Primo Water Corp
Form 10-Q
May 13, 2011

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2011

OR

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

COMMISSION FILE NUMBER 001-34850
PRIMO WATER CORPORATION
(Exact name of registrant as specified in its charter)

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

104 Cambridge Plaza Drive, Winston-Salem, NC 27104
(Address of principal executive office) (Zip code)
(336) 331-4000
(Registrant s telephone number, including area code)

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

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

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

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

As of May 10, 2011, there were 19,932,181 shares of our Common Stock, par value $0.001 per share, outstanding.

PRIMO WATER CORPORATION
FORM 10-Q
FOR THE THREE MONTHS ENDED MARCH 31, 2011

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

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

	December 31, 2010	March 31, 2011
Assets		*(unaudited)*
Current assets:		
Cash	$ 443	**$ 1,073**
Accounts receivable, net	6,605	**9,297**
Inventories	3,651	**5,006**
Prepaid expenses and other current assets	1,838	**1,827**
Total current assets	12,537	**17,203**
Bottles, net	2,505	**2,965**
Property and equipment, net	34,890	**37,490**
Intangible assets, net	11,039	**11,980**
Goodwill	77,415	**81,341**
Other assets	1,225	**1,149**
Total assets	$ 139,611	**$ 152,128**
Liabilities and stockholders equity		
Current liabilities:		
Accounts payable	$ 4,547	**$ 10,834**
Accrued expenses and other current liabilities	2,923	**4,514**
Current portion of long-term debt, capital leases and notes payable	11	**11**
Total current liabilities	7,481	**15,359**
Long-term debt, capital leases and notes payable, net of current portion	17,945	**20,613**
Other long-term liabilities	748	**938**
Total liabilities	26,174	**36,910**
Commitments and contingencies		
Stockholders equity		
Common stock, $0.001 par value -70,000 shares authorized, 19,021 and 19,362 shares issued and outstanding at December 31, 2010 and March 31, 2011, respectively	19	**19**
Preferred stock, $0.001 par value - 65,000 shares authorized, no shares issued and outstanding		
Additional paid-in capital	220,125	**223,532**

Common stock warrants		6,966		**6,966**
Accumulated deficit		(113,723)		**(115,836)**
Accumulated other comprehensive income		50		**537**
Total stockholders equity		113,437		**115,218**
Total liabilities and stockholders equity	$	139,611	**$**	**152,128**

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

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

	Three months ended March 31,	
	2010	**2011**
Net sales	$ 8,829	$ 17,139
Operating costs and expenses:		
Cost of sales	6,922	12,113
Selling, general and administrative expenses	2,733	4,059
Acquisition-related costs		703
Depreciation and amortization	995	1,901
Total operating costs and expenses	10,650	18,776
Loss from operations	(1,821)	(1,637)
Interest expense	(698)	(287)
Other expense, net	(22)	
Loss from operations before income taxes	(2,541)	(1,924)
Provision for income taxes		(190)
Net loss	(2,541)	(2,114)
Preferred dividends	(582)	
Net loss attributable to common shareholders	$ (3,123)	$ (2,114)
Basic and diluted loss per common share:		
Net loss attributable to common shareholders	$ (2.15)	$ (0.11)
Basic and diluted weighted average common shares outstanding	1,453	19,115

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

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

	Three months ended March 31, 2010	Three months ended March 31, 2011
Operating activities		
Net loss	$ (2,541)	**$ (2,114)**
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Depreciation and amortization	995	**1,901**
Stock-based compensation expense	158	**188**
Non-cash interest expense	138	**94**
Deferred income tax expense		**190**
Bad debt expense	10	**75**
Other	22	**294**
Changes in operating assets and liabilities:		
Accounts receivable	(1,155)	**(2,096)**
Inventories	(137)	**(1,334)**
Prepaid expenses and other assets	(68)	**(295)**
Accounts payable	1,009	**5,657**
Accrued expenses and other liabilities	(97)	**(140)**
Net cash (used in) provided by operating activities	(1,666)	**2,420**
Investing activities		
Purchases of property and equipment	(216)	**(2,239)**
Purchases of bottles, net of disposals	(347)	**(564)**
Proceeds from the sale of property and equipment		**18**
Acquisition of business		**(1,576)**
Additions to and acquisitions of intangible assets	(8)	**(108)**
Net cash used in investing activities	(571)	**(4,469)**
Financing activities		
Net borrowings from prior revolving line of credit	3,927	
Borrowings under senior revolving credit facility		**3,972**
Payments under senior revolving credit facility		**(1,302)**
Notes payable and capital lease payments	(2)	**(3)**
Debt issuance costs	(46)	
Net change in book overdraft	(64)	
Prepaid equity issuance costs	(878)	
Proceeds from exercise of stock options	47	
Dividends paid	(225)	
Net cash provided by financing activities	2,759	**2,667**

Net increase in cash		522		**618**
Cash, beginning of period				**443**
Effect of exchange rate changes on cash				**12**
Cash, end of period	$	522	**$**	**1,073**

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

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PRIMO WATER CORPORATION
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
(In thousands, except per share amounts)

1. Description of Business and Significant Accounting Policies

Business

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

Initial Public Offering and Acquisition

On November 10, 2010, the Company completed the initial public offering (IPO) of 8,333 shares of its common stock at a price of $12.00 per share. In addition on November 18, 2010, the Company issued an additional 1,250 shares upon the exercise of the over-allotment option by the underwriters of its IPO. The net proceeds of the IPO after deducting underwriting discounts and commissions were approximately $106,900.

On November 10, 2010, we acquired certain assets of Culligan Store Solutions, LLC and Culligan of Canada, Ltd. (the Refill Business or Refill Acquisition) pursuant to an Asset Purchase Agreement dated June 1, 2010 (the Asset Purchase Agreement). The total purchase price for the Refill Business was approximately $109,095 (including the working capital adjustment), which was paid with $74,474 in proceeds from the IPO and $34,621 from the issuance of approximately 2,588 common shares at an average price of $13.38 per share on November 10, 2010.

Unaudited Interim Financial Information

The accompanying interim consolidated financial statements have been prepared in accordance with our accounting practices described in our audited consolidated financial statements for the year ending December 31, 2010, and are unaudited. The unaudited interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and accompanying notes for the year ended December 31, 2010. The accompanying interim consolidated financial statements are presented in accordance with the rules and regulations of the Securities and Exchange Commission and, accordingly, do not include all the disclosures required by generally accepted accounting principles in the United States (GAAP) with respect to annual financial statements. In management s opinion, the interim consolidated financial statements include all adjustments, which consist only of normal recurring adjustments, necessary for a fair statement of the Company s results of operations for the periods presented.

Revenue Recognition

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

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. With the purchase of certain of our water dispensers we include a coupon for a free multi-gallon bottle of water. No revenue is recognized with respect to the redemption of the coupon for a free three- and five-gallon bottle of water and the estimated cost of the three- and five-gallon bottle of water is included in cost of sales.

Goodwill and Intangible Assets

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

We test intangible assets determined to have indefinite useful lives, including trademarks and goodwill, for impairment annually, or more frequently if events or circumstances indicate that assets might be impaired. Our Company performs these annual impairment reviews as of the first day of our fourth quarter. The goodwill impairment test consists of a two-step process, if necessary. The first step involves a comparison of the fair value of a reporting unit to its carrying value. The fair value is estimated based on a number of factors including operating results, business plans and future cash flows. If the carrying amount of the reporting unit exceeds its fair value, the second step of the process is performed which compares the implied value of the reporting unit goodwill with the carrying value of the goodwill of that reporting unit. If the carrying value of the goodwill of a reporting unit exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess. No impairment charge was considered necessary at March 31, 2011. For indefinite-lived intangible assets, other than goodwill, if the carrying amount exceeds the fair value, an impairment charge is recognized in an amount equal to that excess.

Fair Value Measurements

Effective January 1, 2008, we adopted Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures,* for financial assets and liabilities. ASC 820 defines fair value, establishes a framework for measuring fair value in accordance with GAAP and expands disclosures about fair value measurements. The adoption of ASC 820 did not have a material impact on the Company s consolidated financial condition or results of operations.

ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC 820 also describes three levels of inputs that may be used to measure fair value:

Level 1 quoted prices in active markets for identical assets and liabilities.

Level 2 observable inputs other than quoted prices in active markets for identical assets and liabilities.

Level 3 unobservable inputs in which there is little or no market data available, which require the reporting entity to develop its own assumptions.

The carrying amounts of the Company s financial instruments, which include cash and cash equivalents, accounts receivable, accounts payable, and other accrued expenses, approximate their fair values due to their short maturities. Based on borrowing rates currently available to the Company for loans with similar terms, the carrying value of long-term debt, capital leases and notes payable approximates fair value.

Concentrations of Risk

Our principal financial instruments subject to potential concentration of credit risk are cash, trade receivables, accounts payable and accrued expenses. We invest our funds in a highly rated institution and believe the financial risks associated with cash are minimal. At March 31, 2011, approximately $640, of our cash on deposit exceeded the insured limits.

We perform ongoing credit evaluations of our customers financial condition and maintain allowances for doubtful accounts that we believe are sufficient to provide for losses that may be sustained on realization of accounts receivable. We had three customers that accounted for approximately 39%, 18% and 10% of net sales for the three months ending March 31, 2010. We had two customers that accounted for approximately 39% and 22% of net sales for the three months ending March 31, 2011. We had two customers that accounted for approximately 35% and 12% of total trade receivables at December 31, 2010 and two customers that accounted for approximately 34% and 12% of total trade receivables at March 31, 2011.

Basic and Diluted Net loss Per Share

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

For the three months ended March 31, 2010 and 2011, stock options, unvested shares of restricted stock and warrants with respect to an aggregate of 1,029 and 355 shares, as well as 4,301 and 0 shares of convertible preferred stock, have been excluded from the computation of the number of shares used in the diluted earnings per share, respectively. These shares have been excluded because the Company incurred a net loss for each of these periods and their inclusion would be anti-dilutive.

Recent Accounting Pronouncements

In December 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2010-28 When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts. This update provides amendments to ASC Topic 350 Intangibles, Goodwill and Other that requires an entity to perform Step 2 impairment test even if a reporting unit has zero or negative carrying amount. The first step is to identify potential impairments by comparing the estimated fair value of a reporting unit to its carrying value, including goodwill. If the carrying value of a reporting unit exceeds the estimated fair value, a second step is performed to measure the amount of impairment, if any. The second step is to determine the implied fair value of the reporting unit s goodwill, measured in the same manner as goodwill is recognized in a business combination, and compare that amount with the carrying amount of the goodwill. If the carrying value of the reporting unit s goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess. ASU No. 2010-28 is effective beginning January 1, 2011. As a result of this standard, goodwill impairments may be reported sooner than under current practice. We do not expect ASU No. 2010-28 to have a material impact on our consolidated financial statements.

In December 2010, the FASB issued ASU 2010-29, which contains updated accounting guidance to clarify the acquisition date that should be used for reporting pro forma financial information when comparative financial statements are issued. This update requires that a company should disclose revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. This update also requires disclosure of the nature and amount of material, nonrecurring pro forma adjustments. The provisions of this update, which are to be applied prospectively, are effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010, with early adoption permitted. The impact of this update on the Company s consolidated financial statements will depend on the size and nature of future business combinations.

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2. Acquisitions

Refill Business

On November 10, 2010, we acquired certain assets of the Refill Business pursuant to an Asset Purchase Agreement dated June 1, 2010. The Refill Business provided us with an established platform to expand into the self-serve filtered drinking water vending business (refill services). The refill services are complementary to our exchange services from both a product and operational perspective. The total purchase price for the Refill Business was approximately $109,095 (including the working capital adjustment), which was paid with $74,474 in proceeds from the IPO and $34,621 from the issuance of approximately 2,588 of our common shares valued at $13.38 per share. The Refill Acquisition has been accounted for as a business combination in accordance with the acquisition method.

Assets acquired and liabilities assumed in the business combination are recorded at fair value in accordance with ASC 805 based upon appraisals obtained from an unrelated third party valuation specialist. The purchase price exceeded the fair value of the net assets acquired resulting in goodwill of approximately $77,452. The identifiable intangible assets consist primarily of customer lists and will be amortized over 15 years. Operations of the acquired entity are included in the consolidated statement of operations from the acquisition date. Fees and expenses associated with the acquisition of the Refill Business were approximately $2,101.

The purchase price has been allocated to the assets and liabilities as follows:

Aggregate purchase price:	
Cash consideration	$ 74,474
Common stock issued	34,621
Purchase price	$ 109,095
Purchase price allocation:	
Net assets acquired	
Net current assets	$ 3,728
Property and equipment	18,984
Identifiable intangible assets	10,300
Goodwill	77,452
Liabilities assumed	(1,369)
Aggregate purchase price	$ 109,095

The unaudited pro forma revenue and earnings presented below is based upon the purchase price allocation and does not reflect any anticipated operating efficiencies or cost savings from the integration of the Refill Business into our business. Pro forma adjustments have been made as if the acquisition had occurred as of January 1, 2010. The amounts have been calculated after applying the Company s accounting policies and adjusting the results of the Refill Business to reflect the additional depreciation and amortization that would have been charged assuming the fair value adjustments to property and equipment and intangible assets had been as of January 1, 2010.

	Three Months Ended March 31, 2010
Net Sales	$ 14,938
Net loss from operations	$ (530)

Basic and diluted loss per common share:		
Net loss attributable to common shareholders	$	(0.08)
Basic and diluted weighted average common shares outstanding		18,915

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Canada Bulk Water Exchange Business

On March 8, 2011, we completed the acquisition of certain of Culligan Canada s assets related to its bulk water exchange business (the Canada Bulk Water Exchange Business). The consideration given for the Canada Bulk Water Exchange Business was approximately $5,400, which consisted of a cash payment of approximately $1,600 and the issuance of 307 shares of our common stock, and the assumption of certain specified liabilities. The Canada Bulk Water Exchange Business provides refill and delivery of water in 18-liter containers to commercial retailers in Canada for resale to consumers. The acquisition of the Canada Bulk Water Exchange Business expands our existing exchange service offering and provides us with an immediate network of regional operators and major retailers in Canada with approximately 780 retail locations. The Canada Bulk Water Exchange Business has been accounted for as a business combination in accordance with the acquisition method. The Company has recorded provisional amounts for this business combination as of March 31, 2011. The Company expects to finalize the fair value assignments to assets acquired and liabilities assumed during the second quarter, which may result in changes to the provisional amounts reflected as of March 31, 2011.

Omnifrio Single-Serve Beverage Business

On April 11, 2011, we completed the acquisition of certain intellectual property and other assets (the Omnifrio Single-Serve Beverage Business) from Omnifrio Beverage Company, LLC (Omnifrio) for total consideration of up to approximately $13,150, consisting of: (i) a cash payment at closing of $2,000; (ii) the issuance at closing of 501 shares of the Company s common; (iii) a cash payment of $2,000 on the 15-month anniversary of the closing date (subject to the Company s setoff rights in the asset purchase agreement); (iv) up to $3,000 in cash milestone payments; and (v) the assumption of certain specified liabilities relating to the Omnifrio Single-Serve Beverage Business. The Omnifrio Single-Serve Beverage Business will be accounted for as a business combination in accordance with the acquisition method.

The Omnifrio Single-Serve Beverage Business primarily consists of technology related to single-serve cold carbonated beverage appliances and consumable flavor cups, or S-cups , and CO_2 cylinders used with the appliances to make a variety of cold beverages. The acquisition of the Omnifrio Single-Serve Beverage Business serves as an entry point into the U.S. market for carbonated beverages and the rapidly growing self-carbonating appliance and single-serve beverage segments.

3. Goodwill and Intangible Assets

The changes in the carrying amount of goodwill as summarized as follows:

Balance at December 31, 2010	$ 77,415
Acquisition of Canada Bulk Water Exchange Business	3,515
Effect of foreign currency translation	341
Other	70
Balance at March 31, 2011	$ 81,341

4. Accrued expenses and other current liabilities

Accrued expenses and other current liabilities are summarized as follows:

	December 31, 2010	March 31, 2011
Accrued payroll and related items	$ 968	$ 695
Accrued severance	370	240
Accrued professional and other expenses	829	1,093
Accrued interest	6	3
Accrued sales tax payable	173	95
Customer bottle deposits		640
Accrued receipts not invoiced	207	1,513
Other	370	235
	$ 2,923	$ 4,514

5. Long-Term Debt, Capital Leases and Notes Payable

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

	December 31, 2010	March 31, 2011
Senior revolving credit facility	$ 17,912	**$ 20,582**
Notes payable and capital leases	44	**42**
	17,956	**20,624**
Less current portion	(11)	**(11)**
Long-term debt, notes payable and capital leases, net of current portion	$ 17,945	**$ 20,613**

We entered into a $40,000 senior revolving credit facility in November 2010 that was amended in April 2011, with Wells Fargo Bank, National Association, Bank of America, N.A. and Branch Banking & Trust Company (Senior Revolving Credit Facility) that replaced our previous loan agreement. The Senior Revolving Credit Facility has a three-year term and is secured by substantially all of the assets of the Company.

Interest on the outstanding borrowings under the Senior Revolving Credit Facility is payable at our option at either a floating base rate plus an interest rate spread or a floating rate of LIBOR plus an interest rate spread. Both the interest rate spreads and the commitment fee rate are determined from a pricing grid based on our total leverage ratio. The Senior Revolving Credit Facility also provides for letters of credit issued to our vendors, which reduce the amount available for cash borrowings. We are required to pay a commitment fee on the unused amounts of the commitments under the Senior Revolving Credit Facility. At March 31, 2011, the base rate and floating LIBOR borrowings outstanding were $5,582 and $15,000, respectively, at interest rates of 5.25% and 3.27%, respectively. At March 31, 2011, there were no outstanding letters of credit under the Senior Revolving Credit Facility. The availability under the Senior Revolving Credit Facility was approximately $7,200, based upon the maximum leverage ratio allowed at March 31, 2011.

The Senior Revolving Credit Facility contains various restrictive covenants and the following financial covenants: (i) a maximum total leverage ratio that for the quarter ended March 31, 2011 is set at 3.25 to 1.0 and steps up to 3.5 to 1.0 for the period beginning April 1, 2011 and ending June 30, 2011, steps down to 2.75 to 1.0 for the period beginning July 1, 2011 and ending September 30, 2011 and further steps down to 2.5 to 1.0 for the period beginning

October 1, 2011 and continuing until the termination of the Senior Revolving Credit Facility; (ii) a minimum EBITDA threshold that is currently set at $7,500 and increases to $9,000 for the twelve-month period ended June 30, 2011; (iii) a minimum interest coverage ratio of 3.0 to 1.0 beginning with the quarter ended September 30, 2011; and (iv) a maximum amount of capital expenditures of $25,000 for the year ending December

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31, 2011. At March 31, 2011, the Company is in compliance with all the terms and conditions of the Senior Revolving Credit Facility.

6. Stock-Based Compensation

2004 Stock Plan

In 2004, our Board of Directors adopted the Primo Water Corporation 2004 Stock Plan (the 2004 Plan) for employees, including officers, non-employee directors and non-employee consultants. The Plan provides for the issue of incentive or nonqualified stock options and restricted common stock. The Company has reserved 431 shares of common stock for issuance under the Plan. The Company does not intend to issue any additional awards under the 2004 Plan; however, all outstanding awards will remain in effect and will continue to be governed by their existing terms.

2010 Omnibus Long-Term Incentive Plan

In April 2010, our stockholders approved the 2010 Omnibus Long-Term Incentive Plan (the 2010 Plan). The 2010 Plan is limited to employees, officers, non-employee directors, consultants and advisors. The 2010 Plan provides for the issuance of incentive or nonqualified stock options, restricted stock, stock appreciation rights, restricted stock units, cash- or stock-based performance awards and other stock-based awards. The Company has reserved 719 shares of common stock for issuance under the 2010 Plan.

Stock Option Activity

We measure the fair value of each stock option grant at the date of grant using a Black-Scholes option pricing model. The weighted-average fair value per share of the options granted during the three months ended March 31, 2011 was $5.98. The following assumptions were used in arriving at the fair value of options granted during the three months ended March 31, 2011:

Expected life of options in years	6.0
Risk-free interest rate	2.5%
Expected volatility	48.0%
Dividend yield	0.0%

For the three months ended March 31, 2010 compensation expense related to stock options was approximately $118 and is included in selling, general and administrative expenses. For the three months ended March 31, 2011, compensation expense related to stock options was approximately $2, which is included in selling, general and administrative expenses. A summary of awards under the 2004 Plan and 2010 Plan at March 31, 2011, and changes during the three months then ended is presented in the table below:

	Number of Shares	Weighted Average Price per Share	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
Outstanding at December 31, 2010	304	$ 13.14		
Granted	162	12.33		
Exercised				
Forfeited				
Outstanding at March 31, 2011	466	12.86	6.90	$ 253
Exercisable at March 31, 2011	304	$ 13.14	5.62	$ 253

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There were no options exercised during the three months ended March 31, 2011. As of March 31, 2011, there was approximately $746 of total unrecognized compensation cost related to non-vested stock-based compensation grants. This unrecognized compensation is expected to be recognized over a weighted-average period of approximately 3.0 years.

Restricted Stock Award Activity

During the three months ended March 31, 2010 and 2011, we awarded 105 shares of restricted stock awards, and 81 restricted stock units, respectively, which generally cliff-vest annually over a three-year period. During the three months ended March 31, 2010 and 2011, we recognized compensation expense of $40 and $186, related to these awards, which is included in selling, general, and administrative expenses. A summary of the restricted stock activity for the three months then ended March 31, 2011, is as follows:

	Number of Shares	Weighed Average Grant Date Fair Value
Unvested at December 31, 2010	116	$ 12.75
Granted	81	12.33
Vested	(47)	12.62
Forfeited		
Unvested at March 31, 2011	150	$ 12.56

As of March 31, 2011, there was approximately $1,474 of total unrecognized compensation cost, net of estimated forfeitures, related to non-vested restricted stock awards. That cost is expected to be recognized over a weighted average period of 2.5 years.

Employee Stock Purchase Plan

In April 2010, our stockholders approved the 2010 Employee Stock Purchase Plan (the 2010 ESPP) which was effective upon the consummation of the Company s initial public offering. The 2010 ESPP provides for the purchase of common stock and is generally available to all employees. The Company has reserved 24 shares of common stock for issuance under the 2010 ESPP.

7. Commitments and Contingencies

In the normal course of business the Company may be involved in various claims and legal actions. Management believes that the outcome of such legal actions will not have a significant adverse effect on the Company s financial position, results of operations or cash flows.

8. Income Taxes

The Company has incurred operating losses since inception. For the three months ended March 31, 2011, there is a $190 income tax provision resulting from recognition of a deferred tax liability related to tax deductible goodwill. There was no income tax provision (benefit) for prior periods.

Section 382 of the U.S. Internal Revenue Code imposes an annual limitation on the amount of net operating loss carryforwards that might be used to offset taxable income when a corporation has undergone significant changes in stock ownership. The Company believes that an annual limit will be imposed by Section 382, however the Company expects to fully utilize its net operating loss carryforwards during their respective carryforward per