iTalk Inc.
Form 10-Q
August 25, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the Quarterly Period Ended May 31, 2015

or

[ ] 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: 000-54664

iTALK, INC.

(Exact name of registrant as specified in its charter)

Nevada	**20-5302617**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

2400 W. Cypress Creek Road; #111

Fort Lauderdale, Florida 33309

(Address of principal executive offices) (zip code)

(877) 652-3834

(Registrant's telephone number, including area code)

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

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

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 the 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	[X]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes [ ] No [X].

As of August 24, 2015, there were 1,808,001,287 shares of registrant's common stock outstanding.

iTALK, INC.

INDEX

2

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

iTALK, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

	May 31, 2015 (unaudited)	August 31, 2014
ASSETS		
Current assets:		
Cash	$34,300	$42,870
Inventory and other current assets	5,494	71,318
Total current assets	39,794	114,188
Property and equipment, net	$-	74,106
Other assets:		
Customer lists, net	141,419	164,838
Domain rights	-	125,400
Acquisition	122,650	
Debt issue costs	-	28,588
Total other assets	264,069	318,826
Total assets	$303,863	$507,120
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable and accrued expenses	$208,760	$232,907
Deferred revenue	104,565	104,565
Accrued salary – related parties	252,500	102,500
Convertible note payable – net of discount of $17,666	605,705	990,825
Note payable	325,000	-
Stock based payable	-	14,725
Settlement payable	-	348,000
Advances payable	50,000	50,000
Advances payable, related party	3,300	3,300
Loans payable, related party	37,100	36,965
Derivative liability	448,215	476,429

Total current liabilities	2,035,145	2,360,216
STOCKHOLDERS' DEFICIT		
Preferred stock; $0.001 par value; 50,000,000 and 50,000,000 shares authorized; 50,000,000 and 50,000,000 shares issued and outstanding as of May 31, 2015 and August 31, 2014; respectively		
Series A Preferred Stock, $0.001 par value; 5 and -0- shares designated, 5 and -0- shares issued and outstanding as of May 31, 2015 and August 31, 2014, respectively	-	-
Series B Preferred Stock, $0.001 par value; 49,999,995 and 49,999,995 shares designated, 49,999,995 and 49,999,995 shares issued; 49,999,995 and 49,999,995 shares outstanding as of May 31, 2015 and August 31, 2014, respectively	50,000	50,000
Common stock, $0.001 par value 1,875,000,000 shares authorized; 1,424,196,407 and 111,249, 454 shares issued and outstanding as of May 31, 2015 and August 31, 2014, respectively	1,424,196	111,249
Additional paid in capital	476,552	1,212,815
Accumulated deficit	(3,682,030)	(3,227,161)
Total stockholders' deficit	(1,731,282)	(1,853,096)
Total liabilities and stockholders' deficit	$303,863	$507,120

See the accompanying notes to the unaudited condensed consolidated financial statements

3

iTALK, INC.

CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS

	Three months ended May 31,		Nine months ended May 31,	
	2015	2014	2015	2014
REVENUES:				
Sales	$181,475	$218,146	$521,313	$564,098
Cost of sales	155,382	168,822	394,143	501,673
Gross (loss) profit	26,093	49,324	127,170	62,425
OPERATING EXPENSES:				
Selling, general and administrative	107,632	293,645	408,950	1,091,407
Research and development expenses	-	7,000	-	35,000
Depreciation and amortization	67,718	35,068	92,072	98,065
Total operating expenses	175,350	335,713	501,022	1,224,472
Loss from operations	(149,257)	(286,389)	(373,852)	(1,162,047)
Other income (expense):				
Gain(loss) on change in fair value of derivatives	392,220	(296,271)	28,214	141,755
Gain on settlement of debt	(1,000)	3,471	-	3,471
Impairment of assets	(32,120)	-	(32,120)	-
Interest expense	(23,917)	(284,249)	(76,111)	(1,541,624)
Total other income (expenses)	335,183	(577,049)	(81,017)	(1,396,128)
Net Income (loss)	$185,926	$(863,438)	(454,870)	(2,841,955)
Net income (loss) per common share, basic	$(0.01)	$(0.01)	$(0.00)	$(0.05)
Weighted average number of common shares outstanding, basic and diluted	278,509,766	74,672,452	231,593,499	57,263,988

See the accompanying notes to the unaudited condensed consolidated financial statements

4

iTALK, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW

(Unaudited)

	Nine months ended May 31,	
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$(454,870)	$(2,841,955)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	25,008	98,065
Debt issuance expense	28,588	-
Amortization of debt discount	65,000	1,310,064
Bad debt expense	-	80,065
Impairment of assets	104,106	-
Liability for registration rights	-	155,080
(Gain) loss on change in derivative liabilities	(28,214)	141,755
Stock based compensation	-	203,839
Changes in operating assets and liabilities:		
Accounts receivable	-	(80,065)
Prepaid expense	65,824	(61,721)
Accounts payable and accrued expenses	(126,647)	188,226
Accrued salaries – related parties	252,500	
Deferred revenue		28,261
Net cash used in operating activities	(68,705)	(788,386)
CASH FLOWS FROM INVESTING ACTIVITIES		
Payment towards acquisition of WQN		(5,488)
Purchase of equipment	-	(625)
Net cash used in investing activities	-	(6,113)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from common stock subscriptions	-	262,157
Proceeds from notes payable	-	155,000
Proceeds from advances – related party	135	-
Proceeds from convertible note payable	60,000	340,000
Net cash provided by financing activities	60,135	757,157
Net decrease in cash	(8,570)	(27,342)
Cash, beginning of period	42,870	42,370
Cash, end of period	$34,400	$15,028

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Interest paid	$-	$-
Income taxes paid	$-	$-
Non cash investing and financing activities:		
Common stock issued in payment of settlement payable	$-	$115,522
Common stock issued in connection with issuance of convertible debt	$306,240	$145,000
Common stock issued in connection with legal proceedings		$4,939

See the accompanying notes to the unaudited condensed consolidated financial statements

5

ITALK, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the significant accounting policies applied in the preparation of the accompanying unaudited condensed consolidated financial statements follows:

Business and Basis of Presentation

ITALK, INC. (the “Company”) was formed on July 10, 2006 under the laws of the State of Nevada as Sopac Cellular Solutions, Inc. On December 18, 2012, the Company changed its name iTALK, INC. affected by way of a merger with its wholly-owned subsidiary iTalk, Inc which was created solely to facilitate the name change. The Company was formed to sell wireless technology and cell phone service to medium and large corporations, involving a large array of cellular service plans, cell phones, software and accessories.

The unaudited condensed consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, iTalk, Inc. and RocketVoL, Inc. All significant inter-company transactions and balances have been eliminated in consolidation.

Development Stage Company

The Company has elected to adopt Accounting Standards Update No. 2014-10, Development Stage Entities (Topic 915): Elimination of Certain Financial Reporting Requirements. The adoption of this ASU allows the Company to remove the inception to date information and all references to development stage.

Interim Financial Statements

The following (a) condensed consolidated balance sheet as of May 31, 2015, which has been derived from audited financial statements, and (b) the unaudited condensed consolidated interim financial statements of the Company have been prepared in accordance with the instructions to Form 10-Q and Rule 8-03 of Regulation S-X. Accordingly, they do not include all the information and footnotes required by GAAP 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 nine months ended May 31, 2015 are not necessarily indicative of results that may be expected for the year ended August 31, 2015. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto for the year ended August 31, 2013 included in the Company's Annual Report on Form 10-K, filed with the Securities and Exchange Commission ("SEC") on December 16, 2014.

Going Concern

The accompanying unaudited condensed consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, which contemplate continuation of the Company as a going concern. However, the Company has reported net losses of $454,870 and $2,841,955 for the nine month periods ended May 31, 2015 and 2014, respectively, accumulated deficit of $3,682,030 and total current liabilities in excess of current assets of $1,995,351 as of May 31, 2015.

The Company has minimal revenues from operations and will be dependent on raising funds to satisfy its ongoing capital requirements for the next 12 months. The Company will require additional financing in order to execute its operating plan and continue as a going concern. The Company cannot predict whether this additional financing will be in the form of equity or debt, or by in another form. The Company may not be able to obtain the necessary additional capital on a timely basis, or on acceptable terms, or at all. In any of these pressures, any of these circumstances would have a material adverse effect on its business, prospects, financial condition and results of operations.

The unaudited condensed consolidated financial statements do not include any adjustments relating to the recoverability of assets and classifications of assets and liabilities that might be necessary should the Company be unable to continue as a going concern.

Revenue Recognition

The Company follows the guidance in Staff Accounting Bulletin (SAB) No. 104, which provides guidance on the recognition, presentation and disclosure of revenue in financial statements. SAB 104 states that revenue is realized or realizable and earned when all of the following criteria are met: persuasive evidence of an arrangement exists, services have been rendered, the seller’s price to the buyer is fixed or determinable, and collectability is reasonably assured.

Revenues are primarily derived from fees charged to terminate voice services over the Company’s network and from related monthly recurring charges. Variable revenue is earned based on the number of minutes during a call and is recognized upon completion of a call. Revenue from each customer is calculated from information received through the Company’s network switches. The Company tracks the information received from the switch and analyzes the call detail records and applies the respective revenue rate for each call. Fixed revenue is earned from monthly recurring services provided to customers that are fixed and recurring in nature, and are connected for a specified period of time. Revenues are recognized as the services are provided and continue until the expiration of the contract or until cancellation of the service by the customer. Cash fees received prior to call completion are recorded on the Company’s consolidated balance sheets as unearned revenue. As of May 31, 2015 and August 31, 2014, the Company recorded unearned revenue of $104,565 and $104,565, respectively.

Use of estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include the useful life of fixed assets and assumptions used in the fair value of stock-based compensation.

Derivative Instrument Liability

The Company accounts for derivative instruments in accordance with ASC 815, which establishes accounting and reporting standards for derivative instruments and hedging activities, including certain derivative instruments embedded in other financial instruments or contracts and requires recognition of all derivatives on the balance sheet at fair value, regardless of hedging relationship designation. Accounting for changes in fair value of the derivative instruments depends on whether the derivatives qualify as hedge relationships and the types of relationships designated are based on the exposures hedged.

In accordance with this authoritative guidance, the Company recognized certain reset conversion features embedded in an issued a settlement agreement, convertible notes payable and registration rights agreement as derivative instruments at fair value.

Accounting for changes in the fair value of the derivative instruments depend on whether the derivative qualifies as hedge relationships and the types of relationships designated are based on the exposures hedged. At May 31, 2015 and August 31, 2014, the Company did not have any derivative instruments that were designated as hedges.

Net Income (loss) per Common Share

The Company computes net income (loss) per share under Accounting Standards Codification subtopic 260-10, Earnings Per Share ("ASC 260-10"). Basic net income (loss) per common share is computed by dividing net loss by the weighted average number of shares of common stock. Diluted net income (loss) per share is computed using the weighted average number of common and common stock equivalent shares outstanding during the period.

Research and development

In accordance with ASC 730, “Research and Development”, the Company expenses all research and development costs as incurred. The Company had incurred $7,000 for the nine months ended May 31, 2014. None was incurred for the nine months ended May 31, 2015.

Cash and Cash Equivalents

For purposes of reporting cash flows, the Company considers all cash on hand, in banks, certificates of deposit and other highly liquid debt instruments with a maturity of three months or less at the date of purchase, to be cash and cash equivalents.

Property and equipment

Property and equipment are stated at cost,