

# *Solos Endoscopy, Inc.*

*Financial Statements as of June 30, 2012 and December 31, 2011  
and the Six and Three Months Ended June 30, 2012 and 2011*

## TABLE OF CONTENTS

	<u>Page</u>
Balance Sheets-June 30, 2012 and December 31, 2011	2
Statements of Operations for the Six and Three Months Ended June 30, 2012 and 2011	3
Statements of Cash Flows for the Six and Three Months Ended June 30, 2012 and 2011	4
Statement of Stockholders' Equity for the Six Months Ended June 30, 2012	5
Notes to Financial Statements	6-16

**SOLOS ENDOSCOPY, INC.**  
Balance Sheets  
June 30, 2012 and December 31, 2011

	June 30, 2012	December 31, 2011
<b>Current Assets</b>		
Cash	\$ 146,882	\$ 6,598
Accounts receivable, net	43,686	37,693
Prepaid expenses	100,000	100,000
Inventory and supplies	236,315	250,925
Total Current Assets	526,883	395,216
Property, Plant and Equipment, net	-	-
<b>Other Assets</b>		
Goodwill and Intangibles	1,900,000	1,900,000
Total Other Assets	1,900,000	1,900,000
Total Assets	\$ 2,426,883	\$ 2,295,216
<b>Current Liabilities</b>		
Accounts payable and accrued expenses	\$ 102,973	\$ 176,723
Accounts payable and accrued expenses-Related parties	-	49,947
Preferred stock payable	76,500	455,000
Current maturities of long-term debt	35,354	63,115
Total Current Liabilities	214,827	744,785
<b>Long-term Liabilities</b>		
Notes payable-Related parties	-	110,510
Total Long-term Liabilities	-	110,510
Total Liabilities	214,827	855,295
Commitments and contingencies	-	-
<b>Stockholder's Equity</b>		
Preferred stock, Class A Convertible Preferred Stock 9,900,000 shares authorized \$.001 par value, 0 shares issued and outstanding at June 30, 2012 and December 31, 2011	-	-
Preferred stock, Class B Convertible Preferred Stock 1,000,000 shares authorized \$.001 par value, 668,032 and 4,000 shares issued and outstanding at June 30, 2012 and December 31, 2011	668	4
Common stock, 950,000,000 shares authorized \$.001 par value, 532,297,709 and 404,897,710 shares issued and outstanding at June 30, 2012 and December 31, 2011	532,298	404,898
Additional paid-in capital	9,436,921	8,334,185
Retained (Deficit)	(7,757,831)	(7,299,166)
Total Stockholder's Equity	2,212,056	1,439,921
Total Liabilities and Stockholders' Equity	\$ 2,426,883	\$ 2,295,216

Statements of Operations  
Six and Three Months Ended June 30, 2012 and 2011

	Six Months Ended June 30,		Three Months Ended June 30,	
	2012	2011	2012	2011
Revenues	\$ 178,417	\$ 172,359	\$ 81,752	\$ 91,865
Cost of Goods Sold	65,016	87,181	28,538	50,526
Gross Profit	113,401	85,178	53,214	41,339
Operating Expenses				
Depreciation	-	10,000	-	5,000
Business consulting services	-	240,000	-	120,000
General and administrative	772,004	510,730	642,529	99,773
	772,004	760,730	642,529	224,773
(Loss) before other expenses	(658,603)	(675,552)	(589,315)	(183,434)
Other (Expenses)				
Forgiveness of debt	200,371	-	-	-
Interest expense-Related parties	-	(5,535)	-	(2,926)
Interest expense	(433)	(14,483)	(433)	-
	199,938	(20,018)	(433)	(2,926)
(Loss) before income taxes	(458,665)	(695,570)	(589,748)	(186,360)
Income taxes	-	-	-	-
Net (Loss)	\$ (458,665)	\$ (695,570)	\$ (589,748)	\$ (186,360)
(Loss) per share	\$ (0.00)	\$ (0.02)	\$ (0.00)	\$ (0.00)
Weighted average shares	473,131,043	44,751,062	497,865,544	64,661,007

**SOLOS ENDOSCOPY, INC.**

Statements of Cash Flows

Six Months Ended June 30, 2012 and 2011

	June 30,	
	<u>2012</u>	<u>2011</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net (loss)	\$ (458,665)	\$ (695,570)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	-	10,000
Issuance of shares for services	710,000	300,000
Contribution of rent expense to additional paid in capital	6,000	-
Issuance of debt for rent expense	8,500	21,650
Changes in assets and liabilities:		
(Increase) in receivables	(5,994)	(20,737)
(Increase) in prepaids	-	-
(Increase)/decrease in inventories	14,600	63,777
Increase in accounts payable and accrued expenses	(123,697)	15,912
Increase in stock payable	<u>(378,500)</u>	<u>261,500</u>
 Net cash provided by (used in) operating activities	 <u>(227,756)</u>	 <u>(43,468)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of property, plant and equipment	<u>-</u>	<u>-</u>
 Net cash (used) in investing activities	 <u>-</u>	 <u>-</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from sale of common and preferred stock and contributed capital	395,800	43,010
Payments on notes payable	<u>(27,760)</u>	<u>(5,010)</u>
 Net cash (used)/provided by financing activities	 <u>368,040</u>	 <u>38,000</u>
 Net Increase/(Decrease) in cash	 140,284	 (5,468)
<b>CASH AT BEGINNING PERIOD</b>	<u>6,598</u>	<u>10,200</u>
<b>CASH AT END OF PERIOD</b>	<u>\$ 146,882</u>	<u>\$ 4,732</u>
<b>SUPPLEMENTAL CASH FLOW INFORMATION:</b>		
Cash paid for interest	<u>\$ -</u>	<u>\$ -</u>
Cash paid for income taxes	<u>\$ -</u>	<u>\$ -</u>
<b>NON-CASH TRANSACTIONS</b>		
Shares issued for consulting services	<u>\$ 240,000</u>	<u>\$ 300,000</u>
 Shares issued for services and guarantees	 <u>\$ 450,000</u>	 <u>\$ -</u>
 Shares issued for debt conversion	 <u>\$ 111,241</u>	 <u>\$ -</u>

**SOLOS ENDOSCOPY, INC.**  
 Statements of Changes in Stockholders' Equity  
 For the Period January 1, 2012 through June 30, 2012

	Preferred Stock		Common Stock		Additional Paid-In Capital	Retained (Deficit)	Total Stockholders' Equity
	Shares	Amount	Shares	Amount			
Balance-January 1, 2012	4,000	\$ 4	404,897,710	\$ 404,898	\$8,334,185	\$ (7,299,166)	\$ 1,439,921
Issuance of shares for consulting services	26,000	26	-	-	239,974	-	240,000
Issuance of shares for services and guarantees	450,000	450	-	-	449,550	-	450,000
Conversion of common for preferred stock	122,437	122	(150,000,000)	(150,000)	149,878	-	-
Issuance of shares for cash	38,580	39	-	-	395,761	-	395,800
Issuance of shares for cash	-	-	277,399,999	277,400	(249,640)	-	27,760
Issuance of shares for debt conversion	27,015	27	-	-	111,213	-	111,240
Contributed capital	-	-	-	-	6,000	-	6,000
Net (loss) for the six months ended June 30, 2012	-	-	-	-	-	(458,665)	(458,665)
Balance-June 30, 2012	<u>668,032</u>	<u>\$ 668</u>	<u>532,297,709</u>	<u>\$ 532,298</u>	<u>\$9,436,921</u>	<u>\$ (7,757,831)</u>	<u>\$ 2,212,056</u>

**SOLOS ENDOSCOPY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2012 AND DECEMBER 31, 2011**

**NOTE 1 – Organization, History and Business Activity**

Solos Endoscopy, Inc. (“Solos” or “the Company”) is a Nevada corporation. Solos is in the business of developing and marketing technology, applications, medical devices and procedural techniques for the screening, diagnosis, treatment and management of disease and medical conditions.

**NOTE 2 – Summary of Significant Accounting Policies**

This summary of significant accounting policies of Solos is presented to assist in understanding Solos’s financial statements. The financial statements and notes are representations of Solos’s management, which is responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America and have been consistently applied in the preparation of the financial statements.

*Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure 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.

*Concentration of Risk*

Solos places its cash and temporary cash investments with established financial institutions. Management feels this risk is mitigated due to the longstanding reputation of these banks.

In the normal course of business, the Company extends unsecured credit to the majority of its customers. Management periodically reviews its outstanding accounts receivable and establishes an allowance for doubtful accounts based on historical collection trends and other criteria.

*Cash and Cash Equivalents*

Solos considers all highly liquid investments with maturities of three months or less to be cash equivalents.

### ***Fair Value of Financial Instruments***

Effective January 1, 2008, the Company adopted FASB ASC 820, Fair Value Measurements and Disclosures, Pre Codification SFAS No. 157, “Fair Value Measurements”, which provides a framework for measuring fair value under GAAP. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The standard also expands disclosures about instruments measured at fair value and establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1 — Quoted prices for identical assets and liabilities in active markets;

Level 2 — Quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets; and

Level 3 — Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

The Company designates cash equivalents (consisting of money market funds) and investments in securities of publicly traded companies as Level 1. The total amount of the Company’s investment classified as Level 3 is de minimis.

The fair value of the Company’s debt as of June 30, 2012 and December 31, 2011, approximated fair value at those times.

Fair value of financial instruments: The carrying amounts of financial instruments, including cash and cash equivalents, short-term investments, accounts payable, accrued expenses and notes payables approximated fair value as of June 30, 2012 and December 31, 2011 because of the relative short term nature of these instruments. At June 30, 2012 and December 31, 2011, the fair value of the Company’s debt approximates carrying value.

### ***Shares for Services and Other Assets***

The Company accounts for stock-based compensation based on the fair value of all option grants or stock issuances made to employees or directors on or after its implementation date, as well as a portion of the fair value of each option and stock grant made to employees or directors prior to the implementation date that represents the unvested portion of these share-based awards as of such implementation date, to be recognized as an expense, as codified in ASC 718. The Company calculates stock option-based compensation by estimating the fair value of each option as of its date of grant using the Black-Scholes option pricing model. These amounts are expensed over the respective vesting periods of each award using the straight-line attribution method. Compensation expense is recognized only for those awards that are expected to vest, and as such, amounts have been reduced by estimated forfeitures. The Company has historically issued stock options and vested and no vested stock grants to employees and outside directors whose only condition for vesting has been continued employment or service during the related vesting or restriction period.

### ***Trade Accounts Receivable***

Trade accounts receivable is recorded net of an allowance for expected losses. The allowance is estimated from historical performance and projections of trends. The reserve account at June 30, 2012 and December 31, 2011 was \$60,937.

### ***Inventory***

The Company's inventory is valued at the lower of cost (first in, first out) or market using the retail method.

### ***Long-lived Assets***

Long-lived assets are stated at cost. Maintenance and repairs are expensed as incurred. Depreciation is determined using the straight-line method over the estimated useful lives of the assets, which is between five to thirty-nine years.

Where an impairment of a property's value is determined to be other than temporary, an allowance for the estimated potential loss is established to record the property at its net realizable value.

When items of building or equipment are sold or retired, the related cost and accumulated depreciation are removed from the accounts and any gain or loss is included in the results of operations. The Company does not have any long-lived tangible assets, which are considered to be impaired as of June 30, 2012 and December 31, 2011.

### ***Intangibles with Finite Lives***

The Company applies the provisions of Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 360-10, *Property, Plant and Equipment*, where applicable to all long lived assets. FASB ASC 360-10 addresses accounting and reporting for impairment and disposal of long-lived assets. The Company periodically evaluates the carrying value of long-lived assets to be held and used in accordance with FASB ASC 360-10. FASB ASC 360-10 requires impairment losses to be recorded on long-lived assets used in operations when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amounts. In that event, a loss is recognized based on the amount by which the carrying amount exceeds the fair market value of the long-lived assets. Loss on long-lived assets to be disposed of is determined in a similar manner, except that fair market values are reduced for the cost of disposal.

The Company does not amortize any intangible assets with finite lives.

Goodwill and intangible assets are reviewed for potential impairment whenever events or circumstances indicate that their carrying amounts may not be recoverable. Management determined no impairment adjustment related to these intangibles was necessary.

### ***Revenue Recognition***

The Company recognizes revenue in accordance with the Securities and Exchange Commission Staff Accounting Bulletin (SAB) number 104, which states that revenues are generally recognized when it is realized and earned. Specifically, the Company recognizes revenue when the product is delivered and accepted by the customer. Revenues are earned from sales of the Company's medical devices and other related services.

### ***Income Taxes***

The Company accounts for income taxes under an asset and liability approach. This process involves calculating the temporary and permanent differences between the carrying amounts of the assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The temporary differences result in deferred tax assets and liabilities, which would be recorded on the Company's balance sheets in accordance with ASC 740, which established financial accounting and reporting standards for the effect of income taxes. The Company must assess the likelihood that its deferred tax assets will be recovered from future taxable income and, to the extent the Company believes that recovery is not likely, the Company must establish a valuation allowance. Changes in the Company's valuation allowance in a period are recorded through the income tax provision on the consolidated statements of operations.

On January 1, 2007, the Company adopted ASC 740-10 (formerly known as FIN No. 48, Accounting for Uncertainty in Income Taxes). ASC 740-10 clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements and prescribes a recognition threshold and measurement attributes for financial statement disclosure of tax positions taken or expected to be taken on a tax return. Under ASC 740-10, the impact of an uncertain income tax position on the income tax return must be recognized at the largest amount that is more-likely-than-not to be sustained upon audit by the relevant taxing authority. An uncertain income tax position will not be recognized if it has less than a 50% likelihood of being sustained. Additionally, ASC 740-10 provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. As a result of the implementation of ASC 740-10, the Company recognized no material adjustment in the liability for unrecognized income tax benefits.

### ***Segments***

The Company operates in one business segment, namely the business of developing and marketing technology, applications, medical devices and procedural techniques for the screening, diagnosis, treatment and management of disease and medical conditions.

### ***Loss Per Share***

The Company is required to provide basic and dilutive earnings (loss) per common share information.

The basic net loss per common share is computed by dividing the net loss applicable to common stockholders by the weighted average number of common shares outstanding.

Diluted net loss per common share is computed by dividing the net loss applicable to common stockholders, adjusted on an "as if converted" basis, by the weighted average number of common shares outstanding plus potential dilutive securities.

For the periods ended March 31, 2012 and December 31, 2011, potential dilutive securities had an anti-dilutive effect and were not included in the calculation of diluted net loss per common share. There were no potentially dilutive securities as of March 31, 2012 and December 31, 2011.

### ***Recent Accounting Pronouncements***

From time to time, new accounting pronouncements are issued by FASB that are adopted by the Company as of the specified effective date. If not discussed, management believes that the impact of recently issued standards, which are not yet effective, will not have a material impact on the Company's financial statements upon adoption.

### ***Reclassifications***

Certain amounts have been reclassified and represented to conform to the current financial statement presentation.

### **NOTE 3 – Financial Condition and Going Concern**

Solos's financial statements have been presented on the basis that it is a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. Solos has incurred net losses through June 30, 2012 in the amount of \$7,757,831. This factor raises doubt as to Solos's ability to obtain debt and/or equity financing and achieve profitable operations.

Solos's management intends to raise additional operating funds through equity and/or debt offerings. However, there can be no assurance management will be successful in its endeavors. Ultimately, Solos will need to achieve profitable operations in order to continue as a going concern.

There are no assurances that Solos will be able to either (1) achieve a level of revenues adequate to generate sufficient cash flow from operations; or (2) obtain additional financing through either private placement, public offerings and/or bank financing necessary to support Solos's working capital requirements. To the extent that funds generated from operations and any private placements, public offerings and/or bank financing are insufficient, Solos will have to raise additional working capital. No assurance can be given that additional financing will be available, or if available, will be on terms acceptable to the Company. If adequate working capital is not available, Solos may be required to curtail its operations.

#### NOTE 4 – Inventories

Inventories consist of components and finished goods and are stated at the lower of cost or market. Cost is determined using the first-in first-out method.

	June 30, 2012	December 31, 2011
Finish goods	<u>\$ 236,315</u>	<u>\$ 250,925</u>

#### NOTE 5 – Property and Equipment

At June 30, 2012 and December 31, 2011, property and equipment consisted of the following:

	Useful Lives	June 30, 2012	December 31, 2011
Computer equipment	3	\$ 28,920	\$ 28,920
Furniture and fixtures	7	100,000	100,000
Less: accumulated depreciation		<u>(128,920)</u>	<u>(128,920)</u>
		<u>\$ -</u>	<u>\$ -</u>

Depreciation expense was \$0 for the six months ended June 30, 2012.

#### NOTE 6 – Intangibles

At June 30, 2012 and December 31, 2011, intangibles consisted of the following:

	June 30, 2012	December 31, 2011
510K and other Product Registrations	\$ 150,000	\$ 150,000
Goodwill	<u>1,750,000</u>	<u>1,750,000</u>
	<u>\$ 1,900,000</u>	<u>\$ 1,900,000</u>

Amortization expense was \$0 for the six months ended June 30, 2012.

## NOTE 7 – Notes Payable and Debenture

The Company's long-term debt consists of the following:

	<u>June 30, 2012</u>	<u>December 31, 2011</u>
Note payable, 6% interest, due December 15, 2014, unsecured-Related party.	\$ -	\$ 110,510
Note payable, 6% interest, upon demand, unsecured	29,000	29,000
Note payable, 6% interest, due December 15, 2010, unsecured (1)	4,177	4,177
Note payable, 6% interest, due December 15, 2010, unsecured (1)	<u>2,177</u>	<u>29,938</u>
Total due	35,354	173,625
Current portion	<u>(35,354)</u>	<u>(63,115)</u>
Long-term portion	<u>\$ -</u>	<u>\$ 110,510</u>

Principal repayments for the next years are as follows:

June 30,	<u>Amount</u>
2013	\$ 35,354
Thereafter	-
	<u>\$ 35,354</u>

- (1) The above listed notes have been renegotiated and are being paid with shares of common stock in 2012.

## NOTE 8 – Income Taxes

Effective January 1, 2007, we adopted the provisions of ASC 740-10 (formerly known as FIN No. 48, Accounting for Uncertainty in Income Taxes). ASC 740-10 clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements. ASC 740-10 requires a company to determine whether it is more likely than not that a tax position will be sustained upon examination based upon the technical merits of the position. If the more-likely-than-not threshold is met, a company must measure the tax position to determine the amount to recognize in the financial statements. The application of income tax law is inherently complex. Laws and regulation in this area are voluminous and are often ambiguous. As such, we are required to make many subjective assumptions and judgments regarding the income tax exposures. Interpretations and guidance surrounding income tax laws and regulations change over time. As such, changes in the subjective assumptions and judgments can materially affect amounts recognized in the balance sheets and statements of income.

At the adoption date of January 1, 2007, we had no unrecognized tax benefit, which would affect the effective tax rate if recognized. There has been no significant change in the unrecognized tax benefit during the six months ended June 30, 2012.

We classify interest and penalties arising from the underpayment of income taxes in the statement of income under general and administrative expenses. As of June 30, 2012, we had no accrued interest or penalties related to uncertain tax positions. The tax years 2011, 2010 and 2009 federal return remains open to examination.

Deferred taxes are provided on a liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carry forwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

The provision (benefit) for income taxes for the six months ended June 30, 2012 and the year ended December 31, 2011 consists of the following:

	2012	2011
Federal:		
Current	\$ -	\$ -
Deferred	-	-
State:		
Current	-	-
Deferred	-	-
	<u>\$ -</u>	<u>\$ -</u>

Net deferred tax assets consist of the following components as of June 30, 2012 and December 31, 2011:

	<u>2012</u>	<u>2011</u>
Deferred tax assets:		
Operating Loss	\$2,637,663	\$2,515,716
Deferred tax liabilities:	-	-
Valuation allowance	<u>(2,637,663)</u>	<u>(2,515,716)</u>
Net deferred tax asset	<u>\$ -</u>	<u>\$ -</u>

The income tax provision differs from the amount of income tax determined by applying the U.S. federal and state income tax rate of 34% to pretax income from continuing operations of the six months ended June 30, 2012 and the year ended December 31, 2011.

**NOTE 9 – Common Stock/Common Stock Payable**

The Company issued 150,000,000 shares of its common stock to a certain officers and directors of the Company valued at \$360,000 in 2011 for the signing of an employment contract and as consideration for past services.

The Company issued 238,040,037 shares of its common stock to a party that assumed the certain debt of the Company based on payments made on such debt. The total payments made in 2011 were \$23,800 on the debt.

The Company issued 277,399,999 shares of its common stock for payment of \$27,760 on the debt mentioned above in the first six months of 2012.

Certain officers and directors converted 150,000,000 shares of their common stock into 122,437 shares of the Company's Series B Preferred.

## NOTE 10 – Preferred Stock

### Preferred Stock

The Company is authorized to issue 20,000,000 shares of preferred stock as described below:

	<u>Total Series Authorized</u>	<u>Stated Value</u>	<u>Voting</u>	<u>Annual Dividends per Share</u>	<u>Conversion Rate</u>
Series A	9,900,000	\$.001	Yes	As per common stock	None
Series B	1,000,000	\$.001	Yes	As per common stock	Discount to market, plus warrants

The Company issued 4,000 shares of its Series B Preferred Stock for \$40,000 cash in 2011.

The Company issued 26,000 shares of its Series B Preferred Stock for \$240,000 owed a consultant in the quarter ended March 31, 2012.

The Company issued 38,580 shares of its Series B Preferred Stock for \$395,800 in cash consideration. The Company additionally received \$76,500 in the second quarter that will be converted to its Series B Preferred Stock in the third quarter of 2012.

As described in Note 9, certain officers and directors converted 150,000,000 shares of common stock held by them into 122,437 shares of the Company's Series B Preferred Stock.

An officer and director of the Company was issued 27,015 shares of its Series B Preferred Stock for the conversion of \$111,240 owed to him in the second quarter of 2012.

In the second quarter of 2012, the Company executed a pledge agreement to secure the services of the President to be performed under the employment agreement. The Company has a minimum salary commitment to its President at a rate of \$100,000 per year going forward for the next four (4) years. As a result, the Board of Directors issued 450,000 shares of Series B Preferred stock as additional security. As long as there is no Event of Default (as defined in the Agreement(s)) respecting to the payments under the Employment Agreement, and no default shall have occurred under the Amended Agreement, the Company shall be entitled to exercise any and all of the President's voting and other consensual rights pertaining to the Pledged Collateral pursuant to the directions of Board of Directors of Solos Endoscopy. The Company has elected to book the security issued pursuant to the employment contract as an additional \$450,000 expense based upon 450,000 shares issued at a rate of \$1.00 per share. If the Company satisfies its obligations under the employment agreement and corresponding pledge agreement, the Company will then make the appropriate adjustments to the accounts. Otherwise, due to forgiveness of debt to the Company, the Company would have been a near break even for the six months ended June 30, 2012.

### **NOTE 11 – Material Contract**

The Company in July 2011 entered into a material consulting contract for the purpose of growing its business and bringing value to its shareholders. The contract calls for consideration of \$20,000 per month convertible into the Company's Series B Preferred Stock. This contract will begin again in the third quarter of 2012.

### **NOTE 12 – Related Party Transactions**

During the quarter ended June 30, 2012, the Company accrued \$6,000 to the President of the Company for rent due to him for personally paying the landlord. This was based on the fair market value of rents paid for similar space. This amount was contributed as additional paid-in capital in the quarter ended June 30, 2012.

### **NOTE 13 – Commitments and Contingencies**

#### Lease Commitments

The Company leases office and manufacturing facilities on a month-to-month basis for a monthly base rent of \$2,500.

The lease is under an agreement through the President of the Company. The Company has only made certain payments over the last two years and will not be held liable for any balance due beyond the payments made.

Rent expense totaled \$15,000 for the six months ended June 30, 2012.

### **NOTE 14 – Capital Transactions**

The Company increased its authorized shares of common stock from 500,000,000 to 950,000,000.

The Company increased its authorized shares of preferred stock from 10,000,000 to 20,000,000 and increased its designation of its Series B Preferred Stock from 100,000 shares to 1,000,000.