

CLOUDCOMMERCE, INC.
Form 10-K
September 24, 2015

FORM 10-K

U.S. SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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

For the fiscal year ended: June 30, 2015

Commission file number 0-13215

CLOUDCOMMERCE, INC.

(Exact name of registrant as specified in its charter)

| | |
|--------------------------|--------------------------------------|
| Nevada | 30-0050402 |
| (State of Incorporation) | (I.R.S. Employer Identification No.) |

1933 Cliff Dr., Suite 11, Santa Barbara, California 93109

(Address of principal executive offices) (Zip Code)

(805) 964-3313

Registrant's telephone number, including area code

Securities registered pursuant to Section 12(B) of the Act:

Title of Each Class

Name of Each Exchange On

COMMON STOCK

Which Registered

OTC

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

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| | | | | |
|-----|--------------------------|--|----|-------------------------------------|
| Yes | <input type="checkbox"/> | | No | <input checked="" type="checkbox"/> |
|-----|--------------------------|--|----|-------------------------------------|

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

| | | | | |
|-----|--------------------------|--|----|-------------------------------------|
| Yes | <input type="checkbox"/> | | No | <input checked="" type="checkbox"/> |
|-----|--------------------------|--|----|-------------------------------------|

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

| | | | | |
|-----|-------------------------------------|--|----|--------------------------|
| Yes | <input checked="" type="checkbox"/> | | No | <input type="checkbox"/> |
|-----|-------------------------------------|--|----|--------------------------|

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

| | | | | |
|--|--|--|--|-------------------------------------|
| | | | | <input checked="" 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 definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

| | | | |
|---|--------------------------|---------------------------|-------------------------------------|
| Large accelerated filer | <input type="checkbox"/> | Accelerated filer | <input type="checkbox"/> |
| Non-accelerated filer | <input type="checkbox"/> | Smaller reporting company | <input checked="" type="checkbox"/> |
| (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 | <input type="checkbox"/> | No | <input checked="" type="checkbox"/> |
|-----|--------------------------|----|-------------------------------------|

The aggregate market value of voting stock held by non-affiliates of the registrant was approximately \$736,000 as of December 31, 2014, the last business day of the registrant's most recently completed second fiscal quarter (computed by reference to the last sale price of a share of the registrant's Common Stock on that date as reported by OTC Bulletin Board).

There were 105,790,195 shares outstanding of the registrant's Common Stock as of September 24, 2015.

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PART I

ITEM 1. BUSINESS

Company History

CloudCommerce, Inc. ("CloudCommerce," "we," "us," "our," or the "Company") is a Nevada corporation formerly known as Warp 9, Inc., formerly known as Roaming Messenger, Inc., formerly known as Latinocare Management Corporation ("LMC"). On August 24, 2006, the Company's board of directors and majority shareholders voted to change the name of the Company from Roaming Messenger, Inc. to Warp 9, Inc. to reflect a new strategic plan of focusing primarily on the business of the Company's wholly owned subsidiary, Warp 9, Inc., a Delaware corporation that is an e-commerce Software-as-a-Service ("SaaS") provider. On July 9, 2015, the Company's board of directors and majority shareholders voted to change the name of the Company from Warp 9, Inc. to CloudCommerce, Inc. to reflect the Company's new business plan of strategically acquiring profitable CloudCommerce solutions providers with strong management teams.

General

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

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

Industry Overview

Growth of Mobile and Digital Commerce

We believe there are a number of factors that are contributing to the growth of mobile and digital commerce, including the following: (i) accessibility and adoption of smartphone devices throughout the world ; (ii) rapid advancements in high-speed internet and 4G cellular networks making the internet more available, reliable, and efficient; (iii) shoppers are more comfortable with the process of browsing and buying products from their mobile devices; (iv) the functionality of both mobile and desktop e-commerce sites continues to improve, a greater range of mobile payment options are available, and special offers and shipping discounts are making online shopping more attractive; (v) businesses are placing more emphasis on their digital commerce strategies as mobile and desktop commerce can reach a larger audience at a comparatively lower cost than the methods used to drive traffic to traditional brick-and-mortar retail stores. As a result of these growth drivers, we believe retailers and wholesalers have begun to build large, global customer bases that can be reached cost-effectively, potentially resulting in higher sales and profitability.

Opportunities for Outsourced e-Commerce

We believe there are advantages to outsourcing mobile and desktop e-commerce development and management that will continue to make solutions like those of CloudCommerce an attractive alternative to building and maintaining this capability in-house. These advantages include: (i) eliminating the substantial up-front and ongoing costs of computer hardware, network infrastructure and specialized application software and personnel; (ii) reducing the time it takes to get online stores live and productive; (iii) shifting the ongoing technology, financial, regulatory and compliance risks to a proven service provider; (iv) leveraging the expertise of

a mobile and desktop e-commerce service provider to accelerate growth of an online business; and (v) allowing businesses to focus on their specific core competencies.

Technology Products

Our three core solutions are mobile e-commerce, desktop e-commerce and managed hosting. We have assembled other complementary services, such as social media management, graphic design, to deliver a fully integrated solution for a successful e-commerce operation.

Mobile e-commerce

Our mobile product offerings are designed and engineered to maximize mobile conversions and sales for our customers. With over four years of mobile commerce experience working on some of the world's biggest brands, we believe we provide online sellers with the highest level of mobile functionality, performance and ease of use in the industry, allowing customers to focus on their core online businesses, rather than on technical implementations.

Mobile e-commerce is a streamlined mobile solution that allows merchants of any size to have a powerful mobile commerce website in a matter of a few short weeks.

Desktop e-commerce

Our desktop e-commerce solutions are focused on what we believe to be the fastest-growing open-source e-commerce platform in the world, Magento. CloudCommerce offers full-service Magento implementation, hosting and management solutions for both retailers and B2B wholesalers. We believe our deep Magento and e-commerce experience allows us to drive customer growth through ongoing development and new feature implementation, tracking and support.

E-mail Marketing

CloudCommerce E-mail Marketing ("E-mail Marketing") is a web-based e-mail campaign and list management system designed for high performance and reliability. Our sophisticated technology in E-Mail Marketing allows our clients to send targeted e-mail campaigns that help grow, retain and maximize the lifetime value of their customers. Through content personalization and list segmentation, campaign efforts result in higher response rates, higher conversion rates and improved customer loyalty.

Professional Services

Our customers are not technology companies and have varying internal expertise in the areas of e-commerce, online marketing and web technologies. To provide a complete solution to our customers, we also offer professional services to help our customers maximize the use of our technology or other online e-commerce technologies. Professional services include but are not limited to e-commerce web page development, new feature development, testing, bug fixing, product catalog management, social media management, SEO, e-mail marketing management, custom system configuration, graphic design, management of online marketing programs, and integration to backend business systems.

Site Design and Development

We offer our clients site design services that utilize our experience and expertise to create efficient and effective online stores powered by the Magento platform. Our e-commerce solutions can be deployed quickly for our clients and implemented in a variety of ways from simple shopping websites to complex systems that integrate to backend

enterprise resource planning ("ERP") and inventory management systems. This is all done by maximally using the feature set contained within Magento.

Merchandizing and Promotions Design

CloudCommerce and the Magento platform support a wide range of merchandising activities. On an ongoing basis, we help our clients create effective promotional activities, up-sell, cross-sell as well as promote featured products during any phase of the shopping process. By doing so, our professional services team continues to work with our clients to deliver targeted offers designed to increase conversion ratios and average order size. We have also developed an algorithm that can help our clients automate the upsell/cross-sell opportunities. Additionally, we have created a new advertising feature that allows our clients to easily add graphical elements with interior or exterior links to assist with instantaneous promotion of featured products.

Advanced Reporting and Analytics

CloudCommerce implements solutions that capture a great deal of information about sales and visitor activities in its database. We provide our clients access to a collection of standard and customizable reports as well as create any report they need for their individual business making decisions. For example, we can create custom reports to help our clients analyze the average orders size of one design versus another. This enables our clients to track and analyze sales, products, transactions and customer behavior to further refine their market strategies to increase sales.

Strategic Marketing Services

We offer a wide range of strategic marketing services designed to increase customer acquisition, retention and lifetime value. Through a combination of web analytics, analytic-based statistical testing and optimization, our team of strategic marketing consultants develop, deliver and manage programs such as social media campaigns, search engine optimization, affiliate marketing, store optimization and e-mail optimization for our clients. We believe our ability to capture and analyze integrated traffic and commerce data enhances the value of our strategic marketing services as we can precisely determine the effectiveness of specific marketing activities, website changes, and other actions taken by our clients. We are also working on providing this beneficial sales data in real-time and in a more customizable format.

Revenue Model

CloudCommerce has a variety of revenue-generated models. We charge fixed or variable implementation fees to design, build and launch websites. In addition, we have both month-to-month and annual hosting contracts that provide steady and reliable income. Our professional services are billed at hourly or monthly rates, depending on the customer's needs. We believe this flexibility allows us to attract customers while maximizing profits based on billable hours.

The Company also generates incremental revenue by offering additional products such as E-mail Marketing, professional web production, graphic design, marketing, and other consulting services to support CloudCommerce products and generally to aid in the operations of our customers' e-commerce activities.

Benefits to Clients

Our complete solution of providing robust technology along with complementary professional services delivers many benefits to our customers.

Reduced Total Cost of Ownership and Risk

Utilizing our technology and services, businesses can dramatically reduce or eliminate upfront and ongoing hardware, software, maintenance and support costs associated with developing, customizing, deploying and upgrading an in-house e-commerce solution. They can have a global e-commerce presence without assuming the costs and risks of developing it themselves and take immediate advantage of the investments we continually make in our e-commerce systems and associated services. Our commitment to the latest technologies and e-commerce functionality helps ensure that our clients maintain pace with industry advances.

Revenue Growth

Through our services consultants, we help our clients grow their businesses by applying our technology and experience to (i) increase the acquisition, retention and lifetime value of new customers; (ii) extending their businesses into new geographic markets; and (iii) expanding the visibility and sales of their products through new online sales channels. We have developed substantial expertise in online marketing and merchandising, which we apply to help our clients increase traffic to their online stores, and improve order close ratios, average order sizes and repeat purchases, all of which are designed to generate higher revenues for our clients' businesses and greater revenue for the Company.

Deployment Speed

Businesses can reduce the time required to develop an e-commerce presence by utilizing our outsourced business model. Typically, a new client can have an online store live much more quickly than if they decided to build, test and deploy the e-commerce capability in-house. Once they are operational on our platform, clients can make real-time changes to their online store, allowing them to address issues and take advantage of opportunities without technical assistance.

Focus on Core Competency

By utilizing our outsourced e-commerce model, businesses can focus on developing, marketing and selling their products rather than devoting time and resources to building and maintaining an e-commerce infrastructure. Management can focus their time on their core business while ensuring they have access to the latest technologies, tools and expertise for running a successful e-commerce operation.

Sales and Marketing

Our objective is to be the leading Magento mobile commerce provider in the market. To achieve this objective, we intend to enhance, promote and support the idea that CloudCommerce's Magento mobile commerce solutions are the most powerful and affordable options that require the least amount of time to get to market. With over four years of mobile commerce experience working on some of the world's biggest brands, we believe CloudCommerce understands what a successful mobile commerce website is in terms of customer experience, merchant management and growth, and technological implementation.

We currently market our e-commerce solutions directly to existing Magento merchants, merchants looking for an enhanced e-commerce platform, as well as through channel partnerships with other industry leaders. We focus our efforts on generating awareness of the CloudCommerce brand and capabilities and establishing our position as a leader in the Magento mobile and e-commerce space.

During the client sales process, our staff delivers demonstrations, presentations, proposals and contracts. Many new customers have come from email marketing, direct sales, and word-of-mouth referrals. Our direct sales efforts are aimed at senior marketing and information technology ("IT") executives within a retailer or B2B company who are looking to create or expand their mobile and e-commerce operations. Word-of-mouth referrals have been very valuable to us and we intend to continue nurturing our customer and industry relationships to maximize these referrals.

In addition to our direct sales efforts, trade shows, and referrals, we have established and continue to explore channel partnerships to expand our customer base. Prospective channel partners include existing Magento development companies, hosting providers, ERP vendors, and e-commerce marketing professionals. With the growing maturity of

multi-channel mobile and desktop e-commerce strategies, many of the robust backend systems providers are looking for robust mobile and desktop e-commerce solutions, such as what CloudCommerce provides.

Competition

The market for e-commerce solutions is highly competitive, especially as it reaches maturity. We compete with emerging mobile commerce technologies and e-commerce solutions that our customers develop themselves or contract with third parties to develop. We also compete with other outsourced e-commerce providers. The competition we encounter includes:

- In-house development of e-commerce capabilities using tools or applications from companies such as Art Technology Group, Netsuite, and IBM;
- E-Commerce capabilities custom-developed by companies such as IBM Global Services, and Accenture, Inc.;
- Other providers of outsourced e-commerce solutions, such as Demandware, Volusion, UniteU, MarketLive, etc.;
- Companies that provide technologies, services or products that support a portion of the e-commerce process, such as payment processing, including CyberSource Corporation, PayPal Corporation and Authorize.net;
- High-traffic branded websites that generate a substantial portion of their revenue from e-commerce and may offer or provide to others the means to offer their products for sale, such as Amazon.com, Inc.; and
- Web hosting, web services and infrastructure companies that offer portions of our solution and are seeking to expand the range of their offering, such as Network Solutions, LLC, Akamai Technologies, Inc., Yahoo! Inc., eBay Inc. and Hostopia.com Inc.

Government Regulation

We are subject to various federal, state, and local laws affecting e-commerce and communication businesses. The Federal Trade Commission and equivalent state agencies regulate advertising and representations made by businesses in the sale of their products, which apply to us. We are also subject to government laws and regulations governing health, safety, working conditions, employee relations, wrongful termination, wages, taxes and other matters applicable to businesses in general.

Employees

As of September 24, 2015, we had eight full time employees and two part time employees, one of whom is employed in an administrative position, one in a sales and marketing position, and six technical employees in technical product maintenance positions.

All of our employees have executed agreements that impose nondisclosure obligations on the employee and assign to us (to the extent permitted by California law) all copyrights and other inventions created by the employee during his employment with us. Additionally, we have a trade secret protection policy in place that management believes to be adequate to protect our intellectual property and trade secrets.

Seasonality

We do not anticipate that our business will be substantially affected by seasonality.

Trademarks

We have a registered trademark for Warp 9®.

ITEM 2. PROPERTIES

On August 26, 2013, the Company signed a lease for approximately 2,534 square feet of office space at 1933 Cliff Dr., Suite 11, Santa Barbara, California 93109 for approximately \$4,308 per month, pursuant to a two year lease agreement which commences on October 1, 2013. In addition, the Company is responsible for its pro-rata share of common area maintenance fees.

ITEM 3. LEGAL PROCEEDINGS

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 this time are considered to be material to the Company's business or financial condition.

The Company may file additional collection actions and be involved in other litigation in the future.

ITEM 4. MINE SAFETY DISCLOSURES.

Not Applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON STOCK, RELATED STOCKHOLDER MATTERS, AND ISSUER PURCHASES OF EQUITY SECURITIES

Common Stock

The Company's common stock trades on the OTCQB Bulletin Board Market under the symbol "WNYN", formerly "WNYN." The range of high and low bid quotations for each fiscal quarter within the last two fiscal years was as follows:

| Year Ended June 30, 2015 | <u>High</u> | <u>Low</u> |
|--|-------------|------------|
| First Quarter ended September 30, 2014 | \$0.034 | \$0.011 |
| Second Quarter ended December 31, 2014 | \$0.017 | \$0.008 |
| Third Quarter ended March 31, 2015 | \$0.026 | \$0.010 |
| Fourth Quarter ended June 30, 2015 | \$0.017 | \$0.009 |
| Year Ended June 30, 2014 | <u>High</u> | <u>Low</u> |
| First Quarter ended September 30, 2013 | \$0.019 | \$0.010 |
| Second Quarter ended December 31, 2013 | \$0.020 | \$0.009 |
| Third Quarter ended March 31, 2014 | \$0.018 | \$0.010 |
| Fourth Quarter ended June 30, 2014 | \$0.034 | \$0.011 |

The above quotations reflect inter-dealer prices, without retail markup, mark-down, or commission and may not necessarily represent actual transactions.

The Company is authorized to issue 2,000,000,000 shares of common stock, par value \$0.001 per share, and 5,000,000 shares of preferred stock, par value \$0.001 per share. The rights, preferences and privileges of the holders of the preferred stock will be determined by the Board of Directors prior to issuance of such shares.

As of June 30, 2015, there were approximately 2,000 holders of the Company's common stock, not including shares held in "street name" in brokerage accounts, which are unknown. As of June 30, 2015, there were 105,790,195 shares of common stock outstanding on record.

Dividends

The Company has not declared or paid any cash dividends on its common stock and does not anticipate paying dividends for the foreseeable future.

Warrants

During the fiscal year ended June 30, 2015, the Company did not issue any warrants to purchase shares of the Company's stock.

Equity Compensation Plan Information

On August 13, 2012, we granted nonqualified stock options to purchase up to 2,500,000, 5,000,000 and 5,000,000 shares of our common stock to Greg Boden, our Chief Financial Officer, Andrew Van Noy, our Chief Executive Officer and Zachary Bartlett, our Vice President of Operations, respectively. The stock options are exercisable at a price of \$0.0053 per share exercisable for a period of seven years from the date of grant in consideration for their services to us. These stock options vest at a rate of 1/36 per month commencing on the date of grant until all of the options are vested.

On February 3, 2015, we granted nonqualified stock options to purchase up to 30,000,000, 20,000,000, 10,000,000 and 3,000,000 shares of our common stock to Andrew Van Noy, our Chief Executive Officer, Zachary Bartlett, our Vice President of Operations, Greg Boden, our Chief Financial Officer and three employees, respectively. The stock options are exercisable at a price of \$0.0131 per share exercisable for a period of seven years from the date of grant in consideration for their services to us. These stock options vest at a rate of 1/36 per month commencing on the date of grant until all of the options are vested.

On March 20, 2015, we granted nonqualified stock options to purchase up to 15,000,000 shares of our common stock to Andrew Van Noy, our Chief Executive Officer. The stock options are exercisable at a price of \$0.013 per share exercisable for a period of seven years from the date of grant in consideration for his services to us. These stock options vest at a rate of 1/36 per month commencing on the date of grant until all of the options are vested.

ITEM 6. SELECTED FINANCIAL DATA.

None.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Cautionary Statements

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

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

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

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

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

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

Current Overview

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

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

Critical Accounting Policies

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

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

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

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

Fair value of financial instruments

The Company's financial instruments, including cash and cash equivalents, accounts receivable, accounts payable, and accrued liabilities are carried at cost, which approximates their fair value, due to the relatively short maturity of these instruments. As of June 30, 2015 and 2014, 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. Assets and liabilities measured at fair value on a recurring basis are as follows at June 30, 2015:

| For the year ended June 30, 2015 | Total | (Level 1) | (Level 2) | (Level 3) |
|--|----------------|-----------|-----------|--------------|
| Assets | \$ - | \$ - | \$ - | \$ - |
| Total assets measured at fair value | \$ - | \$ - | \$ - | \$ - |
| Liabilities | | | | |
| Derivative liability | 1,951,201 - | - | - | 1,951,201 |
| Convertible notes, net of discount | 700,884 - | - | - | 700,884 |
| Total liabilities measured at fair value | \$ 2,652,085 - | \$ - | \$ - | \$ 2,652,085 |

Assets and liabilities measured at fair value on a recurring basis are as follows at June 30, 2014:

| | Total | (Level 1) | (Level 2) | (Level 3) |
|-------------------------------------|-----------|-----------|-----------|-----------|
| Assets | \$ - | \$ - | \$ - | \$ - |
| Total assets measured at fair value | \$ - | \$ - | \$ - | \$ - |
| Liabilities | | | | |
| Derivative liability | 2,169,051 | - | - | 2,169,051 |
| Convertible notes, net of discount | 150,536 | - | - | 150,536 |

| | | | | |
|--|-----------|----|----|-----------|
| Total liabilities measured at fair value | \$ | \$ | \$ | \$ |
| | 2,319,587 | - | - | 2,319,587 |

Recently Adopted Accounting Pronouncements

Management reviewed accounting pronouncements issued during the year ended June 30, 2015, and did not adopt any new accounting pronouncements.

Results of Operations for the Year Ended June 30, 2015 as Compared to the Year Ended June 30, 2014

REVENUE

Total revenue for the twelve month period ended June 30, 2015 decreased by \$367,894 to \$598,345, compared to \$966,239 in the prior year, a decrease of 38%. The decrease is primarily due to a reduction in recurring fees for hosting and professional services.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general, and administrative ("SG&A") expenses for the twelve months ended June 30, 2015 decreased by \$129,469, or approximately 9% to \$1,284,165, compared to \$1,413,634 for the twelve month period ended June 30, 2014. The decrease in SG&A expenses was primarily due to a decrease in the cost of labor to develop websites.

RESEARCH AND DEVELOPMENT

Research and development expenses for the twelve months ended June 30, 2015 and June 30, 2014 were zero.

DEPRECIATION AND AMORTIZATION

Depreciation and amortization expenses for the twelve months ended June 30, 2015 decreased by \$36,674, or approximately 86% to \$6,073, compared to \$42,747 for the twelve months ended June 30, 2014. The decrease was due to certain data center fixed assets being disposed during the move to our current location in the prior year.

OTHER INCOME AND EXPENSE

Total other income (expense) for the twelve months ended June 30, 2015 increased by \$2,338,560, or approximately 123% to income of \$441,369, compared to expense of \$1,897,191 for the twelve months ended June 30, 2014. The increase was primarily due to a gain on the changes in derivative liability and a gain on the extinguishment of debt.

NET (LOSS)

For the twelve months ended June 30, 2015, CloudCommerce's consolidated net loss decreased by \$2,009,937, to \$404,210, compared to a consolidated net loss of \$2,414,147 for the twelve months ended June 30, 2014. This decrease in net loss is primarily due to a prior year loss on changes in derivative liability.

Liquidity and Capital Resources

As of June 30, 2015 the Company had a cash balance of \$19,051, compared to \$50,041 as of June 30, 2014. The Company had a net working capital deficit (i.e. the difference between current assets and current liabilities) of (\$2,552,692) as of June 30, 2015, compared to a net working capital deficit of (\$2,416,687) at June 30, 2014.

Cash flow used by operating activities was \$749,635 for the year ended June 30, 2015, compared to \$322,638 used for the year ended June 30, 2014. Operating cash flow was negative during the year due to a net operating loss.

Cash flow used by investing activities was \$2,355 for the year ended June 30, 2015, compared to cash flow provided of \$5,043 in the year ended June 30, 2014. Cash flow used by investing activities during the year ended June 30, 2015 was the result of the purchase of computer equipment.

Cash flow provided by financing activities was \$721,000 for the year ended June 30, 2015, compared to \$355,000 provided for the year ended June 30, 2014. The increase is due to additional borrowings during the year.

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For the twelve months ended June 30, 2015, the Company's capital needs have primarily been met from cash balances on hand.

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.

Off-Balance Sheet Arrangements

None.

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

CLOUDCOMMERCE, INC. (FORMERLY WARP 9, INC.)

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

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Report of Independent Registered Public Accounting Firm

To the Board of Directors

CloudCommerce, Inc.

(formerly Warp 9, Inc.)

Santa Barbara, California

We have audited the accompanying consolidated balance sheets of CloudCommerce, Inc. (formerly Warp 9, Inc.) and subsidiary as of June 30, 2015 and 2014, and the related consolidated statements of operations, stockholders' equity (deficit), and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of CloudCommerce, Inc. (formerly Warp 9, Inc.) and subsidiary as of June 30, 2015 and 2014, and the results of their operations and their cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company does not generate significant revenue and has negative cash flows from operations. This raises substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ HJ Associates & Consultants, LLP

HJ Associates & Consultants, LLP
Salt Lake City Utah

September 24, 2015

CLOUDCOMMERCE, INC. (FORMERLY WARP 9, INC.) AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

| | June 30, 2015 | June 30, 2014 |
|--|-----------------------|-----------------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash | \$ 19,051 | \$ 50,041 |
| Accounts Receivable, net | 138,308 | 101,393 |
| Prepaid and Other Current Assets | 5,048 | 5,440 |
| TOTAL CURRENT ASSETS | 162,407 | 156,874 |
| PROPERTY & EQUIPMENT, at cost | | |
| Furniture, Fixtures & Equipment | 10,533 | 10,533 |
| Computer Equipment | 16,941 | 23,982 |
| Computer Software | 1,904 | 1,904 |
| Leasehold Improvements | - | - |
| | 29,378 | 36,419 |
| Less accumulated depreciation | (20,710) | (24,033) |
| NET PROPERTY AND EQUIPMENT | 8,668 | 12,386 |
| OTHER ASSETS | | |
| Lease Deposit | 5,955 | 5,955 |
| Internet Domain | 20,202 | - |
| TOTAL OTHER ASSETS | 26,157 | 5,955 |
| TOTAL ASSETS | \$ 197,232 | \$ 175,215 |

LIABILITIES AND SHAREHOLDERS' EQUITY/(DEFICIT)**CURRENT LIABILITIES**

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| | | | |
|--|--------------|--------------|---------|
| Accounts Payable | \$ | \$ | |
| | 61,866 | 69,946 | |
| Accrued Expenses | | | |
| | 70,713 | 134,611 | |
| Accrued Interest on Note Payable, Other | | | |
| | - | 11,932 | |
| Deferred Income | | | |
| | 8,000 | 3,300 | |
| Convertible Notes and Interest Payable, current, net | | | |
| | 619,321 | 140,008 | |
| Derivative Liability | | | |
| | 1,951,201 | 2,169,051 | |
| Note Payable, Other | | | |
| | - | 37,867 | |
| Customer Deposit | | | |
| | 3,998 | 6,846 | |
| TOTAL CURRENT LIABILITIES | | | |
| | 2,715,099 | 2,573,561 | |
| LONG TERM LIABILITIES | | | |
| Convertible Notes and Interest Payable, net | | | |
| | 81,563 | 10,528 | |
| Accrued Expenses, long term | | | |
| | | 217,953 | 222,153 |
| TOTAL LONG TERM LIABILITIES | | | |
| | 299,516 | 232,681 | |
| TOTAL LIABILITIES | | | |
| | 3,014,615 | 2,806,242 | |
| 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 and 100,878,825 Shares Issued and Outstanding , respectively | | | |
| | 105,790 | 100,879 | |
| Additional Paid In Capital | | | |
| | 7,679,033 | 7,466,090 | |
| Accumulated Deficit | | | |
| | (10,602,206) | (10,197,996) | |
| TOTAL SHAREHOLDERS' EQUITY/(DEFICIT) | | | |
| | (2,817,383) | (2,631,027) | |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY/(DEFICIT) | | | |
| | \$ | \$ | |
| | 197,232 | 175,215 | |

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

CLOUDCOMMERCE, INC. (FORMERLY WARP 9, INC.) AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF OPERATIONS

| | Years Ended | |
|--|---------------|---------------|
| | June 30, 2015 | June 30, 2014 |
| REVENUE | 598,345 | 966,239 |
| OPERATING EXPENSES | | |
| Selling, general and administrative expenses | 1,284,165 | 1,413,634 |
| Stock option expense | 150,610 | 22,986 |
| Depreciation and amortization | 6,073 | 42,747 |
| TOTAL OPERATING EXPENSES | 1,440,848 | 1,479,367 |
| LOSS FROM OPERATIONS BEFORE OTHER INCOME AND TAXES | (842,503) | (513,128) |
| OTHER INCOME/(EXPENSE) | | |
| Other income | 300 | 15,678 |
| Gain on sale of fixed assets | - | 9,778 |
| Gain/(Loss) on extinguishment of debt | 118,492 | (6,367) |
| Gain/(Loss) on changes in derivative liability | 892,614 | (1,869,301) |
| Interest expense | (570,037) | (46,979) |
| TOTAL OTHER INCOME (EXPENSE) | 441,369 | (1,897,191) |
| LOSS FROM OPERATIONS BEFORE PROVISION FOR TAXES | (401,134) | (2,410,319) |
| PROVISION FOR INCOME (TAXES)/BENEFIT | | |
| Income taxes paid | (3,076) | (3,828) |
| Income tax (provision)/benefit | - | - |
| PROVISION FOR INCOME (TAXES)/BENEFIT | (3,076) | (3,828) |
| NET LOSS | (404,210) | (2,414,147) |
| LOSS PER SHARE | | |
| BASIC AND DILUTED | \$ (0.00) | \$ (0.02) |

| | | |
|---|-------------|-------------|
| WEIGHTED-AVERAGE COMMON SHARES OUTSTANDING BASIC AND DILUTED | 104,363,874 | 100,384,960 |
|---|-------------|-------------|

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

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CLOUDCOMMERCE, INC. (FORMERLY WARP 9, INC.) AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (DEFICIT)

| | Preferred Stock | | Common Stock | | Additional | Accumulated | Total |
|----------------------------|-----------------|-------|--------------|------------|--------------------|-----------------|----------------|
| | Shares | Value | Shares | Value | Paid-in Capital | Deficit | |
| Balance, June 30, 2013 | - | \$ - | 96,135,126 | \$ 96,135 | \$ 7,373,623 | \$ (7,783,849) | \$ (314,091) |
| Stock compensation expense | - | - | - | - | 22,986 | - | 22,986 |
| Note conversion | - | - | 4,743,699 | 4,744 | 14,231 | - | 18,975 |
| Net loss | - | - | - | - | - | (2,414,147) | (2,414,147) |
| Discount on Note | - | - | - | - | 55,250 | - | 55,250 |
| Balance, June 30, 2014 | - | - | 100,878,825 | 100,879 | 7,466,090 | (10,197,996) | (2,631,027) |
| Stock compensation expense | - | - | - | - | 150,610 | - | 150,610 |
| Contributed capital | - | - | - | - | 8,308 | - | 8,308 |
| Note conversion | - | - | 4,911,370 | 4,911 | 54,025 | - | 58,936 |
| Net loss | - | - | - | - | - | (404,210) | (404,210) |
| Balance, June 30, 2015 | - | \$ - | 105,790,195 | \$ 105,790 | \$ 7,679,033 | \$ (10,602,206) | \$ (2,817,383) |

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

CLOUDCOMMERCE, INC. (FORMERLY WARP 9, INC.) AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Years Ended June 30, 2015 | June 30, 2014 |
|--|------------------------------|-------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net loss | \$ (404,210) | \$ (2,414,147) |
| Adjustment to reconcile net loss to net cash (used) by operating activities | | |
| Depreciation and amortization | 6,073 | 42,747 |
| Bad debt expense | (10,927) | - |
| Cost of stock compensation recognized | 150,610 | 22,986 |
| Amortization of debt discount | 488,681 | 20,477 |
| Gain on sale of fixed assets | - | (9,778) |
| (Gain)/loss on settlement of debt | (118,492) | 6,367 |
| (Gain)/loss on derivative liability valuation | (892,614) | 1,869,301 |
| Change in assets and liabilities: (Increase) Decrease in: | | |
| Accounts receivable | (25,988) | (38,506) |
| Prepaid and other assets | 392 | (10,052) |
| Other assets | (20,202) | 5,000 |
| Increase (Decrease) in: | | |
| Accounts payable | (8,080) | 46,770 |
| Accrued expenses | 80,422 | 139,014 |
| Deferred income | 4,700 | 3,300 |
| Other liabilities | - | (6,117) |
| NET CASH (USED) IN OPERATING ACTIVITIES | (749,635) | (322,638) |

CASH FLOWS FROM INVESTING ACTIVITIES:

| | | |
|------------------------------------|---------|---------|
| Purchase of property and equipment | (2,355) | (4,735) |
| Proceeds from sale of fixed assets | - | 9,778 |

| | | |
|--|---------|-------|
| NET CASH PROVIDED/(USED) IN INVESTING ACTIVITIES | (2,355) | 5,043 |
|--|---------|-------|

CASH FLOWS FROM FINANCING ACTIVITIES:

| | | |
|---|---------|---------|
| Proceeds from issuance of notes payable | 721,000 | 355,000 |
|---|---------|---------|

| | | |
|---|---------|---------|
| NET CASH PROVIDED IN FINANCING ACTIVITIES | 721,000 | 355,000 |
|---|---------|---------|

| | | |
|---------------------------------|----------|--------|
| NET INCREASE/(DECREASE) IN CASH | (30,990) | 37,405 |
|---------------------------------|----------|--------|

| | | |
|-------------------------|--------|--------|
| CASH, BEGINNING OF YEAR | 50,041 | 12,636 |
|-------------------------|--------|--------|

| | | |
|-------------------|-----------|-----------|
| CASH, END OF YEAR | \$ 19,051 | \$ 50,041 |
|-------------------|-----------|-----------|

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

| | | |
|---------------|----------|----------|
| Interest paid | \$ 44 | \$ 66 |
| Taxes paid | \$ 3,076 | \$ 3,828 |

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

CLOUDCOMMERCE, INC. (FORMERLY WARP 9, INC.) AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

1. ORGANIZATION AND LINE OF BUSINESS

Organization

CloudCommerce, Inc. (the "Company") is a Nevada corporation formerly known as Warp 9, Inc., formerly known as Roaming Messenger, Inc., formerly known as Latinocare Management Corporation ("LMC"). On July 9, 2015, the Company's board of directors and majority shareholders voted to change the name of the Company from Warp 9, Inc. to CloudCommerce, Inc. to reflect a new plan of strategically acquiring profitable CloudCommerce solutions providers with strong management teams. The Company, based in Santa Barbara, California, began operations on October 1, 1999. The Company is a provider of fully hosted web based e-commerce software products.

Line of Business

We are a provider of mobile and e-commerce solutions for midsize online sellers, in the retail and business to business ("B2B") industries. Our solutions and services are designed to help multi-channel retailers maximize digital commerce revenues by applying our technologies and solutions for mobile e-commerce, desktop e-commerce, e-mail marketing, social media and other digital avenues. Offered as an outsourced and fully managed Software-as-a-Service ("SaaS") model, our solutions allow customers to focus on their core business, rather than technical implementations and software and hardware architecture, design, and maintenance. We believe our products and services allow our clients to lower costs and focus on promoting and marketing their brand, product line and website while leveraging the investments we have made in technology and infrastructure to operate a dynamic digital presence.

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 June 30, 2015. It is Management's plan to generate additional working capital from increasing sales from the Company's service offerings, in addition to acquiring profitable service providers.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of CloudCommerce, 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

CLOUDCOMMERCE, INC. (FORMERLY WARP 9, INC.) AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

off. The balance of the allowance account at June 30, 2015 and 2014 are \$4,808 and \$24,907 respectively.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the accompanying financial statements. Significant estimates made in preparing these financial statements include the allowance for doubtful accounts, the estimate of useful lives of property and equipment, intangible assets, 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 deferred revenue as of June 30, 2015 and 2014 was \$8,000 and \$3,300, respectively.

For the fiscal year ended, June 30, 2015, monthly recurring fees for mobile and desktop e-commerce development account for 18% of the Company's total revenues, professional services account for 78% and the remaining 4% of total revenues are from the resale of third party products and services.

For the fiscal year ended, June 30, 2014, monthly recurring fees for mobile and desktop e-commerce development account for 19% of the Company's total revenues, professional services account for 79% and the remaining 2% of total revenues are from resale of third party products and services.

Return policy

On all service offerings such as web based e-commerce products there are no returns. Monthly fees are assessed and revenue is recognized at the end of every month, after service has been provided. Some higher paying customers may have service level agreements where we guarantee system uptime such as 99.9% of the time per month. If we fall below the agreed upon level of uptime, we shall credit one day of service fee for each hour our system is down up to a maximum of one monthly fee. This guarantee only covers downtime as a result of failure in the Company's cloud hosting architecture or gross negligence. Historically, the Company has not had to issue any material credits for such downtime.

Research and Development

Research and development costs are expensed as incurred. Total research and development costs were zero for the years ended June 30, 2015 and 2014.

CLOUDCOMMERCE, INC. (FORMERLY WARP 9, INC.) AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Advertising Costs

The Company expenses the cost of advertising and promotional materials when incurred. Total advertising costs were \$61,157 and \$22,137 for the years ended June 30, 2015 and 2014, 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 June 30, 2015 and 2014, the Company's notes payables have stated borrowing rates that are consistent with those currently available to the Company and, accordingly, the Company believes the carrying value of these debt instruments approximates their fair value.

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

Level 1, defined as observable inputs such as quoted prices for identical instruments in active markets;
 Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable such as quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in markets that are not active; and

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

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

| For the year ended June 30, 2015 | Total | (Level 1) | (Level 2) | (Level 3) |
|-------------------------------------|-------|-----------|-----------|-----------|
|-------------------------------------|-------|-----------|-----------|-----------|

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

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CLOUDCOMMERCE, INC. (FORMERLY WARP 9, INC.) AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets and liabilities measured at fair value on a recurring basis are as follows at June 30, 2014:

| | Total | (Level 1) | (Level 2) | (Level 3) |
|--|--------------|-----------|-----------|--------------|
| Assets | \$ - | \$ - | \$ - | \$ - |
| Total assets measured at fair value | \$ - | \$ - | \$ - | \$ - |
| Liabilities | | | | |
| Derivative liability | 2,169,051 | - | - | 2,169,051 |
| Convertible notes, net of discount | 150,536 | - | - | 150,536 |
| Total liabilities measured at fair value | \$ 2,319,587 | \$ - | \$ - | \$ 2,319,587 |

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 \$6,073 and \$42,747 for the years ended June 30, 2015 and 2014, respectively.

Intangible Assets

The Company owns the rights to certain intangible assets, including domain names related to websites the Company operates. The rights to such domain names may be renewed annually, indefinitely. We believe that a domain name is an important component of the success of the Company and the website, and that it is difficult to estimate the useful life of the domain names. Factors that may effect useful life are, 1) the appeal of the domain to clients or potential clients, 2) industry trends and terminology, 3) the line of business in which the Company operates and 4) the marketability of the domain if the Company were to sell it. The Company evaluates each domain name individually, to determine whether a useful life is measurable. If it is determined that the useful life is finite, we will include the amortization of the domain name as a component of depreciation and amortization. If it is determined that the domain has an indefinite useful life, then we will assess it annually for impairment and for a classification change from indefinite useful life, to a finite useful life being amortized.

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

CLOUDCOMMERCE, INC. (FORMERLY WARP 9, INC.) AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 year ended June 30, 2015, included compensation expense for the stock-based payment awards granted prior to, but not yet vested, as of June 30, 2015 based on the grant date fair value estimated. Stock-based compensation expense recognized in the statement of operations for the year ended June 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 year ended June 30, 2015 and 2014 was \$150,610 and \$22,986, respectively.

Earnings Per Share

Earnings per Share require the Company to calculate earnings per share based on basic and diluted earnings per share, as defined. Basic earnings per share exclude dilution and are computed by dividing net income by the weighted average number of shares outstanding for the period. Diluted earnings per share reflect the potential dilution that could occur if stock options and warrants to issue common stock were exercised or converted into common stock. For the year ended June 30, 2015, since the Company reported a net loss, the additional diluted shares would have had an anti-dilutive effect. Therefore, all additional shares that would have been included in the diluted earnings per share calculation were excluded, and the basic and diluted earnings per share numbers are identical.

Income Taxes

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

Recently Issued Accounting Pronouncements

Management reviewed accounting pronouncements issued during the twelve months ended June 30, 2015, and no pronouncements were adopted during the period.

3. 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 matures on September 25, 2016. 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 June 30, 2015 is \$80,468, which includes \$14,468 of accrued interest.

CLOUDCOMMERCE, INC. (FORMERLY WARP 9, INC.) AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

3. CONVERTIBLE NOTES PAYABLE (Continued)

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 June 30, 2015. For the year ended June 30, 2015, the Company included \$54,981 in interest expense related to the discount. The Company recorded debt discount of \$56,000 related to the conversion feature of the May 2013 Note, along with derivative liabilities. The May 2013 Note bears interest at a rate of 10% per year and matures on November 16, 2014. The balance of the May 2013 Note, as of June 30, 2015 is \$117,845, which includes \$17,845 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 year ended June 30, 2015, the Company included \$52,816 in interest expense related to the discount. The March 2014 Note bears interest at a rate of 10% per year and matures on September 4, 2016. The balance of the March 2014 Note, as of June 30, 2015 is \$84,615, which includes \$9,615 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, 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. For the year ended June 30, 2015, the Company included \$197,340 in interest expense related to the discount. 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 June 30, 2015 is \$331,714, which includes \$31,714 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 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

CLOUDCOMMERCE, INC. (FORMERLY WARP 9, INC.) AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

3. CONVERTIBLE NOTES PAYABLE (Continued)

months, beginning on the date of each tranche payment. For the year ended June 30, 2015, the Company included \$112,629 in interest expense related to the discount. 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 June 30, 2015 is \$266,893, which includes \$16,893 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, 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. For the year ended June 30, 2015, the Company included \$61,601 in interest expense related to the discount. 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 June 30, 2015 is \$259,245, which includes \$9,245 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, and an additional \$10,000 on June 17, 2015, for a total draw of \$131,000. 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, 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 \$131,000 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 year ended June 30, 2015, the Company included \$9,314 in interest expense related to the discount. 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 June 30, 2015 is \$132,403, which includes \$1,403 of accrued interest.

ASC Topic 815 provides guidance applicable to convertible debt issued by the Company in instances where the number of shares 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 \$1,909,333 representing the estimated present value of the conversion feature considering the historic volatility of the Company's stock, and a discount of \$572,299 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:

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CLOUDCOMMERCE, INC. (FORMERLY WARP 9, INC.) AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

3. CONVERTIBLE NOTES PAYABLE (Continued)

| | | |
|------------------------------------|-------------------|----|
| Stock price on the valuation dates | \$ 0.01 | |
| Conversion price for the debt | \$ 0.004 - 0.0065 | |
| Dividend yield | | 0% |
| Months to maturity | 12 - 18 months | |
| Risk free rate | 0.28% - 0.49% | |
| Expected volatility | 82.58% - 144.55% | |

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

| Year ended June 30, | | Amount Due |
|---------------------|----|------------|
| 2016 | \$ | 619,321 |
| 2017 | \$ | 81,563 |
| 2018 | \$ | - |
| 2019 | \$ | - |
| 2020 | \$ | - |

4. RELATED PARTIES

During the fiscal year ended June 30, 2012, the Company signed a licensing agreement with PageTransformer, to obtain expertise in the area of mobile app and mobile web development. This licensing agreement expired on June 30, 2014 and was not renewed. The two founders of PageTransformer, Andrew Van Noy and Zachary Bartlett, are our current Chief Executive Officer and our current Vice President of Operations, respectively. Other than the original licensing fee paid to PageTransformer, the Company has not made any subsequent payments to PageTransformer under the licensing agreement.

5. INCOME TAXES

The Company files income tax returns in the U.S. Federal jurisdiction, and the state of California. With few exceptions, the Company is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for years before 2011.

Deferred income taxes have been provided by temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. To the extent allowed by

GAAP, we provide valuation allowances against the deferred tax assets for amounts when the realization is uncertain. Included in the balances at June 30, 2015 and 2014, are no tax positions for which the ultimate deductibility is highly certain, but for which there is uncertainty about the timing of such deductibility. Because of the impact of deferred tax accounting, other than interest and penalties, the disallowance of the shorter deductibility period would not affect the annual effective tax rate but would accelerate the payment of cash to the taxing authority to an earlier period.

The Company's policy is to recognize interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses. During the periods ended June 30, 2015 and 2014, the Company did not recognize interest and penalties.

6. DEFERRED TAX BENEFIT

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

CLOUDCOMMERCE, INC. (FORMERLY WARP 9, INC.) AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

6. DEFERRED TAX BENEFIT (Continued)

will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

Net deferred tax assets consist of the following components as of June 30, 2015 and 2014:

| | June 30, 2015 | June 30, 2014 |
|---------------------------------|---------------|---------------|
| Deferred tax assets: | | |
| NOL carryforward | \$ 2,706,600 | \$ 2,560,300 |
| R&D carryforward | 113,100 | 113,100 |
| Capital loss carryforward | 11,000 | 11,000 |
| Accrued vacation payable | 23,600 | 23,500 |
| Allowance for doubtful accounts | 1,900 | 9,700 |
| Contribution carryforward | 200 | 200 |
| Related party accruals | 2,400 | - |
| Deferred tax liabilities: | | |
| Depreciation | (17,400) | (2,700) |
| Valuation allowance | (2,841,400) | (2,715,100) |
| Net deferred tax asset | \$ - | \$ - |

The income tax provision differs from the amount of income tax determined by applying the U.S. federal and state income tax rate of 39% to pretax income from continuing operations for the years ended June 30, 2015 and 2014 due to the following:

| | June 30, 2015 | June 30, 2014 |
|--------------------------|---------------|---------------|
| Book income | \$ (143,900) | \$ (941,500) |
| Non deductible expenses | 250,800 | 747,400 |
| Accrued vacation payable | - | (15,000) |
| Allowance for bad debt | (7,800) | - |
| Depreciation | 1,700 | 10,100 |

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| | | |
|-----------------------------------|-----------|----------|
| Excess loss on disposal over book | - | (15,500) |
| Contributed services | - | - |
| R&D credit | - | - |
| Related party accruals | 2,400 | (1,000) |
| Valuation allowance | (103,200) | 215,500 |
| Income tax expense | \$ - | \$ - |

At June 30, 2015, the Company had net operating loss carryforwards of approximately \$6,940,000, that may be offset against future taxable income from the year 2014 through 2033. No tax benefit has been reported in the June 30, 2015 consolidated financial statements since the potential tax benefit is offset by a valuation allowance of the same amount.

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

7. INTANGIBLE ASSETS

On June 26, 2015, the Company purchased the rights to the domain "CLOUDCOMMERCE.COM", from a private party at a purchase price of \$20,000, plus transaction costs of \$202, and will be used as the main landing page for the Company. The total recorded cost of this domain of \$20,202 has been included in other assets on the balance sheet. As of June 30, 2015, we have determined that this domain has an indefinite useful life, and

CLOUDCOMMERCE, INC. (FORMERLY WARP 9, INC.) AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

7. INTANGIBLE ASSETS (Continued)

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.

8. CAPITAL STOCK

On May 23, 2014, the lender converted \$17,000 of the March 2013 Note, plus accrued interest of \$1,975 into 4,743,699 shares of common stock. On October 14, 2014, the lender converted \$17,000 of the March 2013 Note, plus accrued interest of \$2,645 into 4,911,370 shares of common stock.

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. This Plan, may issue 5,000,000 shares of common stock. Options granted under the Plan could be either Incentive Options or Nonqualified Options, and are administered by the Company's Board of Directors. Each option may be 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 are to expire on the date specified in the Option agreement, which date are 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 is 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 were to be specified by the Board at the time the Option was 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 were 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 hereunder.

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

| | Year Ended 6/30/2015 |
|---------------------------------------|-------------------------|
| Risk free interest rate | 6.00% |
| Stock volatility factor | 171 |
| Weighted average expected option life | 7 years |
| Expected dividend yield | none |

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

CLOUDCOMMERCE, INC. (FORMERLY WARP 9, INC.) AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

9. STOCK OPTIONS AND WARRANTS (Continued)

| | Year ended June 30, 2015 | Weighted average exercise price | Year ended June 30, 2014 | Weighted average exercise price |
|---|-----------------------------|--|-----------------------------|--|
| | Options | | Options | |
| Outstanding -beginning of year | 13,000,000 | \$ 0.005 | 13,508,000 | \$ 0.005 |
| Granted | 78,000,000 | \$ 0.013 | - | \$ - |
| Exercised | - | \$ - | - | \$ - |
| Forfeited | - | \$ - | (508,000) | \$ 0.005 |
| Outstanding - end of year | 91,000,000 | \$ 0.012 | 13,000,000 | \$ 0.005 |
| Exercisable at the end of year | 22,317,237 | \$ 0.009 | 8,170,776 | \$ 0.005 |
| Weighted average fair value of options granted during the year | | \$ 1,020,300 | | \$ - |

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 June 30, 2015 was as follows:

Weighted
Average

| Exercise prices | Number of options outstanding | remaining contractual life (years) |
|-----------------|-------------------------------|------------------------------------|
| \$ 0.013 | 63,000,000 | 6.60 |
| \$ 0.013 | 15,000,000 | 6.73 |
| \$ 0.053 | 12,500,000 | 4.12 |
| \$ 0.004 | 500,000 | 6.29 |
| | 91,000,000 | |

Warrants

During the years ended June 30, 2015 and 2014, the Company issued no warrants for services. A summary of the Company's warrant activity and related information follows:

CLOUDCOMMERCE, INC. (FORMERLY WARP 9, INC.) AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

9. STOCK OPTIONS AND WARRANTS (Continued)

| | Year End June 30, 2015 | | Year End June 30, 2014 | |
|-----------------------------------|---------------------------|--|---------------------------|--|
| | Options | Weighted average exercise price | Options | Weighted average exercise price |
| Outstanding -beginning of year | 28,019,163 | \$ 0.003 | 28,019,163 | \$ 0.003 |
| Granted | - | \$ - | - | \$ - |
| Exercised | - | \$ - | - | \$ - |
| Forfeited | - | \$ - | - | \$ - |
| Outstanding - end of year | 28,019,163 | \$ 0.003 | 28,019,163 | \$ 0.003 |

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

| Exercise prices \$ | Number of options outstanding | Weighted Average remaining contractual life (years) |
|--------------------------|-------------------------------------|---|
| 0.003 | 28,019,163 | 0.77 |

10. CONCENTRATIONS

For the year ended June 30, 2015, the Company had two major customers who represented approximately 30% of total revenue. For the year ended June 30, 2014, the Company had one major customer who represented 37% of total revenue. At June 30, 2015 and 2014, accounts receivable from one and four customers, respectively, represented approximately 54% and 46% 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.

11. COMMITMENTS AND CONTINGENCIES

Operating Leases

On August 26, 2013, the Company signed a two year lease commencing on October 1, 2013 for approximately 2,534 square feet of office space at 1933 Cliff Dr., Suite 11, Santa Barbara, California 93109 for approximately \$4,308 per month. The following is a schedule, by years, of future minimum rental payments required under the operating lease.

| Years Ending June 30, | Rent Payment |
|--------------------------|--------------|
| 2016 | \$ 13,107 |
| 2017 | \$ - |

Total lease expense for the years ended June 30, 2015 and 2014 was \$72,961 and \$97,191, 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

CLOUDCOMMERCE, INC. (FORMERLY WARP 9, INC.) AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

11. COMMITMENTS AND CONTINGENCIES (Continued)

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 June 30, 2015, 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.

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.

12. SUPPLEMENTAL STATEMENT OF CASH FLOWS INFORMATION

During the year ended June 30, 2015, we had the following non-cash financing activities:

- Decreased notes payable by \$19,645, increased common stock by \$4,911 and additional paid-in capital by \$54,025 for common shares as a result of a partial conversion of the March 2013 Note. This conversion resulted in a gain on extinguishment of debt of \$6,946.
- Decreased notes payable, other by \$39,839 and accrued interest of \$9,960, and a gain in extinguish of debt of \$49,799, due to the settlement of a past due liability..
- Decreased other current liabilities by \$61,747 and a gain in extinguish of debt of \$61,747, due to the settlement of a past due liability.
- Decreased accrued expenses by \$8,308 and selling, general and administrative expenses of \$8,308, due to the cancellation of accrued commissions.

During the year ended June 30, 2014, we had the following non-cash financing activities:

- Decreased notes payable by \$18,975, increased common stock by \$4,744 and additional paid-in capital by \$14,231 for common shares as a result of a partial conversion of the March 2013 Note. This conversion resulted in a loss on extinguishment of debt of \$8,244.
- Decreased accounts payable by \$1,877 and a gain in extinguish of debt of \$1,877, due to the settlement of a past due liability.

13. 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 July 22, 2015, a majority of the shareholders of the Company adopted a resolution to change the name of the Company from Warp 9, Inc to CloudCommerce, Inc.

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 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, or (b) 50% of the lowest trade price of Common Stock recorded on any trade day after the effective date of the agreement. The August 2015 Note bears interest at a rate of 10% per year and matures 18 months from the effective date of each advance.

On August 25, 2015, we granted nonqualified stock options to purchase up to 20,000,000, 10,000,000 and 5,000,000 shares of our common stock to Andrew Van Noy, our Chief Executive Officer, Zachary Bartlett, our Vice President of Operations and Greg Boden, our Chief Financial Officer, respectively. The stock options are exercisable at a price of \$0.015 per share exercisable for a period of seven years from the date of grant in consideration for their services to us. These stock options vest at a rate of 1/36 per month commencing on the date of grant until all of the options are vested.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We maintain a system of disclosure controls and procedures that is designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosures.

As of June 30, 2015, our management, including our principal executive officer and principal financial officer, had evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) pursuant to Rule 13a-15(b) under the Exchange Act. Based upon and as of the date of the evaluation, our principal executive officer and principal financial officer concluded that information required to be disclosed is recorded, processed, summarized, and reported within the specified periods and is accumulated and communicated to management, including our principal executive officer and principal financial officer, to allow for timely decisions regarding required disclosure of material information required to be included in our periodic SEC reports. Based on the foregoing, our management determined that our disclosure controls and procedures were effective as of June 30, 2015.

Management's Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). The design of any system of controls is based in part upon 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, regardless of how remote. All internal control systems, no matter how well designed, have inherent limitations. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

We carried out an evaluation, under the supervision and with the participation of our principal executive officer and principal financial officer, of the effectiveness of our internal controls over financial reporting as of June 30, 2015. In making this assessment, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in "Internal Control-Integrated Framework" (2013). Based on this assessment, management found a material weakness in the calculation and recording of complex debt instruments. As a result of this finding, as of June 30, 2015, our internal control over financial reporting was not effective based on those criteria. In order to remediate this material weakness, management will thoroughly review all complex debt instrument calculations and adjustments with a third party expert, prior to recording the adjustments in the general ledger. There have been no changes in internal control over financial reporting since June 30, 2015, that has materially affected or is reasonably likely to materially affect our internal control over financial reporting.

No Attestation Report by Independent Registered Accountant

The effectiveness of our internal control over financial reporting as of June 30, 2015 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 fiscal year 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.

ITEM 9B. OTHER INFORMATION

None.

PART III**ITEM 10. DIRECTORS, EXECUTIVE OFFICERS, AND CORPORATE GOVERNANCE**

The following table lists the executive officers and directors of the Company as of June 30, 2015:

| <u>Name</u> | <u>Age</u> | <u>Position</u> |
|------------------|------------|--|
| Andrew Van Noy | 32 | Chief Executive Officer, President and Chairman |
| Gregory Boden | 44 | Chief Financial Officer, Corporate Secretary, and Director |
| Zachary Bartlett | 34 | Vice President of Operations and Director |

Andrew Van Noy, age 32, has been a director of the Company since November 17, 2012. Mr. Van Noy has been the President of the Company since April 24, 2012 and the Chief Executive Officer of the Company since August 13, 2012. He was the Vice President of Sales and Marketing of the Company from May 1, 2011 to November 17, 2012 and Executive Vice President of the Company from November 17, 2012 to April 24, 2012. Mr. Van Noy came to the Company with experience in the private equity and investment banking industry, where he served from April 2006 to December 2008 as Director of Velocity of Money, a boutique real estate Private Equity firm, and managed over \$300 million of transactions at Morgan Stanley's global banking headquarters in Salt Lake City, Utah. From January 2009 to April 2011, Mr. Van Noy served as the Vice President of Sales and Marketing for PageTransformer, a company which provided web and software development for iPad, iPhone, and Android devices.

Mr. Van Noy's qualifications:

- Leadership Experience - Mr. Van Noy has held various leadership and executive positions including Executive Vice President, President, and Chief Executive Officer of the Company.
- Industry Experience - Mr. Van Noy helped lead the re-branding and re-structuring of the Company, including the launch of the new platform, Magento. In addition, Mr. Van Noy led the Company to a strategic partnership with the industry leading mobile commerce technology provider, Moovweb, to offer cutting edge mobile commerce website technology to its customers.

Gregory Boden, age 44, has been a director of the Company since November 17, 2011 and the Corporate Secretary of the Company since February 11, 2013. On April 24, 2012 Mr. Boden was appointed Chief Financial Officer of the Company. From June 1, 2011 to March 1, 2012, Mr. Boden served as an independent contractor assisting the Company in accounting and financial reporting matters. In addition to his position as Chief Financial Officer, Mr. Boden has served since January 1, 2011 as the President of Bountiful Capital, LLC, a Santa Barbara based private equity company. Prior to joining the Company, from September 2006 to October 2009, Mr. Boden worked in public accounting in the audit practice of KPMG, LLP, after which, from October 2009 to December 2010, he and managed the franchise accounting and cash application departments of Select Staffing, a nationwide staffing company.

Mr. Boden's qualifications:

- Leadership experience - Mr. Boden has managed teams ranging from three to 50 people in various industries and backgrounds. In public accounting, Mr. Boden supervised the planning and day-to-day execution of audits of large public, private and governmental entities.

- Industry experience - Mr. Boden worked for several years in the telecommunications industry for AT&T and WorldCom (now Verizon Business) selling voice, data, internet, and data center services. He leverages his industry expertise while assisting in the planning and operation of the Company's data center and overall sales strategy.

- Finance experience - Mr. Boden has been assisting the Company with accounting and financial reporting matters since June 1, 2011, and for several years outside the Company. He is a Certified Public Accountant, licensed in the state of California and has been instrumental in streamlining the accounting and financial reporting processes of the Company. Mr. Boden served as the Treasurer of the Los Padres Council of the Boy Scouts of America from June 2010 until December 2012. In that position, he oversaw the monthly financial reporting and assists office staff with implementation of proper internal control structures and complicated accounting matters.

Zachary Bartlett, age 33, has been the Vice President of Operations of the Company since July 2012. Prior to joining the Company, Mr. Bartlett was the Creative Director of Crowbar Studios, Inc., a graphic design and web development firm founded by Mr. Bartlett in 2008. From 2004 to 2008, he held the position of Art and Brand consultant at Demon International, a snowboard accessories company. In 2009, Mr. Bartlett was one of the founders of Page Transformer, Inc., a company that provided web and software development for iPad, iPhone, and Android devices. Mr. Bartlett received his Bachelor of Fine Arts degree in graphic design from Brigham Young University in 2004.

Mr. Bartlett's qualifications:

- Industry experience - Mr. Bartlett worked for several years in the web development industry for Crowbar Studios, Inc. and Demon International
- Design Experience - Mr. Bartlett has a degree in graphic design from Brigham Young University and has further developed these skills as he has provided graphic design and web development services to both consumer and business customers. His current role at the Company requires Mr. Bartlett to use these skills to oversee various projects related to web and app development.

No director is required to make any specific amount or percentage of his business time available to us. Our officer intends to devote such amount of his time to our affairs as is required or deemed appropriate by us.

Limitation of Liability and Indemnification of Officers and Directors

Under the Nevada General Corporation Law and the Company's Articles of Incorporation, as amended, the Company's directors will have no personal liability to the Company or its stockholders for monetary damages incurred as the result of the breach or alleged breach by a director of his "duty of care". This provision does not apply to the directors' (i) acts or omissions that involve intentional misconduct or a knowing and culpable violation of law, (ii) acts or omissions that a director believes to be contrary to the best interests of the corporation or its shareholders or that involve the absence of good faith on the part of the director, (iii) approval of any transaction from which a director derives an improper personal benefit, (iv) acts or omissions that show a reckless disregard for the director's duty to the corporation or its shareholders in circumstances in which the director was aware, or should have been aware, in the ordinary course of performing a director's duties, of a risk of serious injury to the corporation or its shareholders, (v) acts or omissions that constituted an unexcused pattern of inattention that amounts to an abdication of the director's duty to the corporation or its shareholders, or (vi) approval of an unlawful dividend, distribution, stock repurchase or redemption. This provision would generally absolve directors of personal liability for negligence in the performance of duties, including gross negligence.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers or persons controlling the Company pursuant to the foregoing provisions, the Company has been informed that in the opinion of the Securities and Exchange Commission, such indemnification is against public policy as expressed in the Act and is therefore unenforceable.

Board Committees

The Board of Directors has not had an Audit Committee since February 2006 when Tom Djokovich, the sole member of the Audit Committee, resigned from the Company's Board of Directors for personal reasons. Since then, the Company has not reappointed an Audit Committee.

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Auditor Independence

HJ Associates & Consultants, LLP ("HJ") has been the Company's principal auditing accountant firm since August 2006. HJ also provides tax services to the Company. The Company's Board of Directors has considered whether providing tax services to the Company violates auditor independence policies, and has determined that it does not.

Report of the Audit Committee

In February 2006, the sole member of the Company's Audit Committee resigned from the Board of Directors for personal reasons. The Company has not reformed the Audit Committee since that time. Accordingly the Company has not received any reports from an Audit Committee during the fiscal year ended June 30, 2015. The Company's full Board of Directors is presently performing the functions of an Audit Committee until a new Audit Committee is formed in the future.

Code of Conduct

The Company has adopted a Code of Conduct that applies to all of its directors, officers and employees. Any waiver of the provisions of the Code of Conduct for executive officers and directors may be made only by the Audit Committee when formed or the full Board of Directors and, in the case of a waiver for members of the Audit Committee, by the Board of Directors. Any such waivers will be promptly disclosed to the Company's shareholders.

Compliance with Section 16(A) of Exchange Act

Section 16(a) of the Exchange Act requires the Company's officers and directors, and certain persons who own more than 10% of a registered class of the Company's equity securities (collectively, "Reporting Persons"), to file reports of ownership and changes in ownership ("Section 16 Reports") with the Securities and Exchange Commission (the "SEC"). Reporting Persons are required by the SEC to furnish the Company with copies of all Section 16 Reports they file. Based solely on its review of the copies of such Section 16 Reports received by it, or written representations received from certain Reporting Persons, all Section 16(a) filing requirements applicable to the Company's Reporting Persons during and with respect to the fiscal year ended June 30, 2015 have been complied with on a timely basis.

ITEM 11. EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

The following Compensation Discussion and Analysis describes the material elements of compensation for our executive officers identified in the Summary Compensation Table ("Named Executive Officers"), and executive officers that we may hire in the future. As more fully described below, our board of directors makes all decisions for the total direct compensation of our executive officers, including the Named Executive Officers. We do not have a compensation committee, so all decisions with respect to management compensation are made by the whole board.

Compensation Program Objectives and Rewards

Our compensation philosophy is based on the premise of attracting, retaining, and motivating exceptional leaders, setting high goals, working toward the common objectives of meeting the expectations of customers and stockholders, and rewarding outstanding performance. Following this philosophy, in determining executive compensation, we consider all relevant factors, such as the competition for talent, our desire to link pay with performance in the future, the use of equity to align executive interests with those of our stockholders, individual contributions, teamwork and performance, and each executive's total compensation package. We strive to accomplish these objectives by

compensating all executives with total compensation packages consisting of a combination of competitive base salary and incentive compensation.

To date, we have not applied a formal compensation program to determine the compensation of the Named Executive Officers. In the future, as we and our management team expand, our board of directors expects to add independent members, form a compensation committee comprised of independent directors, and apply the compensation philosophy and policies described in this section of the 10K.

The primary purpose of the compensation and benefits described below is to attract, retain, and motivate highly talented individuals when we do hire, who will engage in the behaviors necessary to enable us to succeed in our mission while upholding our values in a highly competitive marketplace. Different elements are designed to engender different behaviors, and the actual incentive amounts which may be awarded to each Named Executive Officer are subject to the annual review of the board of directors. The following is a brief description of the key elements of our planned executive compensation structure.

- Base salary and benefits are designed to attract and retain employees over time.
- Incentive compensation awards are designed to focus employees on the business objectives for a particular year.
- Equity incentive awards, such as stock options and non-vested stock, focus executives' efforts on the behaviors within the recipients' control that they believe are designed to ensure our long-term success as reflected in increases to our stock prices over a period of several years, growth in our profitability and other elements.
- Severance and change in control plans are designed to facilitate a company's ability to attract and retain executives as we compete for talented employees in a marketplace where such protections are commonly offered. We currently have not given separation benefits to any of our Name Executive Officers.

Benchmarking

We have not yet adopted benchmarking but may do so in the future. When making compensation decisions, our board of directors may compare each element of compensation paid to our Named Executive Officers against a report showing comparable compensation metrics from a group that includes both publicly-traded and privately-held companies. Our board believes that while such peer group benchmarks are a point of reference for measurement, they are not necessarily a determining factor in setting executive compensation as each executive officer's compensation relative to the benchmark varies based on scope of responsibility and time in the position. We have not yet formally established our peer group for this purpose.

The Elements of CloudCommerce's Compensation Program

Base Salary

Executive officer base salaries are based on job responsibilities and individual contribution. The board reviews the base salaries of our executive officers, including our Named Executive Officers, considering factors such as corporate progress toward achieving objectives (without reference to any specific performance-related targets) and individual performance experience and expertise. None of our Named Executive Officers have employment agreements with us. Additional factors reviewed by the board of directors in determining appropriate base salary levels and raises include subjective factors related to corporate and individual performance. For the year ended June 30, 2015, all executive officer base salary decisions were approved by the board of directors.

Our board of directors determines base salaries for the Named Executive Officers at the beginning of each fiscal year, or during the year if needed, and the board proposes new base salary amounts, if appropriate, based on its evaluation of individual performance and expected future contributions.

Incentive Compensation Awards

During the year ended June 30, 2015, the Board approved a quarterly incentive bonus to the Chief Executive Officer, calculated as 3% of gross profit, payable approximately 30 days after the end of the quarter. Throughout the fiscal year, this bonus amounted to \$16,413.

Equity Incentive Awards

Our 2003 Stock Option Plan for Directors, Officers, Employees and Key Consultants (the "2003 Plan") authorizing the issuance of up to 5,000,000 shares of our common stock pursuant to the grant and exercise of up to 5,000,000 stock options terminated upon the expiration of the remaining options granted under the 2003 Plan on May 24, 2014. In the future, we plan to establish a new management stock option plan pursuant to which stock options may be authorized and granted to our executive officers, directors, employees and key consultants. We expect to authorize up to 10% of our issued and outstanding Common Stock for future issuance under such plan. The Plan has been approved by the holders of our outstanding shares. We believe that stock option awards motivate our employees to work to improve our business and stock price performance, thereby further linking the interests of our senior management and our stockholders. The board considers several factors in determining whether awards are granted to an executive officer, including those previously described, as well as the executive's position, his or her performance and responsibilities, and the amount of options, if any, currently held by the officer and their vesting schedule. Our policy prohibits backdating options or granting them retroactively. As of June 30, 2014, no stock options granted under the Plan remain outstanding and the Plan terminated. As of June 30, 2015, 91,000,000 stock options granted outside of the Plan are outstanding.

Benefits and Prerequisites

At this stage of our business we have limited benefits and no prerequisites for our employees other than paid time off that are generally comparable to those offered by other small private and public companies or as may be required by applicable state employment laws. We may adopt retirement plans and confer other fringe benefits for our executive officers in the future if our business grows sufficiently to enable us to afford them.

Separation and Change in Control Arrangements

We do not have any employment agreements with our Named Executive Officers or any other executive officer or employee of the Company. None of them are eligible for specific benefits or payments if their employment or engagement terminates in a separation or if there is a change of control.

Executive Officer Compensation

The following summary compensation table sets forth certain information concerning compensation paid to the Company's Chief Executive Officer and its most highly paid executive officers (the "Named Executive Officers") whose total annual salary and bonus for services rendered in all capacities for the fiscal year ended June 30, 2015 was \$100,000 or more.

Summary Compensation Table

| Name and Principal Position | Fiscal Year | Salary | Bonus | Option Awards(1) | All Other Compensation(5) | Total |
|---|-------------|-----------|----------|------------------|---------------------------|-----------|
| Andrew Van Noy (2) Chief Executive Officer, President and Director | 2015 | \$147,417 | \$16,413 | \$588,000 | -0- | \$751,830 |
| | 2014 | \$136,200 | -0- | -0- | -0- | \$136,200 |
| Gregory Boden (3) Chief Financial Officer, Corporate Secretary, and Director | 2015 | \$80,400 | -0- | \$131,000 | -0- | \$211,400 |
| | 2014 | \$69,700 | -0- | -0- | -0- | \$69,700 |
| Zachary Bartlett (4) Vice President of Operations and Director | 2015 | \$116,400 | -0- | \$262,000 | -0- | \$378,400 |
| | 2014 | \$112,160 | -0- | -0- | -0- | \$112,160 |

(1) The amounts in this column reflect the grant-date fair value of stock options with respect to the years ended June 30, 2015 and 2014, in accordance with applicable accounting guidance related to stock based compensation. For a description of the assumptions used in determining the value of the options, see the notes to the consolidated financial statements.

(2) Mr. Van Noy has been the President of the Company since April 24, 2012 and the Chief Executive Officer of the Company since August 13, 2012. Mr. Van Noy's base compensation was increased to \$132,000 per year beginning on January 1, 2013 and \$140,400 per year beginning January 1, 2014.

(3) Mr. Boden has been the Chief Financial Officer of the Company since April 24, 2012. Mr. Boden's compensation during the fiscal year ended June 30, 2013 was \$60,000 per year. Mr. Boden's compensation was increased to \$80,400 per year, beginning January 1, 2014.

(4) Mr. Bartlett has been the Vice President of Operations for the Company since July 2012. As Vice President of Operations his compensation was \$96,000 per year until January 1, 2013, when it was raised to \$108,000 per year. Mr. Bartlett's compensation was increased to \$116,160 per year on January 1, 2014.

(5) Mr. Van Noy received a quarterly bonus, calculated as 3% of gross profit, paid approximately 30 days after each quarter.

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Outstanding Equity Awards at Fiscal Year-End

The following table sets forth information with respect to unexercised stock options, stock that has not vested, and equity incentive plan awards held by the Company's executive officers at June 30, 2015.

| Name | Number of Securities Underlying Unexercised Options Exercisable | Number of Securities Underlying Unexercised Options Unexercisable | Option Exercise Price | Option Expiration Date |
|---|--|--|------------------------------|-------------------------------|
| Gregory Boden (1) | 464,726 | 35,274 | \$0.004 | October 12, 2021 |
| Chief Financial Officer and Corporate Secretary | 2,399,543 | 100,457 | \$0.0053 | August 13, 2019 |
| | 1,342,466 | 8,657,534 | \$0.0131 | February 3, 2022 |
| Andrew Van Noy (2) | 4,799,087 | 200,913 | \$0.0053 | August 13, 2019 |
| Chief Executive Officer and President | 4,027,397 | 25,972,603 | \$0.0131 | February 3, 2022 |
| | 1,397,260 | 13,602,740 | \$0.013 | March 20, 2022 |
| Zachary Bartlett (3) | 4,799,087 | 200,913 | \$0.0053 | August 13, 2019 |
| Vice President of Operations | 2,684,932 | 17,315,068 | \$0.0131 | February 3, 2022 |

(1) On October 12, 2011, Mr. Boden received stock options to purchase 500,000 shares of common stock, at an exercise price of \$0.004 per share exercisable for a period of ten years from the date of grant. These stock options vest at a rate of 1/48 per month commencing on the date of grant until all of the options are vested. On August 13, 2012, Mr. Boden received stock options to purchase 2,500,000 shares of common stock, at an exercise price of \$0.0053 per share exercisable for a period of seven years from the date of grant. These stock options vest at a rate of 1/36 per month commencing on the date of grant until all of the options are vested. On February 3, 2015, Mr. Boden received stock options to purchase 10,000,000 shares of common stock, at an exercise price of \$0.0131 per share exercisable for a period of seven years from the date of grant. These stock options vest at a rate of 1/36 per month commencing on the date of grant until all of the options are vested.

(2) On August 13, 2012, Mr. Van Noy received stock options to purchase 5,000,000 shares of common stock, at an exercise price of \$0.0053 per share exercisable for a period of seven years from the date of grant. These stock options vest at a rate of 1/36 per month commencing on the date of grant until all of the options are vested. On February 3, 2015, Mr. Van Noy received stock options to purchase 30,000,000 shares of common stock, at an exercise price of \$0.0131 per share exercisable for a period of seven years from the date of grant. These stock options vest at a rate of 1/36 per month commencing on the date of grant until all of the options are vested. On March 20, 2015, Mr. Van Noy received stock options to purchase 15,000,000 shares of common stock, at an exercise price of \$0.013 per share exercisable for a period of seven years from the date of grant. These stock options vest at a rate of 1/36 per month commencing on the date of grant until all of the options are vested.

(3) On August 13, 2012, Mr. Bartlett received stock options to purchase 5,000,000 shares of common stock, at an exercise price of \$0.0053 per share exercisable for a period of seven years from the date of grant. These stock options vest at a rate of 1/36 per month commencing on the date of grant until all of the options are vested. On February 3, 2015, Mr. Bartlett received stock options to purchase 20,000,000 shares of common stock, at an exercise price of

\$0.0131 per share exercisable for a period of seven years from the date of grant. These stock options vest at a rate of 1/36 per month commencing on the date of grant until all of the options are vested.

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Option Exercises and Stock Vested

None of the Company's executive officers exercised any stock options or acquired stock through vesting of an equity award during the fiscal year ended June 30, 2015.

Director Compensation

The Company's directors did not receive any compensation for their services rendered to the Company as directors during the fiscal years ended June 30, 2015 and June 30, 2014.

Employment Agreements

The Company has not entered into any employment agreements with its executive officers to date. The Company may enter into employment agreements with them in the future.

Stock Option Plan

Our 2003 Stock Option Plan for Directors, Officers, Employees and Key Consultants (the "2003 Plan") authorizing the issuance of up to 5,000,000 shares of our common stock pursuant to the grant and exercise of up to 5,000,000 stock options terminated upon the expiration of the remaining options granted under the 2003 Plan on May 21, 2014. In the future, we plan to establish a new management stock option plan pursuant to which stock options may be authorized and granted to our executive officers, directors, employees and key consultants. We expect to authorize up to 10% of our issued and outstanding Common Stock for future issuance under such plan.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table sets forth the names of our executive officers and directors and all persons known by us to beneficially own 5% or more of the issued and outstanding common stock of CloudCommerce at September 24, 2015. Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission. In computing the number of shares beneficially owned by a person and the percentage of ownership of that person, shares of common stock subject to options held by that person that are currently exercisable or become exercisable within 60 days of September 26, 2014 are deemed outstanding even if they have not actually been exercised. Those shares, however, are not deemed outstanding for the purpose of computing the percentage ownership of any other person. The percentage ownership of each beneficial owner is based on 100,878,825 outstanding shares of common stock. Except as otherwise listed below, the address of each person is c/o CloudCommerce, Inc., 1933 Cliff Drive, Suite 11, Santa Barbara, California 93109. Except as indicated, each person listed below has sole voting and investment power with respect to the shares set forth opposite such person's name.

| <u>Name, Title and Address</u> | <u>Number of Shares Beneficially Owned (1)</u> | <u>Percentage Ownership</u> |
|--|--|-----------------------------|
| Gregory Boden | 4,258,817 | 4.0% |
| Director, Chief Financial Officer, and Corporate Secretary (2) | | |
| Andrew VanNoy | 10,223,744 | 9.7% |
| Chairman, Chief Executive Officer, and President (3) | | |
| Zachary Bartlett | 31,412,670 | 29.7% |
| Director and Vice President of Operations (4) | | |
| All current Executive Officers as a Group | 45,895,232 | 43.4% |
| Thunder Innovations, LLC | 14,893,905 | 14.1% |
| 297 Kingsbury Grade, #100, Box 4470 | | |
| Stateline, NV 89449 | | |

(1) Except as pursuant to applicable community property laws, the persons named in the table have sole voting and investment power with respect to all shares of common stock beneficially owned.

(2) Includes 4,206,735 shares which may be purchased by Mr. Boden pursuant to stock options that are exercisable within 60 days of June 30, 2015.

(3) Includes 10,223,744 shares which may be purchased by Mr. Van Noy pursuant to stock options that are exercisable within 60 days of June 30, 2015.

(4) Includes 7,484,018 shares which may be purchased by Mr. Bartlett pursuant to stock options that are exercisable within 60 days of June 30, 2015.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

None.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

HJ Associates & Consultants, LLP ("HJ") has been the Company's principal auditing accountant firm since August 2006. HJ also provides tax services to the Company. The Company's Board of Directors has considered whether providing tax services to the Company violates auditor independence policies, and has determined that it does not.

Audit Fees

An aggregate of \$31,500 was billed by our auditors for the following professional services: audit of the annual financial statement of the Company for the fiscal year ended June 30, 2015, and review of the interim financial statements included in quarterly reports on Form 10-Q for the periods ended September 30, 2014, December 31, 2014, and March 31, 2015.

An aggregate of \$29,500 was billed by our auditors for the following professional services: audit of the annual financial statement of the Company for the fiscal year ended June 30, 2014, and review of the interim financial statements included in quarterly reports on Form 10-Q for the periods ended September 30, 2013, December 31, 2013, and March 31, 2014.

Tax Fees

Our auditors billed the Company \$1,069 for tax preparation services during the fiscal year ended June 30, 2015.

Our auditors billed the Company \$1,075 for tax preparation services during the fiscal year ended June 30, 2014.

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) Exhibits

| <u>Exhibit</u> | <u>Description</u> |
|----------------|---|
| 3.1 | Articles of Incorporation (1) |
| 3.2 | Bylaws (1) |
| 4.1 | Specimen Certificate for Common Stock (1) |
| 4.2 | Non-Qualified Employee Stock Option Plan (2) |
| 4.3 | Convertible Debenture dated December 28, 2005 (3) |
| 4.4 | Form of \$0.08 Warrant (3) |
| 4.5 | Form of \$0.10 Warrant (3) |
| 4.6 | Form of \$0.12 Warrant (3) |
| 10.1 | First Agreement and Plan of Reorganization between Latinocare Management Corporation, a Nevada corporation, and Warp 9, Inc., a Delaware corporation (4) |
| 10.2 | Second Agreement and Plan of Reorganization between Latinocare Management Corporation, a Nevada corporation, and Warp 9, Inc., a Delaware corporation (5) |
| 10.3 | Exchange Agreement and Representations for shareholders of Warp 9, Inc.(4) |
| 10.4 | Securities Purchase Agreement dated as of March 28, 2005 between Roaming Messenger, Inc. and Wings Fund, Inc.(6) |
| 10.5 | Periodic Equity Investment Agreement dated as of March 28, 2005 between Roaming Messenger, Inc. and Wings Fund, Inc.(6) |
| 10.6 | Registration Rights Agreement dated as of March 28, 2005 between Roaming Messenger, Inc. and Wings Fund, Inc.(6) |
| 10.7 | Securities Purchase Agreement dated December 28, 2005 between the Company and Cornell Capital Partners LLP (3) |
| 10.8 | Investor Registration Rights Agreement dated December 28, 2005 (3) |
| 10.9 | Insider Pledge and Escrow Agreement dated December 28, 2005 by and among the Company, Cornell and David Gonzalez as escrow agent (3) |
| 10.10 | Security Agreement dated December 28, 2005 by and between the Company and Cornell (3) |
| 10.11 | Escrow Agreement Dated December 28, 2005 by and among the Company, Cornell and David Gonzalez, as Escrow Agent (3) |
| 10.12 | Irrevocable Transfer Agent Instructions (3) |
| 10.13 | Exclusive Technology License Agreement, dated September 18, 2006 (8) |
| 10.14 | Subscription Agreement with Zingerang Inc., dated September 18, 2006 (8) |
| 10.15 | Termination of License Agreement with Carbon Sciences, Inc., dated April 2, 2007 (9) |
| 10.16 | Completion of Securities Purchase Agreement dated December 28, 2005 between the Company and Cornell Capital Partners LLP (10) |
| 10.17 | Form of Convertible Note, dated January 5, 2015 (11) |
| 10.18 | Form of Stock Option Agreement (11) |
| 21.1 | List of Subsidiaries (7) |
| 31.1 | Section 302 Certification of Principal Executive Officer |
| 31.2 | Section 302 Certification of Principal Financial/Accounting Officer |
| 32.1 | Section 906 Certification of Principal Executive Officer |
| 32.2 | Section 906 Certification of Principal Financial/Accounting Officer |
| EX-101.INS | XBRL INSTANCE DOCUMENT* |
| EX-101.SCH | XBRL TAXONOMY EXTENSION SCHEMA DOCUMENT* |
| EX-101.CAL | XBRL TAXONOMY EXTENSION CALCULATION LINKBASE* |
| EX-101.DEF | XBRL TAXONOMY EXTENSION DEFINITION LINKBASE* |

EX-101.LABXBRL TAXONOMY EXTENSION LABELS LINKBASE*

EX-101.PRE XBRL TAXONOMY EXTENSION PRESENTATION LINKBASE*

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- (1) Incorporated by reference from the exhibits included with the Company's prior Report on Form 10-KSB filed with the Securities and Exchange Commission, dated March 31, 2002.
- (2) Incorporated by reference from the exhibits included in the Company's Information Statement filed with the Securities and Exchange Commission, dated August 1, 2003.
- (3) Incorporated by reference from the exhibits included in the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 29, 2005.
- (4) Incorporated by reference from the exhibits included with the Company's prior Report on Form SC 14F1 filed with the Securities and Exchange Commission, dated April 8, 2003.
- (5) Incorporated by reference from the exhibits included with the Company's prior Report on Form 8K filed with the Securities and Exchange Commission, dated May 30, 2003.
- (6) Incorporated by reference to exhibits filed with the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission dated March 30, 2005.
- (7) Incorporated by reference to the exhibits filed with the Company's prior Annual Report on Form 10-KSB/A filed with the Securities and Exchange Commission, dated October 12, 2007.
- (8) Incorporated by reference to exhibits filed with the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission, dated September 22, 2005.
- (9) Incorporated by reference to exhibits filed with the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission, dated May 8, 2007.
- (10) Incorporated by reference to exhibits filed with the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission, dated June 10, 2008.

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

* 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.

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SIGNATURES

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

Dated: September 24, 2015

CLOUDCOMMERCE, INC.

By: /s/ Andrew Van Noy

Andrew Van Noy,

Chief Executive Officer and President

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

By: /s/ Andrew Van Noy

Dated: September 24, 2015

Andrew Van Noy,

Chief Executive Officer, President

(Principal Executive Officer)

By: /s/ Gregory Boden

Dated: September 24, 2015

Gregory Boden, Chief Financial Officer

(Principal Financial/Accounting Officer)

