

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 JUNE 30, 2019
OR

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

COMMISSION FILE NUMBER 001-34850

PRIMO WATER CORPORATION

(Exact name of registrant as specified in its charter)

Delaware
(State of incorporation)

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

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

(Address of principal executive office) (Zip code)

(336) 331-4000

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

| Title of each class | Trading Symbol(s) | Name of each exchange on which registered |
|--------------------------------|-------------------|---|
| \$0.001 Par Value Common Stock | PRMW | The NASDAQ Stock Market LLC |

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, if any, every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

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

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

As of August 2, 2019, there were 39,218,402 shares of our Common Stock, par value \$0.001 per share, outstanding.

PRIMO WATER CORPORATION
FORM 10-Q
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2019

INDEX

| | <u>Page number</u> |
|--|--------------------|
| <u>PART I. Financial Information</u> | |
| <u>Item 1. Financial Statements (Unaudited)</u> | 3 |
| <u>Condensed Consolidated Balance Sheets</u> | 3 |
| <u>Condensed Consolidated Statements of Operations</u> | 4 |
| <u>Condensed Consolidated Statements of Comprehensive (Loss) Income</u> | 5 |
| <u>Condensed Consolidated Statements of Stockholders' Equity</u> | 6 |
| <u>Condensed Consolidated Statements of Cash Flows</u> | 7 |
| <u>Notes to Condensed Consolidated Financial Statements</u> | 8 |
| <u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | 20 |
| <u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u> | 29 |
| <u>Item 4. Controls and Procedures</u> | 29 |
| <u>PART II. Other Information</u> | |
| <u>Item 1. Legal Proceedings</u> | 29 |
| <u>Item 1A. Risk Factors</u> | 29 |
| <u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u> | 31 |
| <u>Item 3. Defaults Upon Senior Securities</u> | 31 |
| <u>Item 4. Mine Safety Disclosures</u> | 31 |
| <u>Item 5. Other Information</u> | 31 |
| <u>Item 6. Exhibits</u> | 32 |
| <u>Signatures</u> | 33 |

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

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

| | June 30, 2019 | December 31, 2018 |
|--|-------------------|----------------------|
| | (unaudited) | |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 4,277 | \$ 7,301 |
| Accounts receivable, net | 24,634 | 19,179 |
| Inventories | 13,742 | 9,965 |
| Prepaid expenses and other current assets | 6,948 | 7,004 |
| Total current assets | 49,601 | 43,449 |
| Bottles, net | 5,405 | 4,618 |
| Property and equipment, net | 103,637 | 95,627 |
| Operating lease right-of-use assets | 3,604 | – |
| Intangible assets, net | 75,832 | 78,671 |
| Goodwill | 92,015 | 91,814 |
| Note receivable | 3,128 | – |
| Other assets | 669 | 661 |
| Assets held-for-sale at fair value | – | 5,288 |
| Total assets | <u>\$ 333,891</u> | <u>\$ 320,128</u> |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 29,899 | \$ 25,191 |
| Accrued expenses and other current liabilities | 8,755 | 8,274 |
| Current portion of long-term debt and finance leases | 11,514 | 11,159 |
| Total current liabilities | 50,168 | 44,624 |
| Long-term debt and finance leases, net of current portion and debt issuance costs | 187,860 | 178,966 |
| Operating leases, net of current portion | 2,134 | – |
| Other long-term liabilities | 1,191 | 607 |
| Liabilities held-for-sale at fair value | – | 1,438 |
| Total liabilities | 241,353 | 225,635 |
| 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, 39,185 and 38,567 shares issued and outstanding at June 30, 2019 and December 31, 2018, respectively | 39 | 39 |
| Additional paid-in capital | 423,729 | 424,635 |
| Accumulated deficit | (329,325) | (328,599) |
| Accumulated other comprehensive loss | (1,905) | (1,582) |
| Total stockholders' equity | 92,538 | 94,493 |
| Total liabilities and stockholders' equity | <u>\$ 333,891</u> | <u>\$ 320,128</u> |

See accompanying notes.

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

| | <u>Three months ended June 30,</u> | | <u>Six months ended June 30,</u> | |
|--|------------------------------------|----------------|----------------------------------|-----------------|
| | <u>2019</u> | <u>2018</u> | <u>2019</u> | <u>2018</u> |
| Net sales | \$ 79,261 | \$ 75,802 | \$ 149,308 | \$ 149,461 |
| Operating costs and expenses: | | | | |
| Cost of sales | 58,203 | 52,729 | 109,724 | 106,150 |
| Selling, general and administrative expenses | 8,768 | 9,600 | 19,096 | 18,800 |
| Special items | 1,152 | 410 | 1,413 | 487 |
| Depreciation and amortization | 7,292 | 6,114 | 13,845 | 12,171 |
| Loss on disposal of property and equipment and other | 252 | 111 | 327 | 244 |
| Total operating costs and expenses | <u>75,667</u> | <u>68,964</u> | <u>144,405</u> | <u>137,852</u> |
| Income from operations | 3,594 | 6,838 | 4,903 | 11,609 |
| Interest expense, net | 2,721 | 11,158 | 5,302 | 16,444 |
| Income (loss) before income taxes | 873 | (4,320) | (399) | (4,835) |
| Income tax benefit | - | (4,771) | - | (6,496) |
| Net income (loss) | <u>\$ 873</u> | <u>\$ 451</u> | <u>\$ (399)</u> | <u>\$ 1,661</u> |
| Earnings (loss) per common share: | | | | |
| Basic | <u>\$ 0.02</u> | <u>\$ 0.01</u> | <u>\$ (0.01)</u> | <u>\$ 0.05</u> |
| Diluted | <u>\$ 0.02</u> | <u>\$ 0.01</u> | <u>\$ (0.01)</u> | <u>\$ 0.05</u> |
| Weighted average shares used in computing earnings (loss) per share: | | | | |
| Basic | <u>40,389</u> | <u>35,920</u> | <u>40,342</u> | <u>34,549</u> |
| Diluted | <u>41,043</u> | <u>37,232</u> | <u>40,342</u> | <u>35,836</u> |

See accompanying notes.

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

| | Three months ended | | Six months ended | |
|---|---------------------------|---------------|-------------------------|-----------------|
| | June 30, | | June 30, | |
| | 2019 | 2018 | 2019 | 2018 |
| Net income (loss) | \$ 873 | \$ 451 | \$ (399) | \$ 1,661 |
| Other comprehensive loss: | | | | |
| Reclassification of gain recognized in net income on redemption of Glacier securities | – | (86) | – | (86) |
| Unrealized gain on investment in Glacier securities | – | – | – | 14 |
| Interest rate swap | (640) | – | (640) | – |
| Foreign currency translation adjustments, net | 142 | (167) | 317 | (429) |
| Total other comprehensive loss | (498) | (253) | (323) | (501) |
| Comprehensive income (loss) | <u>\$ 375</u> | <u>\$ 198</u> | <u>\$ (722)</u> | <u>\$ 1,160</u> |

See accompanying notes.

PRIMO WATER CORPORATION
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Unaudited)
(In thousands)

| | Three Months Ended June 30, 2018 | | | | | | |
|--|----------------------------------|--------------|----------------------------------|------------------------|---|----------------------------------|--|
| | Common Stock | | Additional Paid-in Capital | Accumulated Deficit | Accumulated Other Comprehensive Loss | Total Stockholders' Equity | |
| | Shares | Amount | | | | | |
| Balance, March 31, 2018 | 31,003 | \$ 31 | \$ 339,982 | \$ (272,542) | \$ (1,018) | \$ 66,453 | |
| Employee stock compensation plans | 321 | 1 | 2,415 | - | - | 2,416 | |
| Shares withheld for taxes related to net share settlement of equity awards | (3) | - | (35) | - | - | (35) | |
| Exercise of common stock warrants | 976 | 1 | 11,450 | - | - | 11,451 | |
| Proceeds from equity offering, net of costs | 5,339 | 5 | 70,786 | - | - | 70,791 | |
| Reclassification of equity issuance costs previously capitalized | - | - | (171) | - | - | (171) | |
| Net income | - | - | - | 451 | - | 451 | |
| Other comprehensive loss | - | - | - | - | (253) | (253) | |
| Balance, June 30, 2018 | 37,636 | \$ 38 | \$ 424,427 | \$ (272,091) | \$ (1,271) | \$ 151,103 | |
| | Six Months Ended June 30, 2018 | | | | | | |
| | Common Stock | | Additional Paid-in Capital | Accumulated Deficit | Accumulated Other Comprehensive Loss | Total Stockholders' Equity | |
| | Shares | Amount | | | | | |
| Balance, December 31, 2017 | 30,084 | \$ 30 | \$ 345,963 | \$ (273,752) | \$ (770) | \$ 71,471 | |
| Employee stock compensation plans | 1,905 | 2 | 4,760 | - | - | 4,762 | |
| Shares withheld for taxes related to net share settlement of equity awards | (668) | - | (8,361) | - | - | (8,361) | |
| Exercise of common stock warrants | 976 | 1 | 11,450 | - | - | 11,451 | |
| Proceeds from equity offering, net of costs | 5,339 | 5 | 70,786 | - | - | 70,791 | |
| Reclassification of equity issuance costs previously capitalized | - | - | (171) | - | - | (171) | |
| Net income | - | - | - | 1,661 | - | 1,661 | |
| Other comprehensive loss | - | - | - | - | (501) | (501) | |
| Balance, June 30, 2018 | 37,636 | \$ 38 | \$ 424,427 | \$ (272,091) | \$ (1,271) | \$ 151,103 | |
| | Three Months Ended June 30, 2019 | | | | | | |
| | Common Stock | | Additional Paid-in Capital | Accumulated Deficit | Accumulated Other Comprehensive Loss | Total Stockholders' Equity | |
| | Shares | Amount | | | | | |
| Balance, March 31, 2019 | 39,029 | \$ 39 | \$ 422,052 | \$ (330,198) | \$ (1,407) | \$ 90,486 | |
| Employee stock compensation plans | 159 | - | 1,713 | - | - | 1,713 | |
| Shares withheld for taxes related to net share settlement of equity awards | (3) | - | (36) | - | - | (36) | |
| Net income | - | - | - | 873 | - | 873 | |
| Other comprehensive loss | - | - | - | - | (498) | (498) | |
| Balance, June 30, 2019 | 39,185 | \$ 39 | \$ 423,729 | \$ (329,325) | \$ (1,905) | \$ 92,538 | |
| | Six Months Ended June 30, 2019 | | | | | | |
| | Common Stock | | Additional Paid-in Capital | Accumulated Deficit | Accumulated Other Comprehensive Loss | Total Stockholders' Equity | |
| | Shares | Amount | | | | | |
| Balance, December 31, 2018 | 38,567 | \$ 39 | \$ 424,635 | \$ (328,599) | \$ (1,582) | \$ 94,493 | |
| Effect of ASC 842 adoption | - | - | - | (327) | - | (327) | |
| Employee stock compensation plans | 893 | 1 | 3,019 | - | - | 3,020 | |
| Shares withheld for taxes related to net share settlement of equity awards | (282) | (1) | (3,993) | - | - | (3,994) | |
| Exercise of common stock warrants | 7 | - | 68 | - | - | 68 | |
| Net loss | - | - | - | (399) | - | (399) | |
| Other comprehensive loss | - | - | - | - | (323) | (323) | |
| Balance, June 30, 2019 | 39,185 | \$ 39 | \$ 423,729 | \$ (329,325) | \$ (1,905) | \$ 92,538 | |

See accompanying notes.

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

| | Six Months Ended June 30, | |
|---|----------------------------------|-----------------|
| | 2019 | 2018 |
| Cash flows from operating activities: | | |
| Net (loss) income | \$ (399) | \$ 1,661 |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | |
| Depreciation and amortization | 13,845 | 12,171 |
| Loss on disposal of property and equipment and other | 327 | 244 |
| Stock-based compensation expense | 2,493 | 2,679 |
| Non-cash interest expense | 170 | 2,445 |
| Bad debt expense | 53 | 170 |
| Deferred income tax benefit | - | (6,496) |
| Realized foreign currency exchange (gain) loss and other, net | (200) | 399 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (5,426) | (5,065) |
| Inventories | (3,762) | (1,638) |
| Prepaid expenses and other current assets | 215 | (1,126) |
| Operating lease right-of-use assets | 560 | - |
| Accounts payable | 2,624 | 5,248 |
| Accrued expenses and other current liabilities | (1,117) | (513) |
| Operating lease liabilities | (518) | - |
| Net cash provided by operating activities | 8,865 | 10,179 |
| Cash flows from investing activities: | | |
| Purchases of property and equipment, net | (12,429) | (8,208) |
| Purchases of bottles, net of disposals | (1,767) | (1,117) |
| Proceeds from the sale of property and equipment | 129 | 154 |
| Proceeds from the sale of Ice Assets | 400 | - |
| Proceeds from redemption of investment in Glacier securities | - | 3,648 |
| Additions to intangible assets | (25) | (12) |
| Net cash used in investing activities | (13,692) | (5,535) |
| Cash flows from financing activities: | | |
| Borrowings under Revolving Credit Facilities | 29,000 | 29,000 |
| Payments under Revolving Credit Facilities | (18,900) | (22,000) |
| Borrowings under Term loans | - | 190,000 |
| Payments under Term loans | (4,750) | (184,140) |
| Payments upon redemption of Junior Subordinated Debentures | - | (87,629) |
| Finance lease payments | (1,186) | (818) |
| Proceeds from common stock issuance, net of costs | - | 70,791 |
| Proceeds from warrant exercises, net | 68 | 9,486 |
| Stock option and employee stock purchase activity | 526 | 1,322 |
| Bank overdraft | 1,032 | - |
| Payments for taxes related to net share settlement of equity awards | (3,994) | (8,361) |
| Debt issuance costs and other | - | (1,640) |
| Net cash provided by (used in) financing activities | 1,796 | (3,989) |
| Effect of exchange rate changes on cash and cash equivalents | 7 | (19) |
| Net (decrease) increase in cash and cash equivalents | (3,024) | 636 |
| Cash and cash equivalents, beginning of year | 7,301 | 5,586 |
| Cash and cash equivalents, end of period | \$ 4,277 | \$ 6,222 |
| Supplemental cash flow information: | | |
| Promissory note received in exchange for sale of ice assets | \$ 3,278 | \$ - |

See accompanying notes.

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,” or “us”) is North America’s leading single source provider of multi-gallon purified bottled water, self-service refill drinking water and water dispensers sold through major retailers in the United States and Canada.

Unaudited Interim Financial Information

The accompanying interim condensed consolidated financial statements and notes have been prepared in accordance with our accounting practices described in our audited consolidated financial statements as of and for the year ended December 31, 2018. In the opinion of management, the unaudited interim condensed consolidated financial statements included herein contain all adjustments necessary to present fairly our financial position, results of operations and cash flows for the periods indicated. Such adjustments, other than nonrecurring adjustments that have been separately disclosed, are of a normal, recurring nature. The operating results for interim periods are not necessarily indicative of results to be expected for a full year or future interim periods. The unaudited interim condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and accompanying notes as of and for the year ended December 31, 2018 as filed on Form 10-K (the “2018 Form 10-K”). The accompanying interim condensed consolidated financial statements are presented in accordance with the rules and regulations of the Securities and Exchange Commission (the “SEC”) and, accordingly, do not include all the disclosures required by generally accepted accounting principles in the United States (“U.S. GAAP”) with respect to annual audited financial statements. Significant accounting policies are summarized in our 2018 Form 10-K.

Recently Issued Accounting Pronouncements

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

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

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

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which requires the measurement and recognition of expected credit losses for financial assets held at amortized cost. ASU 2016-13 replaces the existing incurred loss impairment model with an expected loss model which requires the use of forward-looking information to calculate credit loss estimates. It also eliminates the concept of other-than-temporary impairment and requires credit losses related to available-for-sale debt securities to be recorded through an allowance for credit losses rather than as a reduction in the amortized cost basis of the securities. These changes will result in earlier recognition of credit losses. We will adopt ASU 2016-13 effective January 1, 2020 with the cumulative effect of adoption recorded as an adjustment to retained earnings. The effect on our consolidated financial statements will largely depend on the composition and credit quality of our trade receivables at the time of adoption.

Recently Adopted Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)* along with subsequent amendments to the initial guidance in ASU 2017-13, ASU 2018-10 and ASU 2018-11 (collectively, Topic 842) requiring lessees to recognize for all leases (with the exception of short-term leases) at the commencement date: (1) a lease liability, which is a lessee’s obligation to make lease payments arising from a lease, measured on a discounted basis, and (2) a right-of-use (“ROU”) asset, which is an asset that represents the lessee’s right to use, or control the use of, a specified asset for the lease term.

[Table of Contents](#)

We adopted Topic 842 effective January 1, 2019. The effects of adopting Topic 842 were the recognition of \$4.2 million of operating lease right-of-use assets and \$4.1 million of operating lease liabilities. We applied Topic 842 to all contracts conveying the right to control the use of identified property, plant, or equipment as of January 1, 2019, with comparative periods continuing to be reported under Topic 840 in accordance with the alternative transition method. In the adoption of Topic 842, we elected the package of practical expedients allowing us to carry forward the assessment from Topic 840 of whether our contracts contain or are leases, as well as, the classification and initial direct costs for any expired or existing leases. We also elected the practical expedient allowing us to use hindsight when determining the lease term and assessing impairment of right-of-use assets. For short-term leases with an initial term of 12 months or less, we have made an accounting policy election whereby a right-of-use asset and lease liability is not recognized. Lease expense for short-term leases is recognized on a straight-line basis over the lease term. A portion of our leases contain lease and non-lease components in the form of maintenance and utilities. We have elected to combine non-lease and lease components and treat them as a single lease component, which increases the amount of our lease assets and corresponding liabilities. We implemented a lease management system to assist in centralizing, maintaining and accounting for all leases to ensure compliance with Topic 842 reporting and disclosure requirements. Our accounting for finance leases remains substantially unchanged. The standard did not have a significant impact on our condensed consolidated statements of operations or our condensed consolidated statements of cash flows. See “Note 3 – Leases” for further details.

In August 2017, the FASB issued ASU 2017-12, *Derivatives and Hedging (Topic 815) - Targeted Improvements to Accounting for Hedging Activities*. ASU 2017-12 is intended to better align the Company's risk management activities with financial reporting for hedging relationships. The standard eliminates the requirement to separately measure and report hedge ineffectiveness, expands the ability to hedge specific risk components, and generally requires the change in value of the hedge instrument and hedged item to be presented in the same income statement line. We adopted ASU 2017-12 in the second quarter of 2019 upon entering into an interest rate swap on our variable rate term loan. The new disclosure requirements were applied on a prospective basis. The adoption of the standard did not have a material impact on our consolidated financial statements.

2. Revenue Recognition

Sales of Products

We earn revenue from contracts with customers, primarily through the sale of our purified, multi-gallon bottled water, self-service filtered drinking water, or through the sale of water dispensers. All revenue recognized in the current period is derived from contracts with customers. We account for these revenues under Topic 606.

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

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

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

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

[Table of Contents](#)

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

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

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

Multiple Performance Obligations

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

Presentation of Revenue

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

Accounts Receivable Net of Allowances

Trade accounts receivable represent amounts billed to customers and not yet collected, and are presented net of allowances. The allowance for doubtful accounts is based on a review of specifically identified accounts in addition to an overall aging analysis and is our best estimate of the amount of probable credit losses in our existing accounts receivable. Judgements are made with respect to the collectability of accounts receivable based on historical experience and current economic trends. We also maintain an allowance for sales discounts, rebates and promotions based on our arrangements with customers. Account balances are charged off against the allowance in the period in which we determine that it is probable the receivable will not be recovered. These allowances totaled \$1,977 and \$1,755 at June 30, 2019 and December 31, 2018, respectively. Bad debt write-offs for the three and six months ended June 30, 2019 and 2018 were immaterial.

[Table of Contents](#)*Disaggregation of Revenue*

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

| Geographical area | Three months ended June 30, 2019 | | | |
|-------------------|----------------------------------|------------------|------------------|------------------|
| | Refill | Exchange | Dispensers | Total |
| United States | \$ 41,506 | \$ 20,169 | \$ 14,789 | \$ 76,464 |
| Canada | 770 | 834 | 1,193 | 2,797 |
| | <u>\$ 42,276</u> | <u>\$ 21,003</u> | <u>\$ 15,982</u> | <u>\$ 79,261</u> |

| Geographical area | Three months ended June 30, 2018 | | | |
|-------------------|----------------------------------|------------------|------------------|------------------|
| | Refill | Exchange | Dispensers | Total |
| United States | \$ 43,496 | \$ 19,135 | \$ 9,536 | \$ 72,167 |
| Canada | 1,240 | 872 | 1,523 | 3,635 |
| | <u>\$ 44,736</u> | <u>\$ 20,007</u> | <u>\$ 11,059</u> | <u>\$ 75,802</u> |

| Geographical area | Six months ended June 30, 2019 | | | |
|-------------------|--------------------------------|------------------|------------------|-------------------|
| | Refill | Exchange | Dispensers | Total |
| United States | \$ 78,824 | \$ 38,691 | \$ 26,484 | \$ 143,999 |
| Canada | 1,777 | 1,664 | 1,868 | 5,309 |
| | <u>\$ 80,601</u> | <u>\$ 40,355</u> | <u>\$ 28,352</u> | <u>\$ 149,308</u> |

| Geographical area | Six months ended June 30, 2018 | | | |
|-------------------|--------------------------------|------------------|------------------|-------------------|
| | Refill | Exchange | Dispensers | Total |
| United States | \$ 83,641 | \$ 36,616 | \$ 22,469 | \$ 142,726 |
| Canada | 2,570 | 1,649 | 2,516 | 6,735 |
| | <u>\$ 86,211</u> | <u>\$ 38,265</u> | <u>\$ 24,985</u> | <u>\$ 149,461</u> |

3. Leases

We determine if an arrangement is a lease or service contract at inception. Where an arrangement is a lease we determine if it is an operating lease or a finance lease. Subsequently, if the arrangement is modified we reevaluate our classification. We have entered into finance lease agreements for vehicles with lease periods expiring between 2019 and 2024. We have entered into operating lease agreements primarily for buildings and equipment expiring between 2019 and 2028. Our short-term leases are typically in the form of storage units with month-to-month terms located throughout the United States.

At lease commencement, we record a lease liability and corresponding right-of-use asset. Lease liabilities represent the present value of our future lease payments over the expected lease term which includes options to extend or terminate the lease when it is reasonably certain those options will be exercised. We generally use the base, non-cancellable lease term to determine lease assets and liabilities. The interest rate implicit in our leases is not readily determinable and as such, the present value of our lease liability is determined using our incremental collateralized borrowing rate under the SunTrust Revolving Facility, which approximates the interest rate on a collateralized basis under similar terms as our underlying leased assets. Operating lease assets also include prepaid lease payments and lease incentives when present.

Operating lease right-of-use assets and liabilities are included on our Condensed Consolidated Balance Sheet beginning January 1, 2019. As of June 30, 2019 the current portion of our operating lease liabilities of \$1,524 are presented within accrued expenses and other current liabilities. As of June 30, 2019 the long-term portion of our operating lease liabilities of \$2,134 is presented within operating leases.

Finance lease right-of-use assets are presented within property and equipment, net. As of June 30, 2019 and December 31, 2018 vehicles under finance lease with a cost basis of \$11,196 and \$7,408, respectively, were included in property and equipment, net. As of June 30, 2019 the current portion of our finance lease liabilities of \$2,014 are presented within current portion of long-term debt and finance leases. As of June 30, 2019 the long term portion of our finance lease liabilities of \$4,867 are presented within long-term debt and finance leases, net of current portion and debt issuance costs.

[Table of Contents](#)

Components of operating lease expense were as follows:

| | Three months ended June 30, 2019 |
|-------------------------------|---|
| Long-term Operating | \$ 436 |
| Short-term Operating | 130 |
| Total Operating lease expense | <u>\$ 566</u> |

| | Six months ended June 30, 2019 |
|-------------------------------|---|
| Long-term Operating | \$ 873 |
| Short-term Operating | 246 |
| Total Operating lease expense | <u>\$ 1,119</u> |

As of June 30, 2019, our operating leases had a weighted average remaining lease term of 3.7 years and a weighted average discount rate of 4.76%. Future lease payments under operating leases as of June 30, 2019 were as follows:

| | Operating Leases |
|-----------------------------|-------------------------|
| Remainder of 2019 | \$ 858 |
| 2020 | 1,567 |
| 2021 | 553 |
| 2022 | 456 |
| 2023 | 281 |
| Thereafter | 440 |
| Total future lease payments | <u>4,155</u> |
| Less: imputed interest | (497) |
| Total lease liability | <u>\$ 3,658</u> |

Supplemental information related to operating leases was as follows:

| | Six months ended June 30, 2019 |
|--|---|
| Operating cash flows used for operating leases | \$ 927 |

4. Ice Assets Held-for-Sale and Promissory Note

During the quarter ended September 30, 2018, we concluded that a sale of certain assets of our Refill segment (the "Ice Assets") was probable to take place within one year, which meets the criteria for assets held-for-sale treatment in accordance with FASB ASC Topic 360, Property, Plant, and Equipment. There have been no changes to the estimated fair value of the Ice Assets since December 31, 2018. The Ice Assets fair value less costs to sell at December 31, 2018 was as follows:

| | December 31, 2018 |
|---|------------------------------|
| Property and equipment, net | \$ 4,688 |
| Identifiable intangible assets | 600 |
| Assets held-for-sale at fair value | <u>\$ 5,288</u> |
| Contingent consideration | \$ 1,438 |
| Liabilities held-for-sale at fair value | \$ 1,438 |
| Ice Assets, net | <u>\$ 3,850</u> |

On June 28, 2019, we sold the Ice Assets to a buyer in exchange for cash consideration of \$400 and a promissory note of \$3,600. The note has a five-year term and requires the buyer to make quarterly principal payments of \$50 and quarterly interest payments at an annual interest rate of 7%. At the end of the five-year term of the note, the entire remaining outstanding principal amount is due and payable in full. Under the terms of the note, the buyer, under certain circumstances may make elections that would allow for a reduction in the interest rate and principal amount upon the prepayment of amounts owed under the promissory note. The note was recorded at its fair value of \$3,278 which was measured based upon the present value of estimated future cash flows taking into consideration the terms and non-market interest rate of the note. As of June 30, 2019 the current portion of the note of \$150 is presented within prepaid expenses and other assets, and the non-current portion of \$3,128 is presented as a promissory note on the condensed consolidated balance sheet.

[Table of Contents](#)

The buyer is not a related party and our continuing involvement following the sale will be minimal. The sale of the Ice Assets resulted in a loss of \$580 for the three and six months ended June 30, 2019 presented within loss on disposal of property and equipment and other.

5. Debt and Finance Leases, net of Debt Issuance Costs

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

| | <u>June 30, 2019</u> | <u>December 31, 2018</u> |
|---|--------------------------|------------------------------|
| Revolving Credit Facility | \$ 13,100 | \$ 3,000 |
| Term loans | 180,500 | 185,250 |
| Debt issuance costs, net | (1,107) | (1,265) |
| Total Credit Facilities | 192,493 | 186,985 |
| Finance leases | 6,881 | 3,140 |
| | 199,374 | 190,125 |
| Less current portion | (11,514) | (11,159) |
| Long-term debt and finance leases, net of current portion and debt issuance costs | <u>\$ 187,860</u> | <u>\$ 178,966</u> |

SunTrust Credit Facility

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

Interest on outstanding borrowings under the SunTrust Credit Facility is calculated at our option at either (1) a base rate (which is derived from the Administrative Agent’s prime lending rate, the federal funds effective rate plus 0.5%, or a London Interbank Offered Rate (“LIBOR”) plus 1.0%) or (2) LIBOR plus, in each case of the foregoing (1) and (2), a margin, initially set at 2.50% per annum with respect to LIBOR loans and 1.50% per annum for base rate loans. A commitment fee, initially set at 0.30% per annum, ranging from 0.15% to 0.30% per annum, is payable quarterly on the average undrawn portion of the Revolving Facility. The margins and commitment fee fluctuate based on our consolidated leverage ratio as specified in the SunTrust Credit Facility. Total issuance costs associated with the SunTrust Credit Facility were \$1,700, which have been presented either as a direct deduction from the carrying amount of the debt within long-term debt and finance leases, net of current portion and debt issuance costs, with respect to costs attributable to the Term Loan, or within other assets, with respect to costs attributable to the Revolving Facility. The costs are being amortized as part of interest expense over the term of the SunTrust Credit Facility. As of June 30, 2019, we had \$13,100 outstanding borrowings and \$16,900 of availability under the Revolving Facility.

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

The primary operational covenants included in the SunTrust Credit Facility are as follows: (i) a minimum consolidated fixed charge coverage ratio of 1.10:1.00 beginning with the fiscal quarter ended June 30, 2018 and (ii) a maximum consolidated leverage ratio of 4.50:1.00 beginning with the fiscal quarter ended June 30, 2018 with the financial ratios tested as of the last day of each fiscal quarter. The leverage ratio steps down to 4.25:1.00 with respect to each fiscal quarter ending after June 30, 2019 and on or prior to June 30, 2020 and to 4.00:1.00 with respect to each fiscal quarter ending after June 30, 2020. At June 30, 2019, we were in compliance with all operational covenants, including (i) a consolidated fixed charge coverage ratio of 1.23:1.00 and (ii) a consolidated leverage ratio of 3.92:1.00.

[Table of Contents](#)*Goldman Credit Facility*

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

Junior Subordinated Debentures and Investments

In connection with the Acquisition, we assumed \$89,529 of 9-1/16% Junior Subordinated Deferrable Interest Debentures due 2028 (the “Subordinated Debentures”) issued to Glacier Water Trust I (“the Trust”), a wholly owned subsidiary of Primo following the Acquisition. On June 29, 2018, in connection with the closing of the SunTrust Credit Facility, we paid \$87,938, including accrued interest of \$309, to redeem the Subordinated Debentures. In connection with the redemption of the Subordinated Debentures, we recorded a gain of \$475 in interest expense, net on the condensed consolidated statements of operations resulting from the accretion of the remaining fair value adjustment allocated to the Subordinated Debentures as part of the purchase price allocation of the Acquisition.

In connection with the redemption of the Subordinated Debentures described above, the Trust issued a revocable notice of redemption of all outstanding capital securities of the Trust, and all outstanding capital securities of the Trust were redeemed on June 29, 2018. We owned a portion of such securities and received \$6,277 in proceeds upon their redemption, resulting in a \$161 loss on the redemption of the securities which is included in loss (gain) on disposal of property and equipment and other assets on the condensed consolidated statements of operations. At June 30, 2018, \$2,629 of the proceeds were recorded as a receivable included in prepaid expenses and other current assets in the consolidated condensed balance sheets. These proceeds were received subsequent to the period end. Subsequent to the redemption of the Subordinated Debentures and the redemption of all outstanding capital securities of the Trust, the Trust and all related agreements were terminated and effectively dissolved.

Finance Leases

As of June 30, 2019, our finance leases had a weighted average remaining lease term of 3.6 years and a weighted average discount rate of 4.76%. Future finance lease obligations as of June 30, 2019 were as follows:

| | Finance Leases |
|--------------------------------|-----------------------|
| Remainder of 2019 | \$ 2,425 |
| 2020 | 1,970 |
| 2021 | 1,525 |
| 2022 | 1,061 |
| 2023 | 448 |
| Thereafter | 65 |
| Total future lease obligations | 7,494 |
| Less: imputed interest | (613) |
| Total finance lease liability | \$ 6,881 |

Interest Rate Swap

To mitigate the risks associated with future interest rate movements, we have employed an interest rate swap to fix the rate on a portion of our outstanding borrowings under the SunTrust Credit Facility. We executed an interest rate swap agreement in April 2019. The notional amount of the interest rate swap agreement was \$25 million as of June 30, 2019. The interest rate swap matures April 2023. The change in fair value for the interest rate swap entered into during the current quarter was not material for the three months ended June 30, 2019.

6. Stock-Based Compensation

Overview

Total non-cash stock-based compensation expense by award type for all of our plans, all of which is included in selling, general and administrative expenses on our condensed consolidated statements of operations, was as follows:

| | Three months ended June 30, | | Six months ended June 30, | |
|------------------------------|-----------------------------|-----------------|---------------------------|-----------------|
| | 2019 | 2018 | 2019 | 2018 |
| Stock options | \$ 69 | \$ 102 | \$ 147 | \$ 276 |
| Restricted stock | 1,098 | 912 | 2,066 | 1,721 |
| Long-Term Performance Plan | (180) | 360 | 221 | 632 |
| Employee Stock Purchase Plan | 31 | 13 | 59 | 50 |
| | <u>\$ 1,018</u> | <u>\$ 1,387</u> | <u>\$ 2,493</u> | <u>\$ 2,679</u> |

Long-Term Performance Plan

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

On March 20, 2017, we granted performance based equity awards under the LTPP with vesting terms based on our attainment of certain financial targets for the period of January 1, 2017 through December 31, 2019 (the “March 2017 Grant”). The number of shares earnable under the March 2017 Grant awards vary based on achievement of the established financial targets of Adjusted EBITDA and free cash flow on a cumulative basis for fiscal years 2017 through 2019.

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

On March 8, 2019, we granted performance based equity awards under the LTPP with vesting terms based on our attainment of certain financial targets for the period of January 1, 2019 through December 31, 2021 (the “March 2019 Grant”). The number of shares earnable under the March 2019 Grant awards vary based on achievement of the established financial targets of net sales and free cash flow on a cumulative basis for fiscal years 2019 through 2021.

7. Special Items

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

| | Three months ended June 30, | |
|--|-----------------------------|---------------|
| | 2019 | 2018 |
| Acquisition-related costs ⁽¹⁾ | \$ 250 | \$ 287 |
| Other costs ⁽²⁾ | 902 | 123 |
| Total | <u>\$ 1,152</u> | <u>\$ 410</u> |

| | Six months ended June 30, | |
|--|---------------------------|---------------|
| | 2019 | 2018 |
| Acquisition-related costs ⁽¹⁾ | \$ 306 | \$ 361 |
| Other costs ⁽²⁾ | 1,107 | 126 |
| Total | <u>\$ 1,413</u> | <u>\$ 487</u> |

(1) Acquisition-related expenses, including fees payable to financial, legal, accounting and other advisors.

(2) Restructuring, severance, and other costs not indicative of our core operations.

8. Commitments and Contingencies

Sales Tax

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

Other Contingencies

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

9. Income Tax (Benefit) Provision

For the three and six months ended June 30, 2019 there was \$0 income tax expense recognized. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion of the deferred tax assets will be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, available taxes in the carryback periods, projected future taxable income and tax planning strategies in making this assessment. Accordingly, we have provided a full valuation allowance to offset the net deferred tax assets that are not expected to be realized as of June 30, 2019.

For the three and six months ended June 30, 2018, we recorded an income tax benefit of \$4,771 and \$6,496, respectively, primarily due to the 2017 Tax Cuts and Jobs Act. We recorded an income tax benefit of \$4,769 and \$6,843, respectively, for the three and six months ended June 30, 2018 related to the federal net operating loss and interest expense limitation, which was partially offset by income tax expense of \$349 related to goodwill and intangible assets.

Section 382 of the U.S. Internal Revenue Code imposes an annual limitation on the amount of net operating loss carryforwards that might be used to offset taxable income when a corporation has undergone significant changes in stock ownership. We believe our prior ownership changes have created an annual limit, imposed by Section 382, on the amount of net operating loss we can utilize in a given year. Realization of the loss carryforwards is dependent upon generating sufficient taxable income prior to the expiration of the loss carryforwards, subject to the Section 382 limitation.

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

10. 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.

[Table of Contents](#)

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

- Level 1 — quoted prices in active markets for identical assets and liabilities.
- Level 2 — observable inputs other than quoted prices in active markets for identical assets and liabilities.
- Level 3 — unobservable inputs in which there is little or no market data available, which require the reporting entity to develop its own assumptions.

At June 30, 2019 and December 31, 2018, we held financial assets and liabilities that are required to be measured at fair value on a recurring basis. The financial assets and liabilities held by us and the fair value hierarchy used to determine their fair values are as follows:

| | June 30, 2019 | | | |
|---|--------------------------|----------------|----------------|-----------------|
| | Fair Value | Level 1 | Level 2 | Level 3 |
| Liabilities: | | | | |
| Interest rate swap | \$ 640 | \$ — | \$ 640 | \$ — |
| Total liabilities | \$ 640 | \$ — | \$ 640 | \$ — |
| | | | | |
| | December 31, 2018 | | | |
| | Fair Value | Level 1 | Level 2 | Level 3 |
| Assets: | | | | |
| Assets held-for-sale at fair value | \$ 5,288 | \$ — | \$ — | \$ 5,288 |
| Total assets | \$ 5,288 | \$ — | \$ — | \$ 5,288 |
| Liabilities: | | | | |
| Liabilities held-for-sale at fair value | \$ 1,438 | \$ — | \$ — | \$ 1,438 |
| Total liabilities | \$ 1,438 | \$ — | \$ — | \$ 1,438 |

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

At June 30, 2019 we held financial assets in the form of a \$3,278 promissory note acquired in connection with the sale of the Ice Assets that is required to be measured at fair value on a nonrecurring basis. The note was measured based on the present value of estimated future cash flows. There were no material nonrecurring fair value measurements recorded in the six months ended June 30, 2018.

11. Earnings Per Share

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

| | Three months ended June 30, | | Six months ended June 30, | |
|--|------------------------------------|-------------|----------------------------------|-------------|
| | 2019 | 2018 | 2019 | 2018 |
| Basic: | | | | |
| Net income (loss) | \$ 873 | \$ 451 | \$ (399) | \$ 1,661 |
| Weighted average shares | 40,389 | 35,920 | 40,342 | 34,549 |
| Basic earnings (loss) per share | \$ 0.02 | \$ 0.01 | \$ (0.01) | \$ 0.05 |
| Diluted: | | | | |
| Net income (loss) | \$ 873 | \$ 451 | \$ (399) | \$ 1,661 |
| Weighted average shares | 40,389 | 35,920 | 40,342 | 34,549 |
| Potential shares arising from stock options, restricted stock and warrants | 654 | 1,312 | — | 1,287 |
| Weighted average shares - diluted | 41,043 | 37,232 | 40,342 | 35,836 |
| Diluted earnings (loss) per share | \$ 0.02 | \$ 0.01 | \$ (0.01) | \$ 0.05 |

[Table of Contents](#)

For the three months ended June 30, 2019, stock options, restricted stock and warrants with respect to an aggregate of 211 shares have been excluded from the computation of the number of shares used in the diluted earnings per share because the exercise or grant prices of the awards were greater than the average market price of the underlying common stock and the effect of their inclusion would have been anti-dilutive.

For the six months ended June 30, 2019, stock options, restricted stock and warrants with respect to an aggregate of 2,171 shares have been excluded from the computation of the number of shares used in the diluted loss per share because we incurred a net loss for the period and their inclusion would be anti-dilutive.

For the three and six months ended June 30, 2018, stock options, restricted stock and warrants with respect to an aggregate of 67 and 226 shares, respectively, have been excluded from the computation of the number of shares used in the diluted earnings per share because the exercise or grant prices of the awards were greater than the average market price of the underlying common stock and the effect of their inclusion would have been anti-dilutive.

12. Segments

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

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

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

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

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

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

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

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

[Table of Contents](#)

The following table presents segment information for the following periods:

| | Three months ended June 30, | | Six months ended June 30, | |
|--|-----------------------------|------------------|---------------------------|---------------------|
| | 2019 | 2018 | 2019 | 2018 |
| Segment net sales: | | | | |
| Refill | \$ 42,276 | \$ 44,736 | \$ 80,601 | \$ 86,211 |
| Exchange | 21,003 | 20,007 | 40,355 | 38,265 |
| Dispensers | 15,982 | 11,059 | 28,352 | 24,985 |
| | <u>\$ 79,261</u> | <u>\$ 75,802</u> | <u>\$ 149,308</u> | <u>\$ 149,461</u> |
| Segment income from operations: | | | | |
| Refill | \$ 11,477 | \$ 13,894 | \$ 21,561 | \$ 25,478 |
| Exchange | 5,894 | 6,030 | 11,362 | 11,293 |
| Dispensers | 1,125 | 842 | 1,709 | 1,986 |
| Corporate | (6,206) | (7,293) | (14,144) | (14,246) |
| Special items | (1,152) | (410) | (1,413) | (487) |
| Depreciation and amortization | (7,292) | (6,114) | (13,845) | (12,171) |
| Loss on disposal of property and equipment and other | (252) | (111) | (327) | (244) |
| | <u>\$ 3,594</u> | <u>\$ 6,838</u> | <u>\$ 4,903</u> | <u>\$ 11,609</u> |
| Depreciation and amortization expense: | | | | |
| Refill | \$ 4,888 | \$ 3,879 | \$ 9,170 | \$ 8,054 |
| Exchange | 2,124 | 1,671 | 4,106 | 3,353 |
| Dispensers | 50 | 44 | 100 | 96 |
| Corporate | 230 | 520 | 469 | 668 |
| | <u>\$ 7,292</u> | <u>\$ 6,114</u> | <u>\$ 13,845</u> | <u>\$ 12,171</u> |
| Capital expenditures: | | | | |
| Refill | | | \$ 9,087 | \$ 5,546 |
| Exchange | | | 4,428 | 3,394 |
| Dispensers | | | 100 | – |
| Corporate | | | 452 | 385 |
| | | | <u>\$ 14,067</u> | <u>\$ 9,325</u> |
| | | | June 30, | December 31, |
| | | | 2019 | 2018 |
| Identifiable assets: | | | | |
| Refill | | | \$ 264,226 | \$ 268,427 |
| Exchange | | | 29,418 | 24,444 |
| Dispensers | | | 28,115 | 20,523 |
| Corporate | | | 12,132 | 6,734 |
| | | | <u>\$ 333,891</u> | <u>\$ 320,128</u> |

As of June 30, 2019 and December 31, 2018, we had goodwill of \$92,015 and \$91,814, respectively, primarily as a result of our acquisition of Glacier Water Services, Inc. in December 2016 (the “Glacier Acquisition”). All goodwill is reported within our Refill segment.

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, 2018. This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, that are intended to be covered by the “safe harbor” created by those sections. Forward-looking statements, which are based on certain assumptions and describe our future plans, strategies and expectations, can generally be identified by the use of forward-looking terms such as “anticipates,” “believes,” “could,” “estimates,” “expects,” “feel,” “forecasts,” “intends,” “may,” “plan,” “potential,” “predict,” “project,” “seek,” “should,” “will,” “would,” or other comparable terms. These forward-looking statements are subject to uncertainty and changes in circumstances. Actual results may differ materially from these expectations due to inaccurate assumptions and known or unknown risks and uncertainties, including those identified in “Cautionary Note Regarding Forward-Looking Statements” in this Item 2 and in “Risk Factors” in Item 1A of Part I of our Annual Report on Form 10-K for the year ended December 31, 2018 and in Item 1A of Part II of our subsequently filed Quarterly Reports on Form 10-Q. We urge you to consider those risks and uncertainties in evaluating our forward-looking statements. We caution readers not to place undue reliance upon any such forward-looking statements, which speak only as of the date made. Except as otherwise required by the federal securities laws, we disclaim any obligation or undertaking to publicly release any updates or revisions to any forward-looking statement contained herein (or elsewhere) to reflect any change in our expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

Overview

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

Business

Our business is designed to generate recurring demand for our purified bottled water or self-service refill drinking water through the sale of innovative water dispensers. This business strategy is commonly referred to as “razor-razorblade” because the initial sale of a product creates a base of users who frequently purchase complementary consumable products. Once our bottled water is consumed using a water dispenser, empty bottles are exchanged at our recycling center displays, which provide a recycling ticket that offers a discount toward the purchase of a new bottle of Primo purified water or they are refilled at a self-service refill drinking water location. Each of our multi-gallon Exchange water bottles can be sanitized and reused up to 40 times before being taken out of use, crushed and recycled, substantially reducing landfill waste compared to consumption of equivalent volumes of single-serve bottled water. As of June 30, 2019, our products were offered in the United States and in Canada at approximately 45,000 combined retail locations, including Lowe’s Home Improvement, Walmart, Sam’s Club, The Home Depot, Meijer, Kroger, Food Lion, H-E-B Grocery, Circle K, Family Dollar, Walgreens, Albertsons, Publix, and CVS. We believe the market for purified water continues to grow due to evolving taste preferences, perceived health benefits and concerns regarding the quality of municipal tap water. Our products provide an environmentally friendly, economical, convenient and healthy solution for consuming purified and refill drinking water.

[Table of Contents](#)

We provide major retailers throughout the United States and Canada with a single-vendor solution for our three reporting segments, Primo Refill (“Refill”), Primo Exchange (“Exchange”), and Primo Dispensers (“Dispensers”), addressing a market demand that we believe was previously unmet. Our approximately 45,000 locations include approximately 23,100 Refill locations, 12,800 Exchange locations and 8,700 Dispenser locations. Our solutions are easy for retailers to implement, require minimal management supervision and store-based labor, and provide centralized billing and detailed performance reports. Exchange offers retailers attractive financial margins and the ability to optimize typically unused retail space with our displays. Refill provides drinking water for consumer purchase through the installation of self-service vending displays at retail locations. The Refill business model eliminates the bottling and distribution infrastructure required to deliver traditional bottled water, thereby allowing us to provide refill drinking water at a value price as compared to alternatives in the marketplace. Additionally, due to the recurring nature of water consumption, retailers benefit from year-round customer traffic, highly predictable revenue and health and wellness focused consumers.

Business Segments

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

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

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

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

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

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

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

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

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

[Table of Contents](#)

Results of Operations

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

| | Three months ended June 30, | | Six months ended June 30, | |
|--|------------------------------------|---------------|----------------------------------|-----------------|
| | 2019 | 2018 | 2019 | 2018 |
| Consolidated statements of operations data: | | | | |
| Net sales | \$ 79,261 | \$ 75,802 | \$ 149,308 | \$ 149,461 |
| Operating costs and expenses: | | | | |
| Cost of sales | 58,203 | 52,729 | 109,724 | 106,150 |
| Selling, general and administrative expenses | 8,768 | 9,600 | 19,096 | 18,800 |
| Special items | 1,152 | 410 | 1,413 | 487 |
| Depreciation and amortization | 7,292 | 6,114 | 13,845 | 12,171 |
| Loss on disposal of property and equipment and other | 252 | 111 | 327 | 244 |
| Total operating costs and expenses | 75,667 | 68,964 | 144,405 | 137,852 |
| Income from operations | 3,594 | 6,838 | 4,903 | 11,609 |
| Interest expense, net | 2,721 | 11,158 | 5,302 | 16,444 |
| Income (loss) before income taxes | 873 | (4,320) | (399) | (4,835) |
| Income tax benefit | – | (4,771) | – | (6,496) |
| Net income (loss) | \$ 873 | \$ 451 | \$ (399) | \$ 1,661 |

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

| | Three months ended June 30, | | Six months ended June 30, | |
|--|------------------------------------|-------------|----------------------------------|-------------|
| | 2019 | 2018 | 2019 | 2018 |
| Consolidated statements of operations data: | | | | |
| Net sales | 100.0% | 100.0% | 100.0% | 100.0% |
| Operating costs and expenses: | | | | |
| Cost of sales | 73.4 | 69.6 | 73.5 | 71.0 |
| Selling, general and administrative expenses | 11.1 | 12.7 | 12.8 | 12.6 |
| Special items | 1.5 | 0.5 | 0.9 | 0.3 |
| Depreciation and amortization | 9.2 | 8.1 | 9.3 | 8.1 |
| Loss on disposal of property and equipment and other | 0.3 | 0.2 | 0.2 | 0.2 |
| Total operating costs and expenses | 95.5 | 91.0 | 96.7 | 92.2 |
| Income from operations | 4.5 | 9.0 | 3.3 | 7.8 |
| Interest expense, net | 3.4 | 14.7 | 3.6 | 11.0 |
| Income (loss) before income taxes | 1.1 | (5.7) | (0.3) | (3.2) |
| Income tax benefit | – | (6.3) | – | (4.3) |
| Net income (loss) | 1.1% | 0.6% | (0.3)% | 1.1% |

The following tables set forth our segment net sales in dollars and as a percent of net sales, segment (loss) income from operations presented on a segment basis and reconciled to our consolidated income from operations, and segment gross margin percentages (dollars in thousands) (percentage amounts may not add to totals due to rounding):

| | Three months ended June 30, | | | |
|--|------------------------------------|-----------------------------|------------------|-----------------------------|
| | 2019 | | 2018 | |
| | Dollars | Percent of Net Sales | Dollars | Percent of Net Sales |
| Segment net sales: | | | | |
| Refill | \$ 42,276 | 53.3% | \$ 44,736 | 59.0% |
| Exchange | 21,003 | 26.5% | 20,007 | 26.4% |
| Dispensers | 15,982 | 20.2% | 11,059 | 14.6% |
| Total net sales | \$ 79,261 | 100.0% | \$ 75,802 | 100.0% |
| Segment income from operations: | | | | |
| Refill | \$ 11,477 | | \$ 13,894 | |
| Exchange | | | 6,030 | |
| Dispensers | 5,894 | | 842 | |
| Corporate | (6,206) | | (7,293) | |
| Special items | (1,152) | | (410) | |
| Depreciation and amortization | (7,292) | | (6,114) | |
| Loss on disposal of property and equipment and other | (252) | | (111) | |
| | \$ 3,594 | | \$ 6,838 | |

| | Three Months Ended June 30, | |
|------------------------------|------------------------------------|--------------|
| | 2019 | 2018 |
| Segment gross margin: | | |
| Refill | 30.7% | 34.6% |
| Exchange | 30.7% | 32.5% |
| Dispensers | 10.2% | 9.9% |
| Total gross margin | 26.6% | 30.4% |

| | Six months ended June 30, | | | |
|--|----------------------------------|-----------------------------|-------------------|-----------------------------|
| | 2019 | | 2018 | |
| | Dollars | Percent of Net Sales | Dollars | Percent of Net Sales |
| Segment net sales: | | | | |
| Refill | \$ 80,601 | 54.0% | \$ 86,211 | 57.7% |
| Exchange | 40,355 | 27.0% | 38,265 | 25.6% |
| Dispensers | 28,352 | 19.0% | 24,985 | 16.7% |
| Total net sales | \$ 149,308 | 100.0% | \$ 149,461 | 100.0% |
| Segment income from operations: | | | | |
| Refill | \$ 21,561 | | \$ 25,478 | |
| Exchange | 11,362 | | 11,293 | |
| Dispensers | 1,709 | | 1,986 | |
| Corporate | (14,144) | | (14,246) | |
| Special items | (1,413) | | (487) | |
| Depreciation and amortization | (13,845) | | (12,171) | |
| Loss on disposal of property and equipment and other | (327) | | (244) | |
| | \$ 4,903 | | \$ 11,609 | |

| | Six Months Ended June 30, | |
|------------------------------|----------------------------------|--------------|
| | 2019 | 2018 |
| Segment gross margin: | | |
| Refill | 30.4% | 33.1% |
| Exchange | 30.8% | 32.0% |
| Dispensers | 9.4% | 10.1% |
| Total gross margin | 26.5% | 29.0% |

Three Months Ended June 30, 2019 Compared to Three Months Ended June 30, 2018

Net sales. Net sales increased 4.6%, or \$3.5 million, to \$79.3 million for the three months ended June 30, 2019 from \$75.8 million for the three months ended June 30, 2018. The change was due to increases in sales for Dispensers and Exchange of \$4.9 million and \$1.1 million, respectively, partially offset by the \$2.5 million decrease for Refill.

Refill. Refill net sales decreased 5.5% to \$42.3 million for the three months ended June 30, 2019. The decrease in Refill net sales was due to a 6.2% decline in five-gallon equivalent units to 22.8 million attributable to fewer locations and lower same-store units. These impacts were partially offset by the implementation of price increases.

Exchange. Exchange net sales increased 5.0% to \$21.0 million for the three months ended June 30, 2019. Exchange sales growth was driven by the increase in U.S. same-store units of 13.4% for the three months ended June 30, 2019. In addition, five-gallon equivalent units for Exchange increased 7.2% to 4.4 million units for the three months ended June 30, 2019 from 4.1 million units for the same period in 2018. The increase in sales units was greater than the increase in sales dollars, primarily due to the impact of consumer-focused promotional efforts (including the instantly redeemable coupons for free water with the purchase of a dispenser), and fewer locations for the three months ended June 30, 2019 compared to the prior year.

Dispensers. Dispensers net sales increased 44.5% to \$16.0 million for the three months ended June 30, 2019 due to growth in consumer demand as well as the timing of orders from major retailers compared to the same period in the prior year. Consumer demand, which we measure as the dispenser unit sales to end consumers, increased 11.6% to a record 218,000 units for the three months ended June 30, 2019.

[Table of Contents](#)

Gross margin percentage. The overall gross margin percentage was 26.6% for the three months ended June 30, 2019, compared to 30.4% for the three months ended June 30, 2018, due to a shift in sales mix towards Dispensers and the lower gross margin percentage for Refill and Exchange, as described below.

Refill. Gross margin as a percentage of net sales for our Refill segment was 30.7% for the three months ended June 30, 2019 compared to 34.6% for the three months ended June 30, 2018. The decrease in net sales for Refill described above drove a lower gross margin percentage due to the fixed nature of certain costs in our Refill segment.

Exchange. Gross margin as a percentage of net sales for our Exchange segment was 30.7% for the three months ended June 30, 2019, compared to 32.5% for the three months ended June 30, 2018. The decrease was primarily due to costs associated with consumer-focused promotional efforts including the instantly redeemable coupons for free water with the purchase of a dispenser.

Dispensers. Gross margin as a percentage of net sales for our Dispensers segment increased slightly to 10.2% for the three months ended June 30, 2019 from 9.9% for the three months ended June 30, 2018 due primarily to a shift in product and customer mix.

Selling, general and administrative expenses ("SG&A"). SG&A decreased 8.7% to \$8.8 million for the three months ended June 30, 2019 from \$9.6 million for the three months ended June 30, 2018. The decrease in SG&A expense was driven primarily by the reduction in employee-related expenses.

Special items. Special items include expenses that we do not believe are indicative of our core operations or are significant to our current operating results warranting separate classification, were \$1.2 million for the three months ended June 30, 2019 compared to \$0.4 million for the three months ended June 30, 2018. For the three months ended June 30, 2019, Special items consisted of \$0.9 million in severance and restructuring-related expenses, and \$0.3 million in acquisition-related costs. For the three months ended June 30, 2018, Special items consisted primarily of acquisition-related costs.

Depreciation and amortization. Depreciation and amortization increased 19.3% to \$7.3 million for the three months ended June 30, 2019 from \$6.1 million for the three months ended June 30, 2018. The increase is primarily due to depreciation on the capital investments made in our Exchange and Refill segments subsequent to the second quarter of 2018, as well as the amortization of the Glacier trade name which was impaired on September 30, 2018 and is being amortized as we focus our brand building and marketing efforts in Refill on unifying our Refill product offering around the Primo brand.

Loss on disposal of property and equipment and other. Loss on disposal of property and equipment and other increased to \$0.3 million for the three months ended June 30, 2019 compared to \$0.1 million for the three months ended June 30, 2018. Loss on disposal of property and equipment and other for the three months ended June 30, 2019 consisted primarily of a loss of \$0.6 million on the sale of assets and liabilities held for sale (see "Note 4 – Ice Assets Held-for-Sale and Promissory Note" in the Notes to the condensed consolidated financial statements) partially offset by \$0.3 million in proceeds from the disposal of certain property and equipment. Loss on disposal of property and equipment and other for the three months ended June 30, 2018 primarily related to losses on the disposal of certain investments.

Interest expense, net. Interest expense, net decreased to \$2.7 million for the three months ended June 30, 2019 from \$11.2 million for the three months ended June 30, 2018. The decrease was due primarily to the June 2018 refinancing of our outstanding senior indebtedness which resulted in lower outstanding indebtedness and lower interest rates on such remaining outstanding indebtedness and also resulted in one-time charges for the three months ended June 30, 2018 associated with prepayment penalties and the write-off of deferred loan costs related to the prior senior credit facility. See "Note 5 - Debt and Finance Leases, net of Debt Issuance Costs" in the Notes to the condensed consolidated financial statements.

Income Tax Benefit. We recorded no income tax benefit for the three months ended June 30, 2019 compared to a benefit of \$4.8 million for the three months ended June 30, 2018. During the three months ended June 30, 2018, we recorded a tax benefit to reflect the treatment of certain performance-based compensation plans under the Tax Cuts and Jobs Act (the "2017 Tax Act").

Six Months Ended June 30, 2019 Compared to Six Months Ended June 30, 2018

Net sales. Net sales decreased slightly to \$149.3 million for the six months ended June 30, 2019 from \$149.5 million for the six months ended June 30, 2018. The change was due to the \$5.7 million decrease in net sales for Refill partially offset by increases for Dispensers and Exchange of \$3.4 million and \$2.1 million, respectively.

Refill. Refill net sales decreased 6.5% to \$80.6 million for the six months ended June 30, 2019. The decrease in Refill net sales was due to a 10.5% decline in five-gallon equivalent units to 43.3 million units, attributable to fewer locations and lower same-store units. These impacts were partially offset by the implementation of price increases.

Exchange. Exchange net sales increased 5.5% to \$40.4 million for the six months ended June 30, 2019. Exchange sales growth was driven by the increase in U.S. same-store units of 13.5% for the six months ended June 30, 2019. In addition, five-gallon equivalent units for Exchange increased 8.6% to 8.5 million units for the six months ended June 30, 2019 from 7.8 million units for the same period in 2018. The increase in sales units was greater than the increase in sales dollars, primarily due to the impact of consumer-focused promotional efforts (including the instantly redeemable coupons for free water with the purchase of a dispenser), and fewer locations for the six months ended June 30, 2019 compared to the prior year.

Dispensers. Dispensers net sales increased 13.5% to \$28.4 million for the six months ended June 30, 2019 due to growth in consumer demand as well as the timing of orders from major retailers compared to the same period in the prior year. Consumer demand, which we measure as the dispenser unit sales to end consumers, increased 5.9% to 403,000 units for the six months ended June 30, 2019.

Gross margin percentage. The overall gross margin percentage was 26.5% for the six months ended June 30, 2019, compared to 29.0% for the six months ended June 30, 2018, due partially to a shift in sales mix towards Dispensers and the lower gross margin of Refill and Exchange, as described below.

Refill. Gross margin as a percentage of net sales for our Refill segment was 30.4% for the six months ended June 30, 2019 compared to 33.1% for the six months ended June 30, 2018. While certain operational initiatives have driven a reduction in cost of sales, the decrease in net sales for Refill described above drove a lower gross margin percentage due to the fixed nature of certain costs in our Refill segment.

Exchange. Gross margin as a percentage of net sales for our Exchange segment was 30.8% for the six months ended June 30, 2019, compared to 32.0% for the six months ended June 30, 2018. The decrease was primarily due to costs associated with consumer-focused promotional efforts including the instantly redeemable coupons for free water with the purchase of a dispenser.

Dispensers. Gross margin as a percentage of net sales for our Dispensers segment decreased slightly to 9.4% for the six months ended June 30, 2019 from 10.1% for the six months ended June 30, 2018 due primarily to a shift towards e-commerce sales.

Selling, general and administrative expenses ("SG&A"). SG&A increased 1.6% to \$19.1 million for the six months ended June 30, 2019 from \$18.8 million for the six months ended June 30, 2018. The increase in SG&A expense was driven primarily by the increase in costs associated with marketing, advertising and consumer experience-related initiatives as well as an increase in Dispensers warehouse rent expense. These changes were partially offset by the reduction in employee-related expenses.

Special items. Special items include expenses that we do not believe are indicative of our core operations or are significant to our current operating results warranting separate classification, were \$1.4 million for the six months ended June 30, 2019 compared to \$0.5 million for the six months ended June 30, 2018. For the six months ended June 30, 2019, Special items consisted of \$1.1 million in severance and restructuring-related expenses, and \$0.3 million in acquisition-related costs. For the six months ended June 30, 2018, Special items consisted primarily of acquisition-related costs.

Depreciation and amortization. Depreciation and amortization increased 13.7% to \$13.8 million for the six months ended June 30, 2019 from \$12.2 million for the six months ended June 30, 2018. The increase is primarily due to depreciation on the capital investments made in our Exchange and Refill segments subsequent to the second quarter of 2018, as well as the amortization of the Glacier trade name which was impaired on September 30, 2018 and is being amortized as we focus our brand building and marketing efforts in Refill on unifying our Refill product offering around the Primo brand.

[Table of Contents](#)

Loss on disposal of property and equipment and other. Loss on disposal of property and equipment and other increased to \$0.3 million for the six months ended June 30, 2019 compared to \$0.2 million for the six months ended June 30, 2018. Loss on disposal of property and equipment and other for the six months ended June 30, 2019 consisted primarily of a loss of \$0.6 million on the sale of assets and liabilities held for sale (see “Note 4 – Ice Assets Held-for-Sale and Promissory Note” in the Notes to the condensed consolidated financial statements) partially offset by \$0.3 million in proceeds from the disposal of certain property and equipment. Loss on disposal of property and equipment and other for the six months ended June 30, 2018 primarily related to losses on the redemption of Trust Preferred Securities issued by Glacier Water Trust I.

Interest expense, net. Interest expense, net decreased to \$5.3 million for the six months ended June 30, 2019 from \$16.4 million for the six months ended June 30, 2018. The decrease was due primarily to the June 2018 refinancing of our outstanding senior indebtedness which resulted in lower outstanding indebtedness and lower interest rates on such outstanding indebtedness and also resulted in one-time charges for the six months ended June 30, 2018 associated with prepayment penalties and the write-off of deferred loan costs related to the prior senior credit facility. See “Note 5 - Debt and Finance Leases, net of Debt Issuance Costs” in the Notes to the condensed consolidated financial statements.

Income Tax Benefit. We recorded no income tax benefit for the six months ended June 30, 2019 compared to a benefit of \$6.5 million for the six months ended June 30, 2018. During the six months ended June 30, 2018, we recorded an income tax benefit of \$6.8 million primarily due to the 2017 Tax Act changes that went into effect on January 1, 2018 related to the federal net operating loss, which can be carried forward indefinitely. This income tax benefit was partially offset by income tax expense related to goodwill and certain intangible assets of \$0.3 million.

Liquidity and Capital Resources

Adequacy of Capital Resources

We had capital expenditures of \$14.2 million for the six months ended June 30, 2019 and we anticipate net capital expenditures to range between \$10.0 million and \$12.0 million for the remainder of 2019. Anticipated capital expenditures are related primarily to growth and maintenance in Refill and Exchange locations.

At June 30, 2019, our cash and cash equivalents totaled \$4.3 million and we had \$16.9 million in availability under our Revolving Facility. We anticipate using current cash, cash flow from operations and availability under our Revolving Facility to meet our current needs for working capital and capital expenditures in the ordinary course of business for the foreseeable future. If we do require additional debt financing, such debt financing may not be available to us on terms favorable to us, if at all.

Our future capital requirements may vary materially from those now anticipated and will depend on many factors including: the number of growth initiatives, including our marketing and brand activation strategies and changes implemented in our Refill business resulting from the downtime issues identified in 2018 that we believe will drive same store sales and the rate of growth in new Refill and Exchange locations and related display, rack and reverse osmosis filtration system costs, cost to develop new Dispenser product lines, sales and marketing resources needed to further penetrate our markets, the expansion of our operations in the United States and Canada, the response of competitors to our solutions and products, as well as the completion of future acquisitions. Historically, we have experienced increases in our capital expenditures consistent with the growth in our operations, and we anticipate that our expenditures will continue to increase as we grow our business.

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

[Table of Contents](#)*Changes in Cash Flows*

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

| | Six months ended June 30, | | | |
|---|----------------------------------|--------|-------------|-------|
| | 2019 | | 2018 | |
| Net cash provided by operating activities | \$ | 8.9 | \$ | 10.2 |
| Net cash used in investing activities | \$ | (13.7) | \$ | (5.5) |
| Net cash provided by (used in) financing activities | \$ | 1.8 | \$ | (4.0) |

Net Cash Flows from Operating Activities

Net cash provided by operating activities decreased to \$8.9 million for the six months ended June 30, 2019 from \$10.2 million for the same period of the prior year. The decrease was driven by changes in working capital, primarily the increase in inventory on hand at June 30, 2019 compared to June 30, 2018.

Net Cash Flows from Investing Activities

Net cash used in investing activities increased to \$13.7 million for the six months ended June 30, 2019 from \$5.5 million for the same period of the prior year. The increase was primarily due to an increase in purchases of property and equipment related to the growth and maintenance in Refill and Exchange locations. Additionally, the prior year use of cash in investing activities was reduced by the \$3.7 million in proceeds received from the redemption of the Trust Preferred Securities issued by Glacier Water Trust I during the six months ended June 30, 2018 (see "Note 5 – Debt and Finance Leases, net of Debt Issuance Costs" in the Notes to the condensed consolidated financial statements).

Net Cash Flows from Financing Activities

Net cash provided by financing activities was \$1.8 million for the six months ended June 30, 2019 compared to net cash used in financing activities of \$4.0 million for the same period of the prior year. For the six months ended June 30, 2019, our debt level increased due to borrowings under our revolving credit facility. Additionally, shares purchased to pay taxes associated with equity awards and proceeds received from warrant exercises decreased in the six months ended June 30, 2019. For the six months ended June 30, 2018 net cash flows from finance activities were significantly impacted by the follow-on equity offering and re-financing of the Revolving Facility with SunTrust, which resulted in a net decrease in our debt level.

Adjusted EBITDA U.S. GAAP Reconciliation

Adjusted EBITDA is a non-U.S. GAAP financial measure that is calculated as net (loss) income before depreciation and amortization; interest expense, net; income taxes; change in fair value of warrant liability; non-cash stock-based compensation expense; special items; and impairment charges and other. Our SunTrust Credit Facility contains financial covenants that use Adjusted EBITDA. We believe Adjusted EBITDA provides useful information to management, investors and financial analysts 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.

[Table of Contents](#)

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 net loss and Adjusted EBITDA (dollars in thousands).

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|--------------------------------|------------------|------------------------------|------------------|
| | 2019 | 2018 | 2019 | 2018 |
| Net income (loss) | \$ 873 | \$ 451 | \$ (399) | \$ 1,661 |
| Depreciation and amortization | 7,292 | 6,114 | 13,845 | 12,171 |
| Interest expense, net | 2,721 | 11,158 | 5,302 | 16,444 |
| Income tax benefit | — | (4,771) | — | (6,496) |
| EBITDA | 10,886 | 12,952 | 18,748 | 23,780 |
| Non-cash, stock-based compensation expense | 1,018 | 1,387 | 2,493 | 2,679 |
| Special items ⁽¹⁾ | 1,152 | 410 | 1,413 | 487 |
| Loss on disposal of property and equipment and other | 352 | 216 | 522 | 400 |
| Adjusted EBITDA | <u>\$ 13,408</u> | <u>\$ 14,965</u> | <u>\$ 23,176</u> | <u>\$ 27,346</u> |

- (1) For the three months ended June 30, 2019, “Special items” consisted of approximately \$0.3 million of acquisition-related expenses, including fees payable to legal advisors, and \$0.9 million of costs associated with restructuring and other costs. For the three months ended June 30, 2018, “Special items” consisted of approximately \$0.3 million of transactional expenses associated with the Glacier Acquisition, including fees payable to financial, legal, accounting and other advisors, and \$0.1 million of costs associated with restructuring and other costs. For the six months ended June 30, 2019, “Special items” consisted of approximately \$0.3 million of acquisition-related expenses, including fees payable to legal advisors, and \$1.1 million of costs associated with restructuring and other costs. For the six months ended June 30, 2018, “Special items” consisted of approximately \$0.4 million of transactional expenses associated with the Glacier Acquisition, including fees payable to financial, legal, accounting and other advisors, and \$0.1 million of costs associated with restructuring and other costs.

Off-Balance Sheet Arrangements

We do not have any investments in special purpose entities or undisclosed borrowings or debt. We are party to a derivative contract in the form of a cash flow hedge as of June 30, 2019 (see “Note 5 – Debt and Finance Leases, net of Debt Issuance Costs” in the notes to the condensed consolidated financial statements).

Inflation and Changing Prices

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

Seasonality; Fluctuations of Results

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

Critical Accounting Policies and Estimates

Other than the adoption of ASC 842 on January 1, 2019, as described in “Note 3 - Leases” in the condensed consolidated financial statements, 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, 2018.

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,” “could,” “estimates,” “expects,” “feel,” “forecasts,” “intends,” “may,” “plan,” “potential,” “predict,” “project,” “seek,” “should,” “will,” “would,” and similar expressions to identify our forward-looking statements. These forward-looking statements are subject to uncertainty and changes in circumstances. Actual results may differ materially from these expectations due to inaccurate assumptions and known and unknown risks, including those 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, 2018 and in Item 1A of Part II of our subsequently filed Quarterly Reports on Form 10-Q. We caution readers not to place undue reliance upon any such forward-looking statements, which speak only as of the date made. Except as otherwise required by federal securities laws, we disclaim any obligation or undertaking to publicly release any updates or revisions to any forward-looking statement contained herein (or elsewhere) to reflect any change in our expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

Item 3. Quantitative and Qualitative Disclosure About Market Risk

There has been no material change in our exposure to market risk during the three and six months ended June 30, 2019. Please refer to "Quantitative and Qualitative Disclosures about Market Risk" contained in Part II, Item 7A of our Form 10-K for the year ended December 31, 2018 for a discussion of our exposure to market risk.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

Changes in Internal Control over Financial Reporting

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

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

Not applicable.

Item 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the factors discussed under Part I, Item 1A, "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2018 and in subsequently filed Quarterly Reports on Form 10-Q. These factors could materially and 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. Other than as set forth below, there have been no material changes to such risk factors.

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

[Table of Contents](#)

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

The U.S. government recently increased the rate applied on previously imposed tariffs on specified imported products originating from China. Such tariffs were originally imposed in response to what it characterized as unfair trade practices, and China has responded by imposing tariffs on specified products imported from the United States. In a notice published on June 20, 2018, the Office of the United States Trade Representative (the “USTR”) issued a determination and request for public comment under Section 301 under the Trade Act of 1974 (the “Notices”) concerning the imposition of an additional 25% tariff on specified products from China (the “List 1 Tariffs”). The list of products set forth in the Notice included self-contained drinking water coolers, including our Dispensers, which we import from China.

In July 2018, we applied to the USTR for a Request for Exclusion from the List 1 Tariffs for our Dispensers (the “Request for Exclusion”). Our Request for Exclusion was granted by the USTR in the fourth quarter of 2018. The exclusion was retroactive to July 6, 2018, and any amounts we paid in respect of such June 2018 Tariffs between the time of their implementation and the granting of our Request for Exclusion will be reimbursed. However, the exemption granted to us by the USTR is temporary and expires in December 2019. A significant number of our Dispensers are subject to the List 1 Tariffs, and there can be no assurances that the United States government will make available the Request for Exclusion or any similar or other relief from the List 1 Tariffs from and after the expiration of our Request for Exclusion in December 2019. Any suspension, revocation, expiration, non-renewal, non-extension or other loss of our temporary exemption from the List 1 Tariffs, or the extension of the List 1 Tariffs beyond the expiration date of our temporary exemption, could adversely affect, in a potentially material manner, our business, financial condition, cash flows and results of operations. We have also worked with our suppliers and secured a reduction in the amount we pay for Dispensers, and we have worked with our customers to increase our prices to include the remaining incremental cost associated with the List 1 Tariff as implemented in the Notice. We believe the cost reduction and increased pricing are offsetting the impact of the List 1 Tariff as implemented in the Notice and would continue to offset such impact in the event our Request for Exclusion expires or is otherwise not renewed, however, if retailers increase prices to consumers, consumer demand may be reduced, and any increases in the rate of the List 1 Tariff or any additional tariffs may adversely affect us in a manner where we cannot negotiate cost reductions or price increases to offset any potential impact.

In addition, in September 2018, the USTR finalized a new list of products imported from China that are subject to a new 10% tariff, which went into effect on September 24, 2018 and which was scheduled to increase to 25% on January 1, 2019 (the “List 3 Tariffs”). On February 28, 2019, President Trump delayed the increase from 10% to 25% to provide time for further negotiations with Chinese trade representatives. In May 2019, the United States increased the List 3 Tariffs from 10% to 25%. In June 2019, the USTR made available an opportunity to allow certain parties affected by the List 3 Tariffs to apply for a request for exclusion from the List 3 Tariffs.

We import a small number of lower-priced products subject to the List 3 Tariffs, and we are continuing to monitor the U.S. government’s actions with respect to such List 3 Tariffs and evaluate available options with respect thereto, including the opportunity to apply for a request for exclusion from the List 3 Tariffs. The List 3 Tariffs, including the rate thereof and the availability of a request for exclusion process, are subject to the discretion of the President and may change at any time without advanced notice as to the timing or magnitude of such changes. . The continued implementation of such List 3 Tariffs, and any increase in the duties subject to such List 3 Tariffs or any continuing or increased uncertainty with respect to the List 3 Tariffs, may have an adverse impact on our business, financial condition, cash flows and results of operations.

In addition, in August 2019, President Trump announced his intention to implement a 10% tariff on certain products imported from China that are not otherwise covered by previously-implemented tariffs (the “List 4 Tariffs” and, together with the List 1 Tariffs and the List 3 Tariffs, the “Tariffs”), including the List 1 Tariffs and the List 3 Tariffs. To date, the USTR has not issued a final proposal in respect of the List 4 Tariffs, including the imported products to be covered under such List 4 Tariffs. We are continuing to evaluate the scope, coverage and magnitude of the proposed List 4 Tariffs, and any inclusion of any products we import from China that are not otherwise covered by the List 1 Tariffs or the List 3 Tariffs may have an adverse impact on our business, financial condition, cash flows and results of operations.

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

[Table of Contents](#)

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

Not applicable.

Item 6. Exhibits

EXHIBIT INDEX

| Exhibit Number | Description |
|-----------------------|--|
| 2.1 | Agreement and Plan of Merger, dated May 18, 2017, by and among Primo Water Corporation, Primo Water Operations, Inc. and New PW Merger Sub, Inc. (incorporated by reference to Exhibit 2.1 to the Registrant's Current Report on Form 8-K filed on May 19, 2017) |
| 3.1 | Amended and Restated Certificate of Incorporation of Primo Water Corporation (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed on May 19, 2017) |
| 3.2 | Certificate of Amendment to Amended and Restated Certificate of Incorporation of Primo Water Corporation (incorporated by reference to Exhibit 3.3 to Post-Effective Amendment No. 1 to the Registrant's Registration Statement on Form S-3 (File No. 333-200016) filed on May 19, 2017) |
| 3.3 | Bylaws of Primo Water Corporation (incorporated by reference to Exhibit 3.3 to the Registrant's Quarterly Report on Form 10-Q filed on August 9, 2017) |
| 4.1 | Specimen Certificate representing shares of common stock of Primo Water Corporation (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed on May 19, 2017) |
| 4.2 | Amendment to Sixth Amended and Restated Certificate of Incorporation of Primo Water Operations, Inc. (contained in Certificate of Merger) (incorporated by reference to Exhibit 4.2 to the Registrant's Current Report on Form 8-K filed on May 19, 2017) |
| 10.1 | Second Amendment to Credit Agreement, dated as of May 1, 2019 and effective as of March 30, 2019, by and among Primo Water Corporation, the Guarantors party thereto, the Lenders party thereto and SunTrust Bank, in its capacities as Administrative Agent, Swingline Lender and Issuing Bank ⁽¹⁾ |
| 10.2 | Third Amendment to Credit Agreement, dated as of July 11, 2019 and effective as of June 28, 2019, by and among Primo Water Corporation, the Guarantors party thereto, the Lenders party thereto and SunTrust Bank, in its capacities as Administrative Agent, Swingline Lender and Issuing Bank ⁽¹⁾ |
| 10.3 | Primo Water Corporation 2019 Omnibus Long-Term Incentive Plan Form of Restricted Stock Award Agreement^{(1)*} |
| 10.4 | Primo Water Corporation 2019 Omnibus Long-Term Incentive Plan Form of Restricted Stock Unit Award Agreement^{(1)*} |
| 10.5 | Primo Water Corporation 2019 Omnibus Long-Term Incentive Plan Form of Stock Option Award Agreement^{(1)*} |
| 31.1 | Certification of Periodic Report by Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14a and pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith) |
| 31.2 | Certification of Periodic Report by Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14a and pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith) |
| 32.1 | Certification of Periodic Report by Chief Executive Officer and Chief Financial Officer pursuant to U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith) |
| 101.INS | XBRL Instance Document ⁽¹⁾ |
| 101.SCH | XBRL Taxonomy Extension Schema Document ⁽¹⁾ |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document ⁽¹⁾ |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document ⁽¹⁾ |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document ⁽¹⁾ |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document ⁽¹⁾ |

(1) Included herewith

* Indicates management contract or compensatory plan or arrangement.

SIGNATURES

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

PRIMO WATER CORPORATION
(Registrant)

Date: August 7, 2019

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

Date: August 7, 2019

By: /s/ David J. Mills
David J. Mills
Chief Financial Officer

SECOND AMENDMENT TO CREDIT AGREEMENT

THIS SECOND AMENDMENT TO CREDIT AGREEMENT, dated as of May 1, 2019 but effective as of March 30, 2019 (this “Amendment”), is by and among PRIMO WATER CORPORATION, a Delaware corporation (the “Borrower”), the Guarantors party hereto, the Lenders party hereto and SunTrust Bank, in its capacities as Administrative Agent, Swingline Lender and Issuing Bank.

RECITALS

WHEREAS, the Borrower, the Guarantors from time to time party thereto, the Lenders from time to time party thereto and the Administrative Agent are parties to that certain Credit Agreement, dated as of June 22, 2018 (as amended, restated, supplemented or otherwise modified from time to time, the “Credit Agreement”);

WHEREAS, the Borrower has requested that the Lenders make certain modifications to the Credit Agreement to be effective as of March 30, 2019; and

WHEREAS, the Lenders, by act of the Required Lenders, have agreed to provide such requested amendments, subject to the terms and conditions herein;

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

1. Introductory Paragraph and Recitals. The above introductory paragraph and recitals of this Amendment are incorporated herein by reference as if fully set forth herein.

2. Definitions. Capitalized terms used herein (including in the recitals hereof) and not otherwise defined herein shall have the meanings provided in the Credit Agreement.

3. Amendments.

(a) The following definitions are hereby added to Section 1.1 of the Credit Agreement in the appropriate alphabetical order:

“Albertsons Locations” means locations referenced in the Water Vending and Bulk Water Exchange Location Agreement between Albertsons Companies, Inc., a Delaware corporation, and Primo Water Operations, Inc. expected to be executed in April or May of 2019.

“Specified Capital Expenditures” means any Capital Expenditures with respect to the Albertsons Locations made on or prior to December 31, 2019 in an aggregate principal amount not to exceed \$3,500,000.

“Specified Restricted Payment” means that certain Restricted Payment in the form of a deferred compensation payment made to Mark Castaneda in August, 2018 in the amount of \$2,634,696.20.

(b) In Section 1.1 of the Credit Agreement, the definition of “Consolidated Fixed Charge Coverage Ratio” is amended by replacing the “.” with “; provided, further, that for purposes of any calculation of the Consolidated Fixed Charge Coverage Ratio required hereunder, commencing with the Fiscal Quarter ended March 31, 2019, the Specified Restricted Payment and the Specified Capital Expenditures shall be excluded”.

(c) Section 5.14 of the Credit Agreement is hereby amended by adding “U.S.” before “cash management and treasury business” therein and to add the following sentence to the end thereof:

For the avoidance of doubt, any cash management or treasury business maintained in any jurisdiction other than the U.S. is excluded from the requirements under this Section 5.14.

(d) Section 7.4(n) of the Credit Agreement is amended by replacing the reference to “\$2,000,000” therein with “\$4,000,000”.

4. Effectiveness; Conditions Precedent. This Amendment shall be effective upon receipt by the Administrative Agent of each of the following:

(a) a counterpart of this Amendment signed by the Administrative Agent, the Required Lenders, the Borrower and each Guarantor; and

(b) all fees and other amounts due and payable on or prior to the date hereof, including reimbursement or payment of all out-of-pocket expenses (including reasonable fees, charges and disbursements of counsel to the Administrative Agent) required to be reimbursed or paid by the Borrower hereunder, under any other Loan Document and under any agreement with the Administrative Agent.

5. Miscellaneous.

(a) This Amendment shall be deemed to be, and is, a Loan Document.

(b) Effective as of the date hereof, all references to the Credit Agreement in each of the Loan Documents shall hereafter mean the Credit Agreement as amended by this Amendment.

(c) Each of the Loan Parties (i) acknowledges and consents to all of the terms and conditions of this Amendment, (ii) agrees that this Amendment and all documents executed in connection herewith do not operate to reduce or discharge its obligations under the Credit Agreement or the other Loan Documents or any certificates, documents, agreements and instruments executed in connection therewith, (iii) affirms all of its obligations under the Loan Documents, (iv) agrees that this Amendment shall in no manner impair or otherwise adversely affect any of the Liens granted in or pursuant to the Loan Documents and (v) affirms that each of the Liens granted in or pursuant to the Loan Documents are valid and subsisting.

(d) Each of the Loan Parties hereby represents and warrants to the Administrative Agent and the Lenders as follows:

(i) such Loan Party has taken all necessary action to authorize the execution, delivery and performance of this Amendment;

(ii) this Amendment has been duly executed and delivered by such Loan Party and constitutes such Loan Party’s legal, valid and binding obligations, enforceable in accordance with its terms;

(iii) no consent, approval, authorization or order of, or filing, registration or qualification with, any court or governmental authority or third party is required in connection with the execution, delivery or performance by any Loan Party of this Amendment;

(iv) all representations and warranties of each Loan Party set forth in the Loan Documents are true and correct in all material respects (other than those representations and warranties that are expressly qualified by a Material Adverse Effect or other materiality, in which case such representations and warranties are true and correct in all respects) except to the extent that such representations and warranties specifically refer to an earlier date, in which case they are true and correct in all material respects (other than those representations and warranties that are expressly qualified by a Material Adverse Effect or other materiality, in which case such representations and warranties are true and correct in all respects) as of such earlier date; and

(v) no Default or Event of Default exists.

(e) This Amendment may be executed by one or more of the parties to this Amendment on any number of separate counterparts (including by telecopy), and all of said counterparts taken together shall be deemed to constitute one and the same instrument. Delivery of an executed counterpart of a signature page of this Amendment by facsimile transmission or by any other electronic imaging means (including pdf), shall be effective as delivery of a manually executed counterpart of this Amendment.

(f) This Amendment and any claims, controversy, dispute or cause of action (whether in contract or tort or otherwise) based upon, arising out of or relating to this Amendment and the transactions contemplated hereby shall be construed in accordance with and be governed by the Law (without giving effect to the conflict of law principles thereof) of the State of New York.

6. Reaffirmation of Obligations. Each of the Loan Parties (a) acknowledges and consents to all of the terms and conditions of this Amendment, (b) affirms all of its obligations under the Loan Documents (as amended by this Amendment) and (c) agrees that this Amendment and all documents, agreements and instruments executed in connection with this Amendment do not operate to reduce or discharge such Loan Party's obligations under the Loan Documents (except to the extent such obligations are modified pursuant to this Amendment).

7. Reaffirmation of Security Interests. Each of the Loan Parties (a) affirms that each of the Liens granted in or pursuant to the Loan Documents is valid and subsisting and (b) agrees that this Amendment and all documents, agreements and instruments executed in connection with this Amendment do not in any manner impair or otherwise adversely affect any of the Liens granted in or pursuant to the Loan Documents.

8. No Other Changes. Except as modified hereby, all of the terms and provisions of the Loan Documents shall remain in full force and effect.

[SIGNATURE PAGES FOLLOW]

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

BORROWER:

PRIMO WATER CORPORATION, a Delaware corporation

By: /s/ David J Mills
Name: David J Mills
Title: CFO

GUARANTORS:

PRIMO WATER OPERATIONS, INC., a Delaware corporation

By: /s/ David J Mills
Name: David J Mills
Title: CFO

PRIMO PRODUCTS, LLC, a North Carolina limited liability company

By: /s/ David J Mills
Name: David J Mills
Title: CFO

PRIMO REFILL, LLC, a North Carolina limited liability company

By: /s/ David J Mills
Name: David J Mills
Title: CFO

PRIMO DIRECT, LLC, a North Carolina limited liability company

By: /s/ David J Mills
Name: David J Mills
Title: CFO

GW SERVICES, LLC, a California limited liability company

By: /s/ David J Mills
Name: David J Mills
Title: CFO

PRIMO WATER CORPORATION
SECOND AMENDMENT TO CREDIT AGREEMENT

ADMINISTRATIVE
AGENT:

SUNTRUST BANK,
as Administrative Agent, as an Issuing Bank and as Swingline Lender

By: /s/ Julie Lindberg
Name: Julie Lindberg
Title: Vice President

PRIMO WATER CORPORATION
SECOND AMENDMENT TO CREDIT AGREEMENT

LENDERS:

SUNTRUST BANK,
as a Lender

By: /s/ Julie Lindberg
Name: Julie Lindberg
Title: Vice President

PRIMO WATER CORPORATION
SECOND AMENDMENT TO CREDIT AGREEMENT

BMO HARRIS BANK, N.A.,
as a Lender

By: /s/ C. Scott Place
Name: C. Scott Place
Title: Director

PRIMO WATER CORPORATION
SECOND AMENDMENT TO CREDIT AGREEMENT

U.S. BANK NATIONAL ASSOCIATION,
as a Lender

By: /s/ Jeffrey Mount
Name: Jeffrey Mount
Title: Vice President

PRIMO WATER CORPORATION
SECOND AMENDMENT TO CREDIT AGREEMENT

JPMORGAN CHASE BANK, N.A.,
as a Lender

By: /s/ Thomas Gallagher
Name: Thomas Gallagher
Title: Vice President

PRIMO WATER CORPORATION
SECOND AMENDMENT TO CREDIT AGREEMENT

HSBC BANK USA, NATIONAL ASSOCIATION,
as a Lender

By: /s/ Taylor R. Berginer
Name: Taylor R. Berginer
Title: Senior Vice President

PRIMO WATER CORPORATION
SECOND AMENDMENT TO CREDIT AGREEMENT

FIFTH THIRD BANK,
as a Lender

By: /s/ Kenton H. Stamey
Name: Kenton H. Stamey
Title: Senior Vice President

PRIMO WATER CORPORATION
SECOND AMENDMENT TO CREDIT AGREEMENT

THIRD AMENDMENT TO CREDIT AGREEMENT

THIS THIRD AMENDMENT TO CREDIT AGREEMENT, dated as of July 11, 2019 but effective as of June 28, 2019 (this “Amendment”), is by and among PRIMO WATER CORPORATION, a Delaware corporation (the “Borrower”), the Guarantors party hereto, the Lenders party hereto and SunTrust Bank, in its capacities as Administrative Agent, Swingline Lender and Issuing Bank.

RECITALS

WHEREAS, the Borrower, the Guarantors from time to time party thereto, the Lenders from time to time party thereto and the Administrative Agent are parties to that certain Credit Agreement, dated as of June 22, 2018 (as amended by that certain First Amendment to Credit Agreement dated as of December 20, 2018, that certain Second Amendment to Credit Agreement dated as of May 1, 2019 and as further amended, restated, supplemented or otherwise modified from time to time, the “Credit Agreement”);

WHEREAS, the Borrower has requested that the Lenders make certain modifications to the Credit Agreement to be effective as of June 28, 2019; and

WHEREAS, the Lenders, by act of the Required Lenders, have agreed to provide such requested amendments, subject to the terms and conditions herein;

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

1. Introductory Paragraph and Recitals. The above introductory paragraph and recitals of this Amendment are incorporated herein by reference as if fully set forth herein.

2. Definitions. Capitalized terms used herein (including in the recitals hereof) and not otherwise defined herein shall have the meanings provided in the Credit Agreement.

3. Amendments.

- (a) The definition of “Specified Capital Expenditures” in Section 1.1 of the Credit Agreement is hereby deleted in its entirety.
- (b) The following definitions are hereby added to Section 1.1 of the Credit Agreement in the appropriate alphabetical order:

“Growth Capital Expenditures” shall mean, for any period, for the Borrower and its Subsidiaries on a consolidated basis, the sum (without duplication) of Capital Expenditures incurred in connection with (a) installation of infrastructure and equipment at new retail locations for the purpose of distributing product and (b) increases in the ability to distribute product at existing retail locations, in each case including the purchase of new bottles and racking systems, made within such period; provided, (x) all Growth Capital Expenditures shall be scheduled and described in detail reasonably satisfactory to the Administrative Agent in each Compliance Certificate in order to be included in the calculations set forth therein and (y) for purposes of clarity, that (i) the replacement of existing bottles and racking systems at any retail location, (ii) technology upgrades at existing retail locations, and (iii) refreshing or rebranding of existing retail locations shall be excluded from the calculation of “Growth Capital Expenditures”.

“Maintenance Capital Expenditures” shall mean, for any period, for the Borrower and its Subsidiaries on a consolidated basis, the difference of (a) all Capital Expenditures in such period *less* (b) Growth Capital Expenditures for such period.

(c) In Section 1.1 of the Credit Agreement, the definition of “Consolidated Fixed Charge Coverage Ratio” is amended by (i) replacing the text “Capital Expenditures *less* Restricted Payments” with the text “Maintenance Capital Expenditures *less* Restricted Payments” and (ii) replacing the text “the Specified Restricted Payment and the Specified Capital Expenditures” with the text “the Specified Restricted Payment”.

(d) A new Section 11.20 is hereby added to the Credit Agreement to read as follows:

Section 11.20 Acknowledgment Regarding Any Supported QFCs. To the extent that the Loan Documents provide support, through a guarantee or otherwise, for any Swap Obligations, Hedging Transactions or any other agreement or instrument that is a QFC (such support, “QFC Credit Support”, and each such QFC, a “Supported QFC”), the parties acknowledge and agree as follows with respect to the resolution power of the Federal Deposit Insurance Corporation under the Federal Deposit Insurance Act and Title II of the Dodd-Frank Wall Street Reform and Consumer Protection Act (together with the regulations promulgated thereunder, the “U.S. Special Resolution Regimes”) in respect of such Supported QFC and QFC Credit Support (with the provisions below applicable notwithstanding that the Loan Documents and any Supported QFC may in fact be stated to be governed by the laws of the State of New York and/or of the United States or any other state of the United States):

(a) In the event a Covered Entity that is party to a Supported QFC (each, a “Covered Party”) becomes subject to a proceeding under a U.S. Special Resolution Regime, the transfer of such Supported QFC and the benefit of such QFC Credit Support (and any interest and obligation in or under such Supported QFC and such QFC Credit Support, and any rights in property securing such Supported QFC or such QFC Credit Support) from such Covered Party will be effective to the same extent as the transfer would be effective under the U.S. Special Resolution Regime if the Supported QFC and such QFC Credit Support (and any such interest, obligation and rights in property) were governed by the laws of the United States or a state of the United States. In the event a Covered Party or a BHC Act Affiliate of a Covered Party becomes subject to a proceeding under a U.S. Special Resolution Regime, Default Rights under the Loan Documents that might otherwise apply to such Supported QFC or any QFC Credit Support that may be exercised against such Covered Party are permitted to be exercised to no greater extent than such Default Rights could be exercised under the U.S. Special Resolution Regime if the Supported QFC and the Loan Documents were governed by the laws of the United States or a state of the United States. Without limitation of the foregoing, it is understood and agreed that rights and remedies of the parties with respect to a Defaulting Lender shall in no event affect the rights of any Covered Party with respect to a Supported QFC or any QFC Credit Support.

(b) As used in this Section 11.20, the following terms have the following meanings:

“BHC Act Affiliate” of a party means an “affiliate” (as such term is defined under, and interpreted in accordance with, 12 U.S.C. 1841(k)) of such party.

“Covered Entity” means any of the following: (i) a “covered entity” as that term is defined in, and interpreted in accordance with, 12 C.F.R. § 252.82(b); (ii) a “covered bank” as that term is defined in, and interpreted in accordance with, 12 C.F.R. § 47.3(b); or (iii) a “covered FSI” as that term is defined in, and interpreted in accordance with, 12 C.F.R. § 382.2(b).

“Default Right” has the meaning assigned to that term in, and shall be interpreted in accordance with, 12 C.F.R. §§ 252.81, 47.2 or 382.1, as applicable.

“QFC” has the meaning assigned to the term “qualified financial contract” in, and shall be interpreted in accordance with, 12 U.S.C. 5390(c)(8)(D).

4. Effectiveness; Conditions Precedent. This Amendment shall be effective upon receipt by the Administrative Agent of each of the following:

(a) a counterpart of this Amendment signed by the Administrative Agent, the Required Lenders, the Borrower and each Guarantor; and

(b) all fees and other amounts due and payable on or prior to the date hereof, including reimbursement or payment of all out-of-pocket expenses (including reasonable fees, charges and disbursements of counsel to the Administrative Agent) required to be reimbursed or paid by the Borrower hereunder, under any other Loan Document and under any agreement with the Administrative Agent.

5. Miscellaneous.

(a) This Amendment shall be deemed to be, and is, a Loan Document.

(b) Effective as of the date hereof, all references to the Credit Agreement in each of the Loan Documents shall hereafter mean the Credit Agreement as amended by this Amendment.

(c) Each of the Loan Parties (i) acknowledges and consents to all of the terms and conditions of this Amendment, (ii) agrees that this Amendment and all documents executed in connection herewith do not operate to reduce or discharge its obligations under the Credit Agreement or the other Loan Documents or any certificates, documents, agreements and instruments executed in connection therewith, (iii) affirms all of its obligations under the Loan Documents, (iv) agrees that this Amendment shall in no manner impair or otherwise adversely affect any of the Liens granted in or pursuant to the Loan Documents and (v) affirms that each of the Liens granted in or pursuant to the Loan Documents are valid and subsisting.

(d) Each of the Loan Parties hereby represents and warrants to the Administrative Agent and the Lenders as follows:

(i) such Loan Party has taken all necessary action to authorize the execution, delivery and performance of this Amendment;

(ii) this Amendment has been duly executed and delivered by such Loan Party and constitutes such Loan Party’s legal, valid and binding obligations, enforceable in accordance with its terms;

(iii) no consent, approval, authorization or order of, or filing, registration or qualification with, any court or governmental authority or third party is required in connection with the execution, delivery or performance by any Loan Party of this Amendment;

(iv) all representations and warranties of each Loan Party set forth in the Loan Documents are true and correct in all material respects (other than those representations and warranties that are expressly qualified by a Material Adverse Effect or other materiality, in which case such representations and warranties are true and correct in all respects) except to the extent that such representations and warranties specifically refer to an earlier date, in which case they are true and correct in all material respects (other than those representations and warranties that are expressly qualified by a Material Adverse Effect or other materiality, in which case such representations and warranties are true and correct in all respects) as of such earlier date; and

(v) no Default or Event of Default exists.

(e) This Amendment may be executed by one or more of the parties to this Amendment on any number of separate counterparts (including by telecopy), and all of said counterparts taken together shall be deemed to constitute one and the same instrument. Delivery of an executed counterpart of a signature page of this Amendment by facsimile transmission or by any other electronic imaging means (including pdf), shall be effective as delivery of a manually executed counterpart of this Amendment.

(f) This Amendment and any claims, controversy, dispute or cause of action (whether in contract or tort or otherwise) based upon, arising out of or relating to this Amendment and the transactions contemplated hereby shall be construed in accordance with and be governed by the Law (without giving effect to the conflict of law principles thereof) of the State of New York.

6. Reaffirmation of Obligations. Each of the Loan Parties (a) acknowledges and consents to all of the terms and conditions of this Amendment, (b) affirms all of its obligations under the Loan Documents (as amended by this Amendment) and (c) agrees that this Amendment and all documents, agreements and instruments executed in connection with this Amendment do not operate to reduce or discharge such Loan Party's obligations under the Loan Documents (except to the extent such obligations are modified pursuant to this Amendment).

7. Reaffirmation of Security Interests. Each of the Loan Parties (a) affirms that each of the Liens granted in or pursuant to the Loan Documents is valid and subsisting and (b) agrees that this Amendment and all documents, agreements and instruments executed in connection with this Amendment do not in any manner impair or otherwise adversely affect any of the Liens granted in or pursuant to the Loan Documents.

8. No Other Changes. Except as modified hereby, all of the terms and provisions of the Loan Documents shall remain in full force and effect.

[SIGNATURE PAGES FOLLOW]

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

BORROWER:

PRIMO WATER CORPORATION, a Delaware corporation

By: /s/ David J. Mills
Name: David J. Mills
Title: CFO

GUARANTORS:

PRIMO WATER OPERATIONS, INC., a Delaware corporation

By: /s/ David J. Mills
Name: David J. Mills
Title: CFO

PRIMO PRODUCTS, LLC, a North Carolina limited liability company

By: /s/ David J. Mills
Name: David J. Mills
Title: CFO

PRIMO REFILL, LLC, a North Carolina limited liability company

By: /s/ David J. Mills
Name: David J. Mills
Title: CFO

PRIMO DIRECT, LLC, a North Carolina limited liability company

By: /s/ David J. Mills
Name: David J. Mills
Title: CFO

GW SERVICES, LLC, a California limited liability company

By: /s/ David J. Mills
Name: David J. Mills
Title: CFO

PRIMO WATER CORPORATION
THIRD AMENDMENT TO CREDIT AGREEMENT

ADMINISTRATIVE
AGENT:

SUNTRUST BANK,
as Administrative Agent, as an Issuing Bank and as Swingline Lender

By: /s/ Julie Lindberg
Name: Julie Lindberg
Title: Vice President

PRIMO WATER CORPORATION
THIRD AMENDMENT TO CREDIT AGREEMENT

LENDERS:

SUNTRUST BANK,
as a Lender

By: /s/ Julie Lindberg
Name: Julie Lindberg
Title: Vice President

PRIMO WATER CORPORATION
THIRD AMENDMENT TO CREDIT AGREEMENT

BMO HARRIS BANK, N.A.,
as a Lender

By: /s/ Mark Douglass
Name: Mark Douglass
Title: Director

PRIMO WATER CORPORATION
THIRD AMENDMENT TO CREDIT AGREEMENT

U.S. BANK NATIONAL ASSOCIATION,
as a Lender

By: /s/ Johnny L. Perry
Name: Johnny L. Perry
Title: Senior Vice President

PRIMO WATER CORPORATION
THIRD AMENDMENT TO CREDIT AGREEMENT

JPMORGAN CHASE BANK, N.A.,
as a Lender

By: /s/ Thomas Gallagher
Name: Thomas Gallagher
Title: Vice President, Credit Risk

PRIMO WATER CORPORATION
THIRD AMENDMENT TO CREDIT AGREEMENT

HSBC BANK USA, NATIONAL ASSOCIATION,
as a Lender

By: /s/ Taylor R. Beringer
Name: Taylor R. Beringer
Title: Senior Vice President

PRIMO WATER CORPORATION
THIRD AMENDMENT TO CREDIT AGREEMENT

FIFTH THIRD BANK,
as a Lender

By: /s/ Kenton H. Stamey
Name: Kenton H. Stamey
Title: Senior Vice President

PRIMO WATER CORPORATION
THIRD AMENDMENT TO CREDIT AGREEMENT

**NOTICE OF GRANT OF RESTRICTED STOCK AWARD
PRIMO WATER CORPORATION
2019 OMNIBUS LONG-TERM INCENTIVE PLAN**

FOR GOOD AND VALUABLE CONSIDERATION, Primo Water Corporation (the “Company”) hereby grants, pursuant to the provisions of the Company’s 2019 Omnibus Long-Term Incentive Plan (the “Plan”), to the Grantee designated in this Notice of Grant of Restricted Stock Award (the “Notice”) the number of shares of the Common Stock of the Company set forth in the Notice, subject to certain restrictions as outlined below in this Notice and the additional provisions set forth in the attached Terms and Conditions of Restricted Stock Award (collectively, the “Agreement”).

Grantee: [_____]

Grant Date: [_____]

of Shares of Restricted Stock: [_____]

Purchase Price: The Grantee is not required to pay any cash Purchase Price for the Restricted Shares. The Grantee’s service to the Company during the Restricted Period is deemed to be the consideration for the Restricted Shares.

Vesting Schedule: Subject to the provisions contained in Paragraphs 4, 5 and 6 of the Terms and Conditions, this Restricted Stock Award shall vest, and the applicable Restrictions set forth in the Terms and Conditions shall lapse, in accordance with the following schedule, in the event the Grantee does not have a Separation from Service prior to the applicable vesting date:

| <u>Date of Vesting</u> | <u>Cumulative Amount Vested</u> |
|----------------------------------|---------------------------------|
| First Anniversary of Grant Date | 33-1/3% |
| Second Anniversary of Grant Date | 66-2/3% |
| Third Anniversary of Grant Date | 100% |

If the number of Restricted Shares vesting as of a vesting date is a fractional number, the number vesting will be rounded down to the nearest whole number with any fractional portion carried forward.

Acceleration of Vesting: Notwithstanding the foregoing Vesting Schedule, the Restricted Stock Award shall be deemed fully vested and no longer subject to forfeiture in the event of the Grantee’s death or Disability. Further, vesting of the Restricted Stock Award shall be accelerated in accordance with the terms of any applicable employment, change in control or similar agreement between the Grantee and the Company or an Affiliate which is in effect during the Restricted Period (the “Employment Agreement”).

By signing below, the Grantee agrees that this Restricted Stock Award is granted under and governed by the terms and conditions of the Company’s 2019 Omnibus Long-Term Incentive Plan and the attached Terms and Conditions.

Grantee

Primo Water Corporation

By: _____

Date: _____

Title: _____

Date: _____

TERMS AND CONDITIONS OF RESTRICTED STOCK AWARD

The Restricted Stock Award granted to the Grantee and described in the Notice of Grant is subject to the terms and conditions of the Plan, which is incorporated by reference in its entirety into these Terms and Conditions of Restricted Stock Award.

The Board of Directors of the Company has authorized and approved the 2019 Omnibus Long-Term Incentive Plan (the "Plan"), which has been approved by the stockholders of the Company. The Committee has approved an award to the Grantee of a number of shares of the Company's Common Stock, conditioned upon the Grantee's acceptance of the provisions set forth in the Notice and these Terms and Conditions within 60 days after the Notice and these Terms and Conditions are presented to the Grantee for review. For purposes of the Notice and these Terms and Conditions, any reference to the Company shall include a reference to any Affiliate.

1. Grant of Restricted Stock.

(a) Subject to the terms and conditions of the Plan, as of the Grant Date, the Company grants to the Grantee the number of shares of Common Stock set forth in the Notice (the "Restricted Shares"), subject to the restrictions set forth in Paragraph 2 of these Terms and Conditions, the provisions of the Plan and the other provisions contained in these Terms and Conditions. If and when the restrictions set forth in Paragraph 2 expire in accordance with these Terms and Conditions without forfeiture of the Restricted Shares, and upon the satisfaction of all other applicable conditions as to the Restricted Shares, such shares shall no longer be considered Restricted Shares for purposes of these Terms and Conditions.

(b) As soon as practicable after the Grant Date, the Company shall direct that a stock certificate or certificates representing the applicable Restricted Shares be registered in the name of and issued to the Grantee. Such certificate or certificates shall be held in the custody of the Company or its designee until the expiration of the applicable Restricted Period (as defined in Paragraph 3). Upon the request of the Company, the Grantee shall deliver to the Company one or more stock powers endorsed in blank relating to the Restricted Shares.

(c) Except as provided in Paragraph 1(d), in the event that a certificate for the Restricted Shares is delivered to the Grantee, such certificate shall bear the following legend (the "Legend"):

The ownership and transferability of this certificate and the shares of stock represented hereby are subject to the terms and conditions (including forfeiture) of the Primo Water Corporation 2019 Omnibus Long-Term Incentive Plan and a Restricted Stock Award Notice entered into between the registered owner and Primo Water Corporation. Copies of such Plan and Notice are on file in the executive offices of Primo Water Corporation.

In addition, the stock certificate or certificates for the Restricted Shares shall be subject to such stop-transfer orders and other restrictions as the Company may deem advisable under the rules, regulations, and other requirements of the Securities and Exchange Commission, any stock exchange upon which the Common Stock is then listed, and any applicable federal or state securities law, and the Company may cause a legend or legends to be placed on such certificate or certificates to make appropriate reference to such restrictions.

(d) As soon as administratively practicable following the expiration of the Restricted Period without a forfeiture of the Restricted Shares, and upon the satisfaction of all other applicable conditions as to the Restricted Shares, including, but not limited to, the payment by the Grantee of all applicable withholding taxes, the Company shall deliver or cause to be delivered to the Grantee a certificate or certificates for the applicable Restricted Shares which shall not bear the Legend.

(e) Notwithstanding the foregoing, to the extent that this Agreement or the Plan provide for or otherwise refer to issuance of certificates to reflect the transfer of shares of Common Stock pursuant to the terms of this Award, the transfer of such shares may be effected, in the Company's discretion, on a book entry or such other noncertificated basis, to the extent not prohibited by applicable law or the rules of any stock exchange on which such shares are listed.

2. Restrictions.

(a) The Grantee shall have all rights and privileges of a stockholder as to the Restricted Shares, including the right to vote with respect to the Restricted Shares, except that the following restrictions shall apply:

(i) the Grantee shall not be entitled to delivery of the certificate or certificates for the Restricted Shares until the expiration of the Restricted Period without a forfeiture of the Restricted Shares and upon the satisfaction of all other applicable conditions;

(ii) any cash dividends declared and paid during the Restricted Period (defined below) on unvested Restricted Shares shall be automatically reinvested as additional Restricted Shares (based on the Fair Market Value of the Restricted Shares on the applicable dividend payment date), which such additional Restricted Shares shall be subject to all of the terms and conditions of this Agreement, including vesting conditions and restrictions on transfer;

(iii) none of the Restricted Shares may be sold, transferred, assigned, pledged or otherwise encumbered or disposed of during the Restricted Period applicable to such shares, except a transfer to a Family Member as provided in Section 17.11.2 of the Plan or as otherwise permitted by the Committee in its sole discretion or pursuant to rules adopted by the Committee in accordance with the Plan; and

(iv) all of the Restricted Shares shall be forfeited and returned to the Company and all rights of the Grantee with respect to the Restricted Shares shall terminate in their entirety on the terms and conditions set forth in Paragraph 4.

(b) Any attempt to dispose of Restricted Shares or any interest in the Restricted Shares in a manner contrary to the restrictions set forth in these Terms and Conditions shall be void and of no effect.

3. Restricted Period and Vesting. The "Restricted Period" is the period beginning on the Grant Date and ending on the date the Restricted Shares, or such applicable portion of the Restricted Shares, are deemed vested under the schedule set forth in the Notice. The Restricted Shares shall be deemed vested and no longer subject to forfeiture under Paragraph 4 in accordance with the vesting schedule set forth in the Notice.

4. Forfeiture.

(a) Subject to Paragraph 6 below, if during the Restricted Period (i) the Grantee incurs a Separation from Service, (ii) there occurs a material breach of the Notice or these Terms and Conditions by the Grantee or (iii) the Grantee fails to meet the tax withholding obligations described in Paragraph 5(b), all rights of the Grantee to the Restricted Shares that have not vested in accordance with Paragraph 3 as of the date of such Separation from Service (including pursuant to any applicable accelerated vesting provisions set forth in the Notice) shall terminate immediately and be forfeited in their entirety.

(b) In the event of any forfeiture under this Paragraph 4, the certificate or certificates representing the forfeited Restricted Shares shall be canceled to the extent of any Restricted Shares that were forfeited.

5. Withholding.

(a) The Committee shall determine the amount of any withholding or other tax required by law to be withheld or paid by the Company with respect to any income recognized by the Grantee with respect to the Restricted Shares.

(b) The Grantee shall be required to meet any applicable tax withholding obligation in accordance with the provisions of Section 17.3 of the Plan.

(c) Subject to any rules prescribed by the Committee, the Grantee shall have the right to elect to meet any withholding requirement, or the Company may require such obligations (up to maximum statutory rates) to be satisfied, in whole or in part, (i) by having withheld from this Award at the appropriate time that number of whole shares of Common Stock whose Fair Market Value is equal to the amount of any taxes required to be withheld with respect to such Award, (ii) by direct payment to the Company in cash of the amount of any taxes required to be withheld with respect to such Award or (iii) by a combination of shares and cash.

6. Committee Discretion. Notwithstanding any provision of the Notice or these Terms and Conditions to the contrary, the Committee shall have discretion under the Plan to waive any forfeiture of the Restricted Shares as set forth in Paragraph 4, the Restricted Period and any other conditions set forth in the Notice or these Terms and Conditions.

7. Defined Terms. Capitalized terms used but not defined in the Notice and Agreement shall have the meanings set forth in the Plan, unless such term is defined in any Employment Agreement. Any terms used in the Notice and Agreement, but defined in the Grantee's Employment Agreement are incorporated herein by reference and shall be effective for purposes of the Notice and these Terms and Conditions without regard to the continued effectiveness of such Employment Agreement.

8. Nonassignability. The Restricted Shares may not be sold, assigned, transferred (other than by will or the laws of descent and distribution, or a transfer to a Family Member as provided in Section 17.11.2 of the Plan), pledged, hypothecated, or otherwise encumbered or disposed of until the restrictions on such Shares, as set forth in the Agreement, have lapsed or been removed.

9. Grantee Representations. The Grantee hereby represents to the Company that the Grantee has read and fully understands the provisions of the Notice, these Terms and Conditions and the Plan and the Grantee's decision to participate in the Plan is completely voluntary. Further, the Grantee acknowledges that the Grantee is relying solely on his or her own advisors with respect to the tax consequences of this restricted stock award.

10. Regulatory Restrictions on the Restricted Shares. Notwithstanding the other provisions of this Agreement, the Committee shall have the sole discretion to impose such conditions, restrictions and limitations on the issuance of Common Stock with respect to this Award unless and until the Committee determines that such issuance complies with (i) any applicable registration requirements under the Securities Act or the Committee has determined that an exemption therefrom is available, (ii) any applicable listing requirement of any stock exchange on which the Common Stock is listed, (iii) any applicable Company policy or administrative rules, and (iv) any other applicable provision of state, federal or foreign law, including foreign securities laws where applicable
11. Miscellaneous.
- (a) Notices. All notices, requests, deliveries, payments, demands and other communications which are required or permitted to be given under these Terms and Conditions shall be in writing and shall be either delivered personally or sent by registered or certified mail, or by private courier, return receipt requested, postage prepaid to the parties at their respective addresses set forth herein, or to such other address as either shall have specified by notice in writing to the other. Notice shall be deemed duly given hereunder when delivered or mailed as provided herein.
- (b) Waiver. The waiver by any party hereto of a breach of any provision of the Notice or these Terms and Conditions shall not operate or be construed as a waiver of any other or subsequent breach.
- (c) Entire Agreement. These Terms and Conditions, the Notice, the Plan and any applicable Employment Agreement constitute the entire agreement between the parties with respect to the subject matter hereof.
- (d) Binding Effect: Successors. These Terms and Conditions shall inure to the benefit of and be binding upon the parties hereto and to the extent not prohibited herein, their respective heirs, successors, assigns and representatives. Nothing in these Terms and Conditions, express or implied, is intended to confer on any person other than the parties hereto and as provided above, their respective heirs, successors, assigns and representatives any rights, remedies, obligations or liabilities.
- (e) Governing Law. The Notice and these Terms and Conditions shall be governed by and construed in accordance with the laws of the State of North Carolina without giving effect to the principles of conflicts of law, provided that the provisions set forth herein that are required to be governed by the Delaware General Corporation Law shall be governed by such law.
- (f) Headings. The headings contained herein are for the sole purpose of convenience of reference, and shall not in any way limit or affect the meaning or interpretation of any of the terms or provisions of these Terms and Conditions.
- (g) Conflicts: Amendment. The provisions of the Plan are incorporated in these Terms and Conditions in their entirety. In the event of any conflict between the provisions of this Agreement and the Plan, the provisions of the Plan shall control. Further, in the event of any conflict between the provisions of this Agreement and any Employment Agreement, the provisions of such Employment Agreement shall control. The Agreement may be amended at any time by the Committee, provided that no amendment may, without the consent of the Grantee, materially impair the Grantee's rights with respect to the Restricted Stock Award.

(h) No Right to Continued Employment. Nothing in the Notice or these Terms and Conditions shall confer upon the Grantee any right to continue in the employ or service of the Company or affect the right of the Company to terminate the Grantee's employment or service at any time.

(i) Further Assurances. The Grantee agrees, upon demand of the Company or the Committee, to do all acts and execute, deliver and perform all additional documents, instruments and agreements which may be reasonably required by the Company or the Committee, as the case may be, to implement the provisions and purposes of the Notice and these Terms and Conditions and the Plan.

**NOTICE OF GRANT OF RESTRICTED STOCK UNIT AWARD
PRIMO WATER CORPORATION
2019 OMNIBUS LONG-TERM INCENTIVE PLAN**

FOR GOOD AND VALUABLE CONSIDERATION, Primo Water Corporation (the “Company”) hereby grants, pursuant to the provisions of the Company’s 2019 Omnibus Long-Term Incentive Plan (the “Plan”), to the Grantee designated in this Notice of Grant of Restricted Stock Unit Award (the “Notice”) the number of shares of the Common Stock of the Company set forth in the Notice, subject to certain restrictions as outlined below in this Notice and the additional provisions set forth in the attached Terms and Conditions of Restricted Stock Unit Award (the “Agreement”).

Grantee: [_____]

Grant Date: [_____]

of Restricted Stock Units: [_____]

Purchase Price: Subject to the withholding provisions of Section 5 of the Terms and Conditions, this Restricted Stock Unit Award does not require the Grantee to pay any purchase price or other cash consideration in connection with this Award, including the issuance or delivery of Common Stock upon vesting of the Award. The Grantee’s service to the Company during the Restricted Period is deemed to be the consideration for the Restricted Stock Units.

Vesting Schedule: Subject to the provisions contained in Sections 4, 5 and 6 of the Terms and Conditions, this Restricted Stock Unit Award shall vest, and the applicable restrictions set forth in the Terms and Conditions shall lapse in accordance with the following schedule, in the event the Grantee does not have a Separation from Service prior to the applicable vesting date:

| <u>Date of Vesting</u> | <u>Cumulative Amount Vested</u> |
|---|---------------------------------|
| [First Anniversary of Grant Date | 25% |
| Second Anniversary of Grant Date | 50% |
| Third Anniversary of Grant Date | 75% |
| Fourth Anniversary of Grant Date | 100%] |

If the number of Restricted Stock Units vesting as of a vesting date is a fractional number, the number vesting will be rounded down to the nearest whole number with any fractional portion carried forward.

Acceleration of Vesting: Notwithstanding the foregoing Vesting Schedule, the Restricted Stock Unit Award shall be deemed fully vested and no longer subject to forfeiture in the event of the Grantee’s death or Disability. Further, vesting of the Restricted Stock Unit Award shall be accelerated in accordance with the terms of any applicable employment, change in control or similar agreement between the Grantee and the Company or an Affiliate which is in effect during the Restricted Period (the “Employment Agreement”).

Forfeiture: Except as set forth in the foregoing paragraph or in any Employment Agreement, the Grantee’s rights in all or any portion of the Restricted Stock Unit Award on which the restrictions have not otherwise lapsed shall be forfeited in full in the event of the Grantee’s Separation from Service for any reason.

By signing below, the Grantee agrees that this Restricted Stock Unit Award is granted under and governed by the terms and conditions of the Company's 2019 Omnibus Long-Term Incentive Plan and the attached Terms and Conditions.

* * * *

Grantee

Primo Water Corporation

By: _____

Date: _____

Title: _____

Date: _____

TERMS AND CONDITIONS OF RESTRICTED STOCK UNIT AWARD

These Terms and Conditions of Restricted Stock Unit Award relate to the Notice of Grant of Restricted Stock Unit Award (the "Notice") attached hereto, by and between Primo Water Corporation (the "Company"), and the person identified in the Notice (the "Grantee").

The Board of Directors of the Company has authorized and approved the 2019 Omnibus Long-Term Incentive Plan (the "Plan"), which has been approved by the Company's stockholders. The Committee has approved an award to the Grantee of a number of shares of the Company's Common Stock, conditioned upon the Grantee's acceptance of the provisions set forth in the Notice and these Terms and Conditions within 60 days after the Notice and these Terms and Conditions are presented to the Grantee for review. For purposes of the Notice and these Terms and Conditions, any reference to the Company shall include a reference to any Affiliate.

1. Grant of Restricted Stock Units.

(a) As of the Grant Date set forth in the Notice of Grant, the Company grants to the Grantee the number of Restricted Stock Units set forth in the Notice of Grant (the "Units"), which represent shares of the Company's Common Stock. The Units are subject to the restrictions set forth in Section 2 of this Agreement, these Terms and Conditions, the provisions of the Plan and the other provisions contained in these Terms and Conditions.

(b) The Units granted under this Agreement shall be reflected in a bookkeeping account maintained by the Company during the Restricted Period. If and when the restrictions set forth in Section 2 expire in accordance with the terms of this Agreement, and upon the satisfaction of all other applicable conditions as to the Units, such Units (and any related Dividend Units described in Section 1(c) below) not forfeited pursuant to Section 4 hereof shall be settled in cash or shares of Common Stock as provided in Section 1(e) of this Agreement and otherwise in accordance with the Plan.

(c) With respect to each Unit, whether or not vested, that has not been forfeited (but only to the extent such award of Units has not been settled for cash or Common Stock), the Company shall, with respect to any cash dividends paid on the Common Stock, accrue and credit to the Grantee's bookkeeping account a number of Units having a Fair Market Value as of the date such dividend is paid equal to the cash dividends that would have been paid with respect to such Unit if it were an outstanding share of Common Stock (the "Dividend Units"). These Dividend Units thereafter shall (i) be treated as Units for purposes of future dividend accruals pursuant to this Section 1(c); and (ii) vest in such amounts (rounded to the nearest whole Unit) at the same time as the Units with respect to which such Dividend Units were received. Any dividends or distributions on Common Stock paid other than in cash shall accrue in the Grantee's bookkeeping account and shall vest at the same time as the Units in respect of which they are made (in each case in the same form, based on the same record date and at the same time, as such dividend or other distribution is paid on such Common Stock).

(d) The Company's obligations under this Agreement (with respect to both the Units and the Dividend Units, if any) shall be unfunded and unsecured, and no special or separate fund shall be established and no other segregation of assets shall be made. The rights of Grantee under this Agreement shall be no greater than those of a general unsecured creditor of the Company. In addition, the Units shall be subject to such restrictions as the Company may deem advisable under the rules, regulations and other requirements of the Securities and Exchange Commission, any stock exchange upon which Common Stock is then listed, any Company policy and any applicable federal or state securities law.

(e) Except as otherwise provided in this Agreement, settlement of the Units in accordance with the provisions of this Section 1(e) shall be delivered as soon as practicable after the end of the Restricted Period, and upon the satisfaction of all other applicable conditions as to the Units (including the payment by the Grantee of all applicable withholding taxes). The Units so payable to the Grantee shall be paid solely in shares of Common Stock, solely in cash based on the Fair Market Value of the Common Stock (determined as of the first business day next following the last day of the Restricted Period), or in a combination of the two, all as determined by the Committee in its sole discretion.

2. Restrictions.

(a) The Grantee shall have no rights as a stockholder of the Company by virtue of any Unit unless and until such Unit vests and resulting shares of Common Stock are issued to the Grantee.

(b) None of the Units may be sold, transferred, assigned, pledged or otherwise encumbered or disposed of during the Restricted Period, except as may be permitted by the Plan or as otherwise permitted by the Committee in its sole discretion or pursuant to rules adopted by the Committee in accordance with the Plan.

(c) Any attempt to dispose of the Units or any interest in the Units in a manner contrary to the restrictions set forth in this Agreement shall be void and of no effect.

3. Restricted Period and Vesting. The “Restricted Period” is the period beginning on the Grant Date and ending on the date the Units, or such applicable portion of the Units, are deemed vested under the schedule set forth in the Notice. Subject to the provisions contained in Section 4, 5 and 6, the Units shall be deemed vested and no longer subject to forfeiture under Section 4 upon expiration of the Restricted Period, and the satisfaction of all other applicable conditions as to the Units (including the payment by the Grantee of all applicable withholding taxes).

4. Forfeiture. Subject to Section 6 hereof, if during the Restricted Period (i) the Grantee incurs a Separation from Service, (ii) there occurs a material breach of the Notice or these Terms and Conditions by the Grantee, or (iii) the Grantee fails to meet the tax withholding obligations described in Section 5(b) hereof, all rights of the Grantee to the Units that have not vested in accordance with Section 3 as of the date of such termination shall terminate immediately and be forfeited in their entirety.

5. Withholding.

(a) The Committee shall determine the amount of any withholding or other tax required by law to be withheld or paid by the Company with respect to any income recognized by the Grantee with respect to the Units.

(b) The Grantee shall be required to meet any applicable tax withholding obligation in accordance with the provisions of the Plan.

(c) Subject to any administrative rules prescribed by the Committee, the Grantee shall have the right to elect to meet any withholding requirement, or the Company may require such obligations (up to maximum statutory rates) to be satisfied, in whole or in part, (i) by having withheld from this Award at the appropriate time that number of whole shares of Common Stock whose Fair Market Value is equal to the amount of any taxes required to be withheld with respect to such Award, (ii) by direct payment to the Company in cash of the amount of any taxes required to be withheld with respect to such Award or (iii) by a combination of shares and cash.

6. **Committee's Discretion.** Notwithstanding any provision of this Agreement to the contrary, the Committee shall have discretion under the Plan to waive any forfeiture of the Units as set forth in Section 4 hereof, the Restricted Period and any other conditions set forth in this Agreement.

7. **Defined Terms.** Capitalized terms used but not defined in the Notice and Agreement shall have the meanings set forth in the Plan, unless such term is defined in any Employment Agreement between the Grantee and the Company or an Affiliate. Any terms used in the Notice and Agreement, but defined in the Grantee's Employment Agreement are incorporated herein by reference and shall be effective for purposes of the Notice and these Terms and Conditions without regard to the continued effectiveness of the Employment Agreement.

8. **Nonassignability.** The Units may not be sold, assigned, transferred (other than by will or the laws of descent and distribution, or to an inter vivos trust with respect to which the Grantee is treated as the owner under Sections 671 through 677 of the Code), pledged, hypothecated, or otherwise encumbered or disposed of until the restrictions on such Units, as set forth in the Notice and Agreement, have lapsed or been removed.

9. **Grantee Representations.** The Grantee hereby represents to the Company that the Grantee has read and fully understands the provisions of the Notice, these Terms and Conditions and the Plan and the Grantee's decision to participate in the Plan is completely voluntary. Further, the Grantee acknowledges that the Grantee is relying solely on his or her own advisors with respect to the tax consequences of this Restricted Stock Unit Award.

10. **Regulatory Restrictions on the Units.** Notwithstanding any other provision of the Plan, the obligation of the Company to issue Common Stock in connection with this Award under the Plan shall be subject to all applicable laws, rules and regulations and such approval by any regulatory body as may be required. The Company reserves the right to restrict, in whole or in part, the delivery of Common Stock pursuant to these Terms and Conditions prior to the satisfaction of all legal requirements relating to the issuance of such shares, to their registration, qualification or listing or to an exemption from registration, qualification or listing.

11. **Miscellaneous.**

(a) **Notices.** All notices, requests, deliveries, payments, demands and other communications which are required or permitted to be given under these Terms and Conditions shall be in writing and shall be either delivered personally or sent by registered or certified mail, or by private courier, return receipt requested, postage prepaid to the parties at their respective addresses set forth herein, or to such other address as either shall have specified by notice in writing to the other. Notice shall be deemed duly given hereunder when delivered or mailed as provided herein.

(b) **Waiver.** The waiver by any party hereto of a breach of any provision of the Notice or these Terms and Conditions shall not operate or be construed as a waiver of any other or subsequent breach.

(c) Entire Agreement. These Terms and Conditions, the Notice, the Plan and any Employment Agreement constitute the entire agreement between the parties with respect to the subject matter hereof.

(d) Binding Effect; Successors. These Terms and Conditions shall inure to the benefit of and be binding upon the parties hereto and to the extent not prohibited herein, their respective heirs, successors, assigns and representatives. Nothing in these Terms and Conditions, express or implied, is intended to confer on any person other than the parties hereto and as provided above, their respective heirs, successors, assigns and representatives any rights, remedies, obligations or liabilities.

(e) Governing Law. The Notice and these Terms and Conditions shall be governed by and construed in accordance with the laws of the State of North Carolina without giving effect to the principles of conflicts of law, provided that the provisions set forth herein that are required to be governed by the Delaware General Corporation Law shall be governed by such law.

(f) Headings. The headings contained herein are for the sole purpose of convenience of reference, and shall not in any way limit or affect the meaning or interpretation of any of the terms or provisions of these Terms and Conditions.

(g) Conflicts; Amendment. The provisions of the Plan are incorporated in these Terms and Conditions in their entirety. In the event of any conflict between the provisions of this Agreement and the Plan, the provisions of the Plan shall control. Further, in the event of any conflict between the provisions of this Agreement and any Employment Agreement, the provisions of such Employment Agreement shall control. The Agreement may be amended at any time by the Committee, provided that no amendment may, without the consent of the Grantee, materially impair the Grantee's rights with respect to the Restricted Stock Unit Award.

(h) No Right to Continued Employment. Nothing in the Notice or these Terms and Conditions shall confer upon the Grantee any right to continue in the employ or service of the Company or affect the right of the Company to terminate the Grantee's employment or service at any time.

(i) Further Assurances. The Grantee agrees, upon demand of the Company or the Committee, to do all acts and execute, deliver and perform all additional documents, instruments and agreements which may be reasonably required by the Company or the Committee, as the case may be, to implement the provisions and purposes of the Notice and these Terms and Conditions and the Plan.

**NOTICE OF GRANT OF [INCENTIVE/NON-QUALIFIED] STOCK OPTION AWARD
PRIMO WATER CORPORATION
2019 OMNIBUS LONG-TERM INCENTIVE PLAN**

FOR GOOD AND VALUABLE CONSIDERATION, Primo Water Corporation (the "Company") hereby grants, pursuant to the provisions of the Company's 2019 Omnibus Long-Term Incentive Plan (the "Plan"), to the Optionee designated in this Notice of Grant of [Incentive/Non-Qualified] Stock Option Award (the "Notice") an option to purchase the number of shares of the Common Stock of the Company set forth in the Notice (the "Shares"), subject to certain restrictions as outlined below in this Notice and the additional provisions set forth in the attached Terms and Conditions of Stock Option Award (collectively, the "Agreement").

| Optionee: [_____] | Type of Option: [Incentive/Non-Qualified] Stock Option | | | | | | | | |
|--|---|------------------------|---------------------------------|---------------------------------|---------|----------------------------------|---------|---------------------------------|------|
| Exercise Price per Share: \$ _____ | Date of Grant: _____ | | | | | | | | |
| Total Number of Shares Granted: _____ | Expiration Date: _____ | | | | | | | | |
| <p>Vesting Schedule: Subject to the Terms and Conditions and the provisions of the Plan, this Option shall vest and become exercisable, in accordance with the following schedule, in the event the Optionee does not have a Separation from Service prior to the applicable vesting date:</p> <table style="margin-left: auto; margin-right: auto; border: none;"> <thead> <tr> <th style="text-align: center;"><u>Date of Vesting</u></th> <th style="text-align: center;"><u>Cumulative Amount Vested</u></th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">First Anniversary of Grant Date</td> <td style="text-align: center;">33-1/3%</td> </tr> <tr> <td style="text-align: center;">Second Anniversary of Grant Date</td> <td style="text-align: center;">66-2/3%</td> </tr> <tr> <td style="text-align: center;">Third Anniversary of Grant Date</td> <td style="text-align: center;">100%</td> </tr> </tbody> </table> | | <u>Date of Vesting</u> | <u>Cumulative Amount Vested</u> | First Anniversary of Grant Date | 33-1/3% | Second Anniversary of Grant Date | 66-2/3% | Third Anniversary of Grant Date | 100% |
| <u>Date of Vesting</u> | <u>Cumulative Amount Vested</u> | | | | | | | | |
| First Anniversary of Grant Date | 33-1/3% | | | | | | | | |
| Second Anniversary of Grant Date | 66-2/3% | | | | | | | | |
| Third Anniversary of Grant Date | 100% | | | | | | | | |
| <p>If the number of Shares subject to this Option vesting as of a vesting date is a fractional number, the number vesting will be rounded down to the nearest whole number with any fractional portion carried forward.</p> | | | | | | | | | |
| <p>Acceleration of Vesting: Notwithstanding the foregoing Vesting Schedule, the Option shall be deemed fully vested and exercisable in the event of the Optionee's death or Disability. Further, vesting of the Option shall be accelerated in accordance with the terms of any applicable employment, change in control or similar agreement between the Optionee and the Company or an Affiliate which is in effect during the Term (the "Employment Agreement").</p> | | | | | | | | | |
| <p>Exercise After Separation from Service: <i>Separation from Service for any reason other than death, Disability or for Cause:</i> any non-vested portion of the Option expires immediately and any vested portion of the Option remains exercisable for [thirty (30) days] following the Separation from Service; <i>Separation from Service due to death or Disability:</i> the entire Option, including any non-vested portion for which vesting is accelerated above, is exercisable by the Optionee (or the Optionee's beneficiary in the event of the Optionee's death) for [twelve (12) months] following the Optionee's Separation from Service; <i>Separation from Service for Cause:</i> the entire Option, including any vested and non-vested portion, expires immediately upon Separation from Service.</p> | | | | | | | | | |
| <p>IN NO EVENT MAY THIS OPTION BE EXERCISED AFTER THE EXPIRATION DATE AS PROVIDED ABOVE.</p> | | | | | | | | | |

By signing below, the Optionee agrees that this **[Incentive/Non-Qualified]** Stock Option Award is granted under and governed by the terms and conditions of the Company's 2019 Omnibus Long-Term Incentive Plan and the attached Terms and Conditions.

Optionee

Date: _____

Primo Water Corporation

By: _____

Title: _____

Date: _____

TERMS AND CONDITIONS OF STOCK OPTION AWARD

1. Grant of Option. The Option granted to the Optionee and described in the Notice of Grant is subject to the terms and conditions of the Plan, which is incorporated by reference in its entirety into these Terms and Conditions of Stock Option Award.

The Board of Directors of the Company has authorized and approved the 2019 Omnibus Long-Term Incentive Plan (the "Plan"), which has been approved by the stockholders of the Company. The Committee has approved an award to the Optionee of a number of shares of the Company's Common Stock, conditioned upon the Optionee's acceptance of the provisions set forth in the Notice and these Terms and Conditions within 60 days after the Notice and these Terms and Conditions are presented to the Optionee for review. For purposes of the Notice and these Terms and Conditions, any reference to the Company shall include a reference to any Affiliate.

If designated in the Notice of Grant as an Incentive Stock Option ("ISO"), this Option is intended to qualify as an Incentive Stock Option as defined in Section 422 of the Code. Nevertheless, to the extent that the Option fails to meet the requirements of an ISO under Section 422 of the Code, this Option shall be treated as a Non-qualified Stock Option ("NSO").

The Company intends that this Option not be considered to provide for the deferral of compensation under Section 409A of the Code and that this Agreement shall be so administered and construed. Further, the Company may modify the Plan and this Award to the extent necessary to fulfill this intent.

2. Exercise of Option.

(a) Right to Exercise. This Option shall be exercisable, in whole or in part, during its term in accordance with the Vesting Schedule set out in the Notice of Grant and with the applicable provisions of the Plan and this Agreement. No Shares shall be issued pursuant to the exercise of an Option unless the issuance and exercise comply with applicable laws. Assuming such compliance, for income tax purposes the Shares shall be considered transferred to the Optionee on the date on which the Option is exercised with respect to such Shares. The Committee may, in its discretion and pursuant to its administrative authority under Section 3.1 of the Plan, (i) accelerate vesting of the Option, or (ii) extend the applicable exercise period of the Option.

(b) Method of Exercise. The Optionee may exercise the Option by delivering an exercise notice in a form approved by the Company (the "Exercise Notice") which shall state the election to exercise the Option, the number of Shares with respect to which the Option is being exercised, and such other representations and agreements as may be required by the Company. The Exercise Notice shall be accompanied by payment of the aggregate Exercise Price as to all Shares exercised. This Option shall be deemed to be exercised upon receipt by the Company of such fully executed Exercise Notice accompanied by the aggregate Exercise Price.

3. Method of Payment. If the Optionee elects to exercise the Option by submitting an Exercise Notice under Section 2(b) of this Agreement, the aggregate Exercise Price (as well as any applicable withholding or other taxes) shall be paid by cash or check; *provided, however*, that the Committee may accept, in its discretion, payment in any of the following forms, or a combination of them:

(a) cash or check;

(b) a "net exercise" under which the Company reduces the number of shares of Common Stock issued upon exercise by the largest whole number of shares with a Fair Market Value that does not exceed the aggregate Exercise Price and any applicable withholding, or such other consideration received by the Company under a cashless exercise program approved by the Company in connection with the Plan;

(c) surrender of other shares of Common Stock owned by the Optionee which have a Fair Market Value on the date of surrender equal to the aggregate Exercise Price of the exercised Shares and any applicable withholding; or

(d) any other consideration that the Committee deems appropriate and in compliance with applicable law.

4. Restrictions on Exercise. This Option may not be exercised if the issuance of the Shares upon exercise or the method of payment of consideration for those shares would constitute a violation of any applicable law, regulation or Company policy.

5. Non-Transferability of Option. This Option may not be transferred in any manner otherwise than by will or by the laws of descent or distribution and may be exercised during the lifetime of the Optionee only by the Optionee [; provided, however, that the Optionee may transfer the Option (i) pursuant to a qualified domestic relations order (as defined by the Code or the rules thereunder) or (ii) to any Family Member of the Optionee in accordance with Section 17.11.2 of the Plan by delivering to the Company a Notice of Assignment in a form acceptable to the Company. No transfer or assignment of the Option to or on behalf of a Family Member under this Section 5 shall be effective until the Company has acknowledged such transfer or assignment in writing].¹ The terms of the Plan and this Option Agreement shall be binding upon the executors, administrators, heirs, successors and assigns of the Optionee.

6. Term of Option. This Option may be exercised only within the term set out in the Notice of Grant, and may be exercised during such term only in accordance with the Plan and the terms of this Agreement.

7. Withholding.

(a) The Committee shall determine the amount of any withholding or other tax required by law to be withheld or paid by the Company with respect to any income recognized by the Optionee with respect to the Option Award.

(b) The Optionee shall be required to meet any applicable tax withholding obligation in accordance with the provisions of Section 17.3 of the Plan.

(c) Subject to any rules prescribed by the Committee, the Optionee shall have the right to elect to meet any withholding requirement, or the Company may require such obligations (up to maximum statutory rates) to be satisfied, in whole or in part, (i) by having withheld from this Award at the appropriate time that number of whole shares of common stock whose Fair Market Value is equal to the amount of any taxes required to be withheld with respect to such Award, (ii) by direct payment to the Company in cash of the amount of any taxes required to be withheld with respect to such Award or (iii) by a combination of shares and cash.

8. Defined Terms. Capitalized terms used but not defined in the Notice and these Terms and Conditions shall have the meanings set forth in the Plan, unless such term is defined in any employment or similar agreement between the Optionee and the Company or an Affiliate. Any terms used in the Notice and these Terms and Conditions, but defined in an employment or similar agreement with the Optionee are incorporated herein by reference and shall be effective for purposes of the Notice and these Terms and Conditions without regard to the continued effectiveness of such employment or similar agreement.

¹ Language to be included in NSO Option Award.

9. Optionee Representations. The Optionee hereby represents to the Company that the Optionee has read and fully understands the provisions of the Notice, these Terms and Conditions and the Plan and the Optionee's decision to participate in the Plan is completely voluntary. Further, the Optionee acknowledges that the Optionee is relying solely on his or her own advisors with respect to the tax consequences of this Stock Option Award.

10. Regulatory Limitations on Exercises. Notwithstanding the other provisions of this Agreement, the Committee shall have the sole discretion to impose such conditions, restrictions and limitations (including suspending the exercise of the Option and the tolling of any applicable exercise period during such suspension) on the issuance of Common Stock with respect to this Option unless and until the Committee determines that such issuance complies with (i) any applicable registration requirements under the Securities Act or the Committee has determined that an exemption therefrom is available, (ii) any applicable listing requirement of any stock exchange on which the Common Stock is listed, (iii) any applicable Company policy or administrative rules, and (iv) any other applicable provision of state, federal or foreign law, including foreign securities laws where applicable.

11. Miscellaneous.

(a) Notices. All notices, requests, deliveries, payments, demands and other communications which are required or permitted to be given under these Terms and Conditions shall be in writing and shall be either delivered personally or sent by registered or certified mail, or by private courier, return receipt requested, postage prepaid to the parties at their respective addresses set forth herein, or to such other address as either shall have specified by notice in writing to the other. Notice shall be deemed duly given hereunder when delivered or mailed as provided herein.

(b) Waiver. The waiver by any party hereto of a breach of any provision of the Notice or these Terms and Conditions shall not operate or be construed as a waiver of any other or subsequent breach.

(c) Entire Agreement. These Terms and Conditions, the Notice, the Plan and any applicable Employment Agreement constitute the entire agreement between the parties with respect to the subject matter hereof.

(d) Binding Effect: Successors. These Terms and Conditions shall inure to the benefit of and be binding upon the parties hereto and to the extent not prohibited herein, their respective heirs, successors, assigns and representatives. Nothing in these Terms and Conditions, express or implied, is intended to confer on any person other than the parties hereto and as provided above, their respective heirs, successors, assigns and representatives any rights, remedies, obligations or liabilities.

(e) Governing Law. The Notice and these Terms and Conditions shall be governed by and construed in accordance with the laws of the State of North Carolina without giving effect to the principles of conflicts of law, provided that the provisions set forth herein that are required to be governed by the Delaware General Corporation Law shall be governed by such law.

(f) Headings. The headings contained herein are for the sole purpose of convenience of reference, and shall not in any way limit or affect the meaning or interpretation of any of the terms or provisions of these Terms and Conditions.

(g) Conflicts: Amendment. The provisions of the Plan are incorporated in these Terms and Conditions in their entirety. In the event of any conflict between the provisions of this Agreement and the Plan, the provisions of the Plan shall control. Further, in the event of any conflict between the provisions of this Agreement and any Employment Agreement, the provisions of such Employment Agreement shall control. The Agreement may be amended at any time by the Committee, provided that no amendment may, without the consent of the Optionee, materially impair the Optionee's rights with respect to the Option.

(h) No Right to Continued Employment. Nothing in the Notice or these Terms and Conditions shall confer upon the Optionee any right to continue in the employ or service of the Company or affect the right of the Company to terminate the Optionee's employment or service at any time.

(i) Further Assurances. The Optionee agrees, upon demand of the Company or the Committee, to do all acts and execute, deliver and perform all additional documents, instruments and agreements which may be reasonably required by the Company or the Committee, as the case may be, to implement the provisions and purposes of the Notice and these Terms and Conditions and the Plan.

MANAGEMENT CERTIFICATION

I, Matthew T. Sheehan, certify that:

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

Date: August 7, 2019

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

MANAGEMENT CERTIFICATION

I, David J. Mills, certify that:

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

Date: August 7, 2019

/s/ David J. Mills

David J. Mills
Chief Financial Officer

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

In connection with the Quarterly Report of Primo Water Corporation, (the "Company") on Form 10-Q for the period ended June 30, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), we, Matthew T. Sheehan, Chief Executive Officer of the Company, and David Mills, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

/s/ Matthew T. Sheehan
Matthew T. Sheehan
Chief Executive Officer
August 7, 2019

/s/ David J. Mills
David J. Mills
Chief Financial Officer
August 7, 2019