

Primo Water Corp
Form 10-Q
November 14, 2013

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, 2013

OR

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

COMMISSION FILE NUMBER 001-34850

PRIMO WATER CORPORATION
(Exact name of registrant as specified in its charter)

Delaware 30-0278688
(State of incorporation) (I.R.S. Employer Identification No.)

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

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

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

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

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

Large accelerated filer Accelerated filer

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

As of November 8, 2013, there were 24,035,909 shares of our Common Stock, par value \$0.001 per share, outstanding.

PRIMO WATER CORPORATION
FORM 10-Q
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2013

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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)

	September 30, 2013 (unaudited)	December 31, 2012
ASSETS		
Current assets:		
Cash	\$ 308	\$234
Accounts receivable, net	7,887	9,894
Inventories	6,850	7,572
Prepaid expenses and other current assets	1,459	812
Current assets of disposal group held for sale	300	3,041
Total current assets	16,804	21,553
Bottles, net	4,002	3,838
Property and equipment, net	39,401	41,947
Intangible assets, net	11,341	12,477
Other assets	2,592	1,960
Total assets	\$ 74,140	\$81,775
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 15,043	\$11,455
Accrued expenses and other current liabilities	2,709	4,305
Current portion of capital leases and notes payable	16	15
Current liabilities of disposal group held for sale	378	2,784
Total current liabilities	18,146	18,559
Long-term debt, capital leases and notes payable, net of current portion	18,379	21,251
Other long-term liabilities	317	352
Liabilities of disposal group held for sale, net of current portion	2,000	–
Total liabilities	38,842	40,162
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$0.001 par value - 10,000 shares authorized, none issued and outstanding	–	–
Common stock, \$0.001 par value - 70,000 shares authorized, 24,036 and 23,772 shares issued and outstanding at September 30, 2013 and December 31, 2012, respectively	24	24
Additional paid-in capital	273,164	272,336
Common stock warrants	8,420	8,420
Accumulated deficit	(246,081)	(239,131)
Accumulated other comprehensive loss	(229)	(36)

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Total stockholders' equity	35,298	41,613
Total liabilities and stockholders' equity	\$ 74,140	\$ 81,775

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

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CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(In thousands, except per share amounts)

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
Net sales	\$25,519	\$26,158	\$71,696	\$70,594
Operating costs and expenses:				
Cost of sales	18,936	19,868	53,924	54,081
Selling, general and administrative expenses	3,873	4,783	11,722	13,657
Non-recurring and acquisition-related costs	96	170	190	565
Depreciation and amortization	3,050	2,898	8,579	7,929
Goodwill impairment	—	—	—	11,488
Total operating costs and expenses	25,955	27,719	74,415	87,720
Loss from operations	(436)	(1,561)	(2,719)	(17,126)
Interest expense and other, net	1,138	904	3,359	3,082
Loss from continuing operations before income taxes	(1,574)	(2,465)	(6,078)	(20,208)
Income tax benefit	—	—	—	(960)
Loss from continuing operations	(1,574)	(2,465)	(6,078)	(19,248)
Loss from discontinued operations	(511)	(1,370)	(872)	(14,757)
Net loss	\$(2,085)	\$(3,835)	\$(6,950)	\$(34,005)
Basic and diluted loss per common share:				
Loss from continuing operations	\$(0.07)	\$(0.10)	\$(0.25)	\$(0.81)
Loss from discontinued operations	(0.02)	\$(0.06)	(0.04)	\$(0.62)
Net loss	\$(0.09)	\$(0.16)	\$(0.29)	\$(1.43)
Basic and diluted weighted average common shares outstanding	24,019	23,752	23,901	23,715

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

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PRIMO WATER CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(Unaudited)

(In thousands)

	Three months ended		Nine months ended	
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
Net loss	\$(2,085)	\$(3,835)	\$(6,950)	\$(34,005)
Other comprehensive (income) loss:				
Foreign currency translation adjustments, net	113	742	(193)	649
Comprehensive loss	\$(1,972)	\$(3,093)	\$(7,143)	\$(33,356)

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

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)

	Nine months ended September 30,	
	2013	2012
Cash flows from operating activities:		
Net loss	\$(6,950)	\$(34,005)
Less: Loss from discontinued operations	(872)	(14,757)
Loss from continuing operations	(6,078)	(19,248)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	8,579	7,929
Stock-based compensation expense	819	1,043
Non-cash interest expense	882	1,708
Deferred income tax expense	–	(960)
Bad debt expense	5	161
Goodwill impairment	–	11,488
Other	185	(133)
Changes in operating assets and liabilities:		
Accounts receivable	1,952	(1,031)
Inventories	715	369
Prepaid expenses and other assets	(211)	(597)
Accounts payable	3,870	3,099
Accrued expenses and other liabilities	(1,641)	806
Net cash provided by operating activities	9,077	4,634
Cash flows from investing activities:		
Purchases of property and equipment	(3,745)	(3,121)
Purchases of bottles, net of disposals	(1,904)	(683)
Proceeds from the sale of property and equipment	2	42
Additions to and acquisitions of intangible assets	(43)	(688)
Net cash used in investing activities	(5,690)	(4,450)
Cash flows from financing activities:		
Borrowings under revolving credit facilities	68,062	24,496
Payments under revolving credit facilities	(73,899)	(32,426)
Borrowings under Comvest Term loans	3,000	15,150
Note payable and capital lease payments	(11)	(11)
Debt issuance costs	(689)	(2,049)
Proceeds from sale of common stock, net of issuance costs	–	(214)
Stock option and employee stock purchase activity, net	82	15
Net cash (used in) provided by financing activities	(3,455)	4,961
Net (decrease) increase in cash	(68)	5,145
Cash, beginning of year	234	751
Effect of exchange rate changes on cash	(47)	(16)
Cash provided by (used in) discontinued operations from:		
Operating activities	189	(4,853)

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Investing activities	–	(395)
Cash provided by (used in) discontinued operations	189	(5,248)
Cash, end of period	\$308	\$632

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

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PRIMO WATER CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(In thousands, except per share amounts)

1. Description of Business and Significant Accounting Policies

Business

Primo Water Corporation (together with its consolidated subsidiaries, “Primo”, “we”, “our,” “us”) is a leading provider of multi-gallon purified bottled water, self-serve filtered drinking water and water dispensers sold through major retailers in the United States and Canada.

Unaudited Interim Financial Information

The accompanying interim condensed consolidated financial statements have been prepared in accordance with our accounting practices described in our audited consolidated financial statements for the year ended December 31, 2012, and are unaudited. In the opinion of management, the unaudited interim condensed consolidated financial statements included herein contain all adjustments necessary to present fairly our financial position, results of operations and cash flows for the periods indicated. Such adjustments, other than nonrecurring adjustments that have been separately disclosed, are of a normal, recurring nature. The operating results for interim periods are not necessarily indicative of results to be expected for a full year or future interim periods. The unaudited interim condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and accompanying notes for the year ended December 31, 2012. The accompanying interim condensed consolidated financial statements are presented in accordance with the rules and regulations of the Securities and Exchange Commission and, accordingly, do not include all the disclosures required by generally accepted accounting principles in the United States (“U.S. GAAP”) with respect to annual financial statements. Certain significant accounting policies, in addition to those described below, are summarized in our 2012 Form 10-K. Certain 2012 amounts in the accompanying interim condensed consolidated financial statements have been reclassified to conform to the 2013 presentation, with no effect on stockholders’ equity or net loss as previously presented.

Discontinued Operations

As described in Note 2, during 2012, we committed to a plan to sell the assets of the sparkling beverage appliances, flavorings, CO2 cylinders and accessories business sold under the Flavorstation brand (the “Disposal Group”). We determined that the Disposal Group meets the criteria for classification as discontinued operations. As a result, the results of operations and financial position of the Disposal Group for the current and prior year are reflected as discontinued operations.

Revenue Recognition

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

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

allowance for returns using an average return rate based upon historical experience.

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

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Accounts Receivable

All trade accounts receivable are due from customers located within the United States and Canada. We maintain an allowance for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. Accounts receivable, net includes allowances for doubtful accounts of \$531 and \$792 at September 30, 2013 and December 31, 2012, respectively. The allowance for doubtful accounts is based on a review of specifically identified accounts in addition to an overall aging analysis. Judgments are made with respect to the collectability of accounts receivable based on historical experience and current economic trends. Actual losses could differ from those estimates.

Goodwill and Intangible Assets

We classify intangible assets into three categories: (1) intangible assets with definite lives subject to amortization, (2) intangible assets with indefinite lives not subject to amortization and (3) goodwill. We determine the useful lives of our identifiable intangible assets after considering the specific facts and circumstances related to each intangible asset. Factors we consider when determining useful lives include the contractual term of any agreement related to the asset, the historical performance of the asset, our long-term strategy for using the asset, any laws or other local regulations which could impact the useful life of the asset, and other economic factors, including competition and specific market conditions. Intangible assets that are deemed to have definite lives are amortized, primarily on a straight-line basis, over their useful lives.

We test intangible assets determined to have indefinite useful lives for impairment annually, or more frequently if events or circumstances indicate that assets might be impaired. We perform these annual impairment tests as of the first day of our fourth quarter. In evaluating goodwill for impairment, we perform a two-step goodwill impairment test. The first step involves a comparison of the fair value of a reporting unit to its carrying value. The fair value is estimated based on a number of factors including operating results, business plans, future cash flows and the market approach. If the carrying amount of the reporting unit exceeds its fair value, the second step of the process is performed which compares the implied value of the reporting unit goodwill with the carrying value of the goodwill of that reporting unit. If the carrying value of the goodwill of a reporting unit exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess. As described in our Annual Report on Form 10-K for the year ended December 31, 2012, we recorded non-cash goodwill impairment charges of \$67,658 and \$11,488 effective December 31, 2012 and June 30, 2012, respectively, for the Water reporting unit.

For indefinite-lived intangible assets, other than goodwill, the impairment test consists of a comparison of the fair value of the intangible asset with its carrying amount. If the carrying amount exceeds the fair value, an impairment charge is recognized in an amount equal to that excess.

Concentrations of Risk

Our principal financial instruments subject to potential concentration of credit risk are cash and cash equivalents, trade receivables, accounts payable and accrued expenses. We invest our funds in a highly rated institution and believe the financial risks associated with cash and cash equivalents are minimal.

We perform ongoing credit evaluations of our customers' financial condition and maintain allowances for doubtful accounts that we believe are sufficient to provide for losses that may be sustained on realization of accounts receivable.

Basic and Diluted Net Loss Per Share

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Net loss per share has been computed using the weighted average number of shares of common stock outstanding during each period. Diluted amounts per share include the dilutive impact, if any, of our outstanding potential common shares, such as options and warrants and convertible preferred stock. Potential common shares that are anti-dilutive are excluded from the calculation of diluted net loss per common share.

For the three months ended September 30, 2013 and 2012, stock options, unvested shares of restricted stock, restricted stock units and warrants with respect to an aggregate of 1,831 and 14 shares have been excluded from the computation of the number of shares used in the diluted earnings per share, respectively. For the nine months ended September 30, 2013 and 2012, stock options, unvested shares of restricted stock, restricted stock units and warrants with respect to an aggregate of 1,721 and 38 shares have been excluded from the computation of the number of shares used in the diluted earnings per share, respectively. These shares have been excluded because we incurred a net loss for each of these periods and their inclusion would be anti-dilutive.

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Cumulative Translation Adjustment and Foreign Currency Transactions

The local currency of our operations in Canada is considered to be the functional currency. Assets and liabilities of the Canada subsidiary are translated into U. S. dollars using the exchange rates in effect at the balance sheet date. Results of operations are translated using the average exchange rate prevailing throughout the period. The effects of unrealized exchange rate fluctuations on translating foreign currency assets and liabilities into U. S. dollars are accumulated as the cumulative translation adjustment included in accumulated other comprehensive income (loss) in the condensed consolidated statements of comprehensive loss. With the exception of transaction gains and losses on certain intercompany balances which we have determined are of a long-term investment nature, realized gains and losses on foreign currency transactions are included in the statement of operations. At September 30, 2013 and December 31, 2012, accumulated other comprehensive loss balances of (\$229) and (\$36), respectively, were related to unrealized foreign currency translation adjustments and transaction gains and losses on certain intercompany balances.

Recent Accounting Pronouncements

In February 2013, the FASB issued updated guidance which requires companies to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, companies are required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by respective line items of net income but only if the amount reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures required under U.S. GAAP that provide additional detail about those amounts. We have adopted this updated guidance effective January 1, 2013. The adoption did not have a significant impact on our consolidated financial statements.

In July 2013, the FASB issued updated guidance requiring that an unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except as follows. To the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented as a liability and should not be combined with deferred tax assets. These amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013, with early adoption permitted. The amendments are not expected to have a significant impact on our consolidated financial statements.

2. Discontinued Operations

During 2012, we committed to a plan to sell the assets of the Disposal Group, which includes sparkling beverage appliances, flavorings, CO₂ cylinders and accessories sold under the Flavorstation brand as well as the Omnifrio Single-Serve Business and initiated an active program to execute this plan. In addition, we determined that the Disposal Group met all of the criteria for classification as discontinued operations. As a result, current and prior year amounts and disclosures reflect these operations as discontinued operations.

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The assets and liabilities of the Disposal Group classified as held for sale were as follows:

	September 30, 2013	December 31, 2012
Current assets of disposal group held for sale		
Inventories	290	2,794
Prepaid expenses and other current assets	10	247
	\$ 300	\$ 3,041
Current liabilities of disposal group held for sale		
Accounts payable	73	146
Accrued expenses and other current liabilities	305	2,638
	\$ 378	\$ 2,784
Liabilities of disposal group held for sale, net of current portion		
Other long-term liabilities	2,000	–
	\$ 2,000	\$ –

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

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
Net sales	\$647	\$(78)	\$2,651	\$229
Operating costs and expenses:				
Cost of sales	1,009	856	3,154	1,890
Selling, general and administrative	149	496	369	1,269
Other operating income	–	(457)	–	(2,457)
Depreciation and amortization	–	173	–	615
Goodwill and developed technology impairment	–	224	–	13,669
Total operating costs and expenses	1,158	1,292	3,523	14,986
Loss from discontinued operations	\$(511)	\$(1,370)	\$(872)	\$(14,757)

Barter Credit Transactions

During the nine months ended September 30, 2013, we sold \$1,893 of inventory of the Disposal Group in exchange for \$1,076 in cash and \$1,275 in barter credits. We valued the barter credits at the fair value of the products and services to be received upon exchange as they have a more readily determinable fair value than the products exchanged. At September 30, 2013, the barter credits were recorded at their fair value of \$292 and \$974 in prepaid expenses and other current assets and in other assets, respectively, on the condensed consolidated balance sheets. The sales and costs of goods sold associated with the transactions are reported as part of loss from discontinued operations on the condensed consolidated statements of operations.

3. Debt, Capital Leases and Notes Payable

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

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	September 30, 2013	December 31, 2012
Senior revolving credit facility	\$ 1,240	\$ 7,077
Term loan, net of discount	17,122	14,145
Notes payable and capital leases	33	44
	18,395	21,266
Less current portion	(16)	(15)
Long-term debt, notes payable and capital leases, net of current portion	\$ 18,379	\$ 21,251

Prior Senior Revolving Credit Facility

We entered into a senior revolving credit facility in November 2010 that was amended in April 2011, September 2011, November 2011 and March 2012 (“Prior Senior Revolving Credit Facility”). The Prior Senior Revolving Credit Facility matured on April 30, 2012 and was repaid in full in connection with the closing of the Senior Revolving Credit Facility (as defined below) and the Term Loan (as defined below). We amortized the remaining amount of deferred loan costs related to the Prior Senior Revolving Credit Facility at maturity. Interest expense related to deferred loan costs amortization for the Prior Senior Revolving Credit Facility totaled \$1,246 for the nine months ended September 30, 2012.

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Senior Revolving Credit Facility

We entered into a senior revolving credit facility (the “Senior Revolving Credit Facility”) on April 30, 2012, as amended on February 21, 2013, that provides for total borrowing availability of up to \$20,000 subject to borrowing base requirements related to our eligible accounts receivable and inventory and subject to a \$2,000 reserve requirement. The Senior Revolving Credit Facility has a three and one-half year term and is secured either on a first priority or second priority basis by substantially all of our assets. The term of the Senior Revolving Credit Facility may be extended up to April 30, 2017 so long as the maturity of the Term Loan is extended to at least October 30, 2017. As of September 30, 2013, we had \$1,240 in outstanding borrowings at a weighted-average interest rate of 6.0%, with \$3,783 in additional availability under the Senior Revolving Credit Facility after giving effect to the borrowing base requirements.

Interest on outstanding borrowings under the Senior Revolving Credit Facility is payable at our option at either a floating base rate or a one-, two- or three-month LIBOR rate. We are also required to pay a commitment fee on the unused amount of the commitment under the Senior Revolving Credit Facility. The Senior Revolving Credit Facility contains a limit on capital expenditures of \$6,000 for the year ended December 31, 2013 and for each year thereafter.

The limit for capital expenditures may be increased for 2013 and thereafter based upon meeting the fixed charge coverage ratio, as stipulated and defined in the Senior Revolving Credit Facility. In addition, the Senior Revolving Credit Facility cross-defaults to the Term Loan. Total costs associated with the Senior Revolving Credit Facility were \$883, which were capitalized and will be amortized as part of interest expense over the term of the debt. Interest expense related to deferred loan costs amortization for the Senior Revolving Credit Facility was \$63 and \$62 for the three months ended September 30, 2013 and September 30, 2012, respectively, and \$190 and \$103 for the nine months ended September 30, 2013 and September 30, 2012, respectively.

Comvest Term Loans

We entered into a credit and security agreement on April 30, 2012 (the “Credit Agreement”) pursuant to which a \$15,150 term loan (the “Term Loan”) was provided. The Credit Agreement was amended on November 6, 2012 (the “First Amendment”) to contemplate the plan to exit the Flavorstation business (see Note 2) and provide for the classification of the operating results related to the Disposal Group as discontinued operations. In connection with the amendment, Comvest consented to our sale of inventory and other assets related to the Disposal Group outside the ordinary course of business. Also in connection with the amendment, we paid Comvest a \$150 fee and agreed to certain changes to prepayment penalties and financial covenants.

The Credit Agreement was amended on June 14, 2013 (the “Second Amendment”) to provide for an additional \$3,000 in borrowing under a second term loan (the “Add-On Term Loan”, and together with the Term Loan, the “Comvest Term Loans”), adjust the interest rate on the Term Loan, eliminate certain financial covenants and make further adjustments to prepayment penalties. Under the terms of the Second Amendment, interest on outstanding amounts owed under the Comvest Term Loans is payable at the rate of 12.5% per annum in cash. At September 30, 2013 the aggregate outstanding balance under the Comvest Term Loans was \$18,499.

The outstanding balances of the Comvest Term Loans are due and payable in a single installment on April 30, 2016, subject to prepayment in specified circumstances, including sales or dispositions of assets outside the ordinary course of business and sales of equity or debt securities by Primo. The Comvest Term Loans are secured by substantially all of our assets on either a first priority or second priority basis. The first priority assets consist of substantially all of the assets related to our refill services business (See Note 8 for a description of the refill business). The security interest in all of our other assets is subordinate to the security interest securing the Senior Revolving Credit Facility.

The Comvest Term Loans contain the following financial covenants: (i) a limit on capital expenditures of \$12,000 for the year ended December 31, 2013 and for each year thereafter; (ii) an increasing minimum Adjusted EBITDA

threshold that is measured at the end of each quarter, and (iii) a decreasing total debt to Adjusted EBITDA ratio that is measured at the end of each quarter. Total costs associated with the Comvest Term Loans were \$1,124, which were capitalized and will be amortized as part of interest expense over the term of the debt. Costs associated with the Second Amendment consisted of fees paid directly to Comvest and totaled \$493. The costs were reflected as a discount on our debt and will be amortized as part of interest expense over the remaining term of the debt. At September 30, 2013 we were in compliance of all covenants. Interest expense related to deferred loan costs amortization for the Comvest Term Loans was \$114 and \$59 for the three months ended September 30, 2013 and September 30, 2012, respectively, and \$269 and \$98 for the nine months ended September 30, 2013 and September 30, 2012, respectively.

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Concurrently with the closing of the Term Loan on April 30, 2012, five of our current directors or stockholders (the “Insider Participants”) purchased an aggregate of \$1,150 in non-recourse, non-voting, last-out participation interests from the bank providing the Term Loan. These participation interests allow each holder to participate to the extent of such holder’s percentage share in the Term Loan and such participations are secured by the same assets as the Term Loan. The Insider Participants include Billy D. Prim, Malcolm McQuilkin and Jack C. Kilgore, all three of whom are current directors of Primo. Mr. Prim is also our Chairman and Chief Executive Officer. Mr. Prim, Mr. McQuilkin and Mr. Kilgore purchased \$250, \$500 and \$50 in participation interests, respectively.

The Term Loan was accompanied by a detachable warrant to purchase 1,731 shares of our common stock, including detachable warrants to purchase 131 shares of our common stock received by the Insider Participants. The warrant is immediately exercisable at an exercise price of \$2.30 per share and expires April 30, 2020. The terms of the warrants issued to the Insider Participants are identical to the terms of the warrant described above. Mr. Prim, Mr. McQuilkin and Mr. Kilgore were issued warrants to purchase 29, 57 and 6 shares of our common stock, respectively. The initial fair value of the warrants as determined using the Black-Scholes pricing model was \$1,108 that resulted in an original issue discount on the Term Loan that will be amortized into interest expense through the maturity of the Term Loan. For the non-Insider Participants, the exercise price was adjusted to \$1.20 as part of the amendment on November 6, 2012. Due to the price adjustment, \$305 was added to the original issue discount on the Term Loan, representing the change in the estimated fair value immediately before and after the modification, and will be amortized into interest expense through the remaining maturity of the Term Loan. The revised warrant exercise price was set at 150% of the 30 day trailing average stock price. No changes were made to the warrants we issued to the five directors and stockholders of Primo. Interest expense related to the warrants’ original issue discount amortization was \$91 and \$69 for the three months ended September 30, 2013 and September 30, 2012, respectively, and \$273 and \$115 for the nine months ended September 30, 2013 and September 30, 2012, respectively.

Interest expense includes financing costs for a supplier of \$217 and \$553 for the three and nine months ended September 30, 2013, respectively.

4. Stock-Based Compensation

Compensation expense related to stock-based compensation plans was \$196 and \$256 for the three months ended September 30, 2013 and September 30, 2012, respectively, and \$819 and \$1,043 for the nine months ended September 30, 2013 and September 30, 2012, respectively. Stock-based compensation is included in selling, general and administrative expenses in the condensed consolidated statements of operations.

5. Commitments and Contingencies

Class Action Suit

On August 14, 2013, the United States District Court for the Middle District of North Carolina granted the defendants’ motion to dismiss the securities class action lawsuit brought against Primo, certain members of our board of directors, certain members of management, and certain shareholders and company advisors. The plaintiffs’ complaint alleged violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended, and Rule 10b-5 promulgated thereunder, and Sections 11, 12(a)(2), and 15 of the Securities Act of 1933 and asserted such claims on behalf of a class of persons who acquired our common stock in or traceable to our initial public offering and secondary offering as well as purchasers of common stock between November 4, 2010 and August 10, 2011. The Court dismissed all claims asserted in the case with prejudice, and entered judgment in favor of all defendants. No appeal was taken by the plaintiffs, and the judgment became final as of September 13, 2013.

Electrotemp

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On October 14, 2011, Primo, through a wholly-owned subsidiary, filed a complaint against Electrotemp Technologies China, Inc. ("Electrotemp") in Mecklenburg County (North Carolina) Superior Court, alleging breach of contract, quantum meruit/unjust enrichment, and violation of the North Carolina Products Liability Act/breach of implied warranty. The parties filed a Joint Motion to stay litigation so that they could proceed with mediation and arbitration pursuant to the dispute resolution clause in their agreement. On May 1, 2012, the Court ordered that the litigation would be stayed once the parties formally enter into arbitration. Electrotemp asserted counterclaims in the arbitration. On September 26, 2013, the parties reached a settlement that resulted in termination of the arbitration and dismissal of the lawsuit. The lawsuit was dismissed with prejudice on October 3, 2013. We do not believe that the terms of the settlement will have a material impact on our financial statements.

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Florida Concentrates Suit

On October 16, 2012, Primo was served with the Summons and Complaint in a suit filed in the Florida state courts on September 26, 2012. Plaintiffs in the suit are Florida Concentrates International, LLC (a Florida limited liability company), Florida Sparkling DS, LLC (a Florida limited liability company), and Didier Hardy (a Florida resident and apparently the principal of the LLC plaintiffs). Also named as defendants are Susan and Scott Ballantyne (alleged to be Florida residents) and SDS-IC. The suit was filed in the Circuit Court for the Twentieth Judicial District (Collier County, Florida). Plaintiffs' allegations include breach of contract, misappropriation of trade secrets and certain additional claims and plaintiffs seek monetary damages. We do not believe that the suit has any merit whatsoever, and plan to vigorously contest and defend against it. We have filed a motion to dismiss all claims, which was granted in part and denied in part by the court.

Omnifrio Single-Serve Beverage Business

Deferred purchase price payments totaling \$2,000 were included within liabilities of disposal group held for sale, net of current portion and current liabilities of disposal group held for sale on the condensed consolidated balance sheets as of September 30, 2013 and December 31, 2012, respectively. These payments were related to the April 11, 2011 acquisition of certain intellectual property and other assets from the seller, Omnifrio Beverage Company LLC ("Omnifrio"). On July 19, 2013, we entered into a conditional settlement and release agreement with Omnifrio and certain other parties pursuant to which we agreed to, among other things, use commercially reasonable efforts to sell the assets purchased from Omnifrio in April 2011 and to provide Omnifrio certain amounts of the proceeds of any such sale in exchange for Omnifrio agreeing to release us from any claims related to the milestone payments included in our original purchase agreement with Omnifrio and, upon the sale of such assets, to release us from any claims related to the deferred purchase price payments included in such agreement.

Sales Tax

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

Other Contingencies

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

6. Income Taxes

We have incurred operating losses since inception. For the three months ended September 30, 2013 and 2012, there was no income tax expense or benefit. For the nine months ended September 30, 2013 and 2012, there was an income tax benefit of zero and \$960, respectively. We have provided valuation allowances to fully offset the net deferred tax assets at September 30, 2013.

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

7. Fair Value Measurements

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

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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.

As of September 30, 2013, the barter credits (see Note 2) reported in prepaid and other current assets and in other assets on our condensed consolidated balance sheets were measured at their estimated fair values of \$292 and \$974, respectively, on a nonrecurring basis. The barter credits are measured at fair value using significant unobservable inputs, primarily based on the fair value of the products and services to be received upon exchange (Level 3 inputs).

As of December 31, 2012, we had no assets or liabilities which were measured at fair value using significant unobservable inputs.

The carrying amounts of our financial instruments, which include cash and cash equivalents, accounts receivable, accounts payable, and other accrued expenses, approximate their fair values due to their short maturities. Assets and liabilities of the Disposal Group held for sale are presented at their carrying value, which approximates fair value based on current market rates. Based on borrowing rates currently available to us for loans with similar terms, the carrying value of debt, capital leases and notes payable approximates fair value.

8. Segments

At September 30, 2013, we had two operating segments and two reportable segments: Primo Water (“Water”) and Primo Dispensers (“Dispensers”).

Our Water segment sales consist of the sale of multi-gallon purified bottled water (exchange services) and our self-serve filtered drinking water vending service (refill services) offered through retailers in each of the contiguous United States and Canada. Our Water services are offered through point of purchase display racks or self-serve filtered water vending displays and recycling centers that are prominently located at major retailers in space that is often underutilized.

Our Dispensers segment sells water dispensers that are designed to dispense Primo and other dispenser-compatible bottled water. Our Dispensers sales are primarily generated through major U.S. retailers and are sold primarily through a direct-import model, where we recognize revenues for the sale of the water dispensers when title is transferred. We support retail sell-through with domestic inventory. We design, market and arrange for certification and inspection of our water dispensers.

As discussed in Note 2, in 2012 we committed to a plan to sell the assets related to the Disposal Group, which met all the criteria for classification as discontinued operations. As a result, current and prior year amounts and disclosures reflect these operations as discontinued operations, which were previously reported as the Flavorstation segment.

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

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

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Selling, general and administrative expenses for Water and Dispensers consist primarily of personnel costs for sales, marketing, operations support and customer service, as well as other supporting costs for operating each segment.

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

The following table presents segment information for the following periods:

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
Segment net sales				
Water	\$17,544	\$17,264	\$48,686	\$47,624
Dispensers	7,975	8,894	23,010	22,970
	\$25,519	\$26,158	\$71,696	\$70,594
Segment income (loss) from operations				
Water	\$4,924	\$4,718	\$13,652	\$12,654
Dispensers	447	(441)	701	(1,223)
Corporate	(2,661)	(2,770)	(8,303)	(8,575)
Non-recurring and acquisition-related costs	(96)	(170)	(190)	(565)
Depreciation and amortization	(3,050)	(2,898)	(8,579)	(7,929)
Goodwill impairment	–	–	–	(11,488)
	\$(436)	\$(1,561)	\$(2,719)	\$(17,126)
Depreciation and amortization expense:				
Water	\$2,733	\$2,553	\$7,601	\$6,946
Dispensers	148	164	445	483
Corporate	169	181	533	500
	\$3,050	\$2,898	\$8,579	\$7,929
Capital expenditures:				
Water			\$5,394	\$2,894
Dispensers			62	876
Corporate			193	34
			\$5,649	\$3,804
Identifiable assets:			At September 30, 2013	At December 31, 2012
Water			\$60,546	\$65,483
Dispensers			8,911	9,490
Corporate			4,383	3,761
Assets of disposal group held for sale			300	3,041
			\$74,140	\$81,775

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9. Subsequent Events

On November 12, 2013, we entered into a Strategic Alliance Agreement (the “Agreement”) with DS Waters of America, Inc. (“DS Waters”) pursuant to which DS Waters will act as our primary bottler and distributor of three and five gallon purified bottled drinking water (the “Product”) and provider of exchange and supply services for the Product in the United States. Pursuant to the Agreement, DS Waters will become our primary bottler and distributor in the United States in all territories where we do not currently have an existing distributor agreement and in other territories as existing regional operator arrangements expire or are terminated.

In connection with its entering into the Agreement, we agreed to issue a warrant to DS Waters to purchase 475 unregistered shares of the Primo’s common stock (the “DS Waters Warrant”). The DS Waters Warrant will be exercisable at an exercise price of \$3.04 per share and will expire on or before January 1, 2021.

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our historical consolidated financial statements and related notes thereto in this Quarterly Report on Form 10-Q and with our Annual Report on Form 10-K for the year ended December 31, 2012. The discussion below contains forward-looking statements that are based upon our current expectations and 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, 2012.

Overview

Primo Water Corporation (together with its consolidated subsidiaries, "Primo", "we", "our," "us") is a leading provider of multi-gallon purified bottled water, self-serve filtered drinking water and water dispensers sold through major retailers in the United States and Canada. We believe the market for purified water is growing due to evolving taste preferences, perceived health benefits and concerns regarding the quality of municipal tap water. Our products provide an environmentally friendly, economical, convenient and healthy solution for consuming purified and filtered water. We are a Delaware corporation that was founded in 2004 and is headquartered in Winston-Salem, North Carolina.

Our business is designed to generate recurring demand for our purified bottled water or self-serve filtered drinking water through the sale of innovative water dispensers. This business strategy is commonly referred to as "razor-razorblade" because the initial sale of a product creates a base of users who frequently purchase complementary consumable products. We believe dispenser owners consume an average of 35 multi-gallon bottles of water annually. Once our bottled water is consumed using a water dispenser, empty bottles are exchanged at our recycling center displays, which provide a recycling ticket that offers a discount toward the purchase of a new bottle of Primo purified water ("Exchange") or they are refilled at a self-serve filtered drinking water location ("Refill"). Each of our multi-gallon water bottles can be sanitized and reused up to 40 times before being taken out of use, crushed and recycled, substantially reducing landfill waste compared to consumption of equivalent volumes of single-serve bottled water. As of September 30, 2013, our products and services were offered in each of the contiguous United States and in Canada at approximately 24,300 combined retail locations, including Lowe's Home Improvement, Walmart, Kmart, Meijer, Kroger, Food Lion, H-E-B Grocery, Sobeys and Walgreens.

We provide major retailers throughout the United States and Canada with single-vendor solutions for Exchange and Refill services, addressing a market demand that we believe was previously unmet. Our solutions are easy for retailers to implement, require minimal management supervision and store-based labor, and provide centralized billing and detailed performance reports. Our Exchange solution offers retailers attractive financial margins and the ability to optimize typically unused retail space with our displays. Our Refill solution provides filtered water through the installation and servicing of reverse osmosis water filtration systems in the back room of the retailer's store location, which minimizes the usage of the customer's retail space. The refill vending machine, which is typically accompanied by a sales display containing empty reusable bottles, is located within the retailer customer's floor space. Additionally, due to the recurring nature of water consumption, retailers benefit from year-round customer traffic and highly predictable revenue.

Business Segments

At September 30, 2013, we had two operating segments and two reportable segments: Primo Water ("Water") and Primo Dispensers ("Dispensers").

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Our Water segment sales consist of the sale of multi-gallon purified bottled water (exchange services) and our self-serve filtered drinking water vending service (refill services) offered through retailers in each of the contiguous United States and Canada. Our Water services are offered through point of purchase display racks or self-serve filtered water vending displays and recycling centers that are prominently located at major retailers in space that is often underutilized.

Our Dispensers segment sells water dispensers that are designed to dispense Primo and other dispenser-compatible bottled water. Our Dispensers sales are primarily generated through major U.S. retailers and are sold primarily through a direct-import model, where we recognize revenues for the sale of the water dispensers when title is transferred. We support retail sell-through with domestic inventory. We design, market and arrange for certification and inspection of our water dispensers.

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In 2012, we committed to a plan to sell the assets related to the sparkling beverage appliances, flavor concentrates, CO2 cylinders and accessories sold under the Flavorstation brand (the “Disposal Group”), which met all the criteria for classification as discontinued operations. As a result, current and prior year amounts and disclosures reflect these operations as discontinued operations, which were previously reported as the Flavorstation segment.

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

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

Selling, general and administrative expenses for Water and Dispensers consist primarily of personnel costs for sales, marketing, operations support and customer service, as well as other supporting costs for operating each segment.

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

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

Recent Developments

On November 12, 2013, we entered into a Strategic Alliance Agreement (the “Agreement”) with DS Waters of America, Inc. (“DS Waters”) pursuant to which DS Waters will act as our primary bottler and distributor of three and five gallon purified bottled drinking water (the “Product”) and provider of exchange and supply services for the Product in the United States. Pursuant to the Agreement, DS Waters will become our primary bottler and distributor in the United States in all territories for which we do not currently have an existing distributor agreement and in other territories as existing regional operator arrangements expire or are terminated.

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Results of Operations

The following table sets forth our results of operations:

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
Consolidated statements of operations data:				
Net sales	\$25,519	\$26,158	\$71,696	\$70,594
Operating costs and expenses:				
Cost of sales	18,936	19,868	53,924	54,081
Selling, general and administrative expenses	3,873	4,783	11,722	13,657
Non-recurring and acquisition-related costs	96	170	190	565
Depreciation and amortization	3,050	2,898	8,579	7,929
Goodwill impairment	—	—	—	11,488
Total operating costs and expenses	25,955	27,719	74,415	87,720
Loss from operations	(436)	(1,561)	(2,719)	(17,126)
Interest expense and other, net	1,138	904	3,359	3,082
Loss from continuing operations before income taxes	(1,574)	(2,465)	(6,078)	(20,208)
Income tax benefit	—	—	—	(960)
Loss from continuing operations	(1,574)	(2,465)	(6,078)	(19,248)
Loss from discontinued operations	(511)	(1,370)	(872)	(14,757)
Net loss	\$(2,085)	\$(3,835)	\$(6,950)	\$(34,005)

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,	
	2013	2012	2013	2012
Consolidated statements of operations data:				
Net sales	100.0%	100.0%	100.0%	100.0%
Operating costs and expenses:				
Cost of sales	74.2	76.0	75.2	76.6
Selling, general and administrative expenses	15.2	18.3	16.3	19.3
Non-recurring and acquisition-related costs	0.3	0.6	0.3	0.9
Depreciation and amortization	12.0	11.1	12.0	11.2
Goodwill and other impairment	—	—	—	16.3
Total operating costs and expenses	101.7	106.0	103.8	124.3
Loss from operations	(1.7)	(6.0)	(3.8)	(24.3)
Interest expense and other, net	4.5	3.4	4.7	4.3
Loss from continuing operations before income taxes	(6.2)	(9.4)	(8.5)	(28.6)
Income tax provision	—	—	—	(1.3)
Loss from continuing operations	(6.2)	(9.4)	(8.5)	(27.3)
Loss from discontinued operations	(2.0)	(5.3)	(1.2)	(20.9)
Net loss	(8.2 %)	(14.7 %)	(9.7 %)	(48.2 %)

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

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	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
Segment net sales				
Water	\$17,544	\$17,264	\$48,686	\$47,624
Dispensers	7,975	8,894	23,010	22,970
Total net sales	\$25,519	\$26,158	\$71,696	\$70,594
Segment income (loss) from operations				
Water	\$4,924	\$4,718	\$13,652	\$12,654
Dispensers	447	(441)	701	(1,223)
Corporate	(2,661)	(2,770)	(8,303)	(8,575)
Non-recurring and acquisition-related costs	(96)	(170)	(190)	(565)
Depreciation and amortization	(3,050)	(2,898)	(8,579)	(7,929)
Goodwill impairment	–	–	–	(11,488)
Loss from operations	\$(436)	\$(1,561)	\$(2,719)	\$(17,126)

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Three Months Ended September 30, 2013 Compared to Three Months Ended September 30, 2012

Net Sales. Net sales decreased 2.4%, or \$0.6 million, to \$25.5 million for the three months ended September 30, 2013 from \$26.2 million for the three months ended September 30, 2012. The change in net sales resulted from a \$0.9 million decrease in Dispenser sales partially offset by a \$0.3 million increase in Water sales.

Water. Water net sales increased 1.6% to \$17.5 million, representing 68.7% of our total net sales, for the three months ended September 30, 2013. We believe that unfavorable, cooler weather conditions for the third quarter of 2013 compared to the same period in the prior year had a negative impact on Exchange and Refill net sales. The increase in Water net sales was primarily due to a 4.6% increase in Exchange sales driven by same-store unit growth of 8.5% for the Company's U.S. Exchange services compared to the third quarter of 2012. The improvement in Exchange sales was partially offset by a 2.1% decline in Refill sales. Five-gallon equivalent units for Water for the nine months ended September 30, 2013 were unchanged from the prior period at 7.5 million.

Dispensers. Dispensers net sales decreased 10.3% to \$8.0 million, representing 31.3% of our total net sales, for the three months ended September 30, 2013. The decrease was due to additional sales in the third quarter of 2012 related to the rollout of new locations for a major retailer as well as the timing of shipments to major retailers in the third quarter of 2013. Despite the 3.7% decline in dispenser unit sell-in to retailers, dispenser unit sell-thru to consumers increased 2.0% for the three months ended September 30, 2013 compared to the same period in the prior year.

Gross Margin Percentage. Our overall gross margin percentage increased to 25.8% for the three months ended September 30, 2013 from 24.0% for the three months ended September 30, 2012. The increase was due to improvements for both Water and Dispensers gross margins.

Water. Gross margin as a percentage of net sales for our Water segment increased to 33.7% for the three months ended September 30, 2013 from 32.3% for the same period in the prior year. The increase was driven by the improvement in Exchange margins, due primarily to improvements in supply chain costs, and the slight improvement in Refill margins.

Dispensers. Gross margin as a percentage of net sales for our Dispensers segment increased to 8.4% for the three months ended September 30, 2013 from 8.0% for the same period in the prior year. The increase in gross margin percentage was primarily due to improvements in supply chain costs.

Selling, General and Administrative Expenses ("SG&A"). SG&A decreased 19.0% to \$3.9 million for the three months ended September 30, 2013 from \$4.8 million for the three months ended September 30, 2012. As a percentage of net sales, SG&A decreased to 15.2% for the three months ended September 30, 2013 from 18.3% for the three months ended September 30, 2012.

Water. SG&A for our Water segment increased 15.1% to \$1.0 million for the three months ended September 30, 2013 from \$0.9 million for the three months ended September 30, 2012. Water SG&A as a percentage of Water net sales increased to 5.6% for the three months ended September 30, 2013 compared to 5.0% for the three months ended September 30, 2012. The increase in Water SG&A was primarily a result of increased headcount compared to the prior year.

Dispensers. SG&A for our Dispensers segment decreased 80.5% to \$0.2 million for the three months ended September 30, 2013 from \$1.2 million for the three months ended September 30, 2012. SG&A as a percentage of Dispensers segment net sales decreased to 2.8% for the three months ended September 30, 2013 from 13.0% for the three months ended September 30, 2012. This decrease was primarily due to expenses in 2012 related to the rollout of new dispenser retail locations that were not incurred in the current quarter.

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Corporate. Corporate SG&A decreased 3.9% to \$2.7 million for the three months ended September 30, 2013 from \$2.8 million for the three months ended September 30, 2012. Corporate SG&A as a percentage of consolidated net sales decreased to 10.4% for the three months ended September 30, 2013 from 10.6% for the three months ended September 30, 2012. The change was primarily due to a reduction in bad debt expense compared to the prior year.

Non-Recurring and Acquisition-Related Costs. Non-recurring and acquisition-related costs were \$0.1 million for the three months ended September 30, 2013 compared to \$0.2 million for the three months ended September 30, 2012.

Non-recurring and acquisition-related costs consisted primarily of certain legal charges in 2013 and severance, restructuring and certain legal charges in 2012.

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Depreciation and Amortization. Depreciation and amortization increased 5.3% to \$3.1 million for the three months ended September 30, 2013 from \$2.9 million for the three months ended September 30, 2012. The increase was primarily due to depreciation on additional property and equipment.

Interest Expense and Other, net. Interest expense and other, net increased to \$1.1 million for the three months ended September 30, 2013 from \$0.9 million for the three months ended September 30, 2012. The increase was primarily due to interest charges related to supplier financing costs incurred in 2013 which were not incurred in 2012.

Discontinued Operations. Loss from discontinued operations decreased to \$0.5 million for the three months ended September 30, 2013 compared to \$1.4 million for the three months ended September 30, 2012. The change is due primarily to the impact of inventory and fixed asset impairments recorded in the prior year and the overall winding-down of our discontinued operations.

Nine Months Ended September 30, 2013 Compared to Nine Months Ended September 30, 2012

Net Sales. Net sales increased 1.6%, or \$1.1 million, to \$71.7 million for the nine months ended September 30, 2013 from \$70.6 million for the nine months ended September 30, 2012. The change was the result of a \$1.1 million increase in Water net sales.

Water. Water net sales increased 2.2% to \$48.7 million, representing 67.9% of our total net sales, for the nine months ended September 30, 2013. The increase in Water net sales was due to a 5.2% increase in Exchange sales driven by same-store unit growth of 10.4% for our U.S. Exchange services compared to the nine months ended September 30, 2012, partially offset by a 1.5% decrease in Refill revenue. Five-gallon equivalent units for Water for the nine months ended September 30, 2013 were unchanged from the prior period at 21.0 million.

Dispensers. Dispensers net sales increased marginally to \$23.0 million, representing 32.1% of our total net sales, for the nine months ended September 30, 2013. Our dispenser unit sales to retailers decreased by 3.7% for the nine months ended September 30, 2013 compared to the same period in the prior year, due primarily to the sell-in related to the rollout of new locations for a major retailer during the first half of 2012. Despite the decline in dispenser unit sell-in to retailers, dispenser unit sell-thru to consumers increased 10.7% for the nine months ended September 30, 2013 compared to the same period in the prior year. Dispenser unit sales declined while sales were virtually unchanged due primarily to sales mix of higher priced units.

Gross Margin Percentage. Our overall gross margin percentage increased to 24.8% for the nine months ended September 30, 2013 from 23.4% for the nine months ended September 30, 2012. The increase was due to improvements for both Water and Dispensers gross margins.

Water. Gross margin as a percentage of net sales for our Water segment increased to 33.4% for the nine months ended September 30, 2013 from 32.9% for the same period in the prior year. An improvement in Exchange gross margin percentage for the period, due primarily to improvements in supply chain costs, was partially offset by a slight reduction in Refill gross margin percentage.

Dispensers. Gross margin as a percentage of net sales in our Dispensers segment increased to 6.5% for the nine months ended September 30, 2013 from 3.6% for the same period in the prior year. The increase in gross margin percentage was primarily due to improved supply chain costs and price increases during the third quarter of 2012.

Selling, General and Administrative Expenses (“SG&A”). SG&A decreased 14.2% to \$11.7 million for the nine months ended September 30, 2013 from \$13.7 million for the nine months ended September 30, 2012. As a percentage of net sales, SG&A decreased to 16.3% for the nine months ended September 30, 2013 from 19.3% for the nine months ended September 30, 2012.

Water. SG&A for our Water segment decreased 13.9% to \$2.6 million for the nine months ended September 30, 2013 from \$3.0 million for the nine months ended September 30, 2012. Water SG&A as a percentage of Water net sales decreased to 5.4% for the nine months ended September 30, 2013 compared to 6.4% for the nine months ended September 30, 2012. The decrease in Water SG&A was primarily a result of lower advertising expenses compared to the prior year.

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Dispensers. SG&A for our Dispensers segment decreased 60.6% to \$0.8 million for the nine months ended September 30, 2013 from \$2.0 million for the nine months ended September 30, 2012. This decrease was primarily due to expenses in 2012 related to the rollout of new dispenser retail locations that were not incurred in the first nine months of 2013. SG&A as a percentage of Dispensers segment net sales decreased to 3.5% for the nine months ended September 30, 2013 from 8.9% for the nine months ended September 30, 2012.

Corporate. Corporate SG&A decreased 3.2% to \$8.3 million for the nine months ended September 30, 2013 from \$8.6 million for the nine months ended September 30, 2012. Corporate SG&A as a percentage of consolidated net sales decreased to 11.6% for the nine months ended September 30, 2013 from 12.1% for the nine months ended September 30, 2012. The change was primarily attributable to lower bad debt and employee compensation-related expenses compared to the prior year.

Non-Recurring and Acquisition-Related Costs. Non-recurring and acquisition-related costs were \$0.2 million for the nine months ended September 30, 2013 compared to \$0.6 million for the nine months ended September 30, 2012.

Non-recurring and acquisition-related costs consisted primarily of severance, restructuring and certain legal charges in 2013 and 2012.

Depreciation and Amortization. Depreciation and amortization increased 8.2% to \$8.6 million for the nine months ended September 30, 2013 from \$7.9 million for the nine months ended September 30, 2012. The increase was primarily due to the change in the estimated useful life of bottles from three years to two years effective July 1, 2012.

Interest Expense and Other, net. Interest expense and other, net increased 9.3% to \$3.4 million for the nine months ended September 30, 2013 from \$3.1 million for the nine months ended September 30, 2012. Lower deferred loan cost amortization was offset by supplier financing costs incurred in 2013 which were not incurred in 2012.

Income Taxes Benefit. We recorded an income tax provision in 2011 as a result of the recognition of a deferred tax liability related to tax deductible goodwill. For the nine months ended September 30, 2012, the impairment of goodwill resulted in a reversal of the related deferred tax liability and the recognition of a deferred tax asset and income tax benefit. We have provided valuation allowances to fully offset the net deferred tax assets at September 30, 2013.

Discontinued Operations. Loss from discontinued operations decreased to \$0.9 million for the nine months ended September 30, 2013 compared to \$14.8 million for the nine months ended September 30, 2012. The decrease is due primarily to the impact of impairment charges to goodwill and developed technology recorded for the nine months ended September 30, 2012.

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 flow from operations. While we had no material commitments for capital expenditures as of September 30, 2013, we anticipate capital expenditures to range between \$1.0 million and \$1.5 million for the remainder of 2013. Anticipated capital expenditures are related primarily to growth in Water locations.

At September 30, 2013, our cash totaled \$0.3 million and we had approximately \$3.8 million in additional availability under the Senior Revolving Credit Facility. This availability is subject to borrowing base requirements related to our eligible accounts receivable and inventory. We anticipate that our current cash and cash equivalents, availability under the Senior Revolving Credit Facility and cash flow from operations will be sufficient to meet our needs for general corporate purposes for the foreseeable future.

Our future capital requirements may vary materially from those now anticipated and will depend on many factors including: the rate of growth in new Water locations and related display and rack costs, cost to develop new Dispenser product lines, sales and marketing resources needed to further penetrate our markets, the expansion of our operations in the United States and Canada, the response of competitors to our solutions and products, as well as acquisitions of other businesses. Historically, we have experienced increases in our capital expenditures consistent with the growth in our operations and personnel, and we anticipate that our expenditures will continue to increase as we grow our business, subject to limits related to our Comvest Term Loans and Senior Revolving Credit Facility.

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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 additional equity or 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,	
	2013	2012
Net cash provided by operating activities	\$9.1	\$4.6
Net cash used in investing activities	\$(5.7)	\$(4.5)
Net cash (used in) provided by financing activities	\$(3.5)	\$5.0

Net Cash Flows from Operating Activities

Net cash provided by operating activities increased to \$9.1 million for the nine months ended September 30, 2013 from \$4.6 million for the nine months ended September 30, 2012. The increase in cash flow from operations is primarily due to a \$2.0 million increase in cash provided from net working capital components and the reduction in loss from continuing operations.

Net Cash Flows from Investing Activities

Net cash used in investing activities increased to \$5.7 million for the nine months ended September 30, 2013 from \$4.5 million for the nine months ended September 30, 2012 as a result of increased investment in capital expenditures.

Our primary investing activities are typically capital expenditures for property, equipment and bottles and include expenditures related to the installation of our recycle centers, display racks and reverse osmosis filtration systems at new Water locations.

Net Cash Flows from Financing Activities

Net cash used in financing activities was \$3.5 million for the nine months ended September 30, 2013 compared to cash provided from financing activities of \$5.0 million for the nine months ended September 30, 2012. Our financing activities for the nine months ended September 30, 2013 included repayments net of borrowings of \$2.8 million compared to borrowings net of repayments of \$7.2 million for the nine months ended September 30, 2012. In addition, cash used in financing activities included \$0.7 million and \$2.0 million of debt issuance costs for the nine months ended September 30, 2013 and 2012, respectively.

Senior Revolving Credit Facility

We entered into the Senior Revolving Credit Facility on April 30, 2012, as amended on February 21, 2013, that replaced our prior senior credit facility. The Senior Revolving Credit Facility provides for total borrowing availability of up to \$20.0 million, subject to borrowing base requirements related to our eligible accounts receivable and inventory and subject to a \$2.0 million reserve requirement. The Senior Revolving Credit Facility has a three and one-half year term and is secured either on a first priority or second priority basis by substantially all of our assets.

The term of the Senior Revolving Credit Facility may be extended up to April 30, 2017 so long as the maturity of the Term Loan (as defined below) is extended to at least October 30, 2017. At September 30, 2013, our outstanding balance under our Senior Revolving Credit Facility was \$1.2 million and we had approximately \$3.8 million in additional availability. The Senior Revolving Credit Facility contains a limit on capital expenditures of \$6.0 million for the year ended December 31, 2013 and for each year thereafter. The limit for capital expenditures may be increased for 2013 and thereafter based upon meeting the fixed charge coverage ratio, as stipulated and defined in the Senior Revolving Credit Facility. In addition, the Senior Revolving Credit Facility does cross default to the Term Loan.

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Comvest Term Loans

We entered into a credit and security agreement on April 30, 2012 (the “Credit Agreement”) pursuant to which a \$15.2 million term loan (the “Term Loan”) was provided. The Credit Agreement was amended on November 6, 2012 to contemplate the plan to exit the Flavorstation business (see Note 2 to the Notes to the Consolidated Financial Statements) and provide for the classification of the operating results related to the Disposal Group as discontinued operations. In connection with the amendment, the lender consented to our sale of inventory and other assets related to the Disposal Group outside the ordinary course of business. Also in connection with the amendment, we paid the lender a \$0.15 million fee and agreed to certain changes to prepayment penalties and financial covenants.

The Credit Agreement was amended on June 14, 2013 (the “Second Amendment”) to provide for an additional \$3.0 million in borrowing under a second term loan (the “Add-On Term Loan”, and together with the Term Loan, the “Comvest Term Loans”), adjust the interest rate on the Term Loan, eliminate certain financial covenants and make further adjustments to prepayment penalties.

Under the terms of the Second Amendment, interest on outstanding amounts owed under the Comvest Term Loans is payable at the rate of 12.5% per annum in cash. At September 30, 2013 the aggregate outstanding balance under the Comvest Term Loans was \$18.5 million.

The outstanding balances of the Comvest Term Loans are due and payable in a single installment on April 30, 2016, subject to prepayment in specified circumstances, including sales or dispositions of assets outside the ordinary course of business and sales of equity or debt securities by Primo. The Comvest Term Loans are secured by substantially all of our assets on either a first priority or second priority basis. The first priority assets consist of substantially all of the assets related to our refill services business. The security interest in all of our other assets is subordinate to the security interest securing the Senior Revolving Credit Facility.

The Comvest Term Loans contain the following financial covenants: (i) a limit on capital expenditures of \$12.0 million for the year ended December 31, 2013 and for each year thereafter; (ii) an increasing minimum Adjusted EBITDA threshold that is measured at the end of each quarter, and (iii) a decreasing total debt to Adjusted EBITDA ratio that is measured at the end of each quarter. At September 30, 2013 we were in compliance of all covenants, including the following: the minimum Adjusted EBITDA threshold was \$8.0 million and our Adjusted EBITDA was \$8.4 million for the twelve months ended September 30, 2013; and the maximum allowed total debt to Adjusted EBITDA ratio was 3.8:1 and our ratio was 2.4:1 for the twelve months ended September 30, 2013.

Adjusted EBITDA U.S. GAAP Reconciliation

Adjusted EBITDA is a non-U.S. GAAP financial measure that is calculated as loss from continuing operations before income tax benefit, interest expense and other, net, depreciation and amortization, goodwill and other impairment, non-cash stock-based compensation expense, non-recurring and acquisition-related costs, loss on disposal of assets and other. Our Comvest Term Loans contain financial covenants that use Adjusted EBITDA. We believe Adjusted EBITDA provides useful information to management and investors regarding certain financial and business trends relating to our financial condition and results of operations. Adjusted EBITDA is used by management to compare our performance to that of prior periods for trend analyses and planning purposes and is presented to our board of directors.

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

Adjusted EBITDA.

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	Three months ended		Nine months ended	
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
Loss from continuing operations	\$(1,574)	\$(2,465)	\$(6,078)	\$(19,248)
Depreciation and amortization	3,050	2,898	8,579	7,929
Interest expense and other, net	1,138	904	3,359	3,082
Income tax benefit	–	–	–	(960)
EBITDA	2,614	1,337	5,860	(9,197)
Goodwill impairment	–	–	–	11,488
Non-cash, stock-based compensation expense	196	256	819	1,043
Non-recurring and acquisition-related costs	96	170	190	565
Loss on disposal of assets and other	69	78	307	438
Adjusted EBITDA	\$2,975	\$1,841	\$7,176	\$4,337

Off-Balance Sheet Arrangements

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

Inflation

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

Seasonality; Fluctuations of Results

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

Critical Accounting Policies and Estimates

There have been no material changes to our critical accounting policies and estimates from the information provided in Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” included in our Annual Report on Form 10-K for the year ended December 31, 2012.

Recent Accounting Pronouncements

In February 2013, the FASB issued updated guidance which requires companies to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, companies are required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by respective line items of net income but only if the amount reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same

reporting period. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures required under U.S. GAAP that provide additional detail about those amounts. We have adopted this updated guidance effective January 1, 2013. The adoption did not have a significant impact on our consolidated financial statements.

In July 2013, the FASB issued updated guidance requiring that an unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except as follows. To the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented as a liability and should not be combined with deferred tax assets. These amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013, with early adoption permitted. The amendments are not expected to have a significant impact on our consolidated financial statements.

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Cautionary Note Regarding Forward-Looking Statements

This document includes and other information we make public from time to time may include “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include statements about our estimates, expectations, projections, beliefs, intentions or strategies for the future, and the assumptions underlying such statements. We use the words “anticipates,” “believes,” “estimates,” “expects,” “intends,” “forecasts,” “may,” “will,” “should,” and similar expressions to identify our forward-looking statements. Forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from historical experience or our present expectations. Factors that could cause these differences include, but are not limited to, the factors set forth in Part I, Item 1A, “Risk Factors” of our Annual Report on Form 10-K for the fiscal year ended December 31, 2012.

Item 3. Quantitative and Qualitative Disclosure About Market Risk

The information required by Item 3 is not required to be provided by issuers that satisfy the definition of "smaller reporting company" under SEC rules.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

Changes in Internal Control over Financial Reporting

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

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PART II – OTHER INFORMATION

Item 1. Legal Proceedings

Class Action Suit

On August 14, 2013, the United States District Court for the Middle District of North Carolina granted the defendants' motion to dismiss the securities class action lawsuit brought against Primo, certain members of our board of directors, certain members of management, and certain shareholders and company advisors. The plaintiffs' complaint alleged violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended, and Rule 10b-5 promulgated thereunder, and Sections 11, 12(a)(2), and 15 of the Securities Act of 1933 and asserted such claims on behalf of a class of persons who acquired our common stock in or traceable to our initial public offering and secondary offering as well as purchasers of common stock between November 4, 2010 and August 10, 2011. The Court dismissed all claims asserted in the case with prejudice, and entered judgment in favor of all defendants. No appeal was taken by the plaintiffs, and the judgment became final as of September 13, 2013.

Electrotemp

On October 14, 2011, Primo, through a wholly-owned subsidiary, filed a complaint against Electrotemp Technologies China, Inc. ("Electrotemp") in Mecklenburg County (North Carolina) Superior Court, alleging breach of contract, quantum meruit/unjust enrichment, and violation of the North Carolina Products Liability Act/breach of implied warranty. The parties filed a Joint Motion to stay litigation so that they could proceed with mediation and arbitration pursuant to the dispute resolution clause in their agreement. On May 1, 2012, the Court ordered that the litigation would be stayed once the parties formally enter into arbitration. Electrotemp asserted counterclaims in the arbitration. On September 26, 2013, the parties reached a settlement that resulted in termination of the arbitration and dismissal of the lawsuit. The lawsuit was dismissed with prejudice on October 3, 2013.

Florida Concentrates Suit

On October 16, 2012, Primo was served with the Summons and Complaint in a suit filed in the Florida state courts on September 26, 2012. Plaintiffs in the suit are Florida Concentrates International, LLC (a Florida limited liability company), Florida Sparkling DS, LLC (a Florida limited liability company), and Didier Hardy (a Florida resident and apparently the principal of the LLC plaintiffs). Also named as defendants are Susan and Scott Ballantyne (alleged to be Florida residents) and SDS-IC. The suit was filed in the Circuit Court for the Twentieth Judicial District (Collier County, Florida). Plaintiffs' allegations include breach of contract, misappropriation of trade secrets and certain additional claims and plaintiffs seek monetary damages. We do not believe that the suit has any merit whatsoever, and plan to vigorously contest and defend against it. We have filed a motion to dismiss all claims, which was granted in part and denied in part by the court.

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, 2012, as supplemented and updated by the discussion below. 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.

We may experience difficulties in realizing the anticipated benefits associated with our Strategic Alliance Agreement with DS Waters of America, Inc. and transitioning the services to be provided thereunder from our existing bottling

and distribution network.

We may not be able to realize all of the anticipated benefits and synergies associated with the Strategic Alliance Agreement that we recently entered into with DS Waters of America, Inc. (“DS Waters”). The ability to realize the anticipated benefits of this arrangement (including incremental revenue, reduced distribution costs and improved gross margins over time) will depend, to a large extent, on our ability to successfully transition the services provided by our existing bottling and distribution network to DS Waters and to integrate the bottling, distribution, exchange and supply services to be provided by DS Waters into our water bottle exchange business. The transition to and integration of a new primary service provider is a complex, costly and time-consuming process. As a result, we are devoting significant management attention and resources to a transition plan that will implement these new bottling, distribution and service arrangements. Both our entering into the Strategic Alliance Agreement and this transition process may disrupt our existing bottling and distributor network, which could negatively impact our business and results of operations and otherwise preclude realization of the full benefits we expect to realize from the new arrangements. The failure to transition our bottling and distribution arrangements to DS Waters or to otherwise integrate the services to be provided by DS Waters into our business could cause an interruption of, or a loss of momentum in, our business activities, and could negatively impact our results of operations. In addition, if we are not successful in transitioning a certain volume of service rights to DS Waters in the prescribed time period, the compensation we are required to pay to DS Waters under the Strategic Alliance Agreement will increase and negatively impact the anticipated benefits of this arrangement. The transition of our bottling and distribution requirements to DS Waters may result in unanticipated problems, expenses, liabilities, competitive responses, loss of bottler, distributor and customer relationships, and a diversion of management’s attention. If any of our retailer customers are not satisfied with the performance of services provided by DS Waters, we could lose the business of that retailer customer which would negatively impact our business. Finally, we expect to incur costs in connection with assuming account management, billing and collections responsibility for DS Waters’ current five-gallon retail exchange customers and, if we do not realize the anticipated benefits of the business arrangement with DS Waters, including the anticipated revenues related to the addition of existing retail customers of DS Waters’ three and five gallon retail bottled water exchange business as new customers of our water bottle exchange business, these costs could have a material adverse effect on our business, result of operations and financial condition.

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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

Strategic Alliance Agreement

On November 12, 2013, Primo entered into a Strategic Alliance Agreement (the “Agreement”) with DS Waters pursuant to which DS Waters will act as Primo’s primary bottler and distributor of three and five gallon purified bottled drinking water (the “Product”) and provider of exchange and supply services for the Product (the “Services”) in the United States.

Pursuant to the Agreement, DS Waters will become Primo’s primary bottler and distributor in the United States in all territories for which Primo does not currently have an existing distributor agreement and in other territories as existing regional operator arrangements expire or are terminated.

Pursuant to the terms of the Agreement, the parties anticipate that DS Waters will begin providing Services to Primo on January 1, 2014 or as soon thereafter as commercially practicable. In accordance with a transition plan, distribution and other services currently provided to retailer customers of Primo by certain regional operators in the continental United States will be transitioned to DS Waters over time. Primo expects to provide DS Waters with Service rights for 90% of the annual volume of Products in connection with Primo’s bottled water exchange business by December 31, 2015.

DS Waters has agreed that it will use reasonable efforts to cause the retail customers of DS Waters’ retail bottled water exchange business to agree to receive Services from Primo no later than January 1, 2014 or as soon thereafter as commercially practicable (but not later than December 31, 2014).

The Agreement contemplates that the parties will enter into a mutually agreeable supply agreement with respect to the supply of empty bottles by DS Waters to Primo for use in connection with the Products on or prior to January 1, 2014.

The supply agreement will designate DS Waters as Primo’s primary supplier of bottles to the extent that DS Waters can supply bottles, at market competitive prices, within Primo’s geographic territories that meet Primo’s bottle specifications.

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The Agreement provides that Primo will pay DS Waters for Services on a monthly basis as described below. The monthly compensation payable by Primo will be calculated on a per Product basis, with the amount due per Product based upon the classification of the customer to which a Product is delivered, with each such per Product amount subject to certain annual adjustments. The compensation paid to DS Waters under the Agreement is subject to additional adjustments in the event the 90% volume transfer requirement described above is not satisfied by December 31, 2015 .

The initial term of the Agreement continues until December 31, 2020, and will automatically renew for additional seven year terms (the initial term together with any renewal term is referred to as a “Term”) unless terminated in accordance with the terms of the Agreement. Either party may terminate the Agreement upon written notice to the other party at least twelve months prior to the end of any Term, and such termination will be effective at the end of such Term. The Agreement also provides each party with certain termination rights related to breach and other “for cause” circumstances. In addition, the Agreement contains certain non-competition and non-solicitation provisions for each party related to the Services.

In connection with its entering into the Agreement, Primo agreed to issue a warrant to DS Waters to purchase 475,000 unregistered shares of the Primo’s common stock (the “DS Waters Warrant”). The DS Waters Warrant will be exercisable at an exercise price of \$3.04 per share and will expire on or before January 1, 2021. The issuance of the DS Waters Warrant will be made in reliance upon the exemption from registration provided by Section 4(2) of the Securities Act of 1933, as amended, and Rule 506 of Regulation D promulgated thereunder.

The foregoing description of the Agreement is not complete and is qualified in its entirety by reference to the Agreement, which is filed as Exhibit 10.1 to this Quarterly Report on Form 10-Q, and is incorporated herein by reference.

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Item 6. Exhibits

EXHIBIT INDEX

Exhibit Number	Description
3.1	Sixth Amended and Restated Certificate of Incorporation of Primo Water Corporation (incorporated by reference to Exhibit 3.1 to Amendment No. 2 to the Registrant’s Registration Statement on Form S-1/A (File No. 333-173554) filed on May 31, 2011)
3.2	Amended and Restated Bylaws of Primo Water Corporation (incorporated by reference to Exhibit 3.1 to the Company’s Form 8-K filed November 16, 2010)
<u>10.1</u>	Strategic Alliance Agreement dated as of November 12, 2013 by and between the Company and DS Waters of America, Inc. (filed herewith)*
<u>31.1</u>	Certification of Periodic Report by Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14a and pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
<u>31.2</u>	Certification of Periodic Report by Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14a and pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
<u>32.1</u>	Certification of Periodic Report by Chief Executive Officer and Chief Financial Officer pursuant to U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith)
101.INS	XBRL Instance Document ^(1, 2)
101.SCH	XBRL Taxonomy Extension Schema Document ^(1, 2)
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document ^(1, 2)
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document ^(1, 2)
101.LAB	XBRL Taxonomy Extension Label Linkbase Document ^(1, 2)
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document ^(1, 2)

(1) Included herewith

(2) These interactive data files shall not be deemed filed for purposes of Section 11 or 12 of the Securities Act of 1933, as amended, or Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to liability under those sections.

* Confidential treatment has been requested for portions of this exhibit. These portions have been omitted and submitted separately to the Securities and Exchange Commission.

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SIGNATURES

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

PRIMO WATER CORPORATION
(Registrant)

Date: November 14, 2013 By: /s/ Billy D. Prim
Billy D. Prim
Chairman and Chief Executive Officer

Date: November 14, 2013 By: /s/ Mark Castaneda
Mark Castaneda
Chief Financial Officer