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# **FRANZESE WINE LLC**

## **FINANCIAL STATEMENTS** **YEAR ENDED DECEMBER 31, 2022 AND 2021** *(Unaudited)*

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## INDEX TO FINANCIAL STATEMENTS

(UNAUDITED)

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## **INDEPENDENT ACCOUNTANT'S REVIEW REPORT**

To the Board of Members  
Franzese Wine LLC  
Roseville, California

We have reviewed the accompanying financial statements of Franzese Wine LLC (the "Company,"), which comprise the balance sheet as of December 31, 2022 and December 31, 2021, and the related statement of operations, statement of members' equity (deficit), and cash flows for the year ending December 31, 2022 and December 31, 2021, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of company management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

### **Management's Responsibility for the Financial Statements**

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

### **Accountant's Responsibility**

Our responsibility is to conduct the review in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our reviews.

### **Accountant's Conclusion**

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

### **Going Concern**

As discussed in Note 9, certain conditions indicate that the Company may be unable to continue as a going concern. The accompanying financial statements do not include any adjustments that might be necessary should the Company be unable to continue as a going concern.

Set Apart FS

December 15, 2023  
Los Angeles, California

**FRANZESE WINE LLC**
**BALANCE SHEET**
**(UNAUDITED)**

<b>As of December 31,</b>	<b>2022</b>	<b>2021</b>
(USD \$ in Dollars)		
<b>ASSETS</b>		
Current Assets:		
Cash & Cash Equivalents	\$ 59,393	\$ 14,419
Inventory	404,642	122,877
<b>Total current assets</b>	<b>464,035</b>	<b>137,296</b>
Right-of-Use Asset	45,348	-
<b>Total assets</b>	<b>\$ 509,384</b>	<b>\$ 137,296</b>
<b>LIABILITIES AND MEMBERS' EQUITY</b>		
Current Liabilities:		
Credit Cards	\$ 42,438	\$ -
<b>Total current liabilities</b>	<b>42,438</b>	<b>-</b>
Promissory Notes and Loans	500,000	-
Lease Liability	45,348	-
<b>Total liabilities</b>	<b>587,786</b>	<b>-</b>
<b>MEMBERS' EQUITY</b>		
Members' Equity	(78,403)	137,296
<b>Total Members' Equity</b>	<b>(78,403)</b>	<b>137,296</b>
<b>Total Liabilities and Members' Equity</b>	<b>\$ 509,384</b>	<b>\$ 137,296</b>

*See accompanying notes to financial statements.*



**FRANZESE WINE LLC**  
**STATEMENTS OF OPERATIONS**  
**(UNAUDITED)**

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<b>For Fiscal Year Ended December 31,</b>	<b>2022</b>	<b>2021</b>
(USD \$ in Dollars)		
Net Revenue	\$ 121,658	\$ -
Cost of Goods Sold	57,908	-
Gross profit	63,751	-
Operating expenses		
General and Administrative	209,977	4,695
Sales and Marketing	91,305	-
Total operating expenses	301,282	4,695
Operating Income/(Loss)	(237,532)	(4,695)
Interest Expense	2,720	-
Other Loss/(Income)	(1,220)	-
Income/(Loss) before provision for income taxes	(239,032)	(4,695)
Provision/(Benefit) for income taxes	-	-
<b>Net Income/(Net Loss)</b>	<b>\$ (239,032)</b>	<b>\$ (4,695)</b>

*See accompanying notes to financial statements.*

FRANZESE WINE LLC  
 STATEMENTS OF CHANGES IN MEMBERS' EQUITY  
 (UNAUDITED)

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<u>(in , \$US)</u>	<u>Members' Equity</u>
<b>Inception- July 14, 2021</b>	<b>\$ -</b>
Capital Contribution	152,750
Capital Distribution	(10,759)
Net income/(loss)	(4,695)
<b>Balance—December 31, 2021</b>	<b>\$ 137,296</b>
Capital Contribution	146,430
Capital Distribution	(123,097)
Net income/(loss)	(239,032)
<b>Balance—December 31, 2022</b>	<b>\$ (78,403)</b>

*See accompanying notes to financial statements.*

**FRANZESE WINE LLC**  
**STATEMENTS OF CASH FLOWS**  
**(UNAUDITED)**

For Fiscal Year Ended December 31,	2022	2021
(USD \$ in Dollars)		
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Net income/(loss)	\$ (239,032)	\$ (4,695)
<i>Adjustments to reconcile net income to net cash provided/(used) by operating activities:</i>		
Changes in operating assets and liabilities:		
Inventory	(281,765)	(122,877)
Credit Cards	42,438	-
<b>Net cash provided/(used) by operating activities</b>	<b>(478,359)</b>	<b>(127,572)</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Purchases of Property and Equipment	-	-
<b>Net cash provided/(used) in investing activities</b>	<b>-</b>	<b>-</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
Capital Contribution	146,430	152,750
Capital Distribution	(123,097)	(10,759)
Borrowing on Promissory Notes and Loans	500,000	-
<b>Net cash provided/(used) by financing activities</b>	<b>523,333</b>	<b>141,991</b>
Change in cash	44,974	14,419
Cash—beginning of year	14,419	-
<b>Cash—end of year</b>	<b>\$ 59,393</b>	<b>\$ 14,419</b>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Cash paid during the year for interest	\$ 2,720	\$ -
Cash paid during the year for income taxes	\$ -	\$ -
<b>OTHER NONCASH INVESTING AND FINANCING ACTIVITIES AND SUPPLEMENTAL DISCLOSURES</b>		
Purchase of property and equipment not yet paid for	\$ -	\$ -
Issuance of equity in return for note	\$ -	\$ -
Issuance of equity in return for accrued payroll and other liabilities	\$ -	\$ -

*See accompanying notes to financial statements.*

**FRANZESE WINE LLC**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR YEAR ENDED TO DECEMBER 31, 2022 AND DECEMBER 31, 2021**

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**1. NATURE OF OPERATIONS**

Franzese Wine LLC was formed on July 14, 2021 in the state of California. The financial statements of Franzese Wine LLC (which may be referred to as the “Company”, “we”, “us”, or “our”) are prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”). The Company’s headquarters are located in Roseville, California.

The Company imports and sells wine online DTC and wholesale to distributors. The wine is imported from Armenia and is branded with Michael Franzese.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Presentation**

The accounting and reporting policies of the Company conform to accounting principles generally accepted in the United States of America (“US GAAP”). The Company has adopted the calendar year as its basis of reporting.

**Use of Estimates**

The preparation of financial statements in conformity with United States GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Cash and Cash Equivalents**

Cash and cash equivalents include all cash in banks. The Company’s cash is deposited in demand accounts at financial institutions that management believes are creditworthy. The Company’s cash and cash equivalents in bank deposit accounts, at times, may exceed federally insured limits. As of December 31, 2022 and December 31, 2021, the Company’s cash and cash equivalents did not exceed FDIC insured limits.

**Accounts Receivable and Allowance for Doubtful Accounts**

Accounts receivable are recorded at net realizable value or the amount that the Company expects to collect on gross customer trade receivables. We estimate losses on receivables based on known troubled accounts and historical experience of losses incurred. Receivables are considered impaired and written-off when it is probable that all contractual payments due will not be collected in accordance with the terms of the agreement. As of December 31, 2022 and 2021, the Company determined that no reserve was necessary.

**Inventories**

Inventories are valued at the lower cost and net realizable value. Costs related to wines imported which are determined using an average method.

**FRANZESE WINE LLC**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR YEAR ENDED TO DECEMBER 31, 2022 AND DECEMBER 31, 2021**

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**Income Taxes**

The Company is taxed as a Limited Liability Company (LLC). Under these provisions, the Company does not pay federal corporate income taxes on its taxable income. Instead, the shareholders are liable for individual federal and state income taxes on their respective shares of the Company's taxable income. The Company has filed all its tax returns from inception through December 31, 2022 and is not yet subject to tax examination by the Internal Revenue Service or state regulatory agencies.

*Concentration of Credit Risk*

The Company maintains its cash with a major financial institution located in the United States of America which it believes to be creditworthy. Balances are insured by the Federal Deposit Insurance Corporation up to \$250,000. At times, the Company may maintain balances in excess of the federally insured limits.

**Revenue Recognition**

The Company recognizes revenues in accordance with FASB ASC 606, Revenue from Contracts with Customers, when delivery of goods is the sole performance obligation in its contracts with customers. The Company typically collects payment upon sale and recognizes the revenue when the item has shipped and has fulfilled its sole performance obligation.

Revenue recognition, according to Topic 606, is determined using the following steps:

- 1) Identification of the contract, or contracts, with the customer: the Company determines the existence of a contract with a customer when the contract is mutually approved; the rights of each party in relation to the services to be transferred can be identified, the payment terms for the services can be identified, the customer has the capacity and intention to pay, and the contract has commercial substance.
- 2) Identification of performance obligations in the contract: Performance obligations consist of a promised in a contract (written or oral) with a customer to transfer to the customer either a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer.
- 3) Recognition of revenue when, or how, a performance obligation is met: Revenues are recognized when or as control of the promised goods or services is transferred to customers.

The Company earns revenues from importing and selling wine online DTC and wholesale to distributors.

**Cost of sales**

Costs of sales include the cost of goods sold.

**Advertising and Promotion**

Advertising and promotional costs are expensed as incurred. Advertising and promotional expenses for the years ended December 31, 2022 and December 31, 2021 amounted to \$91,305 and \$0, which is included in sales and marketing expenses.

**FRANZESE WINE LLC**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR YEAR ENDED TO DECEMBER 31, 2022 AND DECEMBER 31, 2021**

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**Fair Value of Financial Instruments**

The carrying value of the Company's financial instruments included in current assets and current liabilities (such as cash and cash equivalents, restricted cash and cash equivalents, accounts receivable, accounts payable and accrued expenses approximate fair value due to the short-term nature of such instruments).

The inputs used to measure fair value are based on a hierarchy that prioritizes observable and unobservable inputs used in valuation techniques. These levels, in order of highest to lowest priority, are described below:

**Level 1**—Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities.

**Level 2**—Observable prices that are based on inputs not quoted on active markets but corroborated by market data.

**Level 3**—Unobservable inputs reflecting the Company's assumptions, consistent with reasonably available assumptions made by other market participants. These valuations require significant judgment.

**COVID-19**

In March 2020, the outbreak and spread of the COVID-19 virus was classified as a global pandemic by the World Health Organization. This widespread disease impacted the Company's business operations, including its employees, customers, vendors, and communities. The COVID-19 pandemic may continue to impact the Company's business operations and financial operating results, and there is substantial uncertainty in the nature and degree of its continued effects over time. The extent to which the pandemic impacts the business going forward will depend on numerous evolving factors management cannot reliably predict, including the duration and scope of the pandemic; governmental, business, and individuals' actions in response to the pandemic; and the impact on economic activity including the possibility of recession or financial market instability. These factors may adversely impact consumer and business spending on products as well as customers' ability to pay for products and services on an ongoing basis. This uncertainty also affects management's accounting estimates and assumptions, which could result in greater variability in a variety of areas that depend on these estimates and assumptions, including investments, receivables, and forward-looking guidance.

**Subsequent Events**

The Company considers events or transactions that occur after the balance sheet date, but prior to the issuance of the financial statements to provide additional evidence relative to certain estimates or to identify matters that require additional disclosure. Subsequent events have been evaluated through December 15, 2023, which is the date the financial statements were issued.

**Recently Issued and Adopted Accounting Pronouncements**

The FASB issues ASUs to amend the authoritative literature in ASC. There have been a number of ASUs to date, including those above, that amend the original text of ASC. Management believes that those issued to date either (i) provide supplemental guidance, (ii) are technical corrections, (iii) are not applicable to us or (iv) are not expected to have a significant impact on our financial statements.

**FRANZESE WINE LLC**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR YEAR ENDED TO DECEMBER 31, 2022 AND DECEMBER 31, 2021**

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**Lease Accounting**

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. The new standard introduces a new lessee model that brings substantially all leases onto the balance sheets. The amendments in the ASU are effective for fiscal years beginning after December 15, 2021.

We adopted the standard effective January 1, 2022 using the modified retrospective adoption method which allowed us to initially apply the new standard at the adoption date and recognize a cumulative-effect adjustment to the opening balance of accumulated deficit. In connection with our adoption of the new lease pronouncement, we recorded a charge to retained earnings.

*Effects of Adoption*

We have elected to use the practical expedient package that allows us to not reassess: (1) whether any expired or existing contracts are or contain leases, (2) lease classification for any expired or existing leases and (3) initial direct costs for any expired or existing leases. We additionally elected to use the practical expedients that allow lessees to: (1) treat the lease and non-lease components of leases as a single lease component for all of our leases and (2) not recognize on our balance sheet leases with terms less than twelve months.

We determine if an arrangement is a lease at inception. We lease certain manufacturing facilities, warehouses, offices, machinery and equipment, vehicles and office equipment under operating leases. Under the new standard, operating leases result in the recognition of ROU assets and lease liabilities on the consolidated balance sheet. ROU assets represent our right to use the leased asset for the lease term and lease liabilities represent our obligation to make lease payments. Under the new standard, operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As most of our leases do not provide an implicit rate, upon adoption of the new standard, we used our estimated incremental borrowing rate based on the information available, including lease term, as of January 1, 2022 to determine the present value of lease payments. Operating lease ROU assets are adjusted for any lease payments made prior to January 1, 2022 and any lease incentives. Certain of our leases may include options to extend or terminate the original lease term. We generally conclude that we are not reasonably certain to exercise these options due primarily to the length of the original lease term and our assessment that economic incentives are not reasonably certain to be realized. Operating lease expense under the new standard is recognized on a straight-line basis over them lease term. Our current finance lease obligations consist primarily of cultivation and distribution facility leases.

**3. INVENTORY**

Inventory consists of the following items:

<b>As of December 31,</b>	<b>2022</b>	<b>2021</b>
Finished goods (wine)	\$ 404,642	\$ 122,877
<b>Total Inventory</b>	<b>\$ 404,642</b>	<b>\$ 122,877</b>



**FRANZESE WINE LLC**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR YEAR ENDED TO DECEMBER 31, 2022 AND DECEMBER 31, 2021**

**4. MEMBERS' EQUITY**

The ownership percentages of the members are as follows:

**As of Year Ended December 31, 2022**

Member's name	Ownership percentage
Samvel Hakobyan	55.0%
John Franzese	45.0%
<b>TOTAL</b>	<b>100.0%</b>

**5. DEBT**

**Promissory Notes & Loans**

During the years presented, the Company entered into promissory notes & loans agreements. The details of the Company's loans, notes, and the terms are as follows:

Debt Instrument Name	Principal Amount	Interest Rate	Borrowing Period	Maturity Date	For the Year Ended December 2022					For the Year Ended December 2021				
					Interest Expense	Accrued Interest	Current Portion	Non-Current Portion	Total Indebtedness	Interest Expense	Accrued Interest	Current Portion	Non-Current Portion	Total Indebtedness
Loan agreement - certain lenders	\$ 500,000	12.00%	12/26/2022	1/31/2024	\$ 822	\$ 822	\$ -	\$ 500,000	\$ 500,822					
<b>Total</b>	\$ 500,000				\$ 822	\$ 822	\$ -	\$ 500,000	\$ 500,822	\$ -	\$ -			

The summary of the future maturities is as follows:

**As of Year Ended December 31, 2022**

2023	\$ -
2024	500,000
2025	-
2026	-
Thereafter	-
<b>Total</b>	<b>\$ 500,000</b>

**Lease**

On June 22, 2022, the Company entered into a lease agreement mostly for certain business premises located in Rancho Cordova, California. The lease has the original lease period to expire on June 30, 2024. Our lease agreements generally do not contain any material residual value guarantees or material restrictive covenants. The cumulative effects of the changes made to our balance sheet as of December 31, 2022, as a result of the adoption of the accounting standard update on leases were as follows:

	December 31, 2022
<b>Lease liability</b>	
Beginning balance	\$ 54,629
Additions	\$ -
Lease payments	(9,280)
<b>Balance at end of period</b>	<b>\$ 45,348</b>



**FRANZESE WINE LLC**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR YEAR ENDED TO DECEMBER 31, 2022 AND DECEMBER 31, 2021**

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The aggregate minimum annual lease payments under operating leases in effect on December 31, 2022, are as follows:

	December 31, 2022
2023	\$ 27,280
2024	14,693
2025	-
2026	-
2027	-
Thereafter	-
<b>Total</b>	<b>\$ 41,974</b>

## **6. RELATED PARTY**

There are no related party transactions.

## **7. COMMITMENTS AND CONTINGENCIES**

### **Contingencies**

The Company's operations are subject to a variety of local and state regulations. Failure to comply with one or more of those regulations could result in fines, restrictions on its operations, or losses of permits that could result in the Company ceasing operations.

### **Litigation and Claims**

From time to time, the Company may be involved in litigation relating to claims arising out of operations in the normal course of business. As of December 31, 2022, there were no pending or threatened lawsuits that could reasonably be expected to have a material effect on the results of the Company's operations.

## **8. SUBSEQUENT EVENTS**

The Company has evaluated subsequent events for the period from December 31, 2022 through December 15, 2023, which is the date the financial statements were available to be issued.

There have been no other events or transactions during this time which would have a material effect on these financial statements.

## **9. GOING CONCERN**

The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The Company has a net operating loss of \$237,532, an operating cash flow loss of \$478,359 and liquid assets in cash of \$59,393, which is less than a year's worth of cash reserves as of December 31, 2022. These factors normally raise substantial doubt about the Company's ability to continue as a going concern.

**FRANZESE WINE LLC**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR YEAR ENDED TO DECEMBER 31, 2022 AND DECEMBER 31, 2021**

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The Company's ability to continue as a going concern in the next twelve months following the date the financial statements were available to be issued is dependent upon its ability to produce revenues and/or obtain financing sufficient to meet current and future obligations and deploy such to produce profitable operating results.

Management has evaluated these conditions and plans to generate revenues and raise capital as needed to satisfy its capital needs. During the next twelve months, the Company intends to fund its operations through debt and/or equity financing.

There are no assurances that management will be able to raise capital on terms acceptable to the Company. If it is unable to obtain sufficient amounts of additional capital, it may be required to reduce the scope of its planned development, which could harm its business, financial condition, and operating results. The accompanying financial statements do not include any adjustments that might result from these uncertainties.