

123STORES, INC.

FINANCIAL STATEMENTS

WITH SUPPLEMENTARY INFORMATION

FOR THE PERIOD

SEPTEMBER 16, 2014 (INCEPTION) THROUGH MARCH 31, 2015

123STORES, INC.
FINANCIAL STATEMENTS
FOR THE PERIOD SEPTEMBER 16, 2014 (INCEPTION) THROUGH MARCH 31, 2015

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ZBS GROUP LLP

Certified Public Accountants and Advisors

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

Report on the Financial Statements

We have audited the accompanying financial statements of 123Stores, Inc. which comprise the balance sheet as of March 31, 2015, and the related statement of income, retained earnings, and cash flows for the period from September 16, 2014 (Inception) through March 31, 2015, 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 123Stores Inc. as of March 31, 2015 and the results of its operations and its cash flows for the period from September 16, 2014 (Inception) through March 31, 2015 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 20, 2015

255 Executive Drive, Suite 400 Plainview, New York 11803

Tel: (516) 394-3344 Fax: (516) 908-7867

www.zbscpas.com

123STORES, INC.
BALANCE SHEET
MARCH 31, 2015

A S S E T S

Current Assets:	
Cash and Cash equivalents	\$ 1,586,134
Accounts receivable	563,521
Inventory	1,940,575
Advance to Vendor	546,427
Total Current Assets	<u>4,636,657</u>
Other Assets:	
Security deposits	11,594
Total Other Assets	<u>11,594</u>
TOTAL ASSETS	<u><u>\$ 4,648,251</u></u>

LIABILITIES AND SHAREHOLDER'S EQUITY

Current Liabilities:	
Accounts payable and accrued expenses	\$ 2,720,435
Due to related parties	1,747,138
Advances from customers	46,232
Income Tax Payable	11,234
Sales Tax Payable	30,724
Total Current Liabilities	<u>4,555,763</u>
TOTAL LIABILITIES	<u>4,555,763</u>
Shareholder's Equity:	
Common stock	50,000
Retained earnings	42,488
	<u>92,488</u>
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	<u><u>\$ 4,648,251</u></u>

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

123STORES, INC.
STATEMENT OF INCOME AND RETAINED EARNINGS
FOR THE PERIOD SEPTEMBER 16, 2014 (INCEPTION) THROUGH MARCH 31, 2015

Revenue		
Sales	\$	34,312,836
Expenses:		
Cost of Sales (Schedule 1)		21,985,032
Shipping & Handling Expenses (Schedule 2)		5,610,726
Sales and Marketing Expenses (Schedule 3)		5,194,861
General and Administrative Expenses (Schedule 4)		1,468,495
Total Expenses		<u>34,259,114</u>
Net Profit Before Provision for Income Tax		53,722
Provision for Income Tax		<u>11,234</u>
NET PROFIT		42,488
RETAINED EARNINGS - BEGINNING		-
RETAINED EARNINGS - ENDING	\$	<u>42,488</u>

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

123STORES, INC.
STATEMENT OF CASH FLOW
FOR THE PERIOD SEPTEMBER 16, 2014 (INCEPTION) THROUGH MARCH 31, 2015

Cash flow from operating activities:

Net Profit	\$	42,488
Changes in operating assets and liabilities:		
(Increase) / Decrease in accounts receivables		(563,521)
(Increase) / Decrease in prepaid expenses		-
(Increase) / Decrease in inventory		(1,940,575)
(Increase) / Decrease in advance to vendors		(546,428)
Increase / (Decrease) in accounts payable and accrued expenses		4,467,574
Increase / (Decrease) in advance from customers		46,232
Increase / (Decrease) in sales tax payable		30,724
Increase / (Decrease) in income tax payable		11,234
(Increase) / Decrease in security deposits		(11,594)
Net cash from operating activities		<u>1,536,134</u>
Cash flows from investment activities:		
		-
Net cash provided by investment activities		<u>-</u>
Cash flows from financing activities:		
Increase / (Decrease) in Shareholder's Equity		50,000
Net cash provided by financing activities		<u>50,000</u>
Net Increase in cash		1,586,134
Cash at beginning of the period		-
Cash at end of the period		<u><u>\$ 1,586,134</u></u>

Supplemental Disclosures of Cash Flow Information :

Cash paid during the period for:

Interest	\$	-
Income Tax	\$	-

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

123STORES, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE PERIOD SEPTEMBER 16, 2014 (INCEPTION) THROUGH MARCH 31, 2015

1. Summary of Significant Accounting Policies

Organization

123Stores, Inc. ("The company"), incorporated in the state of Delaware on September 16, 2014. On October 1, 2014 the Company acquired all of the assets and liabilities of the e-commerce division of 123 Greetings.com Inc. under a purchase agreement. Since the purchase, the company is engaged in the business of e-commerce.

Cash and Cash equivalent

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

Revenues

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 recognized as deferred revenue. The company is generally not contractually obligated to accept returns, except for defective products. However the company may permit its customer to return or exchange products and may provide pricing allowances on products unsold to a customer.

Accounts Receivable

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. Accounts receivable totaled \$563,521 as of March 31, 2015 and consisted of amounts due from the various market places in which the Company's products are sold such as Amazon.com.

Inventory:

Inventories are maintained at three different warehouses in New York and Nevada and are stated at the lower of cost or market value. As of March 31, 2015, inventories totaled \$1,940,575.

Advertising costs:

The Company expenses advertising costs as incurred. Advertising costs for the period ended March 31, 2015 totaled \$27,422.

Shipping and Handling Fees and Costs:

All amounts billed to a customer in a sales transactions related to shipping and handling represents revenues earned and are included in revenues. The costs incurred by the company for shipping and handling are reported in the Statement of Income under Shipping and handling expenses.

Use of estimates:

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

123STORES, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE PERIOD SEPTEMBER 16, 2014 (INCEPTION) THROUGH MARCH 31, 2015

2. Related Party Transactions:

Information technology services are provided to the Company by Intrasoft Technologies Ltd., a related party. During the period amounts billed by the related party totaled \$1,747,138 of which \$1,333,203 is recorded in general and administrative expenses as fulfillment expenses. As of March 31, 2015 balances owing to Intrasoft Technologies Inc. amounted to \$1,747,138.

3. Income Taxes:

The company account for income taxes using 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 period ended March 31, 2015, there were no material differences that required deferred tax asset or liability.

The company reviews tax position 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, 2015. The company recognizes interest accrued or penalties related to unrecognized tax benefits in tax expense. During the period September 16, 2014 through March 31, 2015, the company recognized no interest or penalties.

The company will file US Federal tax returns and tax returns in various states.

4. Concentration of risk:

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

5. Operating Leases:

The company has leased office space in Manhattan, New York on December 17, 2014 for a period of five years beginning April 1, 2015 through March 31, 2020. 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.

At March 31, 2015 the aggregate future minimum rental commitments under this lease are as follows:

Twelve Months Ending	
March 31	Amount
2016	65,568
2017	65,568
2018	67,560
2019	67,560
2020	<u>69,564</u>
Total	<u>\$335820</u>

6. Common and Preferred Stock:

The company authorized 5,000,000 shares of \$0.01 par value common stock. At March 31, 2015, the company had 5,000,000 shares of common stock issued.

123STORES, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE PERIOD SEPTEMBER 16, 2014 (INCEPTION) THROUGH MARCH 31, 2015

7. Purchase of e-commerce business:

On October 1, 2014 the Company executed an agreement to purchase from 123 Greetings.com Inc., a related party, all of the assets and liabilities relating to its e-commerce business for a purchase price of \$341,893. Included in the agreement were the following assets and liabilities:

Assets	
Cash	\$ 32,559
Accounts receivable	472,228
Inventory at wholesale prices	688,488
Advances to vendors	<u>297,192</u>
	1,490,467
Liabilities:	
Accounts payable and other liabilities	1,148,574
	<u> </u>
Net purchase price	<u><u>\$ 341,893</u></u>

8. Subsequent event:

The company has evaluated events and transactions that occurred between March 31, 2015 and May 20, 2015 which is the date the financial statements were issued (or available to be issued) for possible disclosure and recognition in the financial statements.

SUPPLEMENTARY INFORMATION

123STORES, INC.
SUPPORTING SCHEDULES
FOR THE PERIOD SEPTEMBER 16, 2014 (INCEPTION) THROUGH MARCH 31, 2015

Schedule 1 - Cost of Sales

Cost of goods	\$ 21,985,032
	<u>\$ 21,985,032</u>

Schedule 2 - Shipping & Handling Expenses

Purchase Shipping Inward Expenses	\$ 5,928,669
Shipping Inward Discount Received	(2,274,123)
Purchase Handling Charges	229,085
Shipping Outward Expenses	929,237
Handling Outward Expenses	666,525
Vendor Sales Tax	22,822
Warehouse Charges	108,511
	<u>\$ 5,610,726</u>

Schedule 3 - Sales and Marketing Expenses

Advertising Expenses	\$ 27,422
Market Place Fees	4,548,532
Paypal Fees on Receipt	134,029
Commission on Sales	40,093
Discount Allowed	444,785
	<u>\$ 5,194,861</u>

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123STORES, INC.
SCHEDULE OF GENERAL AND ADMINISTRATIVE EXPENSES
FOR THE PERIOD SEPTEMBER 16, 2014 (INCEPTION) THROUGH MARCH 31, 2015

Schedule 4 - General and Administrative Expenses

Finance Charges	\$ 10,361
Legal & Professional Fees	9,230
Dues & Subscriptions	32,730
Travel & Entertainment	7,559
Communication & Correspondence	4,752
Fulfillment Services	1,333,203
General Expenses	13,783
Webspace and Bandwidth Charges	42,845
Franchise Tax	532
Audit Fee	13,500
	<u>\$ 1,468,495</u>

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