

Skkynet Cloud Systems, Inc.
Form 10-Q
September 06, 2013

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended July 31, 2013

OR

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
(State or other jurisdiction of incorporation
or organization)

45-3757848
(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 No

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 Accelerated filed
Non-accelerated filer Smaller reporting company

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

As of September 6, 2013, there were 49,334,000 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)

| | July 31, 2013 | October 31, 2012 |
|--|------------------|---------------------|
| ASSETS | | |
| Current Assets: | | |
| Cash and cash equivalents | \$ 369,663 | \$ 122,053 |
| Accounts receivable | 94,865 | 101,885 |
| Total current assets | 464,528 | 223,938 |
| Property and equipment, net of accumulated depreciation of \$67,565 and \$66,236 respectively | 3,845 | 4,190 |
| Total Assets | \$ 468,373 | \$ 228,128 |
| LIABILITIES AND STOCKHOLDERS' DEFICIT | | |
| Current Liabilities: | | |
| Accounts payable and accrued expenses | \$ 43,256 | \$ 6,879 |
| Accrued liabilities – related party | 579,713 | 309,382 |
| Taxes payable | - | 1,720 |
| Total current liabilities | 622,969 | 317,981 |
| Note payable to related parties | 200,150 | 210,657 |
| Total liabilities | 823,119 | 528,638 |
| 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, 49,334,000 and 49,334,000 shares issued and outstanding, respectively | 49,334 | 49,334 |
| Additional paid-in capital | 4,266 | 4,266 |
| Change due to currency translation | 5,245 | (171) |
| Accumulated deficit | (413,596) | (353,944) |
| Total stockholders' deficit | (354,746) | (300,510) |
| Total Liabilities and Stockholders' Deficit | \$ 468,373 | \$ 228,128 |

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 | | Nine Months Ended | |
|---|--------------------|-------------|-------------------|-------------|
| | July 31, | | July 31, | |
| | 2013 | 2012 | 2013 | 2012 |
| Revenue | \$ 198,801 | \$ 160,626 | \$ 601,328 | \$ 569,772 |
| Direct material costs | 2,300 | 679 | 6,008 | 3,870 |
| Operating Expenses: | | | | |
| Depreciation | 447 | 461 | 1,329 | 1,404 |
| General and administrative | 220,307 | 190,800 | 730,621 | 574,072 |
| Loss from operations | (24,253) | (31,314) | (136,630) | (9,574) |
| Other Income (Expenses): | | | | |
| Other expense | (4) | -- | (8) | -- |
| Tax refund | -- | -- | 86,236 | -- |
| Interest expense | (3,026) | (3,224) | (9,250) | (3,224) |
| Total other income (expenses) | (3,030) | (3,224) | 76,978 | (3,224) |
| Net loss | \$(27,283) | \$(34,538) | (59,652) | \$(12,798) |
| Net loss per common share attributable to common stockholders (basic and diluted) | \$(0.00) | \$(0.00) | \$(0.00) | \$(0.00) |
| Weighted average common shares outstanding (basic and diluted): | 49,334,000 | 49,334,000 | 49,334,000 | 32,511,153 |

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

SKKYNET CLOUD SYSTEMS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

| | Nine Months Ended July 31, | |
|---|-------------------------------|------------------|
| | 2013 | 2012 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net loss | \$(59,652) | \$(12,798) |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities: | | |
| Depreciation expense | 1,329 | 1,404 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 7,020 | 59,181 |
| Accounts payable and accrued expenses | 36,377 | 6,173 |
| Taxes payable | (1,720) | (2,702) |
| Accrued liabilities – related parties | 270,331 | (99,227) |
| NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES | 253,685 | (47,969) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Cash paid for the purchase of fixed assets | (984) | -- |
| NET CASH USED IN INVESTING ACTIVITIES | (984) | -- |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from the sale of common stock | -- | 4,600 |
| Payments on notes payable –related parties | (6,086) | -- |
| Proceeds from notes payable – related parties | -- | 89,976 |
| NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES | (6,086) | 94,576 |
| Effect of exchange rate changes on cash | 995 | (4,491) |
| Net increase in cash | 247,610 | 42,116 |
| Cash, beginning of period | 122,053 | 136,296 |
| Cash, end of period | \$369,663 | 178,412 |
| SUPPLEMENTAL CASH FLOWS INFORMATION | | |
| Interest paid | \$260 | \$-- |
| Income taxes paid | \$-- | \$-- |
| Noncash Investing and Financing Activities: | | |
| Founders shares issued | \$-- | \$10,000 |
| Shares issued for acquisition of subsidiary | \$-- | \$30,005 |

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, 2012 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 - GOING CONCERN

As shown in the accompanying financial statements, Skkynet has an accumulated deficit of \$413,596 as of July 31, 2013 and incurred a net loss of \$59,652 for the nine month period ended July 31, 2013. Unless profitability and increases in stockholders’ equity continue, these conditions raise substantial doubt as to Skkynet’s ability to continue as a going concern. The consolidated financial statements do not include any adjustments that might be necessary if Skkynet is unable to continue as a going concern.

Skkynet continues to review its expense structure, reviewing costs and their reduction to move towards profitability. The Company’s expenses are planned to decrease as a percent of revenue resulting in profitability and increased shareholders’ equity.

NOTE 3 - RELATED PARTY TRANSACTIONS

On July 31, 2012, Andrew Thomas, Shizuka Thomas and Paul Benford converted the salary they had accrued through our subsidiary through January 31, 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 July 31, 2013 the outstanding amounts on the notes payable were \$200,150 plus accrued interest of \$15,310 for a total of \$215,460.

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 July 31, 2013 the accrued liability for compensation was \$579,713.

On February 1, 2013 the Company granted 50,000 options to an officer of the Company. The options vested 20% immediately with 20% vested on each year's anniversary of the grant date. The options are exercisable at ten cents per share and expire on January 31, 2018. Management valued the options and determined the fair value of the options on the date of grant was nominal.

NOTE 4 – INCOME TAX REFUND

During the period ended July 31, 2013 the subsidiary of the Company received a tax refund from Revenue Canada. The refund received of \$86,236 related to tax credits applied for the tax years ended 2010 and 2011 which were subsequently approved and refunded in 2013.

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 nine month periods ending July 31, 2013, revenues were \$198,801 and \$601,328 and for the same periods in 2012, revenues were \$160,626 and \$569,772, respectively. Revenue increases for the three month period ending July 31, 2013 over the three month period ended July 31, 2012 are the result of increased sales to customers plus added customers. Our nine months increase in sales in the period ended July 31, 2013 over the same period in 2012, although minimal, results from a growing customer base and delivery of our product.

General and administrative expense increased to \$220,307 for the three months ended July 31, 2013 and \$730,621 for the nine months ended July 31, 2013 from \$190,800 for the three months ended July 31, 2012 and \$574,072 for the nine months ended July 31, 2012. The increase in general and administrative expenses was due to the added cost of the public reporting requirements of the Company along with increased expenditures related to overseas research and market development.

The operating loss for the three and nine month periods ending July 31, 2013 consisted of an operating loss of \$24,253 and \$136,630 and an operating loss of \$31,314 and \$9,574 in the same periods in 2012.

Other income (expenses) for the three and nine month periods ending July 31, 2013 were \$(3,030) and \$76,978. Other expenses for the three months ended July 31, 2013 consisted primarily of interest expense of \$3,026. Other income for the nine months ended July 31, 2013 consisted primarily of a tax refund of \$86,236 and interest expense of \$9,250. This compared to other income (expenses) of \$(3,224) for the same periods in 2012.

A net loss of \$27,283 and \$59,652 was recorded for the three and nine month periods ending July 31, 2013 compared to a net loss of \$34,538 and \$12,798 for the same periods in 2012.

LIQUIDITY AND CAPITAL RESOURCES

At July 31, 2013, Skkynet had current assets of \$464,528 and current liabilities of \$622,969, resulting in negative working capital of \$158,441. Accumulated deficit as of July 31, 2013 was \$413,596.

Net cash provided from operations for the nine months ending July 31, 2013 was \$253,685 compared to net cash used of \$47,969 for the same period in 2012, a positive change of \$301,654. Net cash provided from operations increased due primarily to the change in accounts payable of \$36,377 and accrued salaries of \$270,331, an increase from the change in accounts payable of \$6,173 in the same period in 2012 and accrued liabilities to related parties of \$99,227.

Net cash used in investing activities was \$984 for the nine months ended July 31, 2013 compared to zero in the same period in 2012.

Net cash used in financing activities during the nine months ended July 31, 2013 was \$6,086 compared to net cash provided of \$94,576 in 2012, a negative change of \$100,662. The change was due to payment of notes to related parties in the amount of \$6,086 in 2013 compared to proceeds from notes payable to related parties of \$89,976 and the sale of common stock of \$4,600 during 2012.

Our existing capital may not be sufficient to meet Skkynet's cash needs, including the costs of compliance with the continuing reporting requirements of the Securities Exchange Act of 1934, as amended. This condition raises substantial doubt as to Skkynet's ability to continue as a going concern. The financial statements do not include any adjustments that might be necessary if Skkynet is unable to continue as a going concern.

EMPLOYEES

As of July 31, 2013, Skkynet had 4 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 July 31, 2013. 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, 2012.

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

None

ITEM 3: DEFAULTS UPON SENIOR SECURITIES.

None

ITEM 4: MINE SAFETY INFORMATION

None

ITEM 5: OTHER INFORMATION.

None

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ITEM 6: EXHIBITS

EXHIBIT
31.1 Certification of Principal Executive Officer

EXHIBIT
31.2 Certification of Principal Financial Officer

EXHIBIT
32.1 Certification of Compliance to Sarbanes-Oxley

EXHIBIT
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: September 6, 2013

By: /s/ Andrew Thomas
Andrew Thomas, CEO

By /s/ Lowell Holden
Lowell Holden, CFO