

Primo Water Corp  
Form S-1/A  
June 04, 2010

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**As filed with the Securities and Exchange Commission on June 4, 2010**

**Registration No. 333-165452**

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

**Amendment No. 2  
to  
Form S-1  
REGISTRATION STATEMENT  
UNDER  
THE SECURITIES ACT OF 1933**

**PRIMO WATER CORPORATION**

*(Exact name of registrant as specified in its charter)*

**Delaware**

*(State or other jurisdiction of  
incorporation or organization)*

**5149**

*(Primary Standard Industrial  
Classification Code Number)*

**30-0278688**

*(I.R.S. Employer  
Identification Number)*

**104 Cambridge Plaza Drive  
Winston-Salem, North Carolina 27104  
(336) 331-4000**

*(Address, including zip code, and telephone number,  
including area code, of registrant's principal executive offices)*

**Mark Castaneda  
Chief Financial Officer  
Primo Water Corporation  
104 Cambridge Plaza Drive  
Winston-Salem, North Carolina 27104  
(336) 331-4000**

*(Name, address, including zip code, and telephone number,*

*including area code, of agent for service)*

*Please send copies of all communications to:*

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**555 Eleventh Street, NW**  
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**Washington, DC 20004-1036**  
**(202) 637-2200**

**Approximate date of commencement of proposed sale to the public:** As soon as practicable after the effective date of this registration statement.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

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

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

#### CALCULATION OF REGISTRATION FEE

<b>Title of Each Class of Securities to be Registered</b>	<b>Proposed Maximum Aggregate Offering Price<sup>(1)(2)</sup></b>	<b>Amount of Registration Fee<sup>(2)(3)</sup></b>
Common Stock	\$ 92,000,000	\$ 6,560

- (1) Includes shares to be sold upon exercise of the underwriters' over-allotment option. See Underwriting.
- (2) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(o) of the Securities Act of 1933.
- (3) Of this amount, \$4,991 was previously paid in connection with the initial filing of this Registration Statement on Form S-1 on March 12, 2010.

**The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to Section 8(a), may determine.**

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The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell securities, and it is not soliciting an offer to buy these securities, in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED JUNE 4, 2010

**IPO PRELIMINARY PROSPECTUS**

Shares  
Common Stock  
\$ per share

Primo Water Corporation is selling shares of common stock. We have granted the underwriters a 30-day option to purchase up to an additional shares from us to cover over-allotments, if any.

This is an initial public offering of our common stock. We currently expect the initial public offering price to be between \$ and \$ per share. We have applied for approval to list our common stock on the Nasdaq Global Market under the symbol .

INVESTING IN OUR COMMON STOCK INVOLVES RISKS. SEE RISK FACTORS BEGINNING ON PAGE 13.

	Per Share	Total
Initial public offering price	\$	\$
Underwriting discount	\$	\$
Proceeds, before expenses, to us	\$	\$

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

**Wells Fargo Securities**

**Thomas Weisel Partners LLC**

**BB&T Capital Markets**

**Signal Hill**

The date of this prospectus is , 2010.

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You should rely only on the information contained in this prospectus. We have not, and the underwriters have not, authorized anyone to provide you with information that is different from that contained in this prospectus. This prospectus is not an offer to sell, nor is it seeking an offer to buy, these securities in any state where the offer or sale is

not permitted. The information in this prospectus speaks only as of the date of this prospectus unless the information specifically indicates that another date applies, regardless of the time of delivery of this prospectus or of any sale of our common stock.

Primo<sup>®</sup>, Taste Perfection<sup>®</sup>, Zero Waste. Perfect Taste<sup>™</sup>, *www.primowater.com*, the Primo logo and other trademarks or service marks of Primo Water Corporation appearing in this prospectus are the property of Primo Water Corporation. Trade names, trademarks and service marks of other companies appearing in this prospectus are the property of the respective owners.

### **Industry and Market Data**

We obtained the industry and market data used throughout this prospectus through our research, surveys and studies conducted by third-parties and industry and general publications. Some data are also based on our good faith estimates, which are derived from our review of internal surveys, as well as independent industry publications, government publications, reports by market research firms or other published sources. None of the independent industry publications referred to in this prospectus were prepared on our behalf or at our expense. The foregoing discussion does not, in any manner, disclaim our responsibilities with respect to the disclosures contained in this prospectus.

### **Dealer Prospectus Delivery Obligation**

Until \_\_\_\_\_, 2010 (25 days after the date of this prospectus), all dealers that effect transactions in these securities, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the dealers obligation to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

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**PROSPECTUS SUMMARY**

*This summary highlights information about our Company and this offering contained elsewhere herein and is qualified in its entirety by the more detailed information and financial statements included elsewhere in this prospectus. You should read this entire prospectus carefully, including Risk Factors, Management's Discussion and Analysis of Financial Condition and Results of Operations, Culligan Refill Acquisition Management's Discussion and Analysis of Financial Condition and Results of Operations and the financial statements and related notes included elsewhere herein, before making an investment decision. In this prospectus, unless otherwise specified or the context otherwise requires, the terms Primo, we, us, our, our Company, or ours refer to Primo Water Corporation and its consolidated subsidiaries but do not refer to or include information about (a) our former subsidiary, Prima Bottled Water, Inc., which was spun off to our stockholders effective December 31, 2009, or (b) the business and assets we propose to acquire from Culligan Store Solutions, LLC and Culligan of Canada, Ltd. that are described below under Culligan Refill Acquisition.*

**Our Business**

We are a rapidly growing provider of three- and five-gallon purified bottled water and water dispensers sold through major retailers nationwide. We believe the market for purified water is growing due to evolving taste preferences, perceived health benefits and concerns regarding the quality of municipal tap water. Our products provide an environmentally friendly, economical, convenient and healthy solution for consuming purified water. Our business is designed to generate recurring demand for Primo purified bottled water through the initial sale of our 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 where consumers receive a recycling ticket that offers a discount toward the purchase of a full bottle of Primo purified water. We believe Primo consumers purchase an average of 35 bottles of water annually and each bottle 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 December 31, 2009, our water bottle exchange service and water dispensers were offered in each of the contiguous United States and located in approximately 7,000 and 5,500 retail locations respectively, including Lowe's Home Improvement, Sam's Club, Costco, Walmart, Target, Kroger, Winn-Dixie, Albertsons and Walgreens.

We have created a new nationwide single-vendor water bottle exchange solution for our retail customers, addressing a market demand that we believe was previously unmet. Our water bottle exchange solution is easy for retailers to implement, requires minimal management supervision and store-based labor and provides centralized billing and detailed performance reports. Our solution offers retailers attractive financial margins and the ability to optimize typically unused retail space with our displays. Additionally, due to the recurring nature of water consumption and water bottle exchange, retailers benefit from year-round customer traffic and highly predictable revenue.

We deliver our solution to retailers utilizing our current relationships with 55 independent bottlers and 27 independent distributors and our two Company-owned distribution operations, which Company-owned operations accounted for approximately 23.5% of our water bottle exchange volume in 2009. We refer to these independent bottlers and distributors together with our Company-owned distribution operations as our national network. Our independent bottlers and distributors typically have already made the capital investment required to deliver our solution, including investment in bottling facilities and storage and distribution assets. We focus our capital expenditures on developing new retail relationships, installing displays at store locations, raising brand awareness, research and development for new products and maintaining our management information system (MIS) tools. We are



able to manage our national network on a real-time basis through our MIS tools, which provide resource planning and delivery schedule tracking, thus enabling us to optimize our network's assets and respond to customer needs. In addition, our national network benefits from the recurring nature of water consumption and water bottle exchange that generates year-round demand and optimizes utilization of existing

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production and distribution assets. We believe our solution and national network provide us a significant competitive advantage in servicing our retail customers.

We benefit significantly from management experience gained over the last 15 years in exchange-based businesses, which enables us to implement best practices and develop and maintain key business relationships. Prior to founding Primo, our Chief Executive Officer founded Blue Rhino Corporation, a propane cylinder exchange business, in 1994 and, with several of our other key executive officers, led its initial public offering in 1998 and successful sale in 2004. At the time of the sale, we believe Blue Rhino was a market leader in propane grill cylinder exchange with over 29,000 retail locations in 49 states.

## **Culligan Refill Acquisition**

On June 1, 2010, we entered into an asset purchase agreement with Culligan Store Solutions, LLC and Culligan of Canada, Ltd. (together with Culligan International Company, Culligan ) to purchase certain of Culligan's assets related to its business of providing reverse osmosis water filtration systems that generate filtered water for refill vending machines and store-use water services in the United States and Canada at approximately 4,500 retail locations. This business also sells empty reusable water bottles for use at refill vending machines (such businesses are together referred to as the Culligan Refill Business ). Pursuant to the asset purchase agreement, we will purchase these assets (the Culligan Refill Acquisition ) for a total purchase price of \$105.0 million, consisting of a cash payment of \$60.0 million and the issuance of shares of our common stock with a value of \$45.0 million (or shares, assuming an initial public offering price of \$ per share, the midpoint of the range set forth on the cover page of this prospectus), all subject to a working capital adjustment. The cash portion of the purchase price will be increased and the number of shares of common stock we will issue will be decreased by an amount equal to the net cash proceeds we receive from any exercise of the underwriters' over-allotment option. The closing of this offering and the closing of the Culligan Refill Acquisition are interdependent as we will not consummate either unless we consummate both.

The Culligan Refill Business provides filtered water through the installation and servicing of reverse osmosis water filtration systems. Retailers benefit from the reverse osmosis water filtration systems as they ensure water used throughout a store is clean and safe for self-serve refill vending and store-use services, such as food preparation and hydration of produce. Customers of the Culligan Refill Business include Walmart, Safeway, Meijer, Sobeys, Target, Hy-Vee and Kroger. For the year ended December 31, 2009, the Culligan Refill Business generated revenues of \$26.0 million and net income of \$4.3 million. Approximately 84% of the Culligan Refill Business's revenues were generated in the United States, with operations in 48 states, and approximately 16% of its revenues were generated in Canada across 10 provinces. The Culligan Refill Business's revenues are driven by self-serve refill vending services and empty reusable water bottle sales, which account for approximately 76% and 16% of its revenues, respectively, and to a lesser extent by store-use services.

The Culligan Refill Business provides us with an established platform to expand into the self-serve drinking water refill business. We believe the Culligan Refill Business is highly complementary to our water bottle exchange business from both a product and operational perspective. We believe the Culligan Refill Acquisition will:

- provide additional consumer value and convenience;
- augment our environmentally friendly product offering;
- allow us to leverage our marketing and increase the sales of our water dispensers;
- enhance our ability to provide retail customers a broad range of hydration solutions;

deepen our retail customer relationships through a more extensive product offering;

expand our retail customer base and geographic presence;

strengthen our distribution network;

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increase our knowledge base of the refill segment and add experienced personnel; and

provide a source of stable, dependable cash flows to fund future growth.

Upon consummation of the Culligan Refill Acquisition, we will report Refill as a third reportable segment in our consolidated financial statements for periods following the closing of the acquisition. The table below sets forth on a pro forma basis our net sales (total and by segment), loss from operations and net loss for the periods presented:

	<b>Pro Forma</b>	
	<b>For Year Ended December 31, 2009</b>	<b>For Three Months Ended March 31, 2010</b>
	<b>(in thousands)</b>	
Segment Net Sales:		
Exchange	\$ 22,638	\$ 5,541
Products	22,824	2,909
Refill	26,017	6,109
Other	1,611	383
Inter-company elimination	(92)	(4)
Total Net Sales	\$ 72,998	\$ 14,938
Loss from Operations	\$ (106)	\$ (530)
Net Loss	\$ (7,533)	\$ (1,517)

In connection with the closing of this offering and the completion of the Culligan Refill Acquisition, we intend to enter into a new \$40.0 million senior revolving credit facility that will replace our current senior revolving credit facility.

**Industry Overview**

We believe there are several trends that support consumer demand for our water bottle exchange service, water dispensers and, following the Culligan Refill Acquisition, refill vending services, including the following:

*Emphasis on Health and Wellness*

As part of a desire to live a healthier lifestyle, we believe consumers are increasingly focused on drinking more water relative to consumption of high caloric beverages, carbonated soft drinks and beverages containing artificial sweeteners.

*Concerns Regarding Quality of Municipal Tap Water*

Many consumers purchase purified water not only due to better taste, but also because of concerns regarding municipal tap water quality. Municipal water is typically surface water that is treated centrally and pumped to homes, which can allow additional contaminants to dissolve into the water through municipal or household pipes impacting taste and quality.

*Growing Preference for Purified Water*

We believe consumer preference toward purified water relative to tap water continues to grow as purified water has become accepted on a mainstream basis. According to a June 2009 report by independent market analyst Datamonitor, *Bottled Water in the United States*, consumers spent \$18.4 billion in 2008 on bottled water and the bottled water industry is expected to grow at a compound annual growth rate of approximately 7.5%, reaching \$26.5 billion by 2013.

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### *Increasing Demand for Products with Lower Environmental Impact*

We believe that consumers are increasingly favoring products with a lower environmental impact with a reuse, recycle, reduce mindset becoming a common driver of consumer behavior. Most single-serve polyethylene terephthalate ( PET ) water bottles are produced using fossil fuels and contribute to landfill waste given that only 27% of PET bottles are recycled according to a November 2009 Environmental Protection Agency report. Governmental legislation also reflects these concerns with numerous initiatives enacted to either tax purchases of beverages in plastic bottles or prohibit their use within government facilities or disposal in community landfills.

### *Availability of an Economical Water Bottle Exchange Service and Innovative Water Dispensers*

Based on estimates derived from industry data, we believe the current household penetration rate of multi-gallon water dispensers is approximately 4%, with the vast majority of these households utilizing traditional home delivery services. We believe the lack of innovation, design enhancement and functionality and the retail pricing structure of our competitors dispenser models have prevented greater household adoption. Compounding these issues, we believe there previously was no economical water bottle exchange service with major retailer relationships nationwide to promote dispenser usage beyond the traditional home delivery model. We believe there are over 200,000 major retail locations throughout the United States and Canada that we can target to sell our dispensers or offer our water bottle exchange service and, following the Culligan Refill Acquisition, refill vending services.

## **Our Competitive Strengths**

We believe that Primo's competitive strengths include the following:

### *Appeal to Consumer Preferences*

*Environmental Awareness.* Our water bottle exchange service incorporates reuse of existing bottles, recycles water bottles when their lifecycle is complete and reduces landfill waste and fossil fuel usage compared to alternative methods of bottled water consumption.

*Value.* We provide consumers the opportunity for cost savings when consuming our bottled water compared to both single-serve bottled water and typical home and office delivery services. Our water dispensers are sold at attractive retail prices in order to enhance consumer awareness and adoption of our water bottle exchange service, increase household penetration and drive sales of our bottled water.

*Convenience.* Our water bottle exchange service and water dispensers are available at major retail locations nationwide. In addition, our water bottle exchange service provides consumers the convenience of exchanging empty bottles and purchasing full bottles at any participating retailer. We offer three- and five-gallon water bottle options to address different consumer volume preferences.

*Taste.* We have dedicated significant time and effort to develop our water purification process and formulate the proprietary blend of mineral ingredients included in Primo purified water. We believe that Primo purified water has a silky smooth taste and in an independent taste test that we commissioned, four out of five participants preferred Primo purified water over municipal tap water and three out of four participants preferred Primo purified water over their region's market-leading bottled water.

*Health and Wellness.* As part of a desire to live a healthier lifestyle, we believe that consumers are increasingly focused on drinking more water relative to consumption of other beverages. As we raise our brand awareness, we believe consumers will recognize that our water bottle exchange service is an effective option for their

purified water consumption needs.

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*Key Retail Relationships Served by Nationwide Single-Vendor Solution*

We believe we are the only water bottle exchange provider with a single-vendor solution for retailers nationwide. Our national network utilizes our MIS tools and processes to optimize their production and distribution assets while servicing our retail customers. We believe the combination of our major retail relationships, unique single-vendor solution for retail customers, national network and our MIS tools is difficult to replicate. We anticipate these factors will facilitate our introduction of new purified water-related products in the future.

*Ability to Attract and Retain Consumers*

We offer razor-razorblade products designed to generate recurring demand for Primo purified bottled water (the razorblade) through the initial sale of our innovative water dispensers (the razor), which include a coupon for a free three- or five-gallon bottle of Primo purified water. We acquire new consumers and enhance recycling efforts by accepting most dispenser-compatible water bottles in exchange for a recycle ticket discount toward the purchase of a full bottle of Primo purified water. In addition, we believe our offering high-quality water dispensers enhances consumer awareness and adoption of our water bottle exchange service, increases household penetration and drives sales of our bottled water.

*Efficient Business Model*

Our business model allows us to efficiently offer our solution to our retail partners and centrally manage our national network without a substantial capital investment. We believe our business processes and MIS tools enable us to manage the bottling and distribution of our water, our product quality, retailer inventory levels and the return of used bottles on a centralized basis, leveraging our invested capital and personnel. We believe our water bottle exchange service is unique in that we are not required to make a significant portion of the capital investment required to operate our exchange service nationwide and our independent bottlers and distributors often are able to augment their current production capacity and leverage their existing bottling and distribution assets. In addition, the flow of payments between the retailer and our bottlers and distributors is controlled efficiently through electronic data interchange.

*Benefit from Management's Proven Track Record*

We benefit greatly from management experience gained over the last 15 years in exchange businesses to implement and refine best practices and develop and maintain key business relationships. In addition to our Chief Executive Officer, our Chief Financial Officer, Senior Vice President of Operations, Vice President of Product Development and Vice President of National Accounts all held comparable positions within the Blue Rhino organization during its rapid sales and location growth. We believe this experience combined with our nationwide single-vendor solution contributed to Walmart's recent decision to name Primo category manager for water bottle exchange and water dispensers.

**Growth Strategy**

We seek to increase our market share and drive further growth in our business by pursuing the following strategies:

*Increase Penetration with Existing Retail Relationships and Develop New Retail Relationships*

We believe we have significant opportunities to increase store penetration with our existing retail relationships. As of December 31, 2009, our water bottle exchange service was offered at 6,000 of our top ten retailers nationwide locations. Such retailers present us an opportunity of approximately 7,500 additional nationwide locations. As of



December 31, 2009, the Culligan Refill Business was offered at approximately 3,400 of its top ten

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retailers' locations. Such retailers present the Culligan Refill Business an opportunity of approximately 6,600 additional locations.

There is minimal overlap of fewer than 100 locations where our water bottle exchange service is offered and the Culligan Refill Business is operated. Following the Culligan Refill Acquisition, we intend to further penetrate our other existing retail customers with both our water bottle exchange service and the Culligan Refill Business which collectively provide us the opportunity to be present in more than 20,000 additional locations.

Our long-term strategy includes targeting more than 50,000 total retail store locations (which includes new locations with our existing retail customers) within our primary retail categories of home centers, hardware stores, mass merchants, membership warehouses, grocery stores, drug stores and discount general merchandise stores for our water bottle exchange service or the Culligan Refill Business. We believe that the introduction of additional hydration solutions to our product portfolio will allow us to cross-sell products to our existing and newly-acquired retail customers.

*Drive Consumer Adoption Through Innovative Water Dispenser Models*

We intend to continue to develop and sell innovative water dispensers at attractive retail prices, which we believe is critical to increasing consumer awareness and driving consumer adoption of our water bottle exchange service. We believe our water dispensers have appealing features that will continue to drive consumer adoption. Since we first began selling our water dispensers in 2005, we have sold over 520,000 units and have expanded our retail network from four locations as of December 31, 2007, to our current network of approximately 5,500 locations. Our long term strategy is to provide multiple purified water-based-beverages from a single Primo water dispenser, with consistent promotion of our water bottle exchange and, following the Culligan Refill Acquisition, refill vending services to supply the purified water.

*Increase Same Store Sales*

We sell our water dispensers at minimal margin and provide a coupon for a free three- or five-gallon bottle of water with the sale of various water dispensers at certain retailers to drive consumer demand for our water bottle exchange and, following the Culligan Refill Acquisition, refill vending services. We believe increasing unit sales of Primo purified bottled water is dependent on generating greater consumer awareness of the environmentally friendly and economical aspects of and the convenience associated with our purified bottled water and our water bottle exchange and, following the Culligan Refill Acquisition, refill vending services. We expect that our branding, marketing and sales efforts will result in greater usage of our water bottle exchange and, following the Culligan Refill Acquisition, refill vending services.

*Develop and Install Other Hydration Solutions*

We believe we have significant opportunities to leverage our national network and our systems and processes to offer other environmentally friendly, economical, convenient and healthy hydration solutions to our retail partners without significant increases in our centralized costs. For example, the Culligan Refill Business will provide us an established platform to offer our retail partners self-service refill vending machines that dispense drinking water into empty reusable bottles. In addition, we intend to offer our retail partners automated, self-bagging purified ice dispensers.

*Pursue Strategic Acquisitions to Augment Geographic and Retail Relationships*

In addition to the Culligan Refill Acquisition, we believe opportunities exist to expand through selective acquisitions, including smaller water bottle exchange businesses with established retail accounts, other on-premises self-service

water refill vending machine networks and retail accounts, ice dispenser machine networks and retail accounts and water dispenser companies.

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### **Risk Factors**

Our business is subject to numerous risks, as more fully described in the section entitled **Risk Factors** beginning on page 13. You should carefully consider these risks before deciding to invest in our common stock. These risks include, among others:

We have incurred operating losses in the past and may incur operating losses in the future.

We depend on a small number of large retailers for most of our consumer sales. Our arrangements with these retailers for our bottled water exchange services and sales of our water dispensers are nonexclusive and may be terminated at will.

The loss of one or more of the largest retail customers of the Culligan Refill Business could materially adversely affect our business after the completion of the Culligan Refill Acquisition.

The success of our business depends on retailer and consumer acceptance of our water bottle exchange service and water dispensers.

In our bottled water business, we depend on independent bottlers, distributors and suppliers for our business to operate.

We may experience difficulties in integrating the Culligan Refill Business with our current business and may not be able to fully realize all of the anticipated synergies from the Culligan Refill Acquisition.

We operate in a highly competitive industry, face competition from companies with far greater resources than we have and could encounter significant competition from these companies in our niche market of water bottle exchange services and related products.

If our bottled water became contaminated, our business could be seriously harmed.

While many members of our senior management have experience as executives of a products and exchange services business, there can be no assurances that this experience and past success will result in our business becoming profitable.

Interruption or disruption of our supply chain, distribution channels or national network could adversely affect our business, financial condition and results of operations.

If we lose key personnel, in particular our Chairman, President and Chief Executive Officer, Billy D. Prim, or are unable to recruit qualified personnel, our ability to implement our business strategies could be delayed or hindered.

We depend on key management information systems.

### **Our Corporate Information**

We were incorporated as a Delaware corporation on October 20, 2004. Our headquarters are located at 104 Cambridge Plaza Drive, Winston-Salem, North Carolina 27104 and our telephone number is (336) 331-4000. Our website is [www.primowater.com](http://www.primowater.com). Information on, or accessible through, our website is not a part of and is not incorporated into this prospectus and the inclusion of our website address in this prospectus is an inactive textual reference only.



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**THE OFFERING**

Issuer	Primo Water Corporation
Common stock offered by us	_____ shares (_____ shares if the underwriters over-allotment option is exercised in full)
Common stock to be outstanding after this offering	_____ shares (_____ shares if the underwriters over-allotment option is exercised in full)
Use of proceeds	<p>We estimate that the net proceeds to us from this offering will be approximately \$ _____ million (or approximately \$ _____ million if the underwriters over-allotment option is exercised in full), assuming an initial public offering price of \$ _____ per share, the midpoint of the range set forth on the cover page of this prospectus.</p> <p>We intend to use the net proceeds from this offering together with approximately \$ _____ in borrowings under our new senior revolving credit facility for the following purposes:</p> <ul style="list-style-type: none"><li>_____ to pay the cash portion of the purchase price for the Culligan Refill Acquisition;</li><li>_____ to redeem a portion of our outstanding Series B preferred stock and to pay accrued and unpaid dividends on all of our outstanding Series B preferred stock;</li><li>_____ to repay our 14% subordinated convertible notes due March 31, 2011;</li><li>_____ to repay borrowings under our current senior revolving credit facility, and</li><li>_____ to pay fees and expenses in connection with all of the foregoing items.</li></ul> <p>If the underwriters exercise their over-allotment option, the cash portion of the purchase price for the Culligan Refill Acquisition will be increased and the number of shares of common stock we will issue to Culligan will be decreased by an amount equal to the net cash proceeds we receive as a result of such exercise. See Use of Proceeds.</p>
Dividend policy	

We currently do not intend to pay any cash dividends on our common stock.

Conflict of Interest

Because more than 5% of the net offering proceeds will be used to retire the balance of our current senior revolving credit facility under which Wells Fargo Bank, N.A. is the lender, its affiliate, Wells Fargo Securities, LLC (one of the underwriters for this offering), is deemed to have a conflict of interest under Rule 2720 of the Financial Industry Regulatory Authority, Inc. (or FINRA ). Accordingly, this offering

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will be conducted in accordance with the requirements of Rule 2720. For more information, see Use of Proceeds and Underwriting Conflict of Interest.

Risk factors

You should carefully read and consider the information set forth under Risk Factors, together with all of the other information set forth in this prospectus, before deciding to invest in shares of our common stock.

Proposed Nasdaq Global Market symbol

We have applied to list our common stock on the Nasdaq Global Market under the symbol .

The number of shares of our common stock that will be outstanding after this offering is based on shares of common stock outstanding as of , 2010. Unless otherwise indicated, all information in this prospectus, including the number of shares that will be outstanding after this offering and other share-related information:

reflects a -for- reverse stock split of our common stock that will occur immediately prior to the closing of this offering;

reflects the conversion of our Series A convertible preferred stock and our Series C convertible preferred stock into common stock immediately prior to the closing of this offering;

reflects the conversion of 50% of our Series B preferred stock into common stock immediately prior to the closing of this offering at a ratio of : , which is calculated by dividing the liquidation preference of the Series B preferred stock by 90% of an assumed initial public offering price of \$ per share, which is the midpoint of the range set forth on the cover page of this prospectus;

reflects the redemption of the remaining 50% of our Series B preferred stock and the payment of all accrued and unpaid dividends on our Series B Preferred Stock immediately following this offering;

reflects our issuance of shares of our common stock with a value of \$45.0 million (or shares assuming an initial public offering price of \$ per share, the midpoint of the range set forth on the cover page of this prospectus) to fund a portion of the purchase price for the Culligan Refill Acquisition;

excludes shares of common stock issuable upon the exercise of warrants to purchase common stock issued in connection with our Series B preferred stock that will, subject to certain exceptions, expire May 31, 2016;

excludes shares of common stock issuable upon the exercise of warrants to purchase common stock issued in connection with our Series C convertible preferred stock that will expire days after the closing of this offering;

excludes shares of common stock issuable upon the exercise of warrants to purchase common stock issued to a third party that will expire days after the closing of this offering;

excludes shares of common stock issuable upon the exercise of warrants to purchase common stock issued in connection with our 14% subordinated convertible notes due March 31, 2011 that will expire



December 30, 2019;

excludes an aggregate of            shares of common stock issuable under our 2004 Stock Plan;

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excludes an aggregate of \_\_\_\_\_ shares of common stock issuable under our 2010 Omnibus Long-Term Incentive Plan, which we have adopted in connection with this offering;

excludes an aggregate of \_\_\_\_\_ shares of common stock issuable under our 2010 Employee Stock Purchase Plan, which we have adopted in connection with this offering; and

assumes no exercise of the underwriters' over-allotment option to purchase up to \_\_\_\_\_ additional shares of our common stock.

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**SUMMARY HISTORICAL AND PRO FORMA CONSOLIDATED FINANCIAL AND OTHER DATA**

The following tables set forth, for the periods and dates indicated, our summary historical and pro forma consolidated financial and other data. The summary historical consolidated financial data as of and for the three years ended December 31, 2009 was derived from our audited historical consolidated financial statements included elsewhere in this prospectus. The summary historical consolidated financial data as of and for the three months ended March 31, 2009 and 2010 was derived from our unaudited consolidated financial statements included elsewhere in this prospectus. The unaudited consolidated financial statements have been prepared on the same basis as our audited consolidated financial statements and, in the opinion of our management, reflect all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the results for those periods. The results for any interim period are not necessarily indicative of the results that may be expected for a full year. The historical results included here and elsewhere in this prospectus are not necessarily indicative of future performance or results of operations.

The summarized unaudited pro forma financial data for the year ended December 31, 2009 and as of and for the three months ended March 31, 2010 have been prepared to give pro forma effect to (1) a -for- reverse stock split of our common stock, (2) the conversion of our Series A and Series C convertible preferred stock into common stock, (3) the conversion of 50% of our Series B preferred stock into common stock at a ratio of : , which is calculated by dividing the liquidation preference of the Series B preferred stock by 90% of an assumed initial public offering price of \$ per share, which is the midpoint of the range set forth on the cover page of this prospectus, (4) the redemption of the remaining 50% of our Series B preferred stock and the payment of all accrued and unpaid dividends on our Series B preferred stock, (5) the sale of shares in this offering at an assumed initial public offering price of \$ per share, the midpoint of the range set forth on the cover page of this prospectus, (6) the consummation of the Culligan Refill Acquisition and our issuance of shares of common stock with a value of \$45.0 million (or shares assuming an initial public offering price of \$ per share, the midpoint of the range set forth on the cover page of this prospectus), (7) our entry into and making of borrowings under our new senior revolving credit facility and (8) the application of the net proceeds from this offering and borrowings under our new senior revolving credit facility for the purposes described herein, in each case as if they had occurred on January 1, 2009 with respect to statement of operations data and on March 31, 2010 with respect to balance sheet data. This data is subject, and gives effect, to the assumptions and adjustments described in the notes accompanying the unaudited pro forma financial statements included elsewhere in this prospectus. The summary unaudited pro forma financial data is presented for informational purposes only and should not be considered indicative of actual results of operations that would have been achieved had the Culligan Refill Acquisition and this offering been consummated on the dates indicated, and do not purport to be indicative of balance sheet data or results of operations as of any future date or for any future period.

The summary historical consolidated financial data presented below represent portions of our consolidated financial statements and are not complete. You should read this information in conjunction with Use of Proceeds, Capitalization, Selected Historical Consolidated Financial and Other Data, Unaudited Pro Forma Consolidated Financial Data, Management's Discussion and Analysis of Financial Condition and Results of Operations,

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Culligan Refill Acquisition Management's Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements and related notes included elsewhere in this prospectus.

	Historical			Pro Forma			
	Year Ended December 31,			Three Months Ended		Year	Three
	2007	2008	2009	March 31,	2010	Ended	Months
				2009	2010	December 31,	Ended
				(Unaudited)		2009	March 31,
				(Unaudited)		(Unaudited)	2010
	(in thousands, except per share data)						
<b>Consolidated statements of operations data:</b>							
Net sales	\$ 13,453	\$ 34,647	\$ 46,981	\$ 9,567	\$ 8,829	\$ 72,998	\$ 14,938
Operating costs and expenses:							
Cost of sales	11,969	30,776	38,771	7,652	6,922	52,414	10,169
Selling, general and administrative expenses	10,353	13,791	9,922	2,605	2,733	12,799	3,381
Depreciation and amortization	3,366	3,618	4,205	1,034	995	7,891	1,918
Total operating costs and expenses	25,688	48,185	52,898	11,291	10,650	73,104	15,468
Loss from operations	(12,235)	(13,538)	(5,917)	(1,724)	(1,821)	(106)	(530)
Interest (expense) and other income, net	65	(70)	(2,257)	(477)	(720)	(1,764)	(485)
Loss from continuing operations before income taxes	(12,170)	(13,608)	(8,174)	(2,201)	(2,541)	(1,870)	(1,015)
Provision for income taxes						(2,013)	(502)
Loss from continuing operations	(12,170)	(13,608)	(8,174)	(2,201)	(2,541)	(3,883)	(1,517)
Loss from discontinued operations, net of income taxes	(1,904)	(5,738)	(3,650)	(486)		(3,650)	
Net loss	(14,074) (2,147)	(19,346) (19,875)	(11,824) (3,042)	(2,687) (761)	(2,541) (582)	(7,553)	(1,517)

Preferred dividends  
and beneficial  
conversion charge<sup>(1)</sup>

Net loss attributable  
to common  
stockholders

	\$ (16,221)	\$ (39,221)	\$ (14,866)	\$ (3,448)	\$ (3,123)	\$ (7,533)	\$ (1,517)
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Basic and diluted  
loss per common  
share:

Loss from continuing  
operations  
attributable to  
common  
stockholders

	\$	\$	\$	\$	\$	\$	\$
--	----	----	----	----	----	----	----

Loss from  
discontinued  
operations  
attributable to  
common  
stockholders

Net loss attributable  
to common  
stockholders

	\$	\$	\$	\$	\$	\$	\$
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Basic and diluted  
weighted average  
common shares  
outstanding:

- (1) In 2008, we recorded a non-cash beneficial conversion charge or deemed dividend of \$17.6 million on our Series C preferred stock. This was a result of the adjustment of the conversion ratio on the Series C preferred stock based upon a formula taking into account our net sales for the year ending December 31, 2008, which resulted in a final conversion ratio of 1:1.92.

<b>As of December 31, 2009</b>	<b>As of March 31, 2010 Actual      Pro Forma (in thousands) (Unaudited)</b>	
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**Consolidated balance sheet data:**

Cash	\$	\$ 522	\$ 522
Total assets		22,368	131,919
Current portion of long-term debt		426	2

Long-term debt, net of current portion	14,403	2	24,668
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**Year Ended December 31,**

**Three  
Months  
Ended  
March 31,  
2010**

**2007                      2008                      2009**  
**(in thousands, except location data)**  
**(Unaudited)**

**Other information:**

Primo water bottle exchange locations at period end	4,700	6,400	7,000	7,020
Primo water bottle units sold	1,994	3,215	3,853	965
Primo water dispenser units sold	12	177	272	62
Culligan refill vending locations at period end	4,100	4,300	4,400	4,500

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**RISK FACTORS**

*An investment in our common stock involves a high degree of risk. You should read and consider carefully each of the risks and uncertainties described below together with the financial and other information contained in this prospectus before you decide to invest in our common stock. Our business, financial condition, results of operations, cash flows and prospects may be materially and adversely affected by any of these risks. As a result, the market price of our common stock could decline and you could lose all or part of your investment.*

**Risks Relating to Our Business and Industry**

**We have incurred operating losses in the past and may incur operating losses in the future.**

We have incurred operating losses in the past and expect to incur operating losses in the future. As of March 31, 2010, our accumulated deficit was approximately \$94.1 million. Our losses from continuing operations were \$12.2 million for the year ended December 31, 2007, \$13.6 million for the year ended December 31, 2008, \$8.2 million for the year ended December 31, 2009 and \$2.5 million for the three months ended March 31, 2010. We have not been profitable since our inception, and we may not become profitable in the future. Our losses may continue as we incur additional costs and expenses related to branding and marketing, expansion of operations, product development and development of relationships with strategic business partners. If our operating expenses exceed our expectations, our financial performance will be adversely affected. If our sales do not grow to offset these increased expenses, we may not become profitable. If we do not achieve sustained profitability, we may be unable to continue operations.

**In both our bottled water and water dispenser businesses, we depend on a small number of large retailers for most of our consumer sales. Our arrangements with these retailers for our bottled water exchange services and sales of our water dispensers are nonexclusive and may be terminated at will.**

Certain retailers make up a significant percentage of our retail sales volume, such that if one or more of these retailers were to materially reduce or terminate its business with us, our sales would suffer. For 2009, Lowe's Home Improvement, Sam's Club and Walmart represented approximately 33%, 19% and 15% of our consolidated net sales, respectively. While we sell a small percentage of our dispensers directly to consumers through our online store, the vast majority of our sales for both of our water bottle exchange service and of our water dispensers are made through our retail partners.

While we have arrangements with certain retailers for our products and services, we cannot provide any assurance of any future sales. None of our significant retail accounts are contractually bound to offer our water dispensers or bottle exchange service. As a result, retailers can discontinue our products or services at any time and offer a competitor's products or services, or none at all. Continued positive relations with a retailer depend upon various factors, including price, customer service, consumer demand and competition. In addition, certain of our retailers have multiple vendor policies and may seek to offer a competitor's products or services at new or existing locations. If any significant retailer materially reduces, terminates or is unwilling to expand its relationship with us, or requires price reductions or other adverse modifications in our selling terms, our sales would suffer.

**The success of our business depends on retailer and consumer acceptance of our water bottle exchange service and water dispensers.**

We are a consumer products and services company operating in the highly-competitive bottled water market and rely on continued consumer demand or preference for our products and services. To generate sales and profits, we must

sell products that appeal to retailers and to consumers. Our future success depends on consumer acceptance, particularly at the household level, of our bottled water products, water bottle exchange service and water dispensers. There is no guarantee that there will be significant market acceptance of our water bottle exchange service or that we will be successful in selling our water dispensers on a scale necessary to achieve sustained profitability.



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The market for bottled water related products and services is evolving rapidly and we may not be able to accurately assess the size of the market or trends that may emerge and affect our business. Consumer preferences can change due to a variety of factors, including social trends, negative publicity and economic changes. If we are unable to convince current and potential retail customers and individual consumers of the advantages of our products and services, our ability to sell our bottled water products and water dispensers will be limited. Consumer acceptance also will affect, and be affected by, our existing retail partners and potential new retail partners decision to sell our products and services and their perception of the likelihood of consumers purchasing our products and services. Even if retail customers purchase our products or services, there is no guarantee that they will be successful in selling our products or services to consumers on a scale necessary for us to achieve sustained profitability. Any significant changes in consumer preferences for purified bottled water could result in reduced demand for our water bottle exchange service and our water dispensers and erosion of our competitive and financial position.

**In our bottled water business, we depend on independent bottlers, distributors and suppliers for our business to operate.**

We are and will continue to be for the foreseeable future, substantially dependent on independent bottlers, distributors and suppliers to bottle and deliver our bottled water products and provide our water bottle exchange service to our retail customers. We do not have our own manufacturing facilities to produce bottled water products. We are and will continue to be for the foreseeable future, entirely dependent on third parties to supply the bottle pre-forms, bottles, water and other materials necessary to operate our bottled water business. We rely on third-party supply companies to manufacture our three- and five-gallon water bottles and deliver them to our bottlers. In turn, we rely on bottlers to properly purify the water, include our mineral enhancements and bottle the finished product without contamination and pursuant to our quality standards and preparation procedures. Finally, we rely upon our distributors to deliver bottled water to our retail partners in a timely manner, accurately enter information regarding the delivery of the bottles into our management information system, manage our recycling center displays and return used bottles to the bottlers to be sanitized or crushed and recycled.

We can make no assurance that we will be able to maintain these third-party relationships or establish additional relationships as necessary to support growth and profitability of our business on economically viable terms. As independent companies, these bottlers, distributors and suppliers make their own business decisions. Suppliers may choose not to do business with us for a variety of reasons, including competition, brand identity, product standards and concerns regarding our economic viability. They may have the right to determine whether, and to what extent, they produce and distribute our products, our competitors products and their own products. Some of the business for these bottlers, distributors and suppliers comes from producing or selling our competitors products. These bottlers, distributors and suppliers may devote more resources to other products or take other actions detrimental to our brands. In addition, their financial condition could also be adversely affected by conditions beyond our control and our business could suffer. In addition, we will face risks associated with any bottlers or distributors failure to adhere to quality control and service guidelines we establish or failure to ensure an adequate and timely supply of product and services at retail locations. Any of these factors could negatively affect our business and financial performance. If we are unable to obtain and maintain a source of supply for bottles, water and other materials, our business will be materially and adversely affected.

**In our bottled water business, if our distributors do not perform to our retailers expectations, if we encounter difficulties in managing our distributor operations or if we or our distributors are not able to manage growth effectively, our retail relationships may be adversely impacted and business may suffer.**

We rely on our distributors to deliver our three- and five-gallon bottled water and provide our water bottle exchange service to retailers. Accordingly, our success depends on our ability to manage our retail relationships through the performance of our distributor partners. The majority of our current distributors are independent and we exercise only

limited influence over the resources they devote to delivery and exchange of our three- and five-gallon water bottles. Our success depends on our ability to establish and maintain distributor relationships and on the distributors' ability to operate viable businesses. We can provide no assurance that we will be able to maintain such relationships or establish additional relationships as necessary to support growth and profitability of our

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business on economically viable terms. Our retailers impose demanding service requirements on us and we could suffer a loss of consumer or retailer goodwill if our distributors do not adhere to our quality control and service guidelines or fail to ensure an adequate and timely supply of bottled water at retail locations. The poor performance of a single distributor to a national retailer could jeopardize our entire relationship with that retailer and cause our bottled water sales and exchange service to suffer. In addition, the number of retail locations offering our water bottle exchange service and our corresponding sales have grown significantly over the past several years along with our national distributor network. Accordingly, our distributors must be able to adequately service an increasing number of retail accounts. If we or our distributors fail to manage our growth effectively, our bottled water sales and exchange service may suffer.

**We operate in a highly competitive industry, face competition from companies with far greater resources than we have and could encounter significant competition from these companies in our niche market of water bottle exchange services and related products.**

We participate in the highly competitive bottled water segment of the nonalcoholic beverage industry. While the industry is dominated by large and well-known international companies, numerous smaller firms are also seeking to establish market niches. In our business model, we not only offer three- and five-gallon bottled water but also provide consumers the ability to exchange their used containers as part of our exchange service. While we are aware of a few direct competitors that operate water bottle exchange networks at retail, we believe they operate on a much smaller scale than we do and we believe they do not have equivalent MIS tools or bottling and distribution capabilities to effectively support major retailers nationwide. Competitive factors with respect to our business include pricing, taste, advertising, sales promotion programs, product innovation, increased efficiency in production and distribution techniques, the introduction of new packaging and brand and trademark development and protection.

Our primary competitors in our bottled water business include Nestlé, The Coca-Cola Company, PepsiCo, Dr Pepper Snapple Group and DS Waters of America. While none of these companies currently offers a nationwide water bottle exchange service at retail, Nestlé and DS Waters of America offer this service on a regional basis. Many of these competitors are leading consumer products companies, have substantially greater financial and other resources than we do, have established a strong brand presence with consumers and have established relationships with retailers, manufacturers, bottlers and distributors necessary to start an exchange business at retail locations nationwide should they decide to do so. In addition to competition between companies within the bottled water industry, the industry itself faces significant competition from other non-alcoholic beverages, including carbonated and non-carbonated soft drinks and waters, juices, sport and energy drinks, coffees, teas and spring and tap water.

We also compete directly and indirectly in the water dispenser marketplace. While we have had recent success in our sales of water dispensers to retailers, there are many large consumer products companies with substantially greater financial and other resources than we do, a larger brand presence with consumers and established relationships with retailers that could decide to enter the marketplace. Should any of these consumer products companies so decide to enter the water dispenser marketplace, sales of our water dispensers could be materially and adversely impacted, which, in turn, could materially and adversely affect our sales of bottled water. Finally, our water bottle exchange service faces competition from other methods of purified water consumption such as countertop filtration systems, faucet mounted filtration systems, in-line whole-house filtration systems, water filtration dispensing products such as pitchers and jugs, standard and advanced feature water coolers and refrigerator-dispensed filtered and unfiltered water.

**If we are unable to build and maintain our brand image and corporate reputation, our business may suffer.**

We are a relatively new company, having been formed in late 2004 and commenced operations in June 2005. Our success depends on our ability to build and maintain the brand image for our existing bottled water products and services and effectively build the brand image for any new products. We cannot assure you, however, that any

additional expenditures on advertising and marketing will have the desired impact on our products brand image

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and on consumer preferences. Actual or perceived product quality issues or allegations of product contamination, even if false or unfounded, could tarnish the image of our brand and may cause consumers to choose other products. Allegations of product defects or product contamination, even if untrue, may require us from time to time to recall a product from all of the markets in which the affected product was distributed. Product recalls would negatively affect our profitability and brand image. Also, adverse publicity surrounding water usage and any campaigns by activists attempting to connect our system to environmental issues, water shortages or workplace or human rights violations in certain developing countries in which we or our business partners operate, could negatively affect our overall reputation and our products' acceptance by consumers.

### **Interruption or disruption of our supply chain, distribution channels or national network could adversely affect our business, financial condition and results of operations.**

Our ability and that of our business partners, including suppliers, bottlers, distributors and retailers, to manufacture, sell and deliver products and services is critical to our success. Interruption or disruption of our supply chain, distribution channels or service network due to unforeseen events, including war, terrorism and other international conflicts, public health issues, natural disasters such as earthquakes, fires, hurricanes or other adverse weather and climate conditions, strikes and other labor disputes, whether occurring in the United States or abroad, could impair our ability to manufacture, sell or deliver our products and services.

### **If our bottled water became contaminated, our business could be seriously harmed.**

We have adopted various quality, environmental, health and safety standards. However, our products may still not meet these standards or could otherwise become contaminated. A failure to meet these standards or contamination could occur in our operations or those of our bottlers, distributors or suppliers. Such a failure or contamination could result in expensive production interruptions, recalls and liability claims. Moreover, negative publicity could be generated even from false, unfounded or nominal liability claims or limited recalls. Any of these failures or occurrences could negatively affect our business and financial performance.

### **In our water dispenser business, because all of our dispensers are manufactured by two manufacturers in China, a significant disruption in the operations of these manufacturers or political unrest in China could materially adversely affect us.**

We have only two manufacturers of water dispensers. Any disruption in production or inability of our manufacturers to produce quantities of water dispensers adequate to meet our needs could significantly impair our ability to operate our water dispenser business on a day-to-day basis. Our manufacturers are located in China, which exposes us to the possibility of product supply disruption and increased costs in the event of changes in the policies of the Chinese government, political unrest or unstable economic conditions in China or developments in the U.S. that are adverse to trade, including enactment of protectionist legislation. In addition, our dispensers are shipped directly from the manufacturer to our retail partners. Although we routinely inspect and monitor our manufacturing partners' activities and products, we rely heavily upon their quality controls when producing and delivering the dispensers to our retail partners. Any of these matters could materially adversely affect our water dispenser business and, as a result, our profitability.

### **If we lose key personnel or are unable to recruit qualified personnel, our ability to implement our business strategies could be delayed or hindered. In addition, we may not be able to attract and retain the highly skilled employees we need to support our planned growth.**

We are highly dependent upon the services of our senior management because of their experience, industry relationships and knowledge of the business. We are particularly dependent on the services of Billy D. Prim, our

Chairman, President and Chief Executive Officer. We do not have a formal succession plan in place for Mr. Prim. While our employment agreements with members of our senior management include customary confidentiality, non-competition and non-solicitation covenants, there can be no assurance that such provisions will be enforceable or adequately protect us. The loss of one or more of our key employees could seriously harm our business and we

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may not be able to attract and retain individuals with the same or similar level of experience or expertise. We face competition for qualified employees from numerous sources and there can be no assurance that we will be able to attract and retain qualified personnel on acceptable terms. Our ability to recruit and retain such personnel will depend upon a number of factors, such as our results of operations, prospects and the level of competition then prevailing in the market for qualified personnel. Failure to recruit and retain such personnel could materially adversely affect our business, financial condition and results of operations.

**While many members of our senior management have experience as executives of a products and exchange services business, there can be no assurances that this experience and past success will result in our business becoming profitable.**

Many members of our senior management have had experience as senior managers of a company engaged in the supply, distribution and exchange of propane gas cylinders. While the business model for that company and the model for our business are similar, the propane gas industry and the bottled water industry are very different. For example, there are no assurances that consumer demand will exist for our bottled water products, water bottle exchange service or water dispensers sufficient to enable us to be profitable. While we believe our business model will be successful, any similarity between our business model and that of our senior management's predecessor employer should not be viewed as an indication that we will be profitable.

**The consolidation of retail customers may adversely impact our operating margins and profitability.**

Our customers, such as mass merchants, supermarkets, warehouse clubs, food distributors and drug and pharmacy stores, have consolidated in recent years and consolidation may continue. As a result of these consolidations, our large retail customers may seek lower pricing or increased promotions from us. If we fail to respond to these trends in our industry, our volume growth could slow or we may need to lower prices or increase trade promotions and consumer marketing for our products and services, both of which would adversely affect our financial results. These retailers may use floor or shelf space currently used for our products and services for their own private label products and services. In addition, retailers are increasingly carrying fewer brands in any one category and our results of operations will suffer if we are not selected by our significant customers to remain a vendor. In the event of consolidation involving our current retailers, we may lose key business if the surviving entities do not continue to purchase products or services from us.

**Adverse weather conditions could negatively impact our business.**

Unseasonable or unusual weather may negatively impact demand for our products. The sales of our bottled water products and water dispensers are influenced to some extent by weather conditions in the markets in which we operate. Unusually cool or rainy weather may reduce temporarily the demand for our products and contribute to lower sales, which would have an adverse effect on our results of operations for such periods.

**We depend on key management information systems.**

We depend on our management information systems (MIS) to process orders, manage inventory and accounts receivable, maintain distributor and customer information, maintain cost-efficient operations and assist distributors in delivering products and services on a timely basis. Any disruption in the operation of our MIS tools, the loss of employees knowledgeable about such systems, the termination of our relationships with third-party MIS partners or our failure to continue to effectively modify such systems as business expands could require us to expend significant additional resources or to invest additional capital to continue to manage our business effectively, and could even affect our compliance with public reporting requirements. Additionally, our MIS tools are vulnerable to interruptions or other failures resulting from, among other things, natural disasters, terrorist attacks, software, equipment or

telecommunications failures, processing errors, computer viruses, hackers, other security issues or supplier defaults. Security, backup and disaster recovery measures may not be adequate or implemented properly to avoid such disruptions or failures. Any disruption or failure of these systems or services could cause substantial errors, processing inefficiencies, security breaches, inability to use the systems or process transactions, loss of



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customers or other business disruptions, all of which could negatively affect our business and financial performance.

**Water scarcity and poor quality could negatively impact our long-term profitability.**

Water is a limited resource facing unprecedented challenges from overexploitation, population growth, increasing pollution, poor management and climate change. As demand for water continues to increase and as water becomes scarcer and the quality of available water deteriorates, our business may incur increasing costs or face capacity constraints which could adversely affect our profitability or net sales in the long run.

**We may pursue acquisitions and investments in new product lines, businesses or technologies that involve numerous risks, which could disrupt our business or adversely affect our financial condition and results of operations.**

In addition to the Culligan Refill Acquisition, we may in the future acquire or invest in new product lines, businesses or technologies to expand our current bottled water products and services. Acquisitions present a number of potential risks and challenges that could disrupt our business operations, increase our operating costs or capital expenditure requirements and reduce the value of the acquired product line, business or technology. For example, if we identify an acquisition candidate, we may not be able to successfully negotiate or finance the acquisition on favorable terms or at all. The process of negotiating acquisitions and integrating acquired products, services, technologies, personnel or businesses might result in significant transaction costs, operating difficulties or unexpected expenditures and might require significant management attention that would otherwise be available for ongoing development of our business. If we are successful in consummating an acquisition, we may not be able to integrate the acquired product line, business or technology into our existing business and products and we may not achieve the anticipated benefits of any acquisition. Furthermore, potential acquisitions and investments may divert our management's attention, require considerable cash outlays and require substantial additional expenses that could harm our existing operations and adversely affect our results of operations and financial condition. To complete future acquisitions, we may issue equity securities, incur debt, assume contingent liabilities or incur amortization expenses and write-downs of acquired assets, any of which could dilute the interests of our stockholders or adversely affect our profitability or cash flow.

**Changes in taxation requirements could affect our financial results.**

We are subject to income tax in the numerous jurisdictions in which we generate net sales. In addition, our water dispensers are subject to certain import duties and sales taxes in certain jurisdictions in which we operate. Increases in income tax rates could reduce our after-tax income from affected jurisdictions, while increases in indirect taxes could affect our products' and services' affordability and therefore reduce demand for our products and services.

**Our ability to use net operating loss carryforwards in the United States may be limited.**

As of December 31, 2009, we had net operating losses of approximately \$55.0 million for federal income tax purposes, which expire at various dates through 2029. To the extent available and not otherwise utilized, we intend to use any net operating loss carryforwards to reduce the U.S. corporate income tax liability associated with our operations. Section 382 of the Internal Revenue Code of 1986, as amended, generally imposes an annual limitation on the amount of net operating loss carryforwards that may be used to offset taxable income when a corporation has undergone certain changes in stock ownership. Our ability to utilize net operating loss carryforwards may be limited, under this section or otherwise, by the issuance of common stock in this offering. To the extent our use of net operating loss carryforwards is significantly limited, our income could be subject to U.S. corporate income tax earlier than it would if we were able to use net operating loss carryforwards, which could result in lower profits.



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**Our financial results may be negatively impacted by the recent global financial events.**

The recent global financial events have resulted in the consolidation, failure or near failure of a number of institutions in the banking, insurance and investment banking industries and have substantially reduced the ability of companies to obtain financing. These events also led to a substantial reduction in stock market valuations during 2008 and the first few months of 2009, although stock market valuations rebounded significantly in the latter half of 2009. These events could have a number of different effects on our business, including:

a reduction in consumer spending, which could result in a reduction in our sales volume;

a shift in the purchasing habits of our target consumers;

a negative impact on the ability of our retail customers to timely pay their obligations to us, thus reducing our cash flow;

a negative impact on the ability of our vendors to timely supply materials; and

an increased likelihood that our lender may be unable to honor its commitments under our new senior revolving credit facility.

Other events or conditions may arise directly or indirectly from the global financial events that could negatively impact our business.

**Risks Relating to Regulatory and Legal Issues**

**Our products and services are heavily regulated at both the state and federal level. If we are unable to continue to comply with applicable regulations and standards in any jurisdiction, we might not be able to sell our products in that jurisdiction or they could be recalled, and our business could be seriously harmed.**

The production, distribution and sale in the United States of our products are subject to the Federal Food, Drug and Cosmetic Act; the Occupational Safety and Health Act; the Americans with Disabilities Act (the ADA); the Lanham Act; various environmental statutes; and various other federal, state and local statutes and regulations applicable to the production, transportation, sale, safety, advertising, promotion, labeling and ingredients of such products. For example, measures have been enacted in various localities and states that require a deposit to be charged for certain non-refillable beverage containers. The precise requirements imposed by these measures vary. Other deposit, recycling or product stewardship proposals have been introduced in various jurisdictions. We anticipate that similar legislation or regulations may be proposed in the future at the local, state and federal levels.

The U.S. Food and Drug Administration (the FDA) regulates bottled water as a food under the federal Food, Drug and Cosmetic Act. Our bottled water must meet FDA requirements of safety for human consumption, identity, quality and labeling. Further, any claims we make in marketing our products, such as claims related to the beneficial health effects of drinking water, are subject to FDA's advertising and promotion requirements and restrictions. In addition, the FDA has established current good manufacturing practices, regulations which govern the facilities, methods, practices and controls used for the processing, bottling and distribution of bottled drinking water. We and our third-party bottling and distribution partners are subject to these requirements. In addition, all public drinking water must meet Environmental Protection Agency standards established under the Safe Drinking Water Act for mineral and chemical concentration and drinking water quality and treatment. We also must comply with overlapping and, in some cases, inconsistent state regulations in a variety of areas. These state-level regulations, among other things, set standards for approved water sources and the information that must be provided and the basis on which any therapeutic claims for

water may be made. We must expend resources to continuously monitor state legislative and regulatory activities in order to identify and ensure compliance with laws and regulations that apply to our bottled water business in each state in which we operate.

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Additionally, the manufacture, sale and use of resins used to make water bottles are subject to regulation by the FDA. These regulations relate to substances used in food packaging materials, not with specific finished food packaging products. Our beverage containers are deemed to be in compliance with FDA regulations if the components used in the containers: (i) are approved by the FDA as indirect food additives for their intended uses and comply with the applicable FDA indirect food additive regulations; or (ii) are generally recognized as safe for their intended uses and are of suitable purity for those intended uses.

The Consumer Product Safety Commission, FDA or other applicable regulatory bodies may require the recall, repair or replacement of our products if those products are found not to be in compliance with applicable standards or regulations. The failure of our third party manufacturers or bottlers to produce merchandise that adheres to our quality control standards could damage our reputation and lead to customer litigation against us. If our manufacturers or distributors are unable or unwilling to recall products failing to meet our quality standards, we may be required to remove merchandise or recall those products at a substantial cost to us. We may be unable to recover costs related to product recalls.

We believe that our self-imposed standards meet or exceed those set by federal, state and local regulations. Nevertheless, our failure or the failure of our suppliers, bottlers or distributors to comply with federal or state laws, rules or regulations could subject us to potential governmental enforcement action for violation of such regulations, which could result in warning letters, fines, product recalls or seizures, civil or criminal penalties and/or temporary or permanent injunctions, each of which could materially harm our business, financial condition and results of operations. In addition, our failure, or even our perceived failure, to comply with applicable laws, rules or regulations could cause retailers and others to determine not to do business with us or reduce the amount of business they do with us.

**In January 2010, the U.S. Food and Drug Administration issued an updated report regarding bisphenol A, or BPA, a chemical used in food and beverage packaging and other products that can possibly have adverse health effects on consumers, particularly on young children. The three- and five- gallon polycarbonate plastic bottles that we use to bottle our water contain BPA. Any significant change in perception by our customers or government regulation of polycarbonate plastic in food and beverage products could adversely affect our operations and financial results.**

In January 2010, the U.S. Food and Drug Administration issued an updated report regarding its current perspective on the safety of BPA in food packaging materials, asserting the need for additional studies on BPA and issuing its interim public health recommendations. BPA is an industrial chemical used to make hard, clear plastic known as polycarbonate, which is currently used in our three- and five-gallon water bottles. BPA is regulated by the FDA as an indirect food additive. While the FDA notes that studies employing standardized toxicity tests support the safety of human exposure to BPA at the low levels currently experienced by consumers, the FDA's report additionally acknowledges the results of certain recent studies which suggest some concern regarding potential developmental and behavioral effects of BPA exposure, particularly on infants and young children.

The FDA is continuing to evaluate these low dose toxicity studies, as well as other recent peer-reviewed studies related to BPA, and has solicited public comment and inter-agency scientific input in connection with updating its formal assessment of the safety of BPA for use in food contact applications. In the interim, the FDA's public health recommendations include taking reasonable steps to reduce exposure of infants to BPA in the food supply and working with industry to support and evaluate manufacturing practices and alternative substances that could reduce exposure in other populations. Further, the FDA indicates that it plans to review its existing authority to shift to a more robust regulatory framework for oversight of BPA.

Consistent with the findings of numerous international regulatory bodies, we believe that the scientific evidence suggests that polycarbonate plastic made with BPA is a safe packing material for all consumers. Nonetheless, media reports and the FDA report have prompted concern in our marketplace among existing and

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potential customers. It is possible that developments surrounding this issue could lead to adverse effects on our business. Such developments could include:

Increased publicity that changes public or regulatory perception regarding packaging that uses BPA, so that significant numbers of consumers stop purchasing products that are packaged in polycarbonate plastic.

The emergence of new scientific evidence that suggests that the low doses of BPA to which consumers may be exposed when using polycarbonate plastic is unsafe.

Interpretations of existing evidence by the FDA or other regulatory agencies that lead to prohibitions on the use of polycarbonate plastic as packaging for consumable products.

The listing of BPA by California's Office of Environmental Health Hazard Assessment on the state's Proposition 65 list, which would require us to label our products with information about BPA content and could obligate us to evaluate the levels of exposure to BPA associated with the use of our products.

The inability of sellers of consumable products to find an adequate supply of alternative packaging if polycarbonate plastic containing BPA becomes an undesirable or prohibited packaging material.

In addition, federal, state and local governmental authorities have and continue to introduce proposals intended to restrict or ban the use of BPA in food packaging materials. At this juncture, we cannot predict with certainty whether or when any such proposals may be enacted or what impact they may have on our business.

If any of these events were to occur, our sales and operating results could be materially adversely affected.

**Our inability to protect our intellectual property, or our involvement in damaging and disruptive intellectual property litigation, could adversely affect our business, results of operations and financial condition or result in the loss of use of products or services.**

We have filed certain patent applications and trademark registration applications and intend to seek additional patents, to develop additional trademarks and seek federal registrations for such trademarks and to develop other intellectual property. We consider our Primo name and related trademarks and our other intellectual property to be valuable to our business and the establishment of a national branded bottled water exchange program. We rely on a combination of patent, copyright, trademark and trade secret laws and other arrangements to protect our proprietary rights and could incur substantial expense to enforce our rights under such laws. A number of other companies, however, use trademarks similar or identical to the Primo® mark to identify their products, and we may not be able to stop these other companies from using such trademarks. The requirement to change any of our trademarks, service marks or trade names could entail significant expense and result in the loss of any goodwill associated with that trademark, service mark or trade name. While we have filed, and intend to file in the future, patent applications, where appropriate, and to pursue such applications with the patent authorities, we cannot be sure that patents will be issued on such applications or that any issued patents will not be successfully contested by third parties. Also, since issuance of a patent does not prevent other companies from using alternative, non-infringing technology or designs, we cannot be sure that any issued patents, or patents that may be issued to others and licensed to us, will provide significant or any commercial protection, especially as new competitors enter the market.

In addition to patent protection, we also rely on trade secrets and other non-patented proprietary information relating to our product development, business processes and operating activities. We seek to protect this information through appropriate efforts to maintain its secrecy, including confidentiality agreements. We cannot be sure that these efforts will be successful or that confidentiality agreements will not be breached. We also cannot be sure that we would have

adequate remedies for any breach of such agreements or other misappropriation of our trade secrets, or that our trade secrets and proprietary know-how will not otherwise become known or be independently discovered by others. Where necessary, we may initiate litigation to enforce our patent or other



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intellectual property rights. Any such litigation may require us to spend a substantial amount of time and money and could distract management from its day-to-day operations. Moreover, there is no assurance that we will be successful in any such litigation or that such litigation will not result in successful counterclaims or challenges to the validity of our intellectual property rights. Our failure to successfully develop intellectual property, or to successfully obtain, maintain and enforce patents, trademarks and other intellectual property, could affect our ability to distinguish our products and services from those of our competitors and could cause our sales to suffer.

Our business and our ability to provide products and services may be impaired by claims that we infringe the intellectual property rights of others. Vigorous protection and pursuit of intellectual property rights characterize the consumer products industry. These traits can result in significant, protracted and materially expensive litigation. In addition, parties making infringement and other claims may be able to obtain injunctive or other equitable relief that could effectively block our ability to provide our products, services or utilize our business methods and could cause us to pay substantial damages. In the event of a successful claim of infringement, we may need to obtain one or more licenses from third parties, which may not be available at a reasonable cost, or at all. It is possible that our intellectual property rights may not be valid or that we may infringe existing or future proprietary rights of others. Any successful infringement claims could subject us to significant liabilities, require us to seek licenses on unfavorable terms, prevent us from manufacturing or selling products, providing services and utilizing business methods and require us to redesign or, in the case of trademark claims, re-brand our Company, products or services, any of which could have a material adverse effect on our business, results of operations or financial condition.

### **Legislative and executive action in state and local governments enacting local taxes on bottled water to include multi-gallon bottled water could adversely affect our business and financial results.**

Regulations have been enacted or proposed in some localities where we operate to enact local taxes on bottled water. These actions are purportedly designed to discourage the use of bottled water due in large part to concerns about the environmental effects of producing and discarding large numbers of plastic bottles. While we have not to date directly experienced any adverse effects from these concerns, and we believe that our products are sufficiently different from those affected by recent enactments, there is no assurance that our products will not be subject to future legislative and executive action by state and local governments, which could have a material adverse effect on our business, results of operations or financial condition.

### **Litigation or legal proceedings could expose us to significant liabilities, including product liability claims, and damage our reputation.**

We are from time to time party to various litigation claims and legal proceedings. We evaluate these claims and proceedings to assess the likelihood of unfavorable outcomes and estimate, if possible, the amount of potential losses. If our products are not properly manufactured or designed, personal injuries or property damage could result, which could subject us to claims for damages. The costs associated with defending product liability and other claims, and the payment of damages, could be substantial. Our reputation could also be adversely affected by such claims, whether or not successful.

We may establish a reserve as appropriate based upon assessments and estimates in accordance with our accounting policies. We base our assessments, estimates and disclosures on the information available to us at the time and rely on legal and management judgment. Actual outcomes or losses may differ materially from assessments and estimates. Actual settlements, judgments or resolutions of these claims or proceedings may negatively affect our business and financial performance. A successful claim against us that is not covered by insurance or is in excess of our available insurance limits could require us to make significant payments of damages and could materially adversely affect our results of operations and financial condition.



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**Risks Relating to This Offering and Our Common Stock**

**There has not been a public market for our shares and an active market may not develop or be maintained, which could limit your ability to sell shares of our common stock.**

Prior to this offering, there has been no public market for our common stock. Although we have applied to list the common stock on the Nasdaq Global Market, an active public market for our shares may not develop or be sustained after this offering. The initial public offering price for our common stock will be determined through our negotiations with the underwriters and may not be indicative of the market price of our common stock after this offering. If you purchase shares of our common stock, you may not be able to resell those shares at or above the initial public offering price, or at all. We cannot predict the extent to which investor interest in our Company will lead to the development of an active trading market on the Nasdaq Global Market or otherwise or how liquid that market might become. An active public market for our common stock may not develop or be sustained after this offering. If an active public market does not develop or is not sustained, it may be difficult for you to sell your shares of common stock at a price that is attractive to you, or at all.

**The value of our common stock could be volatile.**

The overall market and the price of our common stock may fluctuate greatly. The trading price of our common stock may be significantly affected by various factors, including:

quarterly fluctuations in our operating results;

changes in investors' and analysts' perception of the business risks and conditions of our business;

our ability to meet the earnings estimates and other performance expectations of financial analysts or investors;

unfavorable commentary or downgrades of our stock by equity research analysts;

termination of lock-up agreements or other restrictions on the ability of our existing stockholders to sell their shares after this offering;

fluctuations in the stock prices of our peer companies or in stock markets in general; and

general economic or political conditions.

**If securities or industry analysts do not publish research or publish inaccurate or unfavorable research about our business, our stock price and trading volume could decline.**

The trading market for our common stock will depend in part on the research and reports that securities or industry analysts publish about us or our business. We do not currently have and may never obtain research coverage by securities and industry analysts. If no securities or industry analysts commence coverage of our Company, the trading price for our stock would be negatively impacted. If we obtain securities or industry analyst coverage and if one or more of the analysts who covers us downgrades our stock or publishes inaccurate or unfavorable research about our business, our stock price would likely decline. If one or more of these analysts ceases coverage of us or fails to publish reports on us regularly, demand for our stock could decrease, which could cause our stock price and trading volume to decline.



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**Future sales of our common stock, or the perception in the public markets that these sales may occur, may depress our stock price.**

Sales of a large number of our shares of common stock in the public market after this offering, or the perception that such sales could occur, could adversely affect the market price of our common stock and could impair our ability to sell equity securities in the future at a time and at a price that we deem appropriate. After the closing of this offering, we will have \_\_\_\_\_ shares of common stock ( \_\_\_\_\_ shares if the underwriters exercise their option to purchase additional shares in full) outstanding. The shares of common stock offered in this offering will be freely tradable without restriction under the Securities Act of 1933, as amended (the Securities Act), except for any shares of our common stock that may be held or acquired by our directors, executive officers and other affiliates, as that term is defined in the Securities Act, which will be restricted securities under the Securities Act. Restricted securities may not be sold in the public market unless the sale is registered under the Securities Act or an exemption from registration is available.

We, our executive officers, directors and certain stockholders (including Culligan) have agreed, subject to certain exceptions, with the underwriters not to offer, sell, contract to sell or otherwise dispose of any common stock or securities convertible into or exchangeable for shares of common stock during the period from the date of this prospectus continuing through the date 180 days after the date of this prospectus. These shares will represent \_\_\_\_\_ % of our outstanding common stock after this offering (or \_\_\_\_\_ % if the underwriters exercise their option to purchase additional shares in full). As restrictions on resale end, the market price of our common stock could decline if the holders of the restricted shares sell them or are perceived by the market as intending to sell them. Thomas Weisel Partners LLC (or Wells Fargo Securities, LLC and Thomas Weisel Partners LLC in the case of Culligan) may, in its (or their) sole discretion, release any of these shares from these restrictions at any time without notice. See Shares Eligible for Future Sale and Underwriting.

All of our shares of common stock outstanding as of the date of this prospectus may be sold in the public market by existing stockholders 180 days after the date of this prospectus, subject to applicable volume and other limitations imposed under federal securities laws. We have agreed with Culligan to use our commercially reasonable efforts to register for resale within 181 days of the closing of the Culligan Refill Acquisition all shares of our common stock we are issuing to Culligan in payment of a portion of the purchase price for the Culligan Refill Business. See Shares Eligible for Future Sale for a more detailed description of the restrictions on selling shares of our common stock after this offering.

In the future, we may also issue our securities in connection with investments or acquisitions or in order to raise capital for other purposes. The amount of shares of our common stock issued in connection with these matters could constitute a material portion of our then-outstanding shares of our common stock.

**Purchasers in this offering will experience immediate and substantial dilution in net tangible book value.**

The initial public offering price per share is expected to be substantially higher than the net tangible book value per share of our outstanding common stock. Purchasers of shares in this offering will experience immediate dilution in the net tangible book value of their shares. Based on an assumed initial public offering price of \$ \_\_\_\_\_ per share, the mid-point of the range set forth on the cover of this prospectus, dilution per share in this offering will be \$ \_\_\_\_\_ per share (or \_\_\_\_\_ % of the price). Further, if we issue additional equity securities to raise additional capital, your ownership interest in our Company may be diluted and the value of your investment may be reduced. See Dilution.

**Concentration of ownership among our existing executive officers, directors and their affiliates may prevent new investors from influencing significant corporate decisions.**

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Upon completion of this offering, our executive officers, directors and their affiliates will beneficially own, in the aggregate, approximately % of our outstanding shares of common stock. In particular, Billy D. Prim, our Chairman, Chief Executive Officer and President, will beneficially own approximately % of our outstanding

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shares of common stock upon completion of this offering. In addition, Culligan will own approximately % of our outstanding shares of common stock upon completion of this offering and the Culligan Refill Acquisition. As a result, these stockholders will be able to exercise a significant level of control over all matters requiring stockholder approval, including the election of directors, amendment of our certificate of incorporation and approval of significant corporate transactions. This control could have the effect of delaying or preventing a change of control of our Company or changes in management and will make the approval of certain transactions difficult or impossible without the support of these stockholders.

### **Anti-takeover provisions in our charter documents and Delaware law might discourage or delay acquisition attempts for us that you might consider favorable.**

Our amended and restated certificate of incorporation and amended and restated bylaws will contain provisions that may make the acquisition of our Company more difficult without the approval of our Board of Directors. These provisions:

- authorize the issuance of undesignated preferred stock, the terms of which may be established and the shares of which may be issued without stockholder approval, and which may include super voting, special approval, dividend, or other rights or preferences superior to the rights of the holders of common stock;

- eliminate the ability of our stockholders to act by written consent;

- establish advance notice requirements for nominations for elections to our Board of Directors or for proposing matters that can be acted upon by stockholders at stockholder meetings;

- provide that the Board of Directors is expressly authorized to make, alter or repeal our amended and restated bylaws; and

- establish a classified board of directors the members of which will serve staggered three-year terms.

As a Delaware corporation, we are also subject to provisions of Delaware law, including Section 203 of the Delaware General Corporation Law, which prevents some stockholders holding more than 15% of our outstanding common stock from engaging in certain business combinations without approval of the holders of substantially all of our outstanding common stock.

These anti-takeover provisions and other provisions under Delaware law could discourage, delay or prevent a transaction involving a change in control of our Company, including actions that our stockholders may deem advantageous, or negatively affect the trading price of our common stock. These provisions could also discourage proxy contests and make it more difficult for you and other stockholders to elect directors of your choosing and to cause us to take other corporate actions you desire.

**Since we have no current plans to pay cash dividends on our common stock for the foreseeable future, you may not receive any return on investment unless you sell your common stock for a price greater than that which you paid for it.**

We do not anticipate paying any dividends to our stockholders for the foreseeable future. The agreements governing our indebtedness also restrict our ability to pay dividends. Any determination to pay dividends in the future will be made at the discretion of our Board of Directors and will depend on our results of operations, financial conditions, contractual restrictions, restrictions imposed by applicable law and other factors our Board of Directors deems relevant. Accordingly, you may have to sell some or all of your common stock in order to generate cash flow from

your investment. You may not receive a gain on your investment when you sell our common stock and may lose some or all of the amount of your investment. Investors seeking cash dividends in the foreseeable future should not purchase our common stock.



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### **We will incur increased costs as a result of being a publicly-traded company.**

As a company with publicly-traded securities, we will incur significant legal, accounting and other expenses not presently incurred. In addition, the Sarbanes-Oxley Act of 2002, as well as rules promulgated by the U.S. Securities and Exchange Commission, or SEC, and The Nasdaq Stock Market, require us to adopt corporate governance practices applicable to U.S. public companies. These rules and regulations may increase our legal and financial compliance costs.

### **If we do not timely satisfy the requirements of Section 404 of the Sarbanes-Oxley Act of 2002, the trading price of our common stock could be adversely affected.**

As a company with publicly-traded securities, we will be subject to Section 404 of the Sarbanes-Oxley Act of 2002. This law requires us to document and test the effectiveness of our internal control over financial reporting in accordance with an established internal control framework and to report on our conclusion as to the effectiveness of our internal control over financial reporting. The cost to comply with this law will affect our net income adversely. Any delays or difficulty in satisfying the requirements of Section 404 could, among other things, cause investors to lose confidence in, or otherwise be unable to rely on, the accuracy of our reported financial information, which could adversely affect the trading price of our common stock. In addition, failure to comply with Section 404 could result in The Nasdaq Stock Market imposing sanctions on us, which could include the delisting of our common stock.

## **Risks Relating to the Culligan Refill Acquisition**

### **We may not be able to consummate the Culligan Refill Acquisition.**

We have entered into an asset purchase agreement with Culligan to acquire the Culligan Refill Business. The closing of this acquisition is subject to the consummation of this offering and the satisfaction of customary closing conditions. In addition, the asset purchase agreement is subject to termination by either party under certain circumstances, such as if the closing has not occurred on or before December 31, 2010. We cannot assure you that we will consummate the Culligan Refill Acquisition on favorable terms, or at all. Because the closing of this offering and the closing of the Culligan Refill Acquisition are interdependent, we will not consummate either unless we consummate both.

### **The loss of one or more of the largest retail customers of the Culligan Refill Business could materially adversely affect our business after the completion of the Culligan Refill Acquisition.**

For the year ended December 31, 2009, Walmart accounted for 65% of the net sales of the Culligan Refill Business. The contractual commitments of the Culligan Refill Business with its retail customers are not long-term in nature. We could suffer significant setbacks in our results of operations if the Culligan Refill Business lost Walmart or any of its other large retail customers, or if these retail customers' plans or markets were to change significantly. Should any of these events occur they would likely have a material adverse effect on our business, financial condition, results of operations and cash flows.

### **We may experience difficulties in integrating the Culligan Refill Business with our current business and may not be able to fully realize all of the anticipated synergies from the proposed Culligan Refill Acquisition.**

We may not be able to fully realize all of the anticipated synergies from the proposed Culligan Refill Acquisition. The ability to realize the anticipated benefits of the acquisition will depend, to a large extent, on our ability to successfully integrate the Culligan Refill Business with our current business. The integration of two independent businesses is a complex, costly and time-consuming process. In addition, we will be integrating a business that is different from the business we currently operate in several respects, including with respect to the types of products and services offered,

the manner in which such products and services are provided to retail

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customers and pricing dynamics. As a result, we will be required to devote significant management attention and resources to integrating our business practices and operations with those of the Culligan Refill Business. This integration process may disrupt the Culligan Refill Business or our current business and, if implemented ineffectively, would preclude realization of the full benefits we expect to realize. The failure to meet the challenges involved in integrating successfully the operations of the Culligan Refill Business with ours or otherwise to realize the anticipated benefits of the acquisition transaction could cause an interruption of, or a loss of momentum in, our business activities or those of the Culligan Refill Business, and could seriously harm our results of operations. In addition, the overall integration may result in unanticipated problems, expenses, liabilities, competitive responses, loss of customer and supplier relationships, and diversion of management's attention. The challenges we face in integrating the operations of the Culligan Refill Business with ours include, among others:

- maintaining employee morale and retaining and hiring key personnel;
- consolidating corporate and administrative infrastructures and eliminating duplicative operations;
- minimizing the diversion of management's attention from ongoing business concerns;
- coordinating geographically dispersed organizations;
- addressing unanticipated issues in integrating information technology, communications and other systems; and
- managing tax costs or inefficiencies associated with integrating operations.

In addition, even if the Culligan Refill Business were to be integrated successfully with our current business, we may not realize the full benefits of the acquisition transaction, including synergies, cost savings or sales or growth opportunities. These benefits may not be achieved within the anticipated timeframe, or at all. Finally, we cannot assure you that the information underlying our expected results of operations or the pro forma financial information presented elsewhere in this prospectus (including the related assumptions and adjustments) is sufficient or accurate. You should not consider the pro forma financial data to be indicative of actual results had the Culligan Refill Acquisition been consummated on the dates indicated, or indicative of our future operating results or financial position following the consummation of the Culligan Refill Acquisition.

**The loss of key employees involved in the Culligan Refill Business could have a material adverse effect on our business, financial condition, results of operations and cash flows.**

If key employees involved in the Culligan Refill Business were to leave and it became necessary to hire new employees to manage this business, we could experience difficulties in finding qualified personnel. Jeanne Cantu and Carl Werner, the Vice President and General Manager and the Controller, respectively, of the Culligan Refill Business have each entered into a two-year employment agreement with us that is effective upon the closing of the Culligan Refill Acquisition and contains customary confidentiality, noncompetition and nonsolicitation provisions. We cannot guarantee that either of these employees or any other key employees of the Culligan Refill Business will not terminate his or her employment with us following the completion of the Culligan Refill Acquisition, which could have a materially adverse effect on our business, financial condition, results of operations and cash flows.

**Changes in the strategies of the retail customers of the Culligan Refill Business could materially adversely affect our business.**

Most major retailers continually evaluate and often modify their in-store retail strategies, including product placement, store set-up and design and demographic targets. The Culligan Refill Business could suffer significant setbacks in net

sales and operating income if one or more of its retail customers modified its current retail strategy resulting in a termination or reduction of its business relationship with the Culligan Refill Business, a reduction in

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store penetration or an unfavorable product placement within such retailer's stores, any or all of which could materially adversely affect our business, financial condition, results of operations and cash flows.

**We may be required to make substantial capital expenditures in connection with maintaining equipment related to the Culligan Refill Business and growing the Culligan Refill Business.**

Maintenance of refill equipment located at the stores of current and future retail customers of the Culligan Refill Business may be substantially costlier than we currently anticipate. In addition, we may incur substantial capital expenditures in growing the Culligan Refill Business. If we are required to make greater than anticipated capital expenditures in connection with either or both of these activities, our business, financial condition and cash flows could be materially and adversely effected.

**We may experience difficulties in obtaining required United States and Canadian permits in order to allow us to operate the Culligan Refill Business following the closing of the Culligan Refill Acquisition. Additionally, if we are unable to comply with current or subsequently enacted regulations and standards in any jurisdiction, we may not be able to operate the Culligan Refill Business in that jurisdiction and our business could be seriously harmed.**

The conduct of the Culligan Refill Business and the production, distribution, advertising, promotion, labeling, safety, sale and use of its products are subject to various laws and regulations administered by federal, state, provincial and local governmental agencies in the United States and Canada. The precise requirements imposed by these measures vary from jurisdiction to jurisdiction. In connection with the Culligan Refill Acquisition, we will be transferring or applying for new permits to conduct the Culligan Refill Business as required in the jurisdictions in which it currently operates. The permit application or transfer process may take significantly longer or be more costly than we currently anticipate. We will be required to close the Culligan Refill Acquisition if we obtain permits to operate refill vending machines representing at least 80% of the revenues of all of the refill vending machines that are part of the Culligan Refill Business for the year ended December 31, 2009. As a result, we may not be able to operate all of the refill vending machines that are part of the Culligan Refill Business after the closing until we obtain the relevant permits.

Additionally, the various current laws and regulations administered by federal, state, provincial and local governmental agencies in the United States and Canada which are applicable to the Culligan Refill Business may change or new legislation or regulations may be proposed and compliance with these new measures may be difficult or costly. Our failure or the failure of our suppliers or service providers to comply with federal, state, provincial or local laws, rules or regulations could subject us to potential governmental enforcement action for violation of such regulations, which could result in warning letters, fines, product recalls or seizures, civil or criminal penalties and/or temporary or permanent injunctions, each of which could materially harm our business, financial condition and results of operations. In addition, our failure, or even our perceived failure, to comply with applicable laws, rules or regulations could cause retailers and others to determine not to do business with us or reduce the amount of business they do with us.

**We are required to rebrand the Culligan Refill Business under our Primo or another new brand and the rebranding may be more costly than anticipated or may fail to achieve its intended result.**

We are required to rebrand the Culligan Refill Business within 12 months after the closing of the Culligan Refill Acquisition. Our rebranding efforts may not achieve their intended results, which include increasing our retail business. Our rebranding efforts could turn out to be substantially more expensive than we currently anticipate, which would materially adversely affect our results of operations. Additionally, the rebranding of the Culligan Refill Business could result in the loss of current Culligan Refill Business retail customers and consumers, which would prevent us from realizing the full benefits of the Culligan Refill Acquisition and would negatively affect our business,

financial condition, results of operations and cash flows.

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**If the service providers of the Culligan Refill Business do not perform to retailer expectations, its retail relationships may be adversely impacted and business may suffer.**

The Culligan Refill Business primarily relies on third-party service providers to install, maintain and repair the reverse osmosis water systems at its retail customers' locations. These third-party service providers are also responsible for providing retail customer training with respect to the reverse osmosis water systems, submitting water for testing and conducting monthly meter readings to determine water usage for billing purposes. Accordingly, the success of the Culligan Refill Business depends on its ability to manage its retail relationships through the performance of these service providers. The significant majority of these service providers are either third-party franchisees or independent dealers and the Culligan Refill Business exercises only limited influence over the resources they devote to their responsibilities with respect to its retail customers. The success of the Culligan Refill Business currently depends on its ability to establish and maintain relationships with these third-party service providers and on the service providers' ability to operate viable businesses. There can be no assurance that we will be able to maintain such relationships after the closing of the Culligan Refill Acquisition. Retail customers of the Culligan Refill Business impose demanding service requirements and we could suffer a loss of retailer or consumer goodwill if these service providers do not perform to the retail customers' expectations. The poor performance of a single service provider to a major retailer could jeopardize our entire relationship with that retailer potentially preventing future installations at additional retail locations and causing sales to suffer.

**We will be dependent on the network of service providers of the Culligan Refill Business and we may be unable to maintain these relationships or achieve the cost savings we anticipate creating with a post-acquisition consolidation of this network.**

The Culligan Refill Business is dependent on its network of primarily independent service providers to provide a number of services with respect to its reverse osmosis water systems. After the closing of the Culligan Refill Acquisition, we will have access to this network of service providers pursuant to a dealer services agreement that we will enter into with Culligan that will extend through December 2011. There can be no assurance that the service providers will continue to provide these services after the termination of the dealer services agreement.

Additionally, we anticipate consolidating the current network of approximately 500 service providers in order to achieve cost savings. There can be no assurance that we can successfully consolidate the current network of service providers or that we will be able to achieve any cost savings if we are able to consolidate the network. If we are unable to rely on the service provider network of the Culligan Refill Business to continue providing the services currently provided or we are unable to achieve cost savings through a consolidation of this network, we may not realize the full benefits of the Culligan Refill Acquisition and our business, financial condition, results of operations and cash flows could suffer.

**The Culligan Refill Business has substantial Canadian operations and is exposed to fluctuations in currency exchange rates and political uncertainties.**

The Culligan Refill Business has substantial Canadian operations, and as a result, we will become subject to risks associated with doing business internationally upon the consummation of the Culligan Refill Acquisition. Risks inherent to operating internationally include:

changes in a country's economic or political conditions;

changes in foreign currency exchange rates; and

unexpected changes in regulatory requirements.

To the extent the United States dollar strengthens against the Canadian dollar, our foreign revenues and profits will be reduced when translated into United States dollars.



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**If the products of the Culligan Refill Business became contaminated, our business could be seriously harmed.**

Culligan has adopted various quality, environmental, health and safety standards with respect to the Culligan Refill Business. However, its products may still not meet these standards or could otherwise become contaminated. A failure to meet these standards or such a contamination could occur in its operations or those of its suppliers, dealers or retail customers. Such a failure or contamination could result in expensive recalls and liability claims. Moreover, negative publicity could be generated even from false, unfounded or nominal liability claims or limited recalls. Any of these failures or occurrences could negatively affect our business, financial condition, results of operations and cash flows.

**Risks Relating to Our Indebtedness**

**Restrictive covenants in our debt instruments restrict or prohibit our ability to engage in or enter into a variety of transactions, which could adversely restrict our financial and operating flexibility and subject us to other risks.**

Our new senior revolving credit facility will likely contain various restrictive covenants that will limit our and our subsidiaries' ability to take certain actions. In particular, these agreements will likely limit our and our subsidiaries' ability to, among other things:

- incur additional indebtedness;
- make restricted payments (including paying dividends on, redeeming or repurchasing capital stock);
- make certain investments or acquisitions;
- create liens on our assets to secure debt;
- engage in certain types of transactions with affiliates;
- engage in sale-and-leaseback or similar transactions; and
- transfer or sell assets, merge, liquidate or wind-up.

Any or all of these covenants could have a material adverse effect on our business by limiting our ability to take advantage of financing, merger and acquisition or other corporate opportunities and to fund our operations. Any future debt could also contain financial and other covenants more restrictive than those to be imposed under our new senior revolving credit facility.

A breach of a covenant or other provision in any debt instrument governing our current or future indebtedness could result in a default under that instrument and, due to customary cross-default and cross-acceleration provisions, could result in a default under any other debt instrument that we may have. If the lenders under our current or future indebtedness were to so accelerate the payment of the indebtedness, we cannot assure you that our assets or cash flow would be sufficient to repay in full our outstanding indebtedness, in which event we likely would seek reorganization or protection under bankruptcy or other, similar laws.

**Global capital and credit market issues could negatively affect our liquidity, increase our costs of borrowing and disrupt the operations of our suppliers, bottlers, distributors and customers.**

The global capital and credit markets have experienced increased volatility and disruption over the past two years, making it more difficult for companies to access those markets. There can be no assurance that continued or

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increased volatility and disruption in the capital and credit markets will not impair our liquidity or increase our costs of borrowing. Our business could also be negatively impacted if our suppliers, bottlers, distributors or retail customers experience disruptions resulting from tighter capital and credit markets or a slowdown in the general economy.

**We may be unable to generate sufficient cash flow to service our debt obligations. In addition, our inability to generate sufficient cash flows to support operations and other activities without debt financing could prevent future growth and success.**

Our ability to generate cash, make scheduled payments or refinance our obligations depends on our successful financial and operating performance. Our financial and operating performance, cash flow and capital resources depend upon prevailing economic conditions and various financial, business and other factors, many of which are beyond our control. If our cash flow and capital resources are insufficient to fund our debt service obligations, we may be forced to reduce or delay capital expenditures, sell material assets or operations, obtain additional capital or restructure our debt, any or all of which could have a material adverse effect on our business, financial condition and results of operations. In addition, we cannot assure you that we would be able to take any of these actions on terms acceptable to us, or at all, that these actions would enable us to continue to satisfy our capital requirements or that these actions would be permitted under the terms of our various debt agreements.

If we are unable to generate sufficient cash flows to support capital expansion, business acquisition plans and general operating activities, and are unable obtain the necessary funding for these items through debt financing, our business could be negatively affected and we may be unable to expand into existing and new markets. Our ability to generate cash flows is dependent in part upon obtaining necessary financing at favorable interest rates. Interest rate fluctuations and other capital market conditions may prevent us from doing so.

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**CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS**

This prospectus contains forward-looking statements that are based on current expectations, estimates, forecasts and projections regarding management's beliefs and assumptions about the industry in which we operate. Such statements include, in particular, statements about our plans, strategies and prospects under the headings Prospectus Summary, Risk Factors, Use of Proceeds, Management's Discussion and Analysis of Financial Condition and Results of Operations, Business and Culligan Refill Acquisition. When used in this prospectus, the words anticipate, believe, could, estimate, expect, intend, may, plan, potential, predict, project, should, will, would, and similar words identify forward-looking statements.

Forward-looking statements are not a guarantee of future performance or results, and will not necessarily be accurate indications of the times at, or by, which such performance or results will be achieved. Forward-looking statements are based on information available at the time the statements are made and involve known and unknown risks, uncertainties and other factors that may cause actual outcomes and results to differ materially from what is expressed or forecasted in such forward-looking statements. These forward-looking statements include, but are not limited to, statements relating to:

- our expectations regarding the use of proceeds from this offering;
- growth in the market for purified water and increased consumer preference toward purified water relative to tap water or other beverages;
- consumer recognition of our brand and our water bottle exchange service and water dispenser products;
- the use of our retail relationships, single-vendor solution, national network of independent bottlers and distributors and MIS tools to facilitate our introduction of new purified water-related products in the future;
- our opportunities to increase store penetration with our existing retail relationships and develop new retail relationships;
- the continuing development, innovation and sale of our water dispensers;
- our intention to offer new products and services, including self-service refill vending machines and automated, self-bagging purified ice dispensers;
- our expectations regarding our business strategy, anticipated profitability, liquidity position, future financial performance, mix of product sales, inflation and expense levels;
- our ability to use any net operating loss carryforwards;
- our dividend policy;
- our ability to attract and retain key personnel;
- our expectations regarding additional costs connected to the growth of our business and costs related to becoming a public company; and

our policies regarding our executive compensation program and the level of executive compensation.

We have included important factors in the cautionary statements included in this prospectus, particularly in the section entitled Risk Factors, that we believe could cause actual results or events to differ materially from the forward-looking statements we make. Except as required by applicable law, we assume no obligation to update any forward-looking statements publicly or to update the reasons why actual results could differ materially from those anticipated in any forward looking statements, even if new information becomes available in the future.

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**USE OF PROCEEDS**

We estimate that the net proceeds to us from this offering will be approximately \$ million (approximately \$ million if the underwriters over-allotment option is exercised in full). This estimate is based upon an assumed initial public offering price of \$ per share, less estimated underwriting discounts and commissions and offering expenses payable by us. A \$1.00 increase (decrease) in the assumed initial public offering price of \$ per share would increase (decrease) the net proceeds to us from this offering by approximately \$ million, assuming the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same and after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us.

We intend to use the net proceeds from this offering together with approximately \$ in borrowings under our new senior revolving credit facility for the following purposes:

\$60.0 million to pay the cash portion of the purchase price for the Culligan Refill Acquisition;

\$ to redeem 50% of the outstanding shares of our Series B preferred stock and to pay accrued and unpaid dividends on all outstanding shares of our Series B preferred stock;

\$ to repay our 14% subordinated convertible notes due March 31, 2011 ( 2011 Notes );

\$ to repay borrowings under our current senior revolving credit facility; and

\$ to pay fees and expenses in connection with all of the foregoing items.

Of the \$ in net proceeds we intend to use to redeem 50% of the outstanding shares of Series B preferred stock and to pay accrued and unpaid dividends on all outstanding shares of Series B preferred stock, \$ will be paid to directors, officers and persons known to us to be the beneficial owners of more than 5% of our common stock.

As of , 2010, we had \$15.0 million principal amount of 2011 Notes outstanding that bear interest at 14% per annum and mature on March 31, 2011. We issued the 2011 Notes on December 30, 2009 and used the proceeds of the 2011 Notes to retire \$8.0 million principal amount of subordinated debt and to repay approximately \$7.0 million of borrowings under our current senior revolving credit facility. Of the \$ in net proceeds we intend to use to repay our 2011 Notes, \$ will be used to repay 2011 Notes held by directors, officers and persons known to us to be the beneficial owners of more than 5% of our common stock. The terms of the 2011 Notes provide the noteholders the right to sell their 2011 Notes to us at an amount equal to the unpaid principal balance plus all unpaid interest that has accrued through the date of redemption upon the occurrence of an initial public offering of our common stock resulting in net proceeds to us of at least \$30.0 million.

As of , 2010, we had \$ of outstanding borrowings under our current senior revolving credit facility that is scheduled to expire January 30, 2011. Interest on outstanding borrowings under this revolving credit facility is payable quarterly at our option at: (i) the greater of (A) the LIBOR Market Index Rate or (B) 2.0% plus in either case the applicable margin or (ii) the greater of (X) the Federal Funds Rate plus 0.50% or (Y) the bank's prime rate plus in either case the applicable margin. At , the interest rate on outstanding borrowings was %. Borrowings under our current senior revolving credit facility during the past 12 months were incurred to grow our business (including investments in equipment and new store locations), to fund offering costs and for working capital purposes.

If the underwriters exercise their over-allotment option, the cash portion of the purchase price for the Culligan Refill Acquisition will be increased and the number of shares of common stock we will issue to Culligan will be decreased by an amount equal to the net cash proceeds we receive as a result of such exercise.

Pending use of the net proceeds of this offering, we intend to invest such net proceeds in short-term, interest-bearing investment grade securities.

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**DIVIDEND POLICY**

We have never paid or declared cash dividends on our common stock. We currently intend to retain all available funds and any future earnings to finance the development and expansion of our business. We do not expect to pay any dividends on our common stock in the foreseeable future. Any future determination to pay dividends will be at the discretion of our Board of Directors and will depend upon various factors, including our results of operations, financial condition, capital requirements, investment opportunities and other factors that our Board of Directors deems relevant.



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**CAPITALIZATION**

The following table sets forth our capitalization as of March 31, 2010:

on an actual basis (without giving effect to the -for- reverse stock split of our common stock);

on a pro forma basis to give effect to the following items as if each had occurred as of March 31, 2010:

the -for- reverse stock split of our common stock;

the conversion of all of our outstanding Series A and Series C convertible preferred stock into an aggregate of        shares of our common stock;

the conversion of 50% of our outstanding shares of Series B preferred stock into common stock at a ratio of : , which is calculated by dividing the liquidation preference of the Series B preferred stock by 90% of an assumed initial public offering price of \$        per share, which is the midpoint of the range set forth on the cover page of this prospectus; and

the redemption of the remaining 50% of our outstanding shares of Series B preferred stock and the payment of accrued and unpaid dividends on all outstanding shares of Series B preferred stock; and

our sale of shares in this offering at an assumed initial public offering price of \$        per share, which is the midpoint of the range set forth on the cover page of this prospectus, after deducting estimated underwriting discounts and commissions and offering expenses payable by us;

our entry into and making borrowings under the new senior revolving credit facility; and

the application of a portion of the net proceeds from such sale of common stock and borrowings under our new senior revolving credit facility to pay the cash portion of the purchase price for the Culligan Refill Acquisition, to repay our 2011 Notes, to repay borrowings under our current senior revolving credit facility and to pay fees and expenses in connection with the foregoing; and

on a pro forma as adjusted basis to reflect the items described above, as well as our consummation of the Culligan Refill Acquisition and our issuance of shares of common stock with a value of \$45.0 million (or        shares assuming an initial public offering price of \$        per share, the midpoint of the range set forth on the cover page of this prospectus) to fund a portion of the purchase price for the Culligan Refill Acquisition, as if each had occurred as of March 31, 2010.

You should read this table in conjunction with Use of Proceeds, Selected Historical Consolidated Financial and Other Data, Management's Discussion and Analysis of Financial Condition and Results of Operations, Culligan Refill Acquisition Management's Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements and the notes thereto included elsewhere in this prospectus.

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	<b>As of March 31, 2010</b>		
	<b>Actual</b>	<b>Pro Forma</b>	<b>Pro Forma</b>
	<b>(in thousands, except par value data)</b>		
	<b>(Unaudited)</b>		
Cash	\$ 522	\$ 62,272	\$ 522
Current portion of long-term debt	\$ 18,872	\$ 2	\$ 2
Long-term debt, net of current portion	2	24,668	24,668
Stockholders' equity (deficit):			
Common stock (\$0.001 par value, 200,000 shares authorized and 15,203 shares issued and outstanding, actual; 70,000 shares authorized and shares issued and outstanding, pro forma, and shares issued and outstanding pro forma as adjusted)	15	15	15
Preferred stock, \$0.001 par value, 100,000 shares authorized actual and 35,000 shares authorized pro forma and pro forma as adjusted			
Series A convertible preferred stock, 18,755 shares issued and outstanding, actual, and no shares issued or outstanding, pro forma and pro forma as adjusted	19		
Series B preferred stock, 23,280 shares issued and outstanding, actual, and no shares issued or outstanding, pro forma and pro forma as adjusted	23		
Series C convertible preferred stock, 12,520 shares issued and outstanding, actual, and no shares issued or outstanding, pro forma and pro forma as adjusted	13		
Additional paid-in capital	86,928	150,183	195,183
Common stock warrants	3,797	3,797	3,797
Accumulated deficit	(94,122)	(97,955)	(99,705)
Total stockholders' equity (deficit)	(3,327)	56,040	99,290
Total capitalization	\$ 15,547	\$ 80,710	\$ 123,960

The shares outstanding data in the preceding table as of March 31, 2010:

excludes shares of common stock issuable upon the exercise of warrants to purchase common stock issued in connection with our Series B preferred stock that will, subject to certain exceptions, expire May 31, 2016;

excludes shares of common stock issuable upon the exercise of warrants to purchase common stock issued in connection with our Series C convertible preferred stock that will expire days after the closing of this offering;

excludes shares of common stock issuable upon the exercise of warrants to purchase common stock issued to a third party that will expire days after the closing of this offering;

excludes \_\_\_\_\_ shares of common stock issuable upon the exercise of warrants to purchase common stock issued in connection with our 2011 Notes that will expire December 30, 2019;

excludes an aggregate of \_\_\_\_\_ shares of common stock issuable under our 2004 Stock Plan;

excludes an aggregate of \_\_\_\_\_ shares of common stock available for issuance under our 2010 Omnibus Long-Term Incentive Plan, which we have adopted in connection with this offering;

excludes an aggregate of \_\_\_\_\_ shares of common stock available for issuance under our 2010 Employee Stock Purchase Plan, which we have adopted in connection with this offering; and

assumes no exercise of the underwriters' over-allotment option to purchase up to \_\_\_\_\_ additional shares of our common stock.

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**DILUTION**

If you invest in our common stock, your ownership interest will be diluted to the extent of the difference between the initial public offering price per share of our common stock and the pro forma as adjusted net tangible book value per share of our common stock immediately after the closing of this offering. Pro forma net tangible book value per share represents total tangible assets less total liabilities, divided by the number of shares of common stock outstanding, after giving effect to the following items as if each had occurred as of March 31, 2010:

the -for- reverse stock split of our common stock;

the conversion of all of our outstanding Series A and Series C convertible preferred stock into an aggregate of shares of our common stock;

the conversion of 50% of our outstanding shares of Series B preferred stock into common stock at a ratio of : , which is calculated by dividing the liquidation preference of the Series B preferred stock by 90% of an assumed initial public offering price of \$ per share, which is the midpoint of the range set forth on the cover page of this prospectus; and

the redemption of the remaining 50% of our outstanding shares of Series B preferred stock and the payment of accrued and unpaid dividends on all outstanding shares of Series B Preferred Stock.

The pro forma net tangible book value of our common stock as of March 31, 2010, was approximately \$ million, or approximately \$ per share.

After giving effect to:

our sale of shares at an assumed initial public offering price of \$ per share, which is the midpoint of the range set forth on the cover page of this prospectus, after deducting estimated underwriting discounts and commissions and offering expenses payable by us;

our consummation of the Culligan Refill Acquisition and our issuance of shares of common stock with a value of \$45.0 million (or shares assuming an initial public offering price of \$ per share, the midpoint of the range set forth on the cover page of this prospectus) to fund a portion of the purchase price for the Culligan Refill Acquisition;

our entry into and making borrowings of \$ under the new senior revolving credit facility; and

the application of a portion of the net proceeds from such sale of common stock and borrowings under our new senior revolving credit facility to pay the cash portion of the purchase price for the Culligan Refill Acquisition, to repay our 2011 Notes, to repay borrowings under our current senior revolving credit facility and to pay fees and expenses in connection with the foregoing;

the pro forma as adjusted net tangible book value of our common stock, as of March 31, 2010, would have been approximately \$ million, or \$ per share. This amount represents an immediate increase in net tangible book value to our existing stockholders of \$ per share and an immediate dilution to new investors of \$ per share. The following table illustrates this per share dilution:

Initial public offering price per share		\$
Pro forma net tangible book value per share as of March 31, 2010	\$	
Increase in pro forma net tangible book value per share attributable to new investors in this offering	\$	
Pro forma as adjusted net tangible book value per share after giving effect to this offering		\$
Dilution per share to new investors		\$

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If the underwriters exercise their over-allotment option in full, there will be an increase in pro forma as adjusted net tangible book value per share to existing stockholders of \$      per share and an immediate dilution in pro forma as adjusted net tangible book value per share to new investors of \$      per share based upon the assumed initial public offering price of \$      per share. A \$1.00 increase or decrease in the assumed initial public offering price per share would increase or decrease, respectively, the pro forma as adjusted net tangible book value per share of common stock after this offering by \$      per share and increase or decrease, respectively, the pro forma as adjusted dilution per share of common stock to new investors in this offering by \$      per share, in each case calculated as described above and assuming that the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same.

If the underwriters exercise their over-allotment option, the cash portion of the purchase price for the Culligan Refill Acquisition will be increased and the number of shares of common stock we will issue to Culligan will be decreased by an amount equal to the net cash proceeds we receive as a result of such exercise.

The following table summarizes, as of March 31, 2010, on a pro forma as adjusted basis, the number of shares of common stock purchased from us, the total consideration paid to us and the average price per share paid by our existing stockholders and by new investors, based upon an assumed initial public offering price of \$      per share and before deducting estimated underwriting discounts and commissions and offering expenses payable by us.

	<b>Shares Purchased</b>		<b>Total Consideration</b>		<b>Average Price</b>
	<b>Number</b>	<b>Percent</b>	<b>Amount</b>	<b>Percent</b>	<b>Per Share</b>
Existing stockholders		%	\$	%	\$
New investors		%	\$	%	\$
<b>Total</b>		<b>100%</b>	<b>\$</b>	<b>100%</b>	<b>\$</b>

The discussion and tables above are based on      shares of common stock outstanding as of March 31, 2010, on a pro forma as adjusted basis, and in addition to the adjustments described above:

excludes      shares of common stock issuable upon the exercise of warrants to purchase common stock issued in connection with our Series B preferred stock that will, subject to certain exceptions, expire May 31, 2016;

exclude      shares of common stock issuable upon the exercise of warrants to purchase common stock issued in connection with our Series C convertible preferred stock that will expire      days after the closing of this offering;

exclude      shares of common stock issuable upon the exercise of warrants to purchase common stock issued to a third party that will expire      days after the closing of this offering;

exclude      shares of common stock issuable upon the exercise of warrants to purchase common stock issued in connection with 2011 Notes that expire December 30, 2019;

exclude an aggregate of      shares of common stock issuable under our 2004 Stock Plan;

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exclude an aggregate of \_\_\_\_\_ shares of common stock issuable under our 2010 Omnibus Long-Term Incentive Plan, which we have adopted in connection with this offering;

exclude an aggregate of \_\_\_\_\_ shares of common stock issuable under our 2010 Employee Stock Purchase Plan, which we have adopted in connection with this offering; and

assume no exercise of the underwriters' over-allotment option to purchase up to \_\_\_\_\_ additional shares of our common stock.

If the underwriters' over-allotment option is exercised in full, the number of shares held by the existing stockholders after this offering would be reduced to \_\_\_\_\_ % of the total number of shares of our common stock outstanding after this offering, and the number of shares held by new investors would increase to \_\_\_\_\_ % of the total number of shares of our common stock outstanding after this offering.

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The following unaudited pro forma consolidated financial data is derived from our historical consolidated financial statements and the historical combined financial statements of the Culligan Refill Business, both of which are included elsewhere in this prospectus. The unaudited pro forma consolidated financial statements should be read in conjunction with our consolidated financial statements and related notes included elsewhere in this prospectus, the combined financial statements of the Culligan Refill Business and related notes included elsewhere in this prospectus, Management's Discussion and Analysis of Financial Condition and Results of Operations, Culligan Refill Acquisition Management's Discussion and Analysis of Financial Condition and Results of Operations and the other financial information appearing elsewhere in this prospectus.

In the Culligan Refill Acquisition, we would acquire certain of Culligan's assets related to its business of providing reverse osmosis water filtration systems that generate filtered water for refill vending machines and store-use water services in the United States and Canada. This business also sells empty reusable water bottles for use at refill vending machines. Pursuant to the asset purchase agreement, we will purchase these assets for a total purchase price of \$105.0 million, consisting of a cash payment of \$60.0 million and the issuance of shares of our common stock with a value of \$45.0 million (or shares, assuming an initial public offering price of \$ per share, the midpoint of the range set forth on the cover page of this prospectus), all subject to a working capital adjustment. The cash portion of the purchase price will be increased and the number of shares of common stock we will issue will be decreased by an amount equal to the net cash proceeds we receive from any exercise of the underwriters' over-allotment option. Assuming no exercise of the underwriters' over-allotment option, the shares of our common stock we will issue to Culligan will represent approximately % of our issued and outstanding shares of common stock after giving effect to this offering.

The unaudited pro forma statements of operations data for the year ended December 31, 2009 and the three months ended March 31, 2010, and unaudited pro forma balance sheet data as of March 31, 2010 have been prepared to give pro forma effect to (1) a -for- reverse stock split of our common stock, (2) the conversion of our Series A and Series C convertible preferred stock into common stock, (3) the conversion of 50% of our Series B preferred stock into common stock at a ratio of : , which is calculated by dividing the liquidation preference of the Series B preferred stock by 90% of an assumed initial public offering price of \$ per share, which is the midpoint of the range set forth on the cover page of this prospectus, (4) the redemption of the remaining 50% of our Series B preferred stock and the payment of all accrued and unpaid dividends on our Series B preferred stock, (5) the sale of shares in this offering at an assumed initial public offering price of \$ per share, the midpoint of the range set forth on the cover page of this prospectus, (6) our entry into and making of borrowings under our new senior revolving credit facility and (7) the application of the net proceeds from this offering and borrowings under our new senior revolving credit facility for the purposes described herein. The unaudited pro forma statements of operations data for the year ended December 31, 2009 and the three months ended March 31, 2010 and the unaudited pro forma balance sheet data as of March 31, 2010 have been further adjusted to give pro forma effect to the consummation of the Culligan Refill Acquisition and our issuance of shares of common stock with a value of \$45.0 million (or shares assuming an initial public offering price of \$ per share, the midpoint of the range set forth on the cover page of this prospectus). These pro forma adjustments have been made, in the case of the statements of operations data, as if these events had occurred on January 1, 2009 and, in the case of the balance sheet data, as if these events had occurred on March 31, 2010. We will account for the Culligan Refill Acquisition as a business combination in accordance with the acquisition method. The unaudited pro forma consolidated financial statements presented below are based upon preliminary estimates of purchase price allocations and do not reflect any anticipated operating efficiencies or cost savings from the integration of the Culligan Refill Business into our business.



The unaudited pro forma consolidated financial statements reflect pro forma adjustments that are described in the accompanying notes and are based on available information and certain assumptions we believe are reasonable, but are subject to change. We have made, in our opinion, all adjustments that are necessary to present fairly the pro forma financial data. The unaudited pro forma consolidated financial data is presented for informational purposes only and should not be considered indicative of actual results of operations that would have been achieved had the Culligan Refill Acquisition and this offering been consummated on the dates indicated, and do not purport to be indicative of balance sheet data or results of operations as of any future date or for any future period.

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MARCH 31, 2010**

	<b>Primo Water Corporation</b>	<b>Culligan Refill Business</b>	<b>Pro Forma Adjustments for the Conversion of Preferred Stock and This Offering (in thousands)</b>	<b>Pro Forma Adjustments Relating to the Acquisition</b>	<b>Pro Forma</b>
<b>ASSETS</b>					
Current assets:					
Cash	\$ 522	\$	\$ 61,750 <sup>(a)</sup>	\$ (61,750) <sup>(k)(l)</sup>	\$ 522
Accounts receivable, net	3,033	2,689			5,722
Inventories	1,986	302			2,288
Prepaid expenses and other current assets	1,256	1,180		(319) <sup>(k)</sup>	2,117
Total current assets	6,797	4,171	61,750	(62,069)	10,649
Bottles, net	2,115				2,115
Property and equipment, net	13,842	8,259		4,319 <sup>(k)</sup>	26,420
Goodwill		21,900		51,738 <sup>(k)</sup>	73,638
Intangible assets, net	1,014	1,708		15,292 <sup>(k)</sup>	18,014
Intercompany receivable, net		22,552		(22,552) <sup>(k)</sup>	
Other assets	954	690	129 <sup>(b)</sup>	(690) <sup>(k)</sup>	1,083
Total assets	\$ 24,722	\$ 59,280	\$ 61,879	\$ (13,962)	\$ 131,919
<b>LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT)</b>					
Current liabilities:					
Accounts payable	\$ 3,700	\$ 1,161	\$ (525) <sup>(c)</sup>	\$	\$ 4,336
Accrued expenses and other current liabilities	4,405	907	(2,759) <sup>(d)</sup>		2,553
Current portion of long-term debt, capital leases and notes payable	18,872		(18,870) <sup>(e)</sup>		2
Total current liabilities	26,977	2,068	(22,154)		6,891
	2		24,666 <sup>(f)</sup>		24,668

Long-term debt, capital leases and notes payable, net of current portion					
Other long-term liabilities	1,070	1,792		(1,792) <sup>(k)</sup>	1,070
Total liabilities	28,049	3,860	2,512	(1,792)	32,629
Commitments and contingencies					
Stockholders' equity (deficit)					
Common stock	15				15
Series A preferred stock	19		(19) <sup>(g)</sup>		
Series B preferred stock	23		(23) <sup>(h)</sup>		
Series C preferred stock	13		(13) <sup>(g)</sup>		
Additional paid-in capital	86,928		63,255 <sup>(i)</sup>	45,000 <sup>(k)</sup>	195,183
Common stock warrants	3,797				3,797
Parent company equity		55,420		(55,420) <sup>(k)</sup>	
Accumulated deficit	(94,122)		(3,833) <sup>(j)</sup>	(1,750) <sup>(l)</sup>	(99,705)
Total stockholders' equity (deficit)	(3,327)	55,420	59,367	(12,170)	99,290
Total liabilities and stockholders' (deficit) equity	\$ 24,722	\$ 59,280	\$ 61,879	\$ (13,962)	\$ 131,919

(a) Reflects estimated net proceeds of \$72.4 million from this offering (gross proceeds of \$80.0 million less \$7.6 million in underwriting discounts and commissions and offering expenses payable by us) and \$24.7 million in borrowings under our new senior revolving credit facility, less the repayment of \$15.0 million of 2011 Notes, the repayment of \$4.4 million of borrowings under our current senior revolving

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credit facility, the redemption of \$11.6 million of the Series B preferred stock, the payment of \$2.7 million in accrued dividends on the Series B preferred stock, the payment of \$0.5 million of accrued interest on the 2011 Notes and our current senior revolving credit facility, and payment of \$1.1 million in debt issuance costs associated with the new senior revolving credit facility.

- (b) Reflects the debt issuance costs on our new senior revolving credit facility of \$1.1 million less the offset of offering costs capitalized to date in connection with this offering of \$0.9 million and the write-off of \$0.1 million of debt issuance costs on our current senior revolving credit facility.
- (c) Reflects payment of accrued interest of \$0.5 million on the 2011 Notes.
- (d) Reflects payment of accrued and unpaid dividends on the Series B preferred stock of \$2.7 million and accrued interest of \$0.1 million on the current senior revolving credit facility.
- (e) Reflects repayment of \$15.0 million of the 2011 Notes and \$4.4 million of borrowings under our current senior revolving credit facility, net of the 2011 Notes original issue discount balance of \$0.5 million, which is expensed upon the repayment.
- (f) Represents borrowings under our new senior revolving credit facility.
- (g) Reflects the conversion of the Series A and Series C convertible preferred stock into      shares of common stock.
- (h) Reflects the redemption and conversion of the Series B preferred stock, with the conversion into      shares of common stock at a par value of \$      .
- (i) Reflects the issuance of approximately      shares of common stock at a par value of \$      and additional paid-in capital of \$72.4 million, net of estimated offering costs including underwriting discounts and commissions and offering expenses payable by us. We offset against the net proceeds \$0.9 million of offering costs capitalized to date in connection with this offering. Also reflects: (i) the redemption of 50% of the Series B preferred stock for \$11.6 million; (ii) the estimated unrecognized compensation expense of \$0.3 million associated with the immediate vesting of all unvested stock options upon the initial public offering; and (iii) the estimated beneficial conversion charge of \$2.9 million on the conversion of 50% of the Series B preferred stock at 90% of the initial public offering price. The beneficial conversion charge is estimated using the net carrying value on the Series B of approximately \$0.86 per share as compared to the value of the conversion feature of \$1.11 per share resulting in an approximate \$0.25 per share beneficial conversion charge. The total amount of \$2.9 million will be a charge to additional paid-in capital at the time of the conversion and will reduce the net income (loss) attributable to common stockholders.
- (j) Reflects: (i) estimated unrecognized compensation expense of \$0.3 million associated with the immediate vesting of all unvested stock options upon the initial public offering; (ii) expense of \$0.5 million of original issue discount on the 2011 Notes upon the repayment; (iii) the estimated beneficial conversion charge of \$2.9 million on the conversion of 50% of the Series B preferred stock at 90% of the initial public offering price; and (iv) the write-off of \$0.1 million in debt issuance cost on our current credit facility.
- (k) Reflects the acquisition of the Culligan Refill Business and the allocation of the purchase price of \$105.0 million based upon the preliminary estimates of the fair value of the identifiable assets and liabilities and the elimination of the Culligan Refill Business's intercompany receivable, deferred taxes and equity. We have estimated the purchase price allocation as follows:

<b>Aggregate purchase price:</b>	
Cash consideration	\$ 60.0 million
Common stock to be issued	45.0 million
<b>Purchase price</b>	<b>\$ 105.0 million</b>
Purchase price allocation:	
<b>Net assets acquired</b>	
Net current assets	\$ 3.8 million
Property and equipment	12.6 million
Identifiable intangible assets	17.0 million
Goodwill	73.6 million
Culligan Refill Business liabilities assumed	(2.0) million
<b>Aggregate purchase price</b>	<b>\$ 105.0 million</b>

The initial allocation of the purchase price to specific assets and liabilities is based, in part, upon preliminary appraisals, and is therefore subject to change. Further, since the closing date of the Culligan Refill Acquisition is not fixed, it is likely that the working capital of the Culligan Refill Business on the closing date will vary from the estimated working capital set forth in the asset purchase agreement and goodwill will be adjusted accordingly. The identifiable intangible assets consist primarily of customer lists and will be amortized over 15 years. Upon closing we will obtain an estimate of the fair value of the identifiable assets and liabilities utilizing an unrelated third party.

- (1) Includes \$1.8 million in estimated transaction costs to be expensed in connection with the acquisition of the Culligan Refill Business.

Table of Contents**PRIMO WATER CORPORATION AND SUBSIDIARIES****UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS  
YEAR ENDED DECEMBER 31, 2009**

	<b>Primo Water Corporation</b>	<b>Culligan Refill Business (in thousands, except per share amounts)</b>	<b>Pro Forma Adjustments for the Conversion of Preferred Stock and This Offering</b>	<b>Pro Forma Adjustments Relating to the Acquisition</b>	<b>Pro Forma</b>
Net sales	\$ 46,981	\$ 26,017	\$	\$	\$ 72,998
Operating costs and expenses:					
Cost of sales	38,771	13,643			52,414
Selling, general and administrative expenses	9,922	2,877			12,799
Depreciation and amortization	4,205	2,488		1,198 <sup>(c)</sup>	7,891
Total operating costs and expenses	52,898	19,008		1,198	73,104
Income (loss) from operations	(5,917)	7,009		(1,198)	(106)
Interest expense	(2,258)		493 <sup>(a)</sup>		(1,765)
Other income, net	1				1
Income (loss) from continuing operations before income taxes	(8,174)	7,009	493	(1,198)	(1,870)
Provisions for income taxes		(2,665)		652 <sup>(d)</sup>	(2,013)
Income (loss) from continuing operations	(8,174)	4,344	493	(546)	(3,883)
Loss from discontinued operations, net of income taxes	(3,650)				(3,650)
Net income (loss)	(11,824)	4,344	493	(546)	(7,533)
Preferred dividends	(3,042)		3,042 <sup>(b)</sup>		
Net income (loss) attributable to common shareholders	\$ (14,866)	\$ 4,344	\$ 3,535	\$ (546)	\$ (7,533)
Basic and diluted income (loss) per common share:					
Income (loss) from continuing operations attributable to common	\$	\$	\$	\$	\$

stockholders

Loss from discontinued operations  
attributable to common stockholders

Net income (loss) attributable to  
common stockholders

\$                    \$                    \$                    \$                    \$

Basic and diluted weighted average  
common shares outstanding

Table of Contents**PRIMO WATER CORPORATION AND SUBSIDIARIES****UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS  
THREE MONTHS ENDED MARCH 31, 2010**

	<b>Primo Water Corporation</b>	<b>Culligan Refill Business</b>	<b>Pro Forma Adjustments for the Conversion of Preferred Stock and This Offering</b>	<b>Pro Forma Adjustments Relating to the Acquisition</b>	<b>Pro Forma</b>
	<b>(in thousands, except per share amounts)</b>				
Net sales	\$ 8,829	\$ 6,109	\$	\$	\$ 14,938
Operating costs and expenses:					
Cost of sales	6,922	3,247			10,169
Selling, general and administrative expenses	2,733	648			3,381
Depreciation and amortization	995	681		242 <sup>(c)</sup>	1,918
Total operating costs and expenses	10,650	4,576		242	15,468
Income (loss) from operations	(1,821)	1,533		(242)	(530)
Interest expense	(698)		235 <sup>(a)</sup>		(463)
Other expense, net	(22)				(22)
Income (loss) before income taxes	(2,541)	1,533	235	(242)	(1,015)
Provisions for income taxes		(587)		85 <sup>(d)</sup>	(502)
Net income (loss)	(2,541)	946	235	(157)	(1,517)
Preferred dividends	(582)		582 <sup>(b)</sup>		
Net income (loss) attributable to common shareholders	\$ (3,123)	\$ 946	\$ 817	\$ (157)	\$ (1,517)
Basic and diluted income (loss) per common share:					
Net income (loss) attributable to common stockholders	\$	\$	\$	\$	\$
Basic and diluted weighted average common shares outstanding					



- (a) Reflects the additional interest expense on the estimated borrowings on the new senior revolving credit facility, net of interest expense on the current senior revolving credit facility, for the year ended December 31, 2009 and the three months ended March 31, 2010 of \$1.1 million and \$0.3 million, respectively. The interest rate on the new senior revolving credit facility has been estimated at 5.75%. Also reflects: (i) the interest expense on the amortization of the debt issuance cost on our new senior revolving credit facility for the year ended December 31, 2009 and the three months ended March 31, 2010 of \$0.4 million and \$0.1 million, respectively; (ii) the reduction of interest expense and amortization of debt issuance costs on the 2011 Notes for the three months ended March 31, 2010 of \$0.5 million and \$0.1 million, respectively; and (iii) the reduction of interest expense and amortization of debt issuance costs for the year ended December 31, 2009 related to the January 2009 \$10 million term loan which was repaid in December 2009 of \$1.3 million and \$0.7 million, respectively.
- (b) Reflects the conversion and redemption of the Series B preferred stock and the associated reduction of preferred stock dividends for the year ended December 31, 2009 and the three months ended March 31, 2010 of \$3.0 million and \$0.6 million, respectively.
- (c) Reflects a charge for depreciation and amortization based upon the preliminary estimate of the portion of the purchase price to be allocated to the fair value of property and equipment and identifiable intangibles for the year ended December 31, 2009 and the three months ended March 31, 2010 of \$1.2 million and \$0.2 million, respectively.
- (d) Reflects a reversal of the income tax provision of the combined financial statements of the Culligan Refill Business for the year ended December 31, 2009 and the three months ended March 31, 2010 of \$2.7 million and \$0.6 million, respectively. Our historical effective tax rate has been zero due to our recording of a valuation allowance against our deferred tax assets. We have estimated we will be subject to income tax in Canada on the Canadian operations, at an effective rate of approximately 33%. For the year ended December 31, 2009, we estimated the income tax provision to be \$0.1 million. In addition, the year ended December 31, 2009 and the three months ended March 31, 2010, includes adjustments of \$2.0 million and \$0.5 million, respectively, for the income tax provision related to the expected amortization of goodwill for income tax purposes that will create a deferred tax liability with an indeterminate reversal date.

**Table of Contents****SELECTED HISTORICAL CONSOLIDATED FINANCIAL AND OTHER DATA**

The following tables set forth, for the periods and dates indicated, our selected historical consolidated financial and other data. We prepared the selected historical consolidated financial data using our consolidated financial statements for each of the periods presented. The selected historical consolidated financial data for each year in the three-year period ended December 31, 2009, was derived from our audited historical consolidated financial statements appearing elsewhere in this prospectus, and the selected historical consolidated financial data for each year in the two-year period ended December 31, 2006, was derived from our audited historical consolidated financial statements not appearing in this prospectus. The selected historical consolidated financial data as of and for the three months ended March 31, 2009 and 2010 was derived from our unaudited consolidated financial statements included elsewhere in this prospectus. The unaudited consolidated financial statements have been prepared on the same basis as our audited consolidated financial statements and, in the opinion of management, reflect all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the results for those periods. The results for any interim period are not necessarily indicative of the results that may be expected for a full year. The historical results included here and elsewhere in this prospectus are not necessarily indicative of future performance or results of operations.

The selected historical consolidated financial data presented below represent portions of our financial statements and are not complete. You should read this information in conjunction with Use of Proceeds, Capitalization, Unaudited Pro Forma Consolidated Financial Data, Management's Discussion and Analysis of Financial Condition and Results of Operations, Culligan Refill Acquisition Management's Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements and related notes included elsewhere in this prospectus.

	<b>Year Ended December 31,</b>					<b>Three Months Ended</b>	
	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2009</b>	<b>2010</b>
	<b>(Unaudited)</b>						
	<b>(in thousands, except per share amounts)</b>						
<b>Consolidated statements of operations data:</b>							
Net sales	\$ 158	\$ 6,589	\$ 13,453	\$ 34,647	\$ 46,981	\$ 9,567	\$ 8,829
Operating costs and expenses:							
Cost of sales	220	6,141	11,969	30,776	38,771	7,652	6,922
Selling, general and administrative expenses	5,968	7,491	10,353	13,791	9,922	2,605	2,733
Depreciation and amortization	716	3,681	3,366	3,618	4,205	1,034	995
Total operating costs and expenses	6,904	17,313	25,688	48,185	52,898	11,291	10,650
Loss from operations	(6,746)	(10,724)	(12,235)	(13,538)	(5,917)	(1,724)	(1,821)
Interest (expense) and other income, net	175	116	65	(70)	(2,257)	(477)	(720)

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Loss from continuing operations before income taxes	(6,571)	(10,608)	(12,170)	(13,608)	(8,174)	(2,201)	(2,541)
Provision for income taxes							
Loss from continuing operations	(6,571)	(10,608)	(12,170)	(13,608)	(8,174)	(2,201)	(2,541)
Loss from discontinued operations, net of income taxes			(1,904)	(5,738)	(3,650)	(486)	
Net loss	(6,571)	(10,608)	(14,074)	(19,346)	(11,824)	(2,687)	(2,541)
Preferred dividends and beneficial conversion charge <sup>(1)</sup>	(851)	(1,563)	(2,147)	(19,875)	(3,042)	(761)	(582)
Net loss attributable to common stockholders	\$ (7,422)	\$ (12,171)	\$ (16,221)	\$ (39,221)	\$ (14,866)	\$ (3,448)	\$ (3,123)
Basic and diluted loss per common share:							
Loss from continuing operations attributable to common stockholders	\$	\$	\$	\$	\$	\$	\$
Loss from discontinued operations attributable to common stockholders							
Net loss attributable to common stockholders	\$	\$	\$	\$	\$	\$	\$
Basic and diluted weighted average common shares outstanding							

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	As of December 31,					As of
	2005	2006	2007	2008	2009	March 31, 2010 (Unaudited)
	(in thousands)					
<b>Consolidated balance sheet data:</b>						
Cash	\$ 5,606	\$ 7,638	\$ 5,776	\$ 516	\$	\$ 522
Total assets	12,107	20,904	21,909	30,570	22,368	24,722
Current portion of long-term debt	32	74	13	7,006	426	18,872
Long-term debt, net of current portion	43	13		5	14,403	2
Other long-term obligations	4			481	1,048	1,070

	Year Ended December 31,					Three Months Ended
	2005	2006	2007	2008	2009	March 31, 2010 (Unaudited)
	(in thousands, except location amounts)					
<b>Other information:</b>						
Primo water bottle exchange locations at period end	300	2,300	4,700	6,400	7,000	7,020
Primo water bottle units sold	14	745	1,994	3,215	3,853	965
Primo water dispenser units sold			12	177	272	62

- (1) In 2008, we recorded a non-cash beneficial conversion charge or deemed dividend of \$17.6 million on our Series C preferred stock. This was a result of the adjustment of the conversion ratio on the Series C preferred stock based upon a formula taking into account our net sales for the year ending December 31, 2008, which resulted in a final conversion ratio of 1:1.92.

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**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 the section titled "Selected Historical Consolidated Financial and Other Data" and our financial statements and related notes appearing elsewhere in this prospectus. Our actual results could differ materially from those anticipated in the forward-looking statements included in this discussion as a result of certain factors, including, but not limited to, those discussed in the section of this prospectus titled "Risk Factors."*

**Overview**

Primo Water Corporation is a rapidly growing provider of three- and five-gallon purified bottled water and water dispensers sold through major retailers nationwide. Our business is designed to generate recurring demand for Primo purified bottled water through the sale of our innovative water dispensers. 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. We have created a nationwide single-vendor water bottle exchange service for our retail customers that requires minimal customer management supervision and store-based labor and provides centralized billing and detailed performance reports. We deliver this service utilizing our current relationships with 55 independent bottlers and 27 independent distributors and our two Company-owned distribution operations covering portions of four states, which we refer to collectively as our national network. As of December 31, 2009, our water bottle exchange service and water dispensers were offered in each of the contiguous United States and located in approximately 7,000 and 5,500 retail locations, respectively. For 2007, 2008 and 2009, we generated net sales of \$13.5 million, \$34.6 million and \$47.0 million, respectively. For the three months ended March 31, 2009 and 2010, we generated sales of \$9.6 million and \$8.8 million, respectively.

In this Management's Discussion and Analysis of Financial Condition and Results of Operations, when we refer to same store sales for our Exchange segment, we are comparing retail locations at which our water bottle exchange service had been available for at least 12 months at the beginning of the relevant period.

**Business Segments**

We manage our business primarily through two reporting segments: Primo Bottled Water Exchange ( Exchange ) and Primo Products ( Products ).

Our Exchange segment sells three- and five-gallon purified bottled water through retailers in each of the contiguous United States. We currently offer our exchange service at approximately 7,000 locations through point of purchase display racks and recycling centers that are prominently located at major retailers in space that is often underutilized. We service these retail locations through our national network of primarily independent bottlers and distributors.

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

We evaluate the financial results of these segments focusing primarily on segment net sales and segment income (loss) from operations before depreciation and amortization ( segment income (loss) from operations ). We utilize segment net sales and segment income (loss) from operations because we believe they provide useful information for

effectively allocating our resources between business segments, evaluating the health of our business segments based on metrics that management can actively influence and gauging our investments and our ability to service, incur or pay down debt.

Operating segments that do not meet quantitative thresholds for segment reporting are included in Other.

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Cost of sales for Exchange consists of costs for bottling and related packaging materials and distribution costs for our bottled water. Cost of sales for Products consists of contract manufacturing, freight, duties and warehousing costs of our water dispensers.

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

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

**Recent Transactions**

In December 2009, we completed the divestiture of our former subsidiary, Prima Bottled Water, Inc. ( Prima ), by distributing the stock in Prima to our existing stockholders on a pro rata basis based upon each such stockholder's proportionate ownership of our common stock, Series A preferred stock and Series C preferred stock on an as-converted basis. The assets, liabilities and results of operations of Prima are accounted for as discontinued operations. For 2007, 2008 and 2009, we recognized losses from discontinued operations of \$1.9 million, \$5.7 million and \$3.7 million, respectively. For the three months ended March 31, 2009 and 2010, we recognized losses from discontinued operations of \$0.5 million and \$0, respectively.

On June 1, 2010 we entered into an asset purchase with Culligan to purchase the Culligan Refill Business. See Culligan Refill Acquisition on page 82 for a more detailed description of this transaction.

**Results of Operations**

The following table sets forth our results of operations for the periods indicated:

	Years Ended December 31,			Three Months Ended	
	2007	2008	2009	March 31, 2009	2010
	(in thousands)				
<b>Consolidated statements of operations data:</b>					
Net sales	\$ 13,453	\$ 34,647	\$ 46,981	\$ 9,567	\$ 8,829
Operating costs and expenses:					
Cost of sales	11,969	30,776	38,771	7,652	6,922
Selling, general and administrative expenses	10,353	13,791	9,922	2,605	2,733
Depreciation and amortization	3,366	3,618	4,205	1,034	995
Total operating costs and expenses	25,688	48,185	52,898	11,291	10,650
Loss from operations	(12,235)	(13,538)	(5,917)	(1,724)	(1,821)
Interest (expense) and other income, net	65	(70)	(2,257)	(477)	(720)

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Loss from continuing operations before income taxes	(12,170)	(13,608)	(8,174)	(2,201)	(2,541)
Provision for income taxes					
Loss from continuing operations	(12,170)	(13,608)	(8,174)	(2,201)	(2,541)
Loss from discontinued operations, net of income taxes	(1,904)	(5,738)	(3,650)	(486)	
Net loss	(14,074)	(19,346)	(11,824)	(2,687)	(2,541)
Preferred dividends and beneficial conversion charge	(2,147)	(19,875)	(3,042)	(761)	(582)
Net loss attributable to common stockholders	\$ (16,221)	\$ (39,221)	\$ (14,866)	\$ (3,448)	\$ (3,123)



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

	Years Ended December 31,			Three Months Ended March 31,	
	2007	2008	2009	2009	2010
				(Unaudited)	
<b>Consolidated statements of operations data:</b>					
Net sales	100.0%	100.0%	100.0%	100.0%	100.0%
Operating costs and expenses:					
Cost of sales	89.0	88.8	82.5	80.0	78.4
Selling, general and administrative expenses	77.0	39.8	21.1	27.2	31.0
Depreciation and amortization	25.0	10.5	9.0	10.8	11.2
Total operating costs and expenses	191.0	139.1	112.6	118.0	120.6
Loss from operations	(91.0)	(39.1)	(12.6)	(18.0)	(20.6)
Interest (expense) and other income, net	0.5	(0.2)	(4.8)	(5.0)	(8.2)
Loss from continuing operations before income taxes	(90.5)	(39.3)	(17.4)	(23.0)	(28.8)
Provision for income taxes					
Loss from continuing operations	(90.5)	(39.3)	(17.4)	(23.0)	(28.8)
Loss from discontinued operations, net of income taxes	(14.1)	(16.5)	(7.8)	(5.1)	
Net loss	(104.6)%	(55.8)%	(25.2)%	(28.1)%	(28.8)%

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

	Years Ended December 31,			Three Months Ended March 31,	
	2007	2008	2009	2009	2010
				(Unaudited)	
(in thousands)					
<b>Segment Net Sales</b>					
Exchange	\$ 10,875	\$ 19,237	\$ 22,638	\$ 5,363	\$ 5,541
Products	949	13,758	22,824	3,864	2,909
Other	1,818	1,874	1,611	386	383
Inter-company elimination	(189)	(222)	(92)	(46)	(4)
Total net sales	\$ 13,453	\$ 34,647	\$ 46,981	\$ 9,567	\$ 8,829

**Segment Income (Loss) from Operations**

Exchange	\$ (2,834)	\$ (1,267)	\$ 3,374	\$ 695	\$ 758
Products	(631)	(1,447)	(272)	(20)	(61)
Other	(175)	(116)	(34)	(9)	36
Inter-company elimination		(13)	9		(2)
Corporate	(5,229)	(7,077)	(4,789)	(1,356)	(1,557)
Depreciation and amortization	(3,366)	(3,618)	(4,205)	(1,034)	(995)
Loss from operations	\$ (12,235)	\$ (13,538)	\$ (5,917)	\$ (1,724)	\$ (1,821)

*Three Months Ended March 31, 2010 Compared to Three Months Ended March 31, 2009*

*Net Sales.* Net sales for the first quarter of 2010 decreased \$0.7 million or 7.7% to \$8.8 million from \$9.6 million in the first quarter of 2009. The decrease in sales resulted primarily from a 24.7% decrease in Products sales offset by a 3.3% increase in Exchange sales.

*Exchange.* Exchange net sales increased \$0.2 million or 3.3% to \$5.5 million in the first quarter of 2010, representing 62.8% of our total net sales in the first quarter of 2010. The increase was due to an 8.6% increase in water bottle units sold to approximately 1.0 million units sold in the first quarter of 2010. The increase in units

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sold was driven by an 8.1% increase in selling locations to approximately 7,020 at March 31, 2010. Same store units increased 2.2% in the first quarter of 2010 compared to the first quarter of 2009.

The average price per unit decreased 4.8% in the first quarter of 2010 compared to the first quarter of 2009 as a result of a shift in mix of transactions to 73.3% exchange and 26.7% non-exchange transactions in the first quarter of 2010 compared to 68.0% exchange and 32.0% non-exchange transactions in the first quarter of 2009. The shift in the mix of transactions is due to the increase in the overall number of repeat consumers utilizing our three- and five-gallon bottled water exchange service. This shift in mix is also impacted by the number of new locations added during a period. Locations in new markets generally have a higher percentage of non-exchange transactions as we introduce our service to new consumers. We recognize approximately twice as much revenue on non-exchange transactions as we do on exchange transactions as a result of the discount provided to consumers for the return of an empty three- or five-gallon bottle in exchange for the purchase of a new three- or five-gallon bottle of purified water. Adding new locations at which our water bottle exchange service is offered is important to our strategy of penetrating more homes with our water dispensers as expanded locations and increased water bottle availability enhance the convenience of our service to consumers.

*Products.* Products net sales decreased \$1.0 million or 24.7% to \$2.9 million in the first quarter of 2010, representing 32.9% of our total net sales in the first quarter of 2010. Dispenser sales decreased approximately 14,000 units or 18.1% to approximately 62,000 units in the first quarter of 2010. We believe the decrease in sales and units in the first quarter 2010 is primarily a result of retailers reducing their inventory levels. Water dispenser home penetration is critical to the success of our strategy of increasing sales of our complementary recurring-revenue bottled water exchange service.

*Gross Margin.* Our overall gross margin, defined as net sales less cost of sales, as a percentage of net sales increased to 21.6% for the first quarter of 2010 from 20.0% for the first quarter of 2009.

*Exchange.* Gross margin as a percentage of net sales in our Exchange segment increased to 26.5% for the first quarter of 2010 from 25.8% in the first quarter of 2009 due primarily to benefits from the improvements in our supply chain, which were completed in 2009. We anticipate that gross margins will continue to see improvements as we realize the full benefits of these improvements. These benefits could be offset slightly if fuel prices continue to increase and effect freight cost negatively.

*Products.* Gross margin as a percentage of net sales in our Products segment decreased to 7.4% for the first quarter of 2010 from 8.6% in the first quarter of 2009 due primarily to the mix of dispensers sold in the first quarter of 2010. Our strategy is to sell our water dispensers at minimal operating profit in order to increase home penetration, which we believe will lead to increased recurring revenue, higher margin Exchange sales.

*Selling, General and Administrative Expenses.* Selling, general and administrative expenses for the first quarter of 2010 increased slightly by \$0.1 million or 4.9% to \$2.7 million from \$2.6 million and, as a percentage of net sales, increased to 31.0% for the first quarter of 2010 from 27.2% for the first quarter of 2009.

*Exchange.* Selling, general and administrative expenses of our Exchange segment increased 3.1% to \$0.7 million and, as a percentage of Exchange segment net sales was 12.8% in both the first quarter of 2010 and the first quarter of 2009.

*Products.* Selling, general and administrative expenses of our Products segment decreased 21.4% to \$0.3 million in the first quarter of 2010. Selling, general and administrative expenses as a percentage of Products segment net sales increased to 9.5% for the first quarter of 2010 from 9.1% in the first quarter of 2009. The increase as a percentage of Products segment net sales is a result of the 24.7% decrease in Product net sales.

*Other.* Other selling, general and administrative expenses, which include our Other segment and Corporate, increased \$0.2 million or 11.7% to \$1.8 million in the first quarter of 2010 from \$1.6 million in the first quarter of 2009, and as a percentage of consolidated net sales increased to 19.8% for the first quarter of 2010 from 16.4% in the first quarter of 2009. We expect to incur about \$1.0 million annually in additional costs as a public company related to compliance, reporting and insurance.

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*Depreciation and Amortization.* Depreciation and amortization decreased 3.8% to \$1.0 million in the first quarter 2010.

*Interest (Expense) and Other Income, Net.* Net interest expense for the first quarter of 2010 increased to \$0.7 million from \$0.5 million in the first quarter of 2009. The increase is a result of an increase in the use of debt to fund business operations as well as the higher interest rate on our 2011 Notes.

*Preferred Dividends and Beneficial Conversion Charge.* Dividends on our Series B preferred stock decreased \$0.2 million to \$0.6 million in the first quarter of 2010 from \$0.8 million in first quarter of 2009. In January 2009, we offered holders of our Series B preferred stock the option to suspend their current cash dividend payment of 10% in exchange for a dividend accrual of 15% for 2009. In January 2010, the dividend accrual was reduced to 10% with no cash dividend until the Series B preferred stock is redeemed. Cash dividends paid on our Series B preferred stock during the first quarter of 2010 and the first quarter of 2009 were \$0.2 million and \$0.6 million, respectively. At March 31, 2010 the accrued and unpaid dividends on our Series B preferred stock is \$2.7 million, which is included in accrued expenses and other current liabilities in the consolidated balance sheet.

*Year Ended December 31, 2009 Compared to Year Ended December 31, 2008*

*Net Sales.* Net sales for 2009 increased \$12.3 million or 35.6% to \$47.0 million from \$34.6 million in 2008. The increase in sales resulted primarily from a 65.9% increase in Products sales and a 17.7% increase in Exchange sales.

*Exchange.* Exchange net sales increased \$3.4 million or 17.7% to \$22.6 million in 2009, representing 48.2% of our total net sales in 2009. The increase was due to an increase in water bottle units sold of approximately 0.6 million units or 19.8% to 3.9 million units sold in 2009. The increase in units sold was driven by a same store sales increase of 7.9% as well as an 8.3% increase in selling locations to approximately 7,000 at December 31, 2009. We believe the increase in same store sales is primarily a result of two factors: first, the increase in water dispenser sales results in an increasing number of consumers of three- and five-gallon bottled water and second, as more consumers become aware of and participate in our exchange program at a particular selling location, the number of water bottle units sold at that location typically increases over comparable prior periods. During 2009, we added approximately 600 selling locations as a result of both adding new retail customers and increased penetration with our existing retail customers. The average price per unit decreased 1.7% in 2009 compared to 2008 as a result of a shift in mix of transactions to 70.9% exchange and 29.1% non-exchange transactions in 2009 compared to 63.2% exchange and 36.8% non-exchange transactions in 2008. The shift in the mix of transactions is due to the increase in the overall number of repeat consumers utilizing our three- and five-gallon bottled water exchange service compared to the number of consumers that are new to our service. We anticipate the shift in mix towards a higher percentage of exchange transactions to continue as the overall number of consumers utilizing our exchange program continues to grow. We recognize approximately twice as much revenue on non-exchange transactions as we do on exchange transactions as a result of the discount provided to consumers for the return of an empty three- or five-gallon bottle in exchange for the purchase of a new three- or five-gallon bottle of purified water. Adding new locations at which our water bottle exchange service is offered is important to our strategy of penetrating more homes with our water dispensers as expanded locations and increased water bottle availability enhance the convenience of our service to consumers.

*Products.* Products net sales increased \$9.1 million or 65.9% to \$22.8 million in 2009, representing 48.6% of our total net sales in 2009. Dispenser sales increased 95,000 units or 53% to approximately 272,000 units in 2009. The increase in sales and units in 2009 is primarily a result of a greater than 100% increase in the number of retail locations offering our dispensers to approximately 5,500 at December 31, 2009. In addition, we successfully launched several new water dispenser models which accounted for approximately 48% of the total units sold in 2009. We anticipate continuing to introduce and offer new water dispenser models. Water dispenser home penetration is critical to the

success of our strategy of increasing sales of our complementary recurring-revenue bottled water exchange service.

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*Gross Margin.* Our overall gross margin, defined as net sales less cost of sales, as a percentage of net sales increased to 17.5% for 2009 from 11.2% for 2008.

*Exchange.* Gross margin as a percentage of net sales in our Exchange segment increased to 26.6% for 2009 from 15.2% in 2008 due primarily to decreased freight costs as a result of the addition of bottling and distribution capabilities during 2008 for which we received a full-year benefit in 2009. With these additions we believe we have sufficient bottling and distribution capabilities to service our continued growth. We anticipate slight improvements in gross margin for our Exchange segment for 2010 as we further benefit from improvements in our supply chain and realize efficiencies from our business model in which many of our variable costs are fixed.

*Products.* Gross margin as a percentage of net sales in our Products segment improved to 5.6% for 2009 from 0.5% in 2008 due primarily to improved pricing from retailers. Our strategy is to sell our water dispensers at minimal operating profit in order to increase home penetration, which we believe will lead to increased recurring-revenue, higher margin Exchange sales.

*Selling, General and Administrative Expenses.* Selling, general and administrative expenses for 2009 decreased \$3.9 million or 28.1% to \$9.9 million from \$13.8 million and, as a percentage of net sales, decreased to 21.1% for 2009 from 39.8% for 2008.

*Exchange.* Selling, general and administrative expenses of our Exchange segment decreased \$1.5 million or 36.8% to \$2.6 million from \$4.2 million and as a percentage of Exchange segment net sales decreased to 11.7% in 2009 from 21.8% in 2008. The decrease is due to lower employee-related costs as a result of a reduction in headcount of seven employees as well as reduced levels of consulting fees and related travel and benefit costs resulting in approximately \$1.0 million of the overall reduction of selling, general and administrative expenses. The additional personnel resources were related to our efforts in 2008 to expand our supply chain with more bottling and distribution capacity. During 2009 we were able to reduce these personnel resources when our supply chain reached what we believe to be an appropriate size. We were able to significantly grow our Exchange segment net sales and gross margins in 2009 despite the reduction in selling, general and administrative expenses.

*Products.* Selling, general and administrative expenses of our Products segment decreased as a percentage of Products segment net sales to 6.8% in 2009 from 11.1% in 2008. Our Products segment was able to significantly increase sales without the need for additional headcount or selling, general and administrative costs.

*Other.* Other selling, general and administrative expenses for 2009, which includes our Other segment and Corporate, decreased \$2.4 million or 29.1% to \$5.7 million from \$8.1 million, and as a percent of consolidated net sales decreased to 12.2% for 2009 from 23.3% in 2008. The decrease is primarily due to lower employee-related costs as a result of a reduction in headcount of nine employees as well as reduced levels of consulting fees and related travel and benefit costs resulting in about \$1.6 million of the overall reduction of selling, general and administrative expenses. The additional resources were related to our efforts in 2008 to expand our information system and financial infrastructure as well as our efforts to establish new business segments. While we do not expect to incur significant additional costs connected with the growth of our businesses in 2010, we do expect to incur about \$1.0 million in additional costs as a public company related to compliance, reporting and insurance.

*Depreciation and Amortization.* Depreciation and amortization increased \$0.6 million or 16.2% to \$4.2 million in 2009 from \$3.6 million in 2008. The increase is the result of a full year of depreciation on the \$8.3 million of capital expenditures in 2008.

*Interest (Expense) and Other Income, Net.* Net interest expense for 2009 increased to \$2.3 million from \$70,000 in 2008 as a result of increased use of debt to fund business operations. We expect the proceeds from this offering to

repay debt and lower future interest cost relative to that experienced during 2009.

*Preferred Dividends and Beneficial Conversion Charge.* Dividends on our Series B preferred stock increased \$0.7 million to \$3.0 million in 2009 from \$2.3 million in 2008. In January 2009, we offered holders of our Series B preferred stock the option to suspend their current cash dividend payment of 10% in exchange for a



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dividend accrual of 15% for 2009. Cash dividends paid on our Series B preferred stock during 2009 and 2008 were \$1.3 million and \$2.3 million, respectively. At December 31, 2009 and 2008 the accrued and unpaid dividends on our Series B preferred stock were \$2.4 million and \$0.6 million, respectively, which is included in accrued expenses and other current liabilities in the consolidated balance sheet. Our Series C preferred stock is convertible into common stock at a ratio of 1:1.92, which was based upon a formula taking into account sales for 2008, compared to the original conversion ratio of 1:1. The change in the conversion resulted in a \$17.6 million beneficial conversion or deemed dividend on the Series C preferred stock for 2008, which is included in the \$19.9 million preferred dividends and beneficial conversion charge in 2008.

*Year Ended December 31, 2008 Compared to Year Ended December 31, 2007*

*Net Sales.* Net sales for 2008 increased \$21.2 million or 157.5% to \$34.6 million from \$13.5 million in 2007. The increase in net sales resulted primarily from a 1,349.7% increase in Products sales and a 76.9% increase in Exchange sales.

*Exchange.* Exchange net sales increased \$8.3 million to \$19.2 million in 2008, representing 55.5% of our total net sales in 2008. The increase was due to an increase in water bottle units sold of 1.2 million or 61.2% to 3.2 million units sold in 2008. The increase in units was driven by a same store sales increase of 22.0% as well as a 36.1% increase in selling locations to approximately 6,400 selling locations at December 31, 2008. The average price per unit increased 9.7% in 2008 primarily as a result of a price increase implemented in mid-2008.

*Products.* Products net sales increased \$12.8 million to \$13.8 million, representing 39.7% of our total net sales in 2008. The increase is due to the successful launch of our Products business segment in late 2007. Product sales increased by approximately 165,000 units to approximately 177,000 units sold in 2008.

*Gross Margin.* Our overall gross margin, defined as net sales less cost of sales, as a percentage of net sales increased to 11.2% for 2008 from 11.0% for 2007.

*Exchange.* Gross margin as a percentage of net sales in our Exchange segment increased to 15.2% for 2008 from 6.1% in 2007 due primarily to decreased freight costs as a result of the addition of 28 bottlers and ten distributors in 2008.

*Products.* Gross margin as a percentage of net sales in our Products segment improved to 0.5% for 2008 from (23.2)% in 2007 due primarily to limited sales volume in 2007.

*Selling, General and Administrative Expenses.* Selling, general and administrative expenses, excluding impairment charges, for 2008 increased \$3.4 million or 33.2% to \$13.8 million from \$10.4 million and, as a percentage of net sales, decreased to 39.8% for 2008 from 77.0% for 2007.

*Exchange.* Selling, general and administrative expenses of our Exchange segment increased \$0.7 million or 19.5% to \$4.2 million from \$3.5 million and as a percentage of Exchange segment net sales decreased to 21.8% in 2008 from 32.2% in 2007. The increase is primarily due to higher employee-related costs as a result of headcount additions, consulting fees and related travel and benefit costs resulting in about \$0.3 million of the overall increase. The additional personnel and resources were related to our efforts to expand our supply chain with more bottling and distribution capacity. Selling, general and administrative expenses as a percentage of Exchange segment net sales decreased significantly as we grew net sales at a faster rate than our expense growth.

*Products.* Selling, general and administrative expenses of our Products segment increased \$1.1 million or 270.3% to \$1.5 million from \$0.4 million and as a percentage of Products segment net sales to 11.1% in 2008 from 43.3% in 2007. The increase is primarily due to increases in employee headcount resulting from our expanded product line and

significant increase in net sales in 2008.

*Other.* Other selling, general and administrative expenses for 2008, which includes our Other segment and Corporate, increased \$1.6 million or 24.5% to \$8.1 million from \$6.5 million, and as a percentage of consolidated net sales decreased to 23.3% for 2008 from 48.3% in 2007. The increase is primarily due to higher employee-related costs as a result of additional headcount, consulting fees and related travel and benefit costs

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related to our efforts in 2008 to expand our information system and financial infrastructure as well as our efforts to establish new business segments.

*Depreciation and Amortization.* Depreciation and amortization increase \$0.2 million or 7.5% to \$3.6 million in 2008 from \$3.4 million in 2007.

*Interest Expense and Other Income, Net.* Net interest and other income for 2008 decreased to an expense of \$70,000 from income of \$65,000 in 2007 as a result of the use of debt to fund business operations, which were primarily funded with equity in 2007.

*Preferred Dividends and Beneficial Conversion Charge.* Dividends on our Series B preferred stock increased \$0.2 million to \$2.3 million in 2008 from \$2.1 million in 2007. At both December 31, 2008 and 2007, the accrued and unpaid dividends on our Series B preferred stock were \$0.6 million, which is included in accrued expenses and other current liabilities in the consolidated balance sheet. Our Series C preferred stock is convertible into common stock at a ratio of 1:1.92, which was based upon a formula taking into account sales for 2008, compared to the original conversion ratio of 1:1. The change in the conversion resulted in a \$17.6 million beneficial conversion or deemed dividend on the Series C preferred Stock for 2008, which is included in the \$19.9 million of preferred dividends and beneficial conversion charge in 2008.

**Liquidity and Capital Resources**

The following table shows the components of our cash flows for the periods presented:

	Year Ended December 31,			Three Months Ended March 31,	
	2007	2008	2009	2009	2010
	(in thousands)				
Net cash provided by (used in):					
Operating activities	\$ (6,752)	\$ (11,832)	\$ (1,972)	\$ (2,279)	\$ (1,666)
Investing activities	(4,992)	(9,628)	(2,450)	(635)	(571)
Financing activities	12,529	24,361	6,274	3,609	2,759

Since inception, we have financed our operations primarily through the sale of preferred stock, the issuance of long term debt and borrowings under credit facilities. At March 31, 2010, our principal sources of liquidity were accounts receivable, net of allowance for doubtful accounts, of \$3.0 million compared to cash of \$0.5 million and borrowing availability under our current senior revolving credit facility.

During the first quarter of 2010, our primary source of capital was proceeds from borrowings under our current senior revolving credit facility, which had a balance of \$4.4 million at March 31, 2010. During 2009, the primary source of capital was proceeds from the issuance of long term debt and, as of December 31, 2009, we had an outstanding debt balance of \$14.8 million, net of a \$0.6 million discount. During 2008 and 2007, our primary source of capital was the proceeds of preferred stock issuances of \$19.6 million and \$14.1 million, respectively. Additionally, during 2008 we made borrowings under our current senior revolving credit facility, which had a balance of \$7.0 million at December 31, 2008.

*Net Cash Flows from Operating Activities*

During the first quarter of 2010, we used \$1.7 million in operations primarily as a result of \$2.5 million of loss from continuing operations, offset by non-cash depreciation and amortization of \$1.0 million. During the first quarter of 2009, we used \$2.3 million in operating activities as a result of \$2.2 million of loss from continued operations.

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Net cash used in operating activities was \$2.0 million for 2009, \$11.8 million for 2008 and \$6.8 million for 2007. For 2009, net cash used in operations was primarily the result of \$8.2 million of loss from continuing operations, partially offset by non-cash depreciation and amortization of \$4.2 million, non-cash interest expense of \$0.7 million related to our long term debt issuances and reduction in working capital components of \$0.8 million. For 2008, net cash used in operations was primarily the result of \$13.6 million of loss from continuing operations, partially offset by depreciation and amortization of \$3.6 million. Additional working capital for accounts receivable and inventory due to revenue growth resulted in a use of cash of \$1.9 million and \$1.3 million, respectively, and was partially offset by an increase in accounts payable of \$1.1 million.

For 2007, net cash used in operations was primarily the result of \$12.2 million of loss from continuing operations, partially offset by depreciation and amortization of \$3.4 million and the increase of accounts payable and accrued expenses of \$1.0 million and \$1.3 million, respectively.

*Net Cash Flows from Investing Activities*

Our primary investing activities are capital expenditures for property, equipment and bottles. Our capital expenditures in the past have been primarily for the installation of our recycle centers and display racks at new locations that offer our water bottle exchange service as well as related transportation racks and bottles. We also invest in technology infrastructure to manage our national network.

During the first quarter of 2010 and 2009, cash flows from investing activities primarily consisted of capital expenditures for property, equipment and bottles of \$0.6 million and \$0.6 million, respectively. During 2009, 2008 and 2007 cash flows from investing activities included capital expenditures for property and equipment and bottles of \$2.4 million, \$9.4 million and \$5.0 million, respectively.

*Net Cash Flows from Financing Activities*

During the first quarter of 2010, cash provided by financing activities was primarily from borrowings under our current senior revolving credit facility of \$3.9 million offset by dividends paid of \$0.2 million and equity issuance costs of \$0.9 million. During the first quarter of 2009, cash provided by financing activities was primarily from the issuance of long term debt of \$10.0 million offset by payments on our current senior revolving credit facility of \$5.0 million and debt issuance costs of \$0.6 million.

For 2009, financing activities were primarily the issuance of long term debt of \$20.4 million that was partially offset by payments of \$6.6 million on our current senior revolving credit facility, payments of \$5.4 million related to other long-term debt, Series B preferred stock dividend payments of \$1.3 million and payment of debt issuance costs of \$0.6 million. The cash component of our Series B preferred stock dividends was partially reduced in 2009 and accrued as opposed to paid currently. Additionally, the cash dividends paid will be further reduced for 2010 to approximately \$0.2 million.

For 2008, financing activities were primarily the issuance of preferred stock of \$19.6 million and borrowings of \$7.0 million on our current senior revolving credit facility that were partially offset by payments of \$2.3 million of Series B preferred stock dividends. For 2007, financing activities were primarily the issuance of preferred stock of \$14.1 million that was partially offset by \$1.6 million of Series B Preferred Stock dividend payments.

*Current Senior Revolving Credit Facility*

We originally entered into a revolving credit facility with Wachovia Bank National Association in June 2005 and have subsequently amended the facility and extended the term to January 30, 2011. The current facility commitment is \$10.0 million, allows for up to a \$3.0 million overadvance line (the Overadvance Line ) and is subject to a customary borrowing base calculation for advances. Interest on the outstanding borrowings under the current senior revolving credit facility is payable quarterly at our option at: (i) the greater of (A) the LIBOR Market Index Rate or (B) 2.0% plus in either such case the applicable margin or (ii) the greater of (X) the Federal Funds Rate plus 0.50% or (Y) the bank's prime rate plus in either such case the applicable margin. At

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December 31, 2009 and 2008, the interest rate on the outstanding balance under the facility was at the bank's prime rate plus 2.50% and 0.75%, respectively (5.75% at December 31, 2009 and 4.00% at December 31, 2008). At March 31, 2010, the interest rate on outstanding borrowings was at the bank's prime rate plus 1.00% (4.25%) and the availability under the facility was \$1.6 million. Effective with a June 2010 amendment, the applicable margin was increased to 4.00% for a Libor Market Index Rate loan (5.00% when borrowings under the Overadvance Line are outstanding) and 2.00% for a loan provided at the Federal Funds Rate plus 0.50% or the bank's prime rate (3.00% when borrowings under the Overadvance Line are outstanding). After giving effect to the June 2010 amendment, the interest rate on outstanding borrowings was 5.25%.

We are required to pay a fee per annum equal to 3.50% of the outstanding amount of letters of credit issued under the current senior revolving credit facility. In addition, there is a fee of 0.50% on the unused portion of the revolver lending commitment. At March 31, 2010, there were outstanding letters of credit totaling approximately \$2.4 million.

The current senior revolving credit facility contains various conditions for extensions of credit and restrictive covenants including minimum quarterly EBITDA, gross revenue and net worth requirements. Substantially all of our assets are pledged as collateral to borrowings under the current senior revolving credit facility. We were in default under our minimum quarterly EBITDA and net worth covenants as of March 31, 2010, but have received a waiver from our lender. In connection with the June 2010 amendment these financial covenants were amended.

Finally, Billy Prim, our Chief Executive Officer, has agreed to personally guarantee our borrowings with respect to the Overadvance Line in an amount up to \$3.0 million. As an inducement to Mr. Prim to guarantee the \$3.0 million Overadvance Line, the Company will issue Mr. Prim \$150,000 of restricted stock with the per share value equal to (i) the initial public offering price or (ii) if the initial public offering does not occur, the lesser of (a) \$1.23 per share (the fair value of our common stock based upon the valuation we obtained from a third party in December 2009) or (b) the price per share we issue equity in our next financing round. The restricted stock will be issued within 30 days after our initial public offering or the closing of our next financing round and will vest in full on January 2, 2011. The award of restricted stock was approved by the independent members of the board of directors and the amount of the award was based upon 5% of the guaranteed obligations (which the board members believed was an appropriate amount in light of their experience with similar transactions and representative of a 2.5% commitment fee and a 2.5% draw-down fee).

*14% Subordinated Convertible Notes due March 31, 2011*

In December 2009, we issued our 14% subordinated convertible notes due March 31, 2011 (2011 Notes) to 28 investors, including existing stockholders, affiliates of existing stockholders and senior management. The 2011 Notes have a total face value of \$15.0 million and are subordinated to our current senior revolving credit facility. The 2011 Notes pay quarterly interest at a rate of 14% per annum. The terms of the 2011 Notes provide the noteholders the right to sell their 2011 Notes to us at an amount equal to the unpaid principal balance plus all unpaid interest that has accrued through the date of redemption upon the occurrence of an initial public offering of our common stock resulting in net proceeds to us of at least \$30.0 million. We intend to use proceeds of this offering to repay the 2011 Notes.

Warrants to purchase 1,111,109 shares of our common stock were issued in connection with the 2011 Notes. The initial fair value of the warrants is \$0.6 million and resulted in an original issue discount on the 2011 Notes which will be amortized as interest expense over the term of the 2011 Notes. The fair value of the warrants is included in other long-term liabilities in the consolidated balance sheet and will be adjusted periodically until such time as the exercise price becomes fixed at which time the then fair value will be reclassified as a component of stockholders' equity (deficit).





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*New Senior Revolving Credit Facility*

In connection with the closing of this offering and the completion of the Culligan Refill Acquisition, we intend to enter into a new \$40.0 million senior revolving credit facility that will replace our current senior revolving credit facility.

**Adequacy of Capital Resources**

Our future capital requirements may vary materially from those now anticipated and will depend on many factors, including acquisitions of other businesses, the rate of growth in new locations and related display and rack costs, cost to develop new water dispensers, sales and marketing resources needed to further penetrate our markets, the expansion of our operations in the United States and the response of competitors to our solutions and products. Historically, we have experienced increases in our capital expenditures consistent with the growth in our operations and personnel, and we anticipate that our expenditures will continue to increase as we grow our business.

While we had no material commitments for capital expenditures as of March 31, 2010, we do anticipate incurring between \$2.0 million and \$4.0 million of capital expenditures related to our anticipated growth in exchange locations and new water dispenser lines for the remainder of 2010. Upon completion of the Culligan Refill Acquisition, we estimate that we will incur between \$1.0 million and \$3.0 million of additional capital expenditures in 2010 related to current locations and future customer growth in connection with the Culligan Refill Business. In addition, we anticipate that we may incur additional expenses related to the integration of the Culligan Refill Acquisition.

In addition, following the completion of this offering, we expect to incur approximately \$1.0 million per year in increased costs as a public company related to compliance, reporting and insurance. Mitigating these additional expenses, our Series B preferred stock dividends will terminate upon the redemption and conversion of the Series B preferred stock upon the completion of this offering.

Following the completion of this offering and our entering into our new senior revolving credit facility and the application of the proceeds therefrom as described herein (including consummation of the Culligan Refill Acquisition), we anticipate having \$     in availability under our new senior revolving credit facility. We believe our cash, the proceeds from this offering, funds available under our new senior revolving credit facility and future cash flows from our operations will be sufficient to meet our currently anticipated working capital and capital expenditure requirements for at least the next twelve months.

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

**Off-Balance Sheet Arrangements**

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

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Our contractual obligations and commercial commitments as of December 31, 2009 are summarized below:

Contractual Obligations <sup>(1)</sup>	Total	Payments Due by Period			
		Less Than 1 Year	1-3 Years (in thousands)	3-5 Years	More Than 5 Years
Long-term debt obligations	\$ 15,000	\$	\$ 15,000	\$	\$
Capital lease obligations	7	4	3		
Operating lease obligations	2,008	691	841	394	82
Current senior revolving credit facility	423	423			
<b>Total</b>	<b>\$ 17,438</b>	<b>\$ 1,118</b>	<b>\$ 15,844</b>	<b>\$ 394</b>	<b>\$ 82</b>

(1) No amounts are included herein with respect to dividends related to our Series B preferred stock as all such shares will be converted or redeemed in connection with this offering.

**Inflation**

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

**Quantitative and Qualitative Disclosures About Market Risk**

For fixed rate debt, interest rate changes affect the fair value of financial instruments but do not impact earnings or cash flows. Conversely, for floating rate debt, interest rate changes generally do not affect the fair market value but do impact future earnings and cash flows, assuming other factors are held constant. The recorded carrying amounts of cash and cash equivalents approximate fair value due to their short maturities.

We are exposed to market risk related to changes in interest rates on borrowings under our current senior revolving credit facility. Our current senior revolving credit facility bears interest based on LIBOR and the prime rate, plus an applicable margin. To quantify our exposure to interest rate risk, a 100 basis point increase in interest rates would have increased interest expense for the years ended December 31, 2007, 2008, and 2009 by approximately \$8,000, \$29,000 and \$132,000, respectively. Actual changes in interest rates may differ materially from the hypothetical assumptions used in computing this exposure.

**Seasonality**

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 Exchange segment, which generally enjoys higher margins than our Products segment, experiences higher sales and operating income in the spring and summer. Our Products segment had historically experienced higher sales and operating income in spring and summer, however, we believe the seasonality of this segment will be more dependent

on retailer inventory management and purchasing cycles and not correlated to weather. Sustained periods of poor weather, particularly in the spring and summer, can negatively impact our sales in our higher margin Exchange segment. 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**

Our discussion and analysis of our financial condition and results of operations is based upon our consolidated financial statements and related notes, which have been prepared in accordance with accounting principles generally accepted in the United States of America ( GAAP ). The preparation of our financial statements in conformity with GAAP requires us to make certain estimates, judgments and assumptions. We believe that the estimates, judgments and assumptions used to determine certain amounts that affect the financial

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statements are reasonable, based on information available at the time they are made. To the extent there are material differences between these estimates, judgments and assumptions and actual results, our consolidated financial statements may be affected. Some of the more significant estimates include allowances for doubtful accounts, valuation of inventories, depreciation, valuation of deferred taxes and allowance for sales returns.

*Revenue Recognition.* Revenue is recognized for the sale of three- and five-gallon purified bottled water upon either the delivery of inventory to the retail stores or the purchase by the consumer. Revenue is either recognized as an exchange transaction (where a discount is provided on the purchase of a three- or five-gallon bottle of purified water for the return of an empty three- or five-gallon bottle) or a non-exchange transaction. Revenues on exchange transactions are recognized net of the exchange discount. Our water dispensers are sold primarily through a direct-import model, where we recognize revenue when title is transferred to our retail customers. We have no contractual obligation to accept returns of water dispensers nor do we guarantee water dispenser sales. However, we will at times accept returns or issue credits for water dispensers that have manufacturer defects or that were damaged in transit. Revenues of water dispensers are recognized net of an estimated allowance for returns using an average return rate based upon historical experience. In addition, we offer certain incentives such as coupons and rebates that are netted against and reduce net sales in the consolidated statements of operations. Historically, these incentives have not been material to the overall consolidated results of operations.

*Allowance for Doubtful Accounts.* We maintain an allowance for doubtful accounts for estimated losses resulting from our retail customers' inability to pay us. The allowance for doubtful accounts is based on a review of specifically identified accounts in addition to an overall aging analysis. Judgments are made with respect to the collectability of accounts receivable based on historical experience and current economic trends. Actual losses could differ from those estimates.

*Long-Lived Assets.* We review long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The carrying amount of a long-lived asset is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset at the date it is tested for recoverability, whether in use or under development. An impairment loss is measured as the amount by which the carrying amount of a long-lived asset exceeds its fair value. We recorded an impairment charge in 2008 of \$98,000, related to display racks no longer in use and to be disposed.

*Income Taxes.* We account for income taxes using the asset and liability method, which requires recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities, using enacted tax rates in effect for the year in which the differences are expected to reverse. Deferred tax assets are reduced by a valuation allowance to the extent that utilization is not presently more likely than not.

Effective January 1, 2007, we adopted the provisions of Accounting Standards Codification (ASC) 740-10, *Income Taxes*. Previously, we had accounted for tax contingencies in accordance with ASC 450-10, *Contingencies*. As required by ASC 740-10, we recognize the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant tax authority. At the adoption date, we applied ASC 740-10 to all tax positions for which the statute of limitations remained open. The implementation of ASC 740-10 did not have a material impact on our consolidated financial statements.

*Stock-Based Compensation.* We account for our stock-based employee and director compensation plans in accordance with ASC 718, *Compensation-Stock Compensation*. ASC 718 requires recognition of the cost of employee services

received in exchange for an award of equity instruments in the financial statements over the period the employee is required to perform the services in exchange for the award (presumptively the vesting period). In 2007, 2008 and 2009 compensation expense related to stock options was approximately \$157,000, \$215,000 and \$298,000 and is included in selling, general and administrative expenses from continuing operations, respectively, and approximately \$25,000, \$61,000 and \$80,000 is included in discontinued operations, respectively. For the

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three months ended March 31, 2010, compensation expense related to stock options was approximately \$118,000, which is included in selling, general and administrative expenses from continuing operations.

We measure the fair value of each stock option grant at the date of grant using the Black-Scholes option pricing model. The weighted-average fair value per share of the options granted during 2007, 2008 and 2009 was \$0.67, \$0.83 and \$0.49, respectively. The weighted-average fair value per share of the options granted during the three months ended March 31, 2010 was \$0.59. The following assumptions were used in arriving at the fair value of options granted:

	<b>Year Ended December 31,</b>			<b>Three Months</b>
	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>Ended</b>
				<b>March 31,</b>
				<b>2010</b>
Risk-free interest rate	4.6%	3.2%	2.0%	2.8%
Expected life of options in years	6.3	5.9	5.5	6.3
Estimated volatility	45.0%	39.0%	39.0%	45.5%
Dividend yield				

The risk-free interest rate is based on the implied yield available on U.S. Treasury zero-coupon issues with a remaining term approximately equal to the expected life of our stock options. The estimated pre-vesting forfeiture rate is based on our historical experience. The expected term of the options is based on evaluations of historical and expected future employee exercise behavior. As a non-public entity, historic volatility is not available for our shares. As a result, we estimated volatility based on a peer group of companies, which we believe collectively provide a reasonable basis for estimating volatility. We intend to continue to consistently use the same group of publicly traded peer companies to determine volatility in the future until sufficient information regarding volatility of our share price becomes available or the selected companies are no longer suitable for this purpose. We do not expect to declare dividends on our common stock in the foreseeable future. As of each stock option grant date, we considered the fair value of the underlying common stock, determined as described below, in order to establish the option exercise price.

During 2009 a total of 142,000 common stock options were granted, all on one date during the quarter ended March 31, 2009, at an exercise price of \$1.25 per share. The estimated fair value of our common stock on the issuance date was \$1.25 per share.

During the three months ended March 31, 2010, a total of 325,000 common stock options were granted at an exercise price of \$1.23 per share. The estimated fair value of our common stock on the issuance date was \$1.23 per share. In addition, we granted 1,102,500 shares of restricted stock that generally cliff-vest over a three-year period and we recognized compensation expense of \$40,000 related to these awards, which is included in selling, general, and administrative expenses from continuing operations.

At March 31, 2010, we had approximately 3.2 million stock options outstanding, approximately 2.6 million of which were vested with an intrinsic value of \$ , and approximately 0.6 million of which were unvested with an intrinsic value of \$ . The intrinsic value reflects the amount by which \$ (the midpoint of our estimated public offering price) exceeds the exercise price of the outstanding stock options.

In April 2010, the Board of Directors approved the 100% vesting of all unvested stock option awards upon the successful completion of an initial public offering of the Company's common stock. All unrecognized compensation cost at the time the stock option awards become fully vested would then be expensed.

*Significant Factors Used in Determining Fair Value of Our Common Stock.* The fair value of the shares of common stock that underlie the stock options we have granted has historically been determined by our board of directors based upon information available to it at the time of grant. Because, prior to this offering, there has been no public market for our common stock, our board of directors has determined the fair value of our common stock by utilizing, among other things, recent or contemporaneous valuation information from negotiated equity transactions with third parties or third party valuations. The valuation information included reviews of our business

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and general economic, market and other conditions that could be reasonably evaluated at that time, including our financial results, business agreements, intellectual property and capital structure. These valuation approaches are based on a number of assumptions, including our future sales and industry, general economic, market and other conditions that could reasonably be evaluated at the time of the valuation.

For the 142,000 stock options granted on one date in the first quarter of 2009, the fair value of our common stock was determined by the board of directors to be \$1.25 per share. The fair value was based in part upon the finalization of the conversion ratio of the Series C Preferred Stock on December 31, 2008. The Series C Preferred Stock was issued in an arms-length transaction primarily to unrelated third parties in 2008 with an initial conversion to common stock ratio of 1:1 or \$2.40 per share. However, the Series C Preferred Stock contained a beneficial conversion feature that was negotiated with the primarily unrelated third parties that adjusted and was finalized based upon the consolidated net sales for the year ending December 31, 2008. The final conversion ratio was 1:1.92 or \$1.25 per share. In addition, the board of directors considered the Company's most recent independent valuation and then current expectations of the Company's future performance in determining that \$1.25 per share was a reasonable fair valuation of common stock at December 31, 2008 and that there were not any significant changes in the business or results of operations from December 31, 2008 to the date in the first quarter of 2009 the stock options were issued that would change that estimated fair value.

For the 325,000 stock options and 1,102,500 restricted stock awards granted during the first quarter of 2010, the fair value of our common stock was determined by the board of directors to be \$1.23 per share. The fair value was based upon a valuation obtained by the Company from an unrelated party in December 2009 that determined the fair value of the Company's common stock to be \$1.23 per share. The fair value method utilized by the unrelated party was the income approach. The income approach recognizes that the current value is premised upon the expected receipt of future economic benefits or cash flows. The fair value is developed utilizing management's estimates of expected future cash flows and discounting them to their present value utilizing a discount rate of 20.0%. In addition, there were not any significant changes in the business, results of operations or expected future cash flows from the valuation date in December 2009 to the dates in the first quarter of 2010 the stock options and restricted stock awards were granted that would change the estimated fair value.

## **Recent Accounting Pronouncements**

In June 2009, the Financial Accounting Standards Board ( FASB ) issued authoritative guidance which established the Accounting Standards Codification ( ASC or Codification ) as the source of authoritative GAAP recognized by the FASB to be applied to nongovernmental entities, and rules and interpretive releases of the SEC as authoritative GAAP for SEC registrants. The Codification supersedes all existing non-SEC accounting and reporting standards upon its effective date and, subsequently, the FASB will not issue new standards in the form of Statements, FASB Staff Positions or Emerging Issues Task Force Abstracts. The guidance is not intended to change or alter existing GAAP. The guidance became effective in our fourth quarter of 2009. The guidance did not have an impact on our consolidated financial position, results of operations or cash flows.

In May 2009, the FASB issued authoritative guidance on the accounting for and disclosure of events that occur after the balance sheet date. This guidance was effective for interim and annual financial periods ending after June 15, 2009. This guidance was amended in February 2010. It requires an entity that is a SEC filer to evaluate subsequent events through the date that the financial statements are issued. The adoption did not impact our consolidated financial position, results of operations or cash flows.

In January 2010, the FASB issued guidance, which clarifies that the stock portion of a distribution to stockholders that allows them to receive cash or stock with a potential limitation on the total amount of cash that all stockholders can elect to receive in the aggregate is considered a share issuance that is reflected in earnings per share prospectively and



is not a stock dividend. This update is effective for our first quarter of 2010. The adoption is not expected to have a material impact on our consolidated financial position results of operations or cash flows.

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In January 2010, the FASB issued guidance that clarifies ASC 810 implementation issues relating to a decrease in ownership of a subsidiary that is a business or non-profit activity. This amendment affects entities that have previously adopted ASC 810-10. This update is effective for our first quarter of 2010. The adoption is not expected to have a material impact on our consolidated financial position, results of operations or cash flows.

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**BUSINESS**

**Overview**

We are a rapidly growing provider of three- and five-gallon purified bottled water and water dispensers sold through major retailers nationwide. We believe the market for purified water is growing due to evolving taste preferences, perceived health benefits and concerns regarding the quality of municipal tap water. Our products provide an environmentally friendly, economical, convenient and healthy solution for consuming purified water. Our business is designed to generate recurring demand for Primo purified bottled water through the initial sale of our 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 where consumers receive a recycling ticket that offers a discount toward the purchase of a full bottle of Primo purified water. We believe Primo consumers purchase an average of 35 bottles of water annually and each bottle 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 an equivalent volume of single-serve bottled water. As of December 31, 2009, our water bottle exchange service and water dispensers were offered in each of the contiguous United States and located in approximately 7,000 and 5,500 retail locations respectively, including Lowe's Home Improvement, Sam's Club, Costco, Walmart, Target, Kroger, Winn-Dixie, Albertsons and Walgreens.

We have created a new nationwide single-vendor water bottle exchange solution for our retail customers, addressing a market demand that we believe was previously unmet. Our water bottle exchange solution is easy for retailers to implement, requires minimal management supervision and store-based labor and provides centralized billing and detailed performance reports. Our solution offers retailers attractive financial margins and the ability to optimize typically unused retail space with our displays. Additionally, due to the recurring nature of water consumption and water bottle exchange, retailers benefit from year-round customer traffic and highly predictable revenue.

We deliver our solution to retailers utilizing our national network. Our independent bottlers and distributors typically have made already the capital investment required to deliver our solution, including investment in bottling facilities and storage and distribution assets. We focus our capital expenditures on developing new retail relationships, installing displays at store locations, raising brand awareness, research and development for new products and maintaining our MIS tools. We are able to manage our national network on a real-time basis through

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our MIS tools, which provide resource planning and delivery schedule tracking, thus enabling us to optimize our network's assets and respond to customer needs. In addition, our national network benefits from the recurring nature of water consumption and water bottle exchange that generates year-round demand and optimizes utilization of their existing production and distribution assets. In addition, our national network benefits from our MIS tools that assist resource planning and delivery schedule optimization. We believe our solution and national network provide us a significant competitive advantage in servicing our retail customers.

We benefit significantly from management experience gained over the last 15 years in exchange-based businesses, which enables us to implement best practices and develop and maintain key business relationships. Prior to founding Primo, our Chief Executive Officer founded Blue Rhino Corporation, a propane cylinder exchange business, in 1994 and, with several of our other key executive officers, led its initial public offering in 1998 and successful sale in 2004. At the time of the sale, we believe Blue Rhino was a market leader in propane grill cylinder exchange with over 29,000 retail locations in 49 states.

## **Industry Background**

We believe there are several trends that support consumer demand for our water bottle exchange service, water dispensers and, following the Culligan Refill Acquisition, refill vending services, including the following:

### *Emphasis on Health and Wellness*

The majority of the human body is comprised of water and nearly all critical body functions rely on proper hydration. As part of a desire to live a healthier lifestyle, we believe consumers are increasingly focused on drinking more water relative to consumption of high caloric beverages, carbonated soft drinks and beverages containing artificial sweeteners.

### *Concerns Regarding Quality of Municipal Tap Water*

Many consumers purchase purified water not only due to better taste, but also because of concerns regarding municipal tap water quality. Municipal water is typically surface water that is treated centrally and pumped to homes, which can allow additional contaminants to dissolve into the water through municipal or household pipes impacting taste and quality. There have been many recent publications highlighting pollution and quality issues with municipal water in the United States. Additionally, due to budgetary deficits, municipalities are increasingly privatizing their water treatment and distribution systems, and there have been many compliance and quality issues documented in connection with privatized municipal water systems.

### *Growing Preference for Purified Water*

We believe consumer preference toward purified water relative to tap water continues to grow. With increasing availability in recent years, purified water has become accepted on a mainstream basis and preferred by many over municipal tap water. While it is difficult to quantify purified water consumption in all of its forms, we believe the growth of bottled water consumption reflects this trend. According to a June 2009 report by independent market analyst Datamonitor, *Bottled Water in the United States*, consumers spent \$18.4 billion in 2008 on bottled water and the industry is expected to grow at a compound annual growth rate of approximately 7.5%, reaching \$26.5 billion by 2013.

### *Increasing Demand for Products with Lower Environmental Impact*

We believe that consumers are increasingly favoring products with a lower environmental impact with a reuse, recycle, reduce mindset becoming a common driver of consumer behavior. Areas of concern include products packaging materials, carbon footprint and crude oil usage in production and distribution and the impact on landfills when disposed. Most single-serve PET water bottles are produced using fossil fuels and contribute to landfill waste given that only 27% of PET bottles are recycled according to a November 2009 Environmental

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Protection Agency report. Additionally, according to the December 2008 report, *Bottled Water-U.S.*, by Mintel International Group Limited, the incidence of people who do not drink single-serve PET bottled water because of environmental concerns nearly doubled from 18.0% in 2007 to 35.0% in 2008. Governmental legislation also reflects these concerns with the passage of bottle bills in many jurisdictions that tax the purchase of plastic water bottles, require deposits with the purchase of certain plastic bottles, prohibit the use of government funds to purchase plastic water bottles and ban certain plastic bottles from landfills.

*Source: National Association for PET Container Resources 2005 and 2008 Reports on Postconsumer PET Container Recycling Activity.*

*Availability of an Economical Water Bottle Exchange Service and Innovative Water Dispensers*

According to 2007 United States census data, there are approximately 112 million households. Based on estimates derived from industry data, we believe the current household penetration rate of multi-gallon water dispensers is approximately 4%, with the vast majority of these households utilizing traditional home delivery services. Until recently, there has been little innovation, design enhancement and functionality improvement in water dispensers to meet modern household needs and competing water dispensers have traditionally retailed at prices we believe are unlikely to support greater household adoption. Compounding these issues, there previously was no viable provider of an economical water bottle exchange service with major retailer relationships nationwide to promote dispenser usage beyond the traditional home delivery model. We believe our water bottle exchange service provides this alternative and we believe we are currently the only provider delivering a solution nationally to retailers. We believe there are over 200,000 major retail locations throughout the United States and Canada that we can target to sell our dispensers or offer our water bottle exchange service and, following the Culligan Refill Acquisition, refill vending services.

**Our Competitive Strengths**

We believe that our competitive strengths include the following:

*Appeal to Consumer Preferences*

*Environmental Awareness.* Our water bottle exchange service incorporates reuse of existing bottles, recycles water bottles when their lifecycle is complete and reduces landfill waste and fossil fuel usage compared to alternative methods of bottled water consumption. Our three- and five-gallon water bottles are exchanged, sanitized and reused up to 40 times before being taken out of service, crushed and recycled. Given its typical exchange lifecycle, one Primo five-gallon water bottle provides consumers with water in an amount equivalent to approximately 1,200 16 ounce single-serve PET bottles. When used as an alternative for consuming purified water, based on current recycling rates, one Primo five-gallon water bottle can prevent

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approximately 875 16 ounce single-serve PET bottles from contributing to landfill waste. In addition, we believe our water bottle exchange service uses less fossil fuel in the distribution process and has a lower carbon footprint than alternative methods of bottled water consumption. Our geographically dispersed national network is typically closer to major retailers than our centralized single-serve bottled water competitors. In addition, our exchange service is utilized by consumers as part of their ordinary shopping patterns, compared to separate, non-optimized deliveries typically associated with traditional home delivery providers, generally by less fuel efficient vehicles.

*Value.* We provide consumers the opportunity for cost savings when consuming our bottled water compared to both single-serve bottled water and typical home and office delivery services. We believe our five-gallon bottles of purified water typically cost a consumer between \$4.69 and \$7.99, after giving effect to the discount provided by our recycling ticket. We believe this compares favorably to the cost of single-serve PET bottles, case pack water and most home and office delivery services. The cost savings provided by our recycle ticket also provides consumers an incentive to remain a user of our water bottle exchange service. Finally, our water dispensers are sold at attractive retail prices in order to enhance consumer awareness and adoption of our water bottle exchange service, increase household penetration and drive sales of our bottled water.

*Convenience.* Our water bottle exchange service and water dispensers are available at major retail locations nationwide. In addition, our water bottle exchange service provides consumers the convenience of exchanging empty bottles and purchasing full bottles at any participating retailer. We offer three- and five-gallon water bottle options to address different consumer volume preferences. We believe our water bottle exchange service provides a convenient way to consume purified water compared to home and office delivery services. Our water bottle sales displays are fully stocked and ready for consumer purchases. In addition, our exchange service permits consumers to purchase only the number of water bottles they need without the water bottle purchase minimums or bottle deposits often charged by home and office delivery providers.

*Taste.* We have dedicated significant time and effort in developing our water purification process and formulating the proprietary blend of mineral ingredients included in Primo purified water that we believe has a silky smooth taste. In an independent taste test that we commissioned and was conducted in six regions throughout the United States in 2007, four out of five participants on average preferred Primo purified water over municipal tap water and three out of four participants on average preferred Primo purified water over their region's market-leading bottled water.

*Health and Wellness.* As part of a desire to live a healthier lifestyle, we believe that consumers are increasingly focused on drinking more water relative to consumption of other beverages. As we raise our brand awareness, we believe consumers will recognize that our water bottle exchange service is an effective option for their purified water consumption needs.

*Key Retail Relationships Served by Nationwide Single-Vendor Solution*

We believe we are the only water bottle exchange provider with a single-vendor solution for retailers nationwide. Our solution is easy to implement and supervise for national and regionally concentrated major retailers. We manage our national network to service our retail customers. This network utilizes our MIS tools and processes to optimize their production and distribution assets while servicing our retail customers. We believe the combination of our major retail relationships, unique single-vendor solution for retail customers, national network and our MIS tools is difficult to replicate. We anticipate these factors will facilitate our introduction of new purified water-related products in the future.





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*Ability to Attract and Retain Consumers*

We offer razor-razorblade products designed to generate recurring demand for Primo purified bottled water (the razorblade) through the initial sale of our innovative water dispensers (the razor), which include a coupon for a free three- or five-gallon Primo bottle of water. We acquire new consumers and enhance recycling efforts by accepting most dispenser-compatible water bottles in exchange for a recycle ticket discount toward the purchase of a full bottle of Primo purified water. Our water bottle exchange service is attractive to retailers as our consumers purchase what we believe to be an average of 35 bottles of Primo purified water per year, which facilitates repeat consumer traffic in our retailers' stores. In addition, based on discussions with our retail customers, we believe we are a leading provider of water dispensers to U.S. retailers, a status we believe we achieved within less than two years of entering the market. We believe this rapid success is due to the innovative features, design elements and attractive retail prices of our water dispensers. We further believe our offering high-quality water dispensers enhances consumer awareness and adoption of our water bottle exchange service, increases household penetration and drives sales of our bottled water.

*Efficient Business Model*

Our business model allows us to efficiently offer our solution to our retail partners and centrally manage our national network without a substantial capital investment. We believe our business processes and MIS tools enable us to manage the bottling and distribution of our water, our product quality, retailer inventory levels and the return of used bottles on a centralized basis, leveraging our invested capital and personnel. We own the bottles, transportation racks, mineral injectors and sales and recycling displays to ensure product quality and proper positioning of the Primo brand. We focus our capital expenditures on developing new retail relationships, installing displays at store locations, raising brand awareness, research and development for new products and maintaining our MIS tools. We believe our water bottle exchange service is unique in that we are not required to make a significant portion of the capital investment required to operate our exchange service nationwide. Participation in our water bottle exchange service does not typically require independent bottlers and distributors to make substantial new investments because they often are able to augment their current production capacity and leverage their existing bottling and distribution assets. In addition, the flow of payments between the retailer and our bottlers and independent distributors is a critical component of our overall relationship with our major retail accounts that we control efficiently through electronic data interchange.

*Benefit from Management's Proven Track Record*

We benefit greatly from management experience gained over the last 15 years in exchange businesses, which enables us to implement and refine best practices and develop and maintain key business relationships. Our Chief Executive Officer, Billy D. Prim, founded Blue Rhino Corporation, a propane cylinder exchange business, in 1994 and led its IPO in 1998 and its successful sale in 2004. At the time of the sale, we believe Blue Rhino was a market leader of propane grill cylinder exchange with over 29,000 retail locations in 49 states. In addition to our Chief Executive Officer, our Chief Financial Officer, Senior Vice President of Operations, Vice President of Products and Vice President of National Accounts all held comparable positions within the Blue Rhino organization during its rapid sales and location growth. We believe this experience combined with our nationwide single-vendor solution contributed to Walmart's recent decision to name Primo category manager for water bottle exchange and water dispensers.

**Growth Strategy**

We seek to increase our market share and drive further growth in our business by pursuing the following strategies:

*Increase Penetration with Existing Retail Relationships and Develop New Retail Relationships*

We believe we have significant opportunities to increase store penetration with our existing retail relationships. As of December 31, 2009, our water bottle exchange service was offered at 6,000 of our top ten retailers

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nationwide locations. Such retailers present us an opportunity of approximately 7,500 additional nationwide locations. As of December 31, 2009, the Culligan Refill Business was offered at approximately 3,400 of its top ten retailers locations. Such retailers present the Culligan Refill Business an opportunity of approximately 6,600 additional locations.

There is minimal overlap of fewer than 100 locations where our water bottle exchange service is offered and the Culligan Refill Business is operated. Following the Culligan Refill Acquisition, we intend to further penetrate our other existing retail customers with both our water bottle exchange service and the Culligan Refill Business which collectively provide us the opportunity to be present in more than 20,000 additional locations.

Our long-term strategy includes targeting more than 50,000 total retail store locations (which includes new locations with our existing retail customers) within our primary retail categories of home centers, hardware stores, mass merchants, membership warehouses, grocery stores, drug stores and discount general merchandise stores for our water bottle exchange service or the Culligan Refill Business. We believe that the introduction of additional hydration solutions to our product portfolio will allow us to cross-sell products to our existing and newly-acquired retail customers.

Within two years of Primo's inception, we expanded our retail presence from 13 states to our current locations within each of the contiguous United States. In addition, from 2005 through 2009, we increased our water bottle exchange locations from approximately 300 to 7,000, representing a compound annual growth rate of approximately 120%.

### *Drive Consumer Adoption Through Innovative Water Dispenser Models*

We intend to continue to develop and sell innovative water dispensers at attractive retail prices, which we believe is critical to increasing consumer awareness and driving consumer adoption of our water bottle exchange service. We believe our water dispensers have appealing features, such as stainless steel finishes, adjustable hot and cold temperature controls and hidden bottle bottom-loading features for convenience. As a result of our strategy of developing innovative water dispensers, we believe based on discussions with our retail customers that we became a leading seller of water dispensers to retailers within less than two years of our entry into the market. Since we began selling our water dispensers in 2005, we have sold over 520,000 units, and have expanded our retail network from four locations as of December 31, 2007, to our current network of approximately 5,500 locations. We plan to continue introducing new dispenser models at attractive retail price points to meet the evolving needs of consumers, enhance consumer awareness and adoption of our water bottle exchange service, and increase household penetration. Our long term strategy is to provide multiple purified water-based beverages from a single Primo water dispenser, with consistent promotion of our water bottle exchange and, following the Culligan Refill Acquisition, refill vending services to supply the purified water.

### *Increase Same Store Sales*

We offer razor-razorblade products designed to generate recurring demand for Primo purified bottled water and, upon the consummation of the Culligan Refill Acquisition, drinking water refill vending services (the razorblade) through the initial sale of water dispensers (the razor). We sell our water dispensers at minimal margin and provide a coupon for a free three- or five-gallon bottle of water with the sale of various water dispensers at certain retailers to drive consumer demand for our water bottle exchange and, following the Culligan Refill Acquisition, refill vending services.

We believe increasing unit sales of Primo purified bottled water is dependent on generating greater consumer awareness of the environmentally friendly and economical aspects of and the convenience associated with both our purified bottled water and our water bottle exchange and, following the Culligan Refill Acquisition, refill vending

services. We expect that our branding, marketing and sales efforts will result in greater usage of our water bottle exchange and, following the Culligan Refill Acquisition, refill vending services. We are also increasing our public relations initiatives associated with new market launches, developing additional cooperative advertising programs

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with retail distribution partners and increasing our field marketing activities. In addition, as consumers exchange dispenser-compatible water bottles, we encourage the use of our water bottle exchange service by providing them a recycling ticket that provides a discount on a full bottle of Primo purified water.

### *Develop and Install Other Hydration Solutions*

We believe we have significant opportunities to leverage our national network and our systems and processes to offer other environmentally friendly, economical, convenient and healthy hydration solutions to our retail partners without significant increases in our centralized costs. For example, the Culligan Refill Business will provide us an established platform to offer our retail partners self-service refill vending machines that dispense drinking water into empty reusable water bottles. We believe this offering will cater to a more price-sensitive consumer. In addition, we intend to offer to our retail partners automated, self-bagging purified ice dispensers. These purified ice dispensers will provide a simplified method of acquiring ice in customized offering sizes without the extensive manufacturing and storage networks typical of the ice dispensing industry.

### *Pursue Strategic Acquisitions to Augment Geographic and Retail Relationships*

In addition to the Culligan Refill Acquisition, we believe opportunities exist to expand through selective acquisitions, including smaller water bottle exchange businesses with established retail accounts, other on-premises self-service water refill vending machine networks and retail accounts, ice dispenser machine networks and retail accounts and water dispenser companies.

## **Product Overview**

### *Water*

We have dedicated significant time and effort in developing our water purification process and formulating the proprietary blend of mineral ingredients included in our purified water. Our proprietary blend of mineral ingredients was developed with the assistance of consultants and several months of lab work and taste tests and has what we believe to be a silky smooth taste. In an independent taste test that we commissioned and was conducted in six regions throughout the United States in 2007, four out of five participants on average preferred Primo purified bottled water over tap water and three out of four participants on average preferred Primo over their region's market-leading bottled water brand. We believe it is important that each bottle of Primo purified water has consistent taste and each production lot is tested by the bottler to ensure it meets our standards. In addition, to ensure that our safety standards are met and FDA and industry standards are met or exceeded, each production lot of our purified water undergoes chemical and microbiological testing by the bottler and all facilities bottling Primo purified water undergo regular hygiene audits by a third party hired by us.

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*Water Bottles*

We currently source three- and five-gallon water bottles from multiple independent vendors for use in our exchange service. Each of our Primo water bottles includes a handle designed for easy transportation and lifting when installing the bottle onto or into one of our water dispensers. Our bottles also include a specially designed cap that prevents spills when carrying or installing.

*Water Dispensers*

We currently source and market three lines of water dispensers comprised of 15 models:

Our dispensers are designed to dispense Primo and other dispenser-compatible bottled water. Our dispensers have manufacturer suggested retail prices that range from \$199.99 for our top-of-the-line bottom-loading model with a stainless steel finish to \$14.99 for a simple pump that can be installed on a bottle and operated by hand.

Currently, more than 95% of our dispenser sales are attributable to our bottom- and top-loading products. Consistent with our environmental focus, our electric dispensers are Energy Star<sup>®</sup> rated, and, we believe, utilize less energy than competing water dispensers without this industry rating. In addition, some of our dispenser models

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feature power switches to individually control the hot and cold tanks of the dispenser, saving additional energy when not in use and providing a child-safety feature. We believe both our bottom- and top-loading models dispense water twice as fast as competing products and have the fastest recovery time for heating and cooling water. In addition, certain models of our bottom-and top-loading dispensers come equipped with adjustable hot and cold temperature controls conveniently located on the top of the dispenser.

We believe our bottom loading dispensers are attractive to consumers and will drive the greatest increase in household penetration as a result of their innovative styling and features. Water bottles are loaded and concealed inside our bottom-loading dispensers by a hinged door for ease of use and a clean aesthetic appearance.

Currently, all of our water dispensers are manufactured by independent suppliers in China. Our dispensers are shipped directly to our retailer partners and we do not use distributors in connection with our water dispensers. We also provide private label water dispensers to Target that are branded as Black & Decker products pursuant to a license agreement with The Black & Decker Corporation.

## **Primo Water Marketing**

Our marketing efforts focus primarily on developing and maintaining a brand identity synonymous with an environmentally friendly, economical, convenient and healthy solution for purified water consumption. We direct our marketing efforts as close as possible to the point of sale to strengthen our brand and promote consumer awareness of our water bottle exchange service. We believe our water bottle exchange service develops consumer loyalty through the use of our recycling tickets. Our marketing efforts include the following initiatives:

### *Primo Water Packaging*

Our three- and five-gallon water bottles, sales and recycling center displays, water dispensers and certain distributor delivery vehicles prominently display our Primo logo and distinctive four-bubble design.

### *Primo Water Displays*

Our sales and recycling center displays are typically located near the front of a store, providing point-of-sale advertising and branding. We believe our displays enhance consumer awareness of the Primo brand and reinforce the association of our water with an environmentally friendly, economical, convenient and healthy solution for purified water consumption. Our displays include Primo graphics, slogans and instructions on the exchange process that simply attach to the displays. We have the ability to quickly replace, customize or introduce new marketing materials on our displays throughout our retail network. In addition, we work with retailers to customize in-store solutions to best promote our brand.

### *Promotions*

Our promotional activities target new customers by:

- Accepting third-party dispenser-compatible water bottles in the exchange process (which we believe is unique in the industry);

- Providing attractive pricing on our water dispensers;

- Offering a free bottle of water with the purchase of a water dispenser;

Advertising in retailers weekly circulars; and

Providing samples of our purified water and water dispensers on-site at our retailers locations and educating consumers on the benefits of our purified bottled water and dispensers.



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We promote our brand through social media, our website (*www.primowater.com*) and other public relations efforts. We also maintain a blog (*www.breakfree411.com*) that is styled as a third-party website and provides updates on the water industry. In addition, we seek to raise awareness of our brand and products through blogs and related periodicals that target women as well as household and kitchen matters. We believe that women often significantly influence household and kitchen appliance decisions and concentrating our efforts in this manner is designed to improve the effectiveness of our advertising campaigns and improve household penetration.

Our promotional activities have evolved from our Taste Perfection campaign to our Zero Waste. Perfect Taste, campaign emphasizing our environmental efforts while simultaneously focusing on the taste of our purified water. We plan to increase our promotional activity as we expand our business.

### **The Primo Water Bottle Exchange Supply Chain**

#### *Water Purification and Bottling*

Our independent bottlers are responsible for the water purification and bottling process and use their own equipment to complete this process. Our bottling process begins with either spring water or water from a public source that is processed through a pre-filtration stage to remove large particles. The water is then passed through polishing filters to catch smaller particles followed by a carbon filtration process that removes odors, tastes, sanitization by-products and pharmaceutical chemicals. A microfiltration process then removes microbes before the water is passed through a softener to increase the purification efficiency. The water next passes through the last phase of reverse osmosis or distillation, completing the purification process. After the purification process is complete, our proprietary blend of mineral ingredients is injected into the water followed by the final ozonation process to sanitize the water. A bottle is filled with Primo purified water only after the inspection and sanitization steps outlined below are completed. Each of our production lots is placed on a 48-hour hold to allow for testing by the bottler and to ensure successful compliance with chemical and microbiological standards. We have the ability to trace each bottle of Primo water to its bottling and distributor sources, and we regularly perform recall tests to ensure our ability to react to a contamination event should it occur. In comparison, municipal water is generally treated at a centralized processing facility and then distributed throughout the pipeline network. As the water flows to the point of use, contaminants and other foreign objects may be dissolved into the water, and household piping and faucets may collect sediment that over time reduces the quality of municipally supplied water.

Our distributors are responsible for collecting empty Primo bottles and other dispenser-compatible bottles that are deposited into our recycling center displays. At the completion of the delivery cycle, a distributor inspects the exchanged bottles for reusability and coordinates the recycling efforts with our operations personnel to ensure that reuse of each water bottle we receive in the exchange process is being optimized. Our 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 similar amounts of single-serve PET bottled water. Bottles that pass a distributor's initial inspection are subject to three washing cycles to remove particles. Bottles are then passed through two sanitization stages before a final rinse with hyper-ozonated water to kill or inactivate any microbes that remain at that point in the sanitization process. The water bottles are then ready to be filled with our purified water.

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*Distribution Network*

We rely on our national network to deliver our solution to retailers. Our water bottle exchange process begins when a distributor is directed through our proprietary MIS tool, Routeview, to stock or replenish a Primo bottled water retail location. Routeview enables our distributors to review delivery quantities and tentative scheduling requirements in their territory. Our systems provide anticipated demand based on historical sales and, to the extent available, retailer point of sale ( POS ) data. Each distributor is provided information to enable the distributor to load a truck with the appropriate inventory to stock or restock the water bottle sales displays on its route, including a tailored amount of excess bottles as safety stock. Upon arrival at each retail location, the driver first visits the recycling center display to collect empty Primo and other dispenser-compatible bottles. The driver enters data related to empty bottles on a handheld device to collect exchange efficiency information and potential customer conversion data and then loads empty bottles onto the truck. The driver next checks the in-store sales display to compare the number of remaining bottles of water with the anticipated demand report generated by our MIS tools. After entering current stock levels, the driver is instructed by our MIS tools through the handheld device and based on proprietary algorithms, to replenish the sales display with an appropriate quantity of bottles.

At the completion of the delivery cycle and after inspection of the bottles, our distributors typically are responsible for coordinating the sanitization and bottling process with our bottlers. In addition, distributors must run end-of-day reports on their handheld devices which transmit crucial data points into our databases and validate

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daily activity. Our handheld devices also capture electronic signatures, significantly reducing paper exchange. This greatly improves our verification procedures and enhances our environmental efforts.

\*\*\* Certain independent distributors operate multiple distribution sites and the Company-owned distribution sites in North Carolina and Virginia are part of a single Company-owned distribution operation.

We have the ability to test and refine procedures through our Company-operated distribution system before implementing them with our independent distributors nationwide. In addition, we regularly solicit feedback from our independent distributors to improve processes.

*Flow of Payments and Capital Requirements*

We control the flow of payments between our retail customers and our bottlers and distributors through electronic data interchange. Our distributors are responsible for handling distribution and servicing our sales and recycling center displays. Through our handheld devices, distributors report their deliveries which are received by our systems and verified by data integrity checks. Depending on the retailer, our distributors either present the store manager with an invoice for the bottles delivered or our systems electronically bill the retailer. We compensate our distributors with a fixed payment per delivered water bottle on the fifteenth day of the month following the delivery activity. Our fixed payment is a gross amount from which the distributor must typically pay the bottler. In order to maximize their returns and profitability, our distributors increasingly are becoming vertically integrated, using their capital to build bottling facilities. Due to the high degree of automation during our billing and inventory management procedures, we are able to leverage our centralized personnel and believe we will be able to significantly expand our business with minimal increases in variable cost.

We focus our capital expenditures on developing new retail relationships, installing displays at store locations, raising brand awareness, research and development for new products and maintaining our MIS tools. We are also

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responsible for the centralized operations and personnel, sales and recycling displays, bottles, transportation racks, mineral packets and mineral injectors and handheld devices. Our national network typically has made the capital investment required to operate our exchange service nationwide, including a majority of the capital expenditures related to the bottling, sanitization and refill process and the distribution assets such as delivery trucks and warehouse storage. Participation in our water bottle exchange service does not typically require the independent bottlers and distributors to make substantial new investments because they often are able to augment their current production capacity and leverage their existing bottling and distribution assets. In addition, many of our major retail customers have invested their capital to expand store locations and generate customer traffic.

**Flow of Payments and Capital Requirements**

**Retailer Relationships**

We target major retailers with either a national footprint or a significant regional concentration. Our relationships are diversified among the following retail categories and major accounts:

**Retail Category**

Home Centers / Hardware Stores  
 Mass Merchants  
 Grocery Stores  
 Membership Warehouses  
 Drug Stores

**Major Accounts**

Lowe's Home Improvement, Ace Hardware, True Value  
 Walmart, Target, Kmart  
 Kroger, Winn-Dixie, Albertsons, Food Lion  
 Sam's Club, Costco  
 Walgreens, CVS

*Retailer Opportunity*

We offer retailers a single-vendor solution. Our water bottle exchange service provides retailers with a year-round consumer product and an opportunity to increase sales and profits with minimal labor and financial investment. Through our national network, we are able to service major retailers nationwide. Retailers benefit from our water bottle exchange service that offers high margin and generates productivity from often underutilized interior and exterior retail space. In addition, our water bottle exchange service has the potential to increase retailers' sales of ancillary products through increased traffic from repeat water bottle exchange consumers, who we believe purchase an average of 35 water bottles annually.

*Account Set-Up*

We actively pursue headquarters-based retail relationships to better serve our retail partners and minimize layers of approval and decision-making with regard to the roll-out of our water bottle exchange service to multiple locations. Upon confirmation of new retail locations, we coordinate with the retailer and distributor to schedule openings in a timely manner. We actively assist retailers in developing site plans for the setup of our sales and

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recycling center displays. While retailer setup preferences may vary, retailers often like to locate the recycling center display prominently on the exterior of their store to ease the transaction process, showcase their recycling and environmental efforts and conserve inside floor space while at the same time promoting the Primo brand.

### *Account Service*

Our water bottle exchange service is a turn-key program for retailers in which we and our distributors actively service each retail account. After the retail location is established, our distributors complete on-site training and have an economic interest in supporting and growing the business relationship to increase product throughput. Distributors deliver three- and five-gallon Primo bottled water directly to retail locations and maintain the sales and recycling center displays.

### *Sales Support*

While distributors service our retail accounts, the customer relationship is owned and maintained by our experienced retail sales organization, which allows us to develop strong brand affinity and maintain key headquarters-based relationships to secure and maintain our national retail network. Our retail relationships are divided into regions and managed by our sales personnel. In addition, we leverage our independent distributors who typically employ their own sales representatives. This combined team is responsible for selling and supporting our water bottle exchange service to targeted retailers.

### *Systems Support*

We supply each major retail customer with a customized sales and business update on a monthly basis. The monthly update consists of a graphical dashboard highlighting sales trends and location-based information as well as qualitative commentary to assist store and headquarters personnel in their business decisions. We believe our reports help retail personnel monitor the success of our water bottle exchange service and highlight our analytical and customer support capabilities as a retail partner. In many cases, our retail customers do not have internal reporting capabilities to develop comparable analyses.

### *Customer Service*

We maintain a single toll-free number for all distributors, retailers and customers to contact us directly with questions regarding our bottled water, water bottle exchange process and customer service inquiries. In addition, we maintain a separate toll-free number for our water dispensers. We believe maintaining our own customer service numbers allows us to effectively monitor all aspects of our business and receive feedback on issues first-hand that we can direct to our distributors or dispenser suppliers.

### *Significant Customers*

For the year ended December 31, 2009, Lowe's Home Improvement, Sam's Club and Walmart represented approximately 33%, 19% and 15% of our total sales, respectively.

## **National Bottler and Distributor Network**

In an effort to build a market-leading single-vendor national water bottle exchange service, we have sought to attract experienced and well-capitalized independent bottlers and distributors to support our retail partners. As of December 31, 2009, we had 55 independent bottlers and 27 independent distributors as well as our two Company-owned distribution operations covering portions of four states.



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### *Bottler and Distributor Opportunity*

We provide independent bottlers and distributors with an attractive business opportunity, complementing many of their existing operations. We continually pursue new relationships and additional locations with existing retail partners to increase the production at each bottler's manufacturing facility and the retail customer density within each distributor's territory.

### *Bottler and Distributor Standards*

We work very closely with our national network to ensure their production and storage standards meet or exceed the requirements of the United States Food and Drug Administration and other industry regulations. As we seek to promote our brand, we believe it is critical to provide bottled water that has consistent taste and is produced in a manner that exceeds current industry requirements. We regularly monitor, test and arrange for third-party hygiene audits of each bottling facility.

In addition, we regularly monitor our distributors' performance to ensure a high level of account service. Distributors are generally required to develop an infrastructure sufficient to:

- Complete customer installations within 30 days of the notification of a newly established account;
- Monitor and maintain inventory levels with assigned retail accounts; and
- Resolve water bottle stock-outs within 36 hours.

### *Bottler and Distributor Selection Process*

We have selectively identified and pursued high quality independent bottlers and distributors that can support our major retailers nationwide. We screen all independent bottler and distributor candidates by reviewing credit reports, safety records and manufacturing compliance reports, and conducting management reference checks. As a result of this thorough selection process, we have established what we believe to be highly dependable relationships with our independent bottlers and distributors. We currently maintain three distributor or bottler relationships that have relatively high customer concentrations in the geographic areas they serve. None of these independent distributors or bottlers, however, had responsibility for more than 8.0% of the bottling or more than 12.6% of the distribution with respect to our water bottle exchange volume for the year ended December 31, 2009. We believe we have a positive relationship with each of these parties and our senior executives have maintained a business relationship with each such party since they were managing operations at Blue Rhino Corporation.

### *Bottler and Distributor Services*

We currently employ raw material procurement and supply chain personnel who perform periodic inventory audits and month-end review procedures. In addition we have operations personnel who manage our independent bottler and distributor relationships, including training and monitoring personnel and activities. We also employ customer service personnel who handle bottler, distributor, retailer and end-user phone calls.

### *Company Owned Distribution Operations*

We currently own and operate two distribution operations that have distribution responsibilities for certain regions that are relatively near our primary facilities. We distribute our bottled water to major retailers in portions of North Carolina, South Carolina, Florida and Virginia. We believe distributing our bottled water in these areas is an important

way for us to better understand the bottled water exchange process and provides us the necessary feedback to enhance our independent bottler and distributor relationships. In addition, distributing our bottled water in these areas should assist us in validating the economic arrangements we offer our bottlers and distributors and developing industry knowledge that we can deploy throughout our system. For the year ended December 31,



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2009, our two Company-owned distribution operations accounted for approximately 23.5% of our water bottle exchange volume.

*Independent Bottler and Distributor Agreements*

We have entered into bottler and distributor agreements with each of our independent bottlers and distributors on substantially similar terms. While individual agreements contain variances and exceptions, the material terms of such agreements are described generally below. No individual bottler or distributor is material to our overall financial condition or results of operations.

*Independent Bottler Agreement*

In our independent bottler agreement, we appoint a bottler as a non-exclusive supplier of our purified drinking water. The bottler is restricted from competing with us during the term of the agreement and for a specified period after the term in a specified geography.

The bottler is required to bottle and deliver product in conformance with our specifications, including our proprietary mineral formula. The bottler must ensure that our bottled water products comply with applicable laws, rules and regulations (including those of the FDA), industry standards (including those of the International Bottled Water Association) and our quality requirements. The agreement also imposes requirements on the bottler with respect to the maintenance of its facilities and equipment that are intended to ensure the quality of our products.

We provide the necessary bottles, caps, labels, transportation racks, mineral injectors and formula minerals at no charge to the bottler to support the bottling and supply of our bottled water products. The bottler is required to maintain inventory levels necessary to satisfy our production requirements. Product may not be released for shipment until the bottler meets all applicable quality requirements.

Pricing is set forth in the agreement, and we have the right to modify pricing on thirty days notice to the bottler. The agreements generally have a three-year term, and if not otherwise terminated, automatically renew for successive one-year periods after the initial term. Either party may terminate the agreement in the event of an uncured material breach by the other party.

*Independent Distributor Agreement*

In our independent distributor agreement, we grant a distributor the right to serve as our exclusive delivery and service agent and representative with respect to our bottled water exchange service for a specified term in a specified geographic territory. The distributor is restricted from competing with us during the term of the agreement and for a specified period after the term in the specified geography. We have the right, at any time, to purchase a distributor's rights under the agreement, along with related distribution equipment, for an amount based on the distributor's revenues under the agreement for the prior twelve-month period and the fair market value of the equipment being purchased.

The distributor must perform its services under the agreement in conformance with our distributor manual and all applicable laws and regulations, including those of the FDA.

We compensate a distributor for its services while maintaining a direct relationship with and collecting payments from our retailer customers within the distributor's service territory. Pricing is set forth in the agreement, and we have the right to modify pricing and payment terms on thirty days notice to the distributor.

The agreements generally have a ten-year term, and if not otherwise terminated, automatically renew for successive one-year terms after the initial ten-year term. Either party may terminate the agreement for, among other reasons, an uncured material breach by the other party.

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### **Management Information Systems**

We have made a substantial investment in MIS tools which enhance our ability to process orders, manage inventory and accounts receivable, maintain distributor and customer information, maintain cost-efficient operations and assist distributors in delivering products and services on a timely basis. Our technology utilizes highly integrated, scalable software applications that cost-effectively support our growing retail network. Our MIS tools also allow us to analyze historical trends and data to further enhance the execution, service and identification of new markets and marketing opportunities. The primary components of our systems include the following:

#### *Sales and Marketing Support Systems*

We operate a single customer relationship management database that integrates all financial and transaction-based data with respect to each retail account. Our MIS tools provide our account managers and customer service representatives access to crucial data to effectively manage each bottler, distributor and retail relationship.

#### *Bottler and Distributor Level Technology*

Our distribution process is highly automated and scalable. Our technology allows bottlers and distributors timely access to information for customer support needs and provides access to real-time data to enhance decisions. In addition, each distributor is electronically linked to our systems with our proprietary Routeview software. Routeview enables distributors to review delivery quantities and tentative scheduling requirements across our entire national network. In addition, our MIS tools allow drivers to update delivery, inventory and invoicing information through handheld devices. This technology provides retailers with accurate and timely inventory and invoices and assists each distributor in managing its responsibilities.

#### *Financial Integration*

We utilize Microsoft's Dynamics GP software as our core platform which interfaces with all of our systems. Each handheld device is based on Microsoft's operating system and ensures integration within our reporting and financial databases. All delivery transactions are validated and data is imported into our database tables and mapped to corresponding accounting ledgers.

### **Manufacturing and Sourcing**

Our manufacturing strategy is to utilize independent manufacturers to produce empty water bottles, sales displays and recycle centers and water dispensers at a reasonable cost. We believe that using independent manufacturers has several advantages over our manufacturing these items directly, including (i) decreased capital investment in manufacturing plants and equipment and working capital, (ii) the ability to leverage independent manufacturers purchasing relationships for lower materials costs, (iii) minimal fixed costs of maintaining unused manufacturing capacity and (iv) the ability to utilize our suppliers' broad technical and process expertise.

Currently, the majority of our water dispensers are assembled by a single independent manufacturer in China, which utilizes several sub-suppliers to provide components and subassemblies. We have the sole North American rights to develop products with this manufacturer and each dispenser unit is produced to our design specifications. Each unit is inspected and tested for quality by the manufacturer's personnel prior to shipment and any units returned by consumers or retailers are sent directly to the manufacturer for a credit, replacement or refund issued by the manufacturer. Our units generally are shipped directly from Hong Kong to the retailer. For the year ended December 31, 2009, this manufacturer produced water dispenser units that accounted for more than 95% of our water dispenser billings.

Our water bottles and caps are produced by multiple independent vendors throughout the United States. We select suppliers based on price, quality and geographic proximity to our bottlers. We only purchase water bottles with handles as a convenience feature for consumers.

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Our sales displays and recycle centers are made to our design. We frequently request bids from multiple independent manufacturers to achieve optimal pricing.

## **Product Design and Development**

A primary focus of our product research and development efforts is developing innovative water dispensers as part of our strategy to enhance consumer awareness and adoption of our water bottle exchange service, increase household penetration and drive sales of our bottled water. We continually work to improve water dispenser features, seek to lower manufacturing costs so that our innovative products are more affordable and introduce new models. Innovative improvements developed in cooperation with our manufacturing partners include bottom-loading dispensers, adjustable hot and cold temperature controls and faster water dispensing capabilities. Our water dispenser models are designed to appeal to consumers of diverse demographic audiences. We are currently working with our manufacturing partners to develop a new product line that includes self-bagging automated purified ice dispensers. We expect to introduce this new product line in 2010. We are also in the early development stage of creating a water dispenser product that provides consumers the ability to dispense multiple purified water-based beverages, including traditional hot drink products and flavored and carbonated beverages.

## **Competition**

We participate in the highly competitive bottled water segment of the nonalcoholic beverage industry. While the industry is dominated by large and well-known international companies, numerous smaller firms are also seeking to establish market niches. We believe we have a unique business model in the bottled water market in the United States in that we not only offer three- and five-gallon bottled water on a nationwide basis but also provide consumers the ability to exchange their used containers as part of our water bottle exchange service. We believe that we are one of the first companies to provide a national water bottle exchange service at retail. While we are aware of a few direct competitors that operate similar networks, we believe they operate on a much smaller scale than we do and do not have equivalent MIS tools or bottler and distributor capabilities to effectively support major retailers nationwide. Competitive factors with respect to our business include pricing, taste, advertising, sales promotion programs, product innovation, efficient production and distribution techniques, introduction of new packaging, and brand and trademark development and protection.

Our primary competitors in our bottled water business include Nestlé, The Coca-Cola Company, PepsiCo, Dr Pepper Snapple Group and DS Waters of America. While none of these companies currently offers a nationwide water bottle exchange service at retail, Nestlé and DS Waters of America offer this service on a regional basis. However, many of these competitors are leading consumer products companies, have substantially greater financial and other resources than we do, have established a strong brand presence with consumers and have established relationships with retailers, manufacturers, bottlers and distributors necessary to start an exchange business at retail locations nationwide should they decide to do so. In addition to competition between firms within the bottled water industry, the industry itself faces significant competition from other non-alcoholic beverages, including carbonated and non-carbonated soft drinks and waters, juices, sport and energy drinks, coffees, teas and spring and tap water.

We also compete directly and indirectly in the water dispenser marketplace. This marketplace is diverse and faces competition from other methods of purified water consumption such as countertop filtration systems, faucet mounted filtration systems, in-line whole-house filtration systems, water filtration dispensing products such as pitchers and jugs, standard and advanced feature water coolers and refrigerator-dispensed filtered and unfiltered water.

## **Intellectual Property and Trademarks**

We believe that our intellectual property provides a competitive advantage and we have invested substantial time, effort and capital in establishing and protecting our intellectual property rights. We have filed certain patent applications and trademark registration applications and intend to seek additional patents, to develop additional trademarks and seek federal registrations for such trademarks and to develop other intellectual property. We

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consider our Primo name and related trademarks and our other intellectual property to be valuable to our business and the establishment of a national branded bottled water exchange service. We rely on a combination of patent, copyright, trademark and trade secret laws and other arrangements to protect our proprietary rights. We own ten United States federal trademark registrations, including registrations for our Primo® and Taste Perfection® trademarks, our Primo® logo and our distinctive four bubble design. U.S. federal trademark registrations generally have a perpetual duration if they are properly maintained and renewed. We also own a pending application to register our Zero Waste. Perfect Taste™ trademark in the United States and Canada for use in association with drinking water dispensers, bottled drinking water and a variety of other non-alcoholic beverages. In addition, the design of our recycling center displays is protected by four United States design patents and two Canadian industrial design registrations. The United States design patents expire between May 2021 and April 2022 and, assuming that certain required fees are paid, the Canadian industrial design registrations expire in May 2017. We own three pending utility patent applications in the United States for our bottled water distribution method and bottle return apparatus (or our recycling center displays). Additionally, we are party to a license agreement with The Black & Decker Corporation, which expires December 31, 2010, pursuant to which we provide private label water dispensers to Target that are branded as Black & Decker products.

In addition to patent protection, we also rely on trade secrets and other non-patented proprietary information relating to our product development, business processes and operating activities. We regard portions of our proprietary MIS tools, various algorithms used in our business and the composition of our mineral formula to be valuable trade secrets of the Company. We seek to protect this information through appropriate efforts to maintain its secrecy, including confidentiality agreements.

## **Governmental Regulation**

The conduct of our businesses and the production, distribution, advertising, promotion, labeling, safety, transportation, sale and use of our products are subject to various laws and regulations administered by federal, state and local governmental agencies in the United States. It is our policy to abide by the laws and regulations that apply to us, and we require our bottling, manufacturing, and distributing partners to comply with all laws and regulations applicable to them.

We are required to comply with:

- federal laws, such as the Federal Food, Drug and Cosmetic Act, the Occupational Safety and Health Act and the Americans with Disabilities Act;

- customs and foreign trade laws and regulations;

- state consumer protection laws;

- federal, state and local environmental, health and safety laws;

- laws governing equal employment opportunity and workplace activities; and

- various other federal, state and local statutes and regulations.

We maintain environmental, health and safety policies and a quality, environmental, health and safety program designed to ensure compliance with applicable laws and regulations.

The United States Food and Drug Administration (the FDA) regulates bottled water as a food under the federal Food, Drug and Cosmetic Act. Our bottled water must meet FDA requirements of safety for human consumption, identity, quality and labeling. Further, the sale and marketing of our products is subject to FDA's advertising and promotion requirements and restrictions. In addition, FDA has established current good manufacturing practice regulations, which govern the facilities, methods, practices and controls used for the



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processing, bottling and distribution of bottled drinking water. We and our third-party supply, bottling and distribution partners are subject to these requirements. We also must comply with overlapping and sometimes inconsistent state regulations in various jurisdictions. As a result, we must expend resources to continuously monitor state legislative and regulatory activities for purposes of identifying and ensuring compliance with the laws and regulations that apply to our bottled water business in each state in which we operate. While we must meet the government-mandated standards, we believe that our self-imposed standards meet or exceed those set by federal, state and local regulations.

Additionally, the manufacture, sale and use of resins used to make water bottles is subject to regulation by the FDA. Those regulations are concerned with substances used in food packaging materials, not with specific finished food packaging products. We believe our beverage containers are in compliance with FDA regulations. Additionally, the use of polycarbonates in food containers used by children under three years of age is subject to certain state and local restrictions.

Measures have been enacted in various localities and states that require a deposit or tax to be charged for certain non-refillable beverage containers. The precise requirements imposed by these measures vary. Other deposit, recycling or product stewardship proposals have been introduced in various jurisdictions. We anticipate that similar legislation or regulations may be proposed in the future at the local, state and federal levels.

## **Legal Proceedings**

From time to time, we are a party to various lawsuits, claims and other legal proceedings arising from our normal business activities. We have not had, and we do not believe that we have currently, any proceedings that, individually or in the aggregate, would be expected to have a material adverse effect on our business, results of operations or financial condition.

## **Facilities**

Our corporate headquarters, including our principal administrative, marketing, sales, technical support and research and development facilities, are located in Winston-Salem, North Carolina where we lease approximately 14,200 square feet under an agreement that expires on May 31, 2011.

In addition we lease warehouse space in Winston-Salem and Wilmington, North Carolina; Lakeland, Florida; and Petersburg, Virginia to support our Company-owned operations in these regions. These facilities have lease expirations that vary from November 2010 to May 2012.

We believe that our current facilities are suitable and adequate to meet our current needs, and that suitable additional or substitute space will be available as needed to accommodate expansion of our operations.

## **Employees**

As of May 1, 2010, we had 77 employees. We believe that our continued success will depend on our ability to continue to attract and retain skilled personnel. We have never had a work stoppage and none of our employees are represented by a labor union. We believe our relationship with our employees is good.

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**CULLIGAN REFILL ACQUISITION**

**General**

Simultaneously with the closing of this offering, we will acquire certain assets (the Culligan Refill Business ) of Culligan Store Solutions, LLC and Culligan of Canada, Ltd. (together with Culligan International Company, Culligan ) related to its business of providing reverse osmosis water filtration systems that generate filtered water for refill vending machines and store-use water services in the United States and Canada at approximately 4,500 retail locations. This business also sells empty reusable water bottles for use at refill vending machines (such businesses are together referred to as the Culligan Refill Business ). We will fund the \$105.0 million purchase price for the Culligan Refill Acquisition with a portion of the proceeds from this offering, with borrowings under our new senior revolving credit facility and through the issuance of our common stock. The acquisition of the Culligan Refill Business is referred to in this prospectus as the Culligan Refill Acquisition . The closing of this offering and the closing of the Culligan Refill Acquisition are interdependent as we will not consummate either unless we consummate both.

The Culligan Refill Business provides filtered water through the installation and servicing of reverse osmosis water filtration systems. Retailers benefit from the reverse osmosis water filtration systems as they ensure water used throughout a store is clean and safe for self-serve refill vending and store-use services, such as food preparation and hydration of produce. Customers of the Culligan Refill Business include Walmart, Safeway, Meijer, Sobeys, Target, Hy-Vee and Kroger. For the year ended December 31, 2009, the Culligan Refill Business generated revenues of \$26.0 million and net income of \$4.3 million. Approximately 84% of the Culligan Refill Business 's revenues were generated in the United States, with operations in 48 states, and approximately 16% of its revenues were generated in Canada across 10 provinces. The Culligan Refill Business 's revenues are driven by self-serve refill vending services and empty reusable water bottle sales, which account for approximately 76% and 16% of its revenues, respectively, and to a lesser extent by store-use services.

The Culligan Refill Business provides us with an established platform to expand into the self-serve water refill business. We believe the Culligan Refill Business is highly complementary to our water bottle exchange business from both a product and operational perspective. We believe the Culligan Refill Acquisition will:

- provide additional consumer value and convenience;
- augment our environmentally friendly product offering;
- allow us to leverage our marketing and increase the sales of our water dispensers;
- enhance our ability to provide retail customers a broad range of hydration solutions;
- deepen our retail customer relationships through a more extensive product offering;
- expand our retail customer base and geographic presence;
- strengthen our distribution network;
- increase our knowledge base of the refill segment and add experienced personnel; and
- provide a source of stable, dependable cash flows to fund future growth.



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**The Culligan Refill Business**

*Overview*

The principal product line of the Culligan Refill Business consists of a reverse osmosis water filtration system. This system filters water on site at retail locations and dispenses drinking water on a self service basis. As of March 31, 2010, the Culligan Refill Business had installed its reverse osmosis water filtration systems in approximately 4,500 retail customer locations in the United States and Canada.

*Reverse Osmosis Water Filtration System*

The reverse osmosis water filtration system that the Culligan Refill Business installs and maintains generally consists of a refill vending machine located within its customers' retail space and reverse osmosis filtration equipment that is typically located in the back room of the retail customers' store location. The refill vending machine is typically accompanied by a sales display containing empty reusable water bottles.

**Refill Vending Machine and Empty Reusable Water Bottles**

The use of reverse osmosis filtration equipment located in the back room benefits the retail customer in several ways, including:

- minimizing the refill vending machine's footprint within the customer's retail space;
- allowing the retail customer to use the filtered water for internal purposes such as in produce misters, ice makers and the customer's bakery;
- allowing preventative maintenance, repair and meter reading with minimal consumer interruption; and
- allowing filtration equipment modifications to increase water volume handling capacity without an increased footprint within the customer's retail space.

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**Reverse Osmosis Water Filtration System**

Retail customers also benefit from the filtration equipment as using filtered water for store-use purposes such as produce misters and ice makers extends the life of and reduces maintenance costs with respect to the retail customers in-store equipment.

The Culligan Refill Business also sells to retail customers a line of one-, three- and five-gallon empty reusable bottles to be sold to consumers for use at the refill vending machines.

During 2009, the Culligan Refill Business derived revenues from the following activities:

76% of its revenues from the sale of filtered drinking water through refill vending machines;

16% of its revenues from the sale of empty reusable water bottles; and

8% of its revenues from the store-use by its retail customers of the reverse osmosis water filtration system for produce misters, ice makers, the customer's bakery and other similar uses.

*Marketing*

Sales and marketing to retail customers of the Culligan Refill Business is accomplished primarily through direct selling activities. Sales managers and field sales personnel call directly on major retail accounts. Sales to consumers are accomplished principally through point of sale displays and literature at the site of each refill vending machine. The Culligan Refill Business also uses traditional merchandising techniques such as free samples, coupons, special pricing and other in-store promotional techniques to promote consumption of drinking water by the ultimate consumer.

We are required to rebrand the Culligan Refill Business within 12 months after the closing of the Culligan Refill Acquisition.

*Product Distribution*

The reverse osmosis water filtration systems used in the Culligan Refill Business are placed under services agreements with retail customers who pay fees based on the number of gallons of water used or dispensed by the system. Under this program, the Culligan Refill Business owns the water filtration system and contracts for the provision of all required service and maintenance. Water meters are generally read monthly by a third-party representative and an invoice is subsequently delivered to the retailer.

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The revenue realized by the Culligan Refill Business on each reverse osmosis water filtration system is highly dependent upon the overall volume of water sold through a particular location. The consumer typically pays a price to the retailer for water from the refill vending machine ranging from approximately \$0.25 to \$0.50 per gallon, depending upon the location and the retailer's overall pricing strategy. The competitive nature of product pricing varies by geographic location.

Certain retail customers also use the reverse osmosis water filtration system for produce misters, ice makers, the customer's bakery and other similar uses. These retail customers are billed monthly for this store water usage with the charges based on each particular store's volume of water used.

*Customers*

A significant portion of the revenues of the Culligan Refill Business comes from a small group of major retail customers. For the year ended December 31, 2009, Walmart accounted for 65% of the net sales of the Culligan Refill Business, and no other retail customer accounted for more than 10% of its net sales. As of March 31, 2010, the Culligan Refill Business had installed its reverse osmosis water filtration systems in approximately 4,500 retail customer locations in 48 U.S. states (a total of approximately 3,800 locations) and 10 Canadian provinces (a total of approximately 700 locations). The Culligan Refill Business has long-standing relationships with most of its major retail customers. For example, its business relationship with Walmart began in 1991 and its business relationships with its next four largest retail customers began in 2005, 1995, 2000 and 1998, respectively.

*Operational Process*

The Culligan Refill Business has divided its operating territory into seven distinct geographic regions. The Culligan Refill Business has a district vending manager for each region who is responsible for managing the operations within the region as well as the oversight, support and management of the service providers servicing the retail locations within the region.

*Sales Process*

The Culligan Refill Business employs a direct sales force that actively pursues headquarters-based retail relationships to better serve the retailer customers and to minimize layers of approval and decision-making with regard to the addition of new retail locations. Upon confirmation of a new retail location, the Culligan Refill Business coordinates with the retailer and the service provider to schedule an installation in a timely manner.

The reverse osmosis water filtration system is part of a turn-key program for retailers in which the network of service providers actively service each retail account. After the water filtration equipment is installed and operational, the service provider completes on-site training with the retailer and has an ongoing economic interest in supporting and growing the business relationship to increase gallon sell through as the service providers are paid by the Culligan Refill Business based upon a percentage of water volume sales, subject to minimum and maximum commission amounts.

*Retail Relationships*

While individual retail locations are typically serviced by third party service providers, the customer relationship is owned and maintained by the experienced retail sales and service organization at the Culligan Refill Business, which allows a strong customer affinity and the maintenance of key headquarters-based relationships. The sales team routinely reviews sales results and trends with retail customers to provide suggestions for improving the sell through.

The retail relationships are divided into regions and managed by sales and service personnel.

*Service Providers*

The Culligan Refill Business has over 500 service providers who are responsible for the initial installation of the reverse osmosis water filtration systems, the regular maintenance of the systems, any necessary

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repairs, routine water testing and monthly meter reading to determine retail customer water usage. These service providers are comprised of Culligan International franchised dealers, service providers owned by subsidiaries of Culligan International and third-party service providers, which are responsible for serving retail store locations representing 56%, 25% and 19% of the revenues of the Culligan Refill Business for the year ended December 31, 2009, respectively. Typically, a service provider is paid a commission based on a percentage of the total revenues at the locations for which the service provider is responsible, subject to minimum and maximum commission amounts. Service providers also earn an hourly rate for initial installations of the reverse osmosis water filtration systems.

The Culligan Refill Business employs a field service team which provides training and support to its service providers and retail customers.

### *Reverse Osmosis Water Filtration Systems*

The reverse osmosis water filtration system is comprised of two components: reverse osmosis water filtration equipment and a refill vending machine. The water filtration equipment is typically installed in the back room of a retail location and all such equipment generally has the same component filters and parts. A water line is installed from the water filtration equipment to the refill vending machine. The retail customer will specify the location of the refill vending machine, which is typically in the water aisle or back wall of the store. The retail customer is responsible for the plumbing, electrical and drainage requirements of an installation. An installation typically takes a few hours to complete, and the service provider that installed the system provides a completed work order to confirm the installation.

The Culligan Refill Business employs an operations team which assembles, refurbishes and repairs the refill vending machines. This team is located in its Eagan, Minnesota facility, where it routinely refurbishes equipment that has been in service for five years and longer or when a customer requests a refreshed system. The operations team also procures new filtration systems component parts and assembles the units and ships them to locations for installation by service providers. The component parts are generally sourced from multiple suppliers.

### *Maintenance*

The regular maintenance completed by the service providers generally includes a monthly sanitization of the reverse osmosis water filtration system, a monthly system component check and any necessary preventative maintenance resulting from such component check and may include a water test for regulatory purposes. The various jurisdictions in which the Culligan Refill Business operates have specific bimonthly, monthly, quarterly or annual water testing reporting requirements with which it complies, but it performs water tests on each reverse osmosis water filtration system at least quarterly.

### *Customer Service*

The Culligan Refill Business has a customer service team which coordinates service and bottle order replenishment requests from its retail customers. All calls are received and tracked through a toll-free telephone number for the United States and a separate telephone number for Canada. This team coordinates service requests to the service provider network and manages work orders to ensure completion of the service request. This team also addresses any consumer questions.

### *Administration*

The accounting department of the Culligan Refill Business is responsible for billing and collecting from retail customers. Retailers are typically billed monthly based on a meter reading performed by the service provider that is



faxed to the billing department. The billing team enters the meter reading into a billing system and generates invoices for the retail customer, which are sent electronically or by mail to the retail customer. Retail customers generally have 30 day terms to pay invoices. The Culligan Refill Business utilizes an ERP system and document imaging system and has supplemented the system with its billing system.

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### *Bottle Sourcing*

The Culligan Refill Business sources empty reusable bottles from several manufacturing sources. The bottles are managed, inventoried and shipped through a 16,000 square foot leased warehouse facility in Oklahoma City, Oklahoma. The Culligan Refill Business co-owns with the bottle manufacturers certain bottle molds for bottles exclusively purchased for retailers.

The Culligan Refill Business has historically used a variety of suppliers and does not believe it is materially dependent on any single supplier. Alternate sources of supply are available for all of the critical components used in the Culligan Refill Business.

### *Services Agreements*

The Culligan Refill Business has historically entered into services arrangements with its retail customers pursuant to which the Culligan Refill Business agrees to install and maintain its reverse osmosis water filtration system within the retail customer's store in exchange for typically monthly payments from the retail customer based on the store's water volume usage. These arrangements generally have terms of one to five years and the original terms of many of the agreements have expired. In such cases the arrangements have generally been automatically renewed or continue to operate on the same terms.

### *Competition*

The Culligan Refill Business participates in the highly competitive bottled water segment of the nonalcoholic beverage industry. While the industry is dominated by large and well-known international companies, numerous smaller firms are also seeking to establish market niches. The business model of the Culligan Refill Business is differentiated from most of the participants in the North American nonalcoholic beverage industry in that it offers self-service refill of drinking water. There are a few direct competitors that offer similar refill vending services, but with the exception of Glacier Water Services, Inc., we believe these direct competitors generally operate on a smaller geographical and operational scale than the Culligan Refill Business. The Culligan Refill Business faces two levels of competition: (i) competition at the retail customer level to secure placement of its reverse osmosis water filtration systems in the store; and (ii) competition at an end-user level to convince consumers to purchase its water versus other options. Competitive factors with respect to the Culligan Refill Business include pricing, taste, advertising, sales promotion programs, retail placement, introduction of new packaging and branding.

Many of the indirect competitors in the bottled water segment of the nonalcoholic beverage industry are leading consumer products companies, have substantially greater financial and other resources than the Culligan Refill Business or us, have established a strong brand presence with consumers and have established relationships with retailers, manufacturers, bottlers and distributors necessary to start a self-service drinking water refill business at North American retail locations should they decide to do so. In addition to competition between firms within the bottled water industry, the industry itself faces significant competition from other nonalcoholic beverages, including carbonated and non-carbonated soft drinks and waters, juices, sport and energy drinks, coffees, teas and spring and tap water.

### *Intellectual Property and Trademarks*

There are no material registered patents, trademarks or copyrights related to the Culligan Refill Business that we are acquiring in connection with the Culligan Refill Acquisition. However, employees of the Culligan Refill Business that will be joining our Company do possess important know-how related to the self-service drinking water refill business

and the reverse osmosis water filtration systems offered by the Culligan Refill Business. We consider this know-how to be an important part of the Culligan Refill Business and one of the principal reasons we believe the Culligan Refill Business will provide our Company a solid platform to include self-service drinking water refill in our product offerings.

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*Governmental Regulation*

The conduct of the Culligan Refill Business and the production, distribution, advertising, promotion, labeling, safety, sale and use of its products are subject to various laws and regulations administered by federal, state, provincial and local governmental agencies in the United States and Canada. It is the policy of the Culligan Refill Business to abide by the laws and regulations that apply to it and the Culligan Refill Business requires manufacturing and service provider partners to comply with all laws and regulations applicable to them.

The refill vending machines used in the Culligan Refill Business are certified by the National Automatic Merchandising Association ( NAMA ). NAMA maintains a vending machine certification program which evaluates food and beverage vending machines against current requirements of the U.S. Public Health Service Ordinance and Code. The manufacturing facility used in connection with the Culligan Refill Business is required to be registered with the EPA under the provisions of the Federal Insecticide, Fungicide and Rodenticide Act because certain components used in connection with the reverse osmosis water filtration systems are deemed to be pesticidal devices. The Eagan, Minnesota facility has been registered as required.

Certain states have permit requirements for the operation of the refill vending machines. The Culligan Refill Business uses outside laboratories to periodically test the quality of the water dispensed through the refill vending machine. The water dispensed through the refill vending machine is also regularly tested by outside laboratories for the presence of coliform bacteria.

*Legal Proceedings*

From time to time, the Culligan Refill Business has been involved in various lawsuits, claims and other legal proceedings arising from its normal business activities. The Culligan Refill Business is not currently the subject of any proceedings that, individually or in the aggregate, would be expected to have a material adverse effect on its business, results of operations or financial condition.

*Facilities*

The Culligan Refill Business is headquartered in Eagan, Minnesota. We will assume the office lease relating to the headquarters facility for a term that expires in October 2014.

The Culligan Refill Business uses one warehouse and distribution facility located in Oklahoma City, Oklahoma. We will assume the lease related to this facility covering approximately 16,000 square feet for a term that expires in September 2010.

We believe that these facilities are suitable and adequate to meet our current needs with respect to the Culligan Refill Business, and that suitable additional or substitute space will be available to accommodate expansion of these operations.

*Employees*

As of March 31, 2010, the Culligan Refill Business had approximately 50 employees, none of which are represented by a labor union or covered by a collective bargaining agreement.

**Table of Contents****MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS OF THE CULLIGAN REFILL BUSINESS**

*The following discussion and analysis of the financial condition and results of operations of the Culligan Refill Business should be read in conjunction with the financial statements and related notes of the Culligan Refill Business appearing elsewhere in this prospectus. The actual results of the Culligan Refill Business could differ materially from those anticipated in the forward-looking statements included in this discussion as a result of certain factors, including, but not limited to, those discussed in the section of this prospectus titled Risk Factors.*

**Overview**

The Culligan Refill Business provides reverse osmosis water filtration systems that generate filtered water for refill vending machines and store-use water services in the United States and Canada at approximately 4,500 retail locations. This business also sells empty reusable water bottles for use at refill vending machines. Retailers benefit from the Culligan Refill Business as it ensures water used throughout a store is clean and safe for self-serve refill vending and store-use services, such as food preparation and hydration of produce. Customers of the Culligan Refill Business include Walmart, Safeway, Meijer, Sobey's, Target, Hy-Vee and Kroger. For the year ended December 31, 2009, the Culligan Refill Business generated revenues of \$26.0 million and net income of \$4.3 million. Approximately 84% of the Culligan Refill Business's revenues were generated in the United States, with operations in 48 states, and approximately 16% of its revenues were generated in Canada across 10 provinces. The Culligan Refill Business's revenues are principally driven by self-serve refill vending services, empty reusable water bottle sales and store-use services, which account for approximately 76%, 16% and 8% of revenues, respectively.

**Results of Operations**

The following table sets forth the results of operations of the Culligan Refill Business for the periods indicated:

	<b>Years Ended</b>		<b>Three Months Ended</b>	
	<b>December 31,</b>	<b>December 31,</b>	<b>March 31,</b>	<b>March 31,</b>
	<b>2008</b>	<b>2009</b>	<b>2009</b>	<b>2010</b>
	<b>(in thousands)</b>			
	<b>(Unaudited)</b>			
<b>Consolidated statements of operations data:</b>				
Net sales	\$ 25,746	\$ 26,017	\$ 6,193	\$ 6,109
Operating costs and expenses				
Cost of sales	13,635	13,643	3,324	3,247
Selling, general and administrative expenses	3,270	2,877	688	648
Depreciation and amortization	3,872	2,488	592	681
Total operating costs and expenses	20,777	19,008	4,604	4,576
Income from operations	4,969	7,009	1,589	1,533
Provision for income taxes	1,837	2,665	606	587
Net income	\$ 3,132	\$ 4,344	\$ 983	\$ 946



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The following table sets forth the results of operations for the Culligan Refill Business expressed as a percentage of net sales for the periods indicated:

	Years Ended December		Three Months Ended	
	2008	2009	2009	2010 (Unaudited)
<b>Consolidated statements of operations data:</b>				
Net sales	100%	100%	100%	100%
Operating costs and expenses				
Cost of sales	53.0%	52.4%	53.7%	53.2%
Selling, general and administrative expenses	12.7%	11.1%	11.0%	10.6%
Depreciation and amortization	15.0%	9.6%	9.6%	11.1%
Total operating costs and expenses	80.7%	73.1%	74.3%	74.9%
Income from operations	19.3%	26.9%	25.7%	25.1%
Provision for income taxes	7.1%	10.2%	9.8%	9.6%
Net income	12.2%	16.7%	15.9%	15.5%

*Three Months Ended March 31, 2010 Compared to Three Months Ended March 31, 2009*

*Net Sales.* Net sales for the first quarter of 2010 decreased slightly by \$0.1 million or 1.6% to \$6.1 million from \$6.2 million in the first quarter of 2009. The decrease in sales resulted primarily from lower volume in the U.S. in the vended water business. The first quarter is generally the weakest quarter of the year.

*Gross Margin.* Overall gross margin, defined as net sales less cost of sales, as a percentage of net sales increased to 46.8% for the first quarter of 2010 from 46.3% for the first quarter of 2009. The primary reason for the favorable change in margin was lower indirect labor costs.

*Selling, General and Administrative Expenses.* Selling, general and administrative expenses for the first quarter 2010 and 2009 were \$0.6 million and \$0.7 million, respectively, and as a percentage of net sales, decreased to 10.6% for the first quarter of 2010 from 11.0% for the first quarter of 2009. Selling, general and administrative expenses decreased as a result of lower outside service fees and office expenses.

*Depreciation and Amortization.* Depreciation and amortization increased 15.0% to \$0.7 million in the first quarter of 2010 from \$0.6 million in the first quarter of 2009. The increase in depreciation and amortization is primarily due to an increase in capital expenditures over the last twelve months.

*Year Ended December 31, 2009 Compared to Year Ended December 31, 2008*

*Net Sales.* Net sales for 2009 increased \$0.3 million or 1.2% to \$26.0 million from \$25.7 million in 2008. The increase in sales resulted from a price increase as well as slightly higher volumes.

*Gross Margin.* Our overall gross margin, defined as net sales less cost of sales, as a percentage of net sales increased to 47.6% for 2009 from 47.0% for 2008. The primary reasons for the favorable change in margin were benefits from a price increase and slightly lower expenses.

*Selling, General and Administrative Expenses.* Selling, general and administrative expenses for 2009 decreased \$0.4 million or 12.1% to \$2.9 million from \$3.3 million and, as a percentage of net sales, decreased to 11.1% for 2009 from 12.7% for 2008. Selling, general and administrative expenses decreased as a result of lower bad debt and salary related expenses.

*Depreciation and Amortization.* Depreciation and amortization decreased by \$1.4 million or 35.9% to \$2.5 million in 2009 from \$3.9 million in 2008. The decrease in depreciation and amortization expense is due to a significant amount of assets becoming fully depreciated in 2008.



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**Critical Accounting Policies and Estimates**

*Revenue Recognition.* Vended water dispensing machines placed at the retailers are used by consumers on a self-serve basis. Revenue is recognized at the time the meters are read during the servicing of the vended water dispensing machines. At December 31, 2009, there were approximately 4,500 refill vending machines, making the servicing of each machine at the end of each reporting period impractical. Consequently, the Culligan Refill Business estimates the revenue from the last time each machine was serviced until the end of the reporting period, based on the most current average daily volume of each machine. For the years ended December 31, 2009 and 2008, the Culligan Refill Business recorded approximately \$1,051 and \$1,050, respectively, of such revenues, which for both year-ends represent an average of approximately 22 days of use per machine.

The Culligan Refill Business recognizes revenue when empty bottles are shipped and the customer takes ownership and assumes risk of loss, collection of the relevant receivable is probable, persuasive evidence of an arrangement exists and the sales price is fixed or determinable. Shipping and other transportation costs charged to buyers are recorded in cost of sales.

*Foreign Currency Translation.* The Culligan Refill Business's operations are in the U.S. and Canada. Assets and liabilities denominated in Canadian dollars are translated into U.S. dollars at the current rate of exchange existing at period-end. Revenues, expenses, gains, and losses are translated at average monthly exchange rates. Translation adjustments are included in the combined statements of parent equity and comprehensive income for the Culligan Refill Business.

*Goodwill and Other Intangible Assets.* Goodwill reflected in the Culligan Refill Business's financial statements represents an allocation of the goodwill, the excess of costs over fair value of assets of business acquired, recorded by Culligan Holding S.à.r.l at the date of acquisition of the Culligan Refill Business. The relative fair value approach was used as the basis for the allocation. The Culligan Refill Business is a component of the Culligan Holding S.à.r.l reporting unit. Goodwill is not amortized but is instead tested at the reporting unit level for impairment at the reporting unit level at least annually in accordance with Accounting Standards Codification (ASC) Topic 350, *Intangibles- Goodwill and Other* (ASC 350). Culligan Holding S.à.r.l completed its annual goodwill impairment tests as of December 31, 2009 and 2008 and determined that goodwill was not impaired during these years.

*Impairment of Long-Lived Assets.* The Culligan Refill Business reviews whether events or circumstances subsequent to the acquisition of any long-lived assets have occurred that indicate the remaining estimated useful lives of those assets may warrant revision or that the carrying value of those assets may not be recoverable. If events or circumstances indicate that the long-lived assets should be reviewed for possible impairment, the Culligan Refill Business uses projections to assess whether future cash flows on a nondiscounted basis related to the tested assets are likely to exceed the recorded carrying amount of those assets, to determine whether a write-down is appropriate. Should an impairment be identified, a loss would be recorded to the extent that the carrying value of the impaired assets exceeds their fair value as determined by valuation techniques appropriate in the circumstance, which could include the use of similar projections on a discounted basis. No such events or circumstances were identified during the years ended December 31, 2009 and 2008.

*Fair Value of Financial Instruments.* Financial instruments consist primarily of accounts receivable, accounts payable, and accrued liabilities. The carrying amounts of such instruments are considered to be representative of their respective fair values due to the short-term maturity of the instruments.

*Concentrations of Risk.* The Culligan Refill Business offers products and services to a fairly diverse customer base; however, one customer accounted for approximately 65% and 63% of the Culligan Refill Business's revenues in 2009

and 2008 and approximately 57% and 59% of accounts receivable as of December 31, 2009 and 2008, respectively. There is no significant supplier, product line, credit, geographic, or other concentrations that could expose the Culligan Refill Business to adverse near term severe financial impacts.

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**Culligan Refill Acquisition Agreements**

*Asset Purchase Agreement*

On June 1, 2010, we entered into an asset purchase agreement with Culligan to purchase the assets related to the Culligan Refill Business for a total purchase price of \$105.0 million consisting of:

a cash payment of \$60.0 million; and

the issuance of shares of our common stock with a value of \$45.0 million based upon the price that we issue shares in this offering (or        shares, assuming an initial public offering price of \$        per share, the midpoint of the range set forth on the cover page of this prospectus).

The purchase price for the Culligan Refill Business is subject to a working capital adjustment that is to be finally determined after the closing of the transaction. The cash portion of the purchase price will be increased and the number of shares of common stock we will issue will be decreased by an amount equal to the net cash proceeds we receive from any exercise of the underwriters' over-allotment option. We will also assume certain specifically identified liabilities in connection with the Culligan Refill Acquisition.

The asset purchase agreement contains customary representations, warranties, covenants and conditions to closing.

In connection with the closing of the Culligan Refill Acquisition, we have entered or will enter into a trademark license agreement, two transition services agreements, a dealer services agreement, a non-compete agreement, a supply agreement, a lock-up agreement, a registration rights agreement and employment agreements with Jeanne Cantu, Vice President and General Manager of the Culligan Refill Business, and Carl Werner, Controller of the Culligan Refill Business.

*Trademark License Agreement*

At the closing of the Culligan Refill Acquisition, we will enter into a trademark license agreement with Culligan International Company, pursuant to which Culligan International Company will grant us a non-exclusive, royalty-free right and license to use certain of Culligan's trademarks in connection with the Culligan Refill Business within the United States and Canada. The term of the trademark license agreement is one year, unless sooner terminated in accordance with its provisions.

*Transition Services Agreement*

*United States Transition Services Agreement*

At the closing of the Culligan Refill Acquisition, we will enter into a transition services agreement with Culligan International Company, pursuant to which Culligan International Company will provide or cause to be provided certain services, including payroll and information technology services at no charge. We will use our commercially reasonable efforts to end our use of the provided services as soon as reasonably possible. Culligan International Company will provide such support as we may reasonably request to assist us in obtaining replacement services and exiting from the systems of Culligan International Company on or before the termination of the transition services agreement. This transition services agreement has a 60-day term, which commences on the date of the closing of the Culligan Refill Acquisition.

*Canada Transition Services Agreement*

At the closing of the Culligan Refill Acquisition, we will enter into a transition services agreement with Culligan of Canada, Ltd., pursuant to which Culligan of Canada, Ltd. will provide or cause to be provided certain services, including information technology, accounting and billing services at a rate of CAD\$28,250 per

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