

ALKAME HOLDINGS, INC.  
Form 10-Q  
November 20, 2014

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

**FORM 10-Q**

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

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

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: **000-55267**

**Alkame Holdings, Inc.**

(Exact name of registrant as specified in its charter)

**Nevada**

(State or other jurisdiction of incorporation organization)

**98-0661455**

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

**3651 Lindell Road, Suite D #356, Las Vegas, NV 89103**

(Address of principal executive offices) (Zip Code)

Registrant's Telephone Number, Including Area Code: **702-273-9714**

---

(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

Edgar Filing: ALKAME HOLDINGS, INC. - Form 10-Q

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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: 74,045,606 as November 17, 2014

**ALKAME HOLDINGS, INC.**

**INDEX**

	Page
PART I. FINANCIAL INFORMATION	3
ITEM 1. <u>Financial Statements</u>	
<u>Condensed consolidated balance sheets as of September 30, 2014 (unaudited) and December 31, 2013</u>	4
<u>Condensed consolidated statements of operations for the three and nine months ended September 30, 2014 and 2013 (unaudited)</u>	5
<u>Condensed consolidated statements of cash flows for the nine months ended September 30, 2014 and 2013 (unaudited)</u>	6
<u>Notes to condensed consolidated financial statements (unaudited)</u>	7
ITEM 2. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	20
ITEM 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	23
ITEM 4. <u>Controls and Procedures</u>	24
PART II. OTHER INFORMATION	
ITEM 1. <u>Legal Proceedings</u>	25
ITEM 1A. <u>Risk Factors</u>	25
ITEM 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	25
ITEM 3. <u>Defaults Upon Senior Securities</u>	26
ITEM 4. <u>Mine Safety Disclosures</u>	26
ITEM 5. <u>Other Information</u>	26
ITEM 6. <u>Exhibits</u>	26
SIGNATURES	27

Table of Contents

**PART 1 - FINANCIAL INFORMATION**

**Item 1. Financial Statements.**

*Forward Looking Statements*

This quarterly report contains forward-looking statements. These statements relate to future events or our future financial performance. In some cases, you can identify forward-looking statements by terminology such as “may”, “should”, “expect”, “plan”, “anticipate”, “believe”, “estimate”, “predict”, “potential” or “continue” or the negative of these terms or comparable terminology. These statements are only predictions and involve known and unknown risks, uncertainties and other factors, any of which may cause our company’s or our industry’s actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements. These risks include, by way of example and not in limitation:

- the uncertainty that we will not be able to successfully execute our business plan;
- risks related to the large number of established and well-financed entities that are actively seeking suitable business opportunities;
- risks related to the failure to successfully manage or achieve growth of a new business opportunity; and
- other risks and uncertainties related to our business strategy.

This list is not an exhaustive list of the factors that may affect any of our forward-looking statements. These and other factors should be considered carefully and readers should not place undue reliance on our forward-looking statements.

Forward looking statements are made based on management’s beliefs, estimates and opinions on the date the statements are made and we undertake no obligation to update forward-looking statements if these beliefs, estimates and opinions or other circumstances should change. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. Except as required by applicable law, including the securities laws of the United States, we do not intend to update any of the forward-looking statements to conform these statements to actual results.

Our unaudited condensed consolidated financial statements are stated in United States dollars (US\$) and are prepared in accordance with United States Generally Accepted Accounting Principles. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. Operating results for the interim period ended September 30, 2014 are not necessarily indicative of the results that can be expected for the full year.

In this quarterly report, unless otherwise specified, all dollar amounts are expressed in United States dollars and all references to “common stock” refer to the common shares in our capital stock.

As used in this quarterly report, the terms “we”, “us”, “our”, “our company” and “Alkame” mean Alkame Holdings, Inc., unless otherwise stated.

Table of Contents

## ALKAME HOLDINGS, INC. AND SUBSIDIARY

## CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 2014 (Unaudited)	December 31, 2013
<b>ASSETS</b>		
Current assets:		
Cash	\$ 161,709	\$ 128,258
Accounts receivable (net of bad debt reserve of \$3,000 and \$0, respectively)	67,132	331
Prepaid expenses - current	422,500	624,500
Inventory	59,662	45,598
Deposits	—	15,032
Total current assets	711,003	813,719
Fixed and intangible assets:		
Manufacturing equipment, net	6,899	—
Intangible assets, net	5,220	7,352
Fixed and intangible assets, net	12,119	7,352
Other assets:		
Deferred finance costs	650,493	47,084
Investment in Xtreme Technologies, Inc.	50,000	—
Prepaid expenses - long term	—	260,000
Total other assets	700,493	307,084
 Total assets	 \$ 1,423,615	 \$ 1,128,156
<b>LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT)</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 291,474	\$ 62,702
Accrued interest	101,116	36,347
Loans from officer	3,489	3,489
Notes payable	796,490	53,490
Convertible debentures (net of debt discount of \$223,612 and \$0, respectively)	40,638	—
Derivative instrument liability	973,667	—
Total current liabilities	2,206,875	156,028
Other liabilities:		
Convertible debentures (net of debt discount of \$76,293 and \$0, respectively)	6,207	—
Notes payable - long term	100,000	750,000
Total liabilities	2,313,081	906,028
Stockholders' equity (deficit)		
Preferred stock - \$.001 par value, authorized - 20,000,000 shares;	—	—
	12,000	12,000

Edgar Filing: ALKAME HOLDINGS, INC. - Form 10-Q

Series A Convertible Preferred stock - \$.001 par value, 12,000,000 designated; issued and outstanding - 12,000,000 and 12,000,000 shares, respectively

Series B Convertible Preferred stock - \$.001 par value, 70,000,000 designated; issued and outstanding 65,210,834 and 0, respectively

Series C Convertible Preferred stock - \$.001 par value, 10,000,000 designated; issued and outstanding 0 shares

Common stock - \$.001 par value, authorized - 900,000,000 shares; issued and outstanding - 74,045,606 and 135,089,766 shares, respectively (1)

Additional paid-in capital

Accumulated deficit

Total stockholders' equity (deficit)

65,211 —

— —

74,046 135,090

6,143,196 5,548,405

(7,183,920) (5,473,367)

(889,467 ) 222,128

Total liabilities and stockholders' equity (deficit)

\$1,423,615 \$1,128,156

(1) Adjusted for 1:3 reverse split on January 8, 2014

See accompanying notes to the unaudited condensed consolidated financial statements

Table of Contents

## ALKAME HOLDINGS, INC. AND SUBSIDIARY

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	For the three months ended		For the nine months ended	
	September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
Revenues	\$6,665	\$17,274	\$105,676	\$17,274
Cost of goods sold	33,717	73,529	129,340	73,529
Gross loss	(27,052 )	(56,255 )	(23,664 )	(56,255 )
Operating expenses:				
Selling expenses	242,935	136,793	642,800	234,647
General and administrative	110,359	63,390	261,129	3,563,364
Depreciation and amortization	711	425	2,133	425
Total operating expenses	354,005	200,608	906,062	3,798,436
Loss from operations	(381,057 )	(256,863 )	(929,726 )	(3,854,691 )
Other expenses:				
Amortization of deferred financing costs	18,549	—	34,799	—
Interest expense	1,032,993	8,104	1,073,546	17,578
Amortization of debt discounts	46,845	—	46,845	—
Gain on change in fair value of derivative liability	(374,363 )	—	(374,363 )	—
Total other expenses	724,024	8,104	780,826	17,578
Net loss applicable to common stock holders	\$(1,105,081 )	\$(264,967 )	\$(1,710,552 )	\$(3,872,269 )
Per share data				
Net Loss per share - basic and diluted	\$(0.01 )	\$(0.00 )	\$(0.02 )	\$(0.03 )
Weighted average number of shares outstanding- basic and diluted	70,558,287	148,247,462	76,557,282	147,983,281

See accompanying notes to the unaudited condensed consolidated financial statements

Table of Contents

## ALKAME HOLDINGS, INC. AND SUBSIDIARY

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the nine months ended	
	September 30, 2014	September 30, 2013
Cash flows from operating activities:		
Net loss	\$(1,710,552)	\$(3,872,269)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	2,401	425
Common stock issued for services	—	3,305,550
Expenses paid on behalf of company	—	63,000
Amortization of debt discount	46,845	—
Gain on change in fair value of derivative liability	(374,363 )	—
Amortization of prepaid assets	472,000	85,354
Amortization of deferred financing costs	34,799	—
Bad debts	3,000	—
Non-cash interest expense	1,001,280	—
Changes in operating asset and liabilities:		
Accounts receivable	(69,801 )	(16,013 )
Deposits	15,032	—
Inventory	(14,064 )	(46,089 )
Prepaid expenses	(10,000 )	(7,500 )
Accrued interest	64,769	17,597
Accounts payable and accrued expenses	228,773	213
Total adjustments	1,400,671	3,402,537
Net cash used in operating activities	(309,881 )	(469,732 )
Cash flows from investing activities:		
Nonrefundable deposit for acquisition of production facility	(50,000 )	—
Purchase of equipment	(7,168 )	(5,000 )
Net cash used in investing activities	(57,168 )	(5,000 )
Cash flows from financing activities:		
Proceeds from related parties	—	7,985
Payments to related parties	—	(21,658 )
Proceeds from notes payable	100,000	760,000
Payments of notes payable	(7,000 )	(22,510 )
Proceeds from convertible notes	346,750	—
Payments of financing costs	(39,250 )	—
Net cash provided by financing activities	400,500	723,817
Net increase in cash	33,451	249,085
Cash at beginning of period	128,258	145



Edgar Filing: ALKAME HOLDINGS, INC. - Form 10-Q

Cash at end of period	\$161,709	\$249,230
Supplemental Schedule of Cash Flow Information:		
Cash paid for interest	\$—	\$—
Cash paid for income taxes	\$—	\$—
Supplemental Schedules of Noncash Investing and Financing Activities:		
Common shares converted to Series A Convertible Preferred shares	\$—	\$250,000
Common stock issued for license agreement	\$—	\$3,538
Common stock issued for prepaid services	\$—	\$1,133,000
Recapitalization	\$—	\$7,000
Conversion of common stock into Series B convertible preferred stock	\$65,211	\$—
Derivative liability on convertible notes at inception	\$1,348,030	\$—
Common stock issued for deferred financing cost	\$625,000	\$—
Amortization of equity deferred financing cost to additional paid-in capital	\$26,042	\$—

See accompanying notes to the unaudited condensed consolidated financial statements

Table of Contents

**Alkame Holding, Inc. and Subsidiary**

**Notes to the Unaudited Condensed Consolidated Financial Statements**

**For the nine months ended September 30, 2014 and 2013**

**1. Organization and Nature of Operations**

Alkame Holdings, Inc. (fka Pinnacle Enterprise Inc.) (the "Company", "we", "us" or "our") was incorporated under the laws of the State of Nevada on April 19, 2010. The Company is in the business of distributing bottled/canned alkaline, antioxidant and oxygenated water.

On June 24, 2013, the Company entered into a share exchange agreement with Alkame Water, Inc. ("Alkame") and the shareholders of all of the issued and outstanding shares of Alkame. On June 25, 2013, the Company acquired 100% of the members' shares of Alkame, a Company incorporated in the state of Nevada on March 1, 2012, in exchange for 150,000,000 common shares, comprised of 116,666,667 common shares privately transacted from the President of Company and the issuance of 33,333,333 common shares to shareholders of Alkame. Effectively, Alkame held 71% of the issued and outstanding common shares of the Company and the transaction has been accounted for as a reverse merger, where Alkame is deemed to be the acquirer and or the surviving entity for accounting purposes.

As part of the acquisition transaction, all assets and liabilities of Alkame Holdings, Inc. at the date of acquisition were assumed by the former management.

The transaction is accounted for using the purchase method of accounting. As a result of the recapitalization and change in control, Alkame is the acquiring entity in accordance with ASC 805, Business Combinations. Accordingly, the historical financial statements are those of Alkame, the accounting acquirer, immediately following the consummation of the reverse merger.

The Company ceased to be a Development Stage Company during the year ended December 31, 2013.

As a result of the exchange transaction, our board of directors decided to change our fiscal yearend from January 31 to December 31.

**2. Going Concern**

These accompanying unaudited condensed consolidated financial statements have been prepared on a going concern basis, which implies that the Company will continue to realize its assets and discharge its liabilities in the normal course of business. For the nine months ended September 30, 2014, the Company has recognized only \$105,676 in revenue and as of September 30, 2014 had an accumulated deficit of \$7,183,920. The continuation of the Company as a going concern is dependent upon the continued financial support from its management, and its ability to identify future investment opportunities and obtain the necessary debt or equity financing, and generating profitable operations from the Company's future operations. These factors raise substantial doubt regarding the Company's ability to continue as a going concern. These accompanying unaudited condensed consolidated financial statements do not include any adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

**3.**

**Basis of Presentation**

These unaudited interim financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“US GAAP”) for financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all the information and notes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and nine months ended September 30, 2014 are not necessarily indicative of the results that may be expected for any interim period or an entire year. The Company applies the same accounting policies and methods in its interim financial statements as those in the most recent audited annual financial statements. The financial statements and notes included herein should be read in conjunction with the annual financial statements and notes for the year ended December 31, 2013 included in the Company’s filing on Form 10-K.

The financial statements of the Company have been prepared in accordance with US GAAP and are expressed in U.S. dollars. All inter-company accounts and transactions have been eliminated. The Company’s fiscal year end is December 31.

Table of Contents

**4. Summary of Significant Accounting Policies**

**a) Use of Estimates**

The preparation of unaudited condensed consolidated financial statements in conformity with US GAAP 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. The Company regularly evaluates estimates and assumptions related to the deferred income tax asset valuation allowances. The Company bases its estimates and assumptions on current facts, historical experience and various other factors that it believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities and the accrual of costs and expenses that are not readily apparent from other sources. The actual results experienced by the Company may differ materially and adversely from the Company's estimates. To the extent there are material differences between the estimates and the actual results, future results of operations will be affected.

**b) Cash and Cash Equivalents**

For purposes of the statement of cash flows, cash includes demand deposits, saving accounts and money market accounts. The Company considers all highly liquid instruments with maturities of three months or less when purchased to be cash equivalents.

**c) Basic and Diluted Net Loss per Share**

The Company computes net loss per share in accordance with ASC 260, Earnings per Share. ASC 260 requires presentation of both basic and diluted earnings per share ("EPS") on the face of the income statement. Basic EPS is computed by dividing net loss available to common shareholders (numerator) by the weighted average number of shares outstanding (denominator) during the period. Diluted EPS gives effect to all dilutive potential common shares outstanding during the period using the treasury stock method and convertible preferred stock using the if-converted method. In computing diluted EPS, the average stock price for the period is used in determining the number of shares assumed to be purchased from the exercise of stock options or warrants. Diluted EPS excludes all dilutive potential shares if their effect is anti-dilutive. Such securities, shown below, presented on a common share equivalent basis and outstanding as of September 30, 2014 and 2013 have been excluded from the per share computations:

As of

Edgar Filing: ALKAME HOLDINGS, INC. - Form 10-Q

	September 30, 2014	September 30, 2013
Series A Convertible Preferred Stock	600,000,000	600,000,000
Series B Convertible Preferred Stock	65,210,834	—
Convertible notes payable	5,862,185	—

Table of Contents

**d) Financial Instruments**

Pursuant to ASC 820, Fair Value Measurements and Disclosures, an entity is required to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. ASC 820 establishes a fair value hierarchy based on the level of independent, objective evidence surrounding the inputs used to measure fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. ASC 820 prioritizes the inputs into three levels that may be used to measure fair value:

Level 1 applies to assets or liabilities for which there are quoted prices in active markets for identical assets or liabilities.

Level 2 applies to assets or liabilities for which there are inputs other than quoted prices that are observable for the asset or liability such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical assets or liabilities in markets with insufficient volume or infrequent transactions (less active markets); or model-derived valuations in which significant inputs are observable or can be derived principally from, or corroborated by, observable market data.

Level 3 applies to assets or liabilities for which there are unobservable inputs to the valuation methodology that are significant to the measurement of the fair value of the assets or liabilities.

The Company did not have any Level 2 or Level 3 assets or liabilities as of September 30, 2014, with the exception of its convertible notes payable. The carrying amounts of these liabilities at September 30, 2014 approximate their respective fair value based on the Company's incremental borrowing rate.

Cash is considered to be highly liquid and easily tradable as of September 30, 2014 and therefore classified as Level 1 within our fair value hierarchy.

In addition, FASB ASC 825-10-25 Fair Value Option, or ASC 825-10-25, was effective for January 1, 2008. ASC 825-10-25 expands opportunities to use fair value measurements in financial reporting and permits entities to choose to measure many financial instruments and certain other items at fair value. The Company did not elect the fair value options for any of its qualifying financial instruments

**e) Convertible Instruments**

The Company evaluates and accounts for conversion options embedded in its convertible instruments in accordance with professional standards for “Accounting for Derivative Instruments and Hedging Activities”.

Professional standards generally provides three criteria that, if met, require companies to bifurcate conversion options from their host instruments and account for them as free standing derivative financial instruments. These three criteria include circumstances in which (a) the economic characteristics and risks of the embedded derivative instrument are not clearly and closely related to the economic characteristics and risks of the host contract, (b) the hybrid instrument that embodies both the embedded derivative instrument and the host contract is not re-measured at fair value under otherwise applicable generally accepted accounting principles with changes in fair value reported in earnings as they occur and (c) a separate instrument with the same terms as the embedded derivative instrument would be considered a derivative instrument. Professional standards also provide an exception to this rule when the host instrument is deemed to be conventional as defined under professional standards as “The Meaning of “Conventional Convertible Debt Instrument”.

The Company accounts for convertible instruments (when it has determined that the embedded conversion options should not be bifurcated from their host instruments) in accordance with professional standards when “Accounting for Convertible Securities with Beneficial Conversion Features,” as those professional standards pertain to “Certain Convertible Instruments.” Accordingly, the Company records, when necessary, discounts to convertible notes for the intrinsic value of conversion options embedded in debt instruments based upon the differences between the fair value of the underlying common stock at the commitment date of the note transaction and the effective conversion price embedded in the note. Debt discounts under these arrangements are amortized over the term of the related debt to their earliest date of redemption. The Company also records when necessary deemed dividends for the intrinsic value of conversion options embedded in preferred shares based upon the differences between the fair value of the underlying common stock at the commitment date of the note transaction and the effective conversion price embedded in the note.

ASC 815-40 provides that, among other things, generally, if an event is not within the entity’s control could or require net cash settlement, then the contract shall be classified as an asset or a liability.

Table of Contents

**f) Derivative Liabilities**

The Company assessed the classification of its derivative financial instruments as of September 30, 2014, which consist of convertible instruments and rights to shares of the Company's common stock, and determined that such derivatives meet the criteria for liability classification under ASC 815.

ASC 815 generally provides three criteria that, if met, require companies to bifurcate conversion options from their host instruments and account for them as free standing derivative financial instruments. These three criteria include circumstances in which (a) the economic characteristics and risks of the embedded derivative instrument are not clearly and closely related to the economic characteristics and risks of the host contract, (b) the hybrid instrument that embodies both the embedded derivative instrument and the host contract is not re-measured at fair value under otherwise applicable generally accepted accounting principles with changes in fair value reported in earnings as they occur and (c) a separate instrument with the same terms as the embedded derivative instrument would be considered a derivative instrument subject to the requirements of ASC 815. ASC 815 also provides an exception to this rule when the host instrument is deemed to be conventional, as described.

**g) Income Taxes**

Potential benefits of income tax losses are not recognized in the accounts until realization is more likely than not. The Company has adopted ASC 740 "Accounting for Income Taxes" as of its inception. Pursuant to ASC 740, the Company is required to compute tax asset benefits for net operating losses carried forward. The potential benefits of net operating losses have not been recognized in this financial statement because the Company cannot be assured it is more likely than not it will utilize the net operating losses carried forward in future years.

**h) Recent Accounting Pronouncements**

The FASB has issued ASU No. 2014-12, *Compensation – Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period*. This ASU requires that a performance target that affects vesting, and that could be achieved after the requisite service period, be treated as a performance condition. As such, the performance target should not be reflected in estimating the grant date fair value of the award. This update further clarifies that compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered.. The amendments in this ASU are effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. Earlier adoption is permitted. The Company has not yet determined the



effect of the adoption of this standard.

The FASB has issued ASU No. 2014-09, *Revenue from Contracts with Customers*. This ASU supercedes the revenue recognition requirements in Accounting Standards Codification 605 - Revenue Recognition and most industry-specific guidance throughout the Codification. The standard requires that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. This ASU is effective on January 1, 2017 and should be applied retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying the ASU recognized at the date of initial application. The Company has not yet determined the effect of the adoption of this standard and it is not expected to have a material impact on the Company's condensed consolidated financial position and results of operations.

In August 2014, the FASB issued a new accounting standard which requires management to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern for each annual and interim reporting period. If substantial doubt exists, additional disclosure is required. This new standard will be effective for the Company for annual and interim periods beginning after December 15, 2016. Early adoption is permitted. The Company expects to adopt this new standard for the fiscal year ending December 31, 2014 and the Company will continue to assess the impact on its consolidated financial statements.

The Company has implemented all new accounting pronouncements that are in effect. These pronouncements did not have any material impact on the financial statements unless otherwise disclosed, and the Company does not believe that there are any other new accounting pronouncements that have been issued that might have a material impact on its financial position or results of operations.

Table of Contents

**i) Revenue Recognition**

The Company will recognize revenue in accordance with ASC-605, "Revenue Recognition," which requires that four basic criteria must be met before revenue can be recognized: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred or title has passed; (3) the selling price is fixed and determinable; and (4) collectability is reasonably assured. Determination of criteria (3) and (4) are based on management's judgments regarding the fixed nature of the selling prices of the products delivered and the collectability of those amounts.

Revenues are recognized upon shipment, provided that a signed purchase order has been received, the price is fixed, title has transferred, collection of resulting receivables is reasonably assured, and there are no remaining significant obligations. Reserves for sales returns and allowances, including allowances for so called "ship and debit" transactions, are recorded at the time of shipment, based on historical levels of returns and discounts, current economic trends and changes in customer demand. Certain Internet generated transactions that are prepaid at time of order, are recognized at the time the merchandise ships from the warehouse to the customer.

Provisions for discounts and rebates to customers, estimated returns and allowances, and other adjustments are provided for in the same period the related sales are recorded. The Company will defer any revenue for which the product has not been delivered or is subject to refund until such time that the Company and the customer jointly determine that the product has been delivered or no refund will be required.

**5.**

**Reverse Acquisition**

On September 25, 2013, the Company acquired 100% of the members' shares of Alkame, a company incorporated in the state of Nevada on March 1, 2012, in exchange for 150,000,000 common shares, comprised of 116,666,667 common shares privately transacted from the President of Company and the issuance of 33,333,333 common shares to shareholders of Alkame. Effectively, Alkame held 71% of the issued and outstanding common shares of the Company and the transaction has been accounted for as a reverse acquisition, where Alkame is deemed to be the acquirer for accounting purposes.

As part of the acquisition transaction, all assets and liabilities of Alkame Holdings, Inc. (fka Pinnacle Enterprise, Inc.) at the date of acquisition were assumed by the former management.

As a result of the exchange transaction, our board of directors decided to change our fiscal year end from January 31 to December 31.

**6.**

**Notes Payable**

Current:

The Company owed \$46,490 and \$53,490 at September 30, 2014 and December 31, 2013 respectively to a stockholder and former director.

During the year ended December 31, 2013, the Company had \$63,000 in expenses paid on its behalf by this shareholder and former director which was recorded as a Note. On August 1, 2013, the Company and note holder amended the Note by mutual agreement increasing the principal amount by an additional \$10,000 for other services rendered by the former director. The Note is unsecured, and begin accruing interest August 1, 2014 at 5% per annum on the unpaid principal thereafter.

During the nine months ended September 30, 2014 and 2013, the Company repaid \$7,000 and \$12,510 of the Note, respectively.

Long-term:

On March 29, 2013, the Company entered into a two year promissory note agreement for \$500,000. On April 8, 2013, the Company received \$200,000 and on May 1, 2013, the Company received \$300,000. On September 27, 2013, the note agreement was amended to include an additional advance to the Company of \$250,000. Pursuant to the agreement, the loan is secured with a general security agreement, bears interest at 10% per annum, and \$500,000 is due on March 30, 2015 and \$250,000 is due on September 27, 2015. As at September 30, 2014 and December 31, 2013, the Company has accrued interest of \$98,153 and \$36,347, respectively. The original note, and the amendment, each mature two years from date of issuance or amendment.

On March 11, 2014, the Company entered into an additional two year promissory note agreement for an additional \$100,000 from the same investor group, on the same terms as outlined above.

As of September 30, 2014, the Company classified \$750,000 of this note payable to current liability.

The Company paid 10% of proceeds from \$750,000 of the long-term notes payable as financing cost of \$75,000 to a consultant. The Company will amortize this cost over the term of the long-term note payable.

The Company paid 10% of proceeds from the \$100,000 long-term notes payable as financing cost of \$10,000 to a consultant. The Company will amortize this cost over the term of the long-term note payable.

During the three and nine months ended September 30, 2014, the Company charged to operations \$17,299 and \$34,799 as amortization of deferred financing costs, respectively. As of September 30, 2014 and December 31, 2013, remaining balance in deferred financing cost of \$651,493 and \$47,084, respectively is presented as part of other

assets.

11

Table of Contents**7. Convertible debt**

At September 30, 2014 and December 31, 2013 convertible notes and debentures consisted of the following:

	September 30, 2014	December 31, 2013
Convertible notes payable	\$ 346,750	\$ —
Unamortized debt discount	(299,905 )	—
Carrying amount	\$ 46,845	\$ —
Less: current portion	(40,638 )	—
Long-term convertible notes, net	\$ 6,207	\$ —

Note issued on August 6, 2014, long-term:

On August 6, 2014, the Company entered into a one year convertible debenture for \$82,500 with an accredited institutional investor. The debenture is convertible at the lesser of \$0.10 per share, or 60% of the lowest trade price in the 25 trading days prior to conversion. The note was issued with an original issue discount of \$7,500 which was charged to current period operations as interest expense during the three and nine months ended September 30, 2014.

The Company identified embedded derivatives related to the Convertible Promissory Notes entered into in August 2014. These embedded derivatives included certain conversion features. The accounting treatment of derivative financial instruments requires that the Company record the fair value of the derivatives as of the inception date of the Convertible Promissory Note and to adjust the fair value as of each subsequent balance sheet date. At the inception of the Convertible Promissory Note, the Company determined a fair value of \$190,451 of the embedded derivative. The fair value of the embedded derivative was determined using the Black-Schole Model based on the following assumptions:

Dividend yield:	0 %
Volatility	105 %
Risk free rate:	0.48 %

The initial fair values of the embedded debt derivative of \$190,451 was allocated as a debt discount up to the proceeds of the note (\$82,500) with the remainder (\$107,951) charged to operations as interest expense in during the three and nine months ended September 30, 2014.

During the three and nine months ended September 30, 2014, the Company amortized \$6,207 to current period operations as amortization of debt discount.

Edgar Filing: ALKAME HOLDINGS, INC. - Form 10-Q

The fair value of the described embedded derivative of \$302,172 at September 30, 2014 was determined using the Black-Schole Model with the following assumptions:

Dividend yield:	0	%
Volatility	255	%
Risk free rate:	0.58	%

At September 30, 2014, the Company adjusted the recorded fair value of the derivative liability to market resulting in non-cash, non-operating loss of \$111,722 for the three and nine months ended September 30, 2014.

Table of Contents

Note issued on August 6, 2014, current:

On August 6, 2014, the Company entered into a nine month convertible debenture for \$68,000 with an accredited institutional investor. The debenture is convertible at 58% of the average of the three lowest trading prices in the 10 trading days prior to conversion.

The Company identified embedded derivatives related to the Convertible Promissory Notes entered into in August 2014. These embedded derivatives included certain conversion features. The accounting treatment of derivative financial instruments requires that the Company record the fair value of the derivatives as of the inception date of the Convertible Promissory Note and to adjust the fair value as of each subsequent balance sheet date. At the inception of the Convertible Promissory Note, the Company determined a fair value of \$94,657 of the embedded derivative. The fair value of the embedded derivative was determined using the Black-Schole Model based on the following assumptions:

Dividend yield:	0	%
Volatility	105	%
Risk free rate:	0.48	%

The initial fair values of the embedded debt derivative of \$94,657 was allocated as a debt discount up to the proceeds of the note (\$68,000) with the remainder (\$32,145) charged to operations as interest expense in during the three and nine months ended September 30, 2014.

During the three and nine months ended September 30, 2014, the Company amortized \$15,089 to current period operations as amortization of debt discount.

The fair value of the described embedded derivative of \$85,375 at September 30, 2014 was determined using the Black-Schole Model with the following assumptions:

Dividend yield:	0	%
Volatility	255	%
Risk free rate:	0.03	%

At September 30, 2014, the Company adjusted the recorded fair value of the derivative liability to market resulting in non-cash, non-operating gain of \$9,282 for the three and nine months ended September 30, 2014.

Note issued on August 11, 2014:

On August 11, 2014, the Company entered into a five month convertible debenture for \$45,000 with an accredited institutional investor. The debenture is convertible at 50% of the lowest traded price in the 20 days prior to the conversion.

The Company identified embedded derivatives related to the Convertible Promissory Notes entered into in August 2014. These embedded derivatives included certain conversion features. The accounting treatment of derivative financial instruments requires that the Company record the fair value of the derivatives as of the inception date of the Convertible Promissory Note and to adjust the fair value as of each subsequent balance sheet date. At the inception of the Convertible Promissory Note, the Company determined a fair value of \$131,493 of the embedded derivative. The fair value of the embedded derivative was determined using the Black-Schole Model based on the following assumptions:

Dividend yield:	0	%
Volatility	111	%
Risk free rate:	0.05	%

The initial fair values of the embedded debt derivative of \$131,493 was allocated as a debt discount up to the proceeds of the note (\$45,000) with the remainder (\$86,493) charged to operations as interest expense in during the three and nine months ended September 30, 2014.

During the three and nine months ended September 30, 2014, the Company amortized \$13,006 to current period operations as amortization of debt discount.

The fair value of the described embedded derivative of \$170,485 at September 30, 2014 was determined using the Black-Schole Model with the following assumptions:

Dividend yield:	0	%
Volatility	255	%
Risk free rate:	0.02	%

At September 30, 2014, the Company adjusted the recorded fair value of the derivative liability to market resulting in non-cash, non-operating loss of \$38,992 for the three and nine months ended September 30, 2014.



Table of Contents

Note issued on September 4, 2014:

On September 4, 2014, the Company entered into a nine month convertible debenture for \$42,500 with an accredited institutional investor. The debenture is convertible at 58% of the average of the three lowest trading prices in the 10 trading days prior to conversion.

The Company identified embedded derivatives related to the Convertible Promissory Notes entered into in September 2014. These embedded derivatives included certain conversion features. The accounting treatment of derivative financial instruments requires that the Company record the fair value of the derivatives as of the inception date of the Convertible Promissory Note and to adjust the fair value as of each subsequent balance sheet date. At the inception of the Convertible Promissory Note, the Company determined a fair value of \$52,597 of the embedded derivative. The fair value of the embedded derivative was determined using the Black-Schole Model based on the following assumptions:

Dividend yield:	0	%
Volatility	131	%
Risk free rate:	0.48	%

The initial fair values of the embedded debt derivative of \$52,597 was allocated as a debt discount up to the proceeds of the note (\$42,500) with the remainder (\$10,097) charged to operations as interest expense in during the three and nine months ended September 30, 2014.

During the three and nine months ended September 30, 2014, the Company amortized \$4,989 to current period operations as amortization of debt discount.

The fair value of the described embedded derivative of \$55,053 at September 30, 2014 was determined using the Black-Schole Model with the following assumptions:

Dividend yield:	0	%
Volatility	255	%
Risk free rate:	0.03	%

At September 30, 2014, the Company adjusted the recorded fair value of the derivative liability to market resulting in non-cash, non-operating loss of \$2,457 for the three and nine months ended September 30, 2014.

Note issued on September 5, 2014:

On September 5, 2014, the Company entered into a one year convertible debenture for \$52,500 with an accredited institutional investor. The debenture is convertible at 53% of the lowest trading price in the 20 trading days prior to the conversion.

The Company identified embedded derivatives related to the Convertible Promissory Notes entered into in September 2014. These embedded derivatives included certain conversion features. The accounting treatment of derivative financial instruments requires that the Company record the fair value of the derivatives as of the inception date of the Convertible Promissory Note and to adjust the fair value as of each subsequent balance sheet date. At the inception of the Convertible Promissory Note, the Company determined a fair value of \$578,343 of the embedded derivative. The fair value of the embedded derivative was determined using the Black-Schole Model based on the following assumptions:

Dividend yield:	0	%
Volatility	166	%
Risk free rate:	0.10	%

The initial fair values of the embedded debt derivative of \$578,343 was allocated as a debt discount up to the proceeds of the note (\$52,500) with the remainder (\$525,843) charged to operations as interest expense in during the three and nine months ended September 30, 2014.

During the three and nine months ended September 30, 2014, the Company amortized \$3,596 to current period operations as amortization of debt discount.

The fair value of the described embedded derivative of \$205,276 at September 30, 2014 was determined using the Black-Schole Model with the following assumptions:

Dividend yield:	0	%
Volatility	255	%
Risk free rate:	0.13	%

At September 30, 2014, the Company adjusted the recorded fair value of the derivative liability to market resulting in non-cash, non-operating gain of \$373,067 for the three and nine months ended September 30, 2014.

Table of Contents

Note issued on September 11, 2014:

On September 11, 2014, the Company entered into a nine month convertible debenture for \$56,250 with an accredited institutional investor. The debenture is convertible at 55% of the average of the two lowest trading price in the 25 trading days prior to conversion.

The Company identified embedded derivatives related to the Convertible Promissory Notes entered into in September 2014. These embedded derivatives included certain conversion features. The accounting treatment of derivative financial instruments requires that the Company record the fair value of the derivatives as of the inception date of the Convertible Promissory Note and to adjust the fair value as of each subsequent balance sheet date. At the inception of the Convertible Promissory Note, the Company determined a fair value of \$300,489 of the embedded derivative. The fair value of the embedded derivative was determined using the Black-Schole Model based on the following assumptions:

Dividend yield:	0	%
Volatility	240	%
Risk free rate:	0.11	%

The initial fair values of the embedded debt derivative of \$300,489 was allocated as a debt discount up to the proceeds of the note (\$56,250) with the remainder (\$244,239) charged to operations as interest expense in during the three and nine months ended September 30, 2014.

During the three and nine months ended September 30, 2014, the Company amortized \$3,958 to current period operations as amortization of debt discount.

The fair value of the described embedded derivative of \$155,306 at September 30, 2014 was determined using the Black-Schole Model with the following assumptions:

Dividend yield:	0	%
Volatility	255	%
Risk free rate:	0.03	%

At September 30, 2014, the Company adjusted the recorded fair value of the derivative liability to market resulting in non-cash, non-operating gain of \$145,184 for the three and nine months ended September 30, 2014.

**8. Fair Value of Financial Instruments**

ASC 825-10 defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required or permitted to be recorded at fair value, the Company considers the principal or most advantageous market in which it would transact and considers assumptions that market participants would use when pricing the asset or liability, such as inherent risk, transfer restrictions, and risk of nonperformance. ASC 825-10 establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. ASC 825-10 establishes three levels of inputs that may be used to measure fair value:

Level 1 - Quoted prices in active markets for identical assets or liabilities.

Level 2 - Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets with insufficient volume or infrequent transactions (less active markets); or model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 - Unobservable inputs to the valuation methodology that are significant to the measurement of fair value of assets or liabilities.

To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level in the fair value hierarchy within which the fair value measurement is disclosed is determined based on the lowest level input that is significant to the fair value measurement.

Table of Contents

Items recorded or measured at fair value on a recurring basis in the accompanying unaudited condensed consolidated financial statements consisted of the following items as of September 30, 2014:

	Fair Value Measurements at September 30, 2014 using:		
	September 30, 2014	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Liabilities:			Significant Unobservable Inputs (Level 3)
Derivative Liabilities	\$ 973,667	—	\$ 973,667

The debt derivative liabilities is measured at fair value using quoted market prices and estimated volatility factors based on historical prices for the Company's common stock and are classified within Level 3 of the valuation hierarchy.

The following table provides a summary of changes in fair value of the Company's Level 3 financial liabilities as of September 30, 2014:

	<b>Derivative Liability</b>
Balance, December 31, 2013	\$—
Additions	1,348,030
Change in fair value of derivative liabilities	(374,363 )
Balance, September 30, 2014	\$973,667

## 9. Related Party Transactions

During the nine months ended September 30, 2014 and 2013, the Company received \$0 and \$7,985, respectively, in cash loans, and made cash payments on these amounts owing totaling \$0 and \$21,658 during the same periods.

As of September 30, 2014 and December 31, 2013, the Company owed \$3,489, to its President. The amounts owing are unsecured, non-interest bearing and due on demand.



Table of Contents

**10. Stockholders' Deficit**

Where applicable, all common share numbers have been restated to retroactively reflect, the 1:3 reverse split affected by the Company on January 8, 2014.

**a) Authorized**

Authorized capital stock consists of:

· 900,000,000 common shares with a par value of \$0.001 per share; and

· 100,000,000 preferred shares with a par value of \$0.001 per share;

○ The Company has designated 12,000,000 shares as Series A Convertible Preferred Series Stock. Each share of Series A Preferred Stock is convertible into five (5) share of Common Stock.

○ The Company has designated 70,000,000 shares as Series B Convertible Preferred Series Stock. Each share of Series B Preferred Stock is convertible into one (1) share of Common Stock.

○ The Company has designated 10,000,000 shares as Series C Convertible Preferred Series Stock. Each share of Series C Preferred Stock is convertible into \$1.00 of Common Shares at the market price on the date of conversion.

Increase in authorized shares

On January 24, 2014, the Company filed a Certificate of Amendment to the Company's Articles of Incorporation (the "Certificate of Amendment") with the Nevada Secretary of State. The Certificate of Amendment amends Article III of the Company's Articles of Incorporation to authorize the issuance of up to one hundred million (100,000,000) shares of Preferred Stock, par value \$0.001 per share, which may be issued in one or more series, with such rights, preferences, privileges and restrictions as shall be fixed by the Company's Board of Directors from time to time. As a result of the Certificate of Amendment, we now have one billion (1,000,000,000) authorized shares, par value \$0.001 per share, consisting of two classes designated as "Common Stock" and "Preferred Stock." The total number of shares of Common Stock that we have authority to issue is nine hundred million (900,000,000) shares and the total number of shares of Preferred Stock that we have authority to issue is one hundred million (100,000,000) shares. The Company's Board of Directors and a majority of our shareholders approved the Certificate of Amendment.

Series B Convertible Preferred Stock

On January 24, 2014, pursuant to Article III of our Articles of Incorporation, the Company's Board of Directors voted to designate a class of preferred stock entitled Series B Preferred Stock, consisting of up to seventy million (70,000,000) shares, par value \$0.001. Under the Certificate of Designation, holders of Series B Preferred Stock will participate on an equal basis per-share with holders of our common stock and Series A Preferred Stock in any distribution upon winding up, dissolution, or liquidation. Holders of Series B Preferred Stock are entitled to convert each share of Series B Preferred Stock into one (1) share of common stock. Holders of Series B Preferred Stock are also entitled to vote together with the holders of our common stock and Series A Preferred Stock on all matters submitted to shareholders at a rate of one (1) vote for each share held.

The rights of the holders of Series B Preferred Stock are defined in the relevant Certificate of Designation filed with the Nevada Secretary of State on January 24, 2014.

#### Series C Convertible Preferred Stock

On January 24, 2014, pursuant to Article III of our Articles of Incorporation, the Company's Board of Directors voted to designate a class of preferred stock entitled Series C Preferred Stock, consisting of up to ten million (10,000,000) shares, par value \$0.001. Under the Certificate of Designation, holders of Series C Preferred Stock will be entitled to receive the Stated Value per share (\$1.00) in any distribution upon winding up, dissolution, or liquidation. Holders of Series C Preferred Stock are entitled to convert such number of shares of Common Stock equal to the quotient of the Stated Value per share divided by the closing price of our common stock on the day of conversion. Holders of Series C Preferred Stock are also entitled to vote together with the holders of our common stock, Series A Preferred Stock and Series B Preferred Stock on all matters submitted to shareholders at a rate of one (1) vote for each share held.

The rights of the holders of Series C Preferred Stock are defined in the relevant Certificate of Designation filed with the Nevada Secretary of State on January 24, 2014.



Table of Contents

**b) Share Issuances**

On January 28, 2014, six stockholders exchanged a total of 65,210,834 common shares for 65,210,834 Series B Convertible Preferred Stock.

On September 15, 2014, the Company issued 4,166,667 common shares at a price of \$0.15 per share to an accredited investor as a commitment fee connected with the application for a \$5.0 million equity line of credit.

As of September 30, 2014 and December 31, 2013, there were 74,045,606 and 135,089,766 shares of common stock issued and outstanding, respectively.

**11. Commitments and Contingencies**

Litigation

a) In April 2014, the Company was notified that a note holder disputes the balance of his note as recorded on the books of the Company. The discrepancy arises from a question regarding expenses that the holder claims were paid on behalf of the Company and subsequent payments that the Company recorded as payments against the note. The Company has no record of the expenses claimed to be due, and is in negotiations to settle this matter. The Company has accrued \$28,000 to cover the potential expenses and adjustments to accrued interest if the claim is substantiated. The Company believes it has properly accounted for all payments made to the individual and has provided documentation to him substantiating its position.

b) In May 2014, the Company received notice that a complaint was filed in District Court, Clark County, NV alleging that the Company and various unnamed defendants are liable to a Mr. Renard Wiggins with regard to commissions and equity purportedly owed Mr. Wiggins, for services allegedly rendered in raising capital on behalf of the Company prior to the reverse merger between Alkame Holdings, Inc. (fka Pinnacle Enterprises Inc.) and Alkame Water, Inc. in June 2013. After initial review, the Company has filed for a dismissal of the case with the District Court, does not believe there is any validity to the claims of Mr. Wiggins, and intends to vigorously continue defending against these claims. To date, all but two claims have been dismissed, and the Company is in court mandated settlement talks to determine if the remaining counts can be dismissed or will require further litigation.

Material Agreements

On April 21, 2014, the Company entered into a Stock Purchase Definitive Agreement with Xtreme Technologies, Inc., an Idaho corporation. In accordance with the terms of the Agreement, the Company will purchase all of the

outstanding shares of Xtreme for the purchase price of \$2,000,000.00, payable as follows:

A cash payment of \$50,000 has been previously paid as a non-refundable deposit;

An additional cash payment of \$525,000 shall be paid on or before the Closing Date (defined below), which, along with the initial \$50,000 deposit, shall pay the obligations on Xtreme's balance sheet;

The balance of \$1,425,000.00 shall be payable by the issuance of shares of the Company's Series C Preferred Stock with a stated value of \$1.00 per share to be divided pro rata among the Company's shareholders of record as of the Closing Date. The Series C Preferred Stock shall include an option to convert such shares of Series C Preferred Stock into the Company's Common Stock at the closing price of the Company's common stock, as quoted on the OTCQB; and

One of Xtreme's previous officers and directors holds outstanding options to purchase up to 1,009,000 shares of Xtreme's common stock at the price of \$0.10 per share. At the Closing Date, pursuant to Idaho law, Xtreme shall notify this previous officer and director of his 30-day right to exercise any or all of his remaining options. If he elects to exercise any of his options within such 30-day period, the Company agrees to issue additional shares of Series C Preferred Stock in exchange for such Xtreme shares.

This potential acquisition remains subject to, among other things, completing customary pre-closing due diligence, Xtreme's shareholder approval and entering into a definitive agreement. The Company originally expected the definitive agreement to be signed by all parties on or before the end of January 31, 2014. The Company has still not signed the agreement but expect to in the coming months. The Company in September 2014 paid a non-refundable \$50,000 deposit to maintain the commitment while final terms are resolved. There can be no assurance that any transaction will be completed as proposed or at all.

Table of Contents

**12. Subsequent Events**

We have evaluated subsequent events through the date of issuance of the unaudited condensed consolidated financial statements, and did not have any material recognizable subsequent events, other than the following:

On October 17, 2014, the Company entered into a two year convertible debenture for \$33,000 with an accredited institutional investor. The debenture is convertible at the lesser of \$0.15 per share or 60% of the lowest trading price in the 25 trading days prior to the conversion.

On October 26, 2014, the Company acquired all 100% of the outstanding shares of High Country Shrimp Company (“HCS”), a Colorado LLC in exchange for one hundred thousand (100,000) shares of the Company’s Common Stock. It is expected that HCS will incorporate their patented technology for producing and selling high quality shrimp with the Company’s unique water treatment systems to create an intensive indoor aquaculture farming process.

On October 29, 2014, the Company entered into a one year convertible debenture in the face amount \$55,000 with an accredited institutional investor. The debenture is convertible at the lesser of \$0.10 per share, or 60% of the lowest trade price in the 25 trading days prior to conversion. The note was issued with an original issue discount of \$5,000 which will be charged to current period operations in the fourth quarter of 2014.

Table of Contents

**Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations**

Certain statements, other than purely historical information, including estimates, projections, statements relating to our business plans, objectives, and expected operating results, and the assumptions upon which those statements are based, are “forward-looking statements.” These forward-looking statements generally are identified by the words “believes,” “project,” “expects,” “anticipates,” “estimates,” “intends,” “strategy,” “plan,” “may,” “will,” “would,” “will be,” “likely result,” and similar expressions. Forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties which may cause actual results to differ materially from the forward-looking statements. Our ability to predict results or the actual effect of future plans or strategies is inherently uncertain. Factors which could have a material adverse effect on our operations and future prospects on a consolidated basis include, but are not limited to: changes in economic conditions, legislative/regulatory changes, availability of capital, interest rates, competition, and generally accepted accounting principles. These risks and uncertainties should also be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements.

**Overview**

Alkame Holdings, Inc. fka Pinnacle Enterprise Inc. (the "Company", “we”, “us” or “our”) was incorporated under the laws of the State of Nevada on April 19, 2010. The Company is in the business of distributing bottled/canned alkaline, antioxidant and oxygenated water.

The Company ceased to be a Development Stage Company during the year ended December 31, 2013.

We currently hold a three year limited exclusive distribution agreement for the consumer market. We are permitted to distribute our technologically enhanced bottled water in the consumer market in the United States, Canada and Mexico.

Aside from holding the aforementioned distribution rights, we signed a non-binding Letter of Intent with Xtreme Technologies, Inc. (“Xtreme”) to purchase all of the outstanding shares of Xtreme, which would effectively acquire the patents on the proprietary process that we believe is the most technologically advanced in water treatment systems for complete hydration. The proposed consideration for the potential acquisition will be payable as approximately \$575,000 in cash or assumed debt and approximately \$1,425,000 in our common stock.

This potential acquisition remains subject to, among other things, completing customary pre-closing due diligence, Xtreme’s shareholder approval and entering into a definitive agreement. We originally expected the definitive agreement to be signed by all parties on or before the end of January 31, 2014. In September 2014, we paid a non-refundable \$50,000 deposit to maintain the commitment while final terms are resolved. We have still not signed the agreement but expect to in the coming months. There can be no assurance that any transaction will be completed as proposed or at all. The Company in September 2014 paid a non-refundable \$50,000 deposit to maintain the commitment while final terms are resolved. There can be no assurance that any transaction will be completed as proposed or at all.

Our primary objective is to acquire the patented technology underlying our brand, and then to introduce, promote, aggressively market and establish channels of distribution to sell our product to a wide range of consumers, first in the United States, Canada and Mexico, and then globally. If we are able to acquire the rights to the technology, we believe that all the prime characteristics of the hottest premium bottled waters in the market will be taken and rolled up into our product.

We believe that holding the patents will enable us to enhance our position in the investment community, allow us to expand our reach in the distribution of product, and provide us access to other applications the water treatment technology has available. There is no assurance, however, that we will be able to finalize an agreement with Xtreme, the owner of the patents. We hope to have more information in subsequent filings.

Table of Contents

**Sales and Marketing**

Our primary focus will be on exposing the product and building brand name recognition and technology awareness through Alkame's utilization of celebrity and athletic endorsements, feature film and television product placement, cross-marketing and co-branding, and via sponsorships of key existing and potential clients (mostly in the health & wellness fields and athletic markets). A special and unique emphasis will be placed on the music, nightlife industries, and extreme sports to build on its cool factor.

Although these techniques do not directly translate into sales and distribution, the utilization of mass media provides our sales teams with the most essential marketing and sales tools and support needed to move product to distributors, as well as drive it through three main channels of on-premise, off-premise, and special events.

In the first nine months of this year, we focused our efforts on sales through regional sales personnel and distributors. This approach will continue through the remainder of the current year with the expectation that we will continue to see rapid sales growth of the water products.

In addition, we are exploring other uses of our water so that we can diversify our portfolio of products to include other specialty uses outside of the bottled water and health water markets.

As part of this strategy on October 26, 2014, we acquired all 100% of the outstanding shares of High Country Shrimp Company ("HCS"), a Colorado LLC in exchange for one hundred thousand (100,000) shares of the Company's Common Stock. It is expected that HCS will incorporate their patented technology for producing and selling high quality shrimp with our unique water treatment systems to create an intensive indoor aquaculture farming process.

Additional information about our water and its unique qualities can be found in our 10-K for the year ended December 31, 2013.

**Results of Operations for the three and nine months ended September 30, 2014 and 2013.**

***Operating Revenues***

In the three and nine months ended September 30, 2014, we generated \$6,665 and \$105,676 in revenue, respectively, from the sales of our water products, compared with \$17,274 for the same periods ended September 30, 2013. We

expect that over the coming months, our sales and marketing efforts will result in significantly increasing sales.

### *Cost of Goods Sold*

In the three and nine months ended September 30, 2014, we incurred \$33,717 and \$129,340, respectively, as cost of goods sold, compared with \$73,529 for the same periods ended September 30, 2013. We expect that over the coming months, our cost of goods sold will increase as a result in significantly increasing sales.

### *Operating Expenses and Net Loss*

Our operating expenses for the three and nine month periods ended September 30, 2014 and 2013 are outlined in the table below:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Selling expenses	\$242,935	\$136,793	\$642,800	\$234,647
General and administrative	110,359	63,390	261,129	3,563,364
Depreciation and amortization	711	425	2,133	425
Total	\$354,005	\$200,608	\$906,062	\$3,798,436

Operating expenses for the three and nine months ended September 30, 2014 was \$354,005 and \$906,062, respectively, as compared with \$200,608 and \$3,798,436, respectively, for the three and nine months ended September 30, 2013. The decrease in operating expenses for the nine months ended September 30, 2014 is attributed to a reduction in stock that was issued in exchange for services during the nine months ended September 30, 2013. This accounted for an approximate \$3.2 million decrease in the current periods operating activity compared to the prior period, and an increase of approximately \$250,000 in selling and travel related expenses connected with our growing sales efforts, and an increase of \$47,132 in professional fees for legal, accounting, and audit services required for SEC filing requirements.

In addition to operating expenses, we incurred interest expenses of \$1,032,993 and \$1,073,546 during the three and nine months ended September 30, 2014, respectively, as compared with \$8,104 and \$17,578, respectively, for the three and nine months ended September 30, 2013. The increase in interest expense during the three and nine months ended September 30, 2014 is primarily attributable to \$1,001,280 non-cash interest expense upon issuance of convertible notes. Additionally, the Company had a gain of \$374,363 as a result of the change in fair value of the Company's derivative instruments and amortization of debt discount of \$46,845 for the three and nine month periods ended September 30, 2014 as a result of the change in fair value of the Company's derivative instruments with no comparable amount in the 2013 period.

In addition to interest expenses, we incurred \$621,429 in a derivative liability adjustment for the nine months ended September 30, 2014 that was not experienced in the same period ended September 30, 2013. These expenses are in connection with the variable conversion rates associated with convertible debentures entered into the most recent

quarter. These adjustments will be made quarterly while the debentures remain outstanding.

We incurred a net loss of \$1,105,081 and \$1,710,552 for the three and nine months ended September 30, 2014, respectively, compared with a net loss of \$264,967 and \$3,872,269, respectively for the same periods ended 2013.



Table of Contents**Liquidity and Capital Resources*****Working Capital***

	September 30, 2014	Dec 31, 2013	Percentage Increase (Decrease)
Current Assets	\$711,003	\$813,719	(12.6 %)
Current Liabilities	\$2,206,875	\$156,028	1,314.4%
Working Capital Surplus (Deficit)	\$(1,495,872)	\$657,691	(327.4 %)

At September 30, 2014, our cash balance was \$161,709 compared to \$128,258 as at December 31, 2013. The increase in cash is attributed to proceeds of \$100,000 in notes payable and \$346,750 from the issuance of convertible notes payable all of which were used to pay operating expenses, note payments of \$7,000 to a shareholder, purchases of inventory, an additional deposit on our previously announced acquisition with the remaining amounts unspent.

At September 30, 2014, we had total liabilities of \$2,313,081 compared with total liabilities of \$906,028 as at December 31, 2013. The increase in total liabilities is attributed to derivative liabilities of \$973,667 not experienced in the prior year period, and increases in notes payable, accounts payable and accrued expenses and accrued interest over the prior year period.

As at September 30, 2014, we had a working capital deficit of \$1,495,872 compared with a working capital surplus of \$657,691 at December 31, 2013. The decrease in the working capital is attributed to the consumption of various services prepaid by the issuance of restricted stock, losses incurred in ramping up our production, the recording of approximately \$973,667 in derivative liabilities, and an increase in accrued expenses.

***Cash Flows***

	Nine Months Ended		Percentage
	September 30, 2014	September 30, 2013	Increase / (Decrease)
Cash Used in Operating Activities	\$(309,881)	\$(469,732)	(34.0 )%
Cash Used in Investing Activities	\$(57,168 )	\$(5,000 )	(1,043.4 %)
Cash Provided by Financing Activities	\$400,500	\$723,817	(44.7 %)
Net Increase in Cash	\$33,451	\$249,085	(86.6 %)

***Cash flow from Operating Activities***

During the nine months ended September 30, 2014, we used \$309,881 of cash in operating activities compared to the use of \$469,732 of cash for operating activities during the period ended September 30, 2013. The decrease in the use of cash for operating activities was mainly attributed to our net loss of \$1,710,552, offset mainly by \$1,001,280 for non-cash interest expense upon issuance of convertible notes, \$472,000 for prepaid assets amortized during the period and amortization of debt discount of \$46,845 and an increase of \$228,773 in accounts payable and accrued expenses offset with gain on change in fair value of derivative liability of \$374,363 and increase in accounts receivable by \$69,801.

***Cash flow from Investing Activities***

During the nine months ended September 30, 2014, we used \$57,168 in investing activities for the purchase of certain upgrades to our manufacturing equipment utilized by bottle manufacturer in producing our product and \$50,000 paid as a non-refundable deposit in connection with our previously announced acquisition of Xtreme Technologies, compared with \$5,000 in investing activities in the prior period.

Table of Contents

***Cash flow from Financing Activities***

During the nine months ended September 30, 2014, we received net proceeds of \$400,500 from financing activities compared to \$723,817 during the period ended September 30, 2013. The decrease in proceeds from financing activities were attributed to \$100,000 from the issuance of notes payable which are unsecured, bear interest at 10% per annum, less payment of financing cost of \$39,250 and \$7,000 repayment for an outstanding note payable issued in this year plus the issuance of \$346,750 of convertible debentures versus the net proceeds of notes in the gross amount of \$760,000 in the same period in the prior year.

**Going Concern**

We have not attained profitable operations and are dependent upon obtaining financing to pursue any extensive acquisitions and activities. For these reasons, our auditors stated in their report on our audited consolidated financial statements that they have substantial doubt that we will be able to continue as a going concern without further financing.

**Off-Balance Sheet Arrangements**

We have no significant 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 are material to stockholders.

**Future Financings**

We will continue to rely on equity sales of our common shares in order to continue to fund our business operations. Issuances of additional shares will result in dilution to existing stockholders. There is no assurance that we will achieve any additional sales of the equity securities or arrange for debt or other financing to fund our operations and other activities.

**Critical Accounting Policies**

Our financial statements and accompanying notes have been prepared in accordance with United States generally accepted accounting principles applied on a consistent basis. The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods.

We regularly evaluate the accounting policies and estimates that we use to prepare our financial statements. A complete summary of these policies is included in the notes to our financial statements. In general, management's estimates are based on historical experience, on information from third party professionals, and on various other assumptions that are believed to be reasonable under the facts and circumstances. Actual results could differ from those estimates made by management.

### **Recently Issued Accounting Pronouncements**

The Company has implemented all new accounting pronouncements that are in effect. These pronouncements did not have any material impact on the financial statements unless otherwise disclosed, and we do not believe that there are any other new accounting pronouncements that have been issued that might have a material impact on our financial position or results of operations.

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

Not Applicable.

Table of Contents

**Item 4. Controls and Procedures.**

***Disclosure Controls and Procedures***

We carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of September 30, 2014. This evaluation was carried out under the supervision and with the participation of our Chief Executive Officer and our Chief Financial Officer. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of September 30, 2014, our disclosure controls and procedures were not effective due to the presence of material weaknesses in internal control over financial reporting.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. Management has identified the following material weaknesses which have caused management to conclude that, as of September 30, 2014, our disclosure controls and procedures were not effective: (i) inadequate segregation of duties and effective risk assessment; and (ii) insufficient written policies and procedures for accounting and financial reporting with respect to the requirements and application of both US GAAP and SEC guidelines.

***Remediation Plan to Address the Material Weaknesses in Internal Control over Financial Reporting***

Our company plans to take steps to enhance and improve the design of our internal controls over financial reporting. During the period covered by this quarterly report on Form 10-Q, we have not been able to remediate the material weaknesses identified above. To remediate such weaknesses, we plan to implement the following changes during our fiscal year ending December 31, 2014: (i) appoint additional qualified personnel to address inadequate segregation of duties and ineffective risk management; and (ii) adopt sufficient written policies and procedures for accounting and financial reporting. The remediation efforts set out are largely dependent upon our securing additional financing to cover the costs of implementing the changes required. If we are unsuccessful in securing such funds, remediation efforts may be adversely affected in a material manner.

We are unable to remedy our controls related to the inadequate segregation of duties and ineffective risk management until we receive financing to hire additional employees.

***Changes in Internal Control over Financial Reporting***

There were no changes in our internal control over financial reporting during the three months ended September 30, 2014 that have materially affected, or are reasonable likely to materially affect, our internal control over financial reporting.

Table of Contents

**PART II-OTHER INFORMATION**

**Item 1. Legal Proceedings.**

a) In April 2014, the Company was notified that a note holder disputes the balance of his note as recorded on the books of the Company. The discrepancy arises from a question regarding expenses that the holder claims were paid on behalf of the Company and subsequent payments that the Company recorded as payments against the note. The Company has no record of the expenses claimed to be due, and is in negotiations to settle this matter. The Company has accrued \$28,000 to cover the potential expenses and adjustments to accrued interest if the claim is substantiated. The Company believes it has properly accounted for all payments made to the individual and has provided documentation to him substantiating its position.

b) In May 2014, the Company received notice that a complaint was filed in District Court, Clark County, NV alleging that the Company and various unnamed defendants are liable to a Mr. Renard Wiggins with regard to commissions and equity purportedly owed Mr. Wiggins, for services allegedly rendered in raising capital on behalf of the Company prior to the reverse merger between Pinnacle Enterprises Inc. (now Alkame Holdings, Inc.) and Alkame Water, Inc. in September 2013. After initial review, the Company has filed for a dismissal of the case with the District Court, does not believe there is any validity to the claims of Mr. Wiggins, and intends to vigorously continue defending against these claims. To date, all but two claims have been dismissed, and the Company is in court mandated settlement talks to determine if the remaining counts can be dismissed or will require further litigation.

**Item 1A. Risk Factors.**

Not Applicable.

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

The information set forth below relates to our issuances of securities without registration under the Securities Act of 1933 during the reporting period which were not previously included in a Quarterly Report on Form 10-Q or Current Report on Form 8-K.

The disclosures set forth in Item 5. "Other Information" below are incorporated herein by reference.

On September 15, 2014, we issued 4,166,667 common shares at a price of \$0.15 per share to an accredited investor as a commitment fee connected with the application for a \$5.0 million equity line of credit.

On October 17, 2014, we entered into a two year convertible debenture for \$33,000 with an accredited institutional investor. The debenture is convertible at the lesser of \$0.15 per share or 60% of the lowest trading price in the 25 trading days prior to the conversion.

On October 26, 2014, we acquired all 100% of the outstanding shares of High Country Shrimp Company ("HCS"), a Colorado LLC in exchange for one hundred thousand (100,000) shares of our Common Stock.

These securities were issued pursuant to Section 4(2) of the Securities Act and/or Rule 506 promulgated thereunder. The investor represented his intention to acquire the securities for investment only and not with a view towards distribution. The investor was given adequate information about us to make an informed investment decision. We did not engage in any general solicitation or advertising. We directed our transfer agent to issue the stock certificates with the appropriate restrictive legend affixed to the restricted stock.

25



Table of Contents

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Mine Safety Disclosures**

None.

**Item 5. Other Information**

On August 6, 2014, the Company entered into a one year convertible debenture for \$82,500 with an accredited institutional investor. The debenture is convertible at the lesser of \$0.10 per share, or 60% of the lowest trade price in the 25 trading days prior to conversion.

On September 4, 2014, the Company entered into a nine month convertible debenture for \$45,000 with an accredited institutional investor. The debenture is convertible at 58% of the average of the three lowest trading prices in the 10 trading days prior to conversion.

On September 5, 2014, the Company entered into a one year convertible debenture for \$56,250 with an accredited institutional investor. The debenture is convertible at 53% of the lowest trading price in the 20 trading days prior to conversion.

On September 11, 2014, the Company entered into a nine month convertible debenture for \$82,500 with an accredited institutional investor. The debenture is convertible at 55% of the average of the two lowest trading price in the 25 trading days prior to the conversion.

**Item 6. Exhibits**

**Exhibit No. Description of Exhibit**

10.1*	<u>KBM SPA, dated September 4, 2014</u>
10.2*	<u>KBM Note, dated September 4, 2014</u>
10.3*	<u>LG SPA, dated September 5, 2014</u>
10.4*	<u>LG Note, dated September 5, 2014</u>
10.5*	<u>Auctus SPA, dated September 5, 2014</u>
10.6*	<u>Auctus Note, dated September 5, 2014</u>
10.7*	<u>JMJ Note, dated August 1, 2014</u>
10.8*	<u>WHC SPA, dated October 24, 2014</u>
10.9*	<u>WHC Note, dated October 24, 2014</u>
10.10*	<u>Cardinal Note, dated October 17, 2014</u>
10.11	Union SPA, dated October 29, 2014
10.12	Union Note, dated October 29, 2014

- 31.1\* Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2\* Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 \* Certification of Chief Executive Officer pursuant Section 906 Certifications under Sarbanes-Oxley Act of 2002

\* Filed herewith.

26

Table of Contents

**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.

**ALKAME HOLDINGS, INC.**

By

*/s/ Robert Eakle*

Robert Eakle

Chief Executive Officer,

President, and Director

(Principal Executive

Officer and Principal

Accounting Officer)

Date: November 19, 2014

Table of Contents