

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**  
**THE BOARD OF SIGNATURE DEVICES, INC.**

We have audited the accompanying balance sheet of Signature Devices, Inc. as of December 31, 2007 and 2006, and the related statements of operations, stockholders equity and cash flows for the periods then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Signature Devices, Inc. at December 31, 2007 and 2006 and the results of its' operations and its' stockholders equity and cash flows for the periods then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. The Company's viability is dependent upon its ability to obtain future financing and the success of its future operations. These factors raise substantial doubt as to the Company's ability to continue as a going concern. Management's plan in regard to these matters is described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

**Gruber & Company, LLC Saint Louis, Missouri**

**April 15, 2008**

## Signature Devices, Inc. Balance Sheets

	December 31,	
Assets	2007	2006
<b>Assets</b>		
<b>Current Assets</b>		
Cash & Equivalents	\$ 3,348	\$ 29,392
Accounts Receivable	92,331	118,036
Inventory	73,004	129,458
Due From Related Party	7,949	-
Prepaid Expenses & Other Assets	17,875	42,874
Total Current Assets	194,507	319,760
Property & Equipment, Net	24,718	18,973
Software Technology	70,728	70,728
<b>Total Assets</b>	<b>\$ 289,953</b>	<b>\$ 409,461</b>
<b>Liabilities &amp; Stockholders' Equity (Deficit)</b>		
<b>Current Liabilities</b>		
Accounts Payable and Accrued Expenses	\$ 209,249	\$ 104,322
Note Payable	32,000	-
Total Current Liabilities	241,249	104,322
<b>Non-Current Liabilities</b>		
Notes Payable Related Party	-	39,343
Total Non-Current Liabilities	-	39,343
<b>Total Liabilities</b>	241,249	143,665
Commitments & Contingencies	-	-
<b>Stockholders' Equity (Deficit)</b>		
Preferred Stock, \$0.001 par value, 400,000 shares authorized, 277,552 and 0 shares issued and outstanding, respectively.	\$ 278	\$ -
Common Stock, \$0.001 par value, 450,000,000 shares authorized; 73,607,241 and 50,752,848 shares issued and outstanding, respectively.	73,607	50,753
Additional Paid-in Capital	6,827,478	1,445,266
Treasury Stock	(225,075)	-
Subscriptions Receivable	(246,000)	(246,000)
Accumulated Deficit	(6,381,584)	(984,223)
Total Stockholders' Equity (Deficit)	48,704	265,796
<b>Total Liabilities &amp; Stockholders' Equity (Deficit)</b>	<b>\$ 289,953</b>	<b>\$ 409,461</b>

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

## Signature Devices, Inc. Statements of Operations

	For the Twelve Months Ended December 31,	
	2007	2006
Revenues		
Consulting Income	\$ 614,320	\$ 1,103,367
Other Recurring Income	116,779	65,650
Total Revenues	731,099	1,169,017
Cost of Goods Sold	72,419	70,837
Gross Profit	658,680	1,098,180
Operating Expenses		
Research and Development	265,624	89,217
General & Administrative	873,602	961,517
Stock Based Compensation	4,904,344	923,986
Total Operating Expenses	6,043,570	1,974,720
Operating Income (Loss)	(5,384,890)	(876,540)
Other Income (Expense)		
Interest Expense	(12,274)	(6,773)
Total Other Income (Expense)	(12,274)	(6,773)
Net Income (Loss) Before Income Taxes	(5,397,164)	(883,313)
Provision for Income Taxes	(197)	(2,334)
Net Income (Loss)	\$ (5,397,361)	\$ (885,647)
Net Income per Share		
Basic	\$ (0.09)	\$ (0.02)
Diluted	\$ (0.04)	\$ (0.02)
Number of Shares Used in Per Share Calculations		
Basic	57,693,924	35,870,583
Diluted	127,081,924	35,870,583

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

**Signature Devices, Inc.**  
**Statements of Stockholders' Equity (Deficit)**

	Preferred Stock		Common Stock			Treasury Stock at Cost	Subscriptions Receivable	Accumulated Deficit	Total Stockholders' Equity (Deficit)
	Number of Shares	Par Value (\$0.001) Amount	Number of Shares	Par Value (\$0.001) Amount	Additional Paid- In-Capital				
<b>Balance at December 31, 2004</b>	-	\$ -	6,464,000	\$ 6,464	\$ 114,936	\$ -	\$ -	\$ (284,046)	\$ (162,646)
Common Stock Issued to Investors for Cash	-	-	550,000	550	29,450	-	-	-	30,000
Common Stock Issued to Officers for Cash	-	-	500,000	500	14,500	-	-	-	15,000
Common Stock Issued for Services	-	-	50,000	50	4,950	-	-	-	5,000
Net Loss	-	-	-	-	-	-	-	185,470	185,470
<b>Balance at December 31, 2005</b>	-	\$ -	7,564,000	\$ 7,564	\$ 163,836	\$ -	\$ -	\$ (98,576)	\$ 72,824
Common Stock Issued to Investors for Cash	-	-	452,787	453	78,047	-	-	-	78,500
Common Stock Issued to Officers for Cash	-	-	355,000	355	35,145	-	-	-	35,500
Common Stock Issued for Services	-	-	797,728	798	378,552	-	-	-	379,350
Common Stock Issued to for Subscriptions	-	-	950,000	950	245,050	-	-	-	246,000
Stock Options Issued	-	-	40,633,333	40,633	-	-	-	-	40,633
APIC related to issuance of Stock Options	-	-	-	-	544,636	-	-	-	544,636
Subscriptions Receivable	-	-	-	-	-	-	(246,000)	-	(246,000)
Net Loss	-	-	-	-	-	-	-	(885,647)	(885,647)
<b>Balance at December 31, 2006</b>	-	\$ -	50,752,848	\$ 50,753	\$ 1,445,266	\$ -	\$ (246,000)	\$ (984,223)	\$ 265,796
Preferred Stock Issued for Cash	552	1	-	-	275,999	-	-	-	276,000
Preferred Stock Issued to Officers for Services	277,000	277	-	-	71,743	-	-	-	72,020
Common Stock Issued to Investors for Cash	-	-	5,790,238	5,790	219,210	-	-	-	225,000
Common Stock Issued to Officers for Services	-	-	12,269,000	12,269	3,280,911	-	-	-	3,293,180
Common Stock Issued to Non-Affiliated Parties for Services	-	-	4,945,155	4,945	573,899	-	-	-	578,844
Treasury Stock Purchased from Officer	-	-	-	-	-	(220,075)	-	-	(220,075)
Treasury Stock Purchased from Investor	-	-	-	-	-	(5,000)	-	-	(5,000)
Shares Returned	-	-	(150,000)	(150)	150	-	-	-	-
APIC related to issuance of Stock Options	-	-	-	-	960,300	-	-	-	960,300
Net Loss	-	-	-	-	-	-	-	(5,397,361)	(5,397,361)
<b>Balance at December 31, 2007</b>	277,552	\$ 278	73,607,241	\$ 73,607	\$ 6,827,478	\$ (225,075)	\$ (246,000)	\$ (6,381,584)	\$ 48,704

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

# Signature Devices, Inc.

## Statements of Cash Flows

	For the Twelve Months Ended December 31,	
	2007	2006
<b>Cash Flows from Operating Activities</b>		
Net Income (Loss)	\$ (5,397,361)	\$ (885,647)
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock Issued for Services	3,944,044	379,350
Stock Related Compensation Expense	960,300	544,636
Depreciation & Amortization	10,762	5,823
Changes in operating assets and liabilities:		
Accounts Receivable	25,705	(74,468)
Inventory	56,454	(129,458)
Prepaid Expenses & Other Assets	24,999	(41,680)
Accounts Payable	104,927	81,319
<b>Net Cash Used in Operating Activities</b>	<b>(270,170)</b>	<b>(120,125)</b>
<b>Cash Flows from Investing Activities</b>		
Purchase of Property and Equipment	(16,507)	-
Software Technology	-	(4,000)
<b>Net Cash Used in Investing Activities</b>	<b>(16,507)</b>	<b>(4,000)</b>
<b>Cash Flows from Financing Activities</b>		
Net Loans from/to Related Party	(47,292)	(6,845)
Notes Payable	32,000	-
Preferred Stock Issued for Cash	276,000	-
Common Stock Issued for Cash	225,000	114,000
Common Stock Issued for Stock Options	-	40,633
Purchase of Treasury Stock at Cost	(225,075)	-
<b>Net Cash Provided by Financing Activities</b>	<b>260,633</b>	<b>147,788</b>
<b>Net Increase (Decrease) in Cash</b>	<b>(26,044)</b>	<b>23,663</b>
Cash Beginning of Period	29,392	5,729
<b>Cash End of Year</b>	<b>\$ 3,348</b>	<b>\$ 29,392</b>
Supplemental Disclosure of Cash Flow Information:		
Cash Paid during the period for interest	\$ 12,274	\$ 3,556
Cash Paid during the period for income taxes	197	2,334
Supplemental Disclosure of Non-Cash Items:		
Common Stock Issued for Subscriptions	-	246,000
Stock Issued for Stock Options	-	40,633

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

# **Signature Devices, INC.**

## **NOTES TO FINANCIAL STATEMENTS**

### **Note 1 – Organization, Business & Operations**

Signature Devices, Inc. publishes, creates, develops and manufactures advanced information technologies, including computer systems, software, and electronic products.

The company also publishes software including video games, and commercial products. One of the companies technologies includes a blend of hardware and software for Image generation technology.

Signature Devices, has developed software for the world's leading game publishers, including Electronic Arts (NASDAQ: ERTS), Crytek, Espresso Fitness, and SNK Playmore. The company has also developed embedded systems and electronics for companies such as Pacific Consultants (now PEMSTAR) for the product Land Warrior.

Based in Silicon Valley, Signature Devices has created technology for advanced 3D systems for use in gaming systems, simulations and digital CG films.

### **Note 2 - Going Concern and Management's Plans**

The Company's primary source of operating funds since inception has been provided by its founding stockholder and through note and equity financing. The company intends to raise additional capital through private debt and equity investors. At December 31, 2007, the Company had stockholders' equity of \$48,704 and a working capital deficit of \$46,742. The Company had revenues of \$731,099 and incurred a net loss of \$5,397,361 during the year ended December 31, 2007.

Management has taken steps to improve the Company's liquidity by raising funds and seeking revenue sources through the development of products through which the Company may generate revenue.. There can be no assurance that the Company will be successful in these endeavors and therefore may have to consider other alternatives.

The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and satisfaction of liabilities in the normal course of business. However, the above matters raise substantial doubt about the Company's ability to continue as a going concern. These financial statements do not include any adjustments relating to the recovery of the recorded assets or the classification of the liabilities that might be necessary should the Company be unable to continue as a going concern.

### **Note 3 - Summary of Significant Accounting Policies**

#### **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 at the date of the financial statements and the reported amounts of expenses during the reporting period. Actual results could differ from those estimates.

#### **Cash and Cash Equivalents**

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

#### **Concentrations of Credit Risk - Cash**

The Company maintains its cash with various financial institutions, which may exceed federally insured limits throughout the period.

#### **Inventories**

Inventories are stated at the lower of cost or market. Cost is computed on a weighted-average basis, which approximates the first-in, first-out method; market is based upon estimated replacement costs

#### **Marketable Securities Available for Sale**

# **Signature Devices, INC.**

## **NOTES TO FINANCIAL STATEMENTS**

The Company evaluates its investment policies and the appropriate classification of securities at the time of purchase consistent with Statement of Financial Accounting Standards ("SFAS") No. 115, "Accounting for Certain investments in Debt and Equity Securities," at each balance sheet date and determined that all of its investment securities are to be classified as available-for-sale. Available-for-sale securities are carried at fair value, with the unrealized gains and losses, net of tax, reported in stockholders' deficiency under the caption "Accumulated Other Comprehensive Loss". Realized gains and losses and declines in value judged to be other than-temporary on available-for-sale securities are included in net gain on sale of marketable securities. The cost of securities sold is based on the specific identification method. The Company held no Marketable at December 31, 2007 and 2006.

### **Property and Equipment**

Property and equipment are stated at cost and are depreciated using the straight-line method over their estimated useful lives, generally three to seven years. Leasehold improvements are amortized over the shorter of the useful life or the remaining lease term. Upon retirement or other disposition of these assets, the cost and related accumulated depreciation are removed from the accounts and the resulting gains or losses are reflected in operations. Expenditures for maintenance and repairs are charged to operations as incurred. Renewals and betterments are capitalized.

### **Impairment of long-lived assets**

Effective January 1, 2002, the Company adopted Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"), which addresses financial accounting and reporting for the impairment or disposal of long-lived assets and supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," and the accounting and reporting provisions of APB Opinion No. 30, "Reporting the Results of Operations for a Disposal of a Segment of a Business." The Company periodically evaluates the carrying value of long-lived assets to be held and used in accordance with SFAS 144. SFAS 144 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.

### **Basic and Diluted Net Income per Share**

Basic earnings per share is calculated using the weighted-average number of common shares outstanding during the period without consideration of the dilutive effect of stock options and convertible preferred stock. Diluted earnings per share is calculated using the weighted-average number of common shares outstanding during the period after consideration of the dilutive effect of stock options and convertible preferred stock.

### **Stock-based compensation**

In December 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 123(R), Share-Based Payment. This pronouncement amends SFAS No. 123, Accounting for Stock-Based Compensation, and supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees. SFAS No. 123(R) requires that companies account for awards of equity instruments issued to employees under the fair value method of accounting and recognize such amounts in their statements of operations. Under SFAS No. 123(R), we are required to measure compensation cost for all stock-based awards at fair value on the date of grant and recognize compensation expense in our consolidated statements of operations over the service period that the awards are expected to vest.

The Company accounts for stock-based compensation issued to non-employees and consultants in accordance with the provisions of SFAS 123(R) and the Emerging Issues Task Force consensus in Issue No. 96-18 ("EITF 96-18"), "Accounting for Equity Instruments that are Issued to Other Than Employees for Acquiring or in Conjunction with Selling, Goods or Services". Common stock issued to non-employees in exchange for services is accounted for based on the fair value of the services received.

# Signature Devices, INC.

## NOTES TO FINANCIAL STATEMENTS

### Fair value of financial instruments

Statement of financial accounting standard No. 107, Disclosures about fair value of financial instruments, requires that the Company disclose estimated fair values of financial instruments. The carrying amounts reported in the statements of financial position for current assets and current liabilities qualifying as financial instruments are a reasonable estimate of fair value.

### Revenue recognition

Sales of products and related costs of products sold are recognized when (i) persuasive evidence of an arrangement exists, (ii) delivery has occurred, (iii) the price is fixed or determinable and (iv) collectability is reasonably assured. These terms are typically met upon shipment of product to the customer. Consulting revenue is recognized when earned based upon contract stipulations and deliverables.

### Allowance for doubtful accounts

We provide an allowance for estimated uncollectible accounts receivable balances based on historical experience and the aging of the related accounts receivable. As of December 31, 2007 and 2006 the Company has no reserve for doubtful accounts.

### Advertising

The Company expenses advertising costs as incurred. There were no Advertising costs for the years ended December 31, 2007 and 2006.

### Income Taxes

The Company accounts for income taxes using the liability method as required by Statement of Financial Accounting Standards ("FASB") No. 109, Accounting for Income Taxes ("SFAS 109"). Under this method, deferred tax assets and liabilities are determined based on differences between their financial reporting and tax basis of assets and liabilities. The Company was not required to provide for a provision for income taxes for the periods ended December 31, 2007 and 2006, as a result of net operating losses incurred during the periods. As of December 31, 2007, the Company has available approximately \$6,400,000 of net operating losses ("NOL") available for income tax purposes that may be carried forward to offset future taxable income, if any. These carryforwards expire in various years through 2026. At December 31, 2007 and 2006, the Company has a deferred tax asset of approximately \$2,542,000 and \$392,000, relating to the Company's net operating losses., respectively. The Company's deferred tax asset has been fully reserved by a valuation allowance since realization of its benefit is uncertain. The Company's ability to utilize its NOL carryforwards may be subject to an annual limitation in future periods pursuant to Section 382 of the Internal Revenue Code of 1986, as amended.

The provision for income taxes using the federal and state tax rates as compared to the Company's effective tax rate is summarized as follows:

	December 31,	
	2007	2006
Statutory Federal Tax (Benefit) Rate	-34%	-34%
Statutory State Tax (Benefit) Rate	-6%	-6%
Effective Tax (Benefit) Rate	-40%	-40%
Valuation Allowance	40%	40%
Effective Income Tax	0%	0%

Significant components of the Company's deferred tax assets at December 31, 2007 and 2006 are as follows:

**Signature Devices, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

	December 31,	
	2007	2006
Net Operating Loss Carryforward	\$ 2,541,785	\$ 392,016
Valuation Allowance	(2,541,785)	(392,016)
Net Deferred Tax Asset	\$ -	\$ -

**Research and development costs**

Expenditures for research & development are expensed as incurred. Such costs are required to be expensed until the point that technological feasibility is established. The Company incurred \$265,624 and \$89,217 in research and development costs during the years ended December 31, 2007 and 2006, respectively.

**Reclassifications**

Certain items in the prior year financial statements have been reclassified for comparative purposes to conform to the presentation in the current period's presentation. These reclassifications have no effect on the previously reported income (loss).

**Recently Issued Accounting Pronouncements**

In December 2007, the FASB issued SFAS No. 141(R), Business Combinations (FAS 141(R)). This Statement provides greater consistency in the accounting and financial reporting of business combinations. It requires the acquiring entity in a business combination to recognize all assets acquired and liabilities assumed in the transaction, establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed, and requires the acquirer to disclose the nature and financial effect of the business combination. FAS 141(R) is effective for fiscal years beginning after December 15, 2008. We will adopt FAS 141(R) no later than the first quarter of fiscal 2010 and are currently assessing the impact the adoption will have on our financial position and results of operations.

In December 2007, the FASB issued SFAS No. 160. Noncontrolling Interests in Consolidated Financial Statements (FAS 160). This Statement amends Accounting Research Bulletin No. 51, Consolidated Financial Statements, to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. FAS 160 is effective for fiscal years beginning after December 15, 2008. We will adopt FAS 160 no later than the first quarter of fiscal 2010 and are currently assessing the impact the adoption will have on our financial position and results of operations.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities, which permits entities to choose to measure at fair value eligible financial instruments and certain other items that are not currently required to be measured at fair value. The standard requires that unrealized gains and losses on items for which the fair value option has been elected be reported in earnings at each subsequent reporting date. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. We will adopt SFAS No. 159 no later than the first quarter of fiscal 2009. We are currently assessing the impact the adoption of SFAS No. 159 will have on our financial position and results of operations.

In September 2006, the FASB issued SFAS No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R). SFAS No. 158 requires company plan sponsors to display the net over- or under-funded position of a defined benefit postretirement plan as an asset or liability, with any unrecognized prior service costs, transition obligations or actuarial gains/losses reported as a component of other comprehensive income in shareholders' equity. SFAS No. 158 is effective for fiscal years ending after December 15, 2006. We adopted the recognition provisions of SFAS No. 158 as of the end of fiscal 2007. The adoption of SFAS No. 158 did not have an effect on the Company's financial position or results of operations.

# Signature Devices, INC.

## NOTES TO FINANCIAL STATEMENTS

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements . SFAS No. 157 establishes a framework for measuring fair value in generally accepted accounting principles, clarifies the definition of fair value and expands disclosures about fair value measurements. SFAS No. 157 does not require any new fair value measurements. However, the application of SFAS No. 157 may change current practice for some entities. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. We will adopt SFAS No. 157 in the first quarter of fiscal 2009. We are currently assessing the impact that the adoption of SFAS No. 157 will have on our financial position and results of operations.

In July 2006, the FASB issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes — an interpretation of FASB Statement No. 109 (FIN 48). This interpretation clarifies the application of SFAS No. 109, Accounting for Income Taxes , by defining a criterion that an individual tax position must meet for any part of the benefit of that position to be recognized in an enterprise's financial statements and also provides guidance on measurement, derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006, but earlier adoption is permitted. The Company is in the process of evaluating the impact of the application of the Interpretation to its financial statements.

### Note 4 - Property and Equipment

At December 31, 2007 and 2006, property and equipment are comprised of the following:

	December 31,	
	2007	2006
Computer Equipment	\$ 42,360	\$ 28,302
Furniture and Office Equipment	7,125	6,551
Computer Software	3,815	1,940
Less: Accumulated Depreciation	(28,582)	(17,820)
Net Property & Equipment	\$ 24,718	\$ 18,973

Depreciation and amortization for the year ended December 31, 2007 and 2006, was \$10,762 and \$5,823, respectively.

### Note 5 – Software Technology

The Company entered into an Asset Purchase Agreement dated December 15, 2002 with Kenneth Hurley, the Company's president, whereby the Company purchased certain software technology valued at \$105,723.

The Company will test and evaluate the balance for impairment on an annual basis. Such analysis will be based upon the expected future cash flows of the software technology. There have been \$0 impairment charges for the periods ended December 31, 2007 and 2006.

### Note 6 - Due to/from Stockholder

As of December 31, 2007 the Company has a advance due from Kenneth Hurley, Company President, for \$7,949.

### Note 7 – Accounts Payable and Accrued Expenses

At December 31, 2007 and 2006, accounts payable and accrued expenses are comprised of the following:

# Signature Devices, INC.

## NOTES TO FINANCIAL STATEMENTS

	December 31,	
	2007	2006
Accounts Payable	\$ 7,807	\$ 50,195
Accrued R&D Milestone Expenses	\$ 82,224	\$ -
Credit Card Payables	86,739	51,349
Other Accrued Expenses	32,479	2,778
Total Accounts Payable and Accrued Expenses	\$ 209,249	\$ 104,322

### Note 8 – Notes and Loans Payable

In August of 2007, the Company entered issued a Promissory Note to an individual for \$32,000 in lieu of payment for 300,000 “Rule 144 Restricted” common shares. The entire note balance was due November 1, 2007. As of December 31, 2007, the Company has not paid this note and is in technical default.

### Note 9 – Stock Options

Under SFAS No. 123(R), we record in our statements of operations (i) compensation cost for options granted, modified, repurchased or cancelled. For the years ended December 31, 2007 and 2006, we recognized compensation expense of \$960,300 and \$544,636, respectively, related to stock-based compensation.

The value of each option award that contains a market condition is estimated using a option valuation model, while all other option awards are valued using the Black-Scholes-Merton option valuation model. We primarily consider the following assumptions when using these models: (1) expected volatility, (2) expected dividends, (3) expected life and (4) risk-free interest rate. Such models also consider the intrinsic value in the estimation of fair value of the option award.

We measure the fair value of our stock option awards on the date of grant. The following assumptions were used in the estimated grant date fair value calculations for stock options (no stock option grants took place during fiscal 2006; Risk-free interest rate-5%, Expected volatility-66%, Dividend yield-0% and Expected life-3 years.

In 2006, the Company issued 40,633,333 options to employees and executive officers. The options vest over a period of three years and have a term of five years.

Following is a summary of the stock option activity:

	Options Outstanding	Weighted Average Exercise Price	Weighted Average Fair Value per Share	Aggregate Intrinsic Value
Outstanding December 31, 2005	-	\$ -	\$ -	-
Granted	40,633,333	\$ 0.0095	\$ 0.0709	\$ 2,880,892
Forfeited	-	\$ -	-	\$ -
Exercised	-	\$ -	-	\$ -
Outstanding December 31, 2006	40,633,333	\$ 0.1800		\$ 2,880,892
Granted	-	\$ -	-	\$ -
Forfeited	-	\$ -	-	\$ -
Exercised	-	\$ -	-	\$ -
Outstanding December 31, 2007	40,633,333	\$ 0.0019		\$ 2,880,892

Following is a summary of the status of options outstanding at December 31, 2007:

Exercise Price	Number of Options	Average Remaining Contractual Life Years	Average Exercise Price
\$ 0.001	37,133,333	1.33	\$ 0.001
\$ 0.100	3,500,000	1.83	\$ 0.100

### Note 11 – Stockholders’ Equity/Deficiency

#### Preferred Stock

# **Signature Devices, INC.**

## **NOTES TO FINANCIAL STATEMENTS**

The authorized capital stock of the Company consists of 400,000 shares of preferred stock at a par value of \$0.001. At December 31, 2007 and 2006, there were 277,552 and 0 shares issued and outstanding, respectively.

During 2007 the Company issued 552 shares to investors for cash totaling \$276,000 and 277,000 shares to Officers of the Company for services totaling \$72,020.

### **Common Stock**

The authorized common stock of the Company consists of 450,000,000 shares at a par value of \$0.001. At December 31, 2007 and 2006, 73,607,241 and 50,752,848 shares issued and outstanding, respectively.

During 2007, the Company issued 12,269,000 shares to Officers for services totaling 3,293,180, 4,945,155 shares to non-affiliated individuals for services totaling \$578,844, 5,790,238 shares to investors for cash totaling \$225,000 and had 150,000 shares returned.

In fiscal 2006, 452,787 shares were issued for cash of \$78,500, 355,000 shares were issued to Officers for cash totaling \$35,500, 797,728 shares were issued to non-affiliated individuals for services totaling \$379,350, 950,000 shares were issued for subscription agreements totaling \$246,000 and 40,633,333 shares were issued to employees as stock options totaling \$40,633.

The Company issued shares of common stock in unregistered transactions during fiscal years 2005, 2006 and 2007. All of the following shares of common stock issued were non registered transactions in reliance on Section 4 (2) of the Securities Act of 1933, as amended (the "Securities Act"). The shares of common stock issued were as follows:

### **Treasury Stock**

During 2007, the Company purchased from and Officer 2,219,492 shares totaling \$220,075 and 50,000 shares from a non-affiliated investor totaling \$5,000.

## **Note 12 – Commitments & Contingencies**

### **Consulting Agreements**

In December 2005, the Company entered into a Consulting Agreement to provide software engineering and development services. The compensation for these services is \$17,000 per month. The contract can be terminated by either party with 30 day written notice.

In February 2006, the Company entered into a Software Source Code Agreement whereby the seller provided the Company source code with the unrestricted right to develop products. The Company is responsible royalty payments based on a graduated volume/percentage scale to seller on a quarterly basis in arrears.

In August of 2007, the Company entered into a Design and Development Services Agreement to develop, create, test and deliver a product. The contract has multiple deliverables with milestone payments totaling \$150,000. In addition, the agreement includes a royalty component that provides various per product royalty payments which are paid quarterly in arrears.

In the normal course of business, the Company enters into various Development Agreements with companies to develop, produce, publish, manufacture, promote and distribute video games and entertainment software.

### **Lease Agreement**

The Company currently leases its Corporate Offices under a sublease for \$5,655 per month. This lease expires June 30, 2008 unless terminated earlier under the master lease provisions.

### **Litigation**

Neither our company nor any of our property is a party to, or the subject of, any pending legal proceedings other than ordinary, routine litigation incidental to our business.

**Signature Devices, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**Note 14 - Subsequent Events**

**Equity**

Subsequent to December 31, 2007, the Company received \$300,000 in stock subscriptions, issued 2,000,000 common shares for cash totaling \$30,000, issued preferred shares for cash totaling \$146,235 and purchased 2,604,413 shares in treasury stock from a Company Officer for \$125,000.