Skkynet Cloud Systems, Inc.
Form 10-Q
June 10, 2014

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended April 30, 2014

OR

o TRANSITION REPORT UNDER SECTION 13 OF 15(d) OF THE EXCHANGE ACT OF 1934

For the transition period from ___________ to ___________.

Commission File Number 000-54747

SKKYNET CLOUD SYSTEMS INC.
(Exact name of registrant as specified in its charter)

Nevada	45-3757848
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

20 Bay Street – Suite 1100, Toronto, Ontario, Canada M5J 2N8
(Address of principal executive offices)

(888) 628-2028
(Issuer's telephone number)

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

Indicate by check mark whether the Company is a large accelerated filer, an accelerated file, non-accelerated filer, or a smaller reporting company.

Large accelerated filer	o	Accelerated filed	o
Non-accelerated filer	o	Smaller reporting company	x

Indicate by check mark whether the Company is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

As of June 10, 2014 there were 49,844,000 shares of Common Stock of the issuer outstanding.

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FORWARD LOOKING STATEMENTS

Statements made in this Form 10-Q that are not historical or current facts are forward-looking statements. These statements often can be identified by the use of terms such as “may,” “will,” “expect,” “believe,” “anticipate,” “estimate,” “approximate” or “continue,” or the negative thereof. We wish to caution readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made. Any forward-looking statements represent management’s best judgment as to what may occur in the future. However, forward-looking statements are subject to risks, uncertainties and important factors beyond our control that could cause actual results and events to differ materially from historical results of operations and events and those presently anticipated or projected. Among the factors that could cause actual results to differ materially from the forward-looking statements are the following: the Company’s ability to obtain necessary capital, the Company’s ability to meet anticipated development timelines, the Company’s ability to protect its proprietary technology and knowhow; the Company’s ability to identify and develop a network of physicians, the Company’s ability to establish a global market, clinical trial results, the Company’s ability to successfully consummate future acquisitions and such other risk factors identified from time to time in the Company’s reports filed with the Securities and Exchange Commission, including those filed with this Form 10-Q quarterly report. We disclaim any obligation subsequently to revise any forward-looking statements to reflect events or circumstances after the date of such statement or to reflect the occurrence of anticipated or unanticipated events.

PART I – FINANCIAL INFORMATION

ITEM 1: FINANCIAL STATEMENTS

SKKYNET CLOUD SYSTEMS, INC.
CONSOLIDATED BALANCE SHEETS
(Unaudited)

		April 30, 2014		October 31, 2013
ASSETS				
Current Assets:				
Cash and cash equivalents	$	443,692	$	365,415
Accounts receivable		199,881		88,806
Total current assets		643,573		454,221
Property and equipment, net of accumulated depreciation of $67,659 and $70,484 respectively		4,319		5,398
Intangible assets		2,289		1,648
Total Assets	$	650,181	$	461,267
LIABILITIES AND STOCKHOLDERS' EQUITY(DEFICIT)				
Current Liabilities:				
Accounts payable and accrued expenses	$	5,793	$	34,567
Accounts payable – related parties		--		52,432
Accrued liabilities – related party		137,968		143,872
Notes payable – related parties		156,351		197,424
Deferred income		93,350		59,312
Total current liabilities		393,462		487,617
Total liabilities		393,462		487,617
Stockholders' Deficit:				
Preferred stock; $0.001 par value, 5,000,000 shares authorized, 5,000 shares issued and outstanding		5		5
Common stock; $0.001 par value, 70,000,000 shares authorized, 49,844,000 and 49,334,000 shares issued and outstanding, respectively		49,844		49,334
Additional paid-in capital		1,097,595		555,773
Accumulative other comprehensive income (loss)		19,366		12,603
Accumulated deficit		(910,091)		(644,065)
Total stockholders' equity (deficit)		256,719		(26,350)
Total Liabilities and Stockholders' Equity	$	650,181	$	461,267

The accompanying notes are an integral part of the unaudited consolidated financial statements.

SKKYNET CLOUD SYSTEMS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended April 30, 2014	Three Months Ended April 30, 2013	Six Months Ended April 30, 2014	Six Months Ended April 30, 2013
Revenue	$ 248,298	$ 250,878	$ 535,347	$ 405,635
Direct material costs	1,373	1,872	1,455	3,734
Operating Expenses:				
General & administrative	422,460	257,397	805,822	510,991
Depreciation	370	447	810	895
Loss from operations	(175,905)	(8,838)	(272,740)	(109,985)
Other Income (Expenses):				
Tax refund	--	--	--	85,840
Gain on debt forgiveness	11,982	--	11,982	--
Interest expense	(2,180)	(3,881)	(5,268)	(7,730)
Total other income (expenses)	9,802	(3,881)	6,714	78,110
Net loss	$ (166,103)	$ (12,719)	$ (266,026)	$ (31,875)
Foreign currency translation adjustment	11,538	(2,072)	(6,763)	793
Comprehensive (loss)	(154,565)	(14,791)	$(272,789)	$(31,082)
Net loss per common share attributable to common stockholders (basic and diluted)	$(0.00)	$(0.00)	$(0.01)	$(0.00)
Weighted average common shares outstanding (basic and diluted)	49,844,000	49,334,000	49,632,674	49,334,000

The accompanying notes are an integral part of the unaudited consolidated financial statements.

SKKYNET CLOUD SYSTEMS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Six Months Ended April 30,	
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	$(266,026)	$(31,875)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation expense	810	895
Option based compensation	172,582	
Gain on debt forgiveness	(11,982)	--
Changes in operating assets and liabilities:		
Accounts receivable	(111,075)	(87,635)
Accounts payable and accrued expenses	(9,624)	30,459
Accrued liabilities – related parties	(58,336)	188,515
Taxes payable	(7,168)	(1,267)
Deferred Income	34,038	--
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	(256,781)	99,092
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash paid for the purchase of fixed assets	(735)	(984)
NET CASH USED IN INVESTING ACTIVITIES	(735)	(984)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from the sale of common stock	369,750	
Payments on notes payable –related parties	(41,083)	(6,086)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	328,667	(6,086)
Effect of exchange rate changes on cash and cash equivalents	7,126	(793)
Net increase in cash and cash equivalents	78,277	91,229
Cash and cash equivalents, beginning of period	365,415	122,053
Cash and cash equivalents, end of period	$443,692	$213,282
SUPPLEMENTAL CASH FLOWS INFORMATION		
Interest paid	$21,920	$1,479
Income taxes paid	$--	$--

The accompanying notes are an integral part of the unaudited consolidated financial statements.

SKKYNET CLOUD SYSTEMS, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 1 – ORGANIZATION AND BASIS OF PRESENTATION

Skkynet Cloud Systems, Inc. ("Skkynet" or "the Company") is a newly-formed Nevada corporation headquartered in Toronto, Canada. Skkynet operates its business through its wholly-owned subsidiary Cogent Real-Time Systems, Inc. (Cogent). Skkynet was formed primarily for the purpose of taking the existing business lines of Cogent and its current and future customers and integrating these businesses with cloud based systems.

In March 2012, we completed the acquisition of all of the issued and outstanding shares of common stock of Cogent from Sakura Software Inc. and Benford Consultancy Inc. in exchange for a total of thirty million (30,000,000) restricted shares of our common stock, as a result of which Cogent became our wholly-owned subsidiary. As part of the exchange transaction we also issued 5,000 Series A Preferred shares to Sakura Software and Benford Consultancy. Prior to the closing of the exchange transaction, we did not have any operating revenues. At the acquisition closing, Cogent's business consisted primarily of providing connectivity and data acquisition to a wide variety of industrial and office hardware and software products, and then making that data available over a network using industry-standard protocols. Cogent currently markets its products and services primarily to manufacturers in industrial processes and financial services companies.

The accompanying unaudited interim financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America and the rules of the Securities and Exchange Commission (SEC), and should be read in conjunction with the audited financial statements and notes thereto contained in the Company's October 31, 2013 Annual Report filed with the SEC on Form 10-K. In the opinion of management, all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of financial position and the results of operations for the interim periods presented have been reflected herein. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year. Notes to the financial statements which would substantially duplicate the disclosure contained in the audited financial statements for the most recent fiscal year end October 31, as reported on Form 10-K, have been omitted.

NOTE 2 - RELATED PARTY TRANSACTIONS

On July 31, 2012, Andrew Thomas, Shizuka Thomas and Paul Benford converted the salary they had accrued through our subsidiary through April 30, 2012 to notes payable due from that subsidiary. The notes mature on April 29, 2015 and bear an interest rate of 6% per annum on the outstanding balance. Interest payments are due quarterly commencing October 30, 2012. As of April 30, 2014 the outstanding amounts on the notes payable were $156,351 as noted below:

Note balance as of:	April 30, 2014	October 31, 2013
Andrew Thomas	$ 47,410	$ 59,572
Paul Benford	$ 77,064	$ 97,545
Shizuka Thomas	$ 31,877	$ 40,317
Total	$ 156,351	$ 197,434

On January 1, 2012 and April 15, 2012 the Company and its subsidiary entered into employment agreements with four of its officers and directors. As a result of these agreements the Company has accrued compensation for each of the individuals. As of April 30, 2014 the accrued liability for compensation was $137,968.

As of April 30, 2014 and October 31, 2013 the Company had the following outstanding accrued liabilities due to related parties:

As of	April 30, 2014	October 31, 2013
Accrued salaries	112,423	90,808
Accrued interest	2,345	18,064
Accounts payable	--	52,432
Consulting fees	23,200	35,000
Total accrued liabilities	137,968	196,304

NOTE 3 –EQUITY

On January 14, 2014 the Company sold 510,000 shares of restricted common stock to eight individuals with a value of $0.725 per share for $337,125 in cash and a stock receivable of $32,625. On April 9, 2014 the stock receivable was paid in full.

NOTE 4 – OPTIONS

The Company under its 2012 option plan issues options to various officers, directors and consultants. The options vest in equal annual installments over a five year period with the first 20% vested when the options were granted. All of the options are exercisable at a purchase price based on the last trading price of the Company's common stock on the date the options were granted.

On November 1, 2013 the Company issued 185,000 options with an exercise price of $0.55 per share to an officer of the Company. Computed volatility of 397.88% and a discount rate of 2.65 were used in calculating the fair value of the options of $101,750.

On December 14, 2013 the Company issued 15,000 options with an exercise price of $0.85 per share to two independent directors and a consultant of the Company. Computed volatility of 371.40% and a discount rate of 2.89 were used in calculating the fair value of the options of $12,750.

On January 13, 2014 the Company issued 580,000 options with an exercise price of $0.88 per share to four officers of the Company. Computed volatility of 360.15% and a discount rate of 2.84 were used in calculating the fair value of the options of $102,080.

The Company has elected to expense the options over the life of the option as stock based compensation. The expense is calculated with a Black Scholes model to calculate the fair value over the 5 year period of each option. The total value calculated for option expense is $624,900   As of April 30, 2014 the Company expensed $172,582 for the six month period ended April 30, 2014. The unrecognized future balance to be expensed over the term of the options is $452,318.

The following sets forth the options granted and outstanding as of April 30, 2014:

Options as of October 31, 2013	Options Granted	Total Outstanding as of April 30, 2014	Number Exercisable	Number Exercised	Aggregate Intrinsic Value
$ 3,055,000	$ 780,000	$ 3,835,000	$ 1,987,000	$ --	$ 4,781,250

NOTE 5 – DEFERRED REVENUE

The Company receives part of its revenue from the sale of software support. The revenue received is for one year of support from the date of the support sale. The Company defers the revenue for the future periods in which it is obligated to perform the support service and is recognized on a straight-line basis over the term of the software support agreement. As of April 30, 2014 the Company had deferred revenue of $93,350.

NOTE 6 – SUBSEQUENT EVENT

On May 12, 2014 the Company issued 90,000 options under the Company 2012 option program to one employee and two consultants. The options vest in equal annual installments over a five year period with the first 20% vested when the options were granted. The exercise price is $1.40 per share.

ITEM 2: MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This report contains forward looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934, as amended. Skkynet’s actual results could differ materially from those set forth on the forward looking statements as a result of the risks set forth in Skkynet’s filings with the Securities and Exchange Commission, general economic conditions, and changes in the assumptions used in making such forward looking statements.

OVERVIEW

The Company operates its business through its wholly-owned subsidiary Cogent Real-Time Systems, Inc. (Cogent). The Company has taken the existing business lines of Cogent and integrated these with cloud based systems.

The Company provides software and related systems and facilities to collect process and distribute real-time information over a network. This capability allows the customers to both locally and remotely manage, supervise and control industrial processes and financial information systems. By using this software and where requested by a client, our web based assets, this gives clients and their customers (to the extent relevant) the ability and the tools to observe and interact with these processes and services in real-time as they are underway and to give them the power to analyze, alter, stop or otherwise influence these activities to conform to their plans.

RESULTS OF OPERATIONS

For the three and six month periods ending April 30, 2014, revenues were $248,298 and $535,347 compared to $250,878 and $405,635 for the same period in 2013, respectively. Revenue increased for the six month period ending April 30, 2014 over the six month period ended April 30, 2013 are the result of increased sales to customers and the addition of new customers. The Company hired two full time marketing employees to concentrate on the marketing of its software.

General and administrative expense increased to $422,460 and $805,822 for the three and six months ended April 30, 2014 from $257,397 and $510,991 for the same period in 2013, respectively. The increase in general and administrative expenses included options expensed of $172,351, compared to none in 2013, increased consulting and preparation for the opening of a new office for future expansion.

For the three and six month periods ending April 30, 2014 the Company posted an operating loss of $175,905 and $272,740 compared to an operation loss of $8,838 and $109,985 for the same periods in 2013, respectively. The increase in operating loss is attributable to the increase expenses in consulting, salaries, and office opening expenses plus the stock based compensation booked for the option expenses of $172,351. The increase in sales offset some of the additional expense incurred during the six month period ended April 30, 2014.

Other income and expenses for the three and six month periods ending April 30, 2014 included income of $9,802 and $6,714 for the three and six month periods ended April 30, 2014 compared to other expense of $3,881 and other income of $78,110 for the same periods in 2013. During the six month period ended April 30, 2014 other income was attributed to gain on the settlement of debt of $11,982 offset by interest expense of $5,268, compared to a tax refund of $85,840 offset by interest expense of $7,730 for the same period in 2013.

A net loss of $166,103 and $266,026 was recorded for the three and six month periods ending April 30, 2014 compared to a net loss of $12,719 and $31,875 for the same periods in 2013. The loss can be attributed to added employee costs, increased consulting costs, and new office opening preparation cost in 2014 compared to 2013.

LIQUIDITY AND CAPITAL RESOURCES

At April 30, 2014, Skkynet had current assets of $643,573 and current liabilities of $393,462, resulting in working capital of $250,111 and a current ratio of 1.64:1. Accumulated deficit as of April 30, 2014 was $910,091 with total shareholder equity at $256,719.

Net cash used in operations for the six months ending April 30, 2014 was $256,781 compared to net cash provided of $99,092 for the same period in 2013. Net cash used in operations increased due primarily to an increase in the net loss of $234,751, an increase in accounts receivable of $111,075 and a decrease in accounts payable of $9,624. These were offset by stock based compensation for valuing options of $172,582 and deferred revenue of $34,038.

There were no investing activities in the periods ended April 30, 2014 and 2013.

Net cash provided in financing activities during the six months ended April 30, 2014 was $328,667 compared to net cash used of $6,086 for the same period in 2013. The change was due to the sale of common stock of $369,750 offset by the reduction of notes payable to related parties of $41,083.

Our existing capital may not be sufficient to meet Skkynet‘s cash needs, however our shareholders deficit as of October 31, 2013 changed to shareholders equity of $256,719 as of April 30, 2014 and our cash on hand increased from $365,415 as of October 31, 2013 to $443,692 at quarter end of April 30, 2014. In addition our working capital increased as of April 30, 2014 to $250,111 from negative working capital of $33,396 as of October 31, 2013 or an increase of $283,507. The comparison of year end October 31, 2013 to the six month period ended April 30, 3014 is affect by the re-classing of long term notes payable in the amount of $156,351 to short term notes payable due to their maturity date.

EMPLOYEES

As of April 30, 2013, Skkynet employed 10 consultants and employees.

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.

ITEM 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As a “smaller reporting company” as defined by Item 10 of Regulation S-K, Skkynet is not required to provide information required under this Item.

ITEM 4: CONTROLS AND PROCEDURES

This report includes the certifications of our Chief Executive Officer and Chief Financial Officer required by Rule 13a-14 under the Securities Exchange Act of 1934 (the "Exchange Act"). See Exhibits 31.1 and 31.2. This Item 4 includes information concerning the controls and control evaluations referred to in those certifications.

Evaluation of Disclosure Controls and Procedures

Disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) are designed to ensure that information required to be disclosed in reports filed or submitted 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 management, including the Principal Executive Officer and the Principal Financial Officer, to allow timely decisions regarding required disclosures.

In connection with the preparation of this report, our management, under the supervision and with participation of our Principal Executive Officer and Principal Financial Officer (the “Certifying Officers”) conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of April 30, 2014. Based on that evaluation, our management concluded that there is a material weakness in our disclosure controls and procedures over financial reporting. The material weakness results from a lack of written procedures which effectively documents the proper procedures and descriptions of the duties of all persons involved in the disclosure controls of the Company. The Company hopes to implement plans to document the procedures and internal controls of the Company. A material weakness is a deficiency, or a combination of control deficiencies, in disclosure 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. This does not include an evaluation by the Company’s registered public accounting firm regarding the Company’s internal control over financial reporting.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Exchange Act Rules 13a-15 or 15d-15 that occurred during our most recent quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Our management believes that the Unaudited Financial Statements included herein present, in all material respects, the Company’s financial condition, results of operations and cash flows for the periods presented.

PART II – OTHER INFORMATION

ITEM 1: LEGAL PROCEEDINGS.

None

ITEM 1A: RISK FACTORS

There have been no material changes to Skkynet's risk factors as previously disclosed in our most recent 10-K filing for the year ending October 31, 2013.

ITEM 2: SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

On January 14, 2014 the Company sold 510,000 shares of restricted common stock to eight individuals with a value of $0.725 per share for $337,125 in cash and a stock receivable of $32,625. On April 9, 2014 the stock receivable was paid in full.

ITEM 3: DEFAULTS UPON SENIOR SECURITIES.

None

ITEM 4: MINE SAFETY INFORMATION

None

ITEM 5: OTHER INFORMATION.

None

ITEM 6: EXHIBITS

31.1	Certification of Principal Executive Officer
31.2	Certification of Principal Financial Officer
32.1	Certification of Compliance to Sarbanes-Oxley
32.2	Certification of Compliance to Sarbanes-Oxley
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

** XBRL (Extensible Business Reporting Language) information is furnished and not filed or a part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.

SIGNATURES

In accordance with 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.

	SKKYNET CLOUD SYSTEMS INC.	
Date: June 10, 2014	By:	/s/ Andrew Thomas Andrew Thomas, CEO
	By	/s/ Lowell Holden Lowell Holden, CFO