

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. Financial Statements</u>	<u>3</u>
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>4</u>
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>9</u>
<u>Item 4. Controls and Procedures</u>	<u>9</u>
<b><u>PART II - OTHER INFORMATION</u></b>	
<u>Item 1. Legal Proceedings</u>	<u>9</u>
<u>Item 1A. Risk Factors</u>	<u>10</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>10</u>
<u>Item 3. Defaults Upon Senior Securities</u>	<u>10</u>
<u>Item 4. Mine Safety Disclosures</u>	<u>10</u>
<u>Item 5. Other Information</u>	<u>10</u>
<u>Item 6. Exhibits</u>	<u>10</u>
<u>Signatures</u>	<u>13</u>

**PART I FINANCIAL INFORMATION**

**Item 1. Financial Statements**

## 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:

	<u>September 30</u> <u>2014</u>	<u>March 31</u> <u>2014</u>
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:

	<u>September 30</u> <u>2014</u>	<u>March 31</u> <u>2014</u>
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 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, 2014 of \$(9,227,170). In addition, the Company's development activities since inception have been financially sustained through debt and equity financing.

F-7

---



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:

	<u>September</u> <u>30, 2014</u>	<u>March</u> <u>31, 2014</u>
Machinery and Equipment	\$ 372,375	\$ 273,597
Machinery under Capital Lease	378,576	
Office Equipment	54,612	53,631
Leasehold Improvements	13,120	3,979
Less: Accumulated Depreciation	(102,289)	(44,221)
Fixed Assets, net	\$ 716,394	\$ 286,986

Depreciation expense for the periods ended September 30, 2014 and 2013 was \$58,068 and \$9,338, respectively.

### NOTE 4 EQUIPMENT DEPOSITS RELATED PARTY

The Company paid deposits on equipment to Water Engineering Solutions, LLC, a related party, as follows: May 1, 2014 \$690,000, June 27, 2014 \$21,500, July 1, 2014 \$115,000 August 7, 2014 \$10,000, August 5, 2014 \$5,000, August 19, 2014 \$2,000 and August 22, 2014 \$100,000. The Company received equipment valued at \$274,769 and reduced the deposit on equipment. As of September 30, 2014, the total amount of deposits for equipment is \$668,772. The equipment is being manufactured by and under an exclusive manufacturing contract from Water Engineering Solutions, LLC, an entity that is controlled and majority owned by Steven P. Nickolas and Richard A. Wright, for the production of our alkaline water.

### NOTE 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. The Company may request an increase to the initial indebtedness in \$500,000 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, we give Gibraltar notice of our intention to terminate the agreement. In addition, we 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 repayment. On September 30, 2014 the amount borrowed on this facility was \$312,991.

#### **NOTE 6 DERIVATIVE LIABILITY**

On November 7, 2013, we sold to certain institutional investors 10% Series B Convertible Preferred Shares ( Series B Preferred Stock ) which are subject to mandatory redemption and include down-round provisions that reduce the exercise price of a warrant and convertible instrument. As required by ASC 815 Derivatives and Hedging , if the Company either issues equity shares for a price that is lower than the exercise price of those instruments or issues new warrants or convertible instruments that have a lower exercise price, the investors will be entitled to down-round protection. 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.

Between April 16 and April 24, 2014, the Company redeemed 247 shares of the 10% Series B Preferred Stock for \$247,171 plus accrued interest of \$46,456 and \$10,212 penalty related to the delayed registration. The effect of this redemption resulted in a reduction of \$56,098 derivative liability.

On May 1, 2014, the Company completed the offering and sale of an aggregate of 17,333,329 shares of our common stock and warrants to purchase an aggregate of 8,666,665 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 \$0.15 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 \$0.15. 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. 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 were not indexed to the Company's own stock and therefore a derivative 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 \$0.10 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 \$0.125 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 \$0.125. 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. The Company evaluated whether its warrants and convertible debt instruments contain provisions that protect holders from declines in its stock price or otherwise could result in modification of either the exercise price or the shares to be issued under the respective warrant agreements. The Company determined that a portion of its outstanding warrants and conversion instruments contained such provisions thereby concluding they were not indexed to the Company's own stock and therefore a derivative instrument. The derivative liability was increased by \$167,384 as a result of the issued warrants.

On August 21, 2014, pursuant to the Warrant Amendment Agreement, the Company issued an aggregate of 9,829,455 shares of the Company's common stock upon exercise of the Existing Warrants at an exercise price of \$0.10 per share for aggregate gross proceeds of \$982,945.50. An aggregate of 8,666,664 shares of our common stock issued upon exercise of the Existing Warrants. The derivative liability was reduced by \$168,273 as a result of the warrants exercised.

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, we issued warrants to purchase an aggregate of 5.5% of the aggregate number of shares of our common stock sold in the offering, or 953,333, to Wainwright and its designees. These warrants have an exercise price of \$0.1875 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, 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. The Company evaluated whether its warrants and convertible debt instruments contain provisions that protect holders from declines in its stock price or otherwise could result in modification of either the exercise price or the shares to be issued under the respective warrant agreements. The Company determined that a portion of its outstanding warrants and conversion instruments contained such provisions thereby concluding they were not indexed to the Company's own stock and therefore a derivative instrument.

The range of significant assumptions which the Company used to measure the fair value of warrant liabilities (a level 3 input) at April 24, 2014 is as follows:

	<b><u>Conversion feature</u></b>
Stock price	\$ 0.3275
Term (Years)	Less than 1
Volatility	331%
Exercise prices	\$ 0.43
Dividend yield	0%

The range of significant assumptions which the Company used to measure the fair value of warrant liabilities (a level 3 input) at May 1, 2014 is as follows:



	<b>Issuance Warrants</b>	<b>Placement agent Warrants</b>
Stock price	\$ 0.15	\$ 0.15
Term (Years)	5	5
Volatility	306%	306%
Exercise prices	\$ 0.15	\$ 0.1875
Dividend yield	0%	0%

The range of significant assumptions which the Company used to measure the fair value of warrant liabilities (a level 3 input) at August 20, 2014 is as follows:

<b>New Warrants</b>	
Stock price	\$ 0.12
Term (Years)	5
Volatility	247%
Exercise prices	\$ 0.125
Dividend yield	0%

The range of significant assumptions which the Company used to measure the fair value of warrant liabilities (a level 3 input) at August 21, 2014 is as follows:

<b>Existing Warrants</b>	
Stock price	\$ 0.17
Term (Years)	5
Volatility	247%
Exercise prices	\$ 0.10
Dividend yield	0%

The range of significant assumptions which the Company used to measure the fair value of warrant liabilities (a level 3 input) at September 30, 2014 is as follows:

<b>Warrants (including placement agent)</b>	
Stock price	\$ 0.1081
Term (Years)	4 to 5
Volatility	223%
Exercise prices	\$ 0.55 to 0.125
Dividend yield	0%

The following table sets forth the fair value hierarchy within our financial assets and liabilities by level that were accounted for at fair value on a recurring basis as of May 1, 2013.

**Fair Value Measurement at May 1, 2014**

	<b>Carrying Value at May 1, 2014</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<b>Liabilities:</b>				
Derivative warrant liability	\$ 216,236	\$ -	\$ -	\$ 216,236
Derivative placement agent warrant liability	\$ 23,787	\$ -	\$ -	\$ 23,787
Total derivative liability	\$ 240,023	\$ -	\$ -	\$ 240,023

F-11

The following table sets forth the fair value hierarchy added to our financial liabilities by level that were accounted for at fair value on a recurring basis as of August 21, 2013.

**Fair Value Measurement at August 21, 2014**

	<b>Carrying Value at August 21, 2014</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<b>Liabilities:</b>				
Derivative warrant liability	\$ 149,687	\$ -	\$ -	\$ 149,687

The following table sets forth the fair value hierarchy within our financial assets and liabilities by level that were accounted for at fair value on a recurring basis as of September 30, 2014.

**Fair Value Measurement at September 30, 2014**

	<b>Carrying Value at September 30, 2014</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<b>Liabilities:</b>				
Derivative convertible debt liability	\$ -	\$ -	\$ -	\$ -
Derivative warrant liability convertible preferred stock	\$ 29,928	\$ -	\$ -	\$ 29,928
Derivative warrants liability on common stock issuance including placement agent warrants	\$ 136,020	\$ -	\$ -	\$ 136,020
<b>Total derivative liability</b>	<b>\$ 165,948</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 165,948</b>

The Company analyzed the warrants and conversion feature under ASC 815 to determine the derivative liability. The Company estimated the fair value of these derivatives using a multinomial distribution (Lattice) valuation model. The fair value of these warrant liabilities at September 30, 2014 was \$165,948 and the conversion feature liability was \$0. At March 31, 2014 the fair value of these warrant liabilities was \$209,320 and the conversion feature liability was \$128,668. Changes in the derivative liability for the period ended September 30, 2014 consist of:

	<b>Three Months Ended September 30, 2014</b>
Derivative liability at March 31, 2014	\$ 337,998
Redemption of convertible preferred stock	(56,098)
Warrants issued May 1, 2014	216,236
Placement agent warrants May 1, 2014	23,787
Exercise of Warrants August 21, 2014	(168,273)
Issuance of warrants August 21, 2014	167,384
Change in derivative liability mark to market	(355,086)
Derivative liability at September 30, 2014	\$ 165,948

**NOTE 7 PREFERRED SHARES SUBJECT TO MANDATORY REDEMPTION**

Redeemable Convertible Preferred Shares

On November 7, 2013, the Company sold to certain institutional investors an aggregate of 500 shares of our 10% Series B Convertible Preferred Stock ( Series B Preferred Stock ) at a stated value of \$1,000 per share of Series B

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



Between April 16, 2014 and April 22, 2014, the holders of our Series B Preferred Stock exercised their right to have the Company redeem their shares whereby we redeemed 247.17 shares of Series B Preferred Stock for \$303,839, which included accrued interest of \$46,456 and a penalty for late registration of \$10,212. The remaining portion of the Series B Preferred Stock, or 252.83 shares, was converted into 796,566 of our common shares at a conversion price of \$0.3174 per share.

Effective November 7, 2013, the Company issued common stock purchase warrants to the placement agent and its designees as compensation for the services provided by the placement agent in connection with our private placement of 500.00028 shares Series B Preferred Stock, which was completed on November 7, 2013. The warrants issued to the placement agent and its designees are exercisable into an aggregate of 116,279 shares of our common stock with an exercise price of \$0.55 per share and have a term of exercise of five years. The Company issued the warrants to six accredited investors and paid certain transactional costs of \$78,000. For the period ended September 30, 2014 the Company recorded \$54,288 of amortization of the debt discount and deferred financing cost.

The Series B Preferred Stock included down-round provisions that reduce the exercise price of a warrant and convertible instrument as required by ASC 815 Derivatives and Hedging . The aggregate of the derivative liability at issuance was \$955,927, which was recorded as amortization of debt discount at issuance and amortized \$360,082 cost over the redemption period.

## **NOTE 8 STOCKHOLDERS EQUITY**

### **Preferred Stock**

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

#### Grant of Series A Preferred Stock

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 period ended September 30, 2014.

### **Common Stock**

We are authorized to issue 1,125,000,000 shares of \$0.001 par value common stock. On May 31, 2013, we effected a 15-for-1 forward stock split of our \$0.001 par value common stock. All shares and per share amounts have been retroactively restated to reflect such split. Prior to the acquisition of Alkaline Water Corp., we had 109,500,000 shares of common stock issued and outstanding.

On May 31, 2013, we issued 43,000,000 shares in exchange for a 100% interest in Alkaline Water Corp. For accounting purposes, the acquisition of Alkaline Water Corp. by The Alkaline Water Company Inc. has been recorded as a reverse acquisition of a company and recapitalization of Alkaline Water Corp. based on the factors demonstrating that Alkaline Water Corp. represents the accounting acquirer. Consequently, after the closing of this agreement we adopted the business of Alkaline Water Corp. s wholly-owned subsidiary, Alkaline 88, LLC. As part of the acquisition, the former management of the Company agreed to cancel 75,000,000 shares of common stock.

#### Sales of Registered Shares of Common Stock

On May 1, 2014, the Company completed the offering and sale of an aggregate of 17,333,329 shares of our common stock and warrants to purchase an aggregate of 8,666,665 shares of our common stock, for aggregate gross proceeds of \$2,599,999. Each share of common stock the Company sold in the offering was accompanied by a warrant to purchase one-half of a share of common stock at an exercise price of \$0.15 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 \$0.15.

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 paid Wainwright a cash placement fee equal to 8% of the aggregate gross proceeds from the offering, or \$208,000, and a non-accountable expense allowance equal to 1% of the aggregate gross proceeds from the offering, or \$26,000. In addition, we issued warrants to purchase an aggregate of 5.5% of the aggregate number of shares of our common stock sold in the offering, or 953,333, to Wainwright and its designees. These warrants have an exercise price of \$0.1875 per share and expire on April 16, 2019.

#### Sale of Restricted Shares of Common Stock

On October 8, 2013, the Company issued an aggregate of 1,250,000 shares of our common stock to three investors in a non-brokered private placement, at a purchase price of \$0.40 per share for gross proceeds of \$500,000. In addition, the Company issued 1,250,000 warrants with an exercise price of \$0.50 per share and 650,000 warrants with an exercise prices of \$0.60 per share to a finder in connection with this private placement. Each unit consisted of one share purchase warrant entitling the holder to purchase, for a period of two years from issuance, one share of our common stock at an exercise price of \$0.50 per share and one-half of one share purchase warrant, with each whole share purchase warrant entitling the holder to purchase, for a period of two years from issuance, one share of our common stock at an exercise price of \$0.60 per share.

On May 31, 2013, the Company sold 1,312,500 units at \$0.40 per share for total cash of \$525,000. Each unit consisted of one share of common stock, one warrant which entitles the holder to purchase one share of common stock for a period of 2 years with an exercise price of \$0.50 per share, and 1/2 warrant which entitles the holder to purchase 1/2 share of common stock for a period of 2 years with an exercise price of \$0.60 per share.

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

#### Common Stock Issued for Services

On May 15, 2014, the Company issued 100,000 restricted common shares to consultant for services rendered and were valued at the market value on that date of \$0.150 per share.

On June 2, 2014, the Company issued 100,000 restricted common shares to consultant for services rendered and were valued at the market value on that date of \$0.130 per share.

F-14

---

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

On June 6, 2014, the Company issued 1,000,000 restricted common shares to consultant for services rendered and were valued at the market value on that date of \$0.134 per share.

On June 11, 2014, the Company issued 250,000 restricted common shares to consultant for services rendered and were valued at the market value on that date of \$0.121 per share.

On July 3, 2014, the Company entered into an agreement with a third-party to provide consulting services. The compensation in the agreement was \$25,000 in cash upon execution of the agreement and the issuance of 350,000 of the Company's common shares as follows: 175,000 common shares upon execution of the agreement, 70,000 common shares on or before July 15, 2014, 70,000 common shares on or before August 15, 2014 and 35,000 common shares on or before September 15, 2014.

On August 1, 2014, the Company issued 1,000,000 common shares to consultant for services rendered that were valued at the market value on that date of \$0.175 per share.

On August 7, 2014, the Company entered into an agreement with a third-party to provide consulting services. The compensation in the agreement was for 2,000,000 of the Company's common shares to be issued as follows: 500,000 common shares on the date of the execution of the agreement, 500,000 common shares on the date that is 45 days from the execution date, 500,000 common shares on the date that is 90 days from the execution date, and 500,000 common shares on the date that is 135 days from the execution date.

On September 2, 2014, the Company issued 50,000 common shares to consultant for services rendered that were valued at the market value on that date of \$0.135 per share.

On September 30, 2014, the Company issued 300,000 common shares to consultant for services rendered that were valued at the market value on that date of \$0.108 per share.

### Exercise of Options

On September 30, 2014 an option holder exercised their 182,000 options with an exercise price of \$0.01 per option share partial settlement of their accounts payable.

### Exercise of Warrants

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 \$0.10 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 \$0.125 per share, subject to adjustment in the New Warrants.

On August 21, 2014, pursuant to the Warrant Amendment Agreement, the Company issued an aggregate of 9,829,455 shares of the Company's common stock upon exercise of the Existing Warrants at an exercise price of \$0.10 per share for aggregate gross proceeds of \$982,945. Simultaneously the Company issued 9,829,455 new warrants with a term of 5 years and exercise price of \$0.125 per warrant share. Pursuant to the agreement 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 paid Wainwright a cash placement fee equal to 10% of the aggregate gross proceeds from the offering, or \$98,295, and a non-accountable expense allowance of \$10,000. The Company record this issuance, net of the fees paid as Additional-Paid-In-Capital.



**NOTE 9 OPTIONS AND WARRANTS**Stock Option Awards

On May 12, 2014, the Company granted a total of 820,000 stock options to employees and consultants. The stock options are exercisable at the exercise price of \$0.15 per share for a period of ten years from the date of grant. 502,500 stock options vested upon the date of grant, 116,250 stock options vest on September 30, 2014, 116,250 stock options vest on September 30, 2014 and 85,000 stock options vest on December 31, 2014.

On May 16, 2014, the Company granted a total of 250,000 stock options to a consultant. The stock options are exercisable at the exercise price of \$0.143 per share for a period of ten years from the date of grant. 62,500 stock options vested upon the date of grant, 62,500 stock options vest on September 30, 2014, 62,500 stock options vest on September 30, 2014 and 62,500 stock options vest on December 31, 2014.

On May 21, 2014, the Company granted a total of 6,000,000 stock options Steven A. Nickolas and Richard A. Wright (3,000,000 stock options to each). The stock options are exercisable at the exercise price of \$0.1455 per share for a period of ten years from the date of grant. 3,000,000 stock options vested upon the date of grant and the 3,000,000 stock options will vest on November 21, 2014.

On May 12, 2014, the Company granted a total of 1,200,000 stock options Steven A. Nickolas and Richard A. Wright (600,000 stock options to each). The stock options are exercisable at the exercise price of \$0.165 per share for a period of ten years from the date of grant. 1,200,000 stock options vested upon the date of grant.

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

For the period ended September 30, 2014 and September 30, 2013 the Company has recognized compensation expense of \$2,198,838 and \$0, respectively, on the stock options granted that vested. The fair value of the unvested shares is \$19,751 as of September 30, 2014 with the total unrecognized compensation cost related to non-vested stock options which is expected to be recognized over a weighted-average period of approximately 1 year. The aggregate intrinsic value of these options was \$0 at September 30, 2014.

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

	<b>Number of Shares</b>	<b>Weighted- Average Exercise Price</b>	<b>Weighted- Average Remaining Contractual Term (years)</b>
Outstanding at March 31, 2014	6,000,000	\$ 0.61	9.3
Granted	8,452,000	\$ 0.15	9.6
Exercised	(182,000)	\$ 0.01	10.0
Expired/Forfeited	-	\$ -	-
Outstanding at September 30, 2014	14,270,000	\$ 0.34	9.6
Exercisable at September 30, 2014	10,122,500	\$ 0.34	9.6

F-16

Warrants

The following is a summary of the status of all of our warrants as of September 30, 2014 and changes during the six months ended on that date:

	Number of Warrants	Weighted- Average Exercise Price
Outstanding at March 31, 2014	8,310,415	\$ 0.53
Granted	19,449,453	0.14
Exercised	(9,829,456)	0.10
Cancelled	-	0.00
Outstanding at September 30, 2014	17,930,412	0.26
Warrants exercisable at September 30, 2014	16,767,621	\$ 0.26

The following table summarizes information about stock warrants outstanding and exercisable at September 30, 2014:

## STOCK WARRANTS OUTSTANDING AND EXERCISABLE

Exercise Price	Number of Warrants Outstanding	Weighted- Average Remaining Contractual Life in Years
\$ 0.12500	9,829,455	4.9
\$ 0.1875	953,333	4.6
\$ 0.2500	2,325,582	0.1
\$ 0.5000	3,137,175	0.8
\$ 0.5500	116,279	0.8
\$ 0.6000	1,568,588	2.7

Company's outstanding common stock purchase warrants, whereby the Company agreed to reduce the exercise price of the Existing Warrants to \$0.10 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 \$0.125 per share, subject to adjustment in the New Warrants.

On August 21, 2014, pursuant to the Warrant Amendment Agreement, the Company issued an aggregate of 9,829,455 shares of the Company's common stock upon exercise of the Existing Warrants at an exercise price of \$0.10 per share for aggregate gross proceeds of \$982,945. Simultaneously the Company issued 9,829,455 new warrants with a term of 5 years and exercise price of \$0.125 per warrant share. The Company record this issuance as Additional-Paid-In-Capital.

**NOTE 10 RELATED PARTY TRANSACTIONS**

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. We 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 period ended September 30, 2014.

On October 9, 2013, the Company granted a total of 6,000,000 stock options to Steven A. Nickolas and Richard A. Wright (3,000,000 stock options to each). The stock options are exercisable at the exercise price of \$0.605 per share

for a period of ten years from the date of grant. The stock options vest as follows: (i) 1,000,000 upon the date of grant; and (ii) 500,000 per quarter until fully vested.

F-17

---



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.

On January 17, 2014, amended on February 12, 2014 the Company entered into an equipment lease with Water Engineering Solutions LLC, an entity that is controlled and owned by an officer, director and shareholder, for specialized equipment used to make our alkaline water totaling \$190,756 and agreed to a 60 month term at \$3,864 per month.

On April 2, 2014 the Company entered into a sale-leaseback transaction with Water Engineering Solutions LLC, an entity that is controlled and owned by an officer, director and shareholder, for specialized equipment with an original cost of \$208,773 acquired in August 2013. The Company received proceeds of \$188,000 in April 2014. The lease terms are 60 monthly payments of \$3,812, payable 30 days after installation of the equipment and a purchase option of \$1.00. The Company recorded a loss on sales leaseback of \$20,773.

On May 21, 2014, the Company granted a total of 6,000,000 stock options Steven A. Nickolas and Richard A. Wright (3,000,000 stock options to each). The stock options are exercisable at the exercise price of \$0.1455 per share for a period of ten years from the date of grant. 3,000,000 stock options vested upon the date of grant and the 3,000,000 stock options will vest on November 21, 2014.

Under the terms of the exclusive manufacturing agreement entered into on April 15, 2013 between the Company and Water Engineering Solutions LLC, a related party, the Company paid deposits on equipment as follows: May 1, 2014 \$690,000, June 27, 2014 \$21,500, July 1, 2014 \$115,000 August 7, 2014 \$10,000, August 5, 2014 \$5,000, August 19, 2014 \$2,000 and August 22, 2014 \$100,000. The Company received equipment valued at \$278,769 and reduce the deposit on equipment. Water Engineering Solutions, LLC, an entity that is controlled and majority owned by Steven P. Nickolas and Richard A. Wright, for the production of our alkaline water.

#### **NOTE 11 - SALES LEASEBACK**

On April 2, 2014 the Company entered into a sale-leaseback transaction with Water Engineering Solutions LLC, an entity that is controlled and owned by an officer, director and shareholder, for specialized equipment with an original cost of \$208,773 acquired in August 2013. Under the terms of the sale leaseback agreement, the Company received proceeds of \$188,000 in April 2014 and reduced installation cost in the period July 1, 2014 through September 30, 2014 of \$20,773.

#### **NOTE 12 CAPITAL LEASE**

On January 17, 2014 the Company entered into an equipment lease with Water Engineering Solutions LLC, an entity that is controlled and owned by an officer, director and shareholder, for specialized equipment used to make our alkaline water with a stated value of \$190,756 and agreed to a 60 month term at \$3,864 per month and a purchase option of \$1 which commenced on May 1, 2014.

On April 2, 2014, we entered into a capital lease agreement with Water Engineering Solutions LLC, an entity that is controlled and owned by an officer, director and shareholder, for specialized equipment used to make our alkaline water with a stated value of \$188,000, terms of 60 monthly payments of \$3,812, payable 30 days after installation of the equipment and a purchase option of \$1.00 which commenced on July 1, 2014.

#### **NOTE 13 SUBSEQUENT EVENTS**

On October 7, 2014, the Company entered into a warrant amendment agreement (the Warrant Amendment Agreement ) with a holder of certain existing outstanding common stock purchase warrants (the Existing Warrants ), whereby the Company agreed to reduce the exercise price of the Existing Warrants to \$0.10 per share in consideration for the immediate exercise of the Existing Warrants by the Holder and the Holder is to be issued new common stock purchase warrants of the company (the New Warrants ) 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 Holder, provided that the exercise price of the New Warrants will be \$0.125 per share, subject to adjustment in the New Warrants.

F-18

---

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

On October 7, 2014, pursuant to the Warrant Amendment Agreement, the Company issued an aggregate of 4,699,800 shares of our common stock upon exercise of the Existing Warrants at an exercise price of \$0.10 per share for aggregate gross proceeds of \$469,980. In addition, the Company issued New Warrants to purchase an aggregate of 4,699,800 shares of our common stock at an exercise price of \$0.125 per share for a period of two years from the date of issuance.

Effective as of October 28, 2014, we 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, we paid the Lessor a one-time non-refundable commitment fee of \$12,000. Effective as of October 28, 2014, we also entered into a warrant agreement with the Lessor, pursuant to which we agreed to issue a warrant to purchase 3,600,000 shares of our common stock to the Lessor and/or its affiliates at an exercise price of \$0.125 per share for a period of five years. 900,000 shares vested on October 28, 2014 and the remaining 270,000 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 we 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. We issued the warrant to an accredited investor. The issuance the warrant was exempt from registration pursuant to Section 4(a)(2) of the Securities Act of 1933 and Rule 506 promulgated thereunder.

On October 31, 2014, the Company amended its 2013 Equity Incentive Plan to, among other things, increase the number of shares of stock of the company available for the grant of awards under the plan from 20,000,000 shares to 35,000,000 shares.

On October 31, 2014, the Company reduced the exercise price of an aggregate of 6,000,000 stock options granted Steven P. Nickolas and Richard A. Wright, our directors and executive officers, to \$0.15 per share as noted below:

Name of Optionee	Grant Date	Old Exercise Price per Share	New Exercise Price per Share	Expiration Date	Number of Stock Options
Steven P. Nickolas	October 9, 2013	\$0.605	\$0.15	October 9, 2023	3,000,000
Richard A. Wright	October 9, 2013	\$0.605	\$0.15	October 9, 2023	3,000,000

F-19

**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.

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

**Results of Operations**

Our results of operations for the three months ended September 30, 2014 and September 30, 2013 and the six months ended September 30, 2014 and September 30, 2013 are as follows:

	For the three months ended September 30, 2014	For the three months ended September 30, 2013	For the six months ended September 30, 2014	For the six months ended September 30, 2013
Revenue	\$ 1,022,823	\$ 129,745	\$ 1,594,872	\$ 162,267
Cost of goods sold	648,848	72,900	1,054,943	90,957
Gross profit	374,005	56,845	539,929	71,310
Net loss (after operating expenses and other expenses)	\$ (2,277,060)	\$ (485,842)	\$ (4,714,269)	\$ (668,329)



**Revenue and Cost of Goods Sold**

We had revenue from sales of our product for the three months ended September 30, 2014 of \$1,022,823, as compared to \$129,745 for the three month period ended September 30, 2013. The increase in sales is due to the expanded distribution of our products to additional retailers throughout the country. Cost of goods sold is comprised of production costs, shipping and handling costs.

We had revenue from sales of our product for the six months ended September 30, 2014 of \$1,594,872, as compared to \$162,267 for the six month period ended September 30, 2013, generated by sales of our beverage products. Cost of goods sold is comprised of production costs, shipping and handling costs. For the six months ended September 30, 2014, we had cost of goods sold of \$1,054,943 as compared to \$90,957 in cost of goods sold for the comparable period.

**Expenses**

Our operating expenses for the three months ended September 30, 2014, the three months ended September 30, 2013, the six month period ended September 30, 2014 and the six month period ended September 30, 2013 are as follows:

	For the three months ended September 30, 2014	For the three months ended September 30, 2013	For the six months ended September 30, 2014	For the six months ended September 30, 2013
Sales and marketing expenses	\$ 415,973	\$ 104,229	\$ 642,733	\$ 188,422
General and administrative expenses	2,284,084	408,723	4,422,837	476,232
General and administrative expenses related party	-	22,246	-	62,092
Depreciation expenses	41,534	7,489	58,068	9,338
Total operating expenses	\$ 2,741,591	\$ 542,687	\$ 5,123,658	\$ 736,084

During the three months ended September 30, 2014 and September 30, 2013, we had a total of \$2,284,084 and \$408,723 respectively, in general and administrative expenses. The primary factor in the increase which is included in general and administrative expense was the fair value of shares and options of \$991,961 and \$0 for the three months ended September 30, 2014 and 2013, respectively. Administrative expense with related parties was \$0 and \$22,246 for the three month periods ended September 30, 2014 and 2013, respectively.

During the six months ended September 30, 2014 and September 30, 2013, we had a total of \$4,422,837 and \$476,232 respectively, in general and administrative expenses. The primary factor in the increase which is included in general and administrative expense was the fair value of shares and options of \$2,198,838 and \$0 for the three months ended September 30, 2014 and 2013, respectively. Administrative expense with related parties was \$0 and \$62,092 for the three month periods ended September 30, 2014 and 2013, respectively.

**Liquidity and Capital Resources****Working Capital**

Our working capital as of September 30, 2014 and March 31, 2014 was as follows:

	September 30, 2014	March 31, 2014
Current assets	\$ 1,314,668	\$ 281,322
Current liabilities	1,206,350	836,323
Working capital	\$ 108,318	\$ (555,001)



**Current Assets**

Current assets as of September 30, 2014 primarily relate to \$400,483 in cash, \$452,675 in accounts receivable and \$443,206 in inventory. Current assets as of March 31, 2014 primarily relate to \$2,665 in cash, \$166,404 in accounts receivable and \$57,965 in inventory.

**Current Liabilities**

Current liabilities as at September 30, 2014 primarily relate \$609,510 in accounts payable and \$165,949 in derivative liability. Current liabilities at March 31, 2014 primarily relate to \$320,154 in accounts payable and \$337,988 in derivative liability.

**Cash Flow**

Our cash flows for the three months ended September 30, 2014 and 2013 are as follows:

	Six months ended September 30, 2014	Six months ended September 30, 2013
Net cash used in operating activities	\$ (2,022,762)	\$ (615,394)
Net cash used in investing activities	(777,672)	(353,223)
Net cash provided by financing activities	3,198,252	1,100,000
Net increase in cash and cash equivalents	\$ 397,818	\$ 131,383

**Operating activities**

Net cash used in operating activities was \$2,022,762 for the six months ended September 30, 2014, as compared to \$615,394 used in operating activities for the six months ended September 30, 2013. The increase in net cash used in operating activities was primarily due to net loss from operations and increase in inventory.

**Investing activities**

Net cash used in investing activities was \$777,672 for the six months ended September 30, 2014, as compared to \$353,223 used in investing activities for the six months ended September 30, 2013. The increase in net cash used by investing activities was primarily from the equipment deposits to related parties.

**Financing activities**

Net cash provided by financing activities for the six months ended September 30, 2014 was \$3,198,252, as compared to \$1,100,000 for the six months ended September 30, 2013. The increase of net cash provided by financing activities was mainly attributable to capital provided through sales of our common stock.

**August 2014 Warrant Exercise**

On August 12, 2014, we entered into an agreement with Wainwright whereby Wainwright agreed to act as our exclusive agent to facilitate the exercise of the outstanding warrants on a reasonable best efforts basis. We agreed to pay Wainwright a transaction fee equal to 10% of the aggregate gross proceeds received by us in connection with the exercise of the warrants. In addition, we agreed to reimburse Wainwright \$10,000 for its legal fees and expenses, provided that no reimbursement will be payable by us to Wainwright if the exercise of the warrants results in gross proceeds to us of less than \$500,000.

On August 20, 2014, we entered into a warrant amendment agreement with certain holders of our outstanding common stock purchase warrants, whereby we agreed to reduce the exercise price of the existing warrants to \$0.10 per



share in consideration for the immediate exercise of the existing warrants by the holders and the holders were to be issued new common stock purchase warrants of our 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 \$0.125 per share, subject to adjustment in the new warrants.

On August 21, 2014, pursuant to the warrant amendment agreement, we issued an aggregate of 9,829,455 shares of our common stock upon exercise of the existing warrants at an exercise price of \$0.10 per share for aggregate gross proceeds of \$982,945.50. In addition, we issued new warrants to purchase an aggregate of 9,829,455 shares of our common stock at an exercise price of \$0.125 per share for a period of five years from the date of issuance.

#### **October 2014 Warrant Exercise**

On October 7, 2014, we entered into a warrant amendment agreement with Neil William Rogers, whereby we agreed to reduce the exercise price of the 4,699,800 share purchase warrants held by him to \$0.10 per share in consideration for the immediate exercise of the existing warrants by Mr. Rogers and Mr. Rogers was to be issued new common stock purchase warrants of our 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 Mr. Rogers, provided that the exercise price of the new warrants will be \$0.125 per share, subject to adjustment in the new warrants.

On October 7, 2014, pursuant to the warrant amendment agreement, we issued an aggregate of 4,699,800 shares of our common stock upon exercise of the existing warrants at an exercise price of \$0.10 per share for aggregate gross proceeds of \$469,980. In addition, we issued new warrants to purchase an aggregate of 4,699,800 shares of our common stock at an exercise price of \$0.125 per share for a period of two years from the date of issuance.

#### **Revolving Accounts Receivable Funding Agreement with Gibraltar Business Capital, LLC**

On February 20, 2014, our company, The Alkaline Water Company Inc., and our 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, we 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.

We assumed full risk of non-payment and unconditionally guaranteed the full and prompt payment of the full face amount of all purchased Accounts. We 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 (as defined below) 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, we agreed to pay Gibraltar interest on the 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) 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, we 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. We 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 to us, which amount will be deducted from the first cash advances.

The Initial Indebtedness is \$500,000. We may request an increase to the Initial Indebtedness in \$500,000 increments up to \$5,000,000, subject to our financial performance and/or projections are satisfactory to Gibraltar, and absent an

event of default.

We 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, we give Gibraltar notice of our intention to terminate the agreement. In addition, we 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 February 20, 2014, Gibraltar made the first cash advance in the amount of \$32,645.48. On September 30, 2014, the amount borrowed on this facility was \$129,486.

### **Lease Line of Credit Financing**

Effective as of October 28, 2014, we 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 addition, because the Lessor from time to time may be required to fund various deposits and/or partial funding for the equipment that will be placed under the lease line of credit, we are expected to pay a daily rental equal to 1/30th of the monthly lease rental payment pro-rated to the amount funded by the Lessor from the initial funding (deposit) to the initial term start date of the specific lease schedule associated with the equipment funded. A prepayment of any lease schedule is subject to all applicable state and federal tax law requirements and a 5% penalty will be assessed to the then remaining lease payments.

So long as no default has occurred, we have the option to (i) purchase all but not less than all of the equipment under this master lease for the then fair market value (which will not exceed 25% of the Lessor's capital costs); (ii) extend the lease term for a minimum of 12 months at the then renewal lease rate factor not to exceed the current monthly lease rental; or (iii) return all but not less than all of the equipment at the conclusion of the lease term along with a 5% re-stocking fee.

In connection with the entering into the master lease agreement, we paid the Lessor a one-time non-refundable commitment fee of \$12,000.

Effective as of October 28, 2014, we also entered into a warrant agreement with the Lessor, pursuant to which we agreed to issue a warrant to purchase 3,600,000 shares of our common stock to the Lessor and/or its affiliates at an exercise price of \$0.125 per share for a period of five years. 900,000 shares vested on October 28, 2014 and the remaining 270,000 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 we 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. We issued the warrant to an accredited investor. The issuance the warrant was exempt from registration pursuant to Section 4(a)(2) of the Securities Act of 1933 and Rule 506 promulgated thereunder.

Effective as of October 28, 2014, we also entered into a registration rights agreement with the Lessor, pursuant to which we gave piggyback registration right to the Lessor. Subject to certain limitations, each time that we propose to

register a public offering solely of our common stock, other than pursuant to a registration statement on Form S-4 or Form S-8, we agreed to offer the Lessor the right to request inclusion of 3,600,000 shares underlying the warrant issued under the warrant agreement with the Lessor, if such shares are not eligible for sale under Rule 144 promulgated under the Securities Act of 1933, and use our best efforts to cause such shares to be registered.

## **Cash Requirements**

We believe that our cash flows 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 \$1,100,000 to \$4,100,000, depending on how we can continue to expand the distribution of our products across the country. We will require additional cash resources to purchase equipment, increase the production of our products, implement our strategy to expand our sales and marketing initiatives and increase brand awareness. If our own financial resources and then current cash-flows from operations are insufficient to satisfy our capital requirements, we may seek to sell additional equity or debt securities or obtain additional credit facilities. The sale of additional equity securities will result in dilution to our stockholders. The incurrence of indebtedness will result in increased debt service obligations and could require us to agree to operating and financial covenants that could restrict our operations or modify our plans to grow the business. Financing may not be available in amounts or on terms acceptable to us, if at all. Any failure by us to raise additional funds on terms favorable to us, or at all, will limit our ability to expand our business operations and could harm our overall business prospects.

## **Off-Balance Sheet Arrangements**

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

## **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

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

## **Item 4. Controls and Procedures**

### **Evaluation of Disclosure Controls and Procedures**

We maintain "disclosure controls and procedures", as that term is defined in Rule 13a-15(e), promulgated by the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934. Disclosure controls and procedures include controls and procedures designed to ensure that information required to be disclosed in our company's reports filed under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to our management, including our principal executive officer and our principal 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 our principal financial officer, evaluated our company's disclosure controls and procedures as of the end of the period covered by this quarterly report on Form 10-Q. Based on this evaluation, our management concluded that as of the end of the period covered by this quarterly report on Form 10-Q, our disclosure controls and procedures were effective.

### **Changes in Internal Control Over Financial Reporting**

There were no changes in our internal control over financial reporting during the fiscal quarter ended September 30, 2014 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 June 30, 2014. There have been no material changes since June 30, 2014 from the risk factors disclosed in that Form 10-K.

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

None.

**Item 3. Defaults Upon Senior Securities.**

None.

**Item 4. Mine Safety Disclosures.**

Not applicable.

**Item 5. Other Information.**

None.

**Item 6. Exhibits.**

Exhibit

Number Description

<b>(1) Underwriting Agreement</b>	
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)
<b>(2) Plan of Acquisition, Reorganization, Arrangement, Liquidation or Succession</b>	
2.1	Share Exchange Agreement dated May 31, 2013 with Alkaline Water Corp. and its shareholders (incorporated by reference from our Current Report on Form 8-K, filed on June 5, 2013)
<b>(3) Articles of Incorporation and Bylaws</b>	
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)

10

---

- 3.6 Certificate of Designation (incorporated by reference from our Current Report on Form 8-K, filed on November 12, 2013)
- 3.7 Amended and Restated Bylaws (incorporated by reference from our Current Report on Form 8-K, filed on March 15, 2013)
- (10) 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 Private Placement Subscription Agreement dated February 21, 2013 with Alkaline 84, LLC and Bank Gutenberg AG (incorporated by reference from our Quarterly Report on Form 10-Q, filed on May 17, 2013)
- 10.3 Private Placement Subscription Agreement dated April 17, 2013 with Alkaline 84, LLC and Bank Gutenberg AG (incorporated by reference from our Quarterly Report on Form 10-Q, filed on May 17, 2013)
- 10.4 Private Placement Subscription Agreement dated May 17, 2013 with Alkaline 84, LLC and Bank Gutenberg AG (incorporated by reference from our Current Report on Form 8-K, filed on June 5, 2013)
- 10.5 Private Placement Subscription Agreement dated May 29, 2013 with Bank Gutenberg AG (incorporated by reference from our Current Report on Form 8-K, filed on June 5, 2013)
- 10.6 2013 Equity Incentive Plan (incorporated by reference from our Current Report on Form 8-K, filed on October 11, 2013)
- 10.7 Form of Securities Purchase Agreement dated as of November 4, 2013, by and among The Alkaline Water Company Inc. and the purchasers named therein (incorporated by reference from our Current Report on Form 8-K, filed on November 5, 2013)
- 10.8 Form of Registration Rights Agreement dated as of November 4, 2013, by and among The Alkaline Water Company Inc. and the purchasers named therein (incorporated by reference from our Current Report on Form 8-K, filed on November 5, 2013)
- 10.9 Form of Common Stock Purchase Warrant (incorporated by reference from our Current Report on Form 8-K, filed on November 5, 2013)
- 10.11 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)
- 10.12 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)
- 10.13 Contract Packer Agreement dated October 7, 2013 with White Water, LLC (incorporated by reference from our Quarterly Report on Form 10-Q, filed on November 13, 2013)
- 10.14 Manufacturing Agreement dated August 15, 2013 with Water Engineering Solutions, LLC (incorporated by reference from our Registration Statement on Form S-1, filed on November 27, 2013)
- 10.15 Equipment Lease Agreement dated January 17, 2014 (incorporated by reference from our Current Report on Form 8-K, filed on January 27, 2014)
- 10.16 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)
- 10.17 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)
- 10.18 Form of Common Stock Purchase Warrant (incorporated by reference from our Current Report on Form 8-K, filed on May 6, 2014)
- 10.19 Form of Placement Agent Common Stock Purchase Warrant (incorporated by reference from our Current Report on Form 8-K, filed on May 6, 2014)
- 10.20 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)
- 10.21 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)

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

- 10.22 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)
- 10.23 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)

- 10.24 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)
- 10.25 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)
- 10.26 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)
- 10.27 Form of Warrant Amendment Agreement (incorporated by reference from our Current Report on Form 8-K, filed on August 21, 2014)
- 10.28 Form of Common Stock Purchase Warrant (incorporated by reference from our Current Report on Form 8-K, filed on August 21, 2014)
- 10.29 Form of Warrant Amendment Agreement (incorporated by reference from our Current Report on Form 8-K, filed on October 9, 2014)
- 10.30 Form of Common Stock Purchase Warrant (incorporated by reference from our Current Report on Form 8-K, filed on October 9, 2014)
- 10.31 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)
- 10.32 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)
- 10.33 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)
- 10.34 2013 Equity Incentive Plan (incorporated by reference from our Current Report on Form 8-K, filed on November 4, 2014)
- 10.35 Form of Amending Agreement to Stock Option Agreement (incorporated by reference from our Current Report on Form 8-K, filed on November 4, 2014)
- (31) Rule 13a-14 Certifications**
- 31.1\* Certification of Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2\* Certification of Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- (32) Section 1350 Certifications**
- 32.1\* Certification of Principal Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 32.2\* Certification of Principal Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- (101) Interactive Data File**
- 101.INS\* XBRL Instance Document
- 101.SCH\* XBRL Taxonomy Extension Schema
- 101.CAL\* XBRL Taxonomy Extension Calculation Linkbase
- 101.DEF\* XBRL Taxonomy Extension Definition Linkbase
- 101.LAB\* XBRL Taxonomy Extension Label Linkbase
- 101.PRE\* XBRL Taxonomy Extension Presentation Linkbase

\*Filed herewith.

