

ALKALINE WATER Co INC  
Form 10-Q  
November 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 September 30, 2014**

**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.

**118,170,825 shares of common stock issued and outstanding as of November 14, 2014.**

**THE ALKALINE WATER COMPANY INC.  
QUARTERLY PERIOD ENDED SEPTEMBER 30, 2014**

**Index to Report on Form 10-Q**

	<b>Page No.</b>
<b><u>PART I - FINANCIAL INFORMATION</u></b>	
<u>Item 1.</u> <u>Financial Statements</u>	<u>3</u>
<u>Item 2.</u> <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>4</u>
<u>Item 3.</u> <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>9</u>
<u>Item 4.</u> <u>Controls and Procedures</u>	<u>9</u>
<b><u>PART II - OTHER INFORMATION</u></b>	
<u>Item 1.</u> <u>Legal Proceedings</u>	<u>9</u>
<u>Item 1A.</u> <u>Risk Factors</u>	<u>10</u>
<u>Item 2.</u> <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>10</u>
<u>Item 3.</u> <u>Defaults Upon Senior Securities</u>	<u>10</u>
<u>Item 4.</u> <u>Mine Safety Disclosures</u>	<u>10</u>
<u>Item 5.</u> <u>Other Information</u>	<u>10</u>
<u>Item 6.</u> <u>Exhibits</u>	<u>10</u>
<u>Signatures</u>	<u>13</u>

**PART I FINANCIAL INFORMATION**

**Item 1. Financial Statements**

3

---

## THE ALKALINE WATER COMPANY INC.

FORMERLY GLOBAL LINES INC.  
CONSOLIDATED BALANCE SHEETS

	September 30, 2014 (Unaudited)	March 31, 2014
<b>ASSETS</b>		
Current assets:		
Cash	\$ 400,483	\$ 2,665
Accounts receivable	452,675	166,404
Inventory	443,206	57,965
Prepaid Expenses and other current assets	9,804	-
Deferred financing cost	8,500	54,288
<b>Total current assets</b>	<b>1,314,668</b>	<b>281,322</b>
Fixed assets, net	716,394	286,986
Equipment deposits - related party	668,772	-
<b>Total assets</b>	<b>\$ 2,699,834</b>	<b>\$ 568,308</b>
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>		
Current liabilities:		
Accounts payable	\$ 609,510	\$ 320,154
Accounts payable - related party	-	18,403
Accrued expenses	50,922	56,601
Accrued interest	2,400	19,829
Revolving financing	312,991	83,348
Current portion of capital leases	64,578	-
Derivative liability	165,949	337,988
<b>Total current liabilities</b>	<b>1,206,350</b>	<b>836,323</b>
Long-term liabilities		
Capitalize leases- related party	293,129	-
<b>Total Long-term liabilities</b>	<b>293,129</b>	<b>-</b>
<b>Total liabilities</b>	<b>1,499,479</b>	<b>836,323</b>
Redeemable convertible Preferred stock	-	83,820
Stockholders' deficit:		
Preferred stock - \$0.001 par value, 100,000,000 shares authorized. Series A issued 20,000,000	20,000	20,000
Common stock, Class A, \$0.001 par value, 1,125,000,000 shares authorized, 114,931,026 and 81,602,175 shares issued and outstanding as of September 30, 2014 and March 31, 2014, respectively	114,931	81,602
Additional paid in capital	10,292,594	4,059,464

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

Common stock issuable		-		-
Deficit accumulated during development stage		(9,227,170)		(4,512,901)
Total stockholders' deficit	\$	1,200,355	\$	(351,835)
Total liabilities and stockholders' deficit	\$	2,699,834	\$	568,308

See Accompanying Notes to Condensed Consolidated Financial Statements.

F-1

---

## THE ALKALINE WATER COMPANY INC.

**FORMERLY GLOBAL LINES INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
(Unaudited)

	For the three months ended September 30, 2014	For the three months ended September 30, 2013	For the period ended September 30, 2014	For the period ended September 30, 2013
Revenue	\$ 1,022,823	\$ 129,745	\$ 1,594,872	\$ 162,267
Cost of goods sold	648,818	72,900	1,054,943	90,957
Gross profit	374,005	56,845	539,929	71,310
Operating expenses:				
Sales and marketing expenses	415,973	104,229	642,753	188,422
General and administrative	2,284,084	408,723	4,422,837	476,232
General and administrative - related party	-	22,246	-	62,092
Depreciation expense	41,534	7,489	58,068	9,338
Total operating expenses	2,741,591	542,687	5,123,658	736,084
Other Income (expenses):				
Interest expense	(9,803)	-	(12,326)	(3,555)
Interest expense on redeemable preferred stock	-	-	(40,383)	-
Fees paid on credit line	(11,485)	-	(18,542)	-
Amortization of debt discount	-	-	(414,370)	-
Other expenses	6	-	(5)	-
Loss on sales leaseback	20,773	-	-	-
	91,035	-	355,086	-

Change in  
derivative  
liability

Total other expense	90,526	-	(130,540)	(3,555)
------------------------	--------	---	-----------	---------

Net loss	\$ (2,277,060)	\$ (485,842)	\$ (4,714,269)	\$ (668,329)
----------	----------------	--------------	----------------	--------------

Weighted  
average number  
of common  
shares  
outstanding -  
basic

107,731,694	77,500,000	100,877,507	78,758,117
-------------	------------	-------------	------------

Net loss per share - basic	\$ (0)	\$ (0.01)	\$ (0.05)	\$ (0.01)
-------------------------------	--------	-----------	-----------	-----------

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 six months ended September 30, 2014	For the six months ended September 30, 2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net loss	\$ (4,714,269)	\$ (668,329)
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation expense	58,068	9,338
Interest expense converted to common stock	-	3,555
Shares issued for services	3,014,306	137,500
Amortization of debt discount	414,370	-
Change in derivative liabilities	(355,086)	-
Changes in operating assets and liabilities:		
Accounts receivable	(286,271)	(33,525)
Inventory	(385,241)	(96,214)
Prepaid expenses and other current assets	(18,304)	(46,333)
Accounts payable	291,176	65,852
Accounts payable - related party	(18,403)	-
Accrued expenses	(5,679)	12,762
Accrued interest	(17,429)	-
Net cash used in operating activities	(2,022,762)	(615,394)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of fixed assets	(317,673)	(263,223)
Proceeds from sale lease back	208,773	-
Equipment Deposits - related party	(668,772)	(90,000)
Net cash used in investing activities	(777,672)	(353,223)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from notes payable	-	75,000
Proceeds from revolving financing	229,643	-
Proceeds from sale of common stock, net	2,361,999	525,000
Proceeds from the exercise of warrants, net	874,650	-
Proceeds from shares to be issued	-	500,000
Repayment of capital lease	(20,870)	-
Repayment of redeemable preferred shares	(247,170)	-
Net cash provided by financing activities	3,198,252	1,100,000
NET CHANGE IN CASH	397,818	131,383
CASH AT BEGINNING OF PERIOD	2,665	64,607

CASH AT END OF PERIOD	\$	400,483	\$	195,990
-----------------------	----	---------	----	---------

## SUPPLEMENTAL INFORMATION:

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

## NON-CASH INVESTING AND FINANCING ACTIVITIES:

Debt converted to common stock	\$	-	\$	229,870
Preferred stock conversion to common stock		252,830		-
Deferred discount on conversion of preferred stock		56,098		-
Fair value of derivate liability at issuance of Warrants		389,710		-
Fair value of derivative liability at exercise		150,566		-

See Accompanying Notes to Condensed Consolidated Financial Statements.

F-3

**THE ALKALINE WATER COMPANY INC.**  
**(FORMERLY GLOBAL LINES INC.)**  
**NOTES TO CONDENSED 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, 2014 and notes thereto included in the Company's Annual Report on Form 10-K dated June 30, 2014. 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 September 30, 2014, 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 September 30, 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 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. We had \$400,483 and \$195,990 in cash and cash equivalents at September 30, 2014 and 2013, 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 consisted of the following as of September 30, 2014 and March 31, 2014:

	<b><u>September 30</u></b>	<b><u>March 31</u></b>
	<b><u>2014</u></b>	<b><u>2014</u></b>
Trade receivables	\$ 461,643	\$ 176,404
Less: Allowance for doubtful accounts	(8,968)	(10,000)
Net accounts receivable	\$ 452,675	\$ 166,404

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 packaging items, empty bottles, finished goods 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, 2014 and March 31 2014, inventory consisted of the following:

	<b><u>September 30</u></b>	<b><u>March 31</u></b>
	<b><u>2014</u></b>	<b><u>2014</u></b>
Raw materials	\$ 398,258	\$ 24,022
Finished goods	44,948	33,943
Total inventory	\$ 443,206	\$ 57,965

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
-----------	---------

Stock-based Compensation

The Company accounts for stock-based compensation to employees in accordance with Accounting Standard 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

We recognize 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. We do 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.

### Concentration

The Company has 4 major customers that together account for 58% (17%, 16%, 13% and 12%, respectively) of accounts receivable at September 30, 2014, and 3 customers that together account for 39% (15%, 13% and 11%, respectively) of the total revenues earned for the six month period ended September 30, 2014.

The Company has 3 vendors that accounted for 55% (19%, 19%, and 17%, respectively) of purchases for the six month period ended September 30, 2014.

F-6

---

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 Accounting Standard Codification (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.

Recent pronouncements

In June 2014, the FASB issued ASU No. 2014-10, Development Stage Entities (Topic 915): Elimination of Certain Financial Reporting Requirements, Including an Amendment to Variable Interest Entities Guidance in Topic 810, Consolidation. The amendments in this update remove the definition of a development stage entity from the Master Glossary of the Accounting Standards Codification, thereby removing the financial reporting distinction between development stage entities and other reporting entities from GAAP. In addition, the amendments eliminate the requirements for development stage entities to (1) present inception to-date information in the statements of income, cash flows, and shareholder equity, (2) label the financial statements as those of a development stage entity, (3) disclose a description of the development stage activities in which the entity is engaged, and (4) disclose in the first year in which the entity is no longer a development stage that in prior years it had been in the development stage. The Company early adopt ASU No. 2014-10 during the second quarter of the year ended March 31, 2015.

In August 2014, the FASB issued ASU No. 2014-15, Presentation of Financial Statements Going Concern (Subtopic 205-40), Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern . Continuation of a reporting entity as a going concern is presumed as the basis for preparing financial statements unless and until the entity's liquidation becomes imminent. Preparation of financial statements under this presumption is commonly referred to as the going concern basis of accounting. Currently, there is no guidance under U.S. GAAP about management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern or to provide related footnote disclosures. The amendments in this Update provide that guidance. In doing so, the amendments should reduce diversity in the timing and content of footnote disclosures. The amendments require management to assess an entity's ability to continue as a going concern by incorporating and expanding upon certain principles that are currently in U.S. auditing standards. Specifically, the amendments (1) provide a definition of the term substantial doubt, (2) require an evaluation every reporting period including interim periods, (3) provide principles for considering the mitigating effect of management's plans, (4) require certain disclosures when substantial doubt is alleviated as a result of consideration of management's plans, (5) require an express statement and other disclosures when substantial doubt is not alleviated, and (6) require an assessment for a period of one year after the date that the financial statements are issued (or available to be issued). For the period ended September 30, 2014, management evaluated the Company's ability to continue as a going concern and concluded that substantial doubt has not been alleviated about the Company's ability to continue as a going concern. While the Company continues to explore further significant sources of financing, management's assessment was based on the uncertainty related to the amount and nature of such financing over the next twelve months.

**NOTE 2 GOING CONCERN**

The accompanying financial statements