

ALKALINE WATER Co INC  
Form 10-Q  
August 18, 2015

---

**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 **June 30, 2015**

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.

**134,394,622 shares of common stock issued and outstanding as of August 13, 2015.**

**THE ALKALINE WATER COMPANY INC.  
QUARTERLY PERIOD ENDED JUNE 30, 2015**

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

	<b>Page No.</b>
<b><u>PART I - FINANCIAL INFORMATION</u></b>	
<u>Item 1.</u> <u>Financial Statements</u>	<u>3</u>
<u>Item 2.</u> <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>26</u>
<u>Item 3.</u> <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>29</u>
<u>Item 4.</u> <u>Controls and Procedures</u>	
<b><u>PART II - OTHER INFORMATION</u></b>	
<u>Item 1.</u> <u>Legal Proceedings</u>	<u>30</u>
<u>Item 1A.</u> <u>Risk Factors</u>	<u>30</u>
<u>Item 2.</u> <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>30</u>
<u>Item 3.</u> <u>Defaults Upon Senior Securities</u>	<u>31</u>
<u>Item 4.</u> <u>Mine Safety Disclosures</u>	<u>31</u>
<u>Item 5.</u> <u>Other Information</u>	<u>31</u>
<u>Item 6.</u> <u>Exhibits</u>	<u>31</u>
<u>Signatures</u>	<u>35</u>

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

**THE ALKALINE WATER COMPANY INC.**  
**CONSOLIDATED BALANCE SHEETS**  
**(unaudited)**

	June 30, 2015 (Unaudited)	March 31, 2015
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash	\$ 193,955	\$ 90,113
Accounts receivable	489,586	416,373
Inventory	212,121	193,355
Prepaid Expenses	17,500	17,500
Total current assets	913,162	717,341
Fixed assets, net	1,131,721	1,199,900
Equipment deposits - related party	24,998	-
Total assets	\$ 2,069,881	\$ 1,917,241
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>		
<b>Current liabilities:</b>		
Accounts payable	\$ 760,432	\$ 562,499
Accounts payable - related party	-	43,036
Accrued expenses	171,000	160,437
Revolving financing	208,870	242,875
Current portion of capital leases	216,501	209,544
Note payable, net of debt discount	177,583	-
Convertible notes payable, net of debt discount	11,899	-
Derivative liability	363,104	194,940
Total current liabilities	1,909,389	1,413,331
<b>Long-term liabilities</b>		
Capitalize leases	204,209	233,770
Total Long-term liabilities	204,209	233,770
Total liabilities	2,113,598	1,647,101
<b>Stockholders' deficit:</b>		
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, 139,914,398 and 81,602,175 shares issued and outstanding as of June 30, 2015 and March 31, 2014, respectively	139,915	124,496
Additional paid in capital	13,003,348	11,777,994
Common stock issuable	-	-
Deficit accumulated	(13,206,980)	(11,652,350)
Total stockholders' deficit	\$ (43,717)	\$ 270,140

Total liabilities and stockholders' deficit	\$ 2,069,881	\$ 1,917,241
---	--------------	--------------

See Accompanying Notes to Condensed Consolidated Financial Statements.

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

	For the quarter ended June 30, 2015	For the quarter ended June 30, 2014
Revenue	\$ 1,513,578	\$ 572,049
Cost of goods sold	976,804	406,125
Gross profit	536,774	165,924
Operating expenses:		
Sales and marketing expenses	626,681	226,780
General and administrative	1,151,540	2,138,753
Depreciation expense	71,029	16,534
Total operating expenses	1,849,250	2,382,067
Other Income (expenses):		
Interest expense	(3,125)	(2,524)
Interest expense on redeemable preferred stock	-	(40,382)
Interest expense on capital lease	(52,566)	-
Fees paid on credit line	(11,716)	(7,057)
Amortization of debt discount	(6,583)	(414,370)
Other expenses	-	(11)
Loss on sales leaseback	-	(20,773)
Change in derivative liability	(168,164)	264,051
Total other expense	(242,154)	(221,066)
Net loss	\$ (1,554,630)	\$ (2,437,209)
Weighted average number of common shares outstanding - basic	131,870,049	94,019,973
Net loss per share - basic	\$ (0.01)	\$ (0.03)

See Accompanying Notes to Condensed Consolidated Financial Statements.

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

	For the quarter ended June 30, 2015	For the quarter ended June 30, 2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net loss	\$ (1,554,630)	(2,437,209)
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation expense	71,029	16,534
Shares issued for services	642,872	1,399,127
Amortization of debt discount	6,583	414,370
Interest expense relating to amortization of capital lease discount	25,524	-
Interest expense on redeemable preferred stock on initial issuance	-	-
Change in derivative liabilities	168,164	(264,051)
Changes in operating assets and liabilities:		
Accounts receivable	(73,213)	6,011
Inventory	(18,766)	(295,864)
Prepaid expenses and other current assets	-	(4,694)
Accounts payable	197,933	170,837
Accounts payable - related party	(43,036)	(18,403)
Accrued expenses	10,563	14,936
Accrued interest	-	(19,829)
Net cash used in operating activities	(566,977)	(1,018,235)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of fixed assets	(2,850)	(17,435)
Proceeds from sale lease back	-	208,773
Equipment Deposits - related party	(24,998)	(711,500)
Net cash used in investing activities	(27,848)	(520,162)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from notes payable	250,000	-
Proceeds from convertible notes payable	50,000	
Proceeds from revolving financing	(34,005)	46,138
Proceeds from sale of common stock, net	480,800	2,361,999
Repayment of capital lease	(48,128)	(5,204)
Repayment of redeemable preferred shares	-	(247,170)
Net cash provided by financing activities	698,667	2,155,763
NET CHANGE IN CASH	103,842	617,366
CASH AT BEGINNING OF PERIOD	90,113	2,665
CASH AT END OF PERIOD	\$ 193,955	\$ 620,031

SUPPLEMENTAL INFORMATION:

Interest paid	\$	30,167	\$	-
Income taxes paid	\$	-	\$	-

NON-CASH INVESTING AND FINANCING ACTIVITIES:

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		-		240,023

See Accompanying Notes to Condensed Consolidated Financial Statements.



**THE ALKALINE WATER COMPANY INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(unaudited)**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Basis of presentation

The interim condensed 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 June 30, 2014 and notes thereto included in the Company's Annual Report on Form 10-K dated June 30, 2014 and Company's Annual Report on Form 10-K dated July 14, 2015. 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 June 30, 2015, the consolidated financial statements include the accounts of Alkaline Water Corp. (an Arizona Corporation) and Alkaline 88 LLC (formerly Alkaline 84, LLC) (an Arizona Limited Liability Company). For the period from April 1, 2013 to December 31, 2013 the consolidated financial statements include the accounts of The Alkaline Water Company Inc. (a Nevada Corporation), Alkaline Water Corp. (an Arizona Corporation) and Alkaline 84, LLC (an Arizona Limited Liability Company).

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

Use of Estimates

The preparation of financial statements in conformity with 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 \$193,955 and \$90,113 in cash and cash equivalents at June 30, 2015 and March 31, 2015, 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 June 30, 2015 and March 31, 2015:

	<u>June 30,</u> <u>2015</u>	<u>March 31,</u> <u>2015</u>
Trade receivables	\$ 500,075	\$ 426,862
Less: Allowance for doubtful accounts	(10,489)	(10,889)
Net accounts receivable	\$ 489,586	\$ 416,373

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 June 30, 2015 and March 31, 2015 inventory consisted of the following:

	<u>June 30,</u> <u>2015</u>	<u>March 31,</u> <u>2015</u>
Raw materials	\$ 151,487	\$ 145,329
Finished goods	60,634	48,026
Total inventory	\$ 212,121	\$ 193,355

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

Equipment	5 years
Equipment under capital lease	3 years or term of the lease

Stock-based Compensation

The Company accounts for stock-based compensation to employees in accordance with Accounting 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 3 major customers that together account for 53% (25%, 17%, 11%, respectively) of accounts receivable at June 30, 2015, and 4 customers that together account for 52% (17% 14%, 11%, and 10%, respectively) of the total revenues earned for the three month ending June 30, 2015.

The Company has 5 vendors that accounted for 85% (22%, 18%, 17%, 17% and 11%, respectively) of purchases for the three months ending June 30, 2015.

The Company has 4 major customers that together account for 64% (23%, 18%, 12% and 11%, respectively) of accounts receivable at March 31, 2015, and 3 customers that together account for 47% (14%, 12%, and 11%, respectively) of the total revenues earned for the year ended March 31, 2015.



The Company has 5 vendors that accounted for 77% (19%, 16%, 16%, 15% and 11%, respectively) of purchases for the year ended March 31, 2015.

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

During the three months ended June 30, 2015 and through August 10, 2015, there were several new accounting pronouncements issued by the Financial Accounting Standards Board. Each of these pronouncements, as applicable, has been or will be adopted by the Company. Management does not believe the adoption of any of these accounting pronouncements has had or will have a material impact on the Company s condensed consolidated financial statements.

**NOTE 2 GOING CONCERN**

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern, which contemplates the recoverability and/or acquisition and sale of assets and the satisfaction of liabilities in the normal course of business. Since its inception, the Company has been engaged substantially in financing activities, developing its business plan and building its initial customer and distribution base for its products. As a result, the Company incurred accumulated net losses from Inception (June 19, 2012) through the period ended June 30, 2015 of \$(13,206,980). In addition, the Company s development activities since inception have been financially sustained through debt and equity financing.

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

**NOTE 3 PROPERTY AND EQUIPMENT**

Fixed assets consisted of the following at:

	<b>June 30, 2015</b>	<b>March 31, 2015</b>
Machinery and Equipment	\$ 628,616	\$ 625,766
Machinery under Capital Lease	735,781	735,781
Office Equipment	53,631	53,631
Leasehold Improvements	3,979	3,979
Less: Accumulated Depreciation	(290,286)	(219,257)
Fixed Assets, net	\$ 1,131,721	\$ 1,199,900

Depreciation expense for the three month periods ending June 30, 2015 and 2014 was \$71,029 and \$16,534, respectively.

#### **NOTE 4 EQUIPMENT DEPOSITS RELATED PARTY**

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 \$690,000 on May 1 2014 for specialized equipment used in the production of our alkaline water. Under this agreement, 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, August 22, 2014 \$100,000, October 14, 2014 \$70,000, November 4, 2014 \$7,676 and November 7, 2014 \$5,002. The Company received equipment valued at \$274,769 and reduced the deposit on equipment. During the three month period ending June 30, 2015 the company made a net deposit on equipment of \$24,998 to Water Engineering Solutions. Water Engineering Solutions LLC is an entity that is controlled and majority owned by Steven P. Nickolas and Richard A. Wright for the production of our alkaline water.

#### **NOTE 5 REVOLVING FINANCING**

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

The Company assumed full risk of non-payment and unconditionally guaranteed the full and prompt payment of the full face amount of all purchased accounts. 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, 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 prepayment. The amount borrowed on this facility as of June 30, 2015 was \$208,870 and as of March 31, 2015 was \$242,875.

## NOTE 6 DERIVATIVE LIABILITY

On November 7, 2013, we sold to certain institutional investors 10% Series B Convertible Preferred Shares which are subject to mandatory redemption and include down-round provisions that reduce the exercise price of a warrant and convertible instrument. As required by ASC 815 Derivatives and Hedging , if the Company either issues equity shares for a price that is lower than the exercise price of those instruments or issues new warrants or convertible instruments that have a lower exercise price, the 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, 2014 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 a \$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.



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

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. 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>Conversion feature</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:



**Existing Warrants**

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 March 31, 2015 is as follows:

**Warrants (including placement agent)**

Stock price	\$	0.1081
Term (Years)		4 to 5
Volatility		148%
Exercise prices	\$	0.55 to 0.125
Dividend yield		0%

During the period ended June 30, 2015 the Company issued shares of stock at \$0.07 which reduced the exercise price of the Existing Warrants.

The range of significant assumptions which the Company used to measure the fair value of warrant liabilities (a level 3 input) at June 30, 2015 is as follows:

**Warrants (including placement agent)**

Stock price	\$	0.128
Term (Years)		4 to 5
Volatility		140%
Exercise prices	\$	0.55 to 0.07
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, 2014.

**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

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, 2014.

**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 March 31, 2015.

## Fair Value Measurement at March 31, 2015

	Carrying Value at March 31, 2015	Level 1	Level 2	Level 3
<b>Liabilities:</b>				
Derivative convertible debt liability	\$ -	\$ -	\$ -	\$ -
Derivative warrant liability convertible preferred stock	\$ 176,486	\$ -	\$ -	\$ 176,486
Derivative warrants liability on common stock issuance				
including placement agent warrants	\$ 18,454	\$ -	\$ -	\$ 18,454
Total derivative liability	\$ 194,940	\$ -	\$ -	\$ 194,940

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 June 30, 2015.

## Fair Value Measurement at June 30, 2015

	Carrying Value at June 30, 2015	Level 1	Level 2	Level 3
<b>Liabilities:</b>				
Derivative convertible debt liability	\$ -	\$ -	\$ -	\$ -
Derivative warrant liability convertible preferred stock	\$ 336,841	\$ -	\$ -	\$ 336,841
Derivative warrants liability on common stock issuance				
including placement agent warrants	\$ 26,262	\$ -	\$ -	\$ 26,262
Total derivative liability	\$ 363,103	\$ -	\$ -	\$ 363,103

The Company analyzed the warrants and conversion feature under ASC 815 Derivatives and Hedging to determine the derivative liability. The Company estimated the fair value of these derivatives using a multinomial distribution (Lattice) valuation model. The fair value of these warrant liabilities at March 31, 2015 was \$194,940 and the conversion feature liability was \$0. At June 30, 2015 the fair value of these warrant liabilities was \$363,103 and the conversion feature liability was \$0. Changes in the derivative liability for the period ended June 30, 2015 consist of:

	Three Months Ended June 30, 2015
Derivative liability at March 31, 2015	\$ 194,940
Change in derivative liability mark to market	168,164
Derivative liability at March 31, 2015	\$ 363,103

**NOTE 7 PREFERRED SHARES SUBJECT TO MANDATORY REDEMPTION**Convertible preferred shares

On November 7, 2013, the Company sold to certain institutional investors an aggregate of 500 shares of our 10% Series B Convertible Preferred Stock ( Series B Preferred Stock ) at a stated value of \$1,000 per share of Series B Preferred Stock for gross proceeds of \$500,000. Additionally the investors also received Series A, Series B and Series C common stock purchase warrants. The Series A warrants will be exercisable into 1,162,791 shares of our common stock at an exercise price of \$0.55 per share, the Series B warrants will be exercisable into 1,162,791 shares of our



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

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 December 31, 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.

### **Preferred Shares**

On October 7, 2013, the Company amended its articles of incorporation to create 100,000,000 shares of preferred stock by filing a Certificate of Amendment to Articles of Incorporation with the Secretary of State of 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 year ended March 31, 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.

*Sale of Restricted Shares*

During the period from May 7, 2015 through June 30, 2015 the Company sold units of our securities at a price of \$0.07 per unit. Each unit consists of one share of our common stock and one non-transferable common stock purchase warrant, with each common stock purchase warrant entitling the holder to acquire one additional share of our common stock at a price of \$0.10 per share for a period of two years. The Company sold 6,868,572 units during the period ended June 30, 2015 consisting of 6,868,572 shares of common stock and 6,868,572 warrants for gross proceeds of \$480,800.

The evaluated these transaction using ASC 480-10 *Distinguishing liabilities from equity* and ASC 505 -10 *Equity* . The Company sold 6,868,572units and issued 6,868,572shares of common stock and issued 6,868,572warrants. The warrant was valued using the Black-Scholes option pricing model with the following assumptions:

Market value of stock on purchase date	\$0.075	to	\$0.142
Risk-free interest rate	.59%	to	.72%
Dividend yield		0.00%	
Volatility factor	121%	to	121%
Weighted average expected life (years)		2	

The proceeds were allocated as follows:

Common stock	\$	253,793
Warrant		227,007
Total Proceeds	\$	480,800

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.

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.

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.

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

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 a 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.

On October 1, 2014, the Company issued 40,000 common shares to consultant for services rendered that were valued at the market value on that date of \$0.113 per share.

On February 18, 2015, the Company issued 50,000 common shares to consultant for services rendered that were valued at the market value on that date of \$0.07 per share.

On February 18, 2015, the Company issued 1,225,000 common shares to consultants for services rendered that were valued at the market value on that date of \$0.10 per share.

On February 18, 2015, the Company issued 3,550,000 common shares to employees for services rendered that were valued at the market value on that date of \$0.10 per share.

On April 7, 2015, the Company issued 2,000,000 restricted common shares to consultant for services rendered that were valued at the market value on that date of \$0.070 per share.

On April 10, 2015, the Company issued 1,500,000 restricted common shares to consultant for services rendered that were valued at the market value on that date of \$0.097 per share.

On April 27, 2015, the Company issued 2,000,000 restricted common shares to consultant for services rendered that were valued at the market value on that date of \$0.080 per share.

On May 1, 2015, the Company issued 250,000 restricted common shares to consultant for services rendered that were valued at the market value on that date of \$0.080 per share.

On May 6, 2015, the Company issued 300,000 restricted common shares to consultant for services rendered that were valued at the market value on that date of \$0.097 per share.

On June 15, 2015 the Company issued 1,500,000 restricted common shares to consultant for services rendered that were valued at the market value on that date of \$0.094 per share.

Common Stock Issued for in conjunction with Notes

On May 22, 2015, the Company issued 1,000,000 restricted common shares in conjunction with a \$250,000 note payable that were valued at the market value on that date of \$0.079 per share.

## **NOTE 9 OPTIONS AND WARRANTS**

### Stock Option Awards

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.

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 December 31, 2014, 116,250 stock options vest on December 31, 2014 and 85,000 stock options vest on December 31, 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 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 December 31, 2014, 62,500 stock options vest on December 31, 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 October 31, 2014, the Company amended the 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 on October 9, 2013 to Steven P. Nickolas and Richard A. Wright, our directors and executive officers, to \$0.15 per share and extended the exercise date to October 9, 2023.

On February 18, 2015, the Company reduced the exercise price of an aggregate of 1,600,000 stock options granted on to Steven P. Nickolas and Richard A. Wright, our directors and executive officers, to \$0.115 per share an exercise date to February 18, 2020, with vested immediately.

On February 18, 2015, the Company granted a total of 1,300,000 stock options to employees and consultants. The stock options are exercisable at the exercise price of \$0.10 per share for a period of ten years from the date of grant. 887,500 stock options vested by March 31, 2015, 137,500 stock options vest on June 30, 2015, 137,500 stock options vest on September 30, 2015 and 137,500 stock options vest on December 31, 2015.

For the three month period ended June 30, 2015 and June 30, 2014 the Company has recognized compensation expense of \$12,912 and \$1,206,877, respectively, on the stock options granted that vested. The fair value of the unvested shares is \$25,824 as of June 30, 2015. The aggregate intrinsic value of these options was \$7,673 at June 30,

2015. Stock option activity summary covering options is presented in the table below:

	Number of Shares	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Term (years)
Outstanding at March 31, 2014	6,000,000	\$ 0.61	8.8
Granted	17,352,000	\$ 0.14	9.1
Exercised	(182,000)	\$ 0.01	9.5
Expired/Forfeited	(6,000,000)	\$ -	8.5
Outstanding at March 31, 2015	17,170,000	\$ 0.14	8.5
Granted	-	-	-
Exercised	-	-	-
Expired/Forfeited	-	\$ -	-
Outstanding at June 30, 2015	17,170,000	0.14	7.7
Exercisable at June 30, 2015	16,832,500	\$ 0.14	8.5

Warrants

The following is a summary of the status of all of our warrants as of June 30, 2015 and changes during the period ended on that date:

	Number of Warrants	Weighted- Average Exercise Price
Outstanding at March 31, 2014	8,310,415	\$ 0.52
Granted	29,249,253	0.13
Exercised	(14,529,256)	(0.31)
Cancelled	-	0.00
Outstanding at March 31, 2015	23,030,412	0.14
Granted	7,582,858	0.10
Exercised	-	-
Cancelled	-	-
Outstanding at June 30, 2015	30,613,270	0.13
Warrants exercisable at June 30, 2015	28,896,530	\$ 0.13

The following table summarizes information about stock warrants outstanding and exercisable at June 30, 2015:

**STOCK WARRANTS OUTSTANDING AND EXERCISABLE**

Exercise Price	Number of Warrants Outstanding	Weighted- Average Remaining Contractual Life in Years
\$0.1000	10,966,118	2.2
\$ 0.12500	14,529,255	3.7
\$ 0.1875	953,333	3.8
\$ 0.2500	2,325,582	1.7
\$ 0.5500	116,279	.1
\$ 0.6000	5,963	2.2

The Company agreed to reduce the exercise price of certain existing warrants to \$0.10 per share in consideration for the immediate exercise of the existing warrants by the holders. As consideration, the holders were issued new common stock purchase warrants of the Company 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.

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

On October 7, 2014, pursuant to a Warrant Amendment Agreement, the Company issued an aggregate of 4,699,800 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 \$469,980. Simultaneously, the Company issued new warrants to purchase an aggregate of 4,699,800 shares of our common stock with a term of 5 years and exercise price of \$0.125 per warrant share. The Company recorded this issuance in additional paid-in capital.

On October 22, 2014, the Company entered into a master lease agreement with Veterans Capital Fund, LLC (the Lessor) for the secured lease line of credit financing in an amount not to exceed \$600,000. The lease is expected to be secured by three new alkaline generating electrolysis system machines. Our wholly-owned subsidiary, Alkaline 88, LLC, and Water Engineering Solutions, LLC acted as co-lessees. Water Engineering Solutions, LLC is an entity that is controlled and owned by our President, Chief Executive Officer, director and major stockholder, Steven P. Nickolas, and our Vice-President, Secretary, Treasurer and director, Richard A. Wright. Pursuant to the master lease agreement, the Lessor agreed to lease to us the equipment described in any equipment schedule signed by us and approved by the Lessor. It is expected that any lease under the master lease agreement will be structured for a three year lease term with fixed monthly lease rental payments based on a monthly lease rate factor of 3.4667% of the Lessor's capital cost. In connection with the entering into the master lease agreement, the Company also entered into a warrant agreement with the Lessor, pursuant to which the Company agreed to issue a warrant to purchase 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 February 25, 2015, the Company amended the master lease agreement with Veterans Capital Fund, LLC for the increase in the secured lease line of credit financing to an amount not to exceed \$800,000. The lease was secured by new alkaline generating electrolysis system machines by our wholly-owned subsidiary, Alkaline 88, LLC, and Water Engineering Solutions, LLC. Water Engineering Solutions, LLC is an entity that is controlled and owned by our President, Chief Executive Officer, director and major stockholder, Steven P. Nickolas, and our Vice-President, Secretary, Treasurer and director, Richard A. Wright. Pursuant to the master lease agreement, the Lessor agreed to lease to us the equipment described in any equipment schedule signed by us and approved by the Lessor. It is expected that any lease under the master lease agreement will be structured for a three year lease term with fixed monthly lease rental payments based on a monthly lease rate factor of 3.4667% of the Lessor's capital cost. In connection with the entering into the master lease agreement, the Company entered into a warrant agreement with the Lessor, pursuant to which the Company agreed to cancel the previous issued warrant for 3,600,000 and issue a warrant to purchase 5,100,000 shares of our common stock to the Lessor and/or its affiliates at an exercise price of \$0.10 per share for a period of five years. 900,000 shares vested on October 22, 2014, 665,822 shares on October 28, 2014, 680,277 shares on December 22, 2014, 347,271 shares on February 3, 2015 and 789,940 shares on March 5, 2015. The remaining 905,267 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 draw on 90% or more of the total lease line under the master lease agreement, then all such shares will be deemed to be vested. The Company recorded the bifurcated value of \$309,028 of the warrants issued as additional paid in capital, the value was determined using a Black-Scholes, a level 3 valuation measure.

On June 29, 2015 the Company entered into a \$50,000 Convertible promissory note was convertible into Common stock at \$0.07 per share. The Convertible promissory note had an 8% annual interest rate, 1 year term and rights to 714,286 warrants with a two year term an exercise price of \$0.10 per share. The Company evaluated this transaction under ASC 470-20-30 *Debt liability and equity component* determine that a accretion of \$38,101 was provided and will be amortized over the 1 year term of the note. As of June 30, 2015 \$0 was amortized. The Company determine that the bifurcated value of the transaction was:

Notes payable	\$	11,899
Intrinsic value of Conversion right Common stock		23,798
Fair value of the warrant		14,303
Total proceeds	\$	50,000

The fair value of the warrants granted during the period ended June 30, 2015 was estimated at the date of master lease agreement using the Black-Scholes option-pricing model and a level 3 valuation measure, with the following assumptions:

Market value of stock on purchase date	\$0.075	to	\$0.142
Risk-free interest rate	.59%	to	.72%
Dividend yield		0.00%	
Volatility factor	121%	to	121%
Weighted average expected life (years)		2	

#### NOTE 10 RELATED PARTY TRANSACTIONS

On October 31, 2014, the Company amended the 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 to 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	New Exercise		Expiration Date	Number of Stock Options
		Old Exercise Price per Share	Price per Share		
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

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 3,000,000 stock options will vest on November 21, 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.

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 year ended March 31, 2014.



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 and that was 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.

As of March 31, 2014, the Company had \$0 in equipment deposits with an entity that is controlled and owned by an officer, director and shareholder of the Company. During the year ended March 31, 2014, the Company provided \$201,900 of deposits on equipment used to produce our alkaline water to an entity that is controlled and owned by an officer, director and shareholder of the Company. During the month of March 2014, these funds were returned to the Company.

During the year ended March 31, 2014 the Company acquired equipment of \$208,773 and \$10,287 from an entity that is controlled and majority-owned by an officer, director and shareholder of the Company.

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 totaling \$190,756 and agreed to a 60-month term at \$2,512 per month and a final payment of \$28,585. On February 12, 2014 the Company amended this lease, as noted above, with equipment deposits of \$201,900 being returned to the Company. In addition the lease terms were amended to 60 monthly payments of \$3,864, payable 30 days after installation of the equipment and a purchase option of \$1.00.

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.

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 \$690,000 on May 1 2014 for specialized equipment used in the production of our alkaline water. Under this agreement, 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, August 22, 2014 \$100,000, October 14, 2014 \$70,000, November 4, 2014 \$7,676 and November 7, 2014 \$5,002. The Company received equipment valued at \$278,769 and reduced the deposit on equipment. Water Engineering Solutions, LLC is an entity that is controlled and majority owned by Steven P. Nickolas and Richard A. Wright for the production of our alkaline water.

During the year ended March 31, 2014, the Company had a total of \$62,092, in general and administrative expenses with related parties. Of that total for year ended March 31, 2014, \$33,592 was consulting fees to an officer, director and shareholder of the Company, \$12,000 was rent to an entity that is controlled and owned by an officer, director and shareholder of the Company and \$16,500 was professional fees to an entity that is controlled and owned by an officer, director and shareholder.

During the year ended March 31, 2014, the Company recorded as other related party income a total of \$40,029 to an entity that is controlled and owned by an officer, director and shareholder of the Company. The income reflects the Company's estimate of vehicle rent and labor of an employee when utilized by the related party.

#### **NOTE 11 INCOME TAXES**

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The Company recorded the valuation allowance due to the uncertainty of future realization of federal and state net operating loss carryforwards.

The deferred income tax assets are comprised of the following at March 31:

22

---

	<u>2015</u>	<u>2014</u>
Deferred income tax assets:	\$ 1,270,000	\$ 260,000
Valuation allowance	(1,270,000)	(260,000)
Net total	\$ -	\$ -

At March 31, 2014, the Company had net operating loss carryforwards of approximately \$3,190,000 and net operating loss carryforwards expire in 2023 through 2034.

The valuation allowance was increased by \$1,010,000 during the year ended March 31, 2015. The current income tax benefit of \$1,270,000 and \$260,000 generated for the years ended March 31, 2015 and 2014, respectively, was offset by an equal increase in the valuation allowance. The valuation allowance was increased due to uncertainties as to the Company's ability to generate sufficient taxable income to utilize the net operating loss carryforwards and other deferred income tax items.

The Company recognizes interest and penalties related to uncertain tax positions in general and administrative expense. As of June 30, 2015, the Company has no unrecognized uncertain tax positions, including interest and penalties.

## **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, the Company 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.

On October 22, 2014 the Company agreed to purchase the specialized equipment use to make our alkaline water that were previously reflected as capital lease on January 17, 2014 and April 2, 2014. During the quarter ended December 31, 2014, the Company purchased these capital leases of specialized equipment for \$347,161, the lease liability on the date of purchase.

On October 22, 2014, the Company entered into a master lease agreement with Veterans Capital Fund, LLC (the Lessor) for the secured lease line of credit financing in an amount not to exceed \$600,000. The lease is expected to be secured by three new alkaline generating electrolysis system machines. Our wholly-owned subsidiary, Alkaline 88, LLC, and Water Engineering Solutions, LLC acted as co-lessees. Water Engineering Solutions, LLC is an entity that is controlled and owned by our President, Chief Executive Officer, director and major stockholder, Steven P. Nickolas, and our Vice-President, Secretary, Treasurer and director, Richard A. Wright. Pursuant to the master lease agreement, the Lessor agreed to lease to us the equipment described in any equipment schedule signed by us and approved by the Lessor. It is expected that any lease under the master lease agreement will be structured for a three year lease term with fixed monthly lease rental payments based on a monthly lease rate factor of 3.4667% of the Lessor's capital cost. In connection with the entering into the master lease agreement, the Company also entered into a warrant agreement with the Lessor, pursuant to which the Company agreed to issue a warrant to purchase 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 February 25, 2015, the Company amended the master lease agreement with Veterans Capital Fund, LLC for the increase in the secured lease line of credit financing to an amount not to exceed \$800,000. The lease was secured by

new alkaline generating electrolysis system machines by our wholly-owned subsidiary, Alkaline 88, LLC, and Water Engineering Solutions, LLC. Water Engineering Solutions, LLC is an entity that is controlled and owned by our President, Chief Executive Officer, director and major stockholder, Steven P. Nickolas, and our Vice-President, Secretary, Treasurer and director, Richard A. Wright. Pursuant to the master lease agreement, the Lessor agreed to lease to us the equipment described in any equipment schedule signed by us and approved by the Lessor. It is expected that any lease under the master lease agreement will be structured for a three year lease term with fixed monthly lease rental payments based on a monthly lease rate factor of 3.4667% of the Lessor's capital cost. In connection with the entering into the master lease agreement, the Company entered into a warrant agreement with the Lessor, pursuant to which the Company agreed to cancel the previous issued warrant for 3,600,000 and issue a warrant to purchase 5,100,000 shares of our common stock to the Lessor and/or its affiliates at an exercise price of \$0.10 per share for a period of five years. 900,000 shares vested on October 22, 2014, 665,822 shares on October 28, 2014, 680,277 shares on December 22, 2014, 347,271 shares on February 3, 2015 and 789,940 shares on March 5, 2015. The remaining 905,267 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 draw on 90% or more of the total lease line under the master lease agreement, then all such shares will be deemed to be vested. The Company recorded the bifurcated value of \$309,028 of the warrants issued as additional paid in capital, the value was determine using a Black-Scholes, a level 3 valuation measure.



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

#### NOTE 13 NOTES PAYABLE

On May 11, 2015, the Company entered into a securities purchase agreement with Assurance Funding Solutions LLC, pursuant to which the Company issued a secured term note of our company in the aggregate principal amount of \$250,000, together with 1,000,000 shares of our common stock, in consideration for \$250,000. The secured term note bears interest at the rate of 15% per annum and matures on May 11, 2016. We may prepay the note by paying the holder 110% of the principal amount outstanding together with accrued but unpaid interest thereon, provided that we provide written notice to the holder at least 30 days prior to the date of prepayment. Pursuant to the securities purchase agreement, we paid Assurance Funding Solutions LLC \$10,000 for legal fees incurred by it and granted it piggyback registration rights. In connection with the securities purchase agreement, we also entered into a general security agreement dated May 11, 2015 with Assurance Funding Solutions LLC. The Company evaluated this transaction under ASC 470-20-30 *Debt liability and equity component* determine that a Debt Discount of \$79,000 was provided and will be amortized over the 1 year term of the note. As of June 30, 2015 \$72,417 was unamortized and amortization of debt discount for the three months period was \$6,583.

#### NOTE 14 CONVERTIBLE NOTES PAYABLE

On June 29, 2015 the Company entered into a \$50,000 Convertible promissory note was convertible into Common stock at \$0.07 per share. The Convertible promissory note had an 8% annual interest rate, 1 year term and rights to 714,286 warrants with a two year term an exercise price of \$0.10 per share. The Company evaluated this transaction under ASC 470-20-30 *Debt liability and equity component* determine that an accretion of \$38,101 was provided and will be amortized over the 1 year term of the note. As of June 30, 2015 \$0 was amortized. The Company determine that the bifurcated value of the transaction was:

Notes payable	\$	11,899	
Intrinsic value of Conversion right Common stock		23,798	
Fair value of the warrant		14,303	
Total proceeds	\$	50,000	

#### NOTE 15 SUBSEQUENT EVENTS

During the period from July 1, 2015 through July 16, 2015 the Company sold units of our securities at a price of \$0.07 per unit. Each unit consists of one share of our common stock and one non-transferable common stock purchase warrant, with each common stock purchase warrant entitling the holder to acquire one additional share of our common stock at a price of \$0.10 per share for a period of two years. The Company sold 1,071,429 units during the period ended June 30, 2015 consisting of 1,071,429 shares of common stock and 1,071,429 warrants for \$75,000 proceeds.

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

Between July 1, 2015 and July 16, 2015 the Company entered into \$100,000 of Convertible promissory note were convertible into Common stock at \$0.07 per share. The Convertible promissory note had an 8% annual interest rate, 1 year term and rights to 1,428,572 warrants with a two year term an exercise price of \$0.10 per share.

Between July 16, 2015 and August 11, 2015 1,338,797 warrants were exercised in a cashless exercise and 1,457,771 warrants were forfeited.

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations****Forward-Looking Statements**

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

Forward-looking statements may include the words may, could, estimate, intend, continue, believe, anticipate or other similar words. These forward-looking statements present our estimates and assumptions only as of the date of this report. Accordingly, readers are cautioned not to place undue reliance on forward-looking statements, which speak only as of the dates on which they are made. Except as required by applicable law, including the securities laws of the United States, we do not intend, and undertake no obligation, to update any forward-looking statement.

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

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

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

**Results of Operations**

Our results of operations for the three months ended June 30, 2015 and June 30, 2014 are as follows:

	<b><u>For the three months ended June 30, 2015</u></b>	<b><u>For the three months ended June 30, 2014</u></b>
Revenue	\$ 1,513,578	\$ 572,049
Cost of goods sold	976,804	406,125
Gross profit	536,774	165,924
Net Loss (after operating expenses and other expenses)	\$ (1,554,630)	\$ (2,437,209)



*Revenue and Cost of Goods Sold*

We had revenue from sales of our product for the three months ended June 30, 2015 of \$1,513,578, as compared to \$572,049 three months ended June 30, 2014, an increase of 164% generated by sales of our alkaline water. The increase in sales is due to the expanded distribution of our products to additional retailers throughout the country. As of June 30, 2015, the product is now available in all 50 states at an estimated 17,500 retail locations. As of December 31, 2013 the product was in 5 states and only 500 stores. This increase has occurred primarily through the addition of 36 of the top national grocery retailers as customer. The Company distributes its product through several channels. The Company sells through large national distributors (UNFI, KeHe, Tree of Life, C&S, Core-Mark and Nature's Best), which together represent over 150,000 retail outlets. The Company also sells its product directly to retail clients, including convenience stores, natural food products stores, large ethnic markets and national retailers. Some examples of retail clients are, Albertson's, Safeway, Kroger, Schnucks, Smart & Final, Jewel-Osco, Sprouts, Bashas, Stater Bros. Markets, Unified Grocers, Bristol Farms, Vallarta, Superior Foods, Ingles, HEB and Brookshire's.

Cost of goods sold is comprised of production costs, shipping and handling costs. For the three months ended June 30, 2015, we had cost of goods sold of \$976,804, or 64.5% of net sales, as compared to cost of goods sold of \$406,125 or 71% of net sales, for three months ended June 30, 2014. The increase in gross profit is a result of reduced raw material cost through greater volume purchases from our suppliers.

*Expenses*

Our operating expenses for the three months ended June 30, 2015 and June 30, 2014 are as follows:

	<b><u>For the three months ended June 30, 2015</u></b>	<b><u>For the three months ended June 30, 2014</u></b>
Sales and marketing expenses	\$ 626,681	\$ 226,780
General and administrative expenses	1,151,540	2,138,753
General and administrative expenses related party	-	-
Depreciation expenses	71,029	16,534
Total operating expenses	\$ 1,849,250	\$ 2,382,067

During the for the three months ended June 30, 2015, our total operating expenses were \$1,849,250, as compared to \$2,382,067 for the three months ended June 30, 2014.

For the three months ended June 30, 2015, the total included \$626,681 of sales and marketing expenses and \$1,151,540 of general and administrative expenses, consisting primarily of approximately \$642,872 of stock option compensation expense, and \$103,540 of professional fees. Our stock and stock option compensation expense was incurred as a part of our issuance of certain stock options and stock grants to employees and key consultants to develop our business. Although a non-cash expense, the value of such issuances had a material impact on our general and administrative expenses for the three months ended June 30, 2015.

For the three months ended June 30, 2014 the total included \$226,780 of sales and marketing expenses and \$2,138,753 of general and administrative expenses, consisting primarily of approximately \$1,399,127 of shares stock option compensation expense, and \$219,396 of professional fees. Our stock and stock option compensation expense was incurred as a part of our issuance of certain stock options and stock grants to employees and key consultants to develop our business. Although a non-cash expense, the value of such issuances had a material impact on our general and administrative expenses for the three months ended June 30, 2014.



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

	<u>June 30, 2015</u>	<u>March 31, 2015</u>
Current assets	\$ 913,162	\$ 717,341
Current liabilities	1,909,389	1,413,331
Working capital (deficiency)	\$ (996,227)	\$ (695,990)

*Current Assets*

Current assets as of June 30, 2015 and March 31, 2015 primarily relate to \$193,955 and \$90,113 in cash, \$489,586 and \$416,373 in accounts receivable and \$212,121 and \$193,355 in inventory, respectively.

*Current Liabilities*

Current liabilities as of June 30, 2015 and March 31, 2015 primarily relate to \$760,432 and \$562,498 in accounts payable, revolving financing of \$208,870 and \$242,875 and \$363,104 and \$194,940 in derivative liability, note payable of \$177,583 and \$0, current portion of capital leases of \$216,501 and \$209,544 and accrued expenses of \$171,000 and \$160,437 respectively.

*Cash Flow*

Our cash flows for the years ended June 30, 2015 and June 30, 2014 are as follows:

	<u>For the three months ended June 30, 2015</u>	<u>For the three months ended June 30, 2014</u>
Net Cash used in operating activities	\$ (566,977)	\$ (1,018,235)
Net Cash used in investing activities	(27,848)	(520,162)
Net Cash provided by financing activities	698,667	2,155,763
Net increase in cash and cash equivalents	\$ 103,842	\$ 617,366

*Operating Activities*

Net cash used in operating activities was \$566,977 for the three months ended June 30, 2015, as compared to \$1,018,235 used in operating activities for the three months ended June 30, 2014. The decrease in net cash used in operating activities was primarily due to reduction in inventory build, and better overall cash management.

*Investing Activities*

Net cash used in investing activities was \$27,848 for the three months ended June 30, 2015, as compared to \$520,162 used in investing activities for the three months ended June 30, 2014. The decrease in net cash used by investing activities was the result of no purchases of production equipment during the three months ended June 30, 2015.

*Financing Activities*

Net cash provided by financing activities for the three months ended June 30, 2015 was \$698,667, as compared to \$2,155,763 for the three months ended June 30, 2014. The decrease of net cash provided by financing activities was mainly attributable to reduced sales of our common stock.





*2015 Private Placement financing*

During the three months ended June 30, 2015, we sold an aggregate of 6,868,572 units of our securities at a price of \$0.07 per unit for aggregate gross proceeds of \$480,800. Each unit consists of one share of our common stock and one non-transferable common stock purchase warrant, with each common stock purchase warrant entitling the holder to acquire one additional share of our common stock at a price of \$0.10 per share for a period of two years.

Subsequent to June 30, 2015, we sold an aggregate of 1,071,429 units of our securities at a price of \$0.07 per unit for aggregate gross proceeds of \$75,000. Each unit consists of one share of our common stock and one non-transferable common stock purchase warrant, with each common stock purchase warrant entitling the holder to acquire one additional share of our common stock at a price of \$0.10 per share for a period of two years.

*Convertible notes payable*

Through July 16, 2015 we entered into several Convertible promissory note with 8% interest, 1 year term for \$150,000 and issue 2,134,858 warrants with a two year term with an exercise price of \$0.10 per share and convertible into Common stock at \$0.07 per share.

*2015 Secured Notes*

On May 11, 2015, we entered into a securities purchase agreement with Assurance Funding Solutions LLC, pursuant to which we sold a secured term note of our company in the aggregate principal amount of \$250,000, together with 1,000,000 shares of our common stock, in consideration for \$250,000. The secured term note bears interest at the rate of 15% per annum and matures on May 11, 2016. We may prepay the note by paying the holder 110% of the principal amount outstanding together with accrued but unpaid interest thereon, provided that we provide written notice to the holder at least 30 days prior to the date of prepayment. Pursuant to the securities purchase agreement, we paid Assurance Funding Solutions LLC \$10,000 for legal fees incurred by it and granted it piggyback registration rights. In connection with the securities purchase agreement, we also entered into a general security agreement dated May 11, 2015 with Assurance Funding Solutions LLC.

**Cash Requirements**

We believe that cash flow from operations will not meet our present and near-term cash needs and thus we will require additional cash resources, including the sale of equity or debt securities, to meet our planned capital expenditures and working capital requirements for the next 12 months. We estimate that our capital needs over the next 12-month will be \$1,000,000 to \$3,000,000. We will require additional cash resources to, among other things, increase manufacturing capacity, expand retail distribution and add support staff. If our own financial resources and future cash-flows from operations are insufficient to satisfy our capital requirements, we may seek to sell additional equity or debt securities or obtain additional credit facilities. The sale of additional equity securities will result in dilution to our stockholders. The incurrence of indebtedness will result in increased debt service obligations and could require us to agree to operating and financial covenants that could restrict our operations or modify our plans to grow the business. Financing may not be available in amounts or on terms acceptable to us, if at all. Any failure by us to raise additional funds on terms favorable to us, or at all, will limit our ability to expand our business operations and could harm our overall business prospects.

**Off-Balance Sheet Arrangements**

We have no off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to our stockholders.

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

Not applicable.

**Item 4. Controls and Procedures**

## **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 June 30, 2015 that have materially affected, or are reasonably likely to materially affect our internal control over financial reporting.

## **PART II OTHER INFORMATION**

### **Item 1. Legal Proceedings.**

We are not a party to any material legal proceedings.

### **Item 1A. Risk Factors.**

Information regarding risk factors appears in our Annual Report on Form 10-K filed on July 14, 2015. There have been no material changes since July 14, 2015 from the risk factors disclosed in that Form 10-K.

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

Between July 15, 2015 and July 17, 2015, we issued an aggregate of 905,716 shares of our common stock at a price of \$0.07 per share to a warrant holder upon full exercise of the warrant to purchase an aggregate of 1,665,117 shares of our common stock on a cashless basis. In issuing these shares, we relied on an exemption from the registration requirements of the Securities Act of 1933 provided by Section 4(a)(2) of the Securities Act of 1933.

On July 24, 2015, we issued 78,081 shares of our common stock at a price of \$0.07 per share to a warrant holder upon full exercise of the warrant to purchase an aggregate of 166,666 shares of our common stock on a cashless basis. In issuing these shares, we relied on an exemption from the registration requirements of the Securities Act of 1933 provided by Section 4(a)(2) of the Securities Act of 1933.

On August 11, 2015, we issued an aggregate of 365,000 shares of our common stock at a price of \$0.07 per share to a warrant holder upon full exercise of the warrant to purchase an aggregate of 365,000 shares of our common stock on a cashless basis. In issuing these shares, we relied on an exemption from the registration requirements of the Securities Act of 1933 provided by Section 4(a)(2) of the Securities Act of 1933.

On June 29, 2015, we entered into a loan agreement with one lender, pursuant to which we issued a convertible promissory note in the principal amount of \$50,000 and 714,286 warrants in exchange for the loan in the amount of

\$50,000. The convertible promissory note bears simple interest at the rate of 8% per annum and matures on June 29, 2016. The lender has the option to convert the amount due under the convertible promissory note into shares of our common stock at a conversion price of \$0.07 per share. Each warrant is exercisable into one share of our common stock at an exercise price of \$0.10 until June 29, 2017. In issuing these shares, we relied on an exemption from the registration requirements of the Securities Act of 1933 provided by Section 4(a)(2) of the Securities Act of 1933.

On June 30, 2015, we entered into loan agreements with three lenders, pursuant to which we issued three convertible promissory notes in the aggregate principal amount of \$75,000 and an aggregate of 1,071,429 warrants in exchange for the loans in the aggregate amount of \$75,000. The convertible promissory notes bear simple interest at the rate of 8% per annum and mature on June 30, 2016. The lenders have the option to convert the amount due under the convertible promissory notes into shares of our common stock at a conversion price of \$0.07 per share. Each warrant is exercisable into one share of our common stock at an exercise price of \$0.10 until June 30, 2017. In issuing these shares, we relied on an exemption from the registration requirements of the Securities Act of 1933 provided by Section 4(a)(2) of the Securities Act of 1933.

On July 13, 2015, we entered into a loan agreement with one lender, pursuant to which we issued a convertible promissory note in the principal amount of \$25,000 and 357,143 warrants in exchange for the loan in the amount of \$25,000. The convertible promissory note bears simple interest at the rate of 8% per annum and matures on July 13, 2016. The lender has the option to convert the amount due under the convertible promissory note into shares of our common stock at a conversion price of \$0.07 per share. Each warrant is exercisable into one share of our common stock at an exercise price of \$0.10 until July 13, 2017. In issuing these shares, we relied on an exemption from the registration requirements of the Securities Act of 1933 provided by Section 4(a)(2) of the Securities Act of 1933.

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

None.

**Item 4. Mine Safety Disclosures.**

Not applicable.

**Item 5. Other Information.**

None.

**Item 6. Exhibits.**

Exhibit

Number Description

**(1) Underwriting Agreement**

- 1.1 Engagement Agreement dated October 7, 2013 with H.C. Wainwright & Co., LLC (incorporated by reference from our Registration Statement on Form S-1, filed on November 27, 2013)
- 1.2 Amendment Agreement to Engagement Agreement dated November 1, 2013 with H.C. Wainwright & Co., LLC (incorporated by reference from our Registration Statement on Form S-1/A, filed on January 9, 2014)
- 1.3 Amendment Agreement to Engagement Agreement dated November 25, 2013 with H.C. Wainwright & Co., LLC (incorporated by reference from our Registration Statement on Form S-1, filed on November 27, 2013)
- 1.4 Termination Agreement for Engagement Agreement dated March 12, 2014 with H.C. Wainwright & Co., LLC (incorporated by reference from our Registration Statement on Form S-1, filed on March 12, 2014)
- 1.5 Engagement Agreement dated March 12, 2014 with H.C. Wainwright & Co., LLC (incorporated by reference from our Registration Statement on Form S-1, filed on March 12, 2014)

**(2) Plan of Acquisition, Reorganization, Arrangement, Liquidation or Succession**

- 2.1 Share Exchange Agreement dated May 31, 2013 with Alkaline Water Corp. and its shareholders (incorporated by reference from our Current Report on Form 8-K, filed on June 5, 2013)



**(3) Articles of Incorporation and Bylaws**

- 3.1 Articles of Incorporation (incorporated by reference from our Form S-1 Registration Statement, filed on October 28, 2011)
- 3.2 Certificate of Change (incorporated by reference from our Quarterly Report on Form 10-Q, filed on August 13, 2013)
- 3.3 Articles of Merger (incorporated by reference from our Quarterly Report on Form 10-Q, filed on August 13, 2013)
- 3.4 Certificate of Amendment (incorporated by reference from our Current Report on Form 8-K, filed on October 11, 2013)
- 3.5 Certificate of Designation (incorporated by reference from our Current Report on Form 8-K, filed on October 11, 2013)
- 3.6 Certificate of Designation (incorporated by reference from our Current Report on Form 8-K, filed on November 12, 2013)
- 3.7 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)
- 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)
- 10.36 Stock Option Agreement dated February 18, 2015 with Steven P. Nickolas (incorporated by reference from our Current Report on Form 8-K, filed on April 14, 2015)
- 10.37 Stock Option Agreement dated February 18, 2015 with Richard A. Wright (incorporated by reference from our Current Report on Form 8-K, filed on April 14, 2015)
- 10.38 Securities Purchase Agreement dated as of May 11, 2015 with Assurance Funding Solutions LLC (incorporated by reference from our Annual Report on Form 10-K, filed on July 14, 2015)
- 10.39 Secured Term Note dated May 2015 issued to Assurance Funding Solutions LLC (incorporated by reference from our Annual Report on Form 10-K, filed on July 14, 2015)
- 10.40 General Security Agreement dated as of May 11, 2015 with Assurance Funding Solutions LLC (incorporated by reference from our Annual Report on Form 10-K, filed on July 14, 2015)
- (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.

**SIGNATURES**

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

**THE ALKALINE WATER COMPANY INC.**

Date: August 18, 2015

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

Date: August 18, 2015

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