

LOT78, INC.
Form 10-K
January 21, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

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

For the fiscal year ended September 30, 2013

Commission File No. 000-54816

LOT78, INC.

(Exact name of registrant as specified in its charter)

Nevada **26-2940624**
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

65 Alfred Road

Studio 209

London W2 5EU

(Address of principal executive offices, zip code)

00447801480109

(Registrant's telephone number, including area code)

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

None

Securities registered pursuant to section 12(g) of the Act:

Common Stock, \$.001 par value

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 Company" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer **Accelerated Filer**
Non-Accelerated Filer **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 aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant is \$36,789,610 based upon the price of \$0.415 at which the common stock was last sold as of the last business day of the most recently completed second fiscal quarter, multiplied by the approximate number of shares of common stock held by persons other than executive officers, directors and five percent stockholders of the registrant without conceding that any such person is an “affiliate” of the registrant for purposes of the federal securities laws. Our common stock is traded in the over-the-counter market and quoted on the Over-The-Counter Bulletin Board under the symbol (“LOTE”).

As of January 14, 2014, there were 237,570,283 issued and outstanding shares of the Company’s common stock, \$0.001 par value.

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FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”) and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). These forward-looking statements are not historical facts but rather are based on current expectations, estimates and projections. We may use words such as “anticipate,” “expect,” “intend,” “plan,” “believe,” “foresee,” “estimate” and variations of these words and similar expressions to identify forward-looking statements. These statements are not guarantees of future performance and are subject to certain risks, uncertainties and other factors, some of which are beyond our control, are difficult to predict and could cause actual results to differ materially from those expressed or forecasted. These risks and uncertainties include the following:

- The availability and adequacy of our cash flow to meet our requirements;
- Economic, competitive, demographic, business and other conditions in our local and regional markets;
- Changes or developments in laws, regulations or taxes in our industry;
- Actions taken or omitted to be taken by third parties including our suppliers and competitors, as well as legislative, regulatory, judicial and other governmental authorities;
- Competition in our industry;
- The loss of or failure to obtain any license or permit necessary or desirable in the operation of our business;
- Changes in our business strategy, capital improvements or development plans;
- The availability of additional capital to support capital improvements and development; and
- Other risks identified in this report and in our other filings with the Securities and Exchange Commission or the SEC.

This report should be read completely and with the understanding that actual future results may be materially different from what we expect. The forward-looking statements included in this report are made as of the date of this report and should be evaluated with consideration of any changes occurring after the date of this Report. We will not update forward-looking statements even though our situation may change in the future and we assume no obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise.

Use of Term

Except as otherwise indicated by the context, references in this report to the “Company”, “**LOTE**”, “we”, “us” and “our” are references to **Lot78, Inc. and its wholly owned subsidiary Lot78 UK Ltd.** All references to “USD” or United States Dollars refer to the legal currency of the United States of America.

PART I

ITEM 1. BUSINESS

General Overview

We were incorporated as Bold Energy Inc. in the State of Nevada as a for-profit Company on June 27, 2008, to develop a wide range loyalty program based on “Global Club points” awarded for all purchases made in associated establishments. On November 10, 2009, a change in control occurred when Bold Energy, Inc. received a resignation notice from Orlando J. Narita from all of his positions with the Company, including President, CEO, Principal Executive Officer, Treasurer, CFO, Principal Accounting Officer, Secretary, and Director. On November 30, 2009, Bold Energy, Inc. appointed Eden Clark as its new President, CEO, Principal Executive Officer, Treasurer, CFO, Principal Accounting Officer, Secretary, Treasurer and as Director.

On February 4, 2013, Bold Energy, Inc. closed a voluntary share exchange transaction with Anio, Ltd., a limited liability company established under the laws of the United Kingdom, which conducts its primary line of business under the name “Lot78”, pursuant to a Share Exchange Agreement (the “Exchange Agreement”) by and among the Company and its controlling stockholders, on the one hand, with Anio Ltd. and the stockholders of Anio Ltd. (the “Selling Stockholders”), on the other hand.

At the closing of the transactions contemplated by the Exchange Agreement (the “Closing”), the Company issued 127,638,616 (post-split) new shares of its common stock to the Selling Stockholders in exchange for 100% of the issued and outstanding capital stock of Anio Ltd. and Eden Clark and Patrick DeBlois irrevocably cancelled a total of 123,817,552 (post-split) restricted shares of common stock of the Company. As a result of the Share Exchange Agreement, Anio Ltd. became the Company’s wholly-owned subsidiary, and the Company acquired the business and operations of Anio Ltd.

Lot78, Inc. was deemed to be the accounting acquirer in this transaction and as a result this transaction was accounted for as a reverse merger. The historical financial statements presented in this filing are those of Lot78, Inc. The assets and liabilities of Bold Energy, Inc. were recorded, as of completion of the merger, at fair value, which is considered to approximate historical cost, and added to those of Lot78, Inc.

Pursuant to the closing of the Share Exchange Agreement, Eden Clark resigned as the President, Chief Executive Officer, Chief Financial Officer, Secretary, Treasurer and sole member of the Board of Directors of the Company. Concurrently, Oliver Amhurst was appointed as the Company’s President, Chief Executive Officer, Chief Financial

Officer, Secretary, Treasurer and sole member of the Board of Directors. Subsequent to the Closing, Mr. Asgherali Gulamhussein was appointed as Chief Financial Officer and Director of the Company.

Our business is subject to seasonal fluctuations. Historically, sales of our products have been higher during quarter 2 and quarter 4. As a result, our quarterly and annual operating results and comparable sales may fluctuate significantly as a result of seasonality. Accordingly, results for any one quarter or year are not necessarily indicative of results to be expected for any other quarter or for any year, and comparable sales for any particular future period may decrease.

The Company designs, markets, distributes, and sells apparel under the brand name "Lot78" to fashion-conscious consumers on four continents, including North America, Europe, Asia, and South America. We seek to be a trend setting leader in the design, marketing, distribution and sale of luxury street apparel. Our current collection is a full men's and women's contemporary ready-to-wear line which includes leather jackets, t-shirts, sweats, knitwear, accessories, jeans, chinos, and wool coats. We operate in three distinct but integrated segments: Wholesale, Consumer Direct and Core Services. Our Wholesale segment sells our products to industry-leading high-end global department stores, specialty retailers and boutiques; our Consumer Direct segment consists of e-commerce sales through our branded website located at www.lot78.com; and our Core Services segment provides product design, distribution, marketing and other overhead resources to the other segments.

Since our inception in 2008, we have developed a recognizable brand, expanded our product offerings, and initiated a growth strategy to expand both our Wholesale and Consumer Direct segment sales. A close and influential network of global contract manufacturers have greatly aided the expansion of the Lot78 collection, which started with four men's leather jackets and developed to become a full men's and women's ready-to-wear fashion and apparel line. We utilize contract manufacturers located in Italy for the manufacture of our products. The majority of our production is based in the Venetian region of Italy, whose legacy befits our aesthetic heritage and focus on luxurious quality and innovative style. All garments are sourced, designed and manufactured by people with unique strengths, skills, and craftsmanship to create premium quality and reliable products that are in high demand with our targeted affluent demographics. We seek to continue to build our brand recognition that is characterized by unique style, timelessness, utility, and quality, as opposed to merely following prevailing fads or trends that do not have the same degree of potential growth or longevity over time.

Our Brand and Products

Since 2008, the Lot78 brand has developed an androgynous, contemporary image, which can aptly be described as a marriage of luxury and urbanity. We believe that the strength of the Lot78 brand name and image is derived from our emphasis on combining the brand's London-based roots with its Italian-inspired construction. Our dedication to quality, utilization of Italian production and craftsmanship processes, and mastery of London-based urban and street-wear cultural imagery have combined to infuse our fashion and apparel collection with a unique and avant-garde take on contemporary fashion. We seek to be an innovator in premium lifestyle branding. Our fashion perspective is significantly influenced by our Founder, Mr. Oliver Amhurst, who is an influential figure in the fashion industry and has been at the forefront of style for more than a decade.

We currently offer a full collection of men's and women's ready-to-wear garments that we design, market, distribute and sell under the Lot78 brand. Our current men's and women's products include leather jackets, t-shirts, sweats, knitwear, accessories, jeans, chinos, and wool coats. Lot78 products often sell in the range of £55 to £900 (approximately \$87 to \$1,417 USD) per item at retail and occasionally we offer specialty items at higher prices. Our products are sold globally through upscale retailers, boutiques and specialty stores, our branded website located at www.lot78.com, and additional web retailers, such as Net-A-Porter.com, MrPorter.com, Shopbop.com and

Barneys.com. We intend to continually diversify our product offerings and designs as part of our seasonal collections. We introduce new collections twice a year during the spring/summer and autumn/winter seasons.

Wholesale Segment

Our Wholesale segment sells our products to leading high-end global department stores, specialty retailers and boutiques that have the image and merchandising capability that we demand for the effective presentation of our products. Our products are stocked in Barneys, Harrods, Bloomingdales and Net-A-Porter, and in various specialty and boutique stores throughout the world. We have not entered into any contracts with these retailers. Sales are made when these retailers visit Lot78 each season to view our collection and place their orders. The orders are then sent to the manufacturer. Our Wholesale segment accounted for approximately 94% of our total gross sales in 2013. Two of our six employees work in the Wholesale Segment.

Consumer Direct Segment

Our Consumer Direct segment sells our products from our e-commerce site, www.lot78.com, and previously through our London store, 125 Ledbury Road, which closed on March 31, 2012. We accept and fill all customer orders received through our website internally. We plan to grow our Consumer Direct segment sales by opening two Lot78 branded retail stores in London by 2015 and 2016 and one branded retail store in New York by 2018. Our Consumer Direct segment accounted for approximately 6% of our gross sales in 2013. Two of our six employees work in the Consumer Direct Segment.

Core Services Segment

The Core Services segment provides product design, distribution, marketing, e-commerce and other overhead resources to the Wholesale and Consumer Direct segments. Four of our six employees work in the Core Services Segment.

Design and Product Development

Three of our six employees are part of our design team, which is led by Mr. Amhurst. Our design team is responsible for the design and development of our products. We do not currently have a formal research and development effort but our design team plans to continue to develop new merchandise styles for each seasonal collection. The development of our products from concept through manufacturing is engineered to be not only fashionable but durable as well.

Manufacturing

We outsource all of our manufacturing to third parties on an order-by-order basis. Currently, we have contract manufacturers in Italy, These contractors sew and finish Lot78 products to exacting design specifications. We believe we can meet our current production needs using these and other available contract manufacturers. Our Management oversees the manufacturing and quality control of our products by visiting the manufacturer factories or by having representatives from the manufacturers visit Lot78. Our Management also researches and develops new sources of supply for the materials used in the manufacturing of our products.

Sources and Availability of Raw Materials

The fabrics used in our products are sourced from fabric manufacturers located in Italy, Although we do not currently have any long-term agreements in place for the supply of our fabrics, threads or other components, such high quality fabrics are currently readily available from a number of suppliers, including mills located both in the United States and abroad.

Quality Control

Our quality control program ensures that products meet our high quality standards. A consultant to Lot78, who lives in Italy, monitors the quality of the fabrics used by our contract manufacturers prior to the production of garments and inspects prototypes of each product before production commences. Final random inspections of our products occur when our products are received in our distribution center. We believe that our quality control policy is integral in maintaining the quality, consistency and reputation of our products.

Distribution

Our distribution channels are showrooms we sign up in relevant territories such as the Archetype in New York, which represents our brand in North America and FourMarketing in Europe, Asia and the Middle East. We intend to expand globally through new and established distribution channels including wholesale, retail, e-commerce, concessions, and franchise and licensing agreements to further expand global brand exposure and new opportunities to increase sales revenue.

Marketing

We market our products to domestic and international wholesale customers by participating in industry trade shows around the world and by displaying our collections in various showrooms. Wholesale customers can be found in four continents and include specialty stores, major department stores, and off-price retailers. Our products are sold in the United States and in several other countries in leading, high-end premium stores, including Barneys, Harrods, and Bloomingdales, and in various boutique and specialty stores. We also sell our products through our branded website, www.lot78.com, and additional web retailers, such as Net-A-Porter.com, MrPorter.com, Shopbop.com and Barneys.com.

Our marketing and public relations strategy is designed to communicate the signature design aesthetic and lifestyle of our brand. Our unique, "refined grunge" style was created by our founder Mr. Oliver Amhurst. Our marketing is done in house by Mr. Amhurst and another employee of the Company and through our PR agency FourMarketing. Mr. Amhurst oversees every aspect of our marketing, which allows us to set the tone for integrity, consistency and direction of the Lot78 brand image worldwide.

Our marketing consists of a variety of channels including: national and international print advertising, strategic outdoor advertising, in-store advertising, digital advertising, guerilla marketing, involvement in the art community, social media and philanthropic acts. We are also actively involved in publications and blogs with global exposure in the world's most reputable fashion publications, such as *Vogue*, *WWD*, *Tatler* and Nottingchic.com, due to our key relationships with influential writers, bloggers and fashion figures. This mix of media and channels is designed to support the brand's growth across diverse consumer groups and markets. In addition, the brand strategically cultivates and enjoys a strong and loyal celebrity following. These unpaid celebrity endorsements have been, and continue to be, highly effective in expanding our brand awareness and affinity.

Dependence on One or a Few Major Customers

We are highly dependent upon one or a few major customers. During the year ended September 30, 2013, Net-a-Porter represented 43% of our gross sales. During the year ended September 30, 2012, Net-a-Porter accounted for 59% of our gross sales. We have not entered into any specific long-term agreements with Net-a-Porter for the sale of our products. Net-a-Porter, as well as several of our other customers, purchase our products by submitting a Purchase Order to us. Upon delivery of our products, we provide an Order Confirmation to the customer, along with our general Supply Terms & Conditions. A copy of our general Supply Terms & Conditions was filed on July 19, 2013 as Exhibit 10.01 to our Current Report on Form 8-K and is incorporated herein by reference.

Our Wholesale segment sells our products to various global department stores, specialty retailers and boutiques including Barneys, Harrod's, Bloomingdales, and Net-A-Porter. In total, we now have 20 stores that make up our Wholesale business.

Our Consumer Direct segment sells our products from our branded website, www.lot78.com. Customers of our website include the general public from around the world.

Business Strategy

Over the next five years, our growth strategy will focus on the following five key areas:

Increase Global Wholesale Sales

Our distribution channels are showrooms we sign up in relevant territories such as the Archetype in New York, which represents our brand in North America and FourMarketing in Europe, Asia and the Middle East. We aim to expand our Wholesale segment by employing three key showrooms at global trade shows that we participate in, with the intention of further penetrating the Asian, European and American markets. The trade show circuit operates in conjunction with the global fashion weeks (Milan, Paris, London and New York). We believe that increased involvement in trade shows will enable us to further expose the Lot78 brand, explore a larger sales field and develop new relationships with retailers, which will potentially lead to increased revenues and greater brand awareness.

Invest in Online Development and E-commerce Activity

We currently offer a globally accessible transactional website, www.lot78.com, which allows anyone with Internet access to purchase our products online. We are currently working with a website developer to make key operational advances to our website such as development of user-friendly operations and layout improvements. Further, we intend to present a greater number of products on our website and expand into further marketing techniques such as affiliate marketing and advertisement opportunities.

Establish Stores and Seek Franchise Partnership Opportunities

We plan to launch the first branded Lot78 retail store in 2015 in London to engage a new consumer base. We feel that the introduction of our own stores will allow for stronger brand positioning and increased exposure. We intend to open two additional branded retail stores in London and New York in 2016 and 2018, respectively, to expose the brand to the impressive buying opportunity of the American and UK markets.

We will also seek joint licensing agreements with key global partners through expansion into new categories such as fragrances, footwear and accessories, with a focus on retaining the key elements of the brand's identity.

Diversify and Expand our Product Portfolio

We will continue to expand and strengthen our current product portfolio while exploring opportunities to diversify into new product categories within a ready-to-wear line. We believe that diversification engages new consumer interest and enables the brand to benefit from a proactive and developing brand image while stimulating revenue from increased buyer interest and awareness of the brand. Furthermore, we anticipate that expansion of our collection will enable wholesale activity to flourish as well as increased online sales.

Expand our Team

Our team currently includes six employees with varied skills and backgrounds who engage in overlapping roles and responsibilities for different segments of our business. In the next five years, we aim to increase the number of direct in-house employees to fifteen people. Further, we intend to allocate a specific area(s) of our business strategy to a specific employee or employees and will focus on developing that employee's skills in that area of responsibility. Such areas of responsibility will include sales, website and social media, design and production, marketing, public relations, administration, finance and product development. The expansion of our team will allow for focused development of all areas of our business.

Seasonality of Business

94% of our business works on a seasonal basis. We achieve our highest sales twice a year from our Autumn/Winter collection, which we receive monies from in July and August, and our Spring/Summer collection, which we receive monies from in January and February. The remaining 6% of our sales are non-seasonal and come in weekly from our e-commerce website, which presently is a growing part of our business.

Research and Development Activities

During the past two years, approximately £100,000 (\$151,080 USD) has been spent on research and development. Our research and development activities focused on several different aspects of the business such as salaries to our designer and consultant in Italy, business trips to our manufacturers, attending fabric fairs, marketing, etc.

Trademarks

The “Lot78” brand is trademarked worldwide. Generally, our trademarks remain valid and enforceable so long as we continue to use the marks in commerce and the required registration renewals are filed. We consider our trademarks to be valuable assets in the marketing of our products and seek to protect them from infringement worldwide.

Government Regulation on the Business

Our business operations are subject to several international and domestic laws including labor and employment laws, laws governing advertising and promotions, privacy laws, safety regulations, import/export restrictions, consumer protection regulations that govern product standards and labeling, and several other regulations. We believe that we are currently in material compliance with all such applicable laws.

All of our products are manufactured outside of the United Kingdom. These products are imported and are subject to customs laws, which impose tariffs as well as import quota restrictions for apparel. While importation of goods from foreign countries from which we buy our products may be subject to embargo if shipments exceed quota limits, we currently are not restricted by quotas in the operation of our business. In addition, custom duties and tariffs do not comprise a material portion of the cost of our products.

Our e-commerce website and online content are subject to government regulation of the Internet in many areas, including user privacy, telecommunications, data protection, and commerce. The application of these laws and regulations to our business is often unclear and sometimes may conflict. It may take years to determine whether and how existing laws such as those governing intellectual property, privacy, advertising, etc. apply to the Internet.

Nonetheless, laws and regulations directly applicable to Internet communications, commerce and advertising are becoming more prevalent. Due to the increasing popularity and use of the Internet, it is possible that laws and regulations may be adopted covering issues such as user privacy, content, quality of products and much more.

Further, the growth and development of the market for e-commerce may prompt calls for more stringent consumer protection laws, which may impose additional burdens on companies conducting business online. Compliance with these regulations may involve significant costs or require changes in business practices that result in reduced revenue. Noncompliance could result in penalties being imposed on us or orders that we stop the alleged noncompliant activity.

We believe that we are currently in material compliance with all such applicable laws.

We are also subject to environmental laws and regulations, including restrictions on the use of certain materials in our products. We have not and do not expect to incur any significant expenses to comply with any regulations governing the discharge of hazardous materials or other environment protection measures.

Competition

The retail apparel industry is highly competitive. We compete with numerous designers and manufacturers of apparel and accessories, domestic and international, including Rag & Bone, Alexander Wang, and Acne Jeans. Some of our competitors may be significantly larger, have substantially greater resources and may be able to adapt to changes in consumer preferences or retail requirements more quickly, devote greater resources to the building and sustaining of their brand identity and the marketing and sale of their products, or adopt more aggressive pricing policies than we can. As a result, we may not be able to compete as effectively and may not be able to maintain or grow the demand for our brand.

Our competitive strength will depend on our ability to:

- anticipate and respond to changing consumer demands in a timely manner;
- maintain and increase favorable brand recognition;
- develop and produce high quality products that appeal to consumers;
- appropriately price our products;
- maintain the high quality of our products;
- ensure product availability;
- expand our product portfolio;
- add members to our team who possess the skills, know-how and desire to help us succeed;
- maintain an active role in the fashion industry;
- effectively market our products and brand name;
- effectively present our products at retail; and
- maintain and build relationships with key industry leaders.

Although we operate in a highly competitive market, we seek to distinguish Lot78 products by emphasizing superior quality, durability and craftsmanship. We believe that we have a competitive advantage in comparison to our competitors in the quality of our fabrics and craftsmanship, the unique style of Lot78, the superiority of our fits, and our price points.

Employees

As of the date of this Report, we employ a total of six full time employees. Our employees perform overlapping roles and have responsibilities for different segments of our business.

WHERE YOU CAN GET ADDITIONAL INFORMATION

We file annual, quarterly and current reports, proxy statements and other information with the SEC. You may read and copy our reports or other filings made with the SEC at the SEC's Public Reference Room, located at 100 F Street, N.E., Washington, DC 20549. You can obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. You can also access these reports and other filings electronically on the SEC's web site, www.sec.gov.

ITEM 1A. RISK FACTORS

As a "smaller reporting Company," as defined in Rule 12b-2 of the Exchange Act, the Company is not required to provide the information called for by this Item.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our executive offices are located at 65 Alfred Road, Studio 209, London W2 5EU. We currently rent this space for approximately \$1,500 USD a month. Currently, this space is sufficient to meet our needs. We do not foresee any significant difficulties in obtaining any required additional space if needed.

ITEM 3. LEGAL PROCEEDINGS

We know of no material, existing or pending legal proceedings against our Company, nor are we involved as a plaintiff in any material proceeding or pending litigation. There are no proceedings in which our director, officer or any affiliates, or any registered or beneficial shareholder, is an adverse party or has a material interest adverse to our interest.

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Market Information

Our common stock has been quoted on the OTC Bulletin Board since July 6, 2009 under the symbol "GOBA.OB." On October 11, 2012, our symbol was changed to "BOLD.OB" and on February 7, 2013, our symbol was again changed to "LOTE.OB" to reflect the Company's name change. Trading in stocks quoted on the OTC Bulletin Board is often thin and is characterized by wide fluctuations in trading prices due to many factors that may be unrelated to a company's operations or business prospects. We cannot assure you that there will be a market in the future for our common stock.

OTC Bulletin Board securities are not listed or traded on the floor of an organized national or regional stock exchange. Instead, OTC Bulletin Board securities transactions are conducted through a telephone and computer

network connecting dealers in stocks. OTC Bulletin Board issuers are traditionally smaller companies that do not meet the financial and other listing requirements of a regional or national stock exchange.

The following table sets forth the high and low closing prices for our common stock per quarter ended, based on our September 30 fiscal year end, as quoted on the OTC Bulletin Board for the last two fiscal years, without retail mark-up, mark-down or commission and may not represent actual transactions:

| FISCAL QUARTER ENDED | HIGHLOW | |
|-----------------------------|----------------|-------------|
| | (\$) | (\$) |
| 2013 | | |
| September 30, 2013 | 0.61 | 0.095 |
| June 30, 2013 | 6.25 | 0.295 |
| March 31, 2013 | 1.71 | 0.15 |
| 2012 | | |
| December 31, 2012 | 0.15 | 0.15 |
| September 30, 2012 | 0.15 | 0.15 |
| June 30, 2012 | 0.55 | 0.13 |
| March 31, 2012 | 0.61 | 0.52 |
| 2011 | | |
| December 31, 2011 | 0.56 | 0.31 |

Warrants, Options and Other Rights to Acquire Shares

There are no outstanding warrants or options to purchase our securities.

On August 30, 2013, the Company entered into an Unsecured Senior Convertible Promissory Note (the “Note”) with Banque Benedict Hentsch & Cie SA (“Banque Benedict”) for the principal sum of Three Hundred and Fifty Thousand Dollars (\$350,000) plus simple interest thereon at the rate of ten percent (10%) per annum. Banque Benedict has the option at any time to convert the Note in whole into shares of the common stock of the Company at the conversion rate of \$0.125 per share. Unless the Note is earlier converted, the total principal and unpaid interest is due on September 1, 2016. A true and correct copy of the Note was filed with the SEC on September 4, 2013, as part of our Current Report on Form 8-K.

On September 9, 2013, the Company entered into an Unsecured Senior Convertible Promissory Note (the “Note”) with Monument Assets & Resources Company Ltd (“Monument Assets”) for the principal sum of One Hundred Thousand Dollars (\$100,000) plus simple interest thereon at the rate of ten percent (10%) per annum. Monument Assets has the option at any time to convert the Note in whole into shares of the common stock of the Company at the conversion rate of \$0.125 per share. Unless the Note is earlier converted, the total principal and unpaid interest is due on September 1, 2016. A true and correct copy of the Note was filed with the SEC on September 11, 2013, as part of our Current Report on Form 8-K.

Holdings

As of January 14, 2014, 237,570,283 issued and outstanding shares of common stock were held by approximately 182 shareholders of record.

Dividends

We have not paid any cash dividends on our common stock since inception and presently anticipate that all earnings, if any, will be retained for development of our business and that no dividends on our common stock will be declared in the foreseeable future. Any future dividends will be subject to the discretion of our Board of Directors and will depend upon, among other things, future earnings, operating and financial condition, capital requirements, general business conditions and other pertinent facts. Therefore, there can be no assurance that any dividends on our common stock will be paid in the future.

Securities Authorized for Issuance Under Equity Compensation Plans

None.

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ITEM 6. SELECTED FINANCIAL DATA

We are a smaller reporting company as defined by Rule 12b-2 of the Securities Exchange Act of 1934 and are not required to provide the information under this item.

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

FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act") and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). These forward-looking statements are not historical facts but rather are based on current expectations, estimates and projections. We may use words such as "anticipate," "expect," "intend," "plan," "believe," "foresee," "estimate" and variations of these words and similar expressions to identify forward-looking statements. These statements are not guarantees of future performance and are subject to certain risks, uncertainties and other factors, some of which are beyond our control, are difficult to predict and could cause actual results to differ materially from those expressed or forecasted. You should read this report completely and with the understanding that actual future results may be materially different from what we expect. The forward-looking statements included in this report are made as of the date of this report and should be evaluated with consideration of any changes occurring after the date of this Report. We will not update forward-looking statements even though our situation may change in the future and we assume no obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise.

Plan of Operation

As of September 30, 2013, we had \$274,312 of cash on hand. We incurred operating expenses in the amount of \$1,066,916 during the year ended September 30, 2013. These operating expenses were comprised of general and administrative expenses, professional fees, directors' and consulting fees, and other miscellaneous expenses.

Our current cash holdings will not satisfy our liquidity requirements and we will require additional financing to pursue our planned business activities. We are in the process of seeking equity and or debt financing to fund our operations over the next 12 months.

If we cannot generate sufficient revenues to continue operations, we will suspend or cease our operations.

We do not expect the purchase or sale of any significant equipment and our material commitments have been mentioned in Note 13.

Management believes that if subsequent private placements are successful, we will generate sales revenue within the following twelve months thereof. However, additional equity and or debt financing may not be available to us on acceptable terms or at all, and thus we could fail to satisfy our future cash requirements.

Revenues

We earned revenues of \$777,110 for the year ended September 30, 2013 compared to revenues of \$560,368 for the year ended September 30, 2012. The increase in revenues for the year ended September 30, 2013 can be attributed to new stores buying our collection for the FW13 season. Bloomingdales, East Dane (Mens division of Shop Bop), The Tannery, and Blue One were some of the stores which bought our collection in the current period. Furthermore, our existing stores of Net a Porter, Shop Bop and Mr Porter also increased their orders with us in 2013 compared to 2012.

Cost of Goods Sold

Cost of goods sold for the year ended September 30, 2013 were \$588,230 compared to \$349,791 for the year ended September 30, 2012. Cost of goods sold represented 76% of sales for the year ended September 30, 2013 as compared to 63% for the year ended September 30, 2012. This increase in cost of goods sold as a percentage of sales for the year can be attributed to the higher revenues achieved in this quarter. For the year ended September 30, 2013 the increase can be attributed to write offs of obsolete inventory and sales of overstock inventory at discounted prices during the quarter ended December 31, 2012. During the same quarter, the Company sold many of the goods from prior seasons to a discount retailer for cost value or minimal margins. In addition, we held a pre-Christmas 2012 discount sale, where prior season merchandise was sold at depressed margins which had an impact on the value of cost of goods sold going up during the year. There were no write offs for stock or discounted sales for in the year 2012.

Expenses

For the year ended September 30, 2013 total expenses increased \$737,752, or 224%, to \$1,066,916. This increase can be attributed to increased professional fees related to the share exchange agreement, larger sample costs due to an increasing expansive collection, increased travel costs for spring/summer 2013 and autumn/winter 2013 sales, the cost of appointing a CEO and CFO during the year. We have also incurred one off costs relating to professional fees and consultancy services pursuant to the share exchange agreement and raising debt finance in the region of \$185,000.

Working Capital

| | At | At | |
|---------------------|---------------|----------------|--------------|
| | September 30, | September 30, | Difference |
| | 2013 | 2012 | |
| Current Assets | \$531,929 | \$ 222,164 | \$ (309,765) |
| Current Liabilities | \$ 1,358,481 | \$ 1,314,957 | \$ 43,524 |
| Working Capital | \$ (826,552) | \$ (1,092,793) | \$ (266,241) |

Cash Flows

| | Year Ended | Year Ended |
|--|---------------|---------------|
| | September 30, | September 30, |
| | 2013 | 2012 |
| Net Cash (Used) Provided by Operating Activities | \$ (932,730) | \$ 366,179 |
| Net Cash (Used) Provided by Investing Activities | \$ 2,050 | \$ (1,206) |
| Net Cash (Used) Provided by Financing Activities | \$ 1,142,049 | \$ (365,298) |

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| | | |
|---|-----------|---------|
| Net Effect of Foreign Currency Translation | \$62,943 | \$3 |
| Net (Decrease) Increase in Cash During the Period | \$274,312 | \$(322) |

For the year ended September 30, 2013, net cash used in operating activities was \$932,730 as a result of changes in our working capital and a year end net loss of \$899,935.

For the year ended September 30, 2013, net cash provided by financing activities was \$1,142,049 as a result of proceeds from debt of \$830,142 along with proceeds from the sale of common stock for \$825,000. We repaid \$282,192 of debt and our bank overdraft decreased by \$230,901.

We will require additional funds to fund our budgeted expenses in the future. These funds may be raised through equity financing, debt financing, or other sources, which may result in further dilution in the equity ownership of our shares. For the year ended September 30, 2013 we have managed to raise \$1,655,142 through debt and equity financing. There is no assurance that we will be able to maintain operations at a level sufficient for an investor to obtain a return on their investment in our common stock. Furthermore, we may continue to be unprofitable. We will need to raise additional funds in the future in order to proceed with our budgeted expenses. Additionally, there is no assurance that any party will advance additional funds to us in order to enable us to sustain our plan of operations or to repay our liabilities.

Liquidity and Capital Resources

Growth of our operations will be based on our ability to internally finance from operating cash flows, and the ability to raise funds through equity and/or debt financing to increase sales and production. Our primary sources of liquidity are: (i) cash from sales of our products; and (ii) financing activities. Our cash balance as of September 30, 2013 is \$274,312.

Our Company has funded some of its operations through debt financing with related party transactions.

As of September 30, 2013, our Company is obligated to David Hardcastle, a shareholder, for a non-interest loan with a balance of \$636,533.

Critical Accounting Policies

Our financial statements and accompanying notes have been prepared in accordance with United States generally accepted accounting principles applied on a consistent basis. The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods.

We regularly evaluate the accounting policies and estimates that we use to prepare for financial statements. A complete summary of these policies is included in the notes to our financial statements. In general management's estimates are based on historical experience, on information from third party professionals, and on various other assumptions that are believed to be reasonable under the facts and circumstances. Actual results could differ from those estimates made by management.

Going Concern

For the year ended September 30, 2013, our Company has a comprehensive loss of \$834,115 and an accumulated deficit of \$2,271,672. Our Company intends to fund operations through operational cash flow and equity/debt

financing arrangements. These sources may be insufficient to fund its capital expenditures, working capital and other cash requirements for the future. In response to these problems, management intends to raise additional funds through public or private placement offerings. These factors, among others, raise substantial doubt about our Company's ability to continue as a going concern. The accompanying financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Future Financing

We will continue to rely on equity sales of our common shares in order to continue to fund our business operations. Issuances of additional shares will result in dilution to existing stockholders. There is no assurance that we will achieve any additional sales of the equity securities or arrange for debt or other financing to fund planned acquisitions and exploration activities.

Inflation

The amounts presented in the financial statements do not provide for the effect of inflation on our operations or financial position. The net operating losses shown would be greater than reported if the effects of inflation were reflected either by charging operations with amounts that represent replacement costs or by using other inflation adjustments.

Off-Balance Sheet Arrangements

As of September 30, 2013, we had no off balance sheet transactions that have had, or are reasonably likely to have, a current or future effect on our financial condition, changes in our financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to stockholders.

Contractual Obligations

We are a smaller reporting company as defined by Rule 12b-2 of the Securities Exchange Act of 1934 and are not required to provide the information under this item.

Recently Issued Accounting Pronouncements

The Company has implemented all new accounting pronouncements that are in effect. These pronouncements did not have any material impact on the financial statements unless otherwise disclosed, and the Company does not believe that there are any other new accounting pronouncements that have been issued that might have a material impact on its financial position or results of operations.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are a smaller reporting company as defined by Rule 12b-2 of the Securities Exchange Act of 1934 and are not required to provide the information under this item.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

LOT78, INC.

Audited

September 30, 2013 and 2012

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors

Lot78, Inc.

London, UK

We have audited the accompanying consolidated balance sheet of Lot78, Inc. and its subsidiary (collectively, “the Company”) as of September 30, 2013 and the related consolidated statements of operations, changes in stockholders’ equity and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Lot78, Inc. and its subsidiary as of September 30, 2013 and the results of their consolidated operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. The Company incurred a net loss for the year ended September 30, 2013 and has a working capital deficit as of September 30, 2013. These factors raise substantial doubt about the Company’s ability to continue as a going concern. Management's plans in regard to these matters are described in Note 2. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

MALONEBAILEY, LLP

www.malonebailey.com

Houston, Texas

January 20, 2014

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Lot78, Inc.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of Lot78, Inc.

We have audited the accompanying balance sheet of Lot78, Inc. as at 30 September 2012, the related statement of operations, the statement of cash flows and notes for the year then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Opinion on financial statements

In our opinion, the financial statements referred to above present fairly in all material respects the financial position of Lot78, Inc. at 30 September 2012 and the results of its operations for the year ended 30 September 2012 in conformity with U.S. Generally Accepted Accounting Principles. Also, in our opinion, the related financial statement schedules when considered in relation to the basic financial statements taken as a whole present fairly in all material respects the information set forth therein.

Emphasis of matter – going concern

In forming our opinion on the financial statements, we have considered the adequacy of the disclosure made in Note 2 to the financial statements concerning the Company's ability to continue as a going concern. The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in

Note 2 to the financial statements, the Company has suffered recurring losses from operations and has a net capital deficiency that raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

LUBBOCK FINE

/s/ LUBBOCK FINE

London

13 December 2012

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LOT78, INC.**CONSOLIDATED BALANCE SHEETS**

| | September 30, 2013 | September 30, 2012 | |
|---|-------------------------------|-------------------------------|-------------|
| ASSETS | | | |
| Current assets: | | | |
| Cash and cash equivalents | \$ 274,312 | \$ - | |
| Accounts receivable | 132,422 | 117,931 | |
| Prepaid expenses and other current assets | 63,735 | 47,601 | |
| Inventory, net | 61,460 | 56,632 | |
| Total current assets | 531,929 | 222,164 | |
| Property and equipment, net | 3,614 | 928 | |
| Patents, net | 22,457 | 26,427 | |
| Total assets | \$ 558,000 | \$ 249,519 | |
| LIABILITIES AND STOCKHOLDERS' DEFICIT | | | |
| Current liabilities: | | | |
| Accounts payable and accrued liabilities | \$ 280,535 | \$ 384,585 | |
| Accounts payable – related party | 26,850 | - | |
| Revolving credit facility | - | 230,901 | |
| Debt due to third parties | 137,156 | | 137,394 |
| Debt due to related parties | 32,272 | - | |
| Derivative liabilities | 434,464 | - | |
| Convertible debt due to shareholders | 124,610 | - | |
| Due to shareholders | 322,594 | | 562,077 |
| Total current liabilities | 1,358,481 | 1,314,957 | |
| | 313,813 | | |
| Long term notes due to shareholders | | 189,899 | |
| Convertible debt, net of discount of \$437,500 and \$0 | 12,500 | - | |
| Total long term liabilities | 326,313 | 189,899 | |
| Total liabilities | \$ 1,684,794 | \$ 1,504,856 | |
| Stockholders' deficit | | | |
| Common stock, \$0.001 par value per share, 350,000,000 shares authorized, 237,403,616 and 127,638,616 shares issued and outstanding | | 237,404 | 127,638 |
| Additional paid-in capital | 865,340 | 12,448 | |
| Accumulated other comprehensive income (loss) | 42,134 | (23,686) | |
| Accumulated deficit | (2,271,672) | | (1,371,737) |
| Total stockholders' deficit | (1,126,794) | | (1,255,337) |
| Total liabilities and stockholders' deficit | \$ 558,000 | \$ | 249,519 |

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

LOT78, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

AND OTHER COMPREHENSIVE LOSS

| | Year Ended | Year Ended |
|---------------|----------------------|----------------------|
| | September 30, | September 30, |
| | 2013 | 2012 |
| Revenue, net | | 560,368 |
| | \$777,110 | \$ |
| Cost of sales | 588,230 | 349,791 |
| Gross Profit | | |