

iTalk Inc.  
Form 10-Q  
August 25, 2015

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-Q**

(Mark One)

**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**



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

iTALK, INC.

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**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****iTALK, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS**

|  | May 31,<br>2015<br>(unaudited) | August 31,<br>2014 |
|--|--------------------------------|--------------------|
| <b>ASSETS</b>  |                                |                    |
| 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          |
| <b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>           |                                |                    |
| 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   |
| <b>STOCKHOLDERS' DEFICIT</b>   |             |             |
| 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

**iTALK, INC.****CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS**

|  | Three months ended May<br>31, |               | Nine months ended May 31, |              |
|--|-------------------------------|---------------|---------------------------|--------------|
|  | 2015                          | 2014          | 2015                      | 2014         |
| <b>REVENUES:</b>   |                               |               |                           |              |
| 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       |
| <b>OPERATING EXPENSES:</b>   |                               |               |                           |              |
| 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<br>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



**iTALK, INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW****(Unaudited)**

|   | Nine months ended May<br>31, |               |
|---|------------------------------|---------------|
|   | 2015                         | 2014          |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                |                              |               |
| 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 )    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                 |                              |               |
| Payment towards acquisition of WQN  |                              | (5,488 )      |
| Purchase of equipment   | -                            | (625 )        |
| Net cash used in investing activities                                       | -                            | (6,113 )      |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                                |                              |               |
| 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**

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|   |           |           |
|---|-----------|-----------|
| 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

**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, less accumulated depreciation. Depreciation is calculated using the straight-line method over the asset’s estimated useful life, which is five years for computer assets and software. Expenditures for maintenance and repairs are expensed as incurred.

### Intangible Assets

The Company amortized its identifiable intangible assets using the straight-line method over their estimated period of benefit. The estimated useful lives of the customer relationships and domain rights are five years. The Company periodically evaluates the recoverability of intangible assets and takes into account events or circumstances that warrant revised estimates of useful lives or indicate that impairment exists.

### Stock-Based Compensation

The Company accounts for our stock based compensation under ASC 718 “Compensation – Stock Compensation” using the fair value based method. Under this method, compensation cost is measured at the grant date based on the value of

the award and is recognized over the service period, which is usually the vesting period.

This guidance establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services. It also addresses transactions in which an entity incurs liabilities in exchange for goods or services that are based on the fair value of the entity's equity instruments or that may be settled by the issuance of those equity instruments.

Compensation expense for restricted stock or options granted to non-employees is determined in accordance with the standard as the fair value of the consideration received or the fair value of the equity instruments issued, whichever is more reliably measured.

Determining the appropriate fair value of the stock-based compensation requires the input of subjective assumptions, including the expected life of the stock-based payment and stock price volatility. The Company uses the Black-Scholes option-pricing model to value its stock option awards which incorporate the Company's stock price as determined by an outside third-party, an average volatility of comparable companies, U.S. risk-free rate, dividend rate, and estimated life.

#### Income taxes

Income tax provisions or benefits for interim periods are computed based on the Company's estimated annual effective tax rate. Based on the Company's historical losses and its expectation of continuation of losses for the foreseeable future, the Company has determined that it is more likely than not that deferred tax assets will not be realized and, accordingly, has provided a full valuation allowance. As the Company anticipates or anticipated that its net deferred tax assets at May 31, 2015 and 2014 would be fully offset by a valuation allowance, there is no federal or state income tax benefit for the periods ended May 31, 2015 and 2014 related to losses incurred during such periods.



### Fair Value of Financial Instruments

Fair value estimates discussed herein are based upon certain market assumptions and pertinent information available to management as of May 31, 2015 and August 31, 2014. The respective carrying value of certain on-balance-sheet financial instruments approximated their fair values. These financial instruments include cash and accounts payable. Fair values were assumed to approximate carrying values for cash and payables because they are short term in nature and their carrying amounts approximate fair values or they are payable on demand.

### Recently Issued Accounting Pronouncements

There are various updates recently issued, most of which represented technical corrections to the accounting literature or application to specific industries and are not expected to have a material impact on the Company's consolidated financial position, results of operations or cash flows.

### **NOTE 2 – IMPAIRMENT OF ASSETS**

As of May 31, 2015 the Company reviewed various assets and determined their value was zero and elected to impair the assets resulting in a charge to other expense of \$32, 210.

### **NOTE 3 – SETTLEMENT PAYABLE**

On October 18, 2013, the Company entered into a settlement agreement with IBC Funds (“IBC”) in settlement of an aggregate of \$418,000 of past-due obligations of the Company comprised of notes payable in aggregate of \$380,928 and related accrued interest, which IBC had purchased from certain vendors of the Company pursuant to the terms of separate claim purchase agreements between IBC and each of such vendors, plus fees and costs.

Pursuant to the terms of the settlement agreement, the Company issued 1,107,680 shares during 2013 of the Company's common stock as a settlement fee and agreed to issue, in one or more tranches as necessary, that number of shares equal to \$70,000 upon conversion to Common Stock at a conversion rate equal to 65% of the lowest closing bid price of the Common Stock during the ten trading days prior to the date the conversion is requested by IBC. The Company has identified the embedded derivatives related to the settlement agreement. These embedded derivatives

included certain conversion features and reset provisions.

On May 27, 2014, the Company issued 4,939,760 shares of its common stock as collateral in connection with the continuing litigation with IBC Funds. The common stock was recorded at par value in the Company's financial statements. On June, July and August 2014 the company issued 21,000,000 shares of its common stock as collateral in connection with the continuing litigation with IBC Funds. On October 2014, the company issued 15,210,000 shares equal to \$208,542.34 upon conversion to common stock as collateral in connection with the litigation with IBC Funds and finalized the IBC settlement. The Company has fulfilled its obligation and the note is paid in full.

#### **NOTE 4 – CONVERTIBLE NOTE PAYABLE**

On May 17, 2013, the Company issued a \$130,928 unsecured convertible promissory note that matured August 31, 2014. The promissory note bears interest at a rate of 4.9% and can be convertible into 130,928 shares of the Company's common stock, at a conversion rate of \$1.00 per share. Interest will also be converted into common stock at the conversion rate of \$1.00 per share. The note was assigned to IBC Funds LLC on October 2013 but as part of the note cancellation settlement with IBC on September 2014 the liability was reestablished on the Company's balance sheet as a note payable to the original holder Yew. The note currently is in default.

On September 16, 2013, the Company issued two unsecured notes payable, in the aggregate amount of \$150,000, a bearing interest at 12% per annum with both principal and interest due at March 31, 2014. The Company may repay the notes at any time prior to maturity at amount equal to 130% of the outstanding principal redeemed plus accrued interest.

The holders have a right, at maturity or in an event of default (as defined), to convert any outstanding and unpaid principal portion of the notes and accrued interest at a conversion price of 50% of the average of five lowest bid prices of the Company's common stock during the previous fifteen trading days from the conversion date.

On March 31, 2014, at maturity, the Company has identified the embedded derivatives related to the above described notes. These embedded derivatives included certain conversion features and reset provisions.

On November 30, 2014 the Company issued 10,000,000 shares of common stock with a value of \$50,000 in settlement of \$50,000 of the convertible note payable.

As of May 31, 2015 the note was paid in full.

#### **NOTE 5 – DERIVATIVE LIABILITIES**

The Company has identified embedded derivatives in a settlement and note payables. The accounting treatment of derivative financial instruments requires that the Company record fair value of the derivatives as of the inception date and to fair value as of each subsequent reporting date which at May 31, 2015 was aggregate of \$448,215.

During the nine months ended May 31, 2015, the Company recorded an aggregate of \$28,214 loss on change in fair value of derivative liabilities.

#### **NOTE 6 – STOCKHOLDERS EQUITY**

On January 14, 2015 the Company filed an amendment to their Articles increasing the authorized shares to 1,875,000,000 shares.

During the nine months period ended May 31, 2015 the Company issued 1,312,946,954 shares of common stock for convertible debt with a value of \$306,240.

## **NOTE 7 – RELATED PARTY TRANSACTIONS**

Officer's salaries for the David Levy and Richard Dea, were not paid and accordingly the Company has accrued their salaries due under their employment starting February 1, 2013. The two officers accrued amounts are \$252,500 and \$102,500 in aggregate as of May 31, 2015 and August 31, 2014, respectively.

## **NOTE 8 – FAIR VALUE MEASUREMENT**

The Company adopted the provisions of Accounting Standards Codification subtopic 825-10, Financial Instruments ("ASC 825-10") on January 1, 2008. 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.

All items required to be recorded or measured on a recurring basis are based upon level 3 inputs.

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 and is determined based on the lowest level input that is significant to the fair value measurement.

Upon adoption of ASC 825-10, there was no cumulative effect adjustment to beginning retained earnings and no impact on the financial statements.

The carrying value of the Company's cash and cash equivalents, accounts receivable, accounts payable, short-term borrowings (including convertible notes payable), and other current assets and liabilities approximate fair value because of their short-term maturity.

As of May 31, 2015 or August 31, 2014, the Company did not have any items that would be classified as level 1 or 2 disclosures.

The Company recognizes its derivative liabilities as level 3 and values its derivatives using the methods discussed in notes 4 and 5. While the Company believes that its valuation methods are appropriate and consistent with other market participants, it recognizes that the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date. The primary assumptions that would significantly affect the fair values using the methods discussed in Notes 4 and 6 are that of volatility and market price of the underlying common stock of the Company.

As of May 31, 2015 and August 31, 2014, the Company did not have any derivative instruments that were designated as hedges.

The derivative liability as of May 31, 2015, in the amount of \$448,215 has a level 3 classification.

The following table provides a summary of changes in fair value of the Company's Level 3 financial liabilities as of May 31, 2015:

|   | Derivative<br>Liability |
|---|-------------------------|
| Balance, August 31, 2014                    | \$ 476,429              |
| Loss on change in fair value of derivatives | (28,214 )               |
| Balance, May 31, 2015                       | \$ 448,215              |

#### **NOTE 9 – SUBSEQUENT EVENTS**

On July 14, 2015 the Company as a respondent in binding arbitration case number 01-14-0002-0297 was ordered to pay a creditor \$78,000 plus interest calculated and accrued at the Florida statutory rate.

On August 7, 2015 the Company signed a letter of Intent, subject to a definitive agreement, to acquire an operating telecommunications company.

During the period from May 31, 2015 through June 30, 2015 the Company issued 383,804,880 shares of common stock at \$0.00006 with a value of 18,228 for convertible debt.

## **ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

### **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”, “expects”, “plans”, “anticipates”, “believes”, “estimates”, “predicts”, “potential” or “continue” or the negative of these other comparable terminology. These statements are only predictions and involve known and unknown risks, uncertainties and other factors that may cause our 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. 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 financial statements are stated in United States Dollars (US\$) and are prepared in accordance with United States Generally Accepted Accounting Principles. The following discussion should be read in conjunction with our financial statements and the related notes that appear elsewhere in this quarterly report. The following discussion contains forward-looking statements that reflect our plans, estimates and beliefs. Our actual results could differ materially from those discussed in the forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed below and elsewhere in this quarterly report.

In this quarterly report, unless otherwise specified, all dollar amounts are expressed in United States dollars. All references to “US\$” refer to 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” and “our company” mean iTalk Inc., unless otherwise indicated.

### **CORPORATE OVERVIEW**

Our company was incorporated on July 10, 2006 in the State of Nevada under the name Sopac Cellular Solutions Inc., and 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.

On December 18, 2012, we filed Articles of Merger with the Nevada Secretary of State to change our name from “Sopac Cellular Solutions Inc.” to “iTalk Inc.”, to be effected by way of a merger with our wholly-owned subsidiary iTalk Inc., which was created solely for the name change.

Also on December 18, 2012, we filed a Certificate of Change with the Nevada Secretary of State to give effect to a forward split of our authorized, issued and outstanding shares of common stock on a 25 new for 1 old basis and, consequently, our authorized capital increased from 75,000,000 to 1,875,000,000 shares of common stock and our issued and outstanding shares of common stock increased from 1,700,000 to 42,500,000, all with a par value of \$0.001. These amendments became effective on December 21, 2012 upon approval from the Financial Industry Regulatory Authority and our ticker symbol changed to our new symbol “TALK” to better reflect our company’s new name. Our CUSIP number is 465353 100.

On July 10, 2013, the Company’s majority stockholders approved to amend the Articles of Incorporation reduce number of authorized shares of common stock from 1,875,000,000 to 500,000,000 shares and to authorize 50,000,000 shares of preferred stock.

On January 14, 2015 the Company filed an amendment to their Articles increasing the authorized shares to 1,875,000,000 shares.



## PLAN OF OPERATIONS

In December 2012, with the appointment of David F. Levy as president, chief executive officer, secretary and director, and under his leadership, our company changed its business focus and will now move forward with marketing and distributing its iTalk products.

## MOBILE BROADBAND

We plan to launch secure nationwide mobile broadband wireless data transmission services primarily under the iData brand. We will offer low cost, no contract, mobile broadband with data plans. Customers will be able to choose the data plan that best meets their particular needs starting at \$9.99 monthly. Our low cost broadband plans will give more people the opportunity to experience the benefits of broadband on the go. Our iData service is will be offered primarily through the use of a personal mobile hotspot - the iData MiFi Mobile Hotspot that can connect up to 5 Wi-Fi enabled devices.

## COMMUNICATIONS

Our communications products included a domestic & international mobile App and calling service delivered under the brand iTalk and iTalkGlobal. iTalkGlobal Intends to focus on delivering communications services through the combination of our iTalk hardware Sleeve and our mobile App coupled with convenient features and the delivery of low cost calls for consumers and businesses. iTalk intends to offers customers secure, instant activation and immediate access to the service while eliminating the need to use a PIN or switch long distance carriers. Other features include 24 hour online and over the phone recharge, speed dial, PIN-less dialing and online access to account balance, call history and purchase history.

## WIRELESS NETWORK TECHNOLOGIES

We deliver mobile broadband wireless data transmission services primarily under the iData brand to subscribers through our mobile virtual network operator (MVNO) agreement with a sub provider on Sprint's nationwide network that utilizes third generation (3G) & (4G) code division multiple access (CDMA) technologies.

## SALES, MARKETING AND CUSTOMER CARE

We intend to focus on the marketing and sales of prepaid and postpaid enhanced mobile broadband and telecommunications services to targeted groups of retail subscribers: individual consumers, businesses, and government.

We intend to use a variety of sales channels to attract new subscribers of enhanced mobile broadband services and telecommunications, including:

- \* direct telesales through representatives whose efforts focus on marketing and selling to consumers, businesses, and government;

- \* major distribution network partners, brick and mortar retail stores, local and national non-affiliated dealers, independent contractors, focusing on sales to the consumer market and businesses; and

- \* subscriber convenient channels, such as web sales, with a focus on commission based programs through affiliate marketing, email marketing, and strategic partnerships.

We intend to be able to provide value driven mobile broadband and telecommunications services via our Mobile Virtual Network Operators agreement and other connections. We will market our mobile broadband prepaid services under the iData(TM) brand. We offer these prepaid mobile broadband services without a contract or credit check.

Our Marketing efforts will also involve traditional print and television advertising, as well as web-based strategies such as Search Engine Optimization (SEO), Search Engine Marketing (SEM), Cost Per Mile (CPM) advertising, Pay Per Click (PPC) advertising, paid placements, email marketing, and social media advertising. We will expand and maintain top tier strategic partnerships, reseller and affiliate relationships, public relations, and online marketing efforts to promote our lines of business.

Our customer care professionals intend to provide improved customer experiences, providing quality service with the goal of resolving customer issues and retaining a loyal customer base. We intend to proactively address customers' needs, and we offer live, in-house call center phone support, online chat support, and email support.

Historically, we have been able to raise a limited amount of capital through private placements of our equity stock, but we are uncertain about our continued ability to raise funds privately. Further, we believe that our company may have more difficulties raising capital for our existing operations than for a new business opportunity. We have not entered into any formal written agreements for a business combination or opportunity. If any such agreement is reached, we intend to disclose such an agreement by filing a current report on Form 8-K with the Securities and Exchange Commission. If we are unable to secure adequate capital to continue our business or alternatively, complete a combination or acquisition, our shareholders will lose some or all of their investment and our business will likely fail.

## **RESULTS OF OPERATIONS**

### *Revenues*

Total revenue during the three and nine months ended May 31, 2015 was \$181,475 and \$521,313 as compared to \$218,146 and \$564,098 for the same periods ended May 31, 2014. Lower sales resulted in lower revenue in 2015 over the same periods in 2014.

We do anticipate that both new acquisitions and organic growth of existing acquisitions will be a continuing source of revenue in the future.

### *Deferred Revenue Backlog*

At May 31, 2015, we have recorded deferred revenue of \$ 104,565 that we expect to recognize throughout the next fiscal year. The majority of the deferred revenues recorded are being carried forward from fiscal 2013, which is a direct result of unused prepaid services purchased by our customers.

### *Cost of Services*

Cost of services consists primarily of direct network services purchased from carriers under preferred bulk purchase agreements. Cost of service decreased to \$155,382 during the three months ended May 31, 2015 as compared to \$168,822 the three months ended May 31, 2014. Cost of service was \$394,143 for the nine months periods ended May 31, 2015 compared to \$501,673 for the nine months periods ended May 31, 2014. Lower sales in 2015 verses 2014 resulted in lower cost of services in the respective years and periods.

### *Operating expenses*

#### Selling, General and Administrative

Selling, general and administrative expenses consist primarily of consulting services, stock based compensation, insurance, fees for professional services, general corporate expenses and facility and equipment expenses. Selling general and administrative expenses were \$107,632 and \$408,950 during the three and nine months ended May 31, 2015 as compared to \$293,645 and \$1,091,407 for the three and nine months ended May 31, 2014, respectively.

#### Depreciation and amortization

Depreciation and amortization expenses during the three and nine months ended May 31, 2015 was \$67,718 and \$92,072 as compared to \$35,068 and \$98,065 for the same periods in 2014.

### *Other income (expense)*

#### Change in fair value of derivative liabilities.

For the three and nine months ended May 31, 2015, we incurred income of \$335,183 and a \$81,017 loss on change in fair value of our derivative liabilities compared to a loss of \$577,049 and \$1,396,128 for the same periods in 2014, respectively.

Interest expense

Interest expense was \$23,917 and \$76,111 for the three and nine month periods ended May 31, 2015 compared to interest expense of \$284,249 and \$1,541,624 in the three and nine month periods ended in May 31, 2014, respectively. The Company incurred an impairment expense on fixed assets of \$32,120 for the three and nine months period ended in May 31, 2015.

*Net Income (Loss)*

Net income for the three months ended May 31, 2015 was \$185,926 and a net loss of \$454,870 for the nine months ended May 31, 2015 as compared to net loss of \$863,438 and \$2,841,955 for the same periods in 2014, respectively.

**Liquidity and Capital Resources**

We have financed our operations since inception primarily through private offerings of our equity securities and issuance of convertible notes.

*Working Capital*

Our working capital deficit was \$1,995,351 as of May 31, 2015 (current liabilities in excess of current assets) and \$2,246,028 at August 31, 2014.

Total current assets were \$39,794 and \$114,188 as of May 31, 2015 and August 31, 2014, respectively. Cash represented approximately \$34,300 and \$42,870 of the total assets as of May 31, 2015 and August 31, 2014, respectively.

*Cash flow analysis*

Cash used in operations was \$68,705 during the nine month period ended May 31, 2015. During the nine month period ended May 31, 2015, our primary capital needs were for operating expenses, including funds to support our business strategy, which primarily includes working capital necessary to fund operations and reducing our account payables.

Cash provided from financing activities were proceeds of \$60,000 from issuance of convertible notes payable plus advance related party of \$135.

The Company does not have significant revenues from operations and will be dependent on funds raise to satisfy its ongoing capital requirements for at least 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 be in another form. The Company may not be able to obtain the necessary additional capital on a timely basis, on acceptable terms, or at all. In any of these events, the Company may be unable to implement its current plans for expansion or respond to competitive pressures, any of these circumstances would have a material adverse effect on its business, prospects, financial condition and results of operations.

Management expects that global economic conditions will continue to present a challenging operating environment through 2015. To the extent permitted by working capital resources, management intends to continue making targeted investments in strategic operating and growth initiatives. Working capital management will continue to be a high priority for 2015.

While we have been able to manage our working capital needs with the current credit facilities, additional financing is required in order to meet our current and projected cash flow requirements from operations. We cannot predict whether this new financing will be in the form of equity or debt. We may not be able to obtain the necessary additional capital on a timely basis, on acceptable terms, or at all. Additional investments are being sought, but we cannot guarantee that we will be able to obtain such investments.

Financing transactions may include the issuance of equity or debt securities, obtaining credit facilities, or other financing mechanisms. However, the trading price of our common stock and the downturn in the U.S. stock and debt markets could make it more difficult to obtain financing through the issuance of equity or debt securities. Even if we are able to raise the funds required, it is possible that we could incur unexpected costs and expenses, fail to collect significant amounts owed to us, or experience unexpected cash requirements that would force us to seek alternative financing. Further, if we issue additional equity or debt securities, stockholders may experience additional dilution or the new equity securities may have rights, preferences or privileges senior to those of existing holders of our common stock. If additional financing is not available or is not available on acceptable terms, we will have to curtail our operations.

### ***Inflation***

We do not believe that inflation has had a material effect on our business, financial condition or results of operations. If our costs were to become subject to significant inflationary pressures, we may not be able to fully offset such higher costs through price increases. Our inability or failure to do so could adversely affect our business, financial condition and results of operations.

### ***Off-Balance Sheet Arrangements***

We do not maintain off-balance sheet arrangements nor do we participate in any non-exchange traded contracts requiring fair value accounting treatment.

### **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. The Company has reported net income of \$185,926 and net loss of \$454,870 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.

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Not required under Regulation S-K for “smaller reporting companies.”



#### ITEM 4. CONTROLS AND PROCEDURES

##### *Evaluation of disclosure controls and procedures.*

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15 under the Securities Exchange Act of 1934 as of the end of the period covered by this Quarterly Report on Form 10-Q. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply its judgment in evaluating the benefits of possible controls and procedures relative to their costs.

Based on our evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of May 31, 2015, our disclosure controls and procedures were not effective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in SEC rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

The reason for the ineffectiveness of our disclosure controls and procedures was the result of having a limited number of employees and not having proper segregation of duties based on the cost benefit of hiring additional employees solely to address the segregation of duties issue. We compensate for the lack of segregation of duties by employing close involvement of management in day-to-day operations.

##### *Limitations on Effectiveness of Controls and Procedures*

Our management, including our Chief Executive Officer (Principal Executive Officer) and Chief Financial Officer (Principal Financial Officer), does not expect that our disclosure controls and procedures will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include, but are not limited to, the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons,

by collusion of two or more people, or by management override of the control.

The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

*Remediation of Material Weaknesses in Internal Control over Financial Reporting*

As a small business, without a viable business and revenues, the Company does not have the resources to install a dedicated staff with deep expertise in all facets of SEC disclosure and GAAP compliance. As is the case with many small businesses, the Company will continue to work with its external consultants and attorneys as it relates to new accounting principles and changes to SEC disclosure requirements. The Company has found that this approach worked well in the past and believes it to be the most cost effective solution available for the foreseeable future.

The Company will conduct a review of existing sign-off and review procedures as well as document control protocols for critical accounting spreadsheets. The Company will also increase management's review of key financial **internal control over financial reporting**.

*Change in Internal Controls over Financial Reporting*

There were no changes in our internal control over financial reporting that occurred during the quarter ended May 31, 2015 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## **PART II - OTHER INFORMATION**

### **ITEM 1. LEGAL PROCEEDINGS**

On July 14, 2015 the Company as a respondent in binding arbitration case number 01-14-0002-0297 was ordered to pay a creditor \$78,000 plus interest calculated and accrued at the Florida statutory rate.

On November 21, 2014, on the 17th Judicial Circuit Court in and Broward County, Florida (the “Court 1”), a Contract and Indebtedness lawsuit was filed by TCA Global Credit Master Fund, L.P. against the company. It commenced an action against the company to recover an aggregate dollar amount of \$395,623.04.

### **ITEM 1A. RISK FACTORS**

Not required under Regulation S-K for “smaller reporting companies.”

### **ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

During the nine months period ended May 31, 2015 the Company issued 1,312,946,354 shares of common stock for convertible debt with a value of \$306,240. The foregoing securities issued upon conversion of the convertible debt were exempt from registration pursuant to Section 4(a)(2) and Regulation D of the Securities Act of 1933, as amended.

### **ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

### **ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

## ITEM 5. OTHER INFORMATION

None.

## ITEM 6. EXHIBITS

### Exhibit No. Description

|         |   |
|---------|---|
| 31.1*   | Certification filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 of the Principal Executive Officer                                  |
| 31.2*   | Certification filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 of the Principal Financial Officer and Principal Accounting Officer |
| 32.1*   | Certification filed pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 of the Principal Executive Officer                                  |
| 32.2*   | Certification filed pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 of the Principal Financial Officer and Principal Accounting Officer |
| 101.INS | XBRL Instance Document  |
| 101.SCH | XBRL Taxonomy Extension Schema Document   |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document   |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document  |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document   |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document  |

\* Filed herewith.

\*\* Furnished herewith. Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of any registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, and otherwise are not subject to liability under those sections.



**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.

**ITALK INC.**

Date: August 25, 2015    By: */s/ David F. Levy*  
David F. Levy  
President, Chief Executive Officer, Secretary and  
Director  
(Principal Executive Officer)

Date: August 25, 2015    By: */s/ Richard Dea*  
Richard Dea  
Chief Financial Officer and Director  
(Principal Financial Officer and Principal Accounting Officer)

