

ALKALINE WATER Co INC
Form 10-Q
August 13, 2014

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

Form 10-Q

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

For the quarterly period ended **June 30, 2014**

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

Commission file number **000-55096**

THE ALKALINE WATER COMPANY INC.

(Exact name of registrant as specified in its charter)

Nevada

(State or other jurisdiction of
incorporation or organization)

99-0367049

(I.R.S. Employer
Identification No.)

7730 E Greenway Road, Suite 203, Scottsdale, AZ

(Address of principal executive offices)

85260

(Zip Code)

(480) 656-2423

(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

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

Yes No

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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 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.

102,927,070 shares of common stock issued and outstanding as of August 12, 2014.

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

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

THE ALKALINE WATER COMPANY, INC.
(FORMERLY GLOBAL LINES, INC.)
(A DEVELOPMENT STAGE COMPANY)
CONSOLIDATED BALANCE SHEETS
(unaudited)

	June 30, 2014 (Unaudited)	March 31, 2014
ASSETS		
Current assets:		
Cash	\$ 620,031	\$ 2,665
Accounts receivable	160,393	166,404
Inventory	353,829	57,965
Prepaid expenses and other current assets	4,694	-
Deferred financing cost	-	54,288
Total current assets	1,138,947	281,322
Fixed assets, net	457,690	286,986
Equipment deposits - related party	711,500	-
Total assets	\$ 2,308,137	\$ 568,308
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable	\$ 490,991	\$ 320,154
Accounts payable - related party	-	18,403
Accrued expenses	71,537	56,601
Accrued interest	-	19,829
Revolving financing	129,486	83,348
Notes payable	-	-
Current portion of capital leases	64,578	-
Derivative liability	257,862	337,988
Total current liabilities	1,014,454	836,323
Long-term liabilities:		
Capitalize leases- related party	308,794	-
Total long-term liabilities	308,794	-
Total liabilities	1,323,248	836,323
Redeemable convertible preferred stock	-	83,820

Stockholders' deficit:

Preferred stock - \$0.001 par value, 100,000,000 shares authorized. Series A issued 20,000,000	20,000	20,000
Common stock, Class A, \$0.001 par value, 1,125,000,000 shares authorized, 101,182,070 and 81,602,175 shares issued and outstanding as of June 30, 2014 and March 31, 2014, respectively	101,182	81,602
Additional paid in capital	7,813,817	4,059,464
Deficit accumulated during development stage	(6,950,110)	(4,512,901)
Total stockholders' deficit	\$ 984,889	\$ (351,835)
Total liabilities and stockholders' deficit	\$ 2,308,137	\$ 568,308

See Accompanying Notes to Condensed Consolidated Financial Statements.

THE ALKALINE WATER COMPANY INC.
(A DEVELOPMENT STAGE COMPANY)
FORMERLY GLOBAL LINES INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	For the Three Months Ended June 30, 2014	For the Three Months Ended June 30, 2013	Inception (June 19, 2012) to June 30, 2014
Revenue	\$ 572,049	\$ 32,522	\$ 1,139,858
Cost of goods sold	406,125	18,057	826,002
Gross profit	165,924	14,465	313,856
Operating expenses:			
Sales and marketing expenses	226,780	84,193	779,090
General and administrative	2,138,753	67,509	6,081,134
General and administrative - related party	-	39,846	167,021
Depreciation expense	16,534	1,849	60,755
Total operating expenses	2,382,067	193,397	7,088,000
Other income (expenses):			
Interest expense	(2,524)	(3,555)	(14,896)
Interest expense on redeemable preferred stock	(40,382)	-	(508,637)
Fees paid on credit line	(7,057)	-	(15,660)
Placement agent fee to acquired credit line	-	-	(10,000)
Amortization of debt discount	(414,370)	-	(521,902)
Other expenses	(11)	-	(6,117)
Other income - related party	-	-	40,029
Loss on sales leaseback	(20,773)	-	(20,773)
Change in derivative liability	264,051	-	881,990
Total other expense	(221,066)	(3,555)	(175,966)
Net loss	\$ (2,437,209)	\$ (182,487)	\$ (6,950,110)
Weighted average number of common shares outstanding - basic	94,019,973	78,156,409	
Net loss per share - basic	\$ (0.03)	\$ (0.00)	

See Accompanying Notes to Condensed Consolidated Financial Statements.

THE ALKALINE WATER COMPANY INC.
(A DEVELOPMENT STAGE COMPANY)
FORMERLY GLOBAL LINES INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	For the Three Months Ended June 30, 2014	For the Three Months Ended June 30, 2013	Inception (June 19, 2012) to June 30, 2014
CASH FLOWS FROM OPERATING ACTIVITIES			
Net loss	\$ (2,437,209)	\$ (182,487)	\$ (6,950,110)
Adjustments to reconcile net income to net cash used in operating activities:			
Bad debt expense	-	-	10,000
Depreciation expense	16,534	1,849	60,755
Interest expense converted to common stock	-	-	3,555
Shares issued for services	1,399,127	-	4,051,418
Amortization of debt discount	414,370	-	521,902
Initial discount on Redeemable preferred stock	-	-	455,926
Change in derivative liabilities	(264,051)	-	(881,990)
Changes in operating assets and liabilities:			
Accounts receivable	6,011	(9,435)	(170,393)
Accounts receivable - related party	-	-	-
Inventory	(295,864)	(21,591)	(353,829)
Prepaid expenses and other current assets	(4,694)	-	(4,694)
Accounts payable	170,837	19,221	491,482
Accounts payable - related party	(18,403)	-	(490)
Accrued expenses	14,936	-	71,537
Accrued interest	(19,829)	3,555	1,315
Net cash used in operating activities	(1,018,235)	(188,888)	(2,693,616)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of fixed assets	(17,435)	(1,019)	(333,642)
Proceeds from sale lease back	208,773	-	208,773
Equipment deposits - related party	(711,500)	(90,000)	(726,500)
Net cash used in investing activities	(520,162)	(91,019)	(851,369)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from notes payable	-	75,000	150,000
Proceeds from revolving financing	46,138	-	129,486
Proceeds from sale of common stock, net	2,361,999	525,000	3,461,999
Repayment of capital lease	(5,204)	-	(5,204)
Repayment of redeemable preferred shares	(247,170)	-	(247,170)
Proceeds from sale of mandatory redeemable preferred stock, net	-	-	422,000
Shareholder contribution	-	-	264,575
Shareholder distribution	-	-	(10,670)

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Net cash provided by financing activities	2,155,763	600,000	4,165,016
NET CHANGE IN CASH	617,366	320,093	620,031
CASH AT BEGINNING OF PERIOD	2,665	64,607	-
CASH AT END OF PERIOD	\$ 620,031	\$ 384,700	\$ 620,031

SUPPLEMENTAL INFORMATION:

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

NON-CASH INVESTING AND FINANCING
ACTIVITIES:

Debt converted to common stock	\$ -	\$ 229,870
Derivative liability on redeemable preferred stock	-	
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.
(FORMERLY GLOBAL LINES INC.)
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The interim consolidated financial statements included herein, presented in accordance with United States generally accepted accounting principles and stated in U.S. dollars, have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to make the information presented not misleading.

These statements reflect all adjustments, consisting of normal recurring adjustments, which in the opinion of management, are necessary for fair presentation of the information contained therein. It is suggested that these condensed interim consolidated financial statements be read in conjunction with the financial statements of the Company for the period of inception (June 19, 2012) to June 30, 2014 and notes thereto included in the Company's Annual Report on Form 10-K dated March 31, 2014. The Company follows the same accounting policies in the preparation of interim reports. Results of operations for the interim period are not indicative of annual results.

Development Stage Company

The accompanying financial statements have been prepared in accordance with generally accepted accounting principles related to development stage companies. A development-stage company is one in which planned principal operations have not commenced or if its operations have commenced, there has been no significant revenues therefrom.

Principles of consolidation

For the period from June 19, 2012 to June 30, 2014, the consolidated financial statements include the accounts of Alkaline Water Corp. (an Arizona Corporation) and Alkaline 88 LLC (formerly Alkaline 84, LLC) (an Arizona Limited Liability Company). For the period from April 1, 2013 to June 30, 2013 and April 1, 2014 to June 30, 2014, 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 \$620,031 and \$384,700 in cash and cash equivalents at June 30, 2014 and 2013, respectively.

Accounts Receivable and Allowance for Doubtful Accounts

The Company generally does not require collateral, and the majority of its trade receivables are unsecured. The carrying amount for accounts receivable approximates fair value. Accounts receivable consisted of the following as of June 30, 2014 and March 31, 2014:

	<u>June 30</u>	<u>March 31</u>
	2014	2014
Trade receivables	\$ 169,361	\$ 176,404
Less: Allowance for doubtful accounts	(8,968)	(10,000)
Net accounts receivable	\$ 160,393	\$ 166,404

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

Inventory

Inventory represents packaging items, empty bottles, finished goods and other items valued at the lower of cost or market with cost determined using the weight average method which appr