal and impairment of property and equipment and other	25	198	174	688
Adjusted EBITDA	\$ 18,025	\$ 6,710	\$ 41,768	\$ 17,793

### 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 Refill and Exchange segments, which generally enjoy 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 Dispensers segment in spring and summer; however, we believe the seasonality of dispenser sales are more dependent on retailer inventory management and purchasing cycles and not correlated to weather. Sustained periods of poor weather, particularly in the spring and summer, can negatively impact our sales in our higher margin Refill and Exchange segments. Accordingly, our results of operations in any quarter will not necessarily be indicative of the results that we may achieve for a year or any future quarter.

### Critical Accounting Policies and Estimates

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 or nine months ended September 30, 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 and nine months ended September 30, 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**

Not applicable.

### **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

On November 7, 2017, we announced the retirement of Mark Castaneda, our Chief Financial Officer, effective January 2018 and upon which David J. Mills, Vice President of Finance and Treasurer, will be appointed Chief Financial Officer of Primo. Upon his appointment, Mr. Mills will succeed Mr. Castaneda as our principal financial officer.

Mr. Mills joined Primo in 2009 as Controller and was promoted to Vice President of Finance and Treasurer in 2011. Prior to joining Primo, Mr. Mills served as Controller and Treasurer of InterAct Public Safety Systems, a private software company. Prior to his service at InterAct, Mr. Mills served as Director of Accounting and Financial Reporting at Krispy Kreme Doughnut Corporation, a global retailer of coffee and sweet treats. Mr. Mills began his career in public accounting at Ernst & Young, where he last served as Audit Senior Manager.

## Item 6. Exhibits

### EXHIBIT INDEX

Exhibit Number	Description
2.1	<a href="#">Agreement and Plan of Merger, dated May 18, 2017, by and among Primo Water Corporation, Primo Water Operations, Inc. and New PW Merger Sub, Inc. (incorporated by reference to Exhibit 2.1 to the Registrant's Current Report on Form 8-K filed on May 19, 2017)</a>
3.1	<a href="#">Amended and Restated Certificate of Incorporation of Primo Water Corporation (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed on May 19, 2017)</a>
3.2	<a href="#">Certificate of Amendment to Amended and Restated Certificate of Incorporation of Primo Water Corporation (incorporated by reference to Post-Effective Amendment No. 1 to the Registrant's Registration Statement on Form S-3 (File No. 333-200016) filed on May 19, 2017)</a>
3.3	<a href="#">Bylaws of Primo Water Corporation (incorporated by reference to Exhibit 3.3 to the Registrant's Quarterly Report on Form 10-Q filed on August 9, 2017)</a>
4.1	<a href="#">Specimen Certificate representing shares of common stock of Primo Water Corporation (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed on May 19, 2017)</a>
4.2	<a href="#">Amendment to Sixth Amended and Restated Certificate of Incorporation of Primo Water Operations, Inc. (contained in Certificate of Merger) (incorporated by reference to Exhibit 4.2 to the Registrant's Current Report on Form 8-K filed on May 19, 2017)</a>
31.1	<a href="#">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)</a>
31.2	<a href="#">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)</a>
32.1	<a href="#">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)</a>
101.INS	XBRL Instance Document <sup>(1)</sup>
101.SCH	XBRL Taxonomy Extension Schema Document <sup>(1)</sup>
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document <sup>(1)</sup>
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document <sup>(1)</sup>
101.LAB	XBRL Taxonomy Extension Label Linkbase Document <sup>(1)</sup>
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document <sup>(1)</sup>

(1) Included herewith

**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: November 8, 2017

By: /s/ Matthew T. Sheehan  
Matthew T. Sheehan  
Chief Executive Officer

Date: November 8, 2017

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

## MANAGEMENT CERTIFICATION

I, Matthew T. Sheehan, 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: November 8, 2017

/s/ Matthew T. Sheehan

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Matthew T. Sheehan  
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: November 8, 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 September 30, 2017 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), we, Matthew T. Sheehan, 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/ Matthew T. Sheehan

Matthew T. Sheehan  
Chief Executive Officer  
November 8 , 2017

/s/ Mark Castaneda

Mark Castaneda  
Chief Financial Officer  
November 8 , 2017