

UnifiedOnline, Inc.
Form 10-Q
November 24, 2015

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

Form 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2015

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

Commission file number: 0-27865

UNIFIEDONLINE, INC.
(Exact name of small business issuer as specified in its charter)

DELAWARE
(State or other jurisdiction of
incorporation or organization)

13-2640971
(I.R.S. Employer
Identification No.)

4126 Leonard Drive, Fairfax, VA
(Address of principal executive offices)

22030
(Zip Code)

816-979-1893
(Issuer's telephone number)

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting

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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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The number of shares of the registrant’s Common Stock, \$.001 par value, outstanding at November 11, 2015 was:
957,597,537

CAUTIONARY STATEMENT REGARDING FORWARD LOOKING INFORMATION

This quarterly report contains forward-looking statements. These forward-looking statements are subject to risks and uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from the results, performance or achievements expressed or implied by the forward-looking statements. You should not unduly rely on these statements. Forward-looking statements can be identified by the fact that they do not relate strictly to historical or current facts. They use words such as “anticipate”, “estimate”, “expect”, “project”, “intend”, “p”, “believe”, “contemplate”, “would”, “should”, “could”, or “may.” With respect to any forward-looking statement that includes a statement of its underlying assumptions or bases, we believe such assumptions or bases to be reasonable and have formed them in good faith, assumed facts or bases almost always vary from actual results, and the differences between assumed facts or bases and actual results can be material depending on the circumstances. When, in any forward-looking statement, we express an expectation or belief as to future results, that expectation or belief is expressed in good faith and is believed to have a reasonable basis, but there can be no assurance that the stated expectation or belief will result or be achieved or accomplished. All subsequent written and oral forward-looking statements attributable to us, or anyone acting on our behalf, are expressly qualified in their entirety by the cautionary statements.

OTHER PERTINENT INFORMATION

When used in this quarterly report, the terms “UnifiedOnline”, “UOIP”, the “Company”, “we”, “our”, and “us” refer to UnifiedOnline, Inc., a Delaware corporation, and our subsidiaries. The information which appears on our web site at www.unifiedonline.net is not part of this quarterly report.

UNIFIEDONLINE, INC. AND SUBSIDIARIES
 FORM 10-Q
 QUARTERLY PERIOD ENDED SEPTEMBER 30, 2015

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PART I - FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

UNIFIEDONLINE, Inc.
Consolidated Balance Sheets

| | September 30, 2015 (unaudited) | June 30, 2015 |
|---|---|------------------|
| Assets | | |
| Current Assets: | | |
| Cash | \$10,044 | \$21,745 |
| Accounts receivable, net | 21,452 | 19,945 |
| Prepaid expenses | 62,801 | 66,543 |
| Marketable securities | 3 | 2 |
| Other current assets | 8,167 | 10,208 |
| Total Current Assets | 102,467 | 118,443 |
| Property and equipment, net of accumulated depreciation of \$1,164,224 and \$1,140,249 respectively | 27,487 | 51,462 |
| Deposits | 5,923 | 5,923 |
| Other assets | 1,545 | 1,545 |
| Total Assets | \$137,422 | \$177,373 |
| Liabilities and Stockholders' Deficit | | |
| Current Liabilities: | | |
| Accounts payable and accrued liabilities | \$1,391,820 | \$1,043,088 |
| Notes payable, current portion | 942,977 | 962,810 |
| Capital lease payable, current portion | 881,982 | 886,356 |
| Note payable, related party | 1,090,255 | 1,029,005 |
| Deferred revenue | 79,879 | 85,407 |
| Convertible notes payable, net of discount | 156,355 | 115,632 |
| Derivative liability - warrants | 144,125 | 83,766 |
| Derivative liability - embedded conversion option | 278,556 | 346,734 |
| Total Current Liabilities | 4,965,949 | 4,552,798 |
| Capital lease payable, long term portion | 517,686 | 517,686 |
| Total Liabilities | 5,483,635 | 5,070,484 |
| Commitments and Contingencies (Note 13) | | |
| Stockholders' Deficit: | | |
| Series B convertible preferred stock (\$.001 par value; 10,000,000 shares authorized; 626,667 shares issued and outstanding) | 626 | 626 |
| Common stock (\$.001 par value; 6,000,000,000 shares authorized; 912,897,537 and 912,466,204 shares issued and outstanding, respectively) | 912,897 | 912,466 |
| Additional paid in capital | 49,001,382 | 48,984,686 |
| Accumulated deficit | (55,167,120) | (54,696,891) |
| Accumulated other comprehensive loss | (80,998) | (80,998) |

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| | | |
|---|--------------|--------------|
| Treasury stock, at cost, (406 shares) | (13,000) | (13,000) |
| Total Stockholders' Deficit | (5,346,213) | (4,893,111) |
| Total Liabilities and Stockholders' Deficit | \$137,422 | \$177,373 |

See accompanying notes to unaudited consolidated financial statements

UNIFIEDONLINE, Inc.
Consolidated Statements of Operations
(Unaudited)

| | Three Months Ended September 30, | |
|--|-------------------------------------|--------------|
| | 2015 | 2014 |
| Sales | \$242,473 | \$237,889 |
| Cost of sales | 98,298 | 243,772 |
| Gross profit (loss) | 144,175 | (5,883) |
| Operating expenses: | | |
| Sales and marketing | 28,074 | 35,785 |
| Depreciation | 9,946 | 43,799 |
| Technical | 62,989 | 108,597 |
| General and administrative | 379,039 | 261,631 |
| Total Operating Expenses | 480,048 | 449,812 |
| Loss from Operations | (335,873) | (455,695) |
| Other income (expenses): | | |
| Gain on sale of assets | - | 3,625 |
| Gain from change of fair value of derivative liability | 2,255 | 409,590 |
| Interest expense | (136,611) | (195,434) |
| Total other income (expenses) | (134,356) | 217,781 |
| Net loss | \$(470,229) | \$(237,914) |
| Loss per common share basic and diluted | \$(0.0005) | \$(0.0613) |
| Weighted average common shares outstanding - basic and diluted | 912,831,899 | 3,879,598 |

See accompanying notes to unaudited consolidated financial statements

UNIFIEDONLINE, Inc.
 Consolidated Statements of Comprehensive Loss
 (Unaudited)

| | Three Months Ended September 30, | |
|--|-------------------------------------|--------------|
| | 2015 | 2014 |
| Net loss | \$(470,229) | \$(237,914) |
| Other comprehensive income/(loss), net of tax: | | |
| Unrealized gain (loss) on securities | - | (2) |
| Other comprehensive income/(loss) | - | (2) |
| Comprehensive loss | \$(470,229) | \$(237,916) |

See accompanying notes to unaudited consolidated financial statements

UNIFIEDONLINE, Inc.
Consolidated Statements of Cash Flows
(Unaudited)

| | Three Months Ended September 30, | |
|--|-------------------------------------|--------------|
| | 2015 | 2014 |
| NET CASH USED IN OPERATING ACTIVITIES | \$(52,657) | \$(392,408) |
| CASH FLOWS USED IN INVESTING ACTIVITIES: | | |
| Purchase of property and equipment | - | (1,643) |
| NET CASH USED IN INVESTING ACTIVITIES | - | (1,643) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Payments on notes payable | (20,294) | (136,586) |
| Proceeds from convertible note payable | - | - |
| Proceeds from notes payable | - | - |
| Proceeds from notes payable, related party | 61,250 | 487,740 |
| NET CASH PROVIDED BY FINANCING ACTIVITIES | 40,956 | 351,154 |
| NET DECREASE IN CASH | (11,701) | (42,897) |
| CASH - beginning of period | 21,745 | 56,827 |
| CASH - end of period | \$10,044 | \$13,930 |
| Supplemental disclosure of cash flow information: | | |
| Cash paid for interest | \$10,950 | \$17,495 |
| NON-CASH INVESTING AND FINANCING ACTIVITIES: | | |
| Conversion of convertible note into common stock | \$3,235 | \$281,679 |

See accompanying notes to unaudited consolidated financial statements

UnifiedOnline, Inc. and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - NATURE OF BUSINESS

On January 5, 2015, IceWEB, Inc. changed its name to UnifiedOnline, Inc.

UnifiedOnline, Inc. (the “Company”) began trading publicly in April 2002. During the three months ended September 30, 2015 we had three wholly owned operating subsidiaries, Computers & Telecom, Inc. and KCNAP, LLC, (collectively “CTC) and IceWEB Storage Corporation (formerly known as Inline Corporation). CTC provides wireless and fiber broadband service, co-location space and related services and operates a Network Access Point (“NAP”) where customers directly interconnect with a network ecosystem of partners and customers. This access to Internet routes provides CTC customers improved reliability and streamlined connectivity while significantly reducing costs by reaching a critical mass of networks within a centralized physical location. In addition, through our IceWEB Storage Corporation subsidiary we deliver on-line cloud computing application services, other managed services such as Disaster Recovery, Archive Storage, Redundant File Storage, Redundant Broadband Services and Business Continuity Services.

CTC operates a wireless internet service business, providing WIMAX broadband to small and medium size businesses in the metro Kansas-City, Missouri area. In addition CTC offers the following solutions: (i) premium data center co-location, (ii) interconnection and (iii) exchange and outsourced IT infrastructure services.

We leverage our NAP which allows our customers to increase information and application delivery performance while reducing costs. Our platform enables scalable, reliable and cost-effective co-location, interconnection and traffic exchange thus lowering overall cost and increasing flexibility.

NOTE 2 - BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation and Interim Financial Information

The accompanying unaudited consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles (“US GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 8-03 of Regulation S-X and include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation. Accordingly, the consolidated financial statements do not include all of the information and footnotes required by US GAAP for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included and such adjustments are of a normal recurring nature. These consolidated financial statements should be read in conjunction with the Company’s audited financial statements for the year ended June 30, 2015, contained in the Company’s Annual Report on Form 10-K filed with the SEC on October 13, 2015. The results of operations for the three months ended September 30, 2015, are not necessarily indicative of results to be expected for any other interim period or the fiscal year ending June 30, 2016.

Reclassifications

Certain reclassifications have been made to previously reported amounts to conform to 2016 amounts. The reclassifications had no impact on previously reported results of operations or stockholders’ deficit. The changes were as a result of the reverse stock split which occurred on January 5, 2015, which was retrospectively applied, the reclass of certain depreciation related to assets used for providing service to cost of sales from operating expense, the reclass of a capital lease payable from notes payable to capital lease payable and the reclass of derivative expense from interest expense.

Going Concern

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. The Company had net losses and net cash used in operating activities of \$470,229 and \$52,657, respectively, for the three months ended September 30, 2015. The Company also had an accumulated deficit and stockholder's deficit of \$55,167,120 and \$5,346,213 respectively at September 30, 2015. These matters raise substantial doubt about the Company's ability to continue as a going concern. The consolidated financial statements do not include any adjustments related to the recovery and classification of recorded assets, or the amounts and classification of liabilities that might be necessary in the event we cannot continue in existence. Additionally, the Company is currently in default on the loans to IWEB Growth Fund, and there is no guarantee that IWEB Growth Fund will not enter a judgment against the Company.

UnifiedOnline, Inc. and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Management has established plans intended to increase the sales of our products and services. Management intends to seek new capital from new equity securities offerings to provide funds needed to increase liquidity, fund growth, and implement its business plan. However, no assurances can be given that we will be able to raise any additional funds.

Marketable Securities

UnifiedOnline accounts for the purchase of marketable equity securities in accordance with FASB Accounting Standards Codification (ASC) 320, "Investment – Debt and Equity Securities" with any unrealized gains and losses included as a net amount as a separate component of stockholders' equity. However, those securities may not have the trading volume to support the stock price if the Company were to sell all their shares in the open market at once, so the Company may have a loss on the sale of marketable securities even though they record marketable equity securities at the current market value.

Cash and Cash Equivalents

We consider all highly liquid debt instruments with original maturities of three months or less to be cash equivalents.

Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the balance sheets and the reported amounts of sales and expenses during the reporting periods. Actual results could differ from those estimates. Significant estimates include the valuation of stock-based compensation, the allowance for doubtful accounts, the useful life of property and equipment, derivative liabilities, deferred tax and valuation allowance and litigation reserves.

Accounts Receivable

Accounts receivable consists of normal trade receivables. We recorded a bad debt allowance of \$21,545 as of September 30, 2015. Management performs ongoing evaluations of its accounts receivable, and believes that all remaining receivables are fully collectable. Bad debt expense amounted to \$16,777 and \$0 for the three months ended September 30, 2015 and 2014, respectively.

Derivative Liability

The Company issued warrants to purchase the Company's common stock in connection with the issuance of convertible debt, which contain certain ratchet provisions that reduce the exercise price of the warrants or the conversion price in certain circumstances. In accordance with ASC 815 the Company determined that the warrants and/or the conversion features with provisions that reduce the exercise price of the warrants did not qualify for a scope exception under ASC 815 as they were determined not to be indexed to the Company's stock.

Derivatives are required to be recorded on the balance sheet at fair value (see Note 12). These derivatives, including embedded derivatives in the Company's structured borrowings, are separately valued and accounted for on the Company's balance sheet. Fair values for exchange traded securities and derivatives are based on quoted market prices. Where market prices are not readily available, fair values are determined using market based pricing models incorporating readily observable market data and requiring judgment and estimates.

Fair Value Measurements

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market

participants on the measurement date. The established fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Observable inputs such as quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities that are not active; and model-driven valuations whose inputs are observable or whose significant value drivers are observable. Valuations may be obtained from, or corroborated by, third-party pricing services.

UnifiedOnline, Inc. and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Level 3: Unobservable inputs to measure fair value of assets and liabilities for which there is little, if any market activity at the measurement date, using reasonable inputs and assumptions based upon the best information at the time, to the extent that inputs are available without undue cost and effort.

Fair Value of Financial Instruments

The Company's financial instruments, including cash and cash equivalents, receivables, accounts payable and accrued liabilities and notes payable are carried at cost, which approximates their fair value, due to the relatively short maturity of these instruments.

Our derivative financial instruments, consisting of embedded conversion features in our convertible debt and ratchet provisions in our warrants, are required to be measured at fair value on a recurring basis under FASB ASC 815. As of September 30, 2015 and 2014 our derivatives are measured at fair value, using a Black-Scholes valuation model which approximates a binomial lattice valuation methodology utilizing Level 3 inputs. Level 3 inputs are unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities (see Note 12).

Property and Equipment

Property and equipment is stated at cost, net of accumulated depreciation. Depreciation expense is recorded by using the straight-line method over the estimated useful lives of the related assets.

Product Warranties

The Company's products typically carry a warranty for periods of up to three years. We have not had any significant warranty claims on our products.

Long-lived Assets

In accordance with ASC Topic 360, "Property, Plant, and Equipment", we review the carrying value of intangibles and other long-lived assets for impairment at least annually or whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of long-lived assets is measured by comparison of its carrying amount to the undiscounted cash flows that the asset or asset group is expected to generate. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the property, if any, exceeds its fair market value.

Revenue Recognition

We follow the guidance of ASC Topic 605, "Revenue Recognition" for revenue recognition. In general, we record revenue when persuasive evidence of an arrangement exists, services have been rendered or product delivery has occurred, the sales price to the customer is fixed or determinable, and collectability is reasonably assured.

It is our practice to obtain a signed master sales agreement for recurring revenue sales, and/or a sales order for events and one-time services. Taxes collected from customers and remitted to government authorities are reported on a net basis and are excluded from revenue.

We derive the majority of our revenues from recurring revenue streams, consisting of:

1. Wireless and fiber broadband service;
2. Co-location, which includes the licensing of cabinet and power;
3. Interconnection services, such as cross connects;

4. Managed infrastructure services.

- Revenues from recurring revenue streams are generally billed monthly and recognized ratably over the term of the contract, generally one to three years for data center space customers. We generally recognize revenue beginning on the date the customer commences use of our services.
- Implementation and set-up fees are recognized at the time those services are completed and service is working.
- For services that are billed according to customer usage, revenue is recognized in the month in which the usage is provided.
- Professional services are recognized in the period services are provided.
- Amounts that have been invoiced are recorded in accounts receivable and revenue

UnifiedOnline, Inc. and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Our customers generally have the right to cancel their contracts by providing prior written notice to us of their intent to cancel the remainder of the contract term. The customer would be required to pay any charge for early cancellation that their contract specifies. In the event that a customer cancels their contract, they are not entitled to a refund for services already rendered. A customer can continue service on a month-to-month basis after their contract expires.

Barter Transactions

Barter activity is accounted for in accordance with ASC 845, Nonmonetary Transactions. Barter revenue relates to the exchange of wireless bandwidth and internet connectivity provided by CTC to business customers in exchange primarily for roof rights for antennae, advertising and other products and services that CTC would otherwise be required to buy for cash. Barter expenses reflect the expense offset to barter revenue. The amount of barter revenue and expense is recorded at the estimated fair value of the services received or the services provided, whichever is more objectively determinable, in the month the services are exchanged. For the three months ended September 30, 2015, the Company recorded barter revenue of \$4,500 and barter expense of \$0 and for the three months ended September 30, 2014, the Company recorded barter revenue of \$7,714 and barter expense of \$0.

Prepaid expenses

Prepaid expenses are comprised primarily of prepaid costs related to the installation of new customers, prepaid advertising costs which are expensed when used, and deferred financing costs which are amortized over the life of the related financing.

Deferred Revenue

Amounts billed in advance of services being provided are recorded as deferred revenue and are recognized in the consolidated statement of operations as services are provided.

Deferred Financing Costs

Debt issuance costs incurred in connection with the issuance of debt are capitalized and amortized to interest expense based on the related debt agreements on a straight-line basis, which approximates the effective interest method. Unamortized amounts are included in prepaid expenses in the accompanying unaudited consolidated balance sheets.

Earnings per Share

We compute earnings per share in accordance with ASC Topic 260, "Earnings Per Share" Under the provisions of ASC Topic 260, basic earnings per share is computed by dividing the net income (loss) for the period by the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed by dividing the net income (loss) for the period by the weighted average number of common and potentially dilutive common shares outstanding during the period. Potentially dilutive common shares consist of the common shares issuable upon the exercise of stock options and warrants (using the treasury stock method) and upon the conversion of convertible notes and preferred stock (using the if-converted method). Potentially dilutive common shares are excluded from the calculation if their effect is antidilutive. At September 30, 2015, there were options and warrants to purchase 205,926,330 shares of common stock, there was \$156,355 of convertible debt outstanding, which, if converted on September 30, 2015 would amount to 53,400,000 shares, and 626,667 shares issuable upon conversion of Series B preferred stock outstanding which could potentially dilute future earnings per share.

Stock-Based Compensation

As more fully described in Note 15, we have three stock option plans that provide for non-qualified options to be issued to directors, officers, employees and consultants (the 2012 Equity Compensation Plan, 2013 Equity Plan and the 2015 Employee Option Plan (the "Plans")).

Cost of Sales

Cost of sales consists primarily of the costs of providing wireless and fiber bandwidth and colocation services.

RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

Recently Adopted and Recently Issued Accounting Standards

Various accounting standards that have been issued or proposed by FASB that do not require adoption until a future date are not expected to have a material impact on the consolidated financial statements upon adoption.

UnifiedOnline, Inc. and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3 - PROPERTY AND EQUIPMENT

Property and equipment, net, consists of the following:

| | Estimated Life | September 30, 2015 | June 30, 2015 |
|--------------------------------|-------------------|-----------------------|------------------|
| Equipment | 3 years | \$ 1,125,304 | \$ 1,125,304 |
| Computer Software | 3 years | 59,694 | 59,694 |
| Vehicle | 3 years | 1,979 | 1,979 |
| Leasehold Improvements | 3 years | 4,734 | 4,734 |
| | | 1,191,711 | 1,191,711 |
| Less: Accumulated Depreciation | | (1,164,224) | (1,140,249) |
| Net, Property and Equipment | | \$ 27,487 | \$ 51,462 |

Depreciation expense for the three months ended September 30, 2015 and 2014 was \$23,975 and \$157,138, respectively, of which \$14,029 and \$114,339 was included in cost of sales for the three months ended September 30, 2015 and 2014, respectively.

NOTE 4 - NOTES PAYABLE

IWEB Growth Fund, LLC

On November 2, 2012 the Company entered into a Loan Agreement with IWEB Growth Fund, LLC, a Virginia limited liability company ("IWEB Growth Fund") established by Messrs. Compton, Bush, Carosi, Pirtle and Stavish and General Soyster, our former independent directors. Under the terms of the Loan Agreement, IWEB Growth Fund agreed to make one or more loans to us up to the total principal amount of \$1.5 million. The lending of any amounts under the Loan Agreement is conditioned upon the negotiation of notes and related loan documents which contain terms and conditions that are acceptable to the lender to be determined at the time of the loans. We agreed to grant IWEB Growth Fund a security interest in our assets as collateral for these loans. In the event we should default under the terms of the Loan Agreement, IWEB Growth Fund is entitled to declare all amounts advanced under the various notes immediately due and payable. An event of default includes a breach by us of any covenant, representation or warranty in the Loan Agreement or a default under any note entered into with the lender.

Between November 9, 2012 and July 11, 2013, IWEB Growth Fund lent us an aggregate of \$186,000 under the terms of 9 separate Confession of Judgment Promissory Notes. In Fiscal 2015, \$1,000 was paid on one of the notes. These notes, which are identical in their terms other than the dates and principal amounts, are for a one year term and bear interest at 12% per annum payable at maturity. Embodied in each of the notes is a confession of judgment which means that should we default upon the payment of the note, we have agreed to permit IWEB Growth Fund to enter a judgment against us in the appropriate court in Virginia before filing suit against us for collection of the amounts. Pursuant to the terms of the Loan Agreement, we paid IWEB Growth Fund's expenses of \$1,500 for the preparation of the Loan Agreement and related documents. We used the net proceeds from these initial loans for general working capital. The Company is currently in default on these loans. There is no guarantee that IWEB Growth Fund will not enter a judgment against the Company.

On February 27, 2014, Agility Ventures LLC sold and assigned the Master Lease and Equipment Schedule to a third party, UO! IP of NC, LLC (see Note 5). UO! IP of NC, LLC has advanced the payments made on this lease to the Company at a rate of 10% per annum. The balance due to UO!IP of NC, LLC was \$635,000 at September 30, 2015 and June 30, 2015, respectively.

On June 16, 2015, we entered into a loan agreement with Power Up Lending Group, LTD. (“Power Up”) for \$50,000 to fund working capital. The note is for a nine month term, payable at \$365 per day, for a total repayment amount of \$69,000. The balance due to Power Up was \$34,379 and \$48,315 at September 30, 2015 and June 30, 2015, respectively.

UnifiedOnline, Inc. and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As part of the acquisition of CTC, the Company acquired two debt obligations – one with Blue Ridge Bank and one for rent payable on an old building which was converted into a loan. The balance due to Blue Ridge Bank was \$50,638 and \$56,996 at September 30, 2015 and June 30, 2015, respectively. The balance due for the rent payable converted into a loan was \$37,960 and \$37,499 at September 30, 2015 and June 30, 2015, respectively.

A summary of our Notes Payable is as follows:

| | September 30, 2015 | June 30, 2015 |
|------------------------------|--------------------------|------------------|
| IWEB Growth Fund | \$ 185,000 | \$ 185,000 |
| UO! IP of NC, LLC | 635,000 | 635,000 |
| Power Up Lending Group, LTD. | 34,379 | 48,315 |
| Other Notes Payable | 88,598 | 94,495 |
| | \$942,977 | \$962,810 |

NOTE 5 – CAPITAL LEASE PAYABLE

Agility Ventures, LLC and UO! IP of NC, LLC

On October 1, 2013, in conjunction with the acquisition of CTC, we entered into an equipment lease agreement with Agility Ventures, LLC in the principal amount of \$1,678,531 which is secured by all of the assets of the Company. The lease agreement has a term of 36 months and bears interest at 15% per annum. We also issued Agility Ventures 2,500 shares of the Company's restricted common stock, and a Series T common stock warrant covering a total of 9,187 shares with a term of two years and a conversion price of \$22.00 per share which expired September 30, 2015. The Company has the option to purchase the equipment at the end of the term.

On February 27, 2014, Agility Ventures LLC sold and assigned the Master Lease and Equipment Schedule to a third party, UO! IP of NC, LLC. UO! IP of NC, LLC is a related party to the Company's majority shareholder, Unified Online! LLC. The agreement changed the interest rate to 3.75% on the outstanding principal balance of the lease at February 27, 2014. UO! IP of NC, LLC assigned the lease back to UOIP as part of the subscription agreement at the same terms.

The Company applied the 10% cash flow test pursuant to Topic ASC 470-50-40-10 "Debt Modification and Extinguishment" to calculate the difference between the present value of the new loan's cash flows and the present value of the old loan's remaining cash flow and concluded that the results exceeded the 10% factor, the debt modification is considered substantially different and applied extinguishment accounting. Accordingly, the gain or loss on extinguishment should be measured by the difference between the carrying amount of the old debt and the fair value of the new debt. Additionally, Topic ASC 470-50-40-17 states if the exchange or modification is to be accounted for in the same manner as a debt extinguishment and the new debt instrument is initially recorded at fair value, then the fees paid or received shall be associated with the extinguishment of the old debt instrument and included in determining the debt extinguishment gain or loss to be recognized. The fair value of the new debt was determined to be \$1,983,164 and the carrying amount of the old debt of principal and accrued interest totaling \$1,717,853 resulted in a total loss on the extinguishment of debt of \$265,311 at June 30, 2014.

The underlying assets and related depreciation were included in the appropriate fixed asset category, and related depreciation account. Capitalized equipment under lease agreements totaled approximately \$1.9 million prior to the

CTC acquisition of which \$666,782 was recorded at fair value at the time of acquisition. \$4,044 remains net of accumulated depreciation as of September 30, 2015 and \$16,176 remains net of accumulated depreciation as of June 30, 2015. The lease term of each capital equipment lease is 36 months.

The Company is currently in default on this lease. See Note 19.

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Future minimum payments required under capital leases at June 30, 2015 are as follows:

| | |
|--|-------------|
| 2016 | \$1,170,000 |
| 2017 | 273,356 |
| Total future payments | 1,443,356 |
| Less amount representing interest | 43,688 |
| Present value of future minimum payments | 1,399,668 |
| Less current portion | 881,982 |
| Long-term portion | \$517,686 |

NOTE 6 – OTHER CURRENT ASSETS

Other current assets totaled \$8,167 and \$10,208 at September 30, 2015 and June 30, 2015, respectively. The balance at September 30, 2015 and June 30, 2015 consists primarily of deferred loan fees related to the capitalized lease obligation to Agility Ventures, LLC.

NOTE 7 - CONCENTRATIONS

Bank Balances

The Company maintains cash in bank deposit accounts which do not exceed the federally insured limits as provided through the Federal Deposit Insurance Corporation (“FDIC”). At September 30, 2015, the Company’s cash balances were fully insured. In 2010 the FDIC insurance coverage limit was increased to \$250,000 per depositor, per institution as a result of the Dodd-Frank Wall Street and Consumer Protection Act. The Company has not experienced any losses in such accounts.

Major Customers

Sales to three customers for the three months ended September 30, 2015 represented 27% of total sales and sales to three customers represented 21% total sales for the three months ended September 30, 2014.

| | Three Months Ended September 30, | | | |
|------------|-------------------------------------|---|------|---|
| | 2015 | | 2014 | |
| Customer A | 12 | % | 13 | % |
| Customer B | 9 | % | 4 | % |
| Customer C | 6 | % | 4 | % |
| All others | 73 | % | 79 | % |
| | 100 | % | 100 | % |

As of September 30, 2015 and June 30, 2015, respectively, approximately 64% and 74% of our accounts receivable was due from three customers.

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| | September | | June 30, | |
|------------|-----------|---|----------|---|
| | 30, | | 2015 | |
| | 2015 | | 2015 | |
| Customer A | 23 | % | 44 | % |
| Customer B | 23 | % | 17 | % |
| Customer C | 18 | % | 13 | % |
| All others | 36 | % | 26 | % |
| | 100 | % | 100 | % |

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NOTE 8 - INVESTMENTS

(a) Summary of Investments

Marketable Equity Securities:

As of September 30, 2015 and June 30, 2015, the Company's investments in marketable equity securities are based on the September 30, 2015 and June 30, 2015 stock price as reflected on the OTCBB stock, respectively. These marketable equity securities are summarized as follows:

| September 30, 2015 | Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|-----------------------------------|-----------------|------------------------------|-------------------------------|---------------|
| Publicly traded equity securities | \$81,000 | \$- | \$(80,998) | \$3 |
| Total | \$81,000 | \$- | \$(80,998) | \$3 |

| June 30, 2015 | Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|-----------------------------------|-----------------|------------------------------|-------------------------------|---------------|
| Publicly traded equity securities | \$81,000 | \$- | \$(80,998) | \$2 |
| Total | \$81,000 | \$- | \$(80,998) | \$2 |

The unrealized gains are presented in comprehensive income in the unaudited consolidated statements of comprehensive loss.

(b) Unrealized Gains and Losses on Investments

The following table summarizes the unrealized net gains (losses) associated with the Company's investments:

| | Three Months Ended September 30, | |
|--|-------------------------------------|--------|
| | 2015 | 2014 |
| Net gains/(loss) on investments in publicly traded equity securities | \$- | \$(2) |
| Net gains/(loss) on investments | \$- | \$(2) |

NOTE 9 – FAIR VALUE MEASUREMENTS

The Company follows ASC 820, which, among other things, defines fair value, establishes a consistent framework for measuring fair value and expands disclosure for each major asset and liability category measured at fair value on either a recurring or nonrecurring basis. The Company did not adopt the ASC 820 fair value framework for nonfinancial assets and liabilities, except for items that are recognized or disclosed at fair value in the financial

statements at least annually. ASC 820 clarifies that fair value is an exit price, representing the amount that would either be received to sell an asset or be paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, ASC 820 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

Level 1. Observable inputs such as quoted prices in active markets for identical assets or liabilities;

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Level 2. Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; and

Level 3. Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

Investments Measured at Fair Value on a Recurring Basis:

| | Quoted Prices in Active Markets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|--|---|---|--|
| September 30, 2015 | | | |
| Marketable Equity Securities | \$3 | \$- | \$ - |
| Derivative liabilities, warrants | \$- | \$- | \$ 144,125 |
| Derivative liabilities, convertible debt | \$- | \$- | \$ 278,556 |
| June 30, 2015 | | | |
| Marketable Equity Securities | \$2 | \$- | \$ - |
| Derivative liabilities, warrants | \$- | \$- | \$ 83,766 |
| Derivative liabilities, convertible debt | \$- | \$- | \$ 346,734 |

Under the guidance of ASC 320, "Investments", we periodically evaluate other-than-temporary impairment (OTTI) of securities to determine whether a decline in their value is other than temporary. Management utilizes criteria such as the magnitude and duration of the decline, in addition to the reasons underlying the decline, to determine whether the loss in value is other than temporary. The term "other-than-temporary" is not intended to indicate that the decline is permanent. It indicates that the prospects for a near term recovery of value are not necessarily favorable, or that there is a lack of evidence to support fair values equal to, or greater than, the carrying value of the investment. Once a decline in value is determined to be other than temporary, the value of the security is reduced and a corresponding impairment charge to earnings is recognized. In the assessment of OTTI for various securities at September 30, 2015 the guidance in ASC 320, "the Investment-Debt and Equity Securities," is carefully followed.

There were no impairment charges on investments in publicly traded equity securities for the three months ended September 30, 2015 or the three months ended September 30, 2014.

The Company has evaluated its publicly traded equity securities as of September 30, 2015, and has determined that there were no unrealized losses that indicate an other-than-temporary impairment. This determination was based on several factors, which include the length of time and extent to which fair value has been less than the cost basis and the financial condition and near-term prospects of the issuer, and the Company's intent and ability to hold the publicly traded equity securities for a period of time sufficient to allow for any anticipated recovery in market value.

NOTE 10 - COMPREHENSIVE LOSS

Comprehensive loss is comprised of net loss and other comprehensive loss. Other comprehensive loss refers to revenue, expenses, gains and losses that under accounting principles generally accepted in the United States are included in comprehensive loss but excluded from net loss as these amounts are recorded directly as an adjustment to stockholders' equity.

The Company's accumulated other comprehensive loss consists of unrealized loss on marketable securities available for sale of \$80,998 at September 30, 2015 and \$80,998 at June 30, 2015.

NOTE 11 – CONVERTIBLE NOTES

As of September 30, 2015 and June 30, 2015 the Company had the following convertible notes outstanding:

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| | September 30, 2015 | June 30, 2015 | |
|--|-----------------------|------------------|-----|
| December 2013 \$60,000 Convertible Note, 10% interest, due December 2014 | \$ 60,000 | \$ 60,000 | (1) |
| January 2015 \$53,500 Convertible Note, 8% interest, due October 2015 | 50,265 | 53,500 | (2) |
| February 2015 \$33,000 Convertible Note, 8% interest, due November 2015 | 33,000 | 33,000 | (3) |
| April 2015 \$30,500 Convertible Note, 12% interest, due April 2017, with a 10% original issue discount | 30,500 | 30,500 | (4) |
| May 2015 \$33,000 Convertible Note, 8% interest, due February 2016 | 33,000 | 33,000 | (5) |
| | 206,765 | 210,000 | |
| Less: Debt Discount | (50,410) | (94,368) | |
| | \$ 156,355 | \$ 115,632 | |

- (1) The Company borrowed \$60,000 in December 2013, due December 2014, with interest at 10%. This note is currently in default. The holder of the note intends to convert at some point in the future. The holder of the note has the right, after the first one hundred eighty days of the note to convert the note and accrued interest into common stock at a price per share equal to 60% (representing a discount rate of 40%) of the lowest trading price for the Common Stock during the fifteen trading day period ending one trading day prior to the date of Conversion Notice, with a floor of \$0.001 per share. The Company recorded a derivative liability at inception of the note of \$60,000. Interest expense of \$1,050 was recorded during the three month period ended September 30, 2015. Also, see Note 12.
- (2) The Company borrowed \$53,500 in January 2015, due October 2015, with interest at 8%. The holder of the note has the right, after the first one hundred eighty days of the note to convert the note and accrued interest into common stock at a price per share equal to 58% of the average of the lowest three trading prices during the 10 trading days previous to the conversion. The agreement includes a ratchet provision resulting in the recording of a derivative liability. The Company recorded a derivative liability of \$81,133 at inception of the note of which \$53,500 was recorded as a debt discount. During the three months ended September 30, 2015, the Company recorded amortization of debt discount of \$17,833 resulting in a debt discount of \$2,972 at September 30, 2015. Interest expense of \$1,005 was recorded during the three month period ended September 30, 2015. Also, see Note 12.

During July 2015, the holder of the Convertible Note exercised their conversion rights and converted \$3,235 of the outstanding principal, at the contractual terms per the note agreement.

- (3) The Company borrowed \$33,000 in February 2015, due November 2015, with interest at 8%. The holder of the note has the right, after the first one hundred eighty days of the note to convert the note and accrued interest into common stock at a price per share equal to 58% of the average of the lowest three trading prices during the 10 trading days previous to the conversion. The agreement includes a ratchet provision resulting in the recording of a derivative liability. The Company recorded a derivative liability of \$127,624 at inception of the note of which \$33,000 was recorded as a debt discount. During the three months ended September 30, 2015, the Company recorded amortization of debt discount of \$11,000 resulting in a debt discount of \$7,333 at September 30, 2015. Interest expense of \$120 was recorded during the three month ended September 30, 2015. Also, see Note 12.
- (4) The Company borrowed \$30,500 in April 2015, due April 2017, with a one-time interest charge of 12%. The holder of the note has the right, after the first one hundred eighty days of the note to convert the note and accrued

interest into common stock at a price per share equal to the lesser of \$0.03 per share or 60% (representing a discount rate of 40%) of the lowest trade price of the Company's common stock in the twenty-five days prior to the date of Conversion Notice. The note has an original issue discount of \$3,000 which has been added to the principal balance of the note and is being recognized in interest expense over the life of the note. The Company recorded a

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debt discount of \$2,500 related to the conversion feature of the note, along with a derivative liability of \$50,833 of which \$30,500 was recorded as a debt discount in April, 2015. During the three month period ended September 30, 2015, the Company recorded amortization of \$4,125 resulting in a debt discount of \$25,437 at September 30, 2015. Interest expense of \$375 was recorded during the three month period ended September 30, 2015. Also, see Note 12.

(5) The Company borrowed \$33,000 in May 2015, due February 2016, with interest at 8%. The holder of the note has the right, after the first one hundred eighty days of the note to convert the note and accrued interest into common stock at a price per share equal to 58% of the average of the lowest three trading prices during the 10 trading days previous to the conversion. The agreement includes a ratchet provision resulting in the recording of a derivative liability. The Company recorded a derivative liability of \$75,223 at inception of the note of which \$33,000 was recorded as a debt discount. During the three month period ended September 30, 2015, the Company recorded amortization of debt discount of \$11,000 resulting in a debt discount of \$14,667 at September 30, 2015. Interest expense of \$660 was recorded during the three month period ended September 30, 2015. Also, see Note 12.

NOTE 12 - DERIVATIVE LIABILITIES

Derivative liability - warrants

The Company has warrants issued in connection with our convertible notes payable outstanding with price protection provisions that allow for the reduction in the exercise price of the warrants in the event the Company subsequently issues stock or securities convertible into stock at a price lower than the exercise price of the warrants. Simultaneously with any reduction to the exercise price, the number of shares of common stock that may be purchased upon exercise of each of these warrants shall be increased or decreased proportionately, so that after such adjustment the aggregate exercise price payable for the adjusted number of warrants shall be the same as the aggregate exercise price in effect immediately prior to such adjustment. The Company accounted for its warrants with price protection in accordance with FASB ASC Topic 815.

Accounting for Derivative Warrant Liability

The Company's derivative warrant instruments have been measured at fair value at September 30, 2015 using the Black-Scholes model. The Company recognizes all of its warrants with price protection in its consolidated balance sheet as liabilities. The liability is revalued at each reporting period and changes in fair value are recognized currently in the consolidated statements of operations. The initial recognition and subsequent changes in fair value of the derivative warrant liability have no effect on the Company's cash flows.

The derivative warrants outstanding at September 30, 2015 are all currently exercisable with a weighted-average remaining life of 1 year.

Derivative liability – convertible notes

From December, 2013 through May, 2015 the Company issued convertible notes in the total principal amount of \$210,000. Upon the issuance of these convertible notes and as a consequence of their conversion features, the convertible notes give rise to derivative liabilities. The Company's derivative liabilities related to its convertible notes payable have been measured at fair value at September 30, 2015 and June 30, 2015 using the Black-Scholes model.

The revaluation of the warrants and convertible debt at each reporting period, as well as the charges associated with issuing additional warrants due to the price protection features, resulted in the recognition of income of \$2,255 for the three months ended September 30, 2015 and the recognition of income of \$409,590 for the three months ended September 30, 2014 within the Company's consolidated statements of operations, under the caption "Gain from change of fair value of derivative liability". The fair value of the warrants at September 30, 2015 and June 30, 2015 is \$144,125 and \$83,766, respectively, which is reported on the consolidated balance sheet under the caption "Derivative liability - warrants". The fair value of the derivative liability related to the convertible debt at September 30, 2015 and June 30, 2015 is \$278,556 and \$346,734, respectively, which is reported on the consolidated balance sheet under the caption "Derivative liability – embedded conversion option".

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The following summarizes the changes in the value of the derivative warrant liability and the derivative embedded conversion option from June 30, 2015 until September 30, 2015:

| | Value | No. of Warrants |
|---|-----------|-----------------|
| Balance at June 30, 2015 - Derivative liability - warrants | \$83,766 | 64,436,748 |
| Increase in fair value of derivative warrant liability | 60,359 | |
| Balance at September 30, 2015 - Derivative liability - warrants | \$144,125 | 205,919,098 |
| | Value | |
| Balance at June 30, 2015 - Derivative liability - embedded conversion option | \$346,734 | |
| Decrease in derivative liability related to conversion of convertible debt | (5,303) | |
| Increase in derivative liability related to issuance of convertible debt | - | |
| Decrease in fair value of derivative liability | (62,875) | |
| Balance at September 30, 2015 - Derivative liability - embedded conversion option | \$278,556 | |

Fair Value Assumptions Used in Accounting for Derivative Liability

The Company has determined its derivative liability to be a Level 3 fair value measurement and has used the Black-Scholes pricing model to calculate the fair value as of September 30, 2015. The Black-Scholes model requires six basic data inputs: the exercise or strike price, time to expiration, the risk free interest rate, the current stock price, the estimated volatility of the stock price in the future, and the dividend rate. The key inputs used in the September 30, 2015 fair value calculations were as follows:

| | |
|-----------------------------------|--------------------|
| | September 30, 2015 |
| Current exercise price | 0.0075 - \$60 |
| Time to expiration | 1.0 to 1.75 years |
| Risk-free interest rate | 0.64 % |
| Estimated volatility | 767.47 % |
| Dividend | \$0 |
| Stock price on September 30, 2015 | \$0.00700 |
| Expected forfeiture rate | 0% to 90% |

NOTE 13 – COMMITMENTS AND CONTINGENCIES

The Company leases office space in Kansas City, Missouri. We currently have real estate leases at two locations, totaling 6,875 square feet. These operating leases are standard commercial leases.

As of September 30, 2015, future minimum lease payments under these operating leases are as follows:

| For the Year Ending, June 30, 2016 | Amount |
|--|----------|
| | \$63,275 |

| | |
|------|----------|
| 2017 | 15,385 |
| 2018 | - |
| | \$78,660 |

Rent expense was \$23,489 and \$22,102 for the three months ended September 30, 2015 and 2014.

At September 30, 2015 the Company is the subject of, or party to, four known, pending or threatened, legal actions. Following is a discussion of each:

1. The Company was named as the defendant in a legal proceeding brought by FedEx Customer Information Services, Inc. (the plaintiff) on May 28, 2010 in the Circuit Court of Fairfax County, Virginia. The plaintiff

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asserts that the Company failed to pay the full amount owed for services. The plaintiff obtained a judgment for \$16,322 plus interest and costs. The Company is seeking an out-of-court settlement. There have been no updates on the status of this case since June 30, 2015. The Company has accrued \$19,000 as of September 30, 2015.

2. The Company was named as the defendant in a legal proceeding brought by FedEx Customer Information Services, Inc. (the plaintiff) on September 15, 2010 in the General District Court of Fairfax County, Virginia. The plaintiff asserts that the Company failed to pay the full amount owed for services. The plaintiff obtained a Consent Judgment for \$12,900 in compensatory damages plus \$58 in costs. The Company is seeking an out-of-court settlement. There have been no updates on the status of this case since June 30, 2015. The Company has accrued \$18,500 as of September 30, 2015.
3. The Company was named as the defendant in a legal proceeding brought by i-Cubed Information LLC (the plaintiff) on August 10, 2012 in the General District Court of Fairfax County, Virginia. The plaintiff asserts that the Company failed to pay for delivery of services provided by plaintiff. The plaintiff was granted a judgment by consent in the amount of \$12,920. The Company is seeking an out-of-court settlement. There have been no updates on the status of this case since June 30, 2015. The Company has accrued \$13,600 as of September 30, 2015.

4. The Company was named as the defendant in a legal proceeding brought by Pelligrino and Associates (the plaintiff) on August 14, 2014 in the Marion County Superior Court, Marion County, Indiana. The plaintiff asserts that the Company failed to pay the full amount owed for services. The plaintiff is seeking \$20,159 plus attorney's fees, interest and costs. The Company is seeking an out-of-court settlement. There have been no updates on the status of this case since June 30, 2015. The Company has accrued \$20,500 as of September 30, 2015.

From time to time, we may become involved in various lawsuits and legal proceedings, which arise in the ordinary course of business. However, litigation is subject to inherent uncertainties, and an adverse result in these or other matters may arise from time to time that may harm our business.

NOTE 14 – STOCKHOLDERS' DEFICIT

Common Stock

On January 5, 2015, the board of directors and majority stockholder of our company approved a Certificate of Amendment to our Certificate of Incorporation to:

- change our company's name from "IceWEB, Inc." to "UnifiedOnline, Inc.";
- increase the number of authorized shares of our common stock from 5,000,000,000 to 6,000,000,000 shares; and
- effect a reverse stock split of our outstanding common stock on the basis of one for four hundred (1:400).

Accordingly, we have adjusted all issued and outstanding warrants and employee stock options to reflect the reverse stock split. Additionally, we have retroactively adjusted all share and per share data for all periods presented.

Three months ended September 30, 2015 Transactions

In July, 2015, the Company issued 431,333 shares of common stock, at the original conversion terms, at a per share price of \$0.0075 valued at \$3,235 as a partial conversion of principal due under a convertible note.

Preferred Stock

Our authorized capital includes 10,000,000 shares of blank check preferred stock, par value \$0.001 per share. Our Board of Directors, without further stockholder approval, may issue our preferred stock in one or more series from time to time and fix or alter the designations, relative rights, priorities, preferences, qualifications, limitations and restrictions of the shares of each series. In March 2005, our Board of Directors authorized a series of 1,666,667 shares of blank check preferred stock be designated as Series A Convertible Preferred Stock and on April 1, 2005 we filed a Certificate

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of Designations of Preferences, Rights and Limitations of Series A Convertible Preferred Stock with the Secretary of State of Delaware. In September 2005, our Board of Directors authorized a series of 833,334 shares of blank check preferred stock be designated as Series B Convertible Preferred Stock and on September 28, 2005, we filed a Certificate of Designations of Preferences, Rights and Limitations of Series B Preferred with the Secretary of State of Delaware. On December 29, 2005, we filed an Amended and Restated Certificate of Designations of Preferences, Rights and Limitations of Series B Convertible Preferred Stock increasing the number of shares authorized under this series to 1,833,334 shares.

A) Series B Convertible Preferred Stock

The designations, rights and preferences of the Series B Convertible Preferred Stock provide:

- No dividends are payable on the Series B Convertible Preferred Stock. So long as these shares are outstanding, we cannot pay dividends on our common stock nor can it redeem any shares of its common stock, the shares of Series B Convertible Preferred Stock do not have any voting rights, except as may be provided under Delaware law,
- So long as the shares are outstanding, we cannot change the designations of the Series B Convertible Preferred Stock, create a class of securities that in the instance of payment of dividends or distribution of assets upon our liquidation ranks senior to or pari passu with the Series B Convertible Preferred Stock or increase the number of authorized shares of Series B Convertible Preferred Stock,
- Each share of Series B Convertible Preferred Stock is convertible at the option of the holder into one share of our common stock based upon an initial conversion value of \$0.2727 per share. The conversion ratio is subject to adjustment in the event of stock dividends, stock splits or reclassification of our common stock. No conversion of the Series B Convertible Preferred Stock may occur if a conversion would result in the holder, and any of its affiliates beneficially owning more than 4.9% of our outstanding common shares following such conversion. This provision may be waived or amended only with the consent of the holders of all of the Series B Convertible Preferred Stock and the consent of the holders of a majority of our outstanding shares of common stock who are not affiliates, and
- the shares of Series B Convertible Preferred Stock automatically convert into shares of our common stock in the event of change of control of the Company.
- At September 30, 2015, there were 626,667 shares of Series B Convertible Preferred Stock outstanding.

Common Stock Warrants

The Company has issued and outstanding Series N warrants for 205,805,872 common shares, as adjusted, with a current exercise price of \$0.0075, as adjusted, which have price protection provisions that allow for the reduction in the current exercise price upon the occurrence of certain events, including the Company's issuance of common stock or securities convertible into or exercisable for common stock, such as options and warrants, at a price per share less than the exercise price then in effect. Simultaneously with any reduction to the exercise price of the Series N warrants, the number of shares of common stock that may be purchased upon exercise of each of these warrants shall be increased proportionately, so that after such adjustment the aggregate exercise price payable for the adjusted number of warrants shall be the same as the aggregate exercise price in effect immediately prior to such adjustment. The Series N warrants expire September 30, 2016.

The Company's issuance of the following securities will not trigger the price protection provisions of the warrants described above: (a) shares of common stock or standard options to the Company's directors, officers, employees or consultants pursuant to a board-approved equity compensation program or other contract or arrangement; (b) shares of common stock issued upon the conversion or exercise of any security, right or other instrument convertible or exchangeable into common stock (or securities exchangeable into common stock) issued prior to November 23, 2011; and (c) shares of common stock and warrants in connection with strategic alliances, acquisitions, mergers, and strategic partnerships, the primary purpose of which is not to raise capital, and which are approved in good faith by the Company's board of directors.

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The Company has issued and outstanding Series O and Series Q warrants for 76,222 common shares, as adjusted, with a current exercise price of \$11.20, as adjusted, expiring November 23, 2016.

The Company has issued and outstanding Series R warrants for 37,004 common shares, as adjusted, with a current exercise price of \$60.00, as adjusted, expiring June 30, 2017.

In conjunction with our acquisition of Computers & Telecom, Inc. and subsidiary in October, 2013, we issued a warrant to Agility Ventures, LLC covering a total of 9,187 common shares, as adjusted, with a term of two years and a conversion price of \$22.00 per share, as adjusted which expired September 30, 2015.

A summary of the status of the Company's outstanding common stock warrants as of September 30, 2015 and changes during the three month period ending on that date is as follows:

| | Number of Warrants | Weighted Average Exercise Price |
|-------------------------------------|-----------------------|--|
| Balance at June 30, 2015 | 64,436,748 | \$0.0748 |
| Granted (due to ratchet provisions) | 141,491,537 | 0.0075 |
| Exercised | - | - |
| Forfeited | (9,187) | - |
| Balance at September 30, 2015 | 205,919,098 | \$0.0224 |

The ratchet provision was triggered by the issuance of shares at a lesser price, as a result of conversion of convertible debt.

The following table summarizes information about common stock warrants outstanding at September 30, 2015:

| Number Outstanding at | Warrants Outstanding | | Number Exercisable at | Warrants Exercisable | |
|--------------------------|--|------------------------------------|--------------------------|------------------------------------|------------------------------------|
| | Weighted Average Remaining Life | Weighted Average Exercise Price | | Weighted Average Exercise Price | Weighted Average Exercise Price |
| September 30, 2015 | | | September 30, 2015 | | |
| 205,805,872 | 1.0 Years | \$ 0.0075 | 205,805,872 | \$ 0.0075 | |
| 76,222 | 1.15 Years | \$ 11.2000 | 76,222 | \$ 11.2000 | |
| 37,004 | 1.75 Years | \$ 60.0000 | 37,004 | \$ 60.0000 | |
| 205,919,098 | 1.75 Years | \$ 0.0224 | 205,919,098 | \$ 0.0224 | |

NOTE 15 - STOCK OPTION PLAN

On April 8, 2015 the Board of Directors of UnifiedOnline, Inc. adopted the UnifiedOnline, Inc. 2015 Employee Option Plan (the "Plan"). The purpose of the Plan is to enable our company to attract and retain employees and consultants and provide them with the long-term financial incentives to enhance our performance. The Plan authorizes the grant of (i) options which qualify as incentive stock options under Section 422(b) of the Internal Revenue Code of 1986, as amended, (ii) non-qualified options which do not qualify as incentive stock options, (iii) awards of our common stock (iv) and rights to make direct purchases of our common stock which may be subject to certain restrictions. The maximum number of shares which can be issued over the term of the Plan is 1,800,000 shares.

In August 2012, the Board of Directors adopted the 2012 Equity Compensation Plan (the “Plan”) for directors, officers and employees that provides for non-qualified and incentive stock options to be issued enabling holders thereof to purchase common shares of the Company at exercise prices determined by the Company’s Board of Directors.

The purpose of the Plan is to advance the Company’s interests and those of its stockholders by providing a means of attracting and retaining key employees, directors and consultants. In order to serve this purpose, the Company believes the Plan encourages and enables key employees, directors and consultants to participate in its future prosperity and growth by providing them with incentives and compensation based on its performance, development and financial

UnifiedOnline, Inc. and Subsidiaries
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

success. Participants in the Plan may include the Company’s officers, directors, other key employees and consultants who have responsibilities affecting our management, development or financial success.

Awards may be made under the Plan in the form of Plan options, shares of the Company’s common stock subject to a vesting schedule based upon certain performance objectives (“Performance Shares”) and shares subject to a vesting schedule based on the recipient’s continued employment (“restricted shares”). Plan options may either be options qualifying as incentive stock options under Section 422 of the Internal Revenue Code of 1986, as amended or options that do not so qualify. Any incentive stock option granted under the Plan must provide for an exercise price of not less than 100% of the fair market value of the underlying shares on the date of such grant, but the exercise price of any incentive option granted to an eligible employee owning more than 10% of our common stock must be at least 110% of such fair market value as determined on the date of the grant. Only persons who are officers or other key employees are eligible to receive incentive stock options and performance share grants. Any non-qualified stock option granted under the Plan must provide for an exercise price of not less than 50% of the fair market value of the underlying shares on the date of such grant.

The Plan, as amended permits the grant of options and shares for up to 105,000,000 shares of our common stock. The Plan terminates 10 years from the date of the Plan’s adoption by our stockholders.

The term of each Plan option and the manner in which it may be exercised is determined by the Board of Directors, provided that no Plan option may be exercisable more than three years after the date of its grant and, in the case of an incentive option granted to an eligible employee owning more than 10% of the Company’s common stock, no more than five years after the date of the grant. The exercise price of the stock options may be paid in either cash, or delivery of unrestricted shares of common stock having a fair market value on the date of delivery equal to the exercise price, or surrender of shares of common stock subject to the stock option which has a fair market value equal to the total exercise price at the time of exercise, or a combination of the foregoing methods.

The fair value of stock options granted was estimated at the date of grant using the Black-Scholes options pricing model. The Company used the following assumptions for determining the fair value of options granted under the Black-Scholes option pricing model:

| | |
|-------------------------|---|
| | Nine Months Ended June 30, 2014 |
| Expected volatility | 13% - 278% |
| Expected term | 1 -3 Years |
| Risk-free interest rate | 0.01% - |
| Forfeiture rate | 0.34 % |
| Expected dividend yield | 0.00 % |

The expected volatility was determined with reference to the historical volatility of the Company’s stock. The Company uses historical data to estimate option exercise and employee termination within the valuation model. The expected term of options granted represents the period of time that options granted are expected to be outstanding. The risk-free interest rate for periods within the contractual life of the option is based on the U.S. Treasury rate in effect at

the time of grant.

For the three months ended September 30, 2015 and 2014, total stock-based compensation charged to operations for option-based arrangements amounted to \$8,328 and \$12,415, respectively. At September 30, 2015, there was no unrecognized compensation expense related to non-vested option-based compensation arrangements under the Plan.

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UnifiedOnline, Inc. and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A summary of the status of the Company's outstanding stock options as of September 30, 2015 and changes during the period ending on that date is as follows:

| | Number of Options | Weighted Average Exercise Price |
|-------------------------------|----------------------|--|
| Balance at June 30, 2015 | 7,232 | \$33.47 |
| Granted | - | - |
| Exercised | - | - |
| Forfeited | - | - |
| Balance at September 30, 2015 | 7,232 | \$33.47 |

The following table summarizes information about employee stock options outstanding at September 30, 2015:

| Range of Exercise Price | Options Outstanding | | | Options Exercisable | | |
|----------------------------|---------------------------------------|--|---------------------------------------|---------------------------------------|---------------------------------------|--|
| | Number Outstanding at 9/30/2015 | Weighted Average Remaining Life | Weighted Average Exercise Price | Number Outstanding at 9/30/2015 | Weighted Average Exercise Price | |
| \$ 0.07700 - 0.0847 | 625 | 1.96 Years | \$ 30.80 | 625 | \$ 30.80 | |
| \$ 0.081 | 6,607 | 1.96 Years | \$ 33.79 | 6,607 | \$ 33.79 | |
| | 7,232 | 1.96 Years | \$ 33.53 | 7,232 | \$ 33.53 | |

NOTE 17 - RELATED PARTY TRANSACTIONS

On April 23, 2014, we entered into a Subscription Agreement with UnifiedOnline! LLC (the "Subscriber"), a Delaware limited liability company, pursuant to which the Subscriber purchased 400,000 shares of Series AA Preferred Stock which were converted on January 5, 2015 to 903,825,954 shares of common stock becoming a majority shareholder in the Company. UO! IP of NC, LLC is a related party to Unified Online! LLC. In consideration for the Shares, Subscriber paid \$116,087 to various vendors and obtained the agreement of a certain related party lessor to temporarily forbear exercising non-payment default remedies. Since entering into the Subscription Agreement, the Subscriber has advanced approximately \$1.0 million bearing interest at 10% per annum to fund general working capital. The balance due was \$1,090,255 and \$1,029,005 at September 30, 2015 and June 30, 2015, respectively, and is reflected as note payable, related party in the balance sheet.

NOTE 18 - SEGMENT REPORTING

Although the Company has a number of operating divisions, separate segment data has not been presented as they meet the criteria for aggregation as permitted by ASC Topic 280, "Segment Reporting" (formerly Statement of Financial Accounting Standards (SFAS) No. 131, "Disclosures About Segments of an Enterprise and Related Information").

Our chief operating decision-maker is considered to be our Chief Executive Officer (CEO). The CEO reviews financial information presented on a consolidated basis for purposes of making operating decisions and assessing financial performance. The financial information reviewed by the CEO is identical to the information presented in the

accompanying consolidated statements of operations. Therefore, the Company has determined that it operates in a single operating segment, specifically, web communications services. For the three months ended September 30, 2015 and 2014 all material assets and revenues of the Company were in the United States.

NOTE 19 – SUBSEQUENT EVENTS

In October, 2015, the Company entered into a \$60,000 loan agreement (the “Loan”) with Power UP Lending Group, LTD. The Loan has a maturity date of nine (9) months from the Funding Date of October 5, 2015. The Loan is repayable daily at a rate of \$428.57 for a total repayment amount of \$81,000. A portion of the proceeds from the Loan were used to pay off a Convertible Promissory Note and accrued interest to Vis Vires Group, Inc. in the amount of \$34,000. The Company realized a gain on extinguishment of debt of approximately \$28,000 as a result of writing off the associated derivative liability.

UnifiedOnline, Inc. and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The foregoing is not a complete summary of the terms of the Note described herein and reference is made to the complete text of the Loan as Exhibit 10.1 to this Quarterly Report on Form 10-Q, and hereby incorporated by reference.

On October 27, 2015, the Company entered into a purchase agreement (the "Agreement") by and among Deirdre Leane, (the "Seller") and ChanBond, LLC ("Chanbond"), pursuant to which the Company purchased Chanbond, in exchange for a cash payment of five million U.S. Dollars (\$5,000,000) payable on or before October 27, 2020 (the "Cash Payment") and a shares payment of forty-four million, seven hundred thousand (44,700,000) shares of the Company's common stock (the "Shares") par value of \$0.001. The obligation to make the Cash Payment shall be evidenced by a promissory note (the "Promissory Note"). The above securities were issued in reliance upon exemptions from registration pursuant to Section 4(2) under the Securities Act of 1933, as amended (the "Securities Act") and/or Rule 506 promulgated under the Securities Act.

On the Closing Date, pursuant to the Agreement, the Seller executed an interest assignment deed which assigned, transferred and conveyed all of its membership interests in ChanBond to the Company and ChanBond appointed William R. Carter, Jr. (a related party to the Company) as sole manager ("Manager") who shall have sole and exclusive authority over the business of ChanBond.

Effective October 27, 2015, the Company entered into \$5,000,000 no interest Promissory Note with the Seller. The Promissory Note is due and payable on or prior to October 27, 2020. If the Promissory Note is not paid in full by the Maturity Date, the aggregate principal amount shall be increased by Twenty Five Thousand Dollars (\$25,000) for each month such payment is delayed (or pro rata portion thereof) until paid in full.

Until the Note is paid in full, the Company shall be obligated to make payments on this Promissory Note to the Seller from 100% of any Net Revenues, derived from the monetization of the ChanBond patent portfolio, within thirty (30) calendar days after each calendar month commencing with the calendar month ending October 31, 2015.

In October, 2015 a forbearance agreement was reached between the Company and UO! IP of NC, LLC which forbore its enforcement of rights due to the existing defaults and amended the payment terms of the lease. The final payment date has been extended to October 31, 2017 at which time the then outstanding principal balance, together with all accrued but unpaid interest on the unpaid balance, shall be due and payable in full.

Additionally, a new section was added to the lease pursuant to which the company agrees to pay an initial Forbearance Fee of \$60,000 payable in full on the final payment date and a monthly Forbearance Fee equal to 1% of the principal balance of the lease, calculated on the first day each month. The Monthly Forbearance Fee will accrue monthly and become due and payable in full on the final payment date or the earlier prepayment of the entire principal and accrued interest due under the lease.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

The following analysis of our unaudited consolidated financial condition and results of operations for the three months ended September 30, 2015 and 2014 should be read in conjunction with the consolidated financial statements, including footnotes, appearing elsewhere in this quarterly report. MD&A is organized as follows:

- Overview. Discussion of our business and overall analysis of financial and other highlights affecting the company in order to provide context for the remainder of MD&A.
- Critical Accounting Policies.
- Results of Operations. An analysis of our financial results comparing the three months ended September 30, 2015 to the three months ended September 30, 2014.
- Liquidity and Capital Resources. An analysis of changes in our balance sheets and cash flows, and discussion of our financial condition and potential sources of liquidity.
- Off Balance-Sheet Arrangements.
- Recent Accounting Pronouncements.

OVERVIEW

With our acquisition of Computers & Telecom, Inc. and KCNAP, LLC, (collectively "CTC") in October 2013, UnifiedOnline now provides wireless and fiber broadband service, co-location space and related services and operates a Network Access Point ("NAP") where customers directly interconnect with a network ecosystem of partners and customers. This access to highly efficient Internet routes provides customers improved reliability and streamlined connectivity while significantly reducing costs by reaching a critical mass of networks within a centralized physical location.

CTC operates a wireless internet service business, providing wireless broadband to small and medium size businesses in the metro Kansas-City, Missouri area. In addition CTC offers the following solutions: (i) premium data center co-location, (ii) interconnection and (iii) exchange and outsourced IT infrastructure services.

We leverage our NAP which allows our customers to increase information and application delivery performance. Our platform enables scalable, reliable and cost-effective co-location, interconnection and traffic exchange.

Our customer base includes enterprise companies and small to medium sized businesses in hospitality, healthcare, retail and other market spaces ("SMB").

CRITICAL ACCOUNTING POLICIES

The discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates based on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

A summary of significant accounting policies is included in Note 1 to the audited consolidated financial statements included for the year ended June 30, 2015 and notes thereto contained on Form 10-K of the Company as filed with the

Securities and Exchange Commission. Management believes that the application of these policies on a consistent basis enables us to provide useful and reliable financial information about the company's operating results and financial condition.

Financial Reporting Release No. 60, encourages all companies to include a discussion of critical accounting policies or methods used in the preparation of financial statements. Our consolidated financial statements include a summary of the significant accounting policies and methods used in the preparation of our consolidated financial statements. Management believes the following critical accounting policies affect the significant judgments and estimates used in the preparation of the financial statements.

Use of Estimates - Management's Discussion and Analysis or Plan of Operations is based upon our unaudited consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these consolidated financial statements requires management 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 evaluates these estimates, including those related to allowances for doubtful accounts receivable, the carrying value of property and equipment and long-lived assets, the value of derivatives, and the value of stock-option

based compensation. Management bases these estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis of making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

We account for stock based compensation under ASC Topic 718, "Compensation – Stock Compensation. ASC Topic 718 establishes the financial accounting and reporting standards for stock-based compensation plans. As required by ASC Topic 718, we recognize the cost resulting from all stock-based payment transactions including shares issued under our stock option plans in the financial statements.

RESULTS OF OPERATIONS

THREE MONTHS ENDED SEPTEMBER 30, 2015 COMPARED TO THE THREE MONTHS ENDED SEPTEMBER 30, 2014

The following table provides an overview of certain key factors of our results of operations for the three months ended September 30, 2015 as compared to the three months ended September 30, 2014:

| | Three Months Ended September 30, | |
|------------------------------|-------------------------------------|--------------|
| | 2015 | 2014 |
| Net Revenues | \$242,473 | \$237,889 |
| Cost of sales | 98,298 | 243,772 |
| Operating Expenses | | |
| Sales and marketing | 28,074 | 35,785 |
| Depreciation | 9,946 | 43,799 |
| Technical | 62,989 | 108,597 |
| General and administrative | 379,039 | 261,631 |
| Total Operating Expenses | 480,048 | 449,812 |
| Loss from operations | (335,873) | (455,695) |
| Total other income (expense) | (134,356) | 217,781 |
| Net loss | \$(470,229) | \$(237,914) |

Other Key Indicators:

| | Three Months Ended September 30, | | | |
|--|-------------------------------------|---|-------|----|
| | 2015 | | 2014 | |
| Cost of sales as a percentage of revenue | 40.5 | % | 102.5 | % |
| Gross profit margin | 59.5 | % | (2.5 | %) |
| Sales and marketing expense as a percentage of sales | 11.6 | % | 15.0 | % |
| General and administrative expenses as a percentage of sales | 156.3 | % | 110.0 | % |
| Total operating expenses as a percentage of sales | 198.0 | % | 189.1 | % |

Three Month Period ended September 30, 2015

For the three months ended September 30, 2015, we reported revenues of \$242,473 as compared to revenues of \$237,889 for the three months ended September 30, 2014, an increase of approximately 2%.

Cost of Sales

Our cost of sales consists primarily of the costs of providing wireless and fiber bandwidth and colocation services as well as depreciation of assets used in providing these services. For the three months ended September 30, 2015 cost of sales was \$98,298 or approximately 40% of revenues, compared to \$243,772, or approximately 102% of revenues, for the three months ended September 30, 2014. The decrease in costs of sales as a percentage of revenue and the corresponding increase in our gross profit margin for the three months ended September 30, 2015 as compared to the three months ended September 30, 2014 was due to a switch in providers for broadband services as well as decreased depreciation expense. We anticipate that our gross profit margins will remain between 40% and 45% through the balance of fiscal 2016.

Total Operating Expenses

Our total operating expenses increased approximately 7% to \$480,048 for the three months ended September 30, 2015 as compared to \$449,812 for the three months ended September 30, 2014. These changes include:

- Sales and marketing expense. For the three months ended September 30, 2015, sales and marketing costs were \$28,074 as compared to \$35,785 for the three months ended September 30, 2014, a decrease of approximately \$7,700 or approximately 22%. The decrease was due to a decrease in sales and marketing headcount during the three months ended September 30, 2015 versus the three months ended September 30, 2014.
- Depreciation expense. For the three months ended September 30, 2015, depreciation expense in operating expenses amounted to \$9,946 as compared to \$43,799 for the three months ended September 30, 2014. The decrease is a result of the assets reaching the end of their depreciable lives with no recent replacements.
- Technical expense. For the three months ended September 30, 2015 technical costs were \$62,989 as compared to \$108,597 for the three months ended September 30, 2014, a decrease of approximately \$46,600 or approximately 42%. The decrease was due to a decrease in headcount during the three months ended September 30, 2015 versus the three months ended September 30, 2014.
- General and administrative expense. For the three months ended September 30, 2015, general and administrative expenses were \$379,039 as compared to \$261,631 for the three months ended September 30, 2014, an increase of approximately \$117,400 or approximately 45%. For the three months ended September 30, 2015 and 2014 general and administrative expenses consisted of the following:

| | Three Months Ended September 30, | |
|--------------------------|-------------------------------------|-----------|
| | 2015 | 2014 |
| Occupancy | \$23,489 | \$22,102 |
| Consulting | 20,520 | 56,923 |
| Employee compensation | 62,179 | 76,311 |
| Professional fees | 129 | 15,378 |
| Travel and entertainment | - | 17,546 |
| Insurance | 1,709 | 20,537 |
| Other | 271,013 | 52,834 |
| | \$379,039 | \$261,631 |

The principal changes between the two periods include:

- For the three months ended September 30, 2015, occupancy expense increased approximately 6% from the three months ended September 30, 2014 due to contractual increases.
- For the three months ended September 30, 2015, consulting expense decreased approximately 64% from the three months ended September 30, 2014 due to a reduced use of consultants.
- For the three months ended September 30, 2015 employee compensation which includes related taxes and benefits decreased approximately 18% due to reduced headcount and lower stock-based compensation expense as compared to the three months ended September 30, 2014.
-

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For the three months ended September 30, 2015, professional fees decreased approximately 99% due to lower litigation and legal fees incurred in the normal course of business as compared to the three months ended September 30, 2014.

- For the three months ended September 30, 2015, travel and entertainment decreased 100% as a result of decreased travel for general corporate purposes.
- For the three months ended September 30, 2015, insurance expense decreased approximately 92% from the three months ended September 30, 2014 due to no directors and officer's insurance coverage in the three months ended September 30, 2015.

- For the three months ended September 30, 2015, other expense increased approximately 413% from the three months ended September 30, 2014 primarily due to an early termination fee of approximately \$222,000 from our previous broadband service provider. We are currently contesting this fee.

We anticipate that general and administrative expenses will continue to remain flat during the balance of Fiscal 2016.

LOSS FROM OPERATIONS

The Company reported a loss from operations of \$335,873 for the three months ended September 30, 2015 as compared to a loss from operations of \$455,695 for the three months ended September 30, 2014, an improvement of approximately \$120,000 or approximately 26%.

OTHER INCOME (EXPENSES)

Gain from change of fair value of derivative liability. For the three months ended September 30, 2015 we had a gain on the change of fair value of derivative liability of \$2,255 as compared to a gain on the change of fair value of derivative liability of \$409,590 for the three months ended September 30, 2014. This represents the change in the value of the derivative liability based on the Black-Scholes value of our outstanding variably-priced warrants and convertible notes. The variance is primarily attributable to the change in the Company's stock price and the conversion of convertible notes to equity.

Interest Expense. For the three month period ended September 30, 2015, interest expense decreased approximately 30%. The decrease in interest expense is primarily attributable to the decrease in derivative liability discount amortization in fiscal 2016 offset by increased interest on new debt and increased interest expense on a related party note.

NET LOSS

The Company's net loss was \$470,229 for the three months ended September 30, 2015 compared to a loss of \$237,914 for the three months ended September 30, 2014, a decrease of approximately \$232,300 or 98%.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity is the ability of a company to generate funds to support its current and future operations, satisfy its obligations and otherwise operate on an ongoing basis.

In summary, our cash flows are as follows:

| | Three Months Ended September 30, | |
|---|-------------------------------------|--------------|
| | 2015 | 2014 |
| Net cash used in operating activities | \$(52,657) | \$(392,408) |
| Net cash used in investing activities | - | (1,643) |
| Net cash provided by financing activities | 40,956 | 351,154 |
| Net decrease in cash | \$(11,701) | \$(42,897) |

Net cash used by operating activities was \$52,657 for the three months ended September 30, 2015 as compared to net cash used by operating activities of \$392,408 for the three months ended September 30, 2014, a decrease of approximately \$340,000. For the three month period ended September 30, 2015, our cash used in operations of \$52,657 consisted of a net loss of \$470,229 offset by non-cash items totaling approximately \$93,000 including items such as depreciation of approximately \$24,000, amortization of debt discount of approximately \$44,000, bad debt expense of approximately \$16,000, and other non-cash items of approximately \$9,000. Additionally, during the three month period ended September 30, 2015, we had an increase in operating assets and an increase in operating liabilities totaling approximately \$323,000. For the three months ended September 30 2014, our cash used in operations of approximately \$392,400 consisted of a net loss of approximately \$238,000 offset by non-cash items totaling approximately \$93,700 including items such as depreciation of approximately \$157,100, amortization of debt discount of \$120,200, change in fair value of

derivative liability of approximately \$409,600 and other non-cash items of approximately \$38,500. Additionally, during the three month period ended September 30, 2014, we had a decrease in operating liabilities offset by a decrease in operating assets which increased our net loss.

Net cash used in investing activities for the three months ended September 30, 2015 was \$0 as compared to net cash used in investing activities for the three months ended September 30, 2014 of \$1,643 for property and equipment purchases.

Net cash provided by financing activities for the three months ended September 30, 2015 was \$40,956 as compared to net cash provided by financing activities of approximately \$351,200 for the three months ended September 30, 2014. For the three months ended September 30, 2015, net cash provided by financing activities related to proceeds from a related party note of \$61,250 offset by repayments on notes payable of approximately \$20,300. For the three months ended September 30, 2014, net cash provided by financing activities related to proceeds from a related party note of approximately \$487,700 offset by repayments on notes payable of approximately \$136,600.

At September 30, 2015 we had a working capital deficit of approximately \$4.9 million and an accumulated deficit of approximately \$55.2 million. The report from our independent registered public accounting firm on our audited financial statements for the year ended June 30, 2015 contained an explanatory paragraph regarding doubt as to our ability to continue as a going concern as a result of our net losses in operations. Our sales were not sufficient to pay our operating expenses. We reported a net loss of \$470,229 for the three months ended September 30, 2015. There are no assurances that we will report income from operations in any future periods.

Historically, our revenues have not been sufficient to fund our operations and we have relied on capital provided through the sale of equity securities, and various financing arrangements and loans from related parties. At September 30, 2015 we had cash on hand of approximately \$10,000.

We do not have any commitments for capital expenditures. Our working capital needs in future periods are dependent primarily on the rate at which we can increase our revenues while controlling our expenses and decreasing the use of cash to fund operations. Additional capital may be needed to fund acquisitions of additional companies or assets, although we are not a party to any pending agreements at this time and, accordingly, cannot estimate the amount of capital which may be necessary, if any, for acquisitions.

As long as our cash flow from operations remains insufficient to completely fund operations, we will continue depleting our financial resources and seeking additional capital through equity and/or debt financing.

There can be no assurance that acceptable financing can be obtained on suitable terms, if at all. Our ability to continue our existing operations and to continue growth strategy could suffer if we are unable to raise the additional funds on acceptable terms which will have the effect of adversely affecting our ongoing operations and limiting our ability to increase our revenues and maintain profitable operations in the future. If we are unable to secure the necessary additional working capital as needed, we may be forced to curtail some or all of our operations.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not applicable to a smaller reporting company.

Item 4. Controls and Procedures

Evaluation of disclosure controls and procedures. Our Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”) have evaluated the effectiveness of our disclosure controls and procedures (as defined in the Exchange Act

Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by the Quarterly Report (the “evaluation date”). They have concluded that, as of the evaluation date, these disclosure controls and procedures were effective to provide reasonable assurance that material information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms.

Changes in internal control over financial reporting. There have been no changes in our internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Rules 13a-15 or 15d-15 under the Exchange Act that occurred during the Registrant’s last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

At September 30, 2015 the Company is the subject of, or party to, four known, pending or threatened, legal actions. Following is a discussion of each:

1. The Company was named as the defendant in a legal proceeding brought by FedEx Customer Information Services, Inc. (the plaintiff) on May 28, 2010 in the Circuit Court of Fairfax County, Virginia. The plaintiff asserts that the Company failed to pay the full amount owed for services. The plaintiff obtained a judgment for \$16,322 plus interest and costs. The Company is seeking an out-of-court settlement. There have been no updates on the status of this case since June 30, 2015. The Company has accrued \$19,000 as of September 30, 2015.
2. The Company was named as the defendant in a legal proceeding brought by FedEx Customer Information Services, Inc. (the plaintiff) on September 15, 2010 in the General District Court of Fairfax County, Virginia. The plaintiff asserts that the Company failed to pay the full amount owed for services. The plaintiff obtained a Consent Judgment for \$12,900 in compensatory damages plus \$58 in costs. The Company is seeking an out-of-court settlement. There have been no updates on the status of this case since June 30, 2015. The Company has accrued \$18,500 as of September 30, 2015.
3. The Company was named as the defendant in a legal proceeding brought by i-Cubed Information LLC (the plaintiff) on August 10, 2012 in the General District Court of Fairfax County, Virginia. The plaintiff asserts that the Company failed to pay for delivery of services provided by plaintiff. The plaintiff was granted a judgment by consent in the amount of \$12,920. The Company is seeking an out-of-court settlement. There have been no updates on the status of this case since June 30, 2015. The Company has accrued \$13,600 as of September 30, 2015.
4. The Company was named as the defendant in a legal proceeding brought by Pelligrino and Associates (the plaintiff) on August 14, 2014 in the Marion County Superior Court, Marion County, Indiana. The plaintiff asserts that the Company failed to pay the full amount owed for services. The plaintiff is seeking \$20,159 plus attorney's fees, interest and costs. The Company is seeking an out-of-court settlement. There have been no updates on the status of this case since June 30, 2015. The Company has accrued \$20,500 as of September 30, 2015.

From time to time, we may become involved in various lawsuits and legal proceedings, which arise in the ordinary course of business. However, litigation is subject to inherent uncertainties, and an adverse result in these or other matters may arise from time to time that may harm our business.

Item 1A. Risk Factors.

In addition to the other information set forth in this report, you should carefully consider the factors discussed under the heading "Risk Factors" in our Annual Report on Form 10-K filed on October 13, 2015, which could materially affect our business operations, financial condition or future results. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business operations and/or financial condition. There have been no material changes to our risk factors since the filing of our Form 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

In July, 2015, the Company issued 431,333 shares of common stock, at the original conversion terms, at a per share price of \$0.0075 valued at \$3,235 as a partial conversion of principal due under a convertible note. The recipient is an

accredited investor and the issuance was exempt from registration under the Securities Act of 1933 in reliance on an exemption provided by Section 4(2) of that act.

Item 3. Defaults Upon Senior Securities.

None

Item 4. Mine Safety Disclosures.

Not applicable to our operations.

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Item 5. Other Information.

None

Item 6. Exhibits.

Exhibit
Number Description

10.1 PowerUp Loan Agreement dated October 1, 2015*

10.2 ChanBond, LLC Purchase Agreement dated October 27, 2015*

31.1 Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 *

31.2 Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 *

32.1 Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 *

32.2 Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 *

* Filed herein

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

UNIFIEDONLINE, INC.

November 23, 2015

By: /s/ Robert M. Howe III
Robert M. Howe III
Chairman of the Board and CEO, principal executive officer

November 23, 2015

By: /s/ Ellen Sondee
Ellen Sondee
Chief Financial Officer, principal financial and accounting officer