

LOT78, INC.
Form 10-Q
May 20, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2014

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT OF 1934

Commission File Number 000-54816

LOT78, INC.

(Exact name of registrant as specified in its charter)

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

65 Alfred Road

Studio 209

London W2 5EU

(Address of principal executive offices)

00447801480109

(Registrant'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 company" in Rule 12b-2 of the Exchange Act.

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

As of May 20, 2014, there were 237,570,283 shares of the registrant's \$0.001 par value common stock issued and outstanding.

LOT78, INC.*

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Special Note Regarding Forward-Looking Statements

Information included in this Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended ("Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended ("Exchange Act"). This information may involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of Lot78, Inc., formerly known as Bold Energy Inc. (the "Company"), to be materially different from future results, performance or achievements expressed or implied by any forward-looking statements. Forward-looking statements, which involve assumptions and describe future plans, strategies and expectations of the Company, are generally identifiable by use of the words "may," "will," "should," "expect," "anticipate," "estimate," "believe," "intend," or "project" or the negative of these words or other variations on these words or comparable terminology. These forward-looking statements are based on assumptions that may be incorrect, and

there can be no assurance that these projections included in these forward-looking statements will come to pass. Actual results of the Company could differ materially from those expressed or implied by the forward-looking statements as a result of various factors. Except as required by applicable laws, the Company has no obligation to update publicly any forward-looking statements for any reason, even if new information becomes available or other events occur in the future.

**Please note that throughout this Quarterly Report, and unless otherwise noted, the words "we," "our," "us," the "Company," or "LOTE" refers to Lot78, Inc. and its wholly owned subsidiary Lot78 UK Limited.*

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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LOT78, INC.**CONSOLIDATED BALANCE SHEETS****(unaudited)**

| | March 31, 2014 | September 30, 2013 |
|---|-------------------|--------------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$58,868 | \$274,312 |
| Accounts receivable | 345,858 | 132,422 |
| Prepaid expenses and other current assets | 8,786 | 63,735 |
| Inventory, net | 123,076 | 61,460 |
| Total current assets | 536,588 | 531,929 |
| Property and equipment, net | 2,561 | 3,614 |
| Patents, net | 21,172 | 22,457 |
| Total assets | \$560,321 | \$558,000 |
| LIABILITIES AND STOCKHOLDERS' DEFICIT | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | \$391,251 | \$280,535 |
| Accounts payable – related party | 50,493 | 26,850 |
| Factoring credit facility | 198,807 | — |
| Debt due to third parties | 354,368 | 137,156 |
| Debt due to related parties | 33,274 | 32,272 |
| Derivative liabilities | 149,990 | 434,464 |
| Convertible debt due to shareholders | 89,194 | 124,610 |
| Due to shareholders | 332,740 | 322,594 |
| Total current liabilities | 1,600,117 | 1,358,481 |
| Long term debt due to shareholders | 323,556 | 313,813 |
| Convertible debt, net of discount of \$437,365 and \$437,500 | 12,635 | 12,500 |
| Total long term liabilities | 336,191 | 326,313 |
| Total liabilities | \$1,936,308 | 1,684,794 |
| Stockholders' deficit | | |
| Preferred stock, \$0.001 par value per share, 10,000,000 shares authorized, none issued and outstanding | — | — |
| Common stock, \$0.001 par value per share, 350,000,000 shares authorized, 237,570,283 and 237,403,616 shares issued and outstanding | 237,571 | 237,404 |
| Additional paid-in capital | 877,673 | 865,340 |
| Accumulated other comprehensive income (loss) | 8,558 | 42,134 |
| Accumulated deficit | (2,499,789) | (2,271,672) |
| Total stockholders' deficit | (1,375,987) | (1,126,794) |
| Total liabilities and stockholders' deficit | \$560,321 | 558,000 |

The accompanying notes are an integral part of the consolidated unaudited financial statements

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LOT78, INC.**CONSOLIDATED STATEMENTS OF OPERATIONS****AND OTHER COMPREHENSIVE LOSS****(unaudited)**

| | Three Months Ended March 31, 2014 | Three Months Ended March 31, 2013 | Six Months Ended March 31, 2014 | Six Months Ended March 31, 2013 |
|--|---|---|---|---|
| Revenue, net | \$704,244 | \$150,759 | 759,974 | 209,454 |
| Cost of sales | 443,496 | 101,774 | 512,905 | 177,157 |
| Gross Profit | 260,748 | 48,985 | 247,069 | 32,297 |
| Expenses | | | | |
| Selling, general and administrative expenses | \$448,819 | \$265,216 | 722,395 | 389,566 |
| Depreciation and amortization | 1,700 | 1,075 | 3,231 | 2,109 |
| Total expenses | 450,519 | 266,291 | 725,626 | 391,675 |
| Other income (expense) | | | | |
| Interest expense | (22,716) | (9,972) | (34,034) | (20,373) |
| Gain on debt forgiveness | | 56,421 | | 56,421 |
| Gain on derivative liabilities | 42,224 | | 284,474 | |
| Total other income (expense) | 19,508 | 46,449 | 250,440 | 36,048 |
| Net loss | \$(170,263) | \$(170,857) | (228,117) | (323,330) |
| Foreign currency translation adjustments | (8,459) | 87,458 | (33,576) | 87,401 |
| Comprehensive income (loss) | (178,722) | (83,339) | (261,693) | (235,929) |
| Basic and diluted loss per share | \$(0.00) | \$(0.00) | (0.00) | (0.00) |
| Weighted average shares of common stock outstanding – basic | 237,477,892 | 57,053,138 | 237,477,892 | 57,053,138 |

The accompanying notes are an integral part of the consolidated unaudited financial statements

LOT78, INC.**CONSOLIDATED STATEMENTS OF CASH FLOWS****(unaudited)**

| | Six months Ended March 31, 2014 | Six months Ended March 31, 2013 |
|---|--|--|
| Cash flows from operating activities | | |
| Net loss | \$(228,117) | \$(323,330) |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities: | | |
| Depreciation | 1,147 | 228 |
| Amortization | 2,084 | 1,881 |
| Gain on debt forgiveness | | (56,421) |
| Gain on derivative liabilities | (284,474) | — |
| Debt discount amortization | 135 | — |
| Stock based compensation | 12,500 | — |
| Change in operating assets/liabilities: | | |
| Accounts receivable | (205,899) | 90,834 |
| Prepaid expenses and other current assets | 1,626 | 44,468 |
| Inventory | (4,359) | (8,957) |
| Accounts payable and accrued expenses | 105,136 | 73,600 |
| Net cash provided by (used in) operating activities | (600,221) | (177,697) |
| Cash flows from investing activities | | |
| Cash acquired in reverse merger | | 28,964 |
| Net cash provided by investing activities | | 28,964 |
| Cash flows from financing activities | | |
| Proceeds from issuance of debt | 209,459 | 260,230 |
| Repayment of convertible debt to shareholders | (41,018) | (59,589) |
| Change in revolving facility | 195,545 | (51,218) |
| Net cash flows provided by financing activities: | 363,986 | 149,423 |
| Effect of foreign currency on cash and cash equivalents | 20,791 | (550) |
| Net increase (decrease) in cash | \$(215,444) | \$140 |
| Cash- beginning of period | 274,312 | — |
| Cash- end of period | \$58,868 | \$140 |
| Cash paid for interest | \$34,033 | \$— |
| Cash paid for income taxes | \$— | \$— |
| Supplementary Non-Cash Information | | |
| Debt discount due to derivative liabilities | — | — |

The accompanying notes are an integral part of the consolidated unaudited financial statements

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Lot78, Inc.

Notes to CONSOLIDATED Financial Statements

Unaudited

1. **BASIS OF PRESENTATION & ORGANIZATION**

Basis of presentation

The accompanying unaudited interim financial statements of Lot78, Inc. (the “Company”) have been prepared in accordance with accounting principles generally accepted in the United States of America and the rules of the Securities and Exchange Commission (“SEC”), and should be read in conjunction with the audited financial statements and notes thereto of the Company contained in Form 10-K filed with the SEC on January 21, 2014.

In the opinion of management, all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of financial position and the results of operations for the interim periods presented have been reflected herein. The results of operations for the interim periods are not necessarily indicative of the results to be expected for the full year. Notes to the financial statements that would substantially duplicate the disclosures contained in the audited financial statements for the fiscal year ended September 30, 2013 as reported in the Company’s Form 10-K have been omitted.

Our business is subject to seasonal fluctuations. Historically, sales of our products have been higher during the second and fourth quarters. 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.

2. **GOING CONCERN**

The Company’s financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”) applicable to a going concern which contemplates the realization of assets and liquidation of liabilities in the normal course of business. The Company has not yet established an ongoing source of revenues sufficient to cover its operating costs and allow it to continue as a going concern. The Company has an accumulated deficit since inception to March 31, 2014, of \$2,499,789 which raises substantial doubt about the Company’s ability to continue as a going concern. The ability of the Company to continue as a going concern is dependent on the Company obtaining adequate capital to fund operating losses until it becomes profitable. If the

Company is unable to obtain adequate capital, it could be forced to cease operations.

In order to continue as a going concern, the Company will need, among other things, additional capital resources. Management's plan is to obtain such resources for the Company through debt and/or equity financing from third parties.

3. **FACTORING CREDIT FACILITY**

The Company as reported on 01/06/14 has a Purchase and Resale and a Recourse Factoring Agreement with Bibby Trade Services Ltd amounting to £600,000 (\$998,220).

Under the terms of our factoring facility, the Company may obtain advances of up to 80 percent of eligible accounts receivable, subject to a 1.8 percent per fixed fee and a factors discount fee of 3.00% above the greater of LIBOR, the base rate quoted from time to time by Barclays Bank PLC (or its successors). The remainder of the twenty percent is held in a restricted cash reserve account, which is released to the Company upon payment of the receivable. Bibby has full recourse under the agreement to return any receivables for which funds have been advanced. As a result, the Company does not reduce its accounts receivable until Bibby has collected on the invoices that have been factored.

As at March 31, 2014 and September 30, 2013, amounts owed under the Recourse Factoring Facility were \$198,807 and NIL, respectively.

4. **DEBT – THIRD PARTIES AND RELATED PARTIES**

At March 31, 2014 and September 30, 2013 debt consists of the following:

| | March 31, 2014 | September 30, 2013 |
|---|-------------------|-----------------------|
| Loans - CI LLC | \$354,368 | \$137,156 |
| Loans – Related parties | 33,274 | 32,272 |
| Loans - David Hardcastle – Shareholder (\$332,740 short term) | 656,296 | 636,407 |
| Total Debt to shareholders and related parties | \$1,043,938 | \$805,835 |

During the six months ended March 31, 2014, the Company received \$209,459 from CI LLC as a short term loan.

Short term loans from CI LLC (“CIL”) are unsecured and interest free.

Other differences in the loan values between September 30, 2013 and March 31, 2014 are due to foreign exchange translations.

Long-term loans from David Hardcastle are unsecured and are currently non-interest bearing. However, once the Company secures significant external financing, the long term loans begin accruing interest at bank rate plus 2% per annum and will be payable in quarterly installments over a 3 year period.

5. **CONVERTIBLE DEBT, DERIVATIVE LIABILITIES & FAIR VALUE MEASUREMENTS**

Convertible Debt – IIMG

Loans from Iceberg Investment Management Group (“IIMG”) are unsecured and accrue interest at a rate of 2.5% per annum. During the six months ended March 31, 2014, the Company repaid \$41,018 to IIMG.

The balance payable to IIMG as at March 31, 2014, is \$89,194. The notes were due on February 28, 2014 and April 30, 2014, however, pursuant to communication received from IIMG, it has been agreed that 10% of all future

financing raised will be used to pay down the loans until all principal and accrued interest has been paid in full, unless the Company within its new debt arrangements has clauses which restricts it from paying down other debts.

At the option of IIMG, If the loans remain unpaid by the maturity date, all amounts are convertible into common stock of the Company at 80% of the Company's volume weighted average price (VWAP) for the 5 previous days prior to execution of the promissory note.

As at March 31, 2014 \$3,154.37 of the overall debt had been matured.

The Company has not received any communication from IIMG whether it wishes to activate the clause in converting this amount into common stock.

Convertible Debt – Embedded Derivatives

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.

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.

The above conversion notes contain a reset provision whereby the conversion price on the notes can be reduced based on future equity transactions of the Company. As a result, the conversion options were classified as derivative liabilities at their fair value on the date of issuance. The fair value of the derivative liabilities exceeded the principal amount of the notes, resulting in a full debt discount of \$450,000, \$12,635 of which has been amortized to interest expense from the date of the issuance to March 31, 2014.

As defined in FASB ASC 820, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). The Company utilized the market data of similar entities in its industry or assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable. The Company classifies fair value balances based on the observability of those inputs. FASB ASC 820 establishes a fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurement).

The three levels of the fair value hierarchy are as follows:

Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active Level 1 markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis. Level 1 primarily consists of financial instruments such as exchange-traded derivatives, marketable securities and listed equities.

Level 2 - Pricing inputs are other than quoted prices in active markets included in level 1, which are either directly or indirectly observable as of the reported date.

Level 3 - Pricing inputs include significant inputs that are generally less observable from objective sources. These inputs may be used with internally developed methodologies that result in management's best estimate of fair value.

The following table sets forth by level within the fair value hierarchy the Company's financial assets and liabilities that were accounted for at fair value as at March 31, 2014.

| Recurring Fair Value Measures | Level 1 | Level 2 | Level 3 | Total |
|---|---------|---------|-----------|-----------|
| LIABILITIES: | | | | |
| Derivative liabilities net September 30, 2013 | \$ — | \$ — | \$434,464 | \$434,464 |
| Derivative liabilities net March 31, 2014 | \$ — | \$ — | \$149,990 | \$149,990 |

The following table summarizes the changes in the derivative liabilities during the period ended March 31, 2014:

| | |
|----------------------------------|-----------|
| Fair value as of October 1, 2013 | \$434,464 |
| Change in fair value | 284,474 |

Ending balance as of March 31, 2014 \$ 149,990

The gain on derivative liabilities of \$284,474 in the accompanying consolidated statement of operations consists of the change in fair value of \$284,474 noted above.

The Company uses the Black-Scholes option pricing model to value the derivative liability and subsequent re-measurements. Included in the model are the following assumptions: stock price at valuation date of \$0.044, exercise price of \$0.125, dividend yield of zero, years to maturity of 2.43, risk free rate of 0.09 – 0.8 percent, and annualized volatility of 273.53 – 425.93 percent.

6. **RELATED PARTY TRANSACTIONS**

As of March 31, 2014, the Company owed an officer \$50,493 for accounting and consultancy fees.

7. **EQUITY**

During the six months ended March, 2014, the Company issued 166,667 shares of common stock valued at \$12,500 for services rendered.

8. **COMMITMENTS AND CONTINGENCIES**

In November 2012, Anio Limited (now named Lot 78 UK Limited) entered into a Consulting and Services Agreement with Iceberg Investments Management Group Limited, a British Virgin Islands corporation. This document includes a provision that Lot78 UK Ltd would pay a success fee of USD\$770,000 on the closing of any financing in the amount exceeding \$3,000,000. The amount of the success fee purportedly payable reduces if the financing is less than \$3,000,000. For these purposes, Iceberg has confirmed that no success fee would be payable if the financing is less than \$1,450,000 and \$500,000 whether by equity or loan raised from or introduced by Banque Benedict Hentsch & CIE SA is excluded. If Iceberg is not successful in obtaining financing for the Company within 18 months of a potential merger or transaction there are provisions that Lot78 UK Ltd provide a convertible promissory note.

The Company is taking legal advice on this document, the enforceability of its provisions and reserves its position as to whether such fees will be payable under or pursuant to this document.

9. **SUBSEQUENT EVENTS**

NONE

eND OF NOTES TO FINANCIALS

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

FORWARD-LOOKING STATEMENTS

This Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) contains forward-looking statements that involve known and unknown risks, significant uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed, or implied, by those forward-looking statements. You can identify forward-looking statements by the use of the words may, will, should, could, expects, plans, anticipates, believes, estimates, predicts, intends, potential, proposed, or continue or the negative of those terms. These statements are only predictions. In evaluating these statements, you should consider various factors which may cause our actual results to differ materially from any forward-looking statements. Although we believe that the exceptions reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. Therefore, actual results may differ materially and adversely from those expressed in any forward-looking statements. We undertake no obligation to revise or update publicly any forward-looking statements for any reason.

Overview

Lot78, Inc. (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.

Executive Summary

Our results for the current quarter has seen a record jump in revenues to \$704,244 which has been due to taking on new customers for the Spring/Summer 14 season. Our distribution has increased with Zalando and Beymen in Europe and with Harvey Nichols in UAE and UK together with general increases within our core customers in the US and UK.

Our main revenues are generated in the second and fourth quarters of the year which co-incide with the Spring/Summer and Fall/Winter seasons.

We are heavily reliant on re-orders and online sales for revenues generated in the first and third quarters of our financial year and are in the process of looking to have pre seasonal deliveries to our customers which if successful will generate greater revenues in our first and third quarters.

Plan of Operation

As of March 31, 2014, we had \$58,868 of cash on hand. We incurred operating expenses in the amount of \$450,519 during the three months ended March 31, 2014. 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 have no current material commitments.

Management believes that if subsequent placements are successful, we will generate sufficient sales revenue to cover our operating costs 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.

Results of Operations for the Three and Six Months Ended March 31, 2014 and 2013

Revenues

We earned revenues of \$704,244 for the three months ended March 31, 2014 compared to revenues of \$150,759 for the three months March 31, 2013 an increase of 367%. For the six month period ended March 31, 2014 we earned revenues of \$759,974 compared to \$209,454 for the corresponding period in 2013 an increase of 263%. Increased revenues in the six month and three month period ended March 31, 2014 can be attributed to an increased customer base as a result of taking on Archetype Showroom as an agent for our US market and Four Marketing UK and Four Marketing International for our existing and new UK, European and Rest of the World market.

Our core customers revenue for the periods have been steadily increasing across all markets together with new customers coming onto our books for the current quarter.

Cost of Goods Sold

Cost of goods sold for the three months ended March 31, 2014 were \$443,496 compared to \$101,774 for the three months ended March 31, 2013. Cost of goods sold represented 63% of sales for the three months ended March 31, 2014 as compared to 68% for the three months ended March 31, 2013. This decrease in COGS as a percentage of sales for the three months ended March 31, 2014 can be attributed to better prices being negotiated with our factories.

For the six months ended March 31, 2014, cost of goods sold were \$512,905 compared to \$177,157 for the corresponding period in 2013. Cost of goods sold represented 67% of sales for the six months ended March 31, 2014 as compared to 85% for the six months ended March 31, 2013. The decrease in COGS for the six months ended 31 March 2014 as compared to the same corresponding period for 2013, 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 quarter ended December 31, 2012, the Company sold many of the goods from prior seasons to a discount retailer for cost value or minimal margins. In addition, the Company held a pre-Christmas 2012 discount sale, where prior season merchandise was sold at depressed margins which has a negative impact on the gross margins achieved for that period.

Expenses

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Expenses for the three months ended March 31, 2014, expenses were \$450,519, compared to \$266,291 for the three month ended March 31, 2013 an increase of 69%. This increase is mainly attributable to increased professional fees related to the share exchange agreements, larger sample costs due to an increasing expansive collection, the cost of employing a CFO, increased personnel due to the expansion of operations and commissions payable to Four Marketing and Archetype Showrooms.

For the six months ended March 31, 2014 expenses were \$725,626, compared to \$391,675 for the corresponding period in 2013 an increase of 85%. 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 2014 and Autumn/Winter 2014 sales, and increased personnel due to the expansion of operations.

Liquidity and Financial Condition

Working Capital

| | At | At | |
|---------------------|------------------|----------------------|-------------------|
| | March 31, | September 30, | |
| | 2014 | 2013 | Difference |
| Current Assets | \$536,588 | \$531,929 | \$4,659 |
| Current Liabilities | \$1,600,117 | \$1,358,481 | \$(241,636) |
| Working Capital | \$(1,063,529) | \$(826,552) | \$(236,977) |

Cash Flows

| | Six Months Ended | Six Months Ended |
|---|-------------------------|-------------------------|
| | March 31, | March 31, |
| | 2014 | 2013 |
| Net Cash (Used) Provided by Operating Activities | \$(600,221 |) \$(177,697) |
| Net Cash (Used) Provided by Investing Activities | \$— | \$(28,964) |
| Net Cash (Used) Provided by Financing Activities | \$363,986 | \$149,423 |
| Net Effect of Foreign Currency Translation | \$20,791 | \$(550) |
| Net (Decrease) Increase in Cash During the Period | \$(215,444 |) \$140 |

For the period ended March 31, 2014, net cash used in operating activities was \$600,221 as result of changes in our working capital, a net loss of \$228,117 and a non cash derivative gain of \$284,474.

For the period ended March 31, 2014, net cash provided by financing activities was \$363,986 as a result of proceeds from debt of \$209,459, repayment of convertible debt of \$41,018 and change in our factoring facility with our factoring company of \$195,545.

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 period ended March 31, 2014 we have managed to raise \$209,459 through debt 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 March 31, 2014 is \$58,868.

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

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.

Going Concern

For the three months ended March 31, 2014, our Company has a comprehensive loss of \$178,722 and an accumulated deficit of \$2,499,789. 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.

Off-Balance Sheet Arrangements

As of March 31, 2014, 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.

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.

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 3. 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 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Disclosure controls and procedures are controls and procedures that are designed to ensure that information required to be disclosed in our reports filed under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by our company in the reports that it files or submits under the Exchange Act is accumulated and communicated to our management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. Our management carried out an evaluation under the supervision and with the participation of our Principal Executive Officer and Principal Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 ("Exchange Act"). Based upon that evaluation, our Principal Executive Officer and Principal Financial Officer have concluded that our disclosure controls and procedures were not effective as of March 31, 2014, due to the material weaknesses resulting from the Board of Directors not currently having any independent members and no director qualifies as an audit committee financial expert as defined in Item 407(d)(5)(ii) of Regulation S-K, and controls were not designed and in place to ensure that all disclosures required were originally addressed in our financial statements. Please refer to our Annual Report on Form 10-K as filed with the SEC on January 21, 2014, for a complete discussion relating to the foregoing evaluation of Disclosures and Procedures.

Changes in Internal Controls Over Financial Reporting

Our management has also evaluated our internal control over financial reporting, and there have been no significant changes in our internal controls or in other factors that could significantly affect those controls subsequent to the date of our last evaluation.

The Company is not required by current SEC rules to include, and does not include, an auditor's attestation report. The Company's registered public accounting firm has not attested to Management's reports on the Company's internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. 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 1A. RISK FACTORS.

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 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

1. Quarterly Issuances:

During the quarter, the Company did not issue shares of common stock.

2. Subsequent Issuances:

Subsequent to the quarter, the Company did not issue shares of common stock.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

ITEM 4. MINE SAFETY DISCLOSURES.

Not Applicable.

ITEM 5. OTHER INFORMATION.

None.

ITEM 6. EXHIBITS

| Exhibit Number | Description | Filed |
|-----------------------|--|--|
| 2.01 | Share Exchange Agreement by and among the Company, the controlling stockholders of the Company, Anio Limited (Lot78), and the shareholders of Anio Limited (Lot78) dated November 12, 2012 | Filed with the SEC on February 4, 2013 as part of our Current Report on Form 8-K. |
| 3.01(a) | Articles of Incorporation filed with the Nevada Secretary of State on June 27, 2008 | Filed with the SEC on September 9, 2008 as part of our Registration Statement on Form S-1. |
| 3.01(b) | Certificate of Amendment to Articles of Incorporation filed with the Nevada Secretary of State on March 14, 2011 | Filed with the SEC on December 20, 2012 as part of our Quarterly Report on Form 10-Q. |
| 3.01(c) | Certificate of Amendment to Articles of Incorporation filed with the Nevada Secretary of State on January 31, 2013 | Filed with the SEC on February 4, 2013 as part of our Current Report on Form 8-K. |
| 3.01(d) | Certificate of Amendment to Articles of Incorporation filed with the Nevada Secretary of State on May 22, 2013 | Filed with the SEC on November 29, 2013 as part of our Registration Statement on Form S-1. |
| 3.02 | Bylaws | Filed with the SEC on September 9, 2008 as part of our Registration Statement on Form S-1. |
| 10.01 | Supply Terms and Conditions | Filed with the SEC on July 19, 2013 as part of our Current Report on Form 8-K. |

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| 10.02 | Unsecured Senior Convertible Promissory Note, effective August 30, 2013, by and between Lot78, Inc. and Banque Benedict Hentsch & Cie SA. | Filed with the SEC on September 4, 2013 as part of our Current Report on Form 8-K. |
| 10.03 | Unsecured Senior Convertible Promissory Note, effective September 9, 2013, by and between Lot78, Inc. and Monument Assets & Resources Company Ltd | Filed with the SEC on September 11, 2013 as part of our Current Report on Form 8-K. |
| 10.04 | Purchase and Resale Agreement dated December 30, 2013 by and between Lot78 UK and Bibby. | Filed with the SEC on January 6, 2014 as part of our Current Report on Form 8-K. |
| 10.05 | Recourse Factoring Agreement dated December 30, 2013 by and between Lot78 UK and Bibby. | Filed with the SEC on January 6, 2014 as part of our Current Report on Form 8-K. |
| 16.01 | Letter to the SEC from De Joya, Griffith & Company LLC dated November 19, 2012 | Filed with the SEC on November 19, 2012 as part of our Current Report on Form 8-K. |
| 21.01 | List of Subsidiaries | Filed with the SEC on November 29, 2013 as part of our Registration Statement on Form S-1. |
| 31.01 | Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. | Filed herewith. |
| 31.02 | Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. | Filed herewith. |
| 32.01 | Certification of Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. | Filed herewith. |
| 32.02 | Certification of Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. | Filed herewith. |
| 101.INS* | XBRL Instance Document. | Filed herewith. |
| 101.SCH* | XBRL Taxonomy Extension Schema Document. | Filed herewith. |
| 101.CAL* | XBRL Taxonomy Extension Calculation Linkbase Document. | Filed herewith. |
| 101.DEF* | XBRL Taxonomy Extension Definition Linkbase Document. | Filed herewith. |
| 101.LAB* | XBRL Taxonomy Extension Label Linkbase Document. | Filed herewith. |
| 101.PRE* | XBRL Taxonomy Extension Presentation Linkbase Document. | Filed herewith. |

* Pursuant to Regulation S-T, this interactive data file is deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, and otherwise is not subject to liability under these sections.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

LOT78, INC.

Date: May 20, 2014 /s/ *Oliver Amhurst*
By: Oliver Amhurst
Its: President, Principal Executive Officer, Secretary, Treasurer and Director

Date: May 20, 2014 /s/ *Asgherali Gulamhussein*
By: Asgherali Gulamhussein
Its: Principal Financial Officer, Principal Accounting Officer, Controller and Director

Pursuant to the requirement of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated:

Date: May 20, 2014 /s/ *Oliver Amhurst*
By: Oliver Amhurst
Its: President, Principal Executive Officer, Secretary, Treasurer and Director

Date: May 20, 2014 /s/ *Asgherali Gulamhussein*
By: Asgherali Gulamhussein
Its: Principal Financial Officer, Principal Accounting Officer, Controller and Director