

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

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For quarterly period ended September 30, 2015

or

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

For the Transition period from _____ to _____

Commission File Number:

0-13215

CLOUDCOMMERCE, INC.

(Exact name of registrant as specified in its charter)

NEVADA

(State or other jurisdiction of incorporation or organization)

30-0050402

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

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

(Address of principal executive offices) (Zip Code)

(805) 964-3313

Registrant's telephone number, including area code

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

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

Yes

No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

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Yes[_X_]

No[___]

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

Large accelerated filer

[___]

Accelerated filer

[___]

Non-accelerated filer

[___]

Smaller reporting company

[_X_]

(Do not check if a smaller reporting company)

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

Yes[___]

No[_X_]

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

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

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

CLOUDCOMMERCE, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

(Unaudited)

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

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

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

CLOUDCOMMERCE, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

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

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

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

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

(Unaudited)

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

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

CLOUDCOMMERCE, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF CASH FLOWS

(Unaudited)

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

CASH FLOWS FROM INVESTING ACTIVITIES:

Purchase of property and equipment	-	(2,355)
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Purchase of intangible assets (see Note 6)	(10,000)	-
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NET CASH PROVIDED/(USED) IN INVESTING ACTIVITIES	(10,000)	(2,355)
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CASH FLOWS FROM FINANCING ACTIVITIES:

Proceeds from issuance of notes payable	193,000	140,000
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NET CASH PROVIDED IN FINANCING ACTIVITIES	193,000	140,000
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NET INCREASE/(DECREASE) IN CASH	9,024	(31,505)
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CASH, BEGINNING OF YEAR	19,051	50,041
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CASH, END OF PERIOD	\$ 28,075	\$ 18,536
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SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Interest paid	\$ -	\$ 44
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Taxes paid	\$ -	\$ 1,600
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The accompanying notes are an integral part of these consolidated financial statements.

CLOUDCOMMERCE, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED

SEPTEMBER 30, 2015

1. BASIS OF PRESENTATION

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Accounts Receivable

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

Revenue Recognition

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

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

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

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

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

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

CLOUDCOMMERCE, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED

SEPTEMBER 30, 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Stock-Based Compensation

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

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

Recently Issued Accounting Pronouncements

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

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

3. LIQUIDITY AND OPERATIONS

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

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

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

Going Concern

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

4. CONVERTIBLE NOTES PAYABLE

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

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

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

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

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

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

CLOUDCOMMERCE, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED

SEPTEMBER 30, 2015

4. CONVERTIBLE NOTES PAYABLE (continued)

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

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

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

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

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

CLOUDCOMMERCE, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED

SEPTEMBER 30, 2015

4. CONVERTIBLE NOTES PAYABLE (continued)

interest.

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

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

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

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