

CLOUDCOMMERCE, INC.
Form 10-Q
February 13, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For quarterly period ended December 31, 2016.

or

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

For the Transition period from _____ to _____

Commission File Number: **000-13215**

CLOUDCOMMERCE, INC.

(Exact name of registrant as specified in its charter)

NEVADA

(State or other jurisdiction of incorporation
or organization)

30-0050402

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

1933 Cliff Drive, Suite 1, Santa Barbara, CA 93109

(Address of principal executive offices) (Zip Code)

(805) 964-3313

Registrant's telephone number, including area code

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the proceeding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes

No

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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	<input checked="" type="checkbox"/>
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No	<input type="checkbox"/>
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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" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer
Non-accelerated filer
(Do not check if a smaller reporting company)

<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
<input type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>

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

Yes	<input type="checkbox"/>
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No	<input checked="" type="checkbox"/>
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Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date.

As of February 13, 2017, the number of shares outstanding of the registrant's class of common stock was 129,899,595.

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

CLOUDCOMMERCE, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED BALANCE SHEETS

	December 31, 2016 (unaudited)	June 30, 2016
ASSETS		
CURRENT ASSETS		
Cash	\$ 16,827	\$ 49,663
Accounts receivable, net	298,518	427,866
Prepaid and other current Assets	19,389	12,426
TOTAL CURRENT ASSETS	334,734	489,955
PROPERTY & EQUIPMENT, net	64,361	73,158
OTHER ASSETS		
Lease deposit	3,500	3,500
Internet domain	20,202	20,202
Goodwill and other intangible assets, net	1,515,249	1,623,624
TOTAL OTHER ASSETS	1,538,951	1,647,326
TOTAL ASSETS	\$ 1,938,046	\$ 2,210,439
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$ 180,823	\$ 177,383
Accrued expenses	285,332	267,805
Line of credit	176,709	83,540
Deferred income and customer deposit	52,874	335,642
Convertible notes and interest payable, current, net	90,413	87,086
Notes Payable	864,601	461,979
TOTAL CURRENT LIABILITIES	1,650,752	1,413,435
LONG TERM LIABILITIES		
Accrued expenses, long term	211,653	213,753
TOTAL LIABILITIES	1,862,405	1,627,188
SHAREHOLDERS' EQUITY		
Preferred stock, \$0.001 par value; 5,000,000 Authorized shares:	-	-
Series A Preferred stock; 10,000 authorized, 10,000 shares		

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issued and outstanding, respectively;	10	10
Series B Preferred stock; 25,000 authorized, 18,025 shares issued and outstanding, respectively;	18	18
Common stock, \$0.001 par value; 2,000,000,000 authorized shares;		
129,899,595 shares issued and outstanding	129,899	129,899
Additional paid in capital	18,760,704	18,547,641
Accumulated deficit	(18,814,990)	(18,094,317)
TOTAL SHAREHOLDERS' EQUITY	75,641	583,251
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 1,938,046	\$ 2,210,439

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

CLOUDCOMMERCE, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three months ended December 31, 2016	December 31, 2015	Six months ended December 31, 2016	December 31, 2015
REVENUE	\$ 628,490	\$ 778,075	\$ 1,721,164	\$ 891,634
OPERATING EXPENSES				
Salaries and outside services	744,414	819,617	1,617,220	1,027,248
Selling, general and administrative expenses	192,361	338,612	442,533	525,916
Stock based compensation	126,532	129,850	253,063	235,143
Depreciation and amortization	60,346	7,430	120,671	8,167
TOTAL OPERATING EXPENSES	1,123,653	1,295,509	2,433,487	1,796,474
LOSS FROM OPERATIONS BEFORE OTHER INCOME AND TAXES	(495,163)	(517,434)	(712,323)	(904,840)
OTHER INCOME (EXPENSE)				
Other income	2,883	221	2,952	221
Gain (loss) on sale of fixed assets	8,992	-	23,252	-
Gain (loss) on extinguishment of debt	-	(570,975)	-	(570,975)
Gain (loss) on changes in derivative liability	-	907,999	-	(3,258,890)
Interest expense	(22,815)	(283,027)	(34,554)	(483,409)
TOTAL OTHER INCOME (EXPENSE)	(10,940)	54,218	(8,350)	(4,313,050)

LOSS FROM OPERATIONS BEFORE PROVISION FOR TAXES	(506,103)	(463,216)	(720,673)	(5,217,89
PROVISION FOR INCOME TAXES	-	-	-	-
NET LOSS	(506,103)	(463,216)	(720,673)	(5,217,89
PREFERRED DIVIDEND	20,000	20,000	40,000	20,000
NET LOSS ATTRIBUTABLE TO COMMON SHAREHOLDERS	\$ (526,103)	\$ (483,216)	\$ (760,673)	\$ (5,237,89
NET LOSS PER SHARE				
BASIC	\$ (0.00)	\$ (0.00)	\$ (0.01)	\$ (0.05)
DILUTED	\$ (0.00)	\$ (0.00)	\$ (0.01)	\$ (0.05)
WEIGHTED-AVERAGE COMMON SHARES OUTSTANDING				
BASIC	129,899,595	105,790,195	129,899,595	105,790,1
DILUTED	129,899,595	105,790,195	129,899,595	105,790,1

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

CLOUDCOMMERCE, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

	Preferred Stock Shares	Amount	Common Stock Shares	Amount	Additional Paid-in Capital	Accumulated Deficit	Total
Balance, June 30, 2016	28,025	\$ 28	129,899,595	\$ 129,899	\$ 18,547,641	\$ (18,094,317)	\$ 583,2
Dividend on Series A Preferred stock	-	-	-	-	(40,000)	-	(40,0
Stock based compensation	-	-	-	-	253,063	-	253,0
Net loss	-	-	-	-	-	(720,673)	(720,
Balance, December 31, 2016 (unaudited)	28,025	\$ 28	129,899,595	\$ 129,899	\$ 18,760,704	\$ (18,814,990)	\$ 75,6

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

CLOUDCOMMERCE, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Six months ended December 31, 2016	December 31, 2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (720,673)	\$ (5,217,894)
Adjustment to reconcile net loss to net cash used in operating activities		
Depreciation and amortization	120,671	8,167
Bad debt expense	6,376	27,051
Stock based compensation	253,063	235,143
Amortization of debt discount	-	424,069
(Gain) loss on sale of fixed assets	(23,252)	-
(Gain) loss on extinguishment of debt	-	570,975
(Gain)/loss on derivative liability	-	3,258,891
Change in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	122,972	(8,273)
Prepaid and other assets	(6,963)	4,238
Increase (Decrease) in:		
Accounts payable	3,440	110,899
Accrued expenses	33,876	52,546
Deferred income	(282,768)	(8,000)
Other liabilities	-	160,679
NET CASH (USED IN) OPERATING ACTIVITIES	(493,258)	(381,509)

CASH FLOWS FROM INVESTING
ACTIVITIES:

Purchase of property and equipment	(3,888)	(10,213)
Sale of property and equipment	23,641	-
Net cash on acquisition	-	22,773
Purchase of intangible assets	-	(10,000)
NET CASH PROVIDED BY INVESTING ACTIVITIES	19,753	2,560

CASH FLOWS FROM FINANCING
ACTIVITIES:

Dividend paid	(40,000)	-
Proceeds from issuance of notes payable	387,500	426,500
Net proceeds on line of credit	93,169	-
NET CASH PROVIDED BY FINANCING ACTIVITIES	440,669	426,500
NET INCREASE/(DECREASE) IN CASH	(32,836)	47,551

CASH, BEGINNING OF YEAR	49,663	19,051
CASH, END OF PERIOD	\$ 16,827	\$ 66,602

SUPPLEMENTAL DISCLOSURES OF CASH
FLOW INFORMATION

Interest paid	\$ 16,104	\$ -
Income taxes paid	\$ -	\$ 1,962

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

CLOUDCOMMERCE, INC. AND SUBSIDIARY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED

DECEMBER 31, 2016

1. BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements of CloudCommerce, Inc.'s ("CloudCommerce," "we," "us," or the "Company"), have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all normal recurring adjustments considered necessary for a fair presentation have been included. Operating results for the six months ended December 31, 2016 are not necessarily indicative of the results that may be expected for the year ending June 30, 2017. For further information, refer to the financial statements and footnotes thereto included in the Company's Form 10K for the year ended June 30, 2016.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Accounts Receivable

The Company extends credit to its customers, who are located nationwide. Accounts receivable are customer obligations due under normal trade terms. The Company performs continuing credit evaluations of its customers' financial condition. Management reviews accounts receivable on a regular basis, based on contracted terms and how recently payments have been received to determine if any such amounts will potentially be uncollected. The Company includes any balances that are determined to be uncollectible in its allowance for doubtful accounts. After all attempts to collect a receivable have failed, the receivable is written off. The balance of the allowance account at December 31, 2016 and June 30, 2016 are \$32,909 and \$45,584 respectively.

On November 30, 2016, the Company entered into an agreement with a third party to sell the rights, with recourse, to accounts receivable amounts due from our customers. Under the terms of the agreement, the Company may receive advances in amounts up to \$400,000, based on the amounts we invoice our customers, for a period of one year. Because the Company maintains the collectability risk of all outstanding balances, we record the amounts due from customers as a secured borrowing arrangement, with the customer balances at fair value in accounts receivable, including an allowance for any balances at risk of collectability, and the amount due to the third party as a liability.

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. We also offer professional services such as development services. The fees for development services with multiple deliverables constitute a separate unit of accounting in accordance with ASC 605-25, which are recognized as the work is performed. Upfront fees for development services or other customer services are deferred until certain implementation or contractual milestones have

been achieved. The terms of services contracts generally are for periods of less than one year. The deferred revenue as of December 31, 2016 and the fiscal year ended June 30, 2016 was \$48,876 and \$331,644, 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.

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, 2016 and 2015.

Advertising Costs

The Company expenses the cost of advertising and promotional materials when incurred. Total advertising costs were \$2,538 and \$23,829 for the six months ended December 31, 2016 and 2015, 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, 2016 and June 30, 2016, 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.

We measure certain financial instruments at fair value on a recurring basis. As of December 31, 2016 and the fiscal year ended June 30, 2016, 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 \$12,296 and \$7,995 for the six months ended December 31, 2016 and 2015, 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.

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. 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 June 30, 2016, and determined there was no impairment of indefinite lived intangibles and goodwill.

Business Combinations

The Company allocates the fair value of purchase consideration to the tangible assets acquired, liabilities assumed and intangible assets acquired based on their estimated fair values. The excess of the fair value of purchase consideration over the fair values of these identifiable assets and liabilities is recorded as goodwill. Such valuations require management to make significant estimates and assumptions, especially with respect to intangible assets. 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. During the measurement period, which is one year from the acquisition date, we may record adjustments to the assets acquired and liabilities assumed, with the corresponding offset to goodwill. Upon the conclusion of the measurement period, any subsequent adjustments are recorded to earnings.

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 in the SAAS industry. 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

income.

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, 2016, included compensation expense for the stock-based payment awards granted prior to, but not yet vested, as of December 31, 2016 based on the grant date fair value estimated. Stock-based compensation expense recognized in the statement of operations for the six months ended December 31, 2016 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, 2016 and 2015 was \$253,063 and \$235,143, 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, 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 22,603,220 shares of common stock underlying \$90,413 in convertible notes, because their impact on the loss per share is anti-dilutive.

For the six months ended December 31, 2015, the Company has excluded 126,000,000 shares of common stock underlying options, 28,019,163 shares of common stock underlying warrants outstanding, and 230,352,500 shares of common stock underlying \$1,769,307 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, 2016, and no pronouncements were adopted during the period.

3. LIQUIDITY AND OPERATIONS

The Company had net loss of \$720,673 for the six months ended December 31, 2016 and net loss of \$5,217,894 for the six months ended December 31, 2015, and net cash used in operating activities of \$493,258 and \$381,509 for the same periods, respectively.

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

Going Concern

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

4. 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.

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

Pro forma results

The following tables set forth the unaudited pro forma results of the Company as if the acquisition of Indaba had taken place on the first day of the periods 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 periods presented.

	Six months ended
	December 31, 2015
Total revenues	\$ 1,550,427
Net loss	(5,302,091)
Basic and diluted net earnings per common share	\$ (0.04)

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, 2016, we 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, 2016, the Company included \$345 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 3 years, which coincides with the term of the non-compete agreement. This amount will be included in depreciation and amortization expense until September 30, 2018. For the six months ended December 31, 2016, the Company included \$33,502 in depreciation and amortization expense related to these non-compete agreements.

Customer List

On October 1, 2015, the Company acquired Indaba, which brought an increase in revenue and many new customers. We have calculated the value of the customer list at \$447,171, with a useful life of 3 years. This amount will be included in depreciation and amortization expense until September 30, 2018. For the six months ended December 31, 2016, the Company included \$74,528 in depreciation and amortization expense related to the customer list.

The Company acquired certain intangible assets pursuant to the acquisition of Indaba Group, LLC and other acquisitions. The following is the net book value of these assets:

		December 31, 2016	
	Gross	Accumulated Amortization	Net
Customer List	\$ 447,171	\$ (186,321)	\$ 260,850
Non-Compete Agreements	201,014	(83,756)	117,258
Goodwill	1,128,003	-	1,128,003
Total	\$ 1,776,188	\$ (270,077)	\$ 1,506,111

Total amortization expense charged to operations for the six months ended December 31, 2016 and 2015 was \$108,376 and \$172, respectively. The following table of remaining amortization of finite life intangible assets, for the year ended June 30, includes the intangible assets acquired during the Indaba acquisition, in addition to the CloudCommerce trademark:

2017	\$ 108,376
2018	216,752
2019	54,705
2020	690
2021 and thereafter	6,723
Total	\$ 387,246

6. CREDIT FACILITIES

Line of Credit

The Company assumed an outstanding liability related to a bank line of credit agreement from the acquisition of Indaba Group, LLC. As of December 31, 2016 and June 30, 2016, the balances were zero and \$83,540, respectively.

Secured Borrowing

On November 30, 2016, the Company 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 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 is a first priority security interest of the Company, and will, therefore, require 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, 2016, the Company included \$7,241 in interest expense, related to the secured borrowing facility, and as of December 31, 2016, the outstanding balance was \$176,709.

7. 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 the lower of (a) \$0.015 per share, or (b) 50% of the lowest trade price of common stock recorded on any trade day after the effective date of the agreement. The March 2013 Note bears interest at a rate of 10% per year and matures on March 25, 2018. 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, 2016, is \$90,413, which includes \$24,413 of accrued interest.

On May 16, 2013, the Company issued a convertible promissory note (the "May 2013 Note") in the amount of up to \$100,000, at which time an initial advance of \$10,000 was received to cover operational expenses. The lender advanced an additional \$20,000 on June 3, 2013, \$25,000 on July 2, 2013, \$10,000 on September 3, 2013 and \$35,000 on February 18, 2014, for a total draw of \$100,000. The terms of the May 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 the lower of (a) \$0.015 per share, or (b) 50% of the lowest trade price of common stock recorded on any trade day after the effective date of the agreement. The Company recognized a discount on the May 2013 Note in the amount of \$100,000, due to the beneficial conversion feature. This discount was recognized over twelve months, and has been fully amortized as of June 30, 2016. On June 28, 2016, the Company exchanged the principle balance on the May 2013 Note (\$100,000) for 1,000 shares of Series B Preferred Stock, and the lender forgave all accrued interest up until that date. As of June 30, 2016, the balance of the May 2013 Note was zero.

On March 4, 2014, the Company issued a convertible promissory note (the "March 2014 Note") in the amount of up to \$250,000, at which time an initial advance of \$25,000 was received to cover operational expenses. The lender advanced an additional \$20,000 on March 17, 2014 and \$30,000 on April 2, 2014, for a total draw of \$75,000. The terms of the March 2014 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 the lower of (a) \$0.012 per share, or (b) 50% of the lowest trade price of common stock recorded on any trade day after the effective date of the agreement. The Company recorded a debt discount of \$75,000 related to the beneficial conversion feature of the March 2014 Note, along with derivative liabilities. This discount is recognized over 18 months, beginning on the date of each tranche payment. On June 28, 2016, the Company exchanged the principle balance on the March 2014 Note (\$75,000) for 750 shares of Series B Preferred Stock, and the lender forgave all accrued interest up until that date. As of June 30, 2016, the balance of the March 2014 Note was zero.

On April 16, 2014, the Company issued a convertible promissory note (the "April 2014 Note") in the amount of up to \$300,000, at which time an initial advance of \$40,000 was received to cover operational expenses. The lender advanced an additional \$55,000 on April 30, 2014, \$40,000 on May 16, 2014, \$40,000 on June 2, 2014, \$35,000 on June 30, 2014, \$40,000 on July 18, 2014, and \$50,000 on August 15, 2014, for a total draw of \$300,000. The terms of the April 2014 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 the lower of (a) \$0.012 per share, or (b) 50% of the lowest trade price of common stock recorded on any trade day after the effective date of the agreement. The Company recorded debt discount of \$300,000 related to the conversion feature of the April 2014 Note, along with derivative liabilities. This discount is recognized over 18 months, beginning on the date of each tranche payment. On June 28, 2016, the Company exchanged the principle balance on the April 2014 Note (\$300,000) for 3,000 shares of Series B Preferred Stock, and the lender forgave all accrued interest up until that date. As of June 30, 2016, the balance of the April 2014 Note was zero.

On September 5, 2014, the Company issued a convertible promissory note (the "September 2014 Note") in the amount of up to \$250,000, at which time an initial advance of \$40,000 was received to cover operational expenses. The lender advanced an additional \$10,000 on September 17, 2014, \$30,000 on October 1, 2014, \$40,000 on October 16, 2014, \$40,000 on October 31, 2014, \$40,000 on November 18, 2014, and \$50,000 on December 16, 2014, for a total draw of \$250,000. The terms of the September 2014 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 the lower of (a) \$0.015 per share, or (b) 50% of the lowest trade price of common stock recorded on any trade day after the effective date of the agreement. The Company recorded a debt discount of \$250,000 related to the conversion feature of the September 2014 Note, along with derivative liabilities. This discount is recognized over 18 months, beginning on the date of each tranche payment. On June 28, 2016, the Company exchanged the principle balance on the September 2014 Note (\$250,000) for 2,500 shares of Series B Preferred Stock, and the lender forgave all accrued interest up until that date. As of June 30, 2016, the balance of the September 2014 Note was zero.

On January 5, 2015, the Company issued a convertible promissory note (the "January 2015 Note") in the amount of up to \$250,000, at which time an initial advance of \$30,000 was received to cover operational expenses. The lender advanced an additional \$45,000 on January 20, 2015, \$45,000 on February 2, 2015, \$35,000 on February 16, 2015, \$35,000 on March 2, 2015, \$30,000 on March 17, 2015, \$20,000 on April 2, 2015, and \$10,000 on April 17, 2015, for a total draw of \$250,000. The terms of the January 2015 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 the lower of (a) \$0.015 per share, or (b) 50% of the lowest trade price of common stock recorded on any trade day after the effective date of the agreement. The Company recorded a debt discount of \$250,000 related to the conversion feature of the January 2015 Note, along with derivative liabilities. This discount is recognized over 18 months, beginning on the date of each tranche payment. On June 28, 2016, the Company exchanged the principle balance on the January 2015 Note (\$250,000) for 2,500 shares of Series B Preferred Stock, and the lender forgave all accrued interest up until that date. As of June 30, 2016, the balance of the January 2015 Note was zero.

On May 4, 2015, the Company issued a convertible promissory note (the "May 2015 Note") in the amount of up to \$250,000, at which time an initial advance of \$33,000 was received to cover operational expenses. The lender advanced an additional \$43,000 on May 18, 2015, \$45,000 on June 2, 2015, \$10,000 on June 17, 2015, \$38,000 on July 2, 2015, \$37,000 on July 17, 2015, \$10,000 on August 5, 2015, and \$34,000 on August 19, 2015, for a total draw of \$250,000. The terms of the May 2015 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. The Company recorded a debt discount of \$250,000 related to the conversion feature of the May 2015 Note. This discount is recognized over 18 months, beginning on the date of each tranche payment. On June 28, 2016, the Company exchanged the principle balance on the May 2015 Note (\$250,000) for 2,500 shares of Series B Preferred Stock, and the lender forgave all accrued interest up until that date. As of June 30, 2016, the balance of the May 2015 Note was zero.

On August 19, 2015, the Company issued a convertible promissory note (the "August 2015 Note") in the amount of up to \$250,000, at which time an initial advance of \$3,000 was received to cover operational expenses. The lender advanced an additional \$40,000 on September 1, 2015, and \$31,000 on September 17, 2015, for a total draw of \$74,000. The terms of the August 2015 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. The Company recorded a debt discount of \$74,000 related to the conversion feature of the August 2015 Note. This discount is recognized over 18 months, beginning on the date of each tranche payment. On June 28, 2016, the Company exchanged the principle balance on the August 2015 Note (\$74,000) for 740 shares of Series B Preferred Stock, and the lender forgave all accrued interest up until that date. As of June 30, 2016, the balance of the August 2015 Note was zero.

On October 1, 2015, the Company issued a convertible promissory note (the "October 2015 Note") in the amount of up to \$1,000,000, at which time an initial advance of \$38,000 was received to cover operational expenses. The lender advanced an additional \$38,500 on October 16, 2015, \$65,000 on November 17, 2015, \$32,000 on December 7, 2015, \$60,000 on December 17, 2015, \$35,000 on January 4, 2016, \$52,000 on January 19, 2016, \$58,000 on February 2, 2016, \$36,000 on February 18, 2016, \$40,000 on March 2, 2016, \$27,000 on March 21, 2016, and \$22,000 on April 1, 2016, for a total draw of \$503,500. The terms of the October 2015 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. The October 2015 Note bears interest at a rate of 10% per year and matures 12 months from the effective date of each advance. The Company recorded a debt discount of \$503,500 related to the conversion feature of the October 2015 Note. This discount is recognized over 12 months, beginning on the date of each tranche payment. On June 28, 2016, the Company exchanged the principle balance on the October 2015 Note (\$503,500) for 5,035 shares of Series B Preferred Stock, and the lender forgave all accrued interest up until that date. As of June 30, 2016, the balance of the October 2015 Note was zero.

On January 12, 2016, the Company borrowed \$100,000 from Bountiful Capital, LLC to cover operating costs. Our Chief Financial Officer is also the President of Bountiful Capital, LLC. The loan was offered interest free on a short term basis, and was due February 12, 2016. As of the date of this filing, the loan has not been repaid, nor has the lender demanded payment. The Company is currently discussing options to either extend the maturity date or refinance the balance due.

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, and \$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. The balance of the April 2016 Note, as of December 31, 2016, was \$513,615, which includes \$13,615 of accrued interest.

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, and \$28,500 on December 16, 2016, for a total draw of \$207,500. 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. The balance of the October 2016 Note, as of December 31, 2016, was \$209,089, which includes \$1,589 of accrued interest.

8. CAPITAL STOCK

At December 31, 2016 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 are determined by the Board of Directors prior to issuance of such shares.

Series A Preferred Stock

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, 2016, the Company had 10,000 shares of Series A Preferred Stock outstanding.

Series B Preferred Stock

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, 2016, the Company had 18,025 shares of Series B Preferred Stock outstanding.

9. 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 was authorized to issue 5,000,000 shares of common stock. The plan was administered by the Company's Board of Directors (the "Board"), 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 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.

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. No stock options were issued during the six months ended December 31, 2016. The fair value of options granted during the year ended June 30, 2016, was determined using the Black Scholes method with the following assumptions:

	Year Ended 6/30/16
Risk free interest rate	6.00%
Stock volatility factor	145
Weighted average expected option life	7 years
Expected dividend yield	none

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

	Quarter ended December 31, 2016		Quarter ended December 31, 2015	
	Options	Weighted average exercise price	Options	Weighted average exercise price
Outstanding -beginning of period	123,000,000	\$ 0.013	91,000,000	\$ 0.012
Granted	-	\$ -	35,000,000	\$ 0.015
Exercised	-	\$ -	-	\$ -
Forfeited	-	\$ -	-	\$ -
Outstanding - end of period	123,000,000	\$ 0.013	126,000,000	\$ 0.013
Exercisable at the end of the period	75,913,242	\$ 0.012	40,052,968	\$ 0.011
Weighted average fair value of options granted during the year		\$ -		\$ 525,000

As of December 31, 2016, the intrinsic value of the stock options was approximately \$1,613,550, and stock option expense for the six months ended December 31, 2016 was \$253,063.

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.

The weighted average remaining contractual life of options outstanding, as of December 31, 2016 was as follows:

Exercise prices	Number of options outstanding	Weighted Average remaining contractual life (years)
\$0.015	35,000,000	5.65
\$0.013	60,000,000	5.10
\$0.013	15,000,000	5.22
\$0.053	12,500,000	2.62
\$0.004	500,000	4.78
	123,000,000	

Warrants

During the periods ended December 31, 2016 and 2015, the Company issued no warrants for services. A summary of the Company's warrant activity and related information follows:

Quarter Ended December 31, 2016	Quarter Ended December 31, 2015
Weighted	Weighted

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	Options	average exercise price	Options	average exercise price
Outstanding - beginning of period	-\$	-	28,019,163	\$ 0.003
Granted	-\$	-	-	\$ -
Exercised	-\$	-	-	\$ -
Forfeited	-\$	-	-	\$ -
Outstanding - end of period	-\$	-	28,019,163	\$ 0.003

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 June 30 2016, there were no issued or outstanding warrants.

10. RELATED PARTIES

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. As of the date of this filing, the loan has not been repaid, nor has the lender demanded payment. The Company is currently discussing options to either extend the maturity date or refinance the balance due. The Chief Financial Officer of the Company, Greg Boden, is also the President of Bountiful Capital, LLC. Therefore, this loan transaction was with a related party.

On April 18, 2016, the Company issued a promissory note (the "April 2016 Note") in the amount of \$500,000 to Bountiful Capital, LLC, the details of which are included in footnote "Notes Payable". The Company's Chief Financial Officer, Greg Boden, is also the president of Bountiful Capital, LLC.

On October 3, 2016, the Company issued a promissory note (the "October 2016 Note") in the amount of up to \$500,000 to Bountiful Capital, LLC, the details of which are included in footnote "Notes Payable". The Company's Chief Financial Officer, Greg Boden, is also the president of Bountiful Capital, LLC.

On October 7, 2016, Indaba borrowed \$40,000 from Jack Gindi to cover operating expenses. Jack is the father of Indaba's Chief Technology Officer, Blake Gindi, and a former owner of Indaba. The terms of the agreement require the funds to be repaid in two installments of \$20,000 each, on December 30, 2016 and January 31, 2017. To date, no payments have been made and the maturity date was extended to March 31, 2017. This short term loan will accrue interest at a rate of 15% per year, if not paid by the due date.

11. CONCENTRATIONS

For the six months ended December 31, 2016, the Company had one major customer who represented approximately 62% of total revenue. For the six months ended December 31, 2015, the Company had three major customers who represented 51% of total revenue. At December 31, 2016 and June 30, 2016, accounts receivable from three and three customers, respectively, represented approximately 51% and 48% 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.

12. COMMITMENTS

Operating Leases

On March 1, 2016, the Company moved into office space located at 1933 Cliff Drive, Suite 1, Santa Barbara, CA 93109, on a month-to-month arrangement, for approximately \$3,000 per month.

On December 10, 2012, the management of 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.

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

Years Ending	Rent Payment
June 30, 2017	\$ 11,600

Total lease expense for the six months ended December 31, 2016 and 2015 was \$52,590 and \$47,883, 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, 2016, the Company recorded the outstanding balance under this settlement agreement as a long term notes payable, with the current portion of the debt recorded in accrued expenses. As of December 31, 2016, the Company owed \$29,050 on the outstanding reduced payment terms.

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.

13. SUPPLEMENTAL STATEMENT OF CASH FLOWS INFORMATION

During the six months ended December 31, 2016 and 2015, we had no non-cash financing activities.

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 January 3, 2017, January 17, 2017, January 31, 2017 and February 2, 2017, the Company received advances of \$21,000, \$50,000, \$29,000 and \$15,000, respectively, on the October 2016 Note.

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

Cautionary Statements

The following Management's Discussion and Analysis should be read in conjunction with our financial statements and the related notes thereto included elsewhere herein. The Management's Discussion and Analysis contains forward-looking statements that involve risks and uncertainties, such as statements of our plans, objectives, expectations and intentions. Any statements that are not statements of historical fact are forward-looking statements. When used, the words "believe," "plan," "intend," "anticipate," "target," "estimate," "expect," and the like, and/or future-tense or conditional constructions ("will," "may," "could," "should," etc.), or similar expressions, identify certain of these forward-looking statements. These forward-looking statements are subject to risks and uncertainties that could cause actual results or events to differ materially from those expressed or implied by the forward-looking statements in this prospectus. Our actual results and the timing of events could differ materially from those anticipated in these forward-looking statements as a result of several factors including, but not limited to, those noted under "Risk Factors" of the reports filed with the Securities and Exchange Commission. We do not undertake any obligation to update forward-looking statements to reflect events or circumstances occurring after the date of this quarterly report.

Overview

CloudCommerce, Inc. (the "Company"), together with our subsidiary, provides advanced e-commerce services to leading brands. Our customers depend on us to help them compete effectively in the worldwide e-commerce market. Our comprehensive services include: (1) development of highly customized and sophisticated online stores, (2)

real-time integration to other business systems, (3) digital marketing and data analytics, (4) complete and secure site management, and (5) integration to physical stores. Our goal is to become the industry leader by rapidly increasing the number of customers who regularly depend on us for services and by acquiring other rapidly growing e-commerce service providers.

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

Critical Accounting Policies

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

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

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

Income taxes are accounted for under the asset and liability method. Under this method, to the extent that we believe that the deferred tax asset is not likely to be recovered, a valuation allowance is provided. In making this determination, we consider estimated future taxable income and taxable timing differences expected in the future. Actual results may differ from those estimates.

Fair value of financial instruments

The Company's financial instruments, including cash, 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, 2016 and 2015, 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.

We measure certain financial instruments at fair value on a recurring basis. The Company had no assets and liabilities measured at fair value on a recurring basis as of December 31, 2016.

Results of Operations for the Three Months Ended December 31, 2016, compared to the Three Months Ended December 31, 2015.

REVENUE

Total revenue for the three months ended December 31, 2016 decreased by \$149,585 to \$628,490, compared to \$778,075 for the three months ended December 31, 2015. The decrease was primarily due to timing of certain projects in production, which postponed the recognition of revenue to a future period.

SALARIES AND OUTSIDE SERVICES

Salaries and outside services for the three months ended December 31, 2016 decreased by \$75,203 to \$744,414, compared to \$819,617 for the three months ended December 31, 2015. The decrease was primarily due to a reduction in headcount during the period.

SELLING, GENERAL, AND ADMINISTRATIVE EXPENSES

Selling, general, and administrative ("SG&A") expenses for the three months ended December 31, 2016 decreased by \$146,251 to \$192,361, compared to \$338,612 for the three months ended December 31, 2015. During the period in the prior year, the Company incurred significant integration costs related to the Indaba acquisition. Those costs were not incurred in the same period of the current year.

STOCK BASED COMPENSATION

Stock based compensation expenses for the three months ended December 31, 2016 decreased by \$3,318 to \$126,532, compared to \$129,850 for the three months ended December 31, 2015. The decrease was due to options that were forfeited as a result of employee terminations.

RESEARCH AND DEVELOPMENT

Research and development expenses for the three months ended December 31, 2016 and December 31, 2015 were both \$0.

DEPRECIATION AND AMORTIZATION

Depreciation and amortization expenses for the three months ended December 31, 2016 increased by \$52,916 to \$60,346, compared to \$7,430 for the three months ended December 31, 2015. The increase was primarily due to the amortization of intangible assets acquired through the Indaba acquisition.

OTHER INCOME AND EXPENSE

Total other income (expense) for the three months ended December 31, 2016 decreased by \$65,158 to net other expense of \$10,940, compared to net other income of \$54,218 for the three months ended December 31, 2015. The decrease was primarily due to higher interest expense during the current year, losses recorded as a result of the conversion of debt to equity, in addition to a decrease in fair value of our derivative liability in 2015.

NET LOSS

The consolidated net loss for the three months ended December 31, 2016 was \$506,103, compared to the consolidated net loss of \$463,216 for the three months ended December 31, 2015. The increase in net loss for the period was primarily due to a reduction in revenue, partially offset by a reduction in operating expenses.

Results of Operations for the Six Months Ended December 31, 2016, compared to the Six Months Ended December 31, 2015.

REVENUE

Total revenue for the six months ended December 31, 2016 increased by \$829,530 to \$1,721,164, compared to \$891,634 for the six months ended December 31, 2015. The increase was primarily due to revenue from the operations of our subsidiary Indaba, which we acquired in October 2015.

SALARIES AND OUTSIDE SERVICES

Salaries and outside services for the six months ended December 31, 2016 increased by \$589,972 to \$1,617,220, compared to \$1,027,248 for the six months ended December 31, 2015. The increase was primarily due to our increased operations upon acquiring Indaba.

SELLING, GENERAL, AND ADMINISTRATIVE EXPENSES

Selling, general, and administrative ("SG&A") expenses for the six months ended December 31, 2016 decreased by \$83,383 to \$442,533, compared to \$525,916 for the six months ended December 31, 2015. During the prior year, the

Company incurred significant integration costs related to the Indaba acquisition. Those costs were not incurred in the current year.

STOCK BASED COMPENSATION

Stock based compensation expenses for the six months ended December 31, 2016 increased by \$17,920 to \$253,063, compared to \$235,143 for the six months ended December 31, 2015. The increase was due to additional stock options issued.

RESEARCH AND DEVELOPMENT

Research and development expenses for the six months ended December 31, 2016 and December 31, 2015 were both \$0.

DEPRECIATION AND AMORTIZATION

Depreciation and amortization expenses for the six months ended December 31, 2016 increased by \$112,504 to \$120,671, compared to \$8,167 for the six months ended December 31, 2015. The increase was primarily due to the amortization of intangible assets acquired through the Indaba acquisition.

OTHER INCOME AND EXPENSE

Total other income (expense) for the six months ended December 31, 2016 increased by \$4,304,704 to net other expense of \$8,350, compared to net other

expense of \$4,313,054 for the six months ended December 31, 2015. The increase was primarily due to the losses recorded as a result of the conversion of debt to equity in addition to a decrease in fair value of our derivative liabilities in 2015.

NET LOSS

The consolidated net loss for the six months ended December 31, 2016 was \$720,673, compared to the consolidated net loss of \$5,217,894 for the six months ended December 31, 2015. The decrease in net loss for the period was primarily due to changes in derivative liability, partially offset by interest expense and additional operating costs of Indaba.

LIQUIDITY AND CAPITAL RESOURCES

The Company had a net working capital deficit (i.e. the difference between current assets and current liabilities) of (\$1,316,018) at December 31, 2016 compared to a net working capital deficit of (\$923,480) at fiscal year ended June 30, 2016.

Cash flow used in operating activities was \$493,258 for the six months ended December 31, 2016, compared to cash flow used in operating activities of \$381,509 for the six months ended December 31, 2015. The increase in cash flow used in operating activities of \$111,749 was primarily due to a decrease in accounts payable, an increase in deferred revenue, partially offset by a decrease in accounts receivable.

Cash flow provided by investing activities was \$19,753 for the six months ended December 31, 2016, compared to cash flow provided by investing activities of \$2,560 for the six months ended December 31, 2015. The increase in cash flow provided by investing activities of \$17,193 was primarily due to the sale of IP addresses. For many years, the Company has held the rights to blocks of IP addresses, related to maintaining web servers in-house. Because the Company no longer maintains an in-house data center, it was deemed unnecessary to retain the rights of the IP addresses, so the rights to those addresses were sold.

Cash flow provided by financing activities was \$440,669 for the six months ended December 31, 2016, compared to \$426,500 for the six months ended December 31, 2015. The increase in cash flow provided by financing activities of \$14,169 was due to proceeds from the secured borrowing facility, partially offset by decreases in borrowing through notes payable and the payment of dividends on Series A Preferred stock.

The Company has recently been incurring operating losses and experiencing negative cash flow, funded through established borrowing arrangements. In the future, if the Company does not have sufficient cash-on-hand to fund operations, we expect to draw funds from those borrowing arrangements. Our borrowing activity is generally determined by operations and the cash on hand. The Company typically maintains a cash balance of two or three weeks of our operating requirements.

Any additional capital raised through the sale of equity or equity-backed securities may dilute current stockholders' ownership percentages and could also result in a decrease in the fair market value of our equity securities. The terms of the securities issued by us in future capital transactions may be more favorable to new investors and may include preferences, superior voting rights and the issuance of warrants or other derivative securities which may have a further dilutive effect.

Furthermore, any additional debt or equity or other financing that we may need may not be available on terms favorable to us, or at all. If we are unable to obtain required additional capital, we may have to curtail our growth plans or cut back on existing business. Further, we may not be able to continue operations if we do not generate

sufficient revenues from operations.

We may incur substantial costs in pursuing future capital financing, including investment banking fees, legal fees, accounting fees, securities law compliance fees, printing and distribution expenses and other costs. We may also be required to recognize non-cash expenses in connection with certain securities we issue, such as convertible notes and warrants, which may adversely impact our reported financial results.

Off-Balance Sheet Arrangements

None.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not Applicable.

Item 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Management, with the participation of the Company's executive and principal financial officers, or persons performing similar functions, evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) and Rule 15d-15(e) of the Exchange Act), as of the end of the period covered by this report to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Act is (i) recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms and (ii) accumulated and communicated to the Company's

management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Based on that evaluation, our management concluded that, as of December 31, 2016, our disclosure controls and procedures were not effective due to the following material weaknesses:

1. lack of segregation of duties; and
2. failure to implement accounting controls of acquired businesses.

To the extent reasonably possible given our limited resources, we intend to take measures to cure the aforementioned weaknesses.

Our management, including our principal executive officer and principal financial officer, do not expect that our disclosure controls and procedures or our internal controls will prevent all error or fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints and the benefits of controls must be considered relative to their costs. Due to the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected.

To address the material weaknesses, we performed additional analysis and other post-closing procedures in an effort to ensure our consolidated financial statements included in this report have been prepared in accordance with generally accepted accounting principles. Accordingly, management believes that the financial statements included in this report fairly present in all material respects our financial condition, results of operations and cash flows for the periods presented.

No Attestation Report by Independent Registered Accountant

The effectiveness of our internal control over financial reporting as of December 31, 2016 has not been audited by our independent registered public accounting firm by virtue of our exemption from such requirement as a smaller reporting company.

Changes in Internal Controls over Financial Reporting

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

Inherent Limitations on Effectiveness of Controls

The Company's management does not expect that its disclosure controls or its internal control over financial reporting will prevent or detect all error and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. The design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Further, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision making can be faulty and that breakdowns can occur because of simple error or mistake. Controls can also

be circumvented by the individual acts of some persons, by collusion of two or more people, or management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Projections of any evaluation of controls effectiveness to future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

PART II. - OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

The Company may be involved in legal actions and claims arising in the ordinary course of business from time to time in the future. However, at this time there are no current legal proceedings to which the Company or any of its subsidiaries is a party or of which any of their property is the subject.

Item 1A. RISK FACTORS

Not required for smaller reporting companies.

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

None.

Item 3. DEFAULTS UPON SENIOR SECURITIES

None.

Item 4. MINE SAFETY DISCLOSURES

Not applicable.

Item 5. OTHER INFORMATION

None

Item 6. EXHIBITS

(a) Exhibits

EXHIBIT NO.	DESCRIPTION
31.1	Section 302 Certification
31.2	Section 302 Certification
32.1	Section 906 Certification
32.2	Section 906 Certification
EX-101.INS	XBRL INSTANCE DOCUMENT*
EX-101.SCH	XBRL TAXONOMY EXTENSION SCHEMA DOCUMENT*
EX-101.CAL	XBRL TAXONOMY EXTENSION CALCULATION LINKBASE*
EX-101.DEF	XBRL TAXONOMY EXTENSION DEFINITION LINKBASE*
EX-101.LAB	XBRL TAXONOMY EXTENSION LABELS LINKBASE*
EX-101.PRE	XBRL TAXONOMY EXTENSION PRESENTATION LINKBASE*

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

SIGNATURES

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

CLOUDCOMMERCE, INC.
(Registrant)

Dated: February 13, 2017

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

Chief Executive Officer and President

(Principal Executive Officer)

/s/ Greg Boden
Greg Boden

Chief Financial Officer

(Principal Financial/Accounting
Officer)