ALKALINE WATER Co INC
Form 10-Q
February 14, 2017

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

Form 10-Q

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

For the quarterly period ended December 31, 2016

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

Commission file number 000-55096

THE ALKALINE WATER COMPANY INC.
(Exact name of registrant as specified in its charter)

Nevada	**99-0367049**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
7730 E Greenway Road, Suite 203, Scottsdale, AZ	**85260**
(Address of principal executive offices)	(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 [X] 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 [X] No [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Ruble 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 [X]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes[ ] No [X]

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

15,971,977 shares of common stock issued and outstanding as of February 14, 2017.

THE ALKALINE WATER COMPANY INC.
FORM 10-Q
FOR THE NINE MONTHS ENDED DECEMBER 31, 2016

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements.

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

	(Unaudited) December 31, 2016	March 31, 2016
ASSETS		
Current assets		
Cash and cash equivalents	$ 88,540	$ 1,192,119
Accounts receivable	834,777	911,390
Inventory	813,441	434,708
Prepaid expenses	98,716	10,806
Total current assets	1,835,474	2,549,023
Fixed assets - net	1,124,505	1,226,534
Equipment deposits - related party	104,619	-
Total assets	$ 3,064,598	$ 3,775,557
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$ 953,588	$ 847,452
Accrued expenses	375,527	251,613
Revolving financing	532,020	475,273
Current portion of capitalized leases	188,303	243,623
Note payable, net of debt discount	-	283,120
Note payable with original issue discount, net of debt discount	-	41,248
Current portion of convertible notes payable, net of debt discount	46,046	-
Derivative liability	3,407	11,143
Total current liabilities	2,098,891	2,153,472
Long-term Liabilities		
Capitalized leases	48,703	95,204
Convertible notes payable, net of debt discount	674,059	-
Total long-term liabilities	722,762	95,204
Total liabilities	$ 2,821,653	$ 2,248,676
Stockholders' equity		
Preferred stock, $0.001 par value, 100,000,000 shares authorized, Series A issued 20,000,000, Series C issued 3,000,000	23,000	23,000

Common stock, $0.001 par value, 200,000,000 shares authorized, 16,030,697 and 14,568,970 shares issued and outstanding at December 31, 2016 and March 31, 2016, respectively	16,029	14,568
Additional paid in capital	22,925,531	21,423,247
Accumulated deficit	(22,721,615)	(19,933,934)
Total stockholders' equity	242,945	1,526,881
Total liabilities and stockholders' equity	$ 3,064,598	$ 3,775,557

See Accompanying Notes to Consolidated Financial Statements.

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

	For the Three Months Ended		For the Nine Months Ended	
	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
Revenue	$ 2,973,689	$ 1,777,701	$ 8,927,976	$ 5,010,547
Cost of Goods Sold	1,664,459	1,152,514	5,351,284	3,234,840
Gross Profit	1,309,230	625,187	3,576,692	1,775,707
Operating expenses				
Sales and marketing expenses	998,525	703,942	3,144,914	2,098,678
General and administrative	550,732	739,690	2,448,247	2,628,152
Depreciation	90,463	72,204	270,860	214,333
Total operating expenses	1,639,720	1,515,836	5,864,021	4,941,163
Total operating loss	(330,490)	(890,649)	(2,287,329)	(3,165,456)
Other income (expense)				
Interest income	-	14	102	24
Interest expense	(83,738)	(99,112)	(296,382)	(242,877)
Amortization of debt discount and accretion	(85,525)	(195,000)	(211,808)	(283,083)
Change in derivative liability	1,379	90,026	7,736	47,364
Total other income (expense)	(167,884)	(204,072)	(500,352)	(478,572)
Net loss	$ (498,374)	$ (1,094,721)	$ (2,787,681)	$ (3,644,028)
EARNINGS PER SHARE (Basic)	$ (0.03)	$ (0.36)	$ (0.18)	$ (1.29)
WEIGHTED AVERAGE	15,604,623	3,006,148	15,391,901	2,831,761

SHARES
OUTSTANDING
(Basic)

See Accompanying Notes to Consolidated Financial Statements.

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

	For the Nine Months Ended December 31, 2016	December 31, 2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (2,787,681)	$ (3,644,028)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation expense	270,860	214,333
Stock compensation expense	319,125	1,111,445
Amortization of debt discount and accretion	226,436	296,415
Interest expense relating to amortization of capital lease discount	77,257	77,029
Change in derivative liabilities	(7,736)	(47,364)
Changes in operating assets and liabilities:		
Accounts receivable	76,613	(282,835)
Inventory	(378,733)	(7,964)
Prepaid expenses and other current assets	(87,910)	15,000
Accounts payable	106,136	116,418
Accounts payable - related party	-	(43,036)
Accrued expenses	123,914	50,632
NET CASH USED IN OPERATING ACTIVITIES	(2,061,719)	(2,143,955)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets	(168,831)	(19,461)
Equipment deposits - related party	(104,619)	(194,997)
CASH USED IN INVESTING ACTIVITIES	(273,450)	(214,458)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from notes payable	1,010,000	1,325,000
Proceeds from convertible note payable	-	435,000
Proceeds from revolving financing	56,747	141,061
Proceeds from sale of common stock, net	425,000	781,200
Proceeds for the exercise of warrants, net	300,000	-
Repayment of notes payable	(381,079)	(152,058)
Repayment of capital lease	(179,078)	(152,122)
CASH PROVIDED BY FINANCING ACTIVITIES	1,231,590	2,378,081
NET CHANGE IN CASH	(1,103,579)	19,668

CASH AT BEGINNING OF PERIOD		1,192,119		90,113
CASH AT END OF PERIOD	$	88,540	$	109,781
INTEREST PAID	$	83,738	$	112,395

See Accompanying Notes to Consolidated Financial Statements.

THE ALKALINE WATER COMPANY INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The consolidated financial statements included herein have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles have been omitted. However, in the opinion of management, all adjustments (which include only normal recurring adjustments, unless otherwise indicated) necessary to present fairly the financial position and results of operations for the periods presented have been made. The results for interim periods are not necessarily indicative of trends or of results to be expected for the full year. These financial statements should be read in conjunction with the financial statements of the Company for the year ended March 31, 2016 (including the notes thereto) set forth on Form 10-K. The Company uses as guidance the Accounting Standard Codification (ASC) as established by the Financial Accounting Standards Board (FASB).

Principles of consolidation

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

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

Reverse split

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

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

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

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

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

Use of estimates

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

Cash and cash equivalents

The Company considers all highly liquid instruments with an original maturity of three months or less to be considered cash equivalents. The carrying value of these investments approximates fair value. The Company had $88,540 and $1,192,119 in cash and cash equivalents at December 31, 2016 and March 31, 2016, respectively.

Accounts receivable and allowance for doubtful accounts

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

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

Inventory

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

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

	December 31, 2016	March 31, 2016
Raw materials	$ 597,428	$ 300,575
Finished goods	216,013	134,133
Total inventory	$ 813,441	$ 434,708

Property and equipment

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

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

Stock-based Compensation

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

Revenue recognition

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

The Company records revenue when it is realizable and earned upon shipment of the finished products. The Company does not accept returns due to the nature of the product. However, the Company will provide credit to our customers for damaged goods.

Fair value measurements

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

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

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.

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

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

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

Income taxes

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

Basic and diluted loss per share

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

Reclassification

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

Newly issued accounting pronouncements

During the period ended December 31, 2016, there were several new accounting pronouncements issued by the Financial Accounting Standards Board. Each of these pronouncements, as applicable, has been or will be adopted by the Company. Management does not believe the adoption of any of these accounting pronouncements has had or will have a material impact on the Company s consolidated financial statements

NOTE 2 GOING CONCERN

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern, which contemplates the recoverability and/or acquisition and sale of assets and the satisfaction of liabilities in the normal course of business. Since its inception, the Company has been engaged substantially in financing activities, developing its business plan and building its initial customer and distribution base for its products. As a result, the Company incurred accumulated net losses from Inception (June 19, 2012) through the period ended December 31, 2016 of ($22,721,615). 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:

	December 31, 2016	March 31, 2016
Machinery and Equipment	$ 1,048,699	$ 970,728
Machinery under Capital Lease	735,781	735,781
Machinery Construction in progress	85,600	-
Office Equipment	58,891	53,631
Leasehold Improvements	3,979	3,979
Less: Accumulated Depreciation	(808,445)	(537,585)
Fixed Assets, net	$ 1,124,505	$ 1,226,534

Depreciation expense for the nine months ended December 31, 2016 and December 31 2015 was $270,860 and $214,333, respectively.

NOTE 4 EQUIPMENT DEPOSITS RELATED PARTY

During the nine month period ending December 31, 2016 the company made a net deposit on equipment of $104,619 to Water Engineering Solutions. During the nine month period ending December 31, 2015 the company made a net deposit on equipment of $194,997 to Water Engineering Solutions. Water Engineering Solutions LLC is an entity that is controlled and majority owned by Steven P. Nickolas and Richard A. Wright for the production of our alkaline water.

NOTE 5 REVOLVING FINANCING

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

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

In consideration of Gibraltar s purchase of the accounts, the Company agreed to pay Gibraltar interest on the indebtedness outstanding at the rate of 8% per annum plus the prime rate in effect at the end of each month with the prime rate for these purposes never being less than 3.25% per annum, calculated on a 360-day year and payable monthly. In addition, the Company agreed to pay to Gibraltar a monthly collateral/management fee in the amount of

0.5% calculated on the average daily borrowing amount for the given month and an unused line fee of 0.25% monthly based on the difference between the actual line of credit and the average daily borrowing amount for the given month. The Company also agreed to pay to Gibraltar upon execution of the agreement and as of the commencement of each renewal term, a closing cost of 1% of the initial indebtedness in addition to the amount of any other credit accommodations granted from Gibraltar, which amount will be deducted from the first cash advances.

The initial indebtedness is $500,000 and the Company increased the amount available under the revolving accounts receivable funding agreement to $900,000 on May 12, 2016. The Company may request further increase(s) to the in $100,000 increments up to $5,000,000, subject the Company s financial performance and/or projections are satisfactory to Gibraltar, and absent an event of default. The Company also granted to Gibraltar a security interest in all of our presently-owned and hereafter-acquired personal and fixture property, wherever located. The agreement will continue until the first to occur of (i) demand by Gibraltar; or (ii) 24 months from the first day of the month following the date that the first purchased account is purchased and will be automatically renewed for successive periods of 12 months thereafter unless, at least 30 days prior to the end of the term, the Company gives Gibraltar notice of our intention to terminate the agreement. In addition, the Company will be able to exit the agreement at any time for a fee of 2% of the line of credit in place at the time of prepayment. On December 31, 2016 the amount borrowed on this facility was $532,020.

NOTE 6 DERIVATIVE LIABILITY

On May 1, 2014, the Company sold 346,667 shares of our common stock and warrants to purchase an aggregate of 173,333 shares of our common stock, for aggregate gross proceeds of $2,599,999. Each share of common stock sold in the offering was accompanied by a warrant to purchase one-half of a share of common sto