

CLOUDCOMMERCE, INC.
Form 10-Q
August 14, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For quarterly period ended June 30, 2018.

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 (I.R.S.
jurisdiction of Employer
incorporation or Identification)

organization) No.)

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

(Address of principal
executive offices) (Zip Code)

(805) 964-3313

Registrant's telephone
number, including area code

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the 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 (Do not check if a smaller reporting company)	Smaller reporting company <input checked="" type="checkbox"/>
	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

Table of Contents

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

As of August 14, 2018, the number of shares outstanding of the registrant’s class of common stock was 136,279,079.

Table of Contents

PART I – FINANCIAL INFORMATION	Page
Item 1. <u>Condensed Consolidated Financial Statements</u>	3
<u>Condensed Consolidated Balance Sheets as of June 30, 2018 (unaudited) and December 31, 2017</u>	4
<u>Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2018 and June 30, 2017 (unaudited)</u>	5
<u>Condensed Consolidated Statement of Shareholders’ Equity for the six months ended June 30, 2018 (unaudited)</u>	6
<u>Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2018 and June 30, 2017 (unaudited)</u>	7
<u>Notes to Condensed Consolidated Financial Statements (unaudited)</u>	8
Item 2. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	26
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	31
Item 4. <u>Controls and Procedures</u>	31
 PART II - OTHER INFORMATION	
Item 1. <u>Legal Proceedings</u>	32
Item 1A. <u>Risk Factors</u>	32
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	32
Item 3. <u>Defaults Upon Senior Securities</u>	32
Item 4. <u>Mine Safety Disclosures</u>	32

Item 5. <u>Other Information</u>	32
Item 6. <u>Exhibits</u>	32
<u>Signatures</u>	33

Table of Contents

PART I. - FINANCIAL INFORMATION

Item 1. CONSOLIDATED FINANCIAL STATEMENTS

3

Table of Contents

CLOUDCOMMERCE, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2018 (unaudited)	December 31, 2017
ASSETS		
CURRENT ASSETS		
Cash	\$743,764	\$272,321
Accounts receivable, net	1,218,737	877,570
Accounts receivable, net - related party	148,024	398,410
Prepaid and other current Assets	82,972	39,168
TOTAL CURRENT ASSETS	2,193,497	1,587,469
PROPERTY & EQUIPMENT, net	148,295	161,325
OTHER ASSETS		
Lease deposit	18,600	13,300
Goodwill and other intangible assets, net	10,184,403	9,546,757
TOTAL OTHER ASSETS	10,203,003	9,560,057
TOTAL ASSETS	\$12,544,795	\$11,308,851
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$1,206,464	\$1,004,203
Accrued expenses	641,323	522,794
Lines of credit	484,173	475,468
Deferred income and customer deposit	710,893	620,504
Convertible notes and interest payable, current, net	277,801	97,013
Capital lease obligation, current	32,382	32,382
Notes payable	750,000	—
Notes payable, related parties	1,657,020	670,819
TOTAL CURRENT LIABILITIES	5,760,056	3,423,183
LONG TERM LIABILITIES		
Capital lease obligation, long term	38,704	54,693
Deferred tax liability	910,780	1,021,566
Accrued expenses, long term	205,703	207,803
TOTAL LONG TERM LIABILITIES	1,155,187	1,284,062
TOTAL LIABILITIES	6,915,243	4,707,245
COMMITMENTS AND CONTINGENCIES (see Note 13)	—	—
SHAREHOLDERS' EQUITY		
Preferred stock, \$0.001 par value;		

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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; 136,279,079 and 130,252,778 shares issued and outstanding, respectively	136,279	130,252
Additional paid in capital	29,268,409	29,094,147
Accumulated deficit	(23,775,278)	(22,622,935)
TOTAL SHAREHOLDERS' EQUITY	5,629,552	6,601,606
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 12,544,795	\$ 11,308,851

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

Table of Contents

CLOUDCOMMERCE, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

	Three Months Ended		Six Months Ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
REVENUE	\$2,050,766	\$723,817	\$3,446,042	\$1,209,925
REVENUE - related party	546,884	—	2,028,317	—
TOTAL REVENUE	2,597,650	723,817	5,474,359	1,209,925
OPERATING EXPENSES				
Salaries and outside services	1,462,011	784,862	2,952,351	1,563,455
Selling, general and administrative expenses	1,128,626	209,432	2,933,804	460,461
Stock based compensation	125,904	124,836	285,976	248,937
Depreciation and amortization	254,791	117,170	508,186	180,081
TOTAL OPERATING EXPENSES	2,971,332	1,236,300	6,680,317	2,452,934
LOSS FROM OPERATIONS BEFORE OTHER INCOME AND TAXES	(373,682)	(512,483)	(1,205,958)	(1,243,009)
OTHER INCOME (EXPENSE)				
Other expense	(39,506)	(14,111)	(63,126)	(13,072)
Loss on sale of fixed assets	—	(1,567)	(22,358)	(1,567)
Gain on extinguishment of debt	5,750		5,750	
Interest expense	(59,336)	(33,024)	(102,437)	(63,783)
TOTAL OTHER INCOME (EXPENSE)	(93,092)	(48,702)	(182,171)	(78,422)
LOSS FROM OPERATIONS BEFORE PROVISION FOR TAXES	(466,774)	(561,185)	(1,388,129)	(1,321,431)
PROVISION (BENEFIT) FOR INCOME TAXES	(105,795)	(400)	(235,786)	(400)
NET LOSS	(360,979)	(560,785)	(1,152,343)	(1,321,031)
PREFERRED DIVIDENDS	75,315	20,000	129,794	40,000
NET LOSS ATTRIBUTABLE TO COMMON SHAREHOLDERS	\$(436,294)	\$(580,785)	\$(1,282,137)	\$(1,361,031)

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NET LOSS PER SHARE

BASIC	\$ (0.00) \$ (0.01) \$ (0.01) \$ (0.01)
DILUTED	\$ (0.00) \$ (0.01) \$ (0.01) \$ (0.01)

WEIGHTED-AVERAGE COMMON SHARES

OUTSTANDING

BASIC	135,195,699	130,252,778	132,710,431	129,899,595
DILUTED	135,195,699	130,252,778	132,710,431	129,899,595

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	Accumulated	Total
	Shares	Amount	Shares	Amount	Paid-in Capital	Deficit	
Balance, December 31, 2017	142,450	\$ 142	130,252,778	\$ 130,252	\$ 29,094,147	\$(22,622,935)	\$ 6,601,606
Conversion of convertible note	—	—	6,026,301	6,027	18,079	—	24,106
Dividend on Series A Preferred stock	—	—	—	—	(40,000)	—	(40,000)
Dividend on Series D Preferred stock	—	—	—	—	(89,793)	—	(89,793)
Stock based compensation	—	—	—	—	285,976	—	285,976
Net loss	—	—	—	—	—	(1,152,343)	(1,152,343)
Balance, June 30, 2018 (unaudited)	142,450	\$ 142	136,279,079	\$ 136,279	\$ 29,268,409	\$(23,775,278)	\$ 5,629,552

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

Table of Contents

CLOUDCOMMERCE, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

	Six Months Ended	
	June 30, 2018	June 30, 2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$(1,152,343)	\$(1,321,031)
Adjustment to reconcile net loss to net cash (used in) operating activities		
Depreciation and amortization	508,186	180,081
Bad debt expense	68,029	(41,467)
Stock based compensation	285,976	248,937
Loss on sale of fixed assets	22,358	1,567
Gain on extinguishment of debt	(5,750)	—
Change in assets and liabilities:		
(Increase) Decrease in:		
Accounts receivable	(158,810)	(43,908)
Prepaid and other assets	(43,804)	(1,898)
Lease deposit	(5,300)	—
Increase (Decrease) in:		
Accounts payable	202,261	(17,488)
Accrued expenses	183,701	61,355
Capital lease obligation	(16,503)	—
Deferred income	47,751	579,260
Deferred tax liability	(235,786)	—
NET CASH USED IN OPERATING ACTIVITIES	(300,034)	(354,592)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(41,304)	(6,025)
Proceeds from the sale of property and equipment	20,658	—
NET CASH USED IN INVESTING ACTIVITIES	(20,646)	(6,025)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Dividend paid	(93,132)	(40,000)
Net proceeds (payments) on line of credit	8,705	28,659
Payments on capital lease obligation	(9,000)	—
Payments on promissory notes	(255,450)	—
Proceeds from issuance of notes payable	1,141,000	386,000

NET CASH PROVIDED BY FINANCING ACTIVITIES	792,123	374,659
NET INCREASE IN CASH	471,443	14,042
CASH, BEGINNING OF PERIOD	272,321	16,827
CASH, END OF PERIOD	\$743,764	\$30,869
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Interest paid	\$71,074	\$31,119
Taxes paid	\$16,156	\$3,629
Conversion of notes payable to common stock	\$24,106	\$—

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

Table of Contents

CLOUDCOMMERCE, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED

JUNE 30, 2018

1. BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements of CloudCommerce, Inc. (“CloudCommerce,” “we,” “us,” or the “Company”), have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all normal recurring adjustments considered necessary for a fair presentation have been included. Operating results for the three and six months ended June 30, 2018 are not necessarily indicative of the results that may be expected for the year ending December 31, 2018. For further information, refer to the financial statements and footnotes thereto included in the Company's transition report Form 10-KT for the transition period from July 1, 2017 to December 31, 2017.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The Consolidated Financial Statements include the Company and its wholly owned subsidiaries, Indaba Group, Inc., a Delaware corporation (“Indaba”), Parscale Digital, Inc., a Nevada corporation (“Parscale Digital”), WebTegrity, Inc., a Nevada corporation, 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 June 30, 2018 and December 31, 2017 are \$74,213 and \$6,184 respectively.

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

March 23, 2017, the Company amended the secured borrowing arrangement, which increased the maximum allowable balance by \$100,000, to a total of \$500,000. As of June 30, 2018, the balance due from this arrangement was \$101,326.

On October 19, 2017, the Company entered into an agreement with a third party to sell the rights, with recourse, to accounts receivable amounts due from our customers to Parscale Digital. Under the terms of the agreement, the Company may receive advances in amounts up to \$500,000, based on the amounts we invoice our customers, for a period of one year. Because the Company maintains the collectability risk of all outstanding balances, we record the amounts due from customers as a secured borrowing arrangement, with the customer balances at fair value in accounts receivable, including an allowance for any balances at risk of collectability, and the amount due to the third party as a liability. 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 June 30, 2018, the balance due from this arrangement was \$382,847.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the accompanying financial statements. Significant estimates made in preparing these financial statements include revenue recognition, the allowance

Table of Contents

for doubtful accounts, long-lived assets, intangible assets, business combinations, the deferred tax valuation allowance, and the fair value of stock options and warrants. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. As of June 30, 2018, the Company held cash and cash equivalents in the amount of \$743,764, which was held in the operating bank accounts. Of this amount, \$709,668 was held in the CloudCommerce bank account. Since this amount exceeds the FDIC insured limit of \$250,000, the balance at risk was \$459,668.

Revenue Recognition

The Company recognizes income when the service is provided or when product is delivered. We present revenue, net of customer incentives. Most of the income is generated from professional services and site development fees. We provide online marketing services that we purchase from third parties. The gross revenue presented in our statement of operations includes digital advertising revenue. We also offer professional services such as development services. The fees for development services with multiple deliverables constitute a separate unit of accounting in accordance with ASC 605-25, which are recognized as the work is performed. Upfront fees for development services or other customer services are deferred until certain implementation or contractual milestones have been achieved. If we have performed work for our clients, but have not invoiced clients for that work, then we record the value of the work in either deferred revenue, as a negative liability balance, or as an asset in costs in excess of billings. The terms of services contracts generally are for periods of less than one year. The deferred revenue and customer deposits as of June 30, 2018 and December 31, 2017 was \$710,893 and \$620,504, respectively.

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

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

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

During the six months ended June 30, 2018 and 2017, we included \$1,813,527 and zero, respectively, in revenue, related to reimbursable costs.

The Company records revenue into the following five categories:

- Data Sciences – Includes polling, research, modeling, data fees, consulting and reporting.
- Design – Includes branding, photography, copyrighting, printing, signs and interior design.
- Development – Includes website coding.
- Digital Advertising – Includes ad spend, SEO management and digital ad support.
- Other – Includes domain name management, account management, email marketing, web hosting, email hosting, client training, reimbursed expenses and partner commissions.

Table of Contents

For the six months ended June 30, 2018 and 2017, revenue was disaggregated into the five categories as follows:

	Six months ended June 30, 2018			Six months ended June 30, 2017		
	Third Parties	Related Parties	Total	Third Parties	Related Parties	Total
Data Sciences	\$226,100	\$20,000	\$246,100	\$—	\$ —	\$—
Design	948,012	154,731	1,102,743	—	—	—
Development	780,941	111,879	892,820	1,128,658	—	1,128,658
Digital Advertising	1,013,738	1,544,015	2,557,753	—	—	—
Other	477,251	197,692	674,943	81,267	—	81,267
Total	\$3,446,042	\$2,028,317	\$5,474,359	\$1,209,925	\$ —	\$1,209,925

Research and Development

Research and development costs are expensed as incurred. Total research and development costs were zero for the six months ended June 30, 2018 and 2017.

Advertising Costs

The Company expenses the cost of advertising and promotional materials when incurred. Total advertising costs were \$30,449 and \$3,316 for the six months ended June 30, 2018 and 2017, respectively.

Fair value of financial instruments

The Company's financial instruments, including cash and cash equivalents, accounts receivable, accounts payable, and accrued liabilities are carried at cost, which approximates their fair value, due to the relatively short maturity of these instruments. As of June 30, 2018 and December 31, 2017, the Company's notes payable have stated borrowing rates that are consistent with those currently available to the Company and, accordingly, the Company believes the carrying value of these debt instruments approximates their fair value.

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

- Level 1, defined as observable inputs such as quoted prices for identical instruments in active markets;
- Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable such as quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in markets that are not active; and
- Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions, such as valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

As of June 30, 2018 and December 31, 2017, the Company had no assets or liabilities that are required to be valued on a recurring basis.

Property and Equipment

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

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

Table of Contents

Depreciation expenses were \$20,832 and \$13,075 for the six months ended June 30, 2018 and 2017, respectively.

Impairment of Long-Lived Assets

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

Indefinite Lived Intangibles and Goodwill Assets

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

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

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 June 30, 2018, the Company held cash and cash equivalents in the amount of \$743,764, which was held in the operating bank accounts. Of this amount, \$709,668 was held in the CloudCommerce bank account. Since this amount exceeds the FDIC insured limit of \$250,000, the balance at risk was \$459,668.

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.

Table of Contents

Stock-based compensation expense recognized during the period is based on the value of the portion of stock-based payment awards that is ultimately expected to vest. Stock-based compensation expense recognized in the consolidated statement of operations during the six months ended June 30, 2018, included compensation expense for the stock-based payment awards granted prior to, but not yet vested, as of June 30, 2018 based on the grant date fair value estimated. Stock-based compensation expense recognized in the statement of operations for the six months ended June 30, 2018 is based on awards ultimately expected to vest, or has been reduced for estimated forfeitures. Forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. The stock-based compensation expense recognized in the consolidated statements of operations during the six months ended June 30, 2018, and 2017 were \$285,976 and \$248,937, respectively.

Basic and Diluted Net Income (Loss) per Share Calculations

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

For the six months ended June 30, 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 39,158,500 shares of common stock underlying \$277,801 in convertible notes, because their impact on the loss per share is anti-dilutive.

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

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

Recently Issued Accounting Pronouncements

Management reviewed accounting pronouncements issued during the six months ended June 30, 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

Table of Contents

recognition under the new standard is not materially different than under the old standard. The adoption of the new standard did not have an impact on the Company's 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 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.

3. LIQUIDITY AND OPERATIONS

The Company had net loss of \$1,152,343 for the six months ended June 30, 2018, and \$1,321,031 for the six months ended June 30, 2017, and net cash used in operating activities of \$300,034 and \$354,592, 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 private placement of common stock or from any other source.

Going Concern

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

4. BUSINESS ACQUISITIONS

Parscale Creative, Inc.

On August 1, 2017, the Company completed the acquisition of Parscale Creative, Inc., a Nevada corporation (“Parscale Creative”). As of that date, the Company’s wholly owned operating subsidiary, Parscale Digital, Inc., a Nevada corporation (“Parscale Digital”), merged with Parscale Creative, and the name of the combined subsidiary was changed to Parscale Digital. The total purchase price of \$7,945,000, was paid in the form of the issuance of ninety thousand (90,000) shares of the Company's Series D Convertible Preferred Stock, at a liquidation preference of one hundred dollars (\$100) per share, plus dividend payments based on 5% of adjusted revenue of Parscale Digital. Adjusted revenue is defined as total revenue, minus digital marketing media buys. Based on the growth of the Parscale Digital, the actual amount of the dividend payments is estimated to be in the range of \$850,000 and \$1,300,000, over 36 months, if we achieve 0.5% to 3% monthly adjusted revenue growth. The dividend payments are recorded as a reduction to additional paid in capital. For the period from acquisition, August 1, 2017 through December 31, 2017, we paid \$106,260 related to the Series D Convertible Preferred dividend, and during the six months ended June 30, 2018, we paid \$53,132. As of the date of closing,

Table of Contents

Brad Parscale, the 100% owner of Parscale Creative, was appointed to the Company's Board of Directors. The Company assumed net liabilities of \$535,000, related to this acquisition.

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

Cash	\$200,000
Customer deposits and accrued expenses	(535,000)
Net tangible liabilities	\$(335,000)

Non-compete agreements	\$280,000
Brand name	1,930,000
Customer list	2,090,000
Goodwill	4,720,000
Deferred tax liability	(1,075,000)
Total purchase price	\$7,945,000

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

WebTegrity, LLC

On November 15, 2017, the Company completed the acquisition of WebTegrity, LLC, a Texas limited liability company ("WebTegrity"). As of that date, the Company's operating subsidiary, Parscale Digital, Inc., a Nevada corporation, merged with WebTegrity and the name of the combined subsidiary remains unchanged as Parscale Digital. 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	530,000
Deferred tax liability	(100,000)
Total purchase price	\$900,000

Issuance of Series E Convertible Preferred Stock \$900,000

Table of Contents

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 with 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. For the six months ended June 30, 2018, the Company made total payments of \$255,450 on the promissory note, and included \$13,930 in interest expense.

Current assets	\$—
Brand name	100,000
Customer list	400,000
Goodwill	625,000
Deferred tax liability	(125,000)
Total purchase price	\$1,000,000

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.

	Six months ended,	Six months ended,
	<u>June 30,</u>	<u>June 30,</u>
	<u>2018</u>	<u>2017</u>
Total revenues	\$5,474,359	\$4,427,416
Net income (loss)	(1,152,343)	255,460
Basic and diluted net earnings per common share	\$(0.01)	\$0.00

5.

INTANGIBLE ASSETS

Domain Name

On June 26, 2015, the Company purchased the rights to the domain “CLOUDCOMMERCE.COM”, from a private party at a purchase price of \$20,000, plus transaction costs of \$202, which 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, 2018, 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,

Table of Contents

2015, we determined that this intangible asset has a definite useful life of 174 months, and as such, will be included in depreciation and amortization expense. For the six months ended June 30, 2018 and 2017, the Company included \$345 and \$345, respectively, in depreciation and amortization expense related to this trademark.

Non-Compete Agreements

On October 1, 2015, the Company acquired Indaba from three members of the limited liability company. At that time, we retained two of the members, who served as the Chief Executive Officer and Chief Technology Officer of Indaba. Both employees have non-compete agreements in place to protect the Company against the risk of either employee leaving Indaba to compete directly with us. We have calculated the value of those non-compete agreements at \$201,014, with a useful life of two years, which coincides with the term of the non-compete agreement. This amount was included in depreciation and amortization expense until September 30, 2017. For the six months ended June 30, 2018 and 2017, the Company included zero and \$50,254, respectively, in depreciation and amortization expense related to these non-compete agreements.

On August 1, 2017, the Company signed a merger agreement with Brad Parscale, in which Parscale Creative merged with and into Parscale Digital. The terms of the merger agreement include a non-compete agreement with Brad Parscale, for a period of three years. The Company has placed a value of this non-compete agreement at \$280,000, amortized over a period of 36 months. For the six months ended June 30, 2018, we have included \$46,667 in amortization expense related to this non-compete agreement. As of June 30, 2018, the balance on this intangible asset was \$194,444.

Customer List

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

On August 1, 2017, the Company acquired Parscale Creative, and have calculated the value of the customer list at \$2,090,000, with a useful life of 3 years. For the six months ended June 30, 2018, we included \$339,972 in depreciation and amortization expense related to the customer list, and as of June 30, 2018, the remaining balance of this intangible asset was \$1,381,712.

On November 15, 2017, the Company acquired WebTegrity, and have calculated the value of the customer list at \$280,000, with a useful life of 3 years. For the six months ended June 30, 2018, we included \$44,815 in depreciation and amortization expense related to the customer list, and as of June 30, 2018, the remaining balance of this intangible asset was \$200,497.

On February 1, 2018, the Company acquired Parscale Media, and have calculated the value of the customer list at \$400,000, with a useful life of 3 years. For the six months ended June 30, 2018, we included \$55,556 in depreciation and amortization expense related to the customer list, and as of June 30, 2018, the remaining balance of this intangible asset was \$344,444.

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 June 30, 2018, 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 June 30, 2018, 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 is included in other assets on the balance sheet. As of June 30, 2018, we have determined that this brand name has an indefinite useful life, and as such, is not included in depreciation and amortization expense. The Company will assess this intangible asset annually for impairment, in addition to it being classified with an indefinite useful life.

Goodwill

On August 1, 2017, the Company acquired Indaba, and have calculated the value of the goodwill at \$1,128,003, which was included in other assets on the balance sheet at June 30, 2017. During the six months ended December 31, 2017, we

Table of Contents

determined that the goodwill related to the Indaba acquisition was impaired. Therefore, all remaining goodwill was written off. The amount of the write off was \$1,128,003.

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

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

On February 1, 2018, the Company acquired Parscale Media, and have calculated the value of the goodwill at \$625,000, which is included in other assets on the balance sheet. The Company will assess this intangible asset for impairment, if an event occurs that may effect the fair value, or at least annually.

The Company's intangible assets consist of the following:

	June 30, 2018			December 31, 2017		
	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
Customer list	2,770,000	(843,346)	1,926,654	2,370,000	(403,003)	1,966,997
Non-compete agreement	280,000	(85,556)	194,444	280,000	(38,889)	241,111
Domain name and trademark	30,201	(1,896)	28,305	30,201	(1,552)	28,649
Brand name	2,160,000	—	2,160,000	2,060,000	—	2,060,000
Goodwill	5,875,000	—	5,875,000	5,250,000	—	5,250,000
Total	11,115,201	(930,798)	10,184,403	9,990,201	(443,444)	9,546,757

Total amortization expense charged to operations for the six months ended June 30, 2018 and 2017 was \$487,354 and \$125,127, respectively. The following table of remaining amortization of finite life intangible assets, for the years ended December 31, includes the intangible assets acquired, in addition to the CloudCommerce trademark:

2018	\$488,253
2019	976,506
2020	646,953
2021	11,801
2022 and thereafter	5,690
Total	\$2,129,203

6. CREDIT FACILITIES

Secured Borrowing

On November 30, 2016, Indaba entered into a 12 month agreement with a third party to sell the rights to amounts due from our customers, in exchange for a borrowing facility in amounts up to a total of \$400,000. The agreement was amended on March 23, 2017, which increased the allowable borrowing amount by \$100,000, to a maximum of \$500,000. On November 30, 2017, the agreement auto renewed for another twelve months. The proceeds from the facility are determined by the amounts we invoice our customers. The Company evaluated this facility in accordance

with ASC 860, classifying it

17

Table of Contents

as a secured borrowing arrangement. As such, we record the amounts due from customers in accounts receivable and the amount due to the third party as a liability, presented as a “line of credit” on the Balance Sheet. The principal borrowed through this facility is secured by the accounts receivable balances, in addition to the other assets of the Company. During the term of this facility, the third party lender has a first priority security interest in the Company, and therefore, we will require such third party lender’s written consent to obligate the Company further or pledge our assets against additional borrowing facilities. Because of this position, it may be difficult for the Company to secure additional secured borrowing facilities. The cost of this secured borrowing facility is 0.05% of the daily balance. During the six months ended June 30, 2018 and 2017, the Company included \$15,079 and \$31,161, respectively, in interest expense, related to this secured borrowing facility, and as of June 30, 2018 and December 31, 2017, the outstanding balances were \$101,326 and \$296,631, 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. The Company evaluated this facility in accordance with ASC 860, classifying it as a secured borrowing arrangement. As such, we record the amounts due from customers in accounts receivable and the amount due to the third party as a liability, presented as a “line of credit” on the Balance Sheet. The principal borrowed through this facility is secured by the accounts receivable balances, in addition to the other assets of the Company. During the term of this facility, the third party lender has a first priority security interest in the Company, and will, therefore, we will require such third party lender’s written consent to obligate the Company further or pledge our assets against additional borrowing facilities. Because of this position, it may be difficult for the Company to secure additional secured borrowing facilities. The cost of this secured borrowing facility is 0.05% of the daily balance. During the six months ended June 30, 2018 and 2017, the Company included \$16,712 and zero, respectively, in interest expense, related to this secured borrowing facility, and as of June 30, 2018 and December 31, 2017, the outstanding balances were \$382,847 and \$178,837, respectively.

7. CONVERTIBLE NOTES PAYABLE

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

On March 25, 2013, the Company issued a convertible promissory note (the “March 2013 Note”) in the amount of up to \$100,000, at which time an initial advance of \$50,000 was received to cover operational expenses. The lender, 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 matures on March 25, 2018. The Company is working with the lender to extend the maturity date. On May 23, 2014, the lender converted \$17,000 of the 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 June 30, 2018 was \$75,856, which includes \$25,856 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 June 30, 2018 was \$201,945, which includes \$1,945 of accrued interest.

8. N