UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For quarterly period ended March 31, 2019.

or

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

For the Transition period from _______________ to ______________

Commission File Number: 000-13215

CLOUDCOMMERCE, INC.

(Exact name of registrant as specified in its charter)

NEVADA	**30-0050402**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

321 Sixth Street, San Antonio, TX 78215

(Address of principal executive offices) (Zip Code)

(805) 964-3313

Registrant’s telephone number, including area code

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

Yes ☒ No ☐

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

Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☒	Smaller reporting company	☒
		Emerging growth company	☐

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

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

Yes ☐ No ☒

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

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

As of May 15, 2019, the number of shares outstanding of the registrant's class of common stock was 137,512,588.

Table of Contents

PART I. - FINANCIAL INFORMATION

Item 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

CLOUDCOMMERCE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

	March 31, 2019 (unaudited)	December 31, 2018
ASSETS		
CURRENT ASSETS		
Cash	$ 225,096	$ 116,312
Accounts receivable, net	784,855	923,703
Accounts receivable, net - related party	65,316	78,753
Costs in excess of billings	162,778	99,017
Prepaid and other current Assets	62,562	74,284
TOTAL CURRENT ASSETS	1,300,607	1,292,069
PROPERTY & EQUIPMENT, net	130,038	138,739
RIGHT-OF-USE ASSETS	365,460	—
OTHER ASSETS		
Lease deposit	13,800	13,800
Goodwill and other intangible assets, net	8,152,025	8,396,151
TOTAL OTHER ASSETS	8,165,825	8,409,951
TOTAL ASSETS	$ 9,961,930	$ 9,840,759
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 1,400,597	$ 1,619,115
Accrued expenses	608,388	766,160
Operating lease liability	365,460	—
Lines of credit	347,116	417,618
Deferred revenue and customer deposit	1,049,301	1,081,570
Convertible notes and interest payable, current, net	491,107	225,089
Finance lease obligation, current	34,466	34,038
Notes payable	666,667	375,000
Notes payable, related parties	931,196	920,470
TOTAL CURRENT LIABILITIES	5,894,298	5,439,060
LONG TERM LIABILITIES		
Finance lease obligation, long term	11,876	20,654
Accrued expenses, long term	202,553	203,603
TOTAL LONG TERM LIABILITIES	214,429	224,257
TOTAL LIABILITIES	6,108,727	5,663,317
COMMITMENTS AND CONTINGENCIES (see Note 14)		
SHAREHOLDERS' EQUITY		
Preferred stock, $0.001 par value;		
5,000,000 Authorized shares:		
Series A Preferred stock; 10,000 authorized, 10,000 shares issued and outstanding;	10	10
Series B Preferred stock; 25,000 authorized, 18,025 shares issued and outstanding;	18	18
Series C Preferred Stock; 25,000 authorized, 14,425 shares issued and outstanding;	14	14
Series D Preferred Stock; 90,000 authorized, 90,000 shares issued and outstanding;	90	90
Series E Preferred stock; 10,000 authorized, 10,000 shares issued and outstanding;	10	10
Common stock, $0.001 par value;		
2,000,000,000 authorized shares; 137,512,588 and 137,512,588 shares issued and outstanding, respectively	137,513	137,513
Additional paid in capital	29,552,415	29,532,735
Accumulated deficit	(25,836,867)	(25,492,948)
TOTAL SHAREHOLDERS' EQUITY	3,853,203	4,177,442
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 9,961,930	$ 9,840,759

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

CLOUDCOMMERCE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	Three Months Ended	
	March 31, 2019	March 31, 2018
REVENUE	$ 2,524,843	$ 1,395,276
REVENUE - related party	128,164	1,481,433
TOTAL REVENUE	2,653,007	2,876,709
OPERATING EXPENSES		
Salaries and outside services	1,151,880	1,483,884
Selling, general and administrative expenses	1,342,186	1,811,640
Stock based compensation	81,370	160,072
Loss on impairment of Goodwill and Intangible Assets		—
Depreciation and amortization	254,931	253,393
TOTAL OPERATING EXPENSES	2,830,367	3,708,989
LOSS FROM OPERATIONS BEFORE OTHER INCOME AND TAXES	(177,360)	(832,280)
OTHER INCOME (EXPENSE)		
Other income/(expense)	—	(23,620)
Loss on sale of fixed assets	—	(22,359)
Interest expense	(166,559)	(43,101)
TOTAL OTHER INCOME (EXPENSE)	(166,559)	(89,080)
LOSS FROM OPERATIONS BEFORE PROVISION FOR TAXES	(343,919)	(921,360)
PROVISION (BENEFIT) FOR INCOME TAXES	—	(129,991)
NET LOSS	(343,919)	(791,369)
PREFERRED DIVIDENDS	61,690	54,477
NET LOSS ATTRIBUTABLE TO COMMON SHAREHOLDERS	$ (405,609)	$ (845,846)
NET LOSS PER SHARE		
BASIC	$ (0.00)	$ (0.01)
DILUTED	$ (0.00)	$ (0.01)
WEIGHTED-AVERAGE COMMON SHARES OUTSTANDING		
BASIC	137,512,588	130,252,778
DILUTED	137,512,588	130,252,778

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

Table of Contents

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

	Preferred Stock		Common Stock		Additional Paid-in	Accumulated	
	Shares	Amount	Shares	Amount	Capital	Deficit	Total
For the three months ended March 31, 2018							
Balance, December 31, 2017	142,450	$ 142	130,252,778	$ 130,252	$ 29,094,147	$ (22,622,935)	$ 6,601,606
Dividend on Series A Preferred stock ($2.00 per share)	—	—	—	—	(20,000)	—	(20,000)
Dividend on Series D Preferred stock ($0.38 per share)	—	—	—	—	(34,477)		(34,477)
Stock based compensation	—	—	—	—	160,072	—	160,072
Net loss	—	—	—	—	—	(791,369)	(791,369)
Balance, March 31, 2018 (unaudited)	142,450	$ 142	130,252,778	$ 130,252	$ 29,199,742	$ (23,414,304)	$ 5,915,832
For the three months ended March 31, 2019							
Balance, December 31, 2018	142,450	$ 142	137,512,588	$ 137,513	$ 29,532,735	$ (25,492,948)	$ 4,177,442
Conversion of convertible note	—	—	—	—	—	—	—
Series A preferred stock dividend declared ($2.00 per share)	—	—	—	—	(20,000)	—	(20,000)
Series D preferred stock dividend declared ($0.46 per share)	—	—	—	—	(41,690)	—	(41,690)
Stock based compensation	—	—	—	—	81,370	—	81,370
Net loss	—	—	—	—	—	(343,919)	(343,919)
Balance, March 31, 2019 (unaudited)	142,450	$ 142	137,512,588	$ 137,513	$ 29,552,415	$ (25,836,867)	$ 3,853,203

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

CLOUDCOMMERCE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Three Months Ended March 31, 2019	Three Months Ended March 31, 2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (343,919)	$ (791,369)
Adjustment to reconcile net loss to net cash (used in) operating activities		
Depreciation and amortization	254,931	253,368
Loss on sale of fixed assets	—	20,817
Non-cash compensation expense	81,370	160,072
Amortization of Beneficial Conversion Feature	55,081	—
Change in assets and liabilities:		
(Increase) Decrease in:		
Accounts receivable	152,285	(3,376)
Prepaid expenses and other assets	11,722	(59,633)
Costs in excess of billings	(63,761)	—
Lease deposit	—	(1,300)
Accounts payable	(218,518)	431,433
Accrued expenses	(178,849)	54,426
Change in lease obligation	(2,350)	—
Customer Deposits	(39,332)	—
Deferred income	7,063	125,305
Deferred taxes	—	(129,991)
NET CASH (USED IN) / PROVIDED BY OPERATING ACTIVITIES	(284,277)	59,752
CASH FLOWS FROM INVESTING ACTIVITIES:		
Cash paid for purchase of fixed assets	(2,104)	(34,458)
Proceeds from the sale of fixed assets	—	20,658
NET CASH (USED IN) INVESTING ACTIVITIES	(2,104)	(13,800)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on capital lease obligation	(6,000)	(15,890)
Payment of dividend	(20,000)	(54,477)
Payments on line of credit, net	(70,502)	(151,597)
Proceeds from issuance of notes, related party	—	206,000
Proceeds from issuance of notes payable	200,000	—
Principal payments on term loan	(83,333)	(85,150)
Proceeds from issuance of term loan	375,000	—
NET CASH (USED IN) / PROVIDED BY FINANCING ACTIVITIES	395,165	(101,114)
NET INCREASE / (DECREASE) IN CASH	108,784	(55,162)
CASH, BEGINNING OF PERIOD	116,312	272,321
CASH, END OF PERIOD	$ 225,096	$ 217,159
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Interest paid	$ 99,313	$ 27,539
Taxes paid	$ —	$ —

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

CLOUDCOMMERCE, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED
MARCH 31, 2019

1. BASIS OF PRESENTATION

The accompanying unaudited Condensed Consolidated Financial Statements of CloudCommerce, Inc. ("CloudCommerce," "we," "us," or the "Company") and its wholly-owned subsidiaries, have been in accordance with the instructions to interim financial reporting as prescribed by the Securities and Exchange Commission (the "SEC"). The results for the interim periods are not necessarily indicative of results for the entire year. These interim financial statements do not include all disclosures required by generally accepted accounting principles ("GAAP") and should be read in conjunction with our consolidated financial statements and footnotes filed with the SEC in the Company's Form 10-K. In the opinion of management, the unaudited Condensed Consolidated Financial Statements contained in this report include all known accruals and adjustments necessary for a fair presentation of the financial position, results of operations, and cash flows for the periods reported herein. Any such adjustments are of a normal recurring nature.

There were various updates recently issued, most of which represented technical corrections to the accounting literature or application to specific industries and are not expected to have a material impact on the Company's condensed consolidated financial position, results of operations or cash flows.

Going Concern

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of CloudCommerce is presented to assist in understanding the Company's Condensed Consolidated Financial Statements. The Condensed Consolidated 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 Condensed Consolidated Financial Statements.

The Condensed Consolidated Financial Statements include the Company and its wholly owned subsidiaries, CLWD Operations, Inc., a Delaware corporation ("CLWD Ops", formerly Indaba Group, Inc.), Parscale Digital, Inc., a Nevada corporation ("Parscale Digital"), WebTegrity, Inc., a Nevada corporation ("WebTegrity"), Data Propria, Inc., a Nevada corporation ("Data Propria"), Parscale Media, LLC, a Texas limited liability company ("Parscale Media"), and Giles Design Bureau, Inc., a Nevada corporation ("Giles Design Bureau"). All significant inter-company transactions are eliminated in consolidation.

Accounts Receivable

The Company extends credit to its customers, who are located nationwide. Accounts receivable are customer obligations due under normal trade terms. The Company performs continuing credit evaluations of its customers' financial condition. Management reviews accounts receivable on a regular basis, based on contracted terms and how recently payments have been received to determine if any such amounts will potentially be uncollected. The Company includes any balances that are determined to be uncollectible in its allowance for doubtful accounts. After all attempts to collect a receivable have failed, the receivable is written off. The balance of the allowance account at March 31, 2019 and December 31, 2018 are $27,002 and $45,613 respectively.

On November 30, 2016, CLWD Operations entered into a 12-month agreement wherein amounts due from our customers were pledged to a third party, in exchange for a borrowing facility in amounts up to a total of $400,000. The agreement was amended on March 23, 2017, which increased the allowable borrowing amount by $100,000, to a maximum of $500,000. On November 30, 2017, the agreement auto renewed for another twelve months. The proceeds from the facility are determined by the amounts we invoice our customers. We record the amounts due from customers in accounts receivable and the amount due to the third party as a liability, presented as a "Lines of credit" on the Balance Sheet. During the term of this facility, the third-party lender has a first priority security interest in CLWD Operations, and therefore, we will require such third-party lender's written consent to obligate CLWD Operations further or pledge our assets against additional borrowing facilities. Because of this position, it may be difficult for CLWD Operations to secure additional secured borrowing facilities. The cost of this secured borrowing facility is 0.05% of the daily balance. As of March 31, 2019, the balance due from this arrangement was $38,619.

On October 19, 2017, Parscale Digital entered into a 12-month agreement wherein amounts due from our customers were pledged to a third party, in exchange for a borrowing facility in amounts up to a total of $500,000. The proceeds from the facility are determined by the amounts we invoice our customers. The Company evaluated this facility in accordance with ASC 860, classifying it as a secured borrowing arrangement. We record the amounts due from customers in accounts receivable and the amount due to the third party as a liability, presented as a "Lines of credit" on the Balance Sheet. During the term of this facility, the third-party lender has a first priority security interest in the Company, and will, therefore, we will require such third-party lender's written consent to obligate the Company further or pledge our assets against additional borrowing facilities. Because of this position, it may be difficult for the Company to secure additional secured borrowing facilities. The cost of this secured borrowing facility is 0.05% of the daily balance. On April 12, 2018, the Company amended the secured borrowing arrangement, which increased the maximum allowable balance by $250,000, to a total of $750,000. As of March 31, 2019, the balance due from this arrangement was $186,726.

On August 2, 2018, Giles Design Bureau, WebTegrity, and Data Propria entered into 12-month agreements wherein amounts due from our customers were pledged to a third-party, in exchange for borrowing facilities in amounts up to a total of $150,000, $150,000 and $600,000, respectively. The proceeds from the facility are determined by the amounts we invoice our customers. We evaluated these facilities in accordance with ASC 860, classifying as secured borrowing arrangements. We record the amounts due from customers in accounts receivable and the amount due to the third party as a liability, presented as a "Lines of credit" on the Balance Sheet. During the term of these facilities, the third-party lender has a first priority security interest in the respective entities, and will, therefore, we will require such third-party lender's written consent to obligate the entities further or pledge our assets against additional borrowing facilities. Because of this position, it may be difficult for the entities to secure additional secured borrowing facilities. The cost of this secured borrowing facilities is 0.056%, 0.056% and 0.049%, respectively, of the daily balance. As of March 31, 2019, the combined balance due from these arrangement was $121,771.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires the use of estimates and assumptions by management in determining the reported amounts of assets and liabilities, disclosures of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates are primarily used in our revenue recognition, the allowance for doubtful account receivable, fair value assumptions in accounting for business combinations and analyzing goodwill, intangible assets and long-lived asset impairments and adjustments, the deferred tax valuation allowance, and the fair value of stock options and warrants.

Cash and Cash Equivalents

The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. As of March 31, 2019, the Company held cash and cash equivalents in the amount of $225,096, which was held in the operating bank accounts. Of this amount, none was held in any one account, in amounts exceeding the FDIC insured limit of $250,000.

Research and Development

Research and development costs are expensed as incurred. Total research and development costs were zero for the three months ended March 31, 2019 and 2018.

Advertising Costs

The Company expenses the cost of advertising and promotional materials when incurred. Total advertising costs were $2,934 and $2,599 for the three months ended March 31, 2019 and 2018, 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 March 31, 2019 and December 31, 2018, 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 to sell an asset or transfer a liability, between market participants at the measurement date.Fair value measurements assume that the asset or liability is (1) exchanged in an orderly manner, (2) the exchange is in the principal market for that asset or liability, and (3) the market participants are independent, knowledgeable, able and willing to transact an exchange. Fair value accounting and reporting establishes a framework for measuring fair value by creating a hierarchy for observable independent market inputs and unobservable market assumptions and expands disclosures about fair value measurements. Considerable judgment is required to interpret the market data used to develop fair value estimates. As such, the estimates presented herein are not necessarily indicative of the amounts that could be realized in a current exchange. The use of different market assumptions and/or estimation methods could have a material effect on the estimated fair value.

As of March 31, 2019, and December 31, 2018, the Company had no assets or liabilities that are required to be valued on a recurring basis.

Impairment of Long-Lived Assets

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

Indefinite Lived Intangibles and Goodwill Assets

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

The Company tests for indefinite lived intangibles and goodwill impairment in the fourth quarter of each year and whenever events or circumstances indicate that the carrying amount of the asset exceeds its fair value and may not be recoverable. In accordance with its policies, the Company performed a qualitative assessment of indefinite lived intangibles and goodwill at December 31, 2018 and determined there was no impairment of indefinite lived intangibles and goodwill.

Business Combinations

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

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

Concentrations of Business and Credit Risk

The Company operates in a single industry segment. The Company markets its services to companies and individuals in many industries and geographic locations. The Company’s operations are subject to rapid technological advancement and intense competition. Accounts receivable represent financial instruments with potential credit risk. The Company typically offers its customers credit terms. The Company makes periodic evaluations of the credit worthiness of its enterprise customers and other than obtaining deposits pursuant to its policies, it generally does not require collateral. In the event of nonpayment, the Company has the ability to terminate services. As of March 31, 2019, the Company held cash and cash equivalents in the amount of $225,096, which was held in the operating bank accounts. Of this amount, none was held in any one account, in amounts exceeding the FDIC insured limit of $250,000.

Stock-Based Compensation

The Company addressed the accounting for share-based payment transactions in which an enterprise receives employee services in exchange for either equity instruments of the enterprise or liabilities that are based on the fair value of the enterprise's equity instruments or that may be settled by the issuance of such equity instruments. The transactions are accounted for using a fair-value-based method and recognized as expenses in our statement of operations.

Stock-based compensation expense recognized during the period is based on the value of the portion of stock-based payment awards that is ultimately expected to vest. Stock-based compensation expense recognized in the consolidated statement of operations during the three months ended March 31, 2019, included compensation expense for the stock-based payment awards granted prior to, but not yet vested, as of March 31, 2019 based on the grant date fair value estimated. Stock-based compensation expense recognized in the statement of operations for the three months ended March 31, 2019 is based on awards ultimately expected to vest or has been reduced for estimated forfeitures. Forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. The stock-based compensation expense recognized in the consolidated statements of operations during the three months ended March 31, 2019 and 2018 were $81,370 and $160,072, respectively.

Basic and Diluted Net Income (Loss) per Share Calculations

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

For the three months ended March 31, 2019, the Company has excluded 151,475,799 shares of common stock underlying options, 10,000 Series A Preferred shares convertible into 100,000,000 shares of common stock, 18,025 Series B Preferred shares convertible into 450,625,000 shares of common stock, 14,425 Series C Preferred shares convertible into 144,250,000 shares of common stock, 90,000 Series D Preferred shares convertible into 225,000,000 shares of common stock, 10,000 Series E Preferred shares convertible into 20,000,000 shares of common stock and 61,086,140 shares of common stock underlying $502,067 in convertible notes, because their impact on the loss per share is anti-dilutive.

For the three months ended March 31, 2018, the Company has excluded 154,800,000 shares of common stock underlying options, 10,000 Series A Preferred shares convertible into 100,000,000 shares of common stock, 18,025 Series B Preferred shares convertible into 450,625,000 shares of common stock, 14,425 Series C Preferred shares convertible into 144,250,000 shares of common stock, 90,000 Series D Preferred shares convertible into 225,000,000 shares of common stock, 10,000 Series E Preferred shares convertible into 20,000,000 shares of common stock and 24,660,068 shares of common stock underlying $98,640 in convertible notes, because their impact on the loss per share is anti-dilutive.

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

Recently Adopted Accounting Pronouncements

Management reviewed accounting pronouncements issued during the quarter ended March 31, 2019, and the following pronouncements were adopted during the period.

In February 2016, the FASB issued ASU No. 2016-02, Leases ("ASC 842"). Under ASC 842, lessees are recognized as a right-of-use asset and a lease liability for all leases, other than those that meet the definition of a short-termlease. For income statement purposes, leases are classified as either operating or finance. Operating leases are expensed on a straight-line basis, similar to current operatingleases, while finance leases result in a front-loaded pattern, similar to current capital leases. The Company adopted ASC 842 effective January 1, 2019 and elected certain available transitional practical expedients.

Management reviewed accounting pronouncements issued during the year ended December 31, 2018, and the following pronouncements were adopted during the period.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers* ("ASU 2014-09"). The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled for those goods or services. The standard is effective for annual periods beginning after December 15, 2017, and interim periods therein. The Company follows paragraph 606 of the

FASB Accounting Standards Codification for revenue recognition and ASU 2014-09, adopting the pronouncements on January 1, 2018. The company considers revenue realized or realizable and earned when services are performed to such a degree that the performed service is delivered or deliverable to the client, or when a tangible item, such as interior décor or signage, is delivered to the client. Since the Company was already recognizing revenue in a manner consistent with paragraph 606 of the FASB Accounting Standards Codification, there was no material impact on prior year results.

ASU 2014-09 supersedes existing guidance on revenue recognition with a five-step model for recognizing and measuring revenue from contracts with customers. The objective of the new standard is to provide a single, comprehensive revenue recognition model for all contracts with customers to improve comparability within industries, across industries, and across capital markets. The underlying principle is that an entity will recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. The guidance also requires a number of disclosures regarding the nature, amount, timing, and uncertainty of revenue and the related cash flows. The guidance can be applied retrospectively to each prior reporting period presented (full retrospective method) or retrospectively with a cumulative effect adjustment to retained earnings for initial application of the guidance at the date of initial adoption (modified retrospective method). The Company adopted the new standard effective January 1, 2018 using the modified retrospective method applied to those contracts that were not completed or substantially completed as of January 1, 2018. The timing and measurement of revenue recognition under the new standard is not materially different than under the old standard. The adoption of the new standard had an immaterial impact on the Company’s Condensed Consolidated Financial Statements.

Recently Issued Accounting Pronouncements Not Yet Adopted

In June 2016, the FASB issued Accounting Standards Update No. 2016-13 (ASU 2016-13) "Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments" which requires the measurement and recognition of expected credit losses for financial assets held at amortized cost. ASU 2016-13 replaces the existing incurred loss impairment model with an expected loss methodology, which will result in more timely recognition of credit losses. ASU 2016-13 is effective for annual reporting periods, and interim periods within those years, beginning after December 15, 2019. We are currently in the process of evaluating the impact of the adoption of ASU 2016-13 on our consolidated financial statements.

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

Income Taxes

The Company uses the asset and 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. The three months ended March 31, 2019, we used the federal tax rate of 21% in our determination of the deferred tax assets and liabilities balances.

	For the 3 months ended March 31, 2019
Current tax provision:	
Federal	
Taxable income	$ —
Total current tax provision	$ —
Deferred tax provision:	
Federal	
Loss carryforwards	$ 2,825,579
Change in valuation allowance	(2,825,579)
Total deferred tax provision	$ —

3. REVENUE RECOGNITION

On January 1, 2018, the Company adopted ASU 2014-09 *Revenue from Contracts with Customers* and all subsequent amendments to the ASU (collectively, "ASC 606"), using the modified retrospective method applied to those contracts which were not completed as of January 1, 2018. Results for reporting periods beginning after January 1, 2018 are presented under Topic 606, while prior period amounts are not adjusted and continue to be reported in accordance with our historic accounting under Topic 605. Revenues are recognized when control of the promised goods or services is transferred to our customers, in an amount that reflects the consideration we expect to be entitled to in exchange for those goods or services.

The core principles of revenue recognition under ASC 606 includes the following five criteria:

1. Identify the contract with the customer

Contract with our customers may be oral, written, or implied. A written and signed contract stating the terms and conditions is the preferred method and is consistent with most customers. The terms of a written contract may be contained within the body of an email, during which proposals are made and campaign plans are outlined, or it may be a stand-alone document signed by both parties. Contracts that are oral in nature are consummated in status and pitch meetings and may be later followed up with an email detailing the terms of the arrangement, along with a proposal document. No work is commenced without an understanding between the Company and our customers, that a valid contract exists.

2. Identify the performance obligations in the contract

Our sales and account management teams define the scope of services to be offered, to ensure all parties are in agreement and obligations are being delivered to the customer as promised. The performance obligation may not be fully identified in a mutually signed contract, but may be outlined in email correspondence, face-to-face meetings, additional proposals or scopes of work, or phone conversations.

3. Determine the transaction price

Pricing is discussed and identified by the operations team prior to submitting a proposal to the customer. Based on the obligation presented, third-party service pricing is established, and time and labor are estimated, to determine the most accurate transaction pricing for our customer. Price is subject to change upon agreed parties, and could be fixed or variable, milestone focused or time and materials.

4. Allocate the transaction price to the performance obligations in the contract

If a contract involves multiple obligations, the transaction pricing is allocated accordingly, during the performance obligation phase (criteria 2 above).

5. Recognize revenue when (or as) we satisfy a performance obligation

The Company uses several means to satisfy the performance obligations:

a. Billable Hours – The Company employs a time tracking system where employees record their time by project. This method of satisfaction is used for time and material projects, change orders, website edits, revisions to designs, and any other project that is hours-based. The hours satisfy the performance obligation as the hours are incurred.

b. Ad Spend - To satisfy ad spend, the Company generates analytical reports monthly or as required to show how the ad dollars were spent and how the targeting resulted in click-throughs. The ad spend satisfies the performance obligation, regardless of the outcome or effectiveness of the campaign. In addition, the Company utilizes third party invoices after the ad dollars are spent, in order to satisfy the obligation.

c. Milestones – If the contract requires milestones to be hit, then the Company satisfies the performance obligation when that milestone is completed and presented to the customer for review. As each phase of a project is complete, we consider it as a performance obligation being satisfied and transferred to the customer. At this point, the customer is invoiced the amount due based on the transaction pricing for that specific phase and/or we apply the customer deposit to recognize revenue.

d. Monthly Retainer – If the contract is a retainer for work performed, then the customer is paying the Company for its expertise and accessibility, not for a pre-defines amount of output. In this case, the obligation is satisfied at the end of the period, regardless of the amount of work effort required.

e. Hosting – Monthly recurring fees for hosting are recognized on a monthly basis, at a fixed rate. Hosting contracts are typically one-year and reviewed annually for renewal. Prices are subject to change at management discretion.

The Company generates income from four main revenue streams: data science, creative design, web development, digital marketing, and other. Each revenue stream is unique, and includes the following features:

Data Science

We analyze big data (large volume of information) to reveal patterns and trends associated with human behavior and interactions that can lead to better decisions and strategic business moves. As a result of our data science work, our clients are able to make informed and valuable decisions to positively impact their bottom lines. We classify revenue as data science that includes polling, research, modeling, data fees, consulting and reporting. Contracts are generated to assure both the Company and the client are committed to partnership and both agree to the defined terms and conditions and are typically less than one year. Transaction pricing is usually a lump sum, which is estimated by specific project requirements. The Company recognizes revenue when performance obligations are met, including, when the data sciences service is performed, polling is conducted, or support hours are expended. If the data sciences service is a fixed fee retainer, then the obligation is earned at the end of the period, regardless of how much service is performed.

Creative Design

We provide branding and creative design services which set apart our clients from their competitors and establish themselves in their specific market. We believe in showcasing our client's brand uniquely and creatively to infuse the public with curiosity to learn more. We classify revenue as creative design that includes branding, photography, copyrighting, printing, signs and interior design. Contracts are generated to assure both the company and the client are committed to partnership and both agree to the defined terms and conditions and are typically less than one year. The Company recognizes revenue when performance obligations are met, usually when creative design services obligations are complete, when the hours are recorded, designs are presented, website themes are complete, or any other criteria as mutually agreed.

Web Development

We develop websites that attract high levels of traffic for our clients. We offer our clients the expertise to manage and protect their website, and the agility to adjust their online marketing strategy as their business expands. We classify revenue as web development that includes website coding, website patch installs, ongoing development support and fixing inoperable sites. Contracts are generated to assure both the company and the client are committed to the partnership and both agree to the defined terms and conditions. Although most projects are long-term (6-8 months) in scope, we do welcome short-term projects which are invoiced as the work is completed at a specified hourly rate. In addition, we offer monthly hosting support packages, which ensures websites are functioning properly. The Company records web development revenue as earned, when the developer hours are recorded (if T&M arrangements) or when the milestones are achieved (if a milestone arrangement).

Digital Marketing

We have a reputation for providing digital marketing services that get results. Whether presenting a vibrant but simple message about our clients that will enlighten their audience or deploying an influential digital marketing political campaign across one or multiple social media platforms, our marketing strategist are poised to execute and deliver valuable marketing results to our clients. We classify revenue as digital marketing that includes ad spend, SEO management and digital ad support. Billable hours and advertising spending are estimated based on client specific needs and subject to change with client concurrence. Revenue is recognized when ads are run on one of the third-party platforms or when the hours are recorded by the digital marketing specialist, if the obligation relates to support or services.

Other

We offer services that do not fit into the other four categories but rely heavily on the "other" services to provide the entire support package for our clients. Included in this category are domain name management, account management, web hosting, client training, and partner commissions. Revenue is recognized for these services as the service is performed (such as account management or training) or during the month in which the service was provided (such as hosting, partner commissions and domain name registration).

Included in creative design and digital marketing revenues are costs that are reimbursed by our clients, including third party services, such as photographers and stylists, furniture, supplies, and the largest component, digital advertising. We have determined, based on our review, that the amounts classified as reimbursable costs should be recorded as gross (principal), due to the following factors:

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

During the three months ended March 31, 2019 and 2018, we included $888,181 and $1,287,636, respectively, in revenue, related to reimbursable costs.

The deferred revenue and customer deposits as of March 31, 2019 and December 31, 2018 was $1,049,301 and $1,081,570, respectively.

For the three months ended March 31, 2019 and 2018 (unaudited), revenue was disaggregated into the five categories as follows:

	Three Months Ended March 31, 2019 (unaudited)			Three Months Ended March 31, 2018 (unaudited)		
	Third Parties	Related Parties	Total	Third Parties	Related Parties	Total
Data Sciences	$ 200,800		$ 200,800	$ 113,490	$ —	$ 113,490
Design	482,893		482,893	346,337	—	346,337
Development	453,482		453,482	313,153	81,063	394,216
Digital Advertising	990,701	128,164	1,118,865	209,683	1,346,524	1,556,207
Other	396,966		396,966	412,614	53,846	466,460
Total	$ 2,524,843	$ 128,164	$ 2,653,007	$ 1,395,276	$ 1,481,433	$ 2,876,709

4. LIQUIDITY AND OPERATIONS

The Company had net loss of $343,919 for the three months ended March 31, 2019, and $791,369 the three months ended March 31, 2018, and net cash used in operating activities of $284,277 and $59,752, in the same periods, respectively.

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

5. BUSINESS ACQUISITIONS

Parscale Creative, Inc.

On August 1, 2017, the Company completed the acquisition of Parscale Creative, Inc., a Nevada corporation ("Parscale Creative"). As of that date, the Company's wholly owned operating subsidiary, Parscale Digital, Inc., a Nevada corporation ("Parscale Digital"), merged with Parscale Creative, and the name of the combined subsidiary was changed to Parscale Digital. The total purchase price of $7,945,000, was paid in the form of the issuance of ninety thousand (90,000) shares of the Company's Series D Convertible Preferred Stock, at a liquidation preference of one hundred dollars ($100) per share, plus dividend payments based on 5% of adjusted revenue of Parscale Digital. Adjusted revenue is defined as total revenue, minus digital marketing media buys. Based on the growth of the Parscale Digital, the actual amount of the dividend payments is estimated to be in the range of $850,000 and $1,300,000, over 36 months, if we achieve 0.5% to 3% monthly adjusted revenue growth. The dividend payments are recorded as a reduction to additional paid in capital. During the three months ended March 31, 2019, we did not pay any dividend related to the Series D Convertible Preferred stock, and as of March 31, 2019, the accrued balance of the Series D Preferred dividend payable was $169,652. At the closing, Brad Parscale, the 100% owner of Parscale Creative, was appointed to the Company's Board of Directors. The Company assumed net liabilities of $535,000, related to this acquisition.

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

Cash	$	200,000
Customer deposits and accrued expenses		(535,000)
Net tangible liabilities	$	(335,000)
Non-compete agreements	$	280,000
Brand name		1,930,000
Customer list		2,090,000
Goodwill		3,645,000
Total purchase price	$	7,945,000
Issuance of series D convertible preferred stock	$	7,610,000
Net tangible liabilities		335,000
Total purchase price	$	7,945,000

WebTegrity, LLC

On November 15, 2017, the Company completed the acquisition of WebTegrity. As of that date, the Company's operating subsidiary, Parscale Digital, Inc., a Nevada corporation, merged with WebTegrity and the name of the combined subsidiary remained unchanged as Parscale Digital. On April 16, 2018, we organized WebTegrity as a Nevada corporation, and split WebTegrity from Parscale Digital. The total purchase price of $900,000, was paid in the form of the issuance of ten thousand (10,000) shares of the Company's Series E Convertible Preferred Stock, at a liquidation preference of one hundred dollars ($100) per share.

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

Current assets	$ 78,000
Fixed assets	30,000
Liabilities	(48,000)
Net assets	60,000
Brand name	130,000
Customer list	280,000
Goodwill	430,000
Total purchase price	$ 900,000
Issuance of Series E Convertible Preferred Stock	$ 900,000

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

Parscale Media, LLC

On August 1, 2017, the Company entered into a purchase agreement with Brad Parscale, to purchase Parscale Media, LLC, a website hosting business, formed under the laws of Texas. Under the terms of the agreement, the Company agreed to pay Mr. Parscale $1,000,000 in cash, upon closing the transaction, but in no event later than January 1, 2018.

On February 1, 2018, the Company entered into an amended purchase agreement which provided for the issuance of a promissory note to Mr. Parscale as consideration for the acquisition, under which the Company agreed to pay Mr. Parscale $1,000,000 in twelve equal installments, and interest of 4% on the promissory note (the "Parscale Media Note"). On November 20, 2018, the Company exchanged the remaining balance of the Parscale Media Note for an equal amount owed by Mr. Parscale to the Company. As of November 20, 2018, the balance on the Parscale Media Note was zero.

Current assets	$ —
Brand name	100,000
Customer list	400,000
Goodwill	500,000
Total purchase price	$ 1,000,000

During the year ended December 31, 2018, it was determined that, due to the Company never having paid federal income taxes and having a large net operating loss (NOL), it is unlikely we will pay federal income taxes in the foreseeable future. This change in estimate resulted in the Company removing the deferred tax liability from the purchase price of Parscale Media, with a corresponding adjustment to goodwill. During the year ended December 31, 2018, this change in estimate resulted in a reduction of deferred tax liability to zero and goodwill to $500,000, or reductions of $125,000 to each.

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

Pro forma results

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

	Three months ended, March 31, 2019	Three months ended, March 31, 2018
Total revenues	$ 2,653,007	$ 2,896,709
Net income (loss)	(343,919)	(776,369)
Basic and diluted net earnings per common share	$ (0.00)	$ (0.01)

6. INTANGIBLE ASSETS

Domain Name

On June 26, 2015, the Company purchased the rights to the domain "CLOUDCOMMERCE.COM", from a private party at a purchase price of $20,000, plus transaction costs of $202, which is 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 as such, is not included in depreciation and amortization expense. The Company will assess this intangible asset annually for impairment, in addition to it being classified with indefinite useful life.

Trademark

On September 22, 2015, the Company purchased the trademark rights of "CLOUDCOMMERCE", from a private party at a purchase price of $10,000. The total recorded cost of this trademark of $10,000 has been included in other assets on the balance sheet. The trademark expires in 2020 and may be renewed for an additional 10 years. As of September 30, 2015, we determined that this intangible asset has a definite useful life of 174 months, and as such, will be included in depreciation and amortization expense. For the three months ended March 31, 2019 and 2018, the Company included $172 and $172, respectively, in depreciation and amortization expense related to this trademark. As of March 31, 2019, the balance on this intangible asset was $7,586.

Non-Compete Agreements

On August 1, 2017, the Company entered into a merger agreement with Brad Parscale, pursuant to which Parscale Creative merged with and into Parscale Digital. The terms of the merger agreement include a non-compete agreement with Brad Parscale, for a period of three years. The Company has placed a value of this non-compete agreement at $280,000, amortized over a period of 36 months. For the three months ended March 31, 2019 and 2018 we have included $23,333 and $23,333 in amortization expense related to this non-compete agreement. As of March 31, 2019, the balance on this intangible asset was $124,444.

Customer List

On August 1, 2017, the Company acquired Parscale Creative, and have calculated the value of the customer list acquired at $2,090,000, with a useful life of 3 years. For the three months ended March 31, 2019 and 2018 we included $165,805 and $174,165 in depreciation and amortization expense related to the customer list, and as of March 31, 2019, the remaining balance of this intangible asset was $884,296.

On November 15, 2017, the Company acquired WebTegrity, and have calculated the value of the customer list acquired at $280,000, with a useful life of 3 years. For the three months ended March 31, 2019 and 2018, we included $21,482 and $23,333 in depreciation and amortization expense related to the customer list, and as of March 31, 2019, the remaining balance of this intangible asset was $136,052.

On February 1, 2018, the Company acquired Parscale Media, and have calculated the value of the customer list acquired at $400,000, with a useful life of 3 years. For the three months ended March 31, 2019 and 2018, we included $33,333 and $22,222 in depreciation and amortization expense related to the customer list, and as of March 31, 2019, the remaining balance of this intangible asset was $244,444.

Brand Name

On August 1, 2017, the Company acquired Parscale Creative, and have calculated the value of the brand name at $1,930,000, which is included in other assets on the balance sheet. As of March 31, 2019, we have determined that this brand name has an indefinite useful life, and as such, is not included in depreciation and amortization expense. The Company will assess this intangible asset annually for impairment, in addition to it being classified with an indefinite useful life.

On November 15, 2017, the Company acquired WebTegrity, and have calculated the value of the brand name at $130,000, which is included in other assets on the balance sheet. As of March 31, 2019, we have determined that this brand name has an indefinite useful life, and as such, is not included in depreciation and amortization expense. The Company will assess this intangible asset annually for impairment, in addition to it being classified with an indefinite useful life.

On February 1, 2018, the Company acquired Parscale Media, and have calculated the value of the brand name at $100,000, which isincluded in other assets on the balance sheet. As of March 31, 2019, we have determined that this brand name has an indefinite useful life, and as such, is not included in depreciation and amortization expense. The Company will assess this intangible asset annually for impairment, in addition to it being classified with an indefinite useful life.

Goodwill

On August 1, 2017, the Company acquired Parscale Creative, and have calculated the value of the goodwill at $3,645,000, which isincluded in other assets on the balance sheet. The Company will assess this intangible asset for impairment, if an event occurs that may affect the fair value, or at least annually.

On November 15, 2017, the Company acquired WebTegrity, and have calculated the value of the goodwill at $430,000, which isincluded in other assets on the balance sheet. The Company will assess this intangible asset for impairment, if an event occurs that may affect the fair value, or at least annually.

On February 1, 2018, the Company acquired Parscale Media, and have calculated the value of the goodwill at $500,000, which isincluded in other assets on the balance sheet. The Company will assess this intangible asset for impairment, if an event occurs that may affect the fair value, or at least annually.

The Company's intangible assets consist of the following:

	March 31, 2019			December 31, 2018		
	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
Customer list	2,770,000	(1,505,207)	1,264,793	2,770,000	(1,284,587)	1,485,413
Non-compete agreement	280,000	(155,555)	124,445	280,000	(132,222)	147,778
Domain name and trademark	30,201	(2,414)	27,787	30,201	(2,241)	27,960
Brand name	2,160,000	—	2,160,000	2,160,000	—	2,160,000
Goodwill	4,575,000	—	4,575,000	4,575,000	—	4,575,000
Total	9,815,201	(1,663,176)	8,152,025	9,815,201	(1,419,050)	8,396,151

Total amortization expense charged to operations for the three months ended March 31, 2019, and 2018 were$244,126 and $243,227, respectively. The following table of remaining amortization of finite life intangible assets, for the years ended December 31, includes the intangible assets acquired, in addition to the CloudCommerce trademark:

2019 (excluding three months ended March 31, 2019)	$	732,380
2020		646,953
2021		11,801
2022		690
2023		690
Thereafter		4,310
Total	$	1,396,824

7. CREDIT FACILITIES

Lines of Credit

The Company has assumed an outstanding liability related to a bank line of credit agreement from the acquisition of Indaba. As of December 31, 2017, the balance was zero.

On November 30, 2016, CLWD Operations entered into a 12-month agreement wherein amounts due from our customers were pledged to a third party, in exchange for a borrowing facility in amounts up to a total of $400,000. The agreement was amended on March 23, 2017, which increased the allowable borrowing amount by $100,000, to a maximum of $500,000. On November 30, 2017, the agreement auto renewed for another twelve months. The proceeds from the facility are determined by the amounts we invoice our customers. We record the amounts due from customers in accounts receivable and the amount due to the third party as a liability, presented as a “Lines of credit” on the Balance Sheet. During the term of this facility, the third-party lender has a first priority security interest in CLWD Operations, and therefore, we will require such third-party lender’s written consent to obligate CLWD Operations further or pledge our assets against additional borrowing facilities. Because of this position, it may be difficult for CLWD Operations to secure additional secured borrowing facilities. The cost of this secured borrowing facility is 0.05% of the daily balance. During the three months ended March 31, 2019 and 2018, the Company included $632 and $10,064, respectively, in interest expense, related to this secured borrowing facility, and as of March 31, 2019 and December 31, 2018, the outstanding balances were $38,619 and zero, respectively.

On October 19, 2017, Parscale Digital entered into a 12 month agreement with a third party to sell the rights to amounts due from our customers, in exchange for a borrowing facility in amounts up to a total of $500,000. The agreement was amended on April 12, 2018, which increased the allowable borrowing amount by $250,000, to a maximum of $750,000. The proceeds from the facility are determined by the amounts we invoice our customers. We evaluated this facility in accordance with ASC 860, classifying it as a secured borrowing arrangement. As such, we record the amounts due from customers in accounts receivable and the amount due to the third party as a liability, presented as a “line of credit” on the Balance Sheet. During the term of this facility, the third party lender has a first priority security interest in Parscale Digital, and will, therefore, we will require such third party lender’s written consent to obligate it further or pledge our assets against additional borrowing facilities. Because of this position, it may be difficult for Parscale Digital to secure additional secured borrowing facilities. The cost of this secured borrowing facility is 0.05% of the daily balance. During the three months ended March 31, 2019 and 2018, the Company included $14,337 and 13,086, respectively, in interest expense, related to this secured borrowing facility, and as of March 31, 2019 and December 31, 2018, the outstanding balances were $186,726 and $102,988, respectively.

On August 2, 2018, Giles Design Bureau, WebTegrity, and Data Propria entered into a 12 month agreements with a third party to sell the rights to amounts due from our customers, in exchange for borrowing facilities in amounts up to a total of $150,000, $150,000 and $600,000, respectively. The proceeds from the facility are determined by the amounts we invoice our customers. We evaluated these facilities in accordance with ASC 860, classifying as secured borrowing arrangements. As such, we record the amounts due from customers in accounts receivable and the amount due to the third party as a liability, presented as a “line of credit” on the Balance Sheet. During the term of these facilities, the third party lender has a first priority security interest in the respective entities, and will, therefore, we will require such third party lender’s written consent to obligate the entities further or pledge our assets against additional borrowing facilities. Because of this position, it may be difficult for the entities to secure additional secured borrowing facilities. The cost of this secured borrowing facilities is

0.056%, 0.056% and 0.049%, respectively, of the daily balance. During the three months ended March 31, 2019 and 2018, the Company included $31,830 and zero, respectively, in interest expense, related to these secured borrowing facilities, and as of March 31, 2019 and December 31, 2018, the combined outstanding balances were $121,771 and $321,106, respectively.

8. CONVERTIBLE NOTES PAYABLE

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

On March 25, 2013, the Company issued a convertible promissory note (the "March 2013 Note") in the amount of up to $100,000, at which time an initial advance of $50,000 was received to cover operational expenses. The lender, a related party, advanced an additional $20,000 on April 16, 2013, $15,000 on May 1, 2013 and $15,000 on May 16, 2013, for a total draw of $100,000. The terms of the March 2013 Note, as amended, allow the lender to convert all or part of the outstanding balance plus accrued interest, at any time after the effective date, at a conversion price of $0.004 per share. The March 2013 Note bears interest at a rate of 10% per year and matured on March 25, 2018. The Company is working with the lender to extend the maturity date. On May 23, 2014, the lender converted $17,000 of the 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 outstanding balance and accrued interest of $2,645 into 4,911,370 shares of common stock. On April 17, 2018, the lender converted $16,000 of the outstanding balance and accrued interest of $8,106 into 6,026,301 shares of common stock. The balance of the March 2013 Note, as of March 31, 2019 was $79,610, which includes $29,610 of accrued interest.

On April 20, 2018, the Company issued a convertible promissory note (the "April 2018 Note") in the amount of up to $200,000, at which time an initial advance of $200,000 was received to cover operational expenses. The terms of the April 2018 Note, as amended, allow the lender, a related party, to convert all or part of the outstanding balance plus accrued interest, at any time after the effective date, at a conversion price of $0.01 per share. The April 2018 Note bears interest at a rate of 5% per year and matures on April 20, 2021. The balance of the April 2018 Note, as of March 31, 2019 was $209,452, which includes $9,452 of accrued interest.

On January 16, 2019 the Company issued a promissory note (the "January 16, 2019 Note") in the amount of $103,000 at which time the company received of $100,000, the remaining $3,000 was retained by the lender to cover legal and administrative cost. The proceeds were used to cover operational expenses. The January 16, 2019 Note bears interest at a rate of 10% per year, is payable on January 16, 2020, and is convertible into common stock after 180 days. The conversion price is calculated as a 39% discount off of the average of the two lowest trading prices during the 20 trading days prior to conversion. The balance of the January 16, 2019 Note, as of March 31, 2019 is $105,088, which includes $2,088 of accrued interest.

On January 31, 2019 the Company issued a promissory note (the "January 31, 2019 Note") in the amount of $53,500 at which time the company received of $50,000, the remaining $3,500 was retained by the lender to cover legal and administrative cost. The proceeds were used to cover operational expenses. The January 31, 2019 Note bears interest at a rate of 10% per year, is payable on January 31, 2020, and is convertible into common stock after 180 days. The conversion price is calculated as a 39% discount off of the lowest trading prices during the 15 trading days prior to conversion. The balance of the January 31, 2019 Note, as of March 31, 2019 is $54,365, which includes $865 of accrued interest.

On February 21, 2019 the Company issued a promissory note (the "February 21, 2019 Note") in the amount of $53,000 at which time the company received of $50,000, the remaining $3,000 was retained by the lender to cover legal and administrative cost. The proceeds were used to cover operational expenses. The February 21, 2019 Note bears interest at a rate of 10% per year, is payable on February 21, 2020, and is convertible into common stock after 180 days. The conversion price is calculated as a 39% discount off of the average of the two lowest trading prices during the 20 trading days prior to conversion. The balance of the February 21, 2019 Note, as of March 31, 2019 is $53,552, which includes $552 of accrued interest.

9. NOTES PAYABLE

On August 3, 2017, the Company issued a promissory note (the "August 3, 2017 Note") in the amount of $25,000, at which time the entire balance of $25,000 was received to cover operational expenses. The August 3, 2017 Note bears interest at a rate of 5% per year and is payable upon demand, but in no event later than 36 months from the effective date. The balance of the August 3, 2017 Note, as of March 31, 2019 is $27,270, which includes $2,270 of accrued interest.

On August 15, 2017, the Company issued a promissory note (the "August 15, 2017 Note") in the amount of $34,000, at which time the entire balance of $34,000 was received to cover operational expenses. The August 15, 2017 Note bears interest at a rate of 5% per year and is payable upon demand, but in no event later than 36 months from the effective date. The balance of the August 15, 2017 Note, as of March 31, 2019 is $36,971, which includes $2,971 of accrued interest.

On August 28, 2017, the Company issued a promissory note (the "August 28, 2017 Note") in the amount of $92,000, at which time the entire balance of $92,000 was received to cover operational expenses. The August 28, 2017 Note bears interest at a rate of 5% per year and is payable upon demand, but in no event later than 36 months from the effective date. The balance of the August 28, 2017 Note, as of March 31, 2019 is $99,725, which includes $7,725 of accrued interest.

On September 28, 2017, the Company issued a promissory note (the "September 28, 2017 Note") in the amount of $63,600, at which time the entire balance of $63,600 was received to cover operational expenses. The September 28, 2017 Note bears interest at a rate of 5% per year and is payable upon demand, but in no event later than 36 months from the effective date. The balance of the September 28, 2017 Note, as of March 31, 2019 is $68,400, which includes $4,800 of accrued interest.

On October 11, 2017, the Company issued a promissory note (the "October 11, 2017 Note") in the amount of $103,500, at which time the entire balance of $103,500 was received to cover operational expenses. The October 11, 2017 Note bears interest at a rate of 5% per year and is payable upon demand, but in no event later than 36 months from the effective date. The balance of the October 11, 2017 Note, as of March 31, 2019 is $111,099, which includes $7,599 of accrued interest.

On October 27, 2017, the Company issued a promissory note (the "October 27, 2017 Note") in the amount of $106,000, at which time the entire balance of $106,000 was received to cover operational expenses. The October 27, 2017 Note bears interest at a rate of 5% per year and is payable upon demand, but in no event later than 36 months from the effective date. The balance of the October 27, 2017 Note, as of March 31, 2019 is $113,551, which includes $7,551 of accrued interest.

On November 15, 2017, the Company issued a promissory note (the "November 15, 2017 Note") in the amount of $62,000, at which time the entire balance of $62,000 was received to cover operational expenses. The November 15, 2017 Note bears interest at a rate of 5% per year and is payable upon demand, but in no event later than 36 months from the effective date. The balance of the November 15, 2017 Note, as of March 31, 2019 is $66,255, which includes $4,255 of accrued interest.

On November 27, 2017, the Company issued a promissory note (the "November 27, 2017 Note") in the amount of $106,000, at which time the entire balance of $106,000 was received to cover operational expenses. The November 27, 2017 Note bears interest at a rate of 5% per year and is payable upon demand, but in no event later than 36 months from the effective date. The balance of the November 27, 2017 Note, as of March 31, 2019 is $113,101, which includes $7,101 of accrued interest.

On November 30, 2017, the Company issued a promissory note (the "November 30, 2017 Note") in the amount of $30,000, at which time the entire balance of $30,000 was received to cover operational expenses. The November 30, 2017 Note bears interest at a rate of 5% per year and is payable upon demand, but in no event later than 36 months from the effective date. The balance of the November 30, 2017 Note, as of March 31, 2019 is $31,997, which includes $1,997 of accrued interest.

On December 19, 2017, the Company issued a promissory note (the "December 19, 2017 Note") in the amount of $42,000, at which time the entire balance of $42,000 was received to cover operational expenses. The December 19, 2017 Note bears interest at a rate of 5% per year and is payable upon demand, but in no event later than 36 months from the effective date. The balance of the December 19, 2017 Note, as of March 31, 2019 is $44,687, which includes $2,687 of accrued interest.

On January 3, 2018, the Company issued a promissory note (the "January 3, 2018 Note") in the amount of $49,000, at which time the entire balance of $49,000 was received to cover operational expenses. The January 3, 2018 Note bears interest at a rate of 5% per year and is payable upon demand, but in no event later than 36 months from the effective date. The balance of the January 3, 2018 Note, as of March 31, 2019 is $52,034, which includes $3,034 of accrued interest.

On January 30, 2018, the Company issued a promissory note (the "January 30, 2018 Note") in the amount of $72,000, at which time the entire balance of $72,000 was received to cover operational expenses. The January 30, 2018 Note bears interest at a rate of 5% per year and is payable upon demand, but in no event later than 36 months from the effective date. The balance of the January 30, 2018 Note, as of March 31, 2019 is $76,192, which includes $4,192 of accrued interest.

On February 1, 2018, the Company entered into an amended purchase agreement and promissory note with Mr. Parscale, which facilitated the closing of the Parscale Media transaction and established a revised payment arrangement, under which the Company agreed to pay Mr. Parscale $1,000,000 in twelve equal installments, which includes 4% interest. On November 20, 2018, the Company exchanged the remaining balance of the Parscale Media Note for an equal amount owed by Mr. Parscale to the Company. As of November 20, 2018, the balance on the Parscale Media Note was zero.

On February 2, 2018, the Company issued a promissory note (the "February 2, 2018 Note") in the amount of $85,000, at which time the entire balance of $85,000 was received to cover operational expenses. The February 2, 2018 Note bears interest at a rate of 5% per year and is payable upon demand, but in no event later than 36 months from the effective date. The balance of the February 2, 2018 Note, as of March 31, 2019 is $89,914, which includes $4,914 of accrued interest.

On June 29, 2018, the Company issued a promissory note (the "June 2018 Note"), in the amount of $750,000, at which time the Company received $735,000. The remaining $15,000 was retained by the lender as an origination fee. On February 28, 2019 refinanced this promissory note and increased the balance to $1,000,000 (the "February 28, 2019 Note"). As of the date of closing the lender withheld $25,443 from the $375,000 balance increase as an origination fee, netting $349,557 to the Company, and on April 3, 2019 the Company received the remaining $250,000. The February 28, 2019 Note bears interest at a rate of 18% per year and is amortized over 12 months. During the three months ended March 31, 2019, the Company made payments totaling $94,059, and included $10,726 in interest expense related to this note. As of March 31, 2019, the outstanding balance on the February 28, 2019 Note was $666,667.The company is not in default on this note.

As of March 31, 2019, and December 31, 2018, the notes payable due to related parties totaled $931,197 and $920,470, respectively.

10. CAPITAL STOCK

At March 31, 2019 and December 31, 2018, the Company's authorized stock consists of 2,000,000,000 shares of common stock, par value $0.001 per share. The Company is also authorized to issue 5,000,000 shares of preferred stock, par value of $0.001 per share. The rights, preferences and privileges of the holders of the preferred stock will be determined by the Board of Directors prior to issuance of such shares. The conversion of certain outstanding preferred stock could have a significant impact on our common stockholders.

Series A Preferred

The Company has designated 10,000 shares of its preferred stock as Series A Preferred Stock. Each share of Series A Preferred Stock is convertible into 10,000 shares of the Company's common stock. The holders of outstanding shares of Series A Preferred Stock shall be entitled to receive dividends, payable quarterly, out of any assets of the Corporation legally available therefor, at the rate of $8 per share per annum, payable in preference and priority to any payment of any dividend on the common stock. As of March 31, 2019, the Company has 10,000 shares of Series A Preferred Stock outstanding. During the three months ended March 31, 2019 and 2018, we paid dividends of $20,000 and $20,000, respectively, to the holders of Series A Preferred stock.

Series B Preferred

The Company has designated 25,000 shares of its preferred stock as Series B Preferred Stock. Each share of Series B Preferred Stock shall have a stated value of $100. The Series B Preferred Stock is convertible into shares of fully paid and non-assessable shares of the Company's common stock by dividing the stated value by a conversion price of $0.004 per share. Series B Preferred Stock shall not be entitled to vote, as a separate class or otherwise, on any matter presented to the stockholders of the Company for their action or consideration at any meeting of stockholders of the Company. As of March 31, 2019, the Company has 18,025 shares of Series B Preferred Stock outstanding.

Series C Preferred

The Company has designated 25,000 shares of its preferred stock as Series C Preferred Stock. Each share of Series C Preferred Stock shall have a stated value of $100. The Series C Preferred Stock is convertible into shares of fully paid and non-assessable shares of the Company's common stock by dividing the stated value by a conversion price of $0.01 per share. Series C Preferred Stock shall not be entitled to vote, as a separate class or otherwise, on any matter presented to the stockholders of the Company for their action or consideration at any meeting of stockholders of the Company. As of March 31, 2019, the Company has 14,425 shares of Series C Preferred Stock outstanding.

Series D Preferred

The Company has designated 90,000 shares of its preferred stock as Series D Preferred Stock. Each share of Series D Preferred Stock shall have a stated value of $100. The Series D Preferred Stock is convertible into common stock at a ratio of 2,500 shares of common stock per share of preferred stock, and pays a quarterly dividend, calculated as (1/90,000) x (5% of the Adjusted Gross Revenue) of the Company's subsidiary Parscale Digital. Adjusted Gross Revenue shall mean the top line gross revenue of Parscale Digital, as calculated under GAAP (generally accepted accounting principles) less any reselling revenue attributed to third party advertising products or service, such as, but not limited to, search engine keyword campaign fees, social media campaign fees, radio or television advertising fees, and the like. Series D Preferred Stock shall not be entitled to vote, as a separate class or otherwise, on any matter presented to the stockholders of the Company for their action or consideration at any meeting of stockholders of the Company. As of March 31, 2019, the Company has 90,000 shares of Series D Preferred Stock outstanding. During the three months ended March 31, 2019, and 2018, we paid dividends of zero, and $49,478, respectively, to the holders of Series D Preferred stock. As of March 31, 2019, the balance owed on the Series D Preferred stock dividend was $169,652.

Series E Preferred

The Company has designated 10,000 shares of its preferred stock as Series E Preferred Stock. Each share of Series E Preferred Stock shall have a stated value of $100. The Series E Preferred Stock is convertible into shares of fully paid and non-assessable shares of the Company's common stock by dividing the stated value by a conversion price of $0.05 per share. Series E Preferred Stock shall not be entitled to vote, as a separate class or otherwise, on any matter presented to the stockholders of the Company for their action or consideration at any meeting of stockholders of the Company. As of March 31, 2019, the Company has 10,000 shares of Series E Preferred Stock outstanding.

11. STOCK OPTIONS AND WARRANTS

Stock Options

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

The following options were issued outside of the Warp 9, Inc. Stock Option Plan:

On August 1, 2017, we granted non-qualified stock options to purchase up to 10,000,000 shares of our common stock to a key employee, at a price of $0.01 per share. The stock options vest equally over a period of 36 months and expire August 1, 2022. These options allow the optionee to exercise on a cashless basis, resulting in no cash payment to the company upon exercise. If the optionee exercises on a cashless basis, then the above water value (difference between the option price and the fair market price at the time of exercise) is used to purchase shares of common stock. Under this method, the number of shares of common stock issued will be less than the number of options used to obtain those shares of common stock. On September 30, 2018, the employee exercised, on a cashless basis, 3,324,201 options, resulting in 1,233,509 shares of common stock.

On September 18, 2017, we granted non-qualified stock options to purchase up to 1,800,000 shares of our common stock to three key employees, at a price of $0.05 per share. The stock options vest equally over a period of 36 months and expire September 18, 2022These options allow the optionee to exercise on a cashless basis, resulting in no cash payment to the company upon exercise.

On January 3, 2018, we granted non-qualified stock options to purchase up to 20,000,000 shares of our common stock to three key employees, at a price of $0.04 per share. The stock options vest equally over a period of 36 months and expire January 3, 2023These options allow the optionee to exercise on a cashless basis, resulting in no cash payment to the company upon exercise.

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 three months ending March 31, 2019 and 2018, were determined using the Black Scholes method with the following assumptions:

	Three Months Ended March 31, 2019	Three Months Ended March 31, 2018
Risk free interest rate	—	5.00%
Stock volatility factor	—	397%
Weighted average expected option life	—	5 years
Expected dividend yield	—	none

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

	Three Months Ended March 31, 2019		Three Months Ended March 31, 2018	
	Options	Weighted average exercise price	Options	Weighted average exercise price
Outstanding -beginning of period	151,475,799	$ 0.017	134,800,000	$ 0.013
Granted	—	$ —	20,000,000	$ 0.040
Exercised	—	$ —	—	$ —
Forfeited	—	$ —	—	$ —
Outstanding - end of period	151,475,799	$ 0.017	154,800,000	$ 0.017
Exercisable at the end of period	134,393,790	$ 0.015	125,738,995	$ 0.013
Weighted average fair value of options granted during the period		$ —		$ 800,000

As of March 31, 2019, and December 31, 2018, the intrinsic value of the stock options was approximately $61,750 and $212,950, respectively. Stock option expense for the three months ended March 31, 2019, and 2018 were $81,370 and $160,072, respectively.

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

The weighted average remaining contractual life of options outstanding, as of March 31, 2019 was as follows:

Exercise prices	Number of options outstanding	Weighted Average remaining contractual life (years)
$ 0.050	1,800,000	3.47
$ 0.040	20,000,000	3.76
$ 0.015	35,000,000	3.41
$ 0.013	60,000,000	2.85
$ 0.013	15,000,000	2.97
$ 0.010	6,675,799	3.34
$ 0.005	12,500,000	0.37
$ 0.004	500,000	2.54
	151,475,799	

Warrants

During the three months ended March 31, 2019 and 2018, the Company issued no warrants for services.

12. RELATED PARTIES

Bountiful Capital, LLC, loaned the Company $100,000 on January 12, 2016, $500,000 through multiple fundings on the April 2016 Note, $500,000 through multiple fundings on the October 2016 Note, $38,000 on May 16, 2017, $46,000 on May 30, 2017, $26,000 on June 14, 2017, $23,500 on June 29, 2017, $105,000 on July 10, 2017, $50,500 on July 14, 2017, $53,500 on July 30, 2017, $25,000 on August 3, 2017, $34,000 on August 16, 2017, $92,000 on August 28, 2017, $63,600 on September

28, 2017, $103,500 on October 11, 2017, $106,000 on October 27, 2017, $62,000 on November 15, 2017, $106,000 on November 27, 2017, $30,000 on November 30, 2017, $42,000 on December 19, 2017, $49,000 on January 3, 2018, $72,000 on January 30, 2018 and $85,000 on February 2, 2018, as unsecured promissory notes (the "Bountiful Notes"). The terms of the Bountiful Notes include interest of 5% and are due and payable upon demand, but in no case later than 36 months after the effective date. On July 31, 2017, notes payable amounting to $1,442,500 and accrued interest of $43,414 were converted into 14,425 shares of Series C preferred stock. At March 31, 2019 and December 31, 2018, principal on the Bountiful Notes and accrued interest totaled $931,196 and $920,470. The Company's chief financial officer, Greg Boden, also serves as the president of Bountiful Capital, LLC.

Brad Parscale has served on the board of directors of the Company since the acquisition of Parscale Creative on August 1, 2017. Mr. Parscale is also the owner of Parscale Strategy, LLC ("Parscale Strategy"), the largest customer of Parscale Digital. During the three months ended March 31, 2019 and 2018, the Company earned $128,164 and $2,205,423, respectively, in revenue from providing services to Parscale Strategy, and as of March 31, 2019 and December 31, 2018, Parscale Strategy had an outstanding accounts receivable of $64,986 and $78,753, respectively.

On August 1, 2017, Parscale Digital signed a lease with Giles-Parscale, Inc., a related party, to provide a workplace for the employees of Parscale Digital. Giles-Parscale, Inc., is wholly owned by Jill Giles, an employee of the Company. Details on this lease are included in Note 13.

On August 1, 2017, Parscale Digital signed a lease with Parscale Strategy for computer equipment and office furniture. Parscale Strategy is wholly owned by Brad Parscale, who serves on the CloudCommerce board of directors. Details of this lease are included in Note 13.

On April 28, 2018, Data Propria entered into an agreement to lease approximately 2,073 square feet of office space located at 311 Sixth Street, San Antonio, TX 78215, for a period of twelve months, commencing May 1, 2018, at a cost of $4,000 per month, plus a pro rata share of building maintenance expenses. This lease was signed with a related party, Jill Giles, an employee of the Company.

As of March 31, 2019, we had convertible notes in the amount of $289,062 with a relative of a shareholder that owns in excess of 5%. We believe that the terms of those convertible notes are consistent with arm's length transactions.

13. CONCENTRATIONS

For the three months ended March 31, 2019 and 2018, the Company had two and four major customers who represented approximately 29% and 64% of total revenue. At March 31, 2019 and December 31, 2018, accounts receivable from five and two customers, represented approximately 31% and 41% 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.

14. COMMITMENTS AND CONTINGENCIES

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 $10,805 and $10,166 for the three months ended March 31, 2019and 2018, respectively.

Leases

In February 2016, the FASB issued ASU 2016-02, "Leases" Topic 842, which amends the guidance in former ASC Topic 840, *Leases*. The new standard increases transparency and comparability most significantly by requiring the recognition by lessees of right-of-use ("ROU") assets and lease liabilities on the balance sheet for all leases longer than 12 months. Under the standard, disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. For lessees, leases will be classified as finance or operating, with classification affecting the pattern and classification of expense recognition in the income statement, over the expected term on a straight-line basis. Operating leases are recognized on the balance sheet as right-of-use assets, current operating lease liabilities and non-current operating lease liabilities. We determine if an arrangement is a lease at inception. Operating leases are included in operating lease right-of-use ("ROU") assets and operating lease liabilities on our consolidated balance sheets. Finance leases are included in property and equipment, current liabilities, and long-term liabilities on our consolidated balance sheets.

The Company adopted the new lease guidance effective January 1, 2019 using the modified retrospective transition approach, applying the new standard to all of its leases existing at the date of initial application which is the effective date of adoption. Consequently, financial information will not be updated and the disclosures required under the new standard will not be provided for dates and periods before January 1, 2019. The Company has elected the practical expedient to combine lease and non-lease components as a single component. We did not elect the hindsight practical expedient which permits entities to use hindsight in determining the lease term and assessing impairment. The adoption of the lease standard did not change our previously reported consolidated statements of operations and did not result in a cumulative catch-up adjustment to opening equity. The adoption of the new guidance resulted in the recognition of ROU assets of $365,460 and lease liabilities of $365,460, as of March 31, 2019.

The interest rate implicit in lease contracts is typically not readily determinable. As such, the Company utilizes its incremental borrowing rate of 10%, which is the rate incurred to borrow on a collateralized basis over a similar term an amount equal to the lease payments in a similar economic environment. In calculating the present value of the lease payments, the Company elected to utilize its incremental borrowing rate based on the remaining lease terms as of the January 1, 2019 adoption date.

Operating lease ROU assets and operating lease liabilities are recognized based on the present value of the future minimum lease payments over the lease term at the commencement date. The operating lease ROU asset also includes any lease payments made and excludes lease incentives and initial direct costs incurred, if any. Our lease terms may include options to extend or terminate the lease when it is reasonably certain that we will exercise that option. Our leases have remaining lease terms of 1 years to 3 years, some of which include options to extend the lease term for up to an undetermined number years.

Operating Leases

As a result of the WebTegrity acquisition, we assumed a lease for office space used by the WebTegrity employees, at 14603 Huebner Road, Suite 3402, San Antonio, TX 78230. The lease was executed on March 20, 2017 for a period of 36 months, commencing March 20, 2017, at a rate of $2,750 per month from April 1, 2017 through March 31, 2018, $2,950 per month from April 1, 2018 through March 31, 2019, and $3,150 per month from April 1, 2019 through March 31, 2020. As of March 31, 2019, it has been determined that the Company will not attempt to extend this lease past the March 31, 2020 expiration date. This lease does not include a residual value guarantee, nor do we expect any material exit costs. As of January 1, 2019, we determined that this lease meets the criterion to be classified as a ROU Asset and is included on the balance sheet as Right-Of-Use Assets.

On August 1, 2017, Parscale Digital signed a lease agreement with Giles-Parscale, Inc., a related party, which commenced on August 1, 2017, for approximately 8,290 square feet, at 321 Sixth Street, San Antonio, TX 78215, for $9,800 per month, plus a pro rata share of the common building expenses. The lease expires on July 31, 2022. As of March 31, 2019, it is unclear whether we will attempt to extend this lease beyond the July 31, 2022 expiration date. However, because the lease expiration is greater than twelve months, the lease liability is included on the Balance Sheet as Right-of-use lease. This lease does not include a residual value guarantee, nor do we expect any material exit costs. As of January 1, 2019, we determined that this lease meets the criterion to be classified as a ROU Asset and is included on the balance sheet as Right-Of-Use Assets.

On October 24, 2017, we executed a lease agreement for office space located at 1933 Cliff Drive, Santa Barbara, CA, commencing March 1, 2018 for a period of 36 months, at a rate of $2,795 per month, plus a pro rata share of the common area maintenance. As of September 31, 2018, the Company vacated this office space and the landlord relieved the Company of any further liability by leasing the space to another party. As of September 30, 2018, the Company moved its headquarters to 321 Sixth Street in San Antonio, Texas.

On February 12, 2018, we executed a lease agreement for office space at 1415 Park Avenue West, Denver, CO 80205, expiring August 14, 2018, at a cost of $800 per month. This lease was cancelled on June 30, 2018, at no cost to the Company.

On April 28, 2018, Data Propria entered into an agreement to lease approximately 2,073 square feet of office space located at 311 Sixth Street, San Antonio, TX 78215, for a period of twelve months, commencing May 1, 2018, at a cost of $4,000 per month, plus a pro rata share of building maintenance expenses. This lease was signed with a related party, Jill Giles, an employee of the Company. The Company will not extend this lease upon expiration on April 30, 2019, and therefore, recognizes this lease as a short-term lease under legacy GAAP and did not record the lease liability on the Balance Sheet. This lease does not include a residual value guarantee, nor do we expect any material exit costs. As of March 31, 2019, the remaining payments on this lease total $4,000.

Total operating lease expense for the three months ended March 31, 2019 and 2018 was $50,250 and $68,611, 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 at 6500 Hollister Ave., Goleta, CA, to make monthly payments on past due rent totaling $227,052. Under the terms of the agreement, the Company will make monthly payments of $350 on a reduced balance of $40,250. Upon payment of $40,250, the Company will record a gain on extinguishment of debt of $186,802. As of March 31, 2019, the Company recorded the outstanding balance under this settlement agreement as a long-term accrued expense, with the current portion of the debt recorded in accrued expenses. As of March 31, 2019, and December 31, 2018, the Company owed $19,950 and $21,000 on the outstanding reduced payment terms, respectively.

The Company is required to pay its pro rata share of taxes, building maintenance costs, and insurance in accordance with the operating lease agreements of Parscale Digital, WebTegrity, and Data Propria.

Finance Leases

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

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

Assets	March 31, 2019	December 31, 2018
Leased equipment under finance lease,	$ 100,097	$ 100,097
less accumulated amortization	(41,384)	(35,176)
Net	$ 58,713	$ 64,921

Liabilities	March 31, 2019	December 31, 2018
Obligations under finance lease (current)	$ 34,466	$ 34,039
Obligatins under finance lease (noncurrent)	11,876	20,654
Total	$ 46,342	$ 54,693

Below is a reconciliation of leases to the financial statements.

	ROU Operating Leases	Finance Leases	Short Term Leases
Leased asset balance	$ 365,460	$ 58,713	$ —
Other fixed assets	—	71,325	—
Total	365,460	130,038	—
Liability balance	365,460	46,342	4,000
Cash flow (operating)	38,250	—	12,000
Cash flow (financing)	—	6,000	—
Interest expense	$ 9,673	$ 649	$ —

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

Years Ending December 31,	ROU Operating Leases		Finance Leases		Short Term Leases	
2019*	$	116,550	$	27,000	$	4,000
2020		127,050		21,000		—
2021		117,600		—		—
2022		68,600		—		—
2023		—		—		—
Thereafter		—		—		—
Total	$	429,800	$	48,000	$	4,000
Less inputed interest		(64,340)		(1,658)		—
Total liability	$	365,460	$	46,342	$	4,000

* Excludes three months ended March 31, 2019

Other information related to leases is as follows:

Lease Type	Weighted Average Remaining Term	Weighted Average Discount Rate (1)
Operating Leases	2.2 years	10%
Finance Leases	1.3 years	10%

(1) This discount rate is consistent with our borrowing rates from various lenders.

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.

15. SUPPLEMENTAL STATEMENT OF CASH FLOWS INFORMATION

During the three months ended March 31, 2019, there were the following non-cash activities.

- Recorded the initial values of ROU operating leases, which increased ROU assets by $365,460 and operating lease liability by $365,460, netting to zero on the statement of cash flows.

During the three months ended March 31, 2018, there were the following non-cash financing activities:

- On February 1, 2018, the Company acquired Parscale Media for $1,000,000 payable by a note over twelve months.

16. 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 April 24, 2019, the Company issued a convertible promissory note (the "April 2019 Note") in the amount of up to $43,000, at which time an advance of $40,000 was received to cover operational expenses. The terms of the April 2019 Note allow the lender to convert all or part of the outstanding balance plus accrued interest, at any time after 180 days from the effective date, at a conversion price of 61% multiplied by the two lowest trading prices during the preceding 20 days. The April 2019 Note bears interest at a rate of 10% per year and matures on April 24, 2020.

On May 5, 2019, the Company issued a convertible promissory note (the "May 2019 Note") in the amount of up to $48,500, at which time an advance of $46,500 was received to cover operational expenses. The terms of the May 2019 Note allow the lender to convert all or part of the outstanding balance plus accrued interest, at any time after 180 days from the effective date, at a conversion price of 61% multiplied by the lowest trading prices during the preceding 15 days. The May 2019 Note bears interest at a rate of 10% per year and matures on May 5, 2020.

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

Cautionary Statements

The following Management's Discussion and Analysis should be read in conjunction with our Consolidated Financial Statements and the related notes thereto as set forth in our Form 10-K for the year ended December 31, and the Consolidated Financial Statements and notes thereto included in Item 1 of this Quarterly Report of form 10-Q. The Management's Discussion and Analysis contains forward-looking statements that involve risks and uncertainties, such as statements of our plans, objectives, expectations and intentions. Any statements that are not statements of historical fact are forward-looking statements. When used, the words "believe," "plan," "intend," "anticipate," "target," "estimate," "expect," and the like, and/or future-tense or conditional constructions ("will," "may," "could," "should," etc.), or similar expressions, identify certain of these forward-looking statements. These forward-looking statements are subject to risks and uncertainties that could cause actual results or events to differ materially from those expressed or implied by the forward-looking statements in this quarterly report. Our actual results and the timing of events could differ materially from those anticipated in these forward-looking statements as a result of several factors including, but not limited to, those noted under "Risk Factors" of the reports filed with the Securities and Exchange Commission. We do not undertake any obligation to update forward-looking statements to reflect events or circumstances occurring after the date of this quarterly report.

Overview

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

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

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.

<u>Data Analytics</u>

To deliver the highest Return on Investment ("ROI") for our customer's digital marketing campaign, we utilize sophisticated data science to identify the correct universes to target relevant audiences. Our ability to understand and translate data drives every decision we make. By listening to and analyzing our customers' data we are able to make informed decisions that positively impact our customers' business. We leverage industry-best tools to aggregate and visualize data across multiple sources, and then our data and behavioral scientists segment and model that data to be deployed in targeted marketing campaigns. We have data analytics expertise in retail, wholesale, distribution, logistics, manufacturing, political, and several other industries.

<u>Digital Marketing</u>

We help our customers get their message out, educate their market and tell their story. We do so creatively and effectively by deploying powerful call-to-action digital campaigns with national reach, and boosting exposure and validation with coordinated advertising in print media. Our fully-developed marketing plans are founded on sound research methodologies, brand audits and exploration of the competitive landscape. Whether our customer is a challenger brand, a political candidate, or a well-known household name, our strategists are skillful at leveraging data and creating campaigns that move people to make decisions.

<u>Branding and Creative Services</u>

We approach branding from a "big picture" perspective, establishing a strong identity and then building on that to develop a comprehensive branding program that tells our customer's story, articulates what sets our customer apart from their competitors and establishes our customer in their market.

<u>Development and Managed Infrastructure Support</u>

Commerce-focused, user-friendly digital websites and apps elevates our customer's marketing position and draw consumers to their products and services. Our platform-agnostic approach allows us to architect and build solutions that are the best fit for each customer. Once the digital properties are built, our experts will help manage and protect the website or app and provide the expertise needed to scale the infrastructure needed as our customer's business grows.

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 Condensed Consolidated Financial Statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of our Condensed Consolidated 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 Condensed Consolidated Financial Statements.

Among the significant judgments made by management in the preparation of our CondensedConsolidated Financial Statements are the following:

Revenue recognition

On January 1, 2018, the Company adopted ASU 2014-09 *Revenue from Contracts with Customers* and all subsequent amendments to the ASU (collectively, "ASC 606"), using the modified retrospective method applied to those contracts which were not completed as of January 1, 2018. Results for reporting periods beginning after January 1, 2018 are presented under Topic 606, while prior period amounts are not adjusted and continue to be reported in accordance with our historic accounting under Topic 605. Revenues are recognized when control of the promised goods or services is transferred to our customers, in an amount that reflects the consideration we expect to be entitled to in exchange for those goods or services. The adoption of ASC 606 did not have a material impact on the Company's Condensed Consolidated Financial Statements. See footnote 3 for a disclosure of our use of estimates and judgement, as it relates to revenue recognition.

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.

Impairment of Long-Lived Assets

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

Indefinite Lived Intangibles and Goodwill Assets

The Company accounts for business combinations under the acquisition method of accounting in accordance with ASC 805, "Business Combinations," where the total purchase price is allocated to the tangible and identified intangible assets acquired and liabilities assumed based on their estimated fair values. The purchase price is allocated using the information currently available, and may be adjusted, up to one year from acquisition date, after obtaining more information regarding, among other things, asset valuations, liabilities assumed and revisions to preliminary estimates. The purchase price in excess of the fair value of the tangible and identified intangible assets acquired less liabilities assumed is recognized as goodwill.

The Company tests for indefinite lived intangibles and goodwill impairment in the fourth quarter of each year and whenever events or circumstances indicate that the carrying amount of the asset exceeds its fair value and may not be recoverable. In accordance with its policies, the Company performed a qualitative assessment of indefinite lived intangibles and goodwill at December 31, 2018 and determined there was no impairment of indefinite lived intangibles and goodwill.

Business Combinations

The Company allocates the fair value of purchase consideration to the tangible assets acquired, liabilities assumed and intangible assets acquired based on their estimated fair values. The excess of the fair value of purchase consideration over the fair values of these identifiable assets and liabilities is recorded as goodwill. Such valuations require management to make significant estimates and assumptions, especially with respect to intangible assets. Significant estimates in valuing certain intangible assets include, but are not limited to, future expected cash flows from acquired customer lists, acquired technology, and trade names from a market participant perspective, useful lives and discount rates. Management's estimates of fair value are based upon assumptions believed to be reasonable, but which are inherently uncertain and unpredictable and, as a result, actual results may differ from estimates. During the measurement period, which is one year from the acquisition date, we may record adjustments to the assets acquired and liabilities assumed, with the corresponding offset to goodwill. Upon the conclusion of the measurement period, any subsequent adjustments are recorded to earnings.

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 March 31, 2019 and December 31, 2018, 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 to sell an asset or transfer a liability, between market participants at the measurement date.Fair value measurements assume that the asset or liability is (1) exchanged in an orderly manner, (2) the exchange is in the principal market for that asset or liability, and (3) the market participants are independent, knowledgeable, able and willing to transact an exchange. Fair value accounting and reporting establishes a framework for measuring fair value by creating a hierarchy for observable independent market inputs and unobservable market assumptions and expands disclosures about fair value measurements. Considerable judgment is required to interpret the market data used to develop fair value estimates. As such, the estimates presented herein are not necessarily indicative of the amounts that could be realized in a current exchange. The use of different market assumptions and/or estimation methods could have a material effect on the estimated fair value.

Off-Balance Sheet Arrangements

Our significant off-balance sheet transactions include commitments associated with non-cancelable operating leases, which includes office leases for Data Propria and WebTegrity. See footnote 14 for disclosure of operating leases.

Recent Accounting Pronouncements

Management reviewed accounting pronouncements issued during the quarter ended March 31, 2019, and the following pronouncements were adopted during the period.

In February 2016, the FASB issued ASU No. 2016-02, Leases ("ASC 842"). Under ASC 842, lessees are recognized as a right-of-use asset and a lease liability for all leases, other than those that meet the definition of a short-termlease. For income statement purposes, leases are classified as either operating or finance. Operatingleases are expensed on a straight-line basis, similar to current operating leases, while finance leases result in a front-loaded pattern, similar to current capital leases. The Company adopted ASC 842 effective January 1, 2019 and elected certain available transitional practical expedients.

Management reviewed accounting pronouncements issued during the year ended December 31, 2018, and the following pronouncements were adopted during the period.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers* ("ASU 2014-09"). The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled for those goods or services. The standard is effective for annual periods beginning after December 15, 2017, and interim periods therein. The Company follows paragraph 606 of the FASB Accounting Standards Codification for revenue recognition and ASU 2014-09, adopting the pronouncements on January 1, 2018. The company considers revenue realized or realizable and earned when services are performed to such a degree that the performed service is delivered or deliverable to the client, or when a tangible item, such as interior décor or signage, is delivered to the client. Since the Company was already recognizing revenue in a manner consistent with paragraph 606 of the FASB Accounting Standards Codification, there was no material impact on prior year results.

ASU 2014-09 supersedes existing guidance on revenue recognition with a five-step model for recognizing and measuring revenue from contracts with customers. The objective of the new standard is to provide a single, comprehensive revenue recognition model for all contracts with customers to improve comparability within industries, across industries, and across capital markets. The underlying principle is that an entity will recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. The guidance also requires a number of disclosures regarding the nature, amount, timing, and uncertainty of revenue and the related cash flows. The guidance can be applied retrospectively to each prior reporting period presented (full retrospective method) or retrospectively with a cumulative effect adjustment to retained earnings for initial application of the guidance at the date of initial adoption (modified retrospective method). The Company adopted the new standard effective January 1, 2018 using the modified retrospective method applied to those contracts that were not completed or substantially completed as of January 1, 2018. The timing and measurement of revenue recognition under the new standard is not materially different than under the old standard. The adoption of the new standard had an immaterial impact on the Company's Condensed Consolidated Financial Statements.

Recently Issued Accounting Pronouncements Not Yet Adopted

In June 2016, the FASB issued Accounting Standards Update No. 2016-13 (ASU 2016-13) "Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments" which requires the measurement and recognition of expected credit losses for financial assets held at amortized cost. ASU 2016-13 replaces the existing incurred loss impairment model with an expected loss methodology, which will result in more timely recognition of credit losses. ASU 2016-13 is effective for annual reporting periods, and interim periods within those years, beginning after December 15, 2019. We are currently in the process of evaluating the impact of the adoption of ASU 2016-13 on our consolidated financial statements.

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

Results of Operations for the Three Months Ended March 31, 2019, compared to the Three Months Ended March 31, 2018.

REVENUE

Total revenue for the three months ended March 31, 2019 decreased by $223,702 to $2,653,007, compared to $2,876,709 for the three months ended March 31, 2018. The decrease was primarily due to a reduction in revenue from a related party, partially offset by revenue increases from third parties.

SALARIES AND OUTSIDE SERVICES

Salaries and outside services for the three months ended March 31, 2019 decreased by $332,004 to $1,151,880, compared to $1,483,884 for the three months ended March 31, 2018. The decrease was primarily due to a reduction of salary and paid time off expenses. Beginning January 1, 2019, the Company established a new paid time off policy, by which the company eliminated all accrued paid time off, reducing December 31, 2018 balances to zero.

SELLING, GENERAL, AND ADMINISTRATIVE EXPENSES

Selling, general, and administrative ("SG&A") expenses for the three months ended March 31, 2019 decreased by $469,453 to $1,342,187 compared to $1,811,640 for the three months ended March 31, 2018. The decrease was primarily due to a decrease in operating expenses, travel, payroll taxes, and rent.

STOCK BASED COMPENSATION

Stock based compensation expenses for the three months ended March 31, 2019 decreased by $78,702 to $81,370, compared to $160,072 for the three months ended March 31, 2018. The decrease was due to several stock option issuances being fully expensed in the current period.

DEPRECIATION AND AMORTIZATION

Depreciation and amortization expenses for the three months ended March 31, 2019 increased by $1,538 to $254,931, compared to $253,393 for the three months ended March 31, 2018. The increase was primarily due to the purchase of additional fixed assets.

OTHER INCOME AND EXPENSE

Total other income and expense for the three months ended March 31, 2019 increased by $77,479 to net other expense of $166,559 compared to net other expense of $89,080 for the three months ended March 31, 2018. The increase in net other expense was primarily due to the utilization of a secured borrowing arrangement, resulting in higher interest expense.

NET LOSS

The consolidated net loss for the three months ended March 31, 2019 was $343,919, compared to the consolidated net loss of $791,369 for the three months ended March 31, 2018. The decrease in net loss for the period was primarily due to the reduction of operating expenses.

LIQUIDITY AND CAPITAL RESOURCES

The Company had a net working capital deficit (i.e. the difference between current assets and current liabilities) of($4,593,691) at March 31, 2019 compared to a net working capital deficit of ($4,146,991) at fiscal year ended December 31, 2018.

Cash flow used in operating activities was $284,277 for the three months ended March 31, 2019, compared to cash flow provided by operating activities of $59,752 for the three months ended March 31, 2018. The increase in cash flow used in operating activities of $344,029 was primarily due to decreases in accounts payable and accrued expenses, partially offset by decreases in accounts receivable and deferred taxes.

Cash flow used in investing activities was $2,104 for the three months ended March 31, 2019, compared to cash flow used in investing activities of $13,800 for the three months ended March 31, 2018. The decrease in cash flow used in investing activities of $11,696 was primarily due to a reduction in the purchase of computers, partially offset by the reduction of fixed asset disposals.

Cash flow provided by financing activities was $395,165 for the three months ended March 31, 2019, compared to cash flow used in financing activities of $101,114 for the three months ended March 31, 2018. The increase in cash flow provided by financing activities of $496,279 was due to additional borrowings, partially offset by debt repayments and dividends paid.

Liquidity is the ability of a company to generate funds to support its current and future operations, satisfy its obligations, and otherwise operate on an ongoing basis. Significant factors in the management of liquidity are funds generated by operations, levels of accounts receivable and accounts payable and capital expenditures.

The Condensed Consolidated Financial Statements have been prepared on a going concern basis of accounting, which contemplates continuity of operations, realization of assets and liabilities and commitments in the normal course of business. The accompanying consolidated Condensed Consolidated Financial Statements do not reflect any adjustments that might result if we are unable to continue as a going concern. Our independent auditors, in their report on our audited financial statements for the year ended December 31, 2018 expressed substantial doubt about our ability to continue as a going concern. Our ability to continue as a going concern is dependent upon, among other things, additional cash infusion. Management believes that the additional cash needed to meet our obligations as they become due, and which will allow the development of our core business operations, will be received through investments in the Company made by our existing shareholders, prospective new investors and future revenue generated by our operations.

As a result of the recent economic recession, and the continuing economic uncertainty, it has been difficult for companies to obtain equity or debt financing. While the credit markets have improved over the last year, it remains difficult for smaller companies to obtain financing on reasonable terms.

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

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

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

Off-Balance Sheet Arrangements

Our significant off-balance sheet transactions include commitments associated with non-cancelable operating leases, which includes office leases for Data Propria and WebTegrity. See footnote 14 for disclosure of operating leases.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not Applicable.

Item 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Management, with the participation of the Company's principal executive and principal financial officers, or persons performing similar functions, evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) and Rule 15d-15(e) of the Exchange Act of 1934, as amended), as of the end of the period covered by this report to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Act is (i) recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms and (ii) accumulated and communicated to the Company's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Based on that evaluation, our management concluded that, as of March 31, 2019, our disclosure controls and procedures were not effective due to the following material weaknesses:

1. lack of segregation of duties; and

2. failure to implement accounting controls of acquired businesses.

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

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

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

No Attestation Report by Independent Registered Accountant

The effectiveness of our internal control over financial reporting as ofMarch 31, 2019 has not been audited by our independent registered public accounting firm by virtue of our exemption from such requirement as a smaller reporting company.

Changes in Internal Controls over Financial Reporting

There have been no changes in the Company's internal control over financial reporting that occurred during the Company's last fiscal quarter endedMarch 31, 2019 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls

The Company's management does not expect that its disclosure controls or its internal control over financial reporting will prevent or detect all error and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. The design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Further, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision making can be faulty and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Projections of any evaluation of controls effectiveness to future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

PART II. - OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

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

Item 1A. RISK FACTORS

There have been no material changes to the risk factors disclosed in "Risk Factors" in our Form 10-K filed with the SEC on April 1, 2019.

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

None.

Item 3. DEFAULTS UPON SENIOR SECURITIES

None.

Item 4. MINE SAFETY DISCLOSURES

Not applicable.

Item 5. OTHER INFORMATION

None

Item 6. EXHIBITS

(a) Exhibits

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

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

SIGNATURES

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

CLOUDCOMMERCE, INC.
(Registrant)

Dated: May 15, 2019

By: /s/ *Andrew Van Noy*
Andrew Van Noy
Chief Executive Officer and President
(Principal Executive Officer)

/s/ *Gregory Boden*
Gregory Boden
Chief Financial Officer
(Principal Financial and Accounting Officer)

EXHIBIT 31.1

CERTIFICATION

EXHIBIT 31.1
CERTIFICATION

I, Andrew Van Noy, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of CloudCommerce, Inc.

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report.

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report.

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (of persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: May 15, 2019

By: /s/ Andrew Van Noy
Andrew Van Noy, Chief Executive Officer and President
(Principal Executive Officer)

EXHIBIT 31.2

CERTIFICATION

EXHIBIT 31.2

CERTIFICATION

I, Gregory Boden, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of CloudCommerce, Inc.

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report.

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report.

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation.

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (of persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: May 15, 2019

By: /s/ *Gregory Boden*
Gregory Boden, Chief Financial Officer
(Principal Financial and Accounting Officer)

EXHIBIT 32.1

CERTIFICATION

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of CloudCommerce, Inc. (the "Company") on Form 10-Q for the period ending March 31, 2019 (the "Report") I, Andrew Van Noy, Chief Executive Officer and President of the Company, certify, pursuant to 18 USC Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge and belief:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: May 15, 2019

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

This certification accompanies the Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

EXHIBIT 32.2

CERTIFICATION

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of CloudCommerce, Inc. (the "Company") on Form 10-Q for the period ending March 31, 2019 (the "Report") I, Gregory Boden, Chief Financial Officer of the Company, certify, pursuant to 18 USC Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge and belief:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: May 15, 2019

By: /s/ *Gregory Boden*
Gregory Boden, Chief Financial Officer
(Principal Financial and Accounting Officer)

This certification accompanies the Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.