

SIGNALIFE, INC.  
Form 10QSB  
August 10, 2007

**United States**

**Securities And Exchange Commission**

**Washington, D.C. 20549**

\_\_\_\_\_  
**FORM 10-QSB**  
\_\_\_\_\_

**(Mark One)**

- Quarterly Report Under Section 13 Or 15(d) Of The Securities Exchange Act Of 1934  
For The Quarterly Period Ended June 30, 2007**
- Transition Report Under Section 13 Or 15(d) Of The Securities Exchange Act Of 1934  
For The Transition Period From \_\_\_\_\_ To \_\_\_\_\_  
Commission File No. \_\_\_\_\_**

**SIGNALIFE, INC.**

**(Exact name of small business issuer as specified in its charter)**

**Delaware**

**87-0441351**

**(State or other jurisdiction of  
incorporation or organization)**

**(I.R.S. Employer  
Identification No.)**

**531 South Main Street, Suite 301  
Greenville, South Carolina 29601  
(864) 233-2300**

**(Address Of Principal Executive Offices)  
(Issuer s Telephone Number)**

**Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days: Yes  No**

**Indicate by check mark whether the registrant is a shell company (as defined in rule 12b-2 of the Securities**

Exchange Act of 1934): Yes  No

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: As of August 1, 2007, there were issued and outstanding or accrued for issuance a total of 47,207,050 shares of common stock, par value \$0.001 per share and 14,574 shares of series A preferred stock, par value \$0.001 per share (plus an additional 39,681 unissued series A preferred shares accrued as dividends for issuance).

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## ADVISEMENTS

Unless the context requires otherwise, *Signalife*, *the company*, *we*, *us*, *our* and similar terms refer to Signalife, Inc. Our common stock, par value \$.001 per share, and our series A preferred stock, par value \$.001 per share, are commonly referred to in this quarterly report as our *common shares* and *series A preferred shares*, respectively. The information in this quarterly report is current as of the date of this quarterly report (June 30, 2007), unless another date is specified.

We prepare our interim financial statements in accordance with United States generally accepted accounting principles. Our financial condition and results of operations for the six-month interim period ended June 30, 2007, are not necessarily indicative of our prospective financial condition and results of operations for the pending full fiscal year ended December 31, 2007. The interim financial statements presented in this quarterly report as well as other information relating to our company contained in this quarterly report should be read in conjunction with the annual financial statements and more detailed background information relating to our company and our business contained in our annual report on form 10-KSB for our fiscal year ended December 31, 2006, as it may be amended, together with any reports, statements and information filed with the United States Securities and Exchange Commission (the *SEC*) relating to periods or events occurring after December 31, 2006.

In this quarterly report we make a number of statements, referred to as *forward-looking statements*, which are intended to convey our expectations or predictions regarding the occurrence of possible future events or the existence of trends and factors that may impact our future plans and operating results. These forward-looking statements are derived, in part, from various assumptions and analyses we have made in the context of our current business plan and information currently available to us and in light of our experience and perceptions of historical trends, current conditions and expected future developments and other factors we believe to be appropriate in the circumstances. You can generally identify forward-looking statements through words and phrases such as *seek*, *anticipate*, *believe*, *estimate*, *expect*, *intend*, *plan*, *budget*, *project*, *may be*, *may continue*, *may likely result*, and similar expressions. When reading any forward looking statement you should remain mindful that actual results or developments may vary substantially from those expected as expressed in or implied by that statement for a number of reasons or factors, such as those relating to: (1) whether or not a market for our various heart monitoring devices and services develops and physicians, patients, insurance companies and government and other third-party reimbursement agents accept those products and services and, if a market develops, the pace at which it develops; (2) our ability to successfully sell our various heart monitoring devices and services to the extent a market develops; (3) our ability to attract the qualified personnel to implement our growth strategies; (4) our ability to develop sales, marketing and distribution capabilities for our biomedical devices and services, either internally or through outside contractors or partners; (5) the success of our research and development activities in developing additional heart monitoring devices and other biomedical devices using our proprietary technologies, and our ability to obtain federal or state regulatory approvals governing those biomedical products and services; (6) the accuracy of our estimates and projections; (7) our ability to fund our short-term and long-term financing needs; (8) changes in our business plan and corporate strategies; and (9) other risks and uncertainties discussed in greater detail in the sections of this quarterly report, including those captioned *Management's Discussion And Analysis Of Financial Condition And Results Of Operations* and *Uncertainties And Risk Factors That May Affect Our Future Results And Financial Condition*.

Each forward-looking statement should be read in context with, and with an understanding of, the various other disclosures concerning our company and our business made elsewhere in this quarterly report as well as other public reports we file with the SEC, including our annual report on form 10-KSB for our fiscal year ended December 31, 2006, as it may be amended. You should not place undue reliance on any forward-looking statement as a prediction of actual results or developments. We are not obligated to update or revise any forward-looking

statement contained in this quarterly report to reflect new events or circumstances unless and to the extent required by applicable law.



**SIGNALIFE, INC.**

**INTERIM FINANCIAL STATEMENTS  
FOR THE  
THREE AND SIX MONTH PERIODS ENDED JUNE 30, 2007 AND 2006  
(UNAUDITED)**

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**SIGNALIFE, INC.**

**Balance Sheet**

**June 30, 2007**

**(Unaudited)**

**ASSETS**

Current assets:

Cash and cash equivalents

\$ 74,487

Inventory

147,086

Prepaid expenses and other current assets

67,161

Total current assets

288,734

Prepaid sales commissions

2,498,651

Property and equipment, net of accumulated depreciation of \$312,493.

240,755

Intangible patents, including related party amounts, net of accumulated amortization of \$50,158

591,379

TOTAL ASSETS

\$ 3,619,519

**LIABILITIES AND STOCKHOLDERS EQUITY**

Current liabilities:

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Accounts payable and accrued expenses		
	\$	377,736
Line of credit		202,148
Total liabilities		579,884
Commitments and contingencies		
Stockholders' equity:		
Series A convertible preferred stock, \$.001 par value; 10,000,000 shares authorized; 14,574 shares issued and outstanding		14
Series A convertible preferred stock to be issued for accrued dividends, 39,681 shares		40
Common stock, \$.001 par value; 100,000,000 shares authorized; 46,323,939 shares issued and outstanding		46,324
Additional paid-in capital		45,368,807
Accumulated deficit		(42,375,550)
Total stockholders' equity		3,039,635
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$	3,619,519

The accompanying notes are an integral part of these financial statements



**SIGNALIFE, INC.**

**Statements Of Operations**

**For The Three And Six Months Ended June 30, 2007 And 2006**

**(Unaudited)**

	<b>For the Three Months Ended June 30,</b>		<b>For the Six Months Ended June 30,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Product sales				
	\$	\$	\$	\$
Cost of products sold				
Gross profit				
Operating expenses:				
Research and development				
	337,460	258,850	622,731	428,113
General and administrative				
	2,182,477	3,047,313	7,508,202	5,367,609
Total operating expenses				
	2,519,937	3,306,163	8,130,933	5,795,722
Loss from operations				
	(2,519,937)	(3,306,163)	(8,130,933)	(5,795,722)
Other income:				
Exclusivity fee income				
		500,000	500,000	500,000

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Interest income				
	6,387	26,852	54,039	69,031
Total other income				
	6,387	526,852	554,039	569,031
Loss before provision for income taxes				
	(2,513,550)	(2,779,311)	(7,576,894)	(5,226,691)
Provision for income taxes				
Net loss				
	(2,513,550)	(2,779,311)	(7,576,894)	(5,226,691)
Preferred dividend				
	3,185	7,582	11,209	18,751
Net loss attributable to common stockholders				
	\$ (2,516,735)	\$ (2,786,893)	\$ (7,588,103)	\$ (5,245,442)
Basic and diluted loss per share				
	\$ (0.06)	\$ (0.07)	\$ (0.17)	\$ (0.14)
Weighted average shares outstanding basic and diluted				
	45,538,764	38,952,010	44,483,645	38,804,542

The accompanying notes are an integral part of these financial statements

**SIGNALIFE, INC.**

**Statement Of Stockholders Equity**

**For The Six Months Ended June 30, 2007**

**(Unaudited)**

	Common Stock		Series A Convertible Preferred Stock		Series A Convertible Preferred Stock To Be Issued		Additional Paid-in Capital	Accumulated Deficit	Total Stockholders Equity
	Shares	Amount	Shares	Amount	Shares	Amount			
Balance at December 31, 2006	42,413,248	\$ 42,413	97,909	\$ 98	35,944	\$ 36	\$ 37,700,728	\$ (34,798,656)	2,944,000
Change in value of common stock for services	3,827,356	3,827					6,233,147		6,236,974
Change in value of employee options							758,334		758,334
Options and warrants issued for services							676,602		676,602
Series A preferred stock accrued dividends							(11,209)		(11,209)
					4		11,205		11,205



res for series A  
ferred dividends

3,737

version of  
es A  
ferred stock

83,335      84    (83,335)      (84)

loss

(7,576,894)    (7,576,8

ance  
e 30, 2007

		\$		\$		\$	\$	\$	
46,323,939	46,324	14,574	14	39,681	40	45,368,807	(42,375,550)	3,039,6	

The accompanying notes are an integral part of these financial statements

**SIGNALIFE, INC.**

**Statements Of Cash Flows**

**For The Six Months Ended June 30, 2007 And 2006**

**(Unaudited)**

	<b>For the Six Months Ended June 30,</b>	
	<b>2007</b>	<b>2006</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss	\$ (7,576,894)	\$ (5,226,691)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	51,082	50,908
Amortization of deferred compensation	--	1,504
Stock issued for services	6,236,974	1,211,667
Options and warrants issued for services	676,602	551,381
Fair value of stock options under SFAS 123R	758,334	1,064,454
Changes in assets and liabilities:		
Inventory	8,385	(108,228)
Prepaid expenses and other current assets	(2,463,481)	48,441

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Accounts payable and accrued expenses		
	(697,932)	104,292
Deferred revenue		
	(500,000)	1,500,000
Net cash used in operating activities		
	(3,506,930)	(802,272)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of property and equipment		
	(6,733)	(60,382)
Capitalized patent cost		
	(650)	(78,827)
Net cash used in investing activities		
	(7,383)	(139,209)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from line of credit, net		
	202,148	--
Net cash provided by financing activities		
	202,148	--
Net decrease in cash and cash equivalents		
	(3,312,165)	(941,481)
Cash and cash equivalents, beginning of period		
	3,386,652	4,776,277
Cash and cash equivalents, end of period		
	\$ 74,487	\$ 3,384,796

(continued on next page)

The accompanying notes are an integral part of these financial statements



**SIGNALIFE, INC.**

**Statements Of Cash Flows**

**For The Six Months Ended June 30, 2007 And 2006**

**(Unaudited)**

**(Continued)**

**Supplemental Cash Flow Information:**

Signalife paid \$0 and \$1,282 in interest for the six month interim periods ended June 30, 2007 or 2006, respectively. Signalife paid no income taxes for the six month interim periods ended June 30, 2007 or 2006.

**Supplemental Investing and Financing Activities:**

For the six month interim periods ended June 30, 2007 and 2006, the company has accrued \$11,209 and \$18,751, respectively, in dividends related to its series A preferred stock. Such dividends are a non-cash charge as they will be paid in-kind.

During the six month interim periods ended June 30, 2007 and 2006, 83,335 and 70,199 shares of common stock, respectively, were issued upon conversion of an equivalent number of shares of series A preferred stock.

The accompanying notes are an integral part of these financial statements

**SIGNALIFE, INC.**

**Notes To Interim Financial Statements**

**For The Six Months Ended June 30, 2007 And 2006**

**(Unaudited)**

**1.**

**ORGANIZATIONAL MATTERS**

Signalife, Inc. ( *we* , *our company* or *Signalife* ) is a medical device company focused on researching, developing and marketing medical devices which monitor and measure physiological signals in order to detect diseases that impact an individual's health. Signalife was originally incorporated in Delaware on January 19, 1987. On November 2, 2005, we changed our name to Signalife, Inc. from Recom Managed Systems, Inc.

During the fourth quarter of 2006, we commenced our planned operations as we shifted our focus from product development to selling our products. Prior to that from our inception, we were a development stage company in accordance with Statements of Financial Accounting Standards ( *SFAS* ) No. 7, *Accounting and Reporting by Development Stage Enterprises*.

On September 19, 2002, we issued 23,400,000 (7,800,000 pre-split) common shares in exchange for intangible technology (the *Signal Technologies* ) to ARC Finance Group, LLC ( *ARC Finance Group* ). The issuance of this stock resulted in a change of control, with the new ownership group controlling approximately 85% of the company's outstanding stock. At June 30, 2007, ARC Finance Group's ownership percentage of the company's outstanding common shares and voting securities was approximately 48.6%.

We are authorized under our Certificate of Incorporation to issue (1) common shares, par value \$.001 per share, and (2) shares of preferred stock, par value \$.001 per share, of which one class, denominated as series A convertible preferred stock, has been designated to date. We sometime refer to these securities in these financial statements as *common shares* , *preferred shares* and *series A preferred shares* , respectively.

**2.**

**BASIS OF PRESENTATION**

The accompanying interim unaudited financial statements have been prepared by Signalife in accordance with

accounting principles generally accepted in the United States of America and pursuant to the rules and regulations of the Securities and Exchange Commission, including Form 10-QSB and Regulation S-B. The information furnished herein reflects all adjustments (consisting of normal recurring accruals and adjustments) which are, in the opinion of management, necessary to fairly present the operating results for the respective periods. Certain information and disclosures normally present in annual audited financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted pursuant to such rules and regulations. The company believes that the disclosures provided are adequate to make the information presented not misleading. These accompanying interim unaudited financial statements and these explanatory notes should be read in conjunction with the audited annual financial statements and accompanying explanatory notes for the year ended December 31, 2006 as disclosed in the company's 10-KSB for that year as filed with the SEC, as such report may be amended.

The results of the six-month interim period ended June 30, 2007 are not necessarily indicative of the results to be expected for the pending twelve-month period ending December 31, 2007.

**SIGNALIFE, INC.**

**Notes To Interim Financial Statements**

**For The Six Months Ended June 30, 2007 And 2006**

**(Unaudited)**

**(Continued)**

**3.**

**SIGNIFICANT ACCOUNTING POLICIES**

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles used in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Specifically, our management has estimated the expected economic life and value of our patents, our net operating loss for tax purposes and our stock, option and warrant expenses related to compensation to employees and directors, consultants and investment banks. Actual results could differ from those estimates.

**Fair Value of Financial Instruments**

For certain of our financial instruments, including accounts payable, accrued expenses and line of credit, the carrying amounts approximate fair value due to their relatively short maturities.

**Cash and Equivalents**

Cash equivalents are comprised of certain highly liquid investments with maturity of three months or less when purchased. We maintain our cash in bank deposit accounts, which, at times, may exceed federally insured limits. We have not experienced any losses in such accounts.

**Prepaid Sales Commissions**

During the six-month interim period ended June 30, 2007, the company issued to The Silve Group a total of 1,406,583 common shares valued at \$2,498,651. The issuance of these shares was an advance against future commissions to be earned by The Silve Group and, as the shares issued represent fully vested, non-forfeitable equity instruments (notwithstanding that the Silve Group may have a monetary reimbursement obligation), they are recorded as an asset in the accompanying balance sheet in accordance with Emerging Issues Task Force ( *EITF* ) No 00-18. As sales are generated by The Silve Group in the future, the prepaid sales commissions will be expensed as commission expense. The Company expects that sales generated from The Silve Group over the next two to three years to be sufficient to offset the commissions already paid to them.



**Inventory**

Inventory at June 30, 2007 consists of work in process and raw materials and is valued at the lower of cost or market on the first-in, first-out basis.

**Property and Equipment**

We record our property and equipment at historical cost. We expense maintenance and repairs as incurred. Depreciation is determined using the straight-line method over three to five years.

**Intangible and Long-Lived Assets**

We follow SFAS No. 144, *Accounting for Impairment of Disposal of Long-Lived Assets*, which established a primary asset approach to determine the cash flow estimation period for a group of assets and liabilities that represents the unit of accounting for a long lived asset to be held and used. Long-lived assets to be held and used, which consist of patents and property and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The

**SIGNALIFE, INC.**

**Notes To Interim Financial Statements**

**For The Six Months Ended June 30, 2007 And 2006**

**(Unaudited)**

**(Continued)**

carrying amount of a long-lived asset is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. Long-lived assets to be disposed of are reported at the lower of carrying amount or fair value less cost to sell. During the six-month interim periods ended June 30, 2007 and 2006, no impairment loss was recognized.

**Advertising Costs**

Advertising costs are expensed as incurred. For the six-month interim periods ended June 30, 2007 and 2006, advertising cost were not significant.

**Research and Development Costs**

Research and development costs consist of expenditures for the research and development of patents and technology, which are not capitalizable. Our research and development costs consist mainly of payroll and payroll related expenses, consultants, testing and Food and Drug Administration ( *FDA* ) regulatory expenses.

**Net Loss Per Share**

We use SFAS No. 128, *Earnings Per Share* for calculating the basic and diluted loss per share. We compute basic loss per share by dividing net loss and net loss attributable to common shareholders by the weighted average number of common shares outstanding. Diluted loss per share is computed similar to basic loss per share except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potential shares had been issued and if the additional shares were dilutive. Common equivalent shares are excluded from the computation of net loss per share if their effect is anti-dilutive.

Per share basic and diluted net loss attributable to common stockholders amounted to \$0.17 and \$0.14 for the six-month interim periods ended June 30, 2007 and 2006, respectively. For the six-month interim period ended June 30, 2007 and 2006, 10,799,878 and 10,343,462 potential shares, respectively, were excluded from the shares used to calculate diluted loss per share as their inclusion would reduce net loss per share (anti-dilutive).

**Revenue recognition**

We are currently marketing our products and services through our company sales team and independent distributors. On March 26, 2006, we entered into a Sales and Marketing Services Agreement with Rubbermaid Inc. ( *Rubbermaid* ), a subsidiary of Newell Rubbermaid Inc., to market our Fidelity 100 Monitor System in the United States as Signalife s

exclusive third-party agent. In consideration of these rights, Rubbermaid paid Signalife \$2,000,000 for the first year of the agreement. This agreement was subsequently terminated on January 24, 2007 (see Note 11). Revenue from the exclusivity fee has been recognized over the term of the agreement. We recognized \$500,000 as revenue during six-month interim period ended June 30, 2007.

We generally recognize product sales revenue upon delivery of product unless there are significant post-delivery obligations or collection is not considered probable at the time of sale. When significant post-delivery obligations exist, revenue is deferred until such obligations are fulfilled.

**SIGNALIFE, INC.**

**Notes To Interim Financial Statements**

**For The Six Months Ended June 30, 2007 And 2006**

**(Unaudited)**

**(Continued)**

**Stock Based Compensation**

We adopted SFAS No. 123 (Revised 2004), *Share Based Payment*, under the modified-prospective transition method on January 1, 2006. SFAS No. 123R requires companies to measure and recognize the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value. Share-based compensation recognized under the modified-prospective transition method of SFAS No. 123R includes share-based compensation based on the grant-date fair value determined in accordance with the original provisions of SFAS No. 123, *Accounting for Stock-Based Compensation*, for all share-based payments granted prior to and not yet vested as of January 1, 2006 and share-based compensation based on the grant-date fair-value determined in accordance with SFAS No. 123R for all share-based payments granted after January 1, 2006. SFAS No. 123R eliminates the ability to account for the award of these instruments under the intrinsic value method prescribed by Accounting Principles Board ( APB ) Opinion No. 25, *Accounting for Stock Issued to Employees*, and allowed under the original provisions of SFAS No. 123. Prior to the adoption of SFAS No. 123R, we accounted for our stock option plans using the intrinsic value method in accordance with the provisions of APB Opinion No. 25 and related interpretations. The company recognized \$758,334 and \$1,064,454 in share-based compensation expense for the six-month interim periods ended June 30, 2007 and 2006, respectively.

**Income Taxes**

Deferred income taxes result primarily from temporary differences between financial and tax reporting. Deferred tax assets and liabilities are determined based on the difference between the financial statement bases and tax bases of assets and liabilities using enacted tax rates. A valuation allowance is recorded to reduce a deferred tax asset to that portion that is expected to, more likely than not, be realized.

**Comprehensive Income**

A statement of comprehensive income is not presented in our financial statements since we did not have any of the items of other comprehensive income in any period presented.

**4.**

**RECENT ACCOUNTING PRONOUNCEMENTS**

In February of 2007 the Financial Accounting Standards Board ( FASB ) issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115*. The statement

permits entities to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. The statement is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. The company is analyzing the potential accounting treatment.

In July 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No.109*. Fin No. 48 prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Benefits from tax positions should be recognized in the financial statements only when it is more likely than not that the tax position will be sustained upon examination by the appropriate taxing authority that would have full knowledge of all relevant information. The amount of tax benefits to be recognized for a tax position that meets the more-likely-than-not recognition threshold is measured as the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. Tax benefits relating to tax positions that previously failed to meet the more-likely-than-not recognition threshold should be

**SIGNALIFE, INC.****Notes To Interim Financial Statements****For The Six Months Ended June 30, 2007 And 2006****(Unaudited)****(Continued)**

recognized in the first subsequent financial reporting period in which that threshold is met or certain other events have occurred. Previously recognized tax benefits relating to tax positions that no longer meet the more-likely-than-not recognition threshold should be derecognized in the first subsequent financial reporting period in which that threshold is no longer met. Fin No. 48 also provides guidance on the accounting for and disclosure of tax reserves for unrecognized tax benefits, interest and penalties and accounting in interim periods. We adopted Fin No. 48 effective January 1, 2007. The impact of adopting Fin No. 48 did not have a material impact on the company's financial statements.

**5.****PROPERTY AND EQUIPMENT**

Our property and equipment as of June 30, 2007 is as follows:

Computer equipment	\$ 220,873
Leasehold improvements	66,792
Furniture and fixtures	184,589
Software	36,690
Other equipment	44,304
Total property and equipment	553,248
Accumulated depreciation	(312,493)

Property and equipment, net

\$ 240,755

Depreciation expense amounted to \$45,509 and \$45,335 for six-month interim periods ended June 30, 2007 and 2006, respectively.

6.

#### **PATENTS AND TECHNOLOGY, INCLUDING RELATED PARTY AMOUNTS**

On September 19, 2002, we acquired certain know how, trade secrets and other proprietary intellectual property rights relating to the development of a human biomedical signal amplification equipment and technology from ARC Finance Group, in exchange for 23,400,000 common shares (7,800,000 shares pre-split). As a result of this transaction, ARC Finance acquired approximately 85% of the company's outstanding shares at that time. We have valued the technology and the common stock issued at \$78,023, which was ARC Finance Group's historical cost basis for the patents.

When we acquired the patent, we inherited a licensing agreement and therefore consider the patent to have been placed in service. We are amortizing our initial patent, valued at \$78,023, over an estimated useful life of 7 years.

The aggregate amortization expense will be approximately \$33,000 over the next three years, with an expense of approximately \$11,000 annually. The remaining balance in the intangible account consists of additional costs relating to our amplification technology, principally patent application costs. We have one patent and five patent applications concerning our proprietary amplification technology. We have recorded the value of our original patent and the additional costs relating to our amplification technology at the historical cost of \$641,537, with accumulated amortization of \$50,158 as of June 30, 2007. Amortization expense amounted to \$5,573 and \$5,573 for the six-month interim periods ended June 30, 2007 and 2006, respectively.

**SIGNALIFE, INC.**

**Notes To Interim Financial Statements**

**For The Six Months Ended June 30, 2007 And 2006**

**(Unaudited)**

**(Continued)**

**7.**

**CONTINGENT SETTLEMENT PAYABLE**

In conjunction with Dr. Budimir Drakulic becoming our Chief Technology Officer, we reached an agreement-in-principle with Dr. Drakulic to offer to sell common shares to certain individuals in order to protect our rights to the Signal Technologies. As part of that agreement, we agreed that should we raise more than \$2 million in certain offerings, we would pay 4% of the proceeds of those offerings greater than \$2 million to those individuals up to a maximum amount of \$480,350. During 2004, we reached settlements with a number of these individuals and the remaining liability related to the agreement as of June 30, 2007 is \$21,113, which is included in accounts payable and accrued expenses.

**8.**

**PREFERRED STOCK**

Our series A preferred shares carry a liquidation value equal to \$3 per share, are senior to all other shares of capital stock now existing or hereinafter created by our company as to dividend and liquidation rights, and have voting rights as if converted into common shares.

Our series A preferred shares are required to pay dividends of 8% annually to be paid quarterly either in cash or in the form of additional preferred shares at the discretion of Signalife. Any series A preferred shares issued as a dividend will be valued at \$3 per share.

During the six-month interim periods ended June 30, 2007 and 2006, we accrued dividends on our series A preferred shares in the amount of \$11,209 and \$18,751, respectively.

To date we have elected to pay these dividends in kind through the issuance of additional series A preferred shares.

During the six-month interim period ended June 30, 2007, we committed to issue a total of 3,737 series A preferred shares, valued at \$11,209 in satisfaction of the accrued dividends. During the six-month interim period ended June 30, 2006, we committed to issue a total of 6,250 series A preferred shares valued at \$18,751 in satisfaction of the accrued dividends.

Each series A preferred shareholder has the option at any time to convert all or any portion of his or her shares into common shares on a one-for-one basis. We also have the right to force conversion of the series A preferred shares



into common shares in the event (1) we list our common shares on a national exchange (NASDAQ, AMEX or NYSE); (2) the common shares underlying the preferred shares are covered by an effective registration statement; (3) the closing bid price for common shares is at least \$7.50 for 30 consecutive trading days; and (4) the average trading volume of the common shares during such 30 consecutive trading day period equals or exceeds 30,000 shares per day.

During the six-month interim periods ended June 30, 2007 and 2006, we converted 83,335 and 70,199 series A preferred shares into an equivalent number of common shares, respectively.

9.

#### **LINE OF CREDIT**

On January 25, 2007, the company entered into a Loan Agreement with S.E.S. Capital, LLC ( *SES Capital* ), an accredited investor, pursuant to which SES Capital has established a credit line in the amount of \$10 million under which Signalife may draw down advances at any time over a three-year term. Interest accrues on any advance at the rate of 7% per annum. Under the Loan Agreement, SES Capital will at all times maintain \$1 million in a bank account under which Signalife may withdraw the advances, and Signalife may withdraw up to \$100,000 with respect to each such advance. When Signalife withdraws an advance, SES Capital will have 30 days to replenish the account. Principal and interest is payable in a balloon payment on

**SIGNALIFE, INC.**

**Notes To Interim Financial Statements**

**For The Six Months Ended June 30, 2007 And 2006**

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February 25, 2010, although Signalife may pay off principal and interest at any time without penalty. As of June 30, 2007, we have \$202,148 in draws outstanding against the line of credit.

Signalife reserves the right at any time to fully or partially convert unpaid principal and interest into common shares at a conversion rate equal to \$3.15 per share or, if greater, the fair market value of those shares on AMEX as of the date of a draw request. As additional compensation for any conversion, Signalife will issue SES Capital a five-year warrant entitling it to purchase a number of common shares equal to 25% of the shares received upon conversion at the same price as the conversion price. These warrants are subject to standard capital adjustments, but do not contain price adjustments predicated on future offerings, including weighted-average or full-ratchet price adjustments.

As compensation for the extension of the credit line, Signalife granted to SES Capital a five-year warrant entitling it to purchase 200,000 common shares at \$2.15 per share, reflecting a 12% premium to the fair market value of those shares on AMEX as of the date of the Loan Agreement. These warrants are subject to standard capital adjustments, but do not contain price adjustments predicated on future offerings, including weighted-average or full-ratchet price adjustments.

Under the Loan Agreement, we are obligated to use our best efforts to file a registration statement with the SEC to register the common shares sold and the common shares issuable upon the conversion of the warrants within 90 days of demand therefore by SES Capital, and to cause such registration statement to be declared effective by the SEC within four months of filing. In the event that we fail to satisfy those obligations, then SES Capital will be entitled, as its sole remedy, to net issue or cashless exercise rights under the warrants.

**10.**

**OTHER STOCKHOLDERS EQUITY TRANSACTIONS**

**Non-Related Party Equity Transactions**

**2007**

On January 25, 2007, we issued options to with SES Capital to purchase a total of 200,000 common shares at \$2.15 per share, reflecting the fair market value of the shares as of that date, pursuant to the establishment of a credit line in the amount of \$10 million. The options were fully vested upon grant, and lapse if unexercised on January 25, 2012.

On February 12, 2007, we issued to an employee options to purchase 25,000 common shares at \$1.97 per share,

reflecting the fair market value of the shares as of that date. The options vest quarterly over a period of two years commencing May 12, 2007, and lapse if unexercised on February 12, 2012, subject to acceleration and forfeiture provisions.

On February 13, 2007, as additional compensation under a consulting agreement, we issued options to a consulting physician entitling him to purchase a total of 200,000 common shares at \$1.92 per share, reflecting the seven-day average closing price for those shares on AMEX, in connection with the provision of technical advice and assistance relating to the marketing of our products. The options vest one-half upon grant and the balance on May 13, 2007, and lapse if unexercised on February 12, 2011.

On March 6, 2007, as additional compensation under a consulting agreement, we issued options to a consulting physician entitling him to purchase a total of 100,000 common shares at \$1.96 per share, reflecting the fair market value of the shares as of that date, in connection with the provision of technical advice and assistance relating to the marketing of our products. The options were fully vested upon grant, and lapse if unexercised on March 5, 2011.

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On March 15, 2007, we issued 500,000 common shares to MJD Corp. as compensation for services provided for the first quarter of fiscal 2007 under an Investor Relations Agreement with MJD Corp dated effective January 1, 2007.

Under this agreement, MJD handles all investor relations and media matters for the company, including arrangement of interviews and the purchase, placement and distribution of media time.

During the six-month interim period ended June 30, 2007, pursuant to a previously negotiated arrangement that had been suspended during the Rubbermaid negotiations and contractual undertakings, we have issued a total of 1,406,583 common shares to or for the benefit of the principal of The Silve Group as advances for future sales commissions during the six-month interim period ended June 30, 2007 in connection with organizing, introducing us to and procuring specific international purchase orders, sales and distribution channels, partners and relationships. These shares were valued at \$2,498,651 based upon the fair market value of the shares determined as the closing stock price as reported by AMEX at the dates of issuance. Under our agreement with The Silve Group, they are entitled to 20% of all contract revenues they procure. Under that agreement, we will from time-to-time make prepayments against expenses, costs and other factors, which will be offset against contract revenues when received. The contractual relationship did not take effect until the beginning of 2007, when Signalife requested that The Silve Group begin performing services.

On June 18, 2007, we issued to a new employee as an inducement grant options to purchase a total of 100,000 common shares at \$0.82 per share, reflecting the fair market value of the shares as of that date. The options vest in equal installments quarterly over a period of two years commencing June 18, 2007, and lapse if unexercised on June 18, 2012, subject to acceleration and forfeiture provisions.

On June 29, 2007, we formally resolved all issues with American Capital pursuant to which we had previously cancelled securities issued to that company. Pursuant to the settlement, American Capital was allow to retain 121,115 previously-cancelled common shares which were deemed to have been reissued during the period, while acknowledging the cancellation of all other shares and warrants. During the quarter ended June 30, 2007, we recognized an expense of \$81,147 related to the 121,115 shares to be retained by American Capital.

During the six-month interim period ended June 30, 2007, we issued a total of 628,910 common shares to or for the benefit of the principal of Performance Capital Corp as compensation for the provision of strategic advisory and planning services rendered by that corporation during the first quarter. These shares were valued at \$1,118,993 based upon the fair market value of the shares determined as the closing stock price as reported by AMEX at the dates of issuance.

During the six-month interim period ended June 30, 2007, we issued 30,714 common shares to Willie Gault under his

consulting agreement with the company. These shares were valued at \$44,305 based upon the fair market value of the shares determined as the closing stock price as reported by AMEX at the dates of issuance.

During the six-month interim period ended June 30, 2007, in addition to the shares described above, we issued in the aggregate 1,140,034 common shares for payroll, legal & professional and business services rendered during the that period. These shares were valued at \$1,548,878 based upon the fair market value of the shares determined as the closing stock price as reported by AMEX at the dates of issuance.

**2006**

On March 14, 2006, we entered into a two-year consulting agreement with Mr. James M. Lyons. Under this agreement, Mr. Lyons was to provide consulting services relating to strategic, advisory, marketing and public capital markets matters to Signalife as it rolled-out its technologies, including strategic advisory services, consulting services on mergers and acquisitions, evaluative services on joint venture relationships, general business advice, capital structure consultation, and the configuration and/or additional to management, staff

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and our board of directors. After a contractual initiation fee of \$15,000 payable to Mr. Lyons, as compensation for services under the agreement, we agreed to (1) pay Mr. Lyons cash compensation of \$15,000 per month commencing on the nine-month anniversary date of the agreement, and (2) grant Mr. Lyons stock purchase options entitling him to purchase 450,500 common shares at \$2.75 per share. The fair market value of the shares as of date of grant was \$2.89 per share, resulting in a \$0.14 discount from market. The first 150,000 options were to vest on the grant date, while the balance of the options would vest on the second through twenty-fourth monthly anniversary dates to the extent that Mr. Lyons is then providing services as of such dates. The options were to lapse if not unexercised by March 14, 2011, subject to acceleration and forfeiture provisions. We recorded an expense of \$277,871 during the year ended December 31, 2006 related to the fair value of the options that vested during that period, using the Black-Scholes method based on the following assumption ranges: (1) risk free interest rate of 4.7%-5%; (2) dividend yield of 0%; (3) volatility factor of the expected market price of our common stock of 70%-82%; and (4) an expected life of the options of 1.5-2 years. Subsequently, we declared the contract to be terminated ab initio for, among other things, non-performance, and cancelled all options.

Effective as of April 4, 2006, we entered into a five-year investor relations agreement with American Capital Ventures, Inc. Under this agreement, American Capital Ventures was to provide consulting services relating to the presentation of our company to interested brokerage firms, hedge funds and institutional investors, coordinate meetings with analysts, assist in preparing and disseminating public relations and marketing materials, and provide advice in connection with financings, mergers acquisitions and buyouts.. The agreement is terminable by either party upon 90 days prior notice. As compensation for its services, we agreed to pay American Capital Ventures (1) \$15,000 cash compensation for each month the agreement remains effective, (2) 60,000 unregistered shares up front to cover American Capital Ventures start-up costs, with an additional 440,000 unregistered common shares payable ratably over 36 months to the extent the agreement remains effective; (2) stock purchase options entitling American Capital Ventures to purchase 500,000 common shares at \$2.98 per share, reflecting the market price for the shares as of the date of the agreement. These options vest ratably over 36 months to the extent the agreement remains effective, and lapse if not unexercised by April 4, 2011, subject to acceleration and forfeiture provisions. During the six-month interim period ended June 30, 2006 we issued to American Capital Ventures under this agreement an aggregate of 96,667 shares of common stock, valued at \$277,923. Additionally, also during the six-month interim period ended June 30, 2006, we recorded an expense of \$24,116 relating to the fair value of the stock purchase options that vested during that period using the Black-Scholes method based on the following assumptions: (1) risk free interest rate of 5%; (2) dividend yield of 0%; (3) volatility factor of the expected market price of our common stock of 75%; and (4) an expected life of the options of 1.5 years. Subsequently, on November 3, 2006, we determined and notified American Capital Ventures that the aforesaid transaction was not valid or legally enforceable at inception, and cancelled all common shares and stock purchase options issued to American Capital.

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Effective as of April 23, 2006, we entered into a business consulting agreement with Knights Bridge, GP. Under this agreement, Knights Bridge was to provide consulting services concerning various business-related matters for a period of approximately five weeks. As compensation for its services, we paid Knights Bridge 50,000 unregistered common shares, valued at \$156,000 based on the market value on the date of the agreement.

Effective as of May 25, 2006, we entered into a two-year consulting agreement with Mr. Willie Gault, through his company Catch-83, G.P., to assist us in promoting our products to the National Football League ( NFL ) and various other professional and amateur teams and associations; subject to our right to terminate the agreement without cause upon 30 days prior notice, and to pay a two-month severance payment in such circumstances. Under the terms of the agreement, Catch-83 is entitled to

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receive: (1) cash compensation of \$5,000 per month, to be increased to \$7,500 per month upon the development of a testing protocol for the NFL; (2) a \$100,000 cash bonus upon five NFL teams adopting the use of the Heart Monitors; (3) the grant of 25,000 five-year common share purchase options exercisable at \$1 per share (reflecting a \$1.98 per share discount to market) which are fully vested; and (4) the grant of 100,000 fully-vested five-year common share purchase options to be priced at market value upon each of (i) the development of a testing protocol and (ii) five NFL teams adopting the use of the Heart Monitors. The options to purchase 25,000 are fully vested, and lapse if unexercised on May 25, 2011, subject to acceleration and forfeiture provisions. We recorded an expense of \$55,348 during the six-month interim period ended June 30, 2006 to reflect the vesting of the 25,000 options using the Black-Scholes method based on the following assumption ranges: (1) risk free interest rate of 5%; (2) dividend yield of 0%; (3) volatility factor of the expected market price of our common stock of 80%; and (4) an expected life of the options of 1.5 years. During the six-month interim period ended June 30, 2006, we also issued a total of 34,604 common shares to Mr. Gault on behalf of Catch-83 in satisfaction of our monthly cash payment obligation under the consulting agreement. We valued these shares at \$68,163. The parties mutually agreed to suspend the agreement in June 2007 pending future developments.

On May 1, 2006, we issued to an employee options to purchase a total of 10,000 common shares at \$2.87 per share, reflecting the fair market value of the shares as of that date. The options vest in equal installments quarterly over a period of one year commencing May 31, 2006, and lapse if unexercised on May 1, 2011, subject to acceleration and forfeiture provisions.

On May 29, 2006, we issued to a new employee as an inducement grant options to purchase a total of 50,000 common shares at \$2.19 per share, reflecting the fair market value of the shares as of that date. The options vest in equal installments quarterly over a period of two years commencing August 19, 2006, and lapse if unexercised on May 29, 2011, subject to acceleration and forfeiture provisions.

On May 29, 2006, we issued to a new employee as an inducement grant options to purchase a total of 60,000 common shares at \$2.19 per share, reflecting the fair market value of the shares as of that date. The options vest in equal installments quarterly over a period of one year commencing August 19, 2006, and lapse if unexercised on May 29, 2011, subject to acceleration and forfeiture provisions.

On June 1, 2006, we issued to a consultant, Garud Technologies, options to purchase a total of 100,000 common shares at \$2.35 per share, reflecting the fair market value of the shares as of that date. These options were granted pursuant to the terms of a consulting agreement whereby Garud Technologies would provide product development services. The options vest in equal installments quarterly over a period of two years commencing September 1, 2006, and lapse if unexercised on June 1, 2011, subject to acceleration and forfeiture provisions. We have recorded an



expense of \$3,784 during the six-month interim period ended June 30, 2006 relating to the fair value of the aforesaid options that vested during that period using the Black-Scholes method based on the following assumption ranges: (1) risk free interest rate of 4.7% to 5.0%; (2) dividend yield of 0%; (3) volatility factor of the expected market price of our common stock of 70% to 77%; and (4) an expected life of the options of 1.5 to 2 years. This consulting agreement was subsequently terminated on October 23, 2006, and all unvested options as of that date were forfeited.

On June 1, 2006, we issued to two employees options to purchase a total of 100,000 common shares at \$2.36 per share, reflecting the fair market value of the shares as of that date. The options vest in equal installments quarterly over a period of two years commencing September 1, 2006, and lapse if unexercised on June 1, 2011, subject to acceleration and forfeiture provisions.

On June 6, 2006, we issued to an employee options to purchase a total of 50,000 common shares at \$2.35 per share, reflecting the fair market value of the shares as of that date. The options vest in equal installments

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quarterly over a period of one year commencing September 6, 2006, and lapse if unexercised on June 6, 2011, subject to acceleration and forfeiture provisions.

On June 14, 2006, we entered into a new investment banking agreement with Maxim Group, LLC, pursuant to which Maxim would provide non-exclusive investment banking, strategic advising and financial advising services to Signalife. This agreement superceded and replaced an investment banking agreement previously entered into with Maxim on June 10, 2005. The new agreement provided that we would pay to Maxim a nonrefundable retainer of \$100,000, plus twelve monthly retainer payments of \$12,500 commencing July 1, 2006. As additional compensation under this agreement, we granted Maxim warrants to purchase 750,000 common shares at \$2.75 per share, and cancelled 500,000 warrants previously granted on June 10, 2005 in connection with the superceded agreement. These new warrants contain a cashless exercise provision and lapse, to the extent unexercised, on June 14, 2011. The warrants vest as follows: 300,000 at grant, 100,000 at December 14, 2006, 150,000 at March 14, 2007 and 200,000 at June 14, 2007. After taking into consideration the fair value of 500,000 warrants granted on June 10, 2005 which were cancelled, the incremental fair value of the warrants was estimated at \$206,710 under the Black-Scholes option-pricing model computed as of the date of grant using the following assumptions: (1) dividend yield of 0%, (2) expected volatility of 75%, (3) weighted-average risk-free interest rate of 5%, and (4) expected life of 1.5 years. During the six-month interim period ended June 30, 2006, we recorded an expense of \$82,684 for the vested warrants. As an inducement for Maxim and its clients to exercise their warrants, we also repriced certain outstanding common stock purchase warrants granted to Maxim and its clients from an exercise price of \$3.00 per share to a new exercise price of \$2.50 per share. During the six-month interim period ended June 30, 2006, we recorded an expense of \$95,578 to reflect the incremental fair value of the repriced warrants under the Black-Scholes option-pricing model computed as of the date of modification using the following assumptions: (1) dividend yield of 0%, (2) expected volatility of 75%, (3) weighted-average risk-free interest rate of 5%, and (4) expected life of 1.5 years.

During the six-month interim period ended June 30, 2006, in addition to the shares described above, we issued in the aggregate 282,066 common shares for payroll and business services. These shares were valued at \$777,744 based upon the fair market value of the shares determined as the closing stock price as reported by AMEX at the date of issuance.

**Equity Transactions With Current or Prospective Officers, Directors and Other Related Parties**

**2007**

On January 20, 2007, we issued to a director, Ms. Jennifer Black, as compensation for further serving on our board of

directors, options to purchase 28,000 common shares at \$1.60 per share, reflecting the fair market value of the shares as of that date. The options vest quarterly over a period of one year commencing January 20, 2007, and lapse if unexercised on January 19, 2012, subject to acceleration and forfeiture provisions.

On February 21, 2007, we issued 15,000 common shares to our Chief Technology Officer, Dr. Budimir Drakulic, in satisfaction of compensation payment to Dr. Drakulic. These shares were valued at \$29,250 based upon the fair market value of the shares determined as the closing stock price as reported by AMEX at the date of issuance.

On April 15, 2007, we issued to a director, Ms. Pamela M. Bunes, as compensation for further serving on our board of directors, options to purchase 28,000 common shares at \$1.75 per share, reflecting the fair market value of the shares as of that date. The options vest quarterly over a period of one year commencing July 15, 2007, and lapse if unexercised on April 15, 2012, subject to acceleration and forfeiture provisions.

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On June 6, 2007, we issued to a director, Dr. Lowell T. Harmison, as compensation for further serving on our board of directors, options to purchase 28,000 common shares at \$1.05 per share, reflecting the fair market value of the shares as of that date. The options vest quarterly over a period of one year commencing September 6, 2007, and lapse if unexercised on June 6, 2012, subject to acceleration and forfeiture provisions.

On June 23, 2007, we issued to a new director, Mr. Jesse S. Rosas, as compensation for joining our board of directors, options to purchase 50,000 common shares at \$0.75 per share, reflecting the fair market value of the shares as of that date. The options vest quarterly over a period of one year commencing September 23, 2007, and lapse if unexercised on June 23, 2012, subject to acceleration and forfeiture provisions.

On June 23, 2007, we issued to a new director, Mr. Jesse S. Rosas, as compensation for joining the audit committee of our board of directors, options to purchase 25,000 common shares at \$0.75 per share, reflecting the fair market value of the shares as of that date. The options vest quarterly over a period of one year commencing September 23, 2007, and lapse if unexercised on June 23, 2012, subject to acceleration and forfeiture provisions.

**2006**

On January 3, 2006, we issued to a director, Ms. Jennifer Black, as compensation for further serving on the audit committee of our board of directors, options to purchase 10,000 common shares at \$2.70 per share, reflecting the fair market value of the shares as of that date. The options vest quarterly over a period of one year commencing January 3, 2006, and lapse if unexercised on January 2, 2011, subject to acceleration and forfeiture provisions.

On January 20, 2006, we issued to a director, Ms. Jennifer Black, as compensation for further serving on our board of directors, options to purchase 28,000 common shares at \$2.90 per share, reflecting the fair market value of the shares as of that date. The options vest quarterly over a period of one year commencing January 20, 2006, and lapse if unexercised on January 19, 2011, subject to acceleration and forfeiture provisions.

On April 15, 2006, we issued to a director, Ms. Pamela M. Bunes, as compensation for further serving on our board of directors, options to purchase 28,000 common shares at \$3.11 per share, reflecting the fair market value of the shares as of that date. The options vest quarterly over a period of one year commencing July 15, 2006, and lapse if unexercised on April 15, 2011, subject to acceleration and forfeiture provisions.

On April 18, 2006, we issued to a director, Mr. Rodney Hildebrandt, as compensation for further serving on our board of directors, options to purchase 28,000 common shares at \$3.05 per share, reflecting the fair market value of the shares as of that date. The options vest quarterly over a period of one year commencing July 18, 2006, and lapse if

unexercised on April 18, 2011, subject to acceleration and forfeiture provisions.

On June 6, 2006, we issued to a director, Mr. Lowell T. Harmison, as compensation for further serving on our board of directors, options to purchase 28,000 common shares at \$2.36 per share, reflecting the fair market value of the shares as of that date. The options vest quarterly over a period of one year commencing September 6, 2006, and lapse if unexercised on June 6, 2011, subject to acceleration and forfeiture provisions.

On June 6, 2006, we issued to a director, Mr. Rowland Perkins, as compensation for serving on the audit committee of our board of directors, options to purchase 10,000 common shares at \$2.36 per share, reflecting the fair market value of the shares as of that date. One-half of these options vested upon grant, reflecting prior service on the committee since November 1, 2005, while the balance vest in two equal installments on August 1, 2006 and November 1, 2006, subject to acceleration and forfeiture provisions.

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**11.**

**LEGAL PROCEEDINGS**

On March 30, 2006, a complaint was filed in the Los Angeles County Superior Court against Signalife, each of its current directors, ARC Finance Group, Tracey Hampton, Mitchell Stein, and Atlas Stock Transfer Corporation, entitled *Marvin Fink, individually, and Marvin Fink as Trustee of the Fink Family Trust, Plaintiffs, vs. Signalife, Inc., et al, Defendants*. In the complaint, Mr. Fink alleges various causes of action including, without limitation, breach of contract, breach of the implied covenant of good faith and fair dealing, breach of fiduciary duty, deceit, fraud, and negligence, and seeking damages and a mandatory injunction forcing Signalife to accept a legal opinion letter from Mr. Fink's legal counsel and to remove a restrictive legend from his Signalife common shares. The gravamen of the complaint is that the defendants induced Mr. Fink to enter into an employment agreement with Signalife in 2002 providing for payment of compensation in the form of 2,100,000 shares of restricted stock, but have since refused to remove the restrictive legend from the shares to allow Mr. Fink to sell the shares on the public market under SEC Rule 144. Signalife believes that Mr. Fink's claims are without basis and is vigorously defending the action. On May 30, 2006, the company and other defendants filed Demurrers and Special Motions to Strike attacking each cause of action and the complaint as a whole as legally deficient and lacking in evidentiary support, and seeking dismissal of the action in its entirety on this and other grounds. A Motion to Quash challenging personal jurisdiction was also filed on behalf of certain of the individual defendants, which the Court granted, resulting in dismissal of four directors from the suit. Subsequently, plaintiffs filed a First Amended Complaint, to which defendants filed renewed Demurrers and Special Motions to Strike. At a hearing held on September 1, 2006, the Court denied defendants' Special Motions to Strike, and granted in part and denied in part the Demurrers, with leave to amend. Defendants filed a Notice of Appeal of the Court's ruling denying their Special Motions to Strike which has resulted in a stay of the lawsuit pending the appeal. Fink filed a motion to dismiss the appeal as frivolous and a motion for sanctions, which the Court of Appeal summarily denied, and the appeal remains pending. While Signalife denies any liability to Mr. Fink and intends to vigorously contest Mr. Fink's claims, we cannot make an evaluation of the likely outcome of the case or the amount or range of any possible loss or recovery. Based upon certain actions of Mr. Fink the company is currently investigating, the company shall seek a determination or shall use self-help to issue a stop transfer notification on all of Mr. Fink's shares for fraud and breach of contract. To date, neither of these remedies have been pursued yet by the company.

On January 24, 2007, Signalife filed a complaint in the General Court of Justice of the State of North Carolina captioned *Signalife, Inc., plaintiff, vs Rubbermaid Inc., Newell Rubbermaid Inc., Gary Scott and David Hicks*, Superior Court Division of the General Court of Justice of the State of North Carolina, County of Mecklenburg, alleging fraud, breach of fiduciary duty, breach of contract and unfair trade practices, and seeking damages of \$20

million. Signalife's complaint is grounded in the failure and refusal of Rubbermaid, Inc. ( *Rubbermaid* ), a subsidiary of Newell Rubbermaid Inc., as Signalife's exclusive third-party agent under a Sales and Marketing Services Agreement (the *Marketing Agreement* ) entered into with Rubbermaid on March 26, 2006, to put together at its cost a national sales force to market Signalife's Fidelity 100 Monitor System, and to advertise and otherwise use commercially reasonable efforts to vigorously promote the sale and marketing of the Fidelity 100, as required under the Marketing Agreement. Rubbermaid concurrently filed a complaint against Signalife on January 24, 2007 in the United States District Court of North Carolina captioned *Rubbermaid Incorporated, plaintiff, vs. Signalife, Inc., defendant*; United States District Court, Western District, North Carolina, alleging negligent misrepresentation, breach of representation and warranty, and breach of contract, and seeking damages in excess of \$75,000. Rubbermaid's principal factual allegation is that Signalife failed to meet projections that the company would independently sell 300 Fidelity 100 units in 2006. Rubbermaid makes this assertion notwithstanding that there is no representation, covenant or undertaking in the extensive, comprehensive and thoroughly negotiated Marketing Agreement requiring Signalife to sell any Fidelity 100 units whatsoever, much less 300 units, and that the Marketing Agreement also contains an integration clause that would preclude Rubbermaid from making any such claim if not otherwise contained in

**SIGNALIFE, INC.**

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**(Unaudited)**

**(Continued)**

the agreement. Rubbermaid also alleges, without providing any support, that the Fidelity 100 was not commercially ready for sale. Rubbermaid makes this assertion notwithstanding extensive product due diligence by Rubbermaid in entering into the Marketing Agreement, the fact that Signalife has been actively selling the units through its in-house sales staff, and the fact that Signalife has provided to Rubbermaid extensive documentation as to all operational and technical issues, including attestation as to the commercial use and results of the Fidelity 100 by a number of physicians who use the units in their practices. Signalife denies the validity of Rubbermaid's allegations, and believes that they are merely a pretext raised by Rubbermaid in anticipation of Signalife's complaint, and to otherwise enable Rubbermaid to avoid performing its obligations under the Marketing Agreement (which Signalife had previously estimated in its SEC filings would cost Rubbermaid approximately \$4-5 million to perform). On January 29, 2007, Signalife filed a motion in Rubbermaid's federal court lawsuit to dismiss that lawsuit or, in the alternative, stay the lawsuit pending the resolution of the lawsuit filed in state court by Signalife. The federal court has not ruled on Signalife's motion to dismiss/stay. On February 2, 2007, Rubbermaid removed Signalife's state court lawsuit to federal court, claiming diversity of citizenship jurisdiction. On February 27, 2007, Signalife filed a motion to remand the case back to the state court. The federal court has not ruled on Signalife's motion to remand. On February 20, 2007, Rubbermaid filed a motion in the Signalife state court action to remove the lawsuit to federal court, to dismiss Signalife's fraud, breach of fiduciary duty, unfair trade practices and alter ego claims, and to dismiss Newell Rubbermaid, Inc., Gary Scott and David Hicks as defendants. The motion to dismiss would not affect Signalife's breach of contract claim against Rubbermaid. The federal court has not ruled on Rubbermaid's motion to dismiss. While Signalife denies any liability to Rubbermaid and intends to vigorously contest Rubbermaid claims and also intends to pursue the company's claims, we cannot make an evaluation of the likely outcome of the case or the amount or range of any possible loss or recovery.

**12.**

**RELATED PARTY TRANSACTIONS**

During the six-month interim periods ended June 30, 2007 and 2006, we incurred legal fees in the amounts of \$76,147 and \$78,827, respectively, to a law firm which has one of our directors, Mr. Ellsworth Roston, as a partner. Of these amounts, \$0 and \$78,827, respectively, were capitalized as patent costs.

**13.**

**SUBSEQUENT EVENTS**

On July 11, 2007, we issued to each of three new directors, Dr. Robert E. Windom, Dr. Steven J. Phillips and Dr. Jay



A. Johnson, as compensation for joining our board of directors, options to purchase 50,000 common shares at \$0.68 per share, reflecting the fair market value of the shares as of that date. The options vest quarterly over a period of one year commencing October 11, 2007, and lapse if unexercised on October 11, 2012, subject to acceleration and forfeiture provisions.

Since the end of the second quarter of fiscal 2007, we issued a total of 400,000 common shares to the principal of The Silve Group as compensation for the provision of product marketing and distribution services rendered by that company during the second quarter in connection with organizing, introducing us to and procuring specific international sales and distribution channels, partners and relationships.

Since the end of the second quarter of fiscal 2007, we issued a total of 275,552 common shares for payroll, legal & professional and business services.

On August 6, 2007, Signalife entered into a series of related transactions with YA Global Investments, LP ( *YA Global* ), including a Securities Purchase Agreement, a Standby Equity Distribution Agreement, and Registration Rights Agreements, pursuant to which:

**SIGNALIFE, INC.**

**Notes To Interim Financial Statements**

**For The Six Months Ended June 30, 2007 And 2006**

**(Unaudited)**

**(Continued)**

(1)

For the sum of \$2,000,000 pursuant to the Securities Purchase Agreement, YA Global will purchase: (1) 2,956,830 unregistered common shares (based upon the formula of \$2,000,000 divided by 95% of the average volume weighted average price ( *VWAP* ) of Signalife's common stock for the twenty-day period prior to the date of the Securities Purchase Agreement; ), (2) five-year common stock purchase warrants entitling YA Global to purchase 1,000,000 unregistered common shares at a price of \$1 per share, and (3) five-year common stock purchase warrants entitling YA Global to purchase 500,000 unregistered common shares at a price of \$2 per share. The aforesaid warrants will be exercisable in cash, except to the extent that the underlying common shares are not registered or in the event of an event of default as defined under the Securities Purchase Agreement. The aforesaid warrants will also carry full-ratchet anti-dilution rights.

(2)

Pursuant to the terms of the Standby Equity Distribution Agreement, YA Global will grant to Signalife the right at its election without any obligation to do so, over a three-year period, to incrementally sell up to \$100,000,000 in common shares to YA Global at a price equal to 97% of the lowest daily VWAP for Signalife's common stock on its primary market over a five-day trading period (the *pricing period* ) following the date of notice of Signalife's exercise of its selling rights.

(3)

Pursuant to the terms of the Standby Equity Distribution Agreement, Signalife will pay to YA Global 1,404,495 unregistered common shares as compensation for entering into the Equity Agreement and committing to selling shares to YA Global thereunder.

In connection with the aforesaid transactions, Signalife entered into a Placement Agent Agreement with Newbridge Securities Corporation, a NASD registered broker-dealer, which acted as Signalife's exclusive placement agent in the aforesaid transaction. Under that agreement, Signalife will pay to Newbridge 14,405 unregistered common shares as compensation for acting as Signalife's exclusive placement agent.

The aforesaid \$2,000,000 cash consideration and common shares and warrants have been placed into escrow, with the \$2,000,000 to be released to Signalife from escrow upon receipt of AMEX approval, or upon other conditions not involving AMEX that are within the control of the company..



## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### General

The following discussion of our financial condition and results of operations should be read in conjunction with (1) our unaudited interim financial statements and explanatory notes for the six-month interim period ended June 30, 2007 included as part of this quarterly report, and (2) our audited annual financial statements and explanatory notes for the year ended December 31, 2006 as disclosed in our annual report on form 10-KSB for that year as filed with the SEC, as it may be amended.

During the fourth quarter of 2006, we commenced our planned operations as we shifted our focus from product development to selling our products. Prior to that time and from our inception, we were considered a development stage company in accordance with Statements of Financial Accounting Standards ( *SFAS* ) No. 7, *Accounting and Reporting by Development Stage Enterprises*.

### Overview

Signalife is a medical device company focused on researching, developing, and marketing medical devices which monitor and measure physiological signals in order to detect diseases that impact an individual's health. Physiological signals are small bioelectrical signals generated by the body.

Our initial product lines are heart monitor systems used to collect physiological data for electrocardiogram or ECG tests for the purpose of detecting and identifying cardiovascular disease. The core component of our products is our battery-operated, digital 12-lead Model 100 Module, a compact device approximately 4 x 3.5 x 1.5 inches in size, that allows a patient's heart to be continuously monitored over a period of 24 to 48 hours in a variety of settings both non-ambulatory (stationary) and ambulatory (moving) such as hospitals, surgeries, clinics, doctors' offices, exercise and sports medicine clinics and laboratories. The Model 100 Module contains both our proprietary patented amplification technology which acquires, processes and amplifies ECG signals, as well as Bluetooth technology which allows the acquired signals to be wirelessly transmitted to a personal computer for interpretation and storage by the physician. Our Model 100 Module operates using a proprietary and patented amplification technology which provides the capability to enlarge and process the physiological signals to discriminate them from ambient or background electromagnetic noise and to facilitate the examination of the signal data for diagnostic purposes.

We are currently marketing our first heart monitoring system using our Model 100 Module the Fidelity 100 Monitor System, and recorded our first revenues from product sales in October 2006. This system is an integrated system in which our Model 100 Module collects, processes and amplifies ECG signals from that patient through a set of twelve electrode lead sets provided with the system, and then wirelessly transmits that signal to a nearby personal computer provided with the system. The signals are then displayed on a computer monitor and can be printed on a printer provided with the system for analysis by the cardiologist.

We are selling the Fidelity 100 Monitor System as an integrated system containing all of the components the Model 100 Module, electrode lead sets, and a personal computer with monitor and printer, which could either be in a desk top or laptop configuration.

The Fidelity 100 Monitor System is principally used for clinical (resting) and in-patient ambulatory applications. For example, ECG data may be instantaneously acquired, processed, amplified and transmitted to the personal computer for analysis in stationary settings, such as while conducting ECG tests in resting or in-patient ambulatory settings or during surgeries.

We are also currently working on a number of products in the investigation or development stage, including the Signalife Holter Monitor, the Signalife Fidelity 200 Event Recording System, the Signalife Cardiac Vest, and the Signalife Intracardiac Monitor. We anticipate that the former two products will be introduced to the market by the end of fiscal 2007.

We are currently marketing and distributing our products and services through a combination of our internal company sales team and through a network of independent distributors.

We are also actively pursuing other marketing alternatives. For example, we have recently successfully completed a pilot program in which patrons of a gym were tested using Signalife's Fidelity 100 Monitor System in order to detect and identify cardiovascular disease that could be triggered or exacerbated by exercise programs. We are now in the process of expanding the program to fitness facilities across the country. We are also participating in the Athletes For Life program which will focus on developing protocols to test professional and amateur athletes for cardiovascular disease and abnormalities as part of their regular training regime, and will also promote testing for impoverished communities where early detection of cardiovascular disease simply does not exist.

As of August 1, 2007, we had issued and outstanding or accrued for issuance a total of: (1) 47,207,050 common shares; (2) 14,574 shares of series A convertible preferred stock, plus an additional 39,681 unissued series A preferred shares accrued for issuance as dividends through June 30, 2007; and (3) stock purchase options and warrants entitling the holders to purchase up to 10,620,586 and 179,292 common shares and series A convertible preferred shares, respectively, at weighted average exercise prices of \$2.23 and \$3.00 per share, respectively.

## Results of Operations

The company had no revenues or corresponding costs from products sales for the three or six-month interim periods ended June 30, 2007 and 2006, respectively.

General and administrative expenses for the three-month interim period ended June 30, 2007 were \$2,182,477, as compared to \$3,047,313 for the corresponding interim period in fiscal 2006. The primary components of general and administrative expenses for the three-month interim period ended June 30, 2007 were professional fees, general consulting fees, salaries and stock based compensation and marketing and public relations. The \$864,836 or 28% decrease in general and administrative expenses was principally attributable to a \$75,903 decrease in investor/public relations expenses, a \$281,740 decrease in professional fees, including legal, accounting and investment banking, a \$443,752 decrease in consulting fees, and a \$71,608 decrease in travel expenses.

General and administrative expenses for the six-month interim period ended June 30, 2007 were \$7,508,202, as compared to \$5,367,609 for the corresponding interim period in fiscal 2006. The primary components of general and administrative expenses for the six-month interim period ended June 30, 2007 were professional fees, general consulting fees, salaries and stock based compensation and marketing and public relations. The \$2,140,593 or 40% increase in general and administrative expenses was principally attributable to a \$2,566,240 increase in investor/public relations, a \$140,163 increase in professional fees, including legal, accounting and investment banking; partially offset by a decrease of \$150,054 in consulting fees, a decrease of \$160,686 in outside services and a decrease of \$385,313 in stock compensation related to SFAS No. 123R.

Research and development expenditures for the three-month interim period ended June 30, 2007 were \$337,460, as compared to \$258,850 for the corresponding interim period in fiscal 2006. The \$78,610 or 30% overall increase in research and development expenditures for the three-month interim period ended June 30, 2007 was principally attributable to an increase in research and development consulting costs in the amount of \$24,408, an increase of salaries of \$33,741, and an increase in prototype expense of \$32,046 offset by a decrease in outside services and professional fees of \$29,010.

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Research and development expenditures for the six-month interim period ended June 30, 2007 were \$622,731, as compared to \$428,113 for the corresponding interim period in fiscal 2006. The \$194,618 or 45% overall increase in research and development expenditures for the six-month interim period ended June 30, 2007 was principally attributable to an increase in research and development consulting costs in the amount of \$96,974, an increase of salaries of \$99,174, and an increase in prototype expense of \$27,898 offset by a decrease in outside services and professional fees of \$57,711.

We had other income of \$6,387 for the three-month interim period ended June 30, 2007, as compared to \$526,852 for the corresponding interim period in fiscal 2006. The \$520,465 decrease was attributable a reduction of \$500,000 in co-exclusivity fees recognized under our since-terminated agreement with Rubbermaid, together with a reduction of \$20,465 in interest income.

We had other income of \$554,039 for the six-month interim period ended June 30, 2007, as compared to \$569,031 for the corresponding interim period in fiscal 2006. The \$14,992 decrease was attributable to a reduction in interest income.

We incurred a net loss before preferred dividends of \$2,513,550 for the three-month interim period ended June 30, 2007, as compared to \$2,779,311 for the corresponding interim period in fiscal 2006. The \$265,761 or 10% decrease in our net loss before preferred dividends for the three-month interim period ended June 30, 2007 was attributable to the \$864,836 decrease in general and administrative expenses; partially offset by the \$78,610 increase in research and development expenses and the \$520,465 decrease in other income.

We incurred a net loss before preferred dividends of \$7,576,894 for the six-month interim period ended June 30, 2007, as compared to \$5,226,691 for the corresponding interim period in fiscal 2006. The \$2,350,203 or 45% increase in our net loss before preferred dividends for the six-month interim period ended June 30, 2007 was attributable to the \$2,140,593 increase in general and administrative expenses, the \$194,618 increase in research and development expenses and the \$14,992 decrease in other income.

## **Plan Of Operation**

Our overall plan of operation for the twelve-month period going forward commencing as of July 1, 2007 is to (1) continue to ramp-up domestic and international commercial marketing and sales efforts with respect to our Fidelity 100 Monitor System, both through our internal sales staff and independent distributors, (2) commence marketing of our Fidelity 300 Holter Monitor by the end of the first quarter of fiscal 2007 following the completion of pending industry-partner evaluation studies and the filing of a 510(k) application with the FDA; (3) complete design, engineering and fabrication of a production version of the Signalife Fidelity 200 Event Recording System, and commence commercial distribution of this product by the end of the first quarter of fiscal 2007, (4) conduct further studies relating to the commercial production of the Signalife Cardiac Vest and its introduction to market, (5) commence the expansion of our fitness center testing program to fitness facilities across the country; and (6) to the extent permitted by available financial resources and manpower, (i) conduct further design, engineering and fabrication activities in connection with a production version of the Signalife Intracardiac Monitor; and (ii) continue evaluation activities in connection with the development of an EEG monitor device.

We currently have budgeted \$5,570,500 in anticipated cash expenditures for the twelve-month period commencing July 1, 2007, including (1) \$403,000 to cover our projected sales, marketing and product awareness expenses (excluding any sales and marketing, manufacturing and fulfillment costs associated with products sold during the twelve-month period, which we anticipate would be covered by any revenues associated with such sales); (2) \$3,230,500 to cover our projected general and administrative expenses during this period; (3) \$1,711,000 for research and development activities; and (4) \$226,000 for production expenses (excluding any production expenses associated with products sold during the twelve-month period, which we anticipate would be covered by any revenues associated with such sales). The aforesaid budgeted cash expenditures exclude any manufacturing, sales and marketing (including sales commissions) and fulfillment costs associated with products sold during the twelve-month



period, which we anticipate would generate positive cash flow after payment of such costs. Management is constantly reviewing and revising the aforesaid budget based upon developments, and the aforesaid budget will change accordingly.

We anticipate that we will add additional staff, either as employees or consultants, principally in direct sales marketing and distribution areas, as sales activities increase. We also anticipate that we will add additional accounting personnel, including a permanent chief financial officer, over this twelve-month period. We do not currently have an estimate as to the number or range of employees or consultants that would be added.

Our anticipated costs and projected completion dates described above are estimates based upon our current business plan, known resources and market dynamics. Our actual costs or actual project completion dates could vary materially from those projected. Our management team is continually re-evaluating our core business plan as it relates to marketing and developing our monitoring products and identifying new applications and markets for our technology.

We may at any time decide to terminate our ongoing development plans with respect to products and services if they are deemed to be impracticable or not to be commercially viable. Further changes to our current business plan could also result, such as the acquisition of new products or services or the decision to manufacture our own products, resulting in a change in our anticipated strategic direction, investments, and expenditures. See that section of this quarterly report captioned *Uncertainties And Risk Factors That May Affect Our Future Results And Financial Condition* .

## **Capital Resources**

### ***Historical Sources Of Capital Resources***

We have historically financed our operations through a combination of (1) gross proceeds from contributed capital, including the sale of our common shares, series A preferred shares and common share purchase warrants for cash, and the exercise of stock purchase warrants for cash; (2) the issuance of common shares or common share purchase warrants in payment of the provision of services; (3) gross proceeds from the sale of a debenture which was subsequently converted into common shares; (4) the grant of non-exclusive rights to market our products and services; and (5) advances against our line of credit. Included in the foregoing are the following significant financing transactions as reported in (1) our audited annual financial statements and explanatory notes for the year ended December 31, 2006 as disclosed in our annual report on form 10-KSB for that year as filed with the SEC, as it may be amended, and (2) our unaudited interim financial statements and explanatory notes for the six-month interim period ended June 30, 2007 included as part of this quarterly report:

On March 31, 2005, we sold a total of 1,562,500 unregistered common shares, together with common share purchase warrants entitling the holder to purchase 1,500,000 restricted common shares, to Trellus Partners, LP for the sum of \$5,000,000 pursuant to a private placement. The warrants are exercisable at \$1.60 per share, contain cashless exercise provisions, and lapse if unexercised on or before March 31, 2010. As part of the transaction, we agreed to file a registration statement with the SEC on or before April 20, 2005 to register the common shares sold and the common shares issuable upon the conversion of the warrants. We further agreed to reduce the exercise price of the warrants to \$1.20 per share should we fail to file the registration statement on a timely basis. Subsequent to the private placement, we procured an extension of the filing date to June 30, 2005, and filed the registration statement with the SEC on June 29, 2005. The registration statement was declared effective on July 22, 2005.

On April 8, 2005, we sold a total of 937,500 unregistered common shares, together with common share purchase warrants entitling the holder to purchase 900,000 restricted common shares, to Lagunitas Partners LP, Gruber & McBaine International, Jon D. and Linda W. Gruber, and J. Patterson McBaine for the sum of \$3,000,000 pursuant to a private placement. The warrants are exercisable at \$1.60 per share, contain cashless exercise provisions, and lapse if unexercised on or before April 8, 2010. As part of the transaction, we agreed to file a registration statement with the SEC within 20 days to register the common shares sold and the common shares issuable upon the conversion of the

warrants. We further agreed to reduce the exercise price of the warrants to \$1.20 per share should we fail to file the registration statement on a timely basis. Subsequent to the private placement, we procured an extension of the filing date to June 30, 2005, and filed the registration statement with the SEC on June 29, 2005. The registration statement was declared effective on July 22, 2005.

On March 26, 2006, we entered into a Sales and Marketing Services Agreement with Rubbermaid Inc. ( *Rubbermaid* ), a subsidiary of Newell Rubbermaid Inc. Pursuant to the terms of this agreement, we received a \$2,000,000 fee upon execution for the grant of the right to act as

Signalife's exclusive third-party agent market our Fidelity 100 Monitor System. This agreement was subsequently terminated on January 24, 2007.

On October 31, 2006, we closed several private placements to accredited institutional investors pursuant to which we received gross proceeds of \$2,500,000 from Trellus Partners, LP, an existing shareholder, and its affiliates, and \$430,000 from three new shareholders through the sale of a total of 1,890,322 common shares priced at \$1.55 per share, together with five-year warrants entitling the holders to purchase a total of 756,129 common shares at \$2.23 per share. Maxim Partners, LLC acted as placement agent with respect to procuring the three new shareholders, and was paid a cash commission of \$32,250, or 7.5% of the proceeds raised from the new shareholders, plus five-year placement agents warrants entitling it to purchase units comprised of 27,742 common shares at \$1.55 per share, plus warrants entitling it to purchase a total of 11,097 common shares at \$2.23 per share.

Since January 2007 until June 30, 2007, we have drawn a total of \$202,148 in advances against our \$10 million line of credit with S.E.S. Capital, LLC. Pursuant to our rights under the credit facility, we intend to convert these advances into common shares. For a description of this credit facility, see *Capital Resources Going Forward* below.

Subsequent to the foregoing, on August 6, 2007, Signalife entered into a series of related transactions with YA Global Investments, LP ( *YA Global* ), including a Securities Purchase Agreement, a Standby Equity Distribution Agreement, and Registration Rights Agreements, pursuant to which:

For the sum of \$2,000,000 pursuant to the Securities Purchase Agreement, YA Global will purchase: (1) 2,956,830 unregistered common shares (based upon the formula of \$2,000,000 divided by 95% of the average VWAP of Signalife's common stock for the twenty-day period prior to the date of the Securities Purchase Agreement; ), (2) five-year common stock purchase warrants entitling YA Global to purchase 1,000,000 unregistered common shares at a price of \$1 per share, and (3) five-year common stock purchase warrants entitling YA Global to purchase 500,000 unregistered common shares at a price of \$2 per share. The aforesaid warrants will be exercisable in cash, except to the extent that the underlying common shares are not registered or in the event of an event of default as defined under the Securities Purchase Agreement. The aforesaid warrants will also carry full-ratchet anti-dilution rights.

Pursuant to the terms of the Standby Equity Distribution Agreement, YA Global will grant to Signalife the right at its election without any obligation to do so, over a three-year period, to incrementally sell up to \$100,000,000 in common shares to YA Global at a price equal to 97% of the lowest daily VWAP for Signalife's common stock on its primary market over a five-day trading period (the *pricing period* ) following the date of notice of Signalife's exercise of its selling rights.

Pursuant to the terms of the Standby Equity Distribution Agreement, Signalife will pay to YA Global 1,404,495 unregistered common shares as compensation for entering into the Equity Agreement and committing to selling shares

to YA Global thereunder.

In connection with the aforesaid transactions, Signalife entered into a Placement Agent Agreement with Newbridge Securities Corporation, a NASD registered broker-dealer, which acted as Signalife's exclusive placement agent in the aforesaid transaction. Under that agreement, Signalife will pay to Newbridge 14,405 unregistered common shares as compensation for acting as Signalife's exclusive placement agent.

The aforesaid \$2,000,000 cash consideration and common shares and warrants have been placed into escrow, with the \$2,000,000 in gross proceeds to be released to Signalife from escrow upon receipt of AMEX approval, or upon other conditions not involving AMEX that are within the control of the company..

***Capital Resources Going Forward***

We have approximately \$74,000 of cash on hand as of June 30, 2007 to fund our operations going forward. We also have \$10 million in credit available to fund our operations going forward under a credit line

credit entered into on January 25, 2007 with S.E.S. Capital, LLC ( *SES Capital* ). Under this credit line, Signalife can draw up to \$10 million at any time over a three-year term. Interest will accrue on any advance at the rate of 7% per annum. Under the underlying Loan Agreement, SES Capital will at all times maintain \$1 million in a bank account under which Signalife may withdraw the advances, and Signalife may withdraw up to \$100,000 with respect to each such advance. When Signalife withdraws an advance, SES Capital will have 30 days to replenish the account.

Principal and interest is payable in a balloon payment on February 25, 2010, although Signalife may pay off principal and interest at any time without penalty. To date, we have drawn \$202,148 against the line of credit.

Signalife reserves the right at any time to fully or partially convert unpaid principal and interest into common shares at a conversion rate equal to \$3.15 per share or, if greater, the fair market value of those shares on AMEX as of the date of a draw request. As additional compensation for any conversion, Signalife will issue SES Capital a five-year warrant entitling it to purchase a number of common shares equal to 25% of the shares received upon conversion at the same price as the conversion price. These warrants are subject to standard capital adjustments, but do not contain price adjustments predicated on future offerings, including weighted-average or full-ratchet price adjustments.

As compensation for the extension of the credit line, Signalife issued to SES Capital a five-year warrant entitling it to purchase 200,000 common shares at \$2.15 per share, reflecting a 12% premium to the fair market value of those shares on AMEX as of the date of the Loan Agreement. These warrants are subject to standard capital adjustments, but do not contain price adjustments predicated on future offerings, including weighted-average or full-ratchet price adjustments.

We will also be entitled to the distribution of \$2,000,000 in net proceeds from the recent sale of our securities to YA Global Investments upon their release from escrow following AMEX approval. For a description of this transaction, see *Capital Resources Historical Sources Of Capital Resources* above.

We believe that our cash currently on hand, together with anticipated revenues and borrowings against our line of credit with SES Capital discussed above and the pending investment and standby equity purchase arrangement with YA Global Investments as discussed above, will be sufficient to cover our anticipated cash expenditures for the twelve-month period going forward commencing as of July 1, 2007 as discussed above in *Plan Of Operation* . We have taken and will continue to take steps to preserve our cash, including making payments to selected service providers and employees in common shares in lieu of cash. Should our costs and expenses prove to be greater than we currently anticipate, or should we change our current business plan in a manner that will increase or accelerate our anticipated costs and expenses, such as through an acquisition of new products, the depletion of our working capital would be accelerated. To the extent it becomes necessary to raise additional cash in the future as our current cash and working capital resources as discussed above are depleted, we anticipate we would raise it the public or private sale of debt or equity securities, the procurement of advances on contracts or licenses, funding from joint-venture or strategic partners, debt financing or short-term loans, or a combination of the foregoing. We may also seek to satisfy indebtedness without any cash outlay through the private issuance of debt or equity securities. Other than our line of credit with SES Capital as discussed above and the pending investment and standby equity purchase arrangement with YA Global Investments as discussed above, we currently do not have any binding commitments for, or readily available sources of, additional financing. We cannot give you any assurance that we will be able to secure the additional cash or working capital we may require to continue our operations.

## **Critical Accounting Policies**

Our discussion and analysis of our financial condition and results of operations are based upon our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities. For a description of those estimates, see Note 3, *Significant Accounting Policies*, contained in the explanatory notes to our audited financial statements for the year ended December 31, 2006 as disclosed in our annual report on form 10-KSB for that year as filed with the SEC, as it may be amended.

On an ongoing basis, we evaluate our estimates, including those related to reserves, deferred tax assets and valuation allowance, impairment of long-lived assets, and fair value of equity instruments issued to consultants for services. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions; however, we believe that our estimates, including those for the above-described items, are reasonable.

### **Recent Accounting Pronouncements**

In February of 2007 the Financial Accounting Standards Board ( *FASB* ) issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115*. The statement permits entities to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. The statement is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. The company is analyzing the potential accounting treatment.

In July 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No.109*. Fin No. 48 prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Benefits from tax positions should be recognized in the financial statements only when it is more likely than not that the tax position will be sustained upon examination by the appropriate taxing authority that would have full knowledge of all relevant information. The amount of tax benefits to be recognized for a tax position that meets the more-likely-than-not recognition threshold is measured as the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. Tax benefits relating to tax positions that previously failed to meet the more-likely-than-not recognition threshold should be recognized in the first subsequent financial reporting period in which that threshold is met or certain other events have occurred. Previously recognized tax benefits relating to tax positions that no longer meet the more-likely-than-not recognition threshold should be derecognized in the first subsequent financial reporting period in which that threshold is no longer met. Fin No. 48 also provides guidance on the accounting for and disclosure of tax reserves for unrecognized tax benefits, interest and penalties and accounting in interim periods. We adopted Fin No. 48 effective January 1, 2007. The impact of the adoption of Fin No. 48 did not have a material impact on the company's financial statements.

### **UNCERTAINTIES AND OTHER RISK FACTORS THAT MAY AFFECT OUR FUTURE RESULTS AND FINANCIAL CONDITION**

We have described below a number of uncertainties and risks which, in addition to uncertainties and risks presented elsewhere in this quarterly report, may adversely affect our business, operating results and financial condition. The uncertainties and risks enumerated below as well as those presented elsewhere in this quarterly report should be considered carefully in evaluating our company and our business and the value of our securities.

*Our limited operating history will make it difficult for you to predict our future operating results and to otherwise assess or predict the likelihood of our business success.*



We have only recently commenced selling our first heart monitoring product, the Fidelity 100 Monitor System, in October 2006. Prior to that date, we were a development stage company solely engaged in research and development activities. Our limited operating history will make it difficult, if not impossible, to predict future operating results and to assess the likelihood of our business success in considering an investment in our company.

***We have nominal sales revenues to date and have accumulated losses since our inception. Our continued inability to generate revenues and profits could cause us to go out of business.***

We have incurred cumulative net losses before preferred dividends available to common shareholders in the amount of \$42,375,550 from our inception through June 30, 2007. We have only recently introduced our first heart monitoring product, the Fidelity 100 Monitor System, to market in March 2006, and received our first sales revenues from the sale of those products in October 2006. We project that we will not be cash flow positive based solely on projected sales and service revenues less manufacturing, general and administrative, marketing expenses and other operating costs for an indefinite period of time. We anticipate that we will continue to incur substantial operating losses for the foreseeable future, notwithstanding any anticipated revenues we may receive in the near future.

***If we are unable to raise additional working capital, we will be unable to fully fund our operations and to otherwise execute our business plan, leading to the reduction or suspension of our operations and ultimately our going out of business.***

As noted in the prior risk factor, we only recently introduced our first heart monitoring product, the Fidelity 100 Monitor System, to market and commenced commercial sales of that product, and further anticipate that after such introduction we will continue to be cash flow negative due to our anticipated costs exceeding our anticipated revenues for an indefinite period of time. We believe that our currently available working capital and line of credit with SES Capital and the pending investment and standby equity purchase arrangement with YA Global Investments LLC will be sufficient to continue our business for at least the next twelve months. Should our costs and expenses prove to be greater than we currently anticipate, or should we change our current business plan in a manner that will increase or accelerate our anticipated costs and expenses, such as through an acquisition of new products, the depletion of our working capital would be accelerated. To the extent it becomes necessary to raise additional cash in the future as our current cash and working capital resources are depleted, we will seek to raise it through the public or private sale of debt or equity securities, the procurement of advances on contracts or licenses, funding from joint-venture or strategic partners, debt financing or short-term loans, or a combination of the foregoing. We may also seek to satisfy indebtedness without any cash outlay through the private issuance of debt or equity securities. Other than our line of credit with SES Capital and the pending investment and standby equity purchase arrangement with YA Global Investments, we currently do not have any binding commitments for, or readily available sources of, additional financing. We cannot give you any assurance that we will be able to secure the additional cash or working capital we may require to continue our operations.

***Even if we are able to raise additional financing, we might not be able to obtain it on terms that are not unduly expensive or burdensome to the company or disadvantageous to our existing shareholders.***

Even if we are able to raise additional cash or working capital through the public or private sale of debt or equity securities, the procurement of advances on contracts or licenses, funding from joint-venture or strategic partners, debt financing or short-term loans, or the satisfaction of indebtedness without any cash outlay through the private issuance of debt or equity securities, the terms of such transactions may be unduly expensive or burdensome to the company or disadvantageous to our existing shareholders. For example, we may be forced to sell or issue our securities at significant discounts to market, or pursuant to onerous terms and conditions, including the issuance of preferred stock with disadvantageous dividend, voting or veto, board membership, conversion, redemption or liquidation provisions; the issuance of convertible debt with disadvantageous interest rates and conversion features; the issuance of warrants with cashless exercise features; the issuance of securities with anti-dilution provisions; and the grant of registration rights with significant penalties for the failure to quickly register. If we raise debt financing, we may be required to secure the financing with all of our business assets, which could be sold or retained by the creditor should we default

in our payment obligations. We also might be required to sell or license our products or technologies under disadvantageous circumstances we would not otherwise consider, including granting licenses with low royalty rates and exclusivity provisions.

***Our sales, marketing and distribution capabilities are currently in the initial stages of development and are limited in manpower and financial resources, which limits our ability to rapidly penetrate the markets with our products and to generate revenue growth***

Our sales, marketing and distribution capabilities are currently in the initial stages of development. Currently, we are relying upon a small internal sales team, as well as a small but growing network of national and international distributors. Our ability to actively market and promote our products will require significant amounts of capital that would be diverted from other uses. The distribution of our products and consequential revenue growth will therefore be limited as these marketing and distributions channels grow and funding becomes available. While we are in discussions with a number of large third party marketing and distribution partners with the manpower and financial resources to more quickly and aggressively promote our products, there is no assurance that we will enter into an agreement with these potential partners on acceptable terms or at all.

***We intend to rely upon the third-party FDA-approved manufacturers or suppliers to manufacture our heart monitoring products. Should these manufacturers fail to perform as expected, we will need to develop or procure other manufacturing sources, which would cause delays or interruptions in our product supply and result in the loss of significant sales and customers.***

We currently have no internal manufacturing capability, and will rely extensively on FDA-approved licensees, strategic partners or third party contract manufacturers or suppliers. We have recently entered into a contract manufacturing agreement with a private-label manufacturer to manufacture our Model 100 Monitors and package our Model 100 Monitor System. We cannot give you any assurance that this contract manufacturer or any other contract manufacturer or supplier we procure will be able to supply our product in a timely or cost effective manner or in accordance with applicable regulatory requirements or our specifications. Further, should we be forced to manufacture our products, we cannot give you any assurance that we will be able to develop an internal manufacturing capability or procure third party suppliers.

***We are dependent for our success on a few key executive officers. Were we to lose one or more of these key executive officers, we would be forced to expend significant time and money in the pursuit of a replacement, which would result in both a delay in the implementation of our business plan and the diversion of working capital.***

Our success depends to a critical extent on the continued efforts of services of our executive management team comprised of Ms. Pamela M. Bunes, our Chief Executive Officer, Dr. Lowell T. Harmison, our President and Chief Operating Officer, and Dr. Budimir S. Drakulic, our Chief Technology Officer. Were we to lose one or more of these key executive officers, we would be forced to expend significant time and money in the pursuit of a replacement, which would result in both a delay in the implementation of our business plan and the diversion of working capital.

Ms. Bunes is currently employed pursuant to five-year employment agreements, while Dr. Drakulic is employed as a consultant under a loan-out agreement through June 26, 2016. None of these agreements will preclude any of these key officers from leaving the company. Dr. Harmison is not currently engaged under an employment agreement. We currently maintain key man life insurance policies in the amount \$3 million with respect to Dr. Drakulic which will assist us in recouping some of our costs in the event of the death of that officer.

***Our products are highly regulated. We will not be able to introduce our products to market if we cannot obtain the necessary regulatory approvals. If we are unable to obtain regulatory approvals for our products in selected key markets at all or in a timely manner, we will not be able to grow as quickly as expected, and the loss of anticipated revenues will also reduce our ability to fully fund our operations and to otherwise execute our business plan. Our failure to receive the regulatory approvals in the United States would likely cause us to go out of business.***

The manufacture, sale, promotion and marketing of our heart monitoring products and other products we intend to develop are subject to regulation by the Food and Drug Administration ( *FDA* ) and similar government regulatory bodies in other countries. As we develop or obtain new products we will be

required to determine what regulatory requirements, if any, we must comply with in order to market and sell our products in the United States and worldwide. The process of obtaining regulatory approval could take years and be very costly, if approval can be obtained at all. If we fail to comply with these requirements, we could be subjected to enforcement actions such as an injunction to stop us from marketing the product at issue or a possible seizure of our assets. We intend to work diligently to assure compliance with all applicable regulations that impact our business.

We can give you no assurance, however, that we will be able to obtain regulatory approval for all of our products.

We also cannot assure you that additional regulations will not be enacted in the future that would be costly or difficult to satisfy.

***Because we are not diversified, we are subject to a greater risk of going out of business should our single proposed product line fail.***

The only business opportunities we are presently pursuing are the heart monitoring or ECG market and, later, using the same technology, the neurological brain scan or EEG market. Unlike many established companies that are diversified, we do not presently have other businesses, properties, investments or other income producing assets upon which we could rely upon should our single product line fail, thereby increasing the risk of our going out of business.

***Many of our customers will rely upon third party reimbursements from third party payors to cover all or a portion of the cost of our products. If third party payors do not provide reimbursement for our products, we will not be able to grow as quickly as expected, and the loss of anticipated revenues will also reduce our ability to fully fund our operations and to otherwise execute our business plan.***

We intend to sell our heart monitoring products to individual patients and doctors, hospitals and clinics who will seek reimbursement from various third party payors, including government health programs, private health insurance plans, managed care organizations and other similar programs. We can give you no assurance that reimbursement will be available from third party payors at all, or for more than a nominal portion of the cost of our products.

***Our inability to protect our intellectual property rights could allow competitors to use our property rights and technologies in competition against our company, which would reduce our sales. In such an event we would not be able to grow as quickly as expected, and the loss of anticipated revenues will also reduce our ability to fully fund our operations and to otherwise execute our business plan.***

We rely on a combination of patent, patent pending, copyright, trademark and trade secret laws, proprietary rights agreements and non-disclosure agreements to protect our intellectual properties. We cannot give you any assurance that these measures will prove to be effective in protecting our intellectual properties. We also cannot give you any assurance that our existing patents will not be invalidated, that any patents that we currently or prospectively apply for will be granted, or that any of these patents will ultimately provide significant commercial benefits. Further, competing companies may circumvent any patents that we may hold by developing products which closely emulate but do not infringe our patents. While we intend to seek patent protection for our products in selected foreign countries, those patents may not receive the same degree of protection as they would in the United States. We can give you no assurance that we will be able to successfully defend our patents and proprietary rights in any action we may file for patent infringement. Similarly, we cannot give you any assurance that we will not be required to defend against litigation involving the patents or proprietary rights of others, or that we will be able to obtain licenses for these rights. Legal and accounting costs relating to prosecuting or defending patent infringement litigation may be substantial.

We also rely on proprietary designs, technologies, processes and know-how not eligible for patent protection. We cannot give you any assurance that our competitors will not independently develop the same or superior designs, technologies, processes and know-how.

While we have and will continue to enter into proprietary rights agreements with our employees and third parties giving us proprietary rights to certain technology developed by those employees or parties while engaged by our company, we can give you no assurance that courts of competent jurisdiction will enforce those agreements.

## Risks Relating To An Investment In Our Securities

### ***There can be no assurance that our common shares will continue to be listed on AMEX***

On June 27, 2007, Signalife received a deficiency letter from the American Stock Exchange ( *AMEX* ) pursuant to which it indicated that the company's current stockholder's equity of approximately \$3.2 million at the time had fallen to less than the \$4 million and \$6 million required for continued listing under AMEX Rules 1003(a)(ii) and (a)(iii), respectively. These minimum stockholders' equity thresholds were triggered by the recent decline of Signalife's market capitalization to less than \$50 million, which previously exempted Signalife from these requirements. In response to the letter, on July 26, 2007, Signalife submitted to AMEX a plan for so increasing the company's stockholder's equity for AMEX's review and acceptance. This plan will need to be implemented by December 29, 2008 or such earlier date as AMEX deems reasonable. AMEX is currently reviewing Signalife's plan, and Signalife anticipates a response within 45 days of its submission of the proposal. If Signalife's market capitalization were to return to levels above \$50 million, then the plan will not need to be implemented. In the event that our common shares were no longer to be listed on AMEX, whether by reason of AMEX's ultimate rejection of Signalife's plan, or Signalife's failure to increase stockholder's equity to the requisite \$4 million and \$6 million required by AMEX, Signalife would seek to trade its common shares on the Over-The-Counter Bulletin Board ( *OTCBB* ) as previously done before listing our common shares on AMEX. Such an event could have an impact on the trading price of our common shares. No guarantee can be given that AMEX will accept the plan.

### ***Our common shares are sporadically or thinly traded, so you may be unable to sell at or near ask prices or at all if you need to sell your shares to raise money or otherwise desire to liquidate your shares***

Our common shares have historically been sporadically or thinly traded, meaning that the number of persons interested in purchasing our common shares at or near ask prices at any given time may be relatively small or non-existent. This situation is attributable to a number of factors, including the fact that we are a small company which is relatively unknown to stock analysts, stock brokers, institutional investors and others in the investment community that generate or influence sales volume, and that even if we came to the attention of such persons, they tend to be risk-averse and would be reluctant to follow an unestablished company such as ours or purchase or recommend the purchase of our shares until such time as we became more seasoned and viable. As a consequence, there may be periods of several days or more when trading activity in our shares is minimal or non-existent, as compared to a seasoned issuer which has a large and steady volume of trading activity that will generally support continuous sales without a material reduction in share price. We cannot give you any assurance that a broader or more active public trading market for our common shares will develop or be sustained, or that current trading levels will be sustained. Due to these conditions, we can give you no assurance that you will be able to sell your shares at or near ask prices or at all if you need money or otherwise desire to liquidate your shares.

***The market price for our common shares has a small and thinly-traded public float and is particularly volatile given our status as a company which has only recently introduced its products to market, and our limited operating history, nominal revenues and lack of profits to date, all of which could lead to wide fluctuations in our share price. The price at which you purchase our common shares may not be indicative of the price that will prevail in the trading market. You may be unable to sell your common shares at or above your purchase price, which may result in substantial losses to you. The volatility in our common share price may subject us to securities litigation.***

The market for our common shares is characterized by significant price volatility when compared to seasoned issuers, and we expect that our share price will continue to be more volatile than a seasoned issuer for the indefinite future.



The volatility in our share price is attributable to a number of factors. First, we have relatively few common shares outstanding in the public float since most of our shares are held by a small number of shareholders. In addition, as noted above, our common shares are sporadically or thinly traded. As a consequence of this lack of liquidity, the trading of relatively small quantities of shares by our shareholders may disproportionately influence the price of those shares in

either direction. The price for our shares could, for example, decline precipitously in the event that a large number of our common shares are sold on the market without commensurate demand, as compared to a seasoned issuer which could better absorb those sales without a material reduction in share price. Secondly, we are a speculative or risky investment due to our limited operating history, nominal revenues and lack of profits to date, and uncertainty of future market acceptance for our products. As a consequence of this enhanced risk, more risk-averse investors may, under the fear of losing all or most of their investment in the event of negative news or lack of progress, be more inclined to sell their shares on the market more quickly and at greater discounts than would be the case with the stock of a seasoned issuer. Additionally, in the past, plaintiffs have often initiated securities class action litigation against a company following periods of volatility in the market price of its securities. We may in the future be the target of similar litigation. Securities litigation could result in substantial costs and liabilities and could divert management's attention and resources.

The following factors may add to the volatility in the price of our common shares: actual or anticipated variations in our quarterly or annual operating results; acceptance of our products and services as viable security and technology solutions; government regulations, announcements of significant acquisitions, strategic partnerships or joint ventures; our capital commitments; and additions or departures of our key personnel. Many of these factors are beyond our control and may decrease the market price of our common shares, regardless of our operating performance. We cannot make any predictions or projections as to what the prevailing market price for our common shares will be at any time, including as to whether our common shares will sustain their current market prices, or as to what effect that the sale of shares or the availability of common shares for sale at any time will have on the prevailing market price.

***Since a single shareholder currently beneficially owns the majority of our outstanding common shares, that single shareholder will retain the ability to control our management and the outcome of corporate actions requiring shareholder approval notwithstanding the overall opposition of our other shareholders. This concentration of ownership could discourage or prevent a potential takeover of our company that might otherwise result in you receiving a premium over the market price for your common shares.***

ARC Finance Group, LLC ( *ARC Finance Group* ), which is owned and controlled by Ms. Tracey Hampton, owns approximately 48.6% of our outstanding common shares and voting securities. As a consequence of its controlling stock ownership position, ARC Finance Group effectively holds the ability to elect a majority of our board of directors or to remove any director, and thereby controls our management. ARC Finance Group also has the ability to control the outcome of corporate actions requiring shareholder approval, including mergers and other changes of corporate control, going private transactions, and other extraordinary transactions. ARC Finance Group actively evaluates potential modifications to our board of directors and management, and could make such modifications or wholesale changes at any time if deemed to be in the company's best interest.

***The sale of a large amount of common shares held by our shareholders or our executive officers or directors, or the perception that such sales could occur, could substantially depress the prevailing market prices for our shares.***

There are a substantial number of common shares either currently outstanding or acquirable upon exercise of common share purchase options or warrants that may be freely sold on the public markets, including 3,500,000 common shares (out of a total of approximately 22,605,800 common shares) held by our controlling shareholder, ARC Finance Group, to provide it with a mechanism to sell such shares on the public market should it decide to do so in view of its apparent ineligibility to sell those shares under the Rule 144 safe harbor under current SEC interpretations. We understand that ARC Finance Group has continuously sold and plans to continue to sell shares under that registration statement, both directly under 10b-5 plans it has established or indirectly through independent trustees under blind trusts it has established, and believe that a large number of these shares remain available for sale. A large number of

our shares, both registered and unregistered, may also be sold under available resale exemptions under the federal securities laws, including Rule 144 (albeit subject to volume limitations in the case of shares held by affiliates or restricted stock held for less than two years). We anticipate that a substantial number of the aforesaid registered and unregistered shares, whether currently held or acquired in the future by

way of grant or exercise of common share purchase options or warrants, will be sold on the public markets for a number of reasons, including the need to satisfy income tax liabilities, the need to cover the purchase price of option and warrant exercises, or decisions predicated on market conditions.

***A large number of common shares are issuable upon conversion of our series A preferred shares or the exercise of outstanding common share purchase options or warrants. The conversion or exercise of these securities could result in the substantial dilution of your investment in terms of your percentage ownership in the company as well as the book value of your common shares. The sale of a large amount of common shares received upon the conversion or exercise of these securities on the public market to finance the exercise price or to pay associated income taxes, or the perception that such sales could occur, could substantially depress the prevailing market prices for our shares.***

There are currently outstanding as of August 1, 2007, (1) 14,574 series A preferred shares (plus an additional 39,681 unissued series A preferred shares accrued as dividends for issuance through June 30, 2007), each convertible into one common share at the conversion rate of \$3 per share, and (2) share purchase options and warrants entitling the holders to purchase 10,620,586 and 179,292 common shares and series A preferred shares, respectively, at weighted average exercise prices of \$2.23 and \$3.60 per share, respectively. Included in these share purchase options are a large number granted to directors, officers, employees and consultants that are subject to vesting conditions. In the event of the conversion or exercise of these securities, you could suffer substantial dilution of your investment in terms of your percentage ownership in the company as well as the book value of your common shares. In addition, the holders of the common share purchase options or warrants may sell common shares in tandem with their exercise of those options or warrants to finance that exercise, or may resell the shares purchased in order to cover any income tax liabilities that may arise from their conversion or exercise of these securities.

***Our issuance of additional common shares or preferred shares, or options or warrants to purchase those shares, would dilute your proportionate ownership and voting rights. Our issuance of additional preferred shares, or options or warrants to purchase those shares, could negatively impact the value of your investment in our common shares as the result of preferential voting rights or veto powers, dividend rights, disproportionate rights to appoint directors to our board, conversion rights, redemption rights and liquidation provisions granted to the preferred shareholders, including the grant of rights that could discourage or prevent the distribution of dividends to you, or prevent the sale of our assets or a potential takeover of our company that might otherwise result in you receiving a distribution or a premium over the market price for your common shares.***

We are entitled under our certificate of incorporation to issue up to 100,000,000 common and 10,000,000 blank check preferred shares. After taking into consideration our common and series A preferred shares outstanding or accrued for issuance as of August 1, 2007, we will be entitled to issue up to 53,547,519 additional common shares and 9,946,834 additional preferred shares. Our board may generally issue those common and preferred shares, or options or warrants to purchase those shares, without further approval by our shareholders based upon such factors as our board of directors may deem relevant at that time. Any preferred shares we may issues shall have such rights, preferences, privileges and restrictions as may be designated from time-to-time by our board, including preferential dividend rights, voting rights, conversion rights, redemption rights and liquidation provisions. It is likely that we will be required to issue a large amount of additional securities to raise capital to further our development and marketing plans. It is also likely that we will be required to issue a large amount of additional securities to directors, officers, employees and consultants as compensatory grants in connection with their services, both in the form of stand-alone grants or under our various stock plans. We cannot give you any assurance that we will not issue additional common or preferred shares, or options or warrants to purchase those shares, under circumstances we may deem appropriate at the time.



***We are subject to the Delaware Business Combination Act, which could discourage or prevent a potential takeover of our company that might otherwise result in you receiving a premium over the market price for your common shares.***

As a Delaware corporation, we are subject to the Delaware Business Combination Act which precludes a shareholder who owns 15% or more of our shares from entering into a business combination involving our company for a period of three years, unless (1) our board of directors approves the combination before the shareholder acquires the 15% interest; (2) the interested shareholder acquires at least 85% of our shares as part of the transaction in which he acquired the initial 15%, excluding shares owned by our officers who are also directors and voting stock held by employee benefit plans; or (3) the combination is approved by a majority vote of our board of directors and two-thirds vote of our other shareholders at a duly called shareholders meeting. A business combination is defined as (1) a merger or consolidation requiring shareholder approval, (2) the sale, lease, pledge, or other disposition of our assets, including by dissolution, having at least 50% of the entire asset value of our company, or (3) a proposed tender or exchange offer of 50% or more of our voting stock.

***The elimination of monetary liability against our directors, officers and employees under our certificate of incorporation and the existence of indemnification rights to our directors, officers and employees may result in substantial expenditures by our company and may discourage lawsuits against our directors, officers and employees.***

Our certificate of incorporation contains provisions which eliminate the liability of our directors for monetary damages to our company and shareholders to the maximum extent permitted under Delaware corporate law. Our bylaws also require us to indemnify our directors to the maximum extent permitted by Delaware corporate law. We may also have contractual indemnification obligations under our agreements with our directors, officers and employees. The foregoing indemnification obligations could result in our company incurring substantial expenditures to cover the cost of settlement or damage awards against directors, officers and employees, which we may be unable to recoup. These provisions and resultant costs may also discourage our company from bringing a lawsuit against directors, officers and employees for breaches of their fiduciary duties, and may similarly discourage the filing of derivative litigation by our shareholders against our directors, officers and employees even though such actions, if successful, might otherwise benefit our company and shareholders.

## **CONTROLS AND PROCEDURES**

### **Evaluation Of Disclosure Controls And Procedures**

Disclosure controls and procedures are designed to ensure that information required to be disclosed in periodic reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported, within the time period specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in the reports filed under the Exchange Act is accumulated and communicated to management, including our Chief Executive Officer and Interim Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Our Chief Executive Officer and Interim Chief Financial Officer, in consultation with other members of management and advisors as appropriate, carried out an evaluation of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this quarterly report pursuant to Rule 15d-15(b) promulgated under the Exchange

Act. Based upon that evaluation, our Chief Executive Officer and Interim Chief Financial Officer concluded that our disclosure controls and procedures are effective in alerting them in a timely fashion to all material information required to be included in our periodic filings with the SEC.

#### **Changes In Internal Control Over Financial Reporting**

The term *internal control over financial reporting* is defined as a process designed by, or under the supervision of, our Chief Executive Officer and Principal Financial Officer (as those terms are defined by

the SEC), and effected by our board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

There were no changes in our internal control over financial reporting identified in connection with our evaluation of these controls as of the end of the period covered by this quarterly report that could have significantly affected those controls subsequent to the date of the evaluation referred to in the previous paragraph.

## LEGAL PROCEEDINGS

We have summarized below (1) any legal or governmental proceedings relating to our company or properties to which we are a party which we consider to be material and which are pending as of the date of this quarterly report, (2) any proceedings to which any of our directors, executive officers or affiliates are a party adverse to us or which have a material interest adverse to us which are pending as of the date of this quarterly report, and (3) any such matters pending on March 31, 2007 and settled on or before the date of this quarterly report.

On March 30, 2006, a complaint was filed in the Los Angeles County Superior Court against Signalife, each of its current directors, ARC Finance Group, Tracey Hampton, Mitchell Stein, and Atlas Stock Transfer Corporation, entitled *Marvin Fink, individually, and Marvin Fink as Trustee of the Fink Family Trust, Plaintiffs, vs. Signalife, Inc., et al, Defendants*. In the complaint, Mr. Fink alleges various causes of action including, without limitation, breach of contract, breach of the implied covenant of good faith and fair dealing, breach of fiduciary duty, deceit, fraud, and negligence, and seeking damages and a mandatory injunction forcing Signalife to accept a legal opinion letter from Mr. Fink's legal counsel and to remove a restrictive legend from his Signalife common shares. The gravamen of the complaint is that the defendants induced Mr. Fink to enter into an employment agreement with Signalife in 2002 providing for payment of compensation in the form of 2,100,000 shares of restricted stock, but have since refused to remove the restrictive legend from the shares to allow Mr. Fink to sell the shares on the public market under SEC Rule 144. Signalife believes that Mr. Fink's claims are without basis and is vigorously defending the action. On May 30, 2006, the company and other defendants filed Demurrers and Special Motions to Strike attacking each cause of action and the complaint as a whole as legally deficient and lacking in evidentiary support, and seeking dismissal of the action in its entirety on this and other grounds. A Motion to Quash challenging personal jurisdiction was also filed on behalf of certain of the individual defendants, which the Court granted, resulting in dismissal of four directors from the suit. Subsequently, plaintiffs filed a First Amended Complaint, to which defendants filed renewed Demurrers and Special Motions to Strike. At a hearing held on September 1, 2006, the Court denied defendants' Special Motions to Strike, and granted in part and denied in part the Demurrers, with leave to amend. Defendants filed a Notice of Appeal of the Court's ruling denying their Special Motions to Strike which has resulted in a stay of the lawsuit pending the appeal. Fink filed a motion to dismiss the appeal as frivolous and a motion for sanctions, which the Court of Appeal summarily denied, and the appeal remains pending. Based upon certain actions of Mr. Fink the company is currently investigating, the company shall seek a determination or shall use self-help to issue a stop transfer notification on all of Mr. Fink's shares for fraud and breach of contract. To date, neither of these remedies have been pursued yet by the company.



On January 24, 2007, Signalife filed a complaint in the General Court of Justice of the State of North Carolina captioned *Signalife, Inc., plaintiff, vs Rubbermaid Inc., Newell Rubbermaid Inc., Gary Scott and David Hicks*, Superior Court Division of the General Court of Justice of the State of North Carolina, County of Mecklenburg, alleging fraud, breach of fiduciary duty, breach of contract and unfair trade practices, and seeking damages of \$20 million. Signalife's complaint is grounded in the failure and refusal of Rubbermaid, Inc. ( *Rubbermaid* ), a subsidiary of Newell Rubbermaid Inc., as Signalife's exclusive third-party agent under a Sales and Marketing Services Agreement (the *Marketing Agreement* ) entered into with Rubbermaid on March 26, 2006, to put together at its cost a national sales force to market Signalife's Fidelity 100 Monitor System, and to advertise and otherwise use commercially reasonable efforts to vigorously promote the sale and marketing of the

Fidelity 100, as required under the Marketing Agreement. Rubbermaid concurrently filed a complaint against Signalife on January 24, 2007 in the United States District Court of North Carolina captioned *Rubbermaid Incorporated, plaintiff, vs. Signalife, Inc., defendant; United States District Court, Western District, North Carolina*, alleging negligent misrepresentation, breach of representation and warranty, and breach of contract, and seeking damages in excess of \$75,000. Rubbermaid's principal factual allegation is that Signalife failed to meet projections that the company would independently sell 300 Fidelity 100 units in 2006. Rubbermaid makes this assertion notwithstanding that there is no representation, covenant or undertaking in the extensive, comprehensive and thoroughly negotiated Marketing Agreement requiring Signalife to sell any Fidelity 100 units whatsoever, much less 300 units, and that the Marketing Agreement also contains an integration clause that would preclude Rubbermaid from making any such claim if not otherwise contained in the agreement. Rubbermaid also alleges, without providing any support, that the Fidelity 100 was not commercially ready for sale. Rubbermaid makes this assertion notwithstanding extensive product due diligence by Rubbermaid in entering into the Marketing Agreement, the fact that Signalife has been actively selling the units through its in-house sales staff, and the fact that Signalife has provided to Rubbermaid extensive documentation as to all operational and technical issues, including attestation as to the commercial use and results of the Fidelity 100 by a number of physicians who use the units in their practices.

Signalife denies the validity of Rubbermaid's allegations, and believes that they are merely a pretext raised by Rubbermaid in anticipation of Signalife's complaint, and to otherwise enable Rubbermaid to avoid performing its obligations under the Marketing Agreement (which Signalife had previously estimated in its SEC filings would cost Rubbermaid approximately \$4-5 million to perform). On January 29, 2007, Signalife filed a motion in Rubbermaid's federal court lawsuit to dismiss that lawsuit or, in the alternative, stay the lawsuit pending the resolution of the lawsuit filed in state court by Signalife. The federal court has not ruled on Signalife's motion to dismiss/stay. On February 2, 2007, Rubbermaid removed Signalife's state court lawsuit to federal court, claiming diversity of citizenship jurisdiction. On February 27, 2007, Signalife filed a motion to remand the case back to the state court.

The federal court has not ruled on Signalife's motion to remand. On February 20, 2007, Rubbermaid filed a motion in the Signalife state court action to remove the lawsuit to federal court, to dismiss Signalife's fraud, breach of fiduciary duty, unfair trade practices and alter ego claims, and to dismiss Newell Rubbermaid, Inc., Gary Scott and David Hicks as defendants. The motion to dismiss would not affect Signalife's breach of contract claim against Rubbermaid. The federal court has not ruled on Rubbermaid's motion to dismiss.

## **CHANGES IN SECURITIES AND USE OF PROCEEDS**

### **Recent Sales Of Unregistered Equity Securities**

Since April 1, 2007, we have not sold or issued any securities not registered under the Securities Act of 1933 the issuance or grant of which we have not previously reported either on a quarterly report on form 10-QSB or a current report on form 8-K:

### **Use Of Proceeds Of Registered Offerings**

Not Applicable.

### **Repurchases Of Equity Securities**

During the three-month interim period ended June 30, 2007, we did not repurchase any equity securities.

**DEFAULTS UPON SENIOR SECURITIES**

Not Applicable.

**SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

Not Applicable.

**OTHER INFORMATION**

**Matters Not Previously Reported On Form 8-K**

None.

**Voluntary Reports**

Not Applicable.

**Material Changes To Director Nominee Procedures**

Not Applicable.

**EXHIBITS**

31.1

Section 302 Certification of Principal Executive Officer \*

31.2

Section 302 Certification of Principal Financial Officer \*

32.1

Section 906 Certification of Chief Executive Officer \*

32.2

Section 906 Certification of Chief Financial Officer \*

\*

Filed herewith

**SIGNATURES**

In accordance with the requirements of the Exchange Act, the caused this quarterly report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated at Greenville, South Carolina, this 10th day of August, 2007.

**SIGNALIFE, INC.**

By: */s/ Pamela M. Bunes*

Pamela M. Bunes  
Chief Executive Officer  
(principal executive officer)

By: */s/ Kevin F. Pickard*

Kevin F. Pickard  
Interim Chief Financial Officer  
(principal accounting and financial officer)