

ALKALINE WATER Co INC
Form 10-Q
November 21, 2016

**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 **September 30, 2016**

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)

99-0367049

(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 Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer,

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

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 (Do not check if a smaller reporting company) Smaller reporting company
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

15,971,977 shares of common stock issued and outstanding as of November 18, 2016.

Edgar Filing: ALKALINE WATER Co INC - Form 10-Q
THE ALKALINE WATER COMPANY INC.
FORM 10-Q
FOR THE SIX MONTHS ENDED SEPTEMBER 30, 2016

TABLE OF CONTENTS

	Page No.
<u>PART I - FINANCIAL INFORMATION</u>	
<u>Item 1. Financial Statements</u>	<u>3</u>
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>19</u>
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>23</u>
<u>Item 4. Controls and Procedures</u>	
<u>PART II - OTHER INFORMATION</u>	
<u>Item 1. Legal Proceedings</u>	<u>24</u>
<u>Item 1A. Risk Factors</u>	<u>24</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>24</u>
<u>Item 3. Defaults Upon Senior Securities</u>	<u>24</u>
<u>Item 4. Mine Safety Disclosures</u>	<u>24</u>
<u>Item 5. Other Information</u>	<u>24</u>
<u>Item 6. Exhibits</u>	<u>25</u>
<u>Signatures</u>	<u>28</u>

PART I FINANCIAL INFORMATION**Item 1. Financial Statements.**

THE ALKALINE WATER COMPANY INC.
CONSOLIDATED BALANCE SHEET
(unaudited)

	(Unaudited) September 30, 2016	March 31, 2016
ASSETS		
Current assets		
Cash and cash equivalents	\$ 189,711	\$ 1,192,119
Accounts receivable	1,079,838	911,390
Inventory	547,609	434,708
Prepaid expenses	21,100	10,806
Total current assets	1,838,258	2,549,023
Fixed assets - net	1,125,834	1,226,534
Equipment deposits - related party	104,619	-
Total assets	\$ 3,068,711	\$ 3,775,557
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities		
Accounts payable	\$ 957,835	\$ 847,452
Accrued expenses	389,879	251,613
Revolving financing	563,191	475,273
Current portion of capitalized leases	263,568	243,623
Note payable, net of debt discount	-	283,120
Note payable with original issue discount, net of debt discount	3,811	41,248
Current portion of convertible notes payable, net of debt discount	54,100	-
Derivative liability	4,786	11,143
Total current liabilities	2,237,170	2,153,472
Long-term Liabilities		
Capitalized leases	9,742	95,204
Convertible notes payable, net of debt discount	200,000	-
Total long-term liabilities	209,742	95,204
Total liabilities	\$ 2,446,912	\$ 2,248,676
Commitments and contingencies (Note 10)		
Stockholders' deficit		

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

Preferred stock, \$0.001 par value, 100,000,000 shares authorized, Series A issued 20,000,000, Series C issued 3,000,000		23,000	23,000
Common stock, Class A - \$0.001 par value, 22,500,000 shares authorized, 16,030,697 and 14,568,970 shares issued and outstanding at September 30, 2016 and March 31, 2016, respectively		16,029	14,568
Additional paid in capital		22,806,011	21,423,247
Common stock issuable		-	-
Accumulated deficit		(22,223,241)	(19,933,934)
Total stockholders' deficit		621,799	1,526,881
Total liabilities and stockholders' deficit	\$	3,068,711	\$ 3,775,557

See Accompanying Notes to Consolidated Financial Statements.

THE ALKALINE WATER COMPANY INC.
CONSOLIDATED STATEMENT OF OPERATIONS
(unaudited)

	For the Three Months Ended		For the Six Months Ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Revenue	\$ 3,007,538	\$ 1,719,268	\$ 5,954,287	\$ 3,232,846
Cost of Goods Sold	1,896,112	1,105,522	3,686,825	2,082,326
Gross Profit	1,111,426	613,746	2,267,462	1,150,520
Operating expenses				
Sales and marketing expenses	1,060,390	768,055	2,146,389	1,394,736
General and administrative	1,056,741	736,922	1,897,515	1,888,462
Depreciation	90,958	71,100	180,397	142,129
Total operating expenses	2,208,089	1,576,077	4,224,301	3,425,327
Total operating loss	(1,096,663)	(962,331)	(1,956,839)	(2,274,807)
Other income (expense)				
Interest income	4	10	102	10
Interest expense	(100,043)	(76,358)	(212,644)	(143,765)
Amortization of debt discount and accretion	(81,025)	(81,500)	(126,283)	(88,083)
Change in derivative liability	2,051	125,502	6,357	(42,662)
Total other income (expense)	(179,013)	(32,346)	(332,468)	(274,500)
Net loss	\$ (1,275,676)	\$ (994,677)	\$ (2,289,307)	\$ (2,549,307)
EARNINGS PER SHARE (Basic)	\$ (0.08)	\$ (0.34)	\$ (0.15)	\$ (0.92)

WEIGHTED AVERAGE SHARES OUTSTANDING (Basic)	15,390,421	2,899,813	15,070,758	2,768,769
---	------------	-----------	------------	-----------

See Accompanying Notes to Consolidated Financial Statements.

THE ALKALINE WATER COMPANY INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

	For the Six Months Ended	
	September 30, 2016	September 30, 2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$ (2,289,307)	\$ (2,549,307)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation expense	180,397	142,129
Stock compensation expense	319,125	918,584
Amortization of debt discount and accretion	137,369	88,083
Interest expense relating to amortization of capital lease discount	51,504	51,277
Change in derivative liabilities	(6,357)	42,662
Changes in operating assets and liabilities:		
Accounts receivable	(168,448)	(248,181)
Inventory	(112,901)	(64,073)
Prepaid expenses and other current assets	(10,294)	15,000
Accounts payable	110,383	340,509
Accounts payable - related party	-	(43,036)
Accrued expenses	138,266	31,791
NET CASH USED IN OPERATING ACTIVITIES	(1,650,263)	(1,274,562)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets	(79,696)	(2,850)
Equipment deposits - related party	(104,619)	(139,997)
CASH USED IN INVESTING ACTIVITIES	(184,315)	(142,847)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from notes payable	510,000	430,000
Proceeds from convertible note payable	-	275,000
Proceeds from revolving financing	87,918	13,894
Proceeds from sale of common stock, net	425,000	746,200
Proceeds for the exercise of warrants, net	300,000	-
Repayment of notes payable	(373,727)	-
Repayment of capital lease	(117,021)	(99,103)
CASH PROVIDED BY FINANCING ACTIVITIES	832,170	1,365,991
NET CHANGE IN CASH	(1,002,408)	(51,418)
CASH AT BEGINNING OF PERIOD	1,192,119	90,113
CASH AT END OF PERIOD	\$ 189,711	\$ 38,695

INTEREST PAID	\$	36,023	\$	67,362
---------------	----	--------	----	--------

See Accompanying Notes to Consolidated Financial Statements.

THE ALKALINE WATER COMPANY INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The consolidated financial statements included herein 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 U.S. generally accepted accounting principles have been omitted. However, in the opinion of management, all adjustments (which include only normal recurring adjustments, unless otherwise indicated) necessary to present fairly the financial position and results of operations for the periods presented have been made. The results for interim periods are not necessarily indicative of trends or of results to be expected for the full year. These financial statements should be read in conjunction with the financial statements of the Company for the year ended March 31, 2016 (including the notes thereto) set forth on Form 10-K. The Company uses as guidance the Accounting Standard Codification (ASC) as established by the Financial Accounting Standards Board (FASB).

Principles of consolidation

The consolidated financial statements include the accounts of The Alkaline Water Company Inc. (a Nevada Corporation), Alkaline Water Corp. (an Arizona Corporation) and Alkaline 88, 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.

Reverse split

Effective December 30, 2015, the Company effected a fifty for one reverse stock split of its authorized and issued and outstanding shares of common stock. As a result, the authorized common stock has decreased from 1,125,000,000 shares of common stock, with a par value of \$0.001 per share, to 22,500,000 shares of common stock, with a par value of \$0.001 per share. All shares and per share amounts have been retroactively restated to reflect such split.

On January 21, 2016, stockholders of our company approved, by written consents, an amendment to the articles of incorporation of our company to increase the number of authorized shares of our common stock from 22,500,000 to 200,000,000.

The Company received written consents representing 20,776,000 votes from the holders of shares of its common stock and our Series A Preferred Stock voting as a single class, representing approximately 61% of the voting power of its outstanding common stock and its outstanding Series A Preferred Stock voting as a single class as of the record date (January 12, 2016). On January 21, 2016, there were no written consents received by the Company representing a vote against, abstention or broker non-vote with respect to the proposal.

Our authorized preferred stock was not affected by the reverse stock split and continues to be 100,000,000 shares of preferred stock, with a par value of \$0.001 per share. In addition, the number of issued and outstanding shares of Series A Preferred Stock continues to be 20,000,000. However, holders of Series A Preferred Stock had 0.2 vote per share of Series A Preferred Stock, instead of 10 votes per share of Series A Preferred Stock, as a result of the reverse stock split.

On January 22, 2016, the Company amended the certificate of designation for our Series A Preferred Stock by filing an amendment to certificate of designation with the Secretary of State of the State of Nevada. The Company amended the certificate of designation for our Series A Preferred Stock by deleting Section 2.2 of the certificate of designation, which proportionately increases or decreases the number of votes per share of Series A Preferred Stock in the event of any dividend or other distribution on our common stock payable in its common stock or a subdivision or consolidation of the outstanding shares of its common stock. Accordingly, holders of Series A Preferred Stock will have 10 votes per share of Series A Preferred Stock, instead of 0.2 votes per share of Series A Preferred Stock.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 revenues and expenses during the reporting period. Actual results could differ significantly from those estimates.

Cash and cash equivalents

The Company considers all highly liquid instruments with an original maturity of three months or less to be considered cash equivalents. The carrying value of these investments approximates fair value. The Company had \$189,712 and \$1,192,119 in cash and cash equivalents at September 30, 2016 and March 31, 2016, respectively.

Accounts receivable and allowance for doubtful accounts

The Company generally does not require collateral, and the majority of its trade receivables are unsecured. The carrying amount for accounts receivable approximates fair value.

Accounts receivable are periodically evaluated for collectability based on past credit history with clients. Provisions for losses on accounts receivable are determined on the basis of loss experience, known and inherent risk in the account balance and current economic conditions.

Inventory

Inventory represents raw and blended chemicals and other items valued at the lower of cost or market with cost determined using the weight average method which approximates first-in first-out method, and with market defined as the lower of replacement cost or realizable value.

As of September 30, 2016 and March, 31 2016, inventory consisted of the following:

	<u>September 30,</u>		<u>March 31, 2016</u>
	<u>2016</u>		
Raw materials	\$ 328,338	\$	300,575
Finished goods	219,271		134,133
Total inventory	\$ 547,609	\$	434,708

Property and equipment

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
Equipment under capital lease	3 years or term of the lease

Stock-based Compensation

The Company accounts for stock-based compensation to employees in accordance with Accounting Standards Codification (ASC) 718. Stock-based compensation to employees is measured at the grant date, based on the fair value of the award, and is recognized as expense over the requisite employee service period. The Company accounts for stock-based compensation to other than employees in accordance with ASC 505-50. Equity instruments issued to other than employees are valued at the earlier of a commitment date or upon completion of the services, based on the fair value of the equity instruments and is recognized as expense over the service period. The Company estimates the fair value of stock-based payments using the Black-Scholes option-pricing model for common stock options and warrants and the closing price of the Company's common stock for common share issuances.

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, the Company 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 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, the Company records 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.

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

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.

Income taxes

In accordance with ASC 740 *Accounting for Income Taxes*, the provision for income taxes is computed using the asset and liability method. Under the asset and liability method, deferred income tax assets and liabilities are determined based on the differences between the financial reporting and tax bases of assets and liabilities and are measured using the currently enacted tax rates and laws. A valuation allowance is provided for the amount of deferred tax assets that, based on available evidence, are not expected to be realized.

Basic and diluted loss per share

Basic and diluted earnings or loss per share (EPS) amounts in the consolidated financial statements are computed in accordance ASC 260 10 *Earnings per Share*, which establishes the requirements for presenting EPS. Basic EPS is based on the weighted average number of common shares outstanding. Diluted EPS is based on the weighted average number of common shares outstanding and dilutive common stock equivalents. Basic EPS is computed by dividing net income or loss available to common stockholders (numerator) by the weighted average number of common shares outstanding (denominator) during the period. Potentially dilutive securities were excluded from the calculation of diluted loss per share, because their effect would be anti-dilutive.

Reclassification

Certain accounts in the prior period were reclassified to conform to the current period financial statements presentation.

Newly issued accounting pronouncements

During the period ended September 30, 2016, there were several new accounting pronouncements issued by the Financial Accounting Standards Board. Each of these pronouncements, as applicable, has been or will be adopted by the Company. Management does not believe the adoption of any of these accounting pronouncements has had or will have a material impact on the Company's consolidated 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. Since its inception, the Company has been engaged substantially in financing activities, developing its business plan and building its initial customer and distribution base for its products. As a result, the Company incurred accumulated net losses from Inception (June 19, 2012) through the period ended September 30, 2016 of (\$22,223,241). 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 PROPERTY AND EQUIPMENT

Fixed assets consisted of the following at:

	September 30, 2016	March 31, 2016
Machinery and Equipment	\$ 1,046,114	\$ 970,728
Machinery under Capital Lease	735,781	735,781
Office Equipment	57,941	53,631
Leasehold Improvements	3,979	3,979
Less: Accumulated Depreciation	(717,982)	(537,585)
Fixed Assets, net	\$ 1,125,834	\$ 1,226,534

Depreciation expense for the years ended September 30, 2016 and September 30 2015 was \$180,397 and \$142,129, respectively.

NOTE 4 EQUIPMENT DEPOSITS RELATED PARTY

During the six month period ending September 30, 2016 the company made a net deposit on equipment of \$104,619 to Water Engineering Solutions. During the six month period ending September 30, 2015 the company made a net deposit on equipment of \$139,997 to Water Engineering Solutions. Water Engineering Solutions LLC is an entity that is controlled and majority owned by Steven P. Nickolas and Richard A. Wright for the production of our alkaline water.

NOTE 5 REVOLVING FINANCING

On February 20, 2014, The Alkaline Water Company Inc., and subsidiaries, Alkaline 88, LLC and Alkaline Water Corp., entered into a revolving accounts receivable funding agreement with Gibraltar Business Capital, LLC (Gibraltar). Under the agreement, from time to time, the Company agreed to tender to Gibraltar all of our accounts (which is defined as our rights to payment whether or not earned by performance, (i) for property that has been or is to be sold, leased, licensed, assigned or otherwise disposed of, or (ii) for services rendered or to be rendered, or (iii) as otherwise defined in the Uniform Commercial Code of the State of Illinois). Gibraltar will have the right, but will not be obligated, to purchase such accounts tendered in its sole discretion. If Gibraltar purchases such accounts, Gibraltar will make cash advances to us as the purchase price for the purchased accounts.

The Company assumed full risk of non-payment and unconditionally guaranteed the full and prompt payment of the full face amount of all purchased accounts. The Company also agreed to direct all parties obligated to pay the accounts to send all payments for all accounts directly to Gibraltar. All collections from accounts will be applied to our indebtedness, which is defined as the amount owed by us to Gibraltar from time to time, i.e., all cash advances, plus all charges, plus all other amounts owing from us to Gibraltar pursuant to the agreement, less all collections retained by Gibraltar from either purchased accounts or from us which are applied to indebtedness, unless Gibraltar elects to hold any such collections to establish reserves to secure payment of any purchased accounts.

In consideration of Gibraltar's purchase of the accounts, the Company agreed to pay Gibraltar interest on the indebtedness outstanding at the rate of 8% per annum plus the prime rate in effect at the end of each month with the prime rate for these purposes never being less than 3.25% per annum, calculated on a 360-day year and payable monthly. In addition, the Company agreed to pay to Gibraltar a monthly collateral/management fee in the amount of 0.5% calculated on the average daily borrowing amount for the given month and an unused line fee of 0.25% monthly based on the difference between the actual line of credit and the average daily borrowing amount for the given month. The Company also agreed to pay to Gibraltar upon execution of the agreement and as of the commencement of each renewal term, a closing cost of 1% of the initial indebtedness in addition to the amount of any other credit accommodations granted from Gibraltar, which amount will be deducted from the first cash advances.

The initial indebtedness is \$500,000 and the Company increased the amount available under the revolving accounts receivable funding agreement to \$900,000 on May 12, 2016. The Company may request further increase(s) to the in \$100,000 increments up to \$5,000,000, subject the Company's financial performance and/or projections are satisfactory to Gibraltar, and absent an event of default. The Company also granted to Gibraltar a security interest in all of our presently-owned and hereafter-acquired personal and fixture property, wherever located. The agreement will continue until the first to occur of (i) demand by Gibraltar; or (ii) 24 months from the first day of the month following the date that the first purchased account is purchased and will be automatically renewed for successive periods of 12 months thereafter unless, at least 30 days prior to the end of the term, the Company gives Gibraltar notice of our intention to terminate the agreement. In addition, the Company will be able to exit the agreement at any time for a fee of 2% of the line of credit in place at the time of prepayment. On September 30, 2016 the amount borrowed on this facility was \$563,191.

NOTE 6 DERIVATIVE LIABILITY

On May 1, 2014, the Company sold 346,667 shares of our common stock and warrants to purchase an aggregate of 173,333 shares of our common stock, for aggregate gross proceeds of \$2,599,999. Each share of common stock sold in the offering was accompanied by a warrant to purchase one-half of a share of common stock at an exercise price of \$7.50 per share for a period of five years from the date of issuance. Each share of common stock, together with each warrant was sold at a price of \$7.50. The warrants include down-round provisions that reduce the exercise price of a warrant and convertible instrument

On August 20, 2014, the Company entered into a warrant amendment agreement with certain holders of the Company's outstanding common stock purchase warrants whereby the Company agreed to reduce the exercise price of the Existing Warrants to \$5.00 per share. in consideration for the immediate exercise of the Existing Warrants by the Holders and the Holders are to be issued new common stock purchase warrants of the Company in the form of the Existing Warrants to purchase up to a number of shares of our common stock equal to the number of Existing Warrants exercised by the Holders, provided that the exercise price of the New Warrants will be \$6.25 per share, subject to adjustment in the New Warrants. Each New Warrant has a term of five years from the date of issuance. Each share of common stock, together with each warrant was sold at a price of \$6.25. The warrants 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 investors will be entitled to down-round protection. Tthe 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. As of September 30, 2016, one holders has 6,667 warrants and the derivative liability associated with these warrants is \$1,656.

Pursuant to the engagement agreement dated March 12, 2014 with H.C. Wainwright & Co., LLC (Wainwright), Wainwright agreed to act as our exclusive placement agent in connection with the offering. Pursuant to the engagement agreement, the Company, the Company issued warrants to purchase an aggregate of 5.5% of the aggregate number of shares of our common stock sold in the offering, or 19,067 to Wainwright and its designees.

These warrants have an exercise price of \$9.38 per share and expire on April 16, 2019. The warrants include down-round provisions that reduce the exercise price of a warrant and convertible instrument. . As required by ASC 815 Derivatives and Hedging 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. As of September 30, 2016, six holders have 21,392 warrants and the derivative liability associated with these warrants is \$3,130.

The Company analyzed the warrants and conversion feature under ASC 815 Derivatives and Hedging 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 March 31, 2016 was \$11,143 at September 30, 2016 was \$6,357. Changes in the derivative liability for the period ended September 30, 2016 consist of:

	Six Months Ended	
	September 30, 2016	
Derivative liability at March 31, 2016	\$	11,143
Change in derivative liability mark to market		(6,357)
Derivative liability at September 30, 2016	\$	4,786

NOTE 7 STOCKHOLDERS EQUITY

Preferred shares

Grant of series A preferred stock

On 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 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 the year ended March 31, 2014.

Our authorized preferred stock was not affected by the reverse stock split and continues to be 100,000,000 shares of preferred stock, with a par value of \$0.001 per share. In addition, the number of issued and outstanding shares of Series A Preferred Stock continues to be 20,000,000. However, holders of Series A Preferred Stock had 0.2 votes per share of Series A Preferred Stock, instead of 10 votes per share of Series A Preferred Stock, as a result of the reverse-stock split.

On January 22, 2016, the Company amended the certificate of designation for our Series A Preferred Stock by filing an amendment to certificate of designation with the Secretary of State of the State of Nevada. The Company amended the certificate of designation for our Series A Preferred Stock by deleting Section 2.2 of the certificate of designation, which proportionately increases or decreases the number of votes per share of Series A Preferred Stock in the event of any dividend or other distribution on our common stock payable in its common stock or a subdivision or consolidation of the outstanding shares of its common stock. Accordingly, holders of Series A Preferred Stock will have 10 votes per share of Series A Preferred Stock, instead of 0.2 votes per share of Series A Preferred Stock.

Grant of series C Convertible preferred stock

On March 30, 2016, the Company designated 3,000,000 shares of the authorized and unissued preferred stock of our company as Series C Preferred Stock by filing a Certificate of Designation with the Secretary of State of the State of Nevada. Each share of the Series C Preferred Stock will be convertible, without the payment of any additional consideration by the holder and at the option of the holder, into one fully paid and non-assessable share of our

common stock at any time after (i) the Company achieves consolidated revenue equal to or greater than \$15,000,000 in any 12 month period, ending on the last day of any quarterly period of our fiscal year; or (ii) a Negotiated Trigger Event, defined as an event upon which the Series C Preferred Stock will be convertible as may be agreed by our company and the holder in writing from time to time.

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

Effective March 31, 2016, the Company issued a total of 3,000,000 shares of our Series C Preferred Stock to Steven P. Nickolas and Richard A. Wright (1,500,000 shares to each), our directors and executive officers, pursuant to their employment agreements dated effective March 1, 2016.

Common stock

The Company is authorized to issue 1,125,000,000 shares of \$0.001 par value common stock. On May 31, 2013, the Company affected 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 such split. Prior to the acquisition of Alkaline Water Corp., the Company had 109,500,000 shares of common stock issued and outstanding. On May 31, 2013, the Company 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 the Company 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.

On December 30, 2015, the Company affected a fifty for one reverse stock split of its authorized and issued and outstanding shares of common stock. As a result, the authorized common stock has decreased from 1,125,000,000 shares of common stock, with a par value of \$0.001 per share, to 22,500,000 shares of common stock, with a par value of \$0.001 per share. All shares and per share amounts have been retroactively restated to reflect such split.

On January 21, 2016, stockholders of our company approved, by written consents, an amendment to the articles of incorporation of our company to increase the number of authorized shares of our common stock from 22,500,000 to 200,000,000.

The Company received written consents representing 20,776,000 votes from the holders of shares of its common stock and our Series A Preferred Stock voting as a single class, representing approximately 61% of the voting power of its outstanding common stock and its outstanding Series A Preferred Stock voting as a single class as of the record date (January 12, 2016). On January 21, 2016, there were no written consents received by the Company representing a vote against, abstention or broker non-vote with respect to the proposal.

Sale of restricted shares

During the period from May 7, 2015 through December 31, 2015, the Company sold units of our securities at a price of \$3.50 per unit. Each unit consists of one share of our common stock and one non-transferable common stock purchase warrant, with each common stock purchase warrant entitling the holder to acquire one additional share of our common stock at a price of \$5.00 per share for a period of two years. The Company sold 223,200 units during the period ended December 31, 2015 consisting of 223,200 shares of common stock and 223,200 warrants for gross proceeds of \$781,200.

The evaluated these transaction using ASC 480-10 Distinguishing liabilities from equity and ASC 505 -10 Equity . The Company sold 223,200 units and issued 223,200 shares of common stock and issued 223,200 warrants. The warrants were valued using the Black-Scholes option pricing model with the following assumptions:

Market value of stock on purchase date	\$	3.75	to	\$	7.10
Risk-free interest rate		.26%	to		1.42%
Dividend yield		0.00%			
Volatility factor		116%	to		161%
Weighted average expected life (years)					2

The proceeds were allocated as follows:

Common stock	\$	414,036
Warrant		367,164
Total proceeds	\$	781,200

On March 4, 2016, the Company completed the offering and sale of an aggregate of 9,000,000 shares of our common stock and warrants to purchase an aggregate of 4,500,000 shares of our common stock, for aggregate gross proceeds of \$2,970,000. Each share of common stock the Company sold in the offering was accompanied by one-half of a warrant to purchase one share of common stock at an exercise price of \$0.50 per share for a period of two years from the date of issuance. Each share of common stock and accompanying one-half of one warrant was sold at a price of \$0.33.

These securities have been registered under the Securities Act of 1933 pursuant to our registration statement on Form S-1, as amended (No. 333-209124), which was declared effective by the Securities and Exchange Commission on February 11, 2016.

Also on March 4, 2016, the Company used the proceeds of the Offering to repay loans in the aggregate principal amounts of \$1,500,000. In connection with the repayment of loans in the aggregate principal amounts of \$1,500,000 on March 4, 2016, 526,316 shares of our common stock issued to Neil Rogers and held in escrow and 1,500,000 shares of our common stock issued to Turnstone Capital Inc. and held in escrow were cancelled effective as of March 31, 2016.

In June 2016, the Company issued an aggregate of 425,000 shares of our common stock to six investors in a private placement, at a purchase price of \$1.00 per share for gross proceeds of \$425,000.

Common stock issued for services

On April 1, 2016, the Company issued 5,000 common shares to consultant for services rendered that were valued at the market value on that date of \$1.65 per share.

On April 1, 201, the Company issued 12,500 common shares to consultant for services rendered that were valued at the market value on that date of \$1.65 per share.

On June 1, 2016, the Company issued 65,000 common shares to consultant for services rendered that were valued at the market value on that date of \$1.75 per share.

On August 18, 2016, the Company issued 50,000 common shares to consultant for services rendered that were valued at the market value on that date of \$1.53 per share.

On September 20, 2016, the Company agreed to issue 58,720 common shares to consultant for services rendered that were valued at the market value on that date of \$1.70 per share.

Warrant Exercised

In July 2016, the Company issued 25,600 shares of our common stock in connection with a cashless exercise of a warrant and cancelled 32,000 warrants were cancelled.

In August 2016 two warrant holders exercised 600,000 warrants to acquire 600,000 common shares at an exercise price of \$0.50 per share.

Options Exercised

In August 2016 option holders exercised 85,000 options in a cashless exercise to acquire 56,705 common shares.

NOTE 8 OPTIONS AND WARRANTSStock option awards

On January 29, 2016, the Company granted a total of 1,310,000 stock options to certain employees. The stock options are exercisable at the exercise price of \$0.52 per share for a period of 7.6 years from the date of grant and vested upon the date of grant.

On January 29, 2016, the Company granted a total of 3,000,000 stock options Steven A. Nickolas and Richard A. Wright (1,500,000 stock options to each). The stock options are exercisable at the exercise price of \$0.52 per share for a period of 7.6 years from the date of grant and vested upon the date of grant.

On March 4, 2016, the Company completed the offering and sale of an aggregate of 9,000,000 shares of our common stock the offering included warrants to purchase an aggregate of 4,500,000 shares of our common stock, at an exercise price of \$0.50 per share for a period of two years from the date of issuance.

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, 2015	343,400	\$ 7.00	8.2
Granted	4,310,000	\$ 0.52	7.8
Exercised	-	\$ -	-
Expired/Forfeited	-	\$ -	-
Outstanding at March 31, 2016	4,653,400	\$ 0.92	7.7
Granted	-	\$ -	-
Exercised	(85,000)	\$ 0.52	6.4
Expired/Forfeited	(8,800)	\$ 1.91	6.4
Outstanding at September 30, 2016	4,559,600	\$ 0.92	5.7
Exercisable at September 30, 2016	4,559,600	\$ 0.92	5.7

Warrants

For the six months period ended warrants activity at September 30, 2016 is presented in the table below:

	Number of Warrant Shares	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Term (years)
Outstanding at March 31, 2016	4,988,118	\$ 0.96	.94
Granted	-	\$ -	-
Exercised	(795,202)	\$ 1.58	.13

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

Expired/Forfeited	-	\$	5.00	.05
Outstanding at September 30, 2016	4,192,916	\$	0.84	.67
Exercisable at September 30, 2016	4,192,916	\$	0.84	.67

15

In July 2016, the Company issued 25,600 shares of our common stock in connection with a cashless exercise of a warrant and cancelled 32,000 warrants were cancelled.

On August 20, 2016 two warrant holder exercised 600,000 warrants to acquire 600,000 common shares at an exercise price of \$0.50 per share

NOTE 9 RELATED PARTY TRANSACTIONS

On January 29, 2016, the Company granted a total of 3,000,000 stock options Steven A. Nickolas and Richard A. Wright (1,500,000 stock options to each). The stock options are exercisable at the exercise price of \$0.52 per share for a period of 7.6 years from the date of grant and vested upon the date of grant.

Effective March 31, 2016, the Company issued a total of 3,000,000 shares of our Series C Preferred Stock to Steven P. Nickolas and Richard A. Wright (1,500,000 shares to each), our directors and executive officers, pursuant to their

On August 1, 2013, the Company entered into a 3-year sub-lease agreement requiring a monthly payment of \$2,085 for office space in Scottsdale, Arizona, with a basic monthly lease increase of 8% and 7% on each anniversary date. The Company or the landlord can cancel the lease with 30 days notice. The sub-lessor is an entity owned by the Company's Chief Executive Officer and President.

During the six month period ending September 30, 2016 the company made a net deposit on equipment of \$104,619 to Water Engineering Solutions. During the six month period ending September 30, 2015 the company made a net deposit on equipment of \$139,997 to Water Engineering Solutions. Water Engineering Solutions LLC is an entity that is controlled and majority owned by Steven P. Nickolas and Richard A. Wright for the production of our alkaline water.

NOTE 10 INCOME TAXES

The Company accounts for income taxes under ASC 740-10, which provides for an asset and liability approach of accounting for income taxes. Under this approach, deferred tax assets and liabilities are recognized based on anticipated future tax consequences, using currently enacted tax laws, attributed to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts calculated for income tax purposes.

For the years ended March 31, 2016 and 2015, the Company incurred net operating losses and, accordingly, no provision for income taxes has been recorded. In addition, no benefit for income taxes has been recorded due to the uncertainty of the realization of any deferred tax assets.

Based on the available objective evidence, including the Company's history of losses, management believes it is more likely than not that any net deferred tax assets will not be fully realizable. Accordingly, the Company provided for a full valuation allowance against its net deferred tax assets at September 30, 2016 and March 31, 2016, respectively.

In accordance with ASC 740, the Company has evaluated its tax positions and determined that there are no uncertain tax positions.

NOTE 11 CAPITAL LEASE

On October 22, 2014, the Company entered into a master lease agreement with Veterans Capital Fund, LLC (the Lessor) for the secured lease line of credit financing in an amount not to exceed \$600,000. The lease is expected to be secured by three new alkaline generating electrolysis system machines. Our wholly-owned subsidiary,

Alkaline 88, LLC, and Water Engineering Solutions, LLC acted as co-lessees. Water Engineering Solutions, LLC is an entity that is controlled and owned by our President, Chief Executive Officer, director and major stockholder, Steven P. Nickolas, and our Vice-President, Secretary, Treasurer and director, Richard A. Wright. Pursuant to the master lease agreement, the Lessor agreed to lease to us the equipment described in any equipment schedule signed by us and approved by the Lessor. It is expected that any lease under the master lease agreement will be structured for a three year lease term with fixed monthly lease rental payments based on a monthly lease rate factor of 3.4667% of the Lessor's capital cost. In connection with the entering into the master lease agreement, the Company also entered into a warrant agreement with the Lessor, pursuant to which the Company agreed to issue a warrant to purchase 72,000 shares of our common stock to the Lessor and/or its affiliates at an exercise price of \$6.25 per share for a period of five years, 18,000 shares vested.

On February 25, 2015, the Company amended the master lease agreement with Veterans Capital Fund, LLC for the increase in the secured lease line of credit financing to an amount not to exceed \$800,000. The lease was secured by new alkaline generating electrolysis system machines by our wholly-owned subsidiary, Alkaline 88, LLC, and Water Engineering Solutions, LLC. Water Engineering Solutions, LLC is an entity that is controlled and owned by our President, Chief Executive Officer, director and major stockholder, Steven P. Nickolas, and our Vice-President, Secretary, Treasurer and director, Richard A. Wright. Pursuant to the master lease agreement, the Lessor agreed to lease to us the equipment described in any equipment schedule signed by us and approved by the Lessor. It is expected that any lease under the master lease agreement will be structured for a three year lease term with fixed monthly lease rental payments based on a monthly lease rate factor of 3.4667% of the Lessor's capital cost. In connection with the entering into the master lease agreement, the Company entered into a warrant agreement with the Lessor, pursuant to which the Company agreed to cancel the previous issued warrant for 72,000 and issue a warrant to purchase 102,000 shares of our common stock to the Lessor and/or its affiliates at an exercise price of \$5.00 per share for a period of five years. 18,000 shares vested on October 22, 2014, 13,316 shares on October 28, 2014, 13,606 shares on December 22, 2014, 6,945 shares on February 3, 2015 and 15,799 shares on March 5, 2015. The remaining 18,105 shares will vest on a pro rata basis according to any amounts the Lessor funds pursuant to any lease schedules under the master lease agreement, provided that if the Company draws on 90% or more of the total lease line under the master lease agreement, then all such shares will be deemed to be vested. The Company recorded the bifurcated value of \$309,028 of the warrants issued as additional paid in capital, the value was determined using a Black-Scholes, a level 3 valuation measure.

During the year ended March 31, 2015 the Company agreed to lease the specialized equipment used to make our alkaline water with a value of \$735,781 under the above Master Lease agreement. The Company evaluated this lease under ASC 840-30 Leases- Capital Leases and concluded that these lease were a capital asset.

NOTE 12 NOTES PAYABLE

On August 19, 2015, the Company entered into a securities purchase agreement pursuant to which the Company issued a secured term note of our company in the aggregate principal amount of \$240,000, together with 20,000 shares of our common stock, in consideration for \$200,000. The secured term note bears interest and requires monthly payments of \$20,000 per month, along with a final payment due on August 20, 2016.

On November 2, 2015 the Company issued a promissory note to a lender in the amount of \$125,000. The note requires weekly payments of \$2,451 plus interest. The final payment is due on November 19, 2016.

Between June 10, 2016 and June 20, 2016, the Company entered into loan agreements with various lenders pursuant to which the Company issued convertible promissory notes of our company in the aggregate principal amount of \$260,000. The convertible promissory note bears interest at the rate of 10% per annum and matures on June 10, 2017 and is convertible into common shares at \$1.00 per share. The Company evaluated this transaction under ASC 470-20-30 *Debt liability and equity component* determine that a Debt Discount of \$240,100 was provided and will be amortized over the 1-year term of the note. As of September 30, 2016, the unamortized debt discount was \$160,067.

On September 20, 2016 the Company agreed to a \$1,000,000 loan facility which also included a conversion right of principal and/or accrued interest the convertible note bears interest at the rate of 10% per annum and matures on September 20, 2018 and is convertible into common shares at \$1.00 per share. As of September 30, 2016 the Company had drawn \$250,000 of the facility. The Company evaluated this transaction under ASC 470-20-30 *Debt liability and equity component* determine that a Debt Discount of \$100,000 was provided and will be amortized over the 2-year term of the note. As of September 30, 2016, the unamortized debt discount was \$95,833.

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 objectives 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 as required by applicable law, including the securities laws of the United States, we do not intend, and undertake no obligation, to update any forward-looking statement.

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.

As used in this quarterly report on Form 10-Q, the terms we, us, our, the Company and Alkaline refer to The Alkaline Water Company Inc., a Nevada corporation, and its wholly-owned subsidiary, Alkaline Water Corp., and Alkaline Water Corp.'s wholly-owned subsidiary, Alkaline 88, LLC, unless otherwise specified.

Results of Operations

Our results of operations for the three months ended September 30, 2016 and September 30, 2015 are as follows:

	<u>For the three months ended September 30, 2016</u>	<u>For the three months ended September 30, 2015</u>
Revenue	\$ 3,007,538	\$ 1,719,268
Cost of goods sold	1,896,112	1,105,522
Gross profit	1,111,426	613,746
Net Loss (after operating expenses and other expenses)	\$ (1,275,676)	(994,677)

Revenue and Cost of Goods Sold

We had revenue from sales of our product for the three months ended September 30, 2016 of \$3,007,538 as compared to \$1,719,268 for the three months ended September 30, 2015, an increase of 75% generated by sales of our alkaline water. The increase in sales is due to the expanded distribution of our products to additional retailers throughout the country. As of September 30, 2016, the product is now available in all 50 states at an estimated 25,000 retail locations. As of September 30, 2015, the product was available in all 50 states at an estimated 20,000 retail locations. This increase has occurred primarily through the addition of 36 of the top national grocery retailers as customer during the year ended March 31, 2016. We distribute our product through several channels. We sell through large national distributors (UNFI, KeHe, Tree of Life, C&S, Core-Mark and Nature's Best), which together represent over 150,000 retail outlets. We also sell our product directly to retail clients, including convenience stores, natural food products stores, large ethnic markets and national retailers. Some examples of retail clients are, Albertson's, Safeway, Kroger, Schnucks, Smart & Final, Jewel-Osco, Sprouts, Bashas, Stater Bros. Markets, Unified Grocers, Bristol Farms, Vallarta, Superior Foods, Ingles, HEB and Brookshire's.

Cost of goods sold is comprised of production costs, shipping and handling costs. For the three months ended September 30, 2016, we had cost of goods sold of \$1,896,112, or 62% of revenue, as compared to cost of goods sold of \$1,105,522 or 64% of revenue, for the three months ended September 30, 2015. The increase in gross profit rate is a result of reduced raw material cost through greater volume purchases from our suppliers.

Expenses

Our operating expenses for the three months ended September 30, 2016 and September 30, 2015 are as follows:

	<u>For the three months ended September 30, 2016</u>	<u>For the three months ended September 30, 2015</u>
Sales and marketing expenses	\$ 1,060,390	\$ 768,055
General and administrative expenses	1,056,741	736,922
Depreciation expenses	90,958	71,100
Total operating expenses	\$ 2,208,089	\$ 1,576,077

For the three months ended September 30, 2016, our total operating expenses were \$2,208,089, as compared to \$1,576,077 for the three months ended September 30, 2015.

For the three months ended September 30, 2016, the total included \$1,060,390 of sales and marketing expenses and \$1,056,741 of general and administrative expenses, consisting primarily of approximately \$176,500 of shares stock option compensation expense, and \$370,118 of professional fees.

For the three months ended September 30, 2015 the total included \$768,055 of sales and marketing expenses and \$736,922 of general and administrative expenses, consisting primarily of approximately \$262,800 of shares stock option compensation expense, and \$168,500 of professional fees.

Our results of operations for the six months ended September 30, 2016 and September 30, 2015 are as follows:

	<u>For the six months ended September 30, 2016</u>	<u>For the six months ended September 30, 2015</u>
Revenue	\$ 5,954,287	\$ 3,232,846
Cost of goods sold	3,686,825	2,082,326

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

Gross profit		2,267,462		1,150,520
Net Loss (after operating expenses and other expenses)	\$	(2,289,307)	\$	(2,549,307)

20

Revenue and Cost of Goods Sold

We had revenue from sales of our product for the six months ended September 30, 2016 of \$5,954,287 as compared to \$3,232,846 for the six months ended September 30, 2015, an increase of 84% generated by sales of our alkaline water. The increase in sales is due to the expanded distribution of our products to additional retailers throughout the country. As of September 30, 2016, the product is now available in all 50 states at an estimated 25,000 retail locations. As of September 30, 2015, the product was available in all 50 states at an estimated 20,000 retail locations. This increase has occurred primarily through the addition of 36 of the top national grocery retailers as customer during the year ended March 31, 2016. We distribute our product through several channels. We sell through large national distributors (UNFI, KeHe, Tree of Life, C&S, Core-Mark and Nature's Best), which together represent over 150,000 retail outlets. We also sell our product directly to retail clients, including convenience stores, natural food products stores, large ethnic markets and national retailers. Some examples of retail clients are, Albertson's, Safeway, Kroger, Schnucks, Smart & Final, Jewel-Osco, Sprouts, Bashas, Stater Bros. Markets, Unified Grocers, Bristol Farms, Vallarta, Superior Foods, Ingles, HEB and Brookshire's.

Cost of goods sold is comprised of production costs, shipping and handling costs. For the six months ended September 30, 2016, we had cost of goods sold of \$3,686,825, or 62% of revenue, as compared to cost of goods sold of \$2,082,326 or 64% of revenue, for the six months ended September 30, 2015. The increase in gross profit rate is a result of reduced raw material cost through greater volume purchases from our suppliers.

Expenses

Our operating expenses for the six months ended September 30, 2016 and September 30, 2015 are as follows:

	<u>For the six</u> <u>months ended</u> <u>September 30,</u> <u>2016</u>	<u>For the six</u> <u>months ended</u> <u>September 30,</u> <u>2015</u>
Sales and marketing expenses	\$ 2,146,389	\$ 1,394,736
General and administrative expenses	1,897,515	1,888,462
Depreciation expenses	180,397	142,129
Total operating expenses	\$ 4,224,301	\$ 3,425,357

For the six months ended September 30, 2016, our total operating expenses were \$4,224,301, as compared to \$3,425,357 for the six months ended September 30, 2015.

For the six months ended September 30, 2016, the total included \$2,146,389 of sales and marketing expenses and \$1,897,515 of general and administrative expenses, consisting primarily of approximately \$319,125 of shares stock option compensation expense, and \$649,881 of professional fees.

For the six months ended September 30, 2015 the total included \$1,394,736 of sales and marketing expenses and \$1,888,462 of general and administrative expenses, consisting primarily of approximately \$892,760 of shares stock option compensation expense, and \$203,540 of professional fees.

Liquidity and Capital Resources*Working Capital*

	September 30, 2016	March 31, 2016
Current assets	\$ 1,838,258	\$ 2,549,023
Current liabilities	2,237,170	2,153,472

Working capital (deficiency)	\$	(398,912)	\$	395,551
------------------------------	----	-----------	----	---------

Current Assets

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

Current assets as of September 30, 2016 and March 31, 2016 primarily relate to \$189,711 and \$1,192,119 in cash, \$1,079,838 and \$911,390 in accounts receivable and \$547,609 and \$434,708 in inventory, respectively.

Current Liabilities

Current liabilities as of September 30, 2016 and March 31, 2016 primarily relate to \$957,835 and \$847,452 in accounts payable, revolving financing of \$563,191 and \$475,273, note payable of \$57,911 and \$324,368, current portion of capital leases of \$263,568 and \$243,623 and accrued expenses of \$389,879 and \$251,613 respectively.

Cash Flow

Our cash flows for the six months ended September 30, 2016 and September 30, 2015 are as follows:

	<u>For the six months ended September 30, 2016</u>	<u>For the six months ended September 30, 2015</u>
Net Cash used in operating activities	\$ (1,650,263)	\$ (1,274,562)
Net Cash used in investing activities	(184,315)	(142,847)
Net Cash provided by financing activities	832,170	1,365,991
Net increase in cash and cash equivalents	\$ (1,002,408)	\$ (51,418)

Operating Activities

Net cash used in operating activities was \$1,650,263 for the six months ended September 30, 2016, as compared to \$1,274,562 used in operating activities for the six months ended September 30, 2015. The increase in net cash used in operating activities was primarily due to reduction of accounts payable in the quarter ended September 30, 2016 compared to an increase of accounts payable in the quarter ended September 30, 2015.

Investing Activities

Net cash used in investing activities was \$184,315 for the six months ended September 30, 2016, as compared to \$142,847 used in investing activities for the six months ended September 30, 2015. The increase in net cash used by investing activities was the result of an increase of purchase of fixed assets and equipment deposits.

Financing Activities

Net cash provided by financing activities for the six months ended September 30, 2016 was \$832,170, as compared to \$1,365,991 for the six months ended September 30, 2015. The decrease of net cash provided by financing activities was mainly attributable to repayment of notes payable.

Loan Facility Agreement with Turnstone Capital Inc.

On September 20, 2016, we entered into a loan facility agreement (the **Loan Agreement**) with Turnstone Capital Inc. (the **Lender**), whereby the Lender agreed to make available to our company a loan in the aggregate principal amount of \$1,000,000 (the **Loan Amount**). Pursuant to the Loan Agreement, the Lender agreed to make one or more advances of the Loan Amount to our company as requested from time to time by our company in an amount to be agreed upon by our company and the Lender (each, an **Advance**), provided that the Lender has the option to provide an additional Advances of up to \$500,000 for the purchase of equipment by our company.

On September 20, 2016, the Lender made the first Advance in the amount of \$250,000 to our company.

The Loan Amount will mature on the date which is two years after the date of the first Advance or such earlier date as the principal amount of all Advances owing from time to time and all other amounts payable under the Loan Agreement, and at any time outstanding, (the **Principal Amount**) may become due and payable in accordance with the terms and conditions of the Loan Agreement.

We agreed to commence repayment of the Principal Amount, on a monthly basis, beginning on the date that is 12 months after the date of the first Advance with the amount to be repaid each month being equal to the Principal Amount outstanding on the date of such monthly payment divided by the number of months remaining before the Maturity Date.

The Principal Amount will bear simple interest at a rate of 10.0% per annum. Interest will be calculated daily and paid monthly for the previous 30 days commencing on the date which is 35 days after the first Advance. We may prepare all or any portion of the Principal Amount and any accrued but unpaid interest thereon not less than ten days prior written notice.

So long as any Principal Amount remains outstanding, if we complete any debt or equity financing of more than \$250,000 (other than in connection with certain exempt issuances), then we agreed to use the proceeds of such financing to repay any Principal Amount remaining outstanding at the time of the completion of such financing.

Any Principal Amount, and any accrued but unpaid interest thereon, will be convertible into shares of our common stock by the Lender, at its option, at any time. The conversion is to occur at a conversion price of \$1.00.

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 months will be up to \$3,000,000. We will require additional cash resources to, among other things, expand broker network, increase manufacturing capacity, expand retail distribution and add support staff. If our own financial resources and future 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 have no 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 our stockholders.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Not applicable.

Item 4. Controls and Procedures.

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 principal financial 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 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 September 30, 2016 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 Annual Report on Form 10-K filed on July 14, 2016. There have been no material changes since July 14, 2016 from the risk factors disclosed in that Form 10-K.

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

On August 18, 2016, we issued 20,000 shares of our common stock to a consultant as partial consideration for settling any outstanding claims relating to the consultant's services and consulting agreements that the consultant had or may have against our company. In issuing these shares, we relied on an exemption from the registration requirements of the Securities Act of 1933 provided by Section 4(a)(2) of the Securities Act of 1933.

On September 20, 2016, we agreed to issue 58,720 shares of our common stock to a consultant for services rendered that were valued at the market value on that date of \$1.70 per share. In issuing these shares, we intend to rely on an exemption from the registration requirements of the Securities Act of 1933 provided by Section 4(a)(2) of the Securities Act of 1933.

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
(1)	Underwriting Agreement
1.1	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)
1.2	Amendment Agreement 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)
1.3	Amendment Agreement 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)
1.4	Termination Agreement for Engagement Agreement dated March 12, 2014 with H.C. Wainwright & Co., LLC (incorporated by reference from our Registration Statement on Form S-1, filed on March 12, 2014)
1.5	Engagement Agreement dated March 12, 2014 with H.C. Wainwright & Co., LLC (incorporated by reference from our Registration Statement on Form S-1, filed on March 12, 2014)
(2)	Plan of Acquisition, Reorganization, Arrangement, Liquidation or Succession
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 September 5, 2013)
(3)	Articles of Incorporation and Bylaws
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	Certificate of Change (incorporated by reference from our Current Report on Form 8-K, filed on December 30, 2015)
3.8	Certificate of Amendment to Articles of Incorporation (incorporated by reference from our Current Report on Form 8-K, filed on January 25, 2016)
3.9	Certificate of Amendment to Certificate of Designation (incorporated by reference from our Current Report on Form 8-K, filed on January 25, 2016)
3.10	Certificate of Designation (incorporated by reference from our Current Report on Form 8-K, filed on April 5, 2016)
3.11	Amended and Restated Bylaws (incorporated by reference from our Current Report on Form 8-K, filed on March 15, 2013)
(10)	Material Contracts
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	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)
10.3	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)

10.4 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)

25

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

- 10.5 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)
- 10.6 Equipment Lease Agreement dated January 17, 2014 (incorporated by reference from our Current Report on Form 8-K, filed on January 27, 2014)
- 10.7 Revolving Accounts Receivable Funding Agreement dated February 20, 2014 (incorporated by reference from our Current Report on Form 8-K, filed on February 25, 2014)
- 10.8 Form of Securities Purchase Agreement dated as of April 28, 2014, between The Alkaline Water Company Inc. and the purchasers named therein (incorporated by reference from our Current Report on Form 8-K, filed on May 6, 2014)
- 10.9 Form of Common Stock Purchase Warrant (incorporated by reference from our Current Report on Form 8-K, filed on May 6, 2014)
- 10.10 Form of Placement Agent Common Stock Purchase Warrant (incorporated by reference from our Current Report on Form 8-K, filed on May 6, 2014)
- 10.11 Stock Option Agreement dated May 12, 2014 with Steven P. Nickolas (incorporated by reference from our Current Report on Form 8-K, filed on May 14, 2014)
- 10.12 Stock Option Agreement dated May 12, 2014 with Richard A. Wright (incorporated by reference from our Current Report on Form 8-K, filed on May 14, 2014)
- 10.13 Stock Option Agreement dated May 21, 2014 with Steven P. Nickolas (incorporated by reference from our Current Report on Form 8-K, filed on May 23, 2014)
- 10.14 Stock Option Agreement dated May 21, 2014 with Richard A. Wright (incorporated by reference from our Current Report on Form 8-K, filed on May 23, 2014)
- 10.15 Amendment #1 dated February 12, 2014 to Equipment Lease Agreement (incorporated by reference from our Quarterly Report on Form 10-Q, filed on August 13, 2014)
- 10.16 Equipment Sale/Lease Back Agreement dated April 2, 2014 (incorporated by reference from our Quarterly Report on Form 10-Q, filed on August 13, 2014)
- 10.17 Agreement dated August 12, 2014 with H.C. Wainwright & Co., LLC (incorporated by reference from our Current Report on Form 8-K, filed on August 21, 2014)
- 10.18 Form of Warrant Amendment Agreement (incorporated by reference from our Current Report on Form 8-K, filed on August 21, 2014)
- 10.19 Form of Common Stock Purchase Warrant (incorporated by reference from our Current Report on Form 8-K, filed on August 21, 2014)
- 10.20 Form of Warrant Amendment Agreement (incorporated by reference from our Current Report on Form 8-K, filed on October 9, 2014)
- 10.21 Form of Common Stock Purchase Warrant (incorporated by reference from our Current Report on Form 8-K, filed on October 9, 2014)
- 10.22 Master Lease Agreement dated October 28, 2014 with Veterans Capital Fund, LLC (incorporated by reference from our Current Report on Form 8-K, filed on November 4, 2014)
- 10.23 Warrant Agreement dated October 28, 2014 with Veterans Capital Fund, LLC (incorporated by reference from our Current Report on Form 8-K, filed on November 4, 2014)
- 10.24 Registration Rights Agreement dated October 28, 2014 with Veterans Capital Fund, LLC (incorporated by reference from our Current Report on Form 8-K, filed on November 4, 2014)
- 10.25 2013 Equity Incentive Plan (incorporated by reference from our Current Report on Form 8-K, filed on November 4, 2014)
- 10.26 Form of Amending Agreement to Stock Option Agreement (incorporated by reference from our Current Report on Form 8-K, filed on November 4, 2014)
- 10.27 Stock Option Agreement dated February 18, 2016 with Steven P. Nickolas (incorporated by reference from our Current Report on Form 8-K, filed on April 14, 2016)
- 10.28 Stock Option Agreement dated February 18, 2016 with Richard A. Wright (incorporated by reference from our Current Report on Form 8-K, filed on April 14, 2016)
- 10.29

- Securities Purchase Agreement dated as of May 11, 2015 with Assurance Funding Solutions LLC (incorporated by reference from our Annual Report on Form 10-K, filed on July 14, 2015)
- 10.30 Secured Term Note dated May 2015 issued to Assurance Funding Solutions LLC (incorporated by reference from our Annual Report on Form 10-K, filed on July 14, 2015)
- 10.31 General Security Agreement dated as of May 11, 2015 with Assurance Funding Solutions LLC (incorporated by reference from our Annual Report on Form 10-K, filed on July 14, 2015)
- 10.32 Securities Purchase Agreement dated as of August 20, 2015 with Assurance Funding Solutions LLC

10.33	Secured Term Note dated August 20, 2015 issued to Assurance Funding Solutions LLC
10.34	General Security Agreement dated as of August 20, 2015 with Assurance Funding Solutions LLC
10.35	Form of Warrant Exchange Agreement (incorporated by reference from our Current Report on Form 8- K, filed on December 1, 2015)
10.36	Loan Agreement dated November 30, 2015 with Neil Rogers (incorporated by reference from our Current Report on Form 8-K, filed on December 4, 2015)
10.37	Promissory Note dated November 30, 2015 issued to Neil Rogers (incorporated by reference from our Current Report on Form 8-K, filed on December 4, 2015)
10.38	Escrow Agreement dated November 30, 2015 with Neil Rogers and Escrow Agent (incorporated by reference from our Current Report on Form 8-K, filed on December 4, 2015)
10.39	2013 Equity Incentive Plan (incorporated by reference from our Current Report on Form 8-K, filed on January 25, 2016)
10.40	Loan Agreement dated January 25, 2016 with Turnstone Capital Inc. (incorporated by reference from our Current Report on Form 8-K, filed on January 25, 2016)
10.41	Promissory Note dated January 25, 2016 issued to Turnstone Capital Inc. (incorporated by reference from our Current Report on Form 8-K, filed on January 25, 2016)
10.42	Escrow Agreement dated January 25, 2016 with Turnstone Capital Inc. and Escrow Agent (incorporated by reference from our Current Report on Form 8-K, filed on January 25, 2016)
10.43	Amendment Agreement dated January 25, 2016 with Neil Rogers (incorporated by reference from our Current Report on Form 8-K, filed on January 25, 2016)
10.44	Stock Option Agreement dated January 29, 2016 with Steven P. Nickolas (incorporated by reference from our Current Report on Form 8-K, filed on February 4, 2016)
10.45	Stock Option Agreement dated January 29, 2016 with Richard A. Wright (incorporated by reference from our Current Report on Form 8-K, filed on February 4, 2016)
10.46	Form of Subscription Agreement (incorporated by reference from our Registration Statement on Form S-1/A, filed on February 8, 2016)
10.47	Form of Warrant Certificate (incorporated by reference from our Registration Statement on Form S- 1/A, filed on February 8, 2016)
10.48	Employment Agreement dated effective March 1, 2016 with Steven P. Nickolas (incorporated by reference from our Current Report on Form 8-K, filed on April 5, 2016)
10.49	Employment Agreement dated effective March 1, 2016 with Richard A. Wright (incorporated by reference from our Current Report on Form 8-K, filed on April 5, 2016)
10.50	Form of Promissory Note and Warrant Exchange Agreement (incorporated by reference from our Current Report on Form 8-K, filed on June 16, 2016)
10.51	Form of Warrant Exchange Agreement (incorporated by reference from our Current Report on Form 8- K, filed on June 16, 2016)
10.52	Loan Facility Agreement dated September 20, 2016 with Turnstone Capital Inc. (incorporated by reference from our Current Report on Form 8-K, filed on September 22, 2016)
(31)	Rule 13a-14 Certifications
<u>31.1*</u>	<u>Certification of Principal Executive Officer and Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>
(32)	Section 1350 Certifications
<u>32.1*</u>	<u>Certification of Principal Executive Officer and Principal Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>
(101)	Interactive Data File
<u>101.INS*</u>	<u>XBRL Instance Document</u>
<u>101.SCH*</u>	<u>XBRL Taxonomy Extension Schema</u>
<u>101.CAL*</u>	<u>XBRL Taxonomy Extension Calculation Linkbase</u>
<u>101.DEF*</u>	<u>XBRL Taxonomy Extension Definition Linkbase</u>
<u>101.LAB*</u>	<u>XBRL Taxonomy Extension Label Linkbase</u>

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: November 21, 2016

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

28
