Cybergy Holdings, Inc.
Form 10-Q
August 19, 2015

UNITED STATES

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: July 3, 2015

¨ **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the transition period from ___________ to ___________

Commission File No. 000-52664

CYBERGY HOLDINGS, INC.

(Exact name of Registrant as specified in its charter)

Nevada	**98-0534436**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

10333 E. Dry Creek Rd., Suite 200, Englewood, CO

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: **(303) 586-3232**

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "accelerated filer, large accelerated filer and smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	¨	Accelerated filer	¨
Non-accelerated filer	¨	Smaller reporting company	x

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

As of August 13, 2015, the Registrant had 20,750,603 outstanding shares of its common stock, $0.0001 par value.

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Cybergy Holdings, Inc.

Unaudited Consolidated Condensed Balance Sheets

		July 3, 2015		December 31, 2014
ASSETS				
Current Assets				
Cash and cash equivalents	$	58,000	$	1,415,000
Contract receivables		4,795,000		2,328,000
Prepaid expenses and other current assets		310,000		314,000
Total current assets		5,163,000		4,057,000
Non-Current Assets				
Property and equipment, net		772,000		838,000
Other assets		60,000		60,000
Intangibles, net		1,580,000		1,959,000
Goodwill		4,075,000		4,075,000
Total non-current assets		6,487,000		6,932,000
Total assets	$	11,650,000	$	10,989,000
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current Liabilities				
Accounts payable	$	1,170,000	$	449,000
Accrued liabilities		1,634,000		1,118,000
Related party payable		3,130,000		1,808,000
Line of credit		431,000		56,000
Current portion of other accrued liabilities		254,000		187,000
Current portion of long-term debt - other, net		488,000		57,000
Current portion of acquisition notes		4,873,000		3,800,000
Current portion of senior secured convertible notes, net		2,271,000		932,000
Derivative liability		10,401,000		53,834,000
Total current liabilities		24,652,000		62,241,000
Non-Current Liabilities				
Other accrued liabilities		50,000		387,000
Long term debt, less current portion - other		40,000		53,000
Senior secured convertible notes, net		-		1,285,000
Acquisition notes, less current portion		956,000		1,834,000
Derivative and put liabilities		16,056,000		390,184,000
Deferred rent		234,000		239,000
Total non-current liabilities		17,336,000		393,982,000
Total liabilities		41,988,000		456,223,000
Commitments and contingencies				
Stockholders' Equity (Deficit)				
Common stock, $.0001 par value, 3,000,000,000 shares authorized; 20,750,603 issued and outstanding at July 3, 2015 and 20,520,229 issued; 20,470,229 outstanding at December 31, 2014		21,000		21,000
Series C preferred stock, $.0001 par value, 250,000,000 shares authorized; 53,733,436 and 52,378,436 shares issued and outstanding		5,000		5,000

Series B preferred stock, $.0001 par value, 1,000 shares authorized, issued and outstanding		-		-
Paid in capital		1,633,000		-
Accumulated deficit		(31,976,000)		(445,242,000)
Total Cybergy stockholders' equity (deficit)		(30,317,000)		(445,216,000)
Non-controlling interest in joint venture		(21,000)		(18,000)
Total stockholders' equity (deficit)		(30,338,000)		(445,234,000)
Total liabilities and stockholders' equity (deficit)	$	11,650,000	$	10,989,000

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

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Cybergy Holdings, Inc.

Unaudited Consolidated Condensed Statements of Operations

	Three months ended		Six months ended	
	July 3, 2015	**June 30, 2014**	**July 3, 2015**	**June 30, 2014**
Contract revenue	$ 7,049,000	$ 8,270,000	$ 13,612,000	$ 17,073,000
Cost of services	5,985,000	7,140,000	11,369,000	14,172,000
Gross profit	1,064,000	1,130,000	2,243,000	2,901,000
Operating expenses				
Selling, general and administrative	2,422,000	1,667,000	4,623,000	3,992,000
Depreciation and amortization	248,000	253,000	497,000	511,000
Total operating expenses	2,670,000	1,920,000	5,120,000	4,503,000
Operating (loss)	(1,606,000)	(790,000)	(2,877,000)	(1,602,000)
Other (income) expense				
Interest expense, net of interest income	619,000	131,000	1,079,000	308,000
Change in fair value of derivative and put liabilities	(311,121,000)	-	(417,561,000)	-
Other	54,000	144,000	342,000	203,000
Total other (income) expense	(310,448,000)	275,000	(416,140,000)	511,000
Income (loss) before income taxes	308,842,000	(1,065,000)	413,263,000	(2,113,000)
Income tax (benefit) expense	-	(356,000)	-	(892,000)
Consolidated net income (loss)	308,842,000	(709,000)	413,263,000	(1,221,000)
Net income (loss) attributable to non-controlling interest in joint venture	(1,000)	17,000	(3,000)	6,000
Net income (loss) attributable to Cybergy	$ 308,843,000	$ (726,000)	$ 413,266,000	$ (1,227,000)
Basic earnings (loss) per share of common stock	$ 14.95	$ -	$ 20.08	$ -
Weighted average number of basic common shares outstanding	20,658,149	-	20,580,104	-
Diluted earnings (loss) per share of common stock	$ -	$ -	$ (0.01)	$ -
Weighted average number of diluted common shares outstanding	649,220,738	-	649,041,758	-

The computation of earnings (loss) per share is based on the weighted average number of shares outstanding during each of the periods based upon the exchange ratio of shares issued in the merger. The shareholders of Partners received shares of Series C preferred stock in connection with the merger, therefore the exchange ratio to common stock was zero. Through the merger date in 2014, there were no outstanding common shares.

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

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Cybergy Holdings, Inc.

Unaudited Consolidated Condensed Statement Of Changes In Stockholders' Equity (Deficit)
Six months ended July 3, 2015

	Preferred stock		Common stock		Non-controlling interest in joint venture	Additional paid in capital	Accumulated deficit	
	Amount	Shares	Amount	Shares	Amount	Amount	Amount	Total
Balances at December 31, 2014	$ 5,000	52,379,436	$ 21,000	20,520,229	$ (18,000)	$ -	$ (445,242,000)	$ (445,234,000)
Share adjustment - rounding	-	-	-	29	-	-	-	-
Cancellation of non-vested common stock for services	-	-	-	(50,000)	-	-	-	-
Services in exchange for shares issued in 2014	-	-	-	-	-	50,000	-	50,000
Bifurcation of Bridge note and warrants	-	-	-	-	-	213,000	-	213,000
Exercise of warrants on a net exercise basis	-	-	-	280,345	-	-	-	-
Sale of preferred stock, net of issuance cost of $47,000	-	1,215,000	-	-	-	1,168,000	-	1,168,000
Conversion of Promissory Note due Director	-	140,000	-	-	-	140,000	-	140,000
Share-based compensation	-	-	-	-	-	62,000	-	62,000
Non-controlling interest in joint venture	-	-	-	-	(3,000)	-	-	(3,000)
Net income	-	-	-	-	-	-	413,266,000	413,266,000
Balances at July 3, 2015	$ 5,000	53,734,436	$ 21,000	20,750,603	$ (21,000)	$ 1,633,000	$ (31,976,000)	$ (30,338,000)

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

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Cybergy Holdings, Inc.

Unaudited Consolidated Condensed Statements of Cash Flows for the six months ended July 3, 2015 and June 30, 2014

	Six months ended	
	July 3, 2015	**June 30, 2014**
Cash flows from operating activities:		
Net income (loss)	$ 413,266,000	$ (1,227,000)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation	118,000	130,000
Amortization of intangibles	379,000	381,000
Amortization of debt issuance costs	26,000	39,000
Amortization of debt discount	693,000	29,000
Change in fair value of derivative liabilities	(417,561,000)	-
Share-based compensation	62,000	9,000
Share-based services	50,000	-
Deferred rent	(4,000)	6,000
Deferred taxes	-	(895,000)
Earn out adjustment	195,000	203,000
Interest in JV	(3,000)	6,000
Changes in assets and liabilities, net of effect of acquisition:		
Contract receivables	(2,468,000)	341,000
Prepaid and other current assets	3,000	11,000
Accounts payable	720,000	(757,000)
Accrued liabilities	277,000	422,000
Related party payables	1,322,000	(9,000)
Net cash used in operating activities	(2,925,000)	(1,311,000)
Cash flows from investing activities:		
Purchases of property and equipment	(52,000)	(19,000)
Cash received in the acquisition of New West	-	897,000
Acquisition of New West	-	(500,000)
Net cash (used in) provided by investing activities	(52,000)	378,000
Cash flows from financing activities:		
Proceeds from long term debt	645,000	1,000,000
Payments on long term debt	(513,000)	(271,000)
Payments on other accrued liabilities	(30,000)	(100,000)
Line of credit, net	375,000	543,000
Debt issuance costs	(25,000)	(183,000)
Proceeds from the sale of preferred stock	1,215,000	-
Stock issuance costs	(47,000)	-
Net cash provided by financing activities	1,620,000	989,000
Net increase (decrease) in cash and cash equivalents	(1,357,000)	56,000
Cash and cash equivalents - beginning of period	1,415,000	-
Cash and cash equivalents - end of period	$ 58,000	$ 56,000
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 105,000	$ 42,000

Cash paid for income taxes	$	-	$	-
Supplemental disclosure of non-cash activity:				
Bifurcation of Bridge notes and warrants	$	213,000	$	-
Conversion of Promissory note to preferred stock	$	140,000	$	-
Issuance of debt in the acquisition of New West	$	-	$	5,530,000
Issuance of common stock in the acquisition of New West	$	-	$	703,000
Conversion of Promissory notes to common stock	$	-	$	357,000
Issuance of additional shares - EPA notes	$	-	$	77,000
Supplemental cash flow information regarding the Company's acquisition of New West in 2014 is as follows:				
Fair value of assets acquired			$	10,754,000
Less liabilities assumed				(4,081,000)
Less cash acquired				(897,000)
Plus shares issued				703,000
Business acquisition, net of cash acquired			$	6,479,000

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

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CYBERGY HOLDINGS, INC.

Notes to Unaudited Consolidated Condensed Financial Statements

NOTE A – SUMMARY OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

Reverse merger transaction

On October 3, 2014, Cybergy Holdings, Inc. ("Cybergy", "the Company"), formerly Mount Knowledge Holdings, Inc. ("MKHD"), entered into an Agreement and Plan of Merger (the "Merger Agreement") with MK Merger Acquisition Sub, Inc., a wholly-owned subsidiary of MKHD ("Merger Sub"), Access Alternative Group S.A., and Cybergy Partners, Inc. ("Partners"), providing for the merger of Merger Sub with and into Partners (the "Merger"), with Partners surviving the Merger as a wholly-owned subsidiary of MKHD. Pursuant to the Merger Agreement, the shareholders of Partners and MKHD initially exchanged shares in the respective companies for 88% and 12% ownership, respectively, of the surviving company.

The Merger of Partners and MKHD, a nonoperating public shell corporation, resulted in the owners and management of Partners obtaining actual and effective voting and operating control of the combined company. The Merger was treated as a public shell reverse acquisition and therefore treated as a capital transaction in substance, rather than a business combination. The historical financial statements of MKHD before the Merger were replaced with the historical financial statements of Partners before the Merger. As a result of the Merger, Cybergy acquired the business of Partners, and has continued the existing business operations of Partners.

Principles of Consolidation, Basis of Presentation, and Fiscal Periods

The accompanying unaudited consolidated condensed financial statements of Cybergy Holdings, Inc. ("Cybergy", "Company", "we", "us" or "our") have been prepared by us pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). The information reflects all normal and recurring adjustments, which, in the opinion of management, are necessary for a fair presentation of the financial position of the Company and its results of operations for the interim periods set forth herein. The consolidated condensed balance sheet as of December 31, 2014 presented herein has been derived from the audited balance sheet included in the Company's Annual Report on Form 10-K for the year ended December 31, 2014.

Certain information and footnote disclosures, which are normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America, have been condensed or omitted pursuant to SEC rules and regulations, although the Company believes that the disclosures made are adequate to make the information not misleading. The accompanying unaudited consolidated condensed financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2014. The information reflects all normal and recurring adjustments, which, in the opinion of management, are necessary for a fair presentation of the financial position of the Company and its results of operations for the interim periods set forth herein.

The accompanying consolidated condensed financial statements include the accounts of Cybergy, its wholly-owned subsidiaries Partners, New West, Primetrix, Labs, and its 51% owned New West Energetics Joint Venture, LLC (“JV”). All intercompany accounts and transactions have been eliminated in consolidation.

In 2015, the Company changed from a calendar period end date to a “4/4/5 weekly” quarterly close cycle. The Company’s fiscal periods ended on July 3, 2015 and June 30, 2014.

The results for the three and six months ended July 3, 2015 are not necessarily indicative of the results to be expected for the full year or any other period.

Going Concern

In 2014 and 2015, the Company had negative cash flow from operations due to declining gross margin, increased personnel costs as well as increased costs related to the acquisition and merger. The decline in gross margin was due primarily to the delay on the transition from our JV contract to the follow-on MOTS contract with the Department of Energy. We expect to incur additional operating losses for the year ending December 31, 2015.

These circumstances raise substantial doubt about our ability to continue as a going concern.

CYBERGY HOLDINGS, INC.

Notes to Unaudited Consolidated Condensed Financial Statements

The Company does not currently believe that its existing cash resources are sufficient to meet its anticipated needs for the year ending December 31, 2015. We need to obtain significant additional capital resources in order to develop products and fund operations and make scheduled debt payments.

The accompanying unaudited consolidated condensed financial statements have been prepared assuming that the Company will continue as a going concern, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business. The Company has a history of recurring losses and had negative working capital at July 3, 2015.

There can be no assurance that the Company will be successful in reducing its negative operating cash flows, and that such cash flows will be sufficient to sustain the Company's operations through 2015. Nor can there be any assurance that the Company can raise additional capital. These factors raise substantial doubt about the Company's ability to continue as a going concern. The consolidated condensed financial statements were prepared assuming that the Company is a going concern. The consolidated condensed financial statements do not include any adjustments that might result from the outcome of this uncertainty. Management's plans in regard to these matters are focused on managing its cash flow, the proper timing of its capital expenditures, and raising additional capital or financing in the future.

In April and May 2015, the Company raised net proceeds of $1,788,000 from the sale of Series C preferred stock and short term bridge loans as more fully discussed in the following notes. $500,000 was used to repay a portion of the EPA note.

Management believes the Company will need additional capital in 2015 of approximately $3.0 to $3.5 million to further fund operations and market expansion of the SmartFile software. The Company intends to cover its future operating expenses through additional financing from existing and prospective investors, revenue from existing and new contracts, revenue from potential grants and collaborative marketing agreements, as well as revenue from the commercialization of products and services. However, we may not be successful in obtaining funding from new or existing collaborative agreements or the commercialization of our products and services. Further, actual revenue may be less than forecasted.

Additionally, we have engaged a financial advisor to raise capital through the sale of stock, issuance of convertible debt or asset based loans, which has a track record of successfully raising capital for hundreds of development stage to midcap scale companies.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Significant estimates affecting the financial statements include accruals for contract reserves, recoverability of goodwill and intangible assets and earnout obligations related to the acquisition of New West, warrant, conversion, and put valuations and income taxes. The valuation of the warrant, conversion, and put derivative liabilities using a Lattice model is based upon interest rates, stock prices, maturity estimates, volatility and other factors. The Company believes these estimates and assumptions are reliable. However, these estimates and assumptions may change in the future based on actual experience as well as market conditions. It is at least rea