CLOUDCOMMERCE, INC.
Form 10-KT/A
June 18, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-KT/A

(Amendment No. 1)

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

For the fiscal year ended:

x **TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from **July 1, 2017 to December 31, 2017**

Commission file number 000-13215

CLOUDCOMMERCE, INC.

(Exact name of registrant as specified in its charter)

Nevada	**K0-0050402**
(State of Incorporation)	(I.R.S. Employer Identification No.)

1933 Cliff Dr., Suite 1, Santa Barbara, California 93109

(Address of principal executive offices)

(805) 964-3313

Registrant's telephone number, including area code

Securities registered pursuant to Section 12(b) of the Act: **None**

Securities registered pursuant to section 12(g) of the Act: **Common Stock $0.001 par value**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No x

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 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 the past 90 days.

Yes No x

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

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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company)	Smaller reporting company x
	Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Yes No x

The aggregate market value of voting stock held by non-affiliates of the registrant was approximately $2,959,337 as of June 30, 2017, the last business day of the registrant's most recently completed second fiscal quarter (computed by reference to the last sale price of a share of the registrant's Common Stock on that date as reported by OTC Bulletin Board).

There were 130,252,778 shares outstanding of the registrant's Common Stock as of April 13, 2018.

EXPLANATORY PARAGRAPH

This Amendment No. 1 on Form 10-KT/A (the "Amendment") amends the Transition Report on Form 10-KT of CloudCommerce, Inc. (the "Company", "our" or "we") for the transition period from July 1, 2017 to December 31, 2017, originally filed with the Securities and Exchange Commission ("SEC") on April 13, 2018 (the "Original Filing"). The sole purpose of this Amendment is to provide updated information contained in Note 4, Business Acquisitions, contained in the Notes to Consolidated Financial Statements (the “Notes”) provided in Part II, Item 8 of the Original Filing, and, specifically, to the disclosure of the purchase price of Parscale Creative (as defined in the Notes) and the convertible preferred stock used to purchase WebTegrity (as defined in the Notes) included therein. In connection with the filing of this Amendment and pursuant to the rules of the SEC, we are also including with this Amendment certain new certifications by our principal executive officer and principal financial officer. Accordingly, Part II, Item 8 of the Original Filing is being amended and Item 15 of the Original Filing is being amended to reflect the filing of the new certifications.

Except as stated herein, this Amendment does not reflect events occurring after the filing of the Original Filing and no attempt has been made in this Amendment to modify or update other disclosures contained in Part I, Part II (except for Item 8 as described herein) and Part III presented in the Original Filing.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA OF CLOUDCOMMERCE, INC.

CLOUDCOMMERCE, INC.

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED DECEMBER 31, 2017

AND THE YEARS ENDED JUNE 30, 2017 AND 2016

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Report of Independent Registered Public Accounting Firm

To the Board of Directors

CloudCommerce, Inc.

Santa Barbara, California

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of CloudCommerce, Inc. (“Company”) as of December 31, 2017 and June 30, 2017, and the related consolidated statements of operations, shareholders’ equity (deficit), and cash flows for the six months ended December 31, 2017 and the years ended June 30, 2017 and 2016, and the related notes (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and June 30, 2017, and the results of its operations and its cash flows for the six months ended December 31, 2017 and the years ended June 30, 2017 and 2016, in conformity with accounting principles generally accepted in the United States of America.

The Company’s Ability to Continue as a Going Concern

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, the Company has incurred losses from operations and has a working capital deficit and negative cash flows from operations. These conditions raise substantial doubt about the Company’s ability to continue as a going concern. Management’s plans in regard to these matters are described in Note 1 to the consolidated financial statements. The consolidated financial statements do not include any adjustments that may result from the outcome of this uncertainty.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Liggett & Webb, P.A.

We have served as the Company's auditor since 2015.

New York, New York

April 13, 2018

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CLOUDCOMMERCE, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	December 31, 2017	June 30, 2017
ASSETS		
CURRENT ASSETS		
Cash	$272,321	$30,869
Accounts receivable, net	877,570	383,893
Accounts receivable, net - related party	398,410	—
Prepaid and other current Assets	39,168	21,287
TOTAL CURRENT ASSETS	1,587,469	436,049
PROPERTY & EQUIPMENT, net	161,325	55,743
OTHER ASSETS		
Lease deposit	13,300	3,500
Goodwill and other intangible assets, net	9,546,757	1,368,446
TOTAL OTHER ASSETS	9,560,057	1,371,946
TOTAL ASSETS	$11,308,851	$1,863,738
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)		
CURRENT LIABILITIES		
Accounts payable	$1,004,203	$164,135
Accrued expenses	522,794	324,092
Lines of credit	475,468	205,368
Deferred income and customer deposit	620,504	632,134
Convertible notes and interest payable, current, net	97,013	93,686
Capital lease obligation, current	32,382	—
Notes payable, related parties	670,819	1,271,673
TOTAL CURRENT LIABILITIES	3,423,183	2,691,088
LONG TERM LIABILITIES		
Capital lease obligation, long term	54,693	—
Deferred tax liability	1,021,566	—
Accrued expenses, long term	207,803	209,903
TOTAL LONG TERM LIABILITIES	1,284,062	209,903
TOTAL LIABILITIES	4,707,245	2,900,991
COMMITMENTS AND CONTINGENCIES (see Note 12)	—	—

SHAREHOLDERS' EQUITY (DEFICIT)		
Preferred stock, $0.001 par value;		
5,000,000 Authorized shares:		
Series A Preferred stock; 10,000 authorized, 10,000 issued and outstanding shares;	10	10
Series B Preferred stock; 25,000 authorized, 18,025 shares issued and outstanding;	18	18
Series C Preferred Stock; 25,000 authorized, 14,425 and zero issued and outstanding shares at December 31, 2017 and June 30, 2017, respectively;	14	—
Series D Preferred Stock; 90,000 authorized, 90,000 and zero issued and outstanding shares at December 31, 2017 and June 30, 2017, respectively;	90	—
Series E Preferred stock; 10,000 authorized, 10,000 and zero issued and outstanding shares at December 31, 2017 and June 30, 2017, respectively;	10	
Common stock, $0.001 par value;		
2,000,000,000 authorized shares; 130,252,778 shares issued and outstanding	130,252	130,252
Additional paid in capital	29,094,147	18,969,288
Accumulated deficit	(22,622,935)	(20,136,821)
TOTAL SHAREHOLDERS' EQUITY (DEFICIT)	6,601,606	(1,037,253)
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)	$11,308,851	$1,863,738

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

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CLOUDCOMMERCE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF OPERATIONS

	Six Months Ended December 31, 2017	Years Ended June 30, 2017	Years Ended June 30, 2016
REVENUE	$2,778,298	$2,931,089	$2,079,743
REVENUE - related party	1,771,529	—	—
TOTAL REVENUE	4,549,827	2,931,089	2,079,743
OPERATING EXPENSES			
Salaries and outside services	2,671,797	3,180,675	2,619,188
Selling, general and administrative expenses	2,389,523	902,994	1,067,777
Stock based compensation	275,319	502,000	485,993
Loss on impairment of goodwill and intangible assets	1,239,796	—	—
Depreciation and amortization	562,737	300,752	183,767
TOTAL OPERATING EXPENSES	7,139,172	4,886,421	4,356,725
LOSS FROM OPERATIONS BEFORE OTHER INCOME AND TAXES	(2,589,345)	(1,955,332)	(2,276,982)
OTHER INCOME (EXPENSE)			
Other income	—	(10,120)	658
Gain (loss) on sale of fixed assets	—	21,685	(329)
Gain (loss) on extinguishment of debt	—	—	(559,867)
Gain (loss) on changes in derivative liability	—	—	(3,258,891)
Interest expense	(50,243)	(98,337)	(1,389,897)
TOTAL OTHER INCOME (EXPENSE)	(50,243)	(86,772)	(5,208,326)
LOSS FROM OPERATIONS BEFORE PROVISION FOR TAXES	(2,639,588)	(2,042,104)	(7,485,308)
PROVISION (BENEFIT) FOR INCOME TAXES	(153,474)	400	6,803
NET LOSS	(2,486,114)	(2,042,504)	(7,492,111)
PREFERRED DIVIDENDS	146,260	80,000	60,000
NET LOSS ATTRIBUTABLE TO COMMON SHAREHOLDERS	$(2,632,374)	$(2,122,504)	$(7,552,111)
NET LOSS PER SHARE			
BASIC	$(0.02)	$(0.02)	$(0.07)

DILUTED	$(0.02)	$(0.02)	$(0.07)
WEIGHTED-AVERAGE COMMON SHARES OUTSTANDING			
BASIC	130,252,778	130,252,778	106,255,568
DILUTED	130,252,778	130,252,778	106,255,568

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

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CLOUDCOMMERCE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY/(DEFICIT)

	Preferred Stock Shares	Preferred Stock Amount	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Deficit	Total
Balance, June 30, 2015	—	$ —	105,790,191	$105,790	$7,679,033	$(10,602,206)	$(2,817,383)
Issuance of Series A Preferred stock	10,000	10	—	—	1,999,990	—	2,000,000
Issuance of Series B Preferred stock	18,025	18	—	—	2,041,235	—	2,041,253
Reclassification of derivative accounting	—	—	—	—	5,636,592	—	5,636,592
Beneficial conversion feature	—	—	—	—	788,907	—	788,907
Warrant conversion	—	—	24,109,404	24,109	(24,109)	—	—
Dividend on Series A Preferred stock	—	—	—	—	(60,000)	—	(60,000)
Stock based compensation	—	—	—	—	485,993	—	485,993
Net loss	—	—	—	—	—	(7,492,111)	(7,492,111)
Balance, June 30, 2016	28,025	28	129,899,595	129,899	18,547,641	(18,094,317)	583,251
Share correction	—	—	353,183	353	(353)	—	—
Dividend on Series A Preferred stock	—	—	—	—	(80,000)	—	(80,000)
Stock based compensation	—	—	—	—	502,000	—	502,000
Net loss	—	—	—	—	—	(2,042,504)	(2,042,504)
Balance, June 30, 2017	28,025	$ 28	130,252,778	$130,252	$18,969,288	$(20,136,821)	$(1,037,253)

Issuance of Series C Preferred stock for the conversion of notes payable and accrued interest	14,425	14	—	—	1,485,900	—	1,485,914
Issuance of Series D Preferred stock for the acquisition of Parscale Creative, Inc.	90,000	90	—	—	7,609,910	—	7,610,000
Dividend on Series D Preferred stock	—	—	—	—	(106,260)		(106,260)
Issuance of Series E Preferred stock for the acquisition of WebTegrity, LLC	10,000	10	—	—	899,990	—	900,000
Dividend on Series A Preferred stock	—	—	—	—	(40,000)	—	(40,000)
Stock based compensation	—	—	—	—	275,319	—	275,319
Net loss	—	—	—	—	—	(2,486,114)	(2,486,114)
Balance, December 31, 2017	142,450	$ 142	130,252,778	$130,252	$29,094,147	$(22,622,935)	$6,601,606

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

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CLOUDCOMMERCE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended December 31, 2017	Years Ended June 30, 2017	June 30, 2016
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss	$(2,486,114)	$(2,042,504)	$(7,492,111)
Adjustment to reconcile net loss to net cash used in operating activities			
Depreciation and amortization	562,737	300,752	183,767
Bad debt expense	(4,308)	(35,091)	31,194
Stock based compensation	275,319	502,000	485,993
Amortization of debt discount	—	—	1,216,732
(Gain) loss on sale of fixed assets	—	(21,685)	329
Loss on impairment of goodwill and intangible assets	1,239,796	—	—
Loss on extinguishment of debt	—	—	559,867
Loss on derivative liability	—	—	3,258,891
Change in assets and liabilities:			
(Increase) Decrease in:			
Accounts receivable	(870,814)	79,064	(2,392)
Prepaid and other assets	(9,062)	(8,861)	1,577
Lease deposit	(9,800)	—	
Increase (Decrease) in:			
Accounts payable	840,068	(13,248)	15,606
Accrued expenses	318,361	76,831	202,866
Deferred income	(692,762)	296,492	323,644
Deferred tax liability	(153,474)	(1,600)	131,330
NET CASH USED IN OPERATING ACTIVITIES	(990,053)	(867,850)	(1,082,707)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property and equipment	(5,304)	(9,913)	(16,198)
Sale of property and equipment	—	23,641	244
Net cash on acquisitions	252,891	—	22,773
Purchase of intangible assets	—	—	(10,000)
NET CASH PROVIDED BY/(USED IN) INVESTING ACTIVITIES	247,587	13,728	(3,181)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Dividend paid	(146,260)	(60,000)	(40,000)
Net proceeds (payments) on line of credit	270,100	121,828	—
Payments on capital lease obligation	(13,022)	—	

Proceeds from issuance of notes payable	873,100	773,500	1,156,500
NET CASH PROVIDED BY FINANCING ACTIVITIES	983,918	835,328	1,116,500
NET INCREASE/(DECREASE) IN CASH	241,452	(18,794)	30,612
CASH, BEGINNING OF PERIOD/YEAR	30,869	49,663	19,051
CASH, END OF PERIOD/YEAR	$272,321	$30,869	$49,663
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION			
Interest paid	$36,529	$47,223	$12,531
Taxes paid	$—	$3,629	$8,548

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

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CLOUDCOMMERCE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Six Months Ended December 31, 2017 and

Years Ended June 30, 2017 and 2016

1. ORGANIZATION AND LINE OF BUSINESS

Organization

CloudCommerce, Inc. ("we", "us", "our" or the "Company") is a Nevada corporation formerly known as Warp 9, Inc., Roaming Messenger, Inc., and Latinocare Management Corporation ("LMC"). On July 9, 2015, we changed the name of the Company from Warp 9, Inc. to CloudCommerce, Inc. to reflect a new plan of strategically acquiring profitable data driven marketing solutions providers with strong management teams. The Company, based in Santa Barbara, California, began operations on October 1, 1999. The Company is a provider of fully hosted web based e-commerce software products and data driven solutions, providing services through its three subsidiaries, Indaba Group, Inc., acquired October 1, 2015, Parscale Digital, Inc., which merged with Parscale Creative, Inc., as a result of an acquisition dated August 1, 2017, and WebTegrity, LLC, which was acquired November 15, 2017. On January 17, 2018, the board of directors of the Company elected to change its year end from June 30 to December 31.

Line of Business

CloudCommerce, Inc. ("CloudCommerce," "we," "us," "our," or the "Company") is a leading provider of data driven solutions. We develop solutions that help our clients acquire, engage, and retain their customers by leveraging cutting edge digital strategies and technologies. We focus intently on using data analytics to drive the creation of great user experiences and effective digital marketing campaigns. Whether it is creating omni-channel experiences, engaging a specific audience, or energizing voters in political campaigns, we believe data is the key to digital success. Our goal is to become the industry leader by always applying a "data first" strategy and acquiring other companies that can help us achieve this vision.

To better serve our customers and create value for our shareholders, we strategically acquire profitable cloud commerce solutions providers with strong management teams.

Going Concern

The accompanying consolidated 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. As of December 31, 2017, the Company had negative working capital of $1,835,714 and has historically reported net losses, 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 December 31, 2017. It is management's plan to generate additional working capital from increasing sales from the Company's service offerings, in addition to acquiring profitable service providers.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of CloudCommerce 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 wholly owned subsidiaries, Indaba Group, Inc., a Delaware corporation ("Indaba"), Parscale Digital, Inc., a Nevada corporation ("Parscale Digital") and WebTegrity, LLC, a Texas limited liability company. 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

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CLOUDCOMMERCE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Six Months Ended December 31, 2017 and

Years Ended June 30, 2017 and 2016

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 December 31, 2017 and June 30, 2017 are $6,184 and $10,493 respectively.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the accompanying financial statements. Significant estimates made in preparing these financial statements include revenue recognition, the allowance for doubtful accounts, long-lived assets, intangible assets, business combinations, the deferred tax valuation allowance, and the fair value of stock options and warrants. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

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, and includes digital advertising revenue. 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. If we have performed work for our clients, but have not invoiced clients for that work, then we record the value of the work in either deferred revenue, as a negative liability balance, or as an asset in costs in excess of billings. The terms of services contracts generally are for periods of less than one year. The deferred revenue and customer deposits as of December 31, 2017 and June 30, 2017 was $620,504 and $632,134, respectively.

We always strive to satisfy our customers by providing superior quality and service. Since we typically bill based on a Time and Materials basis, there are no returns for work delivered. When discrepancies or disagreements arise, we do our best to reconcile those by assessing the situation on a case-by-case basis and determining if any discounts can be given. Historically, no significant discounts have been granted.

Included in revenue are costs that are reimbursed by our clients, including third party services, such as photographers and stylists, furniture, supplies, and the largest component, digital advertising. We have determined, based on our review of ASC 605-45, that the amounts classified as reimbursable costs should be recorded as gross, due to the following factors:

- The Company is the primary obligor in the arrangement;
- We have latitude in establishing price;
- We have discretion in supplier selection; and
- The Company has credit risk.

During the six months ended December 31, 2017 and the years ended June 30, 2017 and 2016, we included $1,472,565, $0 and $0, respectively, in revenue, related to reimbursable costs.

Research and Development

Research and development costs are expensed as incurred. Total research and development costs were zero for the six months ended December 31, 2017 and years ended June 30, 2017 and 2016.

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CLOUDCOMMERCE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Six Months Ended December 31, 2017 and

Years Ended June 30, 2017 and 2016

Advertising Costs

The Company expenses the cost of advertising and promotional materials when incurred. Total advertising costs were \$17,407, \$5,854 and \$57,654 for the six months ended December 31, 2017 and years ended June 30, 2017 and 2016, respectively.

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 December 31, 2017 and June 30, 2017, the Company's 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.

As of December 31, 2017 and June 30, 2017, the Company had no assets or liabilities that are required to be valued on a recurring basis.

Property and Equipment

Property and equipment are stated at cost, and are depreciated or amortized using the straight-line method over the following estimated useful lives:

Furniture, fixtures & equipment	7 Years
Computer equipment	5 Years
Commerce server	5 Years
Computer software	3 - 5 Years
Leasehold improvements	Length of the lease

Depreciation expenses were $29,844, $25,371 and $21,721 for the six months ended December 31, 2017, and years ended June 30, 2017 and 2016, respectively.

Impairment of Long-Lived Assets

The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be fully recoverable. To determine recoverability of a long-lived asset, management evaluates whether the estimated future undiscounted net cash flows from the asset are less than its carrying amount. If impairment is indicated, the long-lived asset would be written down to fair value. Fair value is determined by an evaluation of available price information at which assets could be bought or sold, including quoted market prices, if available, or the present value of the estimated future cash flows based on reasonable and supportable assumptions.

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CLOUDCOMMERCE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Six Months Ended December 31, 2017 and

Years Ended June 30, 2017 and 2016

Indefinite Lived Intangibles and Goodwill Assets

The Company accounts for business combinations under the acquisition method of accounting in accordance with ASC 805, “Business Combinations,” where the total purchase price is allocated to the tangible and identified intangible assets acquired and liabilities assumed based on their estimated fair values. Significant estimates in valuing certain intangible assets include, but are not limited to, future expected cash flows from acquired customer lists, acquired technology, and trade names from a market participant perspective, useful lives and discount rates. Management’s estimates of fair value are based upon assumptions believed to be reasonable, but which are inherently uncertain and unpredictable and, as a result, actual results may differ from estimates. The purchase price is allocated using the information currently available, and may be adjusted, up to one year from acquisition date, after obtaining more information regarding, among other things, asset valuations, liabilities assumed and revisions to preliminary estimates. The purchase price in excess of the fair value of the tangible and identified intangible assets acquired less liabilities assumed is recognized as goodwill.

The Company tests for indefinite lived intangibles and goodwill impairment in the fourth quarter of each year and whenever events or circumstances indicate that the carrying amount of the asset exceeds its fair value and may not be recoverable. In accordance with its policies, the Company performed a qualitative assessment of indefinite lived intangibles and goodwill at December 31, 2017, and determined there was impairment of indefinite lived intangibles and goodwill from our Indaba acquisition. Accordingly, all intangible assets and goodwill related to the Indaba acquisition has been written off, amounting to $1,239,796. This amount is included in Operating Expenses on the Income Statement.

Business Combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair value, at the acquisition date, of assets received, liabilities incurred or assumed, and equity instruments issued by the Company in exchange for control of the acquiree. Any costs directly attributable to the business combination are expensed in the period incurred. The acquiree’s identifiable assets and liabilities are recognized at their fair values at the acquisition date.

Goodwill arising on acquisition is recognized as an asset and initially measured at cost, being the excess of the cost of the business combination over the Company’s interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognized.

Concentrations of Business and Credit Risk

The Company operates in a single industry segment. The Company markets its services to companies and individuals in many industries and geographic locations. The Company's operations are subject to rapid technological advancement and intense competition. Accounts receivable represent financial instruments with potential credit risk. The Company typically offers its customers credit terms. The Company makes periodic evaluations of the credit worthiness of its enterprise customers and other than obtaining deposits pursuant to its policies, it generally does not require collateral. In the event of nonpayment, the Company has the ability to terminate services.

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 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 six months ended December 31, 2017, included compensation expense for the stock-based payment awards granted prior to, but not yet vested, as of December 31, 2017 based on the grant date fair value estimated. Stock-based compensation expense recognized in the

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statement of operations for the six months ended December 31, 2017 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 six months ended December 31, 2017, and years ended June 30, 2017 and 2016 were $275,319, $502,000 and $485,993, respectively.

Basic and Diluted Net Income (Loss) per Share Calculations

Income (Loss) per Share dictates the calculation of basic earnings per share and diluted earnings per share. Basic earnings per share are computed by dividing income available to common shareholders by the weighted-average number of common shares available. Diluted earnings per share is computed similar to basic earnings per share except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potential common shares had been issued and if the additional common shares were dilutive. The shares for employee options, warrants and convertible notes were used in the calculation of the income per share.

For the six months ended December 31, 2017, the Company has excluded 134,800,000 shares of common stock underlying options, 10,000 Series A Preferred shares convertible into 100,000,000 shares of common stock, 18,025 Series B Preferred shares convertible into 450,625,000 shares of common stock, 14,425 Series C Preferred shares convertible into 144,250,000 shares of common stock, 90,000 Series D Preferred shares convertible into 225,000,000 shares of common stock, 10,000 Series E Preferred shares convertible into 20,000,000 shares of common stock and 24,253,220 shares of common stock underlying $97,013 in convertible notes, because their impact on the loss per share is anti-dilutive.

For the year ended June 30, 2017, the Company has excluded 123,000,000 shares of common stock underlying options, 10,000 Series A Preferred shares convertible into 100,000,000 shares of common stock, 18,025 Series B Preferred shares convertible into 450,625,000 shares of common stock, and 23,421,500 shares of common stock underlying $93,686 in convertible notes, because their impact on the loss per share is anti-dilutive.

For the year ended June 30, 2016, the Company has excluded 123,000,000 shares of common stock underlying options, 10,000 Series A Preferred shares convertible into 100,000,000 shares of common stock, 18,025 Series B Preferred shares convertible into 450,625,000 shares of common stock, and 21,771,500 shares of common stock underlying $87,086 in convertible notes, because their impact on the loss per share is anti-dilutive.

Dilutive per share amounts are computed using the weighted-average number of common shares outstanding and potentially dilutive securities, using the treasury stock method if their effect would be dilutive.

Recently Issued Accounting Pronouncements

Management reviewed accounting pronouncements issued during the six months ended December 31, 2017, and no pronouncements were adopted during the period.

In April 2016, the FASB issued ASU 2016–10 *“Revenue from Contract with Customers (Topic 606): Identifying Performance Obligations and Licensing.”* The amendments in this Update do not change the core principle of the guidance in Topic 606. Rather, the amendments in this Update clarify the following two aspects of Topic 606: identifying performance obligations and the licensing implementation guidance, while retaining the related principles for those areas. Topic 606 includes implementation guidance on (a) contracts with customers to transfer goods and services in exchange for consideration and (b) determining whether an entity’s promise to grant a license provides a customer with either a right to use the entity’s intellectual property (which is satisfied at a point in time) or a right to access the entity’s intellectual property (which is satisfied over time). The amendments in this Update are intended render more detailed implementation guidance with the expectation to reduce the degree of judgement necessary to comply with Topic 606. We are currently reviewing the provisions of this ASU to determine if there will be any impact on our results of operations, cash flows or financial condition.

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In January 2017, the FASB issued 2017-04, *Intangibles - Goodwill and Other* (Topic 350): Simplifying the Test for Goodwill Impairment. The amendments in this ASU simplify the subsequent measurement of goodwill by eliminating Step 2 from the goodwill impairment test and eliminating the requirement for a reporting unit with a zero or negative carrying amount to perform a qualitative assessment. Instead, under this pronouncement, an entity would perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount and would recognize an impairment change for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized is not to exceed the total amount of goodwill allocated to that reporting unit. In addition, income tax effects will be considered, if applicable. This ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted. The Company is currently evaluating the impact of this ASU on its consolidated financial statements and related disclosures.

Reclassification

Certain amounts in the June 30, 2017 balance sheet have been reclassified to conform with the presentation at December 31, 2017.

Income Taxes

The Company uses the liability method of accounting for income taxes. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to financial statements carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry-forwards. The measurement of deferred tax assets and liabilities is based on provisions of applicable tax law. The measurement of deferred tax assets is reduced, if necessary, by a valuation allowance based on the amount of tax benefits that, based on available evidence, is not expected to be realized.

On December 22, 2017, the Tax Cuts and Jobs Act (TCJA) was signed into law by the President of the United States. TCJA is a tax reform act that among other things, reduced corporate tax rates to 21 percent effective January 1, 2018. FASB ASC 740, *Income Taxes*, requires deferred tax assets and liabilities to be adjusted for the effect of a change in tax laws or rates in the year of enactment, which is the year in which the change was signed into law. Accordingly, the Company adjusted its deferred tax assets and liabilities at December 31, 2017, using the new corporate tax rate of 21 percent. See Note 14.

3. LIQUIDITY AND OPERATIONS

The Company had net loss of $2,486,114 for the six months ended December 31, 2017, $2,042,504 for the year ended June 30, 2017 and $7,492,111 for the year ended June 30, 2016, and net cash used in operating activities of $990,053, $867,850 and $1,082,707 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 working capital and other business financing. There is no assurance that the Company would be able to obtain additional working capital through the private placement of common stock or from any other source.

4. BUSINESS ACQUISITIONS

Indaba Group, LLC

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 the name of the combined subsidiary was changed to Indaba Group, Inc. ("Indaba"). The total purchase price of two million dollars ($2,000,000) 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) per share and payment of working capital surplus in the amount of $55,601. 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 June 23, 2017, Mr.

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Shields and Mr. Gindi resigned as members of the Board of Directors. As of December 31, 2017, neither Mr. Shields nor Mr. Gindi was an employee of the Company.

Under the purchase method of accounting, the transactions were valued for accounting purposes at $2,000,000, which was the fair value of Indaba at the time of acquisition. The assets and liabilities of Indaba were recorded at their respective fair values as of the date of acquisition. Since the Company determined there were no other separately identifiable intangible assets, any difference between the cost of the acquired entity and the fair value of the assets acquired and liabilities assumed is recorded as goodwill. The acquisition date estimated fair value of the consideration transferred consisted of the following:

Tangible assets acquired	$417,700
Liabilities assumed	(193,889)
Net tangible assets	223,811
Non-compete agreements	201,014
Customer list	447,171
Goodwill	1,128,004
Total purchase price	$2,000,000

During the six months ended December 31, 2017, we determined that the goodwill and intangibles related to the Indaba acquisition were impaired. Therefore, all remaining indefinite and finite-lived intangibles, and goodwill were written off. The amount of the write off, included in operating expenses was $1,239,796.

Parscale Creative, Inc.

On August 1, 2017, the Company completed the acquisition of Parscale Creative, Inc., a Nevada corporation (“Parscale Creative”). As of that date, the Company’s wholly owned operating subsidiary, Parscale Digital, Inc., a Nevada corporation (“Parscale Digital”), merged with Parscale Creative, and the name of the combined subsidiary was changed to Parscale Digital. The total purchase price of $7,945,000, was paid in the form of the issuance of ninety thousand (90,000) shares of the Company's Series D Convertible Preferred Stock, at a liquidation preference of one hundred dollars ($100) per share, plus dividend payments based on 5% of adjusted revenue of Parscale Digital. Adjusted revenue is defined as total revenue, minus digital marketing media buys. Based on the growth of the Parscale Digital, the actual amount of the dividend payments is estimated to be in the range of $850,000 and $1,300,000, over 36 months, if we achieve 0.5% to 3% monthly adjusted revenue growth. The dividend payments are recorded as a reduction to additional paid in capital. For the period from acquisition, August 1, 2017 through December 31, 2017, we paid $106,260 related to the Series D Convertible Preferred dividend. As of the date of closing, Brad Parscale, the 100% owner of Parscale Creative, was appointed to the Company’s Board of Directors. The Company assumed net liabilities of $535,000, related to this acquisition.

Under the purchase method of accounting, the transactions were valued for accounting purposes at $ 7,945,000 , which was the fair value of Parscale Creative at the time of acquisition. The assets and liabilities of Parscale Creative were recorded at their respective fair values as of the date of acquisition. The acquisition date estimated fair value of the consideration transferred and purchase price allocation consisted of the following:

Cash	$200,000
Customer deposits and accrued expenses	(535,000)
Net tangible liabilities	$(335,000)
Non-compete agreements	$280,000
Brand name	1,930,000
Customer list	2,090,000
Goodwill	4,720,000
Deferred tax liability	(1,075,000)
Total purchase price	$7,945,000

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Issuance of series D convertible preferred stock	$7,610,000
Net tangible liabilities	335,000
Total purchase price	$7,945,000

WebTegrity, LLC

On November 15, 2017, the Company completed the acquisition of WebTegrity, LLC, a Texas limited liability company (“WebTegrity”). As of that date, the Company’s operating subsidiary, Parscale Digital, Inc., a Nevada corporation, merged with WebTegrity and the name of the combined subsidiary remains unchanged as Parscale Digital. The total purchase price of $900,000, was paid in the form of the issuance of ten thousand (10,000) shares of the Company's Series E Convertible Preferred Stock, at a liquidation preference of one hundred dollars ($100) per share.

Under the purchase method of accounting, the transactions were valued for accounting purposes at $900,000, which was the fair value of WebTegrity at the time of acquisition. The assets and liabilities of WebTegrity were recorded at their respective fair values as of the date of acquisition. The acquisition date estimated fair value of the consideration transferred and purchase price allocation consisted of the following:

Current assets	$78,000
Fixed assets	30,000
Liabilities	(48,000)
Net assets	60,000
Brand name	130,000
Customer list	280,000
Goodwill	530,000
Deferred tax liability	(100,000)
Total purchase price	$900,000

Issuance of Series E Convertible Preferred Stock	$900,000

The above Parscale Creative and WebTegrity acquisitions are based on a preliminary purchase price allocation, and include identifiable intangible assets, which were based on their estimated fair values as of the acquisition date. The excess of purchase price over the estimated fair value of the net tangible and identifiable intangible assets acquired was recorded as goodwill. The allocation of the purchase price required management to make significant estimates in determining the fair values of assets acquired and liabilities assumed, especially with respect to identifiable intangible assets. These estimated fair values were based on information obtained from management of the acquired companies and historical experience and, with respect to the long-lived tangible and intangible assets, were made with the assistance of an independent valuation firm.

Pro forma results

The following tables set forth the unaudited pro forma results of the Company as if the acquisitions of Parscale Creative and WebTegrity had taken place on the first day of the period presented. These combined results are not necessarily indicative of the results that may have been achieved had the companies been combined as of the first day of the period presented.

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	Six months ended December 31	
	2017	2016
Total revenues	$4,839,102	$4,759,895
Net loss	(2,455,571)	(867,575)
Basic and diluted net earnings per common share	$(0.02)	$(0.01)

This pro forma financial information is based on historical results of operations, adjusted for the allocation of the purchase price and other acquisition accounting adjustments, and is not indicative of what our results would have been had we operated the businesses since the beginning of the annual period presented.

5. INTANGIBLE ASSETS

Domain Name

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, which 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 December 31, 2017, 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.

Trademark

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 determined that this intangible asset has a definite useful life of 174 months, and as such, will be included in depreciation and amortization expense. For the six months ended December 31, 2017 and years ended June 30, 2017 and 2016, the Company included $345, $690, and $517, respectively, in depreciation and amortization expense related to this trademark.

Non-Compete Agreements

On October 1, 2015, the Company acquired Indaba from three members of the limited liability company. At that time, we retained two of the members, who currently serve as the Chief Executive Officer and Chief Technology Officer of Indaba. Both employees have non-compete agreements in place to protect the Company against the risk of either employee leaving Indaba to compete directly with us. We have calculated the value of those non-compete agreements at $201,014, with a useful life of two years, which coincides with the term of the non-compete agreement. This amount was included in depreciation and amortization expense until September 30, 2017. For the six months ended

December 31, 2017, the Company included $25,127 in depreciation and amortization expense related to these non-compete agreements.

On August 1, 2017, the Company signed a merger agreement with Brad Parscale, in which Parscale Creative merged with and into Parscale Digital. The terms of the merger agreement include a non-compete agreement with Brad Parscale, for a period of three years. The Company has placed a value of this non-compete agreement at $280,000, amortized over a period of 36 months. For the six months ended December 31, 2017, we have included $38,889 in amortization expense related to this non-compete agreement. As of December 31, 2017, the balance on this intangible asset was $241,111.

Customer List

On October 1, 2015, the Company acquired Indaba, and have calculated the value of the customer list at $447,171, with a useful life of 3 years. This amount was to be included in depreciation and amortization expense until September 30, 2018. During the six months ended December 31, 2017, we determined that the Customer List intangible asset was impaired. Therefore, we have written off the remaining balance during the period, totaling $111,793. As of December 31, 2017, the balance is zero.

On August 1, 2017, the Company acquired Parscale Creative, and have calculated the value of the customer list at $2,090,000, with a useful life of 3 years. For the six months ended December 31, 2017, we included $387,447 in depreciation and amortization expense related to the customer list, and as of December 31, 2017, the remaining balance of this intangible asset was $1,702,553.

On November 15, 2017, the Company acquired WebTegrity, and have calculated the value of the customer list at $280,000, with a useful life of 3 years. For the six months ended December 31, 2017, we included $15,556 in depreciation and amortization expense related to the customer list, and as of December 31, 2017, the remaining balance of this

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intangible asset was $264,444.

Brand Name

On August 1, 2017, the Company acquired Parscale Creative, and have calculated the value of the brand name at $1,930,000, which is included in other assets on the balance sheet. As of December 31, 2017, we have determined that this brand name 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 an indefinite useful life.

On November 15, 2017, the Company acquired WebTegrity, and have calculated the value of the brand name at $130,000, which is included in other assets on the balance sheet. As of December 31, 2017, we have determined that this brand name 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 an indefinite useful life.

Goodwill

On August 1, 2017, the Company acquired Indaba, and have calculated the value of the goodwill at $1,128,003, which was included in other assets on the balance sheet at June 30, 2017. During the six months ended December 31, 2017, we determined that the goodwill related to the Indaba acquisition was impaired. Therefore, all remaining goodwill was written off. The amount of the write off, included in operating expenses was $1,128,003.

On August 1, 2017, the Company acquired Parscale Creative, and have calculated the value of the goodwill at $4,720,000, which is included in other assets on the balance sheet. The Company will assess this intangible asset for impairment, if an event occurs that may effect the fair value, or at least annually.

On November 15, 2017, the Company acquired WebTegrity, and have calculated the value of the goodwill at $530,000, which is included in other assets on the balance sheet. The Company will assess this intangible asset for impairment, if an event occurs that may effect the fair value, or at least annually.

The Company’s intangible assets consist of the following:

	December 31, 2017			June 30, 2017		
	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
Customer list	2,370,000	(403,003)	1,966,997	447,171	(260,850)	186,321
Non-compete agreement	280,000	(38,889)	241,111	201,014	(175,888)	25,126
Domain name and trademark	30,201	(1,552)	28,649	30,201	(1,205)	28,996
Brand name	2,060,000	—	2,060,000	—	—	—

Goodwill	5,250,000	—	5,250,000	1,128,003	—	1,128,003
Total	9,990,201	(443,444)	9,546,757	1,806,389	(437,943)	1,368,446

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Total amortization expense charged to operations for the six months ended December 31, 2017, and years ended June 30, 2017 and 2016 was $532,893, $275,380 and $162,046, respectively. The following table of remaining amortization of finite life intangible assets, for the years ended December 31, includes the intangible assets acquired, in addition to the CloudCommerce trademark:

2018	$884,023
2019	884,023
2020	462,331
2021	690
2022 and thereafter	5,690
Total	$2,236,757

6. CREDIT FACILITIES

Lines of Credit

The Company has assumed an outstanding liability related to a bank line of credit agreement from the acquisition of Indaba. As of December 31, 2017 and June 30, 2017, the balances were zero.

Secured Borrowing

On November 30, 2016, Indaba entered into a 12 month agreement with a third party to sell the rights to amounts due from our customers, in exchange for a borrowing facility in amounts up to a total of $400,000. The agreement was amended on March 23, 2017, which increased the allowable borrowing amount by $100,000, to a maximum of $500,000. On November 30, 2017, the agreement auto renewed for another twelve months. The proceeds from the facility are determined by the amounts we invoice our customers. The Company evaluated this facility in accordance with ASC 860, classifying it as a secured borrowing arrangement. As such, we record the amounts due from customers in accounts receivable and the amount due to the third party as a liability, presented as a “line of credit” on the Balance Sheet. The principal borrowed through this facility is secured by the accounts receivable balances, in addition to the other assets of the Company. During the term of this facility, the third party lender has a first priority security interest in the Company, and therefore, we will require such third party lender’s written consent to obligate the Company further or pledge our assets against additional borrowing facilities. Because of this position, it may be difficult for the Company to secure additional secured borrowing facilities. The cost of this secured borrowing facility is 0.05% of the daily balance. During the six months ended December 31, 2017 and year ended June 30, 2017, the Company included $26,092 and $33,733, respectively, in interest expense, related to the secured borrowing facility, and as of December 31, 2017 and June 30, 2017, the outstanding balances were $296,631 and $205,368, respectively.

On October 19, 2017, Parscale Digital entered into a 12 month agreement with a third party to sell the rights to amounts due from our customers, in exchange for a borrowing facility in amounts up to a total of $500,000. The proceeds from the facility are determined by the amounts we invoice our customers. The Company evaluated this facility in accordance with ASC 860, classifying it as a secured borrowing arrangement. As such, we record the amounts due from customers in accounts receivable and the amount due to the third party as a liability, presented as a "line of credit" on the Balance Sheet. The principal borrowed through this facility is secured by the accounts receivable balances, in addition to the other assets of the Company. During the term of this facility, the third party lender has a first priority security interest in the Company, and will, therefore, we will require such third party lender's written consent to obligate the Company further or pledge our assets against additional borrowing facilities. Because of this position, it may be difficult for the Company to secure additional secured borrowing facilities. The cost of this secured borrowing facility is 0.05% of the daily balance. During the six months ended December 31, 2017, the Company included $10,437 in interest expense, related

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to the secured borrowing facility, and as of December 31, 2017, the outstanding balance was $178,837.

7. CONVERTIBLE NOTES PAYABLE

During the quarter ended December 31, 2015, the Company signed addenda to each of its outstanding convertible notes, fixing the conversion price at $0.004. Before the addenda, the conversion price for each of the notes was tied to the trading price of the Company’s common stock. Because of that fluctuation, the Company was required to report derivative gains and losses each quarter, which was included in earnings, and an overall derivative liability balance on the balance sheet. Since the addenda, the Company has eliminated the derivative liability balance on the balance sheet and discontinued the gain/loss reporting on the income statement.

On March 25, 2013, the Company issued a convertible promissory note (the “March 2013 Note”) in the amount of up to $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, $15,000 on May 1, 2013 and $15,000 on May 16, 2013, for a total draw of $100,000. The terms of the March 2013 Note, as amended, 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 $0.004 per share. The March 2013 Note bears interest at a rate of 10% per year and matures on March 25, 2018. The Company is working with the lender to extend the maturity date. 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 December 31, 2017 was $97,013, which includes $31,013 of accrued interest.

8. NOTES PAYABLE

On July 31, 2017, the Company signed an exchange agreement with the holder of our notes, which exchanged ten convertible notes, totaling $1,485,914, for 14,425 shares of Series C Preferred stock. Each share of Series C Preferred stock has a face value of $100 and is convertible into common stock at a price of $0.01 per share. At the time of the exchange, all accrued interest was forgiven. The following notes were converted:

(a) On January 12, 2016, the Company borrowed $100,000 from Bountiful Capital, LLC to cover operating costs. The loan was offered interest free on a short term basis, and was due February 12, 2016. On July 31, 2017, the principal balance of $100,000 was exchanged for Series C Preferred stock, leaving a balance of zero as of December 31, 2017. The other notes exchanged with Bountiful Capital, LLC, are noted below.

(b) On April 18, 2016, the Company issued a promissory note (the “April 2016 Note”) in the amount of up to $500,000, at which time an initial advance of $35,500 was received to cover operational expenses. The lender advanced an additional $41,000 on May 2, 2016, $35,000 on May 17, 2016, $160,000 on May 19, 2016, $34,000 on June 1, 2016, $21,000 on June 21, 2016, $33,500 on June 30, 2016, $10,000 on July 15, 2016, $33,000 on July 29, 2016, $35,500 on August 16, 2016, $28,000 on August 31, 2016, $33,500 on September 14, 2016, for a total draw of $500,000. The

April 2016 Note bears interest at a rate of 5% per year and is payable upon demand, but in no event later than 60 months from the effective date of each tranche. On July 31, 2017, the principal balance of $500,000 was exchanged for Series C Preferred stock, and all accrued interest was forgiven, leaving a balance of zero as of December 31, 2017.

(c) On October 3, 2016, the Company issued a promissory note (the “October 2016 Note”) in the amount of up to $500,000, at which time an initial advance of $36,000 was received to cover operational expenses. The lender advanced an additional $48,000 on October 17, 2016, $34,000 on October 31, 2016, $27,000 on November 15, 2016, $34,000 on November 30, 2016, $28,500 on December 16, 2016, $21,000 on January 3, 2017, $50,000 on January 17, 2017, $29,000 on January 31, 2017, $15,000 on February 2, 2017, $30,000 on February 16, 2017, $29,000 on March 1, 2017, $28,000 on March 16, 2017, $46,500 on April 3, 2017, $23,500 on April 17, 2017, and $20,500 on May 2, 2017, for a total draw of $500,000. The October 2016 Note bears interest at a rate of 5% per year and is payable upon demand, but in no event later than 60 months from the effective date of each tranche. On July 31, 2017, the principal balance of $500,000 was exchanged for Series C Preferred stock, and all accrued interest was forgiven, leaving a balance of zero as of December 31, 2017.

(d) On May 16, 2017, the Company issued a promissory note (the “May 16, 2017 Note”) in the amount of $38,000, at which time the entire balance of $38,000 was received to cover operational expenses. The May 16, 2017 Note bears

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interest at a rate of 5% per year and is payable upon demand, but in no event later than 36 months from the effective date. On July 31, 2017, the principal balance of $38,000 was exchanged for Series C Preferred stock, and all accrued interest was forgiven, leaving a balance of zero as of December 31, 2017.

(e) On May 30, 2017, the Company issued a promissory note (the “May 30, 2017 Note”) in the amount of $46,000, at which time the entire balance of $46,000 was received to cover operational expenses. The May 30, 2017 Note bears interest at a rate of 5% per year and is payable upon demand, but in no event later than 36 months from the effective date. On July 31, 2017, the principal balance of $46,000 was exchanged for Series C Preferred stock, and all accrued interest was forgiven, leaving a balance of zero as of December 31, 2017.

(f) On June 14, 2017, the Company issued a promissory note (the “June 14, 2017 Note”) in the amount of $26,000, at which time the entire balance of $26,000 was received to cover operational expenses. The June 14, 2017 Note bears interest at a rate of 5% per year and is payable upon demand, but in no event later than 36 months from the effective date. On July 31, 2017, the principal balance of $26,000 was exchanged for Series C Preferred stock, and all accrued interest was forgiven, leaving a balance of zero as of December 31, 2017.

(g) On June 29, 2017, the Company issued a promissory note (the “June 29, 2017 Note”) in the amount of $23,500, at which time the entire balance of $23,500 was received to cover operational expenses. The June 29, 2017 Note bears interest at a rate of 5% per year and is payable upon demand, but in no event later than 36 months from the effective date. On July 31, 2017, the principal balance of $23,500 was exchanged for Series C Preferred stock, and all accrued interest was forgiven, leaving a balance of zero as of December 31, 2017.

(h) On July 10, 2017, the Company issued a promissory note (the “July 10, 2017 Note”) in the amount of $105,000, at which time the entire balance of $105,000 was received to cover operational expenses. The July 10, 2017 Note bears interest at a rate of 5% per year and is payable upon demand, but in no event later than 36 months from the effective date. On July 31, 2017, the principal balance of $105,000 was exchanged for Series C Preferred stock, and all accrued interest was forgiven, leaving a balance of zero as of December 31, 2017.

(i) On July 14, 2017, the Company issued a promissory note (the “July 14, 2017 Note”) in the amount of $50,500, at which time the entire balance of $50,500 was received to cover operational expenses. The July 14, 2017 Note bears interest at a rate of 5% per year and is payable upon demand, but in no event later than 36 months from the effective date. On July 31, 2017, the principal balance of $50,500 was exchanged for Series C Preferred stock, and all accrued interest was forgiven, leaving a balance of zero as of December 31, 2017.

(j) On July 30, 2017, the Company issued a promissory note (the “July 30, 2017 Note”) in the amount of $53,500, at which time the entire balance of $53,500 was received to cover operational expenses. The July 30, 2017 Note bears interest at a rate of 5% per year and is payable upon demand, but in no event later than 36 months from the effective date. On July 31, 2017, the principal balance of $53,500 was exchanged for Series C Preferred stock, and all accrued interest was forgiven, leaving a balance of zero as of December 31, 2017.

Subsequent to July 31, 2017, the Company entered into the following new notes payable:

On August 3, 2017, the Company issued a promissory note (the “August 3, 2017 Note”) in the amount of $25,000, at which time the entire balance of $25,000 was received to cover operational expenses. The August 3, 2017 Note bears interest at a rate of 5% per year and is payable upon demand, but in no event later than 36 months from the effective date. The balance of the August 3, 2017 Note, as of December 31, 2017 is $25,514, which includes $514 of accrued interest.

On August 15, 2017, the Company issued a promissory note (the “August 15, 2017 Note”) in the amount of $34,000, at which time the entire balance of $34,000 was received to cover operational expenses. The August 15, 2017 Note bears interest at a rate of 5% per year and is payable upon demand, but in no event later than 36 months from the effective date. The balance of the August 15, 2017 Note, as of December 31, 2017 is $34,638, which includes $638 of accrued interest.

On August 28, 2017, the Company issued a promissory note (the “August 28, 2017 Note”) in the amount of $92,000, at which time the entire balance of $92,000 was received to cover operational expenses. The August 28, 2017 Note bears interest at a rate of 5% per year and is payable upon demand, but in no event later than 36 months from the effective date. The balance of the August 28, 2017 Note, as of December 31, 2017 is $93,575, which includes $1,575 of accrued interest.

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On September 28, 2017, the Company issued a promissory note (the “September 28, 2017 Note”) in the amount of $63,600, at which time the entire balance of $63,600 was received to cover operational expenses. The September 28, 2017 Note bears interest at a rate of 5% per year and is payable upon demand, but in no event later than 36 months from the effective date. The balance of the September 28, 2017 Note, as of December 31, 2017 is $64,419, which includes $819 of accrued interest.

On October 11, 2017, the Company issued a promissory note (the “October 11, 2017 Note”) in the amount of $103,500, at which time the entire balance of $103,500 was received to cover operational expenses. The October 11, 2017 Note bears interest at a rate of 5% per year and is payable upon demand, but in no event later than 36 months from the effective date. The balance of the October 11, 2017 Note, as of December 31, 2017 is $104,648, which includes $1,148 of accrued interest.

On October 27, 2017, the Company issued a promissory note (the “October 27, 2017 Note”) in the amount of $106,000, at which time the entire balance of $106,000 was received to cover operational expenses. The October 27, 2017 Note bears interest at a rate of 5% per year and is payable upon demand, but in no event later than 36 months from the effective date. The balance of the October 27, 2017 Note, as of December 31, 2017 is $106,944, which includes $944 of accrued interest.

On November 15, 2017, the Company issued a promissory note (the “November 15, 2017 Note”) in the amount of $62,000, at which time the entire balance of $62,000 was received to cover operational expenses. The November 15, 2017 Note bears interest at a rate of 5% per year and is payable upon demand, but in no event later than 36 months from the effective date. The balance of the November 15, 2017 Note, as of December 31, 2017 is $62,391, which includes $391 of accrued interest.

On November 27, 2017, the Company issued a promissory note (the “November 27, 2017 Note”) in the amount of $106,000, at which time the entire balance of $106,000 was received to cover operational expenses. The November 27, 2017 Note bears interest at a rate of 5% per year and is payable upon demand, but in no event later than 36 months from the effective date. The balance of the November 27, 2017 Note, as of December 31, 2017 is $106,494, which includes $494 of accrued interest.

On November 30, 2017, the Company issued a promissory note (the “November 30, 2017 Note”) in the amount of $30,000, at which time the entire balance of $30,000 was received to cover operational expenses. The November 30, 2017 Note bears interest at a rate of 5% per year and is payable upon demand, but in no event later than 36 months from the effective date. The balance of the November 30, 2017 Note, as of December 31, 2017 is $30,127, which includes $127 of accrued interest.

On December 19, 2017, the Company issued a promissory note (the “December 19, 2017 Note”) in the amount of $42,000, at which time the entire balance of $42,000 was received to cover operational expenses. The December 19, 2017 Note bears interest at a rate of 5% per year and is payable upon demand, but in no event later than 36 months from the effective date. The balance of the December 19, 2017 Note, as of December 31, 2017 is $42,069, which includes $69 of accrued interest.

As of December 31, 2017 and June 30, 2017, the notes payable due to related parties totaled $670,819 and $1,271,673, respectively.

9. CAPITAL STOCK

At June 30, 2017 the Company's authorized stock consists of 2,000,000,000 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. The conversion of certain outstanding preferred stock could have a significant impact on our common stockholders.

Series A Preferred

The Company has designated 10,000 shares of its preferred stock as Series A Preferred Stock. Each share of Series A Preferred Stock is convertible into 10,000 shares of the Company's common stock. The holders of outstanding shares of Series A Preferred Stock shall be entitled to receive dividends, payable quarterly, out of any assets of the Corporation legally available therefor, at the rate of $8 per share per annum, payable in preference and priority to any payment of any dividend on the common stock. As of December 31, 2017, the Company has 10,000 shares of Series A Preferred Stock outstanding.

Series B Preferred

The Company has designated 25,000 shares of its preferred stock as Series B Preferred Stock. Each share of Series B Preferred Stock shall have a stated value of $100. The Series B Preferred Stock is convertible into shares of fully paid and non-assessable shares of the Company's common stock by dividing the stated value by a conversion price of $0.004 per share. Series B Preferred Stock shall not be entitled to vote, as a separate class or otherwise, on any matter presented to the stockholders of the Company for their action or consideration at any meeting of stockholders of the Company. As of December 31, 2017, the Company has 18,025 shares of Series B Preferred Stock outstanding.

Series C Preferred

The Company has designated 25,000 shares of its preferred stock as Series C Preferred Stock. Each share of Series C Preferred Stock shall have a stated value of $100. The Series C Preferred Stock is convertible into shares of fully paid and non-assessable shares of the Company's common stock by dividing the stated value by a conversion price of $0.01 per share. Series C Preferred Stock shall not be entitled to vote, as a separate class or otherwise, on any matter presented to the stockholders of the Company for their action or consideration at any meeting of stockholders of the Company. As of December 31, 2017, the Company has 14,425 shares of Series C Preferred Stock outstanding.

Series D Preferred

The Company has designated 90,000 shares of its preferred stock as Series D Preferred Stock. Each share of Series D Preferred Stock shall have a stated value of $100. The Series D Preferred Stock is convertible into common stock at a ratio of 2,500 shares of common stock per share of preferred stock, and pays a quarterly dividend, calculated as (1/90,000) x (5% of the Adjusted Gross Revenue) of the Company’s subsidiary Parscale Digital. Adjusted Gross Revenue shall mean the top line gross revenue of Parscale Digital, as calculated under GAAP (generally accepted accounting principles) less any reselling revenue attributed to third party advertising products or service, such as, but not limited to, search engine keyword campaign fees, social media campaign fees, radio or television advertising fees, and the like. Series D Preferred Stock shall not be entitled to vote, as a separate class or otherwise, on any matter presented to the stockholders of the Company for their action or consideration at any meeting of stockholders of the Company. As of December 31, 2017, the Company has 90,000 shares of Series D Preferred Stock outstanding.

Series E Preferred

The Company has designated 10,000 shares of its preferred stock as Series E Preferred Stock. Each share of Series E Preferred Stock shall have a stated value of $100. The Series E Preferred Stock is convertible into shares of fully paid and non-assessable shares of the Company's common stock by dividing the stated value by a conversion price of $0.05 per share. Series E Preferred Stock shall not be entitled to vote, as a separate class or otherwise, on any matter presented to the stockholders of the Company for their action or consideration at any meeting of stockholders of the Company. As of December 31, 2017, the Company has 10,000 shares of Series E Preferred Stock outstanding.

10. STOCK OPTIONS AND WARRANTS

Stock Options

On July 10, 2003, the Company adopted the Warp 9, Inc. Stock Option Plan for directors, executive officers, and employees of and key consultants to the Company. Pursuant to the now terminated plan, the Company could issue 5,000,000 shares of common stock. The plan was administered by the Company's Board of Directors, and options granted under the plan could be either incentive options or nonqualified options. Each option was exercisable in full or in installment and at such time as designated by the Board. Notwithstanding any other provision of the plan or of any option agreement, each option expired on the date specified in the option agreement, which date was to be no later than the tenth anniversary of the date on which the option was granted (fifth anniversary in the case of an incentive option granted to a greater-than-10% stockholder). The purchase price per share of the common stock under each incentive option was to be no less than the fair market value of the common stock on the date the option was granted (110% of the fair market value in the case of a greater-than-10% stockholder). The purchase price per share of the common stock under

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each nonqualified option was to be specified by the Board at the time the option is granted, and could be less than, equal to or greater than the fair market value of the shares of common stock on the date such nonqualified option was granted, but was to be no less than the par value of shares of common stock. The plan provided specific language as to the termination of options granted thereunder.

On August 1, 2017, we granted non-qualified stock options to purchase up to 10,000,000 shares of our common stock to Jill Giles, at a price of $0.01 per share. The stock options vest equally over a period of 36 months and expire August 1, 2022.

On September 18, 2017, we granted non-qualified stock options to purchase up to 1,800,000 shares of our common stock to three key employees, at a price of $0.05 per share. The stock options vest equally over a period of 36 months, beginning September 18, 2018.

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 six months ended December 31, 2017 and year ended June 30, 2016, was determined using the Black Scholes method with the following assumptions:

	Six Months Ended December 31, 2017	Year Ended June 30, 2016
Risk free interest rate	5.00 %	6.00 %
Stock volatility factor	376	145
Weighted average expected option life	5 years	7 years
Expected dividend yield	none	none

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

	Six Months ended December 31, 2017		Year ended June 30, 2017	
	Options	Weighted average exercise price	Options	Weighted average exercise price
Outstanding -beginning of year	123,000,000	$ 0.013	123,000,000	$0.013
Granted	11,800,000	$ 0.016	—	$—
Exercised	—	$ —	—	$—

Forfeited	—	$ —	—	$—
Outstanding - end of period/year	134,800,000	$ 0.013	123,000,000	$0.013
Exercisable at the end of period/year	114,138,995	$ 0.013	94,095,890	$0.012
Weighted average fair value of options granted during the year		$ —		$190,000

As of December 31, 2017 and June 30, 2017, the intrinsic value of the stock options was approximately $3,632,450 and $61,750, respectively. Stock option expense for the six months ended December 31, 2017 was $275,319, and $502,000 and $485,993 for the years ended June 30, 2017 and 2016, respectively.

The Black Scholes option valuation model was developed for use in estimating the fair value of traded options, which do not have vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions, including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

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The weighted average remaining contractual life of options outstanding, as of December 31, 2017 was as follows:

Exercise prices	Number of options outstanding	Weighted Average remaining contractual life (years)
$ 0.050	1,800,000	4.72
$ 0.015	35,000,000	4.65
$ 0.013	60,000,000	4.10
$ 0.013	15,000,000	4.22
$ 0.010	10,000,000	4.59
$ 0.005	12,500,000	1.62
$ 0.004	500,000	3.78
	134,800,000	

Warrants

During the six months ended December 31, 2017, and the years ended June 30, 2017 and 2016, the Company issued no warrants for services. A summary of the Company's warrant activity and related information follows:

	Year End June 30, 2016	
	Options	Weighted average exercise price
Outstanding -beginning of year	28,019,163	$ 0.003
Granted	—	$ —
Exercised	(28,019,163)	$ 0.003
Forfeited	—	$ —
Outstanding - end of year	—	$ —

On June 22, 2016, all warrant holders exercised their outstanding warrants, on a cashless basis, resulting in 24,109,404 shares of restricted common stock being issued. As of December 31, 2017, June 30 2017 and June 30, 2016, there are no issued or outstanding warrants.

11. RELATED PARTIES

Bountiful Capital, LLC, loaned the Company $100,000 on January 12, 2016, $500,000 through multiple fundings on the April 2016 Note, $500,000 through multiple fundings on the October 2016 Note, $38,000 on May 16, 2017, $46,000 on May 30, 2017, $26,000 on June 14, 2017, $23,500 on June 29, 2017, $105,000 on July 10, 2017, $50,500 on July 14, 2017, $53,500 on July 30, 2017, $25,000 on August 3, 2017, $34,000 on August 16, 2017, $92,000 on August 28, 2017, $63,600 on September 28, 2017, $103,500 on October 11, 2017, $106,000 on October 27, 2017, $62,000 on November 15, 2017, $106,000 on November 27, 2017, $30,000 on November 30, 2017, and $42,000 on December 19, 2017, as unsecured promissory notes. The terms of the notes include interest of 5% and are due and payable upon demand, but in no case later than 36 months after the effective date. On July 31, 2017, notes payable amounting to $1,442,500 and accrued interest of $43,414 were converted into 14,425 shares of Series C preferred stock. At December 31, 2017, notes payable and accrued interest amount to $670,819. The Company’s chief financial officer, Greg Boden, also serves as the president of Bountiful Capital, LLC.

Brad Parscale has served on the board of directors of the Company since the acquisition of Parscale

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Creative on August 1, 2017. Mr. Parscale is also the owner of Parscale Strategy, LLC ("Parscale Strategy"), the largest customer of Parscale Digital. During the six months ended December 31, 2017, the Company earned $1,771,529 in revenue from providing services to Parscale Strategy, and as of December 31, 2017, Parscale Strategy had an outstanding accounts receivable of $390,410.

On August 1, 2017, Parscale Digital signed a lease with Giles-Parscale, Inc., a related party, to provide a workplace for the employees of Parscale Digital. Giles-Parscale, Inc., is wholly owned by Jill Giles, an employee of the Company. Details on this lease are included in Note 12.

On August 1, 2017, Parscale Digital signed a lease with Parscale Strategy for computer equipment and office furniture. Parscale Strategy is wholly owned by Brad Parscale, who serves on the CloudCommerce board of directors. Details of this lease are included in Note 12.

12. CONCENTRATIONS

For the six months ended December 31, 2017, the Company had four major customers who represented approximately 49% of total revenue. For the year ended June 30, 2017, the Company had three major customers who represented 58% of total revenue. For the year ended June 30, 2016, the Company had three major customers who represented 44% of total revenue. At December 31, 2017 and June 30, 2017, accounts receivable from four and two customers, represented approximately 56% and 52% of total accounts receivable, respectively. The customers comprising the concentrations within the accounts receivable are not the same customers that comprise the concentrations with the revenues discussed above.

13. COMMITMENTS AND CONTINGENCIES

Operating Leases

As a result of the WebTegrity acquisition, we assumed a lease for office space used by the WebTegrity employees, at 14603 Huebner Road, Suite 3402, San Antonio, TX 78230. The lease was executed on March 20, 2017 for a period of 36 months, commencing March 20, 2017, at a rate of $2,750 per month. As of March 1, 2018, the WebTegrity employees have moved into the 321 Sixth Street location, and are no longer using the Huebner Road office space. The landlord has agreed to release us from the lease, as soon as another tenant executes a lease for the same space. Until we are released from the lease obligation, we continue to pay rent and other utilities on this office space.

On August 1, 2017, Parscale Digital signed a lease agreement with Giles-Parscale, Inc., a related party, which commenced on August 1, 2017, for approximately 8,290 square feet, at 321 Sixth Street, San Antonio, TX 78215, for $9,800 per month, plus a pro rata share of the common building expenses. The lease expires on July 31, 2022.

On April 15, 2016, the CloudCommerce signed a lease for approximately 1,800 square feet of office space at 1933 Cliff Dr., Suite 1, Santa Barbara, California 93109 for approximately $3,000 per month, on a month-to-month basis which lease commenced on March 1, 2016 and concluded February 15, 2018. On October 24, 2017, we executed a lease agreement for the same space, commencing March 1, 2018 for a period of 36 months, at a rate of $2,795 per month, plus a shared portion of common area maintenance, which currently amounts to approximately $894 per month.

On December 10, 2012, Indaba signed a lease, which commenced January 16, 2013 for approximately 3,300 square feet at 2854 Larimer Street, Denver, CO 80205, for approximately $3,500 per month. The original lease term expired February 28, 2016, but was extended until February 28, 2017, at a rate of $5,800 per month. This lease was further extended until February 28, 2018, at a rate of $5,850 per month. We did not renew this lease and moved out of the space by February 28, 2018. On February 12, 2018, we executed a lease agreement for office space at 1415 Park Avenue West, Denver, CO 80205, on a month-to-month basis, at a cost of $800 per month.

The following is a schedule, by years, of future minimum lease payments required under the operating leases.

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Years Ending December 31,	Amount
2018	$183,801
2019	194,868
2020	170,118
2021	128,667
2022	68,600

Total operating lease expense for the six months ended December 31, 2017, and the years ended June 30, 2017 and 2016 was $101,664, $105,391 and $103,423, respectively. The Company is also required to pay its pro rata share of taxes, building maintenance costs, and insurance in according to the lease agreement.

On May 21, 2014, the Company entered into a settlement agreement with the landlord of our previous location, to make monthly payments on past due rent totaling $227,052. Under the terms of the agreement, the Company will make monthly payments of $350 on a reduced balance of $40,250. Upon payment of $40,250, the Company will record a gain on extinguishment of debt of $186,802. As of December 31, 2017, the Company recorded the outstanding balance under this settlement agreement as a long-term accrued expense, with the current portion of the debt recorded in accrued expenses. As of December 31, 2017 and June 30, 2017, the Company owed $25,200 and $27,300 on the outstanding reduced payment terms, respectively.

Capital Lease

On August 1, 2017, Parscale Digital signed a lease agreement with Parscale Strategy, a related party, for the use of office equipment and furniture. The lease includes a term of thirty-six (36) months, at a monthly payment of $3,000, and an option to purchase all items at the end of the lease for one dollar. We have evaluated this lease in accordance with ASC 840-30 and determined that it meets the definition of a capital lease.

The following is a schedule of the net book value of the capital lease.

Assets	December 31, 2017	June 30, 2017
Leased equipment under capital lease,	$100,097	$ —
Less accumulated amortization	(13,631)	—
Net	$86,466	$ —

Liabilities	December 31, 2017	June 30, 2017
Current: Obligations under capital lease	$ 32,382	$ —
Noncurrent: Obligations under capital lease	54,693	$ —
	$ 87,075	

The following is a schedule, by years, of future minimum lease payments required under the capital lease.

Years ended December 31,	Lease Payments	Imputed Interest	Present Value of Payments
2018	$ 36,000	$ (3,618)	$ 32,382
2019	36,000	(1,962)	34,038
2020	21,000	(345)	20,655
2021	—	—	—
2022	—	—	—
	$ 93,000	$ (5,925)	$ 87,075

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The Company is required to pay its pro rata share of taxes, building maintenance costs, and insurance in according to the lease agreement.

Legal Matters

The Company may be involved in legal actions and claims arising in the ordinary course of business, from time to time, none of which at the time are considered to be material to the Company's business or financial condition.

14. SUBSEQUENT EVENTS

Management has evaluated subsequent events according to ASC TOPIC 855 as of the date of the financial statements and has determined that the following subsequent events are reportable.

On February 1, 2018, we established a new entity called Data Propria, Inc., a Nevada corporation ("Data Propria"), to provide data analytics and behavior marketing services.

On February 1, 2018, we completed the acquisition of Parscale Media, LLC, a Texas limited liability company ("Parscale Media"). Parscale Media provides hosting services to many of the clients of Parscale Digital. The terms of the transaction include a $1,000,000 note, payable in equal installments over twelve months. The payments of $85,150 include four percent (4%) interest, and are due at the end of each month. As of the date of this 10-K filing, we completed the February and March payments.

The Company received the following advances on unsecured promissory notes:

- January 3, 2018, received $49,000;
- January 30, 2018, received $72,000; and
- February 2, 2018, received $85,000.

15. INCOME TAXES

The Company files income tax returns in the U.S. Federal jurisdiction, and the state of California. With few exceptions, the Company is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for years before 2014.

Deferred income taxes have been provided by temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. To the extent allowed by GAAP, we provide valuation allowances against the deferred tax assets for amounts when the realization is uncertain. Included in the balances at December 31, 2017 and June 30, 2017, are no tax positions for which the ultimate deductibility is highly certain, but for which there is uncertainty about the timing of such deductibility. Because of the impact of deferred tax accounting, other than interest and penalties, the disallowance of the shorter deductibility period would not affect the annual effective tax rate but would accelerate the payment of cash to the taxing authority to an earlier period.

The Company's policy is to recognize interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses. During the periods ended December 31, 2017 and June 30, 2017, the Company did not recognize interest and penalties.

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cut and Jobs Act (the "Tax Act"). The Tax Act establishes new tax laws that affects 2018 and future years, including a reduction in the U.S. federal corporate income tax rate to 21%, effective January 1, 2018. For certain deferred tax assets and deferred tax liabilities, we have recorded a provisional decrease of $545,900, with a corresponding net adjustment to the valuation allowance of $545,900 as of December 31, 2017.

Deferred taxes are provided on a liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carry-forwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

CLOUDCOMMERCE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Six Months Ended December 31, 2017 and

Years Ended June 30, 2017 and 2016

Net deferred tax assets and liabilities consist of the following components as of December 31, 2017 and June 30, 2017:

	December 31, 2017	June 30, 2017
Deferred tax assets:		
NOL carryforward	$3,862,900	$5,680,400
R&D carryforward	99,600	113,100
Accrued vacation payable	54,000	45,900
Allowance for doubtful accounts	2,100	4,100
Depreciation	—	3,000
Deferred tax liabilities:		
Intangible assets	(1,021,566)	—
Depreciation	(14,300)	—
Valuation allowance	(4,004,300)	(5,846,500)
Net deferred tax asset (liability)	$(1,021,566)	$—

The income tax provision differs from the amount of income tax determined by applying the U.S. federal and state income tax rate of 39% to pretax income from continuing operations for the period ended December 31, 2017 and for the years ended June 30, 2017 and 2016 due to the following:

	December 31, 2017	June 30, 2017	June 30, 2016
Book income	$(1,024,400)	$(827,800)	$(2,858,700)
Nondeductible expenses	110,400	200,200	602,100
Accrued vacation payable	15,500	22,300	22,300
Allowance for bad debt	(1,700)	(13,700)	15,900
Depreciation	2,400	2,100	(16,500)
Valuation allowance	897,800	616,900	2,234,900
Income tax expense	$—	$—	$—

At December 31, 2017, the Company had net operating loss carryforwards of approximately $11,255,000, that may be offset against future taxable income. No tax benefit has been reported in the December 31, 2017 and June 30, 2017 and 2016 consolidated financial statements since the potential tax benefit is offset by a valuation allowance of the same amount. The change in valuation allowance for the six months ended December 31, 2017 was a decrease of $1,842,200.

Due to the change in ownership provisions of the Tax Reform Act of 1986, net operating loss carryforwards for Federal income tax reporting purposes are subject to annual limitations. Should a change in ownership occur, net operating loss carryforwards may be limited as to use in future years.

16. SUPPLEMENTAL STATEMENT OF CASH FLOWS INFORMATION

During the six months ended December 31, 2017, we had the following non-cash financing activities:

· Entered into a capital lease obligation for the use of office equipment. The value of the lease is $100,097.

· Decreased Notes Payable by $1,485,914 and issued 14,425 shares of Series C Convertible Preferred stock, as a result of the exchange of debt.

· Issuance of Series D Convertible Preferred stock valued at $7,610,000 for the purchase of Parscale Creative, Inc.

· Issuance of Series E Convertible Preferred stock valued at $900,000 for the purchase of WebTegrity, LLC.

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CLOUDCOMMERCE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Six Months Ended December 31, 2017 and

Years Ended June 30, 2017 and 2016

During the year ended June 30, 2017, we had no non-cash financing activities.

During the year ended June 30, 2016, we had the following non-cash financing activities:

- Decreased notes payable by $2,041,253 and decreased the discount on the notes of $362,318, increased Series B Preferred stock by $18 and increased additional paid-in capital by $1,678,917 for preferred shares as a result of the exchange of debt for preferred stock.

- Decreased accounts payable by $11,108 and a gain in extinguishment of debt of $11,108, due to the settlement of a past due liability.

- Issuance of Series A Convertible Preferred stock valued at $2,000,000 for the purchase of Indaba Group, LLC.

17. COMPARABLE YEAR INFORMATION (UNAUDITED)

The Company's condensed statement of operations was as follows for the six months ended December 31, 2016:

	December 31, 2016
REVENUE	$1,721,164
REVENUE - related party	—
TOTAL REVENUE	1,721,164
OPERATING EXPENSES	
Salaries and outside services	1,617,220
Selling, general and administrative expenses	442,533
Stock based compensation	253,063
Loss on impairment of goodwill and intangible assets	—
Depreciation and amortization	120,671
TOTAL OPERATING EXPENSES	2,433,487
LOSS FROM OPERATIONS BEFORE OTHER INCOME AND TAXES	(712,323)
OTHER INCOME (EXPENSE)	
Other income	2,952
Gain (loss) on sale of fixed assets	23,252
Interest expense	(34,554)

TOTAL OTHER INCOME (EXPENSE)	(8,350)
LOSS FROM OPERATIONS BEFORE PROVISION FOR TAXES	(720,673)
PROVISION (BENEFIT) FOR INCOME TAXES	—
NET LOSS	$(720,673)
Basic and diluted loss per share	$(0.01)
Basic and diluted weighted average common shares outstanding	129,899,595

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ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) Exhibits

Exhibit	**Description**
2.1*	First Agreement and Plan of Reorganization between Latinocare Management Corporation, a Nevada corporation, and Warp 9, Inc., a Delaware corporation (Incorporated by reference from the exhibits included with the Company's Report on Form SC 14F1 filed with the Securities and Exchange Commission, dated April 8, 2003).
2.2*	Second Agreement and Plan of Reorganization between Latinocare Management Corporation, a Nevada corporation, and Warp 9, Inc., a Delaware corporation (Incorporated by reference from the exhibits included with the Company's prior Report on Form 8-K filed with the Securities and Exchange Commission, dated May 30, 2003).
2.3*	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. (Incorporated by reference to Exhibit 10.1 to the registrant's Current Report on Form 8-K, filed June 30, 2015).
2.4*	Statement of Merger between Indaba Group, LLC, a Colorado limited liability company, and Warp 9, Inc., a Delaware corporation (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).
2.5*	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 (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).
2.6*	Agreement and Plan of Merger, dated as of August 1, 2017, by and among CloudCommerce, Inc., Parscale Creative, Inc., Bradley Parscale and Parscale Digital, Inc. (incorporated by reference from the exhibits included with the Company's Report on Form 8-K filed with the Securities and Exchange Commission, dated August 2, 2017).
2.7*	Purchase Agreement, dated August 1, 2017, by and among CloudCommerce, Inc., Parscale Media, LLC, and Bradley Parscale (incorporated by reference from the exhibits included with the Company's Report on Form 8-K filed with the Securities and Exchange Commission, dated August 2, 2017).
3.1*	Articles of Incorporation (incorporated by reference from the exhibits included with the Company's Report on Form 10-KSB filed with the Securities and Exchange Commission, dated April 10, 2002).
3.2*	Certificate of Amendment to Articles of Incorporation (Incorporated by reference to exhibits filed with the Company’s Current Report on Form 8-K filed with the Securities and Exchange Commission, dated September 30, 2015).

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3.3*	Bylaws (incorporated by reference from the exhibits included with the Company's Report on Form 10-KSB filed with the Securities and Exchange Commission, dated April 10, 2002).
3.4*	Certificate of Designation of Series A Preferred Stock (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).
3.5*	Certificate of Designation of Series B Preferred Stock (Incorporated by reference to exhibits filed with the Company’s Current Report on Form 8-K filed with the Securities and Exchange Commission, dated December 18, 2015).
3.6*	Certificate of Amendment to Certificate of Designation of Series B Preferred Stock (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 28, 2016).
3.7*	Certificate of Designation of Series C Preferred Stock (Incorporated by reference to exhibits filed with the Company’s Current Report on Form 8-K filed with the Securities and Exchange Commission, dated August 2, 2017).
3.8*	Certificate of Designation of Series D Preferred Stock (Incorporated by reference to exhibits filed with the Company’s Current Report on Form 8-K filed with the Securities and Exchange Commission, dated August 2, 2017).
4.1*	Stock Option Plan (Incorporated by reference from the exhibits included in the Company's Information Statement filed with the Securities and Exchange Commission, dated August 1, 2003).
10.1*	Form of Unsecured Promissory Note (Incorporated by reference to exhibits filed with the Company’s Current Report on Form 8-K filed with the Securities and Exchange Commission, dated April 21, 2016).
10.2*	Form of Convertible Note, dated January 5, 2015 (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).
10.3*	Form of Stock Option Agreement (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).
10.4*	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. (Incorporated by reference to Exhibit 10.1 to the registrant's Current Report on Form 8-K, filed June 30, 2015).
10.5*	Statement of Merger between Indaba Group, LLC, a Colorado limited liability company, and Warp 9, Inc., a Delaware corporation (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).

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10.6*	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 (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).
10.7*	Employment Agreement between Indaba Group, Inc., a Delaware corporation, and Ryan Shields (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).
10.8*	Employment Agreement between Indaba Group, Inc., a Delaware corporation, and Blake Gindi (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).
10.9*	Convertible Promissory Note (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 9, 2015).
10.10*	Form of Promissory Note (Incorporated by reference to exhibits filed with the Company’s Current Report on Form 8-K filed with the Securities and Exchange Commission, dated April 21, 2016).
10.11*	Form of Exchange Agreement (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 28, 2016).
10.12*	Form of Promissory Note (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 7, 2016).
10.13*	Exchange Agreement, dated July 31, 2017, by and between CloudCommerce, Inc., and Bountiful Capital, LLC (incorporated by reference from the exhibits included with the Company's Report on Form 8-K filed with the Securities and Exchange Commission, dated August 2, 2017).
10.14*	Management Services Agreement, dated August 1, 2017, by and between CloudCommerce, Inc., and Parscale Creative, Inc. (incorporated by reference from the exhibits included with the Company's Report on Form 8-K filed with the Securities and Exchange Commission, dated August 2, 2017).
10.15*	Management Services Agreement, dated August 1, 2017, by and between CloudCommerce, Inc., and Parscale Media, LLC (incorporated by reference from the exhibits included with the Company's Report on Form 8-K filed with the Securities and Exchange Commission, dated August 2, 2017).
10.16*	Advisory Agreement, dated August 1, 2017, with Jill Giles (incorporated by reference from the exhibits included with the Company's Report on Form 8-K filed with the Securities and Exchange Commission, dated August 2, 2017).
21.1**	List of Subsidiaries

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31.1**	Section 302 Certification of Principal Executive Officer
31.2**	Section 302 Certification of Principal Financial/Accounting Officer
32.1**	Section 906 Certification of Principal Executive Officer
32.2**	Section 906 Certification of Principal Financial/Accounting Officer
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

* Previously Filed

** Filed herewith

*** Furnished herewith

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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.

Dated: June 18, 2018	*CLOUDCOMMERCE, INC.*

By: /s/ Andrew Van Noy

Andrew Van Noy,

Chief Executive Officer and President

(Principal Executive Officer)

By: /s/ Gregory Boden

Gregory Boden,

Chief Financial Officer

(Principal Financial/Accounting Officer)

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 Dated: June 18, 2018
Andrew Van Noy,

Chief Executive Officer, President and Chairman

(Principal Executive Officer)

By: /s/ Gregory Boden Dated: June 18, 2018
Gregory Boden, Chief Financial Officer and Director

(Principal Financial/Accounting Officer)

By: /s/ Zachary Bartlett Dated: June 18, 2018
Zachary Bartlett, Director

By: /s/ Bradley Parscale Dated: June 18, 2018
Bradley Parscale, Director