

ALKALINE WATER Co INC
Form 10-Q
February 14, 2019

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 **December 31, 2018**

☐ 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.)

14646 N. Kierland Blvd, Suite 255, Scottsdale, AZ

(Address of principal executive offices)

85254

(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 every Interactive Data File required to be submitted 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 such files).

Yes ☒ No ☐

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of large accelerated filer, accelerated filer, smaller reporting company, and emerging growth company in Rule 12b-2 of the Exchange Act.

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

Large accelerated filer ☐

Accelerated filer ☐

Non-accelerated filer ☐

Smaller reporting company ☒

Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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.

34,656,829 shares of common stock issued and outstanding as of February 14, 2019.

PART I-FINANCIAL INFORMATION

Item 1. Financial Statements.

THE ALKALINE WATER COMPANY INC.
CONSOLIDATED BALANCE SHEET

	December 31, 2018 (unaudited)	March 31, 2018
ASSETS		
Current assets		
Cash and cash equivalents	\$ 3,087,445	\$ 988,905
Accounts receivable	2,077,728	2,599,095
Inventory	1,703,797	1,002,020
Prepaid expenses	181,084	296,471
Total current assets	7,050,054	4,886,491
Fixed assets - net	2,009,324	1,169,635
Total assets	\$ 9,059,378	\$ 6,056,126
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities		
Accounts payable	\$ 2,323,242	\$ 2,052,988
Accrued expenses	679,062	819,011
Revolving financing	2,749,298	2,592,015
Current portion of capital leases	-	131,583
Derivative liability	288	288
Total current liabilities	5,751,890	5,595,885
Total liabilities	\$ 5,751,890	\$ 5,595,885
Stockholders' equity		
Preferred stock, \$0.001 par value, 100,000,000 shares authorized, Series C issued 1,500,000, Series D issued 3,800,000	5,300	5,300
Common stock, Class A - \$0.001 par value, 200,000,000 shares authorized 34,093,011 and 25,991,346 shares issued and outstanding at December 31, 2018 and March 31, 2018 respectively	34,093	25,990
Additional paid in capital	39,126,699	30,506,265
Accumulated deficit	(35,858,604)	(30,077,314)
Total stockholders' equity	3,307,488	460,241
Total liabilities and stockholders' equity	\$ 9,059,378	\$ 6,056,126

The accompanying notes are an integral part of these condensed consolidated financial statements.

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

		For the Three Months		For the Nine Months	
		December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Revenue	\$	7,691,013	\$ 3,816,661	\$ 24,211,398	\$ 13,838,383
Cost of Goods Sold		4,822,694	2,091,258	14,301,068	7,797,081
Gross Profit		2,868,319	1,725,403	9,910,330	6,041,302
Operating expenses					
Sales and marketing expenses		3,650,105	1,497,594	9,846,940	4,985,955
General and administrative		2,718,567	2,692,636	5,096,043	5,661,274
Depreciation		110,613	94,585	334,769	286,482
Total operating expenses		6,479,285	4,284,815	15,277,752	10,933,711
Total operating loss		(3,610,966)	(2,559,412)	(5,367,422)	(4,892,409)
Other income (expense)					
Interest expense		(144,606)	(98,280)	(413,868)	(349,765)
Amortization of debt discount and accretion		-	-	-	(295,000)
Total other income (expense)		(144,606)	(98,280)	(413,868)	(644,765)
Net loss	\$	(3,755,572)	\$ (2,657,692)	\$ (5,781,290)	\$ (5,537,174)
EARNINGS PER SHARE (Basic)	\$	(0.11)	\$ (0.12)	\$ (0.19)	\$ (0.28)
WEIGHTED AVERAGE SHARES OUTSTANDING (Basic)		32,814,187	21,508,050	30,765,915	19,757,832

The accompanying notes are an integral part of these condensed consolidated financial statements.

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

	For the Nine Months	
	December 31, 2018	December 31, 2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$ (5,781,290)	\$ (5,537,174)
Adjustments to reconcile net loss to net cash used in operating		
Depreciation expense	334,769	286,482
Stock compensation expense	393,460	3,554,912
Warrant Expense	131,030	-
Amortization of debt discount and accretion	-	295,000
Interest expense converted to equity	-	14,583
Interest expense relating to amortization of capital lease discount	-	60,089
Changes in operating assets and liabilities:		
Accounts receivable	521,367	207,906
Inventory	(701,777)	(100,728)
Prepaid expenses and other current assets	115,387	71,456
Accounts payable	270,254	(184,735)
Accrued expenses	(139,949)	69,322
NET CASH USED IN OPERATING ACTIVITIES	(4,856,749)	(1,262,887)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets	(1,174,458)	(264,876)
CASH USED IN INVESTING ACTIVITIES	(1,174,458)	(264,876)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from convertible note payable	-	500,000
Proceeds from revolving financing	157,283	58,966
Proceeds from sale of common stock, net	6,955,798	-
Proceeds from the exercise of warrants, net	1,148,249	-
Proceeds from advance by third party	-	1,000,000
Repayment of notes payable	(131,583)	-
Repayment of capital lease	-	(209,599)
CASH PROVIDED BY FINANCING ACTIVITIES	8,129,747	1,349,367
NET CHANGE IN CASH	2,098,540	(178,396)
CASH AT BEGINNING OF PERIOD	988,905	603,805
CASH AT END OF PERIOD	\$ 3,087,445	\$ 425,409

INTEREST PAID	\$	333,534	\$	244,288
---------------	----	---------	----	---------

The accompanying notes are an integral part of these condensed 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, presented in accordance with United States generally accepted accounting principles and stated in U.S. dollars, have been prepared by the Company, 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. The interim financial statements are condensed and should be read in conjunction with the Company's latest annual financial statements and that interim disclosures generally do not repeat those in the annual statements.

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.

Principles of consolidation

The consolidated financial statements include the accounts of The Alkaline Water Company Inc. (a Nevada Corporation) and its wholly owned subsidiaries: A88 Infused Beverage Division, Inc. (a Nevada Corporation), A88 International, Inc. (a Nevada 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), A88 Infused Beverage Division, Inc (a Nevada Corporation), A88 International, Inc. (a Nevada 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 subsidiary 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 votes 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. On November 14, 2017, we withdrew the Certificate of Designation establishing Series A Preferred Stock. There were no shares of Series A Preferred Stock outstanding immediately prior to the withdrawal.

On March 30, 2016, the Company designated 3,000,000 shares of the authorized and unissued preferred stock of our company as “Series C Preferred Stock” by filing a Certificate of Designation with the Secretary of State of the State of Nevada. Each share of the Series C Preferred Stock will be convertible, without the payment of any additional consideration by the holder and at the option of the holder, into one fully paid and non-assessable share of our common stock at any time after (i) the Company achieves consolidated revenue equal to or greater than \$15,000,000 in any 12 month period, ending on the last day of any quarterly period of our fiscal year; or (ii) a Negotiated Trigger Event, defined as an event upon which the Series C Preferred Stock will be convertible as may be agreed by our company and the holder in writing from time to time.

On May 3, 2017, we designated 3,000,000 shares of the authorized and unissued preferred stock of our company as “Series D Preferred Stock” by filing a Certificate of Designation with the Secretary of State of the State of Nevada. On November 2, 2017, we increased the number of authorized shares of Series D Preferred Stock in our company to 5,000,000 shares by filing an Amendment to the foregoing Certificate of Designation with the Secretary of State of the State of Nevada. Each share of the Series D Preferred Stock will be convertible, without the payment of any additional consideration by the holder and at the option of the holder, into one fully paid and non-assessable share of our common stock at any time after (i) we achieve the consolidated revenue of our company and all of its subsidiaries equal to or greater than \$40,000,000 in any 12 month period, ending on the last day of any quarterly period of our fiscal year; or (ii) a Negotiated Trigger Event, defined as an event upon which the Series D Preferred Stock will be convertible as may be agreed by our company and the holder in writing from time to time.

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 \$3,087,445 and \$988,905 in cash and cash equivalents at December 31, 2018 and March 31, 2018, 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 December 31, 2018 and March 31, 2018:

	<u>December 31,</u>	<u>March 31,</u>
	<u>2018</u>	<u>2018</u>
Trade receivables	\$ 2,117,728	\$ 2,639,095
Less: Allowance for doubtful accounts	(40,000)	(40,000)
Net accounts receivable	\$ 2,077,728	\$ 2,599,095

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, 2018, and March, 31 2018, inventory consisted of the following:

	<u>December 31, 2018</u>	<u>March 31, 2018</u>
Raw materials	\$ 1,297,392	\$ 766,556
Finished goods	406,405	235,464
Total inventory	\$ 1,703,797	\$ 1,002,020

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	5 years

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 has elected to account for forfeitures as they occur. 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.

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

In July 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2015-11 (ASU 2015-11) "Simplifying the Measurement of Inventory". According to ASU 2015-11 an entity should measure inventory within the scope of this update at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. Subsequent measurement is unchanged for inventory measured using LIFO or the retail inventory method. The amendments in ASU 2015-11 more closely align the measurement of inventory in GAAP with the measurement of inventory in International Financial Reporting Standards (IFRS). The Board has amended some of the other guidance in Topic 330 to more clearly articulate the requirements for the measurement and disclosure of inventory. However, the Board does not intend for those clarifications to result in any changes in practice. Other than the change in the subsequent measurement guidance from the lower of cost or market to the lower of cost and net realizable value for inventory within the scope of ASU 2015-11, there are no other substantive changes to the guidance on measurement of inventory. For public business entities, the amendments in ASU 2015-11 are effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. For all other entities, the amendments in ASU 2015-11 are effective for fiscal years beginning after December 15, 2016, and interim periods within fiscal years beginning after December 15, 2017. The amendments in ASU 2015-11 should be applied prospectively with earlier application permitted as of the beginning of an interim or annual reporting period.

The Board decided that the only disclosures required at transition should be the nature of and reason for the change in accounting principle. An entity should disclose that information in the first annual period of adoption and in the interim periods within the first annual period if there is a measurement-period adjustment during the first annual period in which the changes are effective.

On March 30, 2016, the FASB issued Accounting Standards Update (ASU) 2016-09) Improvements to Employee Share-based Accounting which amends ASC 718, Compensation Stock Compensation . The ASU includes provisions intended to simplify various provisions related to how share-based payments are accounted for and presented in the financial statements. Compensation cost is ultimately only recognized for awards with performance and/or service conditions that vest (or for awards with market conditions for which the requisite service period is satisfied). Under the new guidance, entities are permitted to make an accounting policy election related to how forfeitures will impact the recognition of compensation cost. Currently entities are required to develop an assumption regarding the forfeiture rate on the grant date, which impacts the estimated amount of compensation cost recorded over the requisite service period. The forfeiture estimates are updated throughout the service period so that compensation cost is ultimately only recognized for awards that vest.

Under the new guidance, entities are permitted to make an accounting policy to either estimate forfeitures each period, as required today or to account for forfeitures as they occur. The Company elects to account for forfeitures as they occur. ASU 2016-09 is effective for public business entities for annual reporting periods beginning after December 15, 2016 and interim periods within that reporting period.

The Company has evaluated other recent accounting pronouncements through December 2018 and believes that none of them will have a material effect on our 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, 2018 of (\$35,858,604). 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, 2018	March 31, 2018
Machinery and Equipment	\$ 2,408,234	\$ 2,096,074
Machinery Construction in progress	1,174,457	312,160
Office Equipment	29,300	29,300
Less: Accumulated Depreciation	(1,602,667)	(1,267,899)
Fixed Assets, net	\$ 2,009,324	\$ 1,169,635

Depreciation expense for the nine months ended December 31, 2018 and December 31, 2017 was \$334,769 and \$286,482, respectively.

On February 1, 2018, we exercised our purchase option to purchase four alkaline generating electrolysis system machines leased under the master lease agreement entered into on October 22, 2014, as amended on February 25, 2015 with Veterans Capital Fund, LLC for a total of \$160,000. The purchase price bears interest of 12% per annum and is payable in eleven equal monthly installments of \$14,934 each and one final installment of \$4,040, with the first installment due on February 1, 2018 and on the remaining eleven installments due on the first of each month thereafter with the final installment paid on December 1, 2018.

NOTE 4 REVOLVING FINANCING

On February 1, 2017, The Alkaline Water Company Inc. and its subsidiaries (the Company) entered into a Credit and Security Agreement (the Credit Agreement) with SCM Specialty Finance Opportunities Fund, L.P. (the Lender).

The Credit Agreement provides the Company with a revolving credit facility (the Revolving Facility), the proceeds of which are to be used to repay existing indebtedness of the Company, transaction fees incurred in connection with the Credit Agreement and for working capital needs of the Company.

Under the terms of the Credit Agreement, the Lender has agreed to make cash advances to the Company in an aggregate principal at any one time outstanding not to exceed the lesser of (i) \$4 million (the Revolving Loan Commitment Amount) and (ii) the Borrowing Base (defined to mean, as of any date of determination, 85% of net eligible billed receivables plus 65% of eligible unbilled receivables, minus certain reserves).

The Credit Agreement has a term of three years, unless earlier terminated by the parties in accordance with the terms of the Credit Agreement.

The principal amount of the Revolving Facility outstanding bears interest at a rate per annum equal to (i) a fluctuating interest rate per annum equal at all times to the rate of interest announced, from time to time, within Wells Fargo Bank at its principal office in San Francisco as its “prime rate,” plus (ii) 3.25%, payable monthly in arrears.

To secure the payment and performance of the obligations under the Credit Agreement, the Company granted to the Lender a continuing security interest in all of the Company’s assets and agreed to a lockbox account arrangement in respect of certain eligible receivables.

In connection with the Credit Agreement, the Company paid to the Lender a \$30,000 facility fee. The Company agreed to pay to Lender monthly an unused line fee in amount equal to 0.083% per month of the difference derived by subtracting (i) the average daily outstanding balance under the Revolving Facility during the preceding month, from (ii) the Revolving Loan Commitment Amount. The unused line fee will be payable monthly in arrears. The Company also agreed to pay the Lender as additional interest a monthly collateral management fee equal to 0.35% per month calculated on the basis of the average daily balance under the Revolving Facility outstanding during the preceding month. The collateral management fee will be payable monthly in arrears. Upon a termination of the Revolving Facility, the Company agreed to pay the Lender a termination fee in an amount equal to 2% of the Revolving Loan Commitment Amount if the termination occurs before February 1, 2020. The Company must also pay certain fees in the event that receivables are not properly deposited in the appropriate lockbox account.

The interest rate will be increased by 5% in the event of a default under the Credit Agreement. Events of default under the Credit Agreement, some of which are subject to certain cure periods, include a failure to pay obligations when due, the making of a material misrepresentation to the Lender, the rendering of certain judgments or decrees against the Company and the commencement of a proceeding for the appointment of a receiver, trustee, liquidator or conservator or filing of a petition seeking reorganization or liquidation or similar relief.

The Credit Agreement contains customary representations and warranties and various affirmative and negative covenants including the right of first refusal to provide financing for the Company and the financial and loan covenants, such as the loan turnover rate, minimum EBTDA, fixed charge coverage ratio and minimum liquidity requirements.

On December 31, 2018, the Lender agreed to provide the Company a \$400,000 Temporary Over Advance (“TOA”) under the Credit Facility Agreement. The TOA is to be repaid as follows: (i) the Company shall make five (5) weekly principal payments on the TOA each in the amount of \$20,000 commencing on February 18, 2019 and on the first Business Day of each calendar week thereafter through and including March 18, 2019, (ii) the Company shall make ten (10) weekly principle payments on the TOA, each in the amount of \$30,000, commencing on March 25, 2018 and on the first Business Day of each calendar week thereafter through and including May 27, 2019 and (iii) repay the remaining principal balance on the TOA, if any, in full on or prior to May 27, 2019.

On December 31, 2018, David A. Guarino entered into a Guarantee Agreement (the “Guarantee”) with the Lender in order for the Lender to agree to provide the Company the \$400,000 TOA under the Credit Agreement. Under the Guarantee, Mr. Guarino personally, absolutely, and unconditionally, jointly and severally, guaranteed the prompt, complete and full payment of the Company’s obligations to repay the TOA only, under the Credit Agreement, with the Lender.

NOTE 5 – DERIVATIVE LIABILITY

On May 1, 2014, the Company completed the offering and sale of an aggregate of shares of our common stock and warrants. Each share of common stock sold in the offering was accompanied by a warrant to purchase one-half of a share of common stock. 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 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

The Company analyzed the warrants and conversion feature under ASC 815 "Derivatives and Hedging" to determine the derivative liability as of December 31, 2018 was \$288.

NOTE 6 – STOCKHOLDERS' EQUITY

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. The Series A Preferred Stock had 10 votes per share (reduced to 0.2 votes per share as a result of the fifty for one reverse stock split, which became effective as of December 30, 2015) and are not convertible into shares of our common stock.

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 P. 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.

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 votes 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.

On November 14, 2017, we withdrew the Certificate of Designation establishing Series A Preferred Stock. There were no shares of Series A Preferred Stock outstanding immediately prior to the withdrawal.

Grant of Series C Convertible Preferred Stock

On March 30, 2016, the Company designated 3,000,000 shares of the authorized and unissued preferred stock of our company as “Series C Preferred Stock” by filing a Certificate of Designation with the Secretary of State of the State of Nevada. Each share of the Series C Preferred Stock will be convertible, without the payment of any additional consideration by the holder and at the option of the holder, into one fully paid and non-assessable share of our common stock at any time after (i) the Company achieves consolidated revenue equal to or greater than \$15,000,000 in any 12 month period, ending on the last day of any quarterly period of our fiscal year; or (ii) a Negotiated Trigger Event, defined as an event upon which the Series C Preferred Stock will be convertible as may be agreed by our company and the holder in writing from time to time.

Effective March 31, 2016, the Company issued a total of 3,000,000 shares of our Series C Preferred Stock to Steven P. Nickolas and Richard A. Wright (1,500,000 shares to each), pursuant to their employment agreements dated effective March 1, 2016. On July 17, 2017, Steven P. Nickolas converted his 1,500,000 shares of Series C Preferred Stock to 1,500,000 shares of Common Stock.

Grant of Series D Convertible Preferred Stock

On May 3, 2017, the Company designated 3,000,000 shares of the authorized and unissued preferred stock of our company as “Series D Preferred Stock” by filing a Certificate of Designation with the Secretary of State of the State of Nevada. On November 2, 2017, we increased the number of authorized shares of Series D Preferred Stock in our company to 5,000,000 shares by filing an Amendment to the foregoing Certificate of Designation with the Secretary of State of the State of Nevada. Each share of the Series D Preferred Stock will be convertible, without the payment of any additional consideration by the holder and at the option of the holder, into one fully paid and non-assessable share of our common stock at any time after (i) we achieve the consolidated revenue of our company and all of its subsidiaries equal to or greater than \$40,000,000 in any 12 month period, ending on the last day of any quarterly period of our fiscal year; or (ii) a Negotiated Trigger Event, defined as an event upon which the Series D Preferred Stock will be convertible as may be agreed by our company and the holder in writing from time to time. In May, 2017, the company issued a total of 3,000,000 shares of our Series D Preferred Stock to our directors, officers, consultants and employees. In November, 2017, the company issued an additional 800,000 shares of our Series D Preferred Stock as follows: (a) 300,000 shares to Steve Nickolas pursuant to the Settlement Agreement detailed below; and (b) 500,000 shares to Richard A. Wright pursuant to the Exchange Agreement and stock option forfeitures detailed below. We issued these shares relying on the registration exemption provided for in Section 4(a)(2) of the Securities Act of 1933.

Common Stock

The Company was authorized to issue 1,125,000,000 shares of \$0.001 par value common stock. On May 31, 2013, the Company 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., the Company had 109,500,000 shares of common stock issued and outstanding. On May 31, 2013, the Company 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 the Company 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.

On 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.

On November 20, 2018, we issued an aggregate of 1,275,832 shares of our common stock upon exercise of our common stock purchase warrants with an exercise price of US\$0.90 per share for aggregate gross proceeds of US\$1,148,248.80. All of the shares were issued to non-U.S. persons (as that term is defined in Regulation S of the Securities Act of 1933, as amended) in an offshore transaction relying on Regulation S and/or Section 4(a)(2) of the Securities Act of 1933, as amended.

Compensation expense in the amount of 393,460 was recognized by the Company on account of the vesting schedule of its outstanding stock options as of April 28, 2018.

In October 2018, three option holders exercised 53,000 stock options in a cashless exchange for 46,544 common stock shares. In December 2018, one option holder exercised 41,000 stock options in a cashless exchange for 27,677 common stock shares.

NOTE 7 – RELATED PARTY TRANSACTIONS

On May 3, 2017, the Company designated 3,000,000 shares of the authorized and unissued preferred stock of our company as “Series D Preferred Stock” by filing a Certificate of Designation with the Secretary of State of the State of Nevada. Mr. Richard A. Wright, our President and CEO, and Mr. David Guarino, our Chief Financial Officer, Secretary, and Treasurer, were each issued 1,000,000 shares each of the Series D Preferred Stock.

On December 31, 2018, David A. Guarino entered into a Guarantee Agreement (the “Guarantee”) with the Lender in order for the Lender to agree to provide the Company the \$400,000 TOA under the Credit Agreement. Under the Guarantee, Mr. Guarino personally, absolutely, and unconditionally, jointly and severally, guaranteed the prompt, complete and full payment of the Company’s obligations to repay the TOA only, under the Credit Agreement, with the Lender.

NOTE 8 – LOANS PAYABLE

On December 31, 2017, the Company exercised its purchase option with Lessor to purchase all four pieces of equipment leased under the above referenced master lease agreement for a total of \$160,000 (the “Purchase Payment”). The Purchase Payment bears interest of 12% per annum and is payable in eleven equal monthly installments of \$14,934.00 each and one final installment of \$4,040.41, with the first installment due on February 1, 2018 and on the remaining eleven installments due on the first of each month thereafter with the final installment paid on December 1, 2018.

NOTE 9 – SUBSEQUENT EVENTS

On January 24, 2019, we issued an aggregate of 512,332 shares of our common stock upon exercise of our common stock purchase warrants with an exercise price of US\$0.90 per share for aggregate gross proceeds of US\$461,098.80. All of the shares were issued to non-U.S. persons (as that term is defined in Regulation S of the Securities Act of 1933, as amended) in an offshore transaction relying on Regulation S and/or Section 4(a)(2) of the Securities Act of 1933, as amended.

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 applicable 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 of 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 and Canada, 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:

- 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 subsidiaries: A88 Infused Beverage Division, Inc. (a Nevada Corporation), A88 International, Inc. (a Nevada Corporation), and Alkaline 88, LLC (an Arizona Limited Liability Company), unless otherwise specified.

Results of Operations***Three Months Ended December 31, 2018 and December 31, 2017***

Our results of operations for the three months ended December 31, 2018 and December 31, 2017 are as follows:

	<u>For the three months ended December 31, 2018</u>	<u>For the three months ended December 31, 2017</u>
Revenue	\$ 7,691,013	\$ 3,816,661

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

Cost of goods sold	4,822,694	2,091,258
Gross profit	2,868,319	1,725,403
Net Loss (after operating expenses and other expenses)	(3,755,572)	(2,657,692)

Revenue and Cost of Goods Sold

We had revenue from sales of our product for the three months ended December 31, 2018 of \$7,691,013 as compared to \$3,816,661 for the three months ended December 31, 2017, an increase of 102% 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. In addition the company offered off-invoice incentives to the company's two largest customers during the quarter. Management believes that the resultant 102% increase in sales for the quarter was positively impacted by these incentive programs. We distribute our product through several channels. We sell through large national distributors (UNFI, KeHe, C&S, and Core-Mark), which together represent over 150,000 retail outlets. We also sell our product directly to retail clients, including convenience stores, natural food products stores, large ethnic markets and national retailers. Some examples of retail clients are: Walmart, CVS, Albertson/Safeway, Kroger, Schnucks, Smart & Final, Jewel-Osco, Sprouts, Bashas, Stater Bros. Markets, Unified Grocers, Bristol Farms, Vallarta, Superior Foods, Ingles, HEB Brookshire's, Publix, Shaw's, Raley's, Food Lion, Harris Teeter, and Festival Foods.

Cost of goods sold is comprised of production costs, shipping and handling costs. For the three months ended December 31, 2018, we had cost of goods sold of \$4,822,694, or 63% of revenue, as compared to cost of goods sold of \$2,091,258 or 55% of revenue, for the three months ended December 31, 2017. The decrease in gross profit rate is a direct result of off-invoice incentives to the company's two largest customers during the quarter.

Expenses

Our operating expenses for the three months ended December 31, 2018 and December 31, 2017 are as follows:

	<u>For the three months ended December 31, 2018</u>	<u>For the three months ended December 31, 2017</u>
Sales and marketing expenses	\$ 3,650,105	\$ 1,497,594
General and administrative expenses	2,718,567	2,692,636
Depreciation expenses	110,613	94,585
Total operating expenses	\$ 6,479,285	\$ 4,284,815

For the three months ended December 31, 2018, our total operating expenses were \$6,479,285 as compared to \$4,284,815 for the three months ended December 31, 2017.

For the three months ended December 31, 2018, the total included \$3,650,105 of sales and marketing expenses and \$2,718,567 of general and administrative expenses, consisting primarily of approximately \$1,707,964 of professional fees and 393,460 of stock option expense.

For the three months ended December 31, 2017 the total included \$1,497,594 of sales and marketing expenses and \$2,692,636 of general and administrative expenses, consisting primarily of approximately \$1,702,600 resulting stock compensation expense and \$481,798 of professional fees.

Nine Months Ended December 31, 2018 and December 31, 2017

Our results of operations for the nine months ended December 31, 2018 and December 31, 2017 are as follows:

	<u>For the nine months ended December 31, 2018</u>	<u>For the nine months ended December 31, 2017</u>
Revenue	\$ 24,211,398	\$ 13,838,383
Cost of goods sold	14,301,068	7,797,081
Gross profit	9,910,330	6,041,302
Net Loss (after operating expenses and other expenses)	\$ (5,781,290)	\$ (5,537,174)

Revenue and Cost of Goods Sold

We had revenue from sales of our product for the nine months ended December 31, 2018 of \$24,211,398 as compared to \$13,838,383 for the nine months ended December 31, 2017, an increase of 75% 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. This increase has occurred primarily through the addition of 5 of the top national grocery retailers as customers during the nine months ended December 31, 2018. We distribute our product through several channels. We sell through large national distributors (UNFI, KeHe, C&S, and Core-Mark), which together represent over 150,000 retail outlets. We also sell our product directly to retail clients, including convenience stores, natural food products stores, large ethnic markets and national retailers. Some examples of retail clients are: Walmart, CVS, Albertson's/Safeway, Kroger, Schnucks, Smart & Final, Jewel-Osco, Sprouts, Bashas, Stater Bros. Markets, Unified Grocers, Bristol Farms, Vallarta, Superior Foods, Ingles, HEB Brookshire's, Publix, Shaw's, Raley's, Food Lion, Harris Teeter, and Festival Foods.

Cost of goods sold is comprised of production costs, shipping and handling costs. For the nine months ended December 31, 2018, we had cost of goods sold of \$14,301,068, or 59% of revenue, as compared to cost of goods sold of \$7,797,081 or 56% of revenue, for the nine months ended December 31, 2017. The decrease in gross profit rate is a direct result of off-invoice incentives to the company's two largest customers during the quarter ended December 31, 2018.

Expenses

Our operating expenses for the nine months ended December 31, 2018 and December 31, 2017 are as follows:

	<u>For the nine months ended December 31, 2018</u>	<u>For the nine months ended December 31, 2017</u>
Sales and marketing expenses	\$ 9,846,940	\$ 4,985,955
General and administrative expenses	5,096,043	5,661,274
Depreciation expenses	334,769	286,482
Total operating expenses	\$ 15,277,752	\$ 10,933,711

For the nine months ended December 31, 2018, our total operating expenses were \$15,277,752, as compared to \$10,933,711 for the nine months ended December 31, 2017.

For the nine months ended December 31, 2018, the total included \$9,846,940 of sales and marketing expenses and \$5,096,043 of general and administrative expenses, consisting primarily of approximately \$2,984,247 of professional fees and 393,460 of stock option expense.

For the nine months ended December 31, 2017, the total included \$4,985,955 of sales and marketing expenses and \$5,661,274 of general and administrative expenses, consisting primarily of approximately \$3,372,894 of stock and

stock option compensation expense, and \$1,054,146 of professional fees.

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

	December 31, 2018	March 31, 2018
Current assets	\$ 7,050,054	\$ 4,886,491
Current liabilities	5,751,890	5,595,885
Working capital (deficiency)	\$ 1,298,164	\$ (709,394)

Current Assets

Current assets as of December 31, 2018 and March 31, 2018 primarily relate to \$3,087,445 and \$ 988,905 in cash, \$2,077,728 and \$2,599,095 in accounts receivable and \$1,703,797 and \$ 1,002,020 in inventory, respectively.

Current Liabilities

Current liabilities as of December 31, 2018 and March 31, 2018 primarily relate to \$2,323,242 and \$2,052,988 in accounts payable, revolving financing of \$2,749,298 and \$2,592,015, accrued expenses of \$679,062 and \$819,011 respectively.

Cash Flow

Our cash flows for the nine months ended December 31, 2018 and December 31, 2017 are as follows:

	<u>For the nine months ended December 31, 2018</u>	<u>For the nine months ended December 31, 2017</u>
Net cash used in operating activities	\$ (4,856,749)	\$ (1,262,887)
Net cash used in investing activities	(1,174,458)	(264,876)
Net cash provided by financing activities	8,129,747	1,349,367
Net increase (decrease) in cash and cash equivalents	\$ 2,098,540	\$ (178,396)

Operating Activities

Net cash used in operating activities was \$4,856,749 for the nine months ended December 31, 2018, as compared to \$1,262,887 used in operating activities for the nine months ended December 31, 2017. The increase in net cash used in operating activities was primarily due to a large increase in net operating loss.

Investing Activities

Net cash used in investing activities was \$1,174,458 for the nine months ended December 31, 2018, as compared to \$264,876 used in investing activities for the nine months ended December 31, 2017. The increase in net cash used by investing activities was the result of additional purchase of approximately \$900,000 in equipment during the nine months ended December 31, 2018 compared to the nine months ended December 31, 2017.

Financing Activities

Net cash provided by financing activities for the nine months ended December 31, 2018 was \$8,129,747, as compared to \$1,349,367 for the nine months ended December 31, 2017. The increase of net cash provided by financing activities was mainly attributable to sales of common stock and exercise of warrants of \$8.1 million combined in the nine months ended December 31, 2018.

Recent Financing Activities

On January 24, 2019, we issued an aggregate of 512,332 shares of our common stock upon exercise of our common stock purchase warrants with an exercise price of \$0.90 per share for aggregate gross proceeds of \$461,098.80.

Cash Requirements

We believe that cash flow from operations and available cash will meet our present and near-term cash needs. However, 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 any required 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.

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 December 31, 2018 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.

Our company was named as a defendant in a lawsuit filed on April 6, 2017, by Douglas Horn in the Maricopa County, Arizona, Superior Court, styled as *Horn v. The Alkaline Water Company, Inc., et al.*, cause number CV2017-005485. Mr. Horn sought damages arising out of the alleged breach of a written employment agreement between our company and Mr. Horn. Mr. Horn alleged that our company has failed to pay wages and to transfer stock allegedly owed to him under the terms of his employment agreement. Our company denied the allegations of the claims, and moved to dismiss pursuant to the terms of the employment agreement which require that all disputes be resolved by arbitration. In response, Mr. Horn filed a notice of dismissal of all claims in that court, without prejudice. On September 21, 2017, Mr. Horn filed a Demand for Arbitration with the American Arbitration Association, asserting the same claims. The claim has been assigned No. 01-17-0005-6474. Our company has responded, denying any liability to Mr. Horn and the matter is currently in the discovery phase. The arbitration has been set for a three day hearing on March 19 to 21, 2019. Our company intends to defend the claim vigorously.

Except as detailed above, we know of no material pending legal proceedings to which our company or any of our subsidiaries is a party or of which any of our properties, or the properties of any of our subsidiaries, is the subject. In addition, we do not know of any such proceedings contemplated by any governmental authorities.

Except as detailed above, we know of no material proceedings in which any of our directors, officers or affiliates, or any registered or beneficial stockholder is a party adverse to our company or any of our subsidiaries or has a material interest adverse to our company or any of our subsidiaries.

Item 1A. Risk Factors.

Information regarding risk factors appears in our Annual Report on Form 10-K filed on June 29, 2018. There have been no material changes since June 29, 2018 from the risk factors disclosed in that Form 10-K.

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

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

Item 6. Exhibits.

Exhibit Number Description

(3)	Articles of Incorporation and Bylaws
3.1	<u>Articles of Incorporation (incorporated by reference from our Form S-1 Registration Statement, filed on October 28, 2011)</u>
3.2	<u>Certificate of Change (incorporated by reference from our Quarterly Report on Form 10-Q, filed on August 13, 2013)</u>
3.3	<u>Articles of Merger (incorporated by reference from our Quarterly Report on Form 10-Q, filed on August 13, 2013)</u>
3.4	<u>Certificate of Amendment to Articles of Incorporation (incorporated by reference from our Current Report on Form 8-K, filed on October 11, 2013)</u>
3.5	<u>Certificate of Designation (incorporated by reference from our Current Report on Form 8-K, filed on October 11, 2013)</u>
3.6	<u>Certificate of Designation (incorporated by reference from our Current Report on Form 8-K, filed on November 12, 2013)</u>
3.7	<u>Certificate of Change (incorporated by reference from our Current Report on Form 8-K, filed on December 30, 2015)</u>
3.8	<u>Certificate of Amendment to Articles of Incorporation (incorporated by reference from our Current Report on Form 8-K, filed on January 25, 2016)</u>
3.9	<u>Certificate of Amendment to Certificate of Designation (incorporated by reference from our Current Report on Form 8-K, filed on January 25, 2016)</u>
3.10	<u>Certificate of Designation (incorporated by reference from our Current Report on Form 8-K, filed on April 5, 2016)</u>
3.11	<u>Certificate of Withdrawal of Certificate of Designation (incorporated by reference from our Current Report on Form 8-K, filed on April 4, 2017)</u>
3.12	<u>Certificate of Designation (incorporated by reference from our Current Report on Form 8-K, filed on May 4, 2017)</u>
3.13	<u>Certificate of Amendment to Certificate of Designation (incorporated by reference from our Current Report on Form 8-K, filed on November 6, 2017)</u>
3.14	<u>Certificate of Withdrawal of Certificate of Designation (incorporated by reference from our Quarterly Report on Form 10-Q, filed on November 20, 2017)</u>
3.15	<u>Amended and Restated Bylaws (incorporated by reference from our Current Report on Form 8-K, filed on October 15, 2018)</u>
(10)	Material Contracts
10.1	<u>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)</u>
10.2	<u>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)</u>
10.3	<u>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)</u>
10.4	<u>Equipment Lease Agreement dated January 17, 2014 (incorporated by reference from our Current Report on Form 8-K, filed on January 27, 2014)</u>
10.5	<u>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)</u>

Exhibit Number Description

10.6	<u>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)</u>
10.7	<u>Form of Common Stock Purchase Warrant (incorporated by reference from our Current Report on Form 8-K, filed on May 6, 2014)</u>
10.8	<u>Form of Placement Agent Common Stock Purchase Warrant (incorporated by reference from our Current Report on Form 8-K, filed on May 6, 2014)</u>
10.9	<u>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)</u>
10.10	<u>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)</u>
10.11	<u>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)</u>
10.12	<u>Form of Warrant Amendment Agreement (incorporated by reference from our Current Report on Form 8-K, filed on August 21, 2014)</u>
10.13	<u>Form of Common Stock Purchase Warrant (incorporated by reference from our Current Report on Form 8-K, filed on August 21, 2014)</u>
10.14	<u>Form of Warrant Amendment Agreement (incorporated by reference from our Current Report on Form 8-K, filed on October 9, 2014)</u>
10.15	<u>Form of Common Stock Purchase Warrant (incorporated by reference from our Current Report on Form 8-K, filed on October 9, 2014)</u>
10.16	<u>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)</u>
10.17	<u>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)</u>
10.18	<u>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)</u>
10.19	<u>Form of Amending Agreement to Stock Option Agreement (incorporated by reference from our Current Report on Form 8-K, filed on November 4, 2014)</u>
10.20	<u>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)</u>
10.21	<u>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)</u>
10.22	<u>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)</u>
10.23	<u>Securities Purchase Agreement dated as of August 20, 2015 with Assurance Funding Solutions LLC (incorporated by reference from our Quarterly Report on Form 10-Q, filed on November 23, 2015)</u>
10.24	<u>Secured Term Note dated August 20, 2015 issued to Assurance Funding Solutions LLC (incorporated by reference from our Quarterly Report on Form 10-Q, filed on November 23, 2015)</u>
10.25	<u>General Security Agreement dated as of August 20, 2015 with Assurance Funding Solutions LLC (incorporated by reference from our Quarterly Report on Form 10-Q, filed on November 23, 2015)</u>

Exhibit Number Description

10.26	<u>Loan Agreement dated November 30, 2015 with Neil Rogers (incorporated by reference from our Current Report on Form 8-K, filed on December 4, 2015)</u>
10.27	<u>Promissory Note dated November 30, 2015 issued to Neil Rogers (incorporated by reference from our Current Report on Form 8-K, filed on December 4, 2015)</u>
10.28	<u>Escrow Agreement dated November 30, 2015 with Neil Rogers and Escrow Agent (incorporated by reference from our Current Report on Form 8-K, filed on December 4, 2015)</u>
10.29	<u>2013 Equity Incentive Plan (incorporated by reference from our Current Report on Form 8-K, filed on January 25, 2016)</u>
10.30	<u>Loan Agreement dated January 25, 2016 with Turnstone Capital Inc. (incorporated by reference from our Current Report on Form 8-K, filed on January 25, 2016)</u>
10.31	<u>Promissory Note dated January 25, 2016 issued to Turnstone Capital Inc. (incorporated by reference from our Current Report on Form 8-K, filed on January 25, 2016)</u>
10.32	<u>Escrow Agreement dated January 25, 2016 with Turnstone Capital Inc. and Escrow Agent (incorporated by reference from our Current Report on Form 8-K, filed on January 25, 2016)</u>
10.33	<u>Amendment Agreement dated January 25, 2016 with Neil Rogers (incorporated by reference from our Current Report on Form 8-K, filed on January 25, 2016)</u>
10.34	<u>Employment Agreement dated effective March 1, 2016 with Steven P. Nickolas (incorporated by reference from our Current Report on Form 8-K, filed on April 5, 2016)</u>
10.35	<u>Employment Agreement dated effective March 1, 2016 with Richard A. Wright (incorporated by reference from our Current Report on Form 8-K, filed on April 5, 2016)</u>
10.36	<u>Form of Promissory Note and Warrant Exchange Agreement (incorporated by reference from our Current Report on Form 8-K, filed on June 16, 2016)</u>
10.37	<u>Loan Facility Agreement dated September 20, 2016 with Turnstone Capital Inc. (incorporated by reference from our Current Report on Form 8-K, filed on September 22, 2016)</u>
10.38	<u>Credit and Security Agreement dated February 1, 2017 with SCM Specialty Finance Opportunities Fund, L.P. (incorporated by reference from our Current Report on Form 8-K, filed on February 7, 2017)</u>
10.39	<u>Payoff Agreement dated February 1, 2017 with Gibraltar Business Capital, LLC (incorporated by reference from our Current Report on Form 8-K, filed on February 7, 2017)</u>
10.40	<u>Form of Stock Option Agreement (incorporated by reference from our Current Report on Form 8-K, filed on May 4, 2017)</u>
10.41	<u>Settlement Agreement and Mutual Release of Claims dated October 31, 2017 with Steven P. Nickolas, Nickolas Family Trust, Water Engineering Solutions, LLC, Enhanced Beverages, LLC, McDowell 78, LLC and Wright Investments Group, LLC (incorporated by reference from our Current Report on Form 8-K, filed on November 6, 2017)</u>
10.42	<u>Exchange Agreement and Mutual Release of Claims dated November 8, 2017 with Ricky Wright (incorporated by reference from our Current Report on Form 8-K, filed on November 14, 2017)</u>
10.43	<u>Stock Option Forfeiture & General Release dated November 8, 2017 by Ricky Wright and Sharon Wright (incorporated by reference from our Current Report on Form 8-K, filed on November 14, 2017)</u>
10.44	<u>Form of Warrant Amendment Agreement (incorporated by reference from our Current Report on Form 8-K, filed on February 22, 2018)</u>

Exhibit Number Description

10.45	<u>Form of Common Stock Purchase Warrant (incorporated by reference from our Current Report on Form 8-K, filed on March 5, 2018)</u>
10.46	<u>2018 Stock Option Plan (incorporated by reference from our Current Report on Form 8-K, filed on April 25, 2018)</u>
10.47	<u>Form of Subscription Agreement (incorporated by reference from our Current Report on Form 8-K filed on May 31, 2018)</u>
10.48	<u>Form of Subscription Agreement (incorporated by reference from our Current Report on Form 8-K filed on October 3, 2018)</u>
(31)	Rule 13a-14 Certifications
<u>31.1*</u>	<u>Certification of Principal Executive Officer Pursuant to Section 302 of the Sarbanes Oxley Act of 2002</u>
<u>31.2*</u>	<u>Certification of Principal Financial Officer Pursuant to Section 302 of the Sarbanes Oxley Act of 2002</u>
(32)	Section 1350 Certifications
<u>32.1*</u>	<u>Certification of Principal Executive Officer Pursuant to Section 906 of the Sarbanes Oxley Act of 2002</u>
<u>32.2*</u>	<u>Certification of Principal Financial Officer Pursuant to Section 906 of the Sarbanes Oxley Act of 2002</u>
(101)	Interactive Data File
<u>101.INS*</u>	<u>XBRL Instance Document</u>
<u>101.SCH*</u>	<u>XBRL Taxonomy Extension Schema</u>
<u>101.CAL*</u>	<u>XBRL Taxonomy Extension Calculation Linkbase</u>
<u>101.DEF*</u>	<u>XBRL Taxonomy Extension Definition Linkbase</u>
<u>101.LAB*</u>	<u>XBRL Taxonomy Extension Label Linkbase</u>
<u>101.PRE*</u>	<u>XBRL Taxonomy Extension Presentation Linkbase</u>

*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: February 14, 2019

By: /s/ Richard A. Wright
Richard A. Wright
President and Chief Executive Officer
(Principal Executive Officer)

Date: February 14, 2019

By: /s/ David A. Guarino
David A. Guarino
Chief Financial Officer and Treasurer
(Principal Financial Officer and Principal
Accounting Officer)
