

ALKAME HOLDINGS, INC.

Form 10-Q

August 19, 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 **June 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: **333-175044**

**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**

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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: 69,878,939 as of August 19, 2014.

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**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 June 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**

	June 30, 2014 (Unaudited)	December 31, 2013
<b><u>ASSETS</u></b>		
Current assets:		
Cash	\$42,526	\$128,258
Accounts receivable	77,546	331
Prepaid expenses - current	520,000	624,500
Inventory	29,981	45,598
Deposits	13,876	15,032
Total current assets	683,929	813,719
Fixed and intangible assets:		
Manufacturing equipment, net	6,989	—
Intangible assets, net	5,930	7,352
Fixed and intangible assets, net	12,919	7,352
Other assets:		
Deferred finance costs	40,834	47,085
Prepaid expenses - long term	65,000	260,000
Total other assets	105,834	307,085
Total assets	\$802,682	\$1,128,156
<b>LIABILITIES AND STOCKHOLDERS (DEFICIT) EQUITY</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$207,144	\$62,702
Accrued interest	76,903	36,347
Loans from officer	3,489	3,489
Notes payable	548,490	53,490
Total current liabilities	836,026	156,028
Other liabilities:		
Notes payable - long term	350,000	750,000
Total liabilities	1,186,026	906,028
Stockholders' (deficit) equity		
Preferred stock - \$.001 par value, authorized - 100,000,000 shares;		
Series A Convertible Preferred stock - \$.001 par value, 12,000,000 shares designated; issued and outstanding - 12,000,000 and 12,000,000 shares, respectively	12,000	12,000
Series B Convertible Preferred stock - \$.001 par value, 70,000,000 shares designated; issued and outstanding 65,210,834 and 0 shares, respectively	65,211	—
Series C Convertible Preferred stock - \$.001 par value, 10,000,000 shares designated; issued and outstanding 0 shares	—	—
Common stock - \$.001 par value, authorized - 900,000,000 shares; issued and outstanding - 69,878,939 and 135,089,766 shares, respectively (1)	69,879	135,090
Additional paid-in capital	5,548,405	5,548,405
Accumulated deficit	(6,078,839)	(5,473,367)

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Total stockholders' (deficit) equity	(383,344 )	222,128
Total liabilities and stockholders' (deficit) equity	\$802,682	\$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****UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

	For the three months ended		For the six months ended	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Revenues	\$69,820	\$—	\$99,011	\$—
Cost of goods sold	63,737	51,598	95,623	51,598
Gross profit (loss)	6,083	(51,598 )	3,388	(51,598 )
Operating expenses:				
Selling expenses	191,765	115,603	399,865	189,221
General and administrative	84,768	3,351,837	150,770	3,352,009
Depreciation and amortization	711	—	1,422	—
Total operating expenses	277,244	3,467,440	552,057	3,541,230
Loss from operations	(271,161 )	(3,519,038 )	(548,669 )	(3,592,828 )
Other expenses:				
Amortization of deferred financing costs	10,625	5,000	16,250	5,000
Interest expense	21,250	9,474	40,553	9,474
Total other expenses	31,875	14,474	56,803	14,474
Net loss applicable to common stock holders	\$(303,036 )	\$(3,533,512 )	\$(605,472 )	\$(3,607,302 )
Per share data				
Net Loss per share - basic and diluted	\$(0.00 )	\$(0.02 )	\$(0.01 )	\$(0.02 )
Weighted average number of shares outstanding- basic and diluted	69,878,939	148,379,553	79,606,503	160,359,107

See accompanying notes to the unaudited condensed consolidated financial statements



Table of Contents**ALKAME HOLDINGS, INC. AND SUBSIDIARY****UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

	For the six months ended June 30,	
	2014	2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss	\$(605,472)	\$(3,607,302)
Adjustments to reconcile net loss to net cash used in operating activities:		
Common stock issued for services	—	3,266,550
Expenses paid on behalf of company	—	63,000
Amortization of prepaid assets	309,500	—
Amortization of deferred financing costs	16,250	—
Depreciation and amortization	1,601	—
Changes in operating assets and liabilities:		
Accounts receivable – trade	(77,215 )	—
Deposits	1,156	—
Inventory	15,617	—
Prepaid expenses	(10,000 )	—
Accrued interest	40,556	—
Accounts payable and accrued expenses	144,444	6,779
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<b>(163,564)</b>	<b>(270,973 )</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of equipment	(7,168 )	—
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(7,168 )</b>	<b>—</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Payment of financing costs	(10,000 )	—
Proceeds from related parties	—	7,985
Payments to related parties	—	(21,657 )
Proceeds from notes payable	100,000	500,000
Payments of notes payable	(5,000 )	(8,500 )
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<b>85,000</b>	<b>477,828</b>
<b>NET (DECREASE) INCREASE IN CASH</b>	<b>(85,732 )</b>	<b>206,855</b>
<b>CASH - BEGINNING OF PERIOD</b>	<b>128,258</b>	<b>145</b>
<b>CASH - END OF PERIOD</b>	<b>\$42,526</b>	<b>\$207,000</b>
<b>Supplemental Schedule of Cash Flow Information:</b>		
Cash paid for interest	\$—	\$—
Cash paid for income taxes	\$—	\$—
<b>Supplemental Schedules of Noncash Investing and Financing Activities:</b>		
Conversion of common stock into Series B convertible preferred stock	\$65,211	\$—

See accompanying notes to unaudited condensed consolidated financial statements



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**Alkame Holding, Inc. and Subsidiary**

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

**For the six months ended June 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 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 Water, Inc. ("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 six months ended June 30, 2014, the Company has recognized only \$99,011 in revenue and as of June 30, 2014 had an accumulated deficit of \$6,078,839. 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 six months ended June 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.

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**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 June 30, 2014 and 2013 have been excluded from the per share computations:

**As of**

	<b>June 30, 2014</b>	<b>June 30, 2013</b>
Series A Convertible Preferred Stock	600,000,000	600,000,000
Series B Convertible Preferred Stock	65,210,834	—

#### **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's financial instruments consist principally of cash, accounts payable and accrued liabilities and amounts due to related parties. Pursuant to ASC 820, the fair value of our cash is determined based on "Level 1" inputs, which consist of quoted prices in active markets for identical assets. We believe that the recorded values of all of our other financial instruments approximate their current fair values because of their nature and respective maturity dates or durations.

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**e) 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.

**f) Recent 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 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.

**g) 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 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 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 yearend from January 31 to December 31.

**6. Notes Payable**

Current:

The Company owed \$48,490 and \$53,490 at June 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 only begins accruing interest beginning August 1, 2014 at 5% per annum on the unpaid principal thereafter.

During the six months ended June 30, 2014 and 2013, the Company repaid \$5,000 and \$8,500 of the Note respectively.



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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 June 30, 2014 and December 31, 2013, the Company has accrued interest of \$76,903 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 June 30, 2014, the Company classified \$500,000 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 six months ended June 30, 2014, the Company charged to operations \$10,625 and \$16,250 as amortization of deferred financing costs, respectively. As of June 30, 2014 and December 31, 2013, remaining balance in deferred financing cost of \$40,834 and \$47,084, respectively is presented as part of other assets.

**7. Related Party Transactions**

During the six months ended June 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 \$21,657 during the same periods.

As of June 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.

## 8. 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.



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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.

**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.

As of June 30, 2014 and December 31, 2013, there were 69,878,939 and 135,089,766 shares of common stock issued and outstanding, respectively.

## 9. 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. There has been no update till the date of filing of this Report.

### 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.

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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. There can be no assurance that any transaction will be completed as proposed or at all.

**10. Subsequent Events**

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

On August 6, 2014, the Company received \$75,000 in funding from the sale of a long-term convertible note. The Company will receive tranches from the investor from time to time up to a maximum of \$350,000 net of an original issue discount of 10%).

The note(s) mature two years from date of funding, and has a conversion price which is the lesser of:

1. \$0.10 per share; or
2. 60% of the lowest trade price in the 25 trading days previous to the conversion

The note carries no interest for the first 90 days, and if not repaid in that time frame, a one-time interest charge of 12% will be applied to the principal sum.

On August 15, 2014, the Company received \$45,000 in funding from the sale of a short-term convertible debenture due January 31, 2015.

The note:

1. Carries interest at 12% per annum;
2. Converts at 50% of the lowest closing bid price in the 20 trading days previous to the conversion
3. Can be prepaid with a premium of 25% to 50% depending on the remaining time to maturity





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**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 affect 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. 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.

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.

## **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 half 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.

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

Table of Contents**Results of Operations for the three and six months ended June 30, 2014 and 2013.*****Operating Revenues***

In the three and six months ended June 30, 2014, we generated \$69,820 and \$99,011 in revenue, respectively, from the sales of our water products, compared with \$0 for the same periods ended June 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 six months ended June 30, 2014, we incurred \$63,737 and \$95,623, respectively, as cost of goods sold, compared with \$51,598 for the same periods ended June 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 six month periods ended June 30, 2014 and 2013 are outlined in the table below:

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	2014	2013	2014	2013
Selling expenses	\$191,765	\$115,603	\$399,865	\$189,221
General and administrative	84,768	3,351,837	150,770	3,352,009
Depreciation and amortization	711	—	1,422	—
Total	\$277,244	\$3,467,440	\$552,057	\$3,541,230

Operating expenses for the three and six months ended June 30, 2014 was \$277,244 and \$552,057, respectively as compared with \$3,467,440 and \$3,541,230, respectively for the three and six months ended June 30, 2013. The decrease in operating expense is attributed to a reduction in stock that was issued in exchange for services. This accounted for an approximate \$3.2 million decrease in the current periods operating activity compared to the prior period, and reductions of \$199,100 in selling and travel related expenses connected with our 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 \$21,250 and \$40,553 during the three and six months ended June 30, 2014, respectively, on \$850,000 of notes payable, the majority of which are secured and bear interest at 10% per annum. On the notes, \$500,000 is due on March 30, 2015, \$250,000 is due on September 27, 2015 and \$100,000 is due on March 11, 2016.

We incurred a net loss of \$303,036 and \$605,472 for the three and six months ended June 30, 2014, respectively, compared with a net loss of \$3,533,512 and \$3,607,302, respectively for the same periods ended 2013.

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

	<b>June 30,</b>	<b>Dec 31,</b>	<b>Percentage</b>
	2014	2013	<b>Increase /</b>
			<b>(Decrease)</b>
Current Assets	\$683,929	\$813,719	(16.0 %)
Current Liabilities	\$836,026	\$156,028	435.8 %
Working Capital Surplus (Deficit)	\$(152,097)	\$657,691	(123.1 %)

At June 30, 2014, our cash balance was \$42,526 compared to \$128,258 as at December 31, 2013. The decrease in cash is attributed to proceeds of \$100,000 from the issuance of notes payable which were used to pay operating expenses, note payments of \$5,000 to a shareholder with the remaining amounts unspent.

At June 30, 2014, we had total liabilities of \$1,186,026 compared with total liabilities of \$906,028 as at December 31, 2013. The increase in total liabilities is attributed to increases in accounts payable and accrued liabilities of \$184,998 due to timing differences between the payment terms of various operating expenditures. We also received proceeds of \$100,000 from the issuance of notes payable during the six month period, and made repayments of \$5,000 in notes.

As at June 30, 2014, we had a working capital deficit of \$152,097 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, a reduction in inventory, and an increase in accrued expenses.

***Cash Flows***

	<b>Six Months Ended</b>		<b>Percentage</b>
	<b>June 30,</b>	<b>June 30,</b>	<b>Increase /</b>
	2014	2013	<b>(Decrease)</b>
Cash Used in Operating Activities	\$(163,564)	(270,973)	39.6 %
Cash Used in Investing Activities	\$(7,168 )	\$—	— %
Cash Provided by Financing Activities	\$85,000	\$477,828	(82.2 %)
Net Increase (Decrease) in Cash	\$(85,732 )	\$206,855	(141.5 %)

***Cash flow from Operating Activities***

During the six months ended June 30, 2014, we used \$163,564 of cash for operating activities compared to the use of \$270,973 of cash for operating activities during the period ended June 30, 2013. The decrease in the use of cash for operating activities was mainly attributed to funding our net loss of \$605,472, offset mainly by \$309,500 for prepaid assets amortized during the period, sales of \$99,011 in the period versus no sales in the prior year period, and an increase of \$185,000 in accounts payable and accrued expenses.

***Cash flow from Investing Activities***

During the six months ended June 30, 2014, we used \$7,168 in investing activities for the purchase of certain upgrades to our manufacturing equipment utilized by our bottle manufacturer in producing our product, compared with \$0 in investing activities in the prior period.

***Cash flow from Financing Activities***

During the six months ended June 30, 2014, we received net proceeds of \$85,000 from financing activities compared to \$477,828 during the period ended June 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 \$10,000 and \$5,000 repayment for an outstanding note payable issued in this year versus the net proceeds of notes in the gross amount of \$500,000 in the same period in the prior year.

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### **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.

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

Not Applicable.

**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 June 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 June 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 June 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 June 30, 2014 that have materially affected, or are reasonable likely to materially affect, our internal control over financial reporting.

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**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.

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**Item 1A. Risk Factors.**

Not Applicable.

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

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

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Mine Safety Disclosures**

None.

**Item 5. Other Information**

None.

**Item 6. Exhibits**

**Exhibit No. Description of Exhibit**

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

\* Filed herewith.

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**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: August 19, 2014

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