

CLOUDCOMMERCE, INC.  
Form 10-Q  
November 13, 2015

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

**FORM 10-Q**

(Mark One)

QUARTERLY REPORT UNDER SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For quarterly period ended September 30, 2015

or

TRANSITION REPORT UNDER SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number:

**0-13215**

**CLOUDCOMMERCE, INC.**

(Exact name of registrant as specified in its charter)

**NEVADA**

(State or other jurisdiction of incorporation or organization)

**30-0050402**

(I.R.S. Employer Identification No.)

**1933 Cliff Drive, Suite 11, Santa Barbara, CA 93109**

(Address of principal executive offices) (Zip Code)

**(805) 964-3313**

Registrant's telephone number, including area code

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the proceeding 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 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).

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Yes[]

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 definitions of "large accelerated filer," "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

(Do not check if a smaller reporting company)

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes[]

No[]

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date.

As of November 13, 2015, the number of shares outstanding of the registrant's class of common stock was 105,790,195.

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**PART I. - FINANCIAL INFORMATION****Item 1. CONSOLIDATED FINANCIAL STATEMENTS**

## CLOUDCOMMERCE, INC. AND SUBSIDIARY

## CONSOLIDATED BALANCE SHEETS

(Unaudited)

|   | September 30, 2015<br>(unaudited) | June 30, 2015     |
|---|-----------------------------------|-------------------|
| <b>ASSETS</b>   |                                   |                   |
| <b>CURRENT ASSETS</b>                                 |                                   |                   |
| Cash  | \$ 28,075                         | \$ 19,051         |
| Accounts Receivable, net                              | 111,726                           | 138,308           |
| Prepaid and Other Current Assets                      | 3,334                             | 5,048             |
| <b>TOTAL CURRENT ASSETS</b>                           | <b>143,135</b>                    | <b>162,407</b>    |
| <b>PROPERTY &amp; EQUIPMENT, at cost</b>              |                                   |                   |
| Furniture, Fixtures & Equipment                       | 10,533                            | 10,533            |
| Computer Equipment                                    | 16,941                            | 16,941            |
| Computer Software                                     | 1,904                             | 1,904             |
|   | 29,378                            | 29,378            |
| Less accumulated depreciation                         | (21,447)                          | (20,710)          |
| <b>NET PROPERTY AND EQUIPMENT</b>                     | <b>7,931</b>                      | <b>8,668</b>      |
| <b>OTHER ASSETS</b>                                   |                                   |                   |
| Lease Deposit   | 5,955                             | 5,955             |
| Internet Domain                                       | 20,202                            | 20,202            |
| Intangible Assets                                     | 10,000                            | -                 |
| <b>TOTAL OTHER ASSETS</b>                             | <b>36,157</b>                     | <b>26,157</b>     |
| <b>TOTAL ASSETS</b>                                   | <b>\$ 187,223</b>                 | <b>\$ 197,232</b> |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY/(DEFICIT)</b> |                                   |                   |
| <b>CURRENT LIABILITIES</b>                            |                                   |                   |
| Accounts Payable                                      | \$ 147,746                        | \$ 61,866         |
| Accrued Expenses                                      | 72,987                            | 70,713            |
| Deferred Income                                       | -                                 | 8,000             |
| Convertible Notes and Interest Payable, current, net  | 654,960                           | 619,321           |
| Derivative Liability                                  | 6,311,091                         | 1,951,201         |
| Customer Deposit                                      | 3,998                             | 3,998             |
| <b>TOTAL CURRENT LIABILITIES</b>                      | <b>7,190,782</b>                  | <b>2,715,099</b>  |

|   |                    |                    |
|---|--------------------|--------------------|
| <b>LONG TERM LIABILITIES</b>  |                    |                    |
| Convertible Notes and Interest Payable, net   | 246,305            | 81,563             |
| Accrued Expenses, long term   | 216,903            | 217,953            |
| <b>TOTAL LONG TERM LIABILITIES</b>  | <b>463,208</b>     | <b>299,516</b>     |
| <br>  |                    |                    |
| <b>TOTAL LIABILITIES</b>  | <b>7,653,990</b>   | <b>3,014,615</b>   |
| <br>  |                    |                    |
| <b>SHAREHOLDERS' EQUITY/(DEFICIT)</b>   |                    |                    |
| Preferred Stock, \$0.001 Par Value;<br>5,000,000 Authorized Shares; no shares issued and outstanding              | -                  | -                  |
| Common Stock, \$0.001 Par Value;<br>2,000,000,000 Authorized Shares;<br>105,790,195 Shares Issued and Outstanding | 105,790            | 105,790            |
| Additional Paid In Capital  | 7,784,326          | 7,679,033          |
| Accumulated Deficit   | (15,356,883)       | (10,602,206)       |
| <b>TOTAL SHAREHOLDERS' EQUITY/(DEFICIT)</b>   | <b>(7,466,767)</b> | <b>(2,817,383)</b> |
| <br>  |                    |                    |
| <b>TOTAL LIABILITIES AND SHAREHOLDERS'<br/>EQUITY/(DEFICIT)</b>   | <b>\$ 187,223</b>  | <b>\$ 197,232</b>  |

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

CLOUDCOMMERCE, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

|  | Quarters Ended     |                    |
|--|--------------------|--------------------|
|  | September 30, 2015 | September 30, 2014 |
| REVENUE  | 113,559            | 114,781            |
| OPERATING EXPENSES                                       |                    |                    |
| Selling, general and administrative expenses             | 394,934            | 323,760            |
| Stock option expense                                     | 105,293            | 5,692              |
| Depreciation and amortization                            | 737                | 1,149              |
| TOTAL OPERATING EXPENSES                                 | 500,964            | 330,601            |
| LOSS FROM OPERATIONS BEFORE OTHER INCOME AND TAXES       | (387,405)          | (215,820)          |
| OTHER INCOME/(EXPENSE)                                   |                    |                    |
| Gain/(Loss) on extinguishment of debt                    | -                  | 111,546            |
| Gain/(Loss) on changes in derivative liability           | (4,166,890)        | 708,506            |
| Interest expense   | (200,382)          | (110,472)          |
| TOTAL OTHER INCOME (EXPENSE)                             | (4,367,272)        | 709,580            |
| INCOME/(LOSS) FROM OPERATIONS BEFORE PROVISION FOR TAXES | (4,754,677)        | 493,760            |
| PROVISION FOR INCOME (TAXES)/BENEFIT                     |                    |                    |
| Income taxes paid  | -                  | (1,600)            |
| Income tax (provision)/benefit                           | -                  | -                  |

|  |             |             |
|--|-------------|-------------|
| PROVISION FOR INCOME (TAXES)/BENEFIT       | -           | (1,600)     |
| NET INCOME/(LOSS)                          | (4,754,677) | 492,160     |
| INCOME/(LOSS) PER SHARE                    |             |             |
| BASIC AND DILUTED                          | \$ (0.04)   | \$ 0.00     |
| WEIGHTED-AVERAGE COMMON SHARES OUTSTANDING |             |             |
| BASIC                                      | 105,790,195 | 100,878,825 |
| DILUTED                                    | 105,790,195 | 261,216,811 |

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



CLOUDCOMMERCE, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY/(DEFICIT)

(Unaudited)

|                             | Preferred Stock |       | Common Stock |            | Additional         | Accumulated     | Total          |
|-----------------------------|-----------------|-------|--------------|------------|--------------------|-----------------|----------------|
|                             | Shares          | Value | Shares       | Value      | Paid-in<br>Capital | Deficit         |                |
| Balance, June 30, 2015      | -               | \$ -  | 105,790,195  | \$ 105,790 | \$ 7,679,033       | \$ (10,602,206) | \$ (2,817,383) |
| Stock compensation expense  | -               | -     | -            | -          | 105,293            | -               | 105,293        |
| Net loss                    | -               | -     | -            | -          | -                  | (4,754,677)     | (4,754,677)    |
| Balance, September 30, 2015 | -               | \$ -  | 105,790,195  | \$ 105,790 | \$ 7,784,326       | \$ (15,356,883) | \$ (7,466,767) |

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

CLOUDCOMMERCE, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENT OF CASH FLOWS

(Unaudited)

|   | Quarters Ended<br>September 30,<br>2015 | September 30, 2014 |
|---|---|--------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>  |   |                    |
| Net income/(loss)   | \$<br>(4,754,677)                       | \$<br>492,160      |
| Adjustment to reconcile net income/(loss) to net cash<br>(used) by operating activities |   |                    |
| Depreciation and amortization   | 737                                     | 1,149              |
| Bad debt expense  | (3,307)                                 | 3,781              |
| Cost of stock compensation recognized   | 105,293                                 | 5,692              |
| Amortization of debt discount   | 168,136                                 | 96,877             |
| (Gain)/loss on settlement of debt   | -                                       | (111,546)          |
| (Gain)/loss on derivative liability valuation   | 4,166,890                               | (708,506)          |
| Change in assets and liabilities:   |   |                    |
| (Increase) Decrease in:   |   |                    |
| Accounts receivable   | 29,889                                  | 14,290             |
| Prepaid and other assets  | 1,714                                   | 1,642              |
| Increase (Decrease) in:   |   |                    |
| Accounts payable  | 85,880                                  | 4,516              |
| Accrued expenses  | 33,469                                  | 15,199             |
| Deferred income   | (8,000)                                 | 15,596             |
| Other liabilities   | -                                       | -                  |
| <b>NET CASH (USED) IN OPERATING ACTIVITIES</b>  | <b>(173,976)</b>                        | <b>(169,150)</b>   |

CASH FLOWS FROM INVESTING ACTIVITIES:

|                                    |   |         |
|------------------------------------|---|---------|
| Purchase of property and equipment | - | (2,355) |
|------------------------------------|---|---------|

|  |          |   |
|--|----------|---|
| Purchase of intangible assets (see Note 6) | (10,000) | - |
|--|----------|---|

|  |          |         |
|--|----------|---------|
| NET CASH PROVIDED/(USED) IN INVESTING ACTIVITIES | (10,000) | (2,355) |
|--|----------|---------|

CASH FLOWS FROM FINANCING ACTIVITIES:

|   |         |         |
|---|---------|---------|
| Proceeds from issuance of notes payable | 193,000 | 140,000 |
|---|---------|---------|

|   |         |         |
|---|---------|---------|
| NET CASH PROVIDED IN FINANCING ACTIVITIES | 193,000 | 140,000 |
|---|---------|---------|

|                                 |       |          |
|---------------------------------|-------|----------|
| NET INCREASE/(DECREASE) IN CASH | 9,024 | (31,505) |
|---------------------------------|-------|----------|

|                         |        |        |
|-------------------------|--------|--------|
| CASH, BEGINNING OF YEAR | 19,051 | 50,041 |
|-------------------------|--------|--------|

|                     |           |           |
|---------------------|-----------|-----------|
| CASH, END OF PERIOD | \$ 28,075 | \$ 18,536 |
|---------------------|-----------|-----------|

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

|               |      |       |
|---------------|------|-------|
| Interest paid | \$ - | \$ 44 |
|---------------|------|-------|

|            |      |          |
|------------|------|----------|
| Taxes paid | \$ - | \$ 1,600 |
|------------|------|----------|

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

CLOUDCOMMERCE, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED

SEPTEMBER 30, 2015

1. BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all normal recurring adjustments considered necessary for a fair presentation have been included. Operating results for the three months ended September 30, 2015 are not necessarily indicative of the results that may be expected for the year ending June 30, 2016. For further information, refer to the financial statements and footnotes thereto included in the Company's Form 10K for the year ended June 30, 2015.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of CloudCommerce, Inc. is presented to assist in understanding the Company's financial statements. The financial statements and notes are representations of the Company's management, which is responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America and have been consistently applied in the preparation of the financial statements.

The Consolidated Financial Statements include the Company and its majority-owned subsidiary ("Warp 9, Inc., a Delaware corporation"). All significant inter-company transactions are eliminated in consolidation.

Accounts Receivable

The Company extends credit to its customers, who are located nationwide. Accounts receivable are customer obligations due under normal trade terms. The Company performs continuing credit evaluations of its customers' financial condition. Management reviews accounts receivable on a regular basis, based on contracted terms and how recently payments have been received to determine if any such amounts will potentially be uncollected. The Company includes any balances that are determined to be uncollectible in its allowance for doubtful accounts. After all attempts to collect a receivable have failed, the receivable is written off. The balance of the allowance account at September 30, 2015 and June 30, 2015 are \$1,500 and \$4,808 respectively.

Revenue Recognition

The Company recognizes income when the service is provided or when product is delivered. We present revenue, net of customer incentives. Most of the income is generated from professional services and site development fees.

We provide online marketing services that we purchase from third parties. The gross revenue presented in our statement of operations is in accordance with ASC 605-45.

We also offer professional services such as development services. The fees for development services with multiple deliverables constitute a separate unit of accounting in accordance with ASC 605-25, which are recognized as the work is performed.

Upfront fees for development services or other customer services are deferred until certain implementation or contractual milestones have been achieved. The deferred revenue as of September 30, 2015 and June 30, 2015 was \$0 and \$8,000, respectively.

For the quarter ended, September 30, 2015, monthly recurring fees for mobile and desktop e-commerce development account for 19% of the Company's total revenues, professional services account for 78% and the remaining 2% of total revenues are from resale of third party products and services.

For the quarter ended, September 30, 2014, monthly recurring fees for mobile and desktop e-commerce development account for 29% of the Company's total revenues, professional services account for 66% and the remaining 5% of total revenues are from resale of third party products and services.

CLOUDCOMMERCE, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED

SEPTEMBER 30, 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Stock-Based Compensation

The Company addressed the accounting for share-based payment transactions in which an enterprise receives employee services in exchange for either equity instruments of the enterprise or liabilities that are based on the fair value of the enterprise's equity instruments or that may be settled by the issuance of such equity instruments. The transactions are accounted for using a fair-value-based method and recognized as expenses in our statement of income. There was no material impact on the Company's financial statement of operations.

Stock-based compensation expense recognized during the period is based on the value of the portion of stock-based payment awards that is ultimately expected to vest. Stock-based compensation expense recognized in the consolidated statement of operations during the quarter ended September 30, 2015, included compensation expense for the stock-based payment awards granted prior to, but not yet vested, as of September 30, 2015 based on the grant date fair value estimated. Stock-based compensation expense recognized in the statement of operations for the quarter ended September 30, 2015 is based on awards ultimately expected to vest, or has been reduced for estimated forfeitures. Forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. The stock-based compensation expense recognized in the consolidated statements of operations during the three months ended September 30, 2015 and 2014 was \$105,293 and \$5,692, respectively.

Recently Issued Accounting Pronouncements

Management reviewed accounting pronouncements issued during the three months ended September 30, 2015, and no pronouncements were adopted during the period. The Company notes that the following accounting pronouncement was issued, but was not adopted:

Accounting Standards Update 2015-16 - This pronouncement relates to a company that has reported provisional amounts for items in a business combination for which the accounting is incomplete by the end of the reporting period in which the combination occurs and during the measurement period have an adjustment to provisional amounts recognized. Based on the nature of this pronouncement and the types of acquisitions the Company is likely to attract, it is not likely that this pronouncement will be adopted or have an effect on the financial statements.

3. LIQUIDITY AND OPERATIONS

The Company had net loss of \$4,754,677 for the quarter ended September 30, 2015 and net income of \$492,160 for the quarter ended September 30, 2014, and net cash used in operating activities of \$173,976 and \$169,150 for the same periods, respectively.

While the Company expects that its capital needs in the foreseeable future may be met by cash-on-hand and projected positive cash-flow, there is no assurance that the Company will be able to generate enough positive cash flow or have sufficient capital to finance its growth and business operations, or that such capital will be available on terms that are favorable to the Company or at all. In the current financial environment, it could become difficult for the Company to obtain equipment leases and other business financing. There is no assurance that CloudCommerce would be able to

obtain additional working capital through the private placement of common stock or from any other source.

Going Concern

The accompanying financial statements have been prepared on a going concern basis of accounting, which contemplates continuity of operations, realization of assets and liabilities and commitments in the normal course of business. The accompanying financial statements do not reflect any adjustments that might result if the Company is unable to continue as a going concern. The Company does not generate significant revenue, and has negative cash flows from operations, which raise substantial doubt about the Company's ability to continue as a going concern. The ability of the Company to continue as a going concern and appropriateness of using the going concern basis is dependent upon, among other things, an additional cash infusion. The Company has obtained funds from its shareholders since its inception through September 30, 2015. It is management's plan to generate additional working capital from increasing sales from its desktop and mobile service offerings, and then continue to pursue its business plan and purposes.

#### 4. CONVERTIBLE NOTES PAYABLE

On March 25, 2013, the Company entered into a convertible promissory note ("the March 2013 Note") in the amount of \$100,000, at which time an initial advance of \$50,000 was received to cover operational expenses. The lender advanced an additional \$20,000 on April 16, 2013, an additional \$15,000 on May 1, 2013 and an additional \$15,000 on May 16, 2013, for a total draw of \$100,000. The terms of the March 2013 Note allow the lender to convert all or part of the outstanding balance plus accrued interest, at any time after the effective date, at a conversion price of the lower of (a) \$0.015 per share, or (b) 50% of the lowest trade price of Common Stock recorded on any trade day after the effective date of the agreement. The March 2013 Note bears interest at a rate of 10% per year and is payable upon demand, but in no event later than 60 months from the effective date of each tranche. On May 23, 2014, the lender converted \$17,000 of the \$100,000 outstanding balance and accrued interest of \$1,975 into 4,743,699 shares of common stock. On October 14, 2014, the lender converted \$17,000 of the \$100,000 outstanding balance and accrued interest of \$2,645 into 4,911,370 shares of common stock. The balance of the March 2013 Note, as of September 30, 2015 is \$82,131, which includes \$16,131 of accrued interest.

On May 16, 2013, the Company signed a convertible promissory note ("the May 2013 Note") in the amount of \$100,000, at which time an initial advance of \$10,000 was received to cover operational expenses. The lender advanced an additional \$20,000 on June 3, 2013, an additional \$25,000 on July 2, 2013, an additional \$10,000 on September 3, 2013 and an additional \$35,000 on February 18, 2014, for a total draw of \$100,000. The terms of the May 2013 Note allow the lender to convert all or part of the outstanding balance plus accrued interest, at any time after the effective date, at a conversion price of the lower of (a) \$0.015 per share, or (b) 50% of the lowest trade price of Common Stock recorded on any trade day after the effective date of the agreement. The Company recognized a discount on the May 2013 Note in the amount of \$100,000, due to the beneficial conversion feature. This discount was recognized over twelve months, and has been fully amortized as of September 30, 2015. The May 2013 Note bears interest at a rate of 10% per year and matures on November 16, 2016. The balance of the May 2013 Note, as of September 30, 2015 is \$120,366, which includes \$20,366 of accrued interest.

On March 4, 2014, the Company entered into a convertible promissory note ("the March 2014 Note") in the amount of \$250,000, at which time an initial advance of \$25,000 was received to cover operational expenses. The lender advanced an additional \$20,000 on March 17, 2014 and an additional \$30,000 on April 2, 2014, for a total draw of \$75,000. The terms of the March 2014 Note allow the lender to convert all or part of the outstanding balance plus accrued interest, at any time after the effective date, at a conversion price of the lower of (a) \$0.012 per share, or (b) 50% of the lowest trade price of Common Stock recorded on any trade day after the effective date of the agreement. The Company recorded a debt discount of \$75,000 related to the beneficial conversion feature of the March 2014 Note, along with derivative liabilities. This discount is recognized over 18 months, beginning on the date of each tranche payment. For the quarter ended September 30, 2015, the Company included \$6,063 in interest expense related to the discount. As of September 30, 2015, the portion of the discount that has not been amortized is \$28,247. The March 2014 Note bears interest at a rate of 10% per year and is payable upon demand, but in no event later than 60 months from the effective date of each tranche. The balance of the March 2014 Note, as of September 30, 2015 is \$86,505, which includes \$11,505 of accrued interest.

On April 16, 2014, the Company entered into a convertible promissory note ("the April 2014 Note") in the amount of \$300,000, at which time an initial advance of \$40,000 was received to cover operational expenses. The lender advanced an additional \$55,000 on April 30, 2014, an additional \$40,000 on May 16, 2014, an additional \$40,000 on June 2, 2014, an additional \$35,000 on June 30, 2014, an additional \$40,000 on July 18, 2014, and an additional \$50,000 on August 15, 2014, for a total draw of \$300,000. The terms of the April 2014 Note allow the lender to convert all or part of the outstanding balance plus accrued interest, at any time after the effective date, at a conversion price of the lower of (a) \$0.012 per share, (b) 50% of the lowest trade price of Common Stock recorded on any trade day after the effective date of the agreement, or (c) the lowest price per share offered to any person or entity after the



effective date. The Company recorded debt discount of \$300,000 related to the conversion feature of the April 2014 Note, along with derivative liabilities. This discount is recognized over 18 months, beginning on the date of each tranche payment. For the quarter ended September 30, 2015, the Company included \$50,325 in interest expense related to the discount. As of September 30, 2015, the portion of the discount that has not been amortized is \$52,334. The April 2014 Note bears interest at a rate of 10% per year and matures 18 months from the effective date of each advance. The balance of the April 2014 Note, as of September 30, 2015 is \$339,275, which includes \$39,275 of accrued interest.

On September 5, 2014, the Company entered into a convertible promissory note ("the September 2014 Note") in the amount of \$250,000, at which time an initial advance of \$40,000 was received to cover operational expenses. The lender advanced an additional \$10,000 on September 17, 2014, an additional \$30,000 on October 1, 2014, an additional \$40,000 on October 16, 2014, an additional \$40,000 on October 31, 2014, an additional \$40,000 on November 18, 2014, and an additional \$50,000 on December 16, 2014, for a total draw of \$250,000. The terms of the September 2014 Note allow the lender to

CLOUDCOMMERCE, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED

SEPTEMBER 30, 2015

4. CONVERTIBLE NOTES PAYABLE (continued)

convert all or part of the outstanding balance plus accrued interest, at any time after the effective date, at a conversion price of the lower of (a) \$0.015 per share, (b) 50% of the lowest trade price of Common Stock recorded on any trade day after the effective date of the agreement, or (c) the lowest price per share offered to any person or entity after the effective date. The Company recorded a debt discount of \$250,000 related to the conversion feature of the September 2014 Note, along with derivative liabilities. This discount is recognized over 18 months, beginning on the date of each tranche payment. For the quarter ended September 30, 2015, the Company included \$42,011 in interest expense related to the discount. As of September 30, 2015, the portion of the discount that has not been amortized is \$95,360. The September 2014 Note bears interest at a rate of 10% per year and matures 18 months from the effective date of each advance. The balance of the September 2014 Note, as of September 30, 2015 is \$273,195, which includes \$23,195 of accrued interest.

On January 5, 2015, the Company entered into a convertible promissory note ("the January 2015 Note") in the amount of \$250,000, at which time an initial advance of \$30,000 was received to cover operational expenses. The lender advanced an additional \$45,000 on January 20, 2015, an additional \$45,000 on February 2, 2015, an additional \$35,000 on February 16, 2015, an additional \$35,000 on March 2, 2015, an additional \$30,000 on March 17, 2015, an additional \$20,000 on April 2, 2015, and an additional \$10,000 on April 17, 2015, for a total draw of \$250,000. The terms of the January 2015 Note allow the lender to convert all or part of the outstanding balance plus accrued interest, at any time after the effective date, at a conversion price of the lower of (a) \$0.015 per share, (b) 50% of the lowest trade price of Common Stock recorded on any trade day after the effective date of the agreement, or (c) the lowest price per share offered to any person or entity after the effective date. The Company recorded a debt discount of \$250,000 related to the conversion feature of the January 2015 Note, along with derivative liabilities. This discount is recognized over 18 months, beginning on the date of each tranche payment. For the quarter ended September 30, 2015, the Company included \$103,570 in interest expense related to the discount. As of September 30, 2015, the portion of the discount that has not been amortized is \$146,430. The January 2015 Note bears interest at a rate of 10% per year and matures 18 months from the effective date of each advance. The balance of the January 2015 Note, as of September 30, 2015 is \$265,547, which includes \$15,547 of accrued interest.

On May 4, 2015, the Company entered into a convertible promissory note ("the May 2015 Note") in the amount of \$250,000, at which time an initial advance of \$33,000 was received to cover operational expenses. The lender advanced an additional \$43,000 on May 18, 2015, an additional \$45,000 on June 2, 2015, an additional \$10,000 on June 17, 2015, an additional \$38,000 on July 2, 2015, an additional \$37,000 on July 17, 2015, and additional \$10,000 on August 5, 2015, and an additional \$34,000 on August 19, 2015, for a total draw of \$250,000. The terms of the May 2015 Note allow the lender to convert all or part of the outstanding balance plus accrued interest, at any time after the effective date, at a conversion price of the lower of (a) \$0.015 per share, (b) 50% of the lowest trade price of Common Stock recorded on any trade day after the effective date of the agreement, or (c) the lowest price per share offered to any person or entity after the effective date. The Company recorded a debt discount of \$250,000 related to the conversion feature of the May 2015 Note, along with derivative liabilities. This discount is recognized over 18 months, beginning on the date of each tranche payment. For the quarter ended September 30, 2015, the Company included \$46,121 in interest expense related to the discount. As of September 30, 2015, the portion of the discount that has not been amortized is \$203,879. The May 2015 Note bears interest at a rate of 10% per year and matures 18 months from the effective date of each advance. The balance of the May 2015 Note, as of September 30, 2015 is

\$256,947, which includes \$6,947 of accrued interest.

On August 19, 2015, the Company entered into a convertible promissory note ("the August 2015 Note") in the amount of \$250,000, at which time an initial advance of \$3,000 was received to cover operational expenses. The lender advanced an additional \$40,000 on September 1, 2015, and an additional \$31,000 on September 17, 2015, for a total draw of \$74,000. The terms of the August 2015 Note allow the lender to convert all or part of the outstanding balance plus accrued interest, at any time after the effective date, at a conversion price of the lower of (a) \$0.015 per share, (b) 50% of the lowest trade price of Common Stock recorded on any trade day after the effective date of the agreement, or (c) the lowest price per share offered to any person or entity after the effective date. The Company recorded a debt discount of \$74,000 related to the conversion feature of the August 2015 Note, along with derivative liabilities. This discount is recognized over 18 months, beginning on the date of each tranche payment. For the quarter ended September 30, 2015, the Company included \$3,086 in interest expense related to the discount. As of September 30, 2015, the portion of the discount that has not been amortized is \$70,914. The August 2015 Note bears interest at a rate of 10% per year and matures 18 months from the effective date of each advance. The balance of the August 2015 Note, as of September 30, 2015 is \$74,463, which includes \$463 of accrued

## CLOUDCOMMERCE, INC. AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED

SEPTEMBER 30, 2015

## 4. CONVERTIBLE NOTES PAYABLE (continued)

interest.

ASC Topic 815 provides guidance applicable to convertible debt issued by the Company in instances where the number into which the debt can be converted is not fixed. For example, when a convertible debt converts at a discount to market based on the stock price on the date of conversion, ASC Topic 815 requires that the embedded conversion option of the convertible debt be bifurcated from the host contract and recorded at their fair value. In accounting for derivatives under accounting standards, the Company recorded a liability of \$6,311,091 representing the estimated present value of the conversion feature considering the historic volatility of the Company's stock, and a discount of \$578,522 representing the imputed interest associated with the embedded derivative. The discount is amortized over the life of the convertible debt, and the derivative liability is adjusted periodically according to stock price fluctuations. At the time of conversion, any remaining derivative liability will be charged to additional paid-in capital.

For purpose of determining the fair market value of the derivative liability, the Company used Black Scholes option valuation model. The significant assumptions used in the Black Scholes valuation of the derivative are as follows:

|                                    |    |                  |
|------------------------------------|----|------------------|
| Stock price on the valuation dates | \$ | 0.022            |
| Conversion price for the debt      | \$ | 0.004 - 0.0045   |
| Dividend yield                     |    | 0%               |
| Months to maturity                 |    | 12 - 18 months   |
| Risk free rate                     |    | 0.33% - 0.56%    |
| Expected volatility                |    | 84.18% - 144.55% |

Following is the five year maturity schedule for our convertible notes payable:

| Year ended June 30, | Amount Due |
|---------------------|------------|
| 2016                | \$ 464,776 |
| 2017                | \$ 436,489 |
| 2018                | \$ -       |
| 2019                | \$ -       |
| 2020                | \$ -       |

Fair value of financial instruments

The Company's financial instruments, including cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities are carried at cost, which approximates their fair value, due to the relatively short maturity of these instruments. As of September 30, 2015 and 2014, the Company's capital lease obligations and notes payable have stated borrowing rates that are consistent with those currently available to the Company and, accordingly, the Company believes the carrying value of these debt instruments approximates their fair value.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC Topic 820 established a three-tier fair value hierarchy which prioritizes the inputs used in measuring fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). These tiers include:

Level 1, defined as observable inputs such as quoted prices for identical instruments in active markets;

Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable such as quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in markets that are not active; and

Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions, such as valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

## CLOUDCOMMERCE, INC. AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED

SEPTEMBER 30, 2015

## 4. CONVERTIBLE NOTES PAYABLE (continued)

We measure certain financial instruments at fair value on a recurring basis. Assets and liabilities measured at fair value on a recurring basis are as follows at September 30, 2015:

|  | Total        | (Level 1) | (Level 2) | (Level 3)    |
|--|--------------|-----------|-----------|--------------|
| Assets                                   | \$ -         | \$ -      | \$ -      | \$ -         |
| Total assets measured at fair value      | \$ -         | \$ -      | \$ -      | \$ -         |
| Liabilities                              |              |           |           |              |
| Derivative liability                     | 6,311,091    | -         | -         | 6,311,091    |
| Convertible notes, net of discount       | 901,265      | -         | -         | 901,265      |
| Total liabilities measured at fair value | \$ 7,212,356 | \$ -      | \$ -      | \$ 7,212,356 |

Assets and liabilities measured at fair value on a recurring basis are as follows at June 30, 2015:

|  | Total        | (Level 1) | (Level 2) | (Level 3)    |
|--|--------------|-----------|-----------|--------------|
| Assets                                   | \$ -         | \$ -      | \$ -      | \$ -         |
| Total assets measured at fair value      | \$ -         | \$ -      | \$ -      | \$ -         |
| Liabilities                              |              |           |           |              |
| Derivative liability                     | 1,951,201    | -         | -         | 1,951,201    |
| Convertible notes, net of discount       | 700,884      | -         | -         | 700,884      |
| Total liabilities measured at fair value | \$ 2,652,085 | \$ -      | \$ -      | \$ 2,652,085 |

## 5. RELATED PARTIES

During the three months ended September 30, 2015, there were no related party transactions.

## 6. INTANGIBLE ASSETS

On June 26, 2015, the Company purchased the rights to the domain "CLOUDCOMMERCE.COM", from a private party at a purchase price of \$20,000, plus transaction costs of \$202, and will be used as the main landing page for the Company. The total recorded cost of this domain of \$20,202 has been included in other assets on the balance sheet. As of September 30, 2015, we have determined that this domain has an indefinite useful life, and as such, is not included in depreciation and amortization expense. The Company will assess this intangible asset annually for impairment, in addition to it being classified with indefinite useful life.

On September 22, 2015, the Company purchased the trademark rights of "CLOUDCOMMERCE", from a private party at a purchase price of \$10,000. The total recorded cost of this trademark of \$10,000 has been included in other assets on the balance sheet. The trademark expires in 2020 and may be renewed for an additional 10 years. Therefore, as of September 30, 2015, we have determined that this intangible asset has a definite useful life of 174 months, and as such, will be included in depreciation and amortization expense.



## CLOUDCOMMERCE, INC. AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED

SEPTEMBER 30, 2015

## 7. CAPITAL STOCK

At September 30, 2015 the Company's authorized stock consists of 2,000,000,000 shares of common stock, par value \$0.001 per share. At September 30, 2014 the Company's authorized stock consists of 495,000,000 shares of common stock, par value \$0.001 per share. The Company is also authorized to issue 5,000,000 shares of preferred stock, par value of \$0.001 per share. The rights, preferences and privileges of the holders of the preferred stock will be determined by the Board of Directors prior to issuance of such shares.

## 8. STOCK OPTIONS AND WARRANTS

Stock Options

Our 2003 Stock Option Plan for Directors, Officers, Employees and Key Consultants (the "2003 Plan") authorizing the issuance of up to 5,000,000 shares of our common stock pursuant to the grant and exercise of up to 5,000,000 stock options terminated upon the expiration of the remaining options granted under the 2003 Plan on May 24, 2014. In the future, we plan to establish a new management stock option plan pursuant to which stock options may be authorized and granted to our executive officers, directors, employees and key consultants. We expect to authorize up to 10% of our issued and outstanding Common Stock for future issuance under such plan. We believe that stock option awards motivate our employees to work to improve our business and stock price performance, thereby further linking the interests of our senior management and our stockholders. The board considers several factors in determining whether awards are granted to an executive officer, including those previously described, as well as the executive's position, his or her performance and responsibilities, and the amount of options, if any, currently held by the officer and their vesting schedule. Our policy prohibits backdating options or granting them retroactively. As of September 30, 2015, 126,000,000 stock options granted outside of the Plan were outstanding.

The Company used the historical industry index to calculate volatility, since the Company's stock history did not represent the expected future volatility of the Company's common stock. The fair value of options granted during the quarter ended September 30, 2015, was determined using the Black Scholes method with the following assumptions:

|                                       | Quarter Ended |
|---------------------------------------|---------------|
|                                       | 9/30/15       |
| Risk free interest rate               | 6.00%         |
| Stock volatility factor               | 171           |
| Weighted average expected option life | 7 years       |
| Expected dividend yield               | none          |

The weighted average remaining contractual life of options outstanding as of September 30, 2015 was as follows:

Weighted  
Average



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| Exercise prices | Number of options outstanding | remaining contractual life (years) |
|-----------------|-------------------------------|------------------------------------|
| \$0.015         | 35,000,000                    | 6.91                               |
| \$0.013         | 63,000,000                    | 6.35                               |
| \$0.013         | 15,000,000                    | 6.47                               |
| \$0.053         | 12,500,000                    | 3.87                               |
| \$0.004         | 500,000                       | 6.04                               |
|                 | 126,000,000                   |                                    |

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## CLOUDCOMMERCE, INC. AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED

SEPTEMBER 30, 2015

## 8. STOCK OPTIONS AND WARRANTS (continued)

A summary of the Company's stock option activity and related information follows:

|   | Quarter ended<br>September 30, 2015 |  | Quarter ended<br>September 30, 2014 |  |
|---|-------------------------------------|--|-------------------------------------|--|
|   | Options                             | Weighted<br>average<br>exercise<br>price | Options                             | Weighted<br>average<br>exercise<br>price |
| Outstanding -beginning of period                                  | 91,000,000                          | \$ 0.012                                 | 13,000,000                          | \$ 0.005                                 |
| Granted   | 35,000,000                          | \$ 0.015                                 | -                                   | \$ -                                     |
| Exercised   | -                                   | \$ -                                     | -                                   | \$ -                                     |
| Forfeited   | -                                   | \$ -                                     | -                                   | \$ -                                     |
| Outstanding - end of period                                       | 126,000,000                         | \$ 0.013                                 | 13,000,000                          | \$ 0.005                                 |
| Exercisable at the end of period                                  | 31,103,082                          | \$ 0.010                                 | 9,252,511                           | \$ 0.005                                 |
| Weighted average fair value of<br>options granted during the year |                                     | \$ 525,000                               |                                     | \$ -                                     |
| <u>Warrants</u>   |                                     |  |                                     |  |

During the quarter ended September 30, 2015, the Company issued no warrants for services. A summary of the Company's warrant activity and related information follows:

|   | Quarter ended<br>September 30, 2015 |  | Quarter ended<br>September 30, 2014 |  |
|---|-------------------------------------|--|-------------------------------------|--|
|   | Warrants                            | Weighted<br>average<br>exercise<br>price | Warrants                            | Weighted<br>average<br>exercise<br>price |
| Outstanding -beginning of period            | 28,019,163                          | \$ 0.003                                 | 28,019,163                          | \$ 0.003                                 |
| Granted                                     | -                                   | \$ -                                     | -                                   | \$ -                                     |
| Exercised                                   | -                                   | \$ -                                     | -                                   | \$ -                                     |
| Forfeited                                   | -                                   | \$ -                                     | -                                   | \$ -                                     |
| Outstanding and exercisable - end of period | 28,019,163                          | \$ 0.003                                 | 28,019,163                          | \$ 0.003                                 |

The weighted average remaining contractual life of warrants outstanding as of September 30, 2015 was as follows:

| Number of | Weighted<br>Average<br>remaining |
|-----------|----------------------------------|
|-----------|----------------------------------|

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|                    |                        |                             |
|--------------------|------------------------|-----------------------------|
| Exercise<br>prices | options<br>outstanding | contractual<br>life (years) |
| \$0.003            | 28,019,163             | 0.52                        |

CLOUDCOMMERCE, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED

SEPTEMBER 30, 2015

9. SUPPLEMENTAL STATEMENT OF CASH FLOWS INFORMATION

During the period ended September 30, 2015, there were no non-cash financing activities.

10. SUBSEQUENT EVENTS

Management has evaluated subsequent events according to the requirements of ASC TOPIC 855, and has reported the following events:

On October 1, 2015, the Company completed the acquisition of Indaba Group, LLC, a Colorado limited liability company. As of that date, the Company's operating subsidiary, Warp 9, Inc, a Delaware corporation, merged with Indaba Group, LLC and changed the name of the combined subsidiary to Indaba Group, Inc. The total purchase price of two million dollars (\$2,000,000.00), was paid in the form of the issuance of ten thousand (10,000) shares of the Company's Series A Convertible Preferred Stock, at a liquidation preference of two hundred dollars (\$200.00) per share. As of the date of closing, Ryan Shields and Blake Gindi, two of the owners of Indaba Group, LLC, were appointed to the CloudCommerce board of directors.

On October 1, 2015, the Company entered into a convertible promissory note (the "October 2015 Note") in the amount of \$1,000,000, at which time an initial advance of \$38,000 was received to cover operational expenses. The terms of the May 2015 Note allow the lender to convert all or part of the outstanding balance plus accrued interest, at any time after the effective date, at a conversion price of the lower of (a) \$0.015 per share, (b) 50% of the lowest trade price of Common Stock recorded on any trade day after the effective date of the agreement, or (c) the lowest effective price per share granted to any person or entity after the effective date. The October 2015 Note bears interest at a rate of 10% per year and matures 12 months from the effective date of each advance.

On October 16, 2015, the Company signed an addendum to the April 16, 2014 convertible note, changing the terms of the maturity date. According to the terms of the addendum, the note amount is payable upon demand, but in no even later than 60 months from the effective date of each tranche.

## **Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

### **Cautionary Statements**

This Form 10-Q contains financial projections and other "forward-looking statements," as that term is used in federal securities laws, about CloudCommerce, Inc.'s ("CloudCommerce," "we," "us," or the "Company") financial condition, results of operations, and business. These statements include, among others:

statements concerning the potential for benefits that CloudCommerce may experience from its business activities and certain transactions it contemplates or has completed; and

statements of CloudCommerce's expectations, future plans and strategies, anticipated developments, and other matters that are not historical facts. These statements may be made expressly in this Form 10-Q. You can find many of these statements by looking for words such as "believes," "expects," "anticipates," "estimates," or similar expressions used in this Form 10-Q. These forward-looking statements are subject to numerous assumptions, risks, and uncertainties that may cause the Company's actual results to be materially different from any future results expressed or implied by the Company in those statements. The most important facts that could prevent the Company from achieving its stated goals include, but are not limited to, the following:

- (a) volatility or decline of the Company's stock price;
- (b) potential fluctuation in quarterly results;
- (c) failure of the Company to earn revenues or profits;
- (d) inadequate capital to continue or expand its business, and inability to raise additional capital or financing to implement its business plans;
- (e) failure to further commercialize its technology or to make sales;
- (f) reduction in demand for the Company's products and services;
- (g) rapid and significant changes in markets;
- (h) litigation with or legal claims and allegations by outside parties;
- (i) insufficient revenues to cover operating costs;
- (j) aspects of the Company's business are not proprietary and in general the Company is subject to inherent competition;
- (k) further dilution of existing shareholders' ownership in Company;
- (l) uncollectible accounts and the need to incur expenses to collect amounts owed to the Company; and
- (m) lack of an Audit Committee and a sufficient number of independent directors.

There is no assurance that the Company will be profitable. The Company may not be able to successfully develop, manage, or market its products and services. The Company may not be able to attract or retain qualified executives and technology personnel. The Company may not be able to obtain customers for its products or services. The Company's products and services may become obsolete. Government regulation may hinder the Company's business. Additional dilution in outstanding stock ownership may be incurred due to the issuance of more shares, warrants and stock options, the exercise of outstanding warrants and stock options.

Because these statements are subject to risks and uncertainties, actual results may differ materially from those expressed or implied by forward-looking statements. The Company cautions you not to place undue reliance on these statements, which speak only as of the date of this Form 10-Q. The cautionary statements contained or referred to in this section should be considered in connection with any subsequent written or oral forward-looking statements that the Company or persons acting on its behalf may issue. The Company does not undertake any obligation to review or confirm analysts' expectations or estimates or to release publicly any revisions to any forward-looking statements to reflect events or circumstances after the date of this Form 10-Q or to reflect the occurrence of unanticipated events.

The following discussion should be read in conjunction with our condensed consolidated financial statements and notes to those statements. In addition to historical information, the following discussion and other parts of this quarterly report contain forward-looking information that involves risks and uncertainties.

### **Current Overview**

We are a provider of mobile and e-commerce solutions for midsize online sellers in the retail and business to business ("B2B") industries. Our solutions and services are designed to help multi-channel retailers maximize digital commerce revenues by applying our technologies and solutions for mobile e-commerce, desktop e-commerce, e-mail marketing, social media, and other digital avenues. Offered as an outsourced and fully managed Software-as-a-Service ("SaaS") model, our solutions allow customers to focus on their core business, rather than technical implementations and software and hardware architecture, design, and maintenance. We also offer professional services to our clients which include graphic design, store management, new feature development, promotion management, search engine optimization ("SEO"), social media management, merchandizing, integration to third party payment processing and fulfillment systems, analytics, custom reporting, and strategic consultation.

We believe our products and services allow our clients to lower costs and focus on promoting and marketing their brand, product line, and website while leveraging the investments we have made in technology and infrastructure to operate a dynamic digital presence.

A portion of the Company's revenues are from monthly recurring fees for mobile and desktop development. During the quarter ended September 30, 2015, these products accounted for approximately 19% of our gross revenue, and professional services accounted for approximately 78% of our gross revenue.

### **Critical Accounting Policies**

Our discussion and analysis of our financial condition and results of operations, including the discussion on liquidity and capital resources, are based upon our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, management re-evaluates its estimates and judgments, particularly those related to the determination of the estimated recoverable amounts of trade accounts receivable, impairment of long-lived assets, revenue recognition, and deferred tax assets. We believe the following critical accounting policies require more significant judgment and estimates used in the preparation of the financial statements.

We maintain an allowance for doubtful accounts for estimated losses that may arise if any of our customers are unable to make required payments. Management specifically analyzes the age of customer balances, historical bad debt experience, customer credit-worthiness, and changes in customer payment terms when making estimates of the uncollectability of our trade accounts receivable balances. If we determine that the financial conditions of any of our customers has deteriorated, whether due to customer specific or general economic issues, increases in the allowance may be made. Accounts receivable are written off when all collection attempts have failed.

We follow the provisions of ASC 605-10-25, that four conditions must be met before revenue can be recognized: (i) there is persuasive evidence that an arrangement exists, (ii) delivery has occurred or service has been rendered, (iii) the price is fixed or determinable, and (iv) collection is reasonably assured.

Income taxes are accounted for under the asset and liability method. Under this method, to the extent that we believe that the deferred tax asset is not likely to be recovered, a valuation allowance is provided. In making this

determination, we consider estimated future taxable income and taxable timing differences expected in the future. Actual results may differ from those estimates.

Fair value of financial instruments

The Company's financial instruments, including cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities are carried at cost, which approximates their fair value, due to the relatively short maturity of these instruments. As of September 30, 2015 and 2014, the Company's capital lease obligations and notes payable have stated borrowing rates that are consistent with those currently available to the Company and, accordingly, the Company believes the carrying value of these debt instruments approximates their fair value.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC Topic 820 established a three-tier fair value hierarchy which prioritizes the inputs used in measuring fair value. The hierarchy gives



the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). These tiers include:

- Level 1, defined as observable inputs such as quoted prices for identical instruments in active markets;
- Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable such as quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in markets that are not active; and
- Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions, such as valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

We measure certain financial instruments at fair value on a recurring basis. Assets and liabilities measured at fair value on a recurring basis are as follows at September 30, 2015:

|  | Total        | (Level 1) | (Level 2) | (Level 3)    |
|--|--------------|-----------|-----------|--------------|
| Assets                                   | \$ -         | \$ -      | \$ -      | \$ -         |
| Total assets measured at fair value      | \$ -         | \$ -      | \$ -      | \$ -         |
| Liabilities                              |              |           |           |              |
| Derivative liability                     | 6,311,091    | -         | -         | 6,311,091    |
| Convertible notes, net of discount       | 901,265      | -         | -         | 901,265      |
| Total liabilities measured at fair value | \$ 7,212,356 | \$ -      | \$ -      | \$ 7,212,356 |

Assets and liabilities measured at fair value on a recurring basis are as follows at June 30, 2015:

|  | Total        | (Level 1) | (Level 2) | (Level 3)    |
|--|--------------|-----------|-----------|--------------|
| Assets                                   | \$ -         | \$ -      | \$ -      | \$ -         |
| Total assets measured at fair value      | \$ -         | \$ -      | \$ -      | \$ -         |
| Liabilities                              |              |           |           |              |
| Derivative liability                     | 1,951,201    | -         | -         | 1,951,201    |
| Convertible notes, net of discount       | 700,884      | -         | -         | 700,884      |
| Total liabilities measured at fair value | \$ 2,652,085 | \$ -      | \$ -      | \$ 2,652,085 |

**Results of Operations for the Three Months Ended September 30, 2015, compared to the Three Months Ended September 30, 2014.**

**REVENUE**

Total revenue for the three months ended September 30, 2015 decreased by \$1,222 to \$113,559, compared to \$114,781 for the three months ended September 30, 2014. The decrease was primarily due to a decline of our mobile website development revenue during the current period.

**SELLING, GENERAL, AND ADMINISTRATIVE EXPENSES**

Selling, general, and administrative ("SG&A") expenses for the three months ended September 30, 2015 increased by \$71,174 to \$394,934, compared to \$323,760 for the three months ended September 30, 2014. The overall increase in SG&A expenses was primarily due to an increase in accounting and legal expense related to the acquisition of Indaba.

**RESEARCH AND DEVELOPMENT**

Research and development expenses for the three months ended September 30, 2015 and September 30, 2014 were both \$0.

**DEPRECIATION AND AMORTIZATION**

Depreciation and amortization expenses for the three months ended September 30, 2015 decreased by \$412 to \$737, compared to \$1,149 for the three months ended September 30, 2014. The decrease was due to certain computer equipment being fully depreciated or obsolete in the current period, and therefore, not being included in depreciation expense any longer.

**OTHER INCOME AND EXPENSE**

Total other income (expense) for the three months ended September 30, 2015 decreased by \$5,076,852 to net other expense of \$4,367,272, compared to net other income of \$709,580 for the three months ended September 30, 2014. The decrease was primarily due to changes in the derivative liability.

**NET INCOME/(LOSS)**

The consolidated net loss for the three months ended September 30, 2015 was (\$4,754,677), compared to the consolidated net income of \$492,160 for the three months ended September 30, 2014. The increase in net loss for the period was primarily due to an increase of the derivative liability and interest expense.

**LIQUIDITY AND CAPITAL RESOURCES**

The Company had a net working capital deficit (i.e. the difference between current assets and current liabilities) of (\$7,047,647) at September 30, 2015 compared to a net working capital deficit of (\$2,552,692) at June 30, 2014. The increase in net working capital deficit at September 30, 2015 was primarily due to an increase in derivative liability and additional borrowings.

Cash flow used in operating activities was (\$173,976) for the three months ended September 30, 2015, compared to cash flow used in operating activities of (\$169,150) for the three months ended September 30, 2014. The increase in cash flow used in operating activities of \$4,826 was primarily due to a decrease in net income, partially offset by loss

on change in derivative liability and amortization of debt discount.

Cash flow used in investing activities was (\$10,000) for the three months ended September 30, 2015, compared to cash flow used in investing activities of (\$2,355) for the three months ended September 30, 2014. The increase in cash flow used in investing activities of \$7,645 was primarily due to the Company purchasing intangible assets in the current period.

Cash flow provided by financing activities was \$193,000 for the three months ended September 30, 2015, compared to \$140,000 for the three months ended September 30, 2014. The increase in cash flow provided in financing activities of \$53,000 was due to proceeds received by the Company from a convertible promissory note.

While we expect that our capital needs in the foreseeable future will be met by cash-on-hand and existing cash flow, there is no assurance that we will generate any or sufficient positive cash flows, or have sufficient capital, to finance our growth and business operations, or that such capital will be available on terms that are favorable to us or at all. The Company has recently been incurring operating losses and experiencing negative cash flow. In the current financial environment, it could become difficult for the Company to obtain business leases and other equipment financing. There is no assurance that we would be able to obtain additional working capital through the private placement of common stock or from any other source.

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

None.

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

Not Applicable.

#### **Item 4. CONTROLS AND PROCEDURES**

##### **Evaluation of Disclosure Controls and Procedures**

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed by CloudCommerce in the reports that it files under the Securities Exchange Act of 1934, as amended (the "Exchange Act") is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer that it files under the Exchange Act is accumulated and communicated to the issuer's management, including its principal executive officer and principal financial officers, or persons performing similar functions as appropriate to allow timely decisions regarding required disclosure. The Company's Chairman, Chief Executive Officer, and Chief Financial Officer are responsible for establishing and maintaining disclosure controls and procedures for the Company.

Management has evaluated the effectiveness of the Company's disclosure controls and procedures as of September 30, 2015 (under the supervision and with the participation of the Company's Chairman, Chief Executive Officer, and Chief Financial Officer) pursuant to Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended. As part of such evaluation, management considered the matters discussed below relating to internal control over financial reporting. For the year ended June 30, 2015, the Company noted a material weakness in the calculation and recording of complex debt instruments. During the quarter ended September 30, 2015, management remediated this material weakness by thoroughly evaluating the calculation of complex debt instruments, and again evaluated the effectiveness of this control. Based on this evaluation, the Company's Chairman, Chief Executive Officer, and Chief Financial Officer have concluded that the Company's disclosure controls and procedures are effective as of September 30, 2015.

##### **Internal Control Over Financial Reporting**

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting, (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934). The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes of accounting principles generally accepted in the United States. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance of achieving their control objectives. Furthermore, projections of any evaluation of effectiveness to future periods are

subject to the risk that controls may become inadequate due to change in conditions, or the degree of compliance with the policies or procedures may deteriorate. After evaluating the Company's internal controls over financial reporting, the Company's Chairman, Chief Executive Officer, and Chief Financial Officer have concluded that the internal controls over financial reporting are effective as of September 30, 2015.

**Changes in Internal Controls over Financial Reporting**

There have been no changes in the Company's internal control over financial reporting that occurred during our most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## **PART II. - OTHER INFORMATION**

### **Item 1. LEGAL PROCEEDINGS**

There are no current legal proceedings as of this time.

The Company may be involved in legal actions and claims arising in the ordinary course of business from time to time in the future.

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

None.

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

None.

### **Item 4. MINE SAFETY DISCLOSURES**

Not applicable.

### **Item 5. OTHER INFORMATION**

None

### **Item 6. EXHIBITS**

(a) Exhibits

| <u>Exhibit</u> | <u>Description</u>  |
|----------------|---|
| 3.1            | Articles of Incorporation (1)   |
| 3.2            | Certificate of Designation for Series A Preferred Stock (12)  |
| 3.3            | Bylaws (1)  |
| 4.1            | Specimen Certificate for Common Stock (1)   |
| 10.1           | First Agreement and Plan of Reorganization between Latinocare Management Corporation, a Nevada corporation, and Warp 9, Inc., a Delaware corporation (4)  |
| 10.2           | Second Agreement and Plan of Reorganization between Latinocare Management Corporation, a Nevada corporation, and Warp 9, Inc., a Delaware corporation (5) |
| 10.3           | Exchange Agreement and Representations for shareholders of Warp 9, Inc.(4)  |
| 10.4           | Securities Purchase Agreement dated as of March 28, 2005 between Roaming Messenger, Inc. and Wings Fund, Inc.(6)  |
| 10.5           | Periodic Equity Investment Agreement dated as of March 28, 2005 between Roaming Messenger, Inc. and Wings Fund, Inc.(6)                                   |
| 10.6           | Registration Rights Agreement dated as of March 28, 2005 between Roaming Messenger, Inc. and Wings Fund, Inc.(6)  |
| 10.15          | Termination of License Agreement with Carbon Sciences, Inc., dated April 2, 2007 (9)  |
| 10.17          | Form of Convertible Note, dated January 5, 2015 (11)  |
| 10.18          | Form of Stock Option Agreement (11)   |
| 10.19          |   |

Agreement and Plan of Merger by and among Indaba Group, LLC, a Colorado limited liability company, Ryan Shields, Blake Gindi, and Jack Gindi, Warp 9, Inc., a Nevada corporation, and Warp 9, Inc., a Delaware corporation (13)

10.20 Statement of Merger between Indaba Group, LLC, a Colorado limited liability company, and Warp 9, Inc., a Delaware corporation (12)

|            |  |
|------------|--|
| 10.21      | Certificate of Merger of Domestic Corporation and Foreign Limited Liability Corporation between Warp 9, Inc., a Delaware corporation, and Indaba Group, LLC, a Colorado limited liability company (12) |
| 10.22      | Employment Agreement between Indaba Group, Inc., a Delaware corporation, and Ryan Shields (12)   |
| 10.23      | Employment Agreement between Indaba Group, Inc., a Delaware corporation, and Blake Gindi (12)  |
| 21.1       | List of Subsidiaries (7)   |
| 31.1       | Section 302 Certification  |
| 31.2       | Section 302 Certification  |
| 32.1       | Section 906 Certification  |
| 32.2       | Section 906 Certification  |
| EX-101.INS | XBRL INSTANCE DOCUMENT*  |
| EX-101.SCH | XBRL TAXONOMY EXTENSION SCHEMA DOCUMENT*   |
| EX-101.CAL | XBRL TAXONOMY EXTENSION CALCULATION LINKBASE*  |
| EX-101.DEF | XBRL TAXONOMY EXTENSION DEFINITION LINKBASE*   |
| EX-101.LAB | XBRL TAXONOMY EXTENSION LABELS LINKBASE*   |
| EX-101.PRE | XBRL TAXONOMY EXTENSION PRESENTATION LINKBASE*   |

(1) Incorporated by reference from the exhibits included with the Company's prior Report on Form 10-KSB filed with the Securities and Exchange Commission, dated March 31, 2002.

(4) Incorporated by reference from the exhibits included with the Company's prior Report on Form SC 14F1 filed with the Securities and Exchange Commission, dated April 8, 2003.

(5) Incorporated by reference from the exhibits included with the Company's prior Report on Form 8K filed with the Securities and Exchange Commission, dated May 30, 2003.

(6) Incorporated by reference to exhibits filed with the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission dated March 30, 2005.

(7) Incorporated by reference to the exhibits filed with the Company's prior Annual Report on Form 10-KSB/A filed with the Securities and Exchange Commission, dated October 12, 2007.

(9) Incorporated by reference to exhibits filed with the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission, dated May 8, 2007.

(11) Incorporated by reference to exhibits filed with the Company's Current Report on Form 10-Q/A filed with the Securities and Exchange Commission, dated February 17, 2015.



(12) Incorporated by reference to exhibits filed with the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission, dated October 6, 2015.

(13) Incorporated by reference to exhibits filed with the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission, dated June 30, 2015.

\* Furnished herewith. Pursuant to Rule 406T of Regulation S-T, the interactive data files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, and otherwise are not subject to liability under those sections.

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**CLOUDCOMMERCE, INC.**  
(Registrant)

Dated: November 13, 2015

By: */s/ Andrew Van Noy*  
Andrew Van Noy,

Chief Executive Officer and  
President

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By: */s/ Andrew Van Noy*  
Andrew Van Noy, Chief Executive Officer and President

Dated: November 13, 2015

(Principal Executive Officer)

By: */s/ Gregory Boden*  
Gregory Boden, Chief Financial Officer

Dated: November 13, 2015

(Principal Financial/Accounting Officer)

