

Skkynet Cloud Systems, Inc.
Form 10-Q
March 14, 2017

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 January 31, 2017

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.)

2233 Argentia Road Suite 306. Mississauga, Ontario, Canada L5N 2X7
(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 registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes: ☒ No: ☐

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filed	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>

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

As March 14, 2017 there were 51,164,266 shares of Common Stock of the issuer outstanding.

PART I: FINANCIAL INFORMATION

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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 establish a global market, 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.

Table of Contents**PART I****ITEM 1: FINANCIAL STATEMENTS**

SKKYNET CLOUD SYSTEMS, INC.
CONSOLIDATED BALANCE SHEETS

	January 31, 2017 (Unaudited)	October 31, 2016
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 166,717	\$ 266,860
Accounts receivable	200,846	156,977
Inventory	3,953	4,079
Prepaid	7,447	11,492
Total current assets	378,963	439,408
Property and equipment, net of accumulated depreciation of \$80,300 and \$78,807 respectively	1,458	1,311
Other assets	11,078	9,352
Total Assets	\$ 391,499	\$ 450,071
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 59,753	\$ 59,110
Accrued liabilities – related party	126,628	49,984
Deferred revenue	80,781	94,711
Total current liabilities	267,162	203,805
Total liabilities	267,162	203,805
Stockholders' Equity:		
Preferred stock; \$0.001 par value, 5,000,000 shares authorized, 5,000 shares issued and outstanding, respectively	5	5
Series B Preferred convertible stock: \$0.001 par value, 500,000 share authorized, 193,661 issued and 193,661 outstanding, respectively	193,661	193,661
Common stock; \$0.001 par value, 70,000,000 shares authorized, 50,931,266 and 50,931,266 shares issued and outstanding, respectively	50,932	50,932
Additional paid-in capital	4,314,296	4,190,320

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Accumulative other comprehensive income (loss)	(75,078)	(75,398)
Accumulated deficit	(4,359,479)	(4,113,254)
Total shareholders' equity	124,337	246,266
Total Liabilities and Stockholders' Equity	\$ 391,499	\$ 450,071

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

Table of Contents**SKKYNET CLOUD SYSTEMS, INC.****CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS****(Unaudited)**

	Three Months Ended January	
	31,	
	2017	2016
Revenue	\$ 285,486	\$ 275,944
Direct material costs	10,448	12,315
Gross Profit	275,038	263,629
Operating Expenses:		
General & administrative	516,603	659,482
Depreciation and amortization	170	240
Loss from operations	(241,735)	(396,093)
Other Income (Expenses):		
Other income	--	5
Currency exchange	(4,490)	26,894
Total other income (expenses)	(4,490)	26,899
Net loss before taxes	(246,225)	(369,194)
Preferred dividends	(2,905)	(2,905)
Net loss to common shareholders	(249,130)	(372,099)
Foreign currency translation adjustment	320	(6,053)
Comprehensive (loss)	\$ (248,810)	\$ (378,152)
Net loss per common share attributable to common stockholders (basic and diluted)	\$ (0.00)	\$ (0.01)
Weighted average common shares outstanding (basic and diluted):	50,931,266	50,795,500

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

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

	Three Months Ended January 31,	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$ (246,225)	\$ (369,194)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization expense	170	240
Option based compensation	123,976	226,155
Changes in operating assets and liabilities:		
Increase in accounts receivable	(43,869)	33,079
Increase (decrease) in accounts payable and accrued expenses	643	(20,029)
Increase in inventory	126	40
Increase in accrued liabilities – related parties	76,644	72,028
Increase in prepaid and other assets	2,319	(1,315)
Increase in Deferred Income	(13,930)	(4,238)
NET CASH (USED IN) OPERATING ACTIVITIES	(100,146)	(63,234)
Effect of exchange rate changes on cash	3	(6,483)
Net decrease in cash	(100,143)	(69,717)
Cash, beginning of period	266,860	469,944
Cash, end of period	166,717	\$ 400,277
SUPPLEMENTAL CASH FLOWS INFORMATION		
Interest paid	\$ --	\$ --
Income taxes paid	\$ --	\$ --

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

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SKKYNET CLOUD SYSTEMS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 1 – ORGANIZATION AND BASIS OF PRESENTATION

Skkynet Cloud Systems, Inc. (“Skkynet” or “the Company”) is a Nevada corporation formed on August 31, 2011 and headquartered in Toronto, Canada. Skkynet operates its business through its wholly-owned subsidiaries Cogent Real-Time Systems, Inc. (“Cogent”), Skkynet Corp. (Canada), Skkynet, Inc. (USA) and Nic Corporation (“NiC”) (Japan). 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. We also intend to expand the areas of business activity to which the kinds of products and services we provide are applied.

On November 1, 2014, the Company acquired NiC as a wholly owned subsidiary. On February 1, 2015, the Company formed a wholly owned US subsidiary Skkynet, Inc., and a wholly owned Canadian subsidiary Skkynet Corp.

On July 30, 2015, the Company designated 500,000 shares of the preferred stock as Series B Convertible preferred. The Series B shares have a par value of \$0.001 and issue value of \$1.00 per share. The series B is convertible by the holder into common stock at \$1.35 per share. The Company may, any time at its option, redeem the Series B shares at their stated value. The Series B preferred shares hold a 6% per annum cumulative dividend. On July 30, 2015, the Company issued 193,661 shares of Series B convertible preferred stock to three related parties in exchange for the outstanding notes payable and accrued interest of \$193,661. Dividends are not paid. The Company has accounted for \$2,905 in Series B dividends which increases the loss to common shareholders from \$246,225 to \$249,130 for the three month period ended January 31, 2017.

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 (the “SEC”), and should be read in conjunction with the audited financial statements and notes thereto contained in the Company’s October 31, 2016 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, 2016 as reported on Form 10-K, have been omitted.

Inventory

Inventories are stated at the lower or cost of market using the first-in; first-out (FIFO) cost method of accounting. The inventory consists of switch boxes held by the Company's subsidiary NiC programs for resale.

NOTE 2 - RELATED PARTY TRANSACTIONS

On January 1, 2012 and April 15, 2012, the Company and its subsidiary Cogent 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. In addition, the Company is accruing director compensation at the rate of \$2,500 per director per month. As of January 31, 2017, the accrued liability for compensation was \$126,628.

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As of January 31, 2017, and October 31, 2016, the Company had the following outstanding accrued liabilities due to related parties:

As of	January 31, 2017	October 31, 2016
Accrued salaries	\$ 39,976	\$ --
Director fees	\$ 22,500	\$ --
Accrued Commissions	\$ 59,352	\$ 49,984
Consulting fees	\$ 4,800	\$ --
Total accrued liabilities and accrued expense	\$ 126,628	\$ 49,984

NOTE 3 – OPTIONS

The Company, under its 2012 Stock 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 are granted. All of the options are exercisable at a purchase price based on the last trading price of the Company's common stock.

On January 6, 2016, the Company issued 509,500 options with an exercise price of \$1.02 per share to 14 officers, directors, employees and consultants of the Company.

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 reach the fair value over the length of each option. The total value calculated for option expense is \$2,459,889. During the three months period ended January 31, 2017, the Company expensed \$123,976 for options. The unrecognized future balance to be expensed over the term of the options is \$1,529,046

The following sets forth the options granted and outstanding as of January 31, 2017:

Options	Weighted Average Exercise price	Weighted Average Remaining Contract Life	Granted Options Exercisable	Intrinsic value
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Outstanding at October 31, 2016	6,263,200	0.54	5.18	4,308,600	2,857,703
Granted	--	--	--	--	--
Exercised	--	--	--	--	--
Outstanding at January 31, 2017	6,263,200	0.54	4.93	4,585,700	2,857,703

Table of Contents**NOTE 4 - COMMITMENTS AND CONTINGENCIES**

The Company leases office space located at 2233 Argentia Road Suite 306 Mississauga, Ontario Canada L5N 2X7. The offices contain approximately 2,810 square feet of office space and are leased from July 1, 2014 through July 31, 2017. Under the terms of the lease, the gross monthly rental cost including common area charges is \$6,700 per month. The lease terminates on July, 31, 2017. The yearly rental obligations under the lease agreement are as follows:

2017	\$ 52,746
2018	\$ 0
2019	\$ 0
2020	\$ 0
Thereafter	\$ 0
Total	\$ 52,746

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. As of January 31, 2017, the Company had deferred revenue of \$80,781.

NOTE 6 - SUBSEQUENT EVENT

On March 7, 2017, the Company entered into a purchase agreement to issue 233,000 shares of common stock to one individual at \$1.10 per share with a value of \$256,300 for cash.

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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

Skkynet is a Nevada corporation headquartered in Mississauga, Canada. Skkynet operates three different lines of business through its wholly-owned subsidiaries Cogent Real-Time Systems, Inc. (“Cogent”), Skkynet, Inc. (“Skkynet (USA)”), Skkynet Corp. (“Skkynet (Canada)”), and Nic Corporation (“NiC”). Skkynet was established to enhance Cogent’s existing business lines through the integration of Cloud-based systems, and to deliver a Software-as-a-Service (“SaaS”) product targeting the Industrial Internet of Things (“IoT”) market, now referred to by the terms “Industry 4.0” and “Industrial Internet Consortium”. We will also expand the areas of business activity to which our products and services are applied.

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, when requested by a client, our web based assets, our clients and their customers (to the extent relevant) are given 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 month periods ending January 31, 2017, revenues were \$285,486 compared to \$275,944 for the same period in 2016. Revenue increased for the three month period ending January 31, 2017 over the three month period ended January 31, 2016 by 3.4%. The increase in revenue for the three month period ended January 31, 2017 is attributed slightly higher sales by the Cogent division on an international basis with the products of the Company.

General and administrative expense was \$516,603 for the three month period ended January 31, 2017 compared to \$632,588 for the same period in 2016. The decrease in general and administrative expenses for the three month period ended January 31, 2017, was a result of options expensed of \$123,976 compared to \$226,155 in 2016, which accounted for most of the decreased G&A expenses in 2017 versus 2016.

For the three month period ending January 31, 2017, the Company posted an operating loss of \$241,735 compared to an operating loss of \$396,093 for the same period in 2016. The decrease in operating loss during the three month period is attributable to decreased expenses in consulting, salaries, and office expenses, plus slightly higher revenue for the same period in 2017 over 2016.

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Other income and expenses for the three month period ending January 31, 2017, was other expense of \$4,490 compared to other income of \$26,899 in the same period in 2016.

Net loss of \$246,225 was recorded for the three month periods ending January 31, 2017, compared to a net loss of \$369,194 for the same periods in 2016. The lower loss for the three month period in 2017 can be attributed to increased revenue and lower marketing and general and administrative expenses in 2017 compared to 2016.

The Company incurred a comprehensive loss of \$248,810 for the three month period ended January 31, 2017 compared to a comprehensive loss of \$378,152 for the same period in 2016. The comprehensive loss is an adjustment to net loss with accrued preferred stock dividends and foreign currency translation adjustments taken into account.

LIQUIDITY AND CAPITAL RESOURCES

At January 31, 2017, Skkynet had current assets of \$378,963 and current liabilities of \$276,162, resulting in working capital of \$102,801. Accumulated deficit, as of January 31, 2017, was \$4,359,479 with total shareholders' equity of \$124,337.

Net cash used in operations for the three months ending January 31, 2017, was \$100,146 compared to net cash used of \$63,234 for the same period in 2016. Net cash used in operations increased primarily due to the decrease in option expense of \$102,178 in 2017 over 2016 and accounts payable change of \$20,672. This is offset by accrued liabilities to related parties increasing by \$4,616, increase in deferred revenue of \$9,692 and an increase in accounts receivable of \$77,948.

Net cash used in investing activities and net cash provided from financing activities, during the three months ended January 31, 2017 and the same period in 2016 was zero

OFF-BALANCE SHEET ARRANGEMENTS

We have no 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.

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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 January 31, 2017,. 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.

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PART II – OTHER INFORMATION

ITEM 1: LEGAL PROCEEDINGS

From time to time, we may become involved in various lawsuits and legal proceedings, which arise, in the ordinary course of business. However, litigation is subject to inherent uncertainties, and an adverse result in these or other matters may arise from time to time that may harm our business. We are currently not aware of any such legal proceedings or claims that we believe will have a material adverse effect on our business, financial condition or operating results.

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, 2016.

ITEM 2: SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

On March 7, 2017, the Company entered into a purchase agreement to issue 233,000 shares of common stock to one individual at \$1.10 per share with a value of \$256,300 for cash.

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

<u>EXHIBIT</u> <u>31.1</u>	<u>Certification of Principal Executive Officer of the Registrant pursuant to 18 U.S.C. 1350 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
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<u>EXHIBIT</u> <u>31.2</u>	<u>Certification of Principal Financial Officer of the Registrant pursuant to 18 U.S.C. 1350 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>
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<u>EXHIBIT</u> <u>32.1</u>	<u>Certification of Principal Executive Officer of the Registrant pursuant to 18 U.S.C. 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
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<u>EXHIBIT</u> <u>32.2</u>	<u>Certification of Principal Financial Officer of the Registrant pursuant to 18 U.S.C. 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
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101.INS	XBRL Instance Document
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101.SCH	XBRL Taxonomy Extension Schema Document
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101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
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101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
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101.LAB	XBRL Taxonomy Extension Label Linkbase Document
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101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
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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 March 14, 2017

By: */s/ Andrew Thomas*
Andrew Thomas

Chief Executive Officer (Duly
Authorized, Principal Executive Officer)

By: */s/ Lowell Holden*
Lowell Holden

Chief Financial Officer (Duly
Authorized Principal Financial Officer)