

ALKALINE WATER Co INC
Form 10-Q
February 14, 2014

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

FORM 10-Q

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

For the quarterly period ended **December 31, 2013**

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

Commission file number **000-55096**

THE ALKALINE WATER COMPANY INC.

(Exact name of registrant as specified in its charter)

Nevada

(State or other jurisdiction of
incorporation or organization)

98-0367049

(I.R.S. Employer
Identification No.)

7730 E Greenway Road, Suite 203, Scottsdale, AZ

(Address of principal executive offices)

85260

(Zip Code)

(480) 656-2423

(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Edgar Filing: ALKALINE WATER Co INC - Form 10-Q

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 definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. 81,602,175 shares of common stock issued and outstanding as of February 14, 2014.

**THE ALKALINE WATER COMPANY INC.
QUARTERLY PERIOD ENDED DECEMBER 31, 2013**

Index to Report on Form 10-Q

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Item 4. Controls and Procedures

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

Item 1A. Risk Factors

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Item 3. Defaults Upon Senior Securities

Item 4. Mine Safety Disclosures

Item 5. Other Information

Item 6. Exhibits

Signatures

PART I FINANCIAL INFORMATION

Item 1. Financial Statements

THE ALKALINE WATER COMPANY, INC.
FORMERLY GLOBAL LINES, INC.
CONSOLIDATED BALANCE SHEETS
(unaudited)

	December 31, 2013	March 31, 2013
ASSETS		
Current assets:		
Cash	\$ 22,465	\$ 64,607
Accounts receivable	99,266	15,110
Inventory	87,181	7,573
Prepaid Expenses and other current assets	2,669	-
Deferred financing cost	69,879	
Total current assets	281,460	87,290
Fixed assets, net	299,541	38,083
Equipment deposits - related party	201,900	15,000
Total assets	\$ 782,901	\$ 140,373
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable	\$ 135,907	\$ 12,651
Accounts payable - related party	-	490
Accrued expenses	16,374	5,400
Accrued interest	7,500	1,315
Notes payable	-	150,000
Derivative liability	404,075	
Total current liabilities	563,856	169,856
Redeemable convertible Preferred stock	40,457	-
Stockholders' deficit:		
Preferred stock - \$0.001 par value, 100,000,000 shares authorized. Series A issued 20,000,000	20,000	
Common stock, Class A, \$0.001 par value, 1,125,000,000 shares authorized, 81,322,175 and 77,500,000 shares issued and outstanding as of December 31, 2013 and March 31, 2013, respectively	81,322	77,500

Edgar Filing: ALKALINE WATER Co INC - Form 10-Q

Additional paid in capital	3,426,810	176,405
Common stock issuable	-	-
Deficit accumulated during development stage	(3,349,544)	(283,388)
Total stockholders' deficit	\$ 178,588	\$ (29,483)
Total liabilities and stockholders' deficit	\$ 782,901	\$ 140,373

See Accompanying Notes to Condensed Consolidated Financial Statements.

THE ALKALINE WATER COMPANY, INC.
FORMERLY GLOBAL LINES, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)

	For the three months ended December 31, 2013	For the three months ended December 31, 2012	For the nine months ended December 31, 2013	Inception (June 19, 2012 to December 31, 2012)	Inception (June 2012 to December 31, 2012)
Revenue	\$ 171,137	\$ -	\$ 333,404	\$ -	\$ 348,000
Cost of goods sold	102,609	-	193,566	-	201,000
Gross profit	68,528	-	139,838	-	146,000
Operating expenses:					
Sales and marketing expenses	150,417	2,849	338,839	38,903	427,000
General and administrative	2,335,964	3,344	2,812,196	99,504	2,901,000
General and administrative - related party	3,286	46,682	65,378	46,682	170,000
Depreciation expense	16,534	-	25,872	-	27,000
Total operating expenses	2,506,201	52,875	3,242,285	185,089	3,526,000
Other Income (expenses):					
Interest expense	(7,501)		(11,056)	-	(12,000)
Amortization of debt discount	(48,578)		(48,578)		(48,000)
Other expenses	-		-		(4,000)
Change in derivative liability	95,925		95,925		95,000
Total other expense	39,846	-	36,291	-	30,000
Net loss	\$ (2,397,827)	\$ (52,875)	\$ (3,066,156)	\$ (185,089)	\$ (3,349,000)

Weighted average number of common shares outstanding - basic		77,717,418		79,776,874		-	
Net loss per share - basic	\$	(0)	\$	N/A	\$	(0.04)	N/A

See Accompanying Notes to Condensed Consolidated Financial Statements.

**THE ALKALINE WATER COMPANY INC.
FORMERLY GLOBAL LINES INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)**

	For the nine months ended December 31, 2013	Inception (June 19, 2012) to December 31, 2012	Inception (June 19, 2012 to December 31, 2013
CASH FLOWS FROM OPERATING ACTIVITIES			
Net loss	\$ (3,066,156)	\$ (185,089)	(3,349,544)
Adjustments to reconcile net income to net cash used in operating activities:			
Depreciation expense	25,872	-	27,686
Interest expense converted to common stock	3,555	-	3,555
Shares issued for services	2,019,357	-	2,019,357
Amortization of debt discount	48,578		48,578
Change in derivative liabilities	(95,925)		(95,925)
Changes in operating assets and liabilities:			
Accounts receivable	(84,156)	-	(99,266)
Inventory	(79,608)	(9,932)	(87,181)
Prepaid expenses and other current assets	(2,669)	-	(2,669)
Accounts payable	123,256	43,077	136,397
Accounts payable - related party	(490)	7,900	(490)
Accrued expenses	18,474	-	25,189
Net cash used in operating activities	(1,089,912)	(144,044)	(1,374,313)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of fixed assets	(264,230)	(66,524)	(304,127)
Deposits	(210,000)	-	(225,000)
Net cash used in investing activities	(474,230)	(66,524)	(529,127)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from notes payable	75,000	-	225,000
Proceeds from sale of common stock	1,025,000	-	1,025,000

Edgar Filing: ALKALINE WATER Co INC - Form 10-Q

Proceeds from sale of mandatory redeemable preferred stock, net	422,000	-	422,000
Shareholder contribution	-	217,738	264,575
Shareholder distribution	-	(7,170)	(10,670)
Net cash provided by financing activities	1,522,000	210,568	1,925,905
NET CHANGE IN CASH	(42,142)	(0)	22,465
CASH AT BEGINNING OF PERIOD	64,607	-	-
CASH AT END OF PERIOD	\$ 22,465	\$ (0)	\$ 22,465

SUPPLEMENTAL INFORMATION:

Interest paid	\$ -	\$ -
Income taxes paid	\$ -	\$ -

NON-CASH INVESTING AND FINANCING ACTIVITIES:

Debt converted to common stock	\$ 229,870	\$ -
--------------------------------	------------	------

See Accompanying Notes to Condensed Consolidated Financial Statements.

**THE ALKALINE WATER COMPANY INC.
(FORMERLY GLOBAL LINES INC.)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The interim consolidated financial statements included herein, presented in accordance with United States generally accepted accounting principles and stated in U.S. dollars, have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to make the information presented not misleading.

These statements reflect all adjustments, consisting of normal recurring adjustments, which in the opinion of management, are necessary for fair presentation of the information contained therein. It is suggested that these condensed interim consolidated financial statements be read in conjunction with the financial statements of the Company for the period of inception (June 19, 2012) to March 31, 2013 and notes thereto included in the Company's 8-K current report and all amendments. The Company follows the same accounting policies in the preparation of interim reports.

Results of operations for the interim period are not indicative of annual results.

Principles of consolidation

For the period from June 19, 2012 to March 31, 2013, the consolidated financial statements include the accounts of Alkaline Water Corp. (an Arizona Corporation) and Alkaline 88 LLC (formerly Alkaline 84, LLC) (an Arizona Limited Liability Company). For the period from April 1, 2013 to December 31, 2013, the consolidated financial statements include the accounts of The Alkaline Water Company Inc. (a Nevada Corporation), Alkaline Water Corp. (an Arizona Corporation) and Alkaline 84, LLC (an Arizona Limited Liability Company).

All significant intercompany balances and transactions have been eliminated. The Alkaline Water Company Inc. (a Nevada Corporation), Alkaline Water Corp. (an Arizona Corporation) and Alkaline 88, LLC (an Arizona Limited Liability Company) will be collectively referred herein to as the Company. Any reference herein to The Alkaline Water Company Inc., the Company, we, our or us is intended to mean The Alkaline Water Company Inc., including the subsidiaries indicated above, unless otherwise indicated.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ significantly from those estimates.

Cash and cash equivalents

For the purpose of the statements of cash flows, all highly liquid investments with an original maturity of three months or less are considered to be cash equivalents. The carrying value of these investments approximates fair value.

Fixed assets

The Company records all property and equipment at cost less accumulated depreciation. Improvements are capitalized while repairs and maintenance costs are expensed as incurred. Depreciation is calculated using the straight-line method over the estimated useful life of the assets or the lease term, whichever is shorter. Depreciation periods are as follows for the relevant fixed assets:

Equipment	5 years
-----------	---------

Revenue recognition

The Company recognizes revenue when all of the following conditions are satisfied: (1) there is persuasive evidence of an arrangement; (2) the product or service has been provided to the customer; (3) the amount to be paid by the customer is fixed or determinable; and (4) the collection of such amount is probable.

The Company records revenue when it is realizable and earned upon shipment of the finished products.

The Company does not accept returns due to the nature of the product. However, we will provide credit to our customers for damaged goods.

Fair Value Measurements

The valuation of our embedded derivatives and warrant derivatives are determined primarily by the multinomial distribution (Lattice) model. An embedded derivative is a derivative instrument that is embedded within another contract, which under the convertible note (the host contract) includes the right to convert the note by the holder, certain default redemption right premiums and a change of control premium (payable in cash if a fundamental change occurs). In accordance with Accounting Standards Codification ("ASC") 815 *Accounting for Derivative Instruments and Hedging Activities*, as amended, these embedded derivatives are marked-to-market each reporting period, with a corresponding non-cash gain or loss charged to the current period. A warrant derivative liability is also determined in accordance with ASC 815. Based on ASC 815, warrants which are determined to be classified as derivative liabilities are marked-to-market each reporting period, with a corresponding non-cash gain or loss charged to the current period. The practical effect of this has been that when our stock price increases so does our derivative liability resulting in a non-cash loss charge that reduces our earnings and earnings per share. When our stock price declines, we record a non-cash gain, increasing our earnings and earnings per share. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, there exists a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

Level 1 unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access as of the measurement date.

Level 2 inputs other than quoted prices included within Level 1 that are directly observable for the asset or liability or indirectly observable through corroboration with observable market data.

Level 3 unobservable inputs for the asset or liability only used when there is little, if any, market activity for the asset or liability at the measurement date.

This hierarchy requires the Company to use observable market data, when available, and to minimize the use of unobservable inputs when determining fair value.

To determine the fair value of our embedded derivatives, management evaluates assumptions regarding the probability of certain future events. Other factors used to determine fair value include our period end stock price, historical stock volatility, risk free interest rate and derivative term. The fair value recorded for the derivative liability varies from period to period. This variability may result in the actual derivative liability for a period either above or below the estimates recorded on our consolidated financial statements, resulting in significant fluctuations in other income (expense) because of the corresponding non-cash gain or loss recorded.

The following table sets forth the fair value hierarchy within our financial assets and liabilities by level that were accounted for at fair value on a recurring basis as of December 31, 2013.

Fair Value Measurement at December 31, 2013

	Carrying Value at December 31, 2013		Level 1		Level 2		Level 3
Liabilities							
Derivative convertible debt liability	\$ 180,033	\$	-	\$	-	\$	180,033
Derivative warrant liability	\$ 224,042	\$	-	\$	-	\$	224,042
Total derivative liability	\$ 404,075	\$	-	\$	-	\$	404,075

Concentration

The Company has 3 major customers that together account for 51% (25%, 14% and 12%, respectively) of accounts receivable at December 31, 2013, and 2 customers that together account for 28% (18% and 10%, respectively) of the total revenues earned for the nine month period ended December 31, 2013.

The Company has 4 vendors that accounted for 80% (37%, 20%, 13% and 10%, respectively) of purchases for the nine month period ended December 31, 2013.

Earnings per share

The Company follows ASC Topic 260 to account for the earnings per share. Basic earnings per common share (EPS) calculations are determined by dividing net income by the weighted average number of shares of common stock outstanding during the year. Diluted earnings per common share calculations are determined by dividing net income by the weighted average number of common shares and dilutive common share equivalents outstanding. During periods when common stock equivalents, if any, are anti-dilutive they are not considered in the computation.

Recent pronouncements

The Company has evaluated all the recent accounting pronouncements through January 2014 and believes that none of them will have a material effect on our financial statements.

NOTE 2 GOING CONCERN

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern, which contemplates the recoverability and/or acquisition and sale of assets and the satisfaction of liabilities in the normal course of business. The Company has limited operating history and, accordingly, has generated minimal revenues from operations. Since its inception, the Company has been engaged substantially in financing activities and developing its business plan and incurring startup costs and expenses. As a result, the Company incurred accumulated net losses from Inception (June 19, 2012) through the period ended December 31, 2013 of \$(3,349,544). In addition, the Company's development activities since inception have been financially sustained through debt and equity financing.

The ability of the Company to continue as a going concern is dependent upon its ability to raise additional capital from the sale of common stock and, ultimately, the achievement of significant operating revenues. These financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts, or amounts and classification of liabilities that might result from this uncertainty.

NOTE 3 INVENTORY

Inventories consist of the following at:

	December 31, 2013	March 31, 2013
Raw materials	\$ 25,705	\$ 5,125
Finished goods	61,476	2,448
Totals	\$ 87,181	\$ 7,573

NOTE 4 FIXED ASSETS

Fixed assets consisted of the following at:

	December 31, 2013	March 31, 2013
Equipment	\$ 327,228	\$ 39,897
Less: accumulated depreciation	(27,687)	(1,814)
Fixed assets, net	\$ 299,541	\$ 38,083

Depreciation expense for the three and nine months ended December 31, 2013 was \$16,534 and \$25,872, respectively.

NOTE 5 EQUIPMENT DEPOSITS RELATED PARTY

On February 27, 2013, we paid a \$15,000 deposit on equipment that we are purchasing for approximately \$146,000. During the nine months ended December 31, 2013, we paid an additional \$131,000 for equipment that was completed, and applied the \$146,000 of deposits to the purchase price. We also paid an additional \$201,900 for more equipment. As of December 31, 2013, the total amount of deposits for equipment is \$201,900. The equipment was manufactured by and purchased under an exclusive manufacturing contract from Water Engineering Solutions, LLC, an entity that is controlled and majority owned by Steven P. Nickolas and Richard A. Wright, for the production of our alkaline water.

NOTE 6 DERIVATIVE LIABILITY

On November 7, 2013, we sold to certain institutional investors 10% Series B Convertible Preferred Shares which are subject to mandatory redemption and include down-round provisions that reduce the exercise price of a warrant and convertible instrument as required by ASC 815 Derivatives and Hedging if the Company either issues equity shares for a price that is lower than the exercise price of those instruments or issues new warrants or convertible instruments that have a lower exercise price. The Company evaluated whether its warrants and convertible debt instruments contain provisions that protect holders from declines in its stock price or otherwise could result in modification of either the exercise price or the shares to be issued under the respective warrant agreements. The Company determined that a portion of its outstanding warrants and conversion instruments contained such provisions thereby concluding they were not indexed to the Company's own stock and therefore a derivative instrument.

The range of significant assumptions which the Company used to measure the fair value of warrant liabilities (a level 3 input) at December 31, 2013 is as follows:

	Warrant	Conversion feature
Stock price	\$ 0.26	\$ 0.26
Term (Years)	1 to 5	1
Volatility	138% - 306%	138% - 306%
Exercise prices	0.55 To \$ 0.25	\$ 0.43
Dividend yield	0%	0%

The Company analyzed the warrants and conversion feature under ASC 815 to determine the derivative liability. The Company estimated the fair value of these derivatives using a multinomial distribution (Lattice) valuation model. The fair value of these warrant liabilities at December 31, 2013 was \$ 224,042 and their conversion feature liability was \$180,033. At November 7, 2013 the fair value of these warrant liabilities was \$158,199 and the conversion feature liability was \$341,801. The change in fair value of derivative liabilities of \$95,925 was included in the consolidated statement of operations for the nine months ended December 31, 2013.

The following table sets forth the fair value hierarchy within our financial assets and liabilities by level that were accounted for at fair value on a recurring basis as of November 7, 2013.

	Carrying Value at			
	November 7, 2013	Level 1	Level 2	Level 3
Liabilities:				
Derivative convertible debt liability	\$ 158,199	\$ -	\$ -	\$ 158,199
Derivative warrant liability	\$ 341,801	\$ -	\$ -	\$ 341,801
Total derivative liability	\$ 500,000	\$ -	\$ -	\$ 500,000

The range of significant assumptions which the Company used to measure the fair value of warrant liabilities (a level 3 input) at November 7, 2013 is as follows:

	Warrant	Conversion feature
Stock price	\$ 0.50	\$ 0.50
Term (Years)	1 to 5	1
Volatility	120% - 265%	120% - 265%
Exercise prices	0.55 To \$	0.43
Dividend yield	\$ 0.25	\$ 0.43
	0%	0%

NOTE 7 PREFERRED SHARES SUBJECT TO MANDATORY REDEMPTION

Convertible preferred shares

On November 7, 2013, the Company sold to certain institutional investors an aggregate of 500 shares of our 10% Series B Convertible Preferred Stock (Series B Preferred Stock) at a stated value of \$1,000 per share of Series B Preferred Stock for gross proceeds of \$500,000. Additionally the investors also received Series A, Series B and Series C common stock purchase warrants. The Series A warrants will be exercisable into 1,162,791 shares of our common stock at an exercise price of \$0.55 per share, the Series B warrants will be exercisable into 1,162,791 shares of our common stock at an exercise price of \$0.43 per share and the Series C warrants will be exercisable into 1,162,791 shares our common stock at an exercise price of \$0.55 per share. Holders of the Series B Preferred Stock will be entitled to receive cumulative dividends at the rate per share (as a percentage of the stated value per share) of 10% per annum, payable semi-annually. Each share of the Series B Preferred Stock will be convertible at the option of the holder thereof into that number of shares of common stock determined by dividing the stated value of such share of the Series B Preferred Stock by the conversion price of \$0.43, subject to later adjustment. On November 4, 2013, we also entered into a registration rights agreement with the investors pursuant to which we are obligated to file a registration statement to register the resale of the shares of common stock issuable upon conversion of the Series B Preferred Stock and upon exercise of the Warrants.

Effective November 7, 2013, the Company issued Series A common stock purchase warrants to the placement agent and its designees as compensation for the services provided by the placement agent in connection with our private placement of 500.00028 shares of our 10% Series B Convertible Preferred Stock, which was completed on November 7, 2013. The Series A warrants issued to the placement agent and its designees are exercisable into an aggregate of 116,279 shares of our common stock with an exercise price of \$0.55 per share and have a term of exercise of five years. The Company issued the Series A warrants to six accredited investors and paid certain the transaction cost of \$78,000. The issuance of the Series A warrants was exempt from registration pursuant to Section 4(a)(2) of the Securities Act of 1933 and Rule 506 promulgated thereunder. The Company recorded a debt discount cost of \$500,000 and will amortize this cost over the mandatory redemption period. For the nine months ended December 31, 2013 the Company recorded \$48,578 of amortization of the debt discount and deferred financing cost. The 10% Series B Preferred Stock included down-round provisions which reduce the exercise price of a warrant and convertible

instrument as required by ASC 815 Derivatives and Hedging .

NOTE 8 STOCKHOLDERS EQUITY**Preferred shares**

On October 7, 2013, the Company amended its articles of incorporation to create 100,000,000 shares of preferred stock by filing a Certificate of Amendment to Articles of Incorporation with the Secretary of State of the State of Nevada. The preferred stock may be divided into and issued in series, with such designations, rights, qualifications, preferences, limitations and terms as fixed and determined by our board of directors.

Grant of Series A Preferred stock

Effective October 8, 2013, the Company issued a total of 20,000,000 shares of non-convertible Series A Preferred Stock to Steven A. Nickolas and Richard A. Wright (10,000,000 shares to each), our directors and executive officers, in consideration for the past services, at a deemed value of \$0.001 per share. The Company issued these shares to two U.S. Persons (as that term is defined in Regulation S of the Securities Act of 1933) and in issuing securities we relied on the registration exemption provided for in Section 4(a)(2) of the Securities Act of 1933. The company valued these shares based on the cost considering the time and average billing rate of these individuals and recorded a \$20,000 stock compensation cost for nine months ended December 31, 2013.

Common stock

We are authorized to issue 1,125,000,000 shares of \$0.001 par value common stock. On May 31, 2013, we effected a 15-for-1 forward stock split of our \$0.001 par value common stock. All shares and per share amounts have been retroactively restated to reflect the split discussed above.

Prior to the acquisition of Alkaline Water Corp., we had 109,500,000 shares of common stock issued and outstanding.

On May 31, 2013, we issued 43,000,000 shares in exchange for a 100% interest in Alkaline Water Corp. For accounting purposes, the acquisition of Alkaline Water Corp. by The Alkaline Water Company Inc. has been recorded as a reverse acquisition of a company and recapitalization of Alkaline Water Corp. based on the factors demonstrating that Alkaline Water Corp. represents the accounting acquirer. Consequently, after the closing of this agreement we adopted the business of Alkaline Water Corp. s wholly-owned subsidiary, Alkaline 88, LLC.

As part of the acquisition, the former management of the Company agreed to cancel 75,000,000 shares of common stock.

Sale of restricted shares

Effective October 8, 2013, the Company issued an aggregate of 1,250,000 shares of our common stock to three investors in a non-brokered private placement, at a purchase price of \$0.40 per share for gross proceeds of \$500,000. In addition, the Company issued 1,250,000 units to a finder in connection with this private placement. Each unit consisted of one share purchase warrant entitling the holder to purchase, for a period of two years from issuance, one share of our common stock at an exercise price of \$0.50 per share and one-half of one share purchase warrant, with each whole share purchase warrant entitling the holder to purchase, for a period of two years from issuance, one share of our common stock at an exercise price of \$0.60 per share.

On May 31, 2013, the Company sold 1,312,500 units at \$0.40 per share for total cash of \$525,000. Each unit consisted of one share of common stock, one warrant which entitles the holder to purchase one share of common stock for a period of 2 years with an exercise price of \$0.50 per share, and 1/2 warrant which entitles the holder to purchase 1/2

share of common stock for a period of 2 years with an exercise price of \$0.60 per share.

On May 31, 2013, the Company converted principal amount of \$225,000 and accrued interest of \$4,870 into 574,675 units at \$0.40 per share for total debt converted of \$229,870. Each unit consisted of one share of common stock, one warrant which entitles the holder to purchase one share of common stock for a period of 2 years with an exercise price of \$0.50 per share, and 1/2 warrant which entitles the holder to purchase 1/2 share of common stock for a period of 2 years with an exercise price of \$0.60 per share.

Common stock issued for services

Effective October 10, 2013, the Company issued 200,000 shares of our common stock to one consultant in consideration for services rendered by the consultant to our company.

On August 8, 2013, the Company entered into a service contract that included the issuance of 250,000 common shares. These shares were valued at fair value of \$0.55 per share and have been charged as stock compensation to general and administrative expense.

On December 20, 2013, the Company issued 65,000 common shares to employees for services rendered. These shares were valued at fair value of \$0.327 per share and have been charged as stock compensation to general and administrative expense.

Between December 13, 2013 and December 20, 2013, the Company issued 170,000 common shares to consultants for services rendered. These shares were valued at fair value of \$59,300 and have been charged as stock compensation to general and administrative expense.

NOTE 9 OPTIONS AND WARRANTSStock Option Awards

Effective October 9, 2013, the Company granted a total of 6,000,000 stock options to Steven A. Nickolas and Richard A. Wright (3,000,000 stock options to each). The stock options are exercisable at the exercise price of \$0.605 per share for a period of ten years from the date of grant. The stock options vest as follows: (i) 1,000,000 upon the date of grant; and (ii) 500,000 per quarter until fully vested.

The Company has recognized compensation expense of \$1,669,302 on the stock options granted that vested during the current period for the nine months ended December 31, 2013. The fair value of the unvested shares is \$3,338,604 as of December 31, 2013 with the total unrecognized compensation cost related to non-vested stock options which is expected to be recognized over a weighted-average period of approximately 1 year. The aggregate intrinsic value of these options was \$0 at December 31, 2013. Stock based compensation totaled \$1,669,302 for the nine months ended December 31, 2013.

Stock option activity summary covering options is presented in the table below:

	Number of Shares	Weighted- average Exercise Price	Weighted- average Remaining Contractual Term (years)
Outstanding at March 31, 2013	-	\$ -	-
Granted	6,000,000	\$ 0.61	9.8
Exercised	-	\$ -	-
Expired/Forfeited	-	\$ -	-
Outstanding at December 31, 2013	6,000,000	\$ 0.61	9.8
Exercisable at December 31, 2013	2,000,000	\$ 0.61	9.8

Warrants

Edgar Filing: ALKALINE WATER Co INC - Form 10-Q

The following is a summary of the status of all of our warrants as of December 31, 2013 and changes during the nine months ended on that date:

	Number of Warrants	Weighted-Average Exercise Price
Outstanding at April 1, 2013	-	\$ 0.00
Granted	8,310,415	\$ 0.52
Exercised	-	\$ 0.00
Cancelled	-	\$ 0.00
Outstanding at December 31, 2013	8,310,415	0.52
Warrants exercisable at December 31, 2013	7,147,624	0.52

The following table summarizes information about stock warrants outstanding and exercisable at December 31, 2013:

STOCK WARRANTS OUTSTANDING AND EXERCISABLE

Exercise Price	Number of Warrants Outstanding	Weighted-Average Remaining Contractual Life in Years	Weighted- Average Exercise Price
\$ 0.50	1,887,175	1.92	\$ 0.50
\$ 0.60	943,588	1.92	\$ 0.60
\$ 0.50	3,604,652	3.86	\$ 0.50

NOTE 10 RELATED PARTY TRANSACTIONS

As of December 31, 2013, the Company had an equipment deposit totaling \$201,900 to an entity that is controlled and owned by an officer, director and shareholder of the Company (see Note 5 Equipment Deposits Related Party). The Company acquired equipment totaling \$219,000 from an entity that is controlled and majority-owned by an officer, director and shareholder of the Company.

During the period from Inception (June 19, 2012) to March 31, 2013, the Company purchased \$39,897 in equipment from an entity that is controlled and owned by an officer, director and shareholder of the Company.

During the three and nine months ended December 31, 2013, the Company had a total of \$3,286 and \$65,378, respectively, in general and administrative expenses with related parties. Of that total, for the three and nine months ended December 31, 2013, respectively, \$3,286 and \$36,878 was consulting fees to an officer, director and shareholder of the Company, \$0 and \$12,000 was rent to an entity that is controlled and owned by an officer, director and shareholder of the Company and \$0 and \$16,500 was professional fees to an entity that is controlled and owned by an officer, director and shareholder. During the period from inception to December 31, 2012, the Company had a total of \$46,682 in general and administrative expenses, principally management fee to an entity that is controlled and owned by an officer, director and shareholder, which are related parties.

NOTE 11 SUBSEQUENT EVENTS

Common stock issued for services

Between January 2 2014 and January 14, 2014, the Company issued 280,000 shares of common stock to various consultants in consideration for services rendered by the consultants to the company.

Lease with related party

On January 17, 2014 the Company entered into an equipment lease with Water Engineering Solutions LLC, an entity that is controlled and owned by an officer, director and shareholder, for specialized equipment totaling \$190,756. The Company made a down payment of \$39,543 and agreed to a 60 month term at \$2,512 per month and a final payment of \$28,585.

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

Forward-looking statements

This report contains forward-looking statements. All statements other than statements of historical fact are forward-looking statements for purposes of federal and state securities laws, including, but not limited to, any projections of earnings, revenue or other financial items; any statements of the plans, strategies and objections of management for future operations; any statements concerning proposed new services or developments; any statements regarding future economic conditions or performance; any statements or belief; and any statements of assumptions underlying any of the foregoing.

Forward-looking statements may include the words may, could, estimate, intend, continue, believe, anticipate or other similar words. These forward-looking statements present our estimates and assumptions only as of the date of this report. Accordingly, readers are cautioned not to place undue reliance on forward-looking statements, which speak only as of the dates on which they are made. Except for our ongoing securities laws, we do not intend, and undertake no obligation, to update any forward-looking statement. You should, however, consult further disclosures we make in future filings of our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K.

Although we believe the expectations reflected in any of our forward-looking statements are reasonable, actual results could differ materially from those projected or assumed in any of our forward-looking statements. Our future financial condition and results of operations, as well as any forward-looking statements, are subject to change and inherent risks and uncertainties. The factors impacting these risks and uncertainties include, but are not limited to:

- our current lack of working capital;
- inability to raise additional financing;
- the fact that our accounting policies and methods are fundamental to how we report our financial condition and results of operations, and they may require our management to make estimates about matters that are inherently uncertain;
- deterioration in general or regional economic conditions;
- adverse state or federal legislation or regulation that increases the costs of compliance, or adverse findings by a regulator with respect to existing operations;
- inability to efficiently manage our operations;
- inability to achieve future sales levels or other operating results; and
- the unavailability of funds for capital expenditures.

Throughout this Quarterly Report, references to we, our, us, Alkaline, the Company, and similar terms refer to Alkaline Water Company Inc.

Corporate Overview

Our company, The Alkaline Water Company Inc., was incorporated under the laws of the State of Nevada on June 6, 2011 under the name Global Lines Inc. Our business model prior to the acquisition of Alkaline Water Corp. on May 31, 2013 was to provide chauffeuring and transportation services to residents within our local market, primarily providing transportation services such as private school student transport, sightseeing trips, and elderly transportation, and offering transportation to the airport and special event such as proms and weddings. However, as we had not successfully developed our service and had no source of revenue from our business plan, we determined to seek out a new business opportunity to increase value for our stockholders.

On February 20, 2013, The Alkaline Water Company Inc. (formerly Global Lines Inc) entered into a non-binding letter of intent with Alkaline 88, LLC (formerly Alkaline 84, LLC), a wholly-owned subsidiary of Alkaline Water Corp., for the acquisition of all of the issued and outstanding securities of the capital of Alkaline 88, LLC. Further to this letter of intent, on May 31, 2013, The Alkaline Water Company Inc. entered into a share exchange agreement with Alkaline Water Corp. and all of its stockholders, and as a result of the closing of this agreement on the same date, Alkaline Water Corp. became a wholly-owned subsidiary of The Alkaline Water Company Inc. Consequently, after the closing of this agreement we adopted the business of Alkaline Water Corp. s wholly-owned subsidiary, Alkaline 88, LLC.

Alkaline Water Corp. was incorporated in the State of Arizona on March 7, 2013, and it is the sole stockholder of Alkaline 88, LLC. Alkaline Water Corp. is the wholly-owned subsidiary of The Alkaline Water Company Inc., and Alkaline 88, LLC is Alkaline Water Corp.'s wholly-owned subsidiary.

Prior to the closing of the share exchange agreement, on May 30, 2013, our company effected a name change by merging with its wholly-owned Nevada subsidiary named The Alkaline Water Company Inc. with our company as the surviving corporation under the new name The Alkaline Water Company Inc. In addition, on May 30, 2013, our company effected a 15:1 forward stock split of our authorized and issued and outstanding common stock.

On October 7, 2013, we amended our articles of incorporation to create 100,000,000 shares of preferred stock by filing a Certificate of Amendment to Articles of Incorporation with the Secretary of State of the State of Nevada. The preferred stock may be divided into and issued in series, with such designations, rights, qualifications, preferences, limitations and terms as fixed and determined by our board of directors. As a result, the aggregate number of shares that we have the authority to issue is 1,225,000,000, of which 1,125,000,000 shares are common stock, with a par value of \$0.001 per share, and 100,000,000 shares are preferred stock, with a par value of \$0.001 per share.

On October 8, 2013, we designated 20,000,000 shares of the authorized and unissued preferred stock of our company as Series A Preferred Stock by filing a Certificate of Designation with the Secretary of State of the State of Nevada. The Series A Preferred Stock has 10 votes per share and is not convertible into shares of our common stock.

On November 5, 2013, we designated 1,000 shares of the authorized and unissued preferred stock of our company as 10% Series B Convertible Preferred Stock by filing a Certificate of Designation with the Secretary of State of the State of Nevada. The 10% Series B Convertible Preferred Stock is convertible into shares of our common stock at a price of \$0.43 per share, subject to adjustment as provided for in the Certificate of Designation, and has, among other things, liquidation preferences, dividend rights, redemption rights and conversion rights.

The principal offices of our company are located at 7730 E Greenway Road, Ste. 203, Scottsdale, AZ 85260. Our telephone number is (480) 656-2423.

Principal Products

Our company offers retail consumers bottled alkaline water in three-liter and one-gallon volumes through our brand Alkaline88. Our product is produced through an electrolysis process that uses specialized electronic cells coated with a variety of rare earth minerals to produce our 8.8 pH drinking water without the use of any chemicals. Our product also incorporates 84 trace Himalayan salts.

The main reason consumers drink our product is for the perceived benefit that a proper pH balance helps fight disease and boosts the immune system and the perception that alkaline water helps to maintain a proper body pH and keeps cells young and hydrated.

Operations

Alkaline 88, LLC, our operating subsidiary, operates primarily as a marketing and distribution company. Alkaline 88, LLC has entered into exclusive arrangements with Water Engineering Solutions LLC, an entity that is controlled and owned by our President, Chief Executive Officer, director and majority stockholder Steven P. Nickolas and our Vice-President, Secretary, Treasurer and director Richard A. Wright, for the manufacture and production of our alkaline generating electrolysis system machines. Alkaline 88, LLC has entered into one-year agreement(s) with Arizona Bottled Water, LLC and White Water, LLC to act as our initial co-packers. Our branding is being coordinated through 602 Design, LLC and our component materials are readily available through multiple vendors. Our principal

suppliers are Plastipack Packaging and Polyplastics Co.

Sample production and testing of our product began in late 2012. We have currently established initial contract manufacturing in Phoenix, Arizona and plan to establish other key manufacturing facilities throughout the United States to support the national distribution of our product.

Our product is currently at the introduction phase of its lifecycle. In March 2012 Alkaline 88, LLC did market research on the demand for a bulk alkaline product at the Natural Product Expo West in Anaheim, California. In January 2013, we began the formal launching of our product in Southern California and Arizona. Since then, we have begun to deliver product through approximately 600 retail outlets throughout the United States, primarily in the Southwest and Texas, through large national distributors (UNFI and KeHe). Our current stores include convenience stores, natural food products stores, large ethnic markets and national retailers. Currently, we sell all of our products to our retailers through brokers and distributors. Our larger retail clients bring the water in through their own warehouse distribution network. Our current retail clients are made up of a variety of the following; convenience stores, including 7-11 s; large national retailers, including Albertson s, Fry s and Smith s, (both Kroger companies) and regional grocery chains such as Bashas , Bristol Farms, Vallarta, Superior Foods, Brookshire s and other companies throughout the United States.

In order to continue our expansion, we anticipate that we will be required, in most cases, to continue to give promotional deals throughout 2014 and in subsequent years on a quarterly basis ranging from a 5%-15% discount similar to all other beverage company promotional programs. It has been our experience that most of the retailers have requested some type of promotional introductory program which has included either a \$0.25 -\$0.50 per unit discount on an initial order; a buy one get one free program; or a free-fill program which includes 1-2 cases of free product per store location. Slotting has only been presented and negotiated in the larger national grocery chains and, in most cases, is offset by product sales. Our slotting fees with our current national retailers do not exceed \$40,000 in the aggregate and are offset through product sales. In addition we participate in promotional activities of our distributors, these fees are not in excess of \$100,000 and are offset through product sales.

Plan of Operations

In order for us to implement our business plan over the next twelve-month period, we have identified the following milestones that we expect to achieve:

- **Training of Staff** - The first milestone that we expect to achieve in the first calendar quarter of 2014 will be the internal training of our sales and marketing staff, located in Scottsdale, Arizona. We expect to also complete the training and contractual relationship with our national broker network known as Beacon United. Except in the Northeast, the Beacon United Network has been fully engaged. In order to take advantage of the initial sales season, which runs from January through April, we anticipate a considerable amount of travel and ongoing training for both internal staff and Beacon United at an estimated cost during that time of \$50,000.
- **Increase Manufacturing Capacity** We anticipate that we will need to secure an additional four contract manufacturing facilities, beyond those that currently exist in Phoenix, Arizona. The strategic importance of this is to reduce freight costs that are currently being incurred with respect to shipping product around the country. We are currently in negotiations with four contract packaging facilities located in Texas, Illinois, Georgia and California. Based on the location of various retailers in different parts of the country and our expected growth, we anticipate that we will need to open a new facility every quarter in 2014. In addition to these contract packaging facilities, it is strategically important for us to raise capital to complete the acquisition of the North Cove Bottling Plant located in North Carolina, which we are expecting to finalize in the first quarter 2014. If we cannot finalize this purchase, we will have to continue to outsource to the four contract facilities at higher manufacturing and shipping costs. Each of the contract packaging facilities will require the installation of a specifically designed proprietary piece of equipment that will allow them to manufacture and produce our Alkaline 88 products. The cost of each of these systems, including installation, is approximately \$230,000, per system. We anticipate having all four of these locations in operation by the end of 2014. Depending on the demand for our product, we anticipate that some of these contract packers including the North Carolina plant will require up to three or four of our standard systems. Given the total cost of each machine, along with the ancillary storage equipment and installation, of approximately \$230,000, the total cost of implementation and expansion to the various contract packers could be in excess of \$3,400,000. The plant acquisition and upgrades could be another \$1,700,000. Accordingly, we expect the total maximum cost for the next 12 months to be \$5,100,000.
- **Expand Retail Distribution** - As the contract packaging facilities continue to come online, it is imperative to the execution of our business plan that we continue to sign up major retailers for the acceptance and sales of our product throughout the United States, Canada and Mexico. We anticipate most major markets and retailers in the country to be opened prior to the end of 2014. We are currently in negotiations or have received the new item paperwork from retailers that will introduce our Alkaline 88 product line to over 350 retailers, representing approximately 30,000 store locations throughout North America. We believe that it will be possible for us to bring on an additional four to five retailers per month over the next twelve months. The cost of this retail expansion is expected to be \$500,000 during that time.

- **Addition of Support Staff** - In order to support expansion efforts and to continue the training and support of our broker network, we will need to hire approximately ten more people on the corporate level, most of which will be hired for the specific purpose of supporting the broker, distributor and retailers and their logistical requirements. We continue to seek and interview candidates to fill our growing need for additional staffing. The additional cost of these new hires is expected to be approximately \$1,000,000 in salary and benefits over the next twelve months.
- **Capital Considerations** Our business plan can be adjusted based on the available capital to the business. We plan to begin moving in an eastward direction and building machines and entering into co-packing arrangements as funding allows. We anticipate that approximately \$9,000,000, is necessary in order to build-out a national presence for our product and to allow for the purchase of the necessary equipment and facilities over the next twelve months.

We believe that cash flow from operations will not meet our present and near-term cash needs and thus we will require additional cash resources, including the sale of equity or debt securities, to meet our planned capital expenditures and working capital requirements for the next 12 months. We estimate that our capital needs over the next 12 months will be \$2,000,000 to \$5,000,000. We will require additional cash resources to achieve the milestones indicated above. If our own financial resources and future current cash-flows from operations are insufficient to satisfy our capital requirements, we may seek to sell additional equity or debt securities or obtain additional credit facilities. The sale of additional equity securities will result in dilution to our stockholders. The incurrence of indebtedness will result in increased debt service obligations and could require us to agree to operating and financial covenants that could restrict our operations or modify our plans to grow the business. Financing may not be available in amounts or on terms acceptable to us, if at all. Any failure by us to raise additional funds on terms favorable to us, or at all, will limit our ability to expand our business operations and could harm our overall business prospects.

Distribution Method for Our Product

Our distribution network is a broker-distributor-retailer network, whereby brokers represent our products to distributors and retailers. Our target retail markets are: (a) chain and independent health food stores; (b) grocery stores; (c) convenience stores; (d) drug stores; and the mass retail market.

Currently our broker network consists of A&L Sales & Marketing, Savi Sales & Marketing, Co-Sales Company and Perimeter Sales & Merchandising.

National distribution is being arranged through our distributor network including, but not limited to, Santa Monica Distributing Company, Las Vegas Beer & Beverage Company, Alford Distributing, North Central Distributors, United Natural Foods (UNFI) and KeHE Distributors.

Our retail network currently consists of Albertson's/SuperValu, Amazon.com, Bashas, Bristol Farms, Superior Grocers, Kroger (Fry's and Smith's) and Vallarta Supermarkets.

Dependence on Few Customers

We have 3 major customers (consisting of UNFI, KeHe Distributors and Brookshire Grocery Company) that together account for 51% (25%, 14% and 12%, respectively) of accounts receivable at December 31, 2013, and 2 customers (consisting of Albertson and Superior Grocers) that together account for 38% (10% and 18%, respectively) of the total revenues earned for the nine month period ended December 31, 2013.

Marketing

We intend to market our product through our broker network and to avail ourselves to the promotional activities of other companies and competitors regarding the benefits of alkaline water. We anticipate that our initial marketing thrust will be to support the retailers and distribution network with point of sales displays and other marketing materials, strategically adding an extensive public relations program and other marketing as the markets dictate.

Competition

The beverage industry is extremely competitive. The principal areas of competition include pricing, packaging, development of new products and flavors, and marketing campaigns. Our product will be competing directly with a wide range of drinks produced by a relatively large number of manufacturers. Most of these brands have enjoyed broad, well-established national recognition for years, through well-funded ad and other marketing campaigns. In addition, companies manufacturing these products generally have far greater financial, marketing, and distribution resources than we have.

Important factors that will affect our ability to compete successfully include the continued public perception of the benefits of alkaline water, taste and flavor of our product, trade and consumer promotions, the development of new, unique and cutting edge products, attractive and unique packaging, branded product advertising, pricing, and the success of our distribution network.

We will also be competing to secure distributors who will agree to market our product over those of our competitors, provide stable and reliable distribution, and secure adequate shelf space in retail outlets. The extremely competitive pressures within the beverage categories could result in our product never even being introduced beyond what they can market locally themselves.

Our product will compete generally with all liquid refreshments, including bottled water and numerous specialty beverages, such as SoBe, Snapple, Arizona, Vitamin Water, Gatorade, and Powerade. We will compete directly with other alkaline water producers and brands focused on the emerging alkaline beverage market including Eternal, Essentia, Icelandic, Real Water, Aqua Hydrate, Mountain Valley, Qure, Penta, and Alka Power.

Products offered by our direct competitors are sold in various volumes and prices with prices ranging from approximately \$1.39 for a half-liter bottle to \$2.99 for a one-liter bottle, and volumes ranging from half-liter bottles to one-and-a half liter bottles. We currently offer our product in a three-liter bottle for an SRP of \$3.99 and one-gallon bottle for an SRP of \$4.99.

Intellectual Property

Where available, we intend to obtain trademark protection in the United States for a number of trademarks for slogans and product designs. We intend to aggressively assert our rights under trade secret, unfair competition, trademark and copyright laws to protect our intellectual property, including product design, product research and concepts and recognized trademarks. These rights are protected through the acquisition of patents and trademark registrations, the maintenance of trade secrets, the development of trade dress, and, where appropriate, litigation against those who are, in our opinion, infringing these rights.

While there can be no assurance that registered trademarks will protect our proprietary information, we intend to assert our intellectual property rights against any infringer. Although any assertion of our rights could result in a substantial cost to, and diversion of effort by, our company, management believes that the protection of our intellectual property rights will be a key component of our sales and operating strategy.

Seasonality of Business

The sales of our products are influenced to some extent by weather conditions in the markets in which we operate. Unusually cold or rainy weather during the summer months may have a temporary effect on the demand for our product and contribute to lower sales, which could have an adverse effect on our results of operations for such periods.

Research and Development Costs During the Last Two Years

Alkaline 88, LLC has worked with Water Engineering Solutions LLC, an entity that is controlled and majority-owned by Steven P. Nickolas and Richard A. Wright, on the research and development activities related to the development of our alkaline generating electrolysis system machines, a proprietary alkaline water system.

Government Regulation

The advertising, distribution, labeling, production, safety, sale, and transportation in the United States of our product will be subject to: the Federal Food, Drug, and Cosmetic Act; the Federal Trade Commission Act; the Lanham Act; state consumer protection laws; competition laws; federal, state and local workplace health and safety laws; various federal, state and local environmental protection laws; and various other federal, state and local statutes and regulations.

Legal requirements apply in many jurisdictions in the United States requiring that deposits or certain ecotaxes or fees be charged for the sale, marketing, and use of certain non-refillable beverage containers. The precise requirements imposed by these measures vary. Other types of statutes and regulations relating to beverage container deposits, recycling, ecotaxes and/or product stewardship also apply in various jurisdictions in the United States. We anticipate that additional, similar legal requirements may be proposed or enacted in the future at the local, state and federal levels in the United States.

Any third-party bottling facility that we may choose to utilize in the future and any other such operations will be subject to various environmental protection statutes and regulations, including those relating to the use of water resources and the discharge of wastewater. It will be our policy to comply with any and all such legal requirements. Compliance with these provisions has not had, and we do not expect such compliance to have, any material adverse effect on our capital expenditures, net income or competitive position.

Employees

In addition to Steven P. Nickolas, who is our President, Chief Executive Officer and Director, and Richard A. Wright, who is our Vice-President, Secretary, Treasurer and Director, we currently employ 8 full time employees and 1 part time employee in marketing, accounting and administration. We also work with retail brokers in the United States who are paid on a contract basis. Our operations are overseen directly by management that engages our employees to carry on our business. Our management oversees all responsibilities in the areas of corporate administration, business development, and research. We intend to expand our current management to retain skilled directors, officers, and employees with experience relevant to our business focus. Our management's relationships with manufacturers, distillers, development/research companies, bottling concerns, and certain retail customers will provide the foundation through which we expect to grow our business in the future. We believe that the skill-set of our management team will be a primary asset in the development of our brands and trademarks. We also plan to form an independent network of contract sales and regional managers, a promotional support team, and several market segment specialists who will be paid on a variable basis.

Going Concern

Our financial statements are prepared using generally accepted accounting principles in the United States of America applicable to a going concern, which contemplates the realization of assets and liquidation of liabilities in the normal course of business. We have not yet established an ongoing source of revenues sufficient to cover our operating costs and to allow us to continue as a going concern. As of December 31, 2013, we had an accumulated deficit of \$(3,349,544). Our ability to continue as a going concern is dependent on our company obtaining adequate capital to fund operating losses until we become profitable. If we are unable to obtain adequate capital, we could be forced to significantly curtail or cease operations.

On November 7, 2013, we sold to three institutional investors an aggregate of 500 shares of our 10% Series B Convertible Preferred Stock at a stated value of \$1,000 per share and Series A, B and C common stock purchase warrants (each series being exercisable into an aggregate of 1,162,791 shares of our common stock) for gross proceeds of \$500,000. In addition to the sale of these securities, we will need to raise additional funds to finance continuing operations. However, there are no assurances that we will be successful in raising additional funds. Without sufficient additional financing, it would be unlikely for us to continue as a going concern.

Our ability to continue as a going concern is dependent upon our ability to successfully accomplish the plans described in the preceding paragraph and eventually secure other sources of financing and attain profitable operations.

Results of Operations

				Inception (June 19, 2012) to December
For the three months ended December	For the three months ended December	For the nine months ended December		

Edgar Filing: ALKALINE WATER Co INC - Form 10-Q

	31, 2013	31, 2012	31, 2013	31, 2012
Revenue	\$ 171,137	\$ -	\$ 333,404	\$ -
Cost of goods sold	102,609	-	193,566	-
Gross profit	68,528	-	139,838	-
Net loss (after operating expenses and other expenses)	\$ (2,397,827)	\$ (52,875)	\$ (3,066,156)	\$ (185,089)

Revenue and Cost of Goods Sold

We had revenue from sales of our product for the three and nine months ended December 31, 2013 of \$171,137 and \$333,404, respectively, as compared to \$0 for the period from inception on June 19, 2012 to December 31, 2012. Cost of goods sold is comprised of production costs, shipping and handling costs.

Expenses

Our operating expenses for the three months ended December 31, 2013 and 2012 and for the nine months ended December 31, 2013 and the period from inception on June 19, 2012 to December 31, 2012 are as follows:

	For the three months ended December 31, 2013	For the three months ended December 31, 2012	For the nine months ended December 31, 2013	Inception (June 19, 2012) to December 31, 2012
Sales and marketing expenses	\$ 150,417	\$ 2,849	\$ 338,839	\$ 38,903
General and administrative expenses	2,335,964	3,344	2,812,196	99,504
General and administrative expenses related party	3,286	46,682	65,378	46,682
Depreciation expenses	16,534	-	25,872	-
Total operating expenses	\$ 2,506,201	\$ 52,875	\$ 3,242,285	\$ 185,089

During the three and nine months ended December 31, 2013, we had a total of \$3,286 and \$52,875, respectively, in general and administrative expenses with related parties. Of that total, for the three and nine months ended December 31, 2013, respectively, \$3,286 and \$36,878 was consulting fees to an officer, director and shareholder of the Company, \$0 and \$12,000 was rent to an entity that is controlled and owned by an officer, director and shareholder of the Company and \$0 and \$16,500 was professional fees to an entity that is controlled and owned by an officer, director and shareholder. During the period from inception to December 31, 2012, we had a total of \$46,682 in general and administrative expenses, principally management fee to an entity that is controlled and owned by an officer, director and shareholder, which are related parties.

Liquidity and Capital Resources**Working Capital**

Our working capital as of December 31, 2013 and March 31, 2013 was as follows:

	December 31, 2013	March 31, 2013
Current assets	\$ 281,460	\$ 87,290
Current liabilities	563,856	169,856
Working capital	\$ (282,396)	\$ (82,566)

Current Assets

Current assets as of December 31, 2013 and March 31, 2013 primarily relate to \$22,465 and \$64,607 in cash, \$99,266 and \$15,110 in accounts receivable and \$87,181 and \$7,573 in inventory, respectively.

Current Liabilities

Current liabilities as at December 31, 2013 primarily relate \$135,907 in accounts payable and \$404,075 in derivative liability. Current liabilities as at March 31, 2013 primarily relate \$150,000 in notes payable.

Cash Flow

Our cash flow for the six months ended December 31, 2013 and the period from inception on June 19, 2012 to September 30, 2012 are as follows:

	For the nine months ended December 31, 2013	Inception (June 19, 2012) to December 31, 2012
Net cash used in operating activities	\$ (1,089,912)	\$ (144,044)
Net cash used in investing activities	(473,230)	(66,524)
Net cash provided by financing activities	1,522,000	210,568
Net increase in cash and cash equivalents	\$ (42,142)	\$ -

Operating activities

Net cash used in operating activities was \$ 1,089,912 for the nine months ended December 31, 2013, as compared to \$144,044 used in operating activities from inception June 19, 2012 to December 31, 2012. The increase in net cash used in operating activities was primarily due to net loss from operations and increase in accounts receivable and inventory.

Investing activities

Net cash used in investing activities was \$473,230 for the nine months ended December 31, 2013, as compared to \$66,524 used in investing activities from inception June 19, 2012 to December 31, 2012. The increase in net cash used by investing activities was primarily from the equipment deposits to related parties.

Financing activities

Net cash provided by financing activities for the nine months ended December 31, 2013 was \$1,522,000, as compared to \$210,568 from inception June 19, 2012 to December 31, 2012. The increase of net cash provided by financing activities was mainly attributable to capital provided through sales of our common stock.

Cash Requirements

We believe that cash flow from operations will not meet our present and near-term cash needs and thus we will require additional cash resources, including the sale of equity or debt securities, to meet our planned capital expenditures and working capital requirements for the next 12 months. We estimate that our capital needs over the next 12 month will be \$2,000,000 to \$5,000,000. We will require additional cash resources to purchase equipment, increase the production of our products, implement our strategy to expand our sales and marketing initiatives and increase brand awareness. If our own financial resources and then current cash-flows from operations are insufficient to satisfy our capital requirements, we may seek to sell additional equity or debt securities or obtain additional credit facilities. The sale of additional equity securities will result in dilution to our stockholders. The incurrence of indebtedness will result in increased debt service obligations and could require us to agree to operating and financial covenants that could restrict our operations or modify our plans to grow the business. Financing may not be available in amounts or on terms acceptable to us, if at all. Any failure by us to raise additional funds on terms favorable to us, or at all, will limit our ability to expand our business operations and could harm our overall business prospects.

Off-Balance Sheet Arrangements

We did not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

This item is not applicable as we are currently considered a smaller reporting company.

Item 4. Controls and ProceduresEvaluation of Disclosure Controls and Procedures

We maintain "disclosure controls and procedures", as that term is defined in Rule 13a-15(e), promulgated by the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934. Disclosure controls and procedures include controls and procedures designed to ensure that information required to be disclosed in our company's reports filed under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to our management, including our principal executive officer and our principal accounting officer to allow timely decisions regarding required disclosure.

As required by paragraph (b) of Rules 13a-15 under the Securities Exchange Act of 1934, our management, with the participation of our principal executive officer and our principal financial officer, evaluated our company's disclosure controls and procedures as of the end of the period covered by this quarterly report on Form 10-Q. Based on this evaluation, our management concluded that as of the end of the period covered by this quarterly report on Form 10-Q, our disclosure controls and procedures were effective.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting during the fiscal quarter ended December 31, 2013 that have materially affected, or are reasonably likely to materially affect our internal control over financial reporting.

PART II OTHER INFORMATION**Item 1. Legal Proceedings.**

We are not a party to any material legal proceedings.

Item 1A. Risk Factors.

Information regarding risk factors appears in our Current Report on Form 8-K filed on June 5, 2013. There have been no material changes since June 5, 2013 from the risk factors disclosed in that Form 8-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

Item 6.Exhibits.

Exhibit Number	Description of Exhibit
2.1	Share Exchange Agreement dated May 31, 2013 with Alkaline Water Corp. and its shareholders (incorporated by reference from our Current Report on Form 8-K, filed on June 5, 2013)
3.1	Articles of Incorporation (incorporated by reference from our Form S-1 Registration Statement, filed on October 28, 2011)
3.2	Certificate of Change (incorporated by reference from our Quarterly Report on Form 10-Q, filed on August 13, 2013)
3.3	Articles of Merger (incorporated by reference from our Quarterly Report on Form 10-Q, filed on August 13, 2013)

- 3.4 Certificate of Amendment (incorporated by reference from our Current Report on Form 8-K, filed on October 11, 2013)
- 3.5 Certificate of Designation (incorporated by reference from our Current Report on Form 8-K, filed on October 11, 2013)
- 3.6 Certificate of Designation (incorporated by reference from our Current Report on Form 8-K, filed on November 12, 2013)
- 3.7 Amended and Restated Bylaws (incorporated by reference from our Current Report on Form 8-K, filed on March 15, 2013)
- 10.1 Contract Packer Agreement dated November 14, 2012 between Alkaline 84, LLC and AZ Bottled Water, LLC (incorporated by reference from our Current Report on Form 8-K, filed on June 5, 2013)
- 10.2 Private Placement Subscription Agreement dated February 21, 2013 with Alkaline 84, LLC and Bank Gutenberg AG (incorporated by reference from our Quarterly Report on Form 10-Q, filed on May 17, 2013)
- 10.3 Private Placement Subscription Agreement dated April 17, 2013 with Alkaline 84, LLC and Bank Gutenberg AG (incorporated by reference from our Quarterly Report on Form 10-Q, filed on May 17, 2013)
- 10.4 Private Placement Subscription Agreement dated May 17, 2013 with Alkaline 84, LLC and Bank Gutenberg AG (incorporated by reference from our Current Report on Form 8-K, filed on June 5, 2013)
- 10.5 Private Placement Subscription Agreement dated May 29, 2013 with Bank Gutenberg AG (incorporated by reference from our Current Report on Form 8-K, filed on June 5, 2013)
- 10.6 2013 Equity Incentive Plan (incorporated by reference from our Current Report on Form 8-K, filed on October 11, 2013)
- 10.7 Form of Securities Purchase Agreement dated as of November 4, 2013, by and among The Alkaline Water Company Inc. and the purchasers named therein (incorporated by reference from our Current Report on Form 8-K, filed on November 5, 2013)
- 10.8 Form of Registration Rights Agreement dated as of November 4, 2013, by and among The Alkaline Water Company Inc. and the purchasers named therein (incorporated by reference from our Current Report on Form 8-K, filed on November 5, 2013)
- 10.9 Form of Common Stock Purchase Warrant (incorporated by reference from our Current Report on Form 8-K, filed on November 5, 2013)
- 10.10 Stock Option Agreement dated October 9, 2013 with Steven P. Nickolas (incorporated by reference from our Quarterly Report on Form 10-Q, filed on November 13, 2013)
- 10.11 Stock Option Agreement dated October 9, 2013 with Richard A. Wright (incorporated by reference from our Quarterly Report on Form 10-Q, filed on November 13, 2013)
- 10.12 Contract Packer Agreement dated October 7, 2013 with White Water, LLC (incorporated by reference from our Quarterly Report on Form 10-Q, filed on November 13, 2013)
- 10.13 Engagement Agreement dated October 7, 2013 with H.C. Wainwright & Co., LLC (incorporated by reference from our Registration Statement on Form S-1, filed on November 27, 2013)
- 10.14 Manufacturing Agreement dated August 15, 2013 with Water Engineering Solutions, LLC (incorporated by reference from our Registration Statement on Form S-1, filed on November 27, 2013)
-

- 10.15 Amendment to Engagement Agreement dated November 1, 2013 with H.C. Wainwright & Co., LLC (incorporated by reference from our Registration Statement on Form S-1/A, filed on January 9, 2014)
- 10.16 Amendment to Engagement Agreement dated November 25, 2013 with H.C. Wainwright & Co., LLC (incorporated by reference from our Registration Statement on Form S-1, filed on November 27, 2013)
- 10.17 Equipment Lease Agreement dated January 17, 2014 (incorporated by reference from our Current Report on Form 8-K, filed on January 27, 2014)
- 31.1* Certification of Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2* Certification of Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1* Certification of Principal Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 32.2* Certification of Principal Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 101.INS* XBRL Instance Document
- 101.SCH* XBRL Taxonomy Extension Schema
- 101.CAL* XBRL Taxonomy Extension Calculation Linkbase
- 101.DEF* XBRL Taxonomy Extension Definition Linkbase
- 101.LAB* XBRL Taxonomy Extension Label Linkbase
- 101.PRE* XBRL Taxonomy Extension Presentation Linkbase

*Filed herewith.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

THE ALKALINE WATER COMPANY INC.

Date: February 14, 2014

By:/s/ Steven P. Nickolas
Steven P. Nickolas
President, Chief Executive Officer and Director
(Principal Executive Officer)

Date: February 14, 2014

By:/s/ Richard A. Wright
Richard A. Wright
Vice-President, Secretary, Treasurer and Director
(Principal Financial Officer and Principal Accounting
Officer)
