

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

FORM 10-K

U.S. SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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

For the fiscal year ended: June 30, 2015

Commission file number 0-13215

CLOUDCOMMERCE, INC.

(Exact name of registrant as specified in its charter)

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

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

(Address of principal executive offices) (Zip Code)

(805) 964-3313

Registrant's telephone number, including area code

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

Title of Each Class

Name of Each Exchange On

COMMON STOCK

Which Registered

OTC

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

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Yes <input type="checkbox"/>		No <input checked="" type="checkbox"/>
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Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes <input type="checkbox"/>		No <input checked="" type="checkbox"/>
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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes <input checked="" type="checkbox"/>		No <input type="checkbox"/>
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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

	<input checked="" type="checkbox"/>
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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
(Do not check if a smaller reporting company)			

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

Yes	<input type="checkbox"/>	No	<input checked="" type="checkbox"/>
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The aggregate market value of voting stock held by non-affiliates of the registrant was approximately \$736,000 as of December 31, 2014, the last business day of the registrant's most recently completed second fiscal quarter (computed by reference to the last sale price of a share of the registrant's Common Stock on that date as reported by OTC Bulletin Board).

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

TABLE OF CONTENTS

PART I		
ITEM 1	Business	2
ITEM 2	Properties	7
ITEM 3	Legal Proceedings	7
ITEM 4	Mine Safety Disclosures	7
PART II		
	Market for Common Equity, Related Stockholder Matters, and Issuer Purchases of	
ITEM 5	Equity Securities	7
ITEM 6	Selected Financial Data	8
ITEM 7	Management's Discussion and Analysis or Plan of Operation	8
ITEM 8	Financial Statements and Supplementary Data	14
ITEM 9	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	33
ITEM 9A	Controls and Procedures	33
ITEM 9B	Other Information	34
PART III		
ITEM 10	Directors, Executive Officers, and Corporate Governance	35
ITEM 11	Executive Compensation	37
ITEM 12	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	43
ITEM 13	Certain Relationships and Related Transactions, and Director Independence	44
ITEM 14	Principal Accounting Fees and Services	44
ITEM 15	Exhibits, Financial Statement Schedules	44
SIGNATURES		47

PART I

ITEM 1. BUSINESS

Company History

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

General

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

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

Industry Overview

Growth of Mobile and Digital Commerce

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

Opportunities for Outsourced e-Commerce

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

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

Technology Products

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

Mobile e-commerce

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

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

Desktop e-commerce

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

E-mail Marketing

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

Professional Services

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

Site Design and Development

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

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

Merchandizing and Promotions Design

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

Advanced Reporting and Analytics

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

Strategic Marketing Services

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

Revenue Model

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

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

Benefits to Clients

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

Reduced Total Cost of Ownership and Risk

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

Revenue Growth

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

Deployment Speed

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

Focus on Core Competency

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

Sales and Marketing

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

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

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

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

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

Competition

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

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

Government Regulation

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

Employees

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

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

Seasonality

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

Trademarks

We have a registered trademark for Warp 9®.

ITEM 2. PROPERTIES

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

ITEM 3. LEGAL PROCEEDINGS

The Company may be involved in legal actions and claims arising in the ordinary course of business, from time to time, none of which at this time are considered to be material to the Company's business or financial condition.

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

ITEM 4. MINE SAFETY DISCLOSURES.

Not Applicable.

PART II

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

Common Stock

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

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

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

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

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

Dividends

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

Warrants

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

Equity Compensation Plan Information

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

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

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

ITEM 6. SELECTED FINANCIAL DATA.

None.

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

Cautionary Statements

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

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

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

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

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

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

Current Overview

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

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

Critical Accounting Policies

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

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

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

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

Fair value of financial instruments

The Company's financial instruments, including cash and cash equivalents, accounts receivable, accounts payable, and accrued liabilities are carried at cost, which approximates their fair value, due to the relatively short maturity of these instruments. As of June 30, 2015 and 2014, the Company's notes payable have stated borrowing

rates that are consistent with those currently available to the Company and, accordingly, the Company believes the carrying value of these debt instruments approximates their fair value.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC Topic 820 established a three-tier fair value hierarchy which prioritizes the inputs used in measuring fair value. The hierarchy gives the

highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). These tiers include:

Level 1, defined as observable inputs such as quoted prices for identical instruments in active markets;

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

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

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

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

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

	Total	(Level 1)	(Level 2)	(Level 3)
Assets	\$ -	\$ -	\$ -	\$ -