

# *Solos Endoscopy, Inc.*

*Financial Statements as of March 31, 2013 and December 31, 2012  
and the Three Months Ended March 31, 2013 and 2012*

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**SOLOS ENDOSCOPY, INC.**  
Balance Sheets  
March 31, 2013 and December 31, 2012

	March 31, 2013	December 31, 2012
Current Assets		
Cash	\$ 51,331	\$ 98,749
Accounts receivable, net	62,743	59,892
Prepaid expenses	100,000	100,000
Inventory and supplies	213,564	191,801
Total Current Assets	427,638	450,442
Property, Plant and Equipment, net	-	-
Other Assets		
Goodwill and Intangibles	1,900,000	1,900,000
Total Other Assets	1,900,000	1,900,000
Total Assets	\$ 2,327,638	\$ 2,350,442
Current Liabilities		
Accounts payable and accrued expenses	\$ 117,720	\$ 118,755
Preferred stock payable	55,000	15,000
Current maturities of long-term debt	1,040	1,040
Total Current Liabilities	173,760	134,795
Total Liabilities	173,760	134,795
Commitments and contingencies	-	-
Stockholder's Equity		
Preferred stock, Class A Convertible Preferred Stock 9,000,000 shares authorized \$.001 par value, 0 shares issued and outstanding at March 31, 2013 and December 31, 2012	-	-
Preferred stock, Class B Convertible Preferred Stock 1,000,000 shares authorized \$.001 par value, 670,182 and 682,182 shares issued and outstanding at March 31, 2013 and December 31, 2012	670	682
Common stock, 950,000,000 shares authorized \$.001 par value, 754,027,369 and 661,834,365 shares issued and outstanding at March 31, 2013 and December 31, 2012	754,027	661,834
Additional paid-in capital	9,600,403	9,624,209
Treasury stock	(1,865)	-
Retained (Deficit)	(8,199,357)	(8,071,078)
Total Stockholder's Equity	2,153,878	2,215,647
Total Liabilities and Stockholders' Equity	\$ 2,327,638	\$ 2,350,442

See Accompanying Notes

**SOLOS ENDOSCOPY, INC.**  
 Statements of Operations  
 For the Three Months Ended March 31, 2013 and 2012

	March 31,	
	2013	2012
Revenues, net	\$ 100,473	\$ 96,665
Cost of Goods Sold	43,189	36,478
Gross Profit	57,284	60,187
Operating Expenses		
General and administrative	185,563	129,475
	185,563	129,475
(Loss) before other expenses	(128,279)	(69,288)
Other Income/(expenses)		
Forgiveness of debt	-	200,371
Interest expense	-	-
	-	200,371
(Loss) before income taxes	(128,279)	131,083
Income taxes	-	-
Net (Loss)	\$ (128,279)	\$ 131,083
(Loss) per share	\$ (0.00)	\$ 0.00
Weighted average shares	707,327,873	448,399,541

See Accompanying Notes

**SOLOS ENDOSCOPY, INC.**  
 Statements of Cash Flows  
 For the Three Months Ended March 31, 2013 and 2012

	March 31,	
	2013	2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income/(loss)	\$ (128,279)	\$ 131,083
Adjustments to reconcile net loss to net cash used in operating activities:		
Issuance of shares for services	-	260,000
Contribution of rent expense to additional paid-in capital	8,375	7,500
Changes in assets and liabilities:		
(Increase) in receivables	(2,851)	(31,073)
(Increase)/decrease in inventories	(21,763)	22,367
Increase/(decrease) in accounts payable and accrued expenses	(1,035)	(86,892)
Increase/(decrease) in preferred stock payable	<u>40,000</u>	<u>(406,700)</u>
 Net cash provided by (used in) operating activities	 <u>(105,553)</u>	 <u>(103,715)</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	60,000	119,600
Purchase of treasury stock	(1,865)	-
Payments on notes payable	<u>-</u>	<u>(9,149)</u>
 Net cash (used)/provided by financing activities	 <u>58,135</u>	 <u>110,451</u>
 Net Increase/(Decrease) in cash	 (47,418)	 6,736
CASH AT BEGINNING PERIOD	<u>98,749</u>	<u>6,598</u>
CASH AT END OF PERIOD	<u>\$ 51,331</u>	<u>\$ 13,334</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>\$ -</u>	<u>\$ 260,000</u>

See Accompanying Notes

**SOLOS ENDOSCOPY, INC.**  
**Statements of Changes in Stockholders' Equity**  
**For the Period January 1, 2013 through March 31, 2013**

	Preferred Stock		Common Stock		Additional Paid-In Capital	Retained (Deficit)	Total Stockholders' Equity
	Shares	Amount	Shares	Amount			
Balance-January 1, 2013	682,182	\$ 682	6,661,834,365	\$ 661,834	\$9,624,209	\$(8,071,078)	\$ 2,215,647
Issuance of preferred stock for cash	6,000	6	-	-	59,994	-	60,000
Conversion of common stock for preferred stock	(18,000)	(18)	92,193,004	92,193	(92,175)	-	-
Contributed capital	-	-	-	-	8,375	-	8,375
Treasury stock	-	-	-	-	-	-	(1,865)
Net (loss) for the three months ended March 31, 2013	-	-	-	-	-	(128,279)	(128,279)
Balance-March 31, 2013	<u>670,182</u>	<u>\$ 670</u>	<u>6,754,027,369</u>	<u>\$ 754,027</u>	<u>\$9,600,403</u>	<u>\$(8,199,357)</u>	<u>\$ 2,153,878</u>

See Accompanying Notes

**SOLOS ENDOSCOPY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**MARCH 31, 2013 AND DECEMBER 31, 2012**

**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 March 31, 2013 and December 31, 2012, 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 March 31, 2013 and December 31, 2012 because of the relative short term nature of these instruments. At March 31, 2013 and December 31, 2012, 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 March 31, 2013 and December 31, 2012 was \$62-443.

### ***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 March 31, 2013 and December 31, 2012.

### ***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, 2013 and December 31, 2012, 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, 2013 and December 31, 2012.

#### ***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 March 31, 2013 in the amount of \$8,199,357. 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.

	March 31, <u>2013</u>	December 31, <u>2012</u>
Finish goods	<u>\$ 213,564</u>	<u>\$ 191,801</u>

**NOTE 5 – Property and Equipment**

At March 31, 2013 and December 31, 2012, property and equipment consisted of the following:

	Useful Lives	March 31, <u>2013</u>	December 31, <u>2012</u>
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 three months ended March 31, 2013.

**NOTE 6 – Intangibles**

At March 31, 2013 and December 31, 2012, intangibles consisted of the following:

	March 31, <u>2013</u>	December 31, <u>2012</u>
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 three months ended March 31, 2013.

## NOTE 7 – Notes Payable and Debenture

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

	March 31, 2013	December 31, 2012
Note payable, 6% interest, due December 15, 2010, unsecured (1)	<u>1,040</u>	<u>1,040</u>
Total due	1,040	1,040
Current portion	<u>(1,040)</u>	<u>(1,040)</u>
Long-term portion	<u>\$ _____</u>	<u>\$ 1,040</u>

Principal repayments for the next year are as follows:

March 31, 2014	<u>Amount</u>
	<u>\$ 1,040</u>

- (1) The above listed notes have been renegotiated and are being paid with shares of common stock in 2013.

## 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 three months ended March 31, 2013.

We classify interest and penalties arising from the underpayment of income taxes in the statement of income under general and administrative expenses. As of March 31, 2013, we had no accrued interest or penalties related to uncertain tax positions. The tax years 2012, 2011 and 2010 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 three months ended March 31, 2013 and the year ended December 31, 2012 consists of the following:

	2013	2012
Federal:		
Current	\$ -	\$ -
Deferred	-	-
State:		
Current	-	-
Deferred	-	-
	<u>\$ -</u>	<u>\$ -</u>

Net deferred tax assets consist of the following components as of March 31, 2013 and December 31, 2012:

	2013	2012
Deferred tax assets:		
Operating Loss	\$2,787,781	\$2,744,167
Deferred tax liabilities:	-	-
Valuation allowance	(2,787,781)	(2,744,167)
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 three months ended March 31, 2013 and the year ended December 31, 2012.

## NOTE 9 – Common Stock/Common Stock Payable

The Company issued 366,023,999 shares of its common stock for payment of \$68,348 on the debt mentioned above in 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.

A holder of 12,000 shares of the Series B Preferred Stock converted the shares into 40,904,656 shares of the Company's common stock in 2012.

A holder of 18,000 shares of the Series B Preferred Stock converted the shares into 92,193,004 shares of the Company's common stock in the first quarter of 2013.

## 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 26,000 shares of its Series B Preferred Stock for \$260,000 owed a consultant in 2012.

The Company issued 64,730 shares of its Series B Preferred Stock for \$657,300 in cash consideration.

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 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.

An officer and director was issued 450,000 shares of the Company's Series B Preferred Stock in 2012 for \$450,000 owed to him for the signed of an employment contract and personal guarantees to the Company. This cost was included in the statement of operations as a line item called Administrative Guarantee Costs.

The Company issued 6,000 shares of its Series B Preferred Stock for \$60,000 in cash consideration in 2013.

**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 \$15,000 per month convertible into the Company's Series B Preferred Stock. This contract began again in the fourth quarter of 2012. However, the contract was deferred for the first quarter of 2013.

**NOTE 12 – Related Party Transactions**

During 2012, the Company accrued \$20,750 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 for 2012.

During the quarter ended March 31, 2013, the Company accrued \$8,375 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 for 2013.

**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 \$13,500 for the three months ended March 31, 2013.

**NOTE 14 – Capital Transactions**

The Company increased its authorized shares of common stock from 500,000,000 to 950,000,000 in 2012.

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 in 2012.

**NOTE 15 – Treasury Stock**

The Company repurchased 18,650 shares of its Preferred Series B stock for \$1,865 in the first quarter of 2013.