

123 GREETINGS.COM, INC.
FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED
MARCH 31, 2014

123 GREETINGS.COM, INC.
FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2014

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ZBS GROUP LLP

Certified Public Accountants and Advisors

Board of Directors and Shareholders
123 Greetings.com, Inc.
New York, NY

Report on the Financial Statements

We have audited the accompanying financial statements of 123 Greetings.com Inc. which comprise the balance sheet as of March 31, 2014, and the related statement of income, retained earnings, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of 123 Greetings.com Inc., and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplemental Information

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information included in the accompanying supporting schedules and general and administrative expenses schedule is presented for purposes of additional analysis only and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied to the audit of the financial statements, and in our opinion is fairly stated in all material respects in relation to the basic financial statements as a whole.

ZBS Group LLP

ZBS Group LLP

Plainview, New York
May 15, 2014



ZBS GROUP LLP
Certified Public Accountants and Advisors

123 GREETINGS.COM, INC.
BALANCE SHEET
MARCH 31, 2014

A S S E T S

Current Assets:	
Cash and cash equivalents	\$ 1,129,948
Accounts receivable	817,051
Inventory	216,679
Advance to vendor	265,023
Advance to parent company	3,486,602
Prepaid expenses	<u>30,277</u>
Total Current Assets	<u>5,945,580</u>
Property and Equipment	
Furniture and fixtures	2,116
Office equipment	44,318
Software	<u>18,000</u>
	64,434
Less accumulated depreciation	<u>39,718</u>
Property and Equipment, Net	<u>24,716</u>
Other Assets:	
Security deposits	3,710
Trademark	625
Prepaid taxes	<u>18,586</u>
Total Other Assets	<u>22,921</u>
TOTAL ASSETS	<u>\$ 5,993,217</u>

LIABILITIES AND SHAREHOLDER'S EQUITY

Current Liabilities:	
Accounts payable and accrued expenses	\$ 1,159,508
Advances from customers	33,894
Income Taxes Payable	6,231
Sales tax payable	14,405
Interest Payable	4,722
Due to Related Party	1,416,870
Note Payable - Amazon	171,652
Revolving credit promissory note	<u>3,000,000</u>
Total Current Liabilities	<u>5,807,282</u>
TOTAL LIABILITIES	<u>5,807,282</u>
Shareholder's Equity:	
Common stock	100,000
Retained earnings	<u>85,935</u>
	<u>185,935</u>
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	<u>\$ 5,993,217</u>

The accompanying notes and accountants' report should be read in conjunction with the financial statements.

123 GREETINGS.COM, INC.
STATEMENT OF INCOME AND RETAINED EARNINGS
FOR THE YEAR ENDED MARCH 31, 2014

Revenues	
Sales	\$ 24,395,057
Expenses:	
Cost of Sales (Schedule 1)	17,777,965
Product and Content Development (Schedule 2)	3,049,906
Sales and Marketing Expenses (Schedule 3)	3,068,240
General and Administrative Expenses (Schedule 4)	<u>474,311</u>
Total Expenses	<u>24,370,422</u>
Net Profit Before Provision for Income Tax	24,635
Provision for Income Tax	<u>(6,231)</u>
NET PROFIT	18,404
RETAINED EARNINGS - BEGINNING	<u>67,531</u>
RETAINED EARNINGS - ENDING	<u>\$ 85,935</u>

The accompanying notes and accountants' report should be read in conjunction with the financial statements.

123 GREETINGS.COM, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED MARCH 31, 2014

Cash flows from operating activities:

Net Profit	\$ 18,404
Adjustments to reconcile net profit to net cash provided by operating activities:	
Depreciation & amortization	11,154
Changes in operating assets and liabilities:	
(Increase) Decrease in accounts receivable	(275,763)
(Increase) Decrease in prepaid expenses	(20,891)
(Increase) Decrease in inventory	(107,445)
(Increase) Decrease in prepaid taxes	(2,627)
(Increase) Decrease in advance to vendors	219,759
(Increase) Decrease in advance to parent company	513,398
(Increase) Decrease in security deposits and trademarks	-
Increase (Decrease) in accounts payable and accrued expenses	663,101
Increase (Decrease) in advance from customers	(10,851)
Increase (Decrease) in interest payable	4,722
Increase (Decrease) in due to related party	1,416,870
Increase (Decrease) in income taxes payable	6,231
Increase (Decrease) in sales tax payable	<u>6,588</u>
Net cash from operating activities	<u>2,442,650</u>

Net Cash flows from investment activities

Cash Flows from financing activities:

Proceeds from Note Payable	500,000
Repayments of Notes Payable	<u>(2,328,348)</u>
Net cash used in financing activities	<u>(1,828,348)</u>

Net Increase in cash	614,302
Cash at beginning of year	<u>515,646</u>
Cash at end of year	<u><u>\$ 1,129,948</u></u>

Supplemental Disclosures of Cash Flow Information:

Cash paid during the year for:

Interest	\$ 96,791
Income taxes	\$ 2,256

The accompanying notes and accountants' report should be read in conjunction with the financial statements.

123 GREETINGS.COM, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2014

1. Summary of Significant Accounting Policies

Organization

123 Greetings.com, Inc (“The Company”), incorporated in the state of Delaware on May 27, 1999 under the name of Intrasoftware Media Technologies, Inc. to provide Internet based electronic greeting cards delivery services. During the second quarter of 2009, the company began operations of its e-commerce business.

On August 31, 1999 the Company changed its name to 123 Greetings.com, Inc.

Cash and cash equivalent

For the purpose of the statement of cash flows, the Company considers all temporary cash investments purchased with maturity of three months or less to be cash equivalent.

Revenues

Electronic greeting cards delivery service:

Revenues are principally generated from impressions of customer’s banners on the company’s web site. Revenues are recognized and billed on the last day of the month using industry recognized reporting.

E-Commerce:

The Company generally recognizes product revenue when persuasive evidence of an arrangement exists, shipment has occurred, the fee is fixed or determinable, and collectability is probable. In instances where final acceptance of the product is specified by the customer, revenue is deferred until all acceptance criteria have been met. Cash payments received in advance are recorded as deferred revenue. The Company is generally not contractually obligated to accept returns, except for defective product. However, the Company may permit its customers to return or exchange products and may provide pricing allowances on products unsold by a customer.

Accounts receivable

Accounts receivable totaled \$817,051 as of March 31, 2014. The Company considers accounts receivable to be fully collectible; accordingly, no allowance for doubtful

accounts has been established. If accounts become uncollectible, they will be charged to operations when that determination is made.

123 GREETINGS.COM, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2014

1. Summary of Significant Accounting Policies - continued

Inventory

Inventories are maintained at three different warehouses, located in New York and Nevada and Fulfillment centers of Amazon. The company's e-commerce business, and are stated at the lower of cost or market. For the year ending March 31, 2014, inventories totaled \$216,679.

Advertising costs

The company expenses advertising costs as incurred. Advertising costs for the year ended March 31, 2014 totaled \$59,280.

Property and equipment

Property and equipment is stated at cost, net of accumulated depreciation. Depreciation is provided using the straight-line method over the estimated lives of the related assets. Depreciation and amortization expenses for the year ended March 31, 2014 totaled \$11,154.

Shipping and handling costs

The company charges shipping and handling costs incurred to cost of goods sold on drop ship sales. Shipping costs included in cost of goods sold were \$2,971,756.

The company charges shipping and handling to sales and marketing expenses on warehouse sales. Shipping and handling costs of \$ 164,497 are included in sales and marketing expenses for the year ended March 31, 2014.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Events Occurring After Reporting Date

The Company has evaluated events and transactions that occurred between March 31, 2014 and May 15, 2014 which is the date the financial statements were issued (or available to be issued) for possible disclosure and recognition in the financial statements.

123 GREETINGS.COM, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2014

2. Prepaid Expenses

Prepaid expenses consist of web services that the company purchases in advance. Prepaid expenses for the year ended March 31, 2014 were \$30,277.

3. Related Party Transactions

The Company's parent company provides Development and Transmission of IT Enabled Services. During the year ended March 31, 2014, fees to the parent company were \$3,049,906. As of March 31, 2014 balance due totaled \$1,416,870.

The Company also advances amounts on a periodic basis to the parent Company. Advances to the parent company during the year totaled \$1,000,000 and amounts totaling approximately \$1,500,000 were offset against amounts owing for Development and Transmission of IT Enabled Services. As of March 31, 2014 amounts due from the parent Company amounted to \$3,486,602.

4. Income Taxes

The Company accounts for income taxes using the liability method under which deferred tax assets and liabilities are determined based upon the differences between financial statements carrying amounts and the tax basis of existing assets and liabilities. During the year ended March 31, 2014, there were no material differences that required deferred tax asset or liability.

The Company reviews tax positions taken to determine if it is more likely than not that the position would be sustained upon examination resulting in an uncertain tax position. The Company did not have any material unrecognized tax benefit at March 31, 2014. The Company recognizes interest accrued and penalties related to unrecognized tax benefits in tax expense. During the year ended March 31, 2014, the Company recognized no interest and penalties.

The Company files U.S. federal tax returns and tax returns in various states. All tax periods since 2009 remain open to examination by the taxing jurisdictions to which the Company is subject.

5. Concentration of Risk

The Company maintains cash in deposit accounts in a federally insured bank. At times, the balance in the account may be in excess of federally insured limits.

123 GREETINGS.COM, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2014

6. Note payable

In October, 2013 the company borrowed the sum of \$500,000 from Amazon Capital Services for a period of six months. The loan bears an annual interest rate of 11.9 % and expires on April 29, 2014. As of March 31, 2014 balances owing amounted to \$171,652.

7. Revolving Credit Promissory Note

The Company borrowed the sum of \$5,000,000 under the terms of a revolving credit promissory note with Barclays Bank PLC. On renewal of the note in January 14, 2014 the facility was reduced to \$4,100,000 .The note is due January 15, 2015 unless extended. The note bears interest at a rate of LIBOR plus 1.5% and is payable upon demand. Credit of \$1,100,000 is available under this note with a balance payable of \$3,000,000 as of March 31, 2014. Borrowing under the note is subject to certain financial covenants and restrictions on indebtedness. As of March 31, 2014 the Company is in compliance with all covenants.

8. Operating Leases

The Company leases office space in Manhattan, New York. On March 13, 2012 the Company extended its lease agreement for a period of three years from July 1, 2012 through June 30, 2015. The lease requires monthly payments, which increases according to the lease terms. The Company has the option to terminate the lease with a thirty days' notice. Rent expenses were \$21,768 for the year ended March 31, 2014.

At March 31, 2014 the aggregate future minimum rental commitments under this lease are as follows:

<u>Twelve Months Ending March 31,</u>	<u>Amount</u>
2015	21,993
2016	<u>5,517</u>
Total	<u>\$ 27,510</u>

123 GREETINGS.COM, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2014

9. Common and Preferred Stock

The Company authorized 10,000,000 shares of \$.01 par value common stock and 1,000,000 shares of \$.01 par value preferred stock. At March 31, 2014 the company had 10,000,000 shares of common stock issued and outstanding.

123 GREETINGS.COM, INC.
SUPPORTING SCHEDULES
FOR THE YEAR ENDED MARCH 31, 2014

Schedule 1 - Cost of Sales

Ad service charges	\$ 96,433
Bandwidth and usage charges	452,731
Cost of goods	<u>17,228,801</u>
	<u>\$ 17,777,965</u>

Schedule 2 - Product and Content Development

Content purchases	3,049,906
	<u>\$ 3,049,906</u>

Schedule 3 - Sales and Marketing Expenses

Advertising	\$ 59,280
Market place fees	2,488,876
PayPal fees	92,536
Commissions on delivery	86,823
Commissions on sales	88,237
Shipping charges	105,506
Handling charges	58,991
Delivery discount	29,665
Discount Allowed	<u>58,326</u>
	<u>\$ 3,068,240</u>

The accompanying notes and accountants' report should be read in conjunction with the financial statements.

123 GREETINGS.COM, INC.
SCHEDULE OF GENERAL AND ADMINISTRATIVE EXPENSES
FOR THE YEAR ENDED MARCH 31, 2014

Schedule 4 - General and Administrative Expenses

Payroll	\$ 70,000
Payroll taxes	6,171
Employee benefits	4,988
Rent	21,768
Dues and subscriptions	68,807
Repairs and maintenance	450
Office supplies	3,394
Professional fees	60,407
Interest	94,181
Communication & Correspondence	16,060
Insurance	1,481
Finance charges	48,541
General expenses	17,384
Travel and entertainment	12,188
Software charges	20,454
Depreciation	11,154
Utilities	2,307
Bad Debt Expense	14,576
	<u>\$ 474,311</u>

The accompanying notes and accountants' report should be read in conjunction with the financial statements.